Executive Summary

Latest Update

The Egyptian government took many reform measures during the previous years, which **equipped the Egyptian economy to better deal with global economic fluctuations and absorb external shocks**. The reform measures implemented have led to increased confidence in the Egyptian economy, **as evidenced by the improvement in the performance of the latest macroeconomic indicators.** In fact, the economy **achieved a growth rate of 5.6% in the first half of the fiscal year 2019-2020.** Contributing growth factors include **retail by 14.7%,** followed by the **industrial sector (12.6%)** and the **agricultural sector (12%)** and other significant contributions by **the oil refining, telecommunications, construction, and tourism industries.**

In a related context, the Ministry of Finance **seeks to continue its financial reforms** drawing on its positive impact on public financial management, performance indicators, rationalizing public spending.

The Ministry of Finance is also playing an important role in **improving public services, and increasing Financial transparency, community participation, and improved financial risk management.** To that end, the ministry made some **amendments to the VAT law,** as part of the continuous efforts to improve the efficiency of the tax system administration, as it decided to **exempt 74 raw materials used in the manufacture of pharmaceutical products from VAT.** The government is also making continuous efforts to **settle export subsidies with 32 companies over the next five years in exchange for new investments.**

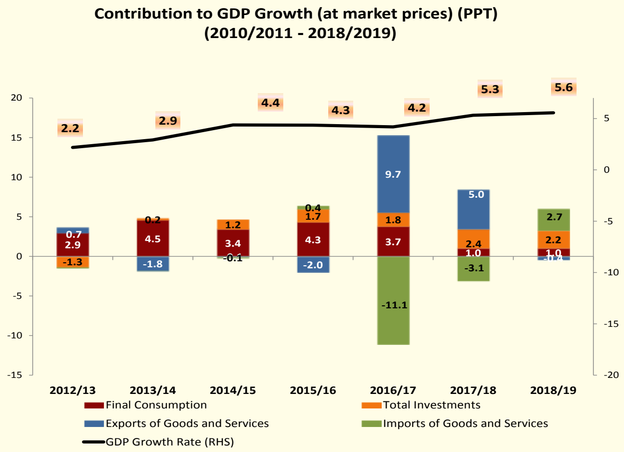
Recent Macroeconomic Indicators

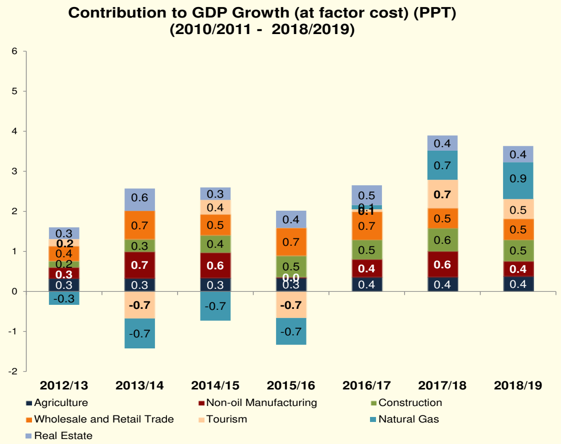
Real Sector

- **In light of the responsiveness of recent macro-economic indicators to the comprehensive reform program, GDP grew by 5.6 percent during FY18/19, compared 2.3 percent during 2011-2014 on average.** It is worth mentioning that Egypt is placed third in the world in terms of growth rate achieved, after China and India. Moreover, it is noteworthy that the pillars of growth are becoming more diversified and more sustainable, mainly due to **the positive performance of investment and net exports rather than consumption, which has been the main driver of growth for many years**. On the sectoral side, growth has been driven by manufacturing, natural gas, tourism, construction, and telecommunications as the main drivers of growth, highlighting the shift to a more sustainable sector structure. This growth led to job creation as the unemployment rate dropped to 7.5% in June 2019. Data for the fiscal year 2018/2019 is being published.

Net Exports performance was the highlight contributing positively to growth by 2.3 PPT in FY18/19, compared to a contribution of 1.9 PPT during FY17/18. Meanwhile, **public and private consumption have contributed positively to growth stabilizing at** 1.0 PPT. **Investments contributed positively** to growth by 2.2 PPT, compared to 2.4 PPT during FY17/18.

Furthermore, **total Production Index rose by 5.3 percent on monthly basis** recording 141.8 points during September 2019, compared to 134.6 points during last month, **mainly driven by Construction Sub-Index that picked-up by 47.2 percent**, recording an average of 173.9 points during September 2019, compared to 118.1 points during last month. Followed by **Tourism sector**, and which rose by 10.1 percent to record 156.8 points in September 2019, compared to 142.4 points during last month.





- **On the Demand Side,** Private consumption grew by 0.9 percent in FY18/19, compared to 1.0 percent last fiscal year (contributing to growth by 0.8 PPT during FY18/19), while Public Consumption grew by 2.8 percent in the period of study, compared to 1.7 percent (contributing to growth by 0.3 PPT, compared to 0.2 PPT). In the meantime, recent data shows that Investments grew by 13.1 percent during FY18/19 (contributing to growth by 2.2 PPT during FY18/19).

- Furthermore, Net Exports boosted growth with a positive contribution of 2.3 PPT, compared to 1.9 PPT during last year. This improvement came in light of the decline in imports growth, and which has outpaced the decline in Exports growth compared last year to reach -8.9 percent for the first, and -2.1 percent for the latter, respectively. Imports contributing to growth by 2.7 PPT, compared to a negative contribution of 3.1 PPT during last fiscal year). While, exports contributed by -0.4 PPT in FY18/19.

- **On the Supply Side,** main key sectors led growth, on top of which were Tourism recording growth rate of 20.1 percent during FY18/19 (contributing positively to growth by 0.5 PPT, compared to a contribution of 0.7 PPT during the same period last fiscal year). In addition, Natural Gas Sector to record 20.2 percent real growth rate during FY18/19 (contributing positively to growth by 0.9 PPT, compared to 0.7 PPT last fiscal year). Moreover, Telecommunications Sector which recorded 16.7 percent real growth rate during FY18/19 (contributing positively to growth by 0.4 PPT, compared to 0.3 PPT last fiscal year). Meanwhile, Construction Sector recorded 8.8 percent real growth rate during FY18/19 (contributing positively to growth by 0.5 PPT). Besides, Non-Petroleum Manufacturing Sector recorded 3 percent real growth rate during FY18/19 (contributing positively to growth by 0.4 PPT). Agriculture Sector recorded 3.3 percent real growth rate during FY18/19 (contributing positively to growth by 0.4 PPT). Wholesale and Retail Trade Sector recorded 3.9 percent real growth rate during FY18/19 (contributing positively to growth by 0.5 PPT) during FY18/19. Real Estate Sector recorded 3.9 percent real growth rate during FY18/19 (contributing positively to growth by 0.4 PPT).

- **Purchasing manager Index increased** to reach 47.1 in February 2020, compared to 46 during last month and compared to a five-year low of 41.7 in July 2013.

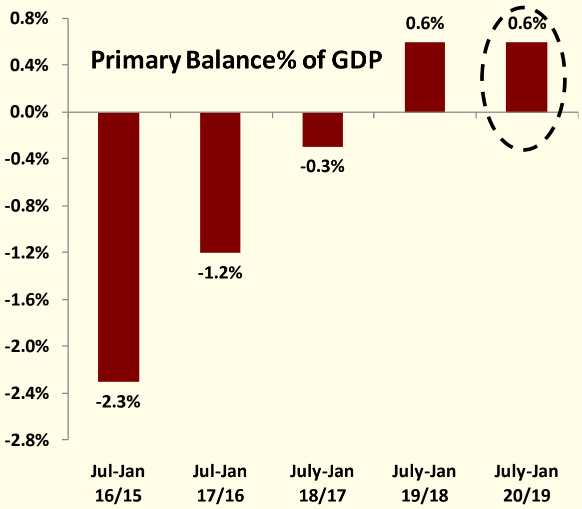
- **Net International Reserves (NIR) has reached US$ 45.5 billion during February 2020**, compared to a lowest level of US$ 13.4 billion at end of March 2013.

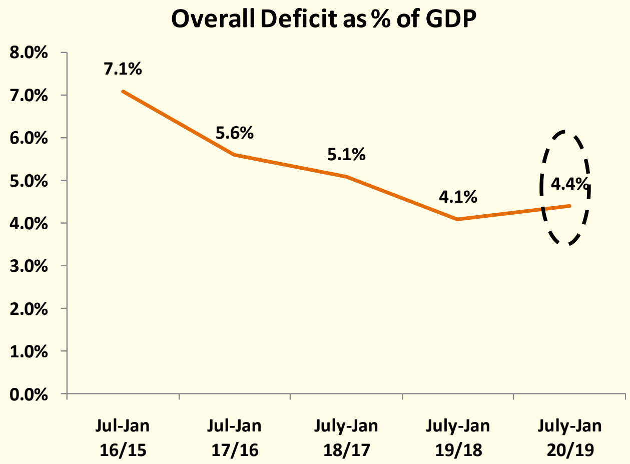
- **Regarding EGX indices,** the EGX-30 Index declined by 6.5 percent during February 2020 to reach 13,008.9 points, compared to closing at 13,918.8 points in the previous month.

- **Tourism receipts increased by 28.2 percent** to reach **$12.5 billion** during FY18/19 compared to $9.8 billion during FY17/18. This reflects the revival of tourism activities and sheds the light on government's efforts in promoting the tourism sector, which is considered as one of the key pillars of the national economy that contributes to economic growth and job creation.

Fiscal Sector

- **In light of the strategic vision announced through the National Economic Reform Program, the government has taken many reform measures during the past three years in various fields to put the economy on track to achieve its potential.** Those reforms had a noticeable impact on improving fiscal performance. One of the promising signals appears in achieving sustainable primary surplus during the period July-January 2019/2020.





- **A Primary Surplus has been recorded reaching LE 34 billion (0.6 percent of GDP) during the period July-January of FY19/20**. **Budget deficit**[1] **recoded 4.4 percent of GDP** during the period of study, compared to 4.1 percent during the same period last year. This could be explained in light of the **increase in Revenues by 3.1 percent during the period of study, and the increase in expenditure by 9.7 percent during the period of study**.

- **On the Revenues Side,** results reflect the continued implementation of the tax reform program, improving tax administration, maximizing state revenues, and improving the performance of tax and customs. **Total Revenues recorded LE 473 billion** during the period of study. **Tax Receipts** (77.5 percent of total revenues) constituted around LE 366.8 billion of that amount, driven by the **increase in income tax receipts by LE 13.3 billion (12.4 percent growth) to record LE 120.2 billion during the period of study,** supported by the rise in receipts from taxes on domestic salaries by LE 7.7 billion (27.8 percent growth), to record LE 35.3 billion, compared to LE 27.6 billion during the same period last year. On the other hand, tax receipts from other companies rose by **LE 12 billion (33.6 percent growth) to record LE 47.7 billion during the period of study,** compared to LE 35.7 billion. Meanwhile, taxes on commercial profits rose by LE 2.8 billion (30.2 percent growth) to reach LE 12.2 billion during the period of study. In addition, receipts from taxes on goods and services rose to LE 191.3 billion.

---

[1] **The slight increase in overall budget deficit is mainly attributed to the early repayment by treasury of LE 33 billion (0.56% of GDP) to pension funds, and which represents the entire dues for the FY19/20. In addition, zero bond coupons with an amount of LE 16 billion were early recalled in October 2019, instead of April 2020 to benefit from the decline in interest rates by 4 percentage points. This has compensated a 15.5 percent interest dues to the Central Bank of Egypt with a total amount of LE 25 billion. Furthermore, Treasury has paid LE 60 billion to repay Suez Canal certificates at the dates of its maturities, and the repayment of LE 40 billion to buy petroleum products to build strategic stocks fulfilling the domestic demands, and to meet the resettlements between the ministries of electricity, and petroleum. And finally, treasury has paid LE 80 billion for the pension funds, a half year portion of the total annually agreed repayment of LE 160.5 billion.**

- **Moreover, Non-Tax Revenues** (22.5 percent of total revenues) increased **by LE 5.2 billion** (5.1 percent growth) to record LE 106.6 billion during the period of study, compared to LE 101.5 billion during the same period last year. **As property income increased by LE 7 billion (19.7 percent growth) to reach LE 43 billion during the period of study, compared to LE 35.9 billion**. This is mainly attributed to the increase in **Dividends from Egyptian Petroleum Company by LE 1.4 billion** to reach LE 2 billion, and the increase in Dividends from Public Enterprises by LE 0.6 billion (34 percent growth) to reach LE 2 billion during the period of study. Moreover, proceeds from **Sales of Goods and Services rose by LE 2.6 billion** (8.1 percent growth) to record LE 34 billion during the period of study.

Fiscal Sector Performance during July-January 2019/2020

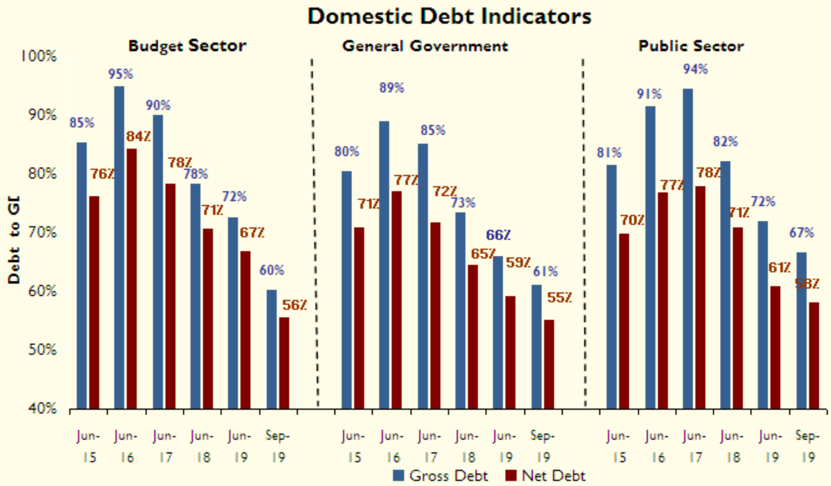
(LE billion)

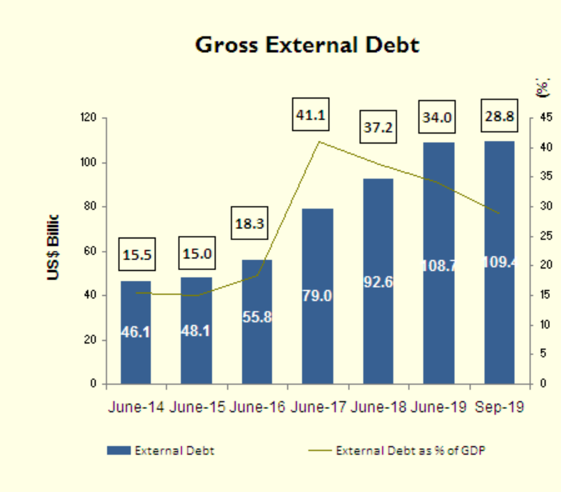
	July-January		Growth rate
	2019/20	2018/19	
Revenues	**473,422**	**459,052**	**3.1%**
Taxes	366,808	357,607	2.6%
Grants	850	490	73.4%
Other Revenues	105,765	100,955	4.8%
Expenditure	**737,105**	**672,138**	**9.7%**
Wages and Compensation of Employees	171,399	153,511	11.7%
Purchase of Goods and Services	36,331	33,539	8.3%
Interest Payments	301,900	246,445	22.5%
Subsidies, Grants and Social Benefits	105,826	125,961	-16.0%
Other Expenditures	45,268	41,777	8.4%
Purchases of Non-financial Assets (investments)	76,381	70,904	7.7%
Cash Deficit	**-263,682**	**-213,086**	
	4,310	**1,117**	
Overall Budget Deficit	**-267,992**	**-214,203**	
Budget Primary Surplus/or Deficit (%of GDP)	**0.6%**	**0.6%**	
Budget Overall Deficit (%of GDP)	**-4.4%**	**-4.1%**	

- **On the expenditure side reprioritization is to achieve the best social yield through investment in human capital and better distribution of services and infrastructure.** Total expenditures have increased by 9.7 percent during July-January FY19/20, compared to same period last year. On the other hand, spending on food subsidies increased by LE 0.5 billion (2 percent growth) to reach LE 28.9 billion. Spending on health insurance and medicines rose by LE 0.5 billion to reach LE 1.7 billion, compared to LE 1.2 billion. Besides, spending on purchase of goods and services have increased by LE 2.8 billion (8.3 percent growth) to reach LE 36.4 billion during the period of study due to increased spending on production and maintenance. Meanwhile, **Investment Spending** have rose by LE 5.5 billion to record LE 76.4 billion, compared to LE 70.9 billion during the same period of study last year, which reflects increased investments spending on infrastructure.

External & Domestic Debt

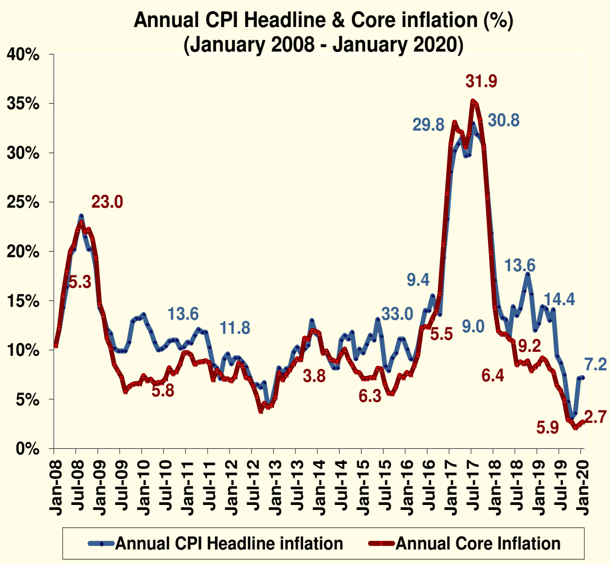
- **Total Government Debt (domestic and external)** decreased to LE 4655.3 billion (75.5 percent of GDP) at end of September 2019 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is driven mainly by the decrease in Domestic debt worth 369.1 bn in light of the new pension reform that has solved the problem of complicated financial entanglements through an agreement to transfer an amount of 160.5 billion Egyptian pounds from the treasury in 2019/2020 which increases by 5.8% compounded annually for 50 years. Meanwhile, government external debt increased as loans increased to US$ 40 billion end of September 2019, compared to US$ 37.9 billion at end of June 2019. Meanwhile, Banks debt decreased to US$ 9.2 billion at the end of September 2019, compared to US$ 9.5 billion last fiscal year.

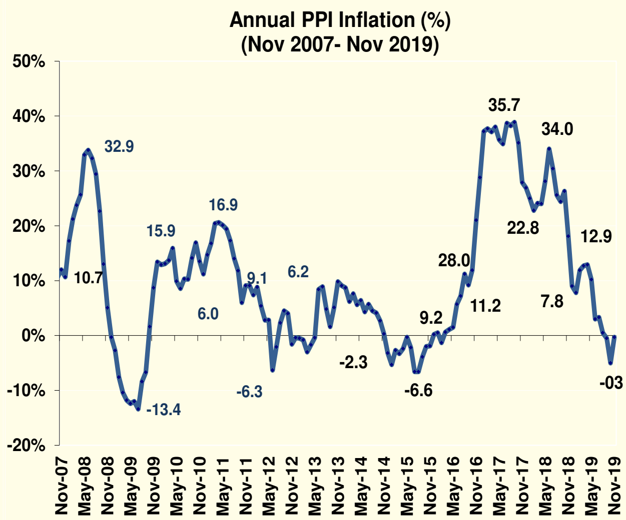




Inflation

Monthly Urban Inflation increased to record 0.7 percent in January 2020 driving annual inflation to record 7.2 percent during the month of study, declining compared to 12.7 percent during January 2019 (in light of subdued food prices the biggest weight in CPI**). Meanwhile, average annual inflation rate reached** 6.0 percent during July-Jan 19/20, compared to 14.5 percent during the same period of last year.





Monetary Sector

- **According to recent data released by the CBE, M2 growth has slightly increased to 13.3 percent in December 2019 (LE 4110 billion)**, compared to 13.2 percent last month, and 13.3 percent in December 2018.

This is mainly due to the **rise in Quasi Money to 12.5 percent** in December 2019, compared to 12.3 percent last month and 13.3 percent in December 2018. However, **Money (M1) growth declined to 15.8 percent** in December 2019, compared to 16.1 percent last month, driven by the **decline in Demand Deposits in Local Currency to 17.1 percent in December 2019**, compared to 18.2 during last month.

Net Foreign Assets (NFA) annual growth has continued for the sixth month in a row to turn the 9-months long negative value to a positive value of 172 percent (LE 346.8 billion) at end of December 2019, compared to 144.1 percent last month, mainly due to the **increase in Central Bank NFA (In LE terms) by 14 percent in December 2019**, compared to 4 percent last month coupled with **a rise in Central Bank NFA (IN US$ terms) to record 24.7 percent in December 2019**, compared to 8.9 percent last month.

Moreover, **Net domestic assets (NDA) annual growth declined to 7.5 percent at end of December 2019** (LE 3763 billion) **due to the decrease in Claims on private Sector** to 12.8 percent in December 2019, compared to 13 percent last month.

Moreover, **Total Deposits annual growth rate – excluding deposits at the CBE – decreased** to 10.9 percent (LE 4235.9 billion) at the end of December 2019, compared to 11.2 percent last month (driven by the decrease in government deposits). **Out of total deposits, 85 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio decreased to record** 44.6 percent at end of December 2019, compared to 44 percent last month. **Total Lending** increased to record 4.2 (LE 1890.6 billion) at end of December 2019, compared to 4 percent last month.

In the same context, the Monetary Policy Committee (MPC) decided on 20th February 2020 to keep the Central Bank of Egypt's (CBE) **overnight deposit rate, overnight lending rate, and the rate of the main operation** at **12.25 percent, 13.25 percent, and 12.75 percent**, respectively. The **discount rate** was also **kept at 12.75 percent.**

External Sector

- **The Balance of Payment** recorded an **overall surplus** of US$ 0.2 billion in the first quarter of the FY 2019/2020. This comes in light of a **subdued trade deficit** declining by US$ 1.0 billion to reach US$ 8.8 billion during the period of study, and a **significantly declining current account deficit** by 31 percent to reach US$ 1.4 billion, in addition **to recording a surplus of US$ 0.7 billion in the capital and financial account.**

<u>The improvement in the current account deficit resulted from the step up in a number of sub-categories as follows:</u>

- **Non-oil merchandise exports rose by US$ 0.7 billion (18 percent growth), to reach US$ 4.7 billion** due to escalating exports of gold, radio and TV transmitters and receivers, drugs, vaccines, pharmaceuticals, and organic and inorganic compounds.
- **Non-oil merchandise imports declined by US$ 0.3 billion (-2 percent growth) to reach US$ 12.9 billion** supported by the drop in imports from iron, wheat, wood, and cars & tractors spare parts.

- **Tourism receipts accelerated by US$ 0.3 billion (7 percent growth) to record US$ 4.2 billion** during the period of study. Meanwhile, Tourism payments rose by US$ 0.2 billion (33 percent growth) to record US$ 1 billion (this led Travel Balance to stabilize at US$ 3.2 billion during the period of study).
- **Suez Canal receipts are no the rise and which increased by 5 percent** to reach US$ 1.5 billion.
- **Remittances rose by US$ 0.8 billion (14 percent growth) to reach US$ 6.7 billion.**

The Capital and Financial Account recorded net inflows of US$ 0.7 billion in the first quarter of the FY 2019/2020**. Net Foreign Direct Investments (FDI) increased by US$ 0.9 billion to record US$ 2.4 billion** compared to US$ 1.4 billion during the same period last year. The rise in investments inflows came in the form of increased investment inflows in establishing new businesses, and which results in increasing its capital to US$ 1.5 billion, as well as increased investments in the oil sector to reach US$ 0.7 billion during the period of study.