

Executive Summary

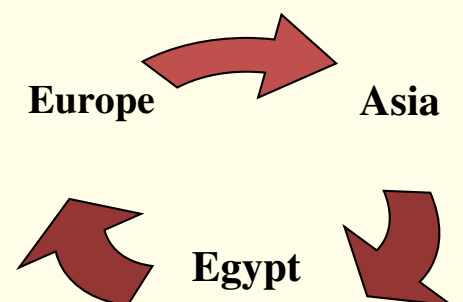
Main Highlights

In continuation of finding new mechanisms to increase investments, the Ministry of Finance has conducted promotional tours in October to launch international bonds in the Asian and European markets, starting from Seoul, capital of South Korea, followed by tours in Singapore, Malaysia, Hong Kong, China and Japan. Many international investment banks around Asia and Europe are keen to invest in Egyptian public debt instruments, so the Ministry of Finance will expand its tours in some European countries such as Italy, France, England, Switzerland and Germany in the coming period.

These promotional tours ensure the Egyptian government's aspirations to expand the investors base in the Egyptian financial sector, increase liquidity and boost investment flows within the country, especially in Egyptian government debt instruments (treasury bills and bonds).

The meetings incorporated discussions about the implementation of the Reform Program over the last three years, and future plans. And it was highlighted that The efforts exerted to implement the Economic Reform Program were praised by international institutions as it continues to strengthen resources, rationalize spending, promote human capital investment, restructure the education and health systems, as well as focusing on the structural reforms in the tax and customs systems, and which has helped achieve economic growth, enhancing productivity, providing jobs and elevating standards of living, while supporting the Egyptian economy to face the emerging market crisis, and rising interest rates and oil prices in world markets.

Egypt plans to issue international bonds in Asian and European markets

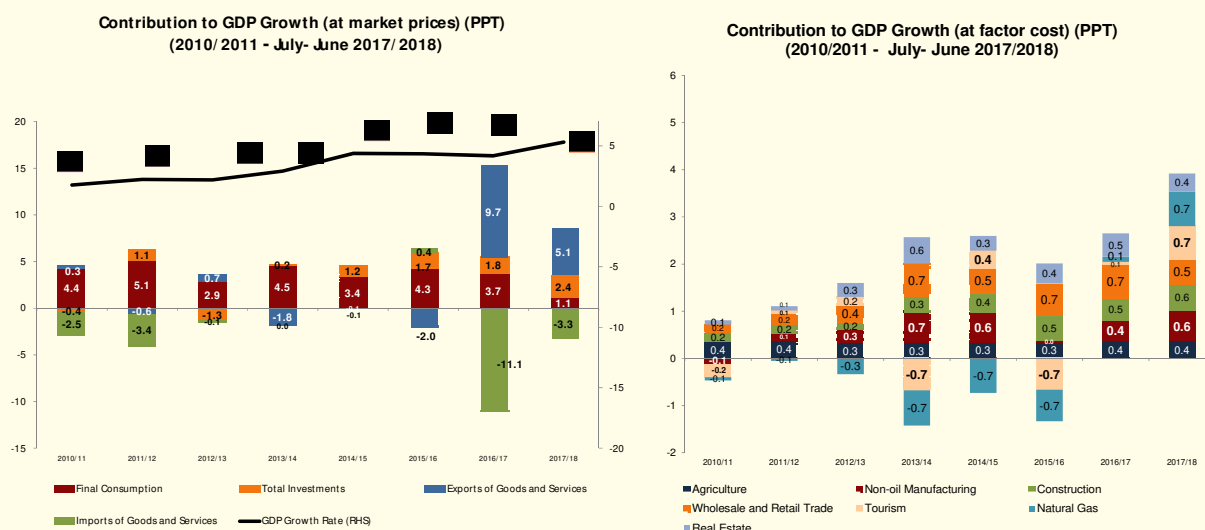


Recent promising indicators

Real Sector

§ The macroeconomic scene witnessed a noticeable improvement given the adoption of economic reforms by the Egyptian government which was reflected on the Egyptian economic indicators on so many levels. GDP grew by 5.2 percent during FY17/18, compared to 3.6 percent during the last fiscal year. Net Exports performance was the highlight contributing positively to growth by 1.8 PPT, compared to a negative contribution of 1.4 PPT during FY16/17. Meanwhile, public and private consumption have contributed to growth by a total contribution of 1.1 PPT, compared to 3.7 PPT during FY16/17. Investments contributed positively to growth by 2.4 PPT, compared to a lower contribution of 1.8 PPT during FY16/17.

Furthermore, total Production Index rose by 7.5 percent on annual basis recording an average of 130.2 points during FY17/18, compared to 121.1 points during FY16/17, driven mainly by Tourism Sub-Index that hiked by 65.8 percent on annual basis, recording an average of 102.7 points during FY17/18, compared to 62 points during FY16/17, and Natural Gas Sub-Index that picked-up by 13.1 percent on annual basis, recording an average of 172.4 points during FY17/18, compared to 152.4 points during FY16/17.



§ PMI is on a climbing trend, and which has increased to reach 50.5 in August 2018, compared to a five-year low of 41.7 in July 2013. This is in light of the substantial increases in New Export Orders Index to record 51.1, New Orders Index increased to 50.8 and Output Index increased to 50, in addition to the increase in Stocks of Purchases Index to reach 47.4 and the reduction in raw material prices.

§ Net International Reserves (NIR) shows enormous improvement, inching up to a record-high US\$ 44.501 billion during October 2018 (covering 8.5 months of imports), compared to US\$ 44.459 billion last month (covering 8.5 months of imports), and compared to a lowest level of US\$ 13.4 billion at end of March 2013 (covering 3.5 months of imports).

§ EGX indices show improvement, the Egyptian Exchange market capitalization increased by 2 percent w-o-w during last week of October 2018 to reach LE 751 billion, compared to LE

737 billion in the previous week. The EGX-30 Index increased by 1.4 percent during last week of October 2018 to reach 13,202.3 points, compared to closing at 13,023.7 points in the previous week. Meanwhile, the EGX-70 increased by 2.9 percent, closing at 687.6 points compared to 668.1 points in the previous week.

Fiscal Sector

§ **Fiscal Performance during the period July-October 2018/2019 is one of the promising signals of economic reform success.** Budget deficit decreased to record 2.5 percent of GDP during the period July-Oct 2018/2019, compared to 2.7 percent during the same period last year. This could be explained in light of the **increase in Revenues by 34.2 percent during the period of study, exceeding the growth in expenditure recording 24.1 percent.** On the **Revenues Side**, there is a **clear increase in Tax Receipts** (78.7 percent of total revenues) by **LE 49.6 billion** (35.6 percent growth increase) to record LE 189.2 billion during the period of study: **General Sales Tax on Goods** recorded LE 102.9 billion (increasing notably by 34.9 percent (LE 26.6 billion) in light of increased receipts from VAT on imported goods and domestic goods. **Income tax receipts** increased to record LE 52.4 billion during the period of study. **Taxes on Domestic Salaries** reached LE 14.8 billion to increase by 33.9 percent (LE 3.7 billion). Meanwhile, **Tax Receipts from Suez Canal increased** by 48.5 percent (by LE 4.2 billion) to reach LE 12.8 billion, and receipts from **Other Companies** have increased by 36.4 percent (LE 4.9 billion) to reach LE 18.4 billion.

Fiscal Sector Performance during July- Oct 2018/ 2019

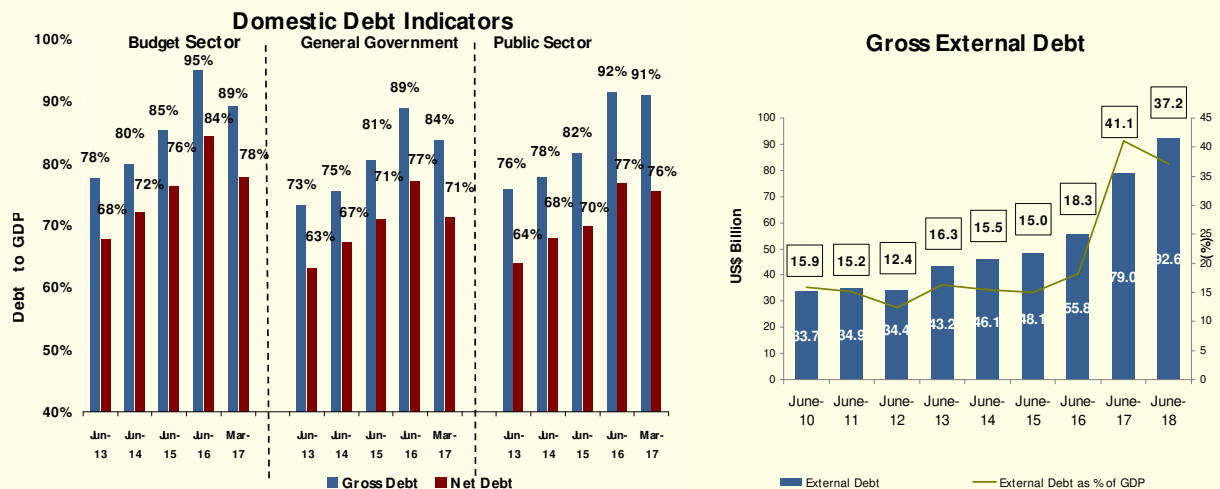
(LE billion)			
	July- Oct		Growth rate
	2019/18	2018/17	
Revenues	240,448	179,156	34%
<i>As a percent of GDP</i>	<i>12.9%</i>	<i>14.4%</i>	
Taxes	189,218	139,578	36%
Grants	323	28	1050%
Other Taxes	50,907	39,550	29%
Expenditure	373,021	300,649	24%
<i>As a percent of GDP</i>	<i>23.6%</i>	<i>24.8%</i>	
Wages and Compensation of Employees	89,992	76,711	17.3%
Purchase of Goods and Services	17,645	10,201	73%
Interest Payments	143,269	110,542	30%
Subsidies, Grants and Social Benefits	60,833	53,822	13%
Other Expenditures	24,388	27,481	-11%
Purchases of Non-financial Assets (investments)	36,895	21,893	69%
Cash Deficit	132,573	121,494	
Budget Deficit	132,914	121,406	
Primary Deficit (%of GDP)	0.2%	-0.2%	
Budget Deficit (%of GDP)	2.5%	2.7%	

Moreover, **Non-Tax Revenues** (21.3 percent of total revenues) increased by **LE 11.7 billion** (29.4 percent growth increase) to record LE 51.2 billion during the period of study. This came

mainly in light of the increase of **Proceeds from Sales of Goods and Services** by LE 8.9 billion to reach LE 16.6 billion, and the increase of **dividends received from economic authorities** by LE 0.7 billion (by 33.3 percent) to reach LE 2.8 billion during the period of study, compared to LE 2.1 billion during the same period of last year. **On the expenditure side, reprioritization is to achieve the best social yield through investment in human capital and better distribution of services and infrastructure. GASC subsidies increased** by 15.3 percent (LE 2.1 billion) to record LE 15.8 billion, budget contributions in pensions rose by 39.9 percent (LE 4.7 billion) to reach LE 16.5 billion, and spending on social security benefits (mainly Takaful& Karama program) rose by 6.7 percent (LE 0.5 billion) to record LE 7.4 billion. Moreover, **Investment Spending rose** by 68.5 percent (LE 15 billion) to record LE 36.9 billion during the period of study.

External & Domestic Debt

§ **Debt Figures reveals that Total Government Debt (domestic and external) increased to LE 3676 billion (105.9 percent of GDP) at end of March 2017.** This is driven mainly by **increased Domestic debt** since **Treasury Bills debt increased** to LE 1096 billion end of March 2017, compared to LE 816 billion end of June 2016. Meanwhile, **government external debt increased as loans increased** to US\$ 33.4 billion end of June 2018, compared to US\$ 25.9 billion at end of June 2017. Meanwhile, **Monetary Authorities debt decreased** to US\$ 26.6 billion at the end of June 2018, compared to US\$ 30.3 billion last fiscal year. It's noteworthy that **during 2017 a total amount of US\$ 30 billion was repaid**, as per Central Bank of Egypt, distributed on due **bonds, foreign debt** of international banks such as African Export-Import Bank, **deposits and loans** from many countries of which KSA, Libya and Turkey, in addition to **obligations** to government entities such as EGPC and other **obligations** to Paris Club.



Inflation

§ **Alternatively, Inflation spiral has continued to take hold in light of recent fiscal reform measures since the beginning of current fiscal year. Headline Urban Inflation increased** for the third month in a row to record 17.7 percent in October 2018, compared to 16.0 percent during previous month. Factors contributing to this include the increase in annual inflation among some main groups during the month of study compared to last month. On the top of which comes; **“Vegetables”** by 54.6 percent, **“Bread& cereals”** by 18.2 percent, **“Fruit”** by 21.6 percent, **“Transport services”** by 59.6 percent, **“Personal transport equipment”** by 26.8 percent, **“Tobacco”** by 22.9 percent, **“Water supply& services related to dwelling”** by 33.8 percent, **“Clothing”** by 14.8 percent, **“Footwear”** by 20 percent, **“Education”** by 14.7 percent, and **“Household Textiles”** by 19.6

percent. **While, on comparing the average annual inflation rate recorded since the beginning of current fiscal year it has reached 15.4 percent during July- Oct 18/ 19, declining notably by almost a Half** compared to 31.8 percent recorded during the same period of last year.

Monetary Sector

§ **Regarding Monetary Developments, CBE continues its efforts to contain inflation, as M2 growth has subdued to 17.0 percent** in August 2018 (LE 3515 billion), compared to 17.9 percent in last month, and compared to 39.6 percent during August 2017, according to recent data released by the CBE. This can be explained by the decrease in **Quasi Money** growth to record **17.2 percent** in August 2018, compared to 18.3 percent last month, driven by the decrease in **Local Currency Time and Saving Deposits** to record **20.2 percent** compared to 23.7 percent last month. However, **Money (M1)** growth stabilizes at **16.6 percent** in August 2018 compared to the same percentage last month.

Meanwhile, **Net domestic assets (NDA) annual growth increased to record 14.9 percent** at end of August 2018 (LE 3251.3 billion), compared to 13.7 percent last month (LE 3183.9 billion), driven by an increase in **Net Claims on Government and GASC** to record **17.8 percent** compared to 16.4 percent last month, and **Net Claims on Private Sector** has increased to **11.8 percent** compared to 10.6 percent last month. On the other hand, there's a decrease in annual growth trend in **Net Foreign Assets (NFA)** that records 51 percent (LE 264 billion) at end of August 2018, compared to 102.1 percent (LE 282.2 billion) last month, mainly due to the decrease in Banks' Net Reserves to record -151.8 percent compared to -147.7 percent last month.

Moreover, Total Deposits annual growth rate– excluding deposits at the CBE – decreased to record **15.4 percent** (LE 3606.9 billion) at the end of August 2018, compared to 16.8 percent at end of July 2018. Out of total deposits, 85.5 percent belonged to the non-government sector. However, annual growth rate in **Total Lending** by the banking sector (excluding CBE) increased to record **15.8 percent** (LE 1632.5 billion) at end of August 2018, compared to 15.4 percent at end of July 2018. Nevertheless, the **Loans-to-deposits Ratio decreased to record 45.3 percent** at end of August 2018, compared to 45.5 percent last month.

§ **In the same context, CBE decided at Monetary Policy Committee** meeting held on November 15th, 2018 to keep **the overnight deposit rate, and overnight lending rates and the rate of CBE's main operation** unchanged at **16.75 percent, 17.75 percent and 17.25 percent, respectively**. In addition, **the discount rate** was kept unchanged at **17.25 percent**.

External Sector

§ **The Balance of Payments ran an overall surplus, thanks to accelerating Tourism, and Workers' remittances. BOP has recorded a surplus** of US\$ 12.79 billion (5.1 percent of GDP), during the FY 2017/2018, compared to a surplus of US\$ 13.72 billion (5.8 percent of GDP) in the FY 2016/2017, **spurred by the decline in current account deficit**, which recorded US\$ -6 billion in the FY 2017/2018, compared to US\$ -14.4 billion in the last FY 2016/2017.

This was attributed to the increase in **the services balance surplus** to record US\$ 11.1 billion (4.4 percent of GDP) during the FY 2017/2018, compared to a lower surplus of US\$ 5.6 billion (2.4 percent of GDP) in the period of comparison, mainly driven by an increase in **workers' remittances** by US\$ 4.6 billion to record US\$ 26.4 billion compared to US\$ 21.8 billion in the period of comparison. This coincided with a steady **trade balance deficit** at US\$ 37.3 billion (-14.85 percent of GDP) during the FY 2017/2018, compared to the same value last fiscal year.

On the other side, current account surplus, were offset by a subdued declined in the capital and financial account, and which slipped by 29 percent to record US\$ 22 billion in FY 2017/2018, compared to US\$ 31 billion during last fiscal year, highlighting the impact of contracted Portfolio Investments, to reach US\$ 12.1 billion (4.8 percent of GDP) during the FY 2017/2018, compared to US\$ 16 billion (6.8 percent of GDP) during the last fiscal year, as well as a mere decline in FDI to record US\$ 7.7 billion (3.1 percent of GDP) during the FY 2017/2018, compared to US\$ 7.9 billion (3.4 percent of GDP) in the last fiscal year.