

Dear Ms. El-Badrawi and Ms. Corkery:

I read with interest your recent article on Egypt's IMF-supported program. First and foremost, we would like to emphasize that we welcome an energetic and open discussion about issues that are so important to the well-being of so many of our stakeholders. As the IMF's mission chief for Egypt, I would like to provide some clarifications on the Fund's role highlighting three issues that you have raised in your report: VAT adoption, subsidies reforms and social protection.

1. **Adoption of a VAT:** When the authorities approached the IMF for support, Egypt was in a very vulnerable position and it needed to rapidly raise more revenues. The VAT was the best option to accomplish that in a short period of time. As a modern and efficient tax, its application can be quickly implemented with less room for "leakages". As part of our agreement, the authorities have kept most food items consumed by the poor people exempt. It is also important to emphasize that revenues raised by the VAT bill will free up resources for social spending for the poor and vulnerable groups.
2. **Subsidy Reforms:** The need to reform energy subsidies is critical for the Egyptian economy. The implementation of the fuel subsidy reform (which actually began in 2014) is part of the Egyptian authorities' comprehensive reform program. In the past, fuel subsidies have benefited wealthier people disproportionately. Fuel subsidies have also contributed to increased budget deficits and public debt, resulting in lower spending on key social expenditures such as health, education and infrastructure which do benefit the poor. Reducing the government's expenditure on fuel subsidies will contribute to lower budget deficits and will free up public resources for much-needed social spending on health and education and growth-enhancing investments. Part of the savings from the reform will be used for higher food subsidies and to strengthen targeted social programs (food smart card subsidies are being increased from 15 to 21 pounds per person, Takaful and Karama are being expanded to reach 7.3 million people; and the social pension budget is being increased to reach 1.7 million Egyptians). Since energy-intensive industries tend to be capital intensive, the subsidy reform will also make investment in labor-intensive activities more attractive, thereby contributing towards higher job creation.
3. **Social Protection:** Social protection is a cornerstone in the government's reform program. Budgetary savings that come from measures including through the removal of energy subsidies will be used to alleviate the expected effects of adjustment on the poor and vulnerable. Social protection will take the form of food subsidies and targeted social transfers. It will also preserve or increase support for insurance and medicine for the poor, free school meals, subsidies for infant milk and medicine for children, transportation subsidies for students and low-income areas, health insurance for young children and female primary providers, and vocational training for the youth. Priority will also be given to investment in public infrastructure.

One final point that we would like to clarify is that the program design and **sequencing** was carefully planned to address both urgent challenges and underlying structural challenges facing

the Egyptian economy. Restoring macroeconomic stability was the first priority, and the initial adjustment has resulted in a spike in inflation, which was expected, and a depreciation of the pound, which was necessary as there was an acute foreign exchange shortage. In parallel, the government had also taken preparatory steps, in particular by budgeting higher social spending to protect the poor from the initial adverse effects of adjustment.

I would be happy to discuss these issues, and others raised in your article, in further detail if that is of interest. I also attach below a couple of links to some of our materials on Egypt for your information.

Blog on Social Protection: <http://www.imf.org/external/np/blog/nafida/011817.pdf>

Key Questions on Egypt: <http://www.imf.org/external/country/egy/egyptfaq.htm>

Sincerely,

Chris Jarvis
Mission Chief, Egypt
International Monetary Fund