MTDS 2021-2024

Medium-Term Debt Management Strategy (MTDS)

The purpose of this document is to identify the optimal medium-term debt management strategy for the Fiscal Years (FY) 2020-21 through 2023-24 based on the Egyptian Ministry of Finance objectives & targets

Ministry of Finance

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Acronyms

ATM	Average Time to Maturity (years)
ATR	Average Time to Re-Fixing (years)
AT	Analytical Tool
CBE	Central Bank of Egypt
DMU	Debt Management Unit
EGP	Egyptian Pound
EMTN	Euro Medium Term Note Program for the Eurobonds issuances on the foreign markets.
FDI PDs	Foreign Direct Investment Primary dealers
GDP	Gross Domestic Product
GoE	Government of Egypt
GMTN	Global Medium-Term Note Program for the Eurobonds issuances on the foreign markets.
IMF	International Monetary Fund
MoF	Ministry of Finance
MTDS	Medium Term Debt Strategy
PV	Present Value
SOE	State Owned Enterprises
USD	US Dollar
WBG	Word Bank Group
IPO	Initial Public Offering

Definitions

Average Time to Maturity (ATM)	An indicator used to assess refinancing risk based on the current average time to maturity of debt outstanding.
Average Time to Re-fixing (ATR)	An indicator used to assess interest rate risk based on the average time to interest rates of debt outstanding to be re-fixed.
Budget sector debt/ Central Government debt	The budget sector debt stock encompasses the outstanding stock of Central Administration, local Government, and Public Service Authorities.
Classification of debt	Government securities held by domestic investors, whether issued domestically or externally, are considered domestic debt. Government securities held by foreign investors, whether issued domestically or externally, are considered external debt. External debt definition mentioned is different than the one used for MTDS purpose which considers the currency exposure and not holders' residency.
Re-opening	The reopening of existing government securities serves to build up benchmark bonds, thereby to increase the liquidity in the secondary market and to develop the domestic debt market.
Present Value (PV)	The current worth of a future sum of money. In other words, it is discounted cash flows of outstanding debt. For the MTDS exercise, cash flows are discounted at 5%.
Yield curve	A line that plots the structure of current interest rates paid on securities over a range of maturities. For example, government securities with different maturities, from three-months Treasury Bills to ten years Treasury Bonds. It enables investors to compare the yields offered by short, medium- and long-term securities.
General government debt	The general government debt stock includes the consolidated debt stocks of the Budget sector, the NIB (National Investment bank) and SIF (Social Insurance Fund).
Public sector debt	The public sector debt stock corresponds to the consolidated debt of the general government in addition to outstanding debt due on economic Authorities.

Egypt's Debt Profile and Performance over past years

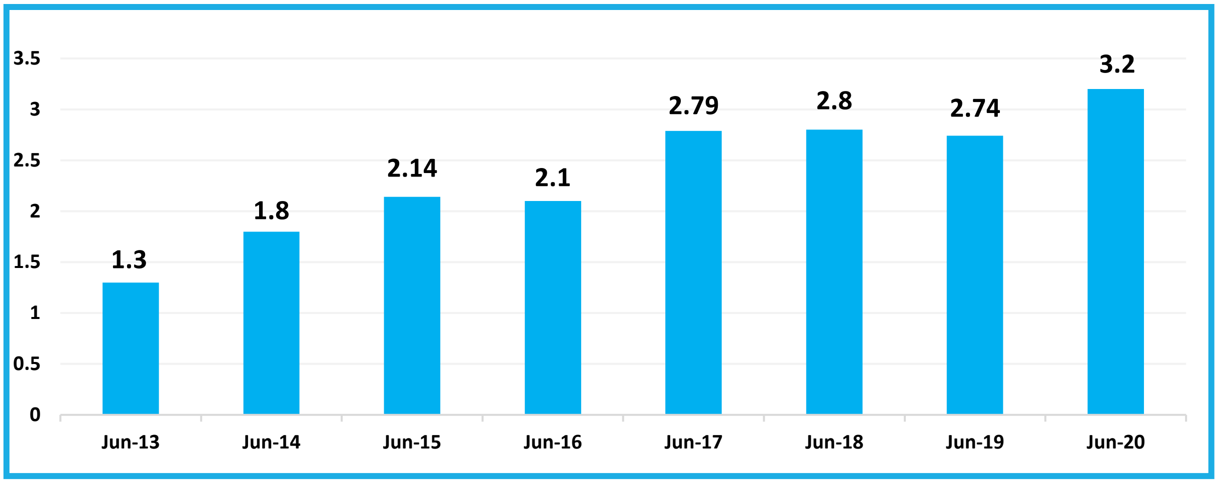
- **The Egyptian Ministry of Finance (MoF) succeeded to broadly achieve its debt objectives and targets outlined in the MTDS previously published in 2019. In the previous MTDS published in 2019 the following targets were mentioned**

  1. Central government debt as percentage of GDP to reach 84.9 percent by 2020/21 and to re ach 79.5 percent (by June 2022).
  2. Maximum share of central government domestic tradable debt allowed to mature within one year and the maximum amount of debt subject to interest rate re-fixing both are limited to 50 percent of the total domestic tradable debt.
  3. Share of tradable debt vs. non tradable debt to reach 70 percent tradable vs. 30 percent non-tradable by end of 2020-2021.
  4. Average Time to Maturity of central government domestic and foreign tradable debt to reach 4 years by end of FY (2020/21) and 4.5 years by end of 2021/22.

- **Egypt's budget sector debt (also known as the Central Government debt) declined as a percent of GDP from 108% in June 2017 to 87.5% the by end June 2020, out of which 68.6 % of GDP is domestic debt and 19% of GDP is external debt. External debt ratio used in this report (except MTDS exercise section) refers to government securities held by foreign investors, whether issued domestically or externally. (A detailed breakdown is available in Annexes 1 and 2).**

- **The Average Time to Maturity (ATM) of total central government debt reached 3.2 years in June 2020 up from around 2.1 years in June 2016 and 1.3 years in June 2013. MoF's target is to extend this figure to be more than 5 years by end of FY (2023/24) (Figure 1).**

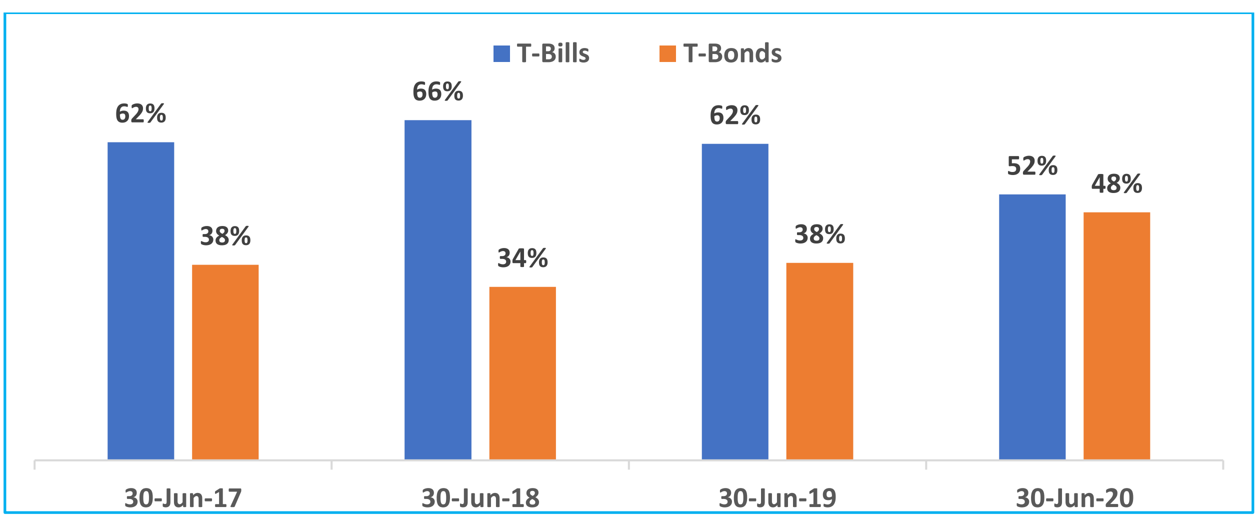
Figure 1: Average Time to Maturity (Tradable Debt)



- **Considering continuous effort to extend central government or budget sector debt profile and maturity, the outstanding stock of T-bonds increased at faster pace than the increase in value of outstanding T-bills balance. As of June 2020, the outstanding balance of T-bonds reached EGP 1649 billion representing 48% of total outstanding government securities.**

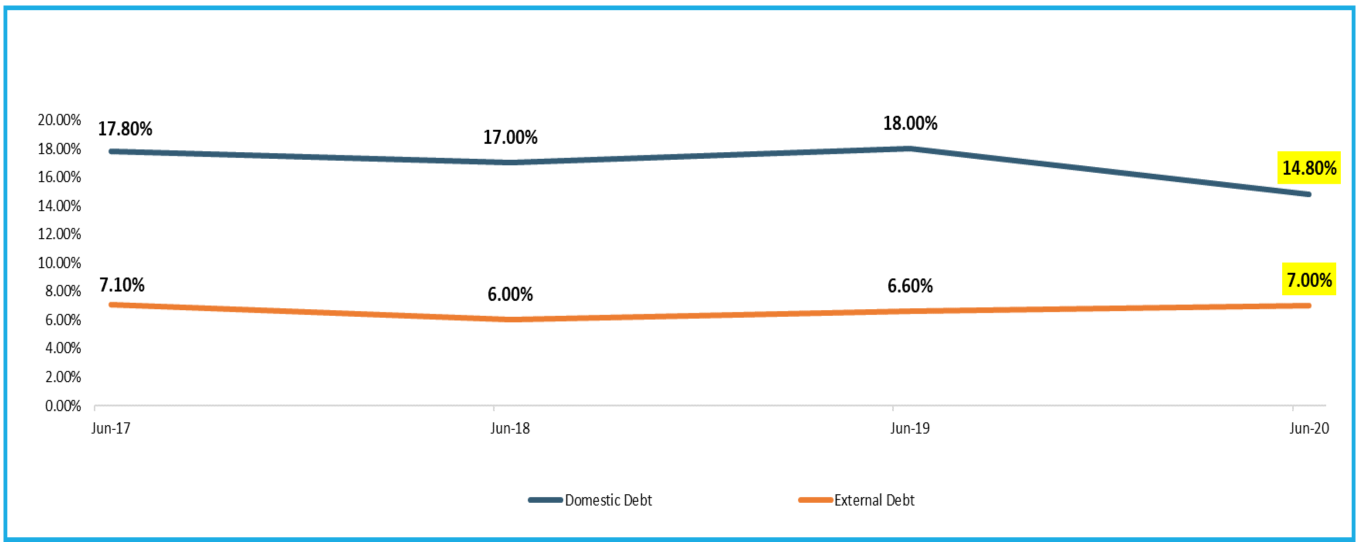
Outstanding Balance (In EGP billion)				
	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20
T-Bills	1186	1547	1639	1768
T-Bonds	729	789	1022.5	1649
total	1915	2336	2661.8	3417

Figure-2: Ratio of T-bills and T-bonds (as percent of total outstanding Government securities)



- **The average interest rates on external borrowing from international markets (Eurobond issuances) increased in June 2020 to 7% compared to 6.6% in June 2019 due to the global uncertainty prevailing in financial markets as a result of the COVID-19 pandemic and its negative repercussions. This does not include external bilateral and multilateral debt. However, this high cost of external market borrowing reversed its trend recently. Another reason for the increase in effective external cost of borrowing is the extension of Eurobond issuance tenors (including 40 years bond) mandating a higher cost of borrowing for an extended maturity profile. (Figure 2).**
- **At the same time, MoF succeeded to lower the average cost of domestic debt in light of lower average interest rates on issued government securities (bills and bonds) which stood at 14.8% in FY 2019/20 compared to 18% in the previous fiscal year and around 17.8% in FY 2016/17 (Figure 2).**

Figure 3: Average Interest Rates



- **Egypt succeeded to diversify its debt instruments and to widen its investor base. New maturities of 2 & 15 years in the domestic market were introduced to meet investor demand for such tenors, both locally and internationally. In the international market, Egypt issued the first sovereign green bond in the MENA region, demonstrating Egypt's leadership and commitment to the UN sustainable development goals. Over 30 ESG-focused investors participated in pre-issuance calls and over 220 investors from Asia, Europe, MENA, North America and UK presented bids in the transaction. In addition, the transaction had participation of 16 investors that haven't ever made orders in previous Egyptian issuances in the International Capital Markets, making further achievements in diversifying and growing the existing sizeable investor base.**

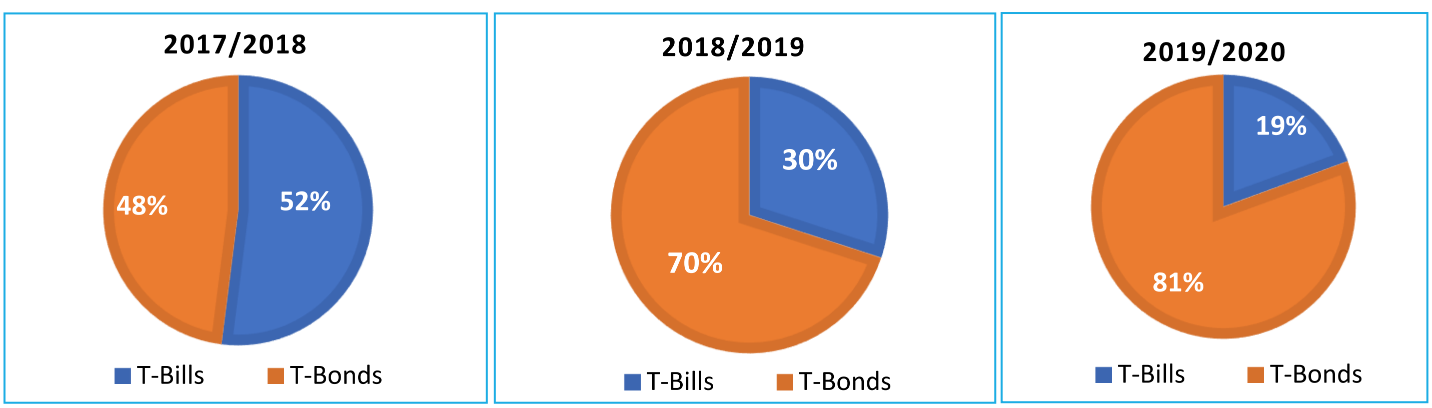
Table-1: Key highlights of Egypt first Green Bond Issuance

	Green-bond
Credit rating	B(S&P) / B+ (Fitch)
Issue size	750 mm USD
Tenor	5 Years
Coupon rate	5.25%
Over subscription	5 times
Price tightening	50 bps
Issue premium	-12.5
Number of accounts	220

- **Furthermore, MOF obtained the Cabinet's approval on a new Sukuk Law, which was sent to the Parliament for final deliberations and approval aiming to attract numerous sukuk investors especially in the Gulf region and Asia.**

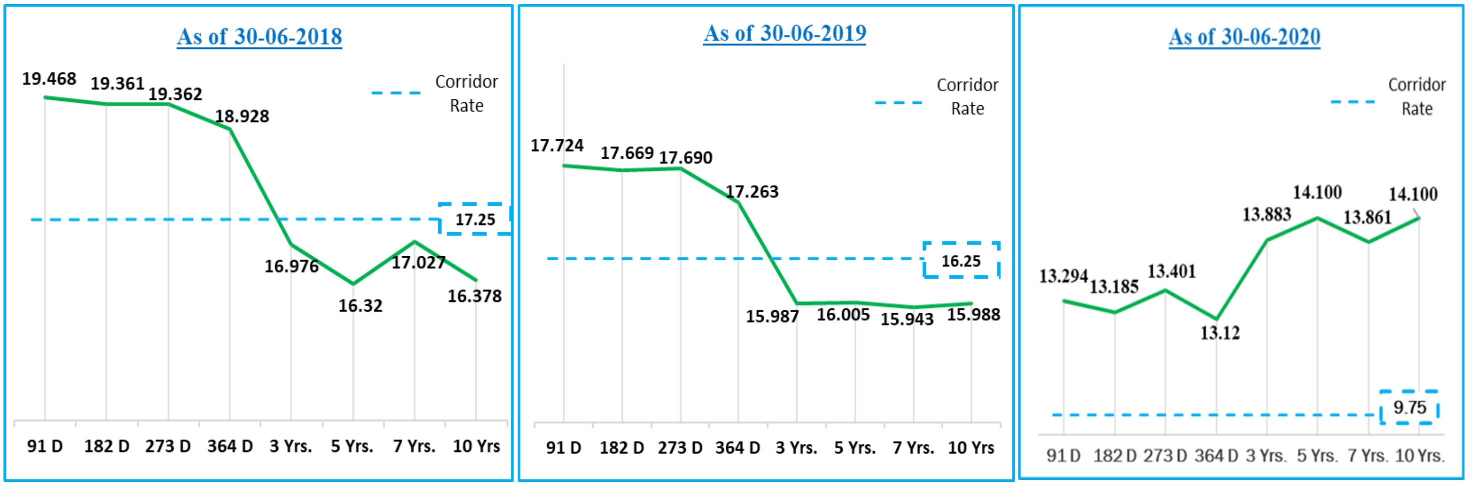
- **Since FY 2018/19, MoF started to elongate its debt profile through targeting a higher ratio of net long-term issuances versus short term issued government securities (T-bills). Accordingly, these dedicated and continuous efforts yielded results with net issuance of bonds reaching 70% of total issuances in FY 2018/19 and 81% in FY 2019/20 compared to lower ratios of 48% in FY 2017/18 (Figure 3).**

Figure 4: Net Issuance of T- Bills & T-Bonds



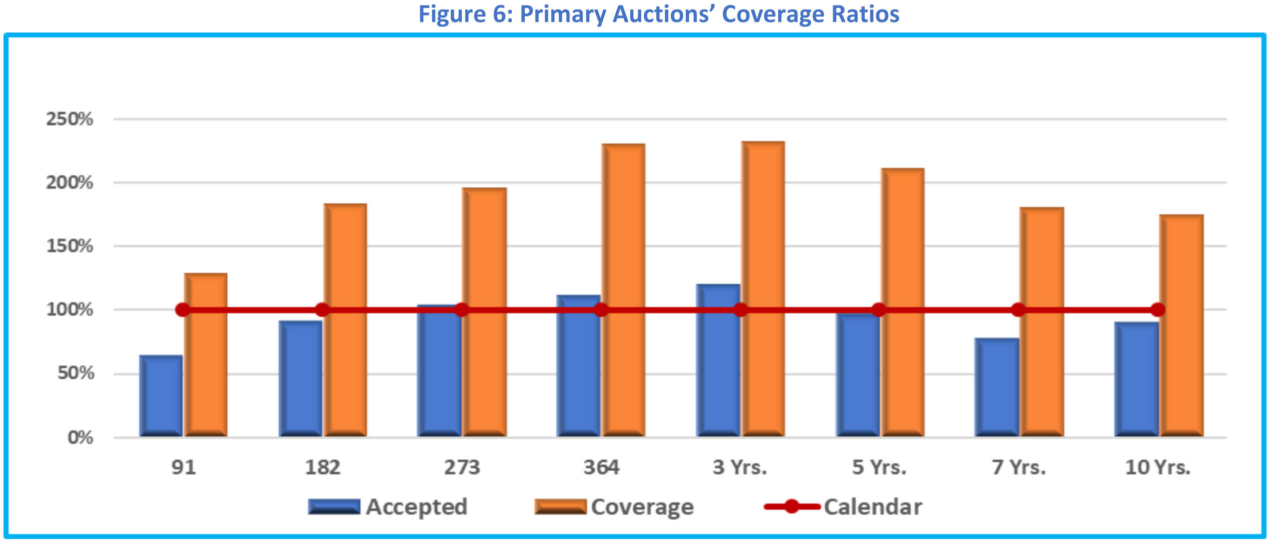
- **Moreover, MoF started to fix the inverted Yield Curve for all primary domestic market issuances as domestic inflation rates started to normalize. (Figure 4).**

Figure 5: Yield Curve



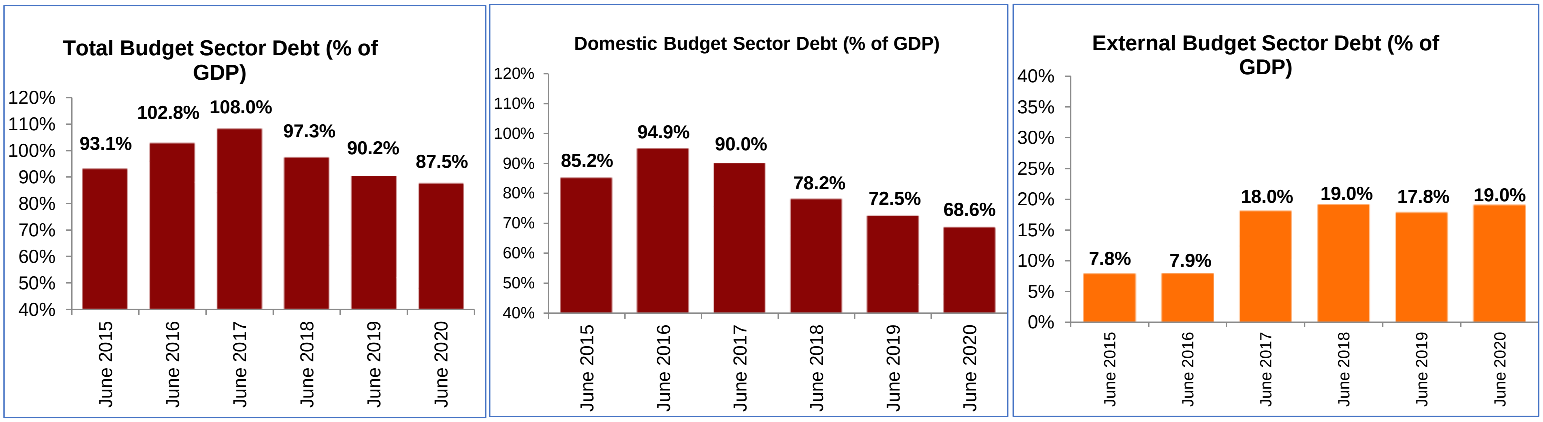
- **T-bills and T-bonds auctions witnessed strong demand and liquidity with bids offered by participating institutions exceeding on average the announced size of issuance by the government. This enabled the Ministry of Finance to accept higher volumes and enabling extension of debt maturity profile (Figure 5).**

Figure 6: Primary Auctions' Coverage Ratios



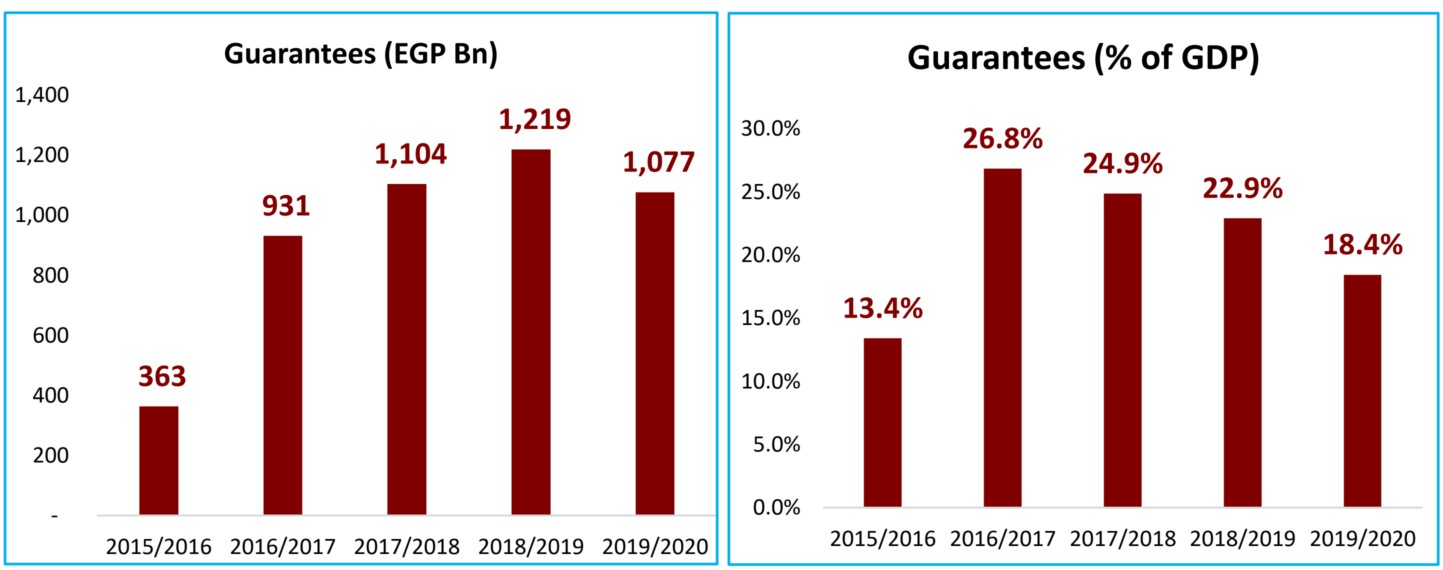
- **Despite all the challenges emanating from the COVID-19 pandemic and its substantial impact on both the domestic economic activity as well as on public revenues, MoF succeeded to lower its budget sector debt (central government debt) as a percentage of GDP which recorded 87.5% by the end of FY 2019/20, out of which 68.6% is domestic budget sector debt and 19% is external budget sector debt. This is compared to 90.2% by the end of FY 2018/19, out of which 72.5% is domestic** budget sector debt and 17.8% is external budget sector debt. This percentage is down from 108% in June 2017, out of which 90% is domestic debt and 18% is external debt (Figure-6 and Annex 1).

Figure 7: Budget Sector Debt as a Percentage of GDP,



- Egypt adopted a policy that would rationalize the issuance of government guarantees. Accordingly, the absolute value of issued guarantees decreased. Issued guarantees as a percentage of GDP came down to 18.4 % by June 2020 down from 23 % in June 2019 and down from a high of 26.8 % back in June 2017 (Figure 7).

Figure 8: Guarantees as a Percentage of GDP



Introduction

- The Government of Egypt (GoE)'s borrowing activities are regulated by the annual budget law that is sent every year to the Parliament by end of March for discussion and approval. The drafting of the annual budget is done according to the provisions of law no. 53/1973 as amended by law no. 87/2005 and law no. 109/2008. According to Article no. 127 of the Egyptian Constitution issued in January 2014, the budget law includes articles that grant authority to the Ministry of Finance to issue treasury bills and bonds as well as to borrow loans to fund the government's borrowing requirements.

- The Medium-Term Debt Management Strategy (MTDS) is the plan that MoF intends to implement over a four years' time frame to achieve its debt targets including the desired composition of the central government debt (budget sector debt) reflecting the government's choices in light of the cost-risk tradeoff. To operationalize this plan, the Minister of Finance has issued the Ministerial Decree no. 515 of year 2015 mandating the composition of a working group to review the debt management policies and to approve the MTDS document before publication.

- The purpose of this document is to identify the optimal central government debt (budget sector debt) strategy based on the government's key objectives and targets for debt management. The publication of this MTDS document complies with sound practices in international debt management as defined in the World Bank and the International Monetary Fund (IMF) Guidelines Note[1] for debt strategy design.

- The MTDS is designed to aid in managing the risk exposure of the government's debt portfolio. It is a toolkit that enables decision-makers to quantify potential risks to the budget that might arise from alternative debt management strategies and economic shocks.

- The Debt Management Unit (DMU) within the MoF is responsible for carrying out the MTDS and updating this strategy document on an annual basis in coordination with relevant units and departments at MoF.

[1] http://pubdocs.worldbank.org/en/671771552946461937/MTDS-Guidance-Note.pdf

The MTDS analysis consists of eight steps:

1. Clarify the objectives and scope of the MTDS;
2. Explain the current debt management strategy and review the cost-risk characteristics of existing debt to determine the need for change;
3. Review potential funding sources for future borrowing needs;
4. Review the projected macroeconomic framework and market environment;
5. Identify the risk factors that the economy is exposed to which the debt management strategy should consider;
6. Define and analyze the cost-risk performance of alternative debt management strategies;
7. Review the preferred debt strategy that is optimal to achieve the Government objectives and market appetite; and
8. Produce a debt management strategy document for approval by the Minister of Finance to be disseminated for the public.

MTDS Scope

- **In 2015, the scope of the MTDS was mainly focused on marketable (i.e. tradable) debt only, including domestic tradable debt (T-bills and T-Bonds), and external debt (International Issuances of Eurobonds and T-Bills and T-Bonds in USD and Euro).**
- **In 2019, the DMU successfully expanded the scope of the strategy to include bilateral and multilateral external debt.**
- **The current version of the MTDS includes all domestic tradable debt, external tradable debt as well as bilateral- and multilateral loans. In addition, the details of non-tradable domestic debt as of June 2020 is provided in this report. It is also included when setting budget sector debt and debt service targets for the medium-term as this target is set for the entire budget sector operations and outstanding debt.**
- **The classifications used for domestic and external debt conform with those used by the IMF and the World Bank, as follows:**
    1. Domestic Tradable Debt, mainly T-Bills and T-Bonds issued in the domestic market and denominated in EGP;
    2. External Debt includes T-Bills and T-bonds issued in the domestic market denominated in USD and Euro as well as all international issuances of Eurobonds; as well as bilateral- and multilateral external debt loans.

Objectives and Scope for the MTDS

- **The objectives of Egypt's debt management are specified in the Medium-Term Debt Management Strategy (MTDS) rather than in a debt management law.**

- **Egypt Medium term Debt Strategy (MTDS) assigns the following four key objectives that are consistent with MoF's fiscal targets and the Government latest projected medium-term macroeconomic framework:**

  1. To ensure timely funding for budget sector entities known also as central government entities financing needs and to contribute to minimizing the cost burden while being consistent with a prudent degree of identified and tolerated risk.
  2. To ensure that the Ministry of Finance funding requirements and payment obligations are met at a relatively low cost over the medium term
  3. To support the development of the domestic debt market.
  4. To contribute to smoothing out redemption profile and lowering budget sector gross financing needs over the medium term by elongating and extending debt maturity profile.

MTDS Targets

- Accordingly, this version of Medium-term debt strategy has four key targets:

  1) Continue the downward path of Egypt budget sector debt (central government debt) as percentages of GDP over the medium term to around **80% of GDP by June 2024**.

  2) Reduce the share of the budget sector or central government domestic debt maturing within one year and the one subject to interest rate re-fixing. **The target is to bring down gross financing needs (covering all outstanding debt) to below 30 % of GDP by June 2024 down from above 40 % recently.**

  3) Increase the share of tradable debt to **reach 75-80% by June 2024 up from around 68 % in June 2020**.

  4) Extend and increase the Average Time to Maturity of domestic and foreign central government **to reach 4.5- 5 years by June 2024.**

Characteristics of the Existing Debt Portfolio

Outstanding Debt

- Total domestic central government debt, (both tradable and non-tradable) reached almost EGP 3,989.6 billion as of end June 2020 (equivalent to almost USD 246 billion), which amounts to 68.6% of GDP, out of which the domestic tradable debt recorded EGP 3,019 billion that is equivalent to 75.6% of total domestic debt (Table 1).
- Domestic tradable debt consists of T- bills and T- bonds. T- bills contribute to 58.6% of domestic tradable debt (forming 44.3% of the total domestic debt), while the remaining 41.4% of the total domestic tradable debt consists of T- bonds (forming 31.3% of the total domestic debt).
- Non-tradable debt consists mainly in bonds issued to Central Bank of Egypt, zero coupons bonds issued to domestic banks, external bilateral and multilateral loans as well as reschooled external loans to Paris Club.
- Debt denominated in EGP represents 74.1% of the total central government debt[2] while the remaining 25.9% represents debt denominated in foreign currency, comprised by instruments issued in the external and domestic markets.[3]

Table 2: Total Central Government Domestic Debt as at June 30,2020

Government Securities	Outstanding EGP	Outstanding in USD equivalent[4]	% to total domestic debt	% of GDP
Total Domestic tradable debt	**3,018,862**	**186,292**	75.6%	**51.8%**
Total Domestic non-tradable debt[5]	**970,826**	**59,909**	**24.4%**	**16.8%**
Total Domestic Debt	**3,989,688**	**246,201**	**100%**	**68.6%**

- Gross external Central Government debt amounted to USD 68.2 billion on the 30th of June 2020 (equivalent to 55.2% of total external debt[6]), having increased by 19% from USD 57.3 billion in June 2019. (Table 2).
- The Central government's external tradable debt reached USD 23.7 billion as of 30 June 2020.

[2] Total number of central government debt is 5,094 billion EGP
[3] Debt denominated in foreign currency include USD T-Bills, USD T-Bonds & Euro T-Bills issued in domestic market
[4] Exchange rate for USD= 16.205
[5] Include 73,570 mm of Euro-bonds held domestically
[6] Total external debt amounted to USD 123,490.6 mm include Government debt and non-government debt

Table 3: Gross External Government Debt as at June 30,2020

Government Debt	Outstanding EGP	Outstanding in USD equivalent	% to Gross External Government Debt	% of GDP
Total External tradable debt[7]	**384,118**	**23,704**	**34.8%**	**6.6%**
Total External non-tradable debt	**720,407**	**44,456**	**65.2%**	**12.4%**
Gross External Government Debt	**1,104,525**	**68,160**	**100%**	**19%**

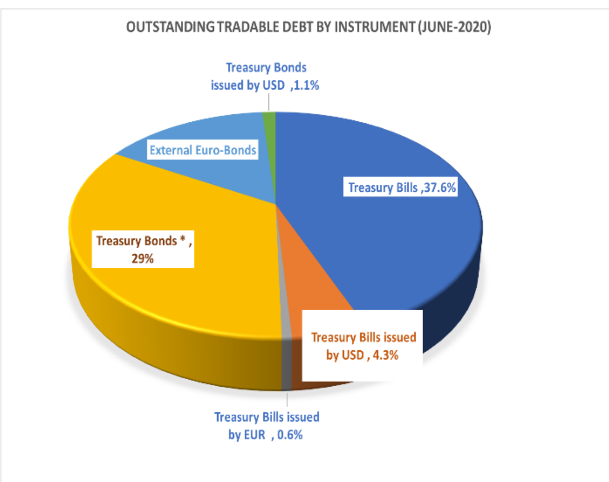
- **The share of tradable debt reached 68% versus non-tradable debt of 32%. MoF's targets to increase tradable debt percentage to 80% versus 20% for non-tradable debt by the end of 2023-2024 (Table 3).**

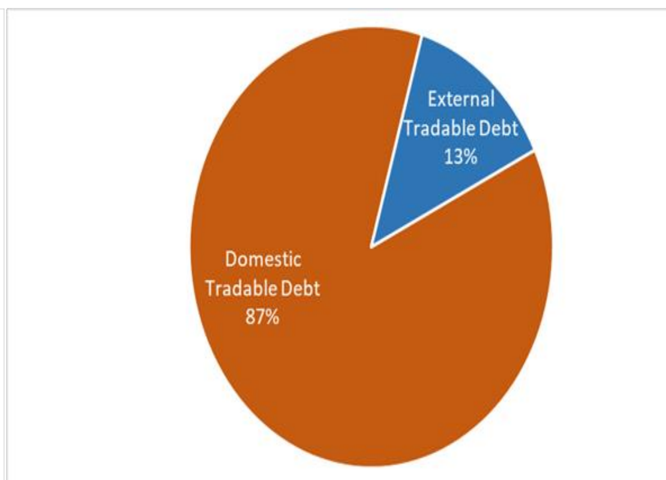
[7] Excluding euro-bonds held domestically amounted to USD 4,540 mm

Table 4: Tradable vs Non-tradable Debt as at June 30,2020

Tradable VS Non-tradable debt		
	Tradable	**Non-tradable**
Treasury Bills in LE	1,567,759	
Treasury Bills in Dollars & Euros	200,619	
Treasury Bonds	1,206,286	383,674
Treasury Bonds in foreign currency	14,582	
Bonds and Notes issued to Misr and El-Ahly Banks		44,199
Bonds and Notes issued to CBE		675,207
Revaluation Bonds		25,060
Insurance Notes	-	
Eurobonds (held domestically)	73,570	
Housing Bonds	51	
SIF Bonds	-	
Other	-	
Bilateral Loans		67,928
Multilateral Loans		612,302
Euro-Bonds	384,118	
Rescheduled Loans as of Paris Club		40,177
Budget Sector Debt Borrowings and Facilities		-201,319
Total Debt	**3,446,985**	**1,647,228**
% of Tradable VS Non-tradable	68%	32%
Grand Total		**5,094,213**

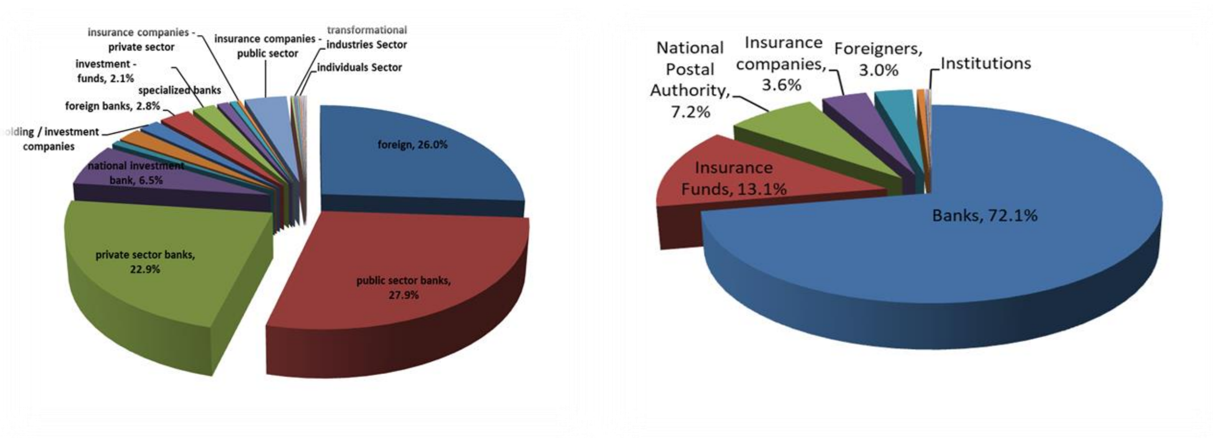
Figure 8: Outstanding Tradable Debt by Instrument (Left) and by Type (Right) as end of June 2020





- Commercial banks hold almost 62.2% of treasury securities (both bills and bonds issued domestically), while non-banking financial institutions hold 14.8 %. Foreign participation[8] reached 6 % of total holdings in June 2020, yet this share increased to higher levels since this date.

Figure 9: Holders of T-Bills (Left) and T-Bonds (Right)



Existing Debt Management Strategy

- The role of the Debt Management Unit (DMU) is to carry out the government's debt management strategy and cash management at the optimal cost structure, consistent with the government's fiscal and monetary policy framework. The Ministry of Finance follows a market-oriented funding strategy based on projected funding requirements, determining frequency, volume, timing of issuance and maturity.
- The Government of Egypt reform program restored and maintained macroeconomic stability with real growth picking up, public finance indicators improving substantially, debt following a declining path and inflation rates are normalizing and within the Central Bank of Egypt single digit announced target. As such, the Monetary Policy Committee (MPC) decreased the benchmark policy rates by 650 bps in FY 2019/20, hence enabling the Debt Management Unit to accelerate its plan to extend the maturity of its debt profile through the issuances of more long-term securities.
- Developing the market for treasuries is also an important objective for the debt management strategy. MoF deepening the market by adopting the following policies and measures:

  1. Focusing on a limited number of benchmark maturities, namely, 3, 5, 7 and 10 years in addition to introducing the regular issuance of 2- and 15-years bonds;

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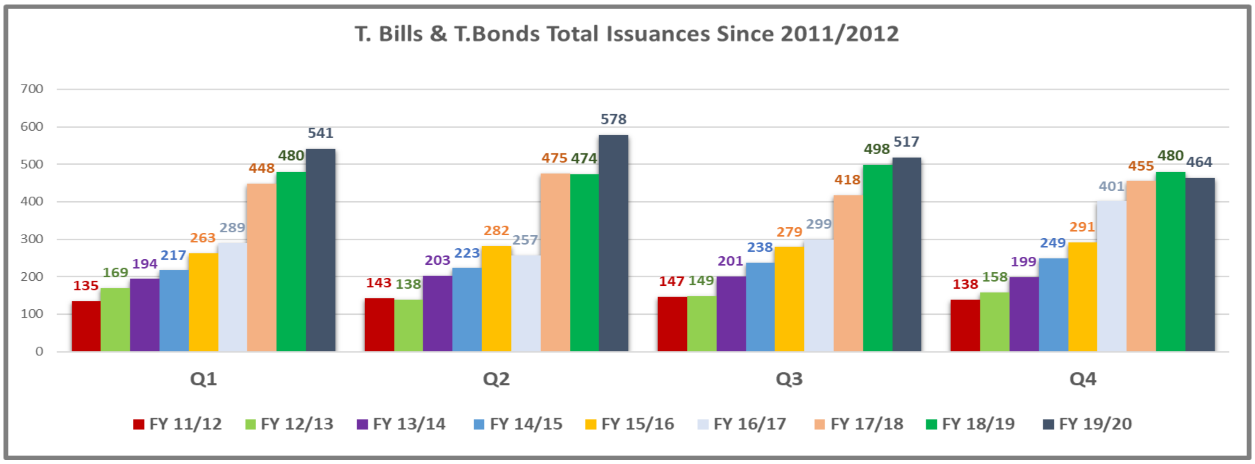
[8] Foreign Participation percentage decreased in June 2020 due to COVID-19 Pandemic but Ministry of Finance started to recover from this decline and in Sep 2020, this percentage started to increase and reached 8.8% of total domestic issued Gov. Securities.

2. Increasing the number of re-openings for each security to raise outstanding amount to above EGP 25 billion for -bonds with similar terms; a requirement for inclusion in the Government Bond Index for Emerging Markets (GBI EM Index);

3. Organizing the issuance schedule to avoid the crowding out of securities through alternating the issuance week for 3- and 7-years T-bonds along with 5- and 10-year T-bonds. Both 2- and 15-years bonds are issued once every month. A similar approach is followed for T-bills by issuing 3- and 9-month bills on one day, while 6- and 12-month bills are issued on a different day.

- During FY 2019/20, MoF (through Primary Market operations) issued domestically a total amount of EGP 2,099 billion tradable securities (EGP 1844 billion T-Bills, EGP 256 billion T-Bonds).

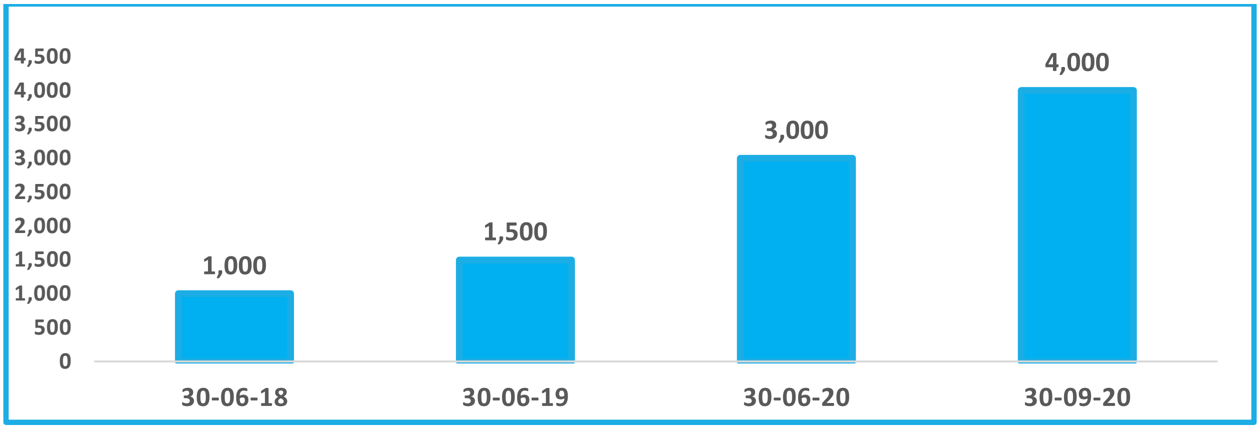
Figure 10: Total Issuances in Domestic Primary Market (EGP billion)



- During FY 2019/20, MoF issued domestically around EGP 3,477.9 billion worth of government securities (EGP 2389.6 billion T-Bills and EGP 1088.3 billion T-Bonds).

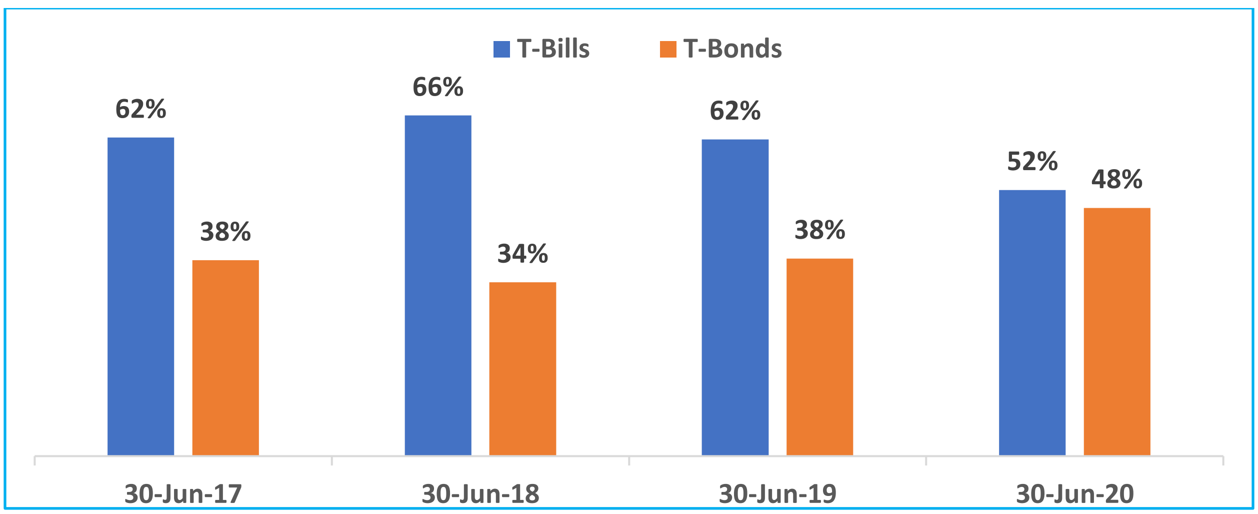
- One of the government's key objectives is to lengthen the maturity structure of domestic debt, as well as to consolidate a properly upward domestic yield curve to reduce the government refinancing risk by enabling maturities lengthening. The Ministry of Finance succeeded in meeting this objective by moving gradually to a larger volume of issuances and re-openings of longer-dated treasury bonds. As of end September 2020, the T-Bonds average issuance size increased 4 times per auction compared to the average size back in FY 2017/18 (See figure 11).

Figure 11: T. Bonds Issuance size per Auction in Domestic Primary Market (in EGP millions)



- The Ministry of Finance also succeeded to increase ratio of outstanding T-Bonds relative to T-Bills by consistently increasing the issuance of long-term maturities. As of June 2020, the outstanding stock of issued T-Bonds reached 48% of total government securities issued compared to 52% for T-Bills, compared to 38% and 62% respectively back in June 2019. (figure 12).

Figure 12: T-Bills ratio to T- Bonds Outstanding



- While the exerted efforts to support the development of the government securities market have led to an increase in secondary market transactions, these efforts will be maintained and enhanced to ensure a liquid and efficient secondary market for Egypt government securities (both T-bills and T-bonds).

- The objective is to keep refinancing risk at manageable levels. The DMU's operations have resulted in gradually lengthening the ATM of the total tradable debt outstanding (based on currency rather than residency for the external debt portion).

Cost and Risk of Budget Sector Tradable Debt as well as Bilateral & Multilateral External Debt

Table 5: Cost and Risk Indicators of total Debt included in MTDS section (at end June 2020)[9]

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of EGP)		1,519,130.5	3,000,055.9	4,519,186.4
Amount (in millions of USD)		93,747.4	185,137.2	278,884.7
Nominal debt as percent of GDP		26.1	51.5	77.6
PV as percent of GDP[1]		26.1	51.5	77.6
Cost of debt[2]	Interest payment as percent of GDP[3]	1.1	5.7	6.8
	Weighted Av. IR (percent)	1.4	11.1	8.8
Refinancing risk[2]	ATM (years)	8.3	1.9	4.3
	Debt maturing in 1yr (percent of total)	16.6	52.0	38.6
	Debt maturing in 1yr (percent of GDP)	5.2	26.8	32.1
Interest rate risk[2]	ATR (years)	8.3	1.9	4.3
	Debt refixing in 1yr (percent of total)	16.6	52.0	38.6
	Fixed rate debt incl T-bills (percent of total)	100.0	100.0	100.0
	T-bills (percent of total)	12.1	59.8	41.7
FX risk	FX debt (percent of total debt)			33.6

Source: MTDS output

1. It is noteworthy that nominal interest rate of all domestically issued securities include 20% withholding tax.
2. Classification of domestic and external debt in the MTDS is based on currency domination, As External Debt includes T-Bills and T-bonds issued in the domestic market and denominated in USD and Euro €, bilateral and multilateral loans as well as the international issuances of Eurobonds, and Domestic Debt includes all securities issued in EGP. **This definition is used in this report for analytical purposes to be aligned with World Bank guidelines.**
3. All discounted instruments (T-Bills and Zero-Coupon Bonds) in MTDS Model are inserted in Present Values ***to be aligned with World Bank guidelines.***
4. The above ATM & ATR figures were driven from the MTDS CBG-IMF Analytical toll. For simplicity all T-Bills are considered to mature in the first fiscal year of the strategy, being associated to ATM of 0.5 years.
5. 100% of Egypt's tradable debt (both domestic and external) carries a fixed interest rate.
6. The share of debt carrying an interest rate to be re-fixed within one year is 38.6 % (52 % for domestic debt and 16.6 % for external debt).
7. One reason for the large percentage of domestic debt maturing within one year is due to the issuance of USD and Euro denominated T-bills (with one-year maturity that is rolled over) first issued back in 2012. Although these foreign currency denominated bills are issued and held in domestic market, they represent an exposure to foreign exchange risk. This definition is used in this report for analytical purposes to be aligned with the World Bank guidelines.

[9] MTDS tool doesn't include Notes issued for CBE, Revaluation Bonds & Housing Notes (See Annex 3)

Sources of Financing

Domestic Sources of Funding

- The DMU gradually succeeded in lengthening the average life of the debt to reduce refinancing risk, although achieving this outcome has been challenging due to relatively a concentrated investor base dominated by the banking sector, which often invest in shorter-term instruments and was further augmented by having inverted yield curve during period 2017-2019. Banks relative desire to invest in shorter maturities is due to the short-term nature of their deposit base, which direct and encourage them to invest in short-term instruments to avoid asset and liability mismatches.

- The challenges related to domestic borrowing include further diversifying the investor base and extending the share of non-banking financial institutions; developing the secondary market, increasing the issuance of bonds with longer tenors and adding new instruments to deepen the market. MoF plans to continue its fiscal consolidation program to further reduce the relative size of the government's borrowing needs and to ensure that more funding is directed to other economic agents.

External Sources of Funding

- Public external debt consists of the external portion of long-term indebtedness incurred directly by the Central Government, external long-term indebtedness incurred by Economic Authorities and Service Authorities and private sector non-guaranteed debt. For the purpose of this analysis MoF focuses on central government external debt only.

- Tradable external debt is focused on market-oriented funding through the issuance of Eurobonds in the international capital markets according to prevalent market rates. The Eurobonds outstanding is composed of issuances denominated in USD dollars and Euros (with nominal value equal to USD 28.5 billion). The following graph shows maturity profile of the Global Bonds as of June 2020, which are also listed in the following table.

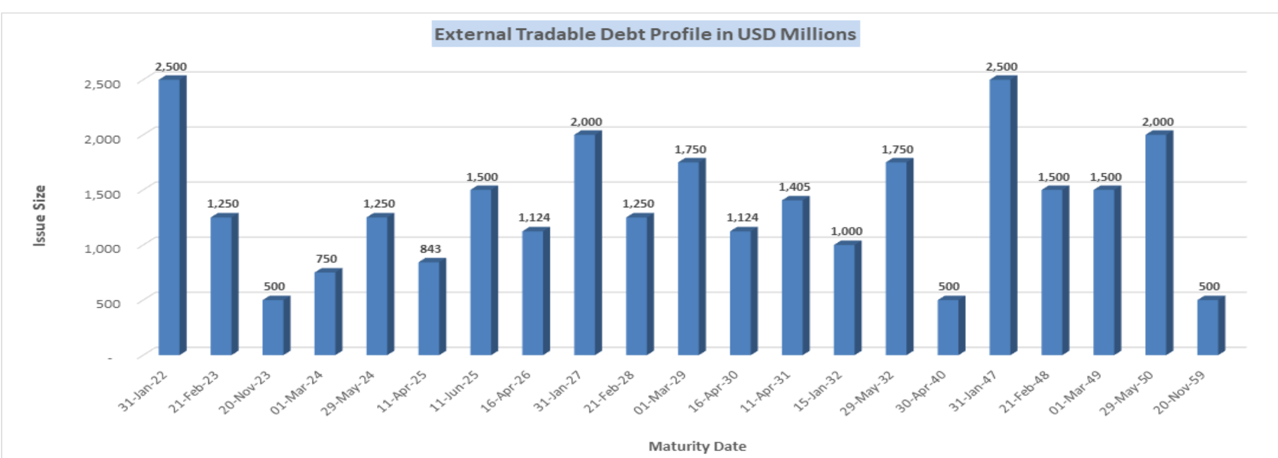


Figure 12: External Tradable Debt Profile by end of FY 2019/2020

Table 6: List of Euro-bonds Issuances (at the end of June 2020)

Outstanding International Government Bonds				
Issue Date	**Issue Size**	**Coupon**	**Maturity**	**S&P Rating**
		(% per annum)		
31 January 2017	U.S.D1,750,000,000	6.125	31 January 2022	n/a(1)
29 May 2017(2)	U.S.D750,000,000	6.125	31 January 2022	n/a(1)
21 February 2018	U.S.D1,250,000,000	5.577	21 February 2023	B-
20 November 2019	U.S.D500,000,000	4.5500	20 November 2023	B
26 February 2019	U.S.D750,000,000	6.2004	1 March 2024	B
29 May 2020	U.S.D1,250,000,000	5.750	29 May 2024	B
11 April 2019	€750,000,000	4.750	11 April 2025	B
11 June 2015	U.S.D1,500,000,000	5.875	11 June 2025	B-
16 April 2018	€1,000,000,000	4.750	16 April 2026	B-
31 January 2017	U.S.D1,000,000,000	7.50	31 January 2027	n/a(1)
29 May 2017(2)	U.S.D1,000,000,000	7.50	31 January 2027	n/a(1)
21 February 2018	U.S.D1,250,000,000	6.588	21 February 2028	B-
26 February 2019	U.S.D1,750,000,000	7.6003	1 March 2029	B
16 April 2018	€1,000,000,000	5.625	16 April 2030	B-
11 April 2019	€1,250,000,000	6.375	11 April 2031	B
20 November 2019	U.S.D1,000,000,000	7.0529	15 Jan 2032	B
29 May 2020	U.S.D1,750,000,000	7.625	29 May 2032	B
30 April 2010	U.S.D500,000,000	6.875	30 April 2040	BB+
31 January 2017	U.S.D1,250,000,000	8.500	31 January 2047	n/a(1)
29 May 2017(2)	U.S.D1,250,000,000	8.500	31 January 2047	n/a(1)
21 February 2018	U.S.D1,500,000,000	7.903	21 February 2048	B-
26 February 2019	U.S.D1,500,000,000	8.7002	1 March 2049	B
29 May 2020	U.S.D2,000,000,000	8.875	29 May 2050	B
20 November 2019	U.S.D500,000,000	8.1500	20 November 2059	B
		Source: Ministry of Finance		

Notes:

(1) These notes are not rated by S&P but have been assigned a rating of B3 by Moody's and B by Fitch.

(2) Notes issued as a tap issuance.

- **The Euro bond issuances for the base year of analysis (FY 2019/2020) were as follows:**

In November 2019, the Republic issued its USD 0.5 billion 4.55 % Notes due 2023, USD 1 billion 7.0529 % Notes due 2032- and USD 0.5 billion-8.150 % notes due 2059 under the GMTN Program. Each Series of these Notes is listed on London Stock Exchange.

- For November 2019 transaction, order book surged to peak at over USD 14.5 billion with a cross-section of high quality global institutional investors allowing pricing compression of 45 basis points across the tranches. The transaction saw price inside the curve with a new issue premium of circa -10 basis points. Egypt succeed to issue the longest-ever 40-year bond issued out of the Middle East and Africa highlighting high investor confidence in Egypt's risk outlook.

On 21st May 2020, Egypt reopened the Debt Capital Markets for Africa after the Covid-19 outbreak by successfully raising USD 5 billion representing its largest ever-single issuance to date. Comprising USD 1.25 billion 5.750 % Notes due 2024, USD 1.75 billion 7.625 % Notes due 2032- and USD 2.0 billion-8.875 % Notes due 2050 under GMTN Program. These Notes are listed on the London Stock Exchange.

- The transaction saw strong bidding from investors that showed confidence in the Egyptian economy as orderbooks peaked at USD 21.5 billion, which allowed for an upsize to USD 5 billion from the initial expected size of USD 3-4 billion. This was the largest ever orderbook for Egypt and the largest for any African sovereign issuer. The transaction saw an impressive 50 basis points tightening from IPTs to price flat to circa 10 basis points over fair-value.

Bilateral and multilateral loans

- Most of the central government's external debt comprises Paris club bilateral debt and loans from multilateral institutions and is therefore characterized by its medium to long-term duration as well as concessional rates. These loans are mainly used to finance specific investments and development projects (e.g. loans from the World Bank, the Islamic Development Bank and the African Development Bank).
- Egypt's and MoF ability to access finance from multilateral and bilateral institutions lowered its cost of funding and widened the options available to meet its financing needs. The availability of these sources of funding and Egypt's ability to tap international markets enables the Government to meet and cover its financing needs efficiently and effectively.
- Bilateral and multilateral loans reached about USD 44.7 billion as at 30 June 2020 compared to about USD 37.5 billion as of end June 2019 and USD 33.1 billion as of end June 2018.

International Monetary Fund (IMF)

- In November 2016, the Executive Board of the IMF approved a three-year Extended Fund Facility (EFF) for Egypt worth 8.597 billion Special Drawing Rights ("SDRs") (approximately USD 12 billion). The EFF aimed at supporting the Government's economic reform program and to help restore macroeconomic stability and promote inclusive growth. The approval of the EFF allowed for the immediate disbursement of SDR 1.970 billion (approximately USD2.75 billion).
- In July 2017, the IMF completed its first review under the EFF, which permitted the disbursement of the equivalent of SDR 895.5 million (approximately USD 1.25 billion).
- The second review under the EFF was completed in December 2017, which permitted the disbursement of the equivalent of SDR 1.4 billion (approximately USD2.0 billion).
- The third review under the EFF was completed in June 2018, which permitted the disbursement of the equivalent of SDR 1,432.8 million (approximately USD2.0 billion). The disbarment of this amount brought total disbursements under the EFF to SDR 5,731.1 million (approximately USD 8.1 billion) at that point.

- On 4th February 2019, the Executive Board of the IMF completed the fourth review under the EEF, which permits the Egyptian authorities to draw the equivalent of SDR 1,432.8 million (approximately USD2.0 billion), bringing total disbursements to SDR 7,163.8 million (approximately USD10.0 billion).

- On the 16th of May 2019, The Executive board of the IMF completed the fifth and last review for the three year EFF, which permitted the disbursement of the last tranche worth of SDR 1,432.76 million (about USDD 2 billion), bringing total disbursements under the program to about USD12 billion. The bold macroeconomic reforms implemented under the government's reform program, supported by the 2016-19 EFF, were successful in achieving macroeconomic stabilization and addressing large external and domestic imbalances.

- On May 11th 2020, The Executive Board of the IMF approved Egypt's request for emergency financial assistance worth SDR 2,037.1 million (USDD 2.772 billion, 100 % of Egypt's quota at the International Monterey Fund) under the Rapid Financing Instrument (RFI) to meet the urgent balance of payments needs stemming from the outbreak of the COVID-19 pandemic. Purchase under the RFI entails exceptional access. The RFI helped the country to alleviate some of the most pressing financing needs, including for spending on health, social protection, and supporting the most impacted sectors and vulnerable groups.

- On June 26th, 2020, The IMF Executive board approved a 12-Months SDR 3.76 billion (about USD 5.2 billion which is equivalent to 184.8 % of Egypt's quota at the International Monterey Fund) Stand-By Arrangement for the government of Egypt to address balance of payments financing needs arising from the COVID-19. The authorities' economic policy framework, supported by the SBA, aims to maintain Egypt's macroeconomic stability with priorities to: (i) protect necessary social and health spending while avoiding an excessive build-up of public debt; (ii) anchor inflation expectation and safeguard financial stability while maintaining a flexible exchange rate; and (iii) implement key structural reforms to strengthen transparency, governance, and competition.

- The approval of the SBA allowed for the immediate disbursement of about USD2 Billion. Semi-annual program reviews based on end-September 2020 and end-March 2021 test dates would be carried out.

World Bank (WBG)

- In December 2015, the Government and the World Bank Group approved the Country Partnership Framework 2015-19. The adopted framework was based on the Government's medium-term strategy and national priorities for economic development. Throughout Egypt Economic reform program, Egypt received a total of USD 3.150 billion which were disbursed in December 2016 (USD1.0 billion), December 2017 (USD1.150 billion) and December 2018 (USD1 billion), each of which was disbursed to support the Government's economic reform program.

- On May 17th 2020, The World Bank approved USD50 million for Egypt as an emergency response under the World Bank Group's new Fast Track COVID-19 Facility — a global effort to help strengthen the COVID-19 response and shorten the time to recovery. The project funds were directed to support (1) procuring and distributing medical equipment and supplies necessary for the COVID-19 response; (2) health worker training; (3) operations of specifically designated quarantine, isolation and treatment centers; (4) mobilization of rapid response teams in contact tracing of COVID-19 cases; (5) development of contextualized messaging platforms and tools to improve public awareness of COVID prevention; and (6) innovative Monitoring and Evaluation of social distancing strategies including community mobilization.

Baseline Macroeconomic Assumptions

- , Egypt has been progressing well with implementation of key reforms since June 2014. Efforts and implemented reforms aim to achieve high, sustainable, and diversified growth led by the private sector and at the same time address long-lasting macroeconomic imbalances and promote social inclusion. The government made clear strides toward achieving and maintaining confidence in the economy as well as safeguarding macroeconomic gains against shocks.

- The macroeconomic assumptions used in this MTDS are based on the latest projections generated by the Egyptian Ministry of Finance Macro-fiscal policy Unit (MFPU) in conjunction with the monetary authority's projections. The MFPU's medium-term fiscal framework will serve as a basis for the assumptions underlying the analysis of the base case as well as alternative medium-term debt strategies. The time horizon for all projections is four years (FY 2020/21 – 2023/24).

- The fiscal consolidation program adopted by the Ministry of Finance was a key component and ingredient of the government's plan to achieve and sustain macroeconomic stability. The plan going forward is geared toward continuing the narrowing of fiscal deficit as a percent of GDP while improving the structure of spending as well as buoyancy of revenues along while putting the central and general government debt on a firm downward path. The government's 2020/2021 budget[10] was designed (pre COVID-19) with a budget deficit target of 6.3 % of GDP, a primary surplus worth 2 % of GDP and budget sector debt worth 83 % of GDP by June 2021. This is not feasible in light of implications of COVID-19 pandemic and the government plan is to realize a primary surplus worth 0.5-0.6 % of GDP and to maintain debt to GDP ratio at around 88-89% of GDP by end of June 2021.

- The Ministry of Finance objective is to safeguard fiscal and debt suitability while creating adequate fiscal space to be used to fund human development initiatives in the health and education sectors as well as targeted social protection programs that would improve people's standard of living, ensure that no one is left behind and improve the quality of public services. Achieving these objectives along with keeping debt to GDP ratio on a declining path would bolster confidence in the economy and crowd in private sector investment.

- During FY 2016/17, the government started implementing an ambitious and comprehensive fiscal consolidation program by implementing reforms to control the wage bill; introducing significant adjustments to the subsidized prices of major energy products (reached full cost recovery by June 2019); switching to a VAT regime back in 2017 while enacting further reforms to improve income

[10] Budget was formulated and submitted to the Parliament on March 31st; before the eruption of COVID-19 pandemic and all its repercussions on the economy and public finances including the impact of Social Distancing measures and the lock-down as well as cost of adopted stimulus package.

tax, curb evasion and widen the tax base; increasing the excises on alcoholic beverages and tobacco; and amending the property tax law.

- The budget for FY 2019/20 included additional fiscal consolidation measures that were expected to bring the fiscal deficit down to 7.2 % of GDP, however, outbreak of COVID-19 pandemic, necessitated support measures that derived the government to increase expenditure directed to the vulnerable and most affected as well as to support domestic economic activities. Despite such proactive supporting measures, the Ministry of Finance still succeeded to realize one of the highest primary surpluses across the globe reaching 1.8% of GDP in FY 2019/2020 despite the substantial costs related to COVID-19 pandemic.

- Fiscal reforms are positively contributing to the improvement of macroeconomic fundamentals and the return of confidence, thus enabling the expansion of domestic and foreign private sector activity. Despite the unfortunate spread of the pandemic that led to the slowdown of global economic activity; and posed a burden on the state budget, whereby demanding extraordinary spending to address the challenges and setbacks brought about by the pandemic, the Egyptian economy showed great resilience and strength. Egypt had also recorded one of the highest real GDP growth rates globally at 3.6% in FY 2019/2020

Table -7: Key Macroeconomic Indicators[11]

	2019/20 Actuals	2020/21 Approved Budget	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
Real GDP growth Rate (%)	**3.6**	**4.5%**	**5 - 6% [12]**		
Nominal Interest Rate on issued government securities (%)	**14.1%**	**13.5%**	**12.8%**	**12%**	**11.5%**
Brent Prices (USD per barrel)	**51.5**	**61**	52	54	56

[11] For the purpose of carrying out the MTDS exercise, the strategy uses the Central Bank of Egypt official inflation target announced of 7% +/- 2%.

[12] These estimates are preliminary and are used to run the MTDS exercise, but they are currently being revised by the Ministry of Planning and Economic development.

Table 8: Egypt: Government Budget sector Projections (Percent of GDP)

% of GDP	2019/20 Actuals	2020/21 Approved Budget	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast
Interest Expenditure	9.8%	8.3%	7.8 %	7.2-7.4%	6.7-6.8%
Primary Surplus	1.8%	2%	1.5-2%	2%	2%
Overall Deficit	7.9%	6.3%	6.2-6.4%	5.2-5.3%	4.3-4.4%
Budget sector Debt	87.5%	83%	86-87%	83.5%	80.5%

Source: Ministry of Finance

Market Developments

Debt Market Reforms:

The Debt Management Unit (DMU) is adopting a comprehensive reform approach regarding the domestic capital market in collaboration with other key stakeholders including the Central Bank of Egypt (CBE),the Financial Regulatory Authority (FRA), the Egyptian Stock Exchange (EGX), Misr for Central Clearing, Depositary and Registry (MCDR) and the primary dealers. The approach is to tackle two main reform programs listed as follows:

- ***Primary Market Reforms***: Amend the legislative framework to reflect a balanced scheme for the incentives and the obligations of the primary dealers. For example; encouraging the use of primary dealers to play the role of market-makers for the distribution of government securities.
- **Secondary Market Reforms**: Continue developing secondary debt market with a focus on enhancing competition and reducing financing cost. Such developments include: (i) market architecture reforms, including setting and identifying issuance obligations on primary dealers to improve price transparency; (ii) measures to encourage new market participants, including allowing a second tier of market participants in the secondary market for government securities along with the introduction of incentives and utilizing penalties; (iii) the introduction of a new electronic trading platform and improving the existing system; (iv) the introduction of additional secondary market products to encourage repo activity and to enhance liquidity in the fixed income market; and (v) the adoption of a new clearing system for clearing and settlement activities.

Euroclearability of Egypt's Government Securities (in the domestic currency) :

- The purpose of making Egypt's debt securities available on Euroclear platform in Egyptian Pound, is to reduce the domestic cost of borrowing for Egypt by:

  - attracting big ticket size investors (such as global central banks)

  - increasing the demand side and the liquidity by expanding the investor base, especially risk-averse investors who consider Euroclear a safe gateway to enter new market that conform with to international standards.

- Connecting the Egyptian debt securities with Euroclear platform is a multi-dimensional project, whereby a market study has been rolled out together with a gap analysis to identify the road map for Egypt regarding the set of requirements that should be applied, such as the legislative changes, market model adjustments, technological advancements, and operational requirements.

- Consequently, the Ministry of Finance has signed a Memorandum of Understanding (MOU) with Euroclear in April 2019 to start the connectivity project followed by signing the Term sheet in October 2019 that depicts the action plan and the respective timeline for the project.

- So far, good progress has been made and two major mandatory legislative changes were finalized, namely; the amendments of the Central Bank Law and the Settlement Law, which were approved by the Parliament during Q4 2020.

- On the market model adjustment front, MOF together with the CBE are in the process of finalizing the establishment of the new CSD that will combine the post trading activities of the T-bonds and T-bills under one umbrella following the international best practices. In parallel, MOF is working very closely with Euroclear to continue the implementation of the remaining market model requirements.

- Simultaneously, MOF has started with the technological and operational requirements in alignment with the Central Bank of Egypt, the Egyptian Stock Exchange and the Euroclear team.

- MOF is committed to continue this project and to follow the action plan to conclude the connectivity hopeful in 2021.

JP Morgan Index Inclusion:

- In 2019, MOF initiated the conversation with JP Morgan to include Egypt's domestically issued bonds in the JP Morgan Index and specifically in the "Government Bond Index for Emerging Markets" (GBI EM Index). The inclusion in this index is subject to specific criteria that Egypt must conform to in order to be considered in the index.

- So far Egypt has met all the requirements, including the country criteria, the market access criteria and the final requirement of elongating the average debt age. In this respect, MOF has been diligently working on that and was able to achieve net issuance of bonds worth around 80% during the past few years and more than 75 % since the beginning of the current FY 2020/21 along with the introduction of new tenors; such as the 2 years and the 15 years.

- MOF is in continuous communication with the JP Morgan team to update them about macroeconomic developments, latest debt market indicators along with latest fiscal performance indicators. These data all point to a bullish and positive sentiment about the Egyptian economy.

Key Risk Factors

- There are upside risks along with notable opportunities stemming from the successful implementation of the government's fiscal consolidation policies and structural reforms. Several sectors such as energy, manufacturing, mining, construction, and telecom have promising prospects. Mega and large-scale investments have already returned to the energy sector and accelerated production enabling Egypt to realize a balanced energy trade balance. Although there have been recent episodes of volatility with respect to the emerging markets as an asset class, in Egypt's case, portfolio investment returned more strongly than anticipated thanks to reforms that renewed confidence and entrenched macroeconomic stability.

- The government is also aware of possible downside risks related to the macroeconomic outlook that may impact the growth potential. These include implications of COVID-19 pandemic and its global and regional negative macroeconomic implications, deterioration in the balance of payment position, worsening global conditions along with global economic slowdown, global trade wars, and increase in global uncertainty and volatility that drive higher interest rates that put a pressure on cost of servicing debt. The materialization of these risks, whether singly or in combination, is likely to affect Egypt's growth prospects, put pressure on debt and debt servicing indictors, and increase the cost of domestic and/or external borrowing.

- Taking into account the ongoing economic reform program, the associated economic resilience, the consequent pick up in domestic growth rates, primary dealers intended reforms, increase in the issuance size at longer maturities, Euroclearablility, the inclusion in JP Morgan Index as well as the issuance of new instruments in both the domestic market "2 Yrs.-15 Yrs.-Sukuk" & the external market "such as Green-Bonds", our medium term debt targets can be maintained possible shocks :

  - **Bring down the budget sector debt to GDP to almost 80% by June 20247.**
  - **Extend the "ATM" to more than 5 years by end of June 2024.**
  - **Decrease gross financing needs to below 30% of GDP by end medium-term.**
  - **Increase the ratio of tradable debt to non-tradable debt to reach almost 80% by June 2024.**

- The MTDS AT enables the simulation of different strategies to forecast "Nominal interest as a share of GDP, Debt to GDP, and External debt to GDP". It also helps assessing possibility of achieving key debt and debt servicing targets by designing alternative strategies.

Alternative Financing Strategies

- Alternative financing strategies reflect various means and scenarios that can allow financing a specific gross borrowing requirement level, including sources of financing and associated impact on the ratio of new external and domestic debt borrowed throughout time the time horizon of the analysis (From FY 2020/21 to 2023/24).

- Based on the MTDS Tool ability to simulate different alternative scenarios, outcomes can then be compared to assess various risk and cost indicators associated with simulated strategies. The following four strategies have been identified and complied using MTRS AT tool:

1. **Strategy 1:** Baseline Strategy:
    - Continue current borrowing practices (Increase relative size of T-bonds issuances including issuing longer maturities)
    - 67% of Gross Financing needs to be raised from domestic sources.
    - 33% of Gross Financing needs to be raised from foreign sources (including rollover of USD & Euro bills & Bonds issued in the domestic market).
    - Regular issuance of 2- and 15-years annual coupon bonds

2. **Strategy 2**: Reliance more on foreign borrowing
    - Increase foreign currency debt to 50%
    - Regular issuance of 2- and 15-years annual coupon bonds

3. **Strategy 3**: Reliance more on longer term domestic Issuances
    - 90 % of financing needs are raised from domestic sources with relatively more reliance on T-bonds (all maturities including 3,5 ,7 and 10 years as along with the newly issued 2 and 15 years).
    - 10% only of financing needs are raised from external/foreign sources
    - Regular issuance of 2- and 15-years annual coupon bonds

4. **Strategy 4 (extreme case)**: Reliance more on short term domestic issuances
    - 95 % of borrowing needs are from domestic sources but mostly in short-term T-bills.
    - 5 % of borrowing needs are for external/foreign sources.

Shock Scenarios

- Within the framework of the MTDS, the DMU assessed also the cost-risk implications of alternative financing strategies under several shock scenarios. Shock scenarios include an increase in interest rates and exposure to foreign exchange rate risks (changes in foreign currency).

Cost-Risk Analysis of Alternative Debt Management Strategies

- The quantitative analysis conducted by the MTDS module captures the performance of alternative strategies under the baseline scenario and stress tests (shocks). Six cost measures are calculated:
  1. Nominal interest as a share of GDP;
  2. Debt to GDP;
  3. PV to GDP;
  4. Cost of interest to revenue;
  5. External debt to GDP;
  6. External debt service to international reserves.

Strategy Simulation Results

The risk for a given financing strategy is the difference between its cost under the baseline scenario and a risk scenario (i a shock scenario relative to the baseline). The scenario that generate the greatest impact in terms of the cost indicator as calculated for the baseline scenario is the one used in each of the strategies to illustrate the risk associated to these strategies. For the purposes of comparison, the focus would be on the outcome at the end of the four years simulation horizon that is for FY 2023/24. The results of this exercise are illustrated below:

1. Cost-Risk indicator:

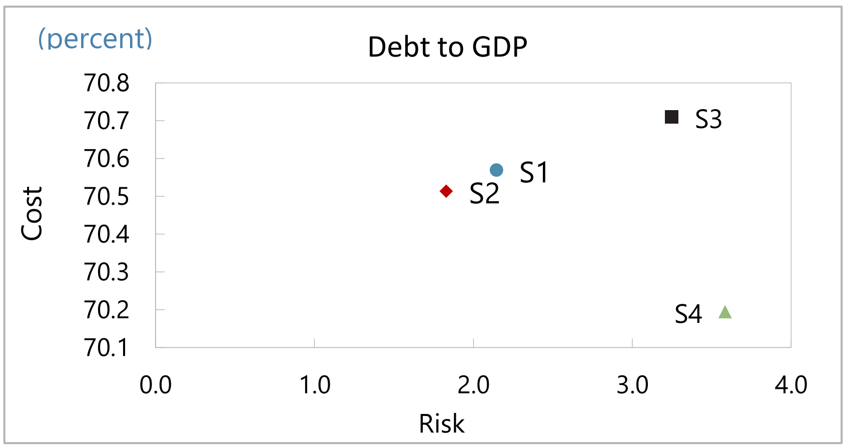
COST-RISK INDICATORS - Baseline Scenario

Risk Indicators		2020	As at end 2024			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		77.6	70.6	70.5	70.7	70.2
Present value debt as percent of GDP		77.6	69.8	69.7	69.9	69.4
Interest payment as percent of GDP		6.8	5.8	5.4	6.5	6.2
Implied interest rate (percent)		8.8	8.8	8.2	9.9	9.1
Refinancing risk2	Debt maturing in 1yr (percent of total)	38.6	28.2	27.4	16.2	72.2
	Debt maturing in 1yr (% of GDP)	32.1	19.9	19.3	11.4	50.7
	ATM External Portfolio (years)	8.3	10.3	10.8	9.2	10.6
	ATM Domestic Portfolio (years)	1.9	3.3	3.2	5.4	0.8
	ATM Total Portfolio (years)	4.3	6.6	7.8	6.3	3.1
Interest rate risk2	ATR (years)	4.3	6.6	7.8	6.3	3.1
	Debt refixing in 1yr (percent of total)	38.6	28.2	27.4	16.2	72.2
	Fixed rate debt incl T-bills (percent of total)	100.0	100.0	100.0	100.0	100.0
	T-bills (percent of total)	41.7	17.3	17.6	6.1	65.3
FX risk	FX debt as % of total	33.6	47.1	60.2	26.6	24.8

The above table shows the main cost-risk indicators for the four identified and compiled strategies. The first strategy imply that nominal debt covered under the MTRS exercise would come down from 77.6% by end June 2020 to 70.6% by end June 2024, whereas interest payment as percent of GDP would come down to 5.8 percent of GDP. The Average time to maturity for total portfolio would reach 6.6 years and debt re-fixing within one year would record 28.2% due to the gradual shifting to longer tenors compared with the current percentage worth 38.6% as of 30 June 2020. Even though debt to GDP ratio can come down further under other strategies, Strategy 3 and 4 would lead to higher debt servicing bill and hence limit the fiscal space available for MoF. Also, the fourth strategy would lead to shorter debt profile which is against the target set in this MTDS related to extending debt maturity

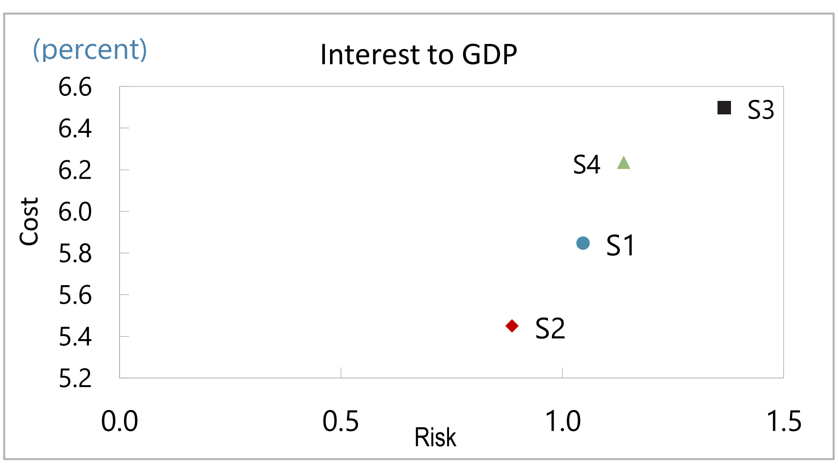
-The above ATM & ATR figures are calculated by MTDS AT as it considers Bilateral & Multilateral loans as well as all T-Bills maturing after 1 year.

2. Debt to GDP:



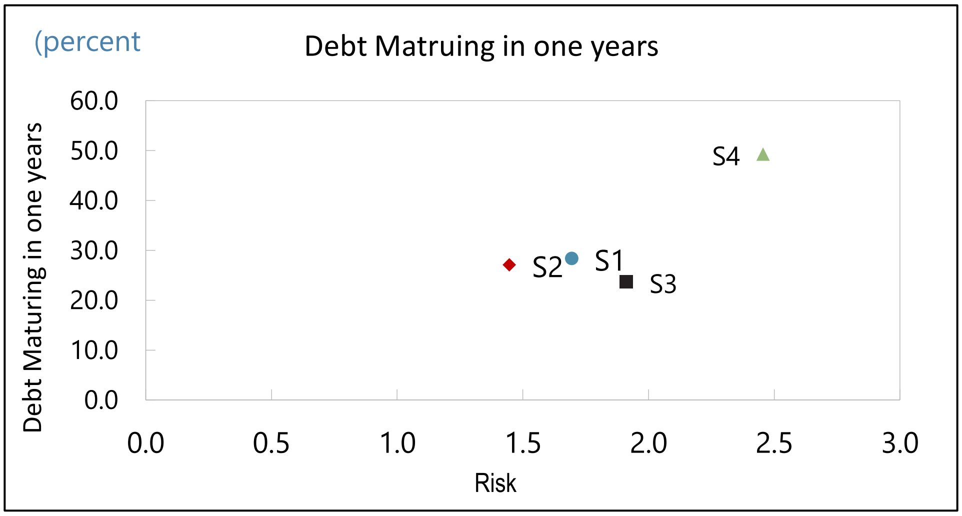
Based on the alternative simulated debt strategies, the first strategy (S1) correspond to Debt to GDP ratio worth 70.6% by end June 2024 yet it is less risky than the third and fourth strategies. Although the second strategy (S2) would seem to be the best outcome, yet it is not the optimal due to the high FX risk associated with it and it can exhaust available capacity of tapping international capital markets.

3. Interest to GDP:



Under S1, the interest to GDP ratio would be 5.8% whereas such cost ratio would be higher for S3. As depicted by the graph one can notice that S1 yield better outcomes than S3 and S4. S3 imply that 90 % of issuances are sourced from domestic market with longer tenors causing a higher interest payment. Also, S4 would lead to higher FX risks.

4. Debt Maturity



The above graph indicate that S4 would yield the worst debt profile over the medium term with almost 51 of maturing debt happening within one year.

5. Redemption Profile:

Concluding Remarks and the Way Forward

- **Based on key targets identified under this version of Medium-term Debt Strategy, the debt management unit identified strategy -1 as the most optimal, balanced and feasible strategy to be adopted.** MoF and the DMU has been adopting such strategy since beginning of the current fiscal year. This should enable MOF to continue its efforts to gradually extend its debt profile by issuing relatively more long-term instruments (T- Bonds). The adopted strategy is taking place through new issuance and/or re-openings of long-term instruments in order to lengthen the average debt maturity as well as to consolidate the government securities yield curve. These efforts should help to reduce the current refinancing risk. In addition, the adopted strategy encompasses a balanced approach of diversifying sources of financing between domestic and external sources. This balance approach would enable MoF to have more flexibility ad room to maneuverer against any possible shocks and deviations. Also, this would allow introducing new instruments both at the local and external markets. This includes the issuance of new instruments such as "sukuk", Green bond, Corridor-linked bonds and inflation-linked bonds to finance budget sector financing needs as well as widen and diversify Egypt's investor base which in turn should bring down debt servicing bill and cost.

- **To support the market development and to move to a more transparent and visible phase, four steps related to the issuance plan should continue to be pursued:**

1. Focus on a limited number of benchmark maturities, that is, the 2,3, 5, 7 and 10 and 15 years, possibly issuing longer maturity as new benchmark such as 20 Yrs. T-Bonds once yield normalize.

2. Increase the number of re-openings of each security to raise the target amount outstanding to approximately EGP 20-25 billion per T-Bond.

3. In order to avoid maturities' crowding, maturities are organized to be issued every other week: 3- & 7-years T-Bonds are issued on the same day, while 5 & 10 years are issued on the following Monday. The issuance of 2 and 15 years is done once a month and taking into consideration not to crowd out maturities.

4. T-bills auctions days are also organized to avoid crowding out among the competing maturities. Therefore, 6- and 12-months securities are issued on Thursday, 3 and 9 months are issued on Sunday, while T-Bonds issuance will take place on Mondays.

- The government plans is to also raise funds from the international capital markets worth around USD 3-5 billion on a yearly basis throughout projected horizon (up to end of FY 2023/24). This is a realistic scenario given that the Egyptian government has two available programs to issue global *international bonds* : the GMTN - Global Medium-Term Note Program for Eurobonds issuances up to USD 30 billion and the EMTN – Euro Medium Term Note program for Eurobond issuances up to USD 12 billion.

Contingent Liabilities' Policy

- As part of the debt management strategy, MOF is currently closely monitoring issued sovereign guarantees as well as requested ones as it represents a contingent liability on the Government budget sector and the treasury.
- At the same time, the Economic Affairs department headed by Deputy Minister of Finance, is taking an active role in reviewing all requested guarantees and negotiating its terms as well as reviewing the availability of the required information and approvals and reviewing the entire process of issuing and monitoring guarantees. The Ministry of Finance is currently working to undergo needed capacity building required to enable an optimal guarantee issuance and review process including full credit and risk analysis. During 2020, a course was organized with the IMF on assessing risks of State-Owned Enterprises (SOEs) and analyzing capital projects. Another one is being planned with the World Bank Group to support the formulation of a comprehensive framework for managing government guarantees and for the introduction of analysis of credit risk of guarantee portfolio through the application of the scenario analysis This should be done in tandem with due consideration as to how to best enable the borrowing entities to implement the needed forward looking assessment with the aim of confirming the latter's ability to generate enough cash flows to settle the loan.
- The Ministry of Finance is currently working to reformulate the risk assessment process embedded in its guarantee policy to reflect a portfolio management approach and in tandem with the existing approach focused on analyzing specific SOEs.
- The Ministry of Finance is also at advanced stage of revising and improving the Ministry of Finance guarantee policy including the establishment a special unit at the Ministry of Finance to manage the issuance and monitoring of government issued guarantees.
- In addition, the Ministry of Finance added a section on fiscal risks in its annual financial budget statement sent to the Parliament that is published in the beginning of fiscal years. This report also shows developments of total issued guarantees over the past 4 year.

State owned Enterprises

- The Ministry of Finance published on its website in September 2020 and for the second consecutive year a detailed report on the financial performance of state-owned enterprises along with information about their governance structure, board members, implemented and planned reforms as well as net relation with the Treasury[13]. This was a key reform implemented under Egypt home grown economic reform program supported by International Monetary Fund. This reform aimed at enhancing transparency of SOE sector.

[13] The link to the report can be found at MOF website through the following link:
http://www.MoFgov.eg/Arabic/%D8%B9%D9%86%D8%A7%D9%88%D9%8A%D9%86%20%D8%B1%D8%A6%D9%8A%D8%B3%D9%8A%D9%87/Pages/Financial_performance_report15-16_18-19.aspx

- In addition, the Ministry of Finance published final accounts data including financial performance data for all economic authorities for FY 2018/19 including their net relation with the budget. [14] It is worth mentioning that economic authorities detailed annual budgets are sent to the Parliament for discussion and approval and are subject to within the year budget oversight by various Parliamentary committees as well as its final accounts are thoroughly reviewed and discussed by the parliament.
- Transparency and accountability have been advanced on many fronts, including through publishing detailed budget information throughout the entire budget process including publishing fiscal risks and contingency liabilities in the annual budget report sent to the Parliament along with carrying sensitivity analysis around baseline macroeconomic framework and key assumptions. ***In addition, the Ministry of Finance established few years ago a dedicated unit for fiscal transparency and citizen engagement and Egypt score at International Budget Partnership surveys and indexes has been improving substantially and consistently over the past years and is expected to continue to advance in the next round to be announced by the International Budget Partnership institution in 2021.***
- The GoE also started an ambitious IPO program in January 2019 that should help divestiture part of public assets and enhance best practices related to corporate governance.
- Egypt recently ratified a new public enterprise law (law No. 203) that introduce modern governance practices. The law was passed after years of preparations and discussions at the Parliament. The Law requires all SOEs to compile and publish regular report on their performance. In addition, the newly ratified law enhances SOEs governance structure by setting a cap on the size of allocated profits for Board of Directors and employees as well as limit ability to extend employees services beyond retirement age except if under relevant minister approval.
- The law also triggers an automatic liquation and/or merging rules if the accumulated loses of any SoEs exceed shareholders liabilities for number of years. Furthermore, the law limit the term of Board of Directors to three years, limit representation of employees at Board of Directors, allow hiring of independent qualified and experienced board members, separate the role of non-executive Chairman from the Managing director for all SoEs (holding and affiliated), authorize general assembly to change fully or partially members of the Board of Directors similar to the mechanism adopted by private companies. In addition, all companies need to prepare and submit annual reports that benchmark their compliance with governance rules.
- The Ministry of Finance would mobilize additional technical assistance from development partners to continue expanding the reporting on annual basis of SOEs financial performance

[14] The link to the report can be found at MOF website through the following link:
http://www.MoFgov.eg/MOFGallerySource/Arabic/PDF/financial_statements_and_detailed_tables_of_economic_authorities_2018-2019.pdf
http://www.MoFgov.eg/MOFGallerySource/Arabic/PDF/Financial_indicators_of_the_economic_authority_16-17_to_18-19.pdf

including key liabilities. The current and planned SOEs reforms implemented by the Government will improve the quality of SOE financial information and complement the generation of detailed SOE debt data.

Institutional Setup for Debt Management Office

- The Debt Management Unit (DMU) within the Ministry of Finance manages the state debt in the most cost-effective way possible by borrowing through domestic and international market using a variety of instruments with different features and maturities that cater for the needs of different investors. The DMU main function is to strengthening debt management in Egypt. Central and general government debt are on a declining trend since FY 2017/18 considering the bold fiscal consolidation implemented program. The Ministry of Finance is also committed to continue the reform pace and momentum to bring down debt to GDP ratio to 80 % by June 2024. In addition, the Ministry of Finance will continue the efforts to improve the structure of central government debt as well as relative size of gross financing needs in addition to enhance resilience of debt level and debt servicing to macroeconomic shocks.
- A clear institutional set-up is important for both the development and the implementation of the MTDS. In Egypt, the debt management function falls within the domain of the Ministry of Finance. According to the annual budget law, the Ministry of Finance is responsible for borrowing, whether domestically or internationally, to fund the budget deficit and to refinance existing debt. The Ministry of Finance and CBE are working closely together to deepen the development of both the primary and secondary domestic markets.
- A strong debt management function and a regularly updated and published debt management strategy will contribute to increasing confidence of market participants and rating agencies and would reduce Egypt cost of borrowing. And for the DMU to perform its functions effectively efforts are under way to enhance coordination withing the Ministry of Finance and even beyond between all key stakeholders. The DMU also hired 5 new juniors recently with economics and finance background to support work needed.

Next Steps:

- Continue efforts of gradually building the DMO centered on a strong middle office.
- Work on integrating the DMFAS team (back-office);
- Ensure further enhancement of DMO decision-making process regarding external loans choices (choice of currency and maturity) as well as work on enhancing the role of the committee responsible for issuing and analyzing state guarantees;

Annex (1)

Budget Sector Debt

Budget Sector Debt *

LE Million

	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Total Budget Sector debt	**1,639,504**	**1,902,758**	**2,274,217**	**2,784,558**	**3,748,715**	**4,315,470**	**4,801,811**	**5,094,213**
Total Budget Sector debt as % of GDP	***88.1%***	***89.3%***	***93.1%***	***102.8%***	***108.0%***	***97.3%***	***90.2%***	***87.5%***
Total Domestic Budget Sector debt	**1,442,372**	**1,697,893**	**2,082,625**	**2,570,843**	**3,124,100**	**3,470,968**	**3,856,215**	**3,989,688**
Total Domestic Budget Sector debt as % of GDP	***77.5%***	***79.7%***	***85.2%***	***94.9%***	***90.0%***	***78.2%***	***72.5%***	***68.6%***
Ministry of Finance Securities	**1,294,060**	**1,494,737**	**1,721,942**	**2,279,755**	**3,018,259**	**3,404,214**	**3,788,666**	**4,191,007**
Treasury Bills in LE	425,847	471,521	531,543	656,740	858,004	1,227,566	1,417,389	1,567,759
Treasury Bills in Dollars & Euros	57,418	63,149	64,653	159,255	327,700	319,574	221,642	200,619
Treasury Bonds	315,478	436,510	590,993	735,307	707,998	722,573	961,489	1,589,960
Treasury Bonds in foreign currency	-	-	-	-	16,791	16,599	15,099	14,582
Bonds and Notes issued to Misr and El-Ahly Banks	-	21,390	22,560	26,310	49,584	49,018	45,763	44,199
Bonds and Notes issued to CBE	222,470	222,470	222,470	371,470	693,594	662,769	678,170	675,207
Revaluation Bonds	16,360	17,860	17,860	19,360	20,860	22,360	25,060	25,060
Insurance Notes	2,000	2,000	2,000	2,000	2,000	2,000	2,000	-
Eurobonds (held domestically) 1/	4,140	4,740	6,109	8,832	18,310	36,336	52,866	73,570
Housing Bonds	106	101	92	62	46	48	50	51
SIF Bonds	219,507	233,704	254,532	298,653	323,124	345,371	369,138	-
Other	30,734	21,292	9,130	1,766	248	-	-	-
Budget Sector Debt Borrowings and Facilities	148,312	203,156	360,683	291,088	105,841	66,754	67,549	(201,319)
Total External Debt serviced by MOF	**197,132**	**204,864**	**191,592**	**213,715**	**624,615**	**844,502**	**945,596**	**1,104,525**
in US$ Millions	**28,164**	**28,732**	**25,478**	**24,370**	**34,875**	**47,351**	**56,823**	**66,750**
Total External Debt serviced by MOF as % of GDP	***10.6%***	***9.6%***	***7.8%***	***7.9%***	***18.0%***	***19.0%***	***17.8%***	***19.0%***
Bilateral Loans	**30,091**	**30,957**	**28,915**	**30,981**	**58,027**	**63,672**	**64,500**	**67,928**
Multilateral Loans	**64,584**	**70,336**	**78,598**	**106,062**	**327,925**	**459,886**	**506,697**	**612,302**
Bonds	**36,107**	**43,389**	**37,132**	**30,633**	**161,997**	**254,495**	**322,369**	**384,118**
Rescheduled Loans as of Paris Club	**66,350**	**60,182**	**46,947**	**46,039**	**76,666**	**66,449**	**52,030**	**40,177**

* Preliminary

1/ includes Eurobonds already issued in 2001, 2010, 2013. It's noteworthy that Al-Masry Certificates were added to this item starting June 2012. In addition, Eurobonds reached 4742 EGP millions in December 2014.

*Preliminary

1/ includes Eurobonds already issued in 2001,2010,2013. It's noteworthy that Al-Masry Certificates were added to this item starting June 2012. In Addition, Eurobonds reached 4742 EGP Million in December 2014.

Annex (2)

General Government Debt

General Government Debt *

LE Million

	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Total General Government Debt	**1,558,840**	**1,808,594**	**2,158,081**	**2,622,940**	**3,575,482**	**4,103,880**	**4,452,781**	**5,118,100**
Total General Government Debt as % of GDP	***83.8%***	***84.9%***	***88.3%***	***96.8%***	***103.0%***	***92.5%***	***83.7%***	***87.9%***
Total Domestic General Government Debt	**1,361,708**	**1,603,730**	**1,966,489**	**2,409,225**	**2,950,867**	**3,259,378**	**3,507,185**	**4,013,575**
Total Domestic General Government Debt as % of GDP	***73.2%***	***75.3%***	***80.5%***	***88.9%***	***85.0%***	***73.5%***	***65.9%***	***69.0%***
Consolidated Budget Sector Debt	**1,162,068**	**1,393,365**	**1,745,432**	**2,149,925**	**2,662,775**	**2,880,263**	**2,931,077**	**3,355,793**
Total Domestic Budget Sector Debt	1,442,372	1,697,893	2,082,625	2,570,843	3,124,100	3,470,968	3,856,215	3,989,688
less: budget sector loans from NIB 1/	-	-	-	-	-	-	-	-
less: MOF securities held by NIB	12,302	9,154	7,389	27,811	34,501	112,608	390,922	382,235
less: securities held by Insurance Funds	47,270	60,445	74,822	94,204	101,450	130,726	163,078	251,660
less: SIF bonds 1/	219,507	233,704	254,532	298,653	325,124	347,371	371,138	-
less: Facilities from SIF	1,225	1,225	450	250	250	-	-	-
Consolidated NIB Debt	**199,640**	**210,365**	**221,057**	**259,300**	**288,092**	**379,115**	**576,108**	**657,782**
Total domestic NIB debt	268,388	282,513	295,684	315,201	344,080	434,797	629,448	657,782
NIB borrowing from SIF 1/	68,748	72,148	74,627	55,901	55,988	55,682	53,340	-
Investment Certificates	109,402	115,403	116,811	146,259	163,493	256,016	424,560	490,734
Post Office Savings	86,382	93,376	102,297	111,044	122,271	120,771	149,220	164,720
Other	3,856	1,586	1,949	1,997	2,328	2,328	2,328	2,328
less: NIB borrowing from SIF 1/	68,748	72,148	74,627	55,901	55,988	55,682	53,340	-
Total Government External Debt	**197,132**	**204,864**	**191,592**	**213,715**	**624,615**	**844,502**	**945,596**	**1,104,525**
Total Government External Debt as % of GDP	***10.6%***	***9.6%***	***7.8%***	***7.9%***	***18.0%***	***19.0%***	***17.8%***	***19.0%***

Source: Ministry of Finance and Central Bank of Egypt

* Preliminary

1/ In light of the transparancy of the new fiscal policy, in 1st of July 2006, budget sector debt to SIF (borrowed by NIB) was stated as a direct budget sector debt to SIF.

Source: Ministry of Finance and Central Bank of Egypt

* Preliminary

1/ As of 1st of July 2006, the budget sector debt to SIF (borrowed by NIB) was stated as a direct budget sector debt to SIF.

Annex (3)

Budget Sector Debt June-2020	
Domestic Debt	***in EGP Millions***
Treasury Bills in LE[1]	**1,567,759**
Treasury Bills in Dollars & Euros[2]	**200,619**
Treasury Bonds [3]	**1,589,960**
Treasury Bonds in foreign currency[4]	**14,582**
Bonds and Notes issued to Misr and El-Ahly Banks[5]	**44,199**
Bonds and Notes issued to CBE	**675,207**
_ Notes issued for CBE[6]	591,471
_ Private placement of Euro-Bonds issued for CBE[7]	83,737
Revaluation Bonds	**25,060**
Insurance Notes	**-**
Eurobonds (held domestically)[8]	**73,570**
Housing Bonds	**51**
SIF Bonds	**-**
Other	**-**
Budget Sector Debt Borrowings and Facilities	**(201,319)**
External Debt	***in EGP Millions***
Bilateral Loans[9]	**67,928**
Multilateral Loans[9]	**612,302**
Euro-Bonds[10]	**384,118**
Rescheduled Loans as of Paris Club [9]	**40,177**
Total Budget Sector Debt	**5,769,420**

inserted in MTDS tool in PV amounted by 1,410,096 million and 1,576.63 million as interest payments
[2] inserted in MTDS tool in PV and classified as external debt
[3] T-Bonds include Zero-coupon bonds by 383,674.4 million
[4] USD Zero-coupon Bond & inserted in MTDS tool in PV and classified as an external debt
[5] USD private placement Bonds classified as external debt in MTDS tool
[6] Notes issued for CBE and Classified as Non-tradable Debt
[7] Private Placement of Euro-Bonds issued for CBE & Inserted in MTDS tool as external debt
[8] Euro-Bonds held by domestic residence, included in Euro-Bonds external debt in MTDS tool
[9] Bilateral & Multilateral are inserted in MTDS tool as external debt
[10] inserted in MTDS tool as external debt plus Private placement of Euro-Bonds issued for CBE and euro-bonds held domestically