Executive Summary

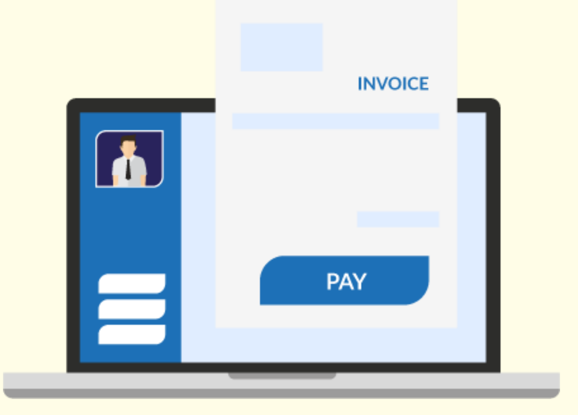
Latest Update

The International Monetary Fund (IMF) **praised** Egypt's economy as it has performed better than expected despite the pandemic, as a result of the swift, balanced and comprehensive stimulus package, monetary policy response and targeted financial sector initiatives to offset the negative repercussions of the pandemic**, allowing an amount of $ 1.67 billion of the stand-by agreement to be dispersed**, last December.

Bloomberg ranked **Egypt one of the ten fastest growing economies during the 2020** and the IMF ranked **Egypt's economic growth rate second in the world, at 3.6%, accompanied by lower debt rates and a primary surplus in the last fiscal year.**

The "new customs law" aims to simplify procedures and speed up customs release. This is through the **establishment of a new electronic system** to track goods before they are shipped, with the possibility of pre-clearance and payment of customs duties before arrival.

As for the tax system, 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. Ultimately the newly implemented electronic invoice system will improve the overall investment environment in Egypt.



In addition, the "Unified Tax Procedures Law" No. 206 of 2020 was launched as an essential step towards digital transformation, moving towards ending disputes and simplifying tax procedures.

Moving towards consolidating its communication and citizen engagement strategy, the Ministry of Finance is **building on the success of the "Participatory Budgeting" initiative in Alexandria through its replication in Fayoum.**

Fiscal reform policies for FY 2020/2021 aim **to overcome the pandemic by supporting vulnerable groups through social protection programs, and reforming public finances by re-prioritizing public spending in favor of increasing productivity and improving public services**. This is in addition to **maximizing state resources through a medium-term strategy to maximize tax and non-tax resources**.

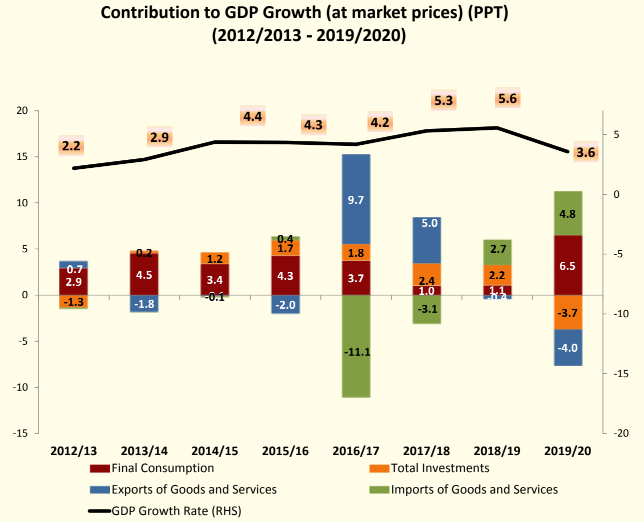
The first half of the current fiscal year recorded a primary surplus with an increase in growth rates, revenues, investments and foreign reserved and a decrease in unemployment and inflation.

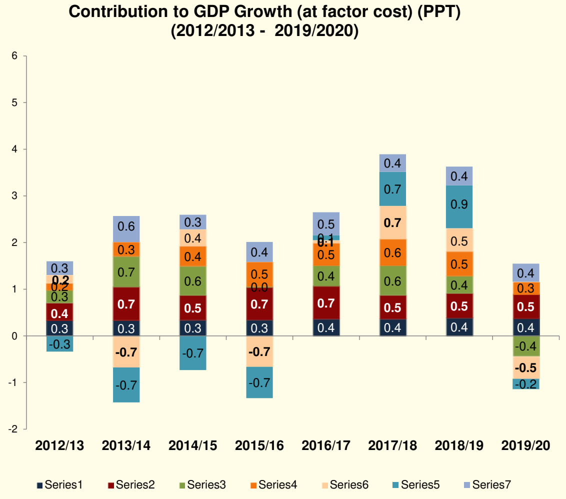
Recent Macroeconomic Indicators

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$ 40.1 billion during December 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 -3.2% during the period July-November 20/21, compared to -3.6% during the same period last year. This can be explained in light of the increase in revenues by 13.8%, which exceeded the increase in expenses by 6.9%, compared to the same period of the previous year.

Total Revenues increased by LE 44.4 billion (13.8 percent growth) to record LE 366.6 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 272.7 billion of total revenues, increasing by LE 23.7 billion (9.5 percent growth), mainly driven by
  - the **increase in income tax receipts by LE 13 billion (16.6 percent growth) to record LE 92.1 billion during the period of study**
    - ✓ supported by the **rise in receipts from taxes on domestic salaries by LE 2.3 billion** (11.1 percent growth), to record LE 22.7 billion, compared to LE 20.4 billion during the same period last year
    - ✓ **increase in tax receipts from other companies by LE 11.8 billion** (37.4 percent growth) to reach LE 43.3 billion
    - ✓ **taxes on commercial profits rose by LE 4.0 billion** (52.2 percent growth) to record LE 11.9 billion during the period of study
  - **while tax receipts from Suez Canal** reached LE 12.4 billion during the period of study

- **receipts from value added taxes rose by LE 9.5 billion** (7.3 percent growth) to reach LE 139.4 billion during the period of study
- **driven by the increase in receipts from value added tax on goods by LE 6.4 billion** (10.7 percent growth) to reach LE 65.8 billion during the period of study.
- **and the increase in excises on domestic commodities by LE 1.6 billion** (4.2 percent growth) to reach LE 40.6 billion during the period of study.
- **and the increase in receipts from stamp tax by LE 1.1 billion** (21.3 percent growth) to reach LE 6.5 billion during the period of study.
- **receipts from property taxes rose by LE 2.9 billion** (11.7 percent growth) to reach LE 27.6 billion during the period of study
- in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 1.7 billion (8.5 percent growth) to reach LE 21.6 billion during the period of study
- and the increase in receipts from Taxes and fees on cars by LE 1.1 billion (44.6 percent growth) to reach LE 3.7 billion during the period of study

- **Non-Tax Revenues (25.6 percent of total revenues) increased by LE 20.7 billion (28.2 percent growth)** to record LE 93.9 billion during the period of study, compared to LE 73.2 billion during the same period last year

- **This is mainly attributed to the increase in dividends from Public Sector companies by LE 2.5 billion** to reach LE 3.6 billion during the period of study
- While, dividends from Suez Canal recorded LE 12.2 billion during the period of study
- and dividends from Economic Authorities recorded LE 4.8 billion during the period of study
- **Moreover, proceeds from Miscellaneous Revenues** rose by LE 24.8 billion to record LE 46.3 billion during the period of study
- due to the increase in receipts from capital miscellaneous revenues by LE 17.0 billion to reach LE 21.5 billion during the period of study (mainly due to the increase in proceeds from sale of non-productive assets (lands), and other capital revenues receipts related to acquisitions in public companies)
- while current miscellaneous revenues rose by LE 7.8 billion to record LE 24.8 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 6.9 percent to reach LE 567.5 billion during July-November 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 10 billion (8.1 percent growth)** to reach LE 134.9 billion during the period of study.

Subsidies, grants & social benefits

- **on the other hand, spending on treasury contribution to pensions rose by LE 27 billion to reach LE 38.4 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 0.2 billion to reach LE 21.1 billion** during the period of study
- **spending on exports subsidies rose by LE 1.4 billion to reach LE 2.4 billion** during the period of study
- **spending on health insurance and medicine rose by LE 0.8 billion to reach LE 2.1 billion** during the period of study

Purchases of non-financial assets

- **Investment Spending** rose by LE 25.8 billion (48.6 percent growth) to record LE 78.7 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) by LE 24.2 billion (49.5 percent growth) represents mainly increased spending in construction, machinery and equipments, and nonresidential building and dwellings in light of the government strategy to increase investments allocated to improve infrastructure, and it includes payments to contractors. To that extent, total spending on construction amounted to LE 32.3 billion during period of study, increasing by 46 percent compared to the previous year, and spending on Non-residential buildings amounted to LE 15.8 billion, increasing by 33.3 percent compared to the previous year.**

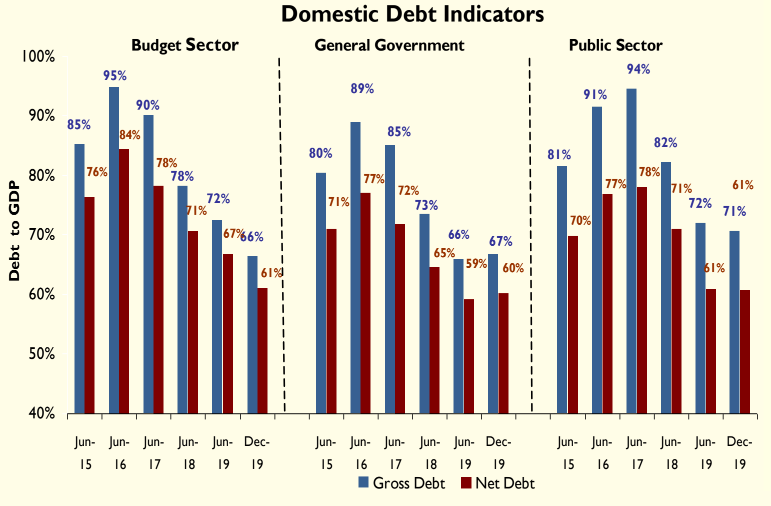
Fiscal Sector Performance during July-Nov 2020/2021

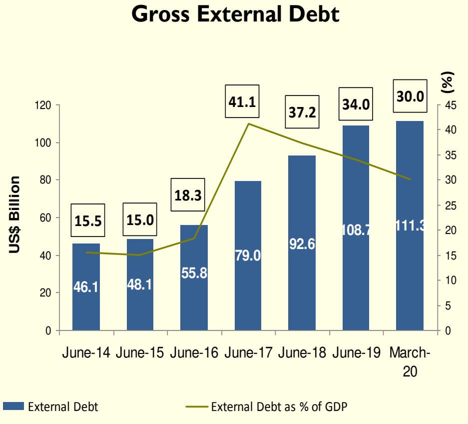
(LE billion)

	July-Nov		Growth rate
	2021/20	2020/19	
Revenues	**366,583**	**322,208**	**13.8%**
Taxes	272,678	248,981	9.5%
Grants	356	722	-51%
Other Revenues	93,549	72,506	29.0%
Expenditure	**567,495**	**530,868**	**6.9%**
Wages and Compensation of Employees	134,972	124,808	8.1%
Purchase of Goods and Services	21,479	25,313	-15.1%
Interest Payments	213,902	231,551	-7.6%
Subsidies, Grants and Social Benefits	80,848	63,464	27.4%
Other Expenditures	37,555	32,737	14.7%
Purchases of Non-financial Assets (investments)	78,741	52,996	48.6%
Cash Deficit	**-200,913**	**-208,660**	
Net Acquisition of Financial Assets	**3,739**	**3,115**	
Overall Budget Deficit	**-204,652**	**-211,775**	
Budget Primary Surplus/or Deficit (%of GDP)	**0.1%**	**0.3%**	
Budget Overall Deficit (%of GDP)	**-3.2%**	**-3.6%**	

External & Domestic Debt

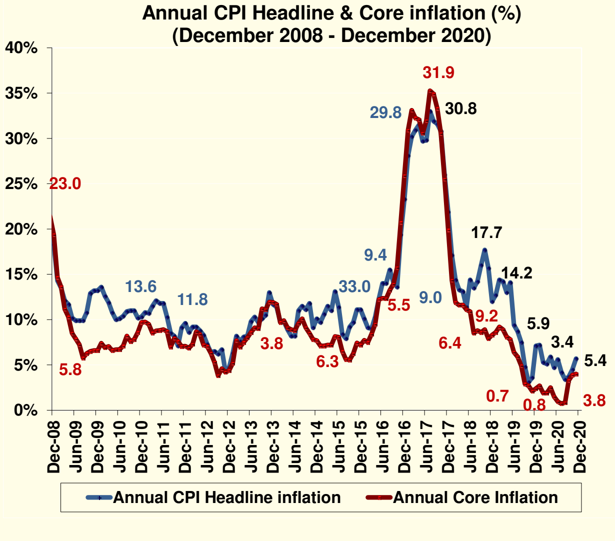
- **Total Government Debt (domestic and external)** increased to LE 4834.2 billion (83.1 percent of GDP) at end of December 2019 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 356.2 billion compared to LE 77.2 billion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

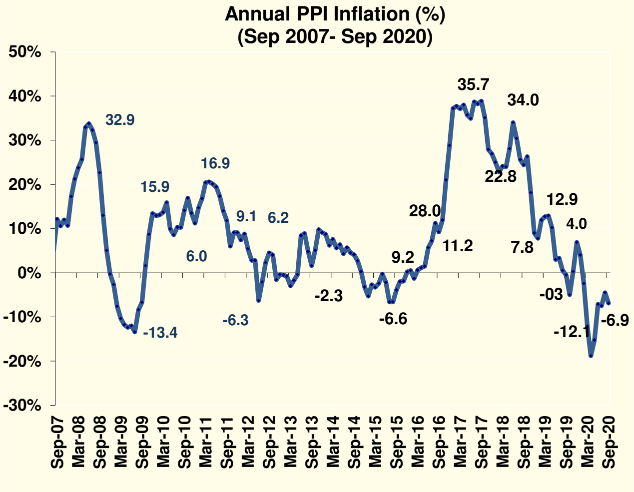




Inflation

Annual Urban Inflation recorded 5.4 percent in December 2020, compared to 5.7 percent during last month**.** **<u>Meanwhile, average annual inflation rate reached</u>** <u>4.5 percent during July-December FY20/21</u>**,** compared to 5.8 percent during the same period of last year (in light of subdued food prices the biggest weight in CPI**)**. Moreover, Annual Core Inflation recorded 3.8 percent in December 2020, compared to 4.0 percent during last month**.**





Monetary Sector

According to recent data released by the CBE; **M2 growth** stabilized at 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 4th February 2020 to **keep with no change each of the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate, and the rate of the main operation at** 8.25%, 9.25%, and 8.75%, respectively. The discount rate was also kept with no change at 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.