IMF | The Program is Broadly on Track

Overall assessment

The program is broadly on track: all of the June 2018 and December 2018 performance criteria and indicative targets were fully met, with the exception of June's target on public debt.

Egypt's macroeconomic situation has markedly improved, and has maintained macroeconomic stability thanks to the government's sound policy implementation.

The external environment has shifted, and the tightening of global financial conditions is posing risks.

Outlook remains favorable, as well as Egypt's capacity to repay and to withstand shocks; provided further agreed policies are implemented as agreed.

On fiscal reforms and outlook

The **fuel subsidy reform** is advancing and should reach cost recovery by mid-June 2019. The IMF recommends keeping the automatic fuel price indexation mechanism as it is critical to preserving cost-recovery levels once they are achieved. At current oil prices, fuel and gasoline are priced at 85-90% of cost-recovery.
The Price indexation of other fuel products will be introduced in June 2019 and the first price adjustment by the committee will be held by the end of September 2019.

The reform of **electricity subsidies** will continue as planned until full elimination by 2020/21.

The continued strengthening of tourism and construction as well as the increasing production of natural gas are projected to raise GDP to 5.5% in 2018/19.

Unemployment rate fell to single digits, reaching its lowest level since 2011.

The Current Account deficit fell to 2.4% of GDP (from 5.6% in 2017/18) on the back of rising tourism revenues and strong remittances, and is expected to be at 2% in the medium term.

The budget surplus of 0.2% of GDP, along with a strong growth in nominal GDP reduced government gross debt from 103% of GDP to 93% in one year, and is expected at 74% by 22/23.

Inflation is expected to stabilize at 13-14% by end of FY 18/19, before reaching single digits in 2020.

Egypt has taken structural and institutional steps in enhancing the business climate which is reflected in advancing 8 positions in the WB's 2018 Ease of Doing Business ranking and 15 positions on WEF's 2018 Global Competitiveness Index. The reforms include access to industrial land with the new land allocation system.

On Monetary policy

IMF supports CBE's intention to maintain a **restrictive monetary policy** stance until the disinflation trend is firmly reestablished.
The CBE intends to gradually move to **an interest-rate based monetary policy** framework anchored to inflation in the medium term. IMF's technical assistance helped draft the Banking Law that is now sent to cabinet which will clarify the CBE's primary objective as price stability, limit CBE's lending to banks for short term liquidity support, clarify its role in crisis management and grant it more operational and institutional autonomy.

Outlook and Risks

General government debt remains high (projected at 86% of GDP by the end of FY 2018/19), and its interest cost poses a burden on public finances at the risk of crowding out social spending. IMF recommends maintaining a primary surplus of 2% of GDP, which the 2018/19 budget is positively positioned to reach.

Facing a tightening in global financial conditions; IMF warns against an increase in real interest rates or an abrupt depreciation of the pound as this will harm public debt dynamics. IMF also warns against a limited exchange rate flexibility as it will discourage inflows into local treasury markets and against the short foreign exchange position of some banks which will expose them to a disorderly adjustment of the exchange rate.

On the other hand, the EGP has remained stable against the dollar but appreciated against other trading partner currencies (both in nominal and real terms) and IMF worries that if this trend persists, it could limit further narrowing down of the current account deficit.

IMF also worries that **state-guaranteed loans** which have been increasingly used to finance large infrastructure projects will put more pressure on public debt.

Egypt's **debt** is considered sustainable but subject to important risks such as less favorable financing conditions: Egypt's interest cost-to-share of tax revenue is relatively high compared to peers, increased reliance on shorter-term debt and foreign currency financing are increasing rollover and exchange rate risks. The exit of foreign investors from the treasury securities market is a hit Egypt has yet to recover from, and will make higher local currency yields unavoidable in the near term. On the same line, the previous cancelling of bond auctions to avoid higher rates might result in resorting to CBE overdrafts or to financing shortfalls. Both outcomes would present inflationary pressures that would hinder CBE's inflation targets.

Egypt's capacity to repay is adequate with a strong CBE reserves position ans well as being well positioned to manage an increase in capital outflows.

Forecasts and Projections

IMF expects Egypt has strong potential to be an important natural gas producer and supplier to the region in the near future.

The fifth IMF review on Egypt is scheduled for completion on or after 20 June 2019, paving the way for the disbursement of the sixth and final USD 2 bn tranche of the USD 12 bn loan. The team conducting the review will visit in May 2019.

Egypt Macro Indicators

	Pharos				IMF			
	2017/18p	2018/19f	2019/20f	2020/21f	2017/18p	2018/19f	2019/20f	2020/21f
Real GDP, growth rate	5.3%	5.8%	6.0%	6.2%	5.2%	5.5%	5.9%	6.0%
Unemployment rate	10.8%	10.2%	9.5%	9.0%	11.1%	9.6%	8.3%	7.6%
Inflation rate, average	22.4%	14.3%	10.7%	8.5%	20.8%	15.8%	12.8%	8.1%
Net government debt (% of GDP)	100.3%	98.4%	95.0%	89.6%	92.6%	86.0%	83.3%	80.0%
External debt (% of GDP)	37.4%	39.3%	40.0%	38.1%	37.4%	34.4%	31.3%	27.8%
Total revenue (EGP billion)	834.6	947.5	1,121.2	1,279.0	908.4	1,086.0	1,267.9	1,454.4
Total revenue (% of GDP)	18.8%	18.2%	18.3%	17.8%	18.2%	18.3%	17.8%	17.9%
Tax revenue (% of GDP)	13.6%	13.1%	13.2%	12.7%	14.1%	14.2%	14.0%	14.0%
Expenditure (EGP billion)	1,207.1	1,451.1	1,594.6	1,680.9	1,326.9	1,543	1,675.5	1,817.5
Expenditure (% of GDP)	27.2%	27.9%	26.0%	23.4%	27.7%	26.5%	24.3%	23.0%
Primary balance (% of GDP)	0.2%	1.1%	2.0%	2.4%	0.2%	2.0%	2.0%	2.0%
Overall fiscal balance (% of GDP)	-8.4%	-9.6%	-7.7%	-5.6%	-9.8%	-8.3%	-6.7%	-5.4%
Current account (% of GDP)	-2.4%	-1.7%	-1.7%	-1.6%	-2.8%	-2.5%	-1.8%	-1.2%
Trade balance (USD billion)	-32.4	-32.3	-34.1	-35.6	-36.2	-37.6	-38.2	-39.7
Tourism revenue (USD billion)	9.8	11.8	12.0	12.1	9.1	12.5	14.2	18.1
Suez Canal revenue (USD billion)	5.7	5.3	5.3	5.6	5.6	6.1	6.3	7.3
Remittances (USD billion)	26.4	27.7	28.9	30.2	24.6	27.4	28.7	32.1
Net FDI (USD billion)	7.7	9.3	9.5	9.8	7.8	9.5	11.2	12.6
Net FPI (USD billion)	12.1	-2.0	0.4	1.0	17.9	-5.0	2.4	1.0
NIR (USD billion)	44.3	43.6	48.7	55.0	43.5	44.9	45.4	46.7

Source: Pharos, IMF calculations.

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