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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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