

# Foreword

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*Since January 2011, Egypt has seen several economic and political challenges come to the forefront, resulting in a prolonged transition period. This weighed heavily on all economic indicators, including the economy's potential growth and its ability to satisfy people's needs and achieve social justice.*

*Egypt's Ministry of Finance is addressing those challenges including through adopting more balanced fiscal policies aimed at reviving the economy and satisfying Egyptians' rightful demands for social justice. This translates into providing more efficient safety nets for those in need, while improving public services such as health, education and housing. However, such policies need to be financed through sustained resources, while equitably redistributing the burden, in order to achieve fiscal sustainability, encourage investments and increase employment opportunities.*

*With the political roadmap on track, the government is laying the foundation for establishing new and stronger democratic institutions. The need for a constructive social dialogue amongst the major stakeholders across the society has become instrumental. Fact-based ideas and constructive proposals are essential, in order to provide creative and viable solutions to address current challenges, towards achieving a better future.*

*In this context the "Financial Monthly" aims to promote greater transparency, accountability and participation of citizens in the decision making process. The Ministry of Finance is committed to continue its leading role in offering key informative and updated economic data and analysis on the Egyptian economy.*

*I hope readers and researchers will find the information provided in this report, useful. I also look forward to receiving your feedback and suggestions on the following email: [fm@mof.gov.eg](mailto:fm@mof.gov.eg).*

*Minister of Finance*



*Hany Kadry Dimian*

# Executive Summary

**Positive Fiscal developments: Budget deficit slightly declined in the first 8 months of FY-13/14 to reach 6 percent of GDP**, compared to 8.4 percent during the same period a year earlier. This was mainly due to an increase in tax revenues and grants, accompanied with a slower pace of growth on the expenditure side. Tax revenues increased on the back of the rise in receipts from Egyptian General Petroleum Company, and receipts from Other Companies related to economic activity, in addition to the increase in Taxes on Treasury Bills and Bonds Payable Interest. While, Expenditures increased, mainly due to increased spending on Wages, Investments, and Social Benefits (payments to pension funds).

**As for the monetary developments, M2 growth increased yet at slower pace reaching 16.7 percent at end of January 2014.** Moreover, reserves increased during February reaching US\$ 17.3 billion, on the back of the upward revaluation of the value of the CBE's gold holdings.

**Urban headline inflation eased in February to 9.8 percent**, mainly due to a decline in food prices, as well as base effect.

**Regarding the stock market, EGX-30 index continued to increase for 8 months in a row, reaching record highs, not witnessed ever-since September 2008.** This suggests a bullish investor sentiment concerning the Egyptian economic outlook.

## Fiscal Perspective:

*Slight decrease in Budget Deficit was witnessed...*

- **Budget Deficit** declined slightly during the first 8 months of FY 2013/2014 in value and as percent of GDP, compared to the same period last year. This came as a result of a higher increase in revenues relative to expenditure.

July- February 13/14 Budget Deficit	July- February 12/13 Budget Deficit
LE 123.6 billion (6 percent of GDP)	LE 146.5 billion (8.4 percent of GDP)
<b>Revenues</b> LE 254.2 billion (12.4 percent of GDP)	<b>Revenues</b> LE 184.9 billion (10.5 percent of GDP)
<b>Expenditure</b> LE 373.3 billion (18.2 percent of GDP)	<b>Expenditure</b> LE 329.9 billion (18.8 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

### *On the revenue side,*

*Both Tax and Non-Tax Revenues increased during the period of study...*

- Total revenues increased significantly during July-February 2013/2014 by 37.5 percent, recording LE 254.2 billion (12.4 percent of GDP), mainly due to the increase in both tax (7.3 percent of GDP), and non-tax revenues (5.1 percent of GDP).
- **Tax revenues** increased due to the rise in all tax chapter receipts except for taxes on goods and services. The abovementioned growth was mainly due to the increase in

receipts from Egyptian General Petroleum Company, and receipts from Other Companies related to economic activity, in addition to, the increase in Taxes on Treasury Bills and Bonds Payable Interest.

### Tax Revenues increased due to:

**Taxes on Income, Capital Gains and Profits increased by LE 12.2 billion (21.6 percent growth) to reach LE 68.7 billion (3.3 percent of GDP)**

Mainly on the back of an increase in:

- Taxes on domestic salaries by LE 1.5 billion
- Receipts from EGPC by LE 14.9 billion to reach LE 30.6 billion (1.5 percent of GDP), after including the second settlement in January 2014

**Taxes on Property increased by LE 1.8 billion (16.5 percent growth) to reach LE 12.6 billion (0.6 percent of GDP)**

Mainly as a result of an increase in Taxes on T-bills and bonds payable interest by 21 percent y-o-y to LE 10.5 billion (0.5 percent of GDP)

**Taxes on International Trade increased by LE 0.3 billion (2.6% growth) to reach LE 11.1 billion (0.5 percent of GDP)**

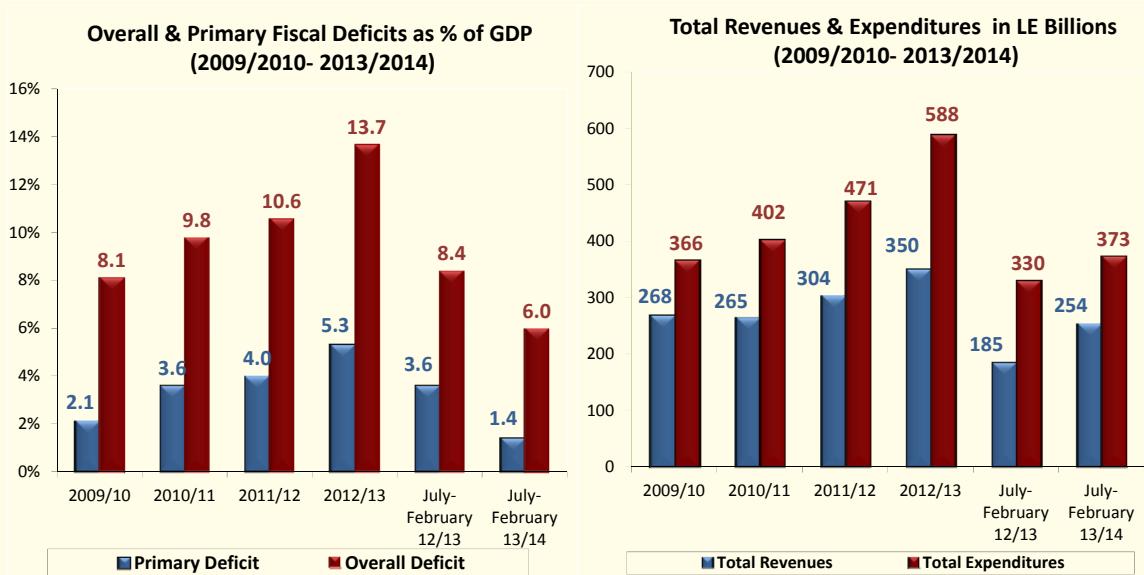
In light of an increase in taxes on valued customs by 5 % y-o-y to LE 10.6 billion (0.5 percent of GDP)

**Meanwhile, the significant increase in non-tax revenues could be explained in light of the following:**

*...while Non tax revenues hiked mainly due to extraordinary grants, in addition to an increase in receipts from Sovereign Authorities*

- Increase in grants to reach LE 51.4 billion during July-February 2013/2014 (2.5 percent of GDP), mainly due to:
  - a) LE 29.7 billion increase in grants—half of the dollar denominated deposits at the central bank- to be allocated to finance the first stimulus package related to the presidential decree no. 105, 2013.
  - b) LE 21 billion (the equivalent of US\$ 3 billion) cash grants from Gulf countries.
- Increase in dividends collected from Central Bank by LE 1.8 billion.
- Increase in dividends collected from Suez Canal by LE 0.2 billion.

- Increase in revenues from sales of goods and services by 40.6 percent y-o-y to LE 14.1 billion (0.7 percent of GDP) mainly due to the increase in revenues from special accounts and funds<sup>1</sup> by LE 3.6 billion to record LE 11.5 billion in the period of study compared to LE 7.9 billion during the same period last year.



Source: Ministry of Finance

### **On the Expenditures Side:**

#### **Increase in Wages, Investments and Social Benefits**

Total expenditures increased during July- February 2013/2014 by 13.2 percent, recording LE 373.3 billion (18.2 percent of GDP), mainly due to:

- The increase in wages and compensation of employees by LE 19.6 billion to LE 108.2 billion (5.3 percent of GDP).
- The increase in subsidies grants and social benefits by LE 4 billion (3.8 percent growth) to LE 109.4 billion (5.3 percent of GDP).

**Payments to pension funds increased by LE 11.5 billion** during July-February 13/14 (of which an increase of LE 2.4 billion in February 2014), to reach LE 21.9 billion during July- February 2013/2014, compared to LE 10.4 billion during the same period last year.

- The increase in interest by LE 11.9 billion to LE 95.4 billion (4.7 percent of GDP).
- The rise in other expenditures by LE 3 billion to LE 23.8 billion (1.2 percent of GDP).
- The increase in purchase of goods and services by LE 0.3 billion to LE 14 billion (0.7 percent of GDP).
- The increase in purchases of non-financial assets (investments) by LE 4.7 billion to LE 22.5 billion (1.1 percent of GDP).

1 The increase comes in light of the law number 19 for the year 2013, which stipulated that budget entities should pay to the Ministry of Finance 10 percent of the revenues from special accounts and fund. In addition 25 percent of the outstanding balance on June 30th, 2013 to be repaid to the treasury starting 30/6/2013.

Some LE 22.5 billion were disbursed as purchases of non-financial assets (investments) during the first 8 months of 2013/2014, increasing by 26 percent compared to the same period last year, while investments are expected to increase during the coming period.

***The government has taken significant steps towards reviving growth...***

- The government introduced **the first tranche of a stimulus package**, worth LE 29.7 billion (\$ 4.3 billion) during the first half of FY13/14. Such stimulus will be directed at investments in infrastructure, health and education, thereby improving social services, and crowding in private investments. **In addition to the first package, MoF launched a second supplementary budget in January 2014** with an amount of LE 33.9 billion. The new appropriation includes some LE 20 billion in additional infrastructure spending. The rest covers commitments made by the government to raise the minimum wage for government employees and salaries of teachers and medical professionals. The second stimulus package will be financed by a grant from the UAE, as a result, it will not have any negative impact on the budget deficit.
- *Moreover, the government has reached an agreement with oil companies operating in the country to settle outstanding arrears worth US\$ 6 billion over four years. A disbursement of US\$ 1.5 billion has already been released in December. This deal has come with assertion by oil companies that they would reinvest in the country and expand their production facilities. This is expected to have a significant spillover on the real and fiscal sectors going forward.*
- *In addition, a LE 1.2 billion program was adopted by the government to repay arrears to contractors. The government is also undergoing a new program geared towards supporting factories facing closure with a fund restructuring cost of almost LE 0.9 billion.*

***Going forward, the government will continue on its track towards full recovery***

*The implementation of the abovementioned measures and reforms combined with a political road map on track, should lead to significant recovery in the economy over the medium term.*

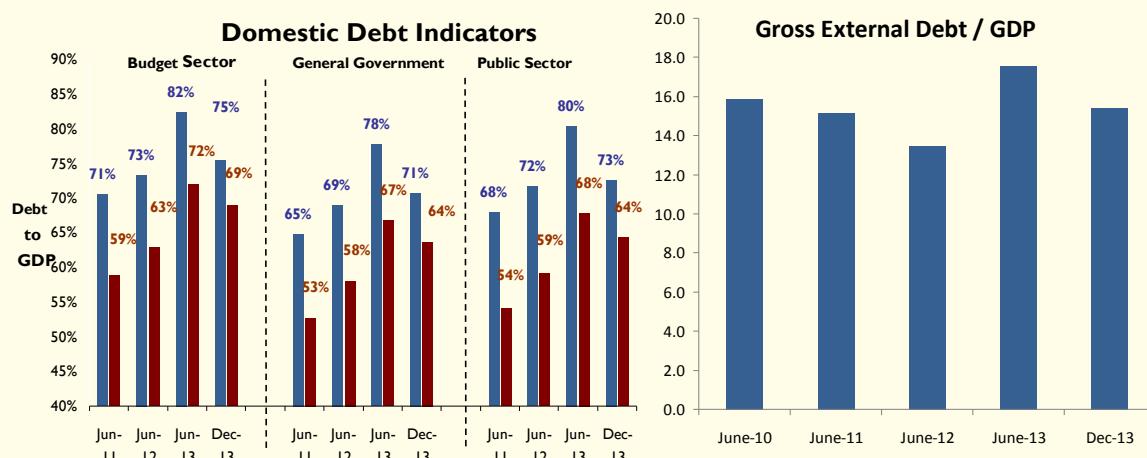
***Increase in Domestic Debt...***

- **Domestic budget sector debt** recorded LE 1546 billion (75.4 percent of GDP) by end of December 2013, compared to LE 1294 billion (73.8 percent of GDP) by end of December 2012.

***This increase could be explained as a result of several factors of which:***

- A rise in T-Bills net issuance from LE 433 billion in December 2012 to LE 512.5 billion in December 2013.
- A rise in T-bonds net issuance from LE 312.3 billion in December 2012 to LE 340.3 billion in December 2013.
- A new bond issued to the SIF on behalf of the government worth LE 14.2 billion during the year 2013/2014.

***It is worth mentioning that the total government debt*** (domestic and external) reached LE 1751 billion (85 percent of GDP) in December 2013, compared to LE 1644 billion (94 percent of GDP) at end of June 2013.



Source: Ministry of Finance

- **External debt stock<sup>2</sup> (government and non-government debt)** recorded US\$ 45.8 billion by the end of December 2013 compared to US\$ 38.8 billion by the end of December 2012 (most of the increase represented aid from the Gulf Countries with concessional and preferential terms). External debt as percent of GDP recorded 15.4 percent by the end of December 2013, which is relatively low if compared to the average of peer countries (Middle East and North Africa countries recorded an average of 25.5 percent of GDP during the year 2013).

#### Main External debt indicators are as follows:

- **External debt service to exports of goods and services ratio** has been unchanged since 2008/2009 till 2012/2013 stabilizing at 6.4 percent. This indicates a safe level to meet debt service obligations.
- **Short term debt to total external debt ratio** decreased from 17.15 percent at end of December 2012 to 6.16 percent at end of December 2013.

#### Monetary Perspective:

*On monthly basis, M2 decelerated to 0.8 percent compared to 2 percent in the previous month*

- **M2 annual growth** continued to grow yet at slower pace, reaching **nominal growth rate** of 16.7 percent as of end February 2014 (real growth rate of 5.3 percent) compared to 18.9 percent in December 2013. The above mentioned growth was stimulated by the increase in net domestic assets, mainly in net claims on government and GASC by 32.5 percent on annual basis, which counterbalanced the decrease in net foreign assets annual growth by 11 percent at end of January 2014. Lending to private sector decelerated slightly, as annual growth in **credit to the private sector** reached 5.4 percent (LE 500

2 The notable increase in non-government external debt during the first half of the fiscal year 2013/2014 can be explained in light of a net increase of nearly US\$ 4.4 billion in external debt on the monetary authorities compared to end of December 2012/2013. The breakdown of inflows is as follows: US\$ 2 billion from UAE, US\$ 2 billion from Saudi Arabia and US\$ 3 billion from Kuwait. Meanwhile the Qatari short term deposit worth US\$ 2 billion was cancelled and a Qatari deposit worth US\$ 1 billion was converted into T-bonds during the period of study. Moreover, it is important to highlight that Egypt has returned another matured deposits worth US\$ 1 billion to Qatar during the period of study, in addition to paying an amount of US\$ 1 billion debt owed to foreign oil companies operated in Egypt.

billion) in January 2014, compared to 6.4 percent in December 2013 and 8.9 percent a year earlier.

**Total deposits** growth – excluding deposits at the CBE – continued to pick-up reaching 20.6 percent y-o-y (LE 1316 billion) at the end of December 2013, compared to a growth of 10.3 percent at end of December 2012. Out of total deposits, 87 percent belonged to the non-government sector at end of December 2013. To that end, **loans-to-deposits ratios** decreased slightly at end of December 2013 registering 41.8 percent, compared to 47.4 percent in December 2012. (Detailed data for January 2014 is not yet available)

**NIR increased by 1.2 percent over the previous month**

➤ During February 2014, **Net International Reserves (NIR)** increased merely by US\$ 0.2 billion to record US\$ 17.3 billion, up from US\$ 17.1 billion in January 2014, thus recording a y-o-y growth of 28 percent. The witnessed increase in February 2014 was mainly due to an upward revaluation of the value of the CBE's gold holdings, which increased by US\$ 182 million during the month of study. This was countered by a widening trade deficit and lower tourism receipts during the same month.

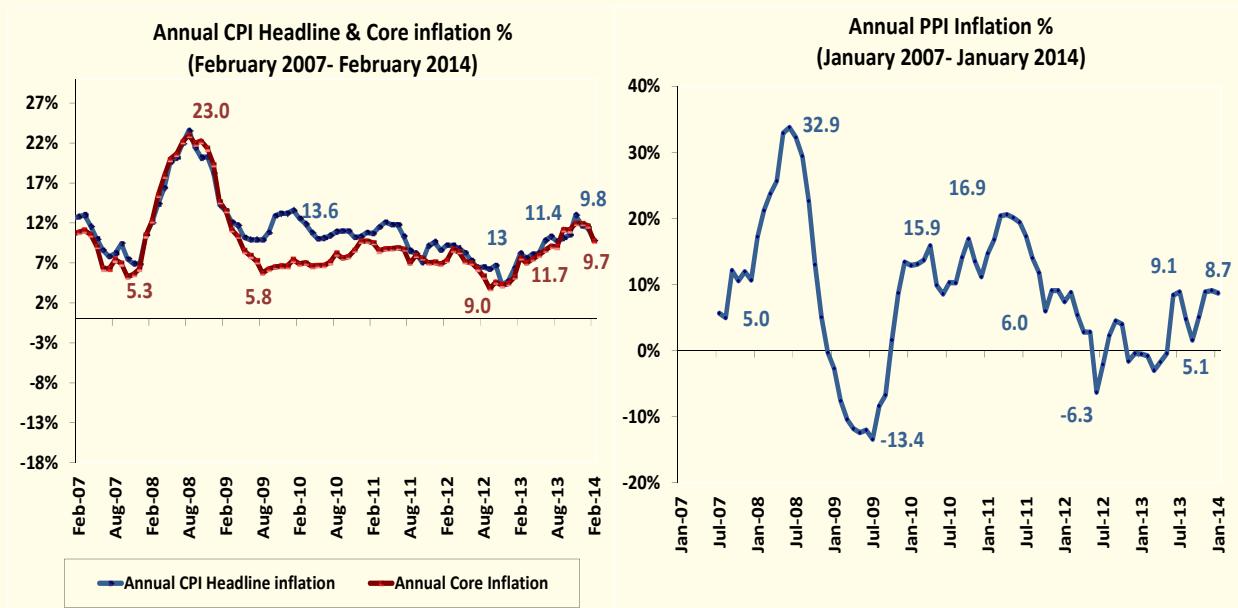
➤ **Total number of tourists arrivals decreased slightly during the month of February 2014**, reaching 617 thousand tourists compared to 642 thousand tourists in the previous month.

➤ **CPI annual Urban Inflation** increased during the period July-February 2013 recording an average of 10.8 percent, compared to 6.2 percent during the same period of last year. Factors contributing to inflationary pressures include; higher food prices (the largest weight in CPI), and some other seasonal reasons, as well as an unfavorable base effect.

**Monthly CPI eased during Feb 2014 mainly due to base effect**

However, it is noteworthy that the annual inflation growth rate **eased notably during February 2014 to 9.8 percent** (the Lowest inflation rate since August 2013), compared to 11.4 percent recorded during the previous month. This development is mainly attributed to the base effect, in addition to the decrease in annual inflation rate of "Food and Beverages" (particularly; Meat, Fruits and Vegetable, Milk, and Fish and seafood), and "Clothing and Footwear", "Furnishing, Housing Equipment", "Transport" (particularly; private transportation), "Restaurants and Hotels" (particularly; Catering Services).

Meanwhile monthly inflation decreased to 1 percent compared to 1.4 percent in the previous month, mainly due to the rise in the monthly prices of "Food and Beverages", and "Clothing and Footwear", mainly due to the start of school season.



- **Annual core inflation** declined during February 2014 to 9.7 percent compared to 11.7 percent during January 2014. Meanwhile, monthly core inflation almost stabilized at 1 percent compared to 1.1 percent during the previous month. The monthly inflation could be explained in light of the increase in food prices contributing by 0.5 percentage points. This was coupled with higher prices of other services, paid services and retail items, which contributed by 0.25, 0.14 and 0.13 percentage points, respectively to monthly core inflation.
- During its **Monetary Policy Committee** meeting held on February 27, 2013, CBE decided to keep the **overnight deposit rate** and **overnight lending rates** unchanged at **8.25 percent** and **9.25 percent** respectively, and to keep the CBE's **main operation** unchanged at **8.75 percent**. The discount rate was also kept unchanged at 8.75 percent. The committee justified that decision in light of balancing upside risks, the inflation outlook, with the downside risks to economic growth at present.
- **In an attempt to absorb excess liquidity and to protect the domestic currency, the CBE announced the reintroduction of deposit operations.** In this context, on February 25, 2013, the CBE introduced LE 65 billion worth of 7-day maturity at a fixed annual interest rate of 8.75 percent.
- It is noteworthy that the CBE has offered US\$ 1.5 billion on January 27, 2014 at **Foreign Exchange exceptional auction** to meet banks import financing needs.

### Real Sector...

**Real GDP growth** came at a 1 percent in Q1-FY13/14, compared to 2.5 percent a year earlier, mainly in light of security reasons and political developments during this period.

- **On the supply side**, main growth drivers were public services sectors, including education, health and the general government sectors, which grew at a 4.9 percent (GDP real contribution of 0.8 percentage point (PPT)) during the period of study, compared to a 2.9 percent (0.5 PPT) a year earlier. Other sectors such as agricultural, forestry and fishing sector, showed robust growth, contributing by 0.5 PPT in Q1-FY13/14, same as a year earlier. Meanwhile, sectors that are yet to fully recover include manufacturing and wholesale and retail that continued their slow down, contributing by

**As expected,  
Modest  
growth in Q1-  
FY13/14...**

0.2 PPT & 0.3 PPT during the first quarter of the fiscal year respectively, compared to 0.4 PPT for both a year earlier. While tourism and natural gas sectors contributed by -0.9 PPT & -0.7 PPT respectively in Q1-FY13/14.

- **On the demand side**, both private and public consumption continued to boost economic activity during the period of study, registering growth rates of 4.2 percent and 5.9 percent compared to 3.8 percent and 2.7 percent respectively during the same period last year. Thus, leading to a total contribution of 4.2 PPT for final consumption, compared to 3.5 PPT a year earlier. On the other hand, investments which declined by 7.3 percent compared to the same period last year, contributed by -0.8 PPT, suggesting the impact of the stimulus is still lagging. However going forward, with the roadmap on track and political stability restored, growth in these sectors should definitely accelerate.
- **Industrial production index rose by 5 percent in December 2013 to 151.6 points**, compared to 143.4 points in November 2013.
- **On the external sector side, BOP** showed a significant improvement during the period July-September 2013/2014 recording an overall surplus of **US\$ 3.7 billion** –the highest since July-September 1997/1998– compared to an overall deficit of **US\$ 0.5 billion** in the same period last year. **This improvement can be explained in light of** the significant increase in the **current account balance**, recording a surplus of US\$ 0.8 billion – for the first time since FY 2008/2009– compared to a deficit of US\$ 1.3 billion recorded in July-September 2012/2013. In addition, the **Capital and Financial Account** witnessed a notable increase in net inflows recording US\$ 4.0 billion, compared to US\$ 1.5 billion during the same period last year.
  - **On a more detailed level, the surplus recorded in the current account** balance can be attributed to the significant increase in **public transfers** during the period July-September 2013/2014 recording **US\$ 4.3 billion** in light of grants received from Arab countries (US\$ 1 billion from the United Arab Emirates, US\$ 2 billion in-kind grants from Gulf countries in the form of petroleum shipments and US\$1.3 billion international funding and grants from various countries) compared to **US\$ 40 million** during the same period last year. On the other hand, this surplus was reduced by the decline of **services receipts**, registering US\$ 4 billion (accompanied by an annual decrease of 64.7 percent, equivalent to US\$ 2 billion, in **tourism receipts** to record US\$ 0.9 billion).
  - It is noteworthy that exports coverage to imports during the period of July-September 2013 slightly rose to 43.6 percent, compared to 43.5 percent during the same period a year earlier. Meanwhile, NIR imports coverage rose to record 4.1 months of imports during the first quarter of FY 13/14 compared to 3.3 months of imports during the same period last year.
  - On the other hand, the surplus recorded in the **Capital and Financial Account** came due to an increase in **Portfolio investments** in Egypt, recording a net inflow of US\$ 1.3 billion, compared to a net outflow of US\$ 0.3 billion. In addition, **Net foreign direct investments** in Egypt increased by 7 percent, recording a net inflow of US\$ 1.2 billion during the period July-September 2013/2014 (increasing from US\$ 1.16 million).
- **The EGX-30 index** increased by 722 points during February 2014, reaching 8127 points compared to 7405 during January 2014. Moreover, market capitalization increased by 7.7 percent m-o-m during the month of study to reach LE 487 billion (23.8 percent of GDP) compared to a LE 452 billion during the previous month.

*GCC aid  
dominates  
the BOP  
front...*

*Capital markets  
are bullish on  
the economic  
outlook...*