



Egypt's Economy Moving Forward: IMF Affirms Progress, Praises Ambitious Reforms

On 20 December 2017, the Executive Board of the International Monetary Fund (IMF) completed the second review of Egypt's economic reform program, and the Article IV consultation review. In its report published in January 23, 2018, the IMF praised Egypt's progress under its economic reforms, writing that "Underpinned by political and social stability, nearly one year since the launch of the authorities' ambitious economic reform program, Egypt's economy is rebounding and confidence is returning." Moving forward, Egypt is focused on continuing this economic progress and building a modern economy that works for all Egyptians.

ABOUT EGYPT'S ECONOMIC REFORMS AND IMF AGREEMENT

In 2016, Egypt's government adopted an ambitious economic reform program to deal with its inherited structural economic imbalances, beginning with the reduction of the energy subsidies, and adopting a flexible exchange rate regime. In November 2016, This reform program was supported by a \$12 billion arrangement through an Extended Fund Facility for Egypt. Since that time, Egypt has taken additional bold steps to reform its economy, including:

- ▶ **Business climate improvements:** Egypt has passed new investment and bankruptcy laws to take advantage of this unique economic moment and to spur business activity.
- ▶ **Fiscal consolidation:** Since 2016, Egyptian authorities have worked to reduce public spending and outlays to reduce Egypt's budget deficit and encourage growth.
- ▶ **Prudent monetary policy management:** Following Egypt's currency liberalization, the Central Bank of Egypt worked to tighten monetary policy to contain the effects of inflation for Egyptian consumers.
- ▶ **Strengthening social safety nets:** To reduce the negative effects of macroeconomic policy on vulnerable Egyptians, the Government of Egypt strengthened direct cash-transfer programs to lower-income Egyptians and is launching an ambitious new universal health care service.

ACCELERATING GROWTH: THE IMF'S ECONOMIC OUTLOOK FOR EGYPT

The IMF stated that growth in Egypt is "expected to gain momentum," driven by Egypt's recent reforms. In its summary of Egypt's economic outlook, the IMF identified several areas where Egypt's economic outlook is expected to continue improving:

- ▶ **GDP:** Egypt's economy, already growing at a higher rate than many developed economy, will grow at a 4.8% rate in the 2017/18 fiscal year, and will strengthen to 6% in the medium term, according to the IMF.
- ▶ **Falling inflation:** The IMF estimates that inflation is expected "to decline to around 12 percent by June [2018] and to single digits in 2020," bringing needed price stability for Egyptian consumers. In February 2018, Egypt's Central Bank cut overnight interest rates as inflation in Egypt continued to decline.
- ▶ **Budget surplus:** In the 2017/18 fiscal year, the IMF projects a primary fiscal surplus of 0.2% of GDP for Egypt, driven by changes to Egypt's VAT and subsidy policy. The IMF projects general government debt to decline by about 17 percent of GDP by the end of the program.

"This macroeconomic turnaround at home and the supportive global economic environment provide a unique opportunity to carry the reform momentum into areas that have historically been hard to tackle."

–Subir Lall, Assistant Director, Middle East and Central Asia, IMF



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MOVING FORWARD ON KEY REFORMS

The IMF also made a number of key recommendations to extend and strengthen the effects of Egypt's reform program. Egyptian authorities are already taking action including:

- ▶ **Strengthening competition and fighting corruption:** In October 2017, Egypt's Parliament adopted a new Administrative Control Authority law, and is now preparing a new Public Procurement law, which will fight corruption in state contracting.
- ▶ **Integrating women into the workforce:** At a time when the number of women in Egypt's Cabinet and Parliament is at historic highs, Egypt has taken new steps to criminalize sexual harassment for the first time in recent years and continues to fight gender discrimination and inequality in the economy, doubling the budget allocation for public nurseries and other facilities to support women.
- ▶ **Enhancing private sector role:** The authorities announced a five-year program to divest minority shares in select state-owned enterprises. The objective is to attract private investment, reduce the role of the state in the economy, and deploy public assets to their most productive use. Private ownership is expected to improve transparency and corporate governance, bring in know-how, and support economic development.



LOOKING AHEAD

In their appraisal of Egypt's economy, IMF staff noted the huge strides forward that Egypt's economy is making:

- ▶ Writing that the economic reforms have been a "turning point" for the Egyptian economy, the IMF argues that "The outlook is favorable, provided prudent policies are sustained to entrench macroeconomic stability and the reform effort is broadened to facilitate private sector growth and investment."
- ▶ Controlling inflation remains a priority for Egypt. The IMF found that the Central Bank of Egypt "expected to continue to carefully assess inflation expectations" in the coming year.
- ▶ Reducing government debt will help strengthen reforms. The IMF commended Egypt's action in this regard, writing that the Government of Egypt's "commitment to take necessary measures to achieve the fiscal target for this year is welcome."