IMF Country Reports 23/002

Arab Republic of Egypt: Request for Extended Arrangement Under the Extended Fund Facility-Press Release; and Staff Report

INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/2

ARAB REPUBLIC OF EGYPT

January 2023

REQUEST FOR EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; AND STAFF REPORT

In the context of the Request for Extended Arrangement Under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 16, 2022, following discussions that ended on October 27, 2022, with the officials of the Arab Republic of Egypt on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on December 2, 2022.
- An **Assessment of the Fund's Financial Exposure and Liquidity Position.**

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

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR22/441

IMF Executive Board Approves 46-month US$3 billion Extended Arrangement for Egypt

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved a 46-month arrangement under the Extended Fund Facility (EFF) for Egypt in an amount of about US$3 billion.
- Egypt's IMF-supported program presents a comprehensive policy package to preserve macroeconomic stability, restore buffers, and pave the way for inclusive and private-sector-led growth. The package includes a durable shift to a flexible exchange rate regime, monetary policy aimed at gradually reducing inflation, fiscal consolidation to ensure downward public debt trajectory while enhancing social safety nets to protect the vulnerable, and wide-ranging structural reforms to reduce the state footprint and strengthen governance and transparency.
- The EFF is expected to catalyze additional financing from Egypt's international and regional partners.

Washington, DC – **December 16, 2022:** The Executive Board of the International Monetary Fund (IMF) approved a 46-month arrangement under the Extended Fund Facility (EFF) for Egypt in an amount of SDR 2,350.17 million (equivalent to 115.4 percent of quota or about US$3 billion). The Executive Board's decision enables an immediate disbursement of SDR 261.13 million (equivalent to about US$ 347 million), which will help meet the balance of payments need and provide support to the budget. Over the course of the program, the EFF is expected to catalyze additional financing of about US$14 billion from Egypt's international and regional partners, including new financing from GCC countries and other partners through the ongoing divestment of state-owned assets as well as traditional forms of financing from multilateral and bilateral creditors.

The authorities' economic program supported by the EFF arrangement envisages the implementation of a comprehensive policy package to preserve macroeconomic stability, restore buffers, and pave the way for sustainable, inclusive, and private-sector-led growth. Specifically, the package includes (i) a permanent shift to a flexible exchange rate regime to increase resilience against external shocks and to rebuild external buffers; (ii) monetary policy aimed at gradually reducing inflation in line with the central bank's targets together with strengthening policy transmission, including by transitioning away from subsidizing lending schemes, (iii) fiscal consolidation and debt management to ensure downward trajectory in public-debt-to-GDP and contain gross financing needs, while increasing social spending and strengthening social safety net to protect the vulnerable, and managing national investment projects in a manner consistent with external sustainability and economic stability; and (iv) wide-ranging structural reforms to reduce the state footprint, level the playing field across all economic agents, facilitate private-sector-led growth, and strengthen governance and transparency in the public sector.

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The authorities have also requested access under the Resilience and Sustainability Facility (RSF), which could provide up to an additional SDR 1 billion to support climate-related policy goals. Discussions are expected to take place in the context of future EFF reviews.

Following the Executive Board discussion, Ms. Kristalina Georgieva, Managing Director and Chairman of the Board, made the following statement:

“Egypt showed resilience to the COVID-19 crisis, supported by previous Fund-supported programs. While economic recovery gained momentum in 2021, imbalances also started building amidst a stable exchange rate, high public debt, and delayed structural reforms. Russia’s war in Ukraine crystallized these pre-existing vulnerabilities, triggering capital outflows, and, in the context of a still-stabilized exchange rate, reduced the central bank’s foreign reserves and banks’ net foreign assets and widened the exchange rate misalignment.

“The authorities’ recent commitment to a durable shift to a flexible exchange rate regime and to unwind prior policy distortions, supported by an upfront monetary policy tightening and further enhancements to the social safety net, are welcome steps.

“The authorities’ economic program supported by the 46-month EFF arrangement provides a credible policy package to reduce imbalances, maintain macroeconomic stability, restore buffers and improve resilience against shocks, and pave the way for private-sector-led growth. A permanent shift to a flexible exchange rate regime will help mitigate external shocks and prevent imbalances from re-emerging and allow monetary policy to focus on maintaining price stability. Fiscal consolidation will ensure medium-term debt sustainability, while expansion of social spending will help alleviate poverty and protect the vulnerable. Structural reforms will reduce the state footprint and level the playing field between the public and private sector, strengthen private-sector-led growth, and enhance governance and transparency. The EFF will fill part of the financing gap with implementation of the underlying policy package unlocking substantial additional financing from Egypt’s partners, including financing in the form of investments.

“Given the heightened uncertainty and risks to the global economic outlook, the authorities’ commitment to stay the course on exchange rate flexibility, prudent macroeconomic policies, and structural reforms is critical. Their strong ownership and track record under previous Fund-supported programs and political support for the policy package are important risk mitigating factors to achieving the objectives of the Fund-supported program.”

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

December 2, 2022

REQUEST FOR EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Context. Egypt exhibited resilience to the COVID-19 pandemic shock following timely policy response supported by the 2020 Rapid Financing Instrument (RFI) and 2020–21 Stand-By Arrangement (SBA). While performance under the SBA was strong, the immediate health crisis delayed efforts to re-invigorate much needed structural reforms while high public debt vulnerabilities continued to expose the country to changes in global financial conditions and investor sentiments. As economic recovery gained momentum during FY2021/22, imbalances also started building amidst a stabilized exchange rate. The outbreak of Russia's war on Ukraine crystallized pre-existing pressures, giving way to capital outflows and large reserves losses while high commodity prices led to rising inflation. Trade spillovers have also been significant given Egypt's dependence on Russia and Ukraine for wheat and tourism. In October, the authorities took bold policy actions to unwind prior policy distortions including a shift to a flexible exchange rate while taking measures to help shield the Egyptian population from a mounting cost-of-living crisis. But global uncertainty casts a long shadow on Egypt's recovery and the longstanding need for advancing deep structural reforms to spur sustainable, inclusive, and job-rich growth remains.

Request for the EFF. The authorities have requested a 46-month arrangement under the Extended Fund Facility (EFF) of 115.4 percent of quota (SDR 2,350.17 million or about $3 billion) to alleviate the balance of payments need and help catalyze a large package of additional funding to fill the remaining financing gap. The authorities have also requested access under the newly created Resilience and Sustainability Facility (RSF) which could unlock up to an additional SDR 1 billion. RSF discussions are expected to take place in the context of upcoming EFF reviews.

Financing strategy. Substantial financing under the Fund-supported program will come from Egypt's regional partners, including in the form of divestment of state-owned assets. As part of the effort to reduce the state's footprint in the economy, the authorities are carrying out an ambitious divestment plan where certain purchases of equity stakes in state-owned assets constitute financing under the program, as proceeds will go towards increasing international reserves and closing the financing gap. This strategy has received support from investors and regional partners. GCC countries, in addition to rolling over deposits at the Central Bank of Egypt, have committed to bring in fresh financing through such investments over the course of the Fund-supported program.

Key policies. The authorities have developed a comprehensive program of policies and reforms to preserve macroeconomic stability, restore buffers, and pave the way for sustainable long-term growth. The policy package includes:

- A permanent shift to flexible exchange rate as an external shock absorber and to help replenish reserves;
- Monetary policy focused on maintaining price stability supported by efforts to further improve monetary policy transmission and deepen the foreign exchange market;
- Fiscal consolidation to ensure continued downward path of the public debt supported by revenue mobilization and implementation of the public financial management law, as well as debt management to reduce gross financing needs;
- Expansion of the social safety net to alleviate poverty and protect the vulnerable; and
- Structural reforms to reduce the state footprint and facilitate private-sector-led growth and job creation by leveling the playing field, reducing trade barriers, and strengthening governance and transparency.

Exceptional access. Financing under the EFF requires exceptional access as Egypt already exceeded the cumulative access limit of 435 percent of quota under the 2020-21 SBA. Staff assesses that Egypt meets the criteria for exceptional access. Egypt's capacity to repay the Fund is adequate, albeit with some risks. The authorities' favorable track record under previous Fund-supported programs and commitment to strong policies should support a solid rebound and restoration of full market access over the medium term.

Risks. Risks to the program stem from the need to stay the course on difficult policy adjustments amidst heightened uncertainty and challenging headwinds in the outlook. The durability of the shift to a flexible exchange rate remains to be proven and the CBE may face political and social pressure to reverse course. 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. Risks to the global outlook weigh on Egypt's prospects for a fast recovery, the pace of rebuilding reserves, and the speed at which imbalances can be unwound. These challenges could test the authorities' commitment and ability to sustain the reforms and reduce debt risks. The authorities' frequent and candid communication on the objectives of the reform program together with backing at the highest political level are important risk mitigating factors.

Staff supports the authorities' request for the EFF arrangement.

Approved By
Taline Koranchelian and Natalia Tamirisa

The staff team comprised Celine Allard (former mission chief), Ivanna Vladkova Hollar (mission chief), Gareth Anderson, Masashi Saito, Suchanan Tambunlertchai (all MCD), Javier Arze del Granado and Geoff Keim (SPR), Cristian Alonso (FAD), Dermot Monaghan and Jennifer Moyo (MCM), Said Bakhache (Senior Resident Representative), and Karim Badr (Resident Representative Office). The team was supported by Maria de Mesa and Celine Bteish. Mahmoud Mohieldin, Maya Choueiri, and Rana Fayez (OED) also participated in the discussions. Discussions were held in Cairo in June to October (with missions during June 20–July 8, 2022; October 2–13, 2022; and October 26–27, 2022) with Mohammed Maait, Minister of Finance; Tarek Amer, former Governor of the Central Bank of Egypt and 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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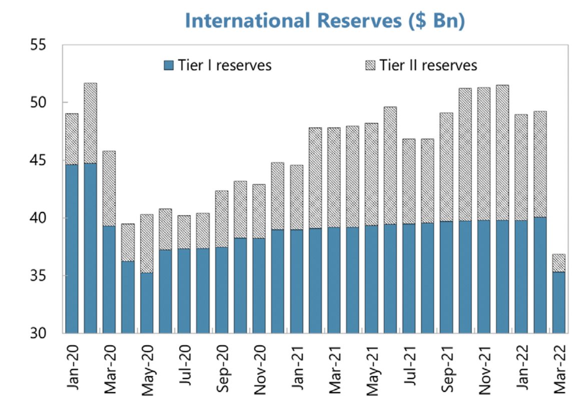
CONTEXT

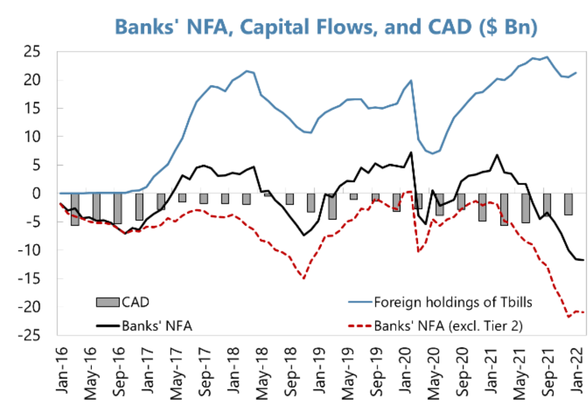
A. Emerging from the COVID-19 Shock

1. **Supported by the Rapid Financing Instrument (RFI) and Stand-By Arrangement (SBA) in 2020-21, Egypt exhibited resilience to the global pandemic shock.** The authorities' timely fiscal and monetary policy responses to the crisis, supported by the 12-month SBA that ended in June 2021, balanced health and social spending with preserving fiscal sustainability while containing the disruption to economic activity. Despite initial lockdowns and a prolonged standstill in tourism, reserve buffers were rebuilt, and a positive growth rate was maintained during FY2020/21. The primary surplus in FY2020/21 (ending in June 2021) was 1.4 percent of GDP, although general government debt rose to 89.9 percent of GDP from 86.2 percent in the prior year. The Central Bank of Egypt's (CBE) FX buffers (Tier 1 + Tier 2) under the SBA recovered to $50 billion.[1] Inflation was contained at 4.9 percent at end-FY2020/21 while aggregate financial indicators showed a resilient banking system, due in part to the relatively short lockdown period and policies to support workers' incomes and businesses during the pandemic. Despite the strong performance under the SBA, however, addressing the immediate health crisis delayed much needed structural reforms. In addition, high public debt and large rollover needs, of which a substantial portion at the time was met by nonresident investors in the domestic sovereign debt market, continued to expose the country to external shocks.



Sources: Haver Analytics, Central Bank of Egypt

2. **While economic recovery gained momentum during FY2021/22, imbalances also started building amidst a stable exchange rate.** Despite strong remittances and some recovery in tourism, the current account deficit widened during CY2021 and into Q1-2022, reflecting stronger import demand. Expenditure on public projects, including national investment projects, contributed to current account pressures. Meanwhile, portfolio inflows—a



Source: Egyptian Authorities

[1] Tier 1 reserves refer to official reserve assets of the Central Bank of Egypt (CBE). Tier 2 reserves refer to the CBE's FX deposits held in domestic commercial banks, which have served similar functions as reserves. As of end-June 2021, Tier 1 and Tier 2 reserves were $39.4 billion and $10.1 billion, respectively.

significant source of external financing in H1-2021—gradually began to reverse. Against this backdrop, the increasingly stable nominal exchange rate since the end of the SBA led to a re-accumulation of external imbalances. The current account deficit was financed by a drawdown of banks' net foreign assets (NFAs). By end-February 2022, banks' NFAs stood at a historic low of -$11.8 billion, a decrease of more than $18 billion since the peak in February 2021.

B. Impact of the War in Ukraine

3. The outbreak of the war in Ukraine, in addition to its impact on commodity prices, crystallized pre-existing pressures, leading the authorities to take a series of policy actions in response to the fallout.

- As pressures built prior to the war, in February, the CBE issued instructions to banks to move to letters of credit as the only means of import facilitation, which contributed to a significant compression of imports.[2]

- During February-March, in part reflecting investors' perception that the exchange rate was no longer aligned with fundamentals, EMBIG spreads rapidly steepened and nonresident outflows to the tune of $20 billion pressured the EGP and the local currency debt market. From the outset of capital outflows, the CBE heavily intervened in the FX market to stabilize the exchange rate while shoring up reserves with $13 billion in short-term FX deposits from GCC partners. During this time, the authorities also exchanged their August 2021 SDR allocation for freely usable currency. Between January and March, gross international reserves (Tier 1 + Tier 2) declined by $12.1 billion to $36.9 billion. On March 21, the CBE allowed the EGP to devalue by around 15 percent and increased policy rates by 100 bps to 9.25 percent. State-owned banks issued 1-year high-yield (18 percent) certificates of deposits (CDs) to further tighten liquidity and stem potential pressure on the EGP.

- The government announced a package of social protection and food security measures worth EGP 130 billion (1.7 percent of GDP), including allocations for new beneficiaries under the Takaful and Karama conditional cash transfer program.[3] Additional support to households was announced in July to mitigate the effects of the cost-of-living crisis, including a further expansion of 1 million households under Takaful and Karama and a temporary increase in benefit for the poorest ration card holders.

4. Notwithstanding higher oil and food prices and restrictions on imports, the pace of expansion slowed by less than anticipated in the last quarter of FY2021/22. The growth outturn of 6.6 percent for FY2021/22 surprised on the upside, in part reflecting strength in the manufacturing and transport and communication sectors. Inflation, however, picked up considerably, registering

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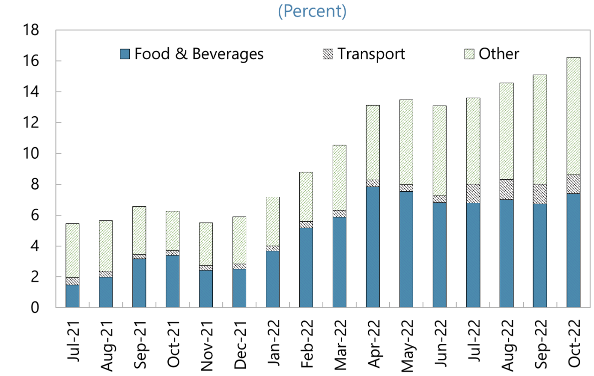
[2] Exempted from this requirement were branches of foreign firms and their subsidiaries, imports of essential goods (e.g., medicines, some food items, oil, baby formula, chemicals), and shipments valued at less than US$5,000. Shortly after, the President also instructed that production inputs and raw materials be exempted as well.

[3] Some three quarters of the direct beneficiaries of Takaful and Karama are women.

13.2 percent at the end of the fiscal year. A better-than-expected current account outturn in FY2021/22 was due to the lower non-oil imports and a higher oil and gas balance as the Egyptian authorities took steps to increase gas exports. Headline fiscal and public debt outturns were largely as expected, with investments and taxes surprising on the upside. Adoption of new GDP statistics, with technical assistance from the IMF's Statistics Department, led to an upward revaluation of the nominal GDP by around 5 percent, improving ratios including the general government debt-to-GDP, which ended the fiscal year at 88.5 percent.

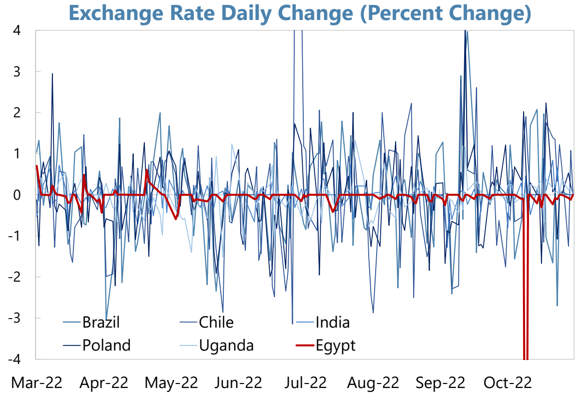
5. But activity and the economic outlook continued to be hampered by the reduction in imports, an impaired FX market, and tight global financial conditions. Following the one-off adjustment in March, the exchange rate exhibited greater volatility, albeit much lower than EM peers. However, there were signs that the exchange rate remained misaligned, with a crawling depreciation trend and international reserves and banks' NFAs continuing to slide. By end-August, international reserves (Tier 1 + Tier 2) and banks' NFAs had declined to \$32.2 billion and -\$12 billion, respectively. The persistent exchange rate misalignment and increased uncertainty around the CBE's exchange rate policy dried up FX interbank trades, while delays in the processing of letters of credit (LCs) created a backlog of LC requests, compressing imports and contributing to product shortages. As prices continued to increase, the CBE further tightened liquidity, increasing interest rates by another 200 bps in May and raising the reserve requirement from 14 percent to 18 percent in September. Inflation reached 16.2 percent (y/y) in October. While the pickup was initially due to elevated food prices, the drivers of inflation became broader in FY2022/23. Conditions in the domestic debt market continued to be challenging, with most issuances skewed towards short maturities at elevated rates. Although sovereign spreads in the external debt market have declined from their peak in July, they remained higher than the pre-war period, and the authorities have not tapped the international market after March 2022.

Annual Urban CPI Inflation
(Percent)



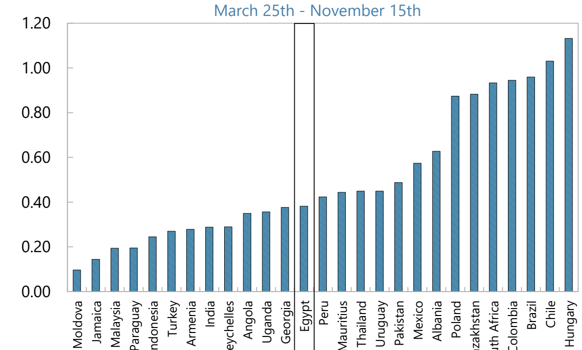
Sources: Egyptian Authorities and IMF Staff Calculations

Exchange Rate Daily Change (Percent Change)

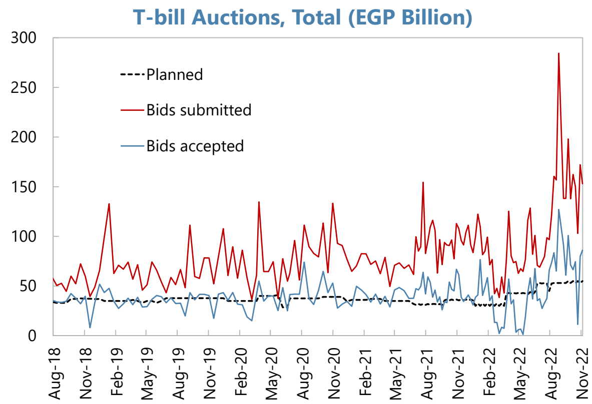


Source: Haver Analytics

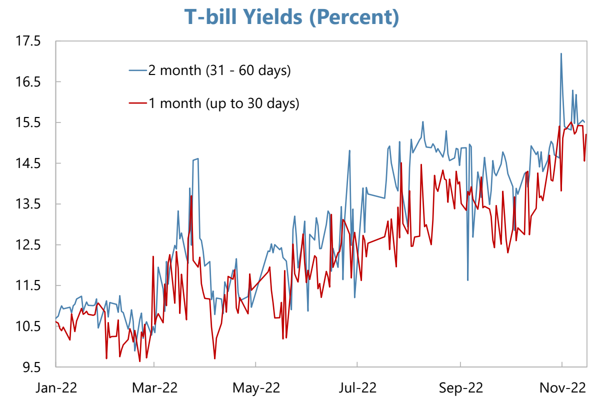
Average of 5-day Centered Rolling Standard Deviation of Daily Percentage Changes of Exchange Rate
March 25th - November 15th



Source: Haver Analytics



Source: Central Bank of Egypt



Source: Central Bank of Egypt

RECENT DEVELOPMENTS

6. With rising macroeconomic pressures impacting Egyptian households, in October the authorities took bold policy actions aimed at unwinding external and domestic imbalances while protecting the vulnerable.

- During the National Economic Conference which took place on Oct 23–25, the authorities highlighted the need for exchange rate flexibility, the elimination of import backlogs, and the need to reinvigorate private-sector-led growth, including by attracting FDI.

- Recognizing the impact of high inflation on households, the Ministry of Finance announced during the Economic Conference a substantial increase in the social protection package (EGP 70 billion, to be accommodated within the budget envelope) to protect households' purchasing power.[4]

- On October 27, the CBE raised interest rates by 200 bps and announced a shift to a durably flexible exchange rate regime where FX supply and demand forces would determine the value of the EGP against other currencies. The exchange rate depreciated by 16.2 percent on the first day of trading (and some further 6 percent by early November). To ease import challenges, the CBE also increased the import value threshold for exemption from the letter of credit requirement to US$500,000 from US$5,000 and simultaneously announced that Letter No. 49 of February 13th, 2022, which originally mandated the use of letters of credit for import finance, would be repealed by December 2022. In addition, to further deepen and improve the functioning of the FX market, the CBE allowed banks to immediately begin offering FX forwards to corporate clients for commercial transactions and noted its intention to start developing the FX derivatives market.

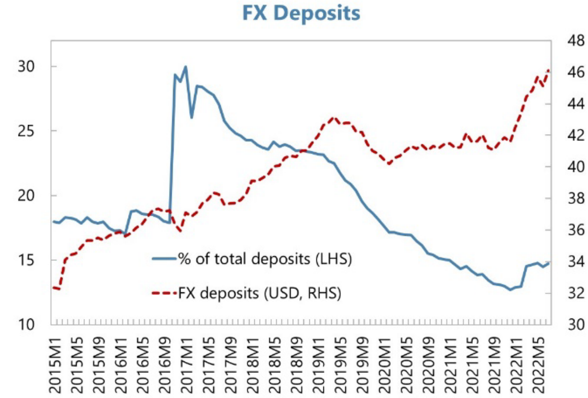
[4] These measures included additional temporary support to ration card holders and freezing electricity tariffs until end-FY2022/23, increasing the minimum wage for government employees to EGP 3,000 per month, providing a bonus of EGP 300 per month to all government employees and pensioners, increasing the personal exemption of the income tax by 25 percent, and temporary financial support to vulnerable firms to retain their workers.

Following these actions by the CBE, the state-owned National Bank of Egypt (NBE) and Banque Misr announced they would issue 3-year certificates of deposits at 17.25 percent.

7. Despite the more challenging macroeconomic backdrop, the Egyptian authorities have been pushing forward since the onset of the war their medium-term structural reform agenda. The draft state ownership policy, which articulates the plan for reducing the state footprint and increasing the role of the private sector in the economy, has been discussed with a wide range of stakeholders and is expected to be finalized soon, in line with the associated structural benchmark. Work on the state divestment program continued, with sales of minority stakes in four state-owned companies to Saudi Arabia's Public Investment Fund for $1.3 billion in August. In the same month, the Prime Minister also issued a decision to enhance the independence of the Economic Competition Authority and its standing vis-à-vis ministries by restoring direct reporting to the Prime Minister.

8. The financial sector has continued to show resilience. Aggregate financial soundness indicators as of June 2022 showed a highly liquid banking sector (liquidity coverage ratios of 990 percent in local currency and 197.1 percent in foreign currency), adequate levels of capital (ratio of tier 1 capital to risk weighted assets at 17.1 percent) and a low share of non-performing loans (3.2 percent of total loans). The aggregate indicators for the five largest banks were broadly similar. While banks' NFAs have declined in recent months, all banks are reportedly within regulatory limits for net open foreign exchange position. Local currency deposit growth has been broadly stable, with monthly growth of 21–25 percent (y/y) since early 2020. Foreign currency deposit growth has picked up since March 2022 but remained a low share of total deposits at around 15 percent as of July 2022. The large exposure to the public sector (around 50 percent of banking system's total assets) continues to be a salient feature of the Egyptian banking sector.

FX Deposits



Source: Egyptian Authorities, IMF Staff Calculations

PROGRAM OBJECTIVES AND POLICIES

9. The authorities' economic program, supported by the proposed EFF arrangement, aims to sustainably address macroeconomic vulnerabilities and promote private-sector-led growth and job creation. While recent developments have shifted the immediate focus to macroeconomic stabilization, the authorities recognize that speedy progress on structural reforms remains critical to tackle longstanding fiscal and external vulnerabilities as well as to strengthen Egypt's resilience and medium-term growth prospects. The 46-month program aims to support both short- and medium-term goals and will be based on three broad pillars:

- *Exchange rate and monetary policies focused on restoring external resilience and maintaining price stability* will be critical to absorb external shocks, including the ongoing spillovers from the war, improve the functioning of the FX market, rebuild reserve buffers, and anchor inflation developments.

- *Continued fiscal discipline and fiscal structural policies* will maintain market confidence and ensure the downward trajectory of the debt-to-GDP ratio while strengthening the budgetary process and improving the budget composition to make room for social spending.

- *Broad-based structural reforms to reduce the state footprint and increase the role of the private sector in the economy* will focus on the gradual exit of the public sector from non-strategic sectors, leveling the playing field between state-owned enterprises (SOEs) and private companies, removing barriers to trade, and enhancing transparency and governance in the public sector.

A. Macroeconomic Outlook and Risks

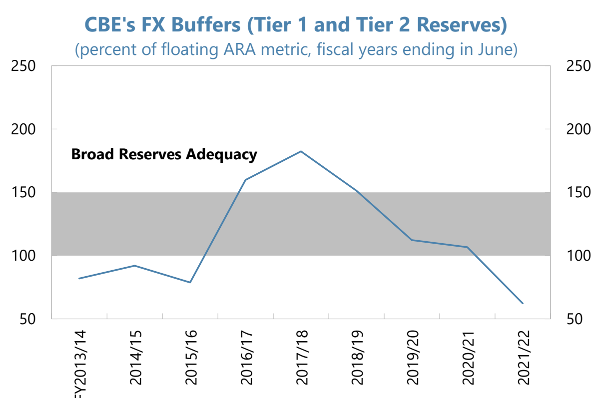
10. Medium-term prospects remain favorable provided strong program implementation, including meaningful progress on structural reforms. Macroeconomic stability, a durable move to a flexible exchange rate, and the positive impact of structural reforms to improve non-price competitiveness and the business environment would boost private investment and exports, unleashing untapped growth potential. Growth under the program is projected to gradually rise to between 5½ and 6 percent, after short-term challenges including the impact of the spillovers from the war in Ukraine have dissipated, and as the state footprint is gradually replaced with private activity. The current account deficit would improve towards 2 percent of GDP over the medium term while reserves are rebuilt to adequate range. Inflation, anchored by data-dependent monetary policy, is expected to converge back to around 7 percent by FY2024/25. A return to a sustained primary surplus of around 2.1 percent of GDP by FY2023/24 and towards 2½ percent thereafter would ensure the reduction of general government debt to around 78 percent of GDP by FY2026/27.

11. Baseline projections are subject to considerable uncertainty, with risks tilted to the downside. The major risks in the near term include a greater exchange rate misalignment than assumed in the baseline, prolonged inflationary pressures that could undermine social cohesion, and financing costs remaining high with a further shortening of domestic debt maturities and limited external market access. Over the medium term, risks to debt sustainability include lower growth and tighter domestic and external financing conditions. The challenging external market conditions may also result in a lower build-up of reserve buffers. Potential reversion to limiting exchange rate flexibility and slower-than-expected progress on structural reforms present risks to the medium-term outlook. Meanwhile COVID-19 risks have not disappeared—Egypt's low vaccination rate (38 percent fully vaccinated, 51 percent with at least one dose) leaves the population vulnerable to new waves of infection. Annex I contains the Risk Assessment Matrix.

B. Monetary and Exchange Rate Policies

12. The authorities are committed to a flexible exchange rate that adjusts to balance of payments dynamics, avoids a re-accumulation of imbalances, and supports competitiveness. The CBE is committed to letting the exchange rate reflect the FX supply and demand conditions in the economy. The CBE has also ceased the direct provision of FX from reserves for government entities' imports to allow such demand to be reflected in the FX interbank market (Memorandum of Economic and Financial Policies (MEFP) ¶9). Although the CBE may occasionally step in during 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. 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 strictly apply limits on commercial banks' net FX open position limits without granting exemptions, with early corrective actions for banks that approach the limits, in accordance with the regulations (continuous structural benchmark (SB)). To this end, the CBE will monitor individual banks' net open position, net foreign assets, and foreign exchange transactions on the interbank market, and consult with staff if aggregate banks' NFAs show a cumulative decline of $2 billion over a three-month period. It was agreed that the implementation of instructions in Letter No. 49 of February 13, 2022, which mandated banks to move to letters of credit for import financing, may have contributed to delays faced by businesses in accessing foreign exchange to clear imports. To further strengthen the functioning of the FX market and alleviate delays in imports, therefore, the CBE has indicated that instructions in Letter No. 49 will be repealed by end-December 2022 (SB). One exchange restriction has been newly identified arising from the 100 percent cash margin requirement on import payments, since the payor is required to block resources for a period of time as a condition for making a payment for current international transactions, with no alternative ways to pay for such imports.[5] The CBE will not introduce or intensify restrictions on making payments and transfers for current international transactions, multiple currency practices, and import restrictions for balance of payments reasons (continuous performance criteria, see TMU).

13. Increasing gross reserves and moving the composition away from borrowed components are key objectives under the authorities' adjustment program. At end-June 2022, gross international reserves (Tier 1 + Tier 2) stood at 62.2 percent of the ARA metric. The EFF targets the accumulation of net international reserves (NIR) (see definition in ¶13–5 of



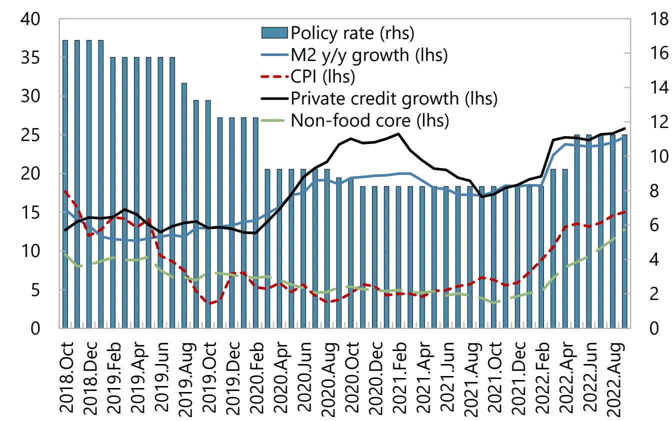
Source: Egyptian Authorities, IMF Staff Calculations

[5] This is a long-standing measure and has been in place since the late 1990s. The authorities do not have a plan to remove it and it is not temporary. For this reason, the authorities are not requesting Board approval of this exchange restriction.

the TMU).[6] The proposed NIR path assumes a gradual accumulation of $6.0 billion in FY2022/23 (quantitative performance criterion (QPC)) and US$10.1 billion in FY2023/24. As the balance of payments improves, Fund repurchases decline, and program financing is disbursed, the NIR is projected to increase to $41.5 billion by the end of the Fund-supported program, raising gross reserves to around 120 percent of the ARA metric. The baseline scenario assumes a modest return of portfolio flows, with the stock of nonresident holdings of local currency debt (including long-term bonds) converging back to levels at the end of the 2020-21 SBA only by end-FY2025/26. To capture upside risks and build up additional non-borrowed buffers, the Fund-supported program includes an adjustor, which increases the NIR target when nonresident inflows are larger than projected in the baseline (TMU ¶18).[7, 8] The CBE would meet the higher target through periodic FX purchases from the market rather than specific transactions with nonresident investors to preclude the notion that investors could tap into this buffer upon their exit.

14. Monetary policy would continue to be data dependent, firmly anchored to the CBE's price stability mandate. Since March, the CBE has cumulatively raised interest rates by 500 bps, with the policy rate (overnight deposit) at 13.25 percent as of October and increased the reserve requirements by 4 percent in September. Higher commodity prices and pass-through from exchange rate depreciation have pushed the projected inflation path well above the CBE's target range of 7 (±2) percent for Q4-2022. While the CBE should look through the first-round impact from the commodity price shock, it was agreed that persistent inflationary pressures, including through second round effects or further EGP depreciation, may warrant additional policy tightening. A monetary policy consultation clause (MPCC) is proposed to monitor inflation performance. Reflecting prevailing uncertainty in global price developments and limitations of monetary policy in the very short run, the MPCC bands around a central target of 7 percent are set intentionally wide at the beginning of the Fund-supported program but would narrow over time. If inflation falls outside the inner bands of 5 to 9 percent, the authorities will engage with staff on reasons for the deviation and the CBE's proposed remedies to restore inflation within the band. A

Monetary Conditions



Sources: Haver analytics, Egyptian Authorities

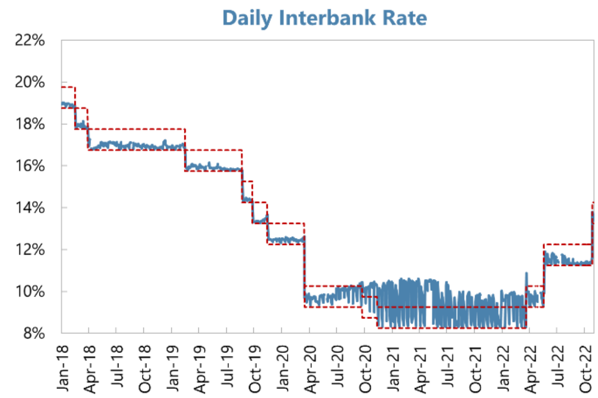
[6] Per the TMU, the definition includes Tier 1 and Tier 2 foreign reserve assets and may include other foreign assets that could be used for reserve management purposes.

[7] The broader definition of reserves and the calibration of the NIR target to capture potential upside risks reflect the recommendations of the Ex-Post Evaluation of Exceptional Access Under the 2020 Stand-By Arrangement (Country Report No. 2022/237).

[8] If nonresident holdings of T-bills and T-bonds are lower than projected in the baseline, no downward adjustment to the target will be considered while reserves remain below 100 percent of the ARA metric.

similar consultation with the Executive Board will be triggered if inflation falls outside the outer bands of 3 to 18 percent in December 2022, and 3 to 15 percent in June 2023 (MEFP ¶10).

15. The CBE will further strengthen monetary policy transmission by ensuring full pass-through of the policy rate to the interbank market and discontinuing subsidized lending. The CBE will conduct its open market operations such that the daily overnight interbank rate remains within 50 bps of the mid-corridor rate (indicative target (IT)). The CBE will also transition away from subsidized lending schemes—which account for a substantial portion of credit to the private sector—to allow lending rates in the economy to be anchored to the policy rate. To this end, the CBE has issued a circular to discontinue the CBE's subsidized lending initiative for the industrial, construction, and agricultural sectors and the current balance for this scheme will be on a liquidation basis according to the run off of loans; in addition, the Prime Minister has issued a decree to move the decision making, recording, supervision, and costs of the remaining initiatives going forward to the budget sector to more transparently reflect the use of public resources for these subsidies (prior action). Going forward, the CBE will also refrain from extending, renewing, or introducing any subsidized lending schemes (continuous SB).



Source: Central Bank of Egypt

C. Fiscal Policy

16. Fiscal policy will aim to reduce Egypt's high public debt and gross financing needs through fiscal consolidation and active debt management. Egypt's debt is assessed to be sustainable but not with high probability, and overall risks of sovereign stress are high, with the interest burden taking up sizable budget space (Annex II).

- It was agreed that achieving a primary balance of 1.7 percent of GDP in FY2022/23, 2.1 percent in FY2023/24, and 2.3 percent of GDP during the remainder of the EFF (QPCs) and a ceiling on gross debt of the budget sector (IT) would ensure a reduction of general government debt to around 78 percent of GDP by the end of the Fund-supported program in FY2026/27. To capture upside risks from the government's initial public offering (IPO) program and ensure that proceeds from sales of state assets accrue to debt reduction, the primary balance target will be adjusted up (and the budget sector debt target adjusted down) by the divestment proceeds flowing to the budget.

- Along with debt reduction, the authorities plan to lengthen debt maturities to reduce rollover risks. With significantly higher financing costs following the outbreak of the war in Ukraine, the authorities have been issuing domestic debt at shorter maturities. But despite challenging market conditions, the authorities remain cognizant of the crucial need to extend the average

debt maturity. They recently rolled over about EGP 245 billion (2.6 percent of GDP) of 2-year non-marketable debt held by local banks into marketable debt with a maturity of 5 years. In addition, they have started issuing 3-year variable rate bonds in an effort to develop debt markets beyond the short end of the curve. To anchor the gradual reduction of gross financing needs, the Fund-supported program will set an IT on the average maturity of gross local-currency debt issuances to reach 0.97 years by the end of FY2022/23. The issuance maturity is projected to reach around 2 years by the end of the program. The authorities should continue their efforts to improve debt management with support from IMF technical assistance.

- Domestic revenue mobilization will support debt reduction and create fiscal space for priority areas. Tax policy and revenue administration measures based on the approved Medium-Term Revenue Strategy will aim to increase tax-to-GDP ratio by around 2 percentage points over the medium term. The authorities plan to identify tax policy measures that would be implemented in FY2023/24 to ensure an increase of 0.3 p.p. in the tax-to-GDP ratio (end-February 2023 SB). To lay the groundwork for streamlining tax exemptions, the Ministry of Finance aims to publish by April 2023 an annual tax expenditure report with details and estimates of tax exemptions and tax breaks, including those provided to companies in free economic zones and all state-owned enterprises (SB). The authorities are also keen to enhance the progressivity of the tax system by advancing property tax reforms through digitalization (end-August 2023 SB), removal of exemptions, and revision of the valuation model, with plans during the Fund-supported program to reform the income tax to eliminate loopholes and steepen the tax schedule with support from IMF technical assistance (MEFP ¶14). These reforms will be complemented by strong efforts on revenue administration, particularly by introducing risk-based enforcement tools.

Potential Tax Policy and Revenue Administration Measures and Estimated Yields (In percent of GDP)

	Medium-term Yield
Tax policy measures	
Phase out CIT exemptions in free zones	0.16
Introduce WHT on external long-term debt	0.04
Tax dividends and interest of listed firms	0.04
Reform property tax	0.13
Simplify value-added tax (VAT) by subjecting all goods, other than basic foodstuffs, to standard VAT and adjusting excise rates as needed.	0.46
Increase the annual license fee on motor vehicles to about 1% of the value of the vehicle	0.05
Revenue administration measures	
Compliance Improvement Strategy - VAT	0.02
Compliance Improvement Strategy - PAYE	0.03
Compliance Improvement Strategy - Large and Professionals Segments	0.06
Compliance Improvement Strategy - Real Estate Transaction Tax	0.03
Compliance Improvement Strategy - Customs	0.04
Compliance Improvement Strategy - International Tax	0.13
Total	1.19

Sources: IMF staff estimates based on February 2020 Tax Policy Report and July 2021 Revenue Administration Report.
Note: This table excludes policies that have already been enacted and whose implementation will yield higher tax revenues over the medium-term contributing to the 2 percentage point goal under the MTRS (e.g., elimination of exemptions of withholding tax for interest income earned on T-bills and bonds.

17. The fuel price indexation mechanism will be fully implemented, with targeted compensation for the most vulnerable. Fuel subsidies disproportionately benefit the wealthy, and reducing them not only allows savings to be redirected towards programs targeted at vulnerable groups, but also encourages transition to a lower-carbon economy. A continuous implementation of the indexation mechanism throughout the Fund-supported program (continuous SB) will protect the budget and preserve the integrity of a hard-won landmark reform under the 2016-19 EFF. As fuel prices were kept low relative to the indexation formula over the past year amid rising oil prices, the authorities will refrain from implementing any formulaic decreases in fuel prices until fuel subsidies (for each product subject to the mechanism) have been eliminated in the previous fiscal year (MEFP ¶16). To mitigate the impact on the population, targeted support can be delivered via existing programs such as Takaful and Karama (see next paragraph). To offer temporary relief to the middle class against inflationary pressures, an increase in the personal income tax exemption (with a cost of 0.1 percent of GDP) was submitted to Parliament.

18. Addressing poverty and inequality requires additional targeted spending on health, education, and social protection. The authorities will expand the Takaful and Karama conditional cash transfer program to cover 5 million households by end-January 2023 (SB) and have committed at least EGP 153 billion to social spending in FY2022/23 (IT). The authorities will also expand the coverage of the social registry to 50 million people by end-December 2023, with the view to introduce targeting in other social protection schemes, drawing on lessons from the recently completed public expenditure reviews (PERs) on social assistance, health, and education (MEFP ¶18).

19. The authorities' Public Financial Management (PFM) reforms are aimed at strengthening governance and fiscal transparency. The Ministry of Finance will publish the three most recent annual audit reports (FY2018/19, FY2019/20, and FY2020/21) of fiscal accounts by the Central Auditing Organization (CAO) and will introduce a binding requirement to ensure the timely publication of future audit reports (end-January 2023 SB). The authorities will enact by end-June 2023 the executive regulations of the PFM law, including: (i) the key elements of the budget calendar starting with the submission and approval of the fiscal strategy paper; (ii) the process to update and publish the medium-term budget framework; (iii) requiring all entities to separate baseline and new policy initiatives; and (iv) a climate section to provide a clear mandate for climate-related activities (SB). The Ministry of Finance will compile and publish an annual report on payment arrears, including those owed to key SOEs, to monitor fiscal risks going forward (continuous SB). In line with these efforts to increase transparency, the authorities would transition both the budget sector and general government fiscal and public debt accounting to GFSM 2014 standards during the Fund-supported program (MEFP ¶20).

D. Financial Sector Policies

20. The authorities are confident that the banking system can withstand the more depreciated exchange rate but will remain vigilant for any signs of emerging stress. The March devaluation of around 15 percent had little impact on aggregate regulatory ratios. By early November, the nominal exchange rate had depreciated by a further 32 percent. But tight limits on

foreign currency exposure—10 percent of regulatory capital for any one currency and 20 percent for all foreign currency exposures—as well as the large existing capital buffers and relatively low foreign liabilities suggest that the banking sector would be able to withstand depreciation of the magnitudes seen thus far. The implication of the exchange rate depreciation on banks' credit risk is expected to be moderate given limited FX borrowings by corporates and households. 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. The CBE will continue to carefully monitor developments in banking sector in order to address any emerging issues in a timely manner.

21. The authorities are keen to promote financial deepening and inclusion while containing credit risks. The recent initiative to require 25 percent of banks' lending to be directed towards SMEs is supporting financial deepening through encouraging more access to credit for the private sector. The CBE will continue to closely monitor potential vulnerabilities at the system and individual banks' level to ensure that growth and operations remain within their risk-bearing capacity, including in state-owned banks, which have seen very rapid growth in their balance sheets over the past two years. Specifically, the sharp decline in banks' NFAs since the start of FY 2021/22 and the issuance of 1-year certificates of deposits by state-owned banks equivalent to around 10 percent of GDP at almost 5 percentage points above the 1-year T-bill rate raise concerns. To this end, policies under the program will seek to ensure that any shortfalls in risk management will be addressed. In the first instance, (i) monthly monitoring of bank-by-bank NFAs under the program will provide early signals of any weakness in governance and risk management, as well as broader imbalances in the FX market, and (ii) to reduce contingent risks to its balance sheet, over the next year, the CBE will develop a program to reduce its exposure to public banks through subordinated debt holdings and its ownership in the Credit Guarantee Company, which supports banks' lending to SMEs (MEFP ¶21). In line with efforts to enhance transparency and communication, the CBE will publish semi-annual financial stability reports, including translation to English to promote foreign investment, and ensure that all instructions and guidance to banks are issued through formal written notification channels to avoid misinterpretation. Following IMF technical assistance, financial safety nets will be further strengthened by establishing a dedicated bank resolution unit at the CBE.

E. Structural Reform Policies

22. The program will support the authorities' ambitious set of reforms to achieve higher and more inclusive growth. The authorities aim to increase annual growth to 6 percent over the medium term. Structural policies supporting this goal will focus on reducing the role of the state in the economy, leveling the playing field between the public and private sector, and strengthening the overall business climate to support greater private sector investment and exports.

- *A comprehensive state ownership policy endorsed by the President will set the stage for SOE reform and crowd in private investment.* The policy, which will cover all SOEs, including public sector companies, public business sector companies, military-owned companies, economic authorities,

and joint ventures and partnerships will articulate the overall objectives, rationale, and principles of state involvement in the marketplace. Under the policy, the authorities will define sectors that are strategic and develop a governance framework through which the state will gradually withdraw from non-strategic sectors, thereby allowing space for the private sector to grow (end-December 2022 SB). As part of the SB, the authorities are committed to developing measures to ensure competitive neutrality in line with OECD principles (MEFP ¶23, 1st bullet).

- *The program will also support strengthening the transparency and governance of existing SOEs.* All SOEs will be required to submit financial accounts to the Ministry of Finance on a biannual basis and provide information on any quasi-fiscal activities. The Ministry of Finance will ensure open access to these data along with information quantifying the subsidies provided to the commercial and non-commercial activities of the SOEs. The authorities plan to introduce performance contracts and benchmarking SOEs against operational and financial targets to help incentivize better performance. It was agreed that over the medium term the authorities would move towards more centralized oversight of SOEs, starting with cases where the oversight of market regulators and SOEs operating in that market are undertaken by the same institution (MEFP ¶23, 3rd and 4th bullets).

- *The authorities will level the playing field by eliminating the preferential treatment of SOEs over private sector firms.* In the short run, publishing within 30 days of the end of each month easily accessible information on all procurement contracts exceeding EGP 20 million in that month along with, when applicable, information on all bids made, the winning bid, and names of successful bidders (continuous SB) can ensure public procurement is competitive, non-discriminatory, and transparent. In the same vein, the authorities will clarify conditions under which direct contracting between public entities would be warranted under Law No. 182 on Regulating Public Procurement. Other measures include aligning SOE procurement rules with the government procurement law, removing tax exemptions for SOEs, and strengthening the treatment of SOEs under the competition law (MEFP ¶23, 5th bullet).

- *The Egyptian Competition Authority (ECA) will be empowered to act independently against anti-competitive practices.* The authorities will seek parliamentary approval of amendments to the competition law concerning the addition of a new chapter on mergers and acquisitions (end-December 2022 SB). The amendments will include provisions that empower the ECA to regulate mergers and acquisitions that meet certain thresholds in all sectors outside of banking and financial services (for which the CBE and the Financial Regulatory Authority are the authorities that oversee competition). Transactions in these sectors shall be subject to prior notification and standstill obligations enabling the ECA to review concentrations before their consummation and assess their competitive impact and, if necessary, impose the adequate measures to protect the competitive structure of the market, while in the banking and financial services sectors the ECA will be able to suggest measures to protect competition. The authorities also plan to obtain approval of the amendments to the competition law submitted to Parliament in January 2019 which seek to strengthen the independence of the ECA (MEFP ¶23, 5th bullet).

23. Boosting trade and improving the business climate will require improvements in customs procedures and greater information sharing with the private sector. The authorities will adopt a risk-based approach to customs procedures with a view to reducing 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, as measured by a Time Release Study (end-May 2023 SB). The planned publication of government support provided to exporters can improve access to information and encourage greater trade activities. Meanwhile the authorities' plan to streamline the land allocation process and provide comprehensive information on the steps involved in the land allocation process (MEFP ¶23, 6th bullet) will improve Egypt's attractiveness as an investment destination.

24. Continued progress in the governance and anticorruption reform agenda will ensure resilience of the public sector while safeguarding public resources. The authorities will push forward the digitalization and automation of the submission and processing of asset declaration forms. The submission of such forms will be required at least once every three years. During the EFF, the authorities intend to move to annual submissions, widen the coverage to include top officials in all SOEs, as defined in the state ownership policy, and publish an annual report showing the compliance rate by group of public-sector employees (MEFP ¶23, 6th bullet).

PROGRAM MODALITIES

25. Access under the 46-month EFF is proposed at SDR 2,350.17 million (115.4 percent of quota, equivalent to about US$ 3 billion), with prospective additional access of up to SDR 1 billion under the requested Resilience and Sustainable Facility (RSF). With the policies outlined in the MEFP, staff projects a financing gap of around US$17 billion over the next 46 months. Staff proposes that access be evenly distributed over the program. The proposed schedule of reviews and the corresponding purchases are presented in Table 12. The EFF is to alleviate the balance of payments need and the purchases will be used for budget support. In addition, the authorities have requested financing under the newly created RSF, which could unlock up to an additional SDR 1 billion (about US$1.3 billion). RSF discussions will take place in the context of upcoming EFF reviews.

26. An ambitious divestment plan underpins the authorities' financing strategy under the program. As part of the strategy to reduce the state footprint in economic activity, the authorities will list state-owned companies on the Egyptian Exchange and offer stakes in the Sovereign Fund of Egypt's (SFE's) pre-IPO fund, which seeks to monetize state-owned assets. An initial group of companies for the pre-IPO fund has already been identified, with an objective to raise $2.5 billion in the first phase of pre-IPO stake sales by June 2023. Proceeds from sales of state-owned assets through the SFE as well as direct sales of state-owned assets to regional sovereign wealth funds, will be deposited in an earmarked account at the CBE and will therefore accrue to international reserves

helping to fill the financing gap under the program (MEFP ¶23).[9] The Fund-supported program is fully financed, with firm commitments for the first 12 months of the arrangement, with contributions from the World Bank, AIIB, AfDB, AMF, and China Development Bank, as well as proceeds from sales of state-owned assets through the SFE and sales of state-owned assets to sovereign wealth funds (Table 11). With several GCC partners having publicly communicated their support for Egypt's reform program, demonstrated initial interest (see also ¶7), 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, and larger policy adjustments.

27. Egypt's capacity to repay the Fund is adequate, albeit with some risks. Fund credit outstanding as a share of gross reserves peaked at 60.7 percent in FY2021/22 and is projected to decline to around 7 percent by the end of the Fund-supported program. Debt service to the Fund as a ratio of exports of goods and services would rise to 8.1 percent in FY2024/25 before declining (Table 10). As the current crisis abates and macroeconomic stability is maintained, improvements in the fiscal and external positions are expected to ensure Egypt's continued market access and adequate capacity to repay.

28. The Fund-supported program will be monitored through semi-annual reviews. The prior action chosen from the authorities' reform program has been implemented. Quantitative targets are set with test dates for December 2022 and June 2023, with indicative targets for the intermediate quarter. The first review is expected to be completed in March 2023 and the second review is expected to be completed in September 2023, and they will require observance of the end-December 2022 and the end-June 2023 performance criteria, respectively. Performance criteria are proposed on net international reserves, the primary balance, and non-accumulation of external debt payment arrears. Indicative targets are proposed on tax revenues, social spending, average maturity of gross local currency debt issuances, gross debt of the budget sector, and the overnight interbank rate.

29. Safeguards assessment. An updated safeguards assessment of the CBE has been initiated and will be completed by the first review of the program. The last assessment completed in 2020 found strong governance arrangements and control environment, but continued efforts will be required to fully align the CBE's financial reporting practices with Egyptian Accounting Standards/IFRS, an outstanding commitment from the previous SBA.

30. The Fund would be exposed to a number of financial and non-financial enterprise risks. The proposed EFF arrangement would have a modest impact on the Fund's liquidity position. Risks to Fund income are high initially but expected to decline gradually. While the arrangement would increase the Fund's high credit exposure to Egypt in the near term, the overall exposure including from past arrangement will decrease over the medium term. Failure of the program resulting from a

[9] In Table 11, projected divestment of state-owned assets through the SFE and projected sales of state-owned assets to sovereign wealth funds are included in financing to fill the financing gap, and these are not included in FDI. Once divestment or and sales have taken place, these will be recorded in the balance of payments as FDI.

partial implementation to support sustainable growth, reduce debt risks, and mobilize sufficient financing would pose reputational risks for the Fund. At the same time, the alternative of not supporting Egypt through an EFF arrangement would also raise reputational risks, as Egypt has pronounced balance-of-payments difficulties including from external shocks.

EXCEPTIONAL ACCESS

31. Financing under the EFF requires exceptional access as Egypt already exceeded its normal cumulative access limits with the 2020-21 SBA. Staff assesses that Egypt meets the four criteria for exceptional access.

- **Criterion 1.** *The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account resulting in a need for Fund financing that cannot be met within the normal limits.*
    - **Staff assesses this criterion as met.** Egypt is facing exceptional balance of payments pressures, including from spillovers from the war in Ukraine. In particular, the war has led to lost tourism receipts and a higher food import bill. It also triggered a large capital outflow amid the authorities' stabilization of the exchange rate, which led to large reserve losses. Overall, there is an estimated financing gap of $17 billion that will need to be closed with official financing, including from the Fund. Given that Egypt has already exceeded normal access limit under the SBA, access to financing under an EFF arrangement will require exceptional access.
- **Criterion 2.** *A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. Where the member's debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources.*
    - **Staff assesses this criterion as met** (see Annex IV for the analysis of this criterion). Under the program's baseline and policy framework, staff assesses Egypt's public debt to be sustainable but not with high probability (Annex II). Staff also assesses that adequate safeguards are in place to meet EA2 under the Fund's EA framework. Specifically, in the event that adverse shocks materialize, staff assesses that there would be sufficient restructurable debt to the private sector potentially available after the program to improve debt sustainability and sufficiently enhance safeguards for Fund resources. Several factors—including the high share of domestic currency debt and the GCC members' commitment to rollover $28 billion in official deposits at the CBE—help mitigate debt sustainability risks. However, the assessment is subject to high risks and hinges critically on the steadfast

implementation of the proposed fiscal consolidation and the broader set of policies to strengthen growth and exports and extend the maturity of debt issuances over the medium term.

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

    - **Staff assesses this criterion as met.** Egypt regained market access quickly following the COVID-19 crisis with total issuances of $11¾ billion during May 2020- September 2021. More recently Egypt placed its first Samurai Bond ($½ billion) in March 2022. Egypt maintained favorable market access prior to the war in Ukraine. Spreads remain elevated but have declined from their peaks in July. Close engagement with the Fund—including in the context of the EFF—would help ensure the maintenance of a strong policy framework to support macroeconomic stabilization, which should reinforce investor confidence and fully restore market access at a level adequate for Egypt to meet its Fund obligations.

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

    - **Staff assesses this criterion as met.** The authorities' strong program ownership and track record of implementation under the 2016–19 EFF arrangement and the 2020-21 SBA were critical in stabilizing the economy, establishing credibility, and restoring confidence. The authorities' steadfast commitment to policies needed to support macroeconomic stability and more inclusive growth, including further progress on structural reforms, has been reinforced at the highest political level. The authorities intend to pursue all necessary policies to alleviate the BOP pressures. Institution building to support strong policy frameworks is ongoing, including through capacity development support from the IMF. Managing the crisis in a way that minimizes the socio-economic impact will be important to maintain social cohesion.

STAFF APPRAISAL

32. The war in Ukraine has exacerbated pre-existing external pressures in Egypt stemming from the lack of exchange rate flexibility and high public debt vulnerabilities. The pressures manifested in a rising current account deficit, falling banks' NFAs, and resort to use of letters of credit to constrain the pace of import demands. The outbreak of the war in Ukraine triggered the eventual capital outflows and the associated depletion of Egypt's foreign reserves and rise in borrowing costs. These developments have occurred in the context of a much less accommodative global environment, making policy adjustments more costly. Bold policy actions by the CBE in October to reverse unsustainable policies and those by the government to shield the Egyptian population from the full impact of the crisis are welcome steps in the right direction. But global

uncertainty casts a long shadow on Egypt's recovery and the longstanding need for spurring sustainable, inclusive, and job-rich growth remains.

33. The authorities' economic program supported by the proposed EFF offers a credible plan to address these challenges. The policy mix is aimed at both macroeconomic stabilization in the short term and strengthening resilience and lifting potential growth over the medium term. The authorities' commitment to managing the implementation of public investment projects in a manner consistent with the macroeconomic policy mix is critical for safeguarding external sustainability and economic stability (Letter of Intent).

- A durably flexible exchange rate will act as an external shock absorber, ensuring against the re-accumulation of imbalances and reducing vulnerability. Efforts to rebuild FX buffers, including through non-borrowed sources, will be critical for strengthening Egypt's external resilience. The CBE's policies are appropriately focused on core central bank responsibilities under an inflation targeting, flexible exchange rate regime: maintaining price stability, strengthening the monetary transmission mechanism, and deepening the FX market.

- The government's goal of restoring and sustaining the primary surplus above 2 percent of GDP will help ensure that public debt is on a firmly downward trajectory. Revenue mobilization will create room for priority spending in health, education, and the social safety net. Continued efforts to lengthen debt maturities and develop the domestic debt market will gradually reduce vulnerabilities from the high gross financing needs.

- The expansion of social spending under the program will increase targeted protection to vulnerable population during the adjustment period.

- The authorities' structural reform agenda is appropriately ambitious and targeted at tackling longstanding bottlenecks in the economy including the outsized role of the state, the uneven playing field, barriers to trade, and corruption vulnerabilities. The Fund-supported program will support this agenda by identifying specific structural benchmarks for each review to deliver on these objectives. Their successful implementations will secure higher growth, job creation, and better livelihoods for the Egyptian people.

- The length of the program appropriately reflects not only the time needed to rebuild reserves to adequate levels but also the authorities' commitment to undertaking the much-needed multi-year reforms that could sustainably raise Egypt's growth and job-creation prospects.

34. Risks to the program stem from the need to stay the course on difficult policy adjustments amidst heightened uncertainty in the outlook. The durability of the shift to a flexible exchange rate remains to be proven and the CBE may face political and social pressure to reverse course. 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. Risks to the global outlook weigh on Egypt's prospects for a fast

recovery. These challenges could test the authorities' commitment and ability to sustain the reforms. Frequent and candid engagements 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.

35. The policy package supported by the EFF aims to unlock substantial additional financing from Egypt's partners, including non-traditional financing in the form of investments. The World Bank and other multilateral institutions have continued to be strong supporters of Egypt's reform program. GCC countries have assured to roll over deposits at the CBE through the end of the Fund-supported program, and their assurance to bringing fresh financing through investments in Egypt is a critical part of the program's financing strategy. As part of the effort to reduce the state's footprint in the economy, the authorities are carrying out an ambitious privatization plan where certain purchases of equity stakes in state-owned assets constitute financing under the program as proceeds will go towards increasing international reserves and closing the financing gap. The authorities are working to launch a pre-IPO fund through which interested parties can submit offers for eligible assets and the amounts of financing can be more firmly established.

36. Staff supports the authorities' request for a 46-month extended arrangement under the EFF. The attached LOI and MEFP present a strong set of policies and the authorities' commitment to pursue the objectives of the Fund-supported program.

Table 1. Egypt: Selected Macroeconomic Indicators, 2019/20–2027/28 1/

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Output and prices			(percent change)						
Real GDP (market prices) 2/	3.5	3.4	6.6	4.0	5.3	5.7	5.9	5.9	6.0
Consumer prices (end of period)	5.6	4.9	13.2	14.8	8.7	7.0	7.0	7.0	7.0
Consumer prices (period average)	5.7	4.5	8.5	15.8	11.1	7.6	7.0	7.0	7.0
Public finances 3/			(percent of GDP)						
Gross Debt 4/	86.2	89.9	88.5	88.3	85.5	83.5	81.0	77.9	74.8
External	18.0	19.0	19.5	22.1	19.8	17.1	15.8	14.5	13.6
Domestic	68.3	70.9	69.0	66.2	65.7	66.4	65.2	63.4	61.2
Gross Debt 5/	84.1	88.5	88.4	…	…	…	…	…	…
Budget sector 6/									
Revenue and grants	15.9	16.6	16.9	16.9	17.3	17.7	18.0	18.3	18.3
Expenditure (incl. net acquisition of financial assets)	23.4	23.7	23.1	24.8	25.7	25.0	24.5	24.1	24.0
Of which: Energy subsidies	0.3	0.3	0.8	1.0	0.9	0.8	0.7	0.6	0.6
Overall balance 7/	-7.5	-7.1	-6.2	-7.8	-8.4	-7.3	-6.5	-5.9	-5.7
Overall balance, excl. grants 8/	-7.6	-7.1	-6.2	-7.8	-8.4	-7.3	-6.5	-5.9	-5.7
Primary balance	1.7	1.4	1.3	1.7	2.1	2.3	2.3	2.4	2.4
Monetary sector			(percent change)						
Credit to the private sector	19.5	20.5	24.3	18.0	15.0	14.0	14.0	15.0	15.0
Reserve money	25.1	15.4	20.8	23.1	22.0	13.6	13.2	14.9	16.2
Broad money (M2)	17.5	18.0	23.5	30.4	20.2	12.7	12.4	13.9	13.7
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$, percentage change)	-7.4	8.7	53.1	15.5	2.2	-2.2	0.7	2.7	3.6
Imports of goods (in US$, percentage change)	-5.5	12.6	23.4	3.1	4.0	5.1	2.7	4.3	7.1
Merchandise trade balance	-9.5	-9.9	-9.1	-9.3	-9.6	-10.1	-9.7	-9.4	-9.5
Current account	-2.9	-4.4	-3.5	-3.0	-2.5	-2.4	-2.1	-1.8	-2.2
Capital and financial account (incl. errors and omissions)	-0.3	4.1	1.3	3.3	4.5	3.9	4.8	4.4	2.6
Foreign direct investment (net, in billions of US$)	7.1	4.8	8.6	9.7	12.1	13.5	14.7	16.3	16.9
External debt 9/	32.3	32.6	32.8	35.8	34.8	32.6	30.3	27.5	25.8
Gross international reserves (in billions of US$)	37.2	39.4	31.5	37.1	47.2	51.4	63.9	77.8	79.9
In months of next year's imports of goods and services	6.0	6.8	3.1	3.7	4.6	4.7	5.8	6.8	6.5
In percent of short-term external debt	172.4	83.6	50.9	60.5	72.2	87.6	107.6	130.9	134.4
Memorandum items:									
Exchange rate (EGP/$, ep)	16.2	15.7	18.8	…	…	…	…	…	…
Nominal GDP (in billions of Egyptian pounds)	6,153	6,663	7,843	9,545	11,155	12,703	14,407	16,350	18,573
Nominal GDP (in billions of US$)	383	423	475	…	…	…	…	…	…
GDP per capita (in US$)	3,802	4,146	4,563	…	…	…	…	…	…
Unemployment rate (period average, percent)	8.3	7.3	7.3	…	…	…	…	…	…
Population (in millions)	100.6	102.1	104.1	106.2	108.3	110.5	112.7	115.0	118.4

Sources: Egyptian authorities; and IMF staff estimates and projections.
1/ Fiscal year ends June 30.
2/ Historical real GDP growth reflects estimates based on the published revised nominal GDP.
3/ General government includes the budget sector, the National Investment Bank (NIB), and social insurance funds.
4/ Public debt as defined in the program.
5/ Ministry of Finance financial statements audited by the State Audit Agency in line with the Government Accounting Law.
6/ Budget sector comprises central government, local governments, and some public corporations.
7/ Accrued interest expense is not included in the overall balance until FY2021/22 as per the authorities' presentation, while it is included in the overall balance after FY2022/23 as in GFSM 2014.
8/ Includes multilateral and bilateral public sector borrowing, private borrowing and prospective financing.
9/ Debt at remaining maturity and stock of foreign holding of T-bills.

Table 2a. Egypt: Balance of Payments, 2019/20–2027/28

(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
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-11.2	-18.4	-16.6	-12.6	-11.1	-11.2	-10.8	-10.0	-13.5
Balance on goods and services	-27.5	-36.9	-32.2	-30.9	-31.5	-32.9	-32.9	-32.5	-36.4
Exports of goods and services	47.7	44.7	70.8	76.4	79.8	84.0	87.0	92.3	96.8
Imports of goods and services	-75.2	-81.6	-103.1	-107.3	-111.3	-117.0	-119.9	-124.8	-133.3
Trade balance	-36.5	-42.1	-43.4	-39.3	-41.8	-47.8	-50.0	-53.0	-58.6
Oil and gas	-0.4	0.0	4.4	9.5	6.7	5.3	2.6	0.2	-1.5
Other	-36.0	-42.1	-47.8	-48.8	-48.5	-53.1	-52.6	-53.2	-57.1
Exports of goods	26.4	28.7	43.9	50.7	51.9	50.7	51.1	52.5	54.4
Oil and gas	8.5	8.6	18.0	23.5	20.9	18.0	15.5	13.6	12.0
Other	17.9	20.1	25.9	27.3	30.9	32.7	35.6	38.9	42.4
Imports of goods	-62.8	-70.7	-87.3	-90.0	-93.7	-98.5	-101.1	-105.4	-112.9
Oil and gas	-8.9	-8.6	-13.5	-14.0	-14.3	-12.7	-13.0	-13.4	-13.5
Other	-53.9	-62.1	-73.8	-76.0	-79.4	-85.8	-88.1	-92.0	-99.5
Services (net)	9.0	5.1	11.2	8.4	10.3	14.8	17.1	20.5	22.1
Receipts	21.3	16.0	26.9	25.7	28.0	33.3	35.9	39.8	42.5
Of which: Tourism receipts	9.9	4.9	10.7	11.3	14.2	18.9	22.8	26.5	28.8
Of which: Suez canal receipts	5.8	5.9	7.0	7.4	7.6	7.9	8.2	8.5	8.9
Payments	-12.3	-10.9	-15.8	-17.3	-17.6	-18.5	-18.8	-19.3	-20.3
Of which : Transportation	-2.1	-1.8	-3.0	-3.1	-3.2	-3.5	-3.6	-3.7	-4.0
Of which: Travel	-3.2	-2.7	-4.5	-5.5	-4.7	-4.5	-4.5	-4.5	-4.5
Primary income (net)	-11.4	-12.4	-15.8	-15.5	-15.2	-15.8	-16.6	-17.7	-18.7
Receipts	0.9	0.6	1.0	1.5	1.5	1.7	1.8	2.0	2.2
Payments	-12.3	-13.0	-16.8	-17.0	-16.8	-17.4	-18.4	-19.6	-20.9
Transfers	27.7	30.9	31.4	33.8	35.6	37.5	38.8	40.2	41.7
Official grants	0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Private remittances	27.5	31.2	31.7	34.0	35.9	37.8	39.0	40.4	41.9
Capital and financial account	-0.3	20.4	11.8	13.8	19.6	18.2	25.0	24.7	16.4
Capital account	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-0.1	20.5	11.9	13.8	19.6	18.2	25.0	24.7	16.4
Medium- and long-term loans and supplier credit (net)	-0.2	3.5	1.5	-1.2	0.3	-4.2	2.3	0.5	1.0
Drawings	2.5	6.6	7.6	6.8	7.8	7.4	7.1	6.0	5.7
Amortization	2.7	3.1	6.2	8.1	7.5	11.5	4.8	5.4	4.8
FDI (net)	7.1	4.8	8.6	9.7	12.1	13.5	14.7	16.3	16.9
Portfolio investment (net)	-8.1	18.0	-21.1	6.1	7.3	8.0	7.5	8.5	7.8
Commercial banks' NFA	6.7	-3.5	13.5	-0.2	-0.9	-0.3	-1.4	-2.1	-11.0
Incurrance of CBE foreign liabilities 1/	-0.1	-2.7	15.7	0.0	0.0	0.0	0.0	0.0	0.0
Short-term supplier credit	-2.0	1.5	-2.9	1.0	2.0	2.4	3.0	2.7	2.9
Other	-3.4	-1.0	-3.3	-1.7	-1.2	-1.2	-1.2	-1.2	-1.2
Errors and omissions (net)	-0.8	-3.1	-5.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-12.4	-1.1	-10.5	1.2	8.5	7.0	14.2	14.7	3.0
Financing	12.4	0.8	10.5	-7.3	-14.6	-10.0	-15.6	-15.6	-3.5
Reserves ("-" indicates increase)	6.6	-2.2	11.2	-6.0	-10.1	-4.2	-12.5	-13.9	-2.1
Change in arrears ("-" indicates decrease) 2/	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources	6.8	3.0	-0.7	-1.3	-4.5	-5.8	-3.1	-1.8	-1.4
Other financing	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	6.0	3.0	1.4	0.9	0.5
Extended Fund Facility	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.3	0.0
Other prospective financing	0.0	0.0	0.0	5.4	5.4	2.3	0.7	0.6	0.5
Memorandum items:									
Current account excluding grants	-11.4	-18.2	-16.3	-12.3	-10.8	-11.0	-10.5	-9.7	-13.2
Terms of trade (percent change)	-4.6	1.7	9.2	2.8	-2.1	-0.8	-0.7	-0.8	-0.8
Gross international reserves 3/	37.2	39.4	31.5	37.1	47.2	51.4	63.9	77.8	79.9
Gross intl. reserves & FX deposits in domestic banks 3/	40.8	49.6	32.4	38.4	48.5	52.7	65.2	79.1	81.1
In months of next year's imports of G&S	6.0	6.8	3.1	3.7	4.6	4.7	5.8	6.8	6.5
In percent of ARA metric (floating)	102	85	62	73	85	90	105	121	120
External debt	123.5	137.9	155.7	151.2	151.4	154.1	156.3	154.7	158.6
External debt service	16.1	15.4	26.1	25.0	32.0	36.8	28.0	26.6	26.4
External debt service (in percent of exports of GNFS)	33.8	34.5	36.9	32.6	40.1	43.8	32.2	28.8	27.2
Stock of external arrears	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	2.4	…	…	…	…	…	…

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/ EGPC arrears.

3/ End of period.

Table 2b. Egypt: Balance of Payments, 2019/20–2027/28

(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
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-2.9	-4.4	-3.5	-3.0	-2.5	-2.4	-2.1	-1.8	-2.2
Balance on goods and services	-7.2	-8.7	-6.8	-7.3	-7.2	-7.0	-6.4	-5.8	-5.9
Exports of goods and services	12.5	10.6	14.9	18.1	18.4	17.8	16.9	16.4	15.8
Imports of goods and services	-19.6	-19.3	-21.7	-25.4	-25.6	-24.7	-23.3	-22.2	-21.7
Trade balance	-9.5	-9.9	-9.1	-9.3	-9.6	-10.1	-9.7	-9.4	-9.5
Oil and gas	-0.1	0.0	0.9	2.2	1.5	1.1	0.5	0.0	-0.2
Other	-9.4	-9.9	-10.1	-11.6	-11.2	-11.2	-10.2	-9.4	-9.3
Exports	6.9	6.8	9.2	12.0	11.9	10.7	9.9	9.3	8.9
Oil and gas	2.2	2.0	3.8	5.6	4.8	3.8	3.0	2.4	1.9
Other	4.7	4.7	5.5	6.5	7.1	6.9	6.9	6.9	6.9
Imports	-16.4	-16.7	-18.4	-21.3	-21.6	-20.8	-19.6	-18.7	-18.4
Oil and gas	-2.3	-2.0	-2.9	-3.3	-3.3	-2.7	-2.5	-2.4	-2.2
Other	-14.1	-14.7	-15.5	-18.0	-18.3	-18.1	-17.1	-16.4	-16.2
Services (net)	2.3	1.2	2.3	2.0	2.4	3.1	3.3	3.6	3.6
Receipts	5.6	3.8	5.7	6.1	6.4	7.1	7.0	7.1	6.9
Of which: Tourism receipts	2.6	1.1	2.3	2.7	3.3	4.0	4.4	4.7	4.7
Of which: Suez canal dues	1.5	1.4	1.5	1.8	1.8	1.7	1.6	1.5	1.4
Payments	-3.2	-2.6	-3.3	-4.1	-4.1	-3.9	-3.7	-3.4	-3.3
Of which : Transportation	-0.5	-0.4	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Of which: Travel	-0.8	-0.6	-0.9	-1.3	-1.1	-1.0	-0.9	-0.8	-0.7
Primary income (net)	-3.0	-2.9	-3.3	-3.7	-3.5	-3.3	-3.2	-3.1	-3.0
Receipts	0.2	0.1	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Payments	-3.2	-3.1	-3.5	-4.0	-3.9	-3.7	-3.6	-3.5	-3.4
Transfers	7.2	7.3	6.6	8.0	8.2	7.9	7.5	7.1	6.8
Official grants	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Private remittances	7.2	7.4	6.7	8.1	8.3	8.0	7.6	7.2	6.8
Capital and financial account	-0.1	4.8	2.5	3.3	4.5	3.9	4.8	4.4	2.7
Capital account	-0.1	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	4.5	3.9	4.8	4.4	2.7
Medium- and long-term loans and supplier credit (net)	0.0	0.8	0.3	-0.3	0.1	-0.9	0.4	0.1	0.2
Drawings	0.7	1.6	1.6	1.6	1.8	1.6	1.4	1.1	0.9
Amortization	0.7	0.7	1.3	1.9	1.7	2.4	0.9	1.0	0.8
FDI (net)	1.9	1.1	1.8	2.3	2.8	2.9	2.9	2.9	2.8
Portfolio investment (net)	-2.1	4.3	-4.4	1.5	1.7	1.7	1.5	1.5	1.3
Commercial banks' NFA	1.7	-0.8	2.8	-0.1	-0.2	-0.1	-0.3	-0.4	-1.8
Incurrance of CBE foreign liabilities 1/	0.0	-0.6	3.3	0.0	0.0	0.0	0.0	0.0	0.0
Short-term supplier credit	-0.5	0.4	-0.6	0.2	0.5	0.5	0.6	0.5	0.5
Other	-0.9	-0.2	-0.7	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2
Errors and omissions (net)	-0.2	-0.7	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.2	-0.3	-2.2	0.3	2.0	1.5	2.8	2.6	0.5
Financing	3.2	0.2	2.2	-1.7	-3.4	-2.1	-3.0	-2.8	-0.6
Reserves ("-" indicates increase)	1.7	-0.5	2.4	-1.4	-2.3	-0.9	-2.4	-2.5	-0.3
Change in arrears ("-" indicates decrease) 2/	-0.3	0.0	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	-1.0	-1.2	-0.6	-0.3	-0.2
Other financing	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	1.4	0.6	0.3	0.2	0.1
Extended Fund Facility	0.0	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.0
Other prospective financing	0.0	0.0	0.0	1.3	1.2	0.5	0.1	0.1	0.1
Memorandum items:									
Current account excluding grants	-3.0	-4.3	-3.4	-2.9	-2.5	-2.3	-2.0	-1.7	-2.2
Gross international reserves 3/	9.8	9.3	7.6	9.7	11.2	11.1	12.6	14.1	13.3
Gross intl reserves & CBE's FX deposits in domestic banks 3/	10.7	11.7	6.8	9.1	11.2	11.1	12.6	14.1	13.2
External debt	32.4	32.5	37.3	39.6	35.8	33.2	30.9	28.0	26.3
External debt service	4.2	3.6	5.5	5.9	7.4	7.8	5.4	4.7	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/ EGPC arrears.

3/ End of period.

Table 3a. Egypt: Budget Sector Operations, 2019/20-2027/28 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
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	975	1,109	1,326	1,617	1,933	2,247	2,592	2,990	3,407
Tax revenue	740	834	990	1,232	1,502	1,767	2,078	2,437	2,793
Income and property	347	394	475	590	738	871	1,037	1,255	1,451
Personal income tax	98	124	152	188	225	268	323	379	451
Corporate income tax	189	198	234	282	330	394	468	563	640
EGPC	26	40	30	36	42	48	54	61	70
Other	163	158	204	246	288	346	414	502	570
Property	60	72	90	119	183	209	247	313	360
Goods and services	330	385	454	568	679	793	924	1,049	1,191
Oil excises	28	23	57	69	81	110	124	141	160
VAT and nonoil excises	302	362	397	499	598	684	800	908	1,031
International trade	33	36	43	52	61	75	85	96	109
Other taxes	31	19	18	21	25	28	32	36	41
Nontax revenue	231	272	333	385	430	479	513	553	613
Oil-related nontax revenue	13	18	29	36	42	47	54	61	69
Other nontax revenues	217	253	303	349	388	432	460	492	544
Of which: interest income	10	8	8	10	11	13	15	17	19
Grants	5	3	3	0	1	1	1	1	1
Expenditure	1,435	1,579	1,812	2,375	2,881	3,192	3,549	3,965	4,483
Wages and other remunerations	289	319	358	400	467	545	633	734	853
Purchases of goods and services	70	81	96	126	147	180	218	248	282
Interest 2/	568	565	585	905	1,169	1,222	1,271	1,348	1,500
Domestic 2/	526	518	528	825	1,061	1,096	1,128	1,201	1,335
External	43	48	56	80	108	127	143	146	165
Subsidies, grants, and social benefits	229	264	342	416	467	537	603	683	780
Energy subsidies	19	19	60	97	102	101	101	100	103
Of which: fuel subsidy	19	19	60	97	102	101	101	100	103
Food subsidies 3/	81	83	98	118	134	140	146	156	167
Transfer to SIF 4/	55	99	120	127	134	142	150	158	167
Other	75	63	65	74	97	154	207	269	343
Other current	87	100	113	123	143	163	185	210	239
Investment	192	249	318	405	487	545	639	742	831
Cash balance	-459	-470	-487	-758	-949	-946	-957	-975	-1,077
Net acquisition of financial assets	3	2	-2	-12	-14	-17	-18	-19	-19
Overall balance 2/	-463	-472	-485	-746	-934	-929	-939	-957	-1,058
Financing	463	472	485	746	934	929	939	957	1,058
Net domestic	273	323	441	680	948	1,055	922	955	990
Net external	190	149	44	12	-43	-157	-15	-22	53
Financing gap				54	30	31	33	24	15
Of which IMF				15	17	18	19	9	0
Of which other				39	13	13	14	15	15
Memorandum items:									
Primary balance 5/	106	93	100	160	235	293	332	391	442
Oil balance 6/	49	63	57	44	62	103	131	163	196
Divestment proceeds flowing to the budget				10	12	14	15	15	15
Valuation changes in T-bills and zero coupon bonds 2/	70	79	75	…	…	…	…	…	…
Gross budget sector debt 7/	5,353	6,086	7,183	8,789	10,021	11,192	12,360	13,555	14,857
Gross budget sector debt 8/	5,094	5,859	6,931	…	…	…	…	…	…
Net debt 9/	4,751	5,547	6,313	…	…	…	…	…	…
Nominal GDP (in billions of Egyptian pounds)	6,153	6,663	7,843	9,545	11,155	12,703	14,407	16,350	18,573

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/ Until FY2021/22, 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 (see the line of valuation changes in T-bills and zero coupon bonds). After FY2022/23, interest is defined as in GFSM 2014, and it includes accrued interest expense.
Accrued interest expense is not included in the overall balance until FY2021/22, while it is included in the overall balance after FY2022/23.
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/ The primary balance for 2017/18 excludes the recapitalization of the CBE for EGP 6 billion.
6/ Oil revenue less fuel subsidies. Oil revenue includes corporate income tax receipts from EGPC and foreign partners, royalties, extraordinary payments, excise taxes on petrol products, and dividends collected from EGPC.
7/ Public debt as defined in the program.
8/ Ministry of Finance financial statements audited by the State Audit Agency in line with the Government Accounting Law.
9/ Difference between gross debt (authorities' financial statement basis) and budget sector deposits with commercial banks.

Table 3b. Egypt: Budget Sector Operations, 2019/20-2027/28 1/
(In percent of GDP)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	15.9	16.6	16.9	16.9	17.3	17.7	18.0	18.3	18.3
Tax revenue	12.0	12.5	12.6	12.9	13.5	13.9	14.4	14.9	15.0
Income and corporate tax	5.6	5.9	6.1	6.2	6.6	6.9	7.2	7.7	7.8
Personal income tax	1.6	1.9	1.9	2.0	2.0	2.1	2.2	2.3	2.4
Corporate income tax	3.1	3.0	3.0	3.0	3.0	3.1	3.2	3.4	3.4
EGPC	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other	2.6	2.4	2.6	2.6	2.6	2.7	2.9	3.1	3.1
Property	1.0	1.1	1.1	1.2	1.6	1.6	1.7	1.9	1.9
Goods and services	5.4	5.8	5.8	6.0	6.1	6.2	6.4	6.4	6.4
Oil excises	0.4	0.4	0.7	0.7	0.7	0.9	0.9	0.9	0.9
VAT and nonoil excises	4.9	5.4	5.1	5.2	5.4	5.4	5.6	5.6	5.6
International trade	0.5	0.5	0.6	0.5	0.5	0.6	0.6	0.6	0.6
Other taxes	0.5	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Nontax revenue	3.7	4.1	4.2	4.0	3.9	3.8	3.6	3.4	3.3
Oil-related nontax revenue	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other nontax revenues	3.5	3.8	3.9	3.7	3.5	3.4	3.2	3.0	2.9
Of which: interest income	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	23.3	23.7	23.1	24.9	25.8	25.1	24.6	24.3	24.1
Wages and other remunerations	4.7	4.8	4.6	4.2	4.2	4.3	4.4	4.5	4.6
Purchases of goods and services	1.1	1.2	1.2	1.3	1.3	1.4	1.5	1.5	1.5
Interest 2/	9.2	8.5	7.5	9.5	10.5	9.6	8.8	8.2	8.1
Domestic 2/	8.5	7.8	6.7	8.6	9.5	8.6	7.8	7.3	7.2
External	0.7	0.7	0.7	0.8	1.0	1.0	1.0	0.9	0.9
Subsidies, grants and social benefits	3.7	4.0	4.4	4.4	4.2	4.2	4.2	4.2	4.2
Energy subsidies	0.3	0.3	0.8	1.0	0.9	0.8	0.7	0.6	0.6
Of which: fuel subsidy	0.3	0.3	0.8	1.0	0.9	0.8	0.7	0.6	0.6
Food subsidies 3/	1.3	1.2	1.2	1.2	1.2	1.1	1.0	1.0	0.9
Transfers to SIF 4/	0.9	1.5	1.5	1.3	1.2	1.1	1.0	1.0	0.9
Other	1.2	0.9	0.8	0.8	0.9	1.2	1.4	1.6	1.8
Other current	1.4	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Investment	3.1	3.7	4.1	4.2	4.4	4.3	4.4	4.5	4.5
Cash balance	-7.5	-7.1	-6.2	-7.9	-8.5	-7.4	-6.6	-6.0	-5.8
Net acquisition of financial assets	0.1	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Overall balance 2/	-7.5	-7.1	-6.2	-7.8	-8.4	-7.3	-6.5	-5.9	-5.7
Financing	7.5	7.1	6.2	7.8	8.4	7.3	6.5	5.9	5.7
Net domestic	4.4	4.8	5.6	7.1	8.5	8.3	6.4	5.8	5.3
Net external	3.1	2.2	0.6	0.1	-0.4	-1.2	-0.1	-0.1	0.3
Financing gap				0.6	0.3	0.2	0.2	0.1	0.1
Of which IMF				0.2	0.2	0.1	0.1	0.1	0.0
Of which other				0.4	0.1	0.1	0.1	0.1	0.1
Memorandum items:									
Primary balance 5/	1.7	1.4	1.3	1.7	2.1	2.3	2.3	2.4	2.4
Oil balance 6/	0.8	0.9	0.7	0.5	0.6	0.8	0.9	1.0	1.1
Divestment proceeds flowing to the budget				0.1	0.1	0.1	0.1	0.1	0.1
Valuation changes in T-bills and zero coupon bonds 2/	1.1	1.2	1.0	...	...	...	...	...	...
Gross budget sector debt 7/	87.0	91.3	91.6	92.1	89.8	88.1	85.8	82.9	80.0
Gross budget sector debt 8/	82.8	87.9	88.4	...	...	...	...	...	...
Net debt 9/	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/ Until FY2021/22, 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 (see the line of valuation changes in T-bills and zero coupon bonds). After FY2022/23, interest is defined as in GFSM 2014, and it includes accrued interest expense.
Accrued interest expense is not included in the overall balance until FY2021/22, while it is included in the overall balance after FY2022/23.
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/ The primary balance for 2017/18 excludes the recapitalization of the CBE for 6 billion Egyptian pounds.
6/ Oil revenue less fuel subsidies. Oil revenue includes corporate income tax receipts from EGPC and foreign partners, royalties, extraordinary payments, excise taxes on petrol products, and dividends collected from EGPC.
7/ Public debt as defined in the program.
8/ Ministry of Finance financial statements audited by the State Audit Agency in line with the Government Accounting Law.
9/ Difference between gross debt (authorities' financial statement basis) and budget sector deposits with commercial banks.

Table 4. Egypt: General Government Operations, 2019/20-2027/28 1/

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(In billions of Egyptian pounds)									
Revenue and grants	1,121	1,239	1,484	1,832	2,189	2,539	2,938	3,399	3,889
Tax revenue	740	834	990	1,232	1,502	1,767	2,078	2,437	2,793
Income and property	347	394	475	590	738	871	1,037	1,255	1,451
Personal income tax	98	124	152	188	225	268	323	379	451
Corporate income tax	189	198	234	282	330	394	468	563	640
EGPC	26	40	30	36	42	48	54	61	70
Other	163	158	204	246	288	346	414	502	570
Goods and services	330	385	454	568	679	793	924	1,049	1,191
Oil excises	28	23	57	69	81	110	124	141	160
VAT and nonoil excises	302	362	397	499	598	684	800	908	1,031
International trade taxes	33	36	43	52	61	75	85	96	109
Other taxes	31	19	18	21	25	28	32	36	41
Nontax revenue	377	402	491	600	686	771	859	961	1,096
Of which: Interest income	10	20	68	18	18	18	18	18	18
Grants	5	3	3	0	1	1	1	1	1
Expenditure	1,581	1,702	1,937	2,527	3,090	3,461	3,872	4,341	4,915
Unidentified Spending Measures 2/	0	0	0	0	0	0	0	0	0
Wages and other remunerations	291	295	331	370	432	503	584	678	787
Purchases of goods and services	71	88	102	133	155	188	227	257	292
Interest 2/	542	555	555	853	1,104	1,156	1,202	1,267	1,405
Domestic interest 2/	500	507	499	773	996	1,029	1,059	1,121	1,240
External interest	43	48	56	80	108	127	143	146	165
Subsidies, grants, and social benefits	398	414	516	644	768	904	1,030	1,179	1,356
Other current	87	101	115	123	144	166	190	217	245
Investment	192	249	318	405	487	545	639	742	831
Net acquisition of financial assets	-51	-4	24	7	-1	-13	-14	-15	-15
Overall balance 2/	-409	-459	-477	-702	-900	-910	-920	-927	-1,010
Financing	409	459	477	702	900	910	920	927	1,010
Net domestic	218	310	434	636	913	1,035	902	925	942
Net external	190	149	44	12	-43	-157	-15	-22	53
Other	0	0	0	0	0	0	0	0	0
Financing gap				54	30	31	33	24	15
of which IMF				15	17	18	19	9	0
of which other				39	13	13	14	15	15
(In percent of GDP, unless otherwise indicated)									
Revenue and grants	18.2	18.6	18.9	19.2	19.6	20.0	20.4	20.8	20.9
Tax revenue	12.0	12.5	12.6	12.9	13.5	13.9	14.4	14.9	15.0
Nontax revenue	6.1	6.0	6.3	6.3	6.2	6.1	6.0	5.9	5.9
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	25.7	25.5	24.7	26.5	27.7	27.2	26.9	26.5	26.5
Wages and other remunerations	4.7	4.4	4.2	3.9	3.9	4.0	4.1	4.1	4.2
Purchases of goods and services	1.1	1.3	1.3	1.4	1.4	1.5	1.6	1.6	1.6
Interest 2/	8.8	8.3	7.1	8.9	9.9	9.1	8.3	7.8	7.6
Subsidies, grants, and social benefits	6.5	6.2	6.6	6.7	6.9	7.1	7.1	7.2	7.3
Other current	1.4	1.5	1.5	1.3	1.3	1.3	1.3	1.3	1.3
Investment	3.1	3.7	4.1	4.2	4.4	4.3	4.4	4.5	4.5
Net acquisition of financial assets	-0.8	-0.1	0.3	0.1	0.0	-0.1	-0.1	-0.1	-0.1
Financing	6.6	6.9	6.1	7.4	8.1	7.2	6.4	5.7	5.4
Net domestic	3.5	4.7	5.5	6.7	8.2	8.1	6.3	5.7	5.1
Net external	3.1	2.2	0.6	0.1	-0.4	-1.2	-0.1	-0.1	0.3
Financing gap				0.6	0.3	0.2	0.2	0.1	0.1
of which IMF				0.2	0.2	0.1	0.1	0.1	0.0
of which other				0.4	0.1	0.1	0.1	0.1	0.1
Memorandum items:									
Primary balance	2.2	1.4	1.0	1.6	1.8	1.9	2.0	2.1	2.1
Gross general government debt 3/	86.2	89.9	88.5	88.3	85.5	83.5	81.0	77.9	74.8
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	11,155	12,703	14,407	16,350	18,573

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/ Until FY2021/22, 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.

After FY2022/23, interest is defined as in GFSM 2014, and it includes accrued interest expense.

Accrued interest expense is not included in the overall balance until FY2021/22, while it is included in the overall balance after FY2022/23.

3/ Public debt 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, 2019/20–2027/28

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(end-period, in billions of EGP, unless otherwise indicated)								
Net foreign assets	157	224	-153	-38	229	355	727	1170	1282
Foreign assets	604	624	611	962	1282	1447	1861	2348	2506
Foreign liabilities	447	400	764	1000	1053	1092	1134	1178	1224
Net domestic assets	698	763	1346	1506	1562	1680	1577	1477	1793
Net domestic credit	543	480	449	-39	-114	173	325	393	717
Net credit to central government	813	744	1059	1059	1059	1059	1059	1059	1059
Net credit to public economic authorities	-7	-38	-58	-45	-44	-42	-40	-38	-36
Credit to banks	274	377	400	520	528	530	551	589	609
Banks' deposits in foreign currency	-112	-135	-216	-291	-307	-319	-332	-345	-359
Open market operations	-424	-469	-736	-1282	-1350	-1055	-912	-872	-556
Other items net	155	284	897	1545	1676	1507	1252	1083	1076
Reserve money	856	988	1193	1468	1791	2034	2304	2646	3075
Currency in circulation	603	673	779	949	1166	1330	1512	1742	2001
Reserves and highly liquid assets of banks	253	314	414	519	625	704	792	904	1074
Cash in vaults	48	49	59	59	59	59	59	59	59
Reserves	204	265	355	460	565	645	733	844	1014

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

Table 6. Egypt: Monetary Survey, 2019/20–2027/28

	2019/20	2020/21	2021/22	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
	(End-period, in billions of EGP)								
Net foreign assets	123	251	-372	-414	-160	-52	330	804	1,224
Central bank	157	224	-153	-38	229	355	727	1,170	1,282
Commercial banks	-34	26	-219	-376	-388	-407	-396	-365	-58
Net domestic assets	4,416	5,106	6,987	9,039	10,526	11,730	12,799	14,156	15,786
Net claims on central and local government	3,022	3,151	3,971	4,650	5,598	6,652	7,574	8,529	9,519
Net claims on public economic authorities	213	353	452	640	792	909	1,037	1,206	1,420
Claims on public sector companies	156	149	155	187	216	239	265	297	332
Claims on private sector	1,455	1,752	2,178	2,571	2,956	3,370	3,841	4,416	5,078
Net other items	-429	-299	231	991	965	560	82	-292	-564
Broad money (M2)	4,539	5,357	6,614	8,625	10,367	11,678	13,129	14,960	17,010
Domestic currency component (M2D)	3,872	4,706	5,768	7,275	8,943	10,199	11,591	13,358	15,345
Currency outside banks	603	673	779	949	1,166	1,330	1,512	1,742	2,001
Domestic currency deposits	3,269	4,033	4,990	6,326	7,776	8,869	10,079	11,616	13,343
Foreign currency deposits	667	650	846	1,350	1,424	1,479	1,539	1,602	1,666
	(Annual percent change, unless otherwise indicated)								
Broad money (M2)	17.5	18.0	23.5	30.4	20.2	12.7	12.4	13.9	13.7
Domestic currency component (M2D)	23.0	21.5	22.6	26.1	22.9	14.0	13.6	15.2	-100.0
Reserve money	25.1	15.4	20.8	23.1	22.0	13.6	13.2	14.9	16.2
Contribution to broad money growth	17.5	18.0	23.5	30.4	20.2	12.7	12.4	13.9	13.7
Net foreign assets	-4.6	2.8	-11.6	-0.6	3.0	1.0	3.3	3.6	2.8
Net domestic assets	22.1	15.2	35.1	31.0	17.2	11.6	9.2	10.3	10.9
Credit to the private sector	19.5	20.5	24.3	18.0	15.0	14.0	14.0	15.0	15.0
Credit to government, public economic authorities and public sector companies	30.9	7.7	25.3	19.7	20.6	18.1	13.8	13.0	12.4
Memorandum items:									
Velocity									
Velocity GDP/M2D (level)	1.8	1.6	1.5	1.5	1.4	1.3	1.3	1.3	1.4
Velocity GDP/M2 (level)	1.5	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2
M2 (in percent of GDP)	73.8	80.4	84.3	90.4	92.9	91.9	91.1	91.5	91.6
Money multiplier (M2D/reserve money)	4.5	4.8	4.8	5.0	5.0	5.0	5.0	5.0	5.0
Money multiplier (M2/reserve money)	5.3	5.4	5.5	5.9	5.8	5.7	5.7	5.7	5.5
M2 (in real terms)	7.4	11.7	17.7	15.3	4.7	3.7	5.0	6.4	6.2
Domestic currency deposits (in real terms)	12.3	16.7	17.9	12.1	7.1	4.9	6.2	7.7	7.3
Claims on private sector (in real terms)	9.3	14.0	18.5	4.3	0.2	4.9	6.5	7.4	7.4
Foreign currency deposits (in percent of total deposits)	16.9	13.9	14.5	17.6	15.5	14.3	13.2	12.1	11.1

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

Table 7a. Egypt: Summary of National Accounts, 2019/20–2027/28

(In percent)

	2019/20	2020/21	2021/22	2022/23 Proj.	2023/24 Proj.	2024/25 Proj.	2025/26 Proj.	2026/27 Proj.	2027/28 Proj.
(Annual change, in percent)									
Real GDP at market price 1/	3.5	3.4	6.6	4.0	5.3	5.7	5.9	5.9	6.0
Domestic demand (absorption)	2.6	4.8	4.1	5.0	5.1	5.8	5.7	5.7	6.4
Private	2.0	5.1	3.6	5.7	5.1	5.6	5.3	5.2	6.2
Public	7.0	3.1	6.9	-0.4	5.0	7.7	8.9	8.8	8.4
Consumption	6.9	6.0	6.7	5.6	4.8	5.6	5.0	4.9	6.0
Private	7.0	6.3	7.0	6.2	4.8	5.3	4.5	4.5	5.6
Public	6.7	3.7	4.3	0.3	5.1	8.5	9.1	9.1	9.1
Investment	-16.6	-2.2	-12.0	0.4	7.2	7.9	10.8	10.6	9.6
Gross fixed capital formation	-14.7	-14.8	17.0	0.4	7.2	7.9	10.8	10.6	9.5
Private	-37.3	-40.2	10.0	12.0	15.0	17.0	17.0	17.0	17.0
Public	8.7	0.4	19.5	-3.4	4.2	4.0	7.8	7.4	5.3
Net exports of goods and services 2/	0.7	-1.8	2.2	-1.3	-0.1	-0.5	-0.2	-0.1	-0.8
Exports of goods and services	-21.7	-13.0	33.6	3.8	5.7	5.1	2.9	4.8	3.7
Imports of goods and services	-17.8	0.2	8.0	9.1	4.4	5.9	2.7	3.7	6.6
Real GDP at factor cost	2.5	2.0	6.2	4.0	5.3	5.7	5.9	5.9	6.0
Agriculture	3.3	3.8	4.0	3.0	3.6	3.6	3.6	3.6	3.6
Construction	4.4	6.8	7.0	4.0	10.0	10.0	11.5	11.5	12.0
Industry	-0.3	-2.9	6.3	2.7	3.9	3.9	4.3	4.3	4.3
Services	3.1	3.4	6.5	4.7	5.8	6.7	6.5	6.5	6.5
General government	6.1	4.9	4.2	4.0	3.5	3.1	3.1	3.1	3.1
Suez Canal	5.0	0.6	11.7	11.7	11.8	11.9	11.9	11.9	11.9
(Contribution to real growth, in percent 3/)									
Real GDP at market price	3.5	3.4	6.6	4.0	5.3	5.7	5.9	5.9	6.0
Domestic demand (absorption)	2.8	5.1	4.4	5.3	5.4	6.2	6.0	6.0	6.8
Private	1.4	4.8	2.4	5.6	4.6	5.1	4.5	4.5	5.5
Public	1.3	0.4	2.1	-0.3	0.8	1.1	1.5	1.5	1.3
Consumption	6.1	5.5	6.3	5.2	4.6	5.2	4.7	4.6	5.5
Private	5.5	5.1	5.9	5.2	4.1	4.5	3.9	3.8	4.6
Public	0.6	0.3	0.4	0.0	0.5	0.7	0.8	0.8	0.9
Investment	-3.3	-0.4	-1.8	0.1	0.9	1.0	1.4	1.4	1.3
Gross fixed capital formation	-2.5	-2.1	1.9	0.1	0.9	1.0	1.4	1.4	1.3
Private	-3.2	-2.1	0.3	0.4	0.5	0.6	0.7	0.8	0.8
Public	0.7	0.0	1.6	-0.3	0.4	0.4	0.7	0.6	0.5
Net exports of goods and services	0.7	-1.8	2.2	-1.3	-0.1	-0.5	-0.2	-0.1	-0.8
Exports of goods and services	-3.8	-1.7	3.7	0.5	0.8	0.7	0.4	0.7	0.5
Imports of goods and services	4.5	-0.1	-1.5	-1.8	-0.9	-1.2	-0.6	-0.7	-1.3
Real GDP at factor cost	2.5	2.0	6.2	4.0	5.3	5.7	5.9	5.9	6.0
Agriculture	0.4	0.4	0.5	0.3	0.4	0.4	0.4	0.4	0.4
Construction	0.3	0.4	0.5	0.3	0.7	0.7	0.8	0.9	1.0
Industry	-0.1	-0.8	1.7	0.7	1.0	1.0	1.1	1.1	1.1
Services	1.3	1.5	2.9	2.1	2.6	3.0	2.9	3.0	3.0
General government	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.2
Suez Canal	0.1	0.0	0.3	0.3	0.3	0.3	0.4	0.4	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, 2019/20–2027/28
(In percent of GDP)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
				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
Domestic demand (absorption)	107.2	108.7	106.8	107.3	107.3	107.0	106.4	105.8	105.9
Private	90.9	92.8	90.3	91.9	91.9	91.6	90.7	89.7	89.7
Public	16.3	16.0	16.5	15.4	15.4	15.4	15.8	16.1	16.2
Consumption	91.0	93.6	90.2	95.3	95.0	94.4	93.2	92.0	91.7
Private	83.5	86.0	82.9	88.3	88.0	87.3	85.9	84.5	84.0
Public	7.5	7.6	7.3	6.9	6.9	7.1	7.3	7.5	7.7
Investment	16.2	15.2	16.6	12.1	12.3	12.6	13.2	13.8	14.2
Gross fixed capital formation	14.0	11.4	12.6	12.1	12.3	12.6	13.2	13.8	14.2
Private	5.2	3.0	3.3	3.5	3.9	4.3	4.7	5.2	5.8
Public	8.7	8.4	9.3	8.5	8.4	8.3	8.4	8.5	8.5
Net exports of goods and services	-7.2	-8.7	-6.8	-7.3	-7.3	-7.0	-6.4	-5.8	-5.9
Exports of goods and services	12.5	10.6	15.1	18.3	18.6	18.0	17.1	16.6	16.0
Imports of goods and services	-19.7	-19.3	-21.9	-25.7	-25.9	-25.0	-23.5	-22.4	-21.9
Net factor income	-3.0	-2.9	-3.3	-3.7	-3.5	-3.3	-3.2	-3.1	-3.0
Net remittances inflows	7.2	7.4	6.7	8.1	8.3	8.0	7.6	7.2	6.8
Net official transfers	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Gross National Disposable Income	104.3	104.4	103.3	104.3	104.7	104.6	104.3	104.0	103.7
National savings	13.3	10.8	13.1	9.1	9.8	10.2	11.1	12.0	12.1
Private	17.6	14.0	14.9	12.1	13.5	13.2	13.1	13.2	13.1
Public	-4.4	-3.2	-1.7	-3.0	-3.7	-3.0	-2.0	-1.2	-1.1
Savings-investment balance	-2.9	-4.4	-3.5	-3.0	-2.5	-2.4	-2.1	-1.8	-2.2
Private	12.4	11.0	11.6	8.6	9.6	8.9	8.4	8.0	7.3
Public	-13.1	-11.6	-11.0	-11.5	-12.1	-11.3	-10.5	-9.8	-9.5
GDP at factor cost	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	9.1	8.2	7.5	6.8	6.2
Construction	7.1	7.6	7.6	6.9	6.4	6.2	6.1	6.0	5.9
Industry	26.7	25.2	26.8	23.9	21.1	19.2	17.6	16.2	14.8
Services	46.0	46.8	46.0	51.5	56.7	60.3	63.2	65.9	68.3
General government	6.9	6.9	6.6	5.9	5.2	4.7	4.3	3.9	3.5
Suez Canal	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3

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

Table 8. Egypt: Medium-Term Macroeconomic Framework, 2019/20–2027/28
(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
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Growth and prices									
Real GDP (annual change, in percent)	3.5	3.4	6.6	4.0	5.3	5.7	5.9	5.9	6.0
CPI inflation (end-of-period, in percent)	5.7	4.9	13.2	14.8	8.7	7.0	7.0	7.0	7.0
CPI inflation (average, in percent)	5.7	4.5	8.5	15.8	11.1	7.6	7.0	7.0	7.0
Unemployment rate (period average, in percent)	8.3	7.3	…	…	…	…	…	…	…
Savings-investment balance	-2.9	-4.4	-3.5	-3.0	-2.5	-2.4	-2.1	-1.8	-2.2
Investment	14.0	11.4	12.6	12.1	12.3	12.6	13.2	13.8	14.2
Domestic savings	11.1	7.1	9.1	9.1	9.8	10.2	11.1	12.0	12.1
Public finances									
General government									
Revenue and grants	18.2	18.6	18.9	19.2	19.6	20.0	20.4	20.8	20.9
Expenditure and NAFA	24.9	25.5	25.0	26.5	27.7	27.1	26.8	26.5	26.4
Overall balance	-6.6	-6.9	-6.1	-7.4	-8.1	-7.2	-6.4	-5.7	-5.4
Overall balance, excl. grants	-6.7	-6.9	-6.1	-7.4	-8.1	-7.2	-6.4	-5.7	-5.4
Primary balance	2.2	1.4	1.0	1.6	1.8	1.9	2.0	2.1	2.1
Gross debt	86.2	89.9	88.5	88.3	85.5	83.5	81.0	77.9	74.8
Domestic	68.3	70.9	69.0	66.2	65.7	66.4	65.2	63.4	61.2
External	18.0	19.0	19.5	22.1	19.8	17.1	15.8	14.5	13.6
Budget sector									
Revenue and grants	15.9	16.6	16.9	16.9	17.3	17.7	18.0	18.3	18.3
Tax revenue	12.0	12.5	12.6	12.9	13.5	13.9	14.4	14.9	15.0
Non-tax revenue	3.7	4.1	4.2	4.0	3.9	3.8	3.6	3.4	3.3
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and NAFA	23.4	23.7	23.1	24.8	25.7	25.0	24.5	24.1	24.0
Of which: Current	20.3	20.0	19.0	20.5	21.3	20.7	20.1	19.6	19.6
Capital	3.1	3.7	4.1	4.2	4.4	4.3	4.4	4.5	4.5
Overall budget balance	-7.5	-7.1	-6.2	-7.8	-8.4	-7.3	-6.5	-5.9	-5.7
Overall budget balance, excl. grants	-7.6	-7.1	-6.2	-7.8	-8.4	-7.3	-6.5	-5.9	-5.7
Primary budget balance	1.7	1.4	1.3	1.7	2.1	2.3	2.3	2.4	2.4
Balance of payments and external debt									
Current account	-2.9	-4.4	-3.5	-3.0	-2.5	-2.4	-2.1	-1.8	-2.2
Trade balance	-9.5	-9.9	-9.1	-9.3	-9.6	-10.1	-9.7	-9.4	-9.5
Oil and gas	-0.1	0.0	0.9	2.2	1.5	1.1	0.5	0.0	-0.2
Other	-9.4	-9.9	-10.1	-11.6	-11.2	-11.2	-10.2	-9.4	-9.3
Capital and financial account (incl. errors and omissions)	-0.3	4.1	1.3	3.3	4.5	3.9	4.8	4.4	2.6
Official reserves (in billions of US$)	37.2	39.4	31.5	37.1	47.2	51.4	63.9	77.8	79.9
(In months of next year's imports of goods and services)	6.0	6.8	3.1	3.7	4.6	4.7	5.8	6.8	6.5
External debt (in percent of GDP)	32.3	32.6	32.8	35.8	34.8	32.6	30.3	27.5	25.8

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

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

(Fiscal year end, unless otherwise indicated) 1/

	2014	2015	2016	2017	2018	2019	2020	2021	end-Jun 2022
Capital adequacy									
Regulatory capital to RWA	13.9	14.5	14.0	14.7	15.7	17.7	20.1	22.2	20.9
Common equity to RWA	11.4	12.1	11.7	9.2	10.4	12.7	14.6	13.4	12.2
Asset quality									
NPLs to total loans	8.5	7.1	6.0	4.9	4.1	4.2	4.0	3.4	3.2
Loan provisions to non-performing loans	98.9	99.0	99.1	98.3	98.0	97.6	95.2	92.3	92.1
Profitability									
Return on assets	1.3	1.5	2.0	1.5	1.4	1.8	1.2	1.2	1.2
Return on average equity	18.9	24.4	30.9	21.5	19.2	23.4	14.9	16.1	16.1
Liquidity									
Average liquidity ratio									
Local currency	62.7	59.7	55.4	47.1	40.3	44.4	53.8	45.4	44.3
Foreign currency	57.4	52.0	60.2	66.4	67.7	67.7	71.5	67.9	78.4
Loans to deposits	40.8	40.9	47.0	46.0	46.2	46.7	46.4	48.3	48.6

Source: Central Bank of Egypt.

1/ Starting in 2021, the fiscal year ends on December 31 for the banking sector. Prior to that, the fiscal 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, 2019/20–2029/30 1/ 2/

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
				Projections							
Fund repurchases and charges											
Millions of SDRs	263.0	485.9	928.1	1,688.0	4,109.2	4,891.9	2,652.6	1,539.2	1,205.7	826.1	535.4
Repurchases	0.0	164.2	522.4	955.2	3,345.2	4,333.1	2,301.3	1,290.4	1,019.2	673.4	402.3
Charges and fees	263.0	321.7	405.7	732.8	764.0	558.7	351.3	248.8	186.5	152.7	133.1
Millions of US$	367.2	678.2	1,295.5	2,258.0	5,480.2	6,561.3	3,578.7	2,088.7	1,645.7	1,127.6	730.8
Percent of exports of goods and nonfactor services	0.8	1.5	1.8	3.0	6.9	7.8	4.1	2.3	1.5	0.9	0.5
Percent of total debt service 3/	0.2	0.5	0.9	1.7	3.3	3.3	1.7	1.0	0.7	0.4	0.2
Percent of quota	12.9	23.9	45.6	82.9	201.7	240.1	130.2	75.6	59.2	40.6	26.3
Percent of gross international reserves	0.9	1.4	4.0	5.9	11.3	12.4	5.5	2.6	2.0	1.3	0.7
Percent of GDP	0.1	0.2	0.3	0.5	1.3	1.4	0.6	0.3	0.2	0.1	0.1
Percent of general government revenues	0.5	0.9	1.4	2.8	6.4	6.9	3.7	1.9	1.3	0.8	0.4
Fund credit outstanding											
Millions of SDRs	12,081	14,233	13,711	13,278	10,455	6,644	4,865	3,836	2,817	2,143	1,741
Millions of US$	16,864	19,868	19,139	18,535	14,594	9,274	6,791	5,354	3,932	2,992	2,430
Percent of exports of goods and nonfactor services	35.4	44.5	27.0	24.2	18.3	11.0	7.8	5.8	3.6	2.4	1.7
Percent of quota	593.1	698.7	673.1	651.8	513.2	326.2	238.8	188.3	138.3	105.2	85.5
Percent of gross international reserves	41.4	40.1	59.0	48.3	30.1	17.6	10.4	6.8	4.8	3.4	2.4
Percent of GDP	4.4	4.7	4.0	4.4	3.4	2.0	1.1	0.8	0.5	0.3	0.2
Percent of general government revenues	24.2	25.3	21.3	22.9	17.1	9.8	7.0	4.8	3.1	2.1	1.5
Memorandum items:											
Exports of goods and nonfactor services (in millions of US$)	47,665	44,672	70,832	76,437	79,843	84,030	86,972	92,288	110,393	125,647	143,009
Total debt service (in millions of US$)	173,791	149,990	143,075	134,493	168,389	200,458	211,627	210,439	239,518	272,614	310,284
Quota (in millions of SDRs, end of period) 4/	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1	2,037.1
Quota (millions of US$ at eop exchange rate)	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3	1,459.3
Fund repurchases and charges in percent of net international reserves	…	…	6.8	9.8	16.6	17.6	7.2	3.3	2.5	…	…
Fund credit Outstanding in percent of net international reserves	…	…	100.2	80.7	44.1	24.9	13.6	8.4	5.9	…	…
Gross international reserves (in millions of US$)	40,769	49,581	32,429	38,393	48,501	52,708	65,205	79,056	81,129	87,350	99,420

Source: IMF staff calculations.

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

Table 11. Egypt: External Financing Needs and Sources

(Billions of U.S. dollars)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
External financing needs (A)	**26.6**	**23.6**	**24.2**	**29.7**	**19.9**	**18.4**	**20.8**
Current account deficit	16.6	12.6	11.1	11.2	10.8	10.0	13.5
Medium/long-term loan and supplier credit amortization	6.2	8.1	7.5	11.5	4.8	5.4	4.8
Other sectors' investments	3.1	1.7	1.2	1.2	1.2	1.2	1.2
IMF repayments (2016-19 EFF, 2022 EFF, 2020 RFI, 2020-21 SBA)	0.7	1.3	4.5	5.8	3.1	1.8	1.4
External financing sources (B)	**21.2**	**23.5**	**28.3**	**30.9**	**31.0**	**31.3**	**22.4**
Foreign direct investment, net	8.6	9.7	12.1	13.5	14.7	16.3	16.9
Portfolio investment, net	-21.1	6.1	7.3	8.0	7.5	8.5	7.8
Medium/long-term loan disbursements	7.6	6.8	7.8	7.4	7.1	6.0	5.7
CBE's NFA flows	15.4	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks' net borrowing from abroad	13.5	-0.2	-0.9	-0.3	-1.4	-2.1	-11.0
Net short-term supplier credit	-2.9	1.0	2.0	2.4	3.0	2.7	2.9
Errors and Omissions	**-5.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Incipient change in reserves (D=B-A+C)	**-11.2**	**-0.1**	**4.1**	**1.2**	**11.1**	**12.9**	**1.6**
Targeted change in reserves (E)	**-7.9**	**6.0**	**10.1**	**4.2**	**12.5**	**13.9**	**2.1**
Financing gap (F=E-D)	...	**6.1**	**6.0**	**3.0**	**1.4**	**0.9**	**0.5**
IMF, Extended Fund Facility	...	0.7	0.7	0.7	0.7	0.3	0.0
World Bank	...	1.1	0.5	0.5	0.5	0.5	0.5
AIIB	...	0.4	...	...	...	...	...
African Development Bank	...	0.3	...	...	...	...	...
Arab Monetary Fund	...	0.3	0.3	...	...	...	...
China Development Bank	...	1.0	...	...	...	...	...
Sales of state-owned assets (including to GCC)	...	2.0	4.6	1.8	0.2	0.1	0.0
Other 1/	...	0.4	...	...	...	...	...

Source: IMF staff calculations.

1/ The line Other reflects an increase in Tier 2 reserves between end-June 2022 and end-September 2022.

Table 12. Egypt: Proposed 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 13. Egypt: Quantitative Performance Criteria and Indicative Targets for FY2022/2023
(In billions of Egyptian pounds unless otherwise indicated)

	end-December 2022	end-March 2023	end-June 2023
	Prog.	Indicative	Prog.
I. Quantitative Performance Criteria 1/			
Net international reserves ($ million; floor) 2/	16,013	16,975	22,964
Primary fiscal balance of the budget sector (cumulative, floor) 3/	0	35	160
Accumulation of external debt payment arrears by the general government ($ million; continuous ceiling)	0	0	0
II. Indicative Targets			
Tax revenues (cumulative floor) 3/	410	660	1,232
Social spending of the budget sector (floor) 3/	61	92	153
Average maturity of gross local currency debt issuance (years; cumulative floor) 3/	0.87	0.93	0.97
Gross debt of the budget sector (at program exchange rate; ceiling)	7,777	7,975	8,173
Overnight interbank rate outside 50 bps of mid-corridor rate (number of days) 4/	0	0	0
III. Monetary Policy Consultation			
(12-month change in consumer prices)			
Upper outer band	18	16	15
Upper inner band	9	9	9
Actual/Center target	7	7	7
Lower inner band	5	5	5
Lower outer band	3	3	3
Memorandum items:			
Program disbursements at completion of review ($ million; cumulative change) 4/	1,591	3,183	5,696
External program financing assumed under the program ($ million; cumulative change) 4/	1,257	2,513	5,026
Of which:			
Sales of state-owned assets	500	1,000	2,000
Net issuance of FX T-Bills	0	0	0
IMF financing assumed under the program ($ million) 4/	335	670	670
Net external loans from private creditors in foreign currency (including Eurobonds) assumed in the BOP baseline ($ million, cumulative change)	0	476	3,726
Stock of nonresidents' holdings of local-currency T-bills and T-bonds ($ million)	4,352	4,977	5,602
Divestment proceeds flowing to the budget (EGP billion, cumulative)	0	0	10

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 are indicative.

2/ The NIR includes CBE's foreign assets which comprises the CBE's official reserves and CBE's foreign currency deposits with local banks. This definition is different from that in in the 2016-19 EFF and 2020-21 SBA with Egypt. See TMU for details.

3/ From the beginning of the fiscal year (July 1, 2022).

4/ From September 30, 2022.

Table 14. Egypt: Decomposition of Public Debt and Debt Service by Creditor, FY21/22–FY24/25[1]

	Debt Stock (end of period)			Debt Service [2]					
	FY21/22			FY22/23	FY23/24	FY24/25	FY22/23	FY23/24	FY24/25
	(In US$ billion)	*(Percent total debt)*	*(Percent GDP)*	*(In US$ billion)*			*(Percent GDP)*		
Total	382.1	100.0	91.6	135.9	54.9	55.0	32.2	12.6	11.6
External	81.4	21.3	19.5	7.3	12.3	16.4	1.7	2.8	3.5
Multilateral creditors[3]	43.3	11.3	10.4	3.8	7.5	8.2	0.9	1.7	1.7
IMF	18.3	4.8	4.4						
World Bank	12.1	3.2	2.9						
AfDB	2.7	0.7	0.6						
Other Multilaterals	10.2	2.7	2.4						
Official bilateral creditors	4.8	1.3	1.2	0.3	0.2	0.3	0.1	0.1	0.1
Bonds, and syndicated loan	32.0	8.4	7.7	2.9	4.2	7.7	0.7	1.0	1.6
Rescheduled debt	1.3	0.3	0.3	0.3	0.3	0.3	0.1	0.1	0.1
Domestic	300.7	78.7	72.1	128.6	42.7	38.6	30.4	9.8	8.2
T-Bills	93.6	24.5	22.4	80.0	0.0	0.0	18.9	0.0	0.0
T-bonds, and Eurobonds held by residents	153.9	40.3	36.9	38.8	39.1	31.2	9.2	9.0	6.6
Nontradable domestic debt	53.3	13.9	12.8	9.9	3.6	7.4	2.3	0.8	1.6
o/w: Bonds and notes issued to CBE	36.7	9.6	8.8	3.0	3.1	4.2	0.7	0.7	0.9
o/w : Other	16.6	4.3	4.0	6.9	0.5	3.2	1.6	0.1	0.7
Memo items:									
Collateralized debt[4]	n.a.	n.a.	n.a.						
Contingent liabilities	n.a.	n.a.	n.a.						
Nominal GDP	475.2	...	...	...	...	...	...	...	...

1/ Debt coverage is for the budget sector, as this is the perimeter of debt that is closely monitored in the Fund-supported program for Egypt. 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 it is converted to the US dollar by IMF staff. The information missing due to data availability will be collected in future program reviews.

2/ Debt service on debt stock that existed at the end of FY21/22 (end-June 2022).

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.

Annex I. Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Impact if Realized	Recommended Policy Response
Global Risks			
Intensifying spillovers from Russia's war in Ukraine	**High**	**High** Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	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 shocks	**High**	**High** A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility 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.
De-anchoring of inflation expectations and stagflation	**Medium**	**Medium/High** Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	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.

[1] Based on the August 4, 2022 G-RAM. 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			
Abrupt adjustment in the exchange rate	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 pass-through to inflation.	Refrain from FX intervention and allow the exchange rate to find its market-clearing equilibrium so it can act as a shock absorber, with two-way movements that reflect FX demand and supply conditions.
Limited resumption in tourism revenue amidst the war in Ukraine	High	Medium/High Lower remittance and tourism inflows impact economic activity and dampen the growth outlook, while reduced FX revenue puts pressure on the exchange rate.	Allow the exchange rate to act as a shock absorber. Implement structural reforms to diversify economy and increase exports to add sources of FX revenue.
Slower-than-expected structural reform implementation	Medium	Medium/High Lack of reform leads to re-accumulation of imbalances, lowering growth potential and leaving country vulnerable to shocks.	Re-invigorate the structural reform agenda focusing on priority areas such as SOE reform, competition and the investment climate, trade facilitation, and health and education reform to address key constraints to growth.
Materialization of fiscal contingent liabilities	Medium	Medium/High Loss-making SOEs require government's recapitalization or repayment of government-guaranteed debt, putting pressure on public expenditure while increasing public debt.	Improve transparency, governance, and financial reporting of SOEs. Develop SOE ownership and reform strategy. Clearly define and separate commercial and non-commercial activities of SOEs.
Social discontent fueled by rising prices and inequality	Low	Medium/High Social discontent and political instability could weaken support for structural reforms, reduce investment and negatively impact growth.	Maintain prudent macroeconomic policies. Promote inclusive growth and strengthen social safety nets. Facilitate job creation in the private sector.

Annex II. Sovereign Risk and Debt Sustainability Framework

Egypt: Sovereign Risk and Debt Sustainability Framework Summary				
Horizon		**Mechanical signal**	**Final assessment**	**Comments**
Sovereign Risk Assessment				
Overall		...	**High**	The overall risks of sovereign stress are assessed as high, consistent with the high risk signals at the medium-term horizon.
Near term 1/		n.a.	n.a.	Not applicable.
Medium term		**High**	**High**	Medium-term risks are assessed as high, given the high risk signals from both the debt fanchart and GFN modules. The high risk signal from the GFN module reflects high average gross financing needs over the forecast horizon and the large claims of the domestic banking sector on the government. The high risk signal from the debt fanchart module is due to a high level of debt at the end of the forecast horizon and large uncertainty about the debt trajectory reflected in a large fanchart width.
	Fanchart	**High**	...	
	GFN	**High**	...	
Long term				
Debt Sustainability Assessment				
Sustainability assessment 2/			Sustainable but not with high probability	Public debt is assessed as sustainable but not with high probability. This assessment is based on the considerable risks due to high debt and gross financing needs, but it reflects a consideration for 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

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/ Not applicable in non-precautionary programs.

2/ Optional for surveillance countries.

DSA Summary Assessment

Staff 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 high risk signals from both the GFN and 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 banking sector on the government. The debt fanchart module also signals high risk, given the high level of debt at the end of the forecast horizon and the large uncertainty about the debt trajectory.

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:						

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

(Rows 1–3: CG; rows 1–5: GG: expected; rows 1–6: NFPS; rows 1–8: CPS)

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, 2021 (percent of GDP)

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		1.0	6.0	0	0	0	0	0	7.0
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	1.0	6.0	0	0	0	0	0	7.0

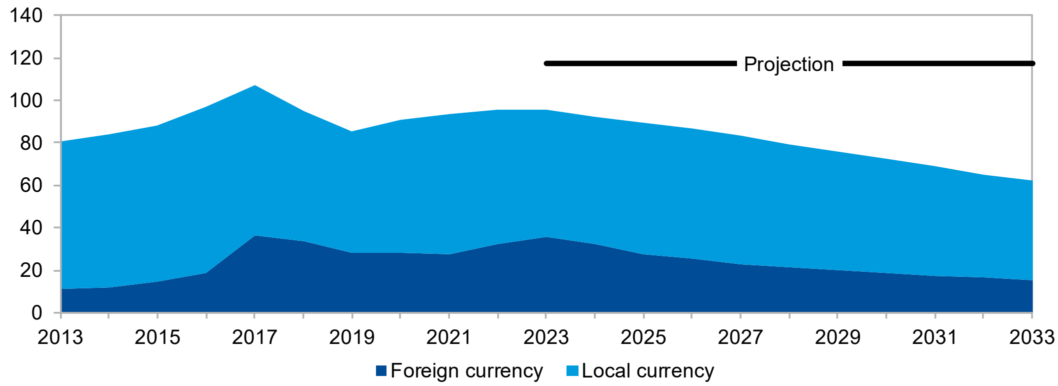
(Rows 1–3: CG; rows 1–5: GG: expected; rows 1–6: NFPS; rows 1–8: CPS)

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.

Staff commentary: The coverage in this SRDSA 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.

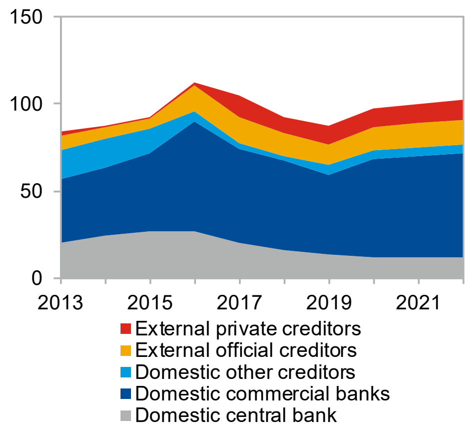
Egypt: Public debt structure indicators

Debt by currency (percent of GDP)



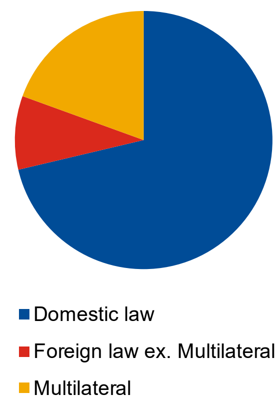
Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)



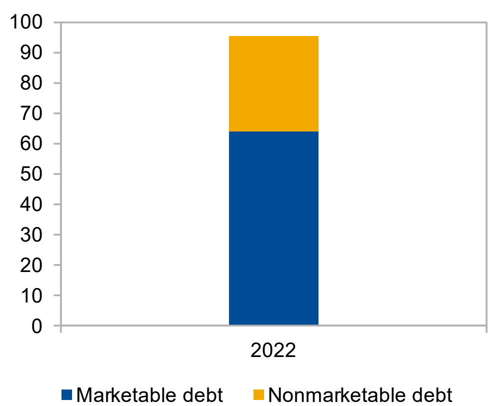
Note: The perimeter shown is general government.

Public debt by legal basis, 2022 (percent)

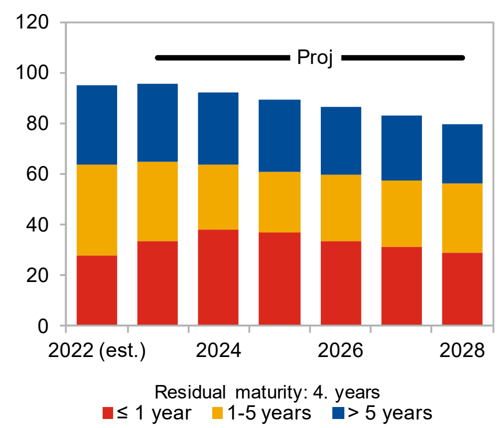


Note: Multilateral includes official creditor deposits at CBE.

Debt by instruments (percent of GDP)



Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

Staff commentary: Public debt is mainly domestic. Consequently, most debt is denominated in local currency, held by domestic banks, and it is subject to local law. Debt is primarily in marketable instruments, including a large share of T-Bills, and this results in a relatively short maturity of public debt.

Source: Fund staff estimates and projections.

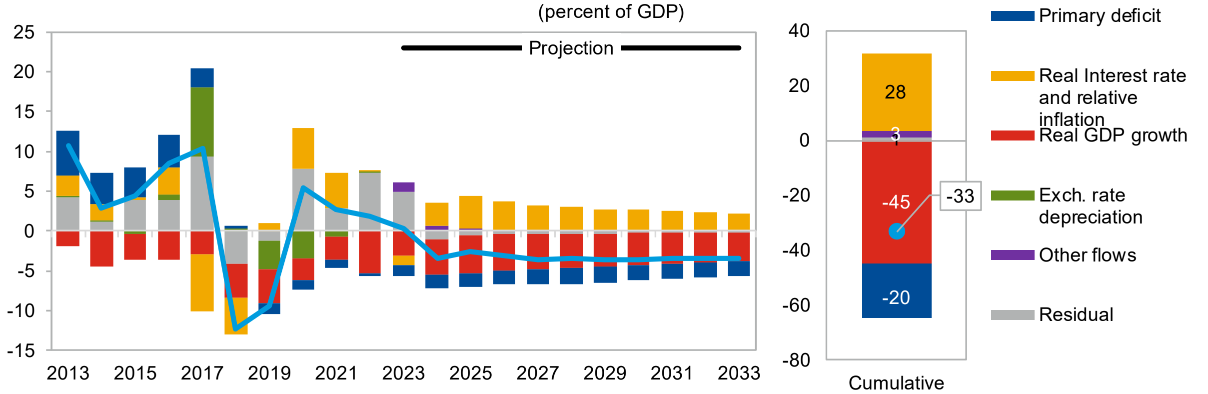
Egypt: Baseline scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection				
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt 1/	95.2	95.6	92.1	89.5	86.5	83.0	79.5	75.8	72.2	68.7	65.3	61.9
Change in public debt	1.8	0.4	-3.5	-2.6	-3.0	-3.5	-3.5	-3.7	-3.6	-3.5	-3.4	-3.4
Contribution of identified flows	-5.4	-4.5	-2.4	-2.0	-2.7	-3.2	-3.2	-3.4	-3.3	-3.2	-3.2	-3.1
Primary deficit	-0.4	-1.5	-1.7	-1.7	-1.7	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Noninterest revenues	18.0	19.0	19.5	19.8	20.3	20.7	20.8	20.8	20.8	20.8	20.8	20.8
Noninterest expenditures	17.6	17.5	17.8	18.2	18.5	18.8	18.9	18.9	18.9	18.9	18.9	18.9
Automatic debt dynamics	-5.0	-4.2	-1.3	-0.6	-1.1	-1.4	-1.4	-1.5	-1.5	-1.4	-1.3	-1.3
Real interest rate and relative inflation	0.0	-1.1	3.1	4.0	3.6	3.1	3.1	2.7	2.6	2.5	2.3	2.2
Real interest rate	-1.7	-4.9	0.5	2.5	2.4	2.0	2.0	1.8	1.7	1.6	1.5	1.5
Relative inflation	1.7	3.8	2.6	1.5	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.7
Real growth rate	-5.2	-3.2	-4.4	-4.6	-4.6	-4.5	-4.4	-4.2	-4.0	-3.8	-3.6	-3.5
Real exchange rate	0.2	…	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	1.2	0.6	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
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	0.0	1.2	0.6	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Contribution of residual	7.2	4.8	-1.1	-0.6	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
Gross financing needs	28.8	30.2	36.9	40.6	39.2	35.4	33.2	30.8	29.0	28.3	27.0	25.9
of which: debt service	30.1	31.8	38.7	42.4	41.0	37.4	35.3	32.9	31.1	30.3	29.1	28.0
Local currency	n.a.	26.4	32.4	34.7	35.9	32.4	31.2	29.3	28.0	27.0	26.1	25.0
Foreign currency	n.a.	5.4	6.4	7.7	5.2	5.0	4.1	3.5	3.1	3.3	3.0	3.0
Memo:												
Real GDP growth (percent)	6.6	4.0	5.3	5.7	5.9	5.9	6.0	6.0	6.0	6.0	6.0	6.0
Inflation (GDP deflator; percent)	10.4	17.0	11.0	7.7	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1
Nominal GDP growth (percent)	17.7	21.7	16.9	13.9	13.4	13.5	13.6	13.6	13.6	13.6	13.6	13.6
Effective interest rate (percent)	8.9	11.4	12.1	11.2	10.6	10.2	10.4	10.1	10.1	10.1	10.1	10.1

Contribution to change in public debt

(percent of GDP)

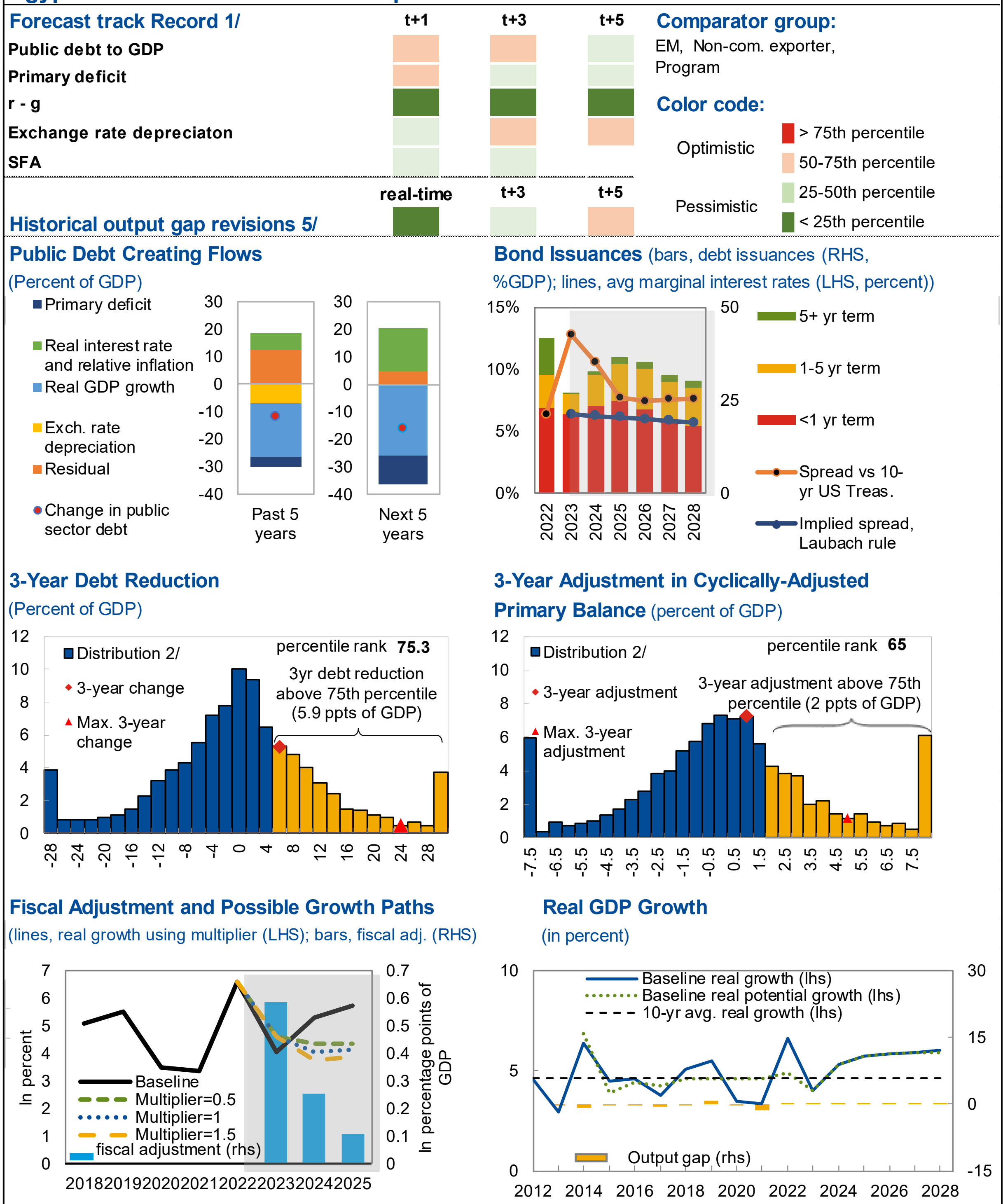


Staff commentary: After increasing in FY2022/23 (2023 in the table and the chart) mainly due to exchange rate depreciation (captured by the residual in 2023), public debt is projected to decline and be on a downward trend. Over the medium term, both the interest-rate growth differential and sustained primary surpluses contribute to the steady decline in debt.

Source: Fund staff estimates and projections.

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

Egypt: Realism of Baseline Assumptions



Staff 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, except for the real interest rate which is expected to be less favorable. The projected fiscal adjustment is within norms. The interest rate spread is projected to decrease over the medium term. While (i) the primary balance surplus contributes to debt reduction in the next five years by more than the last five years, (ii) the projected debt reduction is at 75th percentile, and (iii) 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 major Egypt-specific and global shocks during that period.

Source: Fund staff estimates and projections.

Egypt: Medium-term risk analysis

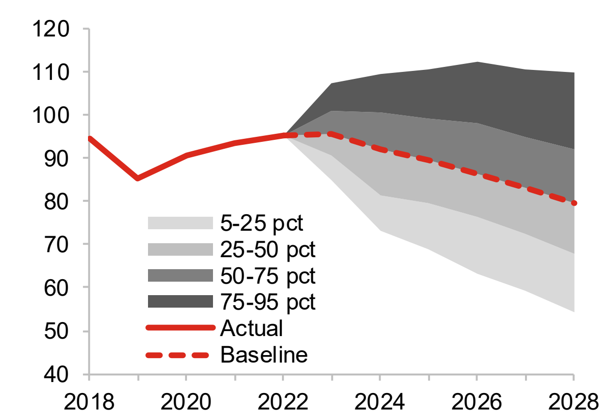
Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

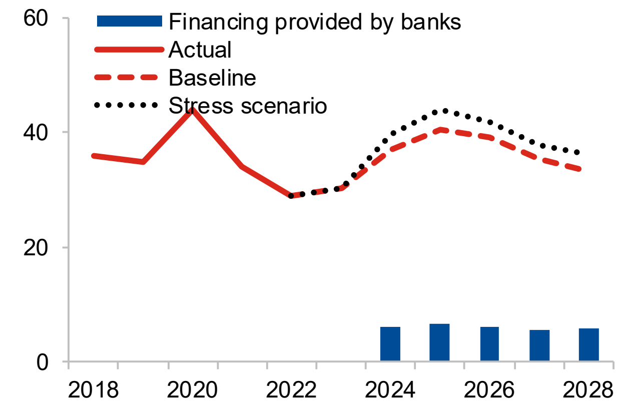
Module	Indicator	Value	Risk index	Risk signal	EM, Non-com. exporter, Program (0 25 50 75 100)
Debt fanchart module	Fanchart width	55.8	0.8	…	
	Probability of debt not stabilizing (pct)	2.0	0.0	…	
	Terminal debt level x institutions index	60.3	1.3	…	
	Debt fanchart index	**…**	**2.1**	**High**	
GFN finance-ability module	Average GFN in baseline	35.9	12.3	…	
	Bank claims on government (pct bank assets)	50.4	16.4	…	
	Chg. in claims on govt. in stress (pct bank assets)	8.3	2.8	…	
	GFN financeability index	**…**	**31.4**	**High**	

Legend: Interquartile range; Egypt

Final Fanchart(public debt in percent of GDP)



Gross Financing Needs (pct of GDP)

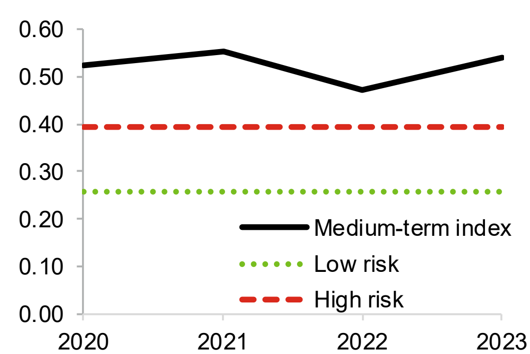


Triggered stress tests (stress tests not activated in gray)

Banking crisis   Commodity prices   Exchange rate   Contingent liab.   Natural disaster

Medium-term index

(index number)



Medium-term risk analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.5
GFN finaceability index	7.6	17.9	0.5	0.6
Medium-term index (MTI)	0.3	0.4	…	0.5, High

Commentary: Medium-term risks are assessed as high, given the high risk signals from the debt fanchart and GFN modules. The high risk signal from the GFN module reflects high average gross financing needs over the forecast horizon and the large claims of the domestic banking sector on the government. The high risk signal from the debt fanchart module is due to a high level of debt at the end of the forecast horizon and large uncertainty about the debt trajectory reflected in a large fanchart width.

Annex III. External Sector Assessment

The external position of Egypt in FY2021/22 was weaker than the level implied by medium-term fundamentals and desirable policies, taking into account the relatively low reserve level. The nominal exchange rate depreciated by around 16 percent in March and an additional 33 percent by early November 2022. The real exchange rate somewhat depreciated relative to the appreciation trend observed over the past 6 years. Reserves declined below adequate levels in 2022Q1, as the central bank intervened to stem pressure from capital outflows triggered by the war in Ukraine. The most recent depreciation (Oct/early Nov) has helped with external adjustment, but reserves need to be steadily rebuilt over the medium term. Maintaining exchange rate flexibility and increasing domestic savings through expenditure consolidation remains critical to reducing external imbalances going forward, as does structural reform to boost the capacity of the economy to generate foreign exchange through a stronger and more diversified export base.

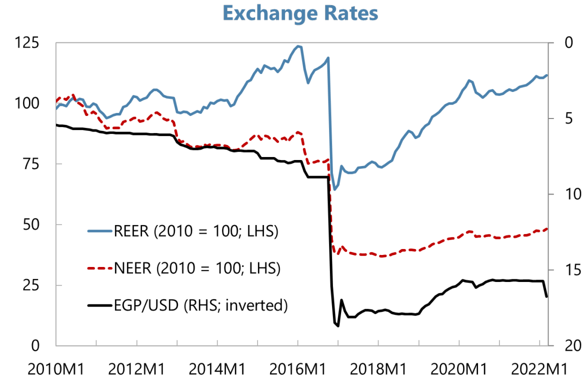
Nominal and Real Exchange Rate Evolution

1. The pound depreciated by 55 percent between end-February and early November 2022. The U.S. dollar exchange rate had been 15.7 dollars per Egyptian pound between July 2021 and March 21, 2022, with minimal day-to-day fluctuations. On March 21, 2022, the pound depreciated by 16 percent and showed some further fluctuations until October. Relative to the appreciation trend over the past 6 years, the REER depreciated somewhat in 2022, with a depreciation of 3.0 percent (y/y) through June 2022. On October 27, 2022, the CBE made an announcement to move to a durably flexible exchange rate regime, after which the pound depreciated by 23 percent (October 26 to November 7). While the competitiveness gains from the 2016 sharp REER depreciation are narrowing over time, the REER continues to be about 8 percent below the October-2016 level.

Nominal Bilateral Exchange Rate
(Egyptian pounds per dollar)

Source: Central Bank of Egypt.

Exchange Rates



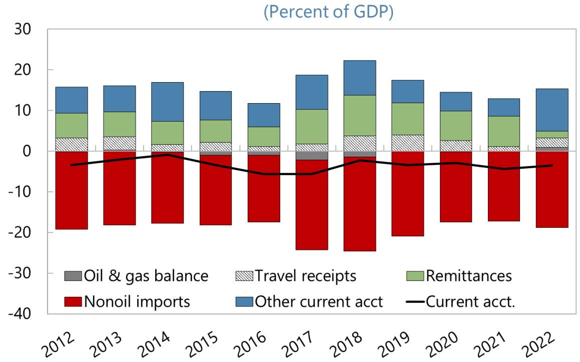
Sources: Central Bank of Egypt; Information Notice System; and Haver Analytics; based on available data as of November 15, 2020.

Current Account Balance

2. Egypt's current account deficit narrowed somewhat in FY2021/22. As the economy gained momentum in FY2021/22, imports began to decompress, particularly in H1/2021. However, delays in the processing of letters of credit (LCs) in Q2/2022 created a backlog of LC requests, reducing imports. Tourism receipts, which grounded to a near-halt at the start of the COVID crisis,

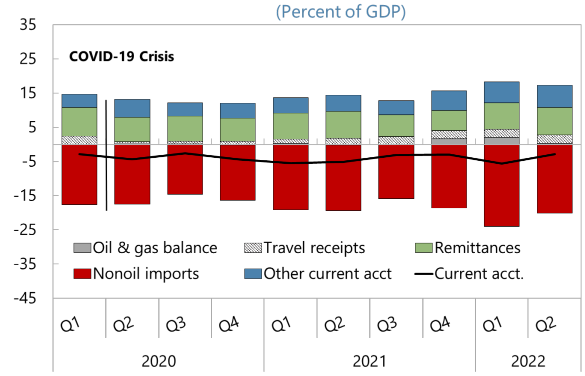
began recovering in Q3/2021, while they remain below pre-COVID levels. An improvement in oil-related trade in FY2021/22 was driven by robust LNG exports at high international prices. As a result of these developments, the current account deficit in FY2021/22 narrowed to 3.5 percent of GDP, compared with 4.4 percent in FY2020/21.

Annual Current Account
(Percent of GDP)



Sources: CBE and Ministry of Planning via Haver Analytics.
All fiscal year (June to July)

Quarterly Current Account
(Percent of GDP)



Sources: CBE and Ministry of Planning via Haver Analytics.

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 2022 WEO data) indicates a cyclically adjusted current account norm of -3.2 percent of GDP in FY2021/22.[1] With cyclical adjustments amounting to -0.8 percentage point, the cyclically adjusted current account was -4.3 percent. Consequently, the total current account gap was 1.1 percent and an implied overvaluation of 6 percent.[2] The current account model suggests that the external position in FY2021/22 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. Taking into account the relatively low level of reserves, staff views that the overall external position was weaker than the level implied by medium-term fundamentals and desirable policies. A significant import compression resulted from the issuance of CBE instructions to banks to move to letters of credit as the only means of import facilitation in February 2022. In staff's assessment, absent this, Egypt's current account deficit would have been larger. Moreover, the more recent nominal exchange rate depreciation in Oct/early Nov 2022 (not captured in this EBA vintage) is expected to support the required

Egypt: EBA Current Account Model Results for 2022

(percent of GDP unless otherwise indicated)	
Current account outturn, 2022	-3.5
Cyclically adjusted current account	-4.3
Cyclically adjusted norm	-3.2
Current account gap	-1.1
Contribution from policies	0.5
Fiscal	0.7
Other policy gaps	-0.2
Contribution from residual	-1.5
Implied overvaluation	6%
Memo:	
Semi-elasticity of CA/GDP to REER	0.17

[1] The numbers reported for the EBA current account and external sustainability approaches are based on preliminary results, as of October 2022, and they are subject to revision.

[2] The contribution from fiscal policies was 0.7 ppt, as Egypt's fiscal stance was tighter relative to that of the rest of the world, and slightly higher than in 2021 when the contribution of fiscal policies amounted to 0.5 percentage point.

external adjustment over the coming quarters, by reducing Egypt's CA deficit towards its norm. In addition, ongoing initiatives by the authorities to increase LNG exports and to become a regional bunkering hub, will help to further improve the current account. On the other hand, the effects of the war in Ukraine, higher international oil and food prices, and the gradual tapering of the mandate to use letters of credit for import financing by end 2022 may complicate future assessments.

- *External sustainability approach*: This methodology finds that a cyclically adjusted current account of -4.0 percent of GDP would be needed to stabilize Egypt's net foreign assets (NFAs) at their FY2020/21 levels. With the cyclically adjusted current account deficit at 4.3 percent of GDP in FY2020/21, this implies a current account gap of about -0.3 percent of GDP and an implied overvaluation of 1.8 percent. However, as in previous years, staff views this approach as less informative, as ensuring external sustainability requires reductions in public debt, including in external obligations, rather than its stabilization at the current level.

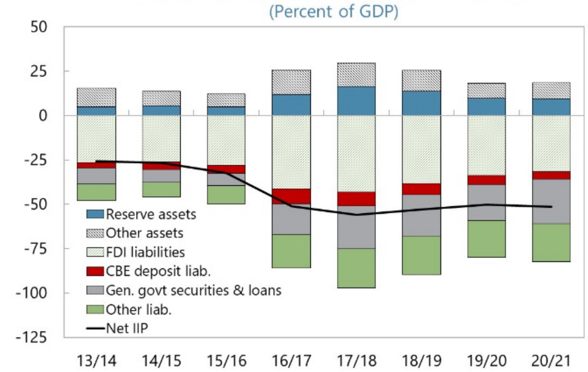
Egypt: External Sustainability Approach for 2022
(percent of GDP unless otherwise indicated)

Current account gap	
Current account outturn, 2021	-3.5
Cyclically adjusted current account	-4.3
Cyclically adjusted norm	-4.0
CA Gap	-0.3
Implied overvaluation	1.8%
Memo:	
Semi-elasticity of CA/GDP to REER	0.17

International Investment Position, International Reserves, and Intervention

4. Egypt's net international investment position improved slightly in FY2021/22. The negative NIIP narrowed to -49 percent of GDP in FY2021/22, from -51 percent in FY2020/21. Total assets declined to 15 percent of GDP (4 percentage points of GDP lower than in FY2020/21), driven primarily by the reduction in reserves assets from the decline in Tier 1 and Tier 2 reserves (see paragraph 3 below). However, this was more than offset by a decline in liabilities to 64 percent of GDP (6.0 percentage points of GDP lower than in FY2020/21), driven primarily by declining portfolio investment and FDI liabilities.

Net International Investment Position
(Percent of GDP)



Sources: Haver Analytics, IMF Staff Calculations

5. Foreign reserves fell below adequate levels based on the ARA metric in March 2022. The outbreak of the war in Ukraine exacerbated existing vulnerabilities leading to significant capital outflows, which had an impact on Egypt's foreign reserves. Prior to the shock, the Central Bank of Egypt maintained an overall foreign reserves of $49 billion consisting of official reserve assets (Tier 1 reserves) and deposits in the banking system (Tier 2 reserves). In March 2022, Tier 1 reserves, which averaged around $40 billion since the end of the SBA in June 2021, fell by almost $5 billion, and Tier 2 reserves, which accumulated a balance of over $9 billion, fell by $7.6 billion. Reserves continued to

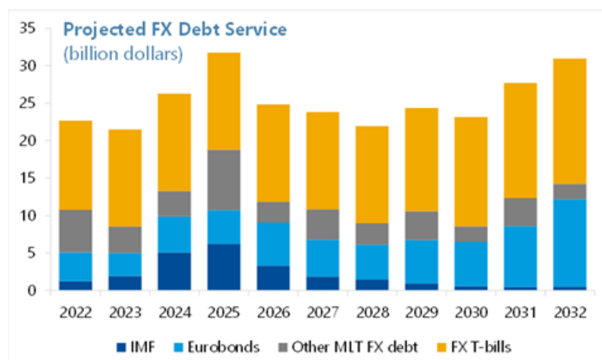
decline until June, by $4.4 billion. Total reserves of $32 billion at end-June 2022 corresponded to about 62 percent of the ARA metric for flexible exchange rate regimes. Based on exchange rate movements since March, including the October depreciation, and the authorities' resolve to maintain a flexible exchange rate regime during the EFF arrangement, staff views the flexible metric as appropriate in Egypt's case.

Annex IV. Analysis of Exceptional Access Criterion 2

1. **Background.** When a member's sovereign debt is assessed to be sustainable but not with high probability, as is currently the case for Egypt, the Fund can approve an arrangement with exceptional access "*so long as the member also receives financing from sources other than the Fund during the program on a scale and terms such that the policies implemented with program support and associated financing … improve debt sustainability and sufficiently enhance the safeguards for Fund resources.*"[1]

- *Fund policy offers several options to meet this requirement*. One of them is a "reprofiling" of existing claims (a short extension of maturities falling due during the program). This option applies "if the member has lost market access and significant private claims fall due during the program." An alternative option applies when "*the member retains market access, or where the volume of private claims falling due during the program is small*." In this case, no reprofiling is needed, so long as even without such a reprofiling, "sufficient private sector exposure could be maintained".

- *The case of Egypt*. Debt sustainability under the baseline in 2022-27 is "sustainable but not with high probability", and margins to maneuver are very limited. It also remains dependent on strong firm commitment to extend the maturity of GCC deposits beyond the program period. Debt service projected during 2022-26, including to the Fund, is substantial. However, under the baseline, private sector exposure by the end of the program period is projected to remain high enough as to sufficiently enhance safeguards to Fund resources in the sense that it maintains "*the option to implement a more definitive debt restructuring later if needed, such as, in the event downside risks materialize*" (see The Fund's Lending Framework and Sovereign Debt—Further Considerations). To investigate whether restructurable debt projected at the end of the program period is enough to sufficiently enhance safeguards to Fund resources, staff carried out two tests that utilize the tools of the Fund's new Debt Sustainability Framework for Market Access Countries (see Review of the Debt Sustainability Framework for Market Access Countries).



2. **Debt sustainability test.** This test aims to establish whether the existing private claims are sufficient to maintain debt sustainability after an adverse shock, thereby enhancing safeguards to Fund resources. Specifically, the analysis examined whether Egypt's projected debt structure in 2027 would allow for a sufficient restructuring to maintain debt sustainability in the face of a "large shock"

[1] Quotes are taken from The Acting Chair's Summing Up—The Fund's Lending Framework and Sovereign Debt—Further Considerations.

at the end of the envisaged 2022-26 program period.[2] The results indicate that debt sustainability could indeed be maintained in the face of such a shock, through a debt reprofiling in 2027.

3. FX availability test. A "large shock" would likely imply that Egypt could not re-access international capital markets after program ends. Hence, even if it implements a restructuring that maintains public debt sustainability, it may not have access to sufficient FX to repay the Fund, except through domestic markets and the financing provided by the restructuring itself. To assess whether these sources of FX would be sufficient, the analysis focused on the size of the rescheduling of privately held external debt that would be needed to both repay the Fund and keep the FX exposure of domestic bank and non-bank creditors to the government near historically observed levels, on the assumption that no new external borrowing takes place. The proposed reprofiling would keep the share of debt to GDP held by domestic private creditors from exceeding 2022 levels, implying that Egypt will have access to sufficient FX to repay the Fund.

[2] A "large shock" was defined as one which in the absence of fiscal adjustment or debt restructuring would propel debt to the 80th percentile of the debt fanchart under the preliminary program baseline by 2032.

Appendix I. Letter of Intent

November 30, 2022

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

Dear Ms. Georgieva,

1. The global slowdown, tighter financial conditions, surge in commodity prices, and a difficult external environment for emerging markets are posing challenges for the Egyptian economy. The war in Ukraine has impacted Egypt through large capital outflows, as well as trade spillovers on tourism and commodity markets and thus exacerbated existing vulnerabilities. Higher food and energy prices have pushed up on inflation and, while GDP growth has held up, the pace of the recovery from the pandemic has slowed. Against this backdrop, Egypt is intensifying its reform agenda to secure macroeconomic stability and strong, sustained, and inclusive growth.

2. To address the policy challenges facing the Egyptian economy, we have developed a comprehensive macroeconomic and structural reform program as laid out in the attached Memorandum of Economic and Financial Policies (MEFP). To support our efforts, we request a 46-month extended arrangement under the IMF's Extended Fund Facility (EFF) in the amount equivalent to SDR 2,350.17 million (115.4 percent of quota and about $3 billion). Our international partners have committed adequate additional funds to help ensure that the proposed program is fully financed.

3. The program will seek to alleviate near-term economic pressures, safeguard fiscal and external sustainability, and deepen our structural reform agenda. Collectively, the policies in the program will help unwind the imbalances that have accumulated over the past year and lay the foundation for a strong and sustained rebound in private sector led growth. To support the objectives of the program, the government of Egypt is committed to manage the implementation of public investment projects in a manner to achieve consistency with the macro policy mix in ensuring external sustainability and economic stability. In particular, given external conditions, spending on public projects including national projects would be slowed down and adjusted to limit pressures on the foreign exchange market and inflation. The policies outlined in the MEFP related to enhancing the role of the private sector would be further augmented in the coming years with additional reform measures to enhance the competitiveness of our economy along with further retrenching the role of the state, with a view to increasing private investment and the creation of well-paid jobs for the Egyptian population.

4. To strengthen external sustainability, we have communicated a durable shift to a flexible exchange rate, supported by appropriate monetary and fiscal policy settings and frameworks along

with deepening our structural reform agenda. This will help the Egyptian economy to withstand future external shocks and will support the competitiveness of Egyptian businesses. Within this flexible exchange rate framework, we will seek to increase resilience by rebuilding international reserves over the course of the program.

5. While inflation is likely to remain high in the near-term, monetary policy will be calibrated to keep inflation expectations well-anchored and reduce inflation back to within the target band of the Central Bank of Egypt (CBE) over the medium-term. To help meet our inflation target, we are enhancing the efficacy of the monetary policy transmission mechanism, through transitioning away from subsidized lending schemes and ensuring that the interbank rate remains steadfastly tied to the CBE’s interest rate corridor. At the same time, the CBE will remain committed to preserving financial stability and will continue to strengthen the transparency and communication of its instructions and analysis in this area.

6. Fiscal policies will remain resolutely focused on bringing down public debt, reducing gross financing needs through continued fiscal consolidation as well as active debt management, and creating space for increased spending on social and human development sectors. Domestic revenue mobilization will be key to help support these goals, especially for creating fiscal space for priority spending and targeted support for the most vulnerable, including through the expansion of our Takaful and Karama conditional cash transfer program. We also intend to use an important share of the proceeds of our ongoing privatization program to further strengthen our fiscal position and to reduce government debt.

7. To boost medium-term growth prospects, we will pursue a broad structural reform agenda with reforms which increase the role and contribution of the private sector, level the playing field between public and private institutions, and strengthen governance and the business climate. Our state-ownership policy will detail the principles, process, and governance framework through which the state will reduce its role in non-strategic sectors. This, combined with other reforms, including enhancing competition policy and improving trade procedures, will help strengthen the competitive business environment and private sector driven growth.

8. In line with the Fund's safeguards policy, an update safeguards assessment of the central bank has been initiated and will be completed by the time of the first review of the arrangement. Since EFF financing will be used for budgetary financing, the CBE and the Ministry of Finance will sign a memorandum of understanding that clarifies the responsibilities for timely servicing of the obligations to the Fund related to this agreement.

9. We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program. We will monitor economic developments and performance and 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 these measures and in advance of revisions to policies contained in the MEFP. We will supply the Fund with timely and accurate data that are needed for program monitoring and the semi-annual program reviews. The

first review is expected to be completed on or after March 31, 2023 and the second review will be completed on or after September 30, 2023.

10. We authorize the IMF to publish this letter, the MEFP including Tables, the TMU, and the related staff report.

/s/	/s/
Hassan Abdalla	**Mohamed Maait**
Governor of the Central Bank of Egypt	Minister of Finance
Arab Republic of Egypt	Arab Republic of Egypt

Attachments (3)

Attachment I. Memorandum of Economic and Financial Policies

Introduction

1. **Egypt is facing significant economic pressures.** Tighter global financial conditions, higher commodity prices, and the global slowdown are impacting the Egyptian economy, similar to other emerging markets, and increasing existing vulnerabilities. Direct spillovers from the war in Ukraine have been sizeable, given Egypt's dependence on Russia and Ukraine for wheat and tourism, while large capital outflows have increased external pressures that began to emerge in 2021. Elevated global commodity prices have pushed inflation up substantially, adding a significant burden on a large segment of the population including the most vulnerable. Despite initial policy steps to contain spillovers, growth is expected to slow in FY 2022/23.

2. **Concerted efforts are needed to rebuild buffers, strengthen macroeconomic stability and debt sustainability, and build external resilience.** Our initial policy actions, including on monetary policy and our timely fiscal support packages, have helped to mitigate some of the spillovers from the war. To build on these actions and policies which facilitated a strong recovery from the pandemic, we are putting in place a comprehensive economic program that includes strengthened monetary and exchange rate policies, a re-accumulation of international reserves, continued fiscal prudence, and concrete progress on structural and governance reforms. We are confident that these policies will unwind imbalances that had accumulated recently and lay the foundation for durable and inclusive private sector led growth.

Recent Economic Developments and Outlook

3. **Prior to the war in Ukraine, a swift recovery from the pandemic was underway.** Thanks in large part to the sound macro policies pursued and the buffers built-up in the years preceding the crisis, Egypt was able to weather the pandemic by implementing policies that balanced health and social spending needs on the one hand, with preserving fiscal sustainability on the other. Growth was maintained, with an expansion of 3.3 percent in FY 2020/21, while inflationary pressures were contained. A primary surplus of 1.4 percent of GDP was achieved in FY 2020/21. Egypt was supported by IMF financing through the Rapid Financing Instrument (RFI) and Stand-By Arrangement (SBA). The Central Bank of Egypt's (CBE) foreign exchange reserves (Tier 1 and Tier 2) increased to $50 billion. Following the conclusion of the SBA in June 2021, the post-COVID-19 recovery gained further momentum. Tourism flows improved rapidly, and real GDP growth was 9 percent in the first half of FY 2021/22.

4. **Alongside the recovery, pressures started to emerge.** While scarring was limited, the COVID-19 crisis led to a rise in public debt and delayed much needed structural reforms. Fiscal discipline was maintained during the pandemic, although the fuel price indexation mechanism was not fully implemented when oil prices increased in 2021 and early 2022. In addition, the expansion of subsidized lending schemes at rates substantially below market rates, which were deemed necessary to address the fallout of the crisis, led to distortions in the credit market and the transmission of the

policy rate to the interbank rate was muted. Meanwhile, vulnerabilities on the external side built up in the context of a stable exchange rate. The pick-up in imports associated with the rebound in activity contributed to a widening of the current account deficit to 4.4 percent of GDP in FY 2020/21. This widening happened despite the continued favorable performance of remittances and the better-than-expected recovery in tourism activities. Following the conclusion of the SBA, with the exchange rate stable and nonresident inflows gradually reversing, the current account deficit was funded by a substantial drawdown of banks' net foreign assets (NFAs). Trade has also been impacted by the CBE's issuance of instructions to banks, prior to the outbreak of the war, to move to letters of credit as the only means of import facilitation in most cases.

5. **The war in Ukraine has intensified existing pressures and the CBE has taken a series of rapid policy actions in response to the fallout of the crisis.** The CBE intervened in the foreign exchange market to cushion the impact of large capital outflows using its existing reserves and sought new short-term deposits from Gulf Cooperation Council (GCC) partners to help shore up reserves. Over $30 billion of FX sales took place during February-March leading to a net drop in gross international reserves (Tier 1 and 2) of $12.4 billion to $36.9 billion. On March 21, the CBE raised interest rates by 100bp and the exchange rate, previously kept stable, initially depreciated by around 15 percent. In addition, state-owned banks issued on a temporary basis 1-year high-yield (18 percent) certificates of deposits (CDs) to further stem potential pressure from EGP conversion (by the time collections were suspended at end-May, EGP 755 billion (around 10 percent of GDP) had been issued). In response to mounting inflationary pressures, the CBE raised rates by a further 200bp in May and increased the reserve requirement by 400bp in September. External pressures, however, have remained high, with reserves declining by a further $4.1 billion since March to $32.7 billion in September.

6. **We have taken steps to protect the most vulnerable.** Accompanying the monetary policy measures in March, the government announced an accompanying package of fiscal and social protection measures worth EGP 130 billion, which included expanding the coverage of the Takaful and Karama cash transfer program and introduced a strategic plan to support food security. Additional social support was announced in September and is currently being rolled out.

7. **The macroeconomic environment is expected to remain challenging in the near term.** Growth is expected to slow to 4.0 percent in FY2022/23. Uncertainty surrounding the growth forecast is particularly large at this juncture and risks are skewed to the downside given the challenging external environment, namely tighter financial conditions, and high food and energy prices. Headline inflation reached 16.2 percent in October 2022 and elevated imported commodity prices and the passthrough of exchange rate depreciation are expected to keep inflation high in the near term, though these pressures will be countered to some degree by recent increases in the policy rate. The current account deficit is projected to be 3.0 percent of GDP in in FY2022/23 and the fiscal position, which has been under pressure since the COVID-19 crisis, is expected to remain strained in the near term. Over the medium-term, as immediate pressures abate and with the implementation of our structural reform agenda, growth is projected to increase to between 5½ and 6 percent, while inflation is expected to converge back to around 7 percent.

Economic Program

8. **We have reinvigorated our comprehensive economic reform program to achieve our goals of economic stability and inclusive medium-term growth.** The main objectives of our program are to alleviate the near-term economic pressures, safeguard fiscal and external sustainability, and deepen our structural reform agenda to ensure sustainable, job-rich growth. Fiscal and monetary policies will be calibrated to rebuild buffers, strengthen resilience to external shocks, and put debt back on a downward trajectory. In addition, we will strengthen the institutional frameworks and effectiveness of monetary and fiscal policies. To support the objectives of the program, we are committed to slowing down the implementation of public investment projects including national projects to achieve consistency with the macro policy mix in ensuring external sustainability and economic stability. In particular, given external conditions, projects would be slowed down to limit pressures on the foreign exchange market and inflation. Our structural reform agenda will focus on enhancing the role of the private sector in growth while reducing the size of the state's footprint in the economy, leveling the playing field between public and private institutions, and strengthening governance and the business climate to support export-driven and private sector-led growth. With these policies, the support of the IMF, and the mobilization of funds from international partners, we will close the financing gap for the next four years (the program period) which amounts to about $17 billion.

Monetary and Exchange Policies

9. **To strengthen external resilience, the CBE has moved and is committed to a durably flexible exchange rate regime since October.** Allowing two-sided flexibility will balance external dynamics, help alleviate the impact of external shocks, avoid future misalignments of the real effective exchange rate, and support competitiveness. The CBE has clarified this policy shift in a public statement by highlighting that the exchange rate would adjust to reflect underlying market and balance of payments dynamics. Instructions in Letter No. 49 (of February 13, 2022) requiring letters of credit for import financing will be repealed (structural benchmark), ensuring that importers do not face delays in accessing foreign exchange and that backlogs in clearing imports do not continue. The CBE has also ceased the direct provision of FX from reserves to government entities to allow such demand to be reflected in the FX interbank market. 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. 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 continue not granting 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 (continuous structural benchmark). The CBE will facilitate the monitoring of 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 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. The CBE will also

ensure that the interbank foreign exchange market functions effectively, with market volumes reflecting the FX demand and supply conditions in the economy.

10. Monetary policy will be firmly anchored to the CBE's medium-term inflation objective. The shift to a flexible exchange rate in October was accompanied by a 200 bps increase in the policy rates. Elevated food and energy prices and the depreciation of the Egyptian pound are expected to keep headline inflation above the CBE’s target of 7 percent (±2 percentage points) on average in 2022 Q4, despite the 500 bps increase in policy rates so far this year. Although the CBE will temporarily tolerate this elevated rate of inflation and accommodate the first-round effects of supply shocks to avoid unduly weighing on the economic recovery, it will stand ready to act further should inflationary pressures persist, including from the passthrough of exchange rate movements. The CBE will support the monitoring of inflation with a Monetary Policy Consultation Clause (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 18 percent in December 2022, 3 to 16 percent in March 2023, and 3 to 15 percent in June 2023.

11. To increase the efficacy of monetary policy, we will continue to further strengthen the transmission mechanism. Keeping the overnight interbank rate within the CBE’s interest rate corridor will enable monetary policy decisions to transmit more effectively to the broader economy. The CBE will therefore ensure that the daily overnight interbank rate remains within 50 bps of the mid-corridor rate (indicative target). We are transitioning away from subsidized lending schemes, so that lending rates in the economy are anchored to the policy rate. In this regard, the CBE has issued a circular to discontinue the CBE’s subsidized lending initiative for the industrial, construction, and agricultural sectors and the current balance for these schemes will be on a liquidation basis according to the run off of loans; in addition, the Prime Minister has issued a decree to move the decision making, recording, and supervision of the remaining initiatives going forward to within the budget and for the specific entities bearing the costs to be detailed (structural benchmark). Going forward, the CBE will refrain from extending, renewing, or introducing any subsidized lending schemes (continuous structural benchmark).

12. We will gradually rebuild official reserves to support external sustainability. We will target a 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. Our goal is for net international reserves, per this definition, to increase by $6.0 billion to reach $23.0 billion in FY 2022/23 (performance criterion) and $10.6 billion in FY 2023/24. During FY 2024/25 and FY 2025/26 we will target an increase of $16.9 billion, so that reserves are on track to reach 120 percent of the Fund’s reserve adequacy metric for flexible exchange rate regimes by the end of the program. If nonresident holdings of local currency T-bills and T-bonds rebound more strongly than anticipated, we would adjust up our target level of net international reserves by 50 percent of any excess relative to baseline projections and would meet this through purchasing foreign exchange transparently from the market (see TMU). In FY 2022/23 the target level for international reserves will be adjusted downwards by 50% of any shortfall in the

external bond placements denominated in foreign currency. This reserve management strategy will strengthen our resilience to volatile capital flows and allow us to improve the composition of reserves away from borrowed components. We will not accumulate any general government external debt payment arrears (continuous performance criterion). The CBE will not purchase FX directly from investors (portfolio and FDI investors) and instead will operate through the market.

Fiscal Policy

13. Fiscal policy will be focused on putting debt on a declining path to strengthen resilience and reduce risks. Prudent policies during the pandemic helped preserve fiscal sustainability, with a primary surplus of 1.4 percent of GDP achieved in FY 2020/21, despite increased health and social spending needs. In FY 2021/22, we reached a primary surplus of 1.3 percent of GDP, slightly lower than initially anticipated due to Ukraine war-related spending pressures. Although commodity prices will continue to pressure the budget in the near term, we are targeting a primary surplus of 1.7 percent of GDP in FY 2022/23 (performance criterion), which would constitute a fiscal adjustment of 0.4 percent of GDP compared to the previous year. We recognize the need for this additional adjustment, especially considering the recent tightening in financial conditions and associated increase in the cost of borrowing. Reflecting this effort, we are committed to a ceiling on the gross debt of the budget sector (indicative target) of 92.1 percent of GDP by end-June 2023. Thereafter, we will consolidate further, targeting a primary surplus of 2.1 percent of GDP in FY 2023/24 and 2.3 percent of GDP in FY 2024/25 and FY 2025/26, with a view to reducing gross budget sector debt to around 83 percent of GDP by FY 2026/27. In the event that the debt target set under our program is exceeded, the government will take appropriate corrective measures including stronger fiscal adjustment to safeguard debt sustainability, for instance through expenditure rationalization, additional efforts in revenue mobilization, and sale of public assets with their proceeds flowing to the budget.

14. We will implement a range of measures to achieve these fiscal targets. We will continue to implement our Medium-Term Revenue Strategy (MTRS), to support an increase in tax revenue in FY2022/23 (indicative target) and raise tax-to-GDP ratio by around 2 percentage points over the medium term with a focus on improving the progressivity of the tax system and avoiding unduly constraining productive activity and exports. To make near-term progress beyond the existing important efforts on revenue administration, we will identify and quantify, with support from IMF technical assistance, specific tax policy measures to be implemented in FY 2023/24 for at least 0.3 percent of GDP, to contribute to an increase in this ratio by at least 0.5 percentage points in FY2023/24 (structural benchmark). In addition, we will implement several measures to help bolster fiscal transparency, improve revenue administration, and raise tax revenues, including:

- Publishing 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 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). We will endeavor for this

report to be updated annually and included in the budget documentation, strengthening the methodology with each subsequent iteration.

- Amending the income tax law to align it with international best practice. We have submitted to Parliament an amendment to the income tax law that increases the progressivity, removes the withholding tax exemption for interest on future cross-border debt with maturities greater than three years; adjusts international tax definitions, including the definitions of 'permanent establishment' and 'associated persons', and tightens the capitalization rule to limit the level of tax deductions available on interest incurred. Over the medium-term, we will enact a revenue-increasing new income tax law to address existing loopholes, consolidate amendments and ensure greater clarity, streamline taxation of various items of income, including capital income, capital gains, and professional income, and eliminate tax exemptions.

- Simplifying our value-added tax (VAT) by subjecting all goods, other than basic foodstuffs, to standard VAT and adjusting excise rates as needed, with support from Fund TA.

- Enhancing our risk-based revenue administration tools by undertaking a segment refresh for Large and Medium Taxpayers and Large Free Professionals. We will also complete implementation of the new Integrated Tax Core System and the integrated tax administration structure of the Egyptian Tax Authority. We will set up a Data Warehouse, including both legacy and newly collected data, as part of our transition to a more modern, risk-based revenue administration. We will develop and implement a tailored compliance improvement strategy for high-wealth individuals based on risk management.

- Accelerating our reform of property taxation to leverage this pro-growth and progressive source of revenue. We will complete the process of converting records to the electronic register, using geo-coded identifiers to enhance the efficiency of property taxation (structural benchmark). Digitalization will facilitate compliance, including by improving taxpayer services and conducting data matching to identify undisclosed assessable properties. We will also revise our valuation model for property tax assessments and streamline exemptions.

- Adjusting to greater emphasis on risk-based compliance verification and Post Clearance Audit in our customs authority, including by expanding the use of risk profiles to guide border compliance verification.

15. **We will carry out our rich reform agenda on revenue mobilization in the context of the implementation of our MTRS**. To that end, we have developed an implementation master plan and we will set up a governance framework for the implementation, including a steering committee and program management office, and establish a capacity development provider working group to align activities and timelines across donors.

16. **We will reflect global price movements in domestic fuel prices.** We will continuously implement in full the retail fuel price indexation mechanism. However, recognizing that fuel prices were kept low relative to the indexation formula, 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 (that is, all products except LPG and fuel oil for bakeries) in the previous fiscal year has been eliminated (continuous structural benchmark, see TMU for formula). This will help solidify the progress that has been made on fuel subsidy reform in recent years, protect valuable budgetary resources, and help our decarbonization efforts. Savings from this action would help us reorient resources for targeted support that is significantly more efficient in protecting those in need. We will strengthen communication around the mechanism by explaining the rationale for the pricing decisions. Our fiscal accounts will record the full extent of any fuel subsidies and any liabilities to the Egyptian General Petroleum Corporation will be published as part of the annual report on payment arrears as outlined in paragraph 20. To help alleviate the impact of higher fuel prices on vulnerable groups, we are strengthening targeted support through existing social programs such as Takaful and Karama and ration cards. We also expect that Parliament will soon approve the amendment to the income tax law that increases the personal income tax exemption threshold offering relief to the middle-income population against the general increases in prices of goods and services. With the same goal, we are developing additional measures to support households, within the budget space available.

17. We will continue to lengthen the maturity of local currency debt to strengthen fiscal resilience. Reducing gross financing needs, which is a key source of vulnerability, will help safeguard debt sustainability and protect investor confidence. We will use active debt management to lengthen the maturity and will target an average maturity of new gross local currency debt issuance through public placements in FY 2022/23 of 0.97 years (indicative target). We also aim to develop variable rate, longer maturity debt instruments, with support from IMF technical assistance. We recently reprofiled two-year nonmarketable debt held by local banks to a marketable debt with a maturity of five years. We will continue to work to reprofile existing domestic debt to contain gross financing needs.

18. Targeted social support will help protect the vulnerable in the current economic climate and reduce poverty. We will implement the recently-announced expansion of our Takaful and Karama conditional cash transfer program to 5 million households by end-January 2023 to provide important relief to vulnerable groups facing elevated prices (structural benchmark). With our emergency fund interventions, we are delivering food and providing access to education and health for the most vulnerable. We are providing temporary additional benefits to more than half of the families holding ration cards, reaching 36.6 million people. By expanding the coverage of the social registry to 50 million people by end-December 2023, we will be able to introduce targeting in several other social protection schemes, under the overarching principle of fostering human capital formation to reduce poverty. To further strengthen the social safety net over time, we will publish a report evaluating the social housing program, outlining potential reform options and explore further efficiency gains in our food subsidies. On health, we will continue the rollout of our universal health insurance scheme and our COVID-19 vaccination program. Reflecting our continued responsibility to support health and targeted social programs for the most vulnerable people, we are also committing to a minimum level of social spending in FY 2022/23 (indicative target). Our efforts to strengthen the

social sectors will be based on the recently completed and published Public Expenditure Reviews (PER) on social assistance, health, and education.

19. We will introduce new fiscal measures to support our climate mitigation goals. As host of COP27 in 2022, the Egyptian Government is striving to make tangible progress on our domestic and international climate targets. We have recently updated our Nationally Determined Contribution and are committed to reducing greenhouse gas emissions by 2030, relative to a business-as-usual scenario. In addition to implementing in full the fuel price indexation mechanism, we are also considering introducing an indexation mechanism for the domestic price of natural gas, so that it reflects international prices. We will also consider forms of green taxation which will increase the effective carbon price and support emission reductions.

20. We will further enhance public financial management to strengthen governance and enable resources to be used efficiently and transparently. Measures in this area include:

- **Promoting transparency**. We will publish monthly budget outturns on the budget sector in open data format, including by functional and administrative classification, within 60 days after the end of the reporting month. We will publish the three most recent annual audit reports (FY 2018/19, FY 2019/20, and FY2020/21) of fiscal accounts by the Central Auditing Organization (CAO) and will introduce a binding requirement to ensure the timely publication of future audit reports (structural benchmark). Over the next two years we intend to transition our fiscal and public debt accounting to GFSM 2014 standards, both for budget sector and general government.

- **Managing 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 (continuous 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. We will also prepare this report quarterly and we will share it with IMF staff. We will publish an annual fiscal risk statement as part of the budget documentation, in line with IMF technical assistance.

- **Public Financial Management (PFM) law**. Supported by IMF technical assistance, we will enact the executive regulations of the PFM law, including: (i) the key elements of the budget calendar starting with the submission and approval of the fiscal strategy paper; (ii) the process to update and publish the medium-term budget framework; (iii) requiring all entities to separate baseline and new policy initiatives; and (iv) a climate section to provide a clear mandate for climate-related activities (structural benchmark).

Financial Sector Policy

21. We will take steps to strengthen financial sector resilience while promoting greater financial deepening and inclusion. The banking system is well capitalized with ample liquidity and has weathered the impact of the pandemic and recent economic pressures. The recent initiative to require 25 percent of banks' lending to be directed towards SMEs is supporting financial deepening through encouraging more access to credit for the private sector. The CBE will continue to closely monitor potential vulnerabilities at system and individual bank level, including any risks emanating from the rapid growth in SME lending. Over the next year, the CBE will develop a program to reduce its exposure to public banks through subordinated debt holdings and its ownership in the Credit Guarantee Company. To enhance transparency and communication, the CBE intends to publish semi-annual financial stability reports, including translation to English to promote foreign investment, and the CBE will ensure that all instructions and guidance to banks are issued through formal written notification channels to avoid misinterpretation by banks. Financial safety nets will be further strengthened by inter alia establishing a dedicated bank resolution unit at the CBE, following IMF technical assistance. Given the very rapid growth of state-owned banks' balance sheets over the past two years, we will ensure that state-owned banks growth and operations remain within their risk bearing capacity. To this end, we will ensure that any shortfalls in this regard would be addressed.

Structural Reforms

22. We are fully determined to deepen our structural reform agenda to improve external resilience and secure inclusive, private sector-led growth. Our longstanding objectives are to boost Egypt's growth potential, through increasing exports and industrial production, and secure well-paid jobs for Egypt's labor force. We aim to boost growth to 6 percent in the medium term. Combined with a durable move to a flexible exchange rate regime, our structural reforms will target improvements in non-price competitiveness, helping to support greater private sector investment, exports and contribution to growth. Reforms will focus on reducing the role of the state, leveling the playing field between the public and private sector, and strengthening the overall business climate.

23. Reducing the role of the state in the economy will help to foster private sector led growth and improve resource allocation. In recent years, the Egyptian government has implemented reforms designed to improve the performance and governance of SOEs and in 2021 launched the national structural reform program to promote a greater role for the private sector in economic activity. Our agenda for SOE reforms seeks to build on these initiatives and will cover public sector companies, public business sector companies, military-owned companies, economic authorities, and joint ventures and partnerships. It will include:

- **Publishing the state ownership policy, endorsed by the President** (structural benchmark). The policy will:

  (i) Clarify the definition of the state and will explicitly outline that it covers all enterprises owned fully or partially by a state-associated entity irrespective of the institutional framework under which the enterprise is established. The coverage therefore includes

public sector companies, public business sector companies, military-owned companies, economic authorities, and joint ventures and partnerships.

(ii) Detail the principles of state-ownership and the criteria for determining whether a sector is strategic or not, including specific market failures or public good features which require state intervention. It will outline how each sector is assessed against these criteria.

(iii) Include a commitment to specific measures to address competitive neutrality in line with the eight priority areas outlined by the OECD (2012), namely the operational form of government business, cost identification, rate of return requirements, public service obligations, tax neutrality, debt neutrality, regulatory neutrality, and public procurement practices.

(iv) Specify the monitoring and evaluation framework for the reduction of the state's footprint in non-strategic sectors. It will commit to publishing within 60 days of the end of each fiscal year an annual report containing an evaluation of each divestment undertaken, detailing the legal framework governing each divestment, the assets and parties involved, and the proceeds of the divestment and their use. It will also commit to publishing a separate annual report summarizing progress on the implementation of the policy.

- **An ambitious divestment plan to accompany the state-ownership policy.** We will adopt several mechanisms to reduce the state's footprint in economic activity, including listing state-owned companies on the Egyptian Exchange and the sale of stakes in the Sovereign Fund of Egypt's (SFE's) pre-IPO fund, which seeks to prepare state-owned companies for listing. For the pre-IPO fund, we have identified an initial group of assets that will be transferred to the SFE and have launched a global roadshow to market them to strategic investors. We aim to raise \$2.5 billion in the first phase of pre-IPO stake sales by end FY 2022/23. Sales of state-owned assets through the SFE, as well as sales of state-owned assets to sovereign wealth funds, will be deposited at an earmarked account at the CBE and will therefore support our goal of increasing net international reserves (see TMU). All the proceeds from divestment of SOEs owned directly by the Ministry of Finance, except from those established under Law 203 of 1991, will flow to the budget. At least 25 percent of the proceeds from divestment of SOEs established under Law 203 of 1991 will be channeled to the budget. At least 50 percent of the proceeds from divestment of all other SOEs will flow to the budget. In line with our legal framework, CAO will exercise oversight over all the divestment transactions. The establishment of new SOEs would need to be transparently based on the state ownership policy.

- **Strengthening the transparency of SOE operations.** All SOEs will be legally required to submit financial accounts to the Ministry of Finance on a biannual basis and provide information on any quasi-fiscal activities. We will provide open access to this data within 90 days of the reporting period and, alongside, will also provide information quantifying the subsidies provided to the commercial and non-commercial activities of SOEs.

- **Improving the governance and management of SOEs.** We will adopt new policies and procedures to strengthen governance of SOEs. We will introduce performance contracts for SOE management, which include operational and financial targets, and we will publish guidelines for board selection processes and the qualifications and remuneration of board members in every SOE. We will also move towards more centralized oversight of SOEs, beginning with cases where the oversight of market regulators and SOEs operating in that market are undertaken by the same institution.

- **To level the playing field between the public and private sectors and support private sector led growth, we will ensure that SOEs do not benefit from preferential treatment:**

➢ Public procurement should be competitive and transparent. We will 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 (continuous structural benchmark). The publication will be done on a monthly basis (end of each month) with one month lag. We will clarify conditions under which direct contracting between public entities would be warranted in the regulations of Law No. 182 of 2018 on Regulating Public Procurement.

➢ The Egyptian Competition Authority (ECA) will be empowered to act independently against anti-competitive practices. To enhance the independence of the ECA, we have recently restored direct reporting by the ECA to the Prime Minister. Building on previous reform efforts, we will obtain parliamentary approval of amendments to the competition law concerning the addition of a new chapter on mergers and acquisitions. The amendments will include provisions that empower the ECA to regulate mergers and acquisitions that meet certain thresholds in all sectors other than the banking and financial services sectors. Transactions in these sectors shall be subject to prior notification and standstill obligations enabling the ECA to review concentrations before their consummation and assess their competitive impact and, if necessary, impose the adequate measures to protect the competitive structure of the market, while in the banking and financial services sectors the ECA will be able to suggest measures to protect competition (structural benchmark). After this, we will also obtain approval of the amendments to the competition law submitted to Parliament in January 2019 which seek to strengthen the independence of the ECA. In line with Article 11 (5) of the competition law, we will publish an opinion on any draft law submitted to Parliament, regulation, or government strategy document which relates to the regulation of competition.

➢ We will limit exemptions which provide advantages to SOEs over private sector companies. We will remove all SOE tax exemptions, regardless of whether they benefit public sector companies, public business sector companies, military-owned companies, economic authorities, or joint ventures and partnerships. We will ensure that the same price for water and electricity is paid by both public and private companies. Over the medium-term, we will amend the competition law further to clearly specify conditions for when exemptions to the law for SOEs are deemed to be

in the public interest and we will align SOE procurement rules with Law No. 182 of 2018 on Regulating Public Procurement and international best practice.

- **Strengthening the business climate.** We are committed to boosting the contribution of the private sector in overall investment over the next three years. Reforms to promote a more favorable business climate will center on removing non-tariff impediments to trade and strengthening the transparency of trade and land allocation processes:

➢ The introduction of the new Customs Law, passed in 2020, and the implementation of the National Single Window (Nafeza) and Advance Cargo Information (ACI) system have modernized our customs procedures and reduced impediments to trade. Adopting a risk-based approach to customs procedures will help us further reduce the time required for the release of imports and exports and improve the efficiency of cross-border trade. We will reduce the time required for the release of imports at the Port of Alexandria by 25 percent from 16 days in August 2021 to 12 days in March 2023, measured using a Time Release Study (structural benchmark). We will target a further 25 percent reduction to 9 days by December 2023.

➢ We will publish annually a report detailing all the subsidies, guarantees, and tax exemptions provided to exporters.

➢ Streamlining the land allocation process will help improve Egypt a destination for investment. We will restructure the system for allocating industrial land, and by end-June 2023 consolidate processes that are currently under the purview of different entities, and ensure potential investors interact with just one authority. In addition, 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 23). 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.

Financing and Program Monitoring

24. In support of this program, we will mobilize funds from our foreign partners to close the remaining financing gap. The current projections suggest that with the policies outlined in

this memorandum the remaining financing gap for 2022/23 is $5.04 billion after accounting for $0.7 billion from the IMF. We expect to close this gap as follows: $1.1 billion from the World Bank; $0.4 billion from the Asian Infrastructure Investment Bank; $0.3 billion from the African Development Bank; $0.3 billion from the Arab Monetary Fund; $1.0 billion from the China Development Bank; and $2.0 billion in committed purchases of public sector assets, including from partners in the GCC. To ensure that the financing gap does not increase further, we have also secured assurances from GCC partners which ensure that the $28 billion in official deposits from GCC members at the CBE (at end-September 2022) 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.

25. The program will be monitored through prior action, quantitative performance criteria, indicative targets, and structural benchmarks. Semi-annual program reviews will be based on December and June test dates. The first review is expected to be completed in March 2023 and the second review is expected to be completed in September 2023, and they will require observance of the end-December 2022 and the end-June 2023 performance criteria respectively. All quantitative performance criteria and indicative targets are listed in Table 1, and prior action and structural benchmarks are detailed in Table 2. The Technical Memorandum of Understanding describes definitions of quantitative performance criteria and, consultation as well as data provision requirements.

Table 1. Egypt: Quantitative Performance Criteria and Indicative Targets for FY2022/2023
(In billions of Egyptian pounds, unless otherwise indicated)

	end-December 2022	end-March 2023	end-June 2023
	Prog.	Indicative	Prog.
I. Quantitative Performance Criteria 1/			
Net international reserves ($ million; floor) 2/	16,013	16,975	22,964
Primary fiscal balance of the budget sector (cumulative, floor) 3/	0	35	160
Accumulation of external debt payment arrears by the general government ($ million; continuous ceiling)	0	0	0
II. Indicative Targets			
Tax revenues (cumulative floor) 3/	410	660	1,232
Social spending of the budget sector (floor) 3/	61	92	153
Average maturity of gross local currency debt issuance (years; cumulative floor) 3/	0.87	0.93	0.97
Gross debt of the budget sector (at program exchange rate; ceiling)	7,777	7,975	8,173
Overnight interbank rate outside 50 bps of mid-corridor rate (number of days) 4/	0	0	0
III. Monetary Policy Consultation			
(12-month change in consumer prices)			
Upper outer band	18	16	15
Upper inner band	9	9	9
Actual/Center target	7	7	7
Lower inner band	5	5	5
Lower outer band	3	3	3
Memorandum items:			
Program disbursements at completion of review ($ million; cumulative change) 4/	1,591	3,183	5,696
External program financing assumed under the program ($ million; cumulative change) 4/	1,257	2,513	5,026
Of which:			
Sales of state-owned assets	500	1,000	2,000
Net issuance of FX T-Bills	0	0	0
IMF financing assumed under the program ($ million) 4/	335	670	670
Net external loans from private creditors in foreign currency (including Eurobonds) assumed in the BOP baseline ($ million, cumulative change)	0	476	3,726
Stock of nonresidents' holdings of local-currency T-bills and T-bonds ($ million)	4,352	4,977	5,602
Divestment proceeds flowing to the budget (EGP billion, cumulative)	0	0	10

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 are indicative.
2/ The NIR includes CBE's foreign assets which comprises the CBE's official reserves and CBE's foreign currency deposits with local banks. This definition is different from that in in the 2016-19 EFF and 2020-21 SBA with Egypt. See TMU for details.
3/ From the beginning of the fiscal year (July 1, 2022).
4/ From September 30, 2022.

Table 2. Egypt: Prior Action and Structural Benchmarks		
Policy Measure	**Objective**	**Timing**
Issue a CBE circular to discontinue the CBE's subsidized lending initiative for the industrial, construction, and agricultural sectors, whereby the current balance will be on liquidation basis according to loans run-off. In addition, issue a PM decree to move the decision-making, recording, and supervision of the remaining initiatives going forward within the budget and detail the specific entities to bear the costs.	Strengthen transparency and enhance monetary policy transmission	Prior action
CBE will refrain from extending, renewing, or introducing any subsidized lending schemes.	Strengthen transparency and enhance monetary policy transmission	Continuous SB
Repeal CBE instructions (Letter No. 49 of February 13, 2022) that requires the use of Letters of Credit to finance imports.	Strengthen the FX market and improve business climate	End-December 2022
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.	Safeguard financial stability	Continuous SB
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.	Strengthen transparency and mitigate fiscal risks	Continuous SB
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.	Ensure public procurement is competitive, non-discriminatory, and transparent to reduce corruption, enhance efficiency, and improve private sector opportunities	Continuous SB
Continuous implementation of the retail fuel price indexation mechanism according to the formula (see TMU).	Protect the budget and ensure continued	Continuous SB

Table 2. Egypt: Prior Action and Structural Benchmarks (continued)		
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.	transition towards a low-carbon economy	
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.	Increase fiscal transparency and identify avenues for streamlining of exemptions	End-April 2023
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.	Increase tax revenue	End-February 2023
Publish CAO's three most recent annual audit reports on the fiscal accounts (FY 2018/19, FY 2019/20, and FY 2020/21) and introduce a binding requirement to ensure the timely publication going forward.	Strengthen transparency	End-January 2023
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.	Empower the Egyptian Competition Authority to regulate mergers and acquisitions and act when warranted against anti-competitive economic behaviors	End-December 2022
Expand the number of households benefitting from Takaful and Karama to 5 million.	Strengthen the social safety net	End-January 2023
Finalize the conversion of records to the new electronic register with geo-coded identifiers to enhance the efficiency of property taxation.	Increase tax revenue and raise the progressivity of the tax system	End-August 2023
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.	Strengthen PFM law, introduce medium-term perspective into the budget, and enhance public investment management	End-June 2023

Table 2. Egypt: Prior Action and Structural Benchmarks (concluded)		
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.	Business Climate	End-December 2022
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.	Reduce non-trade barriers, improve the efficiency of cross-border trade, and allow greater participation of Egyptian goods in global value chains	End-May 2023

Attachment II. Technical Memorandum of Understanding

November 30, 2022

1. This memorandum sets out the understandings regarding the definitions of quantitative performance criteria, indicative targets, and the consultation clause, as well as the data reporting requirements under the IMF's extended arrangement under the Extended Fund Facility (EFF) (see also Table 1 of the MEFP). It also sets out the definition of key terms related to the structural reform agenda under the EFF.

2. Program exchange rates for FY2022/23 are those prevailing on September 30, 2022.

	Currency Unit per US$
SDR	0.781323
Euro	1.0293
British Pound	0.9213
Japanese Yen	144.7094
Saudi 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.

A. Floor on Net International Reserves (PC)

3. Net international reserves (NIR) of the Central Bank of Egypt (CBE) under the program are defined as the difference between foreign reserve assets and 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 paragraph 2.

4. Foreign reserve assets are defined as readily available claims on nonresidents denominated in convertible foreign currencies, including the Chinese Yuan. They include the CBE's holdings of monetary gold, SDRs, foreign currency cash, and foreign currency securities; the CBE's deposits abroad, 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, precious metals other than gold, assets in nonconvertible currencies, and illiquid assets. As of September 30, 2022, foreign reserve assets thus defined amounted to $32,671 million.

5. **Foreign reserve-related liabilities** are defined as comprising all short-term foreign exchange liabilities of the CBE to residents and nonresidents with original maturity of less than 360 days, except for deposits at the CBE with original maturity of less than 360 days that are owed to official GCC member creditors. It includes government's foreign currency deposits with original maturity of less than 360 days. It excludes deposits owed to official GCC partners with original maturity of less than 360 days. It includes banks' required reserves in foreign currency, and all credit outstanding from the Fund that is on the balance sheet of the CBE. As of September 30, 2022, foreign reserve-related liabilities thus defined amounted to $15,429 million.

6. **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 volatility-based FX intervention framework. These adjustors are clarified below.

7. **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) sales of state-owned assets through the Sovereign Fund of Egypt to official bilateral partners, sovereign wealth funds, and the private sector, and sales of state-owned assets to sovereign wealth funds. All proceeds from these sales would be deposited at the CBE in an account earmarked to receive such proceeds 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.

8. **The adjustors 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 from September 30, 2022, are $1,591 million as of end-December 2022, $3,183 million as of end-March 2023, and $5,696 million as of end-June 2023 (Table 1 of the MEFP).

- *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 NIR floor will be adjusted down by 50 percent of the amount of the shortfall in external commercial borrowings relative to baseline projections in the BOP.

- *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 paragraph 2, are $4,352 million for the end-December 2022 test date, $4,977 million for the end-March 2023 test date, and $5,602 million for the end-June 2023 test date (see also Table 1 of the MEFP).

- *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 a volatility-based intervention framework.

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

9. The budget sector comprises the central government (administration), the governorates (local administration), and public service authorities, including the General Authority for Government Services, a number of regulatory authorities, funds, universities, and hospitals.

10. The primary fiscal balance of the budget sector under the program is defined as the overall balance minus total interest payments of the budget sector. The overall balance under the program is defined as total revenue minus total expenditure and net acquisition of financial assets. These are

measured on a cumulative basis from the beginning of the fiscal year. For FY2021/22, the primary balance of the budget sector thus defined was EGP 100 billion.

11. 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.

12. 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 flowing to the budget relative to program assumptions. For the purpose of calculating this adjustor, the program assumptions for divestment proceeds flowing to the budget are zero for the test dates of end-December 2022 and end-March 2023, and EGP 10 billion for end-June 2023.

13. Divestment proceeds. Total divestment proceeds are the resources raised from the sale of state-owned assets. For divestment proceeds flowing to the budget, if the state-owned assets belong to the Ministry of Finance, such proceeds are recorded as net acquisition of financial assets; otherwise, they could be recorded as dividends or other revenues.

C. Floor on Tax Revenues (IT)

14. Tax revenues include both sovereign and non-sovereign taxes such as personal income tax, corporate income tax, value-added tax, excises, international trade taxes, and other taxes.

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

15. Health and social spending of the budget sector includes spending related to the budget of the Ministry of Health and the Ministry of Social Solidarity.

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

16. 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 after July 1, 2022. 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 the 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.

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

17. 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. Gross debt of the budget sector thus defined for end-June 2022, evaluated at end-June 2022 exchange rate, was EGP 7,183 billion. 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 rate indicated in paragraph 2.

18. Adjustor. The ceiling for gross debt of the budget sector will be adjusted down by the full amount of the excess of divestment proceeds flowing to the budget compared to the program assumptions. For the purpose of calculating this adjustor, the program assumptions for divestment proceeds flowing to the budget are zero for the test dates of end-December 2022 and end-March 2023, and EGP 10 billion for end-June 2023.

G. Overnight Interbank Rate and Mid-corridor Rate (IT)

19. This program target requires that the overnight interbank rate (CONIA) stays within 50 bps of the mid-corridor rate (50 bps above and 50 bps below the mid-corridor rate). The mid-corridor rate is defined as the midpoint between the interest rate on the CBE's overnight lending facility and the interest rate on the CBE's overnight deposit facility.

H. Monetary Policy Consultation Clause

20. 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).

21. 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.

22. 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.

I. Commercial Banks' Net Foreign Assets Consultation Clause

23. 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 using the monetary data reported in the standardized report form.

24. 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.

J. Continuous Performance Criteria

25. 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, as well as 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.

26. 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.

K. Structural Benchmarks

27. 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.

28. Continuous 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 (excluding LPG and 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:

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

- $Brent_{t-1}$ 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.

- *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.

- *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 will not be negative. This transition period will conclude once 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.

29. 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 September 1, 2022, the total amount of loans utilized under the subsidized lending schemes is 361 billion EGP.

L. Monitoring and Reporting Requirements

30. 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 promptly.

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	M	30 calendar days
Domestic debt stock and debt service costs of the general government and budget sector, including interest payments and amortization	Q	30 calendar days (60 days for the general government)
Debt of the budget sector by maturity of issuance and by debt holder, including debt to the Pension Fund and other public entities, at actual and program exchange rates	M	30 calendar days
Gross and net stock of bonds issued by the budget sector to the Social Insurance Funds (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	W and M	30 calendar days (60 days for the general government)
Auctions of T-bills and T-bonds via primary dealers, including: the number and value of submitted and accepted bids; minimum, maximum, and weighted average interest rates; and maturity dates. Separately, information on private placements of domestic and external debt, including the issuance amount, the maturity date, the currency of issuance, and the interest rate	W	7 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, as well as underlying data to calculate the average maturity, including the issuance amount and the maturity date of individual issuances	M	30 calendar days

Table 1A. Egypt: Reporting Requirements for Ministry of Finance (concluded)

Item	Frequency	Submission Lag
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	Q	45 calendar days
Note: 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 in foreign currencies by official bilateral partners including sovereign wealth funds and the private sector. Breakdown of program disbursements described in paragraph 7 of 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 (if any) by creditor	M	30 calendar days
Amortization schedule for external debt payments, interest, and amortization	Q	30 calendar days
Monthly cash flow table based on the agreed template (both past outcomes and projections for 12 months)	M	15 calendar days
Balance of payments, international investment position, and external debt data in electronic format	Q	90 calendar days
CBE foreign exchange deposits held at commercial banks headquartered in Egypt	W	5 working days
Commercial bank deposits (Egyptian pound and foreign currency) by sector (household, corporate, and public)	M	30 calendar days
Bank-by-bank foreign exchange net open position. Information on any breaches by commercial banks of net FX open position 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	M	15 working days

Table 1B. Reporting Requirements for Central Bank of Egypt (concluded)		
Central bank daily purchases and sales of foreign exchange by counterparts (commercial banks, EGPC, GASC, government)	W	2 working days
Information on the FX intervention, including relevant intra-day exchange rate and the amount of intervention	When intervention takes place	1 working day
Daily official exchange rates EGP/ $ (data to be submitted once a week for the previous week)	W	5 working days
Daily average buy and sell exchange rates EGP/$ as quoted by foreign exchange bureaus and banks (data to be submitted once a week for the previous week)	W	5 working days
Commercial 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
Central bank's weekly analytical balance sheet (preliminary data to be submitted once a week for the previous week)	W	7 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
Note: Q= quarterly; M = Monthly; W = Weekly		

INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

December 2, 2022

ASSESSMENT OF THE FUND'S FINANCIAL EXPOSURES AND LIQUIDITY POSITION

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CONTENTS

INTRODUCTION

1. **The Egyptian authorities have requested a four-year extended arrangement under the Extended Fund Facility (EFF) of 115.4 percent of quota (SDR 2,350.18 million).** The program aims to sustainably address macroeconomic vulnerabilities and promote private-sector-led growth and job creation. It is based on three broad pillars: exchange rate and monetary policies focused on restoring external resilience and maintaining price stability; continued fiscal discipline and implementation of fiscal structural measures; and broad-based structural reforms to reduce the state footprint and increase the role of the private sector in the economy. Equal phasing of access under the EFF is proposed, with the last and final disbursement to take place by end-2026 (Table 1). Financing under the EFF requires exceptional access as Egypt's outstanding credit with the Fund (at 669.4 percent of quota as of October 31st, 2022) exceeds the cumulative normal access limit applicable under the GRA. The proposed access under the EFF will cover around 17.5 percent of the estimated financing gap, with the remainder expected to be filled by other multilateral and bilateral creditors, including the World Bank, the Asian Infrastructure Investment Bank, as well as by the proceeds from sales of state-owned assets, including divestment to Egypt's regional partners and their sovereign wealth funds.

Table 1. Egypt: Proposed EFF-Access and Phasing

			Percent of quota		
Availability	Date 1/	SDR millions	Purchase	Cumulative	Credit Outstanding
2022	December	261.13	12.8	12.8	662.0
2023	March	261.13	12.8	25.6	672.0
	September	261.13	12.8	38.5	634.0
2024	March	261.13	12.8	51.3	561.0
	September	261.13	12.8	64.1	475.0
2025	March	261.13	12.8	76.9	382.0
	September	261.13	12.8	89.7	309.0
2026	March	261.13	12.8	102.6	266.0
	September	261.13	12.8	115.4	236.0
	Total	2,350.2	115.4		

Source: Finance Department
1/ After approval of the arrangement, all subsequent purchases will depend on the completion of a review and compliance with performance criteria and the consultation clause to be established under the arrangement. This will be updated.

2. This note assesses the financial implications of the proposed EFF arrangement for the Fund. The assessment is provided in accordance with the policy on exceptional access (EA)[1], and based on the assumption that all the four exceptional access criteria are met.

PAST FUND ARRANGEMENTS

3. Following a number of arrangements in the 1990s, Egypt has benefited in recent years from Fund financial support (Table 2).

- A three-year EFF arrangement (SDR 8,597 million, 422 percent of quota) was approved in November 2016. All reviews were concluded, and the arrangement was fully drawn. Egypt's EFF-supported reform program was largely successful in achieving macroeconomic stabilization, addressing external and domestic imbalances, and putting debt on a downward trajectory while also implementing a first wave of structural reforms. A key underpinning of the program was the liberalization of the foreign exchange market and the increase of exchange rate flexibility to improve resilience to shocks and preserve competitiveness. Still, upon completion of the arrangement in 2019, public debt and gross financing needs remained elevated and a significant structural reform agenda remained.

- In response to the COVID-19 shock, Fund support to Egypt was provided under a two-stage strategy. In May 2020, support under the Rapid Financing Instrument (RFI) was approved (SDR 2,037.10 million, 100 percent of quota), which aimed to address the immediate impact of the COVID-19 shock. The RFI purchase lifted credit outstanding above the cumulative exceptional access limit. In June 2020, Egypt's most recent Fund arrangement, a 12-month exceptional access Stand-by Arrangement (SBA) (SDR 3,763.64 million, 184.75 percent of quota) was approved. The SBA helped Egypt address the severe economic disruption caused by the COVID-19 pandemic and preserve macroeconomic stability gains achieved during the previous EFF arrangement. The SBA achieved its primary objective of maintaining macroeconomic stability and policy implementation was broadly in line with program objectives, even as exchange rate variability remained limited. However, the public debt to GDP ratio for the general government increased from 86.2 percent in FY2019/20 to 89.9 percent in FY2020/21. Both SBA reviews were concluded on time and all program conditionality was met.[2]

- Earlier, in the 1990s, Egypt had three arrangements with the Fund. In May 1991, the Executive Board approved an SBA in the amount of SDR 234 million (51 percent of quota), of which Egypt purchased SDR 147 million. Two subsequent arrangements were treated as precautionary: a three-year arrangement under the EFF, approved in September 1993 (SDR 400 million, 59

[1] See paragraph 5 of Decision No 14064-(08/18), adopted 2/22/2008, as amended, and The Acting Chair's Summing Up of the Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy (3/5/03).

[2] *Arab Republic of Egypt: Ex-Post Evaluation of Exceptional Access Under the 2020 Stand-By Arrangement*.

percent of quota) and a two-year precautionary SBA, approved in October 1996 (SDR 271 million, 40 percent of quota).

Table 2. Egypt: IMF Financial Arrangements and Fund Exposure, 1991–2036
(In millions of SDR)

Year	Type of New Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Amount Drawn	Fund Exposure 1/	
1991	SBA	17-May-1991	31-May-1993	234.4	147.2	89.0	2/
1992						147.2	
1993	EFF	20-Sep-1993	19-Sep-1996	400.0	0.0	147.2	
1994						132.2	
1995						69.5	
1996	SBA	11-Oct-1996	30-Sep-1998	271.4	0.0	10.9	
1997						0.0	
:						:	
:						:	
2016	EFF	11-Nov-2016	29-Jul-2019	8,596.6	8,596.6	1,970.1	
2017						4,298.3	
2018						5,731.1	
2019						8,596.6	
2020	RFI SBA	11-May-2020 26-Jun-2020	13-May-2020 25-Jun-2021	2,037.1 3,763.6	2,037.1 3,763.6	13,239.3	
2021						14,069.0	
2022	EFF	*December 2022*	*September 2026*			*13,494.3*	3/
2023						*12,070.8*	3/
2024						*8,549.5*	3/
2025						*5,609.8*	3/
2026						*4,409.8*	3/
2027						*3,240.1*	3/
2028						*2,490.8*	3/
2029						*1,893.2*	3/
2030						*1,566.8*	3/
2031						*1,175.1*	3/
2032						*783.4*	3/
2033						*457.0*	3/
2034						*217.6*	3/
2035						*65.3*	3/
2036						*0.0*	3/

Source: Finance Department
1/ As of end-December, unless otherwise stated.
2/ Fund exposure in 1991 included outstanding credit from arrangements in the 1980s.
3/ Figures including transactions under the proposed program are in italics. Fund exposure is derived assuming purchases are made as per the schedule in Table 1 and Egypt remains current on all its scheduled repurchases.

DEBT SITUATION AND OUTLOOK

4. **Despite the progress made under the EFF arrangement and the SBA in fostering macroeconomic stability and rebuilding reserve buffers, Egypt's total external debt remains more elevated today than in 2016.** External debt initially increased, in the wake of the sharp devaluation in November 2016, from about 16 percent of GDP in 2015/2016 to 31 percent of GDP in 2016/2017, then decreased to about 33 percent of GDP in 2020/2021 and remained at that level in 2021/22 despite a near doubling in short term debt (Table 3). Medium- and long-term borrowing by the public sector accounts for the bulk of external debt. In FY 2021/2022, Eurobonds, IMF credit and other general government loans accounted for 22.5 percent, 14.0 percent and 32.6 percent of the medium- and long-term external debt, respectively. Debt of the CBE amounted to 5.5 percent of GDP or 20.2 percent of medium- and long-term external debt, of which deposits accounted for 57.5 percent. Short term external debt was 5.6 percent of GDP. Compared with other exceptional access borrowers, overall external debt as a share of GDP is relatively modest, but public external debt is slightly above the median (Figure 1).

Table 3. Egypt: External Debt Structure[1/]

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
				(In millions of U.S. dollars)			
Total external debt	55,764	79,033	92,644	108,699	123,491	137,860	155,709
of which:							
Medium and long-term	48,747	66,758	80,360	97,644	112,625	124,144	129,089
Public sector	48,551	66,603	79,900	97,235	112,203	123,752	128,255
Private sector	195	155	460	409	422	392	834
Short-term	7,018	12,274	12,284	11,055	10,866	13,716	26,620
Public sector	3,200	9,833	8,363	4,803	3,759	5,709	16,558
Private sector	3,818	2,441	3,921	6,252	7,107	8,007	10,062
				(In percent of GDP)			
Total external debt	15.9	30.8	35.2	34.2	32.3	32.6	32.8
of which:							
Medium and long-term	13.9	26.0	30.5	30.7	29.4	29.3	27.2
Public sector	13.8	26.0	30.4	30.6	29.3	29.2	27.0
Private sector	0.1	0.1	0.2	0.1	0.1	0.1	0.2
Short-term	2.0	4.8	4.7	3.5	2.8	3.2	5.6
Public sector	0.9	3.8	3.2	1.5	1.0	1.3	3.5
Private sector	1.1	1.0	1.5	2.0	1.9	1.9	2.1

Source: Egyptian authorities and IMF staff estimates.
1/ End of fiscal year unless otherwise indicated.

Table 4. Egypt: External Debt Service [1/]

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
				(In millions of U.S. dollars)				
Total external debt service	20,957	24,011	26,985	31,382	42,187	48,911	51,016	54,612
of which:								
Medium and long-term	8,565	11,572	15,805	19,249	26,774	20,683	21,626	25,701
Public sector (ex. SDR)	8,565	11,572	15,683	19,155	26,647	20,481	21,235	24,940
Creditor countries	2,069	2,313	3,570	5,407	5,408	5,321	4,683	8,986
Multilateral	2,287	2,510	2,832	2,700	6,164	6,317	9,431	10,193
of which IMF	110	240	368	682	1,291	2,241	5,406	6,494
Deposits, bonds, and notes	4,210	6,749	9,280	11,049	15,075	8,843	7,121	5,761
Deposits	3,576	5,672	7,348	9,334	11,341	5,910	2,510	1,473
Bonds and notes	634	1,077	1,932	1,715	3,733	2,934	4,611	4,288
Private sector	-	-	122	94	128	202	391	761
Short-term	12,392	12,439	11,181	12,133	15,413	28,228	29,389	28,911
				(In percent of GDP)				
Total external debt service	8.0	7.6	7.1	7.4	8.9	11.6	11.7	11.6
of which:								
Medium and long-term	3.3	3.6	4.1	4.5	5.6	4.9	5.0	5.4
Public sector (ex. SDR)	3.3	3.6	4.1	4.5	5.6	4.8	4.9	5.3
Creditor countries	0.8	0.7	0.9	1.3	1.1	1.3	1.1	1.9
Multilateral	0.9	0.8	0.7	0.6	1.3	1.5	2.2	2.2
of which IMF	0.0	0.1	0.1	0.2	0.3	0.5	1.2	1.4
Deposits, bonds, and notes	1.6	2.1	2.4	2.6	3.2	2.1	1.6	1.2
Deposits	1.4	1.8	1.9	2.2	2.4	1.4	0.6	0.3
Bonds and notes	0.2	0.3	0.5	0.4	0.8	0.7	1.1	0.9
Private sector	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2
Short-term	4.7	3.9	2.9	2.9	3.2	6.7	6.8	6.1

Source: Egyptian authorities and IMF staff estimates.
1/ Public sector debt service includes debt service to creditor countries, multilateral organizations, deposits from other countries, sovereign bonds and notes.

5. **Egypt's external debt service burden is sizable.** Total external debt service is about 9 percent of GDP in FY2021/2022. Short-term debt service accounted for around 37 percent of total external debt service in FY2021/2022, reflecting a relatively large share of medium and long-term debt, but is expected to increase over the coming years. The ratio of external debt service to exports of goods and services in 2022 is higher than it was at the inception of the 2020-2021 SBA and is now above the median of the recent EA cases (Figure 1, Panel C). Under the proposed EFF, external debt service would remain elevated in 2022-25, at about 12 percent of GDP on average, mainly on account of a rise in the share of short-term debt but also slightly higher debt service from official and multilateral creditors. Obligations due to the Fund in the next three years are about 1 percent of GDP per year on average, mainly reflecting repurchases under the 2016-2019 EFF and 2020-2021 SBA (Table 4).

6. **Public debt and gross financing needs also remain high and financing assurances for the medium-term, which are expected to materialize through divestment of state-owned assets, carry risks.**

- Egypt's public debt is sustainable but not with high probability, and overall risks of sovereign stress are high, with the interest burden taking up sizable budget space. Gross public debt for the general government is estimated at 88.5 percent of GDP in FY2021/22, well above the median for recent exceptional access cases and slightly above Egypt's debt level at the time of the previous SBA (Figure 1). Additional risks could arise from materialization of contingent liabilities related to state-owned enterprises. However, the authorities' commitment to fiscal consolidation is projected to put public debt on a downward trajectory in the medium term.

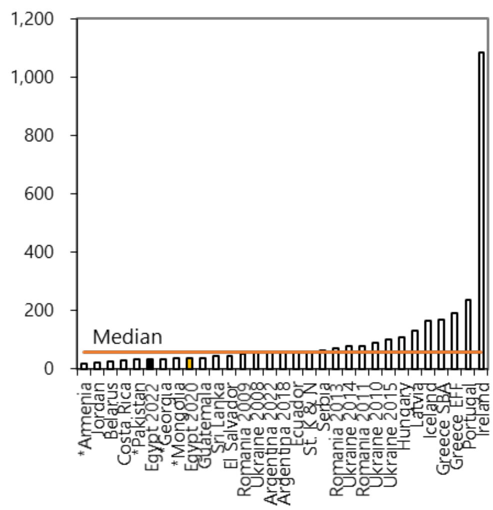
- Gross financing needs are high and projected to average around 36 percent of GDP in the medium term, largely attributable to rollover needs on a large stock of Treasury bills and elevated interest payments. Upside surprises to interest payments, for example due to tighter financial conditions, would elevate GFNs further. The authorities are committed to mitigate these risks through active debt management to lengthen maturities of new issuances (also supported by program conditionality). This would reduce rollover risks and improve Egypt's fiscal resilience.

- Due to the investment nature of the external financing expected from GCC partners, financing assurances for the program period ($6.7 billion expected from GCC partners for FY23/24-FY25/26) carry risks. The identified pipeline of projects and a rough timeline for the offer of shares to partners, together with the GCC partners' stated intentions to invest in the Sovereign Fund of Egypt need to materialize in full and under the projected timeline so as to ensure that the program underlying the requested four-year EFF arrangement will be fully financed.

Figure 1. Debt Ratios for Recent Exceptional Access Arrangements[1/ 2/]

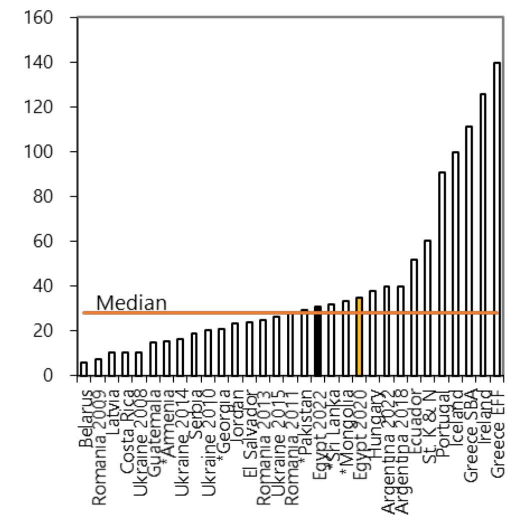
A. Total External Debt

(in percent of GDP at time of approval)



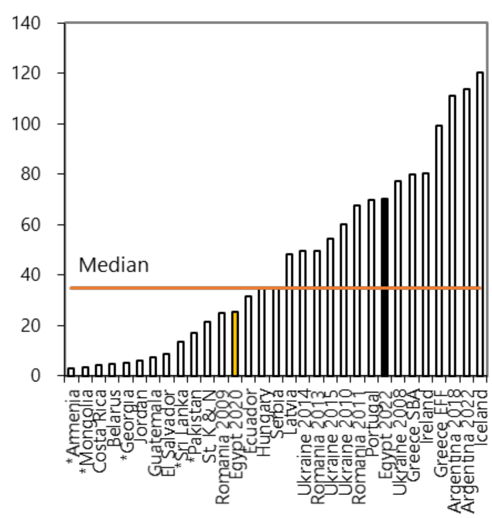
B. Public External Debt

(in percent of GDP at time of approval)



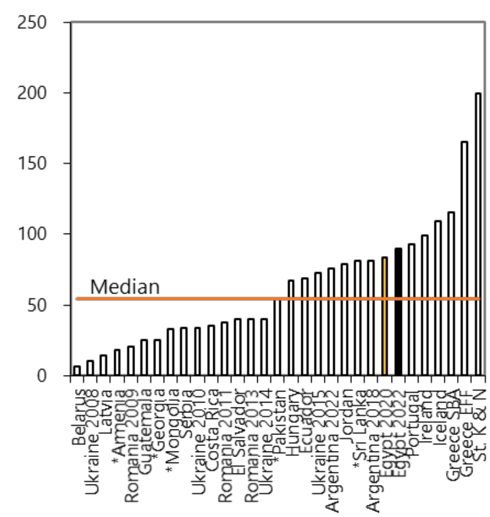
C. External Debt Service

(in percent of Exports of Goods and Services at time of approval)[3/]



D. Total Public Debt

(in percent of GDP at time of approval)



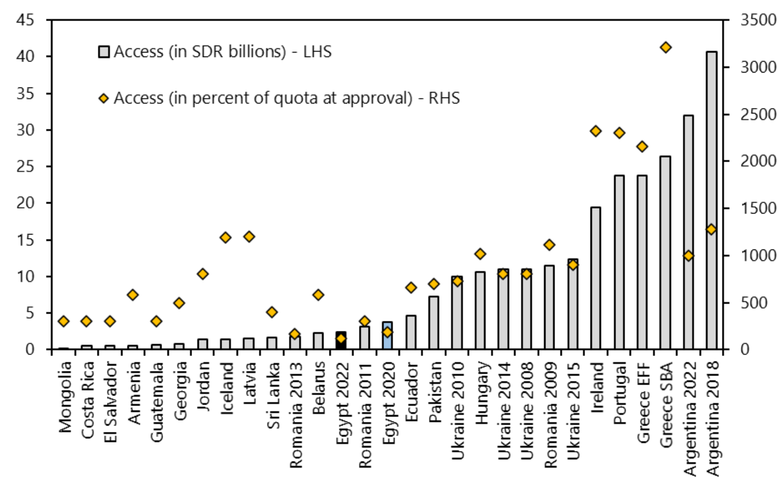
Source: Egyptian Authorities and IMF staff estimates.
1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. For Egypt, ratios reflect end-fiscal year 2020/21 data.
2/ Asterisks indicate PRGT-eligible countries at the time of the program.
3/ For Egypt's proposed arrangement, total external debt service includes the debt service on the medium- and long-term debt (public debt from creditor countries, multilateral institutions, deposits, bonds and notes, and private sector debt) and short-term debt.

FINANCIAL IMPLICATIONS OF THE PROPOSED EXTENDED ARRANGEMENT FOR THE FUND

7. **The IMF's current credit exposure to Egypt is SDR 13.6 billion.** Purchases under the 2016-2019 EFF, 2020 RFI and 2020-2021 SBA totaled SDR 14.4 billion. From May 2021 to October 2022, the authorities have made scheduled repurchases of SDR 0.8 billion. Remaining scheduled repurchases until 2025 amount to SDR 0.4 billion in the remainder of 2022 (November-December), SDR 1.9 billion in 2023, SDR 4.0 billion in 2024 and SDR 3.5 billion in 2025. Projected debt service to the Fund in FY2022/2023 (based on the obligations incurred under the 2016-2019 EFF, 2020 RFI and 2020-2021 SBA) represents 3.9 percent of Egypt's total projected external debt service.

8. **Access under the proposed EFF arrangement is moderate**. It is, in percent of quota, below recent exceptional access arrangements and below the median in the sample of exceptional access arrangements since 2008 (Figure 2).

Figure 2. Access of Exceptional Access Arrangements Since 2008[1/]

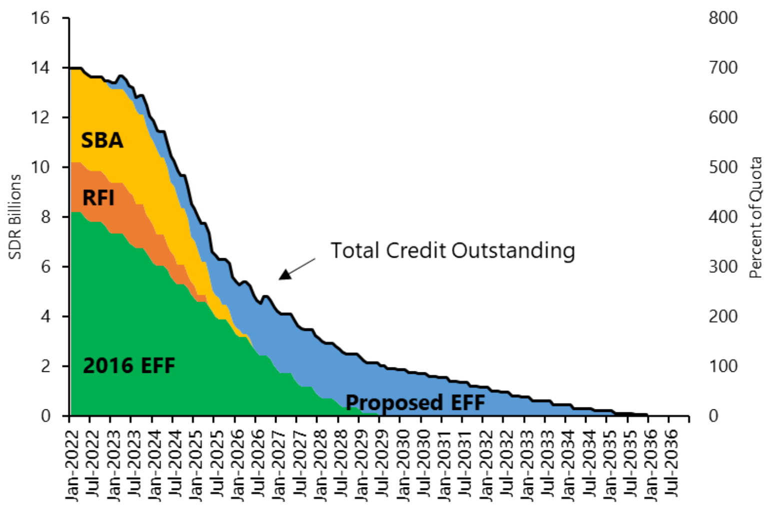


Source: Finance Department and IMF staff estimates.
1/ FCL arrangements as well as arrangements with relatively low access in SDRs are not included.

9. **The Fund's exposure to Egypt would rise modestly in the early part of the requested EFF arrangement and decline subsequently to about 236 percent of quota by the end of the proposed arrangement (Figure 3).** Purchases under the 2020-2021 SBA brought Egypt above the normal cumulative GRA access limit of 435 percent of quota, with total credit outstanding at the end of October 2022 amounting to 669 percent of quota. Assuming all proposed purchases under the new EFF arrangement are made according to schedule and taking into account repurchases under the 2016-2019 EFF, 2020 RFI and 2020-2021 SBA, Egypt's outstanding use of GRA resources would peak at SDR 13.7 billion (672 percent of quota) in March and April of 2023 (Figure 3). This is lower than the median of other recent exceptional access cases, notably the large arrangements to support European borrowers in the early 2010s and more recently Argentina (Figure 4). Still, credit

outstanding would remain elevated for an extended period and only fall below the EA threshold in December 2024.

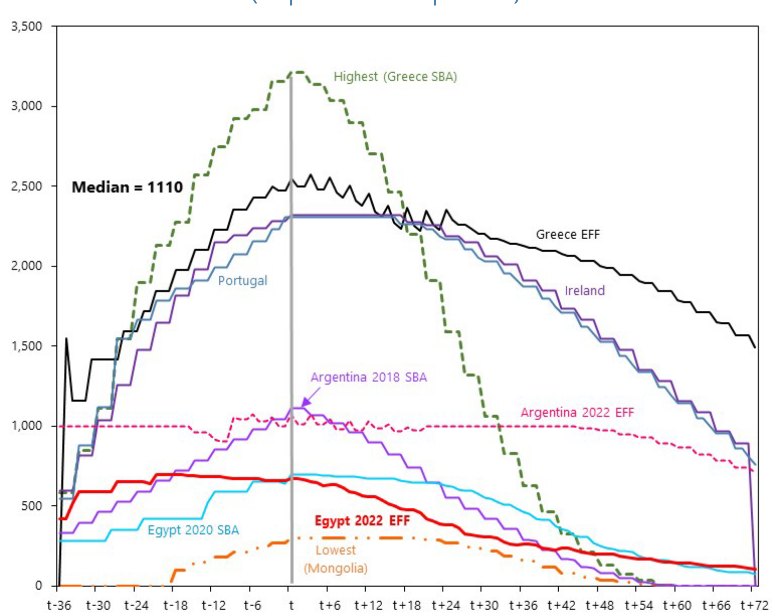
Figure 3. Projected Credit Outstanding Path Under Existing Arrangements and Proposed EFF



Source: Finance Department and IMF staff estimates.

Figure 4. Credit Outstanding in the GRA Around Peak Borrowing[1/]

(In percent of quota[2/])



Source: Finance Department and IMF staff estimates.

1/ Peak borrowing "t" is defined as the highlest level of credit outstanding for a member. Repurchases are assumed to be on an obligations basis.

2/ Based on quotas at the time of approval, i.e., pre-14th Review quotas for all countries except Egypt. Median credit outstanding at peak for the selected arrangements shown in the graph is 1110 percent of quota; average is 1582 percent of quota.

10. While Egypt already has sizable Fund credit outstanding, peak Fund exposure metrics would generally remain below or close to recent exceptional access cases. In particular, peak Fund exposure ratios (stock of outstanding obligations to the Fund as a share of GDP, gross international reserves and total external debt) are below or close to the median for exceptional access cases approved by the Fund since September 2008 (Figure 5).

11. Egypt's peak payment obligations would be slightly above the median of recent EA arrangements and capacity to repay indicators are generally in line with those of recent EA arrangements. Key external debt service ratios, including total external debt service, and debt service obligations to the Fund, in percent of exports of goods and services are slightly above or near the median values for recent EA arrangements (Figure 5). Capacity to repay indicators (Table 5) are also broadly in line with those for exceptional access borrowers from the GRA in recent years. However, indicators are weaker when scaled against Egypt's net international reserves, which are lower than gross reserves. Moreover, the global monetary tightening cycle and continued spillovers from the war in Ukraine pose significant downside risks to the baseline forecast for Egypt's economy, implying significant risk of more adverse outcomes for the currently projected capacity to repay indicators.

12. The proposed EFF arrangement would have a modest impact on the Fund's liquidity position. With the EFF, the Fund's Forward Commitment Capacity (FCC) would decline by about 1.5 percent from its current level of 157.7 billion of SDR (Table 6). Since Egypt is not a member of the Financial Transactions Plan (FTP), there would be no additional second-round impact on the FCC.

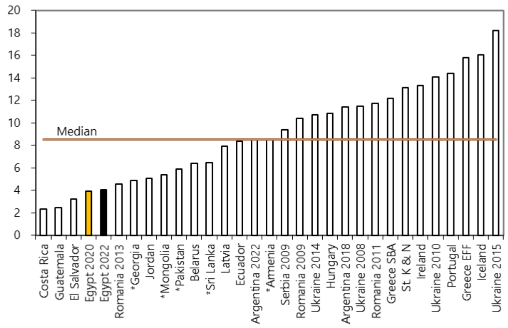
Table 5. Egypt: Capacity to Repay Indicators[1/]

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Exposure and Repayments (In SDR millions)						
GRA credit to Egypt	13,277.9	10,454.9	6,644.1	4,865.0	3,835.8	2,816.6
(In percent of quota)	(651.8)	(513.2)	(326.2)	(238.8)	(188.3)	(138.3)
Charges due on GRA credit 2/	428.2	799.4	588.0	374.5	268.2	203.0
Debt service due on GRA credit 3/	1,144.5	4,144.6	4,921.2	2,675.7	1,558.6	1,222.2
Debt and Debt Service Ratios						
In percent of GDP						
Total external debt	35.8	34.8	32.6	30.3	27.5	25.8
External debt, public	32.7	31.2	28.8	26.6	24.0	22.6
GRA credit to Egypt	4.0	3.1	1.8	1.2	0.9	0.6
Total external debt service 4/	11.6	11.7	11.6	8.9	8.7	7.1
Debt service due on GRA credit	0.3	1.2	1.3	0.7	0.4	0.3
In percent of Gross International Reserves						
Total external debt	393.8	312.2	292.4	239.8	195.6	195.4
External debt, public	359.6	279.9	258.5	210.3	171.0	171.0
GRA credit to Egypt	44.4	27.7	16.2	9.6	6.2	4.5
Debt service due on GRA credit	3.8	11.0	12.0	5.3	2.5	1.9
In percent of Exports of Goods and Services						
Total external debt service 4/	64.0	63.9	65.0	53.0	52.9	44.8
Debt service due on GRA credit	1.9	6.7	7.5	4.0	2.2	1.6
In percent of Total External Debt						
GRA credit to Egypt	11.3	8.9	5.5	4.0	3.2	2.3
In percent of Total External Debt Service 4/						
Debt service due on GRA credit	3.0	10.4	11.6	7.5	4.1	3.6
In percent of Total Public External Debt						
GRA credit to Egypt	12.4	9.9	6.3	4.6	3.6	2.6
Memorandum items:						
In percent of Net International Reserves						
GRA credit to Egypt	74.3	40.6	22.9	12.6	7.7	5.5
Debt service due on GRA credit	6.4	16.1	17.0	6.9	3.1	2.4

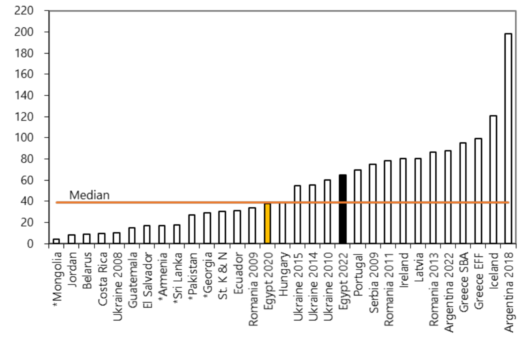
Source: Egyptian authorities, Finance Department, and IMF staff estimates.
1/ Assumes full drawings. Indicators based on the baseline macroeconomic scenario presented in the staff report.
2/ Includes GRA basic rate of charge, surcharges, service fees, and SDR charges.
3/ Includes charges due on GRA credit and repurchases.
4/ For Egypt's proposed arrangement, total external debt service includes the debt service on the medium- and long-term debt (public debt from creditor countries, multilateral institutions, deposits, bonds and notes, and private sector debt) and short-term debt.

Figure 5. Peak Fund Exposure and Debt Service Ratios for Recent Exceptional Access Cases[1/ 2/]

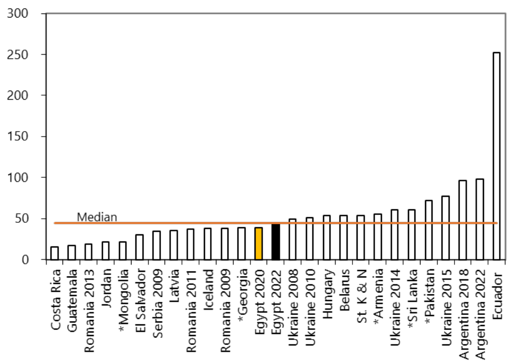
Peak Fund Exposure
(in percent of GDP)



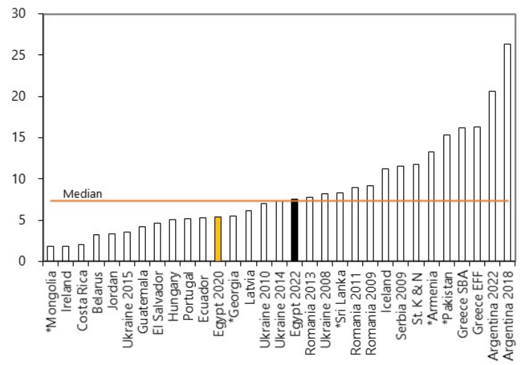
Peak Total External Debt Service
(in percent of Exports of Goods and Services)[5/]



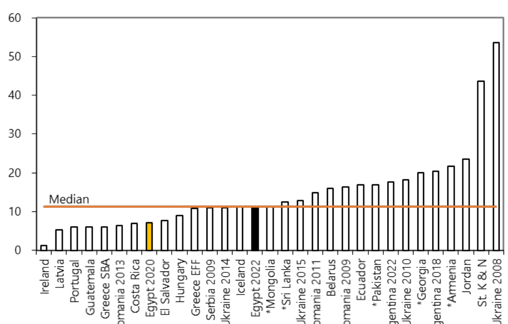
Peak Fund Exposure
(in percent of Gross International Reserves)[3/]



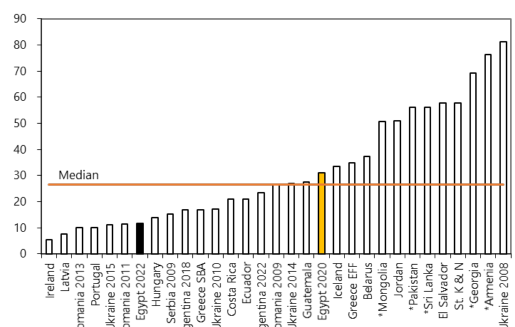
Peak Debt Service to Fund
(in percent of Exports of Goods and Services)



Peak Fund Exposure
(in percent of Total External Debt)[4/]



Peak Debt Service to Fund
(in percent of Total External Debt Service)[5/]



Source: Egyptian authorities, Finance Department, and IMF staff estimates.
1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008.
2/ Asterisks indicate PRGT-eligible countries at the time of the program.
3/ Excluding arrangements with members belonging to the euro area at the time of the approval of the arrangement: Greece, Ireland, and Portugal.
4/ For arrangements of which total external debt (or debt service) ratio is not available, the public external debt ratio is shown instead.
5/ For Egypt's proposed arrangement, total external debt service includes the debt service on the medium- and long-term debt (public debt from creditor countries, multilateral institutions, deposits, bonds and notes, and private sector debt) and short-term debt.

13. The proposed EFF arrangement would prolong the Fund's high credit exposure to Egypt.

- After the scheduled first purchase, Egypt would remain the Fund's second largest GRA borrower after Argentina with its credit outstanding accounting for 14.5 percent of total Fund credit (Figure 6).

- Credit concentration measured by the Fund's exposure to the top five borrowers would remain roughly stable at 69.4 percent as the first purchase of the new EFF is roughly offset by the repurchases from previous programs.

- The Fund's current level of precautionary balances (PB) would continue to exceed the credit exposure to Egypt, should risks to repayment capacity materialize. Total Fund credit outstanding to Egypt after the scheduled first purchase would amount to 63.1 percent of PBs.

14. Income risks would be high, at least initially. Fund income from Egypt is projected to account for about 24.0 percent of total lending income in FY2023, based on a desk survey scenario for projected program demand as of September 2022. If Egypt were to accrue arrears on charges and surcharges, the Fund's burden sharing mechanism is sufficient to cover such arrears. Total GRA charges and fees for Egypt are projected at SDR 849.4 million for 2023, slightly below the Fund's current residual burden-sharing capacity of SDR 888.9 million (as of November 10, 2022). However, with the projected gradual decline in credit outstanding over the life of the program, charges and fees—and thus income risk—would decline over time.

15. The Fund would also be exposed to a number of non-financial enterprise risks. Chief among them is reputational risk. Failure of the proposed extended arrangement to deliver economic recovery, reduce debt risks, and mobilize sufficient financing could impact the credibility of the Fund as a trusted adviser and catalyst of policy adjustment and reform. Full program implementation by the authorities, periodic program reviews to monitor and adjust policies as needed, and proactive communication will be essential to mitigate such risks. At the same time, the alternative of not engaging with Egypt through an extended arrangement would also raise reputational risks and possibly even strategic risks to the Fund. Egypt has pronounced balance of payments difficulties, which have deepened as a result of external shocks, and a failure to assist the country could lead members to question the effectiveness of the Fund and more fundamentally its role and mandate.

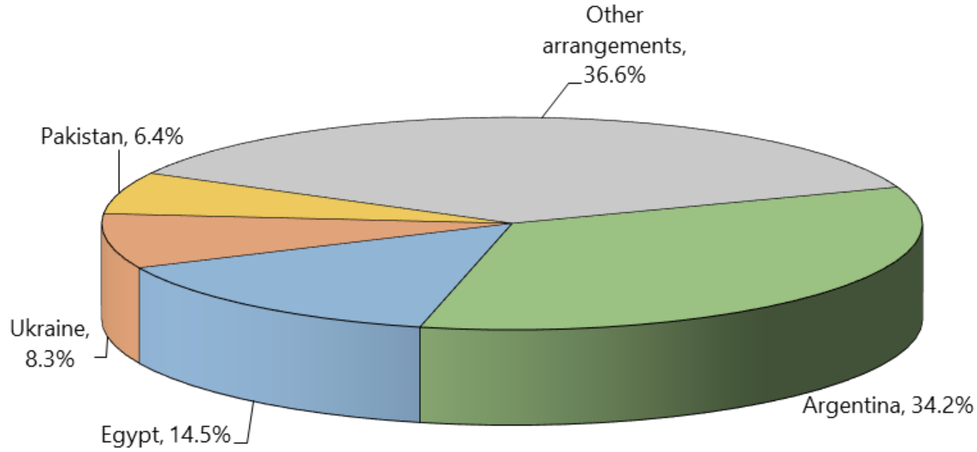
Table 6. Egypt: Impact on GRA Finances
(In millions of SDR unless otherwise noted)

	As of 11/10/2022
Liquidity measures	
Current one-year Forward Commitment Capacity (FCC) 1/	157,713.7
Impact on FCC on approval 2/	-2,350.2
(in percent of current one-year FCC)	-1.5
Prudential measures	
Fund GRA credit outstanding to Egypt at time of approval 3/	13,494.3
In percent of current precautionary balances	63.1
In percent of total GRA credit outstanding	14.5
Fund GRA credit outstanding to top five borrowers	64,466.9
In percent of current precautionary balances	301.5
In percent of total GRA credit outstanding	69.4
In percent of total GRA credit outstanding at time of approval 3/	69.4
Egypt's GRA charges/surcharges remaining in 2022 in percent of residual burden sharing capacity	19.5
Memorandum items	
Fund's precautionary balances (as of end-July 2022)	21,382
Fund's residual burden-sharing capacity 4/	888.9

Sources: Egyptian authorities, Finance Department, and IMF staff estimates.
1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include resources under the New Arrangements to Borrow or 2020 Bilateral Borrowings Agreements.
2/ A single country's negative impact on the FCC is defined as the country's sum of Fund credit and undrawn commitments minus repurchases one-year forward.
3/ Projected credit outstanding for Egypt at time of approval of the proposed arrangement, which includes the scheduled first purchase.
4/ Burden-sharing capacity is calculated based on the floor for remuneration which, under current policies, is 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges.

Figure 6. Credit Concentration of Fund GRA Exposure[1/]

(As a percentage of total credit outstanding)



Source: Finance Department.

1/ Total credit outstanding refers to Egypt's projected credit outstanding in December 2022 (including its first purchase under the proposed arrangement).

ASSESSMENT

16. **The proposed EFF arrangement with its underlying economic program is intended to help Egypt alleviate immediate economic challenges, strengthen policy frameworks and deepen structural reforms.** The economic program is aimed at achieving macroeconomic stabilization in the short term and strengthening resilience and lifting potential growth over the medium term. Growth is expected to recover gradually and inflation, anchored by data-dependent monetary policy, is expected to converge to around 7 percent. A return to a sustained primary surplus of above 2 percent of GDP over the medium term would ensure the reduction of general government debt to around 78 percent of GDP by FY2026/2027. Gross financing needs are projected to amount to around 35 percent of GDP in FY2026/27. Fiscal consolidation will also contribute to the narrowing of the current account deficit to about 2 percent of GDP over the medium term. Fund financing is expected to be catalytic, with the proposed arrangement covering slightly less than one-fifth of the projected financing gap.

17. **The proposed arrangement will prolong the Fund's high exposure to Egypt but sizable net repurchases would allow for a significant decline in credit outstanding during its course.** If all proposed purchases under the EFF arrangement and repurchases due under the 2016-2019 EFF, 2020 RFI and 2020-2021 SBA are made according to schedule, credit outstanding will remain above 435 percent of quota until December 2024 and drop to 236 percent of quota by the end of the program.

18. Egypt's capacity to repay the Fund is adequate, albeit with some risks, contingent on the materialization of projected financing. Capacity to repay indicators are broadly in line with those for other recent exceptional access arrangements. As macroeconomic stability and progress on structural reforms efforts are maintained under the EFF, improvements in the fiscal and external positions are expected to ensure adequate capacity to repay. However, insufficient exchange rate flexibility following potential shocks remains an important policy implementation risk, especially if it leads to reserve losses in the years of large repurchases. The materialization of projected financing from other IFIs and bilateral partners, including purchases of public sector assets by Gulf Cooperation Council countries, and projected portfolio inflows is also critical for Egypt's capacity to repay. Risk mitigants include regular reviews, to ensure program implementation and adjust policies in case of deviations, and the authorities' public statements committing to exchange rate flexibility. Program adjustors for the NIR target would capture upside surprises in external financing to build additional reserve buffers; however, they would lower the NIR target by partially accommodating shortfalls if the projected external commercial financing does not materialize.

19. The proposed EFF will have a modest upfront impact on the Fund's liquidity. On approval, the Fund's liquidity will be reduced by the full amount of the arrangement and the Fund's remaining lending capacity will fall by 1.5 percent.

20. Program implementation will be key to mitigate financial risks to the Fund. Adequate capacity to repay depends critically on full and sustained implementation of the program to build confidence and unlock the projected financing. Even with full program implementation risks remain, for instance if external shocks lead to a further tightening of financing conditions and a widening of the current account deficit. In such a scenario, swift policy adjustments would be of essence. Recourse to the burden sharing mechanism and precautionary balances could cover residual risks (see ¶13), including in the unlikely scenario of an ultimate credit loss. However, the absorptive capacity of these financial buffers would be substantially depleted if a need for use were to arise.