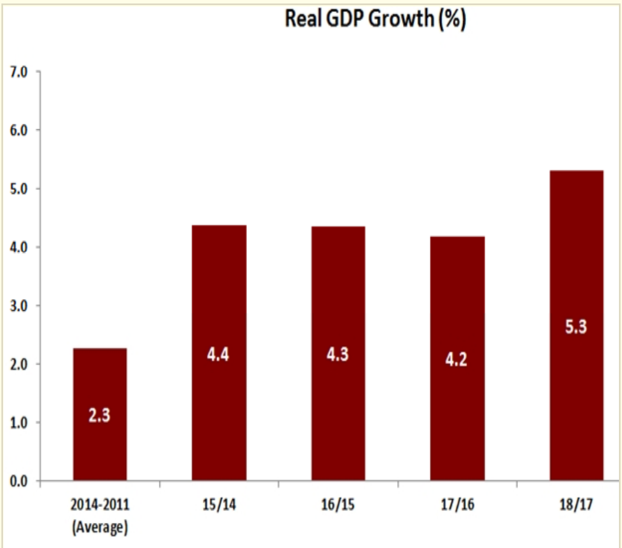
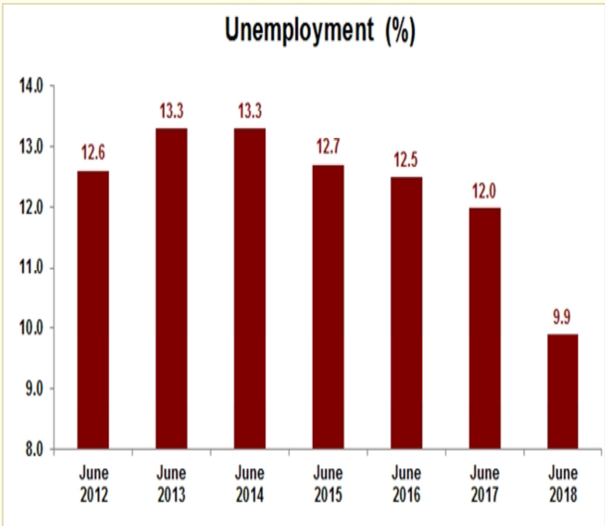
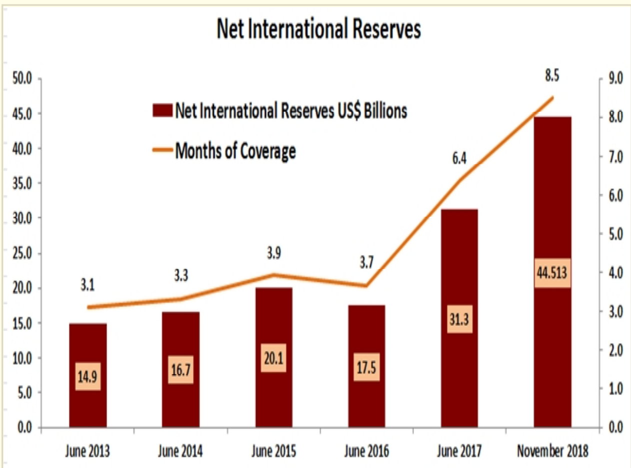
Executive Summary

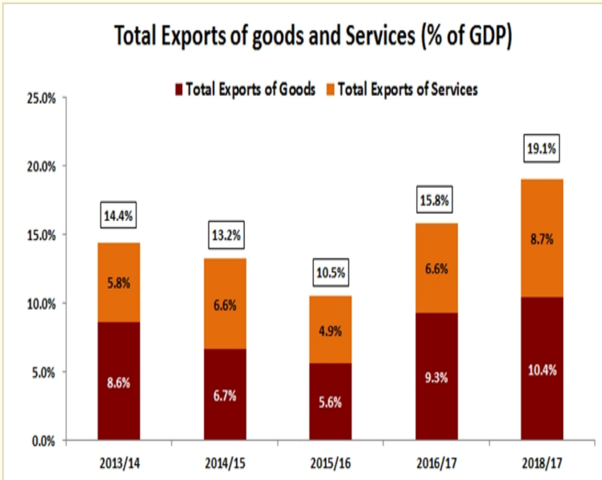
Main Highlights

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. This has made it possible for the Egyptian economy to attract many international stakeholders and increase their confidence in the economy. One of the noticeable improvements is investment and net external demand contributing to about 80 percent of the remarkable growth that reached its highest peak of 5.3 percent in FY 2018/2019









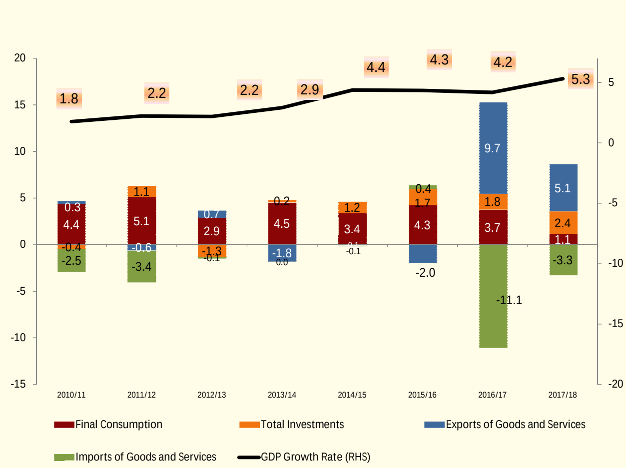
Recent promising indicators

Real Sector

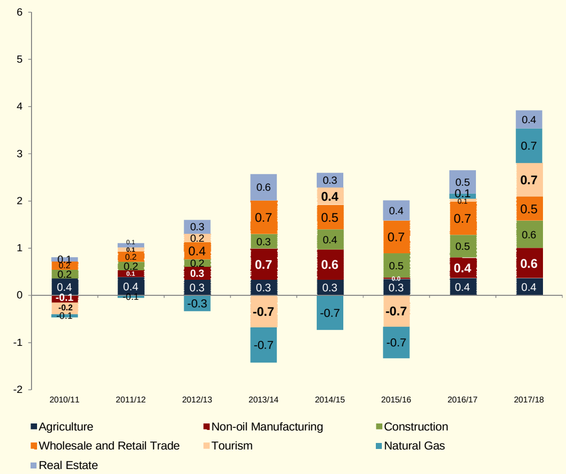
§ The economic reforms adopted by the Egyptian government has driven the performance of macroeconomic indicators on so many levels. GDP grew by 5.2 percent during FY17/18, compared to 3.6 percent during the last fiscal year. Net Exports performance was the highlight contributing positively to growth 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.

Contribution to GDP Growth (at market prices) (PPT)
(2010/2011 - July- June 2017/2018)



Contribution to GDP Growth (at factor cost) (PPT)
(2010/2011 - July- June 2017/2018)



§ 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).

§ Regarding EGX indices, the Egyptian Exchange market capitalization stabilized m-o-m during November 2018 to reach LE 751 billion. The EGX-30 Index increased by 0.5 percent during November 2018 to reach 13,319.5 points, compared to closing at 13,250.3 points in the previous month. Meanwhile, the EGX-70 decreased by 2 percent, closing at 681.6 points compared to 695.4 points in the previous month.

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)

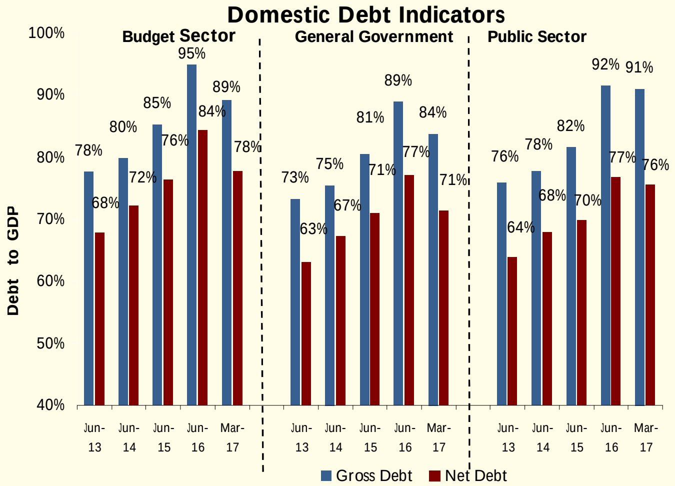
	July- Oct		Growth rate
	2019/18	2018/17	
Revenues	**240,448**	**179,156**	**34%**
As a percent of GDP	**12.9%**	**14.4%**	
Taxes	189,218	139,578	36%
Grants	323	28	1050%
Other Taxes	50,907	39,550	29%
Expenditure	**373,021**	**300,649**	**24%**
As a percent of GDP	**23.6%**	**24.8%**	
Wages and Compensation 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%**	

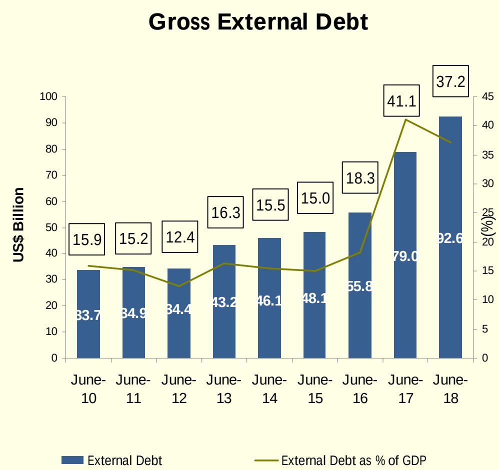
Moreover, Non-Tax Revenues (21.3 percent of total revenues) increased by LE 11.7 billion (29.4 percent growth increase) to record LE 51.2 billion during the period of study. This came mainly in light of the increase of Proceeds from Sales of Goods and Services by LE 8.9 billion to reach LE 16.6 billion, 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. <u>While, on comparing the average annual inflation rate recorded since the beginning</u>

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 16.3 percent in September 2018 (LE 3547.8 billion), compared to 17.0 percent in last month, and compared to 39.7 percent during September 2017, according to recent data released by the CBE. This can be explained by the decrease in Money (M1) growth to record 13.6 percent in September 2018, compared to 16.6 percent last month, driven by the decrease in Demand Deposits in Local Currency to record 22.7 percent compared to 31.5 percent last month. However, Quasi Money growth stabilizes at 17.2 percent in September 2018 compared to the same percentage last month.

Meanwhile, Net domestic assets (NDA) annual growth increased to record 16.3 percent at end of September 2018 (LE 3329.5 billion), compared to 14.9 percent last month (LE 3251.4 billion), driven by an increase in Net Claims on Government and GASC to record 18.9 percent compared to 17.8 percent last month, and Net Claims on Private Sector has increased to 12.5 percent compared to 11.8 percent last month. On the other hand, there's a decrease in annual growth trend in Net Foreign Assets (NFA) that records 15.7 percent (LE 218.3 billion) at end of September 2018, compared to 51 percent (LE 264 billion) last month, mainly due to the decrease in Banks' Net Reserves to record -181.9 percent compared to -151.8 percent last month.

Moreover, Total Deposits annual growth rate– excluding deposits at the CBE – decreased to record 14.7 percent (LE 3644.4 billion) at the end of September 2018, compared to 15.4 percent last month. Out of total deposits, 85.7 percent belonged to the non-government sector. However, annual growth rate in Total Lending by the banking sector (excluding CBE) increased to record 16.5 percent (LE 1657.8 billion) at end of August 2018, compared to 15.8 percent last month. Nevertheless, the Loans-to-deposits Ratio increased to record 45.5 percent at end of September 2018, compared to 45.3 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.