

# Executive Summary

## Latest Update

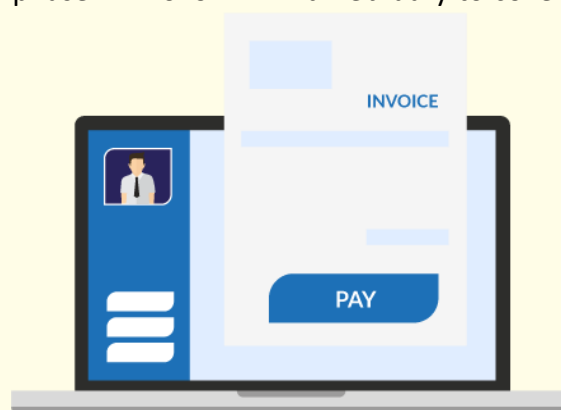
The Ministry of Finance continues to make policies and implement reforms aimed at maximizing state revenues and improving the effectiveness of tax collection, the first phase of the electronic invoice system is underway for 134 companies, the second phase will follow in mid-February to cover 350 companies, leaving the third phase until mid-May 2021.

Egypt is pioneering the implementation of the electronic invoice system in the Arab world as one of the digital transformation projects in line with Egypt's 2030 vision, and a major step towards improving and modernizing the tax administration.

Electronic invoices are a revolutionary step towards:

- achieving integration between the tax system and the business community
- the inclusion of the informal economy
- achieving equal opportunities and fairness among companies
- facilitating and accelerating tax procedures
- establishing a central system that enables the tax authority to follow up all commercial transactions
- ensuring that trade is done via licensed and certified invoices
- helping businesses enhance their tax standing and get recognized as low tax risk
- facilitating the procedures of settlements between companies with regard to value added tax
- modernizing the method of exchanging invoices between companies
- reducing the cost of transactions
- simplifying corporate tax examination procedures with the possibility of "remote inspection"
- facilitating "tax refund" procedures
- simplifying tax returns submissions.

Ultimately the newly implemented electronic invoice system will improve the overall investment environment in Egypt.



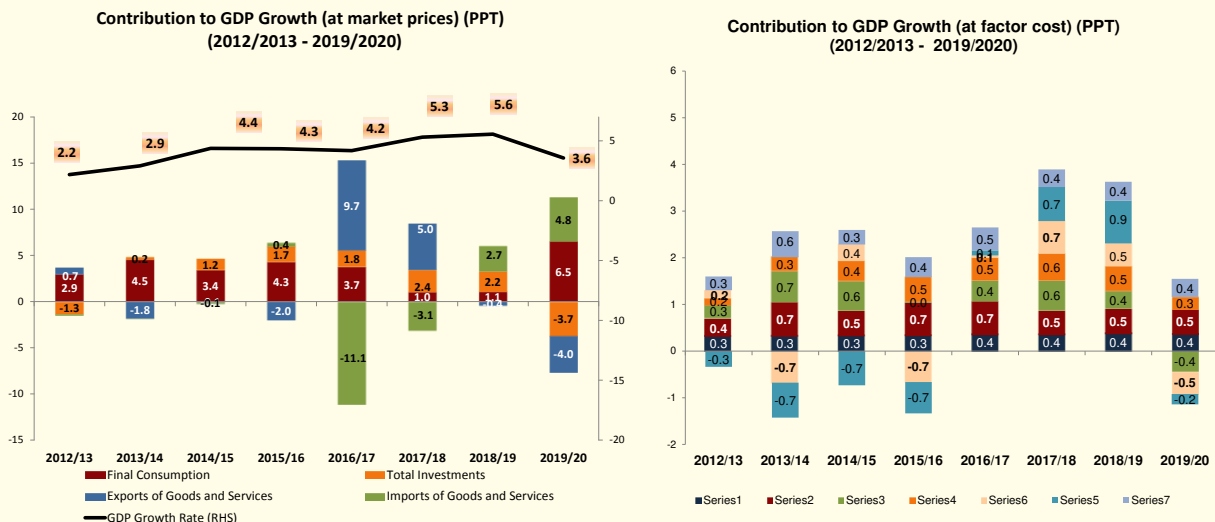
## Recent Macroeconomic Indicators

### 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.



- **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 November 2020, compared to lowest level of US\$ 13.4 billion at end of March 2013.

- **Purchasing manager Index** reached 50.9 in November 2020, compared to 37.1 in December 2012.
- **Regarding EGX indices**, the EGX-30 Index increased by 4.1 percent during November 2020 to reach 10,943.4 points, compared to closing at 10,515.3 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 -2.7% during the period July-October 20/21, compared to -3.1% during the same period last year. This can be explained in light of the increase in revenues by 15.5%, which exceeded the increase in expenses by 6.6%, compared to the same period of the previous year.

**Total Revenues increased by LE 38.5 billion (15.5 percent growth) to record LE 287.1 billion during the period of study, compared to the same period of last year. Tax revenues constitute 74.4 percent of total revenues while non-tax revenues have increased to constitute 25.6 percent.**

- **Tax Receipts** (74.4 percent of total revenues) constituted around LE 213.6 billion of total revenues, increasing by LE 22.4 billion (11.7 percent growth), mainly driven by
  - the increase in income tax receipts by LE 15.8 billion (26.2 percent growth) to record LE 76.3 billion during the period of study
    - ✓ supported by the rise in receipts from taxes on domestic salaries by LE 2.4 billion (13.4 percent growth), to record LE 20.4 billion, compared to LE 18.0 billion during the same period last year
    - ✓ increase in tax receipts from other companies by LE 9.4 billion (37.1 percent growth) to reach LE 34.7 billion
    - ✓ taxes on commercial profits rose by LE 4.2 billion (73.8 percent growth) to record LE 9.8 billion during the period of study
  - while tax receipts from Suez Canal reached LE 10.1 billion during the period of study
  - receipts from value added taxes rose by LE 4.1 billion (4.1 percent growth) to reach LE 104.6 billion during the period of study
  - driven by the increase in excises on domestic commodities by LE 3.3 billion (11.8 percent growth) to reach LE 31.6 billion during the period of study.
  - and the increase in receipts from value added tax on goods by LE 1.2 billion (2.5 percent growth) to reach LE 49.2 billion during the period of study.

- **and the increase in receipts from stamp tax by LE 0.6 billion** (14.4 percent growth) to reach LE 4.8 billion during the period of study.
- **receipts from property taxes rose by LE 3.1 billion** (16.5 percent growth) to reach LE 22.1 billion during the period of study
- in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 2.1 billion (14.1 percent growth) to reach LE 17.3 billion during the period of study
- and the increase in receipts from Taxes and fees on cars by LE 1.2 billion (60.8 percent growth) to reach LE 3.1 billion during the period of study
- **Non-Tax Revenues (25.6 percent of total revenues) increased by LE 16.1 billion (28.1 percent growth) to record LE 73.4 billion during the period of study, compared to LE 57.3 billion during the same period last year**
  - **This is mainly attributed to the increase in dividends from Public Sector companies by LE 2.0 billion (241.1 percent growth)** to reach LE 2.8 billion during the period of study
  - While, dividends from Suez Canal recorded LE 9.9 billion during the period of study
  - and dividends from Economic Authorities recorded LE 3.8 billion during the period of study
  - **Moreover, proceeds from Miscellaneous Revenues rose by LE 19.7 billion (103 percent growth)** to record LE 38.9 billion during the period of study
  - due to the increase in receipts from capital miscellaneous revenues by LE 13.2 billion to reach LE 16.8 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 6.5 billion to record LE 22.1 billion during the period of study (mainly due to the increase in receipts from previous year's revenues, and other current revenues)

**On the Expenditure side, Total expenditures have increased by 6.6 percent to reach LE 455.2 billion during July-October 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. 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.**

### **Compensation of Employees**

- **wages and compensation for employees rose by LE 8.3 billion (8.2 percent growth)** to reach LE 109.5 billion during the period of study

### **Subsidies, grants & social benefits**

- **on the other hand, spending on treasury contribution to pensions rose by LE 26.4 billion to reach LE 34.5 billion** during the period of study in light of the implementation of the new pension law number 148 for the year 2019
- **spending on GASC subsidies rose by LE 0.6 billion to reach LE 17.1 billion** during the period of study
- **spending on exports subsidies rose by LE 1.4 billion to reach LE 2.3 billion** during the period of study

- spending on health insurance and medicine rose by 2.8 percent to reach LE 1.3 billion during the period of study

### **Purchases of non-financial assets**

- **Investment Spending** rose by LE 13.7 billion (33.7 percent growth) to record LE 54.5 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 23.8 billion during period of study, increasing by 32 percent compared to the previous year, and spending on Non-residential buildings amounted to LE 12 billion, increasing by 44.3 percent compared to the previous year.**

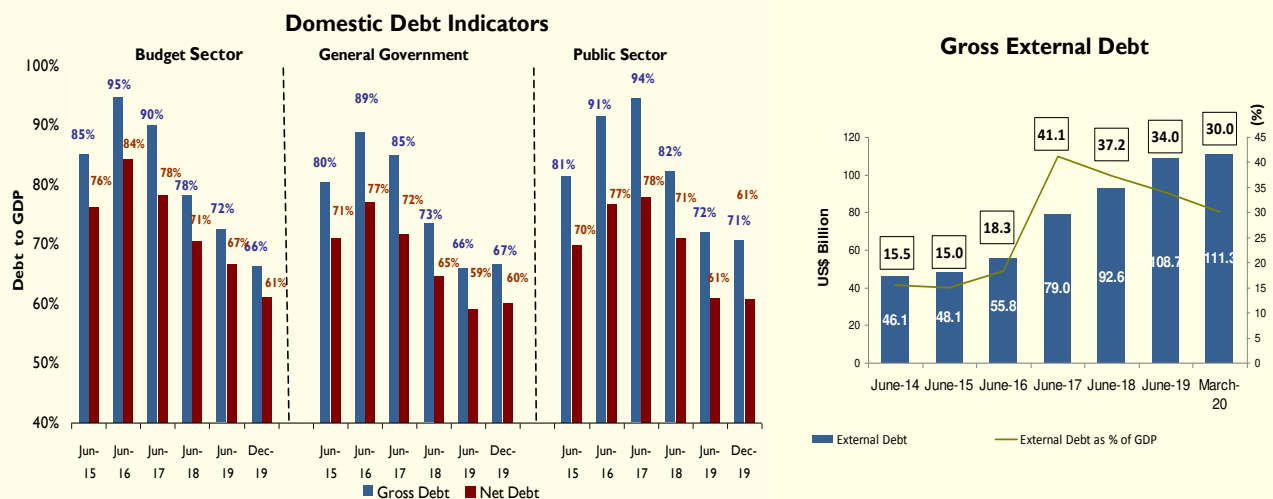
### **Fiscal Sector Performance during July–Oct 2020/2021**

(LE billion)

	July–Oct		Growth rate
	2021/20	2020/19	
<b>Revenues</b>	<b>287,059</b>	<b>248,527</b>	<b>15.5%</b>
Taxes	213,648	191,222	11.7%
Grants	337	705	-52%
Other Revenues	73,074	56,600	29.1%
<b>Expenditure</b>	<b>455,191</b>	<b>427,115</b>	<b>6.6%</b>
Wages and Compensation of Employees	109,530	101,205	8.2%
Purchase of Goods and Services	15,585	19,463	-19.9%
Interest Payments	176,570	194,879	-9.4%
Subsidies, Grants and Social Benefits	69,731	44,675	56.1%
Other Expenditures	29,232	26,094	12.0%
Purchases of Non-financial Assets (investments)	54,543	40,798	33.7%
<b>Cash Deficit</b>	<b>-168,132</b>	<b>-178,588</b>	
<b>Net Acquisition of Financial Assets</b>	<b>3,240</b>	<b>1,607</b>	
<b>Overall Budget Deficit</b>	<b>-171,372</b>	<b>-180,194</b>	
<b>Budget Primary Surplus/or Deficit (%of GDP)</b>	<b>0.1%</b>	<b>0.3%</b>	
<b>Budget Overall Deficit (%of GDP)</b>	<b>-2.7%</b>	<b>-3.1%</b>	

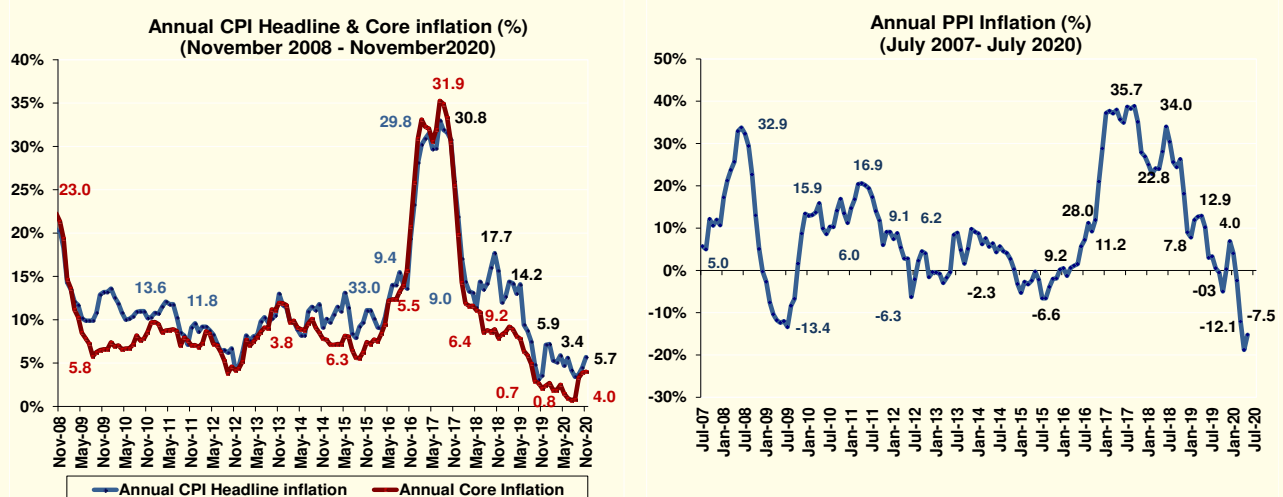
## External & Domestic Debt

■ **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\$ 40.3 billion end of March 2020, compared to US\$ 37.9 billion at end of June 2019. Meanwhile, Banks debt decreased to US\$ 8.3 billion at the end of March 2020, compared to US\$ 9.5 billion last fiscal year.



## Inflation

**Annual Urban Inflation** recorded 5.7 percent in November 2020, compared to 4.5 percent during last month. Meanwhile, average annual inflation rate reached 4.3 percent during July-November FY20/21, compared to 5.5 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** stabilized to 19.2 percent in August 2020 (LE 4682.9 billion), compared to 19.1 percent last month. This is mainly due to the increase in **Quasi Money** growth increased to record 19.4 percent in August 2020, compared to 18.3 last month, driven by the increase in **Local Currency Time & Saving Deposits** to reach 27.2 percent in August 2020, compared to 26.4 last month. Moreover, **Money (M1)** recorded 18.4 percent in August 2020, compared to 21.6 percent last month driven by the decrease in **Currency in circulation** to 22.2 percent in August 2020, compared to 29.7 percent during last month.

- **Net Foreign Assets (NFA)** annual growth has recorded -50 percent (LE 168.4 billion) compared -54.5 percent last month, and **Banks Net Reserves (in LE terms)** has recorded -128.7 percent in August 2020, compared to -139.1 percent last month.
- **Net domestic assets (NDA)** annual growth has increased to 32.3 percent at end of August 2020 (LE 4754.7 billion) compared to 31.6 percent last month due to the increase in **Claims on private Sector** to 21.5 percent in August 2020, compared to 20.8 percent last month.
- **Total Deposits annual growth rate– excluding deposits at the CBE** – increased to 21.7 percent (LE 4898.8 billion) at the end of August 2020, compared to 19.8 percent last month. **Out of total deposits, 83.5 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** decreased to record 46.3 percent at end of August 2020, compared to 46.1 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, in addition to the successive rebuilding of historical foreign exchange reserves during the past years that outpaced international standards, 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\$ 8.6 billion in the FY 2019/2020. Despite this modest increase in deficit, the current account outperformed all expectations, and which stabilized partially at US\$ 11.2 billion during FY19/20, compared to US\$ 11 billion achieved last year. **This outperformance in the current account can be attributed to the improvement in non-oil trade balance and the pickup in Unrequited current transfers.** On the other side, capital and financial account remained to record a surplus of US\$ 5.4 billion during the year of study, lower than US\$ 10.9 billion recorded during FY 2018/2019 which came in spite of the heavy blow that capital movements suffered worldwide.

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

- Trade deficit, improved, declining by -4.1 percent growth, to reach US\$ -36.5 billion during FY19/20, mainly due to the following improvements:
  - Non-oil merchandise exports rose by US\$ 1 billion (5.7 percent growth), to reach US\$ 18 billion. However, oil exports declined during the year of study.
  - Non-oil merchandise imports declined by US\$ 1 billion (-1.9 percent growth) to reach US\$ 54 billion during the year of study.

- **Oil merchandise imports declined by US\$ 2.6 billion to reach US\$ 9 billion, supported by the contraction in imported oil quantities by 38 percent and the fall in world oil prices, in addition to the cessation of natural gas imports as of Q2 of FY18/19.** In contrast, crude oil imports increased.
- **Suez Canal receipts increased by 1.3 percent** to reach US\$ 5.8 billion during the period of study, compared to US\$ 5.7 billion during the same period of last year.
- **Unrequited current remittances rose by US\$ 2.6 billion (10.4 percent growth) to record US\$ 27.8 billion during the year of study.**

**The Capital and Financial Account** recorded net inflows of US\$ 5.4 billion during FY 2019/2020. However, lower than US\$ 10.9 billion recorded during 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\$ 7.3 billion during the period of study. **On the other hand, Net Foreign Direct Investments (FDI) dropped by US\$ 1 billion to record US\$ 7.4 billion** compared to US\$ 8 billion during the same period last year amid the decline in net investments in the oil sector, and investments in real estate for non-residents. However, proceeds from sale of companies and production assets to non-residents has witnessed increase during the year of study.