

IMF Reaches Staff-Level Agreement with Egypt on a US\$4.8 Billion Stand-By Arrangement

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An International Monetary Fund (IMF) staff mission headed by Mr. Andreas Bauer, Division Chief in the Middle East and Central Asia Department, and the Egyptian authorities have reached a staff-level agreement on a 22-month Stand-By Arrangement (SBA) in the amount of about US\$4.8 billion (equivalent to about SDR 3.16 billion, or 335 percent of Egypt's quota in the IMF). The SBA will support the government's economic program through fiscal year 2013/14. Egypt's request for an SBA is expected to be submitted to the IMF Executive Board for approval in a few weeks.

Mr. Bauer made the following statement in Cairo at the conclusion of the staff mission:

"The Egyptian authorities have developed a national program that seeks to promote economic recovery, address the country's fiscal and balance of payments deficits, and lay the foundation for rapid job creation and socially balanced growth in the medium term.

"The policies contained in the authorities' program will help address Egypt's pressing economic and social challenges, and reduce vulnerabilities. The IMF mission welcomes the program and will propose a 22-month SBA in the amount of about US\$4.8 billion (equivalent to about SDR 3.16 billion) to support its implementation.

"Fiscal reforms are a key pillar under the program. The authorities plan to reduce wasteful expenditures, including by reforming energy subsidies and better targeting them to vulnerable groups. At the same time, the authorities intend to raise revenues through tax reforms, including by increasing the progressivity of income taxation and by broadening the general sales tax (GST) to become a full-fledged value added tax (VAT). The resources generated will be used to boost social spending and infrastructure investment, and to gradually reduce the large budget sector deficit from almost 11 percent in 2011/12 to 8.5 percent of GDP in 2013/14, while the budget sector primary deficit will decline from 4 percent in 2011/12 to 0.6 percent in 2013/14 and is projected to turn positive in the following fiscal year. The envisaged deficit

reduction will help alleviate the public debt burden and free up financing to support social spending and private sector growth.

"The attainment of the fiscal objectives under the authorities' program will be facilitated by measures to strengthen public financial management and the transparency and accountability of public sector operations. Key measures toward that end include broadening the coverage of the treasury single account, and regular publication of key budgetary and financial sector information.

"Monetary and exchange rate policies will be geared toward ensuring declining inflation over the medium term, enhancing Egypt's international competitiveness to stimulate trade and attract capital inflows, and increasing international reserves to protect against external shocks.

"An important objective of the authorities is to ensure a fair and competitive business environment with a level playing field among investors. Accordingly, the authorities intend to enhance the transparency of registration and licensing procedures, facilitate the resolution of investment disputes, and support small and medium-size enterprises. Fair and unencumbered access of businesses to economic opportunities is important for a socially balanced private sector growth and job creation.

"The authorities' program will be supported by a financing package of \$14.5 billion in loans and deposits on favorable terms from a range of bilateral and multilateral partners, including the IMF. The availability of external financing will allow for a gradual adjustment of the economy and substantially reduce Egypt's cost of borrowing, given the much higher interest rates on domestic loans.

"Overall, the authorities' economic program promises to address many of Egypt's pressing economic challenges during a difficult time of political transformation, and lays the foundation for durable and inclusive growth, while striving to meet the people's expectations for greater social justice and good governance.

"Broad-based domestic and international support will be crucial for the successful implementation of the planned policies. The authorities intend to disseminate the contents of their economic program to a wide range of domestic stakeholders, which is welcome. The IMF, for its part, is stepping up to the challenge of supporting Egypt and its people by providing financial resources and technical assistance in the fiscal, financial, and statistical areas," Mr. Bauer said.

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