



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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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.

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.”



ARAB REPUBLIC OF EGYPT

REQUEST FOR EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

December 2, 2022

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**

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