INTERNATIONAL MONETARY FUND

ARAB REPUBLIC OF EGYPT

ASSESSMENT OF THE FUND'S FINANCIAL EXPOSURES AND LIQUIDITY POSITION

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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.

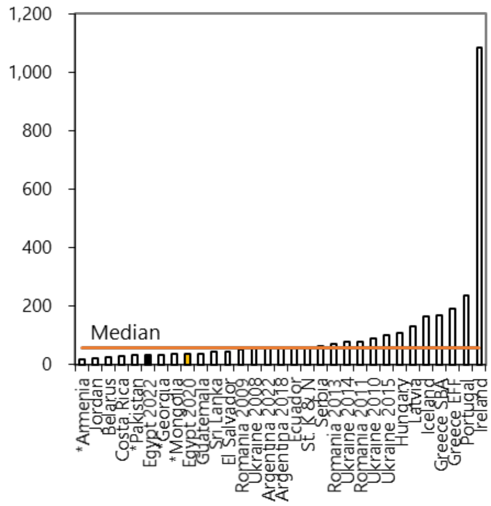
- Gross financing needs are high and projected to average around 36 percent of GDP in the medium term, largely attributable to rollover needs on a large stock of Treasury bills and elevated interest payments. Upside surprises to interest payments, for example due to tighter financial conditions, would 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/]

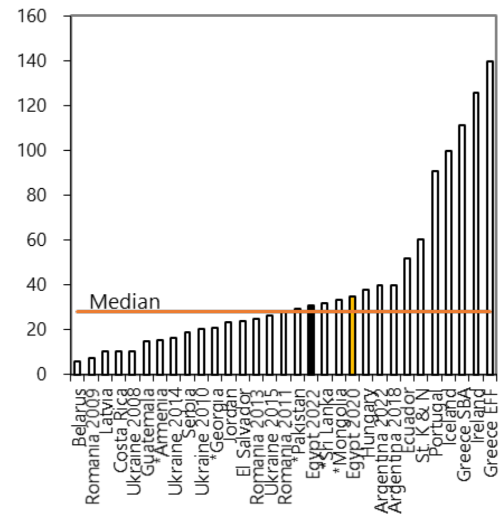
A. Total External Debt

(in percent of GDP at time of approval)



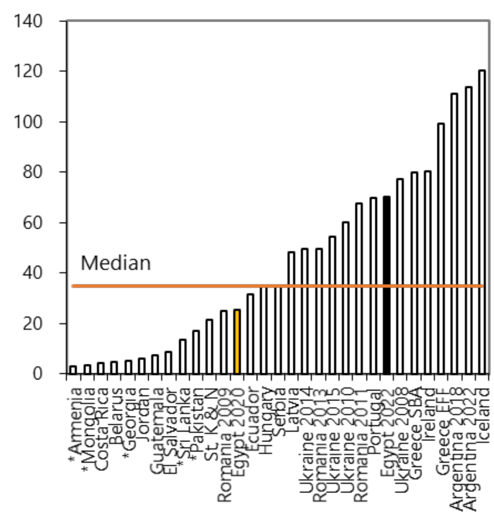
B. Public External Debt

(in percent of GDP at time of approval)



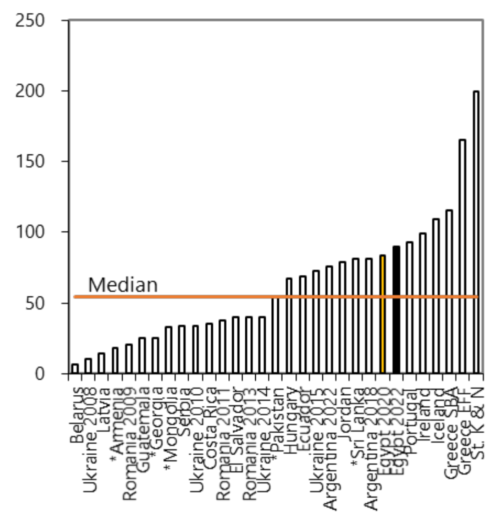
C. External Debt Service

(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)



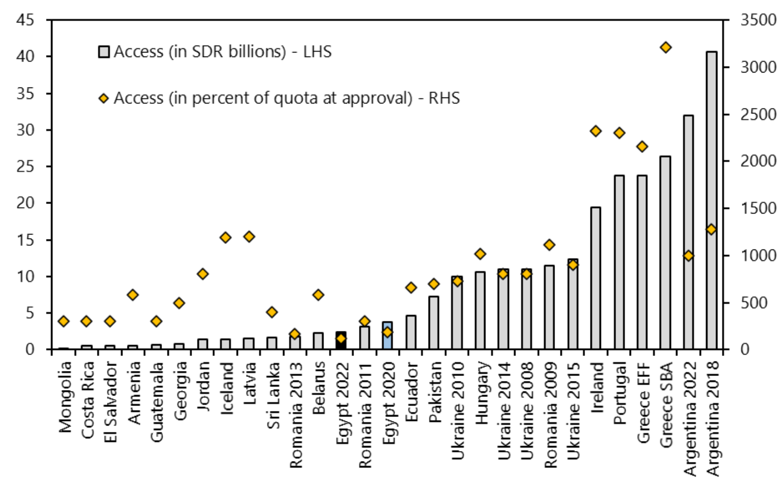
Source: Egyptian Authorities and IMF staff estimates.
1/ Estimates as reported in relevant staff reports on the request of SBAs or arrangements under the EFF approved since September 2008. For Egypt, ratios reflect end-fiscal year 2020/21 data.
2/ Asterisks indicate PRGT-eligible countries at the time 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/]

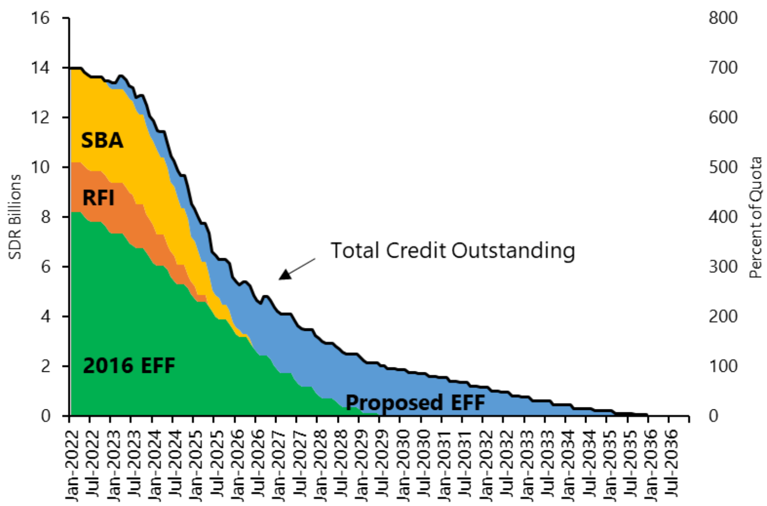


Source: Finance Department and IMF staff estimates.
1/ FCL arrangements as well as arrangements with relatively low access in SDRs are not included.

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.

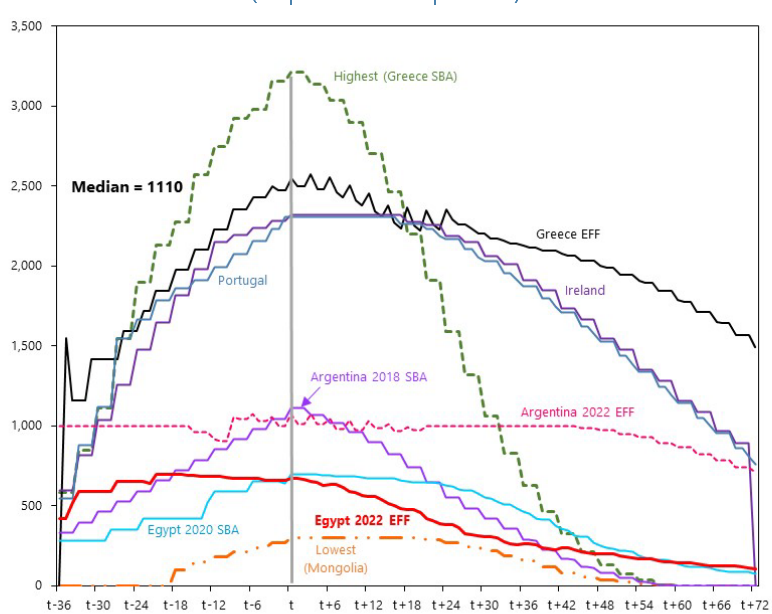
Figure 3. Projected Credit Outstanding Path Under Existing Arrangements and Proposed EFF



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.

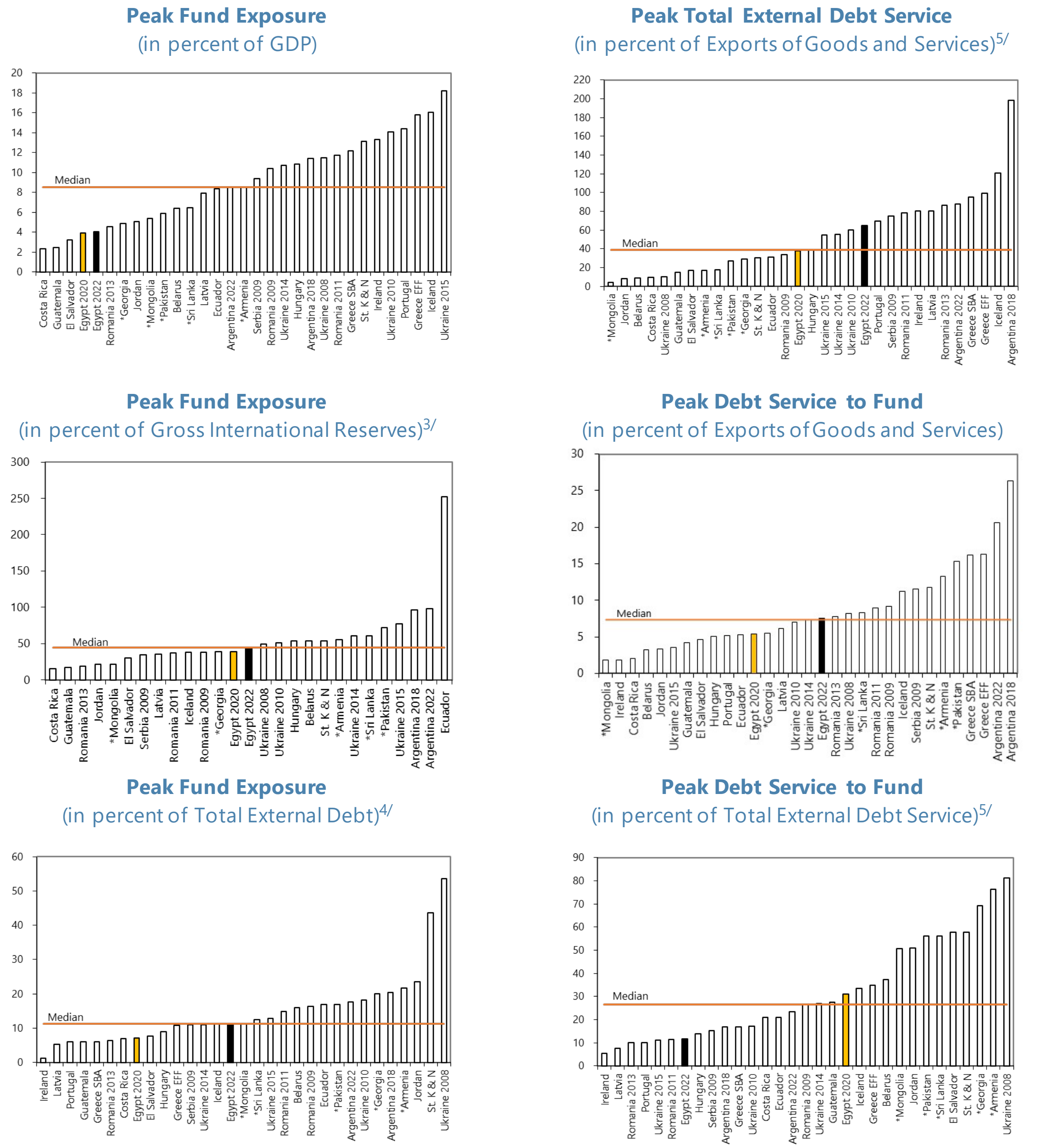
12. The proposed EFF arrangement would have a modest impact on the Fund's liquidity position. With the EFF, the Fund's Forward Commitment Capacity (FCC) would decline by about 1.5 percent from its current level of 157.7 billion of SDR (Table 6). Since Egypt is not a member of the Financial Transactions 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/]



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.

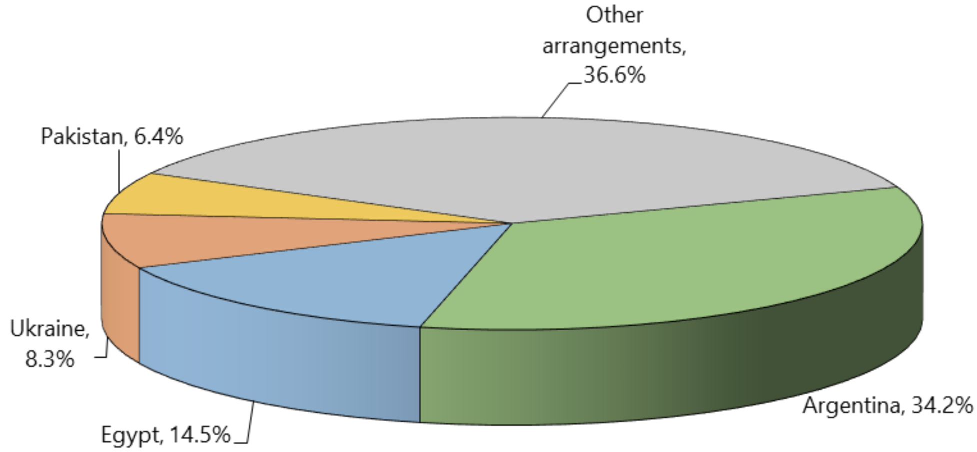
15. The Fund would also be exposed to a number of non-financial enterprise risks. Chief among them is reputational risk. Failure of the proposed extended arrangement to deliver economic recovery, reduce debt risks, and mobilize sufficient financing could impact the credibility of the Fund as a trusted 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.