Executive Summary

Latest Update

The Ministry of Finance continues to achieve milestones in **reforming public finance management sector and public expenditure in ways that maximize state's revenues and improve citizens' welfare.**

The first version of the program-based-budgeting guide was published to demonstrate its application where allocations are tied to specific programs. This is aligned with **international standards** and responds to **digital transformation** in ways that reinforce **good governance, fiscal consolidation and efficient public services.**

Program based budgeting has proved successful specifically in the health sector where two presidential initiatives (Ending virus C infections and eliminating waiting lists for emergency operations). Hence, other sectors are expected to benefit from the application of program-based budgeting.

In an unprecedent move, **Egypt has issued green bonds in the English stock market at a value of USD750 for five years, the largest issuance in the MENA region**. These bonds shall finance **green environmentally friendly projects, assist in achieving Egypt's plan to sustainably develop the energy and water & sanitation sectors in light of Egypt's 2030 vision**. Green bonds are not only required by investors but are also a tool for diversifying Egypt's sources of finance. **Egypt has previously announced the issuance of sovereign green bonds worth USD3.7 billion**.

In another proactive step, the Ministry of Finance **launched the Unified Tax Procedures Law No. (206) for the year 2020,** which is an essential step towards **digital transformation and moving to full automatio**n, achieving more effectiveness in **ending tax disputes**, and **unifying tax procedures by granting one tax number to the taxpayer**. This will help simplify tax procedures and improve investment climate .

The implemented reforms have led to an **improvement in the fiscal and economic performance indicators** during the current year, and this is evident by following the latest developments of the following detailed indicators:

Recent Macroeconomic Indicators

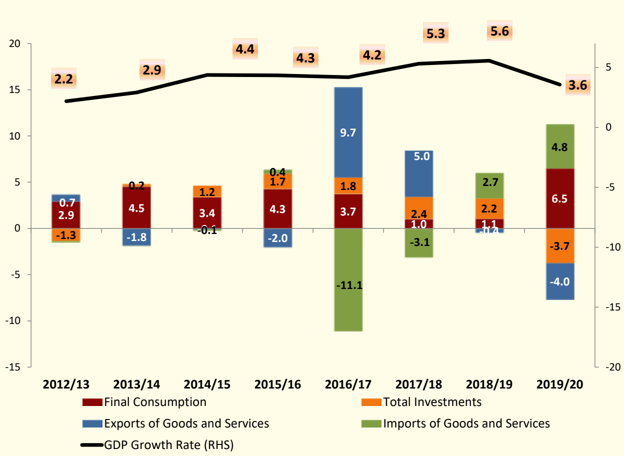
Real Sector

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

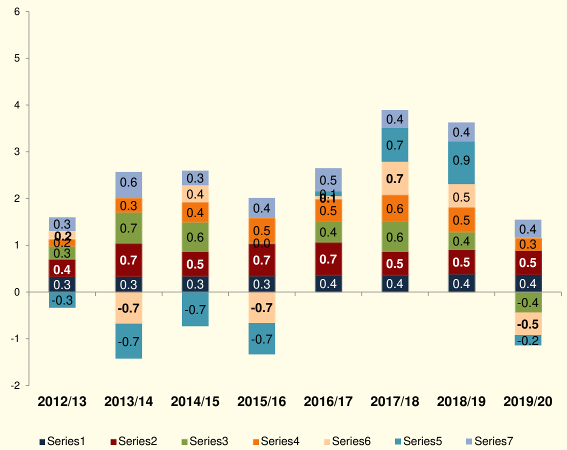
Egyptian Economy succeeds to achieve positive growth rate, while other countries recorded negative growth. It is noteworthy that the pillars of growth are becoming more diversified and more sustainable, mainly due to **the positive performance of consumption and net exports**. On the sectoral side, growth has been driven by total social services sector (mainly real estate, and general government), followed by total production services sector (mainly wholesale and retail trade, telecommunications, and transport), followed by total commodity sector (mainly agriculture), and manufacturing industry sector (mainly petroleum refinement, and construction). This growth led to job creation as the unemployment rate dropped to 7.7 percent in Q1 2020.

Public and private consumption performance was the highlight contributing positively to growth by 6.5 PPT in FY19/20, compared to a contribution of 1.1 PPT during FY18/19. Meanwhile, Net Exports have contributed positively to growth by 0.8 PPT which counterparted the decline in Investments contributing negatively to growth by 3.7 PPT during FY19/20.

Contribution to GDP Growth (at market prices) (PPT)
(2012/2013 - 2019/2020)



Contribution to GDP Growth (at factor cost) (PPT)
(2012/2013 - 2019/2020)



- **On the Demand Side,** Private consumption grew by 7.2 percent in FY19/20, compared to 1.0 percent last fiscal year (contributing to growth by 5.9 PPT during FY19/20), while Public Consumption grew by 6.7 percent in the period of study, compared to 2.8 percent (contributing to growth by 0.6 PPT, compared to 0.3 PPT). Furthermore, Net Exports boosted growth with a positive contribution of 0.8 PPT during the FY19/20.

- **On the Supply Side,** main key sectors led growth, on top of which were **Total Social Services Sector** recording growth rate of 4.7 percent during FY19/20 (contributing positively to growth by 1.1 PPT), mainly driven by the growth in general government by 6.1 percent (contributing by 0.5 PPT), real-estate growth by 3.8 percent (contributing by 0.4 PPT). **Total Production Services Sector** rose by 2.8 percent during FY19/20 (contributing to growth by 0.9 PPT), supported mainly by the increase in telecommunication by 15.2 percent (contributing to growth by 0.4 PPT), and the growth in wholesale and retail by 3.9 percent (contributing to growth by 0.5 PPT), and the growth in transport by 3.9 percent (contributing by 0.2 PPT). **Total Commodity Sector** rose by 1.2 percent during FY19/20 (contributing to growth by 0.6 PPT), spurred mainly by the increase in agriculture sector by 3.3 percent (contributing by 0.4 PPT). **Total Manufacturing Sector** rose by 1.4 percent during FY19/20 (contributing to growth by 0.2 PPT), primarily due to the increase in petroleum refinement sector by 17.3 percent (contributing to growth by 0.7 PPT), and the growth in construction sector by 4.4 percent (contributing to growth by 0.3 PPT)

- **On monthly basis total Production Index rose by 4 percent YoY growth** recording 131.6 points during January 2020, compared to 126.6 points during same month last, mainly driven by the rise of transport sector by 31 percent, tourism sector by 17 percent, Suez Canal by 6 percent, manufacturing sector by 3 percent , and natural gas by 2 percent compared to January 2019.

- **Net International Reserves (NIR)** has reached US$ 39.2 billion during October 2020, compared to lowest level of US$ 13.4 billion at end of March 2013.
- **Purchasing manager Index increased** recorded strongest rate since 2014 to reach 51.4 in October 2020, compared to 50.4 in September 2020.
- **Regarding EGX indices,** the EGX-30 Index decreased by 4.3 percent during October 2020 to reach 10,515.3 points, compared to closing at 10,989.3 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

Over the past five years, the Egyptian government has undertaken many reform measures aimed at putting the Egyptian economy on track while raising the efficiency of public services. The Ministry of Finance has been keen on achieving fiscal consolidation, sustainability of public finance indicator, rationalization of consumption while diversifying its sources of finance without compromising to the safe limits of public debt. In addition to, supporting the social security net, providing quality health care to citizens, increasing financial allocations to raise the efficiency of infrastructure, human development, education and health programs.

These reforms have led to a noticeable improvement in the state's general budget structure, as the total deficit of the state's public budget as a percentage of GDP decreased to -2.1% during the period July-September 20/21, compared to -2.3% during the same period last year. This can be explained in light of the increase in revenues by 18.4%, which exceeded the increase in expenses by 11%, compared to the same period of the previous year.

Total Revenues increased by LE 31.7 billion (18.4 percent growth) to record LE 204.7 billion during the period of study, compared to the same period of last year. Tax revenues constitute 73.3 percent of total revenues while non-tax revenues have increased to constitute 26.7 percent.

- **Tax Receipts** (73.3 percent of total revenues) constituted around LE 150.2 billion of the increase, driven by
    - the **increase in income tax receipts by LE 16.3 billion (42.2 percent growth) to record LE 54.8 billion during the period of study**
        - ✓ supported by the **rise in receipts from taxes on domestic salaries by LE 1.3 billion** (10.5 percent growth), to record LE 13.9 billion, compared to LE 12.6 billion during the same period last year
        - ✓ **increase in tax receipts from other companies rose by LE 11 billion** (84.1 percent growth) to reach LE 24.1 billion
        - ✓ **taxes on commercial profits rose by LE 3.8 billion** (92 percent growth) to record LE 8 billion during the period of study

- **while tax receipts from Suez Canal have increased by (0.7 percent growth)** to reach LE 7.8 billion during the period of study
- **receipts from value added taxes rose by LE 0.8 billion** (1.1 percent growth) to reach LE 74.3 billion during the period of study
- **driven by the increase in excises on domestic commodities by LE 3.2 billion** (15.1 percent growth) to reach LE 24 billion during the period of study
- **and the increase in receipts from stamp tax by LE 0.7 billion** (35 percent growth) to reach LE 2.7 billion during the period of study
- **receipts from property taxes rose by LE 1.5 billion** (13.3 percent growth) to reach LE 12.6 billion during the period of study
- in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 1.0 billion (12.8 percent growth) to reach LE 9.6 billion during the period of study
- and the increase in receipts from Taxes and fees on cars by LE 0.4 billion (30.5 percent growth) to reach LE 1.8 billion during the period of study

▪ **Non-Tax Revenues (26.7 percent of total revenues) increased by LE 13.2 billion (31.9 percent growth)** to record LE 54.6 billion during the period of study, compared to LE 41.4 billion during the same period last year

- **As property income increased by LE 2 billion (14.1 percent growth) to reach LE 16.2 billion during the period of study,** compared to LE 14.2 billion
- **This is mainly attributed to the increase in dividends from Public Sector companies by LE 1.5 billion (179 percent growth)** to reach LE 2.3 billion during the period of study
- While, dividends from Suez Canal recorded LE 7.5 billion during the period of study
- and dividends from Economic Authorities recorded LE 2.9 billion during the period of study
- **Moreover, proceeds from Miscellaneous Revenues** rose by LE 12.3 billion (83.3 percent growth) to record LE 27 billion during the period of study
- due to the increase in receipts from capital miscellaneous revenues by LE 6.6 billion to reach LE 9.4 billion during the period of study (mainly due to the increase in proceeds from sale of non-productive assets (lands), and other capital revenues)
- while current miscellaneous revenues rose by LE 5.7 billion to record LE 17.6 billion during the period of study (mainly due to the increase in receipts from pprevious year's revenues, and other current revenues)

On the Expenditure side, <u>Total expenditures have increased by 11 percent to reach LE 336.8 billion during July-September 2020/2021,</u> 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. <u>It is noteworthy to mention that the increase in social assistance benefits is in light of the increase in treasury contributions in Pension funds with the implementation of the new pension law number 148 for the year 2019.</u>

<u>Compensation of Employees</u>

- **wages and compensation for employees rose by LE 3.8 billion (5.1 percent growth)** to reach LE 78.7 billion during the period of study

Subsidies, grants & social benefits

- **on the other hand, spending on treasury contribution to pensions rose by LE 22.5 billion to reach LE 28.5 billion** during the period of study in light of the implementation of the new pension law number 148 for the year 2019
- **spending on exports subsidies rose by LE 0.9 billion to reach LE 1.7 billion** during the period of study
- **spending on health insurance and medicine rose by 2.3 percent to reach LE 1.2 billion** during the period of study
- **LE 12.4 billion was allocated for GASC subsidies** during the period of study

Purchases of non-financial assets

- **Investment Spending** rose by LE 15 billion (60.4 percent growth) to record LE 40 billion during the period of study in light of the efforts to improve infrastructure, and the public services provided to citizens. **It is noteworthy to mention that the increase in spending on Direct investment (including customs fees) is mainly due to the increase in infrastructure spending, more specifically spending on roads, transportation, buildings, hospitals and schools. To that extent, total spending on construction amounted to LE 29.2 billion during FY15/16, increasing by 44 percent compared to the previous year, and spending on Non-residential buildings amounted to LE 10 billion, increasing by 17.7 percent compared to the previous year.**

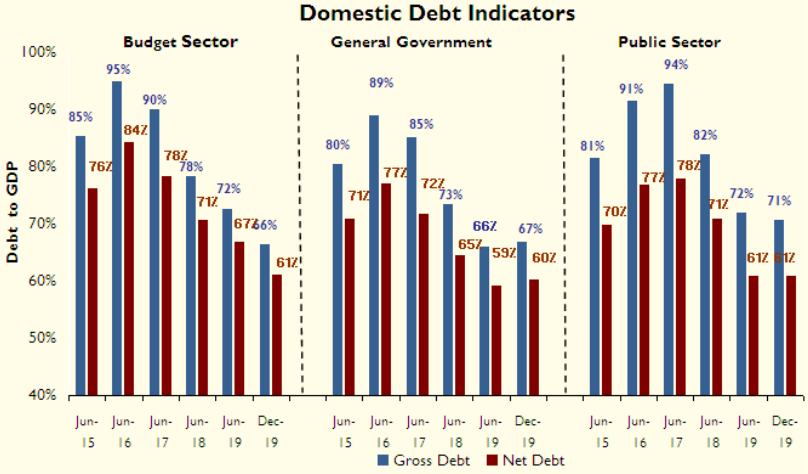
Fiscal Sector Performance during July- Sep 2020/2021

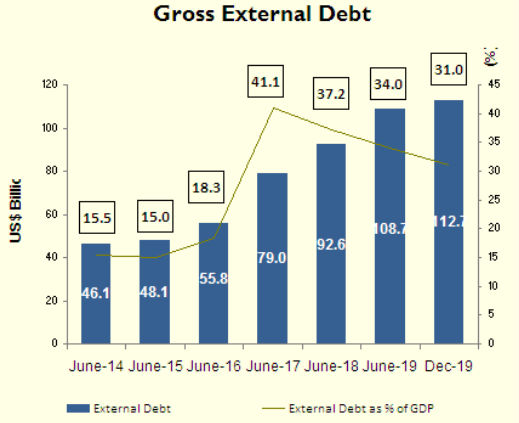
(LE billion)

	July- Sep		Growth rate
	2021/20	2020/19	
Revenues	**204,715**	**172,971**	**18.4%**
Taxes	150,154	131,598	14.1%
Grants	314	323	-3%
Other Revenues	54,247	41,050	32.1%
Expenditure	**336,816**	**303,341**	**11.0%**
Wages and Compensation of Employees	78,736	74,936	5.1%
Purchase of Goods and Services	10,720	12,834	-16.5%
Interest Payments	135,070	138,515	-2.5%
Subsidies, Grants and Social Benefits	54,714	34,087	60.5%
Other Expenditures	17,627	18,064	-2.4%
Purchases of Non-financial Assets (investments)	39,949	24,906	60.4%
Cash Deficit	**- 132,101**	**- 130,369**	
Net Acquisition of Financial Assets	**2,875**	**1,092**	
Overall Budget Deficit	**- 134,976**	**- 131,461**	
Budget Primary Surplus/or Deficit (%of GDP)	**0.0%**	**0.10%**	
Budget Overall Deficit (%of GDP)	**- 2.1%**	**- 2.3%**	

External & Domestic Debt

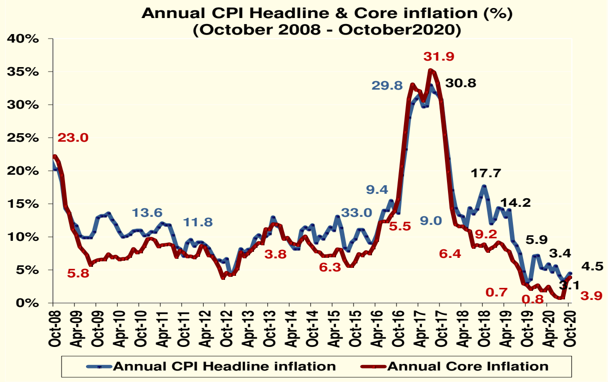
- **Total Government Debt (domestic and external)** increased to LE 4834.2 billion (83.1 percent of GDP) at end of December 2019 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 356.2 billion compared to LE 77.2 billion 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.

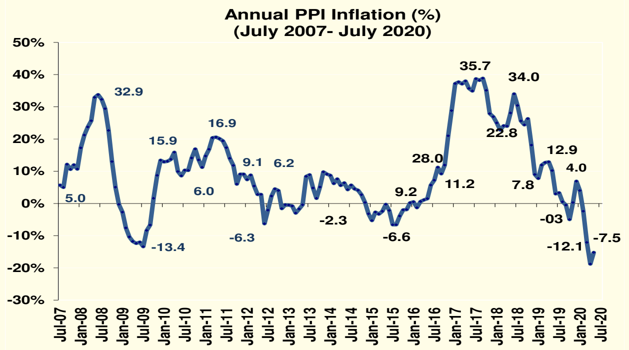




Inflation

Annual Urban Inflation recorded 4.5 percent in October 2020, compared to 3.7 percent during last month**. <u>Meanwhile, average annual inflation rate reached</u>** <u>4.0 percent during July-October FY20/21,</u> compared to 6.0 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 19.1 percent in July 2020 (LE 4626.5 billion), compared to 17.5 percent last month. This is mainly due to the increase in **Money (M1)** to 21.6 percent in July 2020, compared to 17.5 percent last month driven by the increase in **Currency in circulation** to 29.7 percent in July 2020, compared to 23.7 percent during last month. Moreover, **Quasi Money** growth increased to record 18.3percent in July 2020, compared to 17.5 last month, driven by the increase in **Local Currency Time & Saving Deposits** to reach 26.4 percent in July 2020, compared to 25.3 last month.

- **Net Foreign Assets (NFA)** annual growth has recorded -54.5 percent (LE 157.4 billion) compared -56.3 percent last month, and **Banks Net Reserves (in LE terms)** has recorded -139.1 percent in July 2020, compared to -180.3 percent last month.
- **Net domestic assets (NDA)** annual growth has slightly increased to 26.4 percent at end of July 2020 (LE 4469 billion) compared to 23.1 percent last month due to the increase in **Claims on private Sector** to 20.8 percent in July 2020, compared to 19.5 percent last month.
- **Total Deposits annual growth rate– excluding deposits at the CBE** – increased to 19.8 percent (LE 4788.5 billion) at the end of July 2020, compared to 17.3 percent last month. **Out of total deposits, 84percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** decreased to record 46.1 percent at end of July 2020, compared to 46.4 percent last month.
- **In the same context,** The Monetary Policy Committee (MPC) decided on 12th November 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 8.25%, 9.25%, and 8.75%, respectively. The discount rate was also cut by 50 basis points to 8.75%.

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**.