Dcode Economic & Financial Consulting

Key Highlights of the IMF's Second Review on Egypt

Points of Strength

- Real GDP growth rebounded f to 4.2% in 2016/17
- Inflation started to moderate after reaching a peak in July 2017
- Business environment reforms
- Improved external competitiveness
- The floating of the exchange rate which led the parallel market to disappear, increased capital inflows and foreign reserves
- Primary fiscal deficit narrowed to 1.8% of GDP in 2016/17
- Recovery in tourism

Further Recommendations

- Increasing revenues by reducing VAT exemptions, making the tax system more progressive and the tax administration more efficient
- Eliminating most fuel subsidies (excluding LPG) by 2019. The next fuel price increase and indexation mechanism* are scheduled for December 2018.
  *Rule determining frequency and magnitude of price changes.
- Shifting subsidy spending towards cash transfer programs like Karama and Takaful
- Letting the private sector flourish
- Deep and lasting structural reforms to create jobs
- Reform of the central bank law; improving access to finance and land

IMF's Outlook

- Growth is projected to strengthen to 4.8% in 2017/18 and rise to 6% in the medium term
- Inflation is expected to decline to around 12% by June and to single digits in 2019
- Current account deficit is projected to narrow to 4.5% of GDP in 2017/18 and to 3.5% of GDP by 2021/22
- A primary fiscal surplus of 0.2 % GDP is projected in 2017/18 driven by the full year impact of the VAT increase, and lower wages and fuel subsidies
- General government debt is projected to decline by about 17% of GDP by the end of the program

Key Risks

- Premature easing of monetary policy
- Pressures to expand spending beyond budgetary allocations
- Opposition to reforms by vested interests
- Loss of momentum on structural reforms
- Worsening of the security situation
- Slower recovery of tourism
- A sustained rise of global oil prices
- Lower growth in Egypt's main trading partners or unexpected tightening of global financial conditions