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To: Sullivan, Jacob J
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Good news.

IMF Reaches Staff Level Agreement with Egypt on a US$3 Billion Stand-By Arrangement

Press Release No. 11/216
June 5, 2011

An International Monetary Fund (IMF) staff mission headed by Ms. Ratna Sahay, Deputy Director of the Middle East and Central Asia Department, and the Egyptian authorities have reached a staff level agreement on a 12-month Stand-By Arrangement (SBA) in the amount of SDR 1.88 billion (US$ 3 billion) to support the government's economic program for the fiscal year 2011/12 (July 1 - June 30). Egypt's SBA request is expected to be submitted to the IMF Executive Board for approval in July.

Ms. Sahay made the following statement in Cairo at the conclusion of the staff mission:

"Following a revolution and during a challenging period of political transition, the Egyptian authorities have put in place a home-grown economic program with the overarching objective of promoting social justice. The measures are aimed at supporting economic recovery, generating jobs, and assisting low income households, while maintaining macroeconomic stability.

As the Egyptian authorities announced:

"The draft budget for 2011/12 enables additional spending for job creation and protection of the poor, while limiting the widening of the deficit. Expenditures focus on human capital and social investment, as well as labor intensive public works to encourage more job-intensive growth.

"On the revenue side, the budget includes a number of tax reforms to generate resources for additional social spending and enhance fairness through a moderate increase in the progressivity of the tax system. These reforms will be accompanied by efforts to strengthen tax administration and improve compliance.

"The budget deficit will be financed in part through foreign grants and loans from bilateral and multilateral development partners, including the IMF. This strategy ensures that sufficient domestic resources remain available for credit to the private sector, and helps reduce borrowing costs and lengthen the maturity profile of the public debt.

"Monetary and exchange rate policies will aim at maintaining macroeconomic stability, including by preserving a comfortable level of reserves to ensure that Egypt will have a buffer against unanticipated shocks. Monetary policy will continue to aim at reducing inflation over the medium term to a level that is close to the inflation of Egypt's trading partners.

"Financial sector policies will be geared toward preserving the strength of the banking system and safeguarding domestic financial stability. In this regard, the Central Bank of Egypt will continue to strengthen the quality of banking supervision, including through the adoption of Basel II.

"The authorities are also planning to enhance transparency and create a more competitive business environment, with a particular focus on supporting small- and medium-sized enterprises, which are the main source of employment creation in the economy.

"A number of fundamental structural reforms, including the transition to a VAT-like consumption tax and reform of the highly inequitable and costly system of subsidies, are needed to improve the efficiency of public spending and help reduce the fiscal deficit in the medium term. We share the government's view that immediate implementation of such reforms is not feasible in the context of this arrangement as additional preparatory work is needed to ensure that an effective safety net is in place to protect the low income households. The government intends to prepare a road map to facilitate implementation of these reforms in the future."

"The authorities' economic program is a first step to laying the foundation for a more inclusive private sector-led economic growth. Support from the international community will greatly facilitate the realization of the authorities' economic objectives and, in this context, the IMF is committed to supporting Egypt and its people through this arrangement" Ms. Sahay said.