EGYPTIAN INITIATIVE FOR PERSONAL RIGHTS
المبادرة المصرية للحقوق الشخصية

# Eye on Debt

## The first report on the IMF loan deal with Egypt 2023

### First and second review

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# I. Introduction

This report provides an analysis of the implementation of the policy program included in the International Monetary Fund (IMF) loan deal that was signed with the Egyptian government in January 2023. EIPR presents this independent review of the deal aiming to provide an alternative reading of the IMF program, linking it to the actual economic and social impacts observed throughout the implementation period, especially in light of the grinding cost-of-living crisis in Egypt caused by high inflation rates resulting from the devaluation of the local currency. Since the program came into effect, more than a year and a half ago, the Egyptian economy has not been able to overcome instability, financial storms and increasing debt. While GDP growth has declined at a very high cost due to the austerity measures and successive hikes in the prices of public services, which is expected to raise the number of Egyptians sliding under the poverty threshold by millions.

The report reviews what IMF conditions Egypt has implemented in 20 months, as well as the conditions that Egypt avoided implementing, causing delays in the IMF reviews and in the receipt of loan instalments consequently. The report assesses the economic and social impact in both cases. The report studies two main documents, namely the loan document itself[1] and the two combined IMF reviews that were revealed late April.[2]

The IMF had amended the program in March 2024 to increase the loan from $3 billion to $8 billion, and provided the opportunity for Egypt to borrow additional $1 billion to $1.2 billion through the IMF's new Resilience and Sustainability Facility (RSF).

Despite the Fund's announcement on 6 June that a staff-level agreement was reached on the third review[3], Egypt had to wait for an additional month – July 2024 – before the IMF board approved the results of its third review of the agreement, then received a new instalment of the loan worth $820 million. The board postponed its approval until the Egyptian government announced a new cycle of fuel and electricity price hikes, which the government had originally planned to postpone to September. Details of the third review have not been made public until the time of writing this report.

# II. The myth of the low cost of the loan

IMF loans are often described as concessionary loans, with low interest rates. This increases their attractiveness considering the high cost of government debt in Egypt. But the reality is quite different.

The program agreed upon late 2022 adopted the so-called Extended Fund Facility (EFF), a financing method in which the IMF focuses on providing finance to countries with chronic problems in the balance of payments. The conditionality of these programs is usually linked to the implementation of sev-

1 IMF Executive Board Approves 46-month US$3 billion Extended Arrangement for Egypt, IMF, 10 January 2023, https://www.imf.org/en/Publications/CR/Issues/2023/01/06/Arab-Republic-of-Egypt-Request-for-Extended-Arrangement-Under-the-Extended-Fund-Facility-527849

2 Arab Republic of Egypt: First and Second Reviews Under the Extended Arrangement Under the Extended Fund Facility, IMF, 26 April 2024, https://www.imf.org/en/Publications/CR/Issues/2024/04/26/Arab-Republic-of-Egypt-First-and-Second-Reviews-Under-the-Extended-Arrangement-Under-the-548335

3 IMF Reaches Staff Level Agreement on the Third Review of the Extended Fund Facility with Egypt, IMF, 6 June 2024, https://www.imf.org/en/News/Articles/2024/06/06/pr-24208-egypt-imf-reaches-agreement-on-the-3rd-review-of-the-eff

eral structural reforms in order to address these chronic problems. This kind of programs is characterized by high conditionality, as the release of each and every loan tranche depends on meeting a number of the conditions stipulated in the basic agreement.

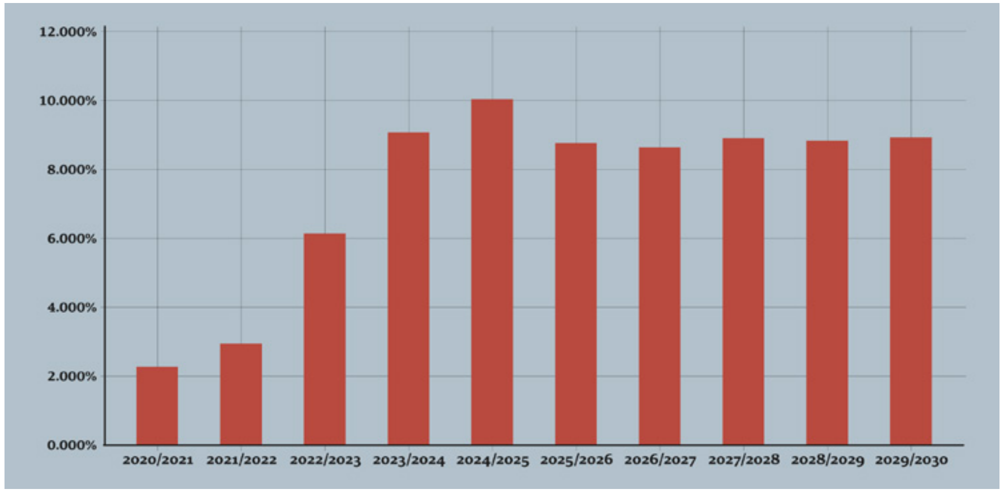
Loans under the Extended Fund Facility program usually extend from three to four years, and the repayment schedule extends from four and a half to ten years at variable interest rates, which are revalued every three months. The fund depends on the prevailing interest rates of major currencies, especially the US dollar, to estimate the interest rate on the special drawing rights (SDRs), which serve as the IMF's currency. Therefore, they are variable and vulnerable to fluctuations in global interest rates, which have risen significantly over the last year. The SDRs' interest is calculated in a similar way to the interest on similar loans in other currencies.

Interest on SDRs was approximately 4.01%, in addition to the so-called profit margin of 100 basis points, i.e. another 1%. The IMF's interest payments also include surcharges, which apply if loans from the Fund exceed 187.5% of the country's available quota. In recent years, Egypt has often exceeded that quota, estimated at SDR 2.037 billion ($2.67 billion). So, Egypt pays additional interest on IMF loans equivalent to 2% per year[4]. This means that the real interest rate paid by Egypt on IMF loans is more than 7.01% per year, which is higher than the currently high interest rate on the US dollar, and close to – or slightly below – the interest rate on corporate commercial loans.

Nonetheless,7% is still lower than what Egypt pays under its current financial conditions, especially with the increase in debt, the continuous decline in Egypt's credit rating since 2022, and of course the tight global financing environment with interest rises on most major currencies. However, this high interest rate of programmatic loans, such as those of the IMF and the World Bank, reduces the attractiveness of borrowing from the IMF, as it combines high financial costs and conditionality in economic policies with the imposition of timed economic measures on borrowing countries.

From the expected repayment schedule of the current loan, we can calculate the effective (real) interest rate on the IMF loans. We find that the real rate ranges between 8% and 10% throughout the years of the loan repayment, as follows:

**Figure 1**
**Effective interest rate on IMF loans to Egypt**




*Source: IMF data and EIPR's calculated estimates*

4 Critical analysis of these fees: Letter from 300 civil society organisations around the world to abolish IMF lending fees, 9 April 2023, https://shorturl.at/P77UC. See also: IMF mulls cutting loan fees for Egypt and major borrowers, Asharq-Bloomberg, 9 July 2024, https://tinyurl.com/yeedu7cb

IMF loans are no longer cheap as they were before. In 2018 and 2019, the Ministry of Finance expanded borrowing from the external market due to low interest rates. But the tightening of the overall environment of interest rates, including IMF loans, makes it imperative now – more than ever – to think of ways to halt external borrowing, especially considering the chronic problems in the Egyptian balance of payments that have been amplified in recent years.

In addition, the Extended Fund Facility (EFF) programs are one of the most stringent types of IMF loans in terms of high conditionality, especially with regard to the government's monetary and fiscal policies. These programs usually set different conditions related to government financial revenues, notably taxes and government expenditures, in addition to continuous austerity in government spending, which – in Egypt's case– reduces real spending on all forms of social subsidies.

As far as  monetary policy is concerned; these programs are mainly concerned with addressing chronic deficits in the balance of payments, which usually involve structural reforms in the monetary policies, often translated into large currency devaluations to achieve the so-called "exchange rate flexibility".

# III. The context of the economic program and the appropriateness of its conditionality

## 1. Funding gap and exchange rate

Since the loan deal was approved in December 2022, the IMF's conditionality has focused on "exchange rate flexibility", or – more clearly – the devaluation of the pound. Under significant domestic financing pressures, the most pressing being previous debt payments, the government has repeatedly devalued the local currency.

The government made three currency devaluations in 2022: in March, October and December, taking the value of the pound down from nearly 16 pounds per US dollar in January 2022 to about 31 pounds in January 2023, immediately after the approval of the IMF loan deal. The IMF, however, did not find this significant devaluation sufficient. So, it delayed two reviews scheduled in March and September 2023, releasing only the first tranche of the original loan estimated at $3 billion.

The IMF expected Egypt to raise another $14 billion during the loan period from regional partners, specifically from the Gulf, depending mainly on the revenues of sold government assets and funds from international and Gulf institutions. However, these funds would not have come as rapidly as required in light of the global economic crisis, which in turn further weakened the government's ability to make further devaluations due to the lack of amounts that would cover the financing gap. This gap had increased from $17 billion at the time of the agreement to $28.5 billion at the time of the first and second reviews in February 2024, even after adding the net revenues of the Ras al-Hikma deal, which are estimated at $24 billion as a fresh cash injection out of $35 billion, the total value of the deal.[5]

The IMF failed to anticipate the size and time-frame of the financing gap, as well as the scope required to float the currency during the 46-month period of the loan deal. This was a key reason why another major devaluation of the currency was only made in March 2024, when the fresh cash injection came from the Ras al-Hikma deal. It was necessary to quickly identify and mobilize financing resources to fill the finance gaps that will not stop emerging in the Egyptian economy. In a world where portfolio investors can exit the Egyptian market in a few days, mechanisms for estimating funding gaps cannot remain slow and we cannot be taken by surprise every time those gaps widen without adequate action to prevent them from widening.

During the 14 months that followed the approval of the loan agreement, and until the second tranche was released with the first review in March 2024, the inflation rate continued to rise, driven by the rise in the exchange rate of the US dollar against the Egyptian pound on the black market, in light of a dollar shortage crisis. The inflation rate increased from 21.9% in December 2022 to 34%, while the price of some food commodities rose by 300%. These inflationary pressures exacerbated the economic crisis, and the Central Bank of Egypt (CBE) reversed its decision in 2023 to approve large interest rate increases, which were no longer useful in containing the inflation.

The situation was further complicated when Egypt's dollar revenues declined in 2023. Export revenues hit $42.05 billion compared to $52.1 billion in the previous year, according to the Central Agency for Public Mobilization and Statistics (CAPMAS)[6], and remittances from workers abroad also fell by nearly $10 billion year-on-year, from $31.6 billion in 2022 to approximately $22 billion in 2023.[7]

The declining dollar revenues and the government's attempt to reduce imports in order to alleviate pressure on the currency caused the inflation rate to increase in 2023. Meanwhile, the cost-of-living crisis continued to put pressure on Egyptians[8]. To make matters worse, policies linked to the stabilisation of the official exchange rate amid the dollar shortage also widened the gap between the official market and the black market, which became a concern for the government, the IMF and international financial institutions--especially credit rating agencies. These institutions were consistently reporting "uncertainty" due to the large gap between the official market and the parallel market of the dollar.[9]

5 Ras al-Hikma.. All you need to know about the largest foreign investment deal in the history of Egypt, Al-Arabiya website, 24 February 2024, https://shorturl.at/4wbHP

6 Monthly Bulletin of Foreign Trade Data, CAPMAS, June 2024, https://www.capmas.gov.eg/Pages/Publications.aspx?page_id=5107&Year=23614

7 Information Bulletin: Quarterly Change in Remittances of Egyptians Working Abroad, CAPMAS, June 2024, https://www.capmas.gov.eg/Pages/Publications.aspx?page_id=5107&YearID=23518

8 How the poor live under high prices: The impact of rising prices and devaluation of the pound on the rights of Egyptians, EIPR, March 2023, https://shorturl.at/nEmLX

9 Libby George , Patrick Werr and Marc Jones, Egypt's bonds fight back after Moody's downgrade triggers tumble, Reuters, October 7, 2023 https://www.reuters.com/markets/rates-bonds/egypts-bonds-spiral-lower-after-moodys-downgrades-economic-crisis-2023-10-06/

Mirette Magdy, Egypt Cut Deeper Into Junk With Fitch's Second Downgrade of 2023, Bloomberg, 3 November 2023, https://www.bloomberg.com/news/articles/2023-11-03/egypt-cut-deeper-into-junk-with-fitch-s-second-downgrade-of-2023

Sherine Abdel-Razek, Defying the inevitable?, Ahram Online, 10 October 2023, https://english.ahram.org.eg/NewsContent/50/1201/510010/AlAhram-Weekly/Egypt/Defying-the-inevitable.aspx

The dollar shortage was a driver of intense speculation on the black market, but it led to an increase in demand for the dollar, as the pound collapsed in the parallel market. This, in turn, stimulated the search for the dollar as a store of value. With the rise of the dollarization trend, the pricing of most commodities was increasingly pegged to the dollar. The price gap between parallel market exchange rates and official exchange rates caused a pricing chaos. In the absence of government oversight to prevent this, the continued marginalization of the roles of state institutions represented by the Egyptian Competition Authority (ECA), and the lack of any space for social organisation - especially consumer organisations - prices have continued rising steadily.

After all these distortions in the market, the IMF prescribed a new depreciation of the exchange rate in March 2024. This caused a new barrage of inflationary shocks, ostensibly to stabilise the economy.

## 2. Private sector's participation: Privatisation and sale of assets

The IMF presents privatisation and sale of state-owned assets as the best way to improve competitiveness in the economy, but this often comes at the expense of state companies, which are supposed to be subject to the supervision of the Central Auditing Organization and other regulatory bodies. On the other hand, the IMF does not make a clear distinction between the Military-owned companies or military-civil partnerships and the state-owned companies and assets. This resulted in the sale and privatisation of state companies, while the sale of army-owned assets – such as Safi and Wataniya companies– whose sale was delayed for more than two years for undisclosed reasons, faltered intentionally or unintentionally.

The IMF also does not make a clear recommendation regarding the private sector's share of credit from the banking sector, which declines with interest rate hikes, creating a recessionary climate in the economy. In addition, the banking sector itself is reticent in lending, as the ratio of loans to deposits did not exceed 48-56% during the period 2020-2023.[10]

The government introduced the "State Ownership Policy Document"[11] as an activation of IMF conditionality. The document included the government's withdrawal from several state-owned companies by selling them to strategic investors or listing them on the stock exchange. However, only an additional stake in Telecom Egypt has been implemented from the targeted initial public offerings (IPOs), while the remaining IPOs that the government said will be offered within a year have stalled.[12]

The IPO is a better option in terms of sustainability and governance of privatisation, as it provides a better and more diversified capital base and better internal governance for companies, compared to sales to strategic investors, which are often shrouded in ambiguity and lack transparency–especially if the companies are not listed on the stock exchange at all. However, selling exclu-

10 Report on Financial Soundness Indicators for Banks Other than the Central Bank of Egypt, CBE, March 2024, https://www.cbe.org.eg/-/media/project/cbe/listing/publication/reports-fsi/march-2024/financial-soundness-indicators--banking-sector.pdf

11 State Ownership Policy Framework Document, State Ownership Policy Framework Platform, https://eparticipation.idsc.gov.eg

12 In names: 20 companies on the list of government offerings on the stock exchange; "7 sectors to be offered to citizens and investors", Al-Ahram, 28 July 2024, https://gate.ahram.org.eg/News/4041875.aspx

sively for dollars amid low valuation of the local currency solves a problem in the dollar gap at present, but creates a bigger one in the future, since Egypt will have to provide profits for the new owners in dollars to transfer them abroad. Meanwhile, there are no conditions for reinvestment at home. This time, under the IMF's auspices, the justification for privatisation is absent in terms of the usual economic and administrative impact, and is reduced exclusively to the provision of one-time dollars. The document also lacked any link to an industrial strategy or development goals, and was instead limited to numerical criteria: growth and profitability, without clarity on the basis for such profitability expectations.

The document focused far more on the sale of public assets than on defining the status and conditions for a greater role for the private sector in driving growth and development.

## 3. Public debt management

The IMF requires austerity measures to consolidate public finances to "help place public debt on a downward path," supported by increased public revenues, especially taxes, as well as debt management to reduce overall financing needs. In order to achieve this, the IMF requires a large primary surplus between 2.1% and 2.5% of GDP annually in the public budget, which is meant to rise to 4% in the next few years. By definition, a primary surplus is the difference between the public budget's revenues and expenses, without counting debt interest. In theory it is recognised that primary surpluses can play a role in reducing public debt, but this has not happened in Egypt because of the overall deficit resulting from large interest payments on government debt. This deficit is partly caused by the continuation of the same borrowing policy, and partly by the interest rate hike that the central bank presents as a solution to uncontrolled inflation driven by currency devaluation.

### Table 1: Total deficit and primary surplus increase together

| Fiscal year | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 |
|---|---|---|---|---|---|
| Total deficit | 472,345 | 484,414 | 609,903 | 824,439 | 1,243,022 |
| Ratio to GDP | 6.82% | 6.10% | 6.04% | 6.96% | 7.27% |
| Primary surplus | 93,153 | 100,412 | 164,333 | 296,646 | 591,445 |
| Ratio to GDP | 1.30% | 1.30% | 1.60% | 2.50% | 3.50% |

*Source: Pre-budget statement for 2024-2025* *In billion pounds*

The table above shows that the total deficit continues to increase as an absolute figure and as a ratio to GDP during the five fiscal years listed. Yet, the primary surplus resulting from reducing real spending on various items in the budget, the most important of which are wages and subsidies, is increasing. However, the public debt ratio to GDP did not decrease, even after growth increased steadily after currency devaluations.

Between June 2020 and June 2023, the public debt ratio to GDP increased from 80.9% to 95.7%, despite achieving a primary surplus in all those years. This surplus was consumed in interest payments on domestic and external debt, which consumed a large proportion of both public expenditures and revenues. For example, interest payments increased from 35.8% of the total revenues in the 2020-2021 fiscal year to nearly 69% in the current 2024-2025 budget, meaning that approximately 69 piasters from each pound of government revenue go to payment of interest on government debt. Regarding expenditure, the government has not made much of a significant achievement in reducing interest payment as a percentage of expenses, as it decreased slightly from 51% of expenses in 2020-2021 to only 47.4% in the current fiscal year, but with debt payments it rose to 62% of total uses.[13]

In general, government economic policies have made it impossible to manage the public debt portfolio efficiently over the past four years, and even before. Although the years 2016-2020 witnessed a decline in the debt-to-GDP ratio, this decline was not tangible throughout the same period, despite better financing conditions. Moreover, with the onset of rising interest rates globally, increasing pressure on the pound, as well as rising interest rates domestically, it was impossible to maintain the pattern of borrowing followed by the government. Thus, it was impossible to place the public debt on a downward path during that period, and arguably that goal is becoming more difficult. The government announced a ceiling for its debt, including the debt of private economic bodies, set at 96% of GDP. Although the move is positive, the ceiling is impractical since the volume of public debt was approximately 96% of GDP in the previous fiscal year, especially with the exclusion of the external debt of the central bank. Moreover, the government, represented by the Ministry of Finance, sets this ceiling alone, which raised objections from MPs.[14]

## 4. Social policies and poverty

There is nothing new in the IMF program, nor in the first and second combined reviews, regarding the increase in poverty rates. Social measures in the program terms were limited to increasing the transfers of the Takaful and Karama program[15]: the conditional cash transfer program launched by the government in January 2023 with the support of the IMF and World Bank as part of the social protection umbrella. According to the IMF, the Egyptian government allocated at least 153 billion pounds for social spending, but neither the agreement nor the reviews specified criteria for social spending, nor how those amounts would be allocated. Meanwhile, the scope of Takaful and Karama programs increased to include five million households, but the actual increase allocated to the program was less than the overall devaluation of the local currency over the last four years. Despite the increase in spending on the two programs in pounds, the value denominated in dollars plummeted (from a total of 18 billion pounds in 2020 which equated to less than $1.1 billion to 40 billion pounds or $850 million in the current budget of 2024/2025). Consequently,

13 State Budget 2024-2025, Financial Statement, Ministry of Finance, https://assets.mof.gov.eg/files/e71456f0-1115-11ef-9344-7df71ce3a38d.pdf

14 “Unified Finance Law”.. controversy over the “broad” ceiling of public debt.. and the finance ministry’s delay in balancing programs, Masr 360 website, 13 March 2024, https://masr360.net/2024/03/13/finance-united-controversy-about-rubber_roof/

15 “Money alone is not enough: Tracking the effects of cash subsidy programs on the poor: A look at “cash transfers” in the framework of social policies in Egypt, EIPR, February 2018, https://eipr.org/sites/default/files/reports/pdf/cash_subsidies-egy.pdf

the real social spending on the program, which is currently the largest social program in the country, decreased. In fact, the total spending on both cash and in-kind subsidies decreased, compared to the last fiscal year.[16]

At the same time, energy subsidies consumed 154.4 billion pounds from the subsidy and social protection allocations, equivalent to 24.3% of the total allocations. The return of energy subsidies was a direct result of currency devaluations, and was not the result of direct consumer subsidies, resulting from the increase in the state's bearing of its share of the cost of production. On the contrary, the prices of petroleum products for consumers increased during that period.

Concerning social policy, the IMF presents spending on health and education as a good means of social spending, which is true, but the structural conditionality set by the IMF for the release of loan tranches did not include this item (spending on health and education). Therefore, the Egyptian government did not adhere to it in the new program, nor even in previous loan deals with the IMF. For example, real spending on education decreased in the new budget, as it was about 158 billion pounds ($10 billion) in the 2020-2021 budget and became 294.6 billion pounds ($6.2 billion) in the current budget, at an exchange rate of 47 pounds per dollar. This decline can also be seen in spending on the health sector, which fell from $6.8 billion (107.3 billion pounds) in 2020-2021 to $4.25 billion (200.1 billion pounds) currently.

With regard to social spending, the IMF did not provide specific quantitative targets, contrary to the specific requirements it listed for primary surplus, minimum monetary reserves, or other conditions related to monetary policies. Therefore, the release of loan tranches was not linked to these objectives. Rather, the IMF did not assess the social impact of the decline in real spending on those sectors and its long-term effects on poverty and inequality rates. It is worth noting that the last survey on income, expenditure and consumption that the government published covers the pre-Covid period up to March 2020, and the government has since refrained from publishing the results of two surveys it carried out since (this survey is categorically conducted every two years).

## 5. Tax policies

According to the IMF, the government will take a number of measures aiming at "improving tax administration and underpinning the target to increase tax-to-GDP by 3% by FY2026/27"[17]. These measures will include a VAT reform and passing a new Income Tax Law, which was prepared with IMF technical assistance to strengthen income tax collection. Other contemplated tax policy measures include: adopting a carbon tax to support emissions reduction; adopting a withholding tax on the turnover of exports from free zones in Egypt to the domestic market; and participating in the Organization for Economic Co-operation and Development's (OECD) Automatic Exchange of Information. In addition, the government will undertake a detailed assessment of the economic benefits of the current free zones by end-September 2024 and limit any further expansion of free zones until this assessment is conducted.[18]

The IMF focused on fiscal interventions, especially those related to taxes, as a means of mobilizing resources and achieving revenue growth that allows for

16 State budget, Ibid

17 Arab Republic of Egypt: First and Second Reviews Under the Extended Arrangement Under the Extended Fund Facility, IMF, Ibid

18 Ibid

primary surpluses. The IMF program included a provision for the publication of the tax policy document, a draft of which was published and later deleted under the pretext that it would be discussed further, and has not yet been published.

The IMF also requested the implementation of Capital Gains Tax on shares and stakes listed in the stock exchange, a renewed demand from 2016, but the mechanism of implementation remains unclear due to the fact that the executive regulations of the law have not been issued, nearly ten years after the promulgation of the law in 2014. The government has not implemented the transition to the electronic real estate registration system so far, which makes it difficult to collect real estate taxes, while the IMF has its eyes on increasing revenues from real estate taxes significantly in the coming years.

In July 2023, the government implemented a number of measures requested by the IMF on taxes, including VAT reforms to simplify the tax collection process, as well as the abolition of tax exemptions for government entities, which became a law in February 2024, but the law still grants tax exemptions to projects classified as being having ties to national security.

The IMF required the government to publish a comprehensive annual report on tax expenditures, including details and estimates of tax exemptions, listing state-owned entities, including public sector companies, the business sector, army-owned companies, and projects implemented jointly by military and civilian bodies. The government has not published that report yet despite agreeing to release it by April 2023.

## IV. Assessment of the implementation of the program conditions and the social and economic impact

The following table tracks the conditions set by the IMF and shows whether the Egyptian government has applied them or not, and whether these conditions are economically and socially appropriate for Egypt in the first place or not.

| | Goal | Is the goal economically and socially appropriate? | What action is required according to the IMF? | Has the government or the central bank implemented this measure? | Social and economic impact – EIPR's notes |
|---|---|---|---|---|---|
| 1 | **Completing the program** | No | Continuation of the program's conditions, namely:<br>1. Continuing to apply the flexible exchange rate policy.<br>2. Complying with all policies imposed by the IMF. | Yes, the government continued the program despite talk of withdrawal in mid-2023 after the IMF requested exchange rate flexibility. The government also lowered the exchange rate, but tried to stabilise the official rate to prevent domestic inflation from exploding, and the dollar scarcity crisis was the motive behind choosing not to implement exchange rate flexibility until dollar inflows from the Gulf were obtained, which was happened later in February 2024 through the Ras al-Hikma deal. | Successive exchange rate depreciations affected negatively the real wages of most Egyptians by causing high rates of inflation, especially in food prices. This is expected to lead to an increase in the number of people below the poverty line as well as the extreme poverty line. |

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| 2 | **Medium-term growth targets** | No | The IMF provided high growth expectations that were very different between the program and the first and second reviews, over a period of time that exceeded approximately 16 months. During the fiscal year 2022-2023, the IMF expected the real GDP growth rate to reach 4% year-on-year, while it expected this rate to reach 3.8% in the first and second reviews. As for the current fiscal year 2023-2024, the IMF expected a growth rate of 5.3%, but the reviews' forecast was much lower, only 3%. During the following fiscal year, the IMF lowered its growth forecast from 5.7% to 4.4% between the original agreement and the first and second reviews. | No, the government did not succeed in achieving the growth rates expected by the IMF. | |

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|---|---|---|---|---|---|
| 3 | **Exchange rate flexibility** | No | Achieving exchange rate flexibility through consecutive currency devaluations.<br>Egypt devaluated its currency more than once before and after the program was agreed in December 2022 and in January 2023, but according to the IMF, not all of these devaluations achieved the required exchange rate flexibility. The government stopped depreciating the exchange rate, but this did not prevent the parallel dollar market from raising the rate, especially in light of the restrictions on the dollar in the banking system, which prompted the government to depreciate the rate again in March 2024 after obtaining investment flows from Ras al-Hikma project. | Yes, the exchange rate was depreciated more than once, which produced high inflation rates that reached 40% in September 2023. Inflation rates did not decline at the pace expected by the CBE, and inflation recorded about 28% in May 2024, despite following the IMF's recommendation to raise the interest rate. | Several exchange rate depreciations had a direct impact on inflation, raising the cost of imports, which the government tried to curb by reducing the quantities of imports. This led to widespread disruptions in supply chains and affected targeted economic growth.<br><br>The exchange rate depreciations also affected the inflation of consumer commodities' prices, especially food prices, which reached record levels of more than 70% year-on-year in November 2023. |
| 4 | **Stop lending at CBE-subsidised interest rates** | No | The IMF requested halting the provision of subsidised interest rate loans to the industrial and agricultural sectors as part of the Central Bank's so-called lending initiatives, which were implemented in response to the initially high interest rates after 2016, and later continued as part of stimulating positive growth during the Covid-19 pandemic. | Yes, the government officially halted those low-interest financing initiatives in November 2022 while negotiating the loan with the IMF. | The absence of these initiatives at the time of interest rate increases led directly to raising the cost of working capital for many local factories, which suffered from both import problems and high interest rates that do not encourage new investment in production. |

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|---|---|---|---|---|---|
| 5 | **Cancellation of CBE's instructions regarding documentary credits** | Yes | The IMF requested the cancellation of the CBE's instructions regarding import rules (Communique No. 49 dated 13 February 2022), which stipulate the use of letters of credit to finance imports, and return to the old system. | Yes, the CBE rescinded this decision in December and returned to work with collection documents, but this coincided with the imposition of continuous restrictions on imports due to the dollar shortage in many sectors. | The CBE gave the commercial banks the responsibility to provide dollars necessary for imports, which led to delays in many letters of guarantee, in what could be considered forced reduction of imports. Banks also imposed high currency procurement fees of 10-15%, which ultimately led to a rise in the cost of imported goods in many sectors and caused huge problems in supply chains due to the lack of imported production inputs. |
| 6 | **Issuing an annual report from the Ministry of Finance to monitor and report arrears of payments to state-owned companies and economic bodies** | Yes | The IMF requested the publication of a report on the financial relations between the ministry, the budget and economic bodies, which is different from the statistical statement of economic bodies that the Ministry of Finance submits with the budget annually. | The ministry did not publish this report. | This contributes to enhancing transparency in public finances in general. |

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| 7 | **Establishing a government tender platform that publishes all projects worth more than 20 million pounds** | Yes | The IMF requested the publication of all government procurement contracts on an online portal, and the publication of data related to those contracts, whether they were made through a tender or auction, information on the submitted bids, the names of successful bidders and other relevant information, within a period not exceeding 30 days from the award of contracts. It also requested that citizens should have access to this information without the need to create electronic accounts on the platform. | No, the government created a website, but it did not meet the goal of ease of access for citizens, nor did it publish any contracts on the platform up until the time of writing this report. | This contributes to enhancing transparency, especially under the Government Contracting Law issued in 2018, which allowed the implementation of projects by direct orders, and hence created a huge loophole allowing for corruption. |
| 8 | **Continuing to apply periodic pricing policies for petroleum products** | No | The IMF requested the continuation of applying the approved mechanism for pricing petroleum products every three months. It also requested that in cases where it is proposed to reduce the price, it should not be reduced until the subsidy payments made in previous years are settled. | Yes, the government has been implementing this mechanism since July 2019, and in practice it has not reduced the prices of petroleum products even though oil prices have decreased more than once during those years. | This causes inflationary pressures, especially in light of the inflation of food prices in general due to exchange rate depreciations.<br>The IMF’s conditionality not to reduce if the pricing equation proposes a reduction seems problematic, as it creates a situation where energy prices continue to contribute to inflation even at times when oil prices are low globally or when the costs of producing petroleum products in Egypt are reduced. |

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| 9 | **Publishing a detailed annual report on tax revenues** | Yes | The IMF requested the publication of a comprehensive annual report on tax expenditures, including details and estimates of tax exemptions by entity, especially state-owned entities, including public sector companies, the business sector, army-owned companies, and projects implemented jointly by military and civilian bodies. | The government did not publish the report.<br>The government introduced a law to abolish exemptions provided to government economic entities, but exceptions are still open for projects tied to "national security". | Publishing this contributes to increased transparency and improved governance procedures for public investments in Egypt.<br>Here, the IMF does not differentiate between the governance requirements in companies owned by the armed forces or security services, and those required for public business sector companies and other state-owned companies that are already subject to a degree of control over their budgets by the Central Auditing Organization. |
| 10 | **0.5% increase in tax revenues from GDP in the 2023-2024 budget** | Yes | The IMF requested a number of measures that will contribute to increasing tax revenues for the fiscal year 2023-2024 by 0.5% of GDP. | The government is still backing away from taxing capital gains. | Provided that tax reforms are made to impose taxes on profits and wealth and reduce dependence on indirect taxes on goods and services that have more impact on low-income groups. |

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| 11 | **Publishing the final budget account reports on time** | Yes | The IMF requested the publication of the last three reports by the Central Auditing Organization on the state's annual audit reports. These reports were already published, albeit later than the IMF requested, as they stopped at the 2020-2021 fiscal year report. The IMF also requested that measures be taken to ensure that the annual audit reports are published no later than six months after the end of the fiscal year as stipulated in Article 125 of the Constitution. | The government began to implement this requirement, but the annual audit reports suffered from successive problems of delays as well as non-publication during the past years. However, according to recent instructions from the Ministry of Finance in January 2024, this problem is supposed to have been addressed. | An important measure to increase transparency. However, the IMF did not clearly provide for the publication of accounts in accessible and readable formats or in workable rather than illustrated (image) formats, which create difficulties in attempting to read figures. |
| 12 | **Amending the Law on Protection of Competition and Prevention of Monopolistic Practices** | Yes | The IMF requested the amendment of the Law on Protection of Competition and the Prevention of Monopolistic Practices, and the addition of a new article on mergers and acquisitions. | The government amended the law and the executive regulations in April 2024, allowing the Egyptian Competition Authority (ECA) to pre-monitor mergers and acquisitions. | An important measure to increase competitiveness indicators and protect consumers, but the law needs deeper amendments that allow ECA to monitor monopolistic practices in general, file cases before the judicial authorities, and adjust the administrative structure to increase the number of monitors and improve their capacity and their practical experience. |

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| 13 | **Increasing the number of families benefiting from the Takaful and Karama program to five million** | Yes | The IMF requested an increase in the number of families benefiting from the Takaful and Karama program to 5 million, up from 4 million. | The government increased the number of families and increased the pension provided under the Takaful and Karama program by 15% year-on-year in March 2024. | An important measure, but the increases in funds directed to the program are not commensurate with inflation rates, as they are lower especially compared to inflation in food prices. The annual increase estimated at 15% is translated into an increase of only 1.25% in monthly transfers, meaning that the actual increase is only 1.25% year-on-year, which is far less than the average price inflation rate in 2023, which recorded 35.2% in December that year.<br>More than eight years after the launch of the program, its social impact has not been systematically assessed. The World Bank only released an evaluation study of the program in 2018. There is still much to study in the program to understand the best mechanism to address gaps (increasing the number of beneficiary families or the monthly transfers between 2015 and 2024, especially considering the significant decline in the real value of transfers.) |

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| 14 | **Improving the management of the real estate tax system** | Yes | The IMF requested the completion of real estate transfers and their e-registration, and the creation of site-related coding to enhance the efficiency of real estate tax collection. | No, the transfers were not completed due to issues mainly related to the reconciliation and real estate registration system, which includes many administrative expenses that push many to refrain from starting registration and reconciliation procedures on violating properties. | An important measure, given the significance of property taxes in general, and real estate taxes in particular, to reform the tax structure in Egypt, which still relies on indirect taxes and income taxes. The real estate registration and reconciliation system sparked controversy due to the government's tendency to implement it with steep fees and largely bureaucratic procedures. |
| 15 | **Issuing the executive regulations of the Public Finance Law** | No | The IMF requested the issuance of the executive regulations of the Public Finance Law by the end of June 2023, which should include 1- Basic elements of the budget starting from the approval of the financial strategy. 2- The mechanism for updating the budget, including the cost of the new laws. 3. Separating the budgets of all bodies from the new policy initiatives. 4. A climate section to monitor the financing of climate-related activities | No, the executive regulations were not issued, and the government applied what it called the general government budget in the form of limited tables attached to the public budget, which only gives a very general picture of the state budget and the budgets of economic bodies. | An important measure to activate the governance and unity of the public budget in Egypt. It has been a recurring request from the IMF since the 2016 loan deal. |

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| 16 | **Publishing the State Ownership Policy Document** | Yes | The IMF requested the publication of the so-called State Ownership Policy Document, which covers the public sector, the public works sector, army-owned companies, and projects jointly carried out by military and civilian bodies.<br>The document should specify the criteria that are used to determine whether the sector is strategic or not.<br>It should also include a commitment to competitiveness and neutrality, and to follow international best practices and principles. The document should also include the obligation to publish an update within 60 days from the end of the fiscal year that includes details of each liquidation or sale made, the legal framework governing it, the parties involved, the proceeds of the sale or liquidation and the uses of those funds. A separate annual report on the progress of that policy should also be published. | Yes, the State Ownership Policy Document was issued, but none of the subsequent reports related to the governance of the sale of Egyptian assets were issued. The mechanisms for making divestment decisions and identifying sectors in detail were not published. The government did not officially publish any details on completed sales or how resultants funds were used. | The document approved by the government encouraged the continuation of asset sales. Some assets that were not included in the document were sold. The sales were also carried out under pressure of immediate need rather than careful sector planning and consideration. None of the army-owned companies have been sold so far, and only two of them were listed in the document.<br>The document lacked any rules related to the social impacts of sales, and their consequences on prices, especially considering that the privatisation drive includes pivotal public services in the health and education sectors. |

# V. Additional notes and recommendations:

1. There is a need for full and detailed integration of the budgets of economic entities and governmental activities into the public budget, taking into account the different accounting rules between these bodies and the current budget bodies.
2. Based on the IMF's request to issue the annual audit reports on time, with clear standards to facilitate their use for ordinary citizens, it is necessary to reduce the time gap and the significant delay in announcing external debt and GDP figures. It is also imperative to adopt a consistent methodology in calculation and production of figures, and to resume the publication of the quarterly report of growth indicators, which used to be issued regularly and in a format that provided a basis for comparison but has not been published since 2017. The same should apply to the monthly reports and the external situation report issued by the CBE, and the income, expenditure, consumption and poverty survey, which has not been issued since early 2020. Detailed national account reports, which have been suspended since 2015, should also be made available.
3. The government and the IMF must commit to announcing the total public debt in Egypt, including all debt stock and interest paid to economic bodies and to the CBE, which is one of the key institutions borrowing from abroad with government guarantee. Revealing the budget deficit only does not reflect the true state of public debt in Egypt. The rising course of public debt in Egypt cannot be reversed without a debt audit to assess the impact of development debt, its spending, and the best way to restructure the debt through term reduction, governance, interest renegotiation, rescheduling and even forgiveness of repayment.
4. Inflation cannot be dealt with through interest rates alone, taking into account frequent service price hikes and flexible exchange rate policies requested by the IMF. These policies reproduce the problem.
5. Neither the IMF, the World Bank, nor the Egyptian government provided any assessment of the impact of the programs implemented since 2016 on poverty and inequality in Egypt. It is worth noting that the poverty rate in Egypt has reached its peak since 2000 following the implementation of the first program, with an additional five million Egyptians joining the ranks of the poor due to the repercussions of this program. No assessment of the IMF-agreed policy packages on unemployment, wages and exports has been conducted. There has been no public assessment of the ability of cash subsidy programs to absorb the impact of successive inflationary shocks on poverty, which necessitates wider use of in-kind subsidy networks rather than maintaining them as an anti-poverty and inequality policy.
6. The IMF and the government must commit to the standards stated in the IMF budget manuals regarding taxes on treasury bill profits, which are income taxes included as property taxes.
7. The IMF and the government must abide by the criteria stated in the IMF manuals regarding methods of calculating energy subsidies, classifying subsidy beneficiaries in detail, especially companies, and deleting the general insurance debt service allocations to the general budget from the social subsidy item (the government currently records its debt payments to the National Organization for Social Insurance (NOSI) as social subsidy.)
8. The base of taxpayers should be expanded through income and wealth taxes, to increase the fiscal space in the budget, with the aim of reducing inequality and poverty through financing social programs.

9. The primary surplus is unsuccessful in placing the public debt on a downward path, and comes at a high cost to all forms of social spending such as health, education, and others. Austerity measures affecting real wages and public development investments are counterproductive to desired economic growth. An approach must be taken that avoids deep austerity and expansion of debt servicing, through a systematic process of debt governance (all external loans, including the CBE's loans, must be subject to scrutiny and parliament approval).

10. The asset sale program must stop, due to its negative effects on the balance of payments and domestic market structures, especially in light of the continuous decline in the value of Egyptian assets due to the devaluation of the pound, which is consistent with the statements of the IMF chief advising a slowing down of sales now[19]. There should be legal and parliamentary oversight over valuations and sales, which are currently carried out without governance or transparency. The privatisation of public health and education services and continued hike in the prices of such basis services must be halted.

11. The additional fees (surcharges) charged by the IMF to the Egyptian government should be dropped, as they increase the cost of debt. Also, interest rates should be allowed to fluctuate within margins and should not be left to the global market movements without limits.

19 IMF: We do not want Egypt to rush to sell shares in state companies, Masrawy, 11 February 2024, https://www.Masrawy.com/news/news_economy/details/2024/2/11/2536822/Money-fund-no-want-to-rush-Egypt-sell-shares-companies-Governmental