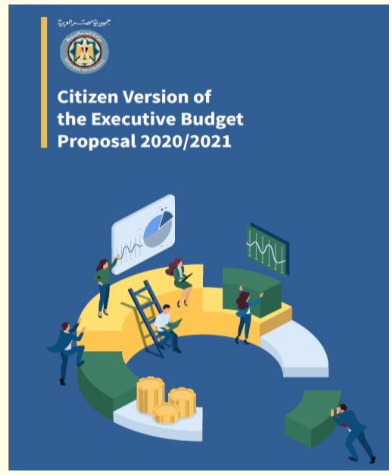
Executive Summary

Latest Update

The comprehensive economic reform program implemented since 2016 **helped create fiscal space and structural flexibility** for the Egyptian economy to face the pandemic crisis, its ramifications and **achieve economic and fiscal stability.** All of which helped to maintain the confidence of international institutions and credit rating agencies in the Egyptian economy and its ability to respond to external shocks and crises in a timely manner.



The Ministry of Finance is keen to create direct communication channels with citizens to involve them in the budget cycle and the state's economic vision. Based on this, in August 2020 the Ministry of Finance **published for the first time a citizen's copy of the financial statement FY 2020/2021 as one of the communication tools** used by the ministry for the purposes of citizen participation. The report reviews the data of the state’s draft budget FY 2020/2021, which was presented to the Parliament at the end of last March, before the approved budget is issued on June 30, 2020. **This will be followed by the publication of the seventh annual issue of the citizen’s budget for the approved budget FY 2020/2021.** These reports are accessible through the official website of the Ministry of Finance, www.mof.gov.eg

Recent Macroeconomic Indicators

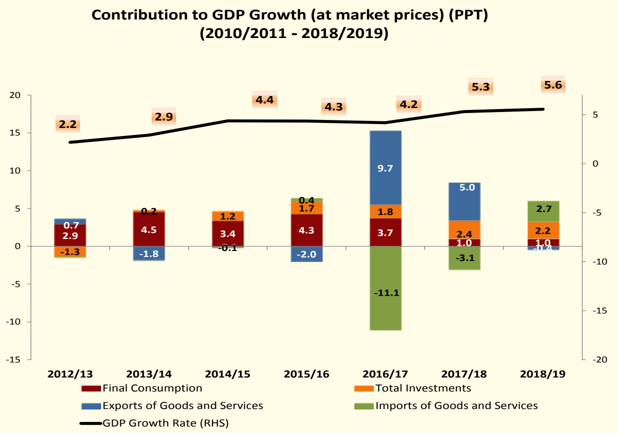
Real Sector

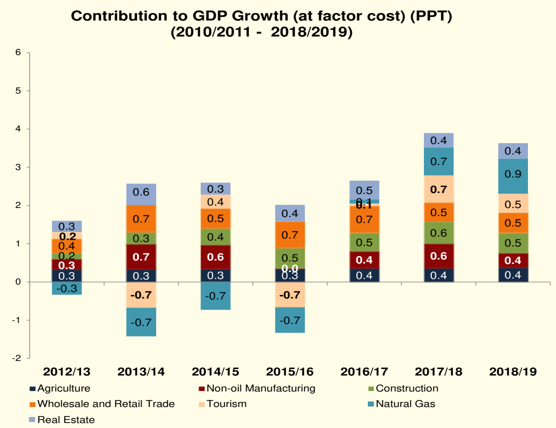
In light of the responsiveness of recent macro-economic indicators to the comprehensive reform program, GDP grew by 3.6 percent during FY19/20 compared to 2.3 percent during 2011-2014 on average. It is worth mentioning that in light of the consequences of COVID-19 on the global economy, the Egyptian government have approved a stimulus package for the quick response and trying to contain the negative effects. Although the growth rate was expected to reach 6 percent during FY2019/2020, the Egyptian Economy succeeds to achieve positive growth rate, while other countries recorded negative growth. 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).

- **Net International Reserves (NIR)** has reached US$ 38.4 billion during September 2020, compared to lowest level of US$ 13.4 billion at end of March 2013.

- **Purchasing manager Index increased** to reach 50.4 in September 2020, compared to 49.4 in August 2020.

- **Regarding EGX indices,** the EGX-30 Index increased by 7.2 percent during August 2020 to reach 11,366 points, compared to closing at 10,599.5 points in the previous month.

- **Tourism receipts** reached US**$12.5 billion** during FY18/19 compared to $9.8 billion during FY17/18.

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.

- **Budget deficit recoded 1.4 percent of GDP** during the period July-August 2020/2021. In light of the **increase in revenues by 17.6 percent during the period of study, and the increase in expenditure by the same percentage points during the period of study, compared to July-August 19/20**.

- **Total Revenues recorded LE 126 billion** during the period of study, and which has increased by LE 18.9 billion (17.6 percent growth) compared to the same period of last year. **Tax Receipts** (73.4 percent of total revenues) constituted around LE 92.4 billion of that amount, driven by the **increase in income tax receipts by LE 10 billion (42.2 percent growth) to record LE 34 billion during the period of study,** supported by the rise in receipts from taxes on domestic salaries by LE 1.8 billion (25.2 percent growth), to record LE 9.2 billion, compared to LE 7.3 billion during the same period last year, tax receipts from other companies rose by LE 6.8 billion (83.3 percent growth) to reach LE 15 billion, and taxes on commercial profits rose by LE 1 billion (30.4 percent growth) to record LE 4.4 billion during the period of study, while tax receipts from Suez Canal have increased by LE 0.8 billion (20 percent growth) to reach LE 4.8 billion during the period of study. In addition, **receipts from tax on goods and services** rose by LE 1.8 billion (4.1 percent growth) to reach LE 46.4 billion during the period of study, driven by the increase in excises on domestic commodities by LE 2 billion (16.4 percent growth) to reach LE 14.2 billion during the period of study. Moreover, **receipts from tax on international trade rose** by LE 0.8 billion (14.3 percent growth) to reach LE 6 billion during the period of study.

- **Non-Tax Revenues** (26.6 percent of total revenues) increased **by LE 7 billion** (26.7 percent growth) to record LE 33.6 billion during the period of study, compared to LE 26.5 billion during the same period last year. **As property income increased by LE 0.7 billion (7.2 percent growth) to reach LE 11 billion during the period of study,** compared to LE 10.2 billion. This is mainly attributed to the increase in dividends from Public Sector, and Public Enterprises to reach LE 2.3 billion during the period of study. While, dividends from Suez Canal has recorded LE 4.7 billion during the period of study, and dividends from Economic Authorities has recorded LE 1.8 billion during the period of study. **Moreover, proceeds from Miscellaneous Revenues** rose by LE 7 billion (81 percent growth) to record LE 15.5 billion during the period of study.

- **On the Expenditure side, Total expenditures have increased by 17.6 percent to reach LE 218 billion during July-August 2020/2021**, compared to same period last year. **The government continues its efforts to reprioritize spending towards social protection, investment in human capital and better distribution of services and to develop infrastructure.** Wages and compensation for employees rose by LE 1.6 billion to reach LE 52.4 billion during the period of study. On the other hand, spending on treasury contribution to pensions rose by LE 15.3 billion to reach LE 21.3 billion during the period of study. Spending on exports subsidies rose by LE 1.1 billion during the period of study, and spending on health insurance and medicine rose by 26 percent to reach LE 0.9 billion during the period of study, and LE 8.4 billion was allocated for GASC subsidies during the period of study. Besides, **Investment Spending** rose by LE 8.2 billion to record LE 18 billion during the period of study to develop infrastructure.

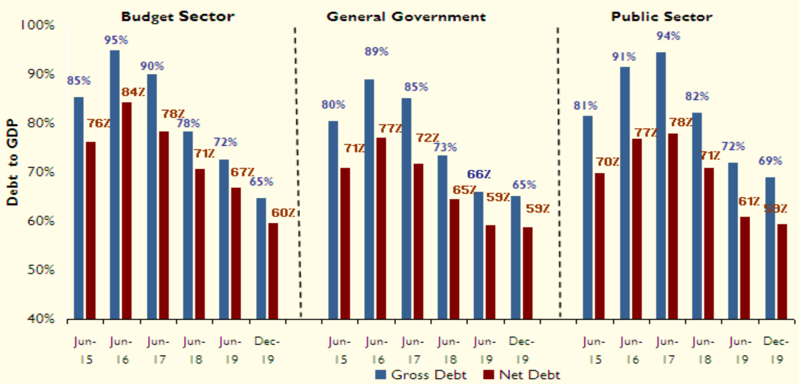
Fiscal Sector Performance during July- August 2020/2021

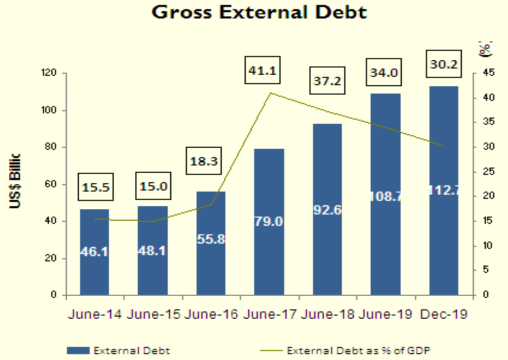
(LE billion)

	July- August		Growth rate
	2021/20	2020/19	
Revenues	**126,003**	**107,154**	**17.6%**
Taxes	92,447	80,661	14.6%
Grants	280	122	129%
Other Revenues	33,277	26,371	26.2%
Expenditure	**218,064**	**185,351**	**17.6%**
Wages and Compensation of Employees	52,435	50,849	3.1%
Purchase of Goods and Services	6,331	7,024	-9.9%
Interest Payments	87,520	80,562	8.6%
Subsidies, Grants and Social Benefits	39,497	24,141	63.6%
Other Expenditures	14,360	13,081	9.8%
Purchases of Non-financial Assets (investments)	17,920	9,693	84.9%
Cash Deficit	**- 92,061**	**- 78,197**	
Net Acquisition of Financial Assets	**1,204**	**37**	
Overall Budget Deficit	**- 93,265**	**- 78,234**	
Budget Primary Surplus/or Deficit (%of GDP)	**- 0.1%**	**0.04%**	
Budget Overall Deficit (%of GDP)	**- 1.4%**	**- 1.3%**	

External & Domestic Debt

- **Total Government Debt (domestic and external)** increased to LE 4834.2 billion (81.1 percent of GDP) at end of December 2019 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 356.2 billion compared to LE 77.2 billion increase in T-bills stock implementing the ministry's policy of increasing debt maturity. Meanwhile, government external debt increased as loans increased to US$ 40.6 billion end of December 2019, compared to US$ 37.9 billion at end of June 2019. Meanwhile, Banks debt decreased to US$ 8.7 billion at the end of December 2019, compared to US$ 9.5 billion last fiscal year.

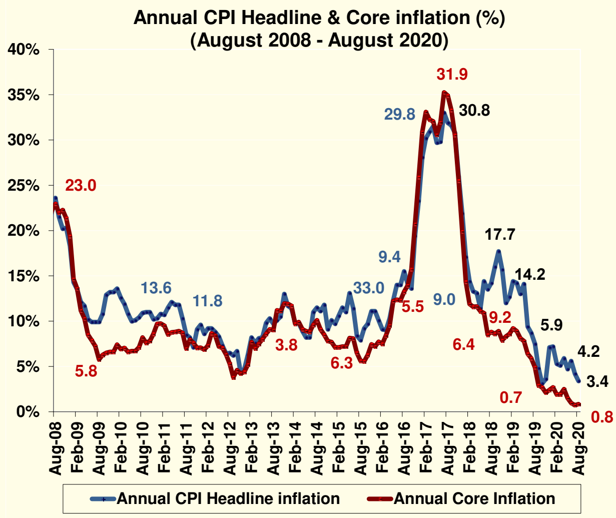


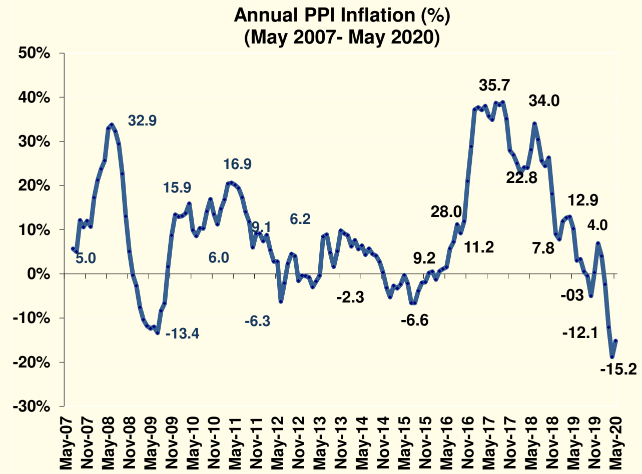


*GDP for FY19/20 is projected to reach LE 5960.9 billion as per the Ministry of Finance Calculations.

Inflation

Annual Urban Inflation recorded 3.4 percent in August 2020, compared to 4.2 percent during last month**. Meanwhile, average annual inflation rate reached** 3.8 percent during July-August FY20/21**,** compared to 8.1 percent during the same period of last year (in light of subdued food prices the biggest weight in CPI**)**.





Monetary Sector

According to recent data released by the CBE; M2 growth increased to 17.2 percent in May 2020 (LE 4451.4 billion), compared to 15.7 percent last month. This is mainly due to the increase in **Money (M1)** to 9.1 percent in May 2020, compared to 7 percent last month driven by the increase in **Currency in circulation** to 16.4 percent in May 2020, compared to 12.7 percent during last month. Moreover, **Quasi Money** growth increased to record 5.4 percent in May 2020, compared to 4.6 last month, driven by the increase in **Foreign currency demand deposits** to reach 11.2 percent in May 2020, compared to 4.3 last month.

- **Net Foreign Assets (NFA)** annual growth has significantly increased to -65.7 percent (LE 132.4 billion) compared -89 percent last month, mainly due to the increase in **Bank Reserves (in LE terms)** to -14.4 percent in May 2020, compared to -32.4 percent last month.
- **Net domestic assets (NDA)** annual growth has slightly decreased to 23.4 percent at end of May 2020 (LE 4319 billion) compared to 23.7 percent last month due to the decrease in **Net Claims on Government, and GASC** to 28 percent in May 2020, compared to 28.3 percent last month.
- **Total Deposits annual growth rate– excluding deposits at the CBE** – increased to 17.7 percent (LE 4603.4 billion) at the end of May 2020, compared to 14.9 percent last month. **Out of total deposits, 84 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** increased to record 46.4 percent at end of May 2020, compared to 46.3 percent last month.
- **In the same context,** the Monetary Policy Committee (MPC) decided on 24th September 2020 to cut the Central Bank of Egypt's (CBE) **overnight deposit rate, overnight lending rate, and the rate of the main operation by 50 basis** points to 8.75 percent, 9.75 percent, and 9.25 percent, respectively. The **discount rate** was also cut by 50 basis points to 9.25 percent.

External Sector

- **As a result of the economic reform program, and its success in achieving a continued and remarkable improvement in the current account deficit, in addition to the successive rebuilding of historical foreign exchange reserves levels during the past years, the country was able to absorb the unfavorable shock of COVID19 pandemic. According to recent data by CBE, the Balance of Payment recorded an overall deficit of US$ 5.1 billion in the period July-March FY 2019/2020**. **A subdued current deficit** was witnessed declining by US$ **2.4** billion (by -25.2 percent) to reach US$ -7.4 billion during the period of study, compared to US$ -9.8 **billion during the same period of last year, amid a significantly declining Non-oil trade account deficit and an increase in Unrequited current transfers**. On the other side, **capital and financial account recorded a surplus of US$ 4.1 billion during the period of study,** lower than US$ 9.6 billion recorded during the period July-March FY 2018/2019 as COVID 19 crises has triggered portfolio outflows globally, particularly felt in emerging markets.

<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$ 1.2 billion (9.9 percent growth), to reach US$ 13.6 billion** due to escalating exports of gold, radio and TV transmitters and receivers, drugs, vaccines, pharmaceuticals, and organic and inorganic compounds, which overcame the decline in oil exports to US$ 7.3 billion, compared to US$ 8.5 billion during the same period of last year due to the drop in the exports of crude oil and oil products, and natural gas.
- **Non-oil merchandise imports declined by US$ 0.9 billion (-2.2 percent growth) to reach US$ 40.9 billion** supported by the drop in imports from iron, all kinds of coal, cars & tractors spare parts, and spare parts and accessories of electrical appliances for household use, and drugs.
- **Oil merchandise imports declined to reach US$ 8.1 billion,** compared to US$ 8.8 billion during the same period last year supported by the lower imports of oil products (as importation of natural gas has stopped starting from Q2 of FY 2018/2019) and higher imports of crude oil.
- **Remittances rose by US$ 3.3 billion (18.3 percent growth) to reach US$ 21.5 billion.**
- **Suez Canal receipts increased by 4.4 percent** to reach US$ 4.5 billion during the period of study, compared to US$ 4.3 billion during the same period of last year.

<u>The Capital and Financial Account</u> recorded net inflows of US$ 4.1 billion during the period July-March FY 2019/2020. However, lower than US$ 9.6 billion recorded during the same period of last year, mainly due to the outbreak of COVID 19 pandemic, and which impacted portfolio investment outflows of nonresidents in the Egyptian market to reach US$ 7.9 billion during the period of study. **On the other hand, Net Foreign Direct Investments (FDI) dropped by US$ 595 million to record US$ 5.9 billion** compared to US$ 6.5 billion during the same period last year **amid heightened uncertainty unleashed by the pandemic impacting FDI flows worldwide**.