

Egypt: IMF Reaches Staff-Level Agreement on an Extended Fund Facility Arrangement

FOR IMMEDIATE RELEASE

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- International Monetary Fund (IMF) staff and the Egyptian authorities have reached a staff-level agreement on comprehensive economic policies and reforms to be supported by a 46-month Extended Fund Facility (EFF) Arrangement of US\$3 billion.
- The new EFF aims to safeguard macroeconomic stability and debt sustainability, improve Egypt's resilience to external shocks, strengthen the social safety net, and step-up reforms that underpin higher private-sector-led growth and job creation.
- The IMF arrangement is expected to catalyze a large multi-year financing package, including about US\$ 5 billion in FY2022/23, that reflects broad international and regional support for Egypt.
- The Egyptian authorities have also requested financing under the newly created Resilience and Sustainability Facility (RSF), which could unlock up to an additional US\$1 billion for Egypt.

Cairo, Egypt – October 27, 2022: An International Monetary Fund (IMF) team, led by Ivanna Vladkova Hollar, Mission Chief for Egypt, held meetings in Washington DC and Cairo during October 4-27, 2022 to finalize discussions on IMF support for Egypt and the authorities' comprehensive economic reform program. At the end of the discussions, Ms. Vladkova Hollar issued the following statement:

"We are happy to announce that the Egyptian authorities and the IMF team have reached a staff-level agreement on the economic policies to be supported by a 46-month arrangement under the Extended Fund Facility (EFF). The new EFF, with a requested access of SDR 2.35 billion (equivalent to about US\$ 3 billion), aims to provide Egypt with balance of payments and budget support while catalyzing additional financing from Egypt's international and regional partners to maintain economic stability, address macroeconomic imbalances and spillovers from the war in Ukraine, protect livelihoods, and push forward deep structural and governance reforms to promote private sector-led

growth and job creation. The agreement is subject to approval by the IMF's Executive Board, which is expected to discuss the authorities' request in December.

"The rapidly changing global environment and spillovers related to the war in Ukraine are posing significant challenges for countries around the world, including Egypt. The IMF team welcomes the authorities' recent actions to expand targeted social protection, implement a durable flexible exchange rate regime, and phase out the mandatory use of letters of credits for import finance, as well as their steadfast commitment to tackle needed macroeconomic adjustments and carry out an ambitious structural reform agenda amidst a challenging global backdrop.

"The government's fiscal policy under the EFF will be anchored to the reduction of general government debt and gross financing needs. Continued fiscal consolidation will be supported by the implementation of the government's Medium-Term Revenue Strategy (MTRS) that aims to improve the efficiency and progressivity of the tax system. Social protection will continue to be strengthened including through the temporary extension of the emergency support to ration card holders and measures to protect the purchasing power of vulnerable wage earners and pensioners. Broad fiscal structural reforms will also aim to further improve the budget composition, strengthen governance, accountability, and transparency, and support climate mitigation goals.

"The Central Bank of Egypt (CBE)'s move to a flexible exchange rate regime is a significant and welcome step to unwind external imbalances, boost Egypt's competitiveness, and attract foreign direct investment. The commitment to durable exchange rate flexibility going forward will be a cornerstone policy for rebuilding and safeguarding Egypt's external resilience over the long term. The EFF will support the CBE's efforts to improve the functioning of the foreign exchange market, increase foreign reserves, and further improve monetary policy transmission. Monetary policy, which will be firmly rooted in the CBE's price stability mandate, will aim to gradually reduce inflation to within the CBE's inflation target.

"The EFF also aims to unlock Egypt's enormous growth potential through broadening and deepening structural and governance reforms. The program will include policies to unleash private sector growth including by reducing the state footprint, adopting a more robust competition framework, enhancing transparency, and ensuring improved trade facilitation. The authorities also plan to expand targeted social transfers and enhance spending on social assistance, health, and education. These reform measures will be critical to address long-standing constraints to Egypt's higher, more sustainable, and more inclusive growth.

"Egypt's international and regional partners will play a critical role in facilitating the implementation of the authorities' policies and reforms. Additional financing of about \$5 billion is expected from multilateral and regional partners for FY2022/23, which will help strengthen Egypt's external position.

"In the context of the EFF, the Egyptian government has also requested financing under the newly created Resilience and Sustainability Facility (RSF) aimed at providing affordable, long-term financing to help build resilience, including against climate change.

Discussions on access under this facility, which could unlock up to an additional US\$1 billion for Egypt, will take place in the coming months.

“We would like to thank the authorities and their technical teams for the candid and constructive discussions and look forward to continuing our engagement in support of Egypt and its people.”