INTERNATIONAL MONETARY FUND

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ARAB REPUBLIC OF EGYPT

April 2024

FIRST AND SECOND REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, MONETARY POLICY CONSULTATION, AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND AUGMENTATION AND REPHASING OF ACCESS—PRESS RELEASE; AND STAFF REPORT

In the context of the Arab Republic of Egypt—First and Second Reviews Under the Extended Arrangement Under the Extended Fund Facility, Monetary Policy Consultation, and Requests for Waiver of Nonobservance of a Performance Criterion, and Augmentation and Rephasing of Access, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 29, 2024, following discussions that ended on March 7, 2024, with the officials of Egypt on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on March 19, 2024.
- A **Staff Supplement** updating information on recent developments.

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.

IMF Executive Board Completes the First and Second Reviews of Extended Fund Facility Arrangement for Egypt, Approves Augmentation of the Arrangement

FOR IMMEDIATE RELEASE

- The IMF Board today completed the First and Second Reviews of the extended arrangement under the Extended Fund Facility (EFF) for Egypt and approved an augmentation of the original program by about US$5 billion (SDR 3.76 billion), allowing the authorities to draw the equivalent of about US$820 million (SDR 618.1 million).
- A strong economic stabilization plan is being implemented to correct policy slippages. The plan is centered on a liberalized foreign exchange system in the context of a flexible exchange rate regime, a significant tightening of the policy mix, reducing public investment, and leveling the playing field to allow the private sector to become the engine of growth.
- While the recent sizable investment deal in Ras El-Hekma alleviates the near-term financing pressures, implementation of the economic policies under the program remains critical to address Egypt's macroeconomic challenges. Robust delivery on structural reforms will be critical to lock in the benefits of the improved financing environment.

Washington, DC – **March 29, 2024:** The Executive Board of the International Monetary Fund (IMF) completed the first and second reviews of Egypt's Extended Fund Facility arrangement with Egypt and approved an augmentation of the original program by about US$5 billion (SDR 3.76 billion). This enables the authorities to immediately draw about US$820 million (SDR 618.1 million). Egypt's 46-month EFF arrangement was approved on December 16, 2022.

In completing the review, the Executive Board assessed that all but one of the quantitative performance targets for end-June 2023 were met. The Board approved the authorities' request for a waiver for non-observance of the June performance criterion on Net International Reserves on the basis of corrective actions.

Macroeconomic conditions since the approval of the program have been challenging, with rising inflation, foreign exchange shortages and elevated debt levels and financing needs. The difficult external environment generated by Russia's war in Ukraine was subsequently aggravated by the conflict in Gaza and Israel, as well as tensions in the Red Sea. These developments increased the complexity of macroeconomic challenges and called for decisive domestic policy action supported by a more robust external financing package, including from the IMF.

Within this context, external shocks and delayed policy adjustment weighed on economic activity. Growth slowed to 3.8 percent in FY2022/23 due to weak confidence and foreign exchange shortages and is projected to slow further to 3 percent in FY2023/24 before recovering to about 4½ percent in FY24/25. Inflation remains high but is expected to ease over the medium term as the policy tightening takes hold.

The recently announced US$35 billion investment deal from an Abu Dhabi-based investment and holding company in Ras El-Hekma has alleviated near-term balance of payment pressures and, if used judiciously, will help Egypt rebuild buffers to deal with future shocks. Nonetheless, steadfast implementation of the economic policies under the program remains critical to sustainably address Egypt's macroeconomic challenges, as does robust delivery on structural reforms to allow the private sector to become the engine of growth.

At the conclusion of the Executive Board's discussion, Ms. Kristalina Georgieva, Managing Director and Chair made the following statement:

"Egypt is facing significant macroeconomic challenges that have become more complex to manage given the spillovers from the recent conflict in Gaza and Israel. The disruptions in the Red Sea are also reducing Suez Canal receipts, which are an important source of foreign exchange inflows and fiscal revenue.

"The authorities have significantly strengthened the reform package underlying the Extended Fund Facility arrangement, supported by an augmentation of access. Recent measures toward correcting macroeconomic imbalances, including unification of the exchange rate, clearance of the foreign exchange demand backlog, and significant tightening of monetary and fiscal policies, were difficult, but critical steps forward, and efforts should be sustained going forward. The authorities' commitment to use a large part of the new financing from the Ras El-Hekma deal to improve the level of reserves, fast-track the clearance of foreign currency backlogs and arrears, and reduce government debt upfront is prudent.

"The authorities' policies are well calibrated to entrench macroeconomic stability while protecting the vulnerable. The Central Bank of Egypt's resolve to focus squarely on reducing inflation and to tighten further, if necessary, is key to preventing further erosion of the purchasing power of households. Implementation of the newly established framework to monitor and control public investment will help manage excess demand. The pursuit of a revenue-based fiscal consolidation will put debt firmly on a downward path and provide resources for expanding the social safety net. In this regard, it remains essential to replace untargeted fuel subsidies with targeted social spending as part of a sustained fuel price adjustment package.

"With policies to restore macroeconomic stability in place, the stage is set for accelerating implementation of the structural reform agenda intended to deliver inclusive and sustainable growth. Withdrawing the state and military from economic activity and leveling the playing field between the public and private sectors is key to attracting foreign and domestic private investment in Egypt.

"Achieving these goals is subject to risks. Externally, uncertainty remains high. Domestically, sustaining the shift to a liberalized foreign exchange system, maintaining tight monetary and fiscal policies, and integrating transparently off-budget investment into macroeconomic policy decision making will be critical. Managing the resumption of capital inflows prudently will be important to contain inflationary pressures and limit the risk of future external pressures."

Egypt: Selected Macroeconomic Indicators[1]

	2022/23	2023/24	2024/25
Output			
Real GDP growth (%)	3.8	3.0	4.4
Employment			
Unemployment (%)	7.2	--	--
Prices			
Inflation (%, end of period)	35.7	32.1	15.3
Inflation (%, period average)	24.4	32.5	25.7
Budget sector[2]			
Revenue and grants (% GDP)	15.4	15.3	16.2
Expenditure (% GDP)	21.4	21.7	24.7
Overall balance (% GDP)	-6.0	-6.3	-8.5
Primary balance including divestment proceeds (% GDP)	1.6	7.1	4.5
Gross debt, general government (% GDP)	95.9	96.4	82.6
Money and credit			
Broad money (M2, % change)	24.7	38.6	18.5
Credit to the private sector (% change)	25.4	30.0	25.0
Balance of payments			
Current account (% GDP)	-1.2	-6.3	-2.4
FDI, net (% GDP)	2.5	9.3	2.5
Reserves (months imports)	5.3	7.3	6.9
External debt (% GDP)	41.8	43.0	45.4
Exchange rate			
Real Effective Exchange Rate (% change; appreciation +)	-22.1	--	--

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

1/ Fiscal year ends June 30.

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

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

March 19, 2024

FIRST AND SECOND REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, MONETARY POLICY CONSULTATION, AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND AUGMENTATION AND REPHASING OF ACCESS

EXECUTIVE SUMMARY

Context: The IMF Executive Board approved a 46-month USD 3 billion Extended Fund Facility (EFF) arrangement for Egypt in December 2022. The EFF-supported program aims to safeguard economic stability, restore buffers, and pave the way for inclusive and private sector-led growth. Following policy slippages, the first and second reviews were delayed. The return to a fixed exchange rate in February 2023 undermined the initial credibility boost from the announcement of a shift to a flexible regime and hampered the execution of other program pillars such as divestment of state-owned assets. It also led to foreign exchange (FX) shortages, a large spread in the parallel market, and constrained imports, all of which fueled inflation and weighed on growth. At the same time, delays in raising the policy rate in response to higher-than-expected inflation resulted in more negative real rates and financial repression. Continued investment in national projects at a pace inconsistent with macroeconomic stability contributed significantly to foreign exchange and inflation pressures. Spillovers from the conflict in Gaza and Israel and the Red Sea disruptions have exacerbated external pressures and widened further the financing gap. A significant investment deal with Abu Dhabi Developmental Holding Company (ADQ), signed in February, has improved the near-term financial outlook, providing for a more benign external financing environment as the authorities push forward with needed reforms.

Strengthened policy package: To restore macroeconomic stability, strengthen investor confidence, and achieve broader program objectives, the authorities have committed to a stronger policy package. As a first step, the foreign exchange rate was unified in early March. This major policy action is to be supported by significant tightening of monetary policy, a shift to a flexible exchange rate regime and a liberalized foreign exchange system (*prior action*), and substantial fiscal consolidation.

The authorities have also planned to increase the price of gasoline grade fuels to align them with the level implied by the automatic fuel price mechanism, including to catch-up for missed adjustments since program approval (*prior action*), with the objective of containing this untargeted subsidy. To help protect vulnerable groups, the authorities announced an additional social protection package of EGP 180 billion for FY2024/25. Moreover, the authorities have committed to address a broader set of vulnerabilities such as central bank lending to public agencies, government recourse to the central bank's overdraft facility, and off-budget public sector activity, including issuing a prime ministerial decree to establish a framework to monitor and control overall public investment spending. These measures will be supported by expanded conditionality, which would also serve to improve public transparency around such operations. To advance the structural reform agenda, the authorities eliminated preferential tax treatment and exemptions for state-owned enterprises and embedded in program conditionality commitments to increase the transparency of state-owned enterprise activity and develop an indicator to monitor the implementation of the State Ownership Policy.

Large development deal: The recent investment deal to develop Egypt's Ras El-Hekma region eases Egypt's external and fiscal vulnerabilities. The US$24 billion (6.9 percent of GDP) of resources help alleviate near-term pressures on the balance of payments and allow for a more aggressive building of buffers against future external shocks. Program targets have been adjusted to ensure that the new financing is used judiciously to lock in improvement in the level and composition of reserves, fast-track the clearance of foreign currency backlogs and arrears, and reduce government debt upfront. Nonetheless, the broader economic implications of this project, including on imports and potential FDI and growth, will be incorporated in the macroeconomic framework once there is more clarity on medium-term investment program.

Augmentation: External shocks and the delayed implementation of program commitments have weakened Egypt's external position and generated a sizeable FX backlog and external arrears. The financing gap for the remainder of the program, after accounting for the inflow from the Ras El-Hekma deal and the strengthening of the reserve buffer, is US$28.5 billion. In light of the negative shocks and agreement on a strengthened policy package, the authorities have requested an augmentation of the original program by US$5 billion. Relatedly, the authorities have secured additional multilateral and bilateral assistance to fully close the financing gap.

Risks: Program and enterprise risks are significant. Chief among them would be a failure to sustain the shift to a liberalized foreign exchange system, monetary policy being too loose to bring inflation down, or a failure to deliver a transparent and comprehensive integration of the off-budget investment program into overall macroeconomic policy decision making. Intensification of regional conflicts and continued disruption in the Red Sea could further undermine growth and the external position, while prolonged inflationary pressures would hurt the vulnerable. Egypt's capacity to repay the Fund is subject to high risks and contingent on full program implementation and the materialization of all projected financing.

Staff supports the authorities' request for the completion of the first and second reviews under the Extended Fund Facility (EFF) Arrangement. Staff also supports the authorities' requests for a waiver of nonobservance of the end-June 2023 performance criterion for net international reserves based on the corrective actions that have been taken, an augmentation of access, and a rephasing of the availability dates of purchases. Staff proposes that the third review be undertaken on a quarterly cycle, returning to semiannual reviews thereafter, and recommends completion of the MPCC consultation with the Executive Board.

Approved By
Taline Koranchelian and Rishi Goyal

The staff team comprised Ivanna Vladkova Hollar (mission chief), Gareth Anderson, John Ralyea, Masashi Saito (all MCD), Javier Arze del Granado (SPR), Qiaoe Chen (FAD), Torsten Wenzel (MCM), and Alex Segura-Ubiergo (Senior Resident Representative). The team was supported by Maria de Mesa and Celine Bteish. Mahmoud Mohieldin, Maya Choueiri, and Rana Fayez (all OED) also participated in the discussions. Discussions were held from November 2023-February 2024 (with a virtual mission during November 13–November 29, 2023, and missions in Cairo from January 16–February 1 and March 5–7, 2024) with Mohamed Maait, Minister of Finance; Hassan Abdalla, Acting Governor of the Central Bank of Egypt; Hala El-Said, Minister of Planning and Economic Development; and other senior officials.

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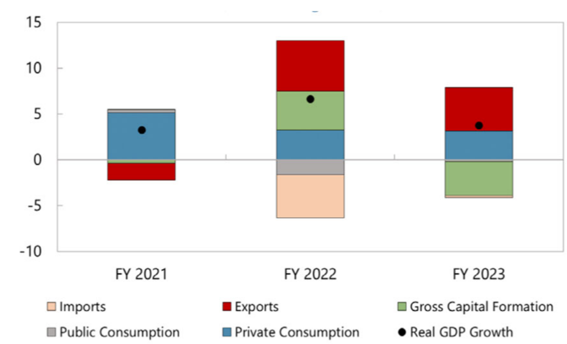
RECENT DEVELOPMENTS

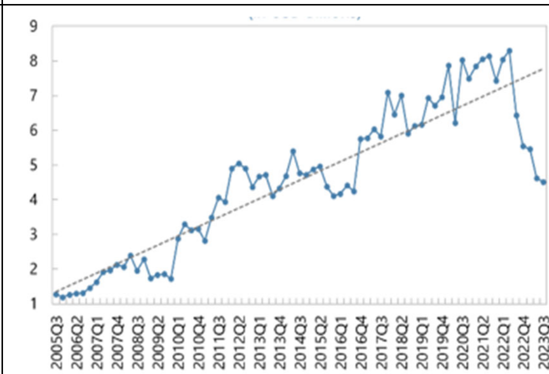
1. **External shocks and delayed policy adjustments have weighed on economic activity.** Growth slowed to 3.8 percent in FY2022/23 due to weak confidence and foreign exchange shortages, which constrained overall investment (Figure 1). The health of the non-oil private sector remains frail based on the headline Purchasing Managers' index, which has been in contractionary territory since 2021. The conflict in Gaza and Israel and the disruptions in the Red Sea are further exacerbating these pressures. Suez Canal revenues, an important source of foreign exchange for Egypt, fell almost 50 percent yoy in January 2024 (a loss of around US$375 million relative to January 2023). Despite a sharp fall in remittances through banks (Figure 2), with foreign exchange being diverted away from the official market, the current account deficit narrowed to 1.2 percent of GDP in FY2022/23 as imports were compressed due to limited foreign exchange availability.

Figure 1. Egypt: Contributions to Real GDP Growth
(In percentage points)



Sources: Egyptian Authorities, IMF Staff Calculations

Figure 2. Egypt: Remittances
(In USD billions)



Source: Central Bank of Egypt, Haver

2. **Despite falling back in recent months, inflation remains high.** In September 2023, headline urban inflation reached an all-time high of 38 percent, driven by passthrough of the depreciation first of the official exchange rate, and subsequently of the parallel market rate, and shortages of goods related to limited foreign exchange availability. Lending by the Central Bank of Egypt (CBE) to government agencies worth 7.5 percent of GDP, predominantly over the course of 2021 and 2022, and more recently a sharp increase in the Ministry of Finance's use of the CBE's overdraft facility beyond the statutory limit both contributed to the loose monetary stance and pressure on the exchange rate. However, headline inflation subsequently declined for four consecutive months, to 29.8 percent in January 2024, driven by a decline in food inflation, largely on account of base effects.

3. **The exchange rate was unified in March 2024 as part of a shift to a flexible exchange rate regime and a liberalized FX system.** After a sharp depreciation in early-January 2023 following approval of the Extended Fund Facility in December 2022, the official exchange rate remained unchanged since early March 2023 and a large local parallel market premium had

persisted prior to unification, albeit narrowing somewhat following the Ras El-Hekma deal (Figure 3). When exchange rate unification began on March 6, the official exchange rate of the Egyptian pound against the U.S. dollar depreciated by 38 percent, closing the spread to the parallel market rate. Prior to unification, limited foreign exchange availability had led to accumulated foreign exchange demand backlogs at banks of US$7-8 billion, which have since been cleared following unification. It has also contributed to the accumulation of external arrears estimated at US$4.5 billion have surfaced at the Egyptian General Petroleum Company (EGPC), which is a public-sector petroleum entity outside of the general government.

Figure 3. Egypt: Measures of Market Clearing Exchange Rate and the Official Rate
(EGP per USD)

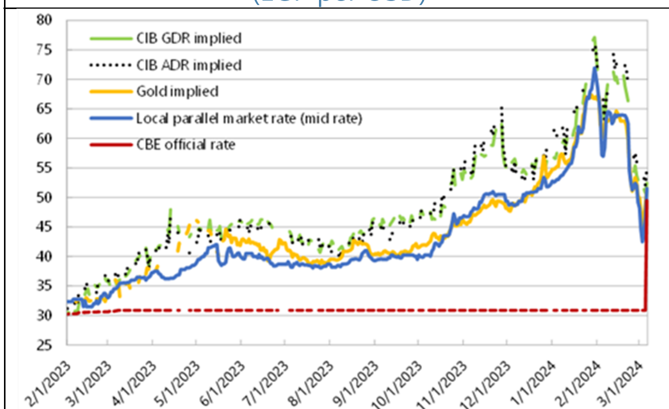
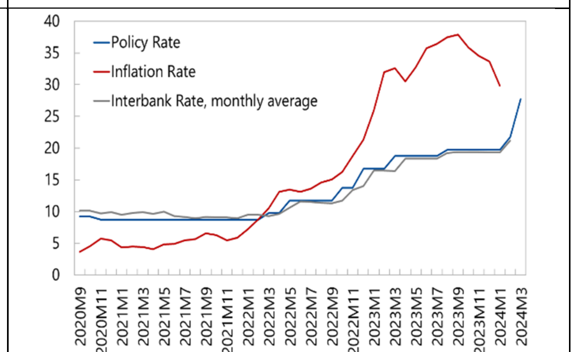


Figure 4. Egypt: Rates
(In percent)



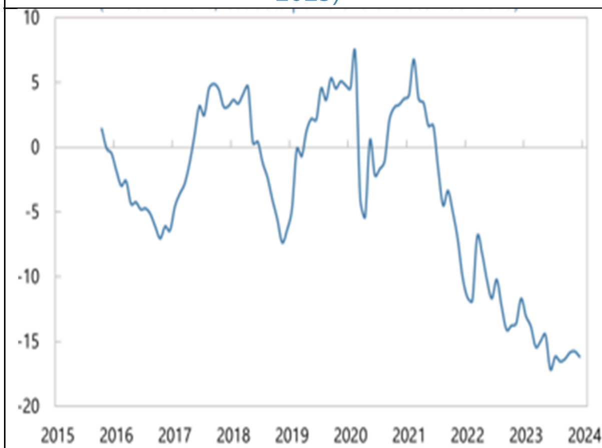
Sources: CBE, Haver
Note: On March 6, the CBE raised the policy rate 600 pbs, which is reflected as the final point estimate for the interbank rate plot.

4. Monetary policy has been tightened significantly since early February 2024 to contain inflation and bring real rates towards positive territory. The CBE delivered a 200-bps hike on February 1 and another 600-bps increase on March 6, bringing the main operation rate to 27.75 percent (Figure 4). In addition, the Ministry of Finance's outstanding balance on the CBE's overdraft facility has been lowered.

5. Fiscal policy continues to be tightened but debt dynamics are challenging. The overall budget sector deficit narrowed to 5.9 percent of GDP in FY2022/23 from 6.2 percent of GDP in FY2021/22 and performance in the first six months of the FY2023/24 is in line with reaching a primary surplus of 2.5 percent of GDP for the full fiscal year. However, budget sector debt for FY2022/23 increased to about 98 percent of GDP, reflecting the impact of the depreciation and higher interest payments. Over the past 12 months, domestic financing has relied heavily on short-term Treasury bills (T-bills), private placements of T-bills, Treasury bonds (T-bonds), and Ministry of Finance notes—primarily absorbed by domestic banks—, and borrowing thorough the CBE's overdraft facility.

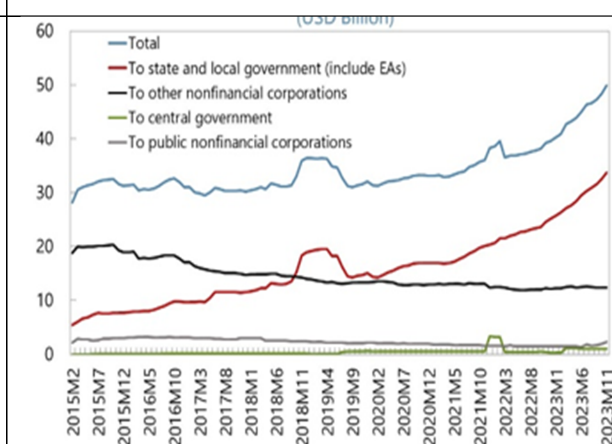
6. While the overall health of the financial system remains solid, banks have become more vulnerable. Available data on key ratios (Table 9) through September 2023 suggests the overall banking system's financial health is sound. However, the capital adequacy ratios of some banks have declined, in part reflecting the impact of the depreciation of the Egyptian pound since March 2022, which has inflated risk weighted assets. Banks' net foreign asset (NFA) position continued to weaken reaching close to historic lows (Figure 5). While banks remain compliant with regulatory limits, foreign exchange liabilities balanced by foreign exchange lending, particularly to public sector entities (Figure 6), imply a potential susceptibility to an exchange rate depreciation.

Figure 5. Egypt: NFA of Commercial Banks
(In USD billions, last date point: end-December 2023)



Source: Haver

Figure 6. Egypt: Banks' FX Loans to Residents
(USD billion)



Source: Central Bank of Egypt

7. **The authorities have sold equity stakes in five companies through January 2024 netting US$1.5 billion in deposits at the central bank so far this fiscal year (Text Table 1).** However, overall divestment flows from asset sales, excluding the Ras El-Hekma deal, are lower than initially programmed to date and foreign exchange market uncertainty and spillovers from the conflict in Gaza and Israel have impacted other ongoing divestment deals, with no new deals announced since October.

Text Table 1. Divestments (announced, closed, and anticipated for FY2023/24)

Entity		Sector	Net value (USD equivalent-millions)	Total USD inflows (millions)	Share of entity (Percent)	Remaining public share of entity (Percent)	Nature of transaction	Actual/Est. Transaction Closing Date (Month)	Actual/Est. USD deposited at CBE (Millions)	Status	Purchaser
Eastern Tobacco Company		Chemical industry	625	625	30	21	EGX shares + cash deposit	Nov-23	555	Closed	UAE Global Investment Holding (UAE)
Egyptian General Company for Tourism and Hotels (EGOTH)	1/	Accommodation	800	800	39	63	Capital increase	1Q24	620	Closure announced in late February	Icon Investments (subsidiary of Talaat Moustafa Group) and unnamed foreign investors
Egyptian Ethylene and Derivatives Company (ETHYDCO)	2/	Petroleum/refining			30						
National Drilling	2/	Petroleum/natural gas extraction	800	800	25	65-75	Sale of equity stakes held by SFE	1Q24	800	Closed	Abu Dhabi Holding (ADQ)
Egyptian Linear Alkyl Benzene Company (ELAB)	2/	Petroleum/refining			35						
Ezz El-Dekhela		Metallurgical industry	245	175	31	0	EGX shares	Sep-24	175	Closed	Ezz Steel
Egyptian Telecom		Telecommunication	128	4	10	70	EGX shares	May-23	4	Closed	Institutional investors (9.5%) and employees
Paint and Chemical Industries (Pachin)	3/	Chemical industry	17	17	56	0	EGX shares	May-23	17	Closed	Dubai-based National Paints Holding
Gabal El Zeit wind farm	4/	Electricity generation	339	339			Sale of Assets by SFE	2Q24	339	Advanced	
Deslinization plant and/or Zafarana wind farm	4/	Water/electricity generation	300	300			Sale of Assets by SFE	2Q24	300	Advanced	
Total			3,254	3,060					2,810		

Source: Egyptian authorities.
1/ The initial transaction is a capital increase of US$620 million, with another capital increase of US$80 million by May 2024, which will bring the divested amount to 51 percent.
2/ CBE guarantees a rate of return of 8 percent after 4 years.
3/ USD was deposited at the National Bank of Egypt rather than the CBE.
4/ Estimated sale value; tranasaction preparation well advanced.
EGX = Egyptian Stock Exchange; SFE = Sovereign Fund for Egypt.

8. Egypt announced in late February a US$35 billion investment deal with ADQ, an Abu Dhabi-based investment and holding company. The deal has the following components: ADQ will provide US$24 billion in new financing to Egypt (specifically, to the New Urban Communities Authority (NUCA), an Egyptian state-owned entity affiliated to the Ministry of Housing, Utilities, & Urban Communities) to acquire the development rights for the Ras El-Hekma region along Egypt's Mediterranean coast.[1] ADQ plans to develop Ras El-Hekma into a holiday destination, financial center, and freezone. Work is expected to commence in early 2025. The Egyptian government will retain a 35 percent stake in the development project, which the authorities estimate may generate US$150 billion in investment in the medium term. As part of the deal, the UAE will convert existing dollar-denominated deposits at the CBE of about US$11 billion into local currency deposits for future investments across Egypt.

OUTLOOK AND RISKS

9. The macroeconomic projections reflect recent developments, including the exchange rate unification and monetary policy tightening.

- Real growth for FY2023/24 is projected to slow to 3.0 percent reflecting the impact of FX shortages on private sector activity prior to unification and the conflict in Gaza and Israel, as well as an anticipated decline in external receipts due to disruptions in the Red Sea. A recovery is anticipated in FY2024/25, assuming pressures from the conflict and Red Sea disruptions abate, and as conditions in the foreign exchange market improve. Over the medium term, growth is projected to increase to around 5½ percent, as structural reforms to strengthen the business climate take hold and the state footprint is gradually replaced with private activity. Headline urban inflation is projected to increase in the months following unification, as the depreciation of the official exchange rate passes through to prices, before falling over the medium term toward the CBE's target as base effects unwind and policy tightening takes hold.

- The framework incorporates the anticipated receipt of US$24 billion in new financing from the Ras El-Hekma investment deal in FY2023/24 as well as the conversion of existing UAE dollar deposits at the CBE into local currency. From the new financing, US$15 billion is sold by NUCA to the CBE and is captured in international reserves, while US$6 billion is assumed to be sold by NUCA to the banking system and this will facilitate the clearance of arrears. The Ministry of Finance will receive the local currency equivalent of US$12 billion from the transaction and this will be recorded in the primary balance, reducing debt by the same amount. These flows are embedded in the respective program targets. The economic implications of the development of the Ras El-Hekma region, which is expected to commence in early 2025, including the potential impact on imports, new FDI, and growth will be incorporated more fully into the

[1] The Egyptian authorities reported receipt of US$10 billion as of March 1. An additional US$14 billion is anticipated by April 30.

macroeconomic framework once there is greater clarity on the medium-term investment program.[2]

- While half of the new financing from the Ras El-Hekma deal is applied to debt reduction, the large depreciation at the time of unification and the increase in the policy rate leads to a temporary increase in the debt-to-GDP ratio in FY2023/24. The debt ratio is projected to follow a downward trajectory after FY2024/25, with divestment (assumed to be larger than the projections at the time of program approval by 0.5 percent of GDP each fiscal year starting in FY2024/25), sustained primary balance surpluses (now reaching 5 percent of GDP by FY2026/27), and favorable interest-growth differentials.[3, 4]

10. Risks to the program are significant. Chief among them would be a failure to sustain the shift to a liberalized foreign exchange system, monetary policy being too loose to bring inflation down, or a failure to deliver a transparent and comprehensive integration of the off-budget investment program into overall macroeconomic policy decision making. Other risks arise from failure to fully implement the supporting policy package: (i) failure to execute the divestment strategy, build buffers from the Ras El-Hekma deal, address payment delays to international oil companies, and demonstrate early intent to meaningfully reducing the role of the state in the economy would continue to keep investors on the sidelines and put additional pressure on the external position; and (ii) delays in boosting tax revenue, implementing the fuel pricing formula, and generating divestment proceeds for debt reduction would further limit fiscal space and increase debt vulnerability. A larger-than-expected exchange rate depreciation, weaker growth, and higher interest rates would also increase sovereign risks. Intensification of regional conflicts and continued disruption in the Red Sea could further undermine growth and the external position, while prolonged inflationary pressures would hurt the vulnerable. On the upside, external financial market conditions for Egypt could ease more than expected and large capital inflows could return. Markets have responded positively to the announcement of the Ras El-Hekma deal and the unification of the exchange rate, with the spread on Egypt’s sovereign bonds tightening by almost 300 bps since the deal was announced. A significant increase in foreign direct investment associated with the deal is an upside risk to the growth outlook. Should they materialize, managing large capital inflows prudently will be important to contain inflationary pressures and limit future external vulnerabilities. Inflation could also fall back more quickly than projected, particularly if prices of more goods and services than assumed had already fully adjusted to the parallel market rate that prevailed prior to

[2] The current account projection includes the clearance of the foreign exchange backlog and arrears in non-oil imports and the income balance, respectively, for a total of US$ 10.5 billion in FY2023/24.

[3] The debt projection also includes staff’s estimate of the CBE’s negative equity and the government’s recapitalization of the CBE. The latter adds to the stock of debt and debt service in subsequent years.

[4] Total anticipated divestment flows to the budget under the program, with the additional proposed divestment, peak at 1 percent of GDP in FY2024/25 and quickly taper to 0.5 percent of GDP over the projection period. This is similar to past experience of countries in the region: Georgia has consistently recorded privatization receipts ranging from 0.4 - 1 percent of GDP over the last decade; Tunisia's recorded flows are more ad hoc but range from 0.5-0.8 percent of GDP over the last decade; and Jordan booked privatization receipts of 1.4 percent of GDP or more in the mid-2000s, followed by 0.7 (2014) and 0.5 (2015) percent of GDP.

unification or if a return of confidence results in a material appreciation of the exchange rate. Annex I contains the Risk Assessment Matrix.

PROGRAM PERFORMANCE

11. Program performance relative to the quantitative targets was mixed (Table 13). Under the combined reviews, the targets for end-June 2023 are controlling. The authorities met the quantitative performance criterion for the primary balance for end-June 2023 and the continuous performance criteria on non-accumulation of external arrears by the general government and the prohibition on the imposition or intensification/modification of exchange restrictions, multiple currency practices, and import restrictions. However, the net international reserve (NIR) criterion was missed. The underperformance is explained to a significant extent by a decline in international oil prices, the diversion of some domestic natural gas production away from exports towards domestic consumption, and a lack of portfolio and remittance flows, the latter two likely reflecting concerns about the future exchange rate path after the official exchange rate became fixed in February 2023.[5] Corrective actions to strengthen the program significantly, including a shift to a flexible exchange rate regime and a liberalized foreign exchange system, tightening of monetary and fiscal policies, implementation of planned divestments, and program financing ensure that future NIR targets remain achievable. The authorities have also undertaken the required Monetary Policy Consultation after annual urban inflation exceeded the upper outer band under the program. (Annex IV). Commercial banks' NFAs decreased by more than US$2 billion over a three-month period, triggering a consultation with staff. The increased flexibility of the exchange rate should help contain further NFA deterioration. Turning to the indicative targets, the authorities overperformed on the indicative target on tax revenue and social spending for end-June 2023. The indicative targets on the budget sector debt and the maturity of new domestic debt issuances were missed for end-June 2023, the latter due to the skewing of issuance to short-term bills and notes as the authorities sought to limit the increase in the nominal interest bill and to prevent locking-in high interest rates.

12. The authorities met 7 of 15 structural benchmarks (Table 15). The authorities (i) repealed the required use of Letters of Credit, although the repeal failed to fulfill its intended objective of removing an instrument for rationing import demand, (ii) published a state-ownership policy, (iii) amended aspects of the competition law governing M&As (although the executive regulation governing their implementation is yet to be approved by Cabinet), (iv) expanded the number of households eligible for social assistance, (v) identified tax policy measures for the FY2023/24 budget, (vi) abstained from granting exemptions for commercial banks that breach net FX open position limits and (vii) refrained from introducing subsidized lending schemes through the CBE. The authorities published the CAO's audits of the fiscal accounts on time but have not introduced a binding requirement to publish annual fiscal audits regularly. All missed structural

[5] Actual data suggests Egypt's imports of petroleum products are more elastic to changes in international oil prices than its exports. As a result, relative to initial projections, the value of petroleum product exports fell more than the drop in the value of petroleum product imports.

benchmarks have been reset with the exception of one on release times at the ports and another on conversion of land records to an electronic register as they are no longer critical for the Fund supported program and the removal of which allows space in the program's structural conditionality for more pressing priorities.

POLICY DISCUSSIONS

The program objectives remain unchanged from program approval. The program aims to sustainably address macroeconomic vulnerabilities and promote inclusive and private sector-led growth. While recent developments shifted the immediate focus to macroeconomic stabilization, the authorities remain cognizant that significant progress on structural reforms is critical to tackle longstanding fiscal and external vulnerabilities as well as to strengthen Egypt's resilience and medium-term growth prospects. Going forward, key policy objectives under the program include sustaining a flexible exchange rate regime and a liberalized foreign exchange system, reducing inflation, reducing debt, building buffers to withstand future shocks, containing fiscal pressures including those emanating from large national infrastructure projects, and reducing the state's footprint in the economy by delivering a business environment where the private sector can compete on equal terms with state entities. The updated Memorandum of Economic and Financial Polices (MEFP) reflects the authorities' continued commitment to these objectives.

A. Monetary and Exchange Rate Policies

13. The authorities have unified the exchange rate and embarked on a shift to a flexible exchange (FX) rate regime and a liberalized FX system. Specifically, the authorities unified the exchange rate (i.e., essentially closed the gap between the official rate and the local parallel market rate) and issued a circular that mandates banks to cancel FX requests if clients do not accept prevailing market exchange rates. A shift to a flexible exchange rate regime and a liberalized FX system is a *prior action* that has not yet been met. Staff will issue a supplement before the Board meeting to provide an update on this. This measure is assessed using a comprehensive set of indicators: (i) demand backlogs at banks have been cleared; (ii) the spread between the official rate and measures of market clearing rate has essentially closed; and (iii) interbank FX turnover has increased relative to the pre-unification period. Going forward, these indicators will continue to serve as transparent evidence of a sustained shift to a flexible exchange rate regime and a liberalized FX system (*structural benchmark*). The structural benchmark will be assessed once for each program review, based on information over a period of time between program reviews. In the consultation with IMF staff, the authorities attributed part of the decline in commercial banks' NFA in 2023 to portfolio outflows in early 2023. The shift to a flexible exchange rate should mitigate against further declines; the authorities will continue to consult with staff if banks' NFA at the aggregate level decline by a cumulative US$2 billion over a three-month period.

14. The program allows for some foreign exchange market intervention (FXI) following unification. In the two layers of FXI described below, the authorities committed to conduct the FXI through mechanisms that satisfy three criteria: (i) all intermediaries have access to the mechanism; (ii) no constraints should be placed on bid prices; and (iii) the CBE should make FX allotment solely on the basis of bid prices.

- *Immediate aftermath of unification.* To address disorderly exchange rate movements immediately after the unification, scope for limited FXI was provided in the 48 hours following the unification. However, the authorities did not intervene in the market during this period.

- *Existing FXI framework under the program.* The program's existing intervention framework would continue to be available for the CBE. The NIR target in the program will be adjusted for interventions within this framework.

- *Reporting on FXI.* For both layers of FXI, the CBE will report to the Fund the full array of bids, both prices and volumes on the day of intervention. The CBE would also publish on its website: offered volume by CBE, total volume of bids, total volume of accepted bids, cut-off price for accepted bids, and the weighted average price for accepted bids by the end of the day of the intervention.

15. Monetary policy has been tightened significantly to contain inflation. Although the authorities viewed supply-side issues as a key contributing factor to high inflation and inflation had fallen back since September 2023, they recognized the importance of further tightening policy to anchor inflation expectations, particularly given the possible inflationary impact of exchange rate unification. Since February 2024, the CBE has increased policy rates by 800 bps (*prior action*), bringing the main operation rate to 27.75 percent. While assessing the overall monetary stance is impeded by limited data on inflation expectations, the authorities viewed this move as sufficient to bring the forward-looking real interest rate into positive territory. The authorities committed to taking a data-dependent approach going forward, expressing their resolve to tighten further if necessary. To support this approach, the authorities have stated their intention to track a wide range of indicators on economic activity, money and credit growth, financial conditions, and price pressures. In addition, the authorities are committed to sterilizing the injection of EGP-liquidity associated with the Ras El-Hekma deal, both from foreign exchange purchases and from the conversion of dollar deposits at the CBE into local currency.

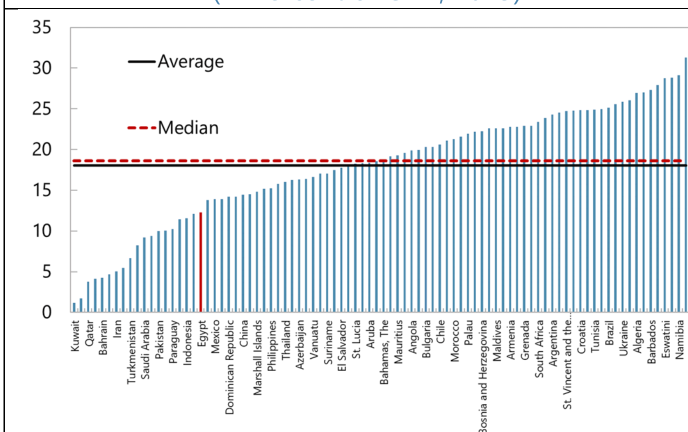
16. This tightening stance is complemented by measures to curtail the size of the CBE's balance sheet. Rapid expansion of net domestic assets of the CBE between mid-2022 and early-2024, driven by lending to public agencies excluding the Ministry of Finance and, more recently, a sharp increase in the Ministry of Finance's use of the overdraft facility, contributed to the inflation and exchange rate pressures experienced over this period. Cognizant of this, the authorities are committed to maintaining the balance of the government's overdraft account at the CBE within the statutory limit (*performance criterion*) and preventing further CBE lending to public agencies excluding the Ministry of Finance (*performance criterion*). The authorities are also committed to developing a plan to reduce claims on public sector agencies excluding the Ministry of Finance to zero over the medium term (*structural benchmark*).

17. Measures to strengthen the transmission mechanism should increase the efficacy of monetary policy. CBE policy decisions have transmitted effectively to interbank rates since the start of the program, with the overnight rate remaining within the corridor of the deposit rate and lending rate, albeit towards the lower end. To further strengthen transmission, the CBE plans to move to a fixed-rate full-allotment auction for its 7-day deposit operations (*structural benchmark*). The CBE will also continue to refrain from extending, renewing, or introducing any subsidized lending schemes (*structural benchmark*) to ensure that policy rates transmit through to bank lending rates.

B. Fiscal Policy

18. The FY2023/24 budget targets a primary surplus of 2.5 percent of GDP, inclusive of expected divestment inflows. This represents a tightening of 0.4 percent of GDP relative to the initial program projection and a tightening of 0.9 percent of GDP compared to the primary surplus for FY2022/23. A projected primary expenditure reduction of 0.6 percent of GDP is the main driver of the tightening relative to the FY2022/23 outturn, while tax revenue is projected to increase by only 0.2 percent of GDP, due to the reduction of tax revenue from the Suez Canal Authority following disruptions in the Red Sea. In addition, non-tax revenue is projected to decline by 0.2 percent of GDP, reflecting lower Suez Canal dividends. Anticipated proceeds from planned divestment of state-owned assets also contribute 0.4 percent of GDP to the increase in the primary surplus. In addition, the MOF will secure local currency equivalent of US$12 billion in proceeds from new financing inflows related to the future development of the Ras El-Hekma region, which will boost the primary balance by 4.6 percent of GDP and reduce debt by the same amount. This one-off windfall will bring the surplus to 7.1 percent of GDP for FY2023/24.[6]

Figure 7. Egypt: General Government Taxes
(In Percent of GDP, 2023)



Sources: World Economic Outlook, IMF Staff Calculations

19. A more ambitious medium-term primary surplus relative to the initial program is required to place debt more firmly on a downward trajectory. Staff assesses public debt as sustainable but not with high probability, and the overall risk of sovereign stress as high (Annex II). The authorities plan to increase the primary surplus to 5.0 percent of GDP by FY2026/27, excluding divestment proceeds, primarily through tax mobilization, which, compared to peers, is very low (Figure 7 and Text Table 2). To signal their strong commitment to this strategy, the cabinet plans to approve the draft budget law for FY2024/25 with a primary surplus target of

[6] The program includes divestment proceeds in the primary balance in line with the authorities' budget treatment.

3.5 percent of GDP excluding expected divestment flows, underpinned by an increase of tax and dividend revenue of 1.0 percent of GDP in FY2024/25 *(prior action*). In addition, the authorities plan to transfer 1.0 percent of GDP of divestment proceeds to the treasury to reduce public debt in FY2024/25. Moreover, the cabinet will submit to parliament an amendment to the VAT law that will simplify the VAT, reduce exemptions, and enhance its
efficiency and progressivity by November 2024 (*structural benchmark)*. This reform will yield 1.0 percent of GDP tax revenue beginning in FY2024/25.

Text Table 2. Decomposition of Fiscal Consolidation
(In percent of GDP)

	FY23/24	FY24/25	FY25/26	FY26/27
Fiscal consolidation (change of primary balance)	**0.5**	**1.4**	**1.0**	**0.5**
Tax revenue (net)	0.2	0.4	1.1	1.5
Non-tax revenue	-0.2	0.4	-0.1	-0.1
Primary expenditure	-0.6	-0.6	0	0.9
of which: social safety net	0	0.1	0.1	0.2
Memorandum				
Primary balance (without divestment proceeds)	2.1	3.5	4.5	5.0
Divestment proceeds 1/	0.4	1.0	0.8	0.5

1/ The MOF will secure US$12bn from the Ras El-Hekma investment deal to reduce public debt, which is estimated at 4.6 percent of GDP in addition to another 0.4 percent of GDP divestment proceeds from other sales of state assets.

Source: MOF and IMF staff caclulation

20. To anchor the medium-term revenue mobilization effort, the authorities are preparing a tax policy strategy document. The strategy will complement the continuing efforts to improve tax administration and underpin the target to increase tax-to-GDP by 3 percentage points by FY2026/27 (Text Table 3). Envisaged tax policy reforms will include the VAT reform mentioned above and passing a new Income Tax Law, which has been prepared with IMF Technical Assistance to strengthen income tax collection. Other contemplated tax policy measures include: adopting a carbon tax to support emissions reduction and in light of the implementation of the EU's Carbon Border Adjustment Mechanism; adopting a withholding tax on the turnover of exports from freezones in Egypt to the domestic market; and participating the OECD's Automatic Exchange of Information. In addition, the authorities will undertake a detailed assessment of the economic benefits of the current freezones by end-September 2024 (*structural benchmark*) and limit any further expansion of freezones until this assessment is conducted.

Text Table 3. Tax Measures 1/
(In percent of GDP)

	FY 23/24	FY24/25	FY25/26	FY26/27	Total
Tax Policy	**0.34**	**0.45**	**1.26**	**1.14**	**3.19**
Adding a new income bracket in personal income tax, amending tax rate for secondary employment income, and imposing capital gain tax on transaction in stock exchange	0.09				0.09
Simplifing tax dispution resolution mechanism, revising capitalization ratio and Removal exemption on loan interest	0.04	0.02			0.06
Abolishing exemption on Interst income tax on T-bills/T-bonds	0.05				0.05
Imposing VAT on non-resident e-commerce	0.03	0.03	0.03	0.03	0.11
Reforming VAT on tabacco and widending tax brackets, increasing nominal value of tabacco tax ties by 10 percent	0.03	0.10	0.02	0.02	0.17
Participating the OECD's Automatic Exchange of Information			0.30	0.37	0.67
Streamlining of VAT law and removing VAT exemptions		0.20	0.80	0.57	1.57
Eliminating tax exemptions for SOEs	0.06	0.10	0.07	0.09	0.32
Withholding tax on turnover of exports from free zone in Egypt to domestic market			0.05	0.06	0.11
State Development tax amendement	0.04				0.04
Tax adminstrative measures	**0.07**	**0.20**	**0.20**	**0.21**	**0.68**
Payroll tax automation	0.02	0.02	0.03	0.05	0.12
Enhancing tax collection on real estate transactions	0.04			0.00	0.04
Anti-fraud measures		0.17	0.16	0.16	0.49
Domestic e-tax activity	0.01	0.01	0.01		0.03
Unidentified measures				**0.30**	
Total	**0.41**	**0.65**	**1.46**	**1.65**	**4.16**

Source: MOF and IMF staff estimation

1/ The cumulative increase in tax revenue from identified measures is 4.2 percent of GDP. However, the net projected increase in tax revenue is 3.0 percent because taxes on interest earnings decrease over the projection period with the anticipated decline in interest rates on government securities.

21. The authorities will continue adjusting energy prices to reign in unaffordable energy subsidies and create fiscal space for enhancing targeted social transfers. Fuel subsidies have increased due to exchange rate depreciation and a failure to fully implement the quarterly automatic fuel price mechanism (recurring structural benchmark). To lower untargeted fuel subsidies, the authorities committed to increase the price of gasoline grade fuels to the level implied by the formula, including catch-up from the failure to fully implement the January 2023, April 2023, July 2023, and October 2023 adjustments (*prior action).* The authorities will also develop a plan to adjust diesel prices to be fully in line with the level implied by the full implementation of the formula since the start of the program.

22. Social protection has been strengthened since the start of the EFF-supported program. The authorities have expanded the coverage of the Takaful and Karama cash transfer program to more than 5 million households and increased the average monthly payments by 15 percent in FY2022/23. To offset the impact of elevated inflation on vulnerable groups, the authorities have raised the minimum public sector wage from EGP 3,000 to EGP 6,000, increased public sector wages, and topped up allowances for almost 2 million teachers and 0.6 million doctors and health experts. The authorities are also strengthening the social registry and improving the targeting of food subsidies. To underline their commitment to protecting social expenditures while aggressively tightening the overall budget, the authorities will maintain a floor of social spending under the program *(indicative target*).

Text Table 4. Public Investment

(EGP billions, unless otherwise noted)

	FY23/24	FY22/23		FY21/22	
	Budget	Budget	Outturn	Budget	Outturn
Budget Sector	587	376	289	358	318
of which:					
Self-financed	307	122	51	148	131
Economic Authorities	384	411	424	n.a	244
of which:					
National Authorities for Tunnels and Egyptian Railway Authorities	208	203	n.a	n.a	n.a
New Urban Community Authority (NUCA)	107	87			
Public Enterprises	79	76	n.a	81	79
Mega projects	n.a	237	93	225	197
Total 1/	1050	1100	871.3	933	850
In percent of GDP 2/	8.9	11.2	8.6	11.7	10.8
Share of off-budget investment (percent)	44	66	72	61.6	62.6

Source: Ministry of Planning and Economic Development, Ministry of Finance and IMF staff calculations

1/ Total investment is published by the Ministry of Economic Planning and components are provided by the authorities.

2/ For the budget columns, the applicable GDP level is the one used by the authorities for budgeting purposes. For FY23/24, investment relative to current projections of GDP would be around 7.5 percent of GDP.

23. Significant steps are being taken to better monitor and control on- and off-budget public sector investment. The Prime Minister issued a decree that requires all public entities to report annual projected and executed investment spending, including projects contracted or undertaken by entities such as the Administrative Capital Urban Development (ACUD) and the Armed Forces Engineering Authority and its affiliates, to a cabinet level committee chaired by the Central Auditing Organization (CAO). The decree specifies that the target ceiling on the value of total public investment (including the budget sector) over the period from January – June 2024 is EGP 350 billion and the target for FY2024/25 is EGP 1,000 billion, which will achieve a real reduction in total public investment under the baseline to ease demand pressures. These targets will be monitored under the program through a new indicative target with semi-annual reporting. Based on available information, the target implies a real tightening of total public investment in FY2024/25 relative to FY2023/24 as the agreed target is broadly equivalent to budgeted investment for FY2023/24, which did not capture most spending on megaprojects (Text Table 4). In the near term, the authorities will cut funding for budget sector investment in the second half of FY2023/24 by 15 percent relative to the prior year and have postponed any new budget sector projects.

24. The authorities are redoubling their efforts to strengthen the management of fiscal risks and improve fiscal transparency. To further strengthen the control of fiscal risks from off-budget activity, the authorities will ensure that the stock of government guarantees relative to GDP, which were 22 percent of GDP at end-September 2023, will stabilize for the remainder of the current fiscal year at their end-September 2023 level and decline as a percent of GDP starting from end-June 2024 (*indicative target*). In addition, 59 Economic Authorities will be gradually incorporated into general government fiscal reporting and subject to binding ceilings on their debt in the annual budget law, adjustment of which will require parliamentary approval. A sector classification of the Economic Authorities will be conducted in accordance with the concepts and principles in the GFSM 2014 *(structural benchmark*). To enhance fiscal transparency and improve budget operations, the authorities will publish an annual fiscal risk statement as part of the budget documentation, starting from FY2024/25 in line with IMF technical assistance. The authorities have also recommitted to fulfill the existing unmet fiscal structural benchmarks related to publication of the following reports: monthly procurement activity, the annual audits of fiscal accounts, tax expenditures, budget sector arrears, and the new PFM regulations.

25. The Egyptian General Petroleum Company (EGPC) has accumulated arrears to international oil companies. The arrears are reported at US$4-5 billion. They have accumulated due to foreign exchange shortages and several structural factors, including reduced domestic production of gas and higher domestic consumption reducing the scope for gas exports, and increased subsidies from EGPC to the electricity sector. While the outstanding claims, which are in US dollars, are not guaranteed by the general government and will be paid by EGPC, a ministerial decree has established a committee for negotiating deferral agreements with all suppliers. The repayment strategy will seek to ensure that no new arrears are accumulated, and existing arrears will be cleared (*structural benchmark*). The foreign exchange liquidity provision in the interbank market noted above can help facilitate the timely clearance of the arrears.

26. To complement the stronger fiscal consolidation effort, the authorities are adjusting their financing and debt management strategy to reduce debt and gross financing needs, in addition to half of the new financing from the Ras El-Hekma investment deal being allocated to debt reduction, starting with reducing the overdraft balance at the CBE**.** In particular:

- Gradually extending the issuance maturity of domestic debt as financing conditions improve, namely, once the uncertainty around the macro-outlook is addressed resolutely through policy actions (*existing indicative target*).
- Debt management measures to extend the maturity of existing domestic debt, while containing interest expense. The authorities have agreed with pension funds and insurance funds to extend the maturity of existing debt that matures in the next several years. The authorities have also agreed with major state banks to issue new three-year T-bonds when the existing T-bonds held by these banks mature in the next several years.
- Addressing any prospective recapitalization of the CBE in a way to safeguard the balance sheet of the CBE and bolster its ability to deliver on its price stability mandate, while taking into account the government's debt management strategy and the costs related to fair value measurement and impairment upon full compliance with EAS/IFRS (*structural benchmark*).
- An improvement in the quality of fiscal financing, though increasing the share of official sector external budget financing and by bringing the government's overdraft account at the CBE gradually under the statutory limit (*performance criterion*).

C. Financial Sector Policies

27. Despite some recent deterioration in capital adequacy, the financial system appears capable of weathering the initial impact of the unification and monetary tightening. Prior to unification, the banking system's capital adequacy ratio (CAR) had declined relative to 2021 due in part to the impact of the large foreign exchange depreciation on risk-weighted assets. While overall, the system appears adequately capitalized, the drop in the CAR of some banks to close to the regulatory limit raises some concerns. Liquidity indicators point to excess liquidity in the system. On aggregate, banks have a large negative net foreign asset position, but they have remained in compliance with their net open position limits, with FX borrowing from nonresidents offset by FX lending to residents. Bank credit to government and public sector companies has expanded significantly over the past year, with lending to state and local government in foreign currency increasing by over US$8 billion. Banks' increased foreign exchange exposure to these entities could imply higher credit risk, although the authorities noted that banks only lend to entities with reliable sources of foreign exchange to service loans. There could also be liquidity risk in foreign exchange due to maturity mismatches and the limited ability of the CBE to function as a backstop in case of sudden foreign exchange deposit withdrawals. While staff does not have detailed bank data for conducting stress tests, the CBE's regulatory stress tests reportedly point to adequate capital and liquidity buffers under large, combined exchange rate and interest rate shocks. To closely monitor existing and potential risks to the financial sector, the CBE is committed to completing stress tests of the banking sector and sharing detailed results with IMF staff. These tests will be prepared in consultation with IMF staff (*structural benchmark*).

28. Governance practices, particularly at the state-owned banks, remain concerning. The re-introduction by state-owned banks of high-yield CD with rates that significantly exceeded the prevailing policy rate further underscores that state-owned banks may not be acting at arm's length. This has possible negative implications for the financial health of the banking system and other program objectives such as developing a robust market-based transmission mechanism for monetary policy. While the authorities generally did not share these concerns, the CBE agreed not to issue any new subordinated debt to state-owned banks. Staff will continue to explore avenues to strengthening the independence of state-owned banks.

D. Structural Reform Policies

29. Implementation of the State-Ownership Policy (SOP) will continue to be a key anchor of program reforms going forward. Importantly, the authorities issued in February 2024 an executive regulation implementing the provisions of a law passed in July 2023 that has the objective of eliminating preferential tax treatment and exemptions for state-owned enterprises, including military-owned ones. While immediate macroeconomic pressures dominated the agenda of the combined first and second reviews, commitment to the structural agenda was deepened and strengthened through new structural benchmarks to enhance the transparency of SOE activity and develop an indicator to track progress in implementing the SOP. Specifically, to enhance SOE transparency, which is critical to achieving the program objective to level the playing field, the authorities committed to (i) re-instate regular publication on the appropriate government website of annual aggregate reports on Egypt's SOE portfolio, with coverage expanded to include all state-owned enterprises (*structural benchmark*); and (ii) include all the procurement opportunities and awards made by the largest 50 state-owned enterprises on the general government's e-tenders site (*structural benchmark*).

30. The authorities plan to take a more strategic approach to divestment, which will add value and transparency to the process. Divestment is an important mechanism to reduce the state's footprint in economic activity. Going forward, the government plans to take a more strategic approach, based on IFC advice, by pursuing a sector-by-sector approach to divestment, with a focus on large transactions in those sectors that appeal to foreign investors (i.e., assets that generate foreign exchange flows). Adoption of the approach, including preliminary steps to enhance the attractiveness of the sectors and ensure the transactions are appropriately priced and transparent, which will support the further development of competitive markets, will take time. In the interim, the authorities will seek closure on already announced sales and pursue the sale of state assets where the process is well advanced (e.g., sale of windfarms, a power plant, and desalinization plants). Conservatively, the authorities estimate another US$600 - US$700 million in USD flows from further divestments in FY2023/24 is possible, which would bring total USD divestment flows from non-residents in FY2023/24 to about US$2.8 billion, excluding the Ras El-Hekma deal. In FY2024/25, the authorities have identified specific divestment opportunities to generate US$3.6 billion in dollar inflows, plus another 0.5 percent of GDP in additional divestment flows either denominated in EGP or USD.

31. Efforts to strengthen the business climate continue. Following the amendment to the Competition Law in December 2022, the Egypt Competition Authority (ECA) has drafted implementing regulations, which the authorities have committed to issue through a Prime Ministerial decree by end-April 2024. The ECA is also redrafting amendments to the competition law, which were initially submitted to Parliament in 2019 to strengthen the independence of the ECA, to address constitutional concerns about the ability of the ECA to levy fines and other issues such as the ECA's governance structure and will submit the redrafted amendments for Cabinet approval by end-June 2024, which is a new commitment under the program. To get a better insight from market participants on weaknesses in the competitive neutrality framework, the ECA is also creating an index, which will be a perception-based survey asking key stakeholders (e.g., commerce, legal professionals) about tax, capital, regulatory, and public procurement neutrality issues in their sectors. The high-level results from the series will be published and will inform on competitive neutrality issues that need to be addressed.

EXTENDED FUND FACILITY PROGRAM MODALITIES

32. The program accommodates a larger buildup of reserve buffers against external shocks. Total projected program financing was increased to US$7.8 billion in FY2023/24 and US$28.5 billion for the program period. This will allow for slightly more reserve accumulation at end-FY2023/24 in nominal terms relative to projected levels at program approval, and further increases in reserves against a deterioration of the projected net reserve inflows over the medium term.[7] The accelerated and higher reserve accumulation encompasses the CBE's purchase of US$15 billion of the US$24 billion of new financing from the Ras El-Hekma deal. Foreign reserves are projected to further increase over the remainder of the program. (Table 11).

33. The authorities have requested an augmentation of access under the EFF arrangement to support their adjustment effort in response to external shocks and a rephasing of access. The requested augmentation of access is 184.70 percent of quota SDR3,761.52 million (or about US$5 billion). The augmentation would be made available following the completion of the combined 1st and 2nd EFF review, with the purchases under the program divided in line with balance of payments gaps and the augmentation spread over the remainder of the program (Table 12b). Purchases under the EFF arrangement will be used for budget support. To better align access with review cycles under the program, the authorities also requested rephasing the availability date of the purchase associated with the second review to March 15, 2024, and the availability date of the purchase associated with the third review to June 15, 2024. Moreover, the arrangement is no longer subject to the Fund's Exceptional Access procedures as Egypt's exposure, following significant repurchases over the last year, is projected to remain below the normal cumulative access threshold

[7] The initial NIR target for the end of the program (FY2026/27) was 120 percent of the ARA metric. The new NIR target is 136 percent of the ARA metric.

of 600 percent of quota. At the time of program approval, Egypt's exposure was projected to remain above the normal cumulative access limit well into 2023.

34. The Fund-supported program is fully financed. The total financing needed to reach the revised net international reserve targets for FY2023/24 is US$6.2 billion after accounting for US$1.6 billion from the IMF (Table 11). The authorities have secured firm financing commitments for the next 12 months from foreign partners to close the gap and there are good prospects of adequate financing for the reminder of the program period. Assurances have also been received that US$19 billion of official deposits from Arab countries at the CBE will remain at the CBE until after the expiration of the EFF arrangement in September 2026 and will not be used for the purchase of equities or debt. A rebooted divestment strategy, benefiting from stronger governance and oversight from IFC advisory services, would continue to provide external financing, but with a more backloaded profile. With several GCC partners having publicly communicated their support for Egypt's reform program, a substantial pipeline of identified state assets, and with smaller financing gaps in the outer years of the Fund-supported program, staff assesses that there are good prospects for the remainder of the arrangement to be fully financed, including through multilateral support, additional external issuances, potential further support from the EU, and larger policy adjustments if needed.

35. Safeguards assessment. A safeguards assessment of the CBE was completed in April 2023. It found that legislative reforms have enhanced the CBE's legal framework and the CBE has strengthened its audit and risk management processes. However, significant quasi-fiscal (development) lending to public sector agencies excluding the Ministry of Finance, that reached around EGP 765 billion by February 2023, appears to contravene the 2020 CBE Law and compromises the central bank's autonomy and financial position. While underlying details on the beneficiary agencies are yet to be provided by the CBE, the authorities have reported some repayment of the loans, with the stock of lending at EGP 661 billion as of end-January 2024, and have confirmed that the outstanding loans are being serviced at the CBE lending rate. As noted above, the authorities are committed to prohibiting new development lending to public agencies excluding the Ministry of Finance (*performance criterion*) and will develop a plan to gradually reduce the claims to zero (*structural benchmark*). The assessment also highlighted the importance of developing a recapitalization plan to safeguard the CBE's financial position. Recognizing this, the authorities are undertaking a comprehensive assessment of the CBE's recapitalization needs and developing a recapitalization plan that considers both the government's debt management strategy and the importance of having an independent and well-capitalized central bank (*structural benchmark*). This will also need to consider implications of CBE's full compliance with Egyptian Accounting Standards (EAS), an outstanding safeguards recommendation to strengthen transparency and address current deviations in the CBE's financial statements on key aspects, including fair value measurement and disclosures on material balance sheet items, as well as transactions with related parties.

36. The next program review is scheduled on a quarterly basis and program conditionality and reporting requirements have been strengthened to maintain the reform momentum.

Quantitative program targets for end-March 2024, end-June 2024, end-December 2024, and indicative targets for end-September 2024 were agreed. The third review is expected to be completed by June 2024 and the fourth review is expected to be completed by December 2024, which will be based on end-March 2024 and the end-June 2024 performance criteria, respectively. In addition to existing performance criteria on net international reserves, the primary balance, and non-accumulation of external debt payment arrears, performance criteria are proposed on the government's overdraft at the CBE and central bank development lending to public sector agencies excluding the Ministry of Finance. New indicative targets are proposed on government guarantees and public investment, including national projects. The monetary policy consultation clause (MPCC) will continue to serve as a means of monitoring the inflation performance and policy stance of the CBE. Reflecting the elevated and volatile nature of inflation at present, the MPCC bands around a central target of 7 percent are set intentionally wide in the near term. The bands narrow over time, reflecting the importance of ensuring policies are sufficiently tight to lower inflation. Moreover, to address some shortcomings in data reporting and improve program monitoring, the data reporting requirements for the program have been enhanced**.**

37. Enterprise risks are elevated and capacity to repay the Fund is subject to high risks and contingent on full program implementation and the materialization of all projected financing. Egypt is the Fund's third largest exposure in the General Resources Account, which is a potential credit risk concentration. Egypt's total Fund obligations relative to GDP, exports, reserves, and government revenue largely exceed the 75th percentile of comparator countries. Fund credit outstanding as a share of gross reserves is projected to reach 29.5 percent in FY2023/24. Failure of the program resulting from partial implementation of measures to support sustainable growth, reduce debt risks, and mobilize sufficient financing would pose reputational risks for the Fund. Other risks include potential social discontent, a further escalation of regional conflicts that complicates program implementation, and materialization of contingent liabilities. Conversely, failure to complete the review may lead to arrears resulting in loss to the Fund and reputational damage to the Fund in its ability to perform. More broadly, Enterprise risk to the Fund is expected to decline gradually as Egypt's overall exposure will decrease over the medium term.

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38. Egypt is facing significant macroeconomic challenges that have become more complex to manage with the recent conflict in Gaza and Israel, even as new large investment inflows have eased near-term financial pressures. The conflict is adversely affecting tourism and could dent foreign direct investment, adding to balance of payments pressures. The disruptions in the Red Sea are also reducing Suez Canal receipts, which are an important source of foreign exchange inflows and fiscal revenue. Policy slippages have also contributed to macroeconomic imbalances. The new investment deal for the development of the Ras El-Hekma region eases current external pressures, and while the actual development of the region could boost growth prospects beyond the assumed baseline, it could also add to future external pressures, if not managed properly.

39. To restore macroeconomic stability, the authorities have significantly strengthened the reform package underlying the EFF-supported program. The recent unification of the exchange rate together with the monetary policy tightening are critical components of the package. Other elements of the package are just as critical, including a sustained shift to a flexible exchange rate regime and a liberalized FX system, the commitments to significantly tighter fiscal and monetary policies, greater transparency and control over off-budget activities, a reformed and expanded divestment program, and accelerated measures to improve the business environment and reduce the state's economic footprint. Steadfast implementation of the strengthened program is imperative to restore macroeconomic stability and investor confidence and manage demand pressures. To this end, the authorities' commitment to use a large part of the new financing from the Ras El-Hekma deal to improve the level of reserves, fast-track the clearance of foreign currency backlogs and arrears, and reduce government debt upfront is prudent.

40. The unification of the exchange rate is a welcome step toward correcting macroeconomic imbalances. Maintaining a flexible exchange rate regime and a liberalized foreign exchange system will be imperative to avoid the buildup of external imbalances in the future. To support this sustained shift to a new FX regime and system, any FXI should be conducted through mechanisms that are market-based, nondiscriminatory, and transparent.

41. Staff also welcomes the measures to significantly tighten monetary policy. The cumulative 800 basis point increase in the policy rate since February will move the real rate toward positive territory and help anchor inflation expectations following exchange rate unification. The commitment to maintaining the balance of the government's overdraft account at the CBE within the statutory limit and preventing further CBE lending to public agencies excluding the Ministry of Finance, as well as sterilizing the injection of EGP-liquidity associated with the Ras El-Hekma deal, should also help ease inflationary pressures. Going forward, monetary policy must focus squarely on reducing inflation and the CBE's resolve to tighten further, if necessary, should help in this regard. The CBE's intention to take a data-dependent approach should be supported by efforts to improve the monitoring of inflationary pressures, including developing measures to track inflation expectations and changes in economic activity at high frequency.

42. The commitment to undertake greater revenue-based fiscal consolidation will sustainably increase the primary surplus and firmly put debt on a downward path. Egypt's tax revenues are very low relative to peers and insufficient to ensure debt sustainability while adequately protecting vulnerable households. The authorities have begun taking steps in this direction. Cabinet approval and the planned submission to parliament of amendments to the VAT law in FY2024/25 represents a firm down payment toward fulfilling their commitments toward achieving higher medium-term primary surpluses under the program. A commitment to limit the expansion of free zones will also help as well as full adherence to the automatic fuel price adjustment mechanism. Adjustments to the financing and debt management strategy complement the effort to reduce debt and gross financing needs.

43. **The commitment to improve monitoring and control of a broader perimeter of public sector expenditures strengthens the policy package relative to program approval.** National public-sector led projects are a major contributor to internal and external imbalances. The Prime Ministerial decree requiring the establishment of a framework for monitoring and controlling overall public investment, including by Economic authorities and military-owned entities, is welcome as are the authorities' commitments to limit the granting of guarantees by the Ministry of Finance and measures to expand the perimeter of fiscal reporting.

44. **With policies to restore macroeconomic stability in place, the stage is set for more aggressive implementation of the structural reform agenda.** While some notable divestments were announced in early FY2023/24, the divestment program subsequently slowed. The unification of the exchange rate and implementation of tighter monetary and fiscal policies coupled with advice from the IFC provides fertile ground to move aggressively forward with the divestment program. In addition, the stage is set for a more convincing effort to start withdrawing the state and military from economic activity and leveling the playing field across economic agents are critical to securing investor confidence and releasing constraints to private activity. Moreover, steps toward improving competition in the banking sector will be important.

45. **Risks to the program stem from the need to stay the course on difficult policy adjustments in a shock prone environment.** The shift to a flexible exchange rate regime and a liberalized FX system would need to be sustained. Similarly, fiscal consolidation in the context of rising living costs could face political and social pushback. The proposed structural reforms will take time to implement and deliver the intended results while reforms aimed at reducing the role of the state may face resistance from vested interests in the country. Frequent external shocks could test the authorities' commitment and ability to sustain the reforms. The ability to assess program performance hinges on the authorities' commitment to meet the significantly strengthened reporting requirements under the program on a timely basis. A temporary shift to a quarterly monitoring cycle and consultations with the public by the authorities on the objectives of the reform program as well as support for the program at the highest political level are important risk mitigating factors.

46. **Staff supports the authorities' requests for a waiver of the missed June 2023 QPC on NIR, augmentation of access, rephasing of disbursements, and recommends completion of the MPCC consultation with the Executive Board.** Staff supports the request for the waiver of nonobservance due to the corrective actions taken by the authorities. Importantly, the augmentation will facilitate accumulating buffers against the backdrop of highly uncertain, adverse, and continuing economic effects of conflicts to help secure stability. The attached LOI and MEFP present a strong set of policies and the authorities' commitment to pursue the objectives of the strengthened Fund-supported program.

Table 1. Egypt: Selected Macroeconomic Indicators, 2019/20–2028/29 1/

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.		*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices						(percent change)						
Real GDP	3.6	3.3	6.7	*4.0*	3.8	*5.3*	3.0	4.4	4.7	5.1	5.5	5.6
Consumer prices (end of period)	5.7	4.9	13.2	*14.8*	35.7	*8.7*	32.1	15.3	12.9	9.0	7.1	5.2
Consumer prices (period average)	5.7	4.5	8.5	*15.8*	24.4	*11.1*	32.5	25.7	13.1	10.8	8.0	6.1
Public finances 2/						(percent of GDP)						
Gross debt, general government 3/	86.2	89.9	88.5	*88.3*	95.9	*85.5*	96.4	82.6	77.3	71.1	65.7	60.8
External	18.0	19.0	19.5	*22.1*	25.1	*19.8*	31.0	23.1	20.1	17.4	16.1	14.8
Domestic	68.3	70.9	69.0	*66.2*	70.8	*65.7*	65.4	59.6	57.2	53.7	49.6	45.9
Gross debt, general government 4/	84.1	88.5	88.4	…	…	…	…	…	…	…	…	…
Budget sector 5/						(percent of GDP)						
Revenue and grants	15.9	16.6	16.9	*16.9*	15.4	*17.3*	15.3	16.2	17.3	18.6	18.9	18.6
Expenditure (incl. net acquisition of financial assets)	23.4	23.7	23.1	*24.8*	21.4	*25.7*	21.7	24.7	23.7	22.7	21.7	20.2
Of which: Energy subsidies	0.3	0.3	0.8	*1.0*	1.3	*0.9*	1.8	1.8	1.1	1.0	0.8	0.4
Overall balance 6/	-7.5	-7.1	-6.2	*-7.8*	-6.0	*-8.4*	-6.3	-8.5	-6.4	-4.1	-2.8	-1.6
Overall balance, excl. grants 7/	-7.6	-7.1	-6.2	*-7.8*	-6.1	*-8.4*	-6.3	-8.5	-6.4	-4.1	-2.8	-1.6
Primary balance including divestment proceeds	1.7	1.4	1.3	*1.7*	1.6	*2.1*	7.1	4.5	5.3	5.5	5.5	5.5
Primary balance				*1.6*	*1.6*	*2.0*	*2.1*	*3.5*	*4.5*	*5.0*	*5.0*	*5.0*
Monetary sector						(percent change)						
Credit to the private sector	19.5	20.5	24.3	*18.0*	25.4	*15.0*	30.0	25.0	18.0	18.0	23.0	24.0
Reserve money	25.1	15.4	20.8	*23.1*	28.2	*22.0*	12.6	26.2	16.8	14.1	16.5	7.6
Broad money (M2)	17.5	18.0	23.5	*30.4*	24.7	*20.2*	38.6	18.5	11.2	10.3	11.3	11.9
Policy rate (end of period, in percent)	9.25	8.25	11.25	…	…		…	…	…	…	…	…
External sector						(percent of GDP, unless otherwise indicated)						
Exports of goods (in US$, percentage change)	-7.4	8.7	53.1	*15.5*	-9.8	*2.2*	-16.3	7.2	10.1	10.5	9.7	8.3
Imports of goods (in US$, percentage change)	-5.5	12.6	23.4	*3.1*	-18.9	*4.0*	2.2	-0.7	11.6	11.9	11.6	10.4
Merchandise trade balance	-9.5	-9.9	-9.1	*-9.3*	-7.9	*-9.6*	-11.3	-11.0	-11.0	-10.9	-10.9	-10.9
Current account	-2.9	-4.4	-3.5	*-3.0*	-1.2	*-2.5*	-6.3	-2.4	-2.4	-2.5	-2.6	-2.6
Capital and financial account (incl. errors and omissions)	-0.3	4.1	1.3	*3.3*	1.0	*4.5*	8.7	2.2	4.0	3.3	2.9	3.0
Foreign direct investment (net, in billions of US$)	7.1	4.8	8.6	*9.7*	9.7	*12.1*	32.2	8.4	9.7	11.1	12.8	14.3
External debt 8/	32.3	32.6	32.8	*35.8*	41.8	*34.8*	43.0	45.4	38.2	32.6	29.4	27.0
Gross international reserves (in billions of US$)	37.2	39.4	31.5	*37.1*	32.8	*47.2*	42.8	45.8	53.8	59.2	60.3	61.7
In months of next year's imports of goods and services	6.0	6.8	3.1	*3.7*	5.3	*4.6*	7.3	6.9	7.1	6.9	6.3	5.8
In percent of short-term external debt	172.4	83.6	55.1	*60.5*	55.7	*72.2*	69.4	75.0	87.2	96.8	98.6	100.9
Memorandum items:												
Nominal GDP (in billions of Egyptian pounds)	6,153	6,663	7,843	*9,545*	10,158	*11,155*	13,859	18,500	21,852	25,355	28,799	32,199
Unemployment rate (period average, percent)	8.3	7.3	7.3	…	7.2	…	…	…	…	…	…	…
Population (in millions)	100.6	102.1	103.6	*106.2*	105.7	*108.3*	107.8	109.9	112.1	114.4	116.7	119.0

Sources: Egyptian authorities; and IMF staff estimates and projections.
1/ Fiscal year ends June 30.
2/ General government includes the budget sector, the National Investment Bank (NIB), and social insurance funds.
3/ As defined in the program.
4/ Ministry of Finance financial statements audited by the State Audit Agency in line with the Government Accounting Law.
5/ Budget sector comprises central government, local governments, and some public corporations.
6/ Accrued interest expense is not included in the overall balance through FY2022/23 as per the authorities' presentation, while it is included in the overall balance from FY2023/24 onwards as in GFSM 2014.
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, 2019/20–2028/29

(In billions of US$, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.		*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-11.2	-18.4	-16.6	*-12.6*	-4.7	*-11.1*	-21.8	-7.8	-9.0	-10.7	-12.6	-14.1
Balance on goods and services	-27.5	-36.9	-32.2	*-30.9*	-9.2	*-31.5*	-22.2	-15.7	-19.4	-23.6	-27.2	-30.6
Exports of goods and services	47.7	44.7	70.8	*76.4*	74.2	*79.8*	62.6	68.3	74.7	82.2	91.2	100.4
Imports of goods and services	-75.2	-81.6	-103.1	*-107.3*	-83.4	*-111.3*	-84.8	-84.0	-94.1	-105.8	-118.4	-131.0
Trade balance	-36.5	-42.1	-43.4	*-39.3*	-31.2	*-41.8*	-39.2	-36.3	-41.0	-46.5	-52.6	-59.1
Oil and gas	-0.4	0.0	4.4	*9.5*	0.4	*6.7*	-3.5	-1.3	-1.2	-1.2	-1.1	-1.0
Other	-36.0	-42.1	-47.8	*-48.8*	-31.6	*-48.5*	-35.7	-35.0	-39.8	-45.3	-51.5	-58.0
Exports of goods	26.4	28.7	43.9	*50.7*	39.6	*51.9*	33.2	35.6	39.2	43.3	47.5	51.4
Oil and gas	8.5	8.6	18.0	*23.5*	13.8	*20.9*	6.7	9.4	9.3	9.2	8.9	8.6
Other	17.9	20.1	25.9	*27.3*	25.8	*30.9*	26.5	26.2	29.9	34.1	38.6	42.9
Imports of goods	-62.8	-70.7	-87.3	*-90.0*	-70.8	*-93.7*	-72.4	-71.9	-80.2	-89.7	-100.1	-110.5
Oil and gas	-8.9	-8.6	-13.5	*-14.0*	-13.4	*-14.3*	-10.1	-10.7	-10.5	-10.4	-10.0	-9.6
Other	-53.9	-62.1	-73.8	*-76.0*	-57.4	*-79.4*	-62.3	-61.2	-69.7	-79.4	-90.1	-100.9
Services (net)	9.0	5.1	11.2	*8.4*	21.9	*10.3*	17.0	20.6	21.6	22.9	25.5	28.5
Receipts	21.3	16.0	26.9	*25.7*	34.6	*28.0*	29.5	32.7	35.5	38.9	43.8	48.9
Of which: Tourism receipts	9.9	4.9	10.7	*11.3*	13.6	*14.2*	12.0	12.6	15.1	17.2	19.5	22.1
Of which: Suez canal receipts	5.8	5.9	7.0	*7.4*	8.8	*7.6*	6.8	10.0	10.2	10.4	12.2	13.9
Payments	-12.3	-10.9	-15.8	*-17.3*	-12.6	*-17.6*	-12.5	-12.1	-13.9	-16.0	-18.3	-20.5
Of which : Transportation	-2.1	-1.8	-3.0	*-3.1*	-2.8	*-3.2*	-3.0	-3.0	-3.4	-3.9	-4.4	-5.0
Of which: Travel	-3.2	-2.7	-4.5	*-5.5*	-5.0	*-4.7*	-4.4	-4.1	-2.1	-3.1	-3.9	-3.9
Primary income (net)	-11.4	-12.4	-15.8	*-15.5*	-17.3	*-15.2*	-22.6	-16.6	-16.6	-17.8	-19.9	-21.6
Receipts	0.9	0.6	1.0	*1.5*	2.1	*1.5*	1.9	1.8	2.0	2.3	2.6	2.9
Payments	-12.3	-13.0	-16.8	*-17.0*	-19.5	*-16.8*	-24.5	-18.4	-18.7	-20.1	-22.5	-24.5
Transfers	27.7	30.9	31.4	*33.8*	21.8	*35.6*	23.0	24.6	27.1	30.7	34.5	38.1
Official grants	0.2	-0.3	-0.3	*-0.3*	-0.1	*-0.2*	0.0	0.0	0.0	0.0	0.0	0.0
Private remittances	27.5	31.2	31.7	*34.0*	21.9	*35.9*	23.1	24.6	27.1	30.7	34.5	38.1
Capital and financial account	-0.3	20.4	11.8	*13.8*	7.2	*19.6*	29.1	7.2	14.8	13.9	13.9	16.1
Capital account	-0.2	-0.2	-0.1	*0.0*	-0.1	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-0.1	20.5	11.9	*13.8*	7.3	*19.6*	29.1	7.2	14.8	13.9	13.9	16.1
Medium- and long-term loans and supplier credit (net)	-0.2	3.5	1.5	*-1.2*	2.4	*0.3*	3.6	1.3	1.1	0.5	0.7	2.8
Drawings	2.5	6.6	7.6	*6.8*	5.7	*7.8*	7.1	7.6	6.7	6.7	6.4	6.4
Amortization	2.7	3.1	6.2	*8.1*	3.3	*7.5*	3.5	6.3	5.6	6.2	5.7	3.7
FDI (net)	7.1	4.8	8.6	*9.7*	9.7	*12.1*	32.2	8.4	9.7	11.1	12.8	14.3
Portfolio investment (net)	-8.1	18.0	-21.1	*6.1*	-4.1	*7.3*	0.4	3.9	4.1	6.2	6.4	7.8
Commercial banks' NFA	6.7	-3.5	13.5	*-0.2*	5.2	*-0.9*	-4.7	-3.4	0.0	-3.7	-6.0	-8.9
Incurrance of CBE foreign liabilities 1/	-0.1	-2.7	15.7	*0.0*	0.3	*0.0*	-1.2	-2.0	0.0	0.0	0.0	0.0
Short-term supplier credit	-2.0	1.5	-2.9	*1.0*	0.0	*2.0*	0.7	0.5	1.2	1.2	1.3	1.5
Other	-3.4	-1.0	-3.3	*-1.7*	-6.2	*-1.2*	-1.8	-1.5	-1.3	-1.3	-1.3	-1.3
Errors and omissions (net)	-0.8	-3.1	-5.8	*0.0*	-3.3	*0.0*	1.3	0.0	0.0	0.0	0.0	0.0
Overall balance	-12.4	-1.1	-10.5	*1.2*	-0.8	*8.5*	8.6	-0.6	5.9	3.3	1.4	2.0
Financing	12.4	0.8	10.5	*-7.3*	-2.2	*-14.6*	-16.4	-8.7	-11.1	-7.1	-2.5	-2.5
Reserves ("-" indicates increase)	6.6	-2.2	11.2	*-6.0*	-4.8	*-10.1*	-12.0	-3.0	-8.0	-5.4	-1.1	-1.4
Other below the line adjustments 2/	0.0	0.0	0.0	*0.0*	3.9	*0.0*	0.1	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources	6.8	3.0	-0.7	*-1.3*	-1.3	*-4.5*	-4.5	-5.8	-3.1	-1.7	-1.4	-1.1
Other financing	0.0	0.0	0.0	*0.0*	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	*6.1*	3.0	*3.0*	7.8	9.3	5.2	3.8	1.2	0.5
Extended Fund Facility	0.0	0.0	0.0	*0.7*	0.3	*0.7*	1.6	2.5	2.5	1.2	0.0	0.0
Other prospective financing	0.0	0.0	0.0	*5.4*	2.6	*2.3*	6.2	6.8	2.7	2.6	1.2	0.5
Memorandum items:												
Current account excluding grants	-11.4	-18.2	-16.3	*-12.3*	-4.7	*-10.8*	-21.8	-7.8	-8.9	-10.6	-12.5	-14.1
Terms of trade (percent change)	-5.2	2.7	10.3	*2.8*	1.8	*-2.1*	-1.8	-0.6	-1.4	-0.8	-0.8	-0.8
Gross international reserves	37.2	39.4	31.5	*37.1*	32.8	*47.2*	42.8	45.8	53.8	59.2	60.3	61.7
Gross intl. reserves & FX deposits in domestic banks 3/	40.8	49.6	32.4	*38.4*	37.2	*48.5*	49.2	52.2	60.2	65.6	66.7	68.1
In months of next year's imports of G&S	6.0	6.8	3.1	*3.7*	5.3	*4.6*	7.3	6.9	7.1	6.9	6.3	5.8
In percent of ARA metric (floating)	102	85	64	*73*	80	*85*	115	118	130	136	133	130
External debt	123.5	137.9	155.7	*151.2*	164.7	*151.4*	149.4	149.2	142.9	138.9	142.0	145.7
External debt service	16.1	15.4	24.5	*25.0*	24.7	*32.0*	32.0	36.1	30.1	23.9	23.5	23.2
External debt service (in percent of exports of GNFS)	33.8	34.5	34.6	32.6	33.2	*40.1*	51.1	52.8	40.3	29.1	25.7	23.1
Stock of external arrears	0.0	0.0	0.0	0.0	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Real effective exchange rate (period average, percentage change)	16.0	2.1	2.2	…	-22.1	…	…	…	…	…	…	…

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

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

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

3/ End of period.

Table 2b. Egypt: Balance of Payments, 2019/20–2028/29

(In percent of GDP, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.		*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-2.9	-4.4	-3.5	*-3.0*	-1.2	*-2.5*	-6.3	-2.4	-2.4	-2.5	-2.6	-2.6
Balance on goods and services	-7.2	-8.7	-6.8	*-7.3*	-2.3	*-7.2*	-6.4	-4.8	-5.2	-5.5	-5.6	-5.7
Exports of goods and services	12.5	10.6	14.9	*18.1*	18.8	*18.4*	18.0	20.8	20.0	19.3	18.9	18.6
Imports of goods and services	-19.6	-19.3	-21.7	*-25.4*	-21.2	*-25.6*	-24.4	-25.5	-25.1	-24.8	-24.5	-24.3
Trade balance	-9.5	-9.9	-9.1	*-9.3*	-7.9	*-9.6*	-11.3	-11.0	-11.0	-10.9	-10.9	-10.9
Oil and gas	-0.1	0.0	0.9	*2.2*	0.1	*1.5*	-1.0	-0.4	-0.3	-0.3	-0.2	-0.2
Other	-9.4	-9.9	-10.1	*-11.6*	-8.0	*-11.2*	-10.3	-10.6	-10.6	-10.6	-10.7	-10.8
Exports	6.9	6.8	9.2	*12.0*	10.1	*11.9*	9.5	10.8	10.5	10.1	9.8	9.5
Oil and gas	2.2	2.0	3.8	*5.6*	3.5	*4.8*	1.9	2.8	2.5	2.2	1.8	1.6
Other	4.7	4.7	5.5	*6.5*	6.6	*7.1*	7.6	8.0	8.0	8.0	8.0	7.9
Imports	-16.4	-16.7	-18.4	*-21.3*	-18.0	*-21.6*	-20.8	-21.9	-21.4	-21.0	-20.7	-20.5
Oil and gas	-2.3	-2.0	-2.9	*-3.3*	-3.4	*-3.3*	-2.9	-3.2	-2.8	-2.4	-2.1	-1.8
Other	-14.1	-14.7	-15.5	*-18.0*	-14.6	*-18.3*	-17.9	-18.6	-18.6	-18.6	-18.7	-18.7
Services (net)	2.3	1.2	2.3	*2.0*	5.6	*2.4*	4.9	6.3	5.8	5.4	5.3	5.3
Receipts	5.6	3.8	5.7	*6.1*	8.8	*6.4*	8.5	9.9	9.5	9.1	9.1	9.1
Of which: Tourism receipts	2.6	1.1	2.3	*2.7*	3.5	*3.3*	3.5	3.8	4.0	4.0	4.0	4.1
Of which: Suez canal dues	1.5	1.4	1.5	*1.8*	2.2	*1.8*	2.0	3.0	2.7	2.4	2.5	2.6
Payments	-3.2	-2.6	-3.3	*-4.1*	-3.2	*-4.1*	-3.6	-3.7	-3.7	-3.8	-3.8	-3.8
Of which : Transportation	-0.5	-0.4	-0.6	*-0.7*	-0.7	*-0.7*	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Of which: Travel	-0.8	-0.6	-0.9	*-1.3*	-1.3	*-1.1*	-1.3	-1.2	-0.5	-0.7	-0.8	-0.7
Primary income (net)	-3.0	-2.9	-3.3	*-3.7*	-4.4	*-3.5*	-6.5	-5.0	-4.4	-4.2	-4.1	-4.0
Receipts	0.2	0.1	0.2	*0.4*	0.5	*0.4*	0.5	0.5	0.5	0.5	0.5	0.5
Payments	-3.2	-3.1	-3.5	*-4.0*	-4.9	*-3.9*	-7.1	-5.6	-5.0	-4.7	-4.7	-4.5
Transfers	7.2	7.3	6.6	*8.0*	5.5	*8.2*	6.6	7.5	7.2	7.2	7.1	7.1
Official grants	0.1	-0.1	-0.1	*-0.1*	0.0	*-0.1*	0.0	0.0	0.0	0.0	0.0	0.0
Private remittances	7.2	7.4	6.7	*8.1*	5.6	*8.3*	6.6	7.5	7.2	7.2	7.1	7.1
Capital and financial account	-0.1	4.8	2.5	*3.3*	1.8	*4.5*	8.4	2.2	4.0	3.3	2.9	3.0
Capital account	-0.1	0.0	0.0	*0.0*	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	0.0	4.9	2.5	*3.3*	1.8	*4.5*	8.4	2.2	4.0	3.3	2.9	3.0
Medium- and long-term loans and supplier credit (net)	0.0	0.8	0.3	*-0.3*	0.6	*0.1*	1.0	0.4	0.3	0.1	0.1	0.5
Drawings	0.7	1.6	1.6	*1.6*	1.4	*1.8*	2.0	2.3	1.8	1.6	1.3	1.2
Amortization	0.7	0.7	1.3	*1.9*	0.8	*1.7*	1.0	1.9	1.5	1.5	1.2	0.7
FDI (net)	1.9	1.1	1.8	*2.3*	2.5	*2.8*	9.3	2.5	2.6	2.6	2.7	2.7
Portfolio investment (net)	-2.1	4.3	-4.4	*1.5*	-1.0	*1.7*	0.1	1.2	1.1	1.5	1.3	1.4
Commercial banks' NFA	1.7	-0.8	2.8	*-0.1*	1.3	*-0.2*	-1.4	-1.0	0.0	-0.9	-1.2	-1.6
Incurrance of CBE foreign liabilities 1/	0.0	-0.6	3.3	*0.0*	0.1	*0.0*	-0.4	-0.6	0.0	0.0	0.0	0.0
Short-term supplier credit	-0.5	0.4	-0.6	*0.2*	0.0	*0.5*	0.2	0.2	0.3	0.3	0.3	0.3
Other	-0.9	-0.2	-0.7	*-0.4*	-1.6	*-0.3*	-0.5	-0.5	-0.3	-0.3	-0.3	-0.2
Errors and omissions (net)	-0.2	-0.7	-1.2	*0.0*	-0.8	*0.0*	0.4	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.2	-0.3	-2.2	*0.3*	-0.2	*2.0*	2.5	-0.2	1.6	0.8	0.3	0.4
Financing	3.2	0.2	2.2	*-1.7*	-0.5	*-3.4*	-4.7	-2.7	-3.0	-1.7	-0.5	-0.5
Reserves ("-" indicates increase)	1.7	-0.5	2.4	*-1.4*	-1.2	*-2.3*	-3.5	-0.9	-2.1	-1.3	-0.2	-0.3
Other below the line (including changes in gold valuation) 2	0.0	0.0	0.0	*0.0*	1.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Net use of Fund resources	1.8	0.7	-0.2	*-0.3*	-0.3	*-1.0*	-1.3	-1.8	-0.8	-0.4	-0.3	-0.2
Other financing	0.0	0.0	0.0	*0.0*	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	*1.4*	0.8	*1.4*	2.3	2.8	1.4	0.9	0.2	0.1
Extended Fund Facility	0.0	0.0	0.0	*0.2*	0.1	*0.2*	0.5	0.7	0.7	0.3	0.0	0.0
Other prospective financing	0.0	0.0	0.0	*1.3*	0.7	*1.4*	1.8	2.1	0.7	0.6	0.2	0.1
Memorandum items:												
Current account excluding grants	-3.0	-4.3	-3.4	*-2.9*	-1.2	*-2.5*	-6.3	-2.4	-2.4	-2.5	-2.6	-2.6
Gross international reserves 3/	9.8	9.3	7.6	*9.7*	10.0	*11.2*	17.0	14.2	14.6	13.9	12.5	11.4
Gross intl reserves & CBE's FX deposits in domestic banks	10.7	11.7	6.8	*9.1*	9.4	*11.2*	14.2	15.9	16.1	15.4	13.8	12.6
External debt	32.4	32.5	32.8	*35.8*	41.8	*34.8*	43.0	45.4	38.2	32.6	29.4	27.0
External debt service	4.2	3.6	5.2	*5.9*	6.3	*7.4*	9.2	11.0	8.0	5.6	4.9	4.3

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

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

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

3/ End of period.

Table 3a. Egypt: Budget Sector Operations, 2019/20–2028/29 1/

(In billions of Egyptian pounds, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.		*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	975	1,109	1,326	*1,617*	1,564	*1,933*	2,126	3,002	3,776	4,720	5,447	5,999
Tax revenue	740	834	990	*1,232*	1,259	*1,502*	1,740	2,407	3,092	3,946	4,586	5,051
Income and property	347	394	475	*590*	641	*738*	884	1,165	1,431	1,782	2,103	2,294
Personal income tax	98	124	152	*188*	194	*225*	269	371	449	537	629	704
Corporate income tax	189	198	234	*282*	322	*330*	423	609	780	1,035	1,257	1,379
EGPC	26	40	30	*36*	51	*42*	65	86	102	118	134	150
Other	163	158	204	*246*	272	*288*	358	523	679	917	1,123	1,230
Property	60	72	90	*119*	125	*183*	191	185	201	211	216	211
Goods and services	330	385	454	*568*	556	*679*	757	1,110	1,509	1,899	2,185	2,443
Oil excises	28	23	57	*69*	37	*81*	43	58	68	79	90	101
VAT and nonoil excises	302	362	397	*499*	519	*598*	714	1,052	1,441	1,819	2,094	2,343
International trade	33	36	43	*52*	59	*61*	80	109	126	158	177	179
Other taxes	31	19	18	*21*	2	*25*	19	24	27	31	34	38
Nontax revenue	231	272	333	*385*	300	*430*	383	592	681	771	858	943
Oil-related nontax revenue	13	18	29	*36*	35	*42*	13	18	21	24	28	31
Other nontax revenues	217	253	303	*349*	265	*388*	370	574	660	746	830	912
Of which: interest income	10	8	8	*10*	16	*11*	16	21	25	29	33	37
Grants	5	3	3	*0*	5	*1*	2	3	3	4	4	5
Expenditure	1,435	1,579	1,812	*2,375*	2,185	*2,881*	3,694	4,755	5,331	5,895	6,394	6,663
Wages and other remunerations	289	319	358	*400*	412	*467*	470	648	789	949	1,118	1,298
Purchases of goods and services	70	81	96	*126*	128	*147*	139	186	220	255	290	324
Interest 2/	568	565	585	*905*	774	*1,169*	1,854	2,408	2,546	2,452	2,397	2,286
Domestic 2/	526	518	528	*825*	666	*1,061*	1,657	2,098	2,221	2,130	2,082	1,921
External	43	48	56	*80*	108	*108*	197	310	325	322	315	365
Subsidies, grants, and social benefits	229	264	342	*416*	454	*467*	662	853	921	1,058	1,217	1,399
Energy subsidies	19	19	60	*97*	128	*102*	256	334	248	245	243	137
Of which: fuel subsidy	19	19	60	*97*	126	*102*	254	331	245	241	239	135
Food subsidies 3/	81	83	98	*118*	122	*134*	128	150	201	223	234	243
Transfer to SIF 4/	55	99	120	*127*	127	*134*	135	142	150	159	168	177
Other	75	63	65	*74*	77	*97*	144	227	322	432	573	842
Other current	87	100	113	*123*	127	*143*	145	194	229	265	301	337
Investment	192	249	318	*405*	289	*487*	424	467	626	916	1,071	1,019
Cash balance	-459	-470	-487	*-758*	-621	*-949*	-1,568	-1,753	-1,555	-1,175	-947	-664
Net acquisition of financial assets	3	2	-2	*-12*	-11	*-14*	-693	-186	-157	-129	-133	-149
Overall balance 2/	-463	-472	-485	*-746*	-610	*-934*	-876	-1,567	-1,398	-1,045	-813	-515
Financing	463	472	485	*746*	610	*934*	876	1,567	1,398	1,045	813	515
Net domestic	273	323	441	*680*	640	*948*	1,054	1,786	1,404	1,054	593	375
Net external	190	149	44	*66*	-30	*-13*	-179	-219	-6	-8	220	140
Memorandum items:												
Primary balance including divestment proceeds	106	93	100	*160*	164	*235*	978	841	1,148	1,406	1,584	1,771
Primary balance				*150*	164	*223*	285	654	991	1,277	1,451	1,622
Oil balance 6/	49	63	57	*44*	-5	*62*	-135	-172	-57	-23	9	145
Divestment proceeds flowing to the budget				*10*	N.A.	*12*	698	193	165	139	144	161
of which: from Ras El-Hekma							646					
Valuation changes in T-bills and zero coupon bonds 2/	70	79	75		…		…	…	…	…	…	…
Gross budget sector debt 5/	5,353	6,086	7,183	*8,789*	9,981	*10,021*	13,725	15,776	17,470	18,665	19,594	20,230
Gross budget sector debt 6/	5,094	5,859	6,931	…	…	…	…	…	…	…	…	…
Net debt 7/	4,751	5,547	6,313	…	…	…	…	…	…	…	…	…
Nominal GDP (in billions of Egyptian pounds)	6,153	6,663	7,843	*9,545*	10,158	*11,155*	13,859	18,500	21,852	25,355	28,799	32,199

Sources: Ministry of Finance; and IMF staff estimates.

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

2/ Through FY2022/23, data is shown as per the authorities' presentation, whereby interest does not include accrued interest expense on T-bills and zero coupon bonds, which is instead included in non-deficit debt creating flows.

Beginning in FY2023/24, interest is defined as in GFSM 2014, and it includes accrued interest expense.

Accrued interest expense is not included in the overall balance through FY2022/23, while it is included in the overall balance beginning in FY2023/24.

3/ Food subsidies include subsidies paid to farmers.

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

5/ As defined in the program.

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

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

Table 3b. Egypt: Budget Sector Operations, 2019/20–2028/29 1/

(In percent of GDP)

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.		*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	15.9	16.6	16.9	*16.9*	15.4	*17.3*	15.3	16.2	17.3	18.6	18.9	18.6
Tax revenue	12.0	12.5	12.6	*12.9*	12.4	*13.5*	12.6	13.0	14.2	15.6	15.9	15.7
Income and corporate tax	5.6	5.9	6.1	*6.2*	6.3	*6.6*	6.4	6.3	6.5	7.0	7.3	7.1
Personal income tax	1.6	1.9	1.9	*2.0*	1.9	*2.0*	1.9	2.0	2.1	2.1	2.2	2.2
Corporate income tax	3.1	3.0	3.0	*3.0*	3.2	*3.0*	3.1	3.3	3.6	4.1	4.4	4.3
EGPC	0.4	0.6	0.4	*0.4*	0.5	*0.4*	0.5	0.5	0.5	0.5	0.5	0.5
Other	2.6	2.4	2.6	*2.6*	2.7	*2.6*	2.6	2.8	3.1	3.6	3.9	3.8
Property	1.0	1.1	1.1	*1.2*	1.2	*1.6*	1.4	1.0	0.9	0.8	0.8	0.7
Goods and services	5.4	5.8	5.8	*6.0*	5.5	*6.1*	5.5	6.0	6.9	7.5	7.6	7.6
Oil excises	0.4	0.4	0.7	*0.7*	0.4	*0.7*	0.3	0.3	0.3	0.3	0.3	0.3
VAT and nonoil excises	4.9	5.4	5.1	*5.2*	5.1	*5.4*	5.2	5.7	6.6	7.2	7.3	7.3
International trade	0.5	0.5	0.6	*0.5*	0.6	*0.5*	0.6	0.6	0.6	0.6	0.6	0.6
Other taxes	0.5	0.3	0.2	*0.2*	0.0	*0.2*	0.1	0.1	0.1	0.1	0.1	0.1
Nontax revenue	3.7	4.1	4.2	*4.0*	3.0	*3.9*	2.8	3.2	3.1	3.0	3.0	2.9
Oil-related nontax revenue	0.2	0.3	0.4	*0.4*	0.3	*0.4*	0.1	0.1	0.1	0.1	0.1	0.1
Other nontax revenues	3.5	3.8	3.9	*3.7*	2.6	*3.5*	2.7	3.1	3.0	2.9	2.9	2.8
Of which: interest income	0.2	0.1	0.1	*0.1*	0.2	*0.1*	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.1	0.0	0.0	*0.0*	0.1	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	23.3	23.7	23.1	*24.9*	21.5	*25.8*	26.7	25.7	24.4	23.3	22.2	20.7
Wages and other remunerations	4.7	4.8	4.6	*4.2*	4.1	*4.2*	3.4	3.5	3.6	3.7	3.9	4.0
Purchases of goods and services	1.1	1.2	1.2	*1.3*	1.3	*1.3*	1.0	1.0	1.0	1.0	1.0	1.0
Interest 2/	9.2	8.5	7.5	*9.5*	7.6	*10.5*	13.4	13.0	11.7	9.7	8.3	7.1
Domestic 2/	8.5	7.8	6.7	*8.6*	6.6	*9.5*	12.0	11.3	10.2	8.4	7.2	6.0
External	0.7	0.7	0.7	*0.8*	1.1	*1.0*	1.4	1.7	1.5	1.3	1.1	1.1
Subsidies, grants and social benefits	3.7	4.0	4.4	*4.4*	4.5	*4.2*	4.8	4.6	4.2	4.2	4.2	4.3
Energy subsidies	0.3	0.3	0.8	*1.0*	1.3	*0.9*	1.8	1.8	1.1	1.0	0.8	0.4
Of which: fuel subsidy	0.3	0.3	0.8	*1.0*	1.2	*0.9*	1.8	1.8	1.1	1.0	0.8	0.4
Food subsidies 3/	1.3	1.2	1.2	*1.2*	1.2	*1.2*	0.9	0.8	0.9	0.9	0.8	0.8
Transfers to SIF 4/	0.9	1.5	1.5	*1.3*	1.3	*1.2*	1.0	0.8	0.7	0.6	0.6	0.5
Other	1.2	0.9	0.8	*0.8*	0.8	*0.9*	1.0	1.2	1.5	1.7	2.0	2.6
Other current	1.4	1.5	1.4	*1.3*	1.3	*1.3*	1.0	1.0	1.0	1.0	1.0	1.0
Investment	3.1	3.7	4.1	*4.2*	2.8	*4.4*	3.1	2.5	2.9	3.6	3.7	3.2
Cash balance	-7.5	-7.1	-6.2	*-7.9*	-6.1	*-8.5*	-11.3	-9.5	-7.1	-4.6	-3.3	-2.1
Net acquisition of financial assets	0.1	0.0	0.0	*-0.1*	-0.1	*-0.1*	-5.0	-1.0	-0.7	-0.5	-0.5	-0.5
Overall balance 2/	-7.5	-7.1	-6.2	*-7.8*	-6.0	*-8.4*	-6.3	-8.5	-6.4	-4.1	-2.8	-1.6
Financing	7.5	7.1	6.2	*7.8*	6.0	*8.4*	6.3	8.5	6.4	4.1	2.8	1.6
Net domestic	4.4	4.8	5.6	*7.1*	6.3	*8.5*	7.6	9.7	6.4	4.2	2.1	1.2
Net external	3.1	2.2	0.6	*0.7*	-0.3	*-0.1*	-1.3	-1.2	0.0	0.0	0.8	0.4
Memorandum items:												
Primary balance including divestment proceeds	1.7	1.4	1.3	*1.7*	1.6	*2.1*	7.1	4.5	5.3	5.5	5.5	5.5
Primary balance				*1.6*	1.6	*2.0*	2.1	3.5	4.5	5.0	5.0	5.0
Oil balance 6/	0.8	0.9	0.7	*0.5*	-0.1	*0.6*	-1.0	-0.9	-0.3	-0.1	0.0	0.5
Divestment proceeds flowing to the budget				*0.1*	0.0	*0.1*	5.0	1.0	0.8	0.5	0.5	0.5
of which : from Ras El-Hekma							4.6					
Gross budget sector debt 5/	87.0	91.3	91.6	*92.1*	98.3	*89.8*	99.0	85.3	79.9	73.6	68.0	62.8
Gross budget sector debt 6/	82.8	87.9	88.4	...	...	...	...	...	...	...	...	...
Net debt 7/	77.2	83.3	80.5	...	...	...	...	...	...	...	...	...

Sources: Ministry of Finance; and IMF staff estimates.

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

2/ Through FY2022/23, data is shown as per the authorities' presentation, whereby interest does not include accrued interest expense on T-bills and zero coupon bonds, which is instead included in non-deficit debt creating flows.

Beginning in FY2023/24, interest is defined as in GFSM 2014, and it includes accrued interest expense.

Accrued interest expense is not included in the overall balance through FY2022/23, while it is included in the overall balance beginning in FY2023/24.

3/ Food subsidies include subsidies paid to farmers.

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

5/ As defined in the program.

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

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

Table 4. Egypt: General Government Operations, 2019/20–2028/29 1/

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.		*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(In billions of Egyptian pounds)								
Revenue and grants	1,121	1,239	1,484	*1,832*	1,724	*2,189*	2,431	3,409	4,257	5,278	6,081	6,707
Tax revenue	740	834	990	*1,232*	1,259	*1,502*	1,740	2,407	3,092	3,946	4,586	5,051
Income and property	347	394	475	*590*	641	*738*	884	1,165	1,431	1,782	2,103	2,294
Personal income tax	98	124	152	*188*	194	*225*	269	371	449	537	629	704
Corporate income tax	189	198	234	*282*	322	*330*	423	609	780	1,035	1,257	1,379
EGPC	26	40	30	*36*	51	*42*	65	86	102	118	134	150
Other	163	158	204	*246*	272	*288*	358	523	679	917	1,123	1,230
Goods and services	330	385	454	*568*	556	*679*	757	1,110	1,509	1,899	2,185	2,443
Oil excises	28	23	57	*69*	37	*81*	43	58	68	79	90	101
VAT and nonoil excises	302	362	397	*499*	519	*598*	714	1,052	1,441	1,819	2,094	2,343
International trade taxes	33	36	43	*52*	59	*61*	80	109	126	158	177	179
Other taxes	31	19	18	*21*	2	*25*	19	24	27	31	34	38
Nontax revenue	377	402	491	*600*	460	*686*	688	999	1,161	1,329	1,491	1,651
Of which: Interest income	10	20	68	*18*	31	*18*	32	37	41	45	49	53
Grants	5	3	3	*0*	5	*1*	2	3	3	4	4	5
Expenditure	1,581	1,702	1,937	*2,527*	2,310	*3,090*	3,946	5,124	5,806	6,488	7,096	7,473
Unidentified Spending Measures 2/	0	0	0	*0*	0	*0*	0	0	0	0	0	0
Wages and other remunerations	291	295	331	*370*	380	*432*	434	598	728	875	1,030	1,196
Purchases of goods and services	71	88	102	*133*	128	*155*	140	187	221	256	291	325
Interest 2/	542	555	555	*853*	724	*1,104*	1,776	2,301	2,444	2,363	2,316	2,214
Domestic interest 2/	500	507	499	*773*	616	*996*	1,579	1,991	2,119	2,041	2,000	1,849
External interest	43	48	56	*80*	108	*108*	197	310	325	322	315	365
Subsidies, grants, and social benefits	398	414	516	*644*	660	*768*	1,026	1,377	1,558	1,812	2,086	2,381
Other current	87	101	115	*123*	127	*144*	145	194	229	266	302	337
Investment	192	249	318	*405*	289	*487*	424	467	626	916	1,071	1,019
Net acquisition of financial assets	-51	-4	24	*7*	-6	*-1*	-688	-181	-152	-124	-129	-144
Overall balance 2/	-409	-459	-477	*-702*	-580	*-900*	-828	-1,533	-1,397	-1,085	-887	-622
Financing	409	459	477	*702*	580	*900*	828	1,533	1,397	1,085	887	622
Net domestic	218	310	433	*636*	610	*913*	1,007	1,752	1,403	1,094	667	482
Net external	190	149	44	*66*	-30	*-13*	-179	-219	-6	-8	220	140
Other	0	0	0	*0*	0	*0*	0	0	0	0	0	0
				(In percent of GDP, unless otherwise indicated)								
Revenue and grants	18.2	18.6	18.9	*19.2*	17.0	*19.6*	17.5	18.4	19.5	20.8	21.1	20.8
Tax revenue	12.0	12.5	12.6	*12.9*	12.4	*13.5*	12.6	13.0	14.2	15.6	15.9	15.7
Nontax revenue	6.1	6.0	6.3	*6.3*	4.5	*6.2*	5.0	5.4	5.3	5.2	5.2	5.1
Grants	0.1	0.0	0.0	*0.0*	0.1	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	25.7	25.5	24.7	*26.5*	22.7	*27.7*	28.5	27.7	26.6	25.6	24.6	23.2
Wages and other remunerations	4.7	4.4	4.2	*3.9*	3.7	*3.9*	3.1	3.2	3.3	3.5	3.6	3.7
Purchases of goods and services	1.1	1.3	1.3	*1.4*	1.3	*1.4*	1.0	1.0	1.0	1.0	1.0	1.0
Interest 2/	8.8	8.3	7.1	*8.9*	7.1	*9.9*	12.8	12.4	11.2	9.3	8.0	6.9
Subsidies, grants, and social benefits	6.5	6.2	6.6	*6.7*	6.5	*6.9*	7.4	7.4	7.1	7.1	7.2	7.4
Other current	1.4	1.5	1.5	*1.3*	1.3	*1.3*	1.0	1.0	1.0	1.0	1.0	1.0
Investment	3.1	3.7	4.1	*4.2*	2.8	*4.4*	3.1	2.5	2.9	3.6	3.7	3.2
Net acquisition of financial assets	-0.8	-0.1	0.3	*0.1*	-0.1	*0.0*	-5.0	-1.0	-0.7	-0.5	-0.4	-0.4
Financing	6.6	6.9	6.1	*7.4*	5.7	*8.1*	6.0	8.3	6.4	4.3	3.1	1.9
Net domestic	3.5	4.7	5.5	*6.7*	6.0	*8.2*	7.3	9.5	6.4	4.3	2.3	1.5
Net external	3.1	2.2	0.6	*0.1*	-0.3	*-0.4*	-1.3	-1.2	0.0	0.0	0.8	0.4
Memorandum items:												
Primary balance including divestment proceeds	2.2	1.4	1.0	*1.6*	1.4	*1.8*	6.8	4.1	4.8	5.0	5.0	4.9
Gross general government debt 3/	86.2	89.9	88.5	*88.3*	95.9	*85.5*	96.4	82.6	77.3	71.1	65.7	60.8
Gross general government debt 4/	84.1	88.5	88.4	*…*	…	*…*	…	…	…	…	…	…
Nominal GDP (in billions of EGP)	6,153	6,663	7,843	*9,545*	10,158	*11,155*	13,859	18,500	21,852	25,355	28,799	32,199

Sources: Ministry of Finance; and IMF staff estimates.

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

2/ Through FY2022/23, data is shown as per the authorities' presentation, whereby interest does not include accrued interest expense on T-bills and zero coupon bonds, which is instead included in non-deficit debt creating flows. Beginning in FY2023/24, interest is defined as in GFSM 2014, and it includes accrued interest expense. Accrued interest expense is not included in the overall balance through FY2022/23, while it is included in the overall balance beginning in FY2023/24.

3/ As defined in the program.

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

Table 5. Egypt: Central Bank Accounts, 2019/20–2028/29

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.		*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(end-period, in billions of EGP, unless otherwise indicated)											
Net foreign assets	157	225	-153	*-38*	-304	*229*	868	1197	1710	2043	2110	2195
Foreign assets	604	625	611	*962*	1046	*1282*	2524	2811	3370	3713	3781	3866
Foreign liabilities	447	400	764	*1000*	1350	*1053*	1656	1614	1660	1671	1671	1671
Net domestic assets	698	762	1346	*1506*	1834	*1562*	854	976	828	852	1262	1434
Net domestic credit	543	493	449	*-39*	420	*-114*	-554	-385	-380	-321	162	456
Net credit to central government	813	758	1059	*1059*	1413	*1059*	1310	1431	1481	1553	1640	1721
Net credit to public economic authorities	-7	-38	-58	*-45*	-73	*-44*	-73	-72	-72	-72	-72	-72
Credit to banks	274	377	400	*520*	530	*528*	981	1034	1087	1120	1211	1215
Banks' deposits in foreign currency	-112	-135	-216	*-291*	-508	*-307*	-780	-816	-841	-847	-847	-847
Open market operations	-424	-469	-736	*-1282*	-942	*-1350*	-1992	-1961	-2034	-2075	-1770	-1561
Other items net	155	269	897	*1545*	1414	*1676*	1408	1361	1208	1173	1100	977
Reserve money	856	988	1193	*1468*	1529	*1791*	1722	2173	2538	2895	3373	3629
Currency in circulation	603	673	779	*949*	1009	*1166*	1073	1399	1678	1939	2375	2647
Reserves and highly liquid assets of banks	253	314	414	*519*	520	*625*	649	774	861	956	998	982
Cash in vaults	48	49	59	*59*	74	*59*	74	74	74	74	74	74
Reserves	204	265	355	*460*	446	*565*	575	700	786	882	924	908

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

Table 6. Egypt: Monetary Survey, 2018/19–2028/29

	2018/19	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
					Prog.		*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(End-period, in billions of EGP)								
Net foreign assets	300	123	252	-372	*-414*	-834	*-160*	185	676	1,174	1,724	2,149	2,764
Central bank	264	157	225	-153	*-38*	-304	*229*	868	1,197	1,710	2,043	2,110	2,195
Commercial banks	36	-34	26	-219	*-376*	-530	*-388*	-683	-521	-536	-319	39	569
Net domestic assets	3,564	4,416	5,105	6,987	*9,039*	9,082	*10,526*	11,250	12,875	13,898	14,898	16,348	17,937
Net claims on central and local government	2,217	3,022	3,164	3,971	*4,650*	5,075	*5,598*	5,718	7,101	8,144	8,961	9,467	9,814
Net claims on public economic authorities	211	213	353	452	*640*	765	*792*	1,306	1,442	1,397	1,300	1,507	1,806
Claims on public sector companies	162	156	149	155	*187*	165	*216*	206	218	221	221	257	301
Claims on private sector	1,217	1,455	1,752	2,178	*2,571*	2,732	*2,956*	3,553	4,439	5,237	6,178	7,601	9,428
Net other items	-244	-429	-313	231	*991*	345	*965*	467	-326	-1,100	-1,762	-2,483	-3,411
Broad money (M2)	3,864	4,539	5,357	6,614	*8,625*	8,248	*10,367*	11,435	13,551	15,072	16,622	18,497	20,701
Domestic currency component (M2D)	3,149	3,872	4,706	5,768	*7,275*	6,732	*8,943*	8,736	10,727	12,164	13,693	15,569	17,773
Currency outside banks	487	603	673	779	*949*	1,009	*1,166*	1,073	1,399	1,678	1,939	2,375	2,647
Domestic currency deposits	2,662	3,269	4,033	4,990	*6,326*	5,723	*7,776*	7,663	9,328	10,486	11,754	13,194	15,126
Foreign currency deposits	715	667	650	846	*1,350*	1,516	*1,424*	2,699	2,823	2,908	2,928	2,928	2,928
					(Annual percent change, unless otherwise indicated)								
Broad money (M2)	11.8	17.5	18.0	23.5	*30.4*	24.7	*20.2*	38.6	18.5	11.2	10.3	11.3	11.9
Domestic currency component (M2D)	15.0	23.0	21.5	22.6	*26.1*	16.7	*22.9*	29.8	22.8	13.4	12.6	13.7	14.2
Reserve money	-4.5	25.1	15.4	20.8	*23.1*	28.2	*22.0*	12.6	26.2	16.8	14.1	16.5	7.6
Contribution to broad money growth	11.8	17.5	18.0	23.5	*30.4*	24.7	*20.2*	38.6	18.5	11.2	10.3	11.3	11.9
Net foreign assets	-0.3	-4.6	2.8	-11.6	*-0.6*	-7.0	*3.0*	12.4	4.3	3.7	3.6	2.6	3.3
Net domestic assets	12.1	22.1	15.2	35.1	*31.0*	31.7	*17.2*	26.3	14.2	7.6	6.6	8.7	8.6
Credit to the private sector	12.4	19.5	20.5	24.3	*18.0*	25.4	*15.0*	30.0	25.0	18.0	18.0	23.0	24.0
Credit to government, public economic authorities and public sector companies	9.0	30.9	8.1	24.9	*19.7*	31.2	*20.6*	20.4	21.2	11.4	7.4	7.1	6.1
Memorandum items:													
Velocity													
Velocity GDP/M2D (level)	1.9	1.8	1.6	1.5	*1.5*	1.6	*1.4*	1.8	1.9	1.9	2.0	2.0	1.9
Velocity GDP/M2 (level)	1.5	1.5	1.3	1.3	*1.3*	1.4	*1.2*	1.4	1.5	1.5	1.6	1.6	1.6
M2 (in percent of GDP)	69.0	73.8	80.4	84.3	*90.4*	81.2	*92.9*	82.5	73.2	69.0	65.6	64.2	64.3
Money multiplier (M2D/reserve money)	4.6	4.5	4.8	4.8	*5.0*	4.4	*5.0*	5.1	4.9	4.8	4.7	4.6	4.9
Money multiplier (M2/reserve money)	5.6	5.3	5.4	5.5	*5.9*	5.4	*5.8*	6.6	6.2	5.9	5.7	5.5	5.7
M2 (in real terms)	-2.2	7.4	11.7	17.7	*15.2*	10.2	*4.7*	2.1	-10.3	-3.5	-2.4	2.1	4.5
Domestic currency deposits (in real terms)	1.2	12.3	16.7	17.9	*12.0*	1.4	*7.1*	-1.3	-7.8	-2.5	-0.8	2.9	7.0
Claims on private sector (in real terms)	-1.7	9.3	14.0	18.5	*4.3*	10.9	*0.2*	-4.2	-5.4	2.3	4.4	12.8	15.8
Foreign currency deposits (in percent of total deposits)	21.2	16.9	13.9	14.5	*17.6*	20.9	*15.5*	26.0	23.2	21.7	19.9	18.2	16.2

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

Table 7a. Egypt: Summary of National Accounts, 2019/20–2028/29

(In percent)

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.	Proj.	*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(Annual change, in percent)								
Real GDP at market price 1/	3.6	3.3	6.7	*4.0*	3.8	*5.3*	3.0	4.4	4.7	5.1	5.5	5.6
Domestic demand (absorption)	2.9	4.8	5.4	*5.0*	-0.7	*5.1*	5.9	3.7	5.7	6.0	6.5	6.4
Private	2.0	4.9	7.2	*5.7*	-0.3	*5.1*	8.0	3.4	5.7	5.8	6.5	6.6
Public	7.8	4.8	-8.1	*-0.4*	-6.9	*5.0*	-13.8	5.6	6.8	8.8	7.2	5.5
Consumption	7.4	6.0	1.7	*5.6*	3.3	*4.8*	7.9	3.8	5.1	5.0	6.4	6.9
Private	7.3	6.3	3.8	*6.2*	3.8	*4.8*	9.7	3.5	5.0	4.8	6.2	6.8
Public	7.9	3.3	-17.3	*0.3*	-2.8	*5.1*	-14.8	8.7	6.9	7.6	8.2	8.5
Investment	-18.4	-2.4	30.5	*0.4*	-21.6	*7.2*	-8.0	2.3	10.4	13.7	7.3	2.9
Gross fixed capital formation	-15.7	-2.5	33.5	*0.4*	-21.7	*7.2*	-7.7	1.1	9.9	14.4	8.4	3.2
Private	-38.0	-26.6	35.6	*12.0*	-30.4	*15.0*	0.4	15.0	17.0	17.0	17.0	18.0
Public	7.5	12.0	32.7	*-3.4*	-18.2	*4.2*	-10.5	-4.3	6.6	13.1	3.9	-5.5
Net exports of goods and services 2/	0.5	-1.9	0.8	*-1.3*	4.5	*-0.1*	-3.0	0.6	-1.2	-1.2	-1.4	-1.3
Exports of goods and services	-23.5	-14.5	51.7	*3.8*	31.4	*5.7*	-8.2	2.7	8.7	8.8	8.0	6.9
Imports of goods and services	-18.6	0.0	25.2	*9.1*	1.1	*4.4*	6.9	-0.6	12.6	12.1	11.8	9.9
Real GDP at factor cost	2.5	2.0	6.2	*4.0*	3.6	*5.3*	3.0	4.4	4.7	5.1	5.5	5.6
Agriculture	3.4	3.8	4.0	*3.0*	4.1	*3.6*	3.8	3.8	4.0	4.0	4.0	4.0
Construction	4.4	6.8	7.0	*4.0*	5.1	*10.0*	3.5	2.0	2.0	4.0	6.0	6.0
Industry	-0.5	-2.9	6.4	*2.7*	-2.1	*3.9*	-1.6	3.2	2.9	3.7	4.4	4.7
Services	3.2	3.4	6.5	*4.7*	6.3	*5.8*	5.4	5.6	6.2	6.1	6.2	6.4
General government	6.1	4.9	4.4	*4.0*	3.2	*3.5*	3.5	3.1	3.1	3.1	3.1	3.1
Suez Canal	5.0	0.6	11.7	*11.7*	18.8	*11.8*	-9.7	10.5	10.5	10.5	11.9	11.9
				(Contribution to real growth, in percent 3/)								
Real GDP at market price	3.6	3.3	6.7	*4.0*	3.8	*5.3*	3.0	4.4	4.7	5.1	5.5	5.6
Domestic demand (absorption)	3.1	5.1	5.9	*5.3*	-0.7	*5.4*	6.0	3.8	5.9	6.3	6.9	6.9
Private	1.8	3.8	4.6	*5.6*	1.5	*4.6*	7.9	3.7	5.1	4.9	6.1	6.8
Public	1.3	1.3	1.2	*-0.3*	-2.2	*0.8*	-1.9	0.2	0.8	1.4	0.8	0.1
Consumption	6.5	5.5	1.6	*5.2*	2.9	*4.6*	7.0	3.6	4.8	4.6	6.0	6.5
Private	5.8	5.1	3.3	*5.2*	3.1	*4.1*	8.0	3.1	4.4	4.2	5.4	6.0
Public	0.7	0.3	-1.6	*0.0*	-0.2	*0.5*	-1.0	0.5	0.4	0.5	0.5	0.5
Investment	-3.4	-0.4	4.2	*0.1*	-3.7	*0.9*	-1.0	0.3	1.2	1.6	0.9	0.4
Gross fixed capital formation	-2.5	-0.3	4.1	*0.1*	-3.3	*0.9*	-0.9	0.1	1.0	1.5	1.0	0.4
Private	-3.1	-1.3	1.2	*0.4*	-1.3	*0.5*	0.0	0.4	0.5	0.6	0.7	0.8
Public	0.6	1.0	2.8	*-0.3*	-2.0	*0.4*	-0.9	-0.3	0.4	0.9	0.3	-0.4
Net exports of goods and services	0.5	-1.9	0.8	*-1.3*	4.5	*-0.1*	-3.0	0.6	-1.2	-1.2	-1.4	-1.3
Exports of goods and services	-4.1	-1.9	5.5	*0.5*	4.7	*0.8*	-1.6	0.5	1.5	1.5	1.4	1.3
Imports of goods and services	4.6	0.0	-4.7	*-1.8*	-0.2	*-0.9*	-1.5	0.1	-2.7	-2.7	-2.9	-2.5
Real GDP at factor cost	2.5	2.0	6.2	*4.0*	3.6	*5.3*	3.0	4.4	4.7	5.1	5.5	5.6
Agriculture	0.4	0.4	0.4	*0.3*	0.4	*0.4*	0.4	0.4	0.4	0.4	0.4	0.4
Construction	0.3	0.5	0.5	*0.3*	0.4	*0.7*	0.3	0.1	0.1	0.3	0.4	0.4
Industry	-0.1	-0.8	1.7	*0.7*	-0.5	*1.0*	-0.4	0.8	0.7	0.9	1.0	1.1
Services	1.4	1.5	2.9	*2.1*	2.8	*2.6*	2.5	2.6	2.9	2.9	3.0	3.1
General government	0.5	0.4	0.4	*0.3*	0.3	*0.3*	0.3	0.3	0.3	0.2	0.2	0.2
Suez Canal	0.1	0.0	0.3	*0.3*	0.5	*0.3*	-0.3	0.3	0.3	0.3	0.3	0.4

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

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

2/ Contribution to growth.

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

Table 7b. Egypt: Summary of National Accounts, 2019/20–2028/29
(In percent of GDP)

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.	Proj.	*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
				(In percent of nominal GDP)								
GDP at market price	100.0	100.0	100.0	*100.0*	100.0	*100.0*	100.0	100.0	100.0	100.0	100.0	100.0
Domestic demand (absorption)	107.2	108.7	106.8	*107.3*	102.2	*107.3*	106.3	104.7	105.1	105.4	105.5	105.6
Private	90.9	91.7	88.7	*91.9*	86.9	*91.9*	93.2	92.2	92.3	92.0	92.0	92.6
Public	16.3	17.1	18.1	*15.4*	15.4	*15.4*	13.1	12.5	12.7	13.5	13.5	13.0
Consumption	91.2	93.6	89.8	*95.3*	89.4	*95.0*	94.6	93.5	93.3	92.8	92.5	92.8
Private	83.6	86.0	82.5	*88.3*	82.6	*88.0*	89.0	87.7	87.5	86.7	86.3	86.4
Public	7.5	7.6	7.3	*6.9*	6.8	*6.9*	5.6	5.8	5.9	6.0	6.2	6.4
Investment	16.0	15.2	17.0	*12.1*	12.9	*12.3*	11.7	11.2	11.7	12.7	13.0	12.8
Gross fixed capital formation	14.0	13.2	15.2	*12.1*	11.5	*12.3*	10.3	9.9	10.4	11.3	11.7	11.4
Private	5.2	3.7	4.4	*3.5*	2.9	*3.9*	2.9	3.2	3.5	3.9	4.4	4.9
Public	8.7	9.5	10.8	*8.5*	8.6	*8.4*	7.5	6.7	6.9	7.4	7.3	6.6
Net exports of goods and services	-7.2	-8.7	-6.8	*-7.3*	-2.2	*-7.3*	-6.3	-4.7	-5.1	-5.4	-5.5	-5.6
Exports of goods and services	12.5	10.6	15.1	*18.3*	19.1	*18.6*	18.3	21.1	20.2	19.6	19.2	18.9
Imports of goods and services	-19.7	-19.3	-21.9	*-25.7*	-21.3	*-25.9*	-24.6	-25.7	-25.3	-25.0	-24.7	-24.5
Net factor income	-3.0	-2.9	-3.3	*-3.7*	-4.4	*-3.5*	-6.5	-5.0	-4.4	-4.2	-4.1	0.0
Net remittances inflows	7.2	7.4	6.7	*8.1*	5.6	*8.3*	6.6	7.5	7.2	7.2	7.1	0.0
Net official transfers	0.1	-0.1	-0.1	*-0.1*	0.0	*-0.1*	0.0	0.0	0.0	0.0	0.0	0.0
Gross National Disposable Income	104.3	104.4	103.3	*104.3*	101.1	*104.7*	100.1	102.4	102.8	103.0	103.0	100.0
National savings	13.1	10.8	13.5	*9.1*	11.7	*9.8*	5.4	8.9	9.3	10.2	10.4	10.2
Private	17.4	14.0	15.3	*12.1*	14.6	*13.5*	13.3	15.6	13.6	11.4	10.2	10.2
Public	-4.4	-3.2	-1.7	*-3.0*	-2.9	*-3.7*	-7.9	-6.7	-4.2	-1.2	0.2	0.0
Savings-investment balance	-2.9	-4.4	-3.5	*-3.0*	-1.2	*-2.5*	-6.3	-2.4	-2.4	-2.5	-2.6	-2.6
Private	12.2	10.3	10.9	*8.6*	11.7	*9.6*	10.4	12.5	10.1	7.4	5.9	5.3
Public	-13.1	-12.7	-12.6	*-11.5*	-11.5	*-12.1*	-15.3	-13.5	-11.1	-8.6	-7.1	-6.6
GDP at factor cost	100.0	100.0	100.0	*100.0*	100.0	*100.0*	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	11.7	12.0	11.5	*10.3*	12.2	*9.1*	12.3	12.2	12.0	11.9	11.7	11.5
Construction	7.1	7.6	7.6	*6.9*	9.0	*6.4*	9.0	8.8	8.5	8.4	8.4	8.5
Industry	26.7	25.2	26.8	*23.9*	24.9	*21.1*	23.7	23.3	22.9	22.6	22.4	22.1
Services	46.0	46.8	46.0	*51.5*	46.4	*56.7*	47.6	48.3	49.1	49.7	50.2	50.6
General government	6.9	6.9	6.6	*5.9*	5.7	*5.2*	5.8	5.7	5.6	5.5	5.3	5.2
Suez Canal	1.6	1.5	1.5	*1.5*	1.9	*1.4*	1.6	1.7	1.8	1.9	2.0	2.1

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

Table 8. Egypt: Medium-Term Macroeconomic Framework, 2019/20–2028/29
(In percent of GDP, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23		2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
				Prog.	Proj.	*Prog.*	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Growth and prices												
Real GDP (annual change, in percent)	3.6	3.3	6.7	*4.0*	3.8	*5.3*	3.0	4.4	4.7	5.1	5.5	5.6
CPI inflation (end-of-period, in percent)	5.7	4.9	13.2	*14.8*	35.7	*8.7*	32.1	15.3	12.9	9.0	7.1	5.2
CPI inflation (average, in percent)	5.7	4.5	8.5	*15.8*	24.4	*11.1*	32.5	25.7	13.1	10.8	8.0	6.1
Unemployment rate (period average, in percent)	8.3	7.3	…	…	…	…	…	…	…	…	…	…
Savings-investment balance	-2.9	-4.4	-3.5	*-3.0*	-1.2	*-2.5*	-6.3	-2.4	-2.4	-2.5	-2.6	-2.6
Investment	14.0	13.2	15.2	*12.1*	11.5	*12.3*	10.3	9.9	10.4	11.3	11.7	11.4
Domestic savings	11.1	8.9	11.7	*9.1*	10.3	*9.8*	4.0	7.5	8.0	8.8	9.1	8.8
Public finances												
General government												
Revenue and grants	18.2	18.6	18.9	*19.2*	17.0	*19.6*	17.5	18.4	19.5	20.8	21.1	20.8
Expenditure and net acquisition of financial assets	24.9	25.5	25.0	*26.5*	22.7	*27.7*	23.5	26.7	25.9	25.1	24.2	22.8
Overall balance	-6.6	-6.9	-6.1	*-7.4*	-5.7	*-8.1*	-6.0	-8.3	-6.4	-4.3	-3.1	-1.9
Overall balance, excl. grants	-6.7	-6.9	-6.1	*-7.4*	-5.8	*-8.1*	-6.0	-8.3	-6.4	-4.3	-3.1	-1.9
Primary balance	2.2	1.4	1.0	*1.6*	1.4	*1.8*	6.8	4.1	4.8	5.0	5.0	4.9
Gross debt	86.2	89.9	88.5	*88.3*	95.9	*85.5*	96.4	82.6	77.3	71.1	65.7	60.8
Domestic	68.3	70.9	69.0	*66.2*	70.8	*65.7*	65.4	59.6	57.2	53.7	49.6	45.9
External	18.0	19.0	19.5	*22.1*	25.1	*19.8*	31.0	23.1	20.1	17.4	16.1	14.8
Budget sector												
Revenue and grants	15.9	16.6	16.9	*16.9*	15.4	*17.3*	15.3	16.2	17.3	18.6	18.9	18.6
Tax revenue	12.0	12.5	12.6	*12.9*	12.4	*13.5*	12.6	13.0	14.2	15.6	15.9	15.7
Non-tax revenue	3.7	4.1	4.2	*4.0*	3.0	*3.9*	2.8	3.2	3.1	3.0	3.0	2.9
Grants	0.1	0.0	0.0	*0.0*	0.1	*0.0*	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net acquisition of financial assets	23.4	23.7	23.1	*24.8*	21.4	*25.7*	21.7	24.7	23.7	22.7	21.7	20.2
Of which: Current	20.3	20.0	19.0	*20.5*	18.6	*21.3*	18.6	22.2	20.8	19.1	18.0	17.1
Capital	3.1	3.7	4.1	*4.2*	2.8	*4.4*	3.1	2.5	2.9	3.6	3.7	3.2
Overall budget balance	-7.5	-7.1	-6.2	*-7.8*	-6.0	*-8.4*	-6.3	-8.5	-6.4	-4.1	-2.8	-1.6
Overall budget balance, excl. grants	-7.6	-7.1	-6.2	*-7.8*	-6.1	*-8.4*	-6.3	-8.5	-6.4	-4.1	-2.8	-1.6
Primary budget balance including divestment proceeds	1.7	1.4	1.3	*1.7*	1.6	*2.1*	7.1	4.5	5.3	5.5	5.5	5.5
Balance of payments and external debt												
Current account	-2.9	-4.4	-3.5	*-3.0*	-1.2	*-2.5*	-6.3	-2.4	-2.4	-2.5	-2.6	-2.6
Trade balance	-9.5	-9.9	-9.1	*-9.3*	-7.9	*-9.6*	-11.3	-11.0	-11.0	-10.9	-10.9	-10.9
Oil and gas	-0.1	0.0	0.9	*2.2*	0.1	*1.5*	-1.0	-0.4	-0.3	-0.3	-0.2	-0.2
Other	-9.4	-9.9	-10.1	*-11.6*	-8.0	*-11.2*	-10.3	-10.6	-10.6	-10.6	-10.7	-10.8
Capital and financial account (incl. errors and omissions)	-0.3	4.1	1.3	*3.3*	1.0	*4.5*	8.7	2.2	4.0	3.3	2.9	3.0
Official reserves (in billions of US$)	37.2	39.4	31.5	*37.1*	32.8	*47.2*	42.8	45.8	53.8	59.2	60.3	61.7
(In months of next year's imports of goods and services)	6.0	6.8	3.1	*3.7*	5.3	*4.6*	7.3	6.9	7.1	6.9	6.3	5.8
External debt (in percent of GDP)	32.3	32.6	32.8	*35.8*	41.8	*34.8*	43.0	45.4	38.2	32.6	29.4	27.0

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

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

(Fiscal year end, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	end-Sep 2022	end-Dec 2022	end-Mar 2023	end-Jun 2023	end-Sep 2023
Capital adequacy													
Regulatory capital to risk-weighted assets	14.5	14.0	14.7	15.7	17.7	20.1	22.2	20.9	20.5	19.0	17.0	17.5	18.1
Common equity to risk-weighted assets	12.1	11.7	9.2	10.4	12.7	14.6	13.4	12.2	11.6	11.1	10.8	10.6	10.5
Asset quality													
NPLs to total loans	7.1	6.0	4.9	4.1	4.2	4.0	3.4	3.2	3.2	3.4	3.5	3.3	3.3
Loan provisions to non-performing loans	99.0	99.1	98.3	98.0	97.6	95.2	92.3	92.1	91.8	91.6	93.3	91.6	88.6
Profitability													
Return on assets	1.5	2.0	1.5	1.4	1.8	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Return on average equity	24.4	30.9	21.5	19.2	23.4	14.9	16.1	16.1	16.1	16.1	17.7	17.7	17.7
Liquidity													
Average liquidity ratio													
Local currency	59.7	55.4	47.1	40.3	44.4	53.8	45.4	44.3	46.9	43.3	39.7	37.6	38.5
Foreign currency	52.0	60.2	66.4	67.7	67.7	71.5	67.9	78.4	77.6	77.9	75.3	70.1	69.9
Loans to deposits	40.9	47.0	46.0	46.2	46.7	46.4	48.3	48.6	47.4	47.9	48.9	50.9	52.4

Source: Central Bank of Egypt.

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

Table 10. Egypt: Capacity to Repay the Fund, 2020/21–2029/30 1/ 2/

	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	485.9	928.1	1,751.8	4,330.7	5,175.4	2,997.1	1,953.9	1,542.7	1,318.5	1,205.2
Repurchases	164.2	522.4	955.2	3,345.2	4,333.1	2,301.3	1,290.4	953.9	804.1	753.5
Charges and fees	321.7	405.7	796.7	985.5	842.3	695.8	663.5	588.8	514.5	451.7
Millions of US$	684.3	1,280.2	2,339.7	5,765.9	6,884.0	3,996.1	2,611.4	2,066.8	1,766.5	1,614.6
Percent of exports of goods and nonfactor services	1.5	1.8	3.2	9.2	10.1	5.3	3.2	2.3	1.7	1.4
Percent of total debt service 3/	0.5	0.9	2.0	4.0	4.6	2.5	1.7	1.3	1.0	0.8
Percent of quota	23.9	45.6	86.0	212.6	254.1	147.1	95.9	75.7	64.7	59.2
Percent of gross international reserves	1.4	3.9	6.3	11.7	13.2	6.6	4.0	3.1	2.3	1.9
Percent of GDP	0.2	0.3	0.6	1.7	2.1	1.1	0.6	0.4	0.3	0.3
Percent of general government revenues	0.9	1.6	4.2	13.0	11.6	5.6	3.0	2.0	1.5	1.2
Fund credit outstanding										
Millions of SDRs	14,233	13,711	13,017	10,908	8,420	7,965	7,597	6,643	5,839	5,086
Millions of US$	20,174	18,680	17,330	14,524	11,211	10,632	10,165	8,916	7,837	6,826
Percent of exports of goods and nonfactor services	45.2	26.4	23.4	23.2	16.4	14.2	12.4	9.8	7.6	5.8
Percent of quota	698.7	673.1	639.0	535.5	413.4	391.0	372.9	326.1	286.6	249.7
Percent of gross international reserves	40.7	57.6	46.6	29.5	21.5	17.7	15.5	13.4	10.4	8.0
Percent of GDP	4.8	3.9	4.4	4.2	3.4	2.8	2.4	1.8	1.4	1.1
Percent of general government revenues	25.6	23.7	31.1	32.9	18.9	14.8	11.5	8.7	6.5	5.0
Memorandum items:										
Exports of goods and nonfactor services (in millions of US$)	44,672	70,832	74,186	62,630	68,273	74,711	82,188	91,240	103,280	116,904
Total debt service (in millions of US$)	149,990	143,070	117,716	142,812	148,130	158,284	155,533	155,181	175,660	198,832
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
Quota (in millions of US$)	2,887.4	2,775.4	2,712.1	2,712.4	2,712.2	2,719.2	2,725.7	2,734.0	2,734.0	2,734.0
Fund repurchases and charges in percent of net international reserves	...	6.7	13.3	19.0	20.7	9.7	5.6	4.3	3.5	2.6
Fund credit outstanding in percent of net international reserves	...	97.7	98.6	47.9	33.7	25.7	21.8	18.7	15.5	11.1
Gross international reserves (in millions of US$)	49,581	32,429	37,186	49,230	52,196	60,209	65,568	66,700	75,502	85,462
General govt revenues and grants (in billions of Egyptian pounds)	1,239	1,484	1,724	2,431	3,409	4,257	5,278	6,081	6,908	7,846

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 Needs and Sources, 2022/23–2026/27
(Billions of U.S. dollars)

	2022/23		2023/24		2024/25		2025/26		2026/27	
	Prog.		*Prog.*	Proj.	Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
External financing needs (A)	**21.5**	**11.3**	**23.1**	**36.6**	**28.6**	**26.7**	**18.7**	**18.9**	**17.0**	**19.9**
Current account deficit	12.6	4.7	11.1	21.8	11.2	7.8	10.8	9.0	10.0	10.7
Medium/long-term loan and supplier credit amortization 1/	6.0	-0.7	6.4	8.5	10.4	11.6	3.6	5.6	4.1	6.2
Other sectors' investments	1.7	6.0	1.2	1.8	1.2	1.5	1.2	1.3	1.2	1.3
IMF repayments (2016-19 EFF, 2020 RFI, 2020-21 SBA)	1.3	1.3	4.5	4.5	5.8	5.8	3.1	3.1	1.8	1.7
External financing sources (B)	**21.4**	**12.6**	**27.2**	**39.4**	**29.7**	**20.4**	**29.7**	**21.7**	**29.9**	**21.5**
Foreign direct investment, net	9.7	9.7	12.1	32.2	13.5	8.4	14.7	9.7	16.3	11.1
Portfolio investment, net	6.1	-4.1	7.3	0.4	8.0	3.9	7.5	4.1	8.5	6.2
Medium/long-term loan disbursements	6.8	5.7	7.8	7.1	7.4	7.6	7.1	6.7	6.0	6.7
CBE's change in foreign asset 2/	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks' change in foreign assets 3/	-2.3	1.4	-2.0	-1.0	-1.5	0.0	-2.6	0.0	-3.5	-3.7
Net short-term supplier credit	1.0	0.0	2.0	0.7	2.4	0.5	3.0	1.2	2.7	1.2
Errors and Omissions (C) 4/	**0.0**	**0.5**	**0.0**	**1.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Incipient change in reserves (D=B-A+C)	**-0.1**	**1.8**	**4.1**	**4.2**	**1.2**	**-6.3**	**11.1**	**2.8**	**12.9**	**1.6**
Targeted change in reserves (E)	**6.0**	**4.8**	**10.1**	**12.0**	**4.2**	**3.0**	**12.5**	**8.0**	**13.9**	**5.4**
Financing gap (F=E-D) 6/	**6.1**	**3.0**	**6.0**	**7.8**	**3.0**	**9.3**	**1.4**	**5.2**	**0.9**	**3.8**
IMF, Extended Fund Facility	0.7	0.3	0.7	1.6	0.7	2.5	0.7	2.5	0.3	1.2
World Bank	1.1	0.4	0.5	0.3	0.5	0.7	0.5	0.6	0.5	0.6
AIIB	0.4	0.0	…	0.0	…	0.3	…	…	…	…
African Development Bank	0.3	0.3	…	0.2	…	0.0	…	…	…	…
Arab Monetary Fund	0.3	0.0	0.3	0.3	…	0.0	…	…	…	…
China Development Bank	1.0	0.0	…	1.0	…	0.0	…	…	…	…
Abu Dhabi Commerical Bank (ADCB)	0.0	1.0	…	0.0	…	0.0	…	…	…	…
UAE Central Bank	…	…	…	1.4	…	0.0	…	…	…	…
Sales of state-owned assets (including to GCC)	2.0	0.0	4.6	2.8	1.8	3.6	0.2	0.9	0.1	0.4
New deposits at CBE (to be converted in divestment)	…	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 5/	…	0.0	0.0	0.3	0.0	2.3	0.0	1.2	0.0	1.6

Source: IMF staff calculations.

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

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

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

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

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

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

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

Availability Date	Amount		Condition
	Millions of SDR	Percent of Quota	
December 16, 2022	261.13	12.8	Board approval of the EFF
March 15, 2023	261.13	12.8	First review and end-December 2022 quantitative targets
September 15, 2023	261.13	12.8	Second review and end-June 2023 quantitative targets
March 15, 2024	261.13	12.8	Third review and end-December 2023 quantitative targets
September 15, 2024	261.13	12.8	Fourth review and end-June 2024 quantitative targets
March 15, 2025	261.13	12.8	Fifth review and end-December 2024 quantitative targets
September 15, 2025	261.13	12.8	Sixth review and end-June 2025 quantitative targets
March 15, 2026	261.13	12.8	Seventh review and end-December 2025 quantitative targets
September 15, 2026	261.13	12.8	Eighth review and end-June 2026 quantitative targets
Total	2,350.17	115.4	
Memorandum items:			
Quota (SDR, million)	2,037.10		

Source: IMF staff calculations.

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

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

Source: IMF staff calculations.

1/ First and second reviews are combined.

Table 13. Egypt: Quantitative Performance Criteria and Indicative Targets

(In billions of Egyptian pounds unless otherwise indicated)

	End December 2022			End March 2023			End June 2023				End March 2024	End June 2024	End September 2024	End December 2024
				Indicative									Indicative	
	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Adj.	Actual	Status	Prog.	Prog.	Prog.	Prog.
I. Quantitative Performance Criteria 1/														
Net international reserves ($ million at program exchange rates; floor) 2/	16,013	16,703	Met	16,975	17,538	Met	22,964	17,863	16,610	Not met	20,464	30,329	30,510	29,258
Primary fiscal balance of the budget sector plus divestment proceeds (cumulative, floor) 3/	0	25	Met	35	50	Met	160		164	Met	490	978	130	424
Balance of the government's overdraft account at the CBE (weekly ceiling on the balance)	...	...	...	...	...	...	...		...	...	131	131	165	165
Balance of central bank lending to public agencies excluding the Ministry of Finance (continuous ceiling on the balance	...	...	...	...	...	...	...		...	...	661	661	661	661
Accumulation of external debt payment arrears by the general government ($ million; continuous ceiling)	0	0	Met	0	0	Met	0		0	Met	0	0	0	0
II. Indicative Targets														
Tax revenues (cumulative floor) 3/	410	462	Met	660	741	Met	1,232		1,261	Met	1,044	1,740	361	794
Social spending of the budget sector (floor) 3/	61	71	Met	92	111	Met	153				142	189	26	105
Public investment (ceiling) 3/ 4/	...	...	...	...	...	...	...		...	...	n.a.	350	n.a.	500
Net change in the stock of government guarantees 3/ 5/											122	183	201	402
Average maturity of gross local currency debt issuance (years; cumulative floor) 3/	0.87	0.59	Not met	0.93	0.60	Not met	0.97		0.57	Not met	0.56	0.65	1.20	1.25
Gross debt of the budget sector (at program exchange rates; ceiling)	7,777	8,111	Not met	7,975	8,669	Not met	8,173		8,736	Not met	11,015	11,198	11,906	12,411
III. Monetary Policy Consultation														
(12-month change in consumer prices)														
Upper outer band	18			16			15				27	32.5	29.5	29
Upper inner band	9			9			9				9	9	9	9
Actual/Center target	7	21.3	Exceeds	7	32.7	Exceeds	7		35.7	Exceeds	7	7	7	7
Lower inner band	5			5			5				5	5	5	5
Lower outer band	3			3			3				3	3	3	3
Memorandum items:														
Program disbursements at completion of review (cumulative change, $ million) 3/	1,591	1,347		3,183	2,668		5,696		2,988		5,764	7,850	2,759	4,876
External program financing assumed under the program excluding IMF (cumulative change, $ million) 3/	1,257	1,000		2,513	2,321		5,026		2,641		4,941	6,204	1,531	3,649
Of which:														
Sales of state-owned assets	500	0		1,000	0		2,000		0		2,162	2,793	894	2,194
Net issuance of FX T-Bills	0	0		0	0		0		-56		0	0	0	0
Foreign Curency Deposits at CBE	0	1,000		0	1,000		0		1,000		0	0	0	0
IMF financing assumed under the program (cumulative, $ million) 3/	335	347		670	347		670		347		823	1,646	1,228	1,228
Net external loans from private creditors in FX assumed in BOP baseline (cumulative change, $ million) 3/	0	0		476	1,500		3,726		1,500		343	110	1,000	2,500
Stock of nonresidents' holdings of local-currency T-bills and T-bonds ($ million)	4,352	2,079		4,977	1,706		5,602		1,463		1,550	1,850	1,950	2,050
Divestment proceeds flowing to the budget (EGP billion, cumulative) 3/	0	0		0	0		10		0		291	698	64	97

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

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

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

3/ Cumulative from the beginning of each fiscal year. For 2024, it also includes $12bn from the Ras El-Hekma transactions.

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

5/ For the test dates of end-March 2024 and end-June 2024, the cumulative values cover the period from October 1, 2023 until the test date.

Table 14. Decomposition of Public Debt and Debt Service by Creditor, FY22/23–FY25/26 1/

	Debt Stock (end of period)			Debt Service 2/					
	FY22/23			FY23/24	FY24/25	FY25/26	FY23/24	FY24/25	FY25/26
	(US$ billion)	*(Percent total debt)*	*(Percent GDP)*	*(US$ billion)*			*(Percent GDP)*		
Total budget sector debt	323.1	100.0	98.3	133.1	41.9	31.5	38.3	12.8	8.4
External budget sector debt	82.6	25.6	25.1	14.2	19.4	14.6	4.1	5.9	3.9
Multilateral creditors 3/	42.8	13.2	13.0	8.4	11.0	7.7	2.4	3.3	2.1
IMF	17.4	5.4	5.3						
World Bank	12.3	3.8	3.7						
AfDB	2.9	0.9	0.9						
Other Multilaterals	10.2	3.2	3.1						
Official bilateral creditors	6.3	1.9	1.9	0.4	0.4	0.4	0.1	0.1	0.1
External market financing	32.5	10.1	9.9	5.1	7.8	6.2	1.5	2.4	1.7
Rescheduled debt	1.0	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.1
Domestic budget sector debt	240.5	74.4	73.1	118.9	22.5	16.9	34.2	6.8	4.5
T-Bills and MOF notes	103.2	31.9	31.4	83.7	0.0	0.0	24.1	0.0	0.0
T-bonds, and Eurobonds held by residents	98.2	30.4	29.9	29.3	16.2	15.0	8.4	4.9	4.0
Nontradable domestic debt	39.1	12.1	11.9	5.9	6.3	1.9	1.7	1.9	0.5
Memo items:									
Collateralized debt 4/	n.a.	n.a.	n.a.						
Contingent liabilities	n.a.	n.a.	n.a.						
Nominal GDP	393.9	…	…	…	…	…	…	…	…

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

2/ Debt service on existing debt at end-FY22/23.

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

4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

Table 15. Egypt: Existing Structural Benchmarks for First and Second Reviews		
Policy Measure	**Timing**	**Status**
CBE will refrain from extending, renewing, or introducing any subsidized lending schemes.	Continuous SB	**Met**
CBE will not grant exemptions for commercial banks to breach net FX open position limits and apply sanctions to any banks that violate the limits, in accordance with the regulations.	Continuous SB	**Met**
Publish all public procurement contracts that exceed EGP 20 million on the E-tenders government procurement portal website, including, if contracts are awarded through a bidding process, information on all bids made, the winning bid, and names of successful bidders. Publication will be undertaken monthly, with all relevant contracts from a given month published on the website within 30 days of the end of the month. Ensure that everyone can access this information without the need to set up an electronic account.	Continuous SB	**Not met**
Continuous implementation of the retail fuel price indexation mechanism according to the formula (see TMU).	Continuous SB	**Not Met**
Repeal CBE instructions (Letter No. 49 of February 13, 2022) that requires the use of Letters of Credit to finance imports.	End-December 2022	**Met**
Publish a state ownership policy, endorsed by the President. The policy will cover public sector companies, public business sector companies, military-owned companies, economic authorities, and joint ventures and partnerships. The policy will define the criteria to be used for determining whether a sector is strategic or not and will explain how each sector is assessed against these criteria. The policy will include a commitment to competitive neutrality, following best practices and principles as outlined by paragraph 23 of the MEFP. The policy will include a commitment to publish within 60 days of the end of each fiscal year an annual report containing details of each divestment undertaken, detailing the legal framework governing it, parties involved, and the proceeds of the divestment and their use; and a separate annual report summarizing progress on the implementation of the policy.	End-December 2022	**Met**
Obtain parliamentary approval of the amendments to the competition law concerning the addition of a new chapter on mergers and acquisitions as outlined in paragraph 23 of the MEFP.	End-December 2022	**Met**

Table 15. Egypt: Existing Structural Benchmarks for First and Second Reviews (concluded)		
Publish CAO's three most recent annual audit reports on the fiscal accounts (FY2018/19, FY2019/20, and FY2020/21) and introduce a binding requirement to ensure the timely publication going forward.	End-January 2023	**Not Met** Rephased. While the three CAO reports were published in January, the authorities have confirmed that a binding requirement for timely publication has not been introduced.
Expand the number of households benefitting from Takaful and Karama to 5 million.	End-January 2023	**Met**
Identify tax policy measures for at least 0.3 percent of GDP to be implemented in FY2023/24 to contribute to an increase of at least a 0.5 pp in the tax-to-GDP ratio.	End-February 2023	**Met**
Publish a comprehensive annual tax expenditure report, including details and estimates of tax exemptions and tax breaks broken down by classification, including those provided to companies in free economic zones and to all state-owned enterprises, including public sector companies, public business sector companies, military-owned companies, economic authorities, and joint ventures and partnerships.	End-April 2023	**Not met** Rephased
Adopt a risk-based approach to customs procedures and reduce the time required for the release of imports at the Port of Alexandria from 16 days in August 2021 to 12 days in March 2023, measured using a Time Release Study.	End-May 2023	**Not met** Not reset to focus structural benchmarks on other priorities
Enact executive regulation of the PFM law, including: (i) main elements of the budget calendar starting with the submission and approval of the fiscal strategy paper, (ii) the process to update and publish the MTBF taking into account the costing of new laws and regulations, (iii) a requirement for all entities to separate the baseline and new policy initiatives, and (iv) a section on climate that would provide a mandate for climate-related activities.	End-June 2023	**Not met** Rephased
Finalize the conversion of records to the new electronic register with geo-coded identifiers to enhance the efficiency of property taxation.	End-August 2023	**Not met** Not reset to focus structural benchmarks on other priorities
The MoF will monitor and report payment arrears, including to critical SOEs and EAs. In particular, the MoF will publish an annual report within 90 days of the end of the fiscal year on the stocks of commitments, overdue payments, and overdue transactions as well as the stock of gross liabilities and due payments to and from MoF with EGPC, GASC, NUCA, National Postal Authority, National Authority for Egyptian Railways, National Investment Bank, Central Bank of Egypt, Egyptian Electricity Holding Company, Holding Company for Drinking Water and Sanitation, and EgyptAir.	Continuous SB	**Not met** Rephased

Annex I. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Global Risks			
Intensification of regional conflicts	**High**	**High** Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	Improve inclusiveness of government policies, via well-targeted measures and strengthened social safety net. 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
Commodity price volatility	**High**	**High** A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	Improve inclusiveness of government policies, via well-targeted measures and strengthened social safety net. 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.
Abrupt global slowdown or recession	**Medium**	**Medium** Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs.	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.
Social discontent	**Medium**	**High** High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	Improve inclusiveness of government policies, via well-targeted measures and strengthened social safety net. 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.

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

Sources of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Domestic Risks			
Failure to allow for exchange rate flexibility	**Medium**	**High** A build-up of external imbalances eventually leads to a sudden and large exchange rate adjustment, with implications on sovereign borrowing and debt service costs and inflation.	Implement package of consistent reforms including allowing the exchange rate to find its market-clearing equilibrium so it can act as a shock absorber, with two-way movements that reflect foreign exchange demand and supply conditions.
Tourism revenue remittances, and/or Suez Canal revenue suffer amidst the continued war in Ukraine and the conflict in Gaza and Israel	**Medium**	**Medium/High** Lower remittance, tourism, and Suez Canal inflows impact economic activity and dampen the growth outlook, while reduced foreign exchange 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 foreign exchange revenue.
Slower-than-expected structural reform implementation	**Medium**	**Medium/High** Lack of reform leads to re-accumulation of imbalances, lowering growth potential and leaving country more vulnerable to shocks.	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.
Materialization of fiscal contingent liabilities	**Medium**	**Medium/High** Economic Authorities (EAs), SOEs, and central bank 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 EAs and SOEs. Implement state ownership policy. Clearly define and separate commercial and non-commercial activities of Economic Authorities and SOEs. Prohibit central bank lending to public sector agencies excluding the Ministry of Finance.

Annex II. Sovereign Risk and Debt Sustainability Framework

Egypt: Risk of sovereign stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	High	The overall risks of sovereign stress are assessed as high, based on the medium term and long term risk assessments below.
Near term 1/	n.a.	n.a.	Not applicable
Medium term	High	High	Medium-term risks are assessed as high, given the risk signals from the debt fanchart module and the GFN module. The high risk signal from the GFN module reflects high average gross financing needs over the forecast horizon and the large claims of domestic banks on the government.
Fanchart	Moderate	…	
GFN	High	…	
Stress test	…	…	
Long term	…	Moderate	Long-term risks are assessed as moderate, as the debt ratio and gross financing needs are projected to trend downwards with sustained primary surpluses and favorable interest-growth differentials, while there are risks to public debt related to pension cost increase.
Sustainability assessment 2/		Sustainable but not with high probability	Public debt is assessed as sustainable but not with high probability. This is based on high risks related to gross financing needs, while considering the mitigating impact from the country's track record of sustaining high gross financing needs, supported by stable financing by domestic banks.
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: Public debt is assessed as sustainable but not with high probability, and overall risks of sovereign stress are assessed as high. Over the medium term, risks are assessed as high, given the risk signals from the GFN module and the debt fanchart modules. The GFN module signals a high risk, given high average gross financing needs over the medium term and the large claims of the domestic banks on the government. Over the long term, risks are assessed as moderate, as the debt ratio and gross financing needs are projected to trend downwards.

Source: Fund staff.

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

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

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

Egypt: Debt coverage and disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

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

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

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

Reporting on intra-government debt holdings

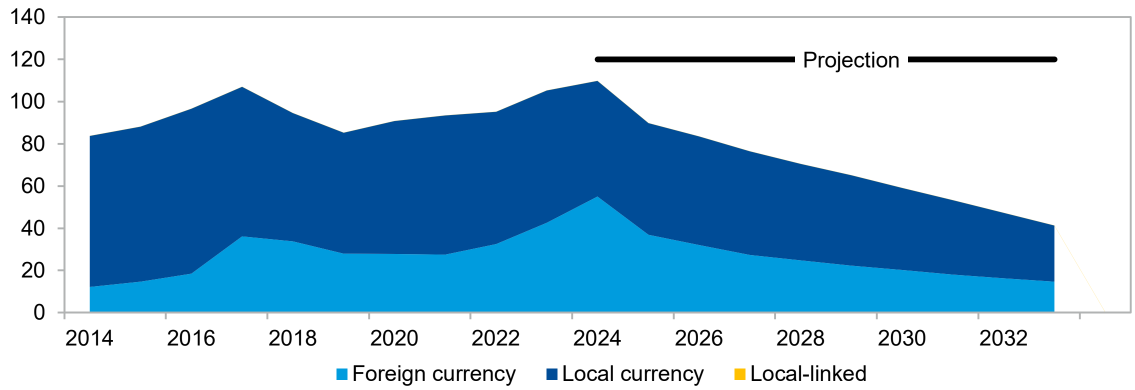
	Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt		0.9	6.5	0	0	0	0	0	7.4
2	Extra-budget. funds	0		0	0	0	0	0	0	0
3	Social security funds	0	0		0	0	0	0	0	0
4	State govt.	0	0	0		0	0	0	0	0
5	Local govt.	0	0	0	0		0	0	0	0
6	Nonfin pub. corp.	0	0	0	0	0		0	0	0
7	Central bank	0	0	0	0	0	0		0	0
8	Oth. pub. fin. corp	0	0	0	0	0	0	0		0
	Total	0	0.9	6.5	0	0	0	0	0	7.4

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

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

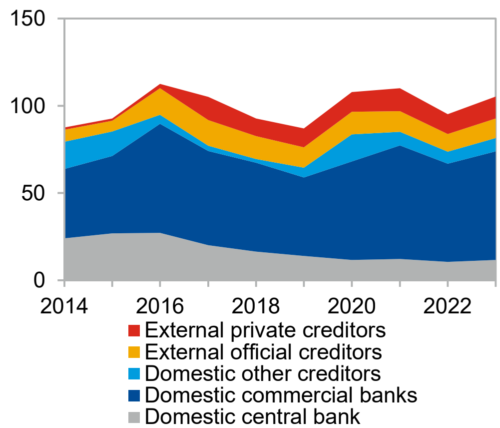
Egypt: Public debt structure indicators

Debt by currency (percent of GDP)



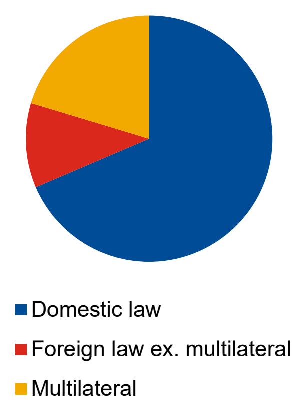
Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)



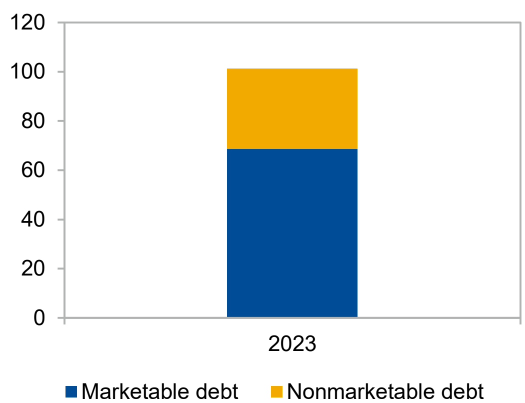
Note: The perimeter shown is public debt.

Public debt by governing law, 2023 (percent)



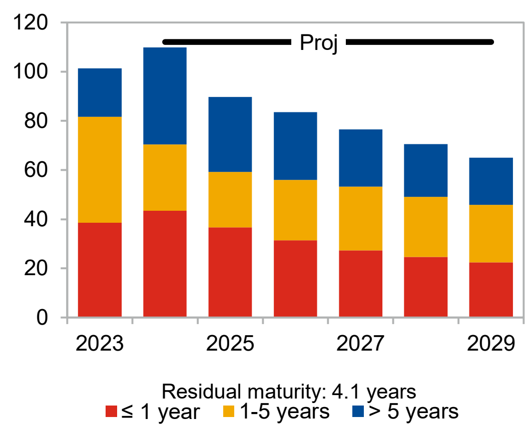
Note: Multilateral includes official creditor deposits at CBE.

Debt by instruments (percent of GDP)



Note: The perimeter shown is general government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

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

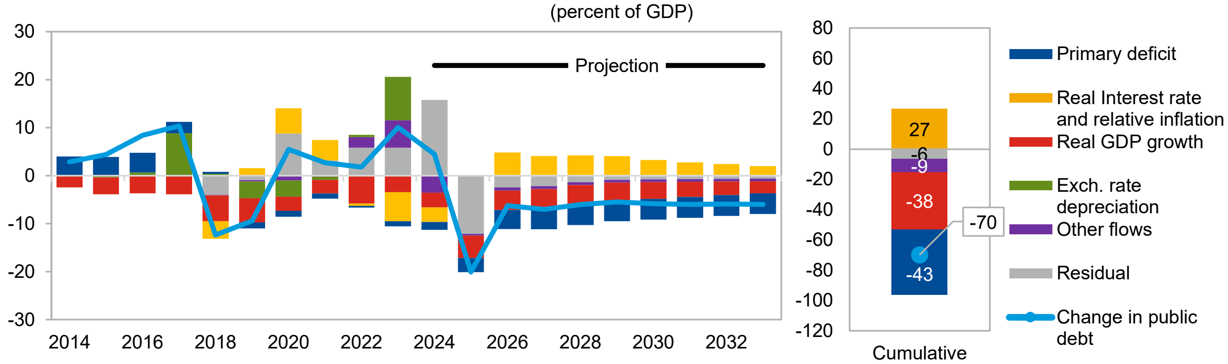
Egypt: Baseline scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt 1/	105.3	109.8	89.7	83.5	76.5	70.5	65.0	59.1	53.2	47.3	41.3	35.5
Change in public debt	10.1	4.5	-20.1	-6.3	-7.0	-6.0	-5.5	-5.9	-6.0	-5.9	-5.9	-5.8
Contribution of identified flows	4.2	-11.3	-8.0	-3.8	-4.8	-4.6	-4.6	-5.1	-5.3	-5.3	-5.4	-5.3
Primary deficit (general government) 2/	-1.1	-1.7	-3.0	-3.9	-4.4	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3
Noninterest revenues	16.7	17.3	18.2	19.3	20.6	20.9	20.7	20.7	20.7	20.7	20.7	20.7
Noninterest expenditures	15.6	15.7	15.3	15.4	16.3	16.6	16.3	16.3	16.3	16.3	16.3	16.3
Automatic debt dynamics	-0.5	-6.1	-4.6	0.8	0.1	0.3	0.3	-0.2	-0.4	-0.4	-0.5	-0.4
Real interest rate and relative inflation	-6.1	-3.0	0.0	4.8	4.1	4.2	4.1	3.3	2.8	2.4	2.0	1.8
Real interest rate	-11.1	-12.3	-10.4	1.5	1.8	2.9	3.2	2.5	2.1	1.8	1.5	1.3
Relative inflation	5.1	9.2	10.5	3.3	2.3	1.4	0.9	0.8	0.7	0.6	0.6	0.5
Real growth rate	-3.5	-3.0	-4.7	-4.1	-4.0	-4.0	-3.8	-3.5	-3.2	-2.8	-2.5	-2.2
Real exchange rate	9.0	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	5.7	-3.6	-0.4	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	5.7	-3.6	-0.4	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Contribution of residual	5.9	15.8	-12.1	-2.4	-2.2	-1.4	-0.9	-0.8	-0.7	-0.6	-0.6	-0.5
Gross financing needs	28.5	39.2	41.9	38.2	31.9	27.6	24.6	21.7	19.9	18.7	15.3	12.5
of which: debt service	29.9	41.1	45.0	42.3	36.5	32.2	29.1	26.2	24.4	23.2	19.8	17.0
Local currency	24.1	32.6	32.8	34.0	28.8	26.9	23.9	21.9	20.0	19.3	16.5	13.8
Foreign currency	5.8	8.5	12.3	8.3	7.7	5.2	5.2	4.3	4.5	3.9	3.3	3.1
Memo:												
Real GDP growth (percent)	3.8	3.0	4.4	4.7	5.1	5.5	5.6	5.6	5.6	5.6	5.6	5.6
Inflation (GDP deflator; percent)	24.8	32.5	27.8	12.8	10.4	7.7	5.8	5.8	5.8	5.8	5.8	5.8
Nominal GDP growth (percent)	29.5	36.4	33.5	18.1	16.0	13.6	11.8	11.8	11.8	11.8	11.8	11.8
Effective interest rate (percent)	9.7	16.6	15.1	14.7	13.0	11.9	10.9	10.1	9.8	9.7	9.3	9.2

Contribution to change in public debt

(percent of GDP)

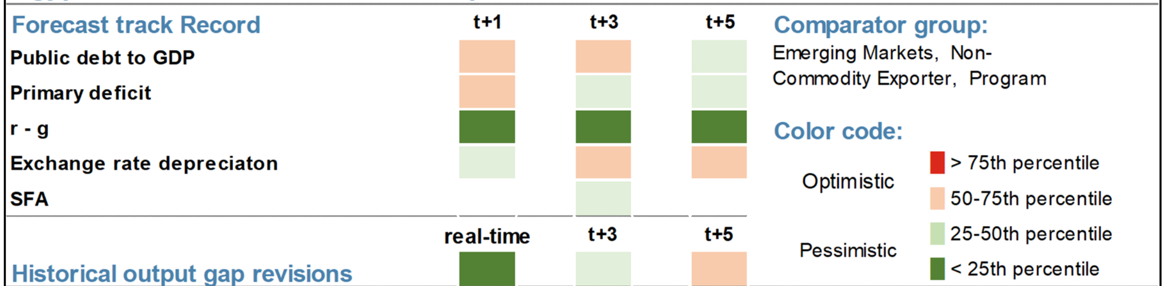


Commentary: After increasing in FY2022/23 and FY2023/24 (2023 and 2024 in the table and the chart) mainly due to exchange rate depreciation (for 2024 this is captured by the residual), public debt is projected to be on a downward trend, with sustained primary surpluses and favorable interest-rate growth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

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

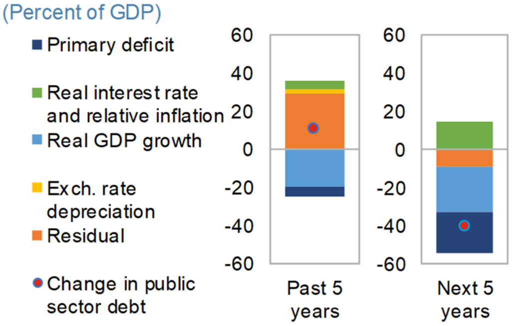
2/ The primary balance of the general government in this table excludes interest revenues, and it differs from the definition in macroframework tables.

Egypt: Realism of Baseline Assumptions



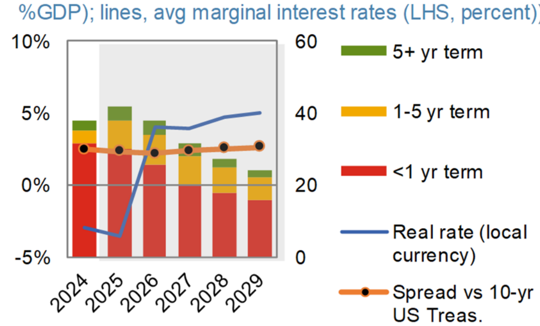
Public Debt Creating Flows

(Percent of GDP)



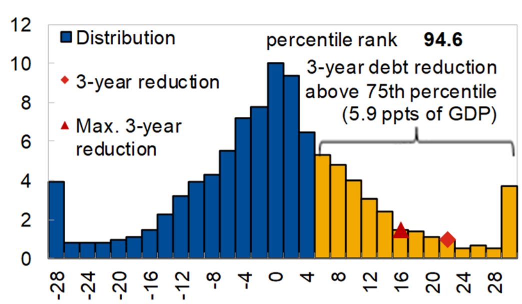
Bond Issuances

(bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



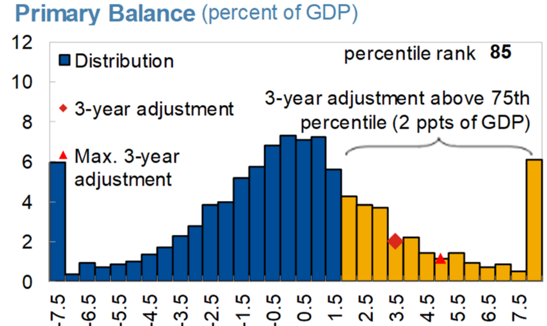
3-Year Debt Reduction

(Percent of GDP)



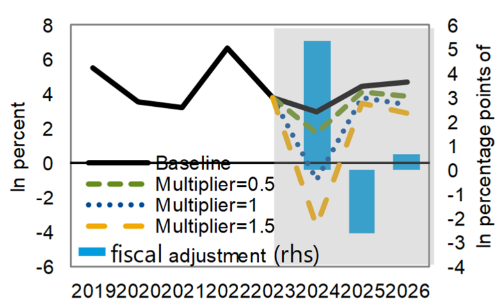
3-Year Adjustment in Cyclically-Adjusted Primary Balance

(percent of GDP)



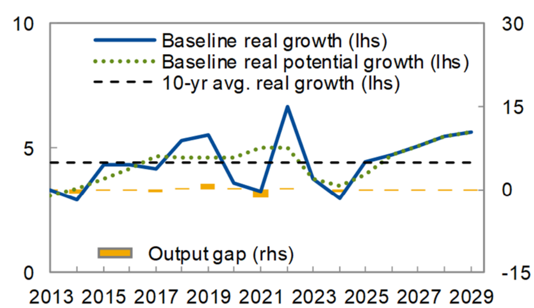
Fiscal Adjustment and Possible Growth Paths

(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

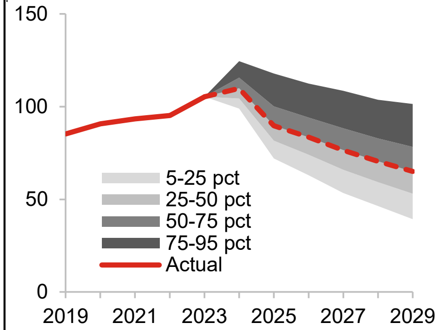
(in percent)



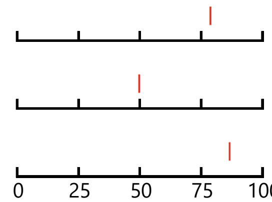
Commentary: Analysis from the realism tools does not signal major concerns. The forecast error track record does not signal a pattern of optimistic forecast errors. Debt drivers are projected to largely follow the past experience. While 3-year debt reduction is above 75th percentile, the primary balance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

Egypt: Medium-term risk assessment

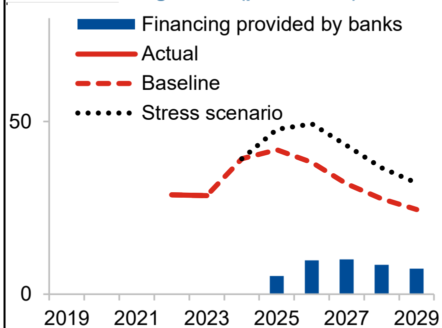
Final fanchart (pct of GDP)



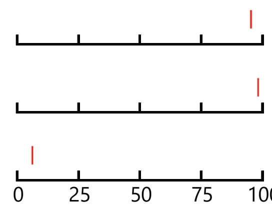
	Value	Contrib [1/]	Percentile in peer group [2/]
Debt fanchart module			
Fanchart width *(percent of GDP)*	62.1	0.9	
Probability of debt non-stabilizaiton *(percent)*	1.6	0.0	
Terminal debt-to-GDP x institutions index	46.8	1.0	
Debt fanchart index (DFI)		1.9	
Risk signal: [3/]		**Moderate**	



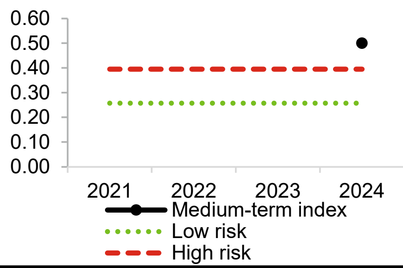
Gross financing needs (pct of GDP)



	Value	Contrib [1/]	Percentile in peer group [2/]
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	33.9	11.6	
Banks' claims on the gen. govt *(pct bank assets)*	51.5	16.7	
Chg. In banks' claims in stress *(pct banks' assets)*	4.5	1.5	
GFN financeability index (GFI)		29.8	
Risk signal: [4/]		**High**	



Medium-term index (index number)



Medium-term risk analysis

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

Prob. of missed crisis, 2024-2029, if stress not predicted: 72.7 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 3.4 pct.

Commentary: Medium-term risks are assessed as high, given the risk signals from the debt fanchart and GFN modules. The high risk signal from the GFN module reflects high average gross financing needs and the large claims of the domestic banking sector on the government.

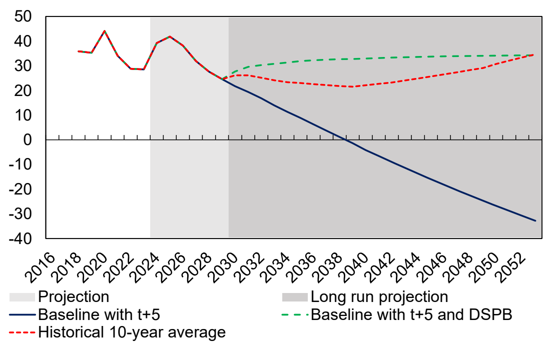
Source: IMF staff estimates and projections.
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging market, non-commodity exporting countries, with Fund-supported programs.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Egypt: Long-term Risk Analysis

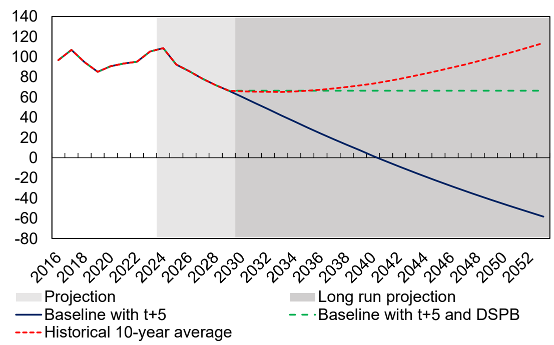
Large Amortization

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

GFN-to-GDP ratio



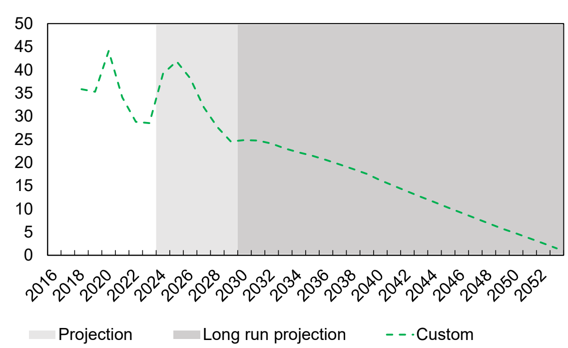
Total public debt-to-GDP ratio



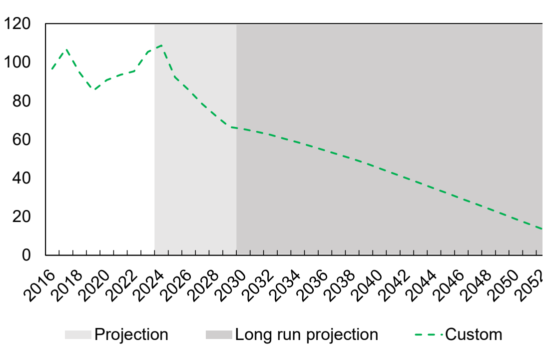
Custom Baseline

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	5.6%	4.5%
Primary Balance-to-GDP	4.3%	2.0%
Real depreciation	-5.5%	0.0%
Inflation (GDP deflator)	5.8%	4.5%

GFN-to-GDP ratio



Total public debt-to-GDP ratio

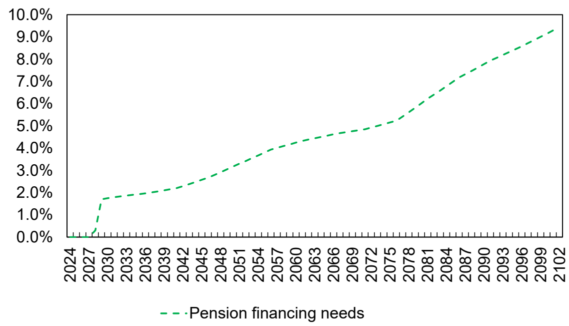


Egypt: Long-term Risk Analysis (concluded)

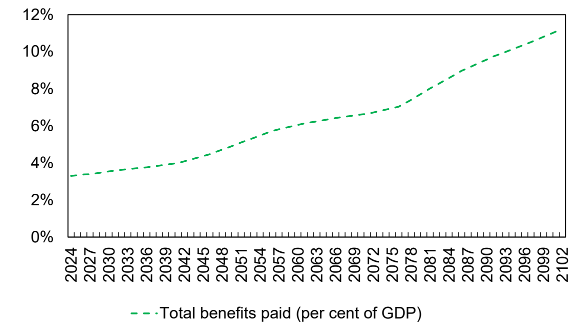
Demographics: Pension

Permanent adjustment needed in the pension system (pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	2.1%	3.1%	4.8%

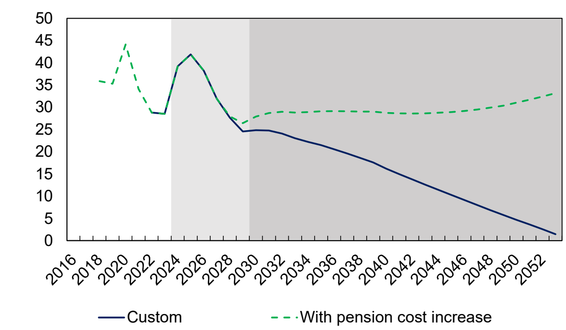
Pension Financing Needs



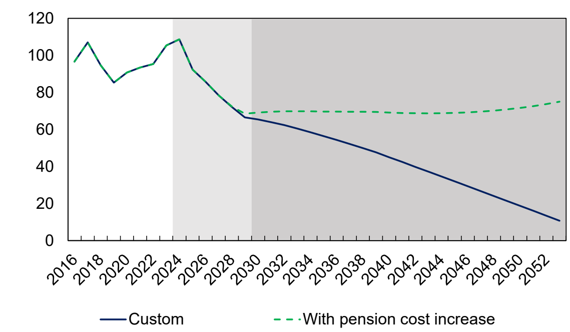
Total benefits paid



GFN-to-GDP ratio



Total public debt-to-GDP ratio



Commentary: The long-term amortization module does not trigger an overall risk indication. Long-term risks are assessed as moderate, as the debt ratio and gross financing needs are projected to trend downwards with sustained primary surpluses and favorable interest-growth differentials, while there are risks to public debt related to pension cost increase.

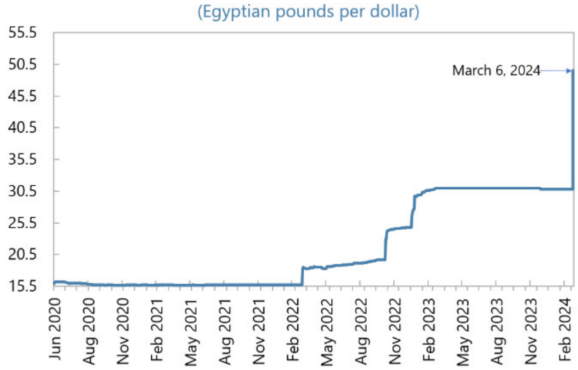
Annex III. External Sector Assessment

The external position of Egypt in FY2022/23 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. This assessment reflects conditions prevailing at end-June 2023, following a nominal exchange rate depreciation of 65 percent in FY2022/2023. The real exchange rate depreciated in the first half of FY2022/23 but returned to a real appreciation trend during the second half of the year, as nominal rate flexibility was limited and inflation increased. Going forward, commitment to a flexible exchange rate regime, expenditure consolidation, and implementation of the structural reform agenda are essential for further improvements in competitiveness. Reserves recovered marginally in FY2022/23 and are projected to experience a marked improvement in FY2023/24 and over the medium term on the back of significant foreign currency inflows from the Ras El-Hekma investment deal.

Nominal and Real Exchange Rate Evolution

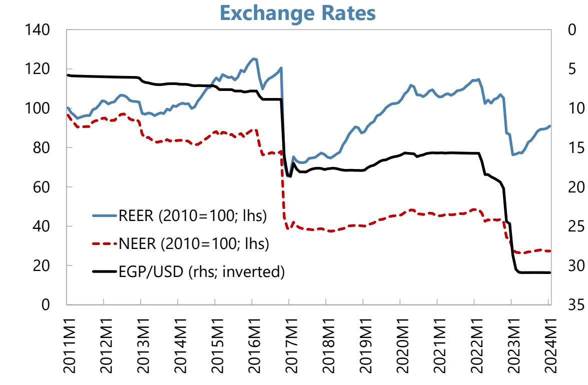
1. The pound depreciated by 65 percent in FY2022/23. After a depreciation of 4 percent against the U.S. dollar in FY2022/23Q1, the nominal exchange rate depreciated sharply in FY2022/23Q2 and in Q3 (by 25 and 27 percent Q-o-Q, respectively). Subsequently, the pound experienced minimal fluctuations in FY2022/23Q4-20223/24Q2 (total Y-o-Y percent change of 65 percent in FY2023/24) and depreciate sharply in FY24Q3 closing the gap between the official and parallel market. The REER depreciated as well in Q2-Q3, then appreciated slightly` in FY2022/23Q4-2023/24Q2, with inflation reaching 38 percent in September 2023, driven primarily by food prices. The REER remained largely unchanged in January 2024 (beginning of FY2023/24Q3), as inflation declined to 29.8 percent. The NEER was relatively stable up to FY2022/23Q1, depreciated as well in FY2022/23 Q2-Q3, but remained relatively stable during 2022/23Q4- 20223/24Q2.

Nominal Bilateral Exchange Rate
(Egyptian pounds per dollar)



Source: Central Bank of Egypt.

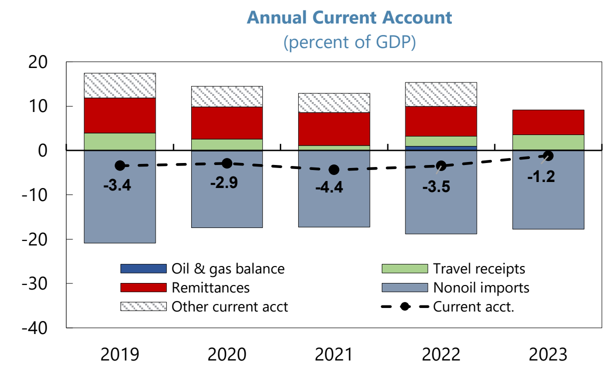
Exchange Rates



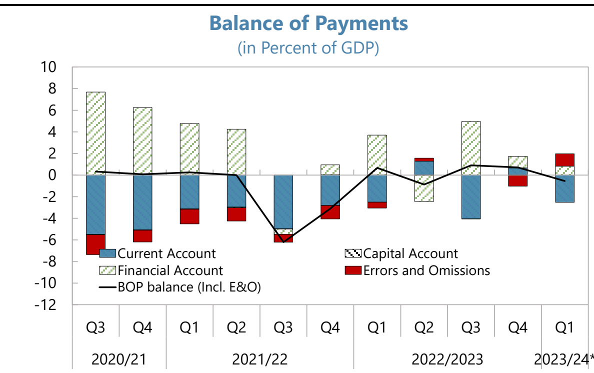
Sources: Central Bank of Egypt, Information Notice System, Haver Analytics and IMF Staff Calculations

Current Account Balance

2. Egypt's current account deficit narrowed in FY2022/23. This was driven by an improvement in the non-oil trade balance, with a decline in non-oil imports, in part due to the exchange rate depreciation at end-2022 and early 2023, and in part due to the shortages of foreign exchange available for importers with delays in the processing of letters of credit (LC) at commercial banks that generated an outstanding FX backlog in 2022 Q2. The services balance also experienced a boost in both the tourism sector, which surpassed pre-COVID levels, and transport receipts from the Suez Canal driven by an increase in the transit fees, as well as in the tonnage of vessels to historic records. As a result of these developments, the current account deficit in FY2022/23 narrowed to 1.2 percent of GDP, compared with 3.5 percent in FY2021/22. The current account turned into a deficit in FY2023/24 Q1, on account of a deterioration on the balance of services.



Sources: CBE. All Fiscal years (June to July)



Source: Egyptian Authorities
* Based on staff projections for 2023/24Q1
* Figures presented are based on Egypt's fiscal year

3. Reflecting analysis performed using standard EBA models, the external position in FY2021/22 is assessed as moderately weaker than implied by fundamentals and desirable policy settings, though this is subject to substantial uncertainty:

Current account model: The latest update of the EBA current account model (using the October 2023 WEO data) indicates an adjusted cyclically adjusted current account norm of -1.6 percent of GDP in FY2022/23.[1,2] with cyclical adjustments amounting to 0.6 percentage point (which account for a negative output gap and positive terms of trade). The resulting cyclically adjusted current account was -1.8 percent of GDP. Consequently, a negative current account gap of 0.2 percent[3] Hence, the current account model suggests that the external position in FY2022/23 was broadly in line with the level implied by medium-term

Egypt: EBA Current Account Model Results for 2023
(Percent of GDP, unless otherwise indicated)

Current account outturn, 2023	-1.2
Cyclical contributions (form model) (-)	0.6
Cyclically adjusted current account	-1.8
Cyclically adjusted norm	-2.4
Adjustor to the norm 1/	0.8
Adjusted CA norm	-1.6
Current accout gap	-0.2
Contribution from policies	0.6
Fiscal	0.2
Other policy gaps	0.4
Contrubution from residual	-0.8
Semi-elasticity of CA/GDP to REER	0.17

1/ Adjustment to NFA target to -44 percent of GDP (average of last 10 years), based on debt sustainability considerations.

[1] The numbers reported for the EBA current account and external sustainability approaches are based on preliminary results, as of October 2023, and they are subject to revision.

[2] This adjustor to the norm is required because insuring external sustainability requires reductions in public debt, including in external obligations, rather than its stabilization at the current level.

[3] The contribution from fiscal policies was 0.2 ppt, as Egypt's fiscal stance was tighter relative to that of the rest of the world.

fundamentals and desirable policies. The CA gap of -0.2 consists of an of an identified gap of 0.6 percent of GDP, and an unexplained gap of -0.8 percent of GDP.

- *External sustainability approach*: The latest EBA estimates for the external sustainability approach indicate that an adjusted cyclically adjusted current account of -4.6 percent of GDP would be needed to stabilize Egypt's net foreign assets (NFAs) at their FY2021/22 levels. With the cyclically adjusted current account deficit at 1.8 percent of GDP in FY2022/23, this implies a current account gap of about 2.8 percent of GDP.

Egypt: External Sustainaiblity Approach for 2023
(Percent of GDP, unless otherwise indicated)

Current acccount gap	
Current account outturn, 2022	-1.2
Cyclically adjusted current account	-1.8
Cyclically adjusted norm	-5.0
Adjustor to the norm 1/	0.4
Adjusted CA norm	-4.6
CA Gap	2.8
Memo:	
Semi-elasticity of CA/GDP to REER	0.17

1/ Adjustment to NFA target to -44 percent of GDP (average of last 10 years), based on debt sustainability considerations.

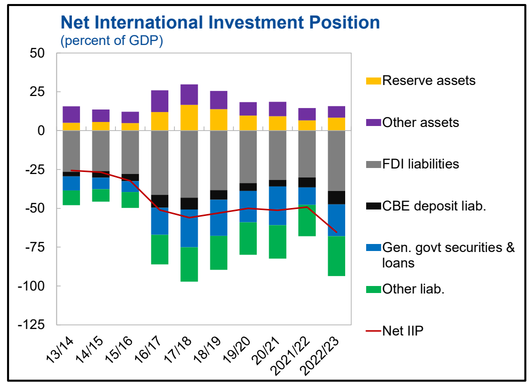
- However, staff's assessment is that the external position of Egypt in FY2022/23 was moderately weaker than the level implied by medium-term fundamentals and desirable policies based on the following considerations. First, during FY2022/23 there was a significant import compression which resulted, in the first half of this period, from CBE instructions to banks to move to letters of credit as the only means of import facilitation in February 2022. Despite the elimination of this instructive by end 2022, an import backlogs was estimated at US$6.0 billion at end-June 2023 (or 1.5 percent of GDP). In staff's assessment, absent this policy, Egypt's current account deficit would have been larger. Second the international investment position weakened in FY2022/23 (paragraph 4). Moreover, there are further caveats to this assessment, particularly the fact that the exchange rate was de facto fixed from January 2023 until March 2024.

Both the current account model and external sustainability approach assessments reflect conditions prevailing at end-June 2023. The nominal exchange rate has experienced little variation from that period until March 6, 2024, when it depreciated by around 60 percent, closing the gap between the official and parallel market. Going forward, maintaining exchange rate flexibility and increasing domestic savings through expenditure consolidation, including by curbing off-budget national priority projects, remains critical to reducing external imbalances going forward, as does structural reforms to boost the capacity of the economy to generate foreign exchange through a stronger and more diversified export base. These conditions are incorporated into the baseline scenario, which assumes, as a result a real effective exchange rate appreciation over the medium term.

International Investment Position, International Reserves, and Intervention

4. **Egypt's net international investment position weakened in FY2022/23.** The net international investment position (NIIP) deteriorated to -65 percent of GDP in FY2022/23, from -49 percent in FY2020/21, driven primarily by an increase in gross FDI liabilities. Total assets stood at16 percent of GDP (1 percentage point of GDP higher than in FY2021/22), with an increase in both reserve assets (see paragraph 5 below) and other assets. This marginal strengthening was offset by

an increase in gross liabilities, which reached 81 percent of GDP in FY2022/23 (17 percentage points of GDP higher than in FY2021/22), driven primarily by an increase in FDI, deposit liabilities and other liabilities (primarily long-term loans by depository corporations).



5. Foreign reserves increased marginally in FY2022/23 and are projected to experience a marked improvement in FY2023/24. Reserves experienced a partial recovery in FY2022/23 (to US$37 billion at end-June 2023, from US$32 billion at end-June 2022). The end-June 2023 level corresponded to about 79 percent of the ARA metric for flexible exchange rate regimes. Net international reserves are projected to increase further to US$49.2 billion by end June 2024 (which corresponds to 115 percent of the ARA metric) benefiting for significant foreign currency inflows from the Ras El-Hekma investment deal. Based on exchange rate movements in FY2022/23 and Q1-Q3FY2023/2024, and the authorities' renewed resolve to maintain a flexible exchange rate regime during the EFF arrangement, staff views the flexible metric as appropriate in Egypt's case.

Annex IV. Monetary Policy Consultation

Consultation on Breach of MPCC Target in **December 2022** and in **June 2023**.
Central Bank of Egypt

The headline urban inflation rate recorded 21.3 percent in December 2022 and 35.7 percent in June 2023, which falls outside the outer bands of 3 to 18 percent, and 3 to 15 percent agreed upon under the Extended Fund Facility (EFF), in December 2022 and June 2023, respectively. This document explains the reasons why inflation has breached the upper limit of the inflation consultation band, and then discusses the policy responses and the outlook of inflation.

Inflation Deviation from the Consultation Band

1. **In December 2022, annual headline urban inflation accelerated to record 21.3 percent from 18.7 percent in November 2022**. In addition, annual core inflation accelerated to record 24.4 percent in December 2022 from 21.5 percent in November 2022. The monthly increase in December 2022 prices was driven by the increase in the prices of food items, which reflected mainly higher prices of dairy products, red meat, poultry and pulses among other core food items; impacted by an existing import restriction regulation at the time before being repealed in December 2022. Additionally, non-food inflation in December 2022 mainly reflected higher prices of services and retail items.

2. **In June 2023, annual headline urban inflation increased to 35.7 percent from 32.7 percent in May 2023.** Similarly, annual core inflation reached its peak as well at 41.0 percent in June 2023 from 40.3 percent in May 2023. Food inflation reflected the impact of higher core food prices, despite the witnessed stability in volatile food prices. Non-food inflation in June 2023 reflected higher prices of regulated, services and retail items.

3. **Since 2022, Egypt has been subject to several shocks, all of which have had a substantial effect on inflation outturns.** The Russia-Ukraine conflict, coupled with the tightening of global financial conditions have resulted in capital outflows from EMs in general including Egypt. Successive exchange rate depreciations were triggered by the pullout of portfolio investors, global uncertainty and higher import bills (amplified by higher international prices) have all contributed to Egypt's growing foreign currency needs and pressured its foreign currency resources.

4. **As a result, the EGP witnessed major depreciation episodes namely in October 2022 and January 2023, which impacted domestic inflation figures.** The impact of the exchange rate depreciations contributed by around 25 percent to monthly headline inflation during the period between December 2022 and June 2023. **Furthermore,** higher international commodity prices coupled with international supply chain disruptions amplified domestic supply chain disruptions, contributing to about a third of monthly headline inflation dynamics during the same period. These developments took place in light of (1) low self-sufficiency rates of some products, (2) the reliance of domestic inputs of production on imported component, further pressuring prices domestically to

rise. Food and tobacco sectors were most impacted by the aforementioned developments. The tobacco market witnessed a strong magnitude of increases to record an annual inflation of 47.3 percent in June 2023, despite that no new taxes were imposed on tobacco till June 2023.

5. In addition, supply shocks materialized particularly through higher prices of core food items. Annual core food inflation recorded a historical high of 79.4 percent in February 2023, before gradually declining afterwards to record 76.3 percent in June 2023, driven mainly by high poultry and red meat prices, among others. Second-round effects of heightened food inflation included prices of restaurants and cafes, which recorded an annual inflation of 47.4 percent in June 2023 compared to a peak of 50.7 percent in February 2023.

6. These inflation developments triggered fiscal measures adopted by the government, such as (1) increasing the prices of major subsidized food items in May 2023 by the Ministry of Supply and Internal Trade to alleviate the fiscal burden, (2) raising the prices of domestic fuel products by the fuel indexation committee; and (3) raising the regulated prices of other commodities and services such as medical care. Those fiscal measures contributed by around 8 percent to monthly headline inflation during the period between December 2022 and June 2023.

7. Affected by the aforementioned reasons, monthly inflation rates remained significantly high during Q1 and Q2 2023 compared to their normal dynamics (especially during January and February 2023).

8. During the 2020 – 2022 period, M2 has been consistently growing above its historical average of 15 percent, recording an average of 17.4 percent, 18.4 percent, and 23.7 percent in 2020, 2021, and 2022, respectively. Inflation was thus affected by **high broad money growth** that followed the COVID-19 outbreak and the subsequent loosening of monetary policy by the Monetary Policy committee (MPC) at the Central Bank of Egypt (CBE).[1] The acceleration in M2 growth, over the past three-year period and the accommodative monetary policy stance contributed to the inflationary pressures.

9. In addition, data available through June 2023 shows that nominal wages increased significantly between December 2022 and June 2023, with an average annual increase of 17 percent. Such increase is only equivalent to the nominal increases that were reported between 2014 and 2017. The government's announcements of wage increase to enhance people's well-being lent support to this nominal increase. Nevertheless, annual growth of real wages remained negative since June 2021 till June 2023.

Policy Responses

10. This section describes the monetary policy action that has been taken since March 2022 and its transmission to the economy. It also sheds light on the monetary policy reaction function

[1] In 2020, the MPC cut policy rates and expanded its subsidized lending schemes (CBE initiatives).

and the main indicators that are used to assess the development in the Egyptian economy.

11. The CBE reiterated in a special MPC press release its commitment to transition to an inflation targeting regime by continuing to target inflation as its nominal anchor and allowing the exchange rate to be determined by market forces. The unification of the exchange rate was crucial, as it facilitates the elimination of foreign exchange backlogs following the closure of the spread between the official and the parallel exchange rate markets. Furthermore, a flexible exchange rate regime functions as a buffer against the occurrence of abrupt future devaluations, serving as a shock absorber. This is attributable to the market-driven nature of the regime, where the nominal exchange rate adjusts gradually based on the interplay of supply and demand for the currency.

12. On another track, the CBE started the tightening cycle of its monetary policy in March 2022, to offset the prevalence of negative real interest rates associated with an accommodative monetary stance. Monetary policy tools are utilized to anchor inflation expectations, contain demand-side pressures and second-round effects emanating from supply shocks. The MPC took decisive counter-measures proactively to prevent further escalation, which included raising **key policy rates cumulatively by 1900 bps** since March 2022 (**800 bps** in 2022, **300 bps** in 2023 and **800 bps** in 2024). The latest hikes in the first quarter of 2024 aim to accelerate the monetary tightening process, in order to fast-track the disinflation path by bringing the real interest rate into positive territory, ensuring a monetary policy stance that effectively addresses current inflationary pressures.

13. This comes in addition to raising the reserve requirement ratio in September 2022 from 14 percent to 18 percent to complement the MPC's tightening stance. Moreover, monetary policy transmission was strengthened through the phasing out of the subsidized lending schemes (CBE initiatives) and increasing the volume of liquidity absorption.

14. These tightening measures aim to contain inflation, preserve the purchasing power of the Egyptian pound, anchor inflation expectations, as well as, help narrow the inflation differential between Egypt and its trading partners. The priority of the CBE remains to achieve price stability over the medium term through sustained disinflation.

15. According to the CBE's assumptions, the cumulative impact of interest rate tightening on the real economy peaks after three quarters, which is consistent with the lag with which the monetary policy operates. The impact of tightening the policy stance, thus far, was contractionary on the real economy, namely on gross domestic investments, slowing down real GDP growth in FY 2022/23. As such, real GDP growth registered 3.8 percent in FY 2022/23 compared to 6.7 percent in FY 2021/22. Gross domestic investments have been contracting for four consecutive quarters as of 2022 Q3, with the contraction mainly driven by the declining contribution of public investments throughout FY 2022/23 compared to the previous year. Additionally, private investments have also been contracting, albeit at a slower pace, reflecting the cumulative impact of the tightening cycle since 2022 Q1, and its indirect impact on the declining real growth of private business sector loans in local currency.

16. Furthermore, monetary policy decisions remain data-driven through monitoring all economic, monetary and financial developments. This is done by tracking a wide range of domestic and global indicators (including but not limited to: leading indicators for the real economy, measures of underlying inflation, development of M2 growth and real credit growth to the private sector) to analyze the nature, persistence, and breadth of any shocks. This comes in addition to examining the changes in international commodity prices and global financial conditions, as well as political developments.

Inflation Outlook

17. Annual headline inflation figures in 2023 were mainly driven by food items rather than non-food items given the strong dynamics of food inflation and higher core food prices. It is worth noting that in 2023 Q3, the impact of volatile food came stronger than that of core food items due to adverse weather conditions, however, its impact faded by 2023 Q4 in line with its seasonal patterns. Volatile food items have, generally, a transitory impact on Egypt's inflation.

18. Near-term inflation rates are expected to be affected by the impact of the exchange rate depreciation, projected higher regulated prices on one hand, and the increase of the availability of products in the market on the other hand. The CBE's current baseline forecast projects annual headline inflation to continue recording double-digit rates throughout 2024. A significant decline in annual headline inflation is anticipated in 2025 due to the combined effects of ongoing tightening measures and favorable base effects. This projection is contingent upon the maintenance of a sufficiently restrictive monetary policy stance. Assuming the absence of unforeseen external shocks, a gradual moderation of annual headline inflation is expected over the medium term.

19. Upside risks to this path include, but are not limited to, an escalation of the current geopolitical tensions, which could lead to higher international commodity prices and negative spillovers on services, higher than expected fiscal consolidation measures and a higher-than-expected tightening of global financial conditions, which could also persist for longer.

20. In light of the above risks and the current changes in macroeconomic dynamics, both globally and domestically, annual headline inflation rates are expected to deviate from the announced target of 7 percent (± 2 p.p.) on average in 2024 Q4 as was communicated in the MPC press release on the 6^{th} of March 2024. The reassessment of the inflation targets will be clearly communicated in due course. The MPC will ensure that the monetary policy stance is set at sufficiently restrictive levels to stabilize inflation expectations and to bring inflation on a downward trajectory. In addition, the CBE is coordinating with the government to control inflation by developing solutions to domestic supply chain bottlenecks and increase the availability of key staples in the market. The CBE is monitoring all developments and is standing ready to act further should inflationary pressures persist. The CBE reaffirms its unwavering commitment to utilizing all available instruments in a proactive manner to fulfill its medium-term price stability objective.

Appendix I. Letter of Intent

March 19, 2024

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

Dear Ms. Georgieva:

The challenging external environment continues to weigh on the Egyptian economy, while the conflict in Gaza and Israel and disruption in the Red Sea are exerting new pressures. In the context of foreign exchange shortages, inflation, debt service, and debt have increased, and imports have been compressed. Spillovers from regional tensions threaten to dent tourism and are impacting Suez Canal receipts, weighing on activity. However, the recent Ras El-Hekma investment deal is a significant investment opportunity that has helped to relieve near-term pressures and provides an opportunity to reduce external and fiscal vulnerabilities. Against this backdrop, we are strengthening and accelerating our reform agenda to secure macroeconomic stability, protect the most vulnerable, and ensure strong, sustainable, private sector driven growth.

In the attached Memorandum of Economic and Financial Policies (MEFP), dated March 19, we outline the key policies of our economic program that aims to address the challenges facing the Egyptian economy and bring the current IMF arrangement under the Extended Fund Facility (EFF) back on track.

The recalibrated set of policies seeks to resolve pervasive foreign exchange shortages that are impacting private sector investment and growth, put inflation and debt firmly on a downward trajectory, and progress our structural reform agenda to achieve a more private sector-led growth. At the forefront of this agenda is a move to a flexible exchange rate regime and liberalized foreign exchange system, as well as a tightening of monetary and fiscal policies, that will contain inflation and preserve external and debt sustainability, while protecting the most vulnerable. Slowing down the implementation of public investment and strengthening our ability to manage the overall public investment portfolio more comprehensively is a central component to avoiding future imbalances. Moving forward with our state-ownership policy and divestment program, while implementing reforms to level the playing field and improve the ease of doing business, will help secure strong private sector growth over the medium-term.

To boost confidence in this policy package, we have unified the exchange rate and shifted to a flexible exchange rate regime and a liberalized foreign exchange system; the backlog for foreign exchange demand is being eliminated. Supporting this shift and to send a strong signal of our commitment to price stability, the Central Bank of Egypt has significantly tightened monetary policy and will constrain further the expansion of the central bank's balance sheet, including through reducing the Ministry of Finance's overdraft at the central bank and stopping central bank lending to other public agencies. The CBE will also sterilize the injection of liquidity from foreign exchange purchases and the conversion of foreign exchange deposits into local currency. Our continued efforts to strengthen the monetary transmission will also play an important role in helping us to return inflation back to target over the medium term. We are bolstering our fiscal efforts to bring down debt and reduce financing needs, by targeting a more ambitious primary surplus and are committed to using a notable part of proceeds from our divestment program and $12 billion of the receipts from the recent Ras El-Hekma investment deal to further reduce government debt. We are also taking important steps to strengthen our monitoring and control of extra-budgetary public investment as well as managing fiscal risks. Comprehensively managing the overall public investment portfolio is central to achieving consistency in the macro policy mix and preventing pressures resurfacing in the foreign exchange market. Cognizant of this, the Prime Minister has issued a decree requiring all public entities to report their investment activity; this is an important first step in improving the transparency of broader public sector activity.

To increase private sector led growth, the government is pushing ahead with reducing the state's footprint in the economy and structural reforms that seek to strengthen the business environment. Supporting the rollout of the state-ownership policy, we are advancing our divestment program, which will be an important source of foreign exchange inflows and help our debt reduction efforts. Reforms aimed at strengthening procurement practices, enhancing competition, and improving the ease of doing business will help lay the groundwork for increased private-sector participation in the Egyptian economy.

Based on the strength of the policies set forth in the attached MEFP, we request completion of the first and second reviews of the arrangement. Considering the external shocks Egypt is facing, we are requesting an augmentation of access equivalent to SDR 3,761.52 million (around US$5 billion) and a rephasing of disbursements. We request the purchase of SDR 618.11 million after completion of the first and second reviews. The IMF's upfront support is being complemented by support from other international partners, including the World Bank, the African Development Bank, the Asian Infrastructure Investment Bank, and the European Commission, as well as key bilateral partners, all of whom have committed adequate additional funds to help ensure that the program remains fully financed. Complementing this effort, the CBE is committed to capturing $15 billion of the proceeds from the Ras El-Hekma deal to build buffers against future shocks.

Primarily on account of past policy slippages, we request Executive Board approval of (i) the waiver (s) of non-observance for the quantitative performance criterion (QPC) on the net international reserve accumulation (NIR) and the continuous PC on not imposing or intensifying exchange restrictions based on corrective actions undertaken and commitments as set forth in the MEFP; (ii) completion of the

Monetary Policy Consultation with the Executive Board, triggered by the breach in the upper band of the 12-month change in consumer prices, and (iii) modification of program targets so as to include new safeguards in the form of QPCs which address monetary financing of the deficit and central bank lending to public agencies excluding the Ministry of Finance. We timely met 7 out of 15 structural benchmarks for the combined reviews and have proposed new timeframes to meet most of the outstanding commitments as well as new ones.

We are confident that the policies that underpin our program are adequate to restore economic stability and ensure achievement of our recalibrated targets, yet we stand ready to take additional measures that may become necessary to achieve our program objectives. In accordance with the Fund's policies, we will consult with the IMF on adoption of such measures and in advance of revisions to policies contained in the MEFP. We will refrain from any policy that would not be consistent with the program's objectives and commitments herein.

The program will continue to be monitored in the context of more frequent reviews through quantitative performance criteria, indicative targets, and structural benchmarks as described in the attached MEFP and Technical Memorandum of Understanding (TMU). The third review is expected to be completed on or after June 15, 2024, and the fourth review will be completed on or after September 15, 2024. We will supply the IMF with timely and accurate data that are needed for program monitoring reviews, as well as any information that has material impact on economic conditions and program objectives. We will maintain a close regular dialogue with IMF staff to ensure timely implementation of our economic reform program. We will consult with IMF staff before making any policy changes that have an impact on our economic program with the IMF.

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

/s/
Hassan Abdalla

Governor of the Central Bank of Egypt
Arab Republic of Egypt

/s/
Mohamed Maait

Minister of Finance
Arab Republic of Egypt

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies

Introduction

1. **Macroeconomic pressures have intensified in Egypt.** In the context of an adverse external environment, depreciation of the Egyptian pound, a widening of the premium in the parallel exchange rate market, and foreign exchange shortages have all contributed to supply bottlenecks, a sharp increase in inflation, elevated debt vulnerabilities, and a slowdown in economic activity that are exerting a significant toll on the population. Financing conditions are challenging, and confidence is yet to fully return following the large capital outflows in 2022, with persistent external pressures weighing on investor sentiment. The conflict in Gaza and Israel and the disruption in the Red Sea are further exacerbating these pressures.

2. **The challenging outlook calls for a redoubling of our efforts to ensure macroeconomic stability.** To address macroeconomic imbalances, we are implementing a comprehensive reform package that includes moving to a flexible exchange rate regime and a liberalized foreign exchange system, a significant tightening in monetary and fiscal policies to return inflation to target and put debt on a downward path while protecting the vulnerable, and continued progress in divesting state assets, enhancing competitiveness of the economy through promoting private sector driven growth, and reducing the role of the state. A critical element of the policy package is also slowing down off-budget investment to ensure that the overall envelope of public investment is consistent with securing external and internal stability. Given the difficult external financing conditions and the spillovers from the conflict in Gaza and Israel, we are requesting an augmentation of access equivalent to 184.80 percent of quota by SDR 3,764.47 million (around US$5 billion) under the current Extended Fund Facility (EFF) arrangement. Together, the policy and financing package under the EFF will help relieve external pressures, bring down inflation and the cost of borrowing, and increase private sector led growth, to the benefit of all Egyptians.

3. **The recent investment deal between Egypt and ADQ, an Abu Dhabi-based investment and holding company, will be important in reducing external and fiscal vulnerabilities and achieving our development goals.** The $35 billion deal consists of $24 billion in new financing from ADQ to acquire the development rights for Ras El-Hekma region along Egypt's Mediterranean coast and the conversion of about $11 billion of deposits at the Central Bank of Egypt (CBE) for investments across Egypt. The new financing helps alleviate near-term pressures on the balance of payments and we are committed to use it judiciously to bolster our foreign exchange reserve buffers, reduce government debt, and facilitate the clearance of arrears.

Recent Economic Developments and Outlook

4. **Reflecting the adverse external environment and continued exchange rate pressure, inflation has increased, and growth has slowed.** The depreciation of the Egyptian pound in January 2023 resulted in a recovery of investor confidence. Sentiment subsequently weakened, external conditions worsened, and foreign exchange shortages re-emerged in the context of a

stabilized exchange rate. As a result of these developments, inflation, debt service, and debt increased, growth slowed, and imports were compressed:

- **Inflation**: Passthrough of the depreciation of the official exchange rate to consumer prices, an increased propensity to price off the more-depreciated parallel market rate, higher cost of accessing foreign currency, unfavorable weather conditions, and supply chain disruptions all contributed to inflation increasing to 38.0 percent in September 2023. Inflation has since moderated but remained elevated at 29.8 percent in January 2024, with food inflation at 47.9 percent. Contributing to high inflation, net domestic assets of the CBE have increased by 51 percent between end-June 2022 and end-December 2023, reflecting greater use of the overdraft by the Ministry of Finance and lending to other public agencies.

- **Debt**: Fiscal consolidation efforts led to an improvement in the primary balance to 1.6 percent of GDP in FY2022/23, however exchange rate depreciation, increased interest expense, and the recapitalization of the CBE all contributed to budget sector debt increasing to 98 percent of GDP. Tighter financial conditions have resulted in shortening the maturity of new domestic issuances and limited external market issuance, although Sukuk, Samurai, and Panda bonds have been successfully issued since the start of the EFF program.

- **GDP growth**: While growth has remained relatively robust, it slowed to 3.8 percent in FY2022/23 and decelerated further in the first quarter of FY2023/24 to 2.7 percent year-on-year, with foreign exchange shortages constraining private-sector activity and uncertainty weighing on investor confidence. Nevertheless, tourism has been a bright spot, with tourist arrivals and revenues both increasing sharply in FY2022/23.

- **Current account**: The current account deficit narrowed to 1.2 percent of GDP in FY2022/23, with a compression in non-oil imports and strong tourism receipts offsetting weaker non-oil exports and a sharp decline in remittances.

5. The conflict in Gaza and Israel and the disruptions in the Red Sea are additional shocks that are negatively impacting the Egyptian economy. The conflict is adversely affecting tourism and could dent foreign direct investment, both of which will add to balance of payments pressures. While tourism was particularly strong prior to the conflict, there has been some moderation in hotel bookings. The disruptions in the Red Sea are also impacting the Suez Canal receipts, which are an important source of foreign exchange inflows and fiscal revenue. Suez Canal receipts declined by 47 percent in January 2024 relative to January 2023. The re-routing of shipping lines is also affecting trade and supply chains, adding to inflationary pressures.

6. With these new pressures emerging, the near-term outlook is uncertain. The near-term outlook for the balance of payments depends heavily on the nature and length of the conflict in Gaza and Israel and the persistence of disruptions in the Red Sea. Reflecting the impact of the conflict and the foreign exchange constraints that prevailed in the first half of the year, growth is projected to slow in FY2023/24 to 3.0 percent.

7. **We remain resolutely committed to the Extended Fund Facility.** Despite this adverse economic backdrop, we have strengthened our fiscal consolidation efforts adopted in recent years, expanded further coverage of targeted cash transfer programs, initiated our ambitious divestment program, and advanced our structural reform agenda. We met all quantitative performance criteria for end-December 2022. In the face of tighter financial conditions and significant external pressures in early-2023, we were also able to meet two of the three quantitative performance criteria for end-June 2023. The quantitative performance criterion on net international reserves was missed, owing to a weaker oil trade balance, weaker remittances, and lower external debt issuance than projected. We request a waiver for the non-observance of this quantitative performance criterion, given the corrective actions we have taken, including shifting to a flexible exchange rate regime and a liberalized foreign exchange system, tightening monetary and fiscal policies, and implementing planned divestments and program financing. We are taking strong corrective actions to address the breaches of the Monetary Policy Consultation Clause (MPCC) and the Commercial Banks' Net Foreign Assets Consultation Clause. The Central Bank of Egypt (CBE) started the tightening cycle of its monetary policy in March 2022 and raised key policy rates cumulatively by 1,100 basis points between March 2022 and August 2023 (800 basis points in 2022 and 300 basis points in 2023) and another 800 basis points in early 2024. This comes in addition to raising the reserve requirement ratio in September 2022 from 14 percent to 18 percent to complement its tightening measures. Except for the indicative targets relating to the maturity of debt issuance and the level of budget sector debt, we met all indicative targets for end-December 2022 and end-June 2023. We have begun the rollout of an ambitious structural reform agenda, with notable progress on the implementation of the state-ownership policy, passage of a law to remove various preferential tax exemptions and/or treatment given specifically for state-owned enterprises (SOEs) and strengthening the monetary policy transmission mechanism. We intend to accelerate this reform agenda in the coming months.

Economic Program

8. **We are implementing a recalibrated and strengthened reform package that includes a move to a flexible exchange rate regime and a liberalized foreign exchange system and tightening of macroeconomic policies to bring down inflation and safeguard external and debt sustainability**. In the near-term, our policy package seeks to alleviate external pressures and restore the functioning of the foreign exchange market. Shifting to a flexible exchange rate regime in March 2024 has facilitated efforts to begin clearing the backlog of foreign exchange demand and reduced uncertainty among households, businesses, and investors. The broad tightening of monetary and fiscal policies that has accompanied this move, including a decree issued by the Prime Minister in February 2024 to reduce funding for on-budget investment by 15 percent and postpone new projects, has helped relieve pressures in the foreign exchange market and boost confidence. Over the medium term, tighter policies will bring inflation back to target and help preserve debt sustainability, while continued progress on our broad structural reform agenda will help us achieve higher, more inclusive, and private sector-led growth. With the handover from state-oriented activity to increased private sector participation in the economy, we are targeting growth to increase to over 5 percent in the medium-term.

Monetary and Exchange Policies

9. We have shifted permanently to a flexible exchange rate regime and a liberalized foreign exchange system. To emphasize this shift, the CBE has communicated in the MPC press release the importance of exchange rate flexibility as a main pillar for a transition towards an inflation targeting regime. In addition, we have issued a circular to banks to cancel foreign exchange requests if clients do not accept prevailing market exchange rates. A track record of a shift to the new regime will be evidenced by a comprehensive set of indicators (*prior action)*, including the effective elimination of foreign exchange demand backlogs at commercial banks, the closing of the spread between the official exchange rate and measures of the market-clearing rate, and increased FX turnover in the interbank market. Going forward we commit to sustaining the flexible exchange rate regime, with performance assessed using the same broad set of indicators (*structural benchmark*). During the program period we will not introduce or intensify exchange restrictions or multiple currency practices, impose or intensify import restrictions for balance of payments purposes, or conclude any bilateral payment agreements that are inconsistent with Article VIII of the IMF's articles of agreement (*continuous performance criterion*). Although the CBE may occasionally step in at times of excessive exchange rate volatility, there will be no recourse to foreign exchange interventions or the use of banks' net foreign assets with the intent to stabilize or guarantee the level of the exchange rate. Going forward, interventions by the CBE in the FX market, if necessary, will be guided by a volatility-based intervention framework. To limit the decline of banks' net foreign assets when external pressures emerge, the CBE will not grant exemptions for commercial banks that breach net foreign exchange open position limits and will apply sanctions to any banks that violate the limits, in accordance with the regulations. The CBE will facilitate the monitoring of FX backlogs, individual banks' net open position, net foreign assets, and foreign exchange transactions on the interbank market by providing these data to the IMF team as defined in the TMU. The CBE will continue to consult with IMF staff if aggregate banks' NFAs show a cumulative decline of $2 billion over a three-month period (see TMU) to see if any action is needed.

10. Monetary policy will be set to bring inflation back to the CBE's target. With inflation considerably above the target of 7 percent, the CBE has taken steps to tighten the monetary policy stance. On February 1, 2024, the CBE increased the policy rate by 200 basis points and on March 6, 2024, the CBE increased the policy rate by a further 600 basis points (*prior action*), a move that shifts the real interest rate back towards positive levels. Supporting this tightening, the CBE will not increase its lending to public sector agencies excluding the Ministry of Finance (*continuous performance criterion*) and will issue a plan, approved by the CBE Board, and agreed upon with the Egyptian government and Ministry of Finance, to reduce existing claims on these agencies to zero by end-FY2025/26 (*structural benchmark*). In addition, the Ministry of Finance will reduce the government's overdraft at the CBE to within the statutory limit by end-March 2024 *(performance criterion)* using a market-based approach. The CBE will sterilize the injection of EGP liquidity from foreign exchange purchases and the conversion of UAE dollar deposits into local currency. The CBE will follow a data-dependent approach to future policy decisions and will stand ready to act further should inflationary pressures persist. The CBE will continue to support the monitoring of inflation with a MPCC. The MPCC will trigger consultations with IMF staff when headline urban CPI inflation (y/y) falls outside the CBE's inflation target of 7 ±2 percent range (i.e., inflation falls outside 5 to 9 percent), and with the Executive Board if inflation falls outside the outer bands of 3 to 27 percent in March 2024, 3 to 32.5 percent in June 2024, and 3 to 29 percent in December 2024.

11. We will continue to strengthen the monetary transmission mechanism. Given the CBE's resolve to bring inflation back to target, efforts to improve the functioning of monetary policy remain a priority. Recent policy decisions by the CBE have transmitted effectively to the interbank market, with the daily overnight interbank remaining within 50 basis points of the mid-corridor rate. The CBE has refrained from introducing new subsidized lending schemes which, in turn, has removed distortions hindering the passthrough of CBE policy decisions to the rates paid on new loans. To build on these steps and help ensure the future transmission of the policy rate to the interbank market, the CBE will design the main 7-day deposit auction as a fixed-rate full-allotment auction with the fixed-rate being the mid-corridor rate, with each operation published on the CBE's website (*structural benchmark)*. The CBE will also continue to refrain from extending, renewing, or introducing any subsidized lending schemes*.*

12. Rebuilding official reserves will support external sustainability. In the context of a challenging financial environment, we will target a further gradual buildup of net international reserves *(performance criterion)*. Increasing reserves and improving their composition away from borrowed components will strengthen resilience to external shocks and volatile capital flows. We will continue to target a comprehensive definition of net international reserves (see TMU) which includes both Tier 1 and Tier 2 assets of the CBE, as well as any other foreign currency assets held by the CBE that could be used for reserve management purposes. In the wake of the Ras El-Hekma investment deal, we have committed to boost our foreign exchange buffers, and as a result our net international reserves will be significantly higher. Our goal is for net international reserves, per this definition, to increase by $13.7 billion over FY2023/24 to reach $30.3 billion by June 2024 and $29.6 billion by December 2024. We will continue to boost our foreign exchange buffers should the sale of public assets generate foreign exchange inflows. We will not accumulate any general government external debt payment arrears (*continuous performance criterion*).

Fiscal Policy

13. We are strengthening our efforts to bring down general government debt as a percent of GDP. Fiscal consolidation in FY2022/23 increased the primary surplus to 1.6 percent in GDP, but budget sector debt rose as a result of the depreciation of the Egyptian pound and increased interest payments.

- Cognizant of the need for further fiscal adjustment, the FY2023/24 budget is targeting a primary surplus of 2.5 percent of GDP, inclusive of 0.4 percent of GDP of divestment proceeds that flow to the budget. In addition, we commit to secure the Egyptian pound equivalent of $12 billion proceeds from the recent Ras El-Hekma investment deal with ADQ to reduce the public debt. This one-off windfall will boost the primary balance by 4.6 percent of GDP, bringing it to 7.1 percent of GDP in FY2023/24 (*performance criterion*). For FY2024/25 we will target a primary surplus of 3.5 percent of GDP, in addition to targeting 1 percent of GDP of divestment proceeds to be transferred to the treasury to reduce budget sector debt. The cabinet will approve the draft budget law for FY2024/25 reflecting these targets, underpinned mostly by new structural revenue measures that generate an expected improvement in tax and dividend revenue of about 1.0 percent of GDP in FY2024/25 *(prior action*). In this regard, tax measures of 0.4 percent of GDP have been identified, including the full year impact of the previously implemented law that eliminated preferential tax treatment and exemptions for SOEs, along with rationalization of VAT exemptions. We will enact a law to speed up the resolution of tax disputes, which will provide additional 0.2 percent of GDP tax revenue for FY24/25. We will submit to parliament amendments to the VAT law that simplify the VAT, rationalize exemptions, and enhance its efficiency and progressivity by November 2024 (*structural benchmark*). This VAT reform will target a structural increase in tax revenue of at least 1 percent of GDP on a 12-month basis. We have published an executive regulation to ensure full implementation of the law removing preferential tax exemptions for SOEs. In addition to the 1 percent of GDP of divestment proceeds that will be transferred to the budget, to help meet our fiscal target, we will establish the Ministry of Finance asset divesture committee with a target of generating EGP 20–25 billion annually for the treasury over the coming years. This will support and complement our broader efforts to meet the annual divestment targets embedded in the program. We are committed to a floor on tax revenues (*indicative target*) and a ceiling on the gross debt of the budget sector (*indicative target),* with the aim of bringing gross debt of the budget sector below 90 percent of GDP by end-FY2025/26.

- To protect the revenue base, by end-September 2024 we will undertake a detailed assessment of the economic and financial benefits of the current freezones (*structural benchmark*), and in the meantime will limit any further expansion of freezones until this assessment is conducted.

- In line with our Medium-Term Revenue Strategy and given the recent external shocks to our budget sector debt, we are targeting an improvement in the primary surplus inclusive of divestment proceeds of 5.5 percent of GDP by FY2026/27, with the tax revenue to GDP increasing by at least 3 percentage points by FY2026/27. To achieve the primary surplus target, we will continue with tax revenue-based fiscal consolidation. In addition to the VAT measures noted above, we will introduce other new tax policy and administrative measures, such as widening our tax base by ensuring the full implementation of taxation and e-commerce on all traded goods, implementing a new Income Tax Law by FY2025/26 to address existing loopholes, consolidate amendments, and limit tax exemptions including the possibility of rationalizing freezones; adopting a withholding tax on turnover from exports from freezones in Egypt to the domestic market; adopting green fees and taxes in line with international best practices; implementing reforms adopting the Automatic Exchange of Information Standard by FY2026/27; accelerating reform of property taxation to leverage this pro-growth and progressive source of revenue; and introducing anti-fraud measures and strengthening the e-tax platform to improve tax efficiency and reduce the size of the informal economy.

14. We are adjusting domestic fuel prices to make space for better targeted social support. Over the past year, a number of fuel products' prices have been kept low relative to the indexation formula, resulting in larger subsidies. To bring prices back in line with the level implied by the indexation formula since the start of the EFF program, we commit to increase prices for gasoline grade fuels (octane 80, 90, and 95) in March 2024, including any catch-up adjustments (*prior action*). We are developing a plan to adjust diesel prices to be fully in line with the level implied by the full implementation of the formula since the start of the program. Looking ahead, we will continuously implement in full the retail fuel price indexation mechanism according to the formula and in cases where the indexation mechanism suggests a reduction in fuel prices, we will refrain from doing so until the level of fuel subsidies for products covered by the mechanism since FY2021/22 has been eliminated (*recurring structural benchmark*, see TMU for formula). In addition to protecting valuable budgetary resources and allowing us to reorient spending towards protecting those in need, this will help us progress our decarbonization efforts outlined in the updated Nationally Determined Contribution we published in 2023. We will strengthen communication around the mechanism by explaining the rationale for the pricing decisions and will continue our efforts to record and publish fuel subsidies and any liabilities to Egyptian General Petroleum Corporation (EGPC).

15. We will implement a range of structural measures to support our fiscal goals. These aim to increase the transparency of fiscal accounts, procurement practices, and SOEs. Specifically, we will:

- Publish a comprehensive annual tax expenditure report, including available details and estimates of tax exemptions and tax breaks broken down by classification, including those provided to companies operating in free economic zones and to all state-owned enterprises, including public sector companies, public business sector companies, military-owned companies, economic authorities, and joint ventures and partnerships (*structural benchmark*, reset to end-April 2024). This will serve as a basis for national discussions and rationalizing existing tax exemptions to support our effort to boost revenues. Specifically, based on the report, we will identify tax exemptions that are no longer economically or socially justifiable and work gradually to eliminate or streamline them.

- Introduce a binding requirement to ensure the timely publication of the Central Auditing Organization's (CAO) annual audit reports on the fiscal accounts (*structural benchmark*, reset to end-March 2024).

- Publish on the procurement portal website in open access format all procurement contracts exceeding EGP 20 million, including, if contracts are awarded through a bidding process, information on all bids made, the winning bid, and names of successful bidders so that everyone can access this information, without the need to set up an electronic account (*recurring structural benchmark*). The publication will be done on a monthly basis (end of each month) with one month lag.

- Enact executive regulations of the PFM law (*structural benchmark*, reset to end-March 2024), including: (i) main elements of the budget calendar starting with the submission and approval of the fiscal strategy paper, (ii) the process to update and publish the MTBF taking into account the costing of new laws and regulations, (iii) a requirement for all entities to separate the baseline and new policy initiatives, and (iv) a section on climate that would provide a mandate for climate-related activities.

16. We have taken additional steps to protect the most vulnerable and mitigate the impact of higher inflation. Coverage of the Takaful and Karama cash transfer program has been expanded to cover more than 5 million households and average monthly payments have been increased by 15 percent by end-June 2023. In 2023, we have raised the minimum public sector wage by almost 17 percent, issued monthly nominal increases to protect public sector employees' wages, and increased pension payments for civil servants by 15 percent. In February 2024, we announced an additional EGP 180 billion social protection package for FY2024/25, including a 50 percent increase in the public sector minimum wage, a 15 percent pension increase, an increase in the personal income tax exemption threshold by more than 30 percent, and an increase in performance bonuses and other specific allowances to almost 2 million teachers and 0.6 million doctors and health experts. To further strengthen the social safety net over time, we will publish a report evaluating the social housing program, outlining potential reform options, and will explore further efficiency gains in our food subsidies. On health, we will continue the rollout of our universal health insurance scheme. We will continue to provide support for those most in need and are committed to a minimum level of social spending that is consistent with these objectives (*indicative target*).

17. Slowing down the implementation of public investment projects, including national projects, is critical to ensuring economic stability. Acute external pressures call for measures to limit the demand on the foreign exchange market. More comprehensive management of the overall public investment portfolio is central to achieving consistency in the macro policy mix. We have announced measures to slow down projects undertaken by the budget sector that are less than 70 percent complete, have cut funding for budget sector investment in the second half of FY2023/24 by 15 percent relative to the prior year, and have postponed any new projects. To better monitor and control total public investment, the Prime Minister has issued a decree requiring all public entities to report annual projected investment, including projects contracted or undertaken by entities such as the Administrative Capital Urban Development (ACUD), National Urban Community Authority (NUCA), and the Armed Forces Engineering Authority and its affiliates, to a cabinet level committee chaired by the CAO. The first submission outlining projected investment for FY2024/25 will be due by April 30, 2024, and then annually by April 30 thereafter. The decree requires all public agencies to report to the committee each October and April all investment spending executed over the periods January – June and July – December, respectively. Moreover, the decree will indicate that the target ceiling on the value of total public investment over the period from January – June 2024 is EGP 350 billion and the target for FY2024/25 is EGP 1,000 billion (*indicative targets*).

18. Recognizing the importance of recording broader fiscal activities, we are expanding the perimeter of general government fiscal reporting. The general government, as currently defined, excludes fiscal activities undertaken by economic authorities**.** We are undertaking significant reforms to the PFM law that will:

- Create new national fiscal indicators that will include the general government and economic authorities. These indicators will, over time, include all economic authorities. We will begin this effort in FY2024/25 with the inclusion of a maximum of 40 economic authorities into the indicator and will gradually expand the perimeter of the indicators by including an additional 5 economic authorities each subsequent year so that all economic authorities are covered by FY2029/30. This reform will require economic authorities to report semiannually in the first year and then quarterly in subsequent years to the Ministry of Finance, which shall likewise have the authority to request information from these entities.

- Introduce binding ceilings on the debt of the entities included in these indicators in the annual budget law, adjustment of which will require recommendation from the Ministry of Finance on the basis of a clear set of criteria, and parliamentary approval.

Undertaking these reforms will improve transparency on the activities of economic authorities and will be a valuable step in strengthening our ability to monitor their fiscal performance as well as the size of public investment. In parallel, recognizing that in the steady state only those economic authorities that are nonmarket producers should be included in the general government, we will conduct a sector classification exercise of all 59 economic authorities, in accordance with the concepts and principles in the GFSM 2014 and document the rationale for each classification decision by end-September 2024 (*structural benchmark*).

19. We will establish a repayment strategy to reduce arrears to international oil companies. Over the past three years, the Egyptian General Petroleum Company (EGPC) has accumulated payment arrears on supply contracts of about $4.5 billion, denominated in US dollars. In addition to foreign exchange shortages, the buildup of arrears reflects several structural factors, including a cyclical downturn in the domestic production of gas, higher domestic consumption reducing the scope for gas exports, and increased subsidies from EGPC to the electricity sector. A ministerial decree has established a committee for negotiating deferral agreements with all suppliers. We are developing a repayment strategy with the objectives of ensuring that no new arrears are accumulated, and existing arrears will be cleared (*structural benchmark*). We will resume publication of EGPC's financial statement on a semi-annual basis, starting with the statement for end-December 2023, which will provide a transparent reporting of the level of EGPC's arrears. We also commit to ensure that any other public entities outside the general government repay any external arrears they may have in a timely manner.

20. We are taking several steps to reduce gross financing needs, including applying half of the new financing from the Ras El-Hekma investment deal for debt reduction. While recent domestic debt issuance has been skewed towards short-term issuance, as financing conditions improve, we will seek to lengthen the average maturity of debt to help reduce gross financing needs and safeguard debt sustainability. We will use active debt management to lengthen the maturity of new issuances and will target a maturity of new gross local currency debt issuance through public placements in FY2023/24 of 0.65 years (*indicative target*). We have sought to extend the maturity of existing domestic debt held by domestic banks and pension and health funds. We have also improved the quality of fiscal financing through significantly increasing official sector external financing, while reducing the use of the overdraft at the CBE to within the statutory limit (see paragraph 6). We are adopting an integrated approach to addressing the recapitalization needs of the CBE that considers the government's debt management strategy including putting debt to GDP on a firm downward path and limiting the debt service burden while also recognizing the importance of having an independent and well-capitalized central bank. In consultation with IMF staff, and considering CBE's full compliance with Egyptian Accounting Standards (EAS), we are undertaking comprehensive and well-grounded assessment of the CBE's recapitalization needs and developing a recapitalization plan that safeguards the balance sheet of the CBE and supports it ability to deliver on its price stability mandate, as well as being conducive to the government's debt reduction strategy and needs. We will implement this recapitalization plan by end-April 2024 (*structural benchmark*). We commit to establish an agreement between the CBE and the Ministry of Finance that regularizes the use of the 2021 SDR allocation for fiscal purposes.

21. Our asset divestment strategy will complement and reinforce our debt management strategy. As our public asset divestment strategy continues to unfold, resources generated from the sale of public assets will be used first and foremost to reduce public debt and the associated debt service cost, along with facilitating the payment of arrears. Such resources will not be used to capitalize existing or new public sector companies.

22. We will continue to strengthen our management of fiscal risks. To monitor potential risks and safeguard future fiscal resources, we will report annually the payment arrears of the budget sector, including to critical SOEs and EAs. The Ministry of Finance will publish an annual report within 90 days of the end of the fiscal year (*recurrent structural benchmark)* on the stocks of commitments, overdue payments, and overdue transactions. It will also include the stock of gross liabilities and due payments to and from the Ministry of Finance with the Egyptian General Petroleum Corporation, General Authority for Supply Commodities, New Urban Communities Authority, National Postal Authority, National Authority for Egyptian Railways, National Investment Bank, Central Bank of Egypt, Egyptian Electricity Holding Company, Holding Company for Drinking Water and Sanitation, and EgyptAir. To further strengthen control of fiscal risks from off-budget activity, we will ensure that the stock of government guarantees relative to GDP will stabilize for the remainder of the current fiscal year at their end-September 2023 level and decline as a percent of GDP starting from end-June 2024 (*indicative target*). We will also publish an annual fiscal risk statement as part of the budget documentation, starting from FY2024/25 in line with IMF technical assistance.

Financial Sector Policy

23. Strengthening financial sector resilience continues to be a key priority. Financial stability has been maintained following the unification of the exchange rate and the recent tightening in monetary policy. The banking system remains well capitalized, and liquidity is ample, although the system-wide capital adequacy ratio has declined, in part reflecting the impact of the depreciation of the Egyptian pound on banks' risk-weighted assets. While banks' have remained in compliance with their net open position limits, with the move to a flexible exchange rate regime we will closely monitor the maturity and composition of banks' foreign currency assets and liabilities, including their exposure to public sector agencies, and any negative impact of foreign currency depreciation on the local currency value of liabilities for banks with a negative net open position. Following successful technical assistance from the IMF, the CBE is moving forward with the establishment of a bank resolution unit. The CBE will also strengthen transparency and communication of financial sector issues, including through the publication of semi-annual financial stability reports, with translation provided in English, and ensuring all instructions and guidance to banks are undertaken through formal written channels. The CBE will complete stress tests of the banking sector and share detailed results with IMF staff by end-September 2024; these tests will be prepared in consultation with IMF staff (*structural benchmark*).

24. We are committed to strengthening governance practices and competition in the financial sector. The large presence of state-owned banks in the financial sector requires robust governance practices to safeguard financial stability, ensure a strong monetary policy transmission mechanism, and promote competition. With these objectives in mind, the CBE will not issue any new subordinated debt to state-owned banks and will develop proposals for strengthening the independence of state-owned banks, which will form the basis for commitments under the program at the time of the next review.

Structural Reforms

25. We are progressing the rollout of our state ownership policy, with the aim of increasing private sector led growth. The state-ownership policy, published in late-2022, sets out the methodology for determining the desired level of state involvement in each sector of the economy and, using this, outlines which sectors the state intends to reduce its presence in. It applies to all state-owned enterprises, including public sector companies, public business sector companies, military-owned companies, economic authorities, and joint ventures and partnerships. The Prime Minister issued a decree requiring all state-owned enterprises covered by our state-ownership policy to submit financial data regularly to the Prime Minister's office. To support the ongoing rollout of the state-ownership policy and transparently track developments in reducing the state's involvement in the economy we will re-instate regular publication on the appropriate government website of annual aggregate reports on Egypt's SOE portfolio, with coverage expanded to include all state-owned enterprises covered by our state-ownership policy companies in the report to be published in September 2024 (*structural benchmark*); and develop an indicator to track implementation of the state-ownership policy (*structural benchmark*).

26. In recent months, our divestment program has gained momentum. Supporting the state-ownership policy, we have produced an inventory of all SOEs and identified 200 which could be eligible for reducing the state's ownership. We have worked closely with the International Finance Corporation (IFC) to develop a sector-by-sector approach to divestment. The divestment process has picked-up in recent months. We have closed deals that have netted proceeds worth $2.4 billion and yielded $2.2 billion of US dollar inflows so far in FY2023/24. We anticipate several other deals that are well advanced to close in the remainder of the fiscal year which will bring at least another $600 million in U.S. dollar inflows.

27. We are targeting significant divestments over the remainder of the program, which will support external resilience and contribute to reducing public debt. In FY2024/25, we are targeting sales of four or more assets in the energy and manufacturing sectors that will yield $3.6 billion in the form of foreign exchange inflows. To support our debt reduction efforts, 1 percent of GDP of divestment flows will be channeled to the budget in FY2024/25 and another 0.7 percent of GDP in

FY2025/26. In line with our efforts to move the composition of gross reserves away from borrowed components, foreign exchange proceeds generated by sales of state-owned assets will be deposited at the CBE and will therefore support our goal of increasing net international reserves (see TMU).

28. We are taking additional reforms to level the playing field, strengthen the business environment, and improve overall governance:

- We passed legislation in July 2023 that eliminates preferential tax treatment and exemptions for state entities and helps put private sector companies on an equal footing with SOEs, and this became effective in February 2024. The regulations stipulate that all SOEs, including economic authorities and military-owned entities, are subject to the provisions of the law. In addition, to further level the playing field between state-owned and private sector companies. we will begin including all the procurement opportunities and awards made by the largest 50 state-owned enterprises on the general government's e-tenders site by September-2024 (*structural benchmark*). This will complement our monthly publication on the procurement portal website in open access format of all government procurement contracts exceeding EGP 20 million (*recurring structural benchmark*). Moreover, we have aligned the payment terms of public companies' utility bills with those of private companies.

- Amendments to the Competition Law introduced in December 2022 empower the Egyptian Competition Authority (ECA) by introducing an ex-ante approach to merger control for mergers and acquisitions that meet certain thresholds. The executive regulations for this amendment await Cabinet approval and we aim to complete this step by end-April 2024. Amendments to the Competition Law submitted to Parliament in January 2019 which strengthen the ECA's independence are being revised to address potential constitutionality concerns and we will submit them for Cabinet approval by end-June 2024. The ECA is also constructing an index which will allow it to track the views of key stakeholders regarding competitive neutrality and identify future reforms to the competitive neutrality framework.

- To accelerate and streamline procedures that companies must follow when introducing new industrial and infrastructure projects in Egypt, we have been expanding the granting of "Golden Licenses", which provide one single approval process for potential investors. We intend to further expand the granting of these licenses so that they are available to all commercial entities.

- Streamlining the land allocation process will help improve Egypt as a destination for investment. To improve transparency, we will create an integrated information system which outlines in one location all the steps involved in the process of all land allocation, including industrial and agricultural land. We will also prepare legislative amendments to facilitate the use of land under investment as collateral for funding.

- With a view to improving governance and further enhancing anticorruption measures, we will continue making progress on our reform agenda. In line with our National Strategy for Anti-Corruption (2019-2022), we plan to issue an amendment to Law 62 of 1975 and its executive regulations aiming to digitalize and automate the submission and processing of asset declaration forms. We are also planning to require a submission of such forms at least once every three years with the objective of moving to annual submission within the program horizon and to widen their coverage to include top officials in all state-owned enterprises without any exclusion, as defined in the state ownership policy (see paragraph 20). We plan to publish an annual report that shows the compliance rate with the submission of asset declarations by group of public-sector employees. The Administrative Control Authority, in cooperation with relevant entities including the Ministry of Justice, will be responsible for implementing this mandate.

- To improve the ease of doing business, customs procedures are transitioning towards a risk-based approach that is helping to reduce import clearance times. To take stock of our progress in this area and assess the scope for further improvements, the Egypt Customs Administration will conduct Time Release Study (TRS) in accordance with the World Customs Organization TRS methodology.

Financing and Program Monitoring

29. We have secured financing to close the financing gap and boost reserve buffers. The Central Bank of Egypt will purchase at least $15 billion of the $24 billion of new financing from the Ras El-Hekma investment deal. This financing, in addition to firm commitments already secured from our foreign partners, will allow us to close the previously estimated financing gap for the 12 months ending March 2025 and to exceed the reserve targets envisaged at the start of the program for end-FY2023/24. Foreign reserves are projected to continue to gradually increase, exceeding the original targets relative to the adequacy metric by end of the program. These reserves will serve as an important buffer, considering the significant uncertainty regarding Suez Canal disruptions and, more broadly, the shock-prone external environment facing Egypt. Current projections suggest that with the policies outlined in this memorandum, the total financing needed to reach the revised net international reserve targets for FY2023/24 is $6.2 billion after accounting for $1.6 billion from the IMF. In line with the Ras El-Hekma investment deal, we will convert ADQ's existing deposit of about $11 billion at the CBE into an EGP denominated deposit for investments across Egypt, while the CBE will keep the $11 billion in foreign exchange reserves. This will reduce foreign liabilities of the CBE and improve the composition of reserves. We have also secured assurances that $19 billion of official deposits from Arab countries at the CBE that existed at end-January 2024 do not mature until after the completion of the four-year Extended Fund Facility in September 2026 and will not be used for the purchase of equities or debt.

30. The program will be monitored through prior actions, quantitative performance criteria, indicative targets, and structural benchmarks. The third review and fourth reviews will require observance of end-March 2024 and the end-June 2024 performance criteria, respectively. Following the fourth review, program reviews will be semi-annual and based on end-December and end-June test dates. All quantitative performance criteria and indicative targets are listed in Table 1, and prior actions and structural benchmarks are detailed in Table 2. The Technical Memorandum of Understanding (TMU) describes definitions of quantitative performance criteria, indicative targets, structural benchmarks, consultation clauses, as well as data provision requirements.

Table 1. Egypt: Quantitative Performance Criteria and Indicative Targets

(In billions of Egyptian pounds unless otherwise indicated)

	End December 2022			End March 2023 Indicative			End June 2023				End March 2024	End June 2024	End September 2024 Indicative	End December 2024
	Prog.	Actual	Status	Prog.	Actual	Status	Prog.	Adj.	Actual	Status	Prog.	Prog.	Prog.	Prog.
I. Quantitative Performance Criteria 1/														
Net international reserves ($ million at program exchange rates; floor) 2/	16,013	16,703	Met	16,975	17,538	Met	22,964	17,863	16,610	Not met	20,464	30,329	30,510	29,258
Primary fiscal balance of the budget sector plus divestment proceeds (cumulative, floor) 3/	0	25	Met	35	50	Met	160		164	Met	490	978	130	424
Balance of the government's overdraft account at the CBE (weekly ceiling on the balance)	…	…	…	…	…	…	…		…	…	131	131	165	165
Balance of central bank lending to public agencies excluding the Ministry of Finance (continuous ceiling on the balance	…	…	…	…	…	…	…		…	…	661	661	661	661
Accumulation of external debt payment arrears by the general government ($ million; continuous ceiling)	0	0	Met	0	0	Met	0		0	Met	0	0	0	0
II. Indicative Targets														
Tax revenues (cumulative floor) 3/	410	462	Met	660	741	Met	1,232		1,261	Met	1,044	1,740	361	794
Social spending of the budget sector (floor) 3/	61	71	Met	92	111	Met	153				142	189	26	105
Public investment (ceiling) 3/ 4/	…	…	…	…	…	…	…		…	…	n.a.	350	n.a.	500
Net change in the stock of government guarantees 3/ 5/											122	183	201	402
Average maturity of gross local currency debt issuance (years; cumulative floor) 3/	0.87	0.59	Not met	0.93	0.60	Not met	0.97		0.57	Not met	0.56	0.65	1.20	1.25
Gross debt of the budget sector (at program exchange rates; ceiling)	7,777	8,111	Not met	7,975	8,669	Not met	8,173		8,736	Not met	11,015	11,198	11,906	12,411
III. Monetary Policy Consultation														
(12-month change in consumer prices)														
Upper outer band	18			16			15				27	32.5	29.5	29
Upper inner band	9			9			9				9	9	9	9
Actual/Center target	7	21.3	Exceeds	7	32.7	Exceeds	7		35.7	Exceeds	7	7	7	7
Lower inner band	5			5			5				5	5	5	5
Lower outer band	3			3			3				3	3	3	3
Memorandum items:														
Program disbursements at completion of review (cumulative change, $ million) 3/	1,591	1,347		3,183	2,668		5,696		2,988		5,764	7,850	2,759	4,876
External program financing assumed under the program excluding IMF (cumulative change, $ million) 3/	1,257	1,000		2,513	2,321		5,026		2,641		4,941	6,204	1,531	3,649
Of which:														
Sales of state-owned assets	500	0		1,000	0		2,000		0		2,162	2,793	894	2,194
Net issuance of FX T-Bills	0	0		0	0		0		-56		0	0	0	0
Foreign Curency Deposits at CBE	0	1,000		0	1,000		0		1,000		0	0	0	0
IMF financing assumed under the program (cumulative, $ million) 3/	335	347		670	347		670		347		823	1,646	1,228	1,228
Net external loans from private creditors in FX assumed in BOP baseline (cumulative change, $ million) 3/	0	0		476	1,500		3,726		1,500		343	110	1,000	2,500
Stock of nonresidents' holdings of local-currency T-bills and T-bonds ($ million)	4,352	2,079		4,977	1,706		5,602		1,463		1,550	1,850	1,950	2,050
Divestment proceeds flowing to the budget (EGP billion, cumulative) 3/	0	0		0	0		10		0		291	698	64	97

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

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

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

3/ Cumulative from the beginning of each fiscal year. For 2024, it also includes $12bn from the Ras El-Hekma transactions.

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

5/ For the test dates of end-March 2024 and end-June 2024, the cumulative values cover the period from October 1, 2023 until the test date.

Table 2. Prior Actions and Structural Benchmarks		
Policy Measure	**Type**	**Timing**
A shift to a flexible exchange rate regime and a liberalized foreign exchange system. This is assessed in a comprehensive manner, based on monitoring of FX system functioning, using the information and indicators including FX demand backlogs at banks, the spread between the official exchange rate and measures of market-clearing rate, and interbank FX turnover.	Prior action	Not met. To be observed five business days before the Board meeting
Cabinet approval of the FY2024/25 draft budget law in line with the agreed fiscal parameters (3.5 percent of GDP primary surplus excluding divestment proceeds and an additional 1 percent of GDP of divestment proceeds) and including a 1 percent of GDP increase in tax and dividend revenue, based on structural measures.	Prior action	Not met. To be observed five business days before the Board meeting
Increase the retail gasoline prices, including any catch-up adjustments in March 2024 to ensure the gasoline prices are fully in line with the automatic fuel price mechanism formula since the start of the program.	Prior action	Not met. To be observed five business days before the Board meeting
CBE to increase the overnight deposit rate, main operation rate, and overnight lending rate each by a cumulative 800 basis points.	Prior action	Met
Publication monthly of all public procurement contracts that exceed EGP 20 million on the E-tenders government procurement portal website (See TMU). Ensure that everyone can access this information without the need to set up an electronic account.	Recurring SB (Existing)	30 days after month end
Implementation of the retail fuel price indexation mechanism according to the formula (see TMU). In cases where the indexation mechanism suggests a reduction in fuel prices, fuel prices will not be reduced until the level of fuel subsidies for products covered by the mechanism (that is, all products except LPG and fuel oil for bakeries) in the previous fiscal year has been eliminated.	Recurring SB (Existing)	Last day of the month after quarter end
The Ministry of Finance will monitor and report payment arrears, including to critical SOEs and EAs, 90 days after fiscal year end as defined in the TMU.	Recurring SB (Existing)	90 days after each fiscal year end

Table 2. Prior Actions and Structural Benchmarks (continued)

Introduce a binding requirement to ensure the timely publication of CAO's annual audit reports on the fiscal accounts going forward.	SB (Reset)	End-March 2024
Enact executive regulation of the PFM law, including: (i) main elements of the budget calendar starting with the submission and approval of the fiscal strategy paper, (ii) the process to update and publish the MTBF taking into account the costing of new laws and regulations, (iii) a requirement for all entities to separate the baseline and new policy initiatives, and (iv) a section on climate that would provide a mandate for climate-related activities.	SB (Reset)	End-March 2024
Publish a comprehensive annual tax expenditure report, including details and estimates of tax exemptions and tax breaks broken down by classification, including those provided to companies in free economic zones and to all state-owned enterprises, including public sector companies, public business sector companies, military-owned companies, economic authorities, and joint ventures and partnerships.	SB (Reset)	End-April 2024
Sustain the flexible exchange rate regime. This structural benchmark is assessed in a comprehensive manner, based on monitoring of FX system functioning, using the information and indicators including FX demand backlogs at banks, the spread between the official exchange rate and measures of market-clearing rate, and interbank FX turnover.	SB (new)	To be assessed once for each program review, based on the information over a period of time between program reviews
Implement a plan for the recapitalization of the CBE, based on an assessment of the CBE's recapitalization needs in consultation with IMF staff, and considering CBE's full compliance with Egyptian Accounting Standards (EAS).	SB (new)	End-April 2024
CBE to issue a circular announcing the immediate introduction of fixed rate, full allotment of its 7-day deposit operations, with the fixed rate being the mid-corridor rate, and the intention to publish the results of each operation on the CBE's website within one hour of the operation allotment.	SB (New)	End-April 2024
CBE issues a plan approved by the CBE Board to reduce its existing claims on public sector agencies excluding the Ministry of Finance. The plan will specify the timing for reducing the claims to zero by end-FY2025/26 and how the claims would be repaid or transferred off the balance sheet of the CBE.	SB (New)	End-April 2024

Table 2. Prior Actions and Structural Benchmarks (concluded)		
Develop a repayment strategy to clear accumulated payment arrears by Egyptian General Petroleum Corporation (EGPC) on supply contracts denominated in US dollars, with the objective that no new arrears are accumulated, and existing arrears will be cleared.	SB (New)	End-April 2024
Indicator to track implementation of the state-ownership policy.	SB (New)	End-June 2024
The CBE will complete stress tests of the banking sector and share detailed results with IMF staff by end-September 2024. These tests will be prepared in consultation with IMF staff.	SB (New)	End-September 2024
Conduct a sector classification exercise of all 59 economic authorities, in accordance with the concepts and principles in the GFSM 2014 and document clearly the rationale for each classification decision.	SB (New)	End-September 2024
Publication monthly on the general governments e-tenders site of all procurement contracts and awards made by the largest 50 state-owned enterprises	SB (Recurring) (New)	End-September 2024
Re-instate regular publication of annual aggregate reports on Egypt's SOE portfolio, initially instituted under the 2016 EFF supported program, with broader coverage to all companies covered by our state-ownership policy.	SB Recurring (New)	End-September 2024 and then end-September each subsequent year
Undertake a detailed assessment of the economic benefits of the current freezones.	SB (New)	End-September 2024
Submit to parliament amendments to the VAT law that simplify the VAT, reduce exemptions, and enhance its efficiency and progressivity.	SB (New)	End-November 2024

Attachment II. Technical Memorandum of Understanding

March 2024

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

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

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

The program exchange rate of the Egyptian pound against the U.S. dollar for FY2022/23 is 19.4970 (the CBE's official buy rate on September 30, 2022). Monetary gold is valued at $1654.80 per troy ounce (the rate on September 30, 2022). For other foreign currencies, the current exchange rates to the U.S. dollar will be used.

3. Program exchange rates for the assessment of quantitative targets in FY2023/24 and FY2024/25 are those prevailing on January 31, 2024 as indicated in the IMF's Representative Exchange Rates for Selected Currencies published on IMF website.

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

The program exchange rate of the Egyptian pound against the U.S. dollar for FY2023/24 is 30.8272 (the CBE's official buy rate on January 31, 2024). Monetary gold is valued at $2053.25 per troy ounce (the rate on January 31, 2024). For other foreign currencies, the current exchange rates to the U.S. dollar will be used.

A. Floor on Net International Reserves (PC)

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

5. Foreign reserve assets are defined as readily available claims on nonresidents denominated in convertible foreign currencies, including the Chinese Yuan and U.A.E. Dirham. They include the CBE's holdings of monetary gold, SDRs, foreign currency cash, and foreign currency securities, the CBE's deposits abroad (irrespective of maturity), the country's reserve position at the Fund, the CBE's foreign currency deposits at local banks, and the CBE's other foreign currency assets that could be used for reserve management purposes. Excluded from foreign reserve assets are any assets that are frozen, pledged, used as collateral, or otherwise encumbered, including but not limited to assets acquired through short-term currency swaps with original maturity of less than 360 days, claims on residents other than the CBE's foreign currency deposits at local banks, precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of December 31, 2023, foreign reserve assets thus defined amounted to $39,517 million.

6. Foreign reserve-related liabilities are defined as comprising all short-term foreign exchange liabilities of the CBE to residents and nonresidents with original maturity of less than 360 days, except for deposits at the CBE with original maturity of less than 360 days that are owed to official GCC member creditors. They include government's foreign currency deposits with original maturity of less than 360 days. They include banks' required reserves in foreign currency, and all credit outstanding from the Fund that is on the balance sheet of the CBE. It excludes liabilities under currency swaps with original maturities of 360 days or more. As of December 31, 2023, foreign reserve-related liabilities thus defined amounted to $18,199 million.

7. Adjustors. The floor on the NIR will be adjusted for: (i) deviation in program disbursements (defined below) relative to projections; (ii) deviation in external commercial borrowings (including Eurobonds and syndicated loans) relative to baseline assumptions; (iii) deviation in the stock of government T-bills and T-bonds denominated in local currency and held by nonresidents relative to program assumptions; (iv) repo margin calls, and (v) use of reserves according to a FX intervention framework. These adjustors are clarified below. Related information is reported in Table 13 of the staff report.

8. Program disbursements are defined as disbursements of (i) loans denominated in foreign currency (excluding external borrowings from private creditors such as Eurobonds, Sukuk, Panda bond, and Samurai bond that are part of baseline BOP projections, but including T-bonds and other government securities denominated in foreign currency), grants, and deposits for budget support purposes denominated in foreign currency. Loans denominated in foreign currency that qualify as program disbursements are those that constitute new financing; thus they do not include conversions of deposit liabilities that existed at end-September 2022 at the CBE or conversions of official bilateral loans to the government; (ii) net issuance of T-bills in foreign currency; (iii) purchases under the IMF's Extended Fund Facility; (iv) foreign reserve-related loans and deposits to the CBE with original maturity of more than 360 days except for official creditor deposits at the CBE which are included regardless of maturity; and (v) rollovers by more than 360 days of existing foreign loans and foreign reserve-related liabilities, from official multilateral creditors, official bilateral creditors, and private creditors, including external bond placements denominated in foreign currency; and (vi) foreign currency resources generated by sales of state-owned assets, including the sale of equity stakes in SOEs as defined below, and the sale of stakes in other assets such as land, excluding the investment deal for the development of Ras El-Hekma. All FX proceeds received by public entities involved in these sales would be captured by the CBE and would be reported as FX inflows to the CBE and go towards increasing the NIR. State-owned asset sales that qualify as program disbursements are those that constitute new financing; thus, they do not include conversions of deposit liabilities that existed at end-September 2022 at the CBE or conversions of official bilateral loans to the government. Program disbursements do not include project loans and project grants.

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

- *Adjustor for deviations in program disbursements relative to projections.* The NIR floor will be adjusted up by the full amount of any excess in cumulative program disbursements relative to the projections of cumulative program disbursements. The NIR floor will be adjusted down by the full amount of the shortfall in cumulative program disbursements relative to the projections of cumulative program disbursements. The projections for cumulative external program disbursements (excluding the IMF) from June 30, 2023 are $4,941 million as of end-March 2024, $6,204 million as of end-June 2024, and $1,531 as of end-September 2024, and $3,649 million as of end-December 2024.

- *Adjustor for deviations in external commercial borrowings relative to baseline assumptions.* The NIR floor will be adjusted up by the full amount of any excess in net external borrowings from private creditors in foreign currency (including Eurobonds, Sukuk, Panda bond, Samurai bond, and syndicated loans) relative to the baseline projections in the BOP. The projections for net external borrowing from private creditors from December 2023 are $643 million as of end-March 2024, $110 million as of end-June 2024, $1,000 million as of end-September 2024, and $2,500 million as of end-December 2024.

- *Adjustor for deviations in the stock of government T-bills and T-bonds denominated in local currency and held by nonresidents relative to program assumptions*. The floor on the NIR will be adjusted up by 50 percent of any excess in the stock of local currency government T-bills and T-bonds held by nonresidents relative to program assumptions. This adjustor will use the information on T-bill and T-bond holdings one month before the test date; thus, for the end-December 2022 test date, actual T-bill and T-bond holdings by nonresidents for end-November 2022 and their projections for end-December 2022 will be used to calculate the size of the adjustor. The program assumptions for the stock of local currency T-bills and T-bonds held by nonresidents, used for the purposes of this adjustor, based on the program exchange rates defined in this TMU, are $1,550 million for the end-March 2024 test date, $1,850 million for the end-June 2024 test date, $1,950 million for the end-September 2024, and $2,050 for end-December 2024.

- *Adjustor for repo margin calls*. The NIR floor will be adjusted down (up) by any margin call payments (receipts) associated with the CBE's repo facilities.
- *Adjustor for FX intervention.* The NIR floor will be adjusted down by the amount of FX intervention (sales) undertaken by the CBE, provided the intervention is consistent with the intervention framework.

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

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

11. The primary fiscal balance of the budget sector under the program is defined as the overall balance measured on a cash basis minus total cash interest payments of the budget sector. The overall balance under the program is defined as total revenue and grants minus total expenditure plus net acquisition of financial assets. These are measured on a cumulative basis from the beginning of the fiscal year. For FY2022/23, the primary balance of the budget sector thus defined was EGP164 billion.

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

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

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

C. Floor on Tax Revenues (IT)

15. **Tax revenues** include personal income tax, corporate income tax, capital gain tax, property tax, tax on T-bills/T-bonds, value-added tax, excises, tax on specific services, stamp tax, international trade taxes, tax on use of goods and on permission to use on goods and perform activities and other taxes and development fees. Tax revenues totaled EGP662 bn as of December 2023, since the start of FY2023/24.

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

16. **Health and social spending of the budget sector** includes all spending related to the budget of the Ministry of Health and the Ministry of Social Solidarity.

E. Ceiling on the Public Investment (IT)

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

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

18. **The program target** is defined as the balance on the government's overdraft account at the CBE. The ceiling on the balance is shown in Table 1 of the MEFP. The target applies recurrently, on a weekly basis, based on the data at the end of each week.

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

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

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

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

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

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

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

J. Ceiling on Government Guarantees (IT)

23. The program target is defined as cumulative change in guarantees issued by the Ministry of Finance. A guarantee is defined as an arrangement whereby the Ministry of Finance has an obligation to pay a third-party beneficiary when another institutional unit fails to perform certain contractual obligations. For program monitoring purpose, the Ministry of Finance will report to the IMF the changes in the level of guarantees in billions of Egyptian pounds on a quarterly basis. For the cumulative values for end-March and end-June 2024 test dates are the ceiling on the change in guarantees since September 30, 2023. Thereafter the cumulative ceiling applies to the change in guarantees since the beginning of the relevant fiscal year.

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

24. The structural benchmark will assess whether a shift to a flexible exchange rate regime and a liberalized FX system is sustained. This SB is assessed in a comprehensive manner, based on monitoring of FX system, using the information and indicators that include FX demand backlogs at banks, the spread between the official rate and measures of market clearing rate, and interbank FX turnover. For FX demand backlogs at banks, the CBE will provide data on FX demand backlogs at banks that cover eight banks identified by the CBE. The sample of banks is fixed throughout the program. For the spread between the official rate and measures of market-clearing rate, measures of market-clearing exchange rate, including the local parallel market rate, and exchange rates implied by transactions in gold, GDR, and ADR markets will be monitored on a daily basis.[1] For interbank FX turnover, the CBE will provide daily data. The SB will be assessed, once for each program review, based on the information over a period of time between program reviews.

L. Monetary Policy Consultation Clause

25. **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).

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

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

M. Commercial Banks' Net Foreign Assets Consultation Clause

28. **Net foreign assets (NFA) of commercial banks** are defined as the difference between the claims on nonresidents (including foreign currency holdings) and the liabilities to nonresidents of other depository corporations. For the purpose of monitoring this clause, NFA will be measured in US dollars using the monetary data reported in the standardized report form. The NFA at end-December 2023 was -$16.2 billion.

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

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

N. Other Continuous Performance Criteria

30. Non-accumulation of external debt payments arrears by the general government. The general government comprises the budget sector, the Social Insurance Funds (SIFs), and the National Investment Bank (NIB). External debt payments include principal and interest payments, including payments on long-term leases. New external debt payments arrears cannot be accumulated during the program period. For the purpose of this performance criterion, an external debt payments arrear is defined as the amount of payment obligation (principal and interest) due to nonresidents by the general government and the CBE, which has not been made when due under the contract, including any applicable grace period. This performance criterion will apply on a continuous basis throughout the arrangement.

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

O. Other Structural Benchmarks

32. State-owned companies (SOEs) for the purpose of the structural benchmarks related to their management and governance, as well as the leveling of the playing field, are defined as all public corporations, regardless of their legal framework and the specific agency in charge of their oversight. They cover public sector companies, public business sector companies, military-owned companies, economic authorities, and joint ventures and partnerships.

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

34. Reoccurring (quarterly) implementation of the retail fuel indexation mechanism for the purpose of the structural benchmark is defined as enacting increases in retail fuel prices in each quarter in line with the indexation mechanism formula. The fuel price indexation mechanism will be considered fully implemented in quarter t if the retail price of all fuels, including gasoline, diesel, fuel oils (excluding fuel oil for bakeries) is changed by the following computation within a month of the end of the quarter:

$$max\{min\{Percentage\ change\ in\ retail\ fuel\ price_t, 10\ percent\}, -10\ percent\}$$

where:

$$\begin{aligned} &Percentage\ change\ in\ retail\ fuel\ price_t \\ &= 0.8 \times Percentage\ change\ in\ (Brent_{t-1} \times FX_{t-1}) \\ &+ 0.2 \times Annual\ adjustment\ due\ to\ other\ costs_t + Catchup\ adjustment_{t-1} \end{aligned}$$

- The retail fuel price in quarter t is the average price in a quarter in domestic currency.

- $Brent_{t-1}$ is the average Brent crude oil price in the U.S. dollar in the previous quarter, FX_{t-1} is the average exchange rate of the Egyptian pound against the U.S. dollar in the previous quarter, and 0.8 is the share of oil in the production cost of fuel products. For gasoline and diesel, the change is rounded to multiples of 25 piasters. The Ministry of Petroleum will provide the relevant data.

- *Annual adjustment due to other costs.* Adjustments to other direct and indirect costs, as identified from the fuel subsidy table (percent change in per unit costs), are included on an annual basis in the second quarter of the fiscal year. Adjustments due to other direct and indirect costs are zero in the remaining quarters of the fiscal year. The Ministry of Petroleum will provide the relevant data.

- *Catchup adjustment.* Because the changes in retail fuel price are capped at 10 percent in absolute value, any adjustments not fully implemented in one quarter will result in additional adjustment in the following quarter, giving rise to the term $Catchup\ Adjustment_{t-1}$. The catchup adjustment is taken to be zero for the adjustment in the third quarter of FY2022/23. Given that the full impact of higher global oil prices and exchange rate depreciation was not fully passed through in FY2021/22, retail fuel prices will not be reduced during a transition period and the catchup adjustment and the pass-through from changes in crude oil prices in domestic currency will not be negative. This transition period will conclude once the level of fuel subsidies for products covered by the mechanism (that is, the above-mentioned fuel products) in the previous fiscal year has been eliminated.

35. Fixed rate full allotment deposit auctions. For the purpose of the structural benchmark, the CBE would issue a circular detailing that for the 7-day deposit operations, the fixed interest rate will be the mid-corridor rate and the full amount of deposits demanded by participants in the auction will be accepted by the CBE. In addition, the circular will state that the results of each operation, in particular the demand for deposits, will be published on the CBE's website within three hours of the completion of the operation.

36. CBE subsidized lending initiatives for the purpose of the structural benchmark is defined as schemes, both existing and new, where the CBE provides subsidies to financial institutions based on loans those institutions extend to predefined sectors or households at predefined interest rates. Existing schemes include, but are not limited to, the mortgage finance initiative for middle-income class, the industrial, agricultural, and construction private sectors initiative, and the tourism sector initiative and that aimed at substituting cars to work with dual fuel. As of Dec 31, 2023, the total amount of loans utilized under the subsidized lending schemes is EGP 73.2 billion.

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

P. Monitoring and Reporting Requirements

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

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

Table 1a. Egypt: Reporting Requirements for Ministry of Finance (concluded)		
Item	**Frequency**	**Submission Lag**
Private placements of domestic and external debt (issuance amount, maturity date, currency of issuance, and interest rate). The information on each issuance should be reported	M	5 working days
Recapitalization of the CBE by the government (date of recapitalization, amount, information on instruments used to recapitalize the CBE including maturity and interest rate)	When recapitalization takes place	5 working days
Average original maturity of newly issued local currency tradable debt of the budget sector, issued through public placements, as defined in this TMU in relation to the indicative target on the floor on average original maturity of newly issued local currency tradable debt of the budget sector. Underlying data to calculate the average maturity, including the issuance amount and the maturity date of individual issuances	Q	30 calendar days
Debt guarantees issued by the general government and the CBE	Q	45 calendar days
Stock of outstanding domestic arrears by creditor. Stocks of commitments, orders to pay, and overdue payments of the budget sector to EGPC, GASC, NUCA, National Postal Authority, National Authority for Egyptian Railways, Egyptian Electricity Holding Company, Egyptian Natural Gas Holding Co., Holding Company for Drinking Water and Sanitation, and EgyptAir	Q	30 calendar days
Financial information of the NIB: (i) detailed balance sheet, including interest on assets and liabilities across maturities; (ii) income statement; (iii) cash flow projections for the next 12 months; (iv) list of non-performing loans (overdue for more than 90 days), including loan amounts	Q	60 calendar days
Breakdown of fuel subsidies by product, including volumes, prices, and costs and revenue of EGPC	Q	45 calendar days
EGPC arrears to oil companies on supply contracts denominated in US dollars	Q	30 calendar days
Breakdown of food subsidies by ration card spending and wheat purchase price and quantity	Q	45 calendar days
Submit each October and April all investment spending executed over the periods January – June and July – December, respectively, undertaken by all public agencies and entities controlled or owned directly or indirectly by a public entity. The submission will break out investment spending by the budget sector, Economic Authorities, state-owned enterprises, and other.	S	End April and end October of each year.
Note: S= Semi-annual Q= quarterly; M = Monthly; W = Weekly		

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

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

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

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

Item	Frequency	Submission Lag
Central bank's weekly analytical balance sheet. Reporting on "Other Items, net" will be split into a component relating to the stock of outstanding CBE lending to public agencies excluding the Ministry of Finance and a component reflecting all other items	W	7 working days
Monthly CBE financial statements (unaudited)	M	20 calendar days
Quarterly and annual CBE financial statements (audited)	Q	60 calendar days
Recapitalization of the CBE by the government (date of recapitalization, amount, information on instruments used to recapitalize the CBE including maturity and interest rate)	When recapitalization takes place	5 working days
End-week balance of government overdraft at the CBE, as defined in this TMU. Separately, interest payments including penalty	W	5 working days
New CBE lending to public agencies excluding the Ministry of Finance (amount, terms of lending)	When lending takes place	5 working days
Stock of outstanding CBE lending to public agencies excluding the Ministry of Finance, by individual loan (amount, date contracted, terms of lending)	M	5 working days
Daily overnight interbank rate (CONIA) and the daily mid-corridor rate	W	2 working days
Stock of loans under CBE subsidized lending initiative, both utilized and allocated / committed amounts, with the decomposition by initiative	M	30 working days
Bank-by-bank holdings of government securities, with for each security information on: (i) the total issuance amount; (ii) name of issuer; (iii) type of instrument (bills, bonds, other); (iv) accounting treatment (AFS, HTM, HFT); (v) maturity date; (vi) coupon rate and interest payment frequency; (vii) current market price; (viii) yield to maturity. Data for bank-by-bank holdings of government securities at end-December 2023 will be provided by end-March 2024.	Q	60 calendar days
Note: Q= quarterly; M = Monthly; W = Weekly		

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

March 27, 2024

FIRST AND SECOND REVIEWS UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, MONETARY POLICY CONSULTATION, AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, AND AUGMENTATION AND REPHASING OF ACCESS—SUPPLEMENTARY INFORMATION

Approved By **Taline Koranchelian (MCD) and Rishi Goyal (SPR)**

Prepared by the Middle East and Central Asia Department.

This supplement provides an update on program performance since issuance of the staff report on March 19, 2024. The update does not alter the thrust of the staff appraisal.

1. The authorities met two of the three remaining prior actions for completion of the first and second reviews under the Extended Arrangement under the Extended Fund Facility.

- The prior action on a shift to a flexible exchange rate regime and a liberalized foreign exchange system was met. This was assessed in a comprehensive manner, based on monitoring of FX system functioning, using the information and indicators including FX demand backlogs at banks, the spread between the official exchange rate and measures of market-clearing rate, and interbank FX turnover. Based on the information received from eight banks as of March 21, staff assesses the foreign exchange backlogs were fully cleared. The spread between the official exchange rate and various measures of market-clearing rate has also remained essentially closed (less than 2 percent for the spread with local parallel market after unification). The daily interbank FX turnover has increased to US$ 300-900 million (compared to US$ 20-40 million before unification).

- The prior action on cabinet approval of the FY2024/25 draft budget law in line with the agreed fiscal parameters (3.5 percent of GDP primary surplus excluding divestment proceeds and an additional 1 percent of GDP of divestment proceeds), underpinned mostly by new structural measures that generate an expected improvement in tax and dividend revenue of about 1 percent of GDP (MEFP ¶13) was met. The Office of the Prime Minister issued a circular on March 19, 2024, stating that the cabinet approved the draft FY 2024/25 general government budget. The draft budget targets a 3.5 percent of GDP primary surplus, excluding divestment proceeds, and an increase in total revenues of 1 percent of GDP compared to preliminary estimates for FY 2023/24. In addition, the cabinet approved targeting additional revenues of 1 percent of GDP through tenders and the sale of assets, to be credited to the treasury as additional proceeds for lowering the debt of the agencies covered by the general budget.

2. **The remaining prior action to increase retail gasoline prices in line with the automatic fuel price adjustment mechanism was not met, but the authorities implemented a much stronger overall package of fuel price adjustments.** While the authorities raised gasoline prices by a simple average of almost 9 percent, aiming to improve the structure of prices by reducing the gap between various gasoline products as well as between alternative sources of fuel, the increase fell short of the increase implied by the formula (see Text Table). However, the authorities implemented a more comprehensive adjustment in fuel prices than envisaged by the prior action. In addition to raising gasoline prices, the authorities raised the price of diesel by 21.2 percent and the price of fuel oil by 25 percent. This is a stronger policy action than contemplated by the prior action, particularly given that diesel represents the largest share of fuel consumption, and changes in diesel prices have the strongest impact on the subsidy. Specifically, staff estimate annual fuel subsidies will now be EGP 8.5 billion less than under staff's baseline estimate, which only considered a change in gasoline prices as a prior action. Thus, staff is of the view that although the PA was not met exactly as stipulated, the program objective of containing the size of the fuel price subsidy would still be achieved.

Table 1. Egypt: Prior Action on Fuel Prices: Increase implied by the Formula vs Announced Increase
(Percent change in price)

	Price increase for the prior action implied by the formula	Announced price increase
Gasoline grade fuels		
Octane 80	11.0	10.0
Octane 92	11.3	8.7
Octane 95	11.2	8.0
Memorandum		
Diesel	0.0	21.2
Fuel oil (Mazut)	0.0	25.0

Sources: Egyptian authorities; IMF staff

3. **Staff continues to recommend the completion of the reviews as set forth in the main staff report, the authorities' March 2024 Letter of Intent (LOI), and the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU).**