Executive Summary

Latest Update

The Egyptian economy continues to be praised by international institutions for its positive performance indicators that reflect its resilience in facing external and internal crises, as a result of the economic reforms adopted during the pre-pandemic period that gave the local economy a measure of flexibility in absorbing shocks and mitigating their severity.

Recent forecasts of *Standard Chartered* have indicated that Egypt will become one of the top 10 economies in the world by 2030. It is expected that Egypt will restore pre-pandemic growth rates to record 5.5% of GDP during the fiscal year 2020/2021. Moreover, the ***International Monetary Fund*** has also raised its estimates during the current FY to amount to 2.8%, which was also what the ***World Bank*** has predicted, indicating the continued gradual recovery of the Egyptian economy from the repercussions of the Covid-19 crisis.

As the government is keen to provide the necessary support to boost the national economy by increasing the productive capacity and enhancing the competitiveness of Egyptian products in the global markets, more than EGP 21 billion were spent to support the export sector and exporters, through 6 initiatives. The most recent initiative was the "immediate cash payment to support exporters" with a 15% expedited payment discount, to which 1,069 exporting companies joined, which contributed to providing cash that enabled the export sector companies to fulfill their obligations towards their customers and to preserve workers in light of the Corona pandemic, provided that the second phase of the aforementioned initiative will be launched in February 2021.

Within the framework of the national campaign to raise tax awareness, the Ministry of Finance has published a statement about the new tax incentives contained in the Small and Medium Enterprise Development Law, which encourage these enterprises to join the formal economy. The statement indicated that the new law specified the tax due at EGP 1,000 annually for small projects whose annual turnover is less than EGP 25,000 during the period of validity of the temporary license, and EGP 2,500 annually for projects whose annual business volume ranges from EGP 250,000 to 500,000, And EGP 5,000 pounds annually for projects whose annual turnover ranges from 500,000 to EGP 1 million.

All these economic reforms were reflected in the performance indicators of the Egyptian economy, even with the second wave of the pandemic and its negative repercussions on global economies. The financial data for the first half of the current fiscal year (July-December 2020) indicated that the state budget achieved an initial surplus of about EGP 14 billion, while the overall budget deficit decreased to 3.6% of GDP, compared to 4.1% during the same period of the previous year.

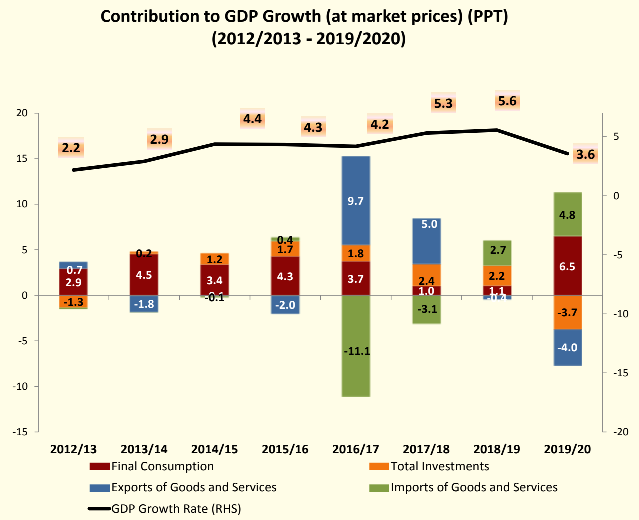
In spite of the achievements made during the past period, the global pandemic has exacerbated some of the existing challenges and even created new ones, as the fiscal targets and the balance of foreign transactions resulting from the increase in spending on health and social protection and the decrease in tax revenues were affected, and many companies were affected. However, the government is also aware of these challenges and strives to get out of the crisis with the least possible negative effects on public finance targets, and is ready to intervene by taking any necessary measures quickly to support the sectors and groups most affected.

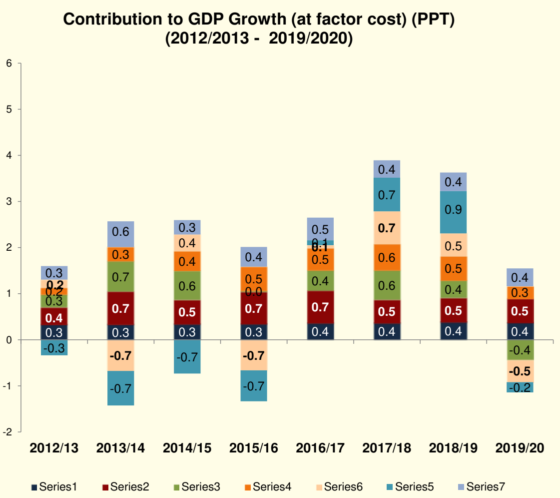
Recent Macroeconomic Indicators

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 has 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 compensated 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 a 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 January 2021, compared to lowest level of US$ 13.4 billion at end of March 2013.

- **Purchasing manager Index** reached 48.7 in January 2021, compared to 37.1 in December 2012.

- **Regarding EGX indices,** the EGX-30 Index increased by 6.5 percent during January 2021 to reach 11.546 points, compared to closing at 10,943 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 fiscal deficit as a percentage of GDP decreased to -3.6% during the first half of FY20/21, compared to -4.1% during the same period last year. This can be explained in light of the increase in revenues by 16%, which exceeded the increase in expenses at 9.6% compared to the same period of the previous year.

Total Revenues increased by LE 62.4 billion (16 percent growth) to record LE 453 billion during the period of study, compared to the same period of last year. Tax revenues constitute 74 percent of total revenues while non-tax revenues have increased to constitute 26.2 percent.

- **Tax Receipts** (74 percent of total revenues) constituted around LE 334.3 billion of total revenues, increasing by LE 30.1 billion (9.9 percent growth), mainly driven by
  - the **increase in income tax receipts by LE 15.2 billion (15.2 percent growth) to record LE 115 billion during the period of study**

- ✓ supported by the **rise in receipts from taxes on domestic salaries by LE 5.5 billion** (18.6 percent growth), to record LE 35.3 billion, compared to LE 29.8 billion during the same period last year
- ✓ **increase in tax receipts from other companies by LE 9.7 billion** (25.1 percent growth) to reach LE 48.6 billion
- ✓ **taxes on commercial profits rose by LE 3.2 billion** (30 percent growth) to record LE 14 billion during the period of study

- **while tax receipts from Suez Canal** reached LE 15 billion during the period of study
- **receipts from value added taxes rose by LE 13.2 billion** (8.4 percent growth) to reach LE 170.6 billion during the period of study
- **driven by the increase in receipts from value added tax on goods by LE 7.8 billion** (10.5 percent growth) to reach LE 81.5 billion during the period of study.
- **and the increase in excises on domestic commodities by LE 4.8 billion** (10.4 percent growth) to reach LE 50.4 billion during the period of study.
- **and the increase in receipts from stamp tax by LE 1.4 billion** (22.7 percent growth) to reach LE 7.7 billion during the period of study.
- **receipts from property taxes rose by LE 3.4 billion** (11.9 percent growth) to reach LE 32.1 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 billion (8.1 percent growth) to reach LE 24.7 billion during the period of study
- and the increase in receipts from Taxes and fees on cars by LE 1.5 billion (51 percent growth) to reach LE 4.5 billion during the period of study

▪ **Non-Tax Revenues (26.2 percent of total revenues) increased by LE 32.3 billion (37.4 percent growth)** to record LE 118.6 billion during the period of study, compared to LE 86.3 billion during the same period last year

- **This is mainly attributed to the increase in dividends from Public Sector companies by LE 3 billion** to reach LE 4 billion during the period of study
- While, dividends from Suez Canal recorded LE 14.7 billion during the period of study
- and dividends from Economic Authorities recorded LE 5.3 billion during the period of study
- **Moreover, proceeds from Miscellaneous Revenues** rose by LE 36.2 billion to record LE 61.6 billion during the period of study
- due to the increase in receipts from capital miscellaneous revenues by LE 24.2 billion to reach LE 30 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 12 billion to record LE 31.7 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 9.6 percent to reach LE 681.2 billion during the first half of FY20/21, 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 12.8 billion (8.7 percent growth)** to reach LE 160 billion during the period of study.

Subsidies, grants & social benefits

- **on the other hand, spending on treasury contribution to pensions rose by LE 27.6 billion to reach LE 42.5 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 4.7 billion to reach LE 29.6 billion** during the period of study
- **spending on exports subsidies rose by LE 1.1 billion to reach LE 2.5 billion** during the period of study
- **spending on health insurance and medicine rose by LE 1.1 billion to reach LE 2.5 billion** during the period of study

Purchases of non-financial assets

- **Investment Spending** rose by LE 38 billion (59.3 percent growth) to record LE 102 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 36 billion (60.6 percent growth) represents mainly increased spending in construction, machinery and equipment, and non-residential 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 43.4 billion during period of study, increasing by 60.1 percent compared to the previous year, and spending on Non-residential buildings amounted to LE 21 billion, increasing by 46.2 percent compared to the previous year, and spending on machinery has reached LE 17 billion during the first half of FY20/21.**

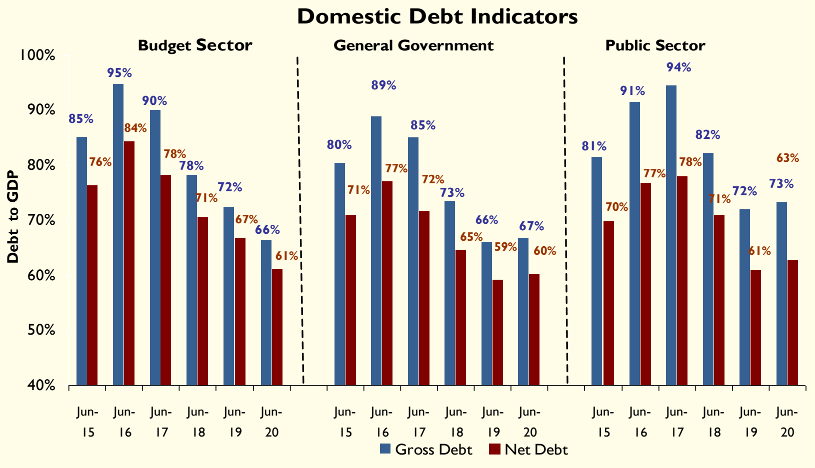
Fiscal Sector Performance during July- Dec 2020/2021

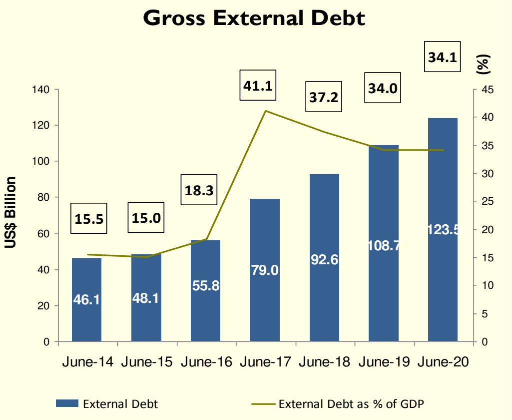
(LE billion)

	July- Dec 2021/20	July- Dec 2020/19	Growth rate
Revenues	**452,901**	**390,525**	**16.0%**
Taxes	334,296	304,213	9.9%
Grants	400	752	-47%
Other Revenues	118,206	85,560	38.2%
Expenditure	**681,184**	**621,620**	**9.6%**
Wages and Compensation of Employees	160,052	147,224	8.7%
Purchase of Goods and Services	28,204	30,531	-7.6%
Interest Payments	245,710	267,192	-8.0%
Subsidies, Grants and Social Benefits	99,977	75,560	32.3%
Other Expenditures	45,218	37,059	22.0%
Purchases of Non-financial Assets (investments)	102,023	64,054	59.3%
Cash Deficit	**- 228,283**	**- 231,095**	
Net Acquisition of Financial Assets	**3,459**	**5,166**	
Overall Budget Deficit	**- 231,742**	**- 236,262**	
Budget Primary Surplus/or Deficit (%of GDP)	**0.2%**	**0.5%**	
Budget Overall Deficit (%of GDP)	**- 3.6%**	**- 4.1%**	

External & Domestic Debt

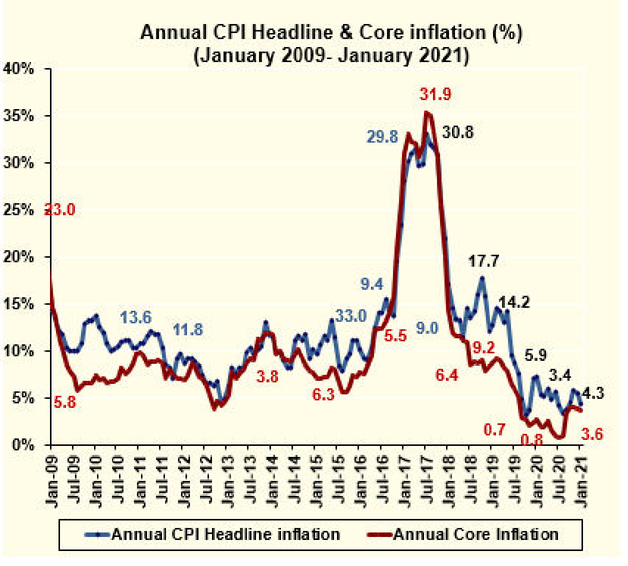
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase in T-bills stock implementing the ministry's policy of increasing debt maturity. Meanwhile, government external debt increased as loans increased to US$ 45.5 billion end of June 2020, compared to US$ 37.9 billion at end of June 2019. In addition, Banks debt increased to US$ 11.9 billion at the end of June 2020, compared to US$ 9.5 billion last fiscal year.

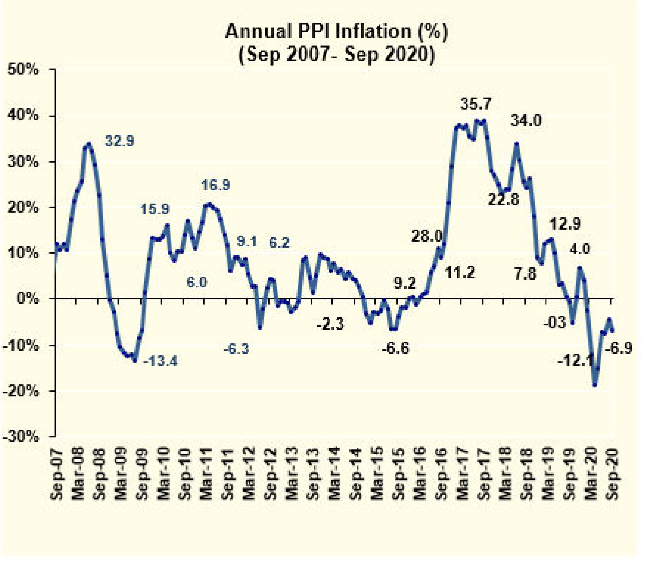




Inflation

Annual Urban Inflation recorded 4.3 percent in January 2021, compared to 5.4 percent during December 2020**. Meanwhile, average annual inflation rate reached** 4.5 percent during July-Jan FY20/21, compared to 6.0 percent during the same period of last year (in light of subdued food prices the biggest weight in CPI**)**. Moreover, Annual Core Inflation recorded 3.6 percent in January 2020, compared to 3.8percent during December 2020**.**





Monetary Sector

According to recent data released by the CBE; M2 growth declined to 18.6 percent in September2020 (LE 4757.2 billion), compared to 19.2 percent last month. This is mainly due to the decrease in **Quasi Money** to record 18.6 percent in September2020, compared to 19.4 last month, driven by the decrease in **Local Currency Time & Saving Deposits** to reach 25.7 percent in September2020, compared to 27.2 last month. Moreover, **Money (M1)** recorded a slight increase to 18.8 percent in September2020, compared to 18.3 percent last month driven by the increase in **Demand Deposits in Local Currency** to 15 percent in September2020, compared to 14 percent during last month.

- **Net Foreign Assets (NFA)** annual growth recorded an increase at -37.9 percent (LE 221.5 billion) compared -50.2 percent last month driven by the increase in **Banks Net Reserves (in LE terms)** which recorded -61.3 percent in September2020, compared to -128.3 percent last month.
- **Net domestic assets (NDA)** annual growth has decreased to 24.1 percent at end of September2020 (LE 4535.6 billion) compared to 25.6 percent last month due to the decline in **Net Claims on Government, and GASC** to 24.8 percent in September 2020, compared to 27.4 percent last month.
- **Total Deposits annual growth rate– excluding deposits at the CBE** – has significantly increased to 60.1 percent (LE 5052.7 billion) at the end of September2020, compared to 21.7 percent last month. **Out of total deposits, 82.5 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has slightly increased to record 46.7 percent at end of September2020, compared to 45.9 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

- **The Egyptian economy was able to absorb the shock caused by the COVID19 pandemic thanks to the applied economic reforms, which were reflected in the country's economic transactions with the external world during the first quarter of the FY 2020/2021. The Balance of Payment recorded a modest overall deficit of US$ 69.2 million** compared to an overall surplus of US$ 227 million in the first quarter of FY2019/2020. **This comes in light of the deficit in the current account that was doubled to record US$ 2.8 billion** during the study period compared to the first quarter of FY 2019/2020, **underscored by the shock that affected the tourism sector and caused the drop in the service surplus**. On the other side, the **capital and financial account recorded an increase in the net inflows** to reach US$ 3.9 billion during the first quarter of the FY 20/21, compared to US$ 0.7 during the same period of the previous year. This comes as a result of the significant improvement in the foreign portfolio investments in Egypt, which reflects the confidence of foreign investors in the Egyptian economy despite the effects of the Covid-19 pandemic.

The performance of the current account could be interpreted as follows:

- **The Non-oil merchandise imports increased by 4.1 percent** to record US$ 13.4 billion during the study period, compared to US$ 12.8 billion during the same period last year.
- **Service account surplus dropped by 78.3 percent** to record US$ 876.3 million during the study period, compared to 4 US$ billion during the same period last year, mainly due to:
  - **The decline in tourism revenues** to record only US$ 801.0 million (against US$ 4.2 billion).
  - **The slight decrease in the Suez Canal receipts** to record US$ 1.4 billion during the period of study, compared to US$ 1.5 billion during the same period last year.

This was mitigated by:

- **The decline in Oil merchandise imports by US$ 2.6 billion to reach US$ 1.5 billion** during the study period, compared to US$ 3 billion during the same period last year due to the contraction in imported oil quantities in petroleum products and crude oil.
- **The increase in remittances** with 19.6 **percent** with US$ 1.3 billion to reach US$ 8 billion during the 1st quarter of the FY 20/21, compared to US$ 6.7 during the same period last year.
- **The fall in the investment income deficit** to record US$ 3.1 billion during the 1st quarter of the FY 20/21, compared to US$ 3.3 billion during the same period last year, due to the fall in direct investment dividend payments (as a result of the drop in the profits of foreign oil firms operating in Egypt, which were adversely impacted by the plunge in world oil prices).

The Capital and Financial Accounts

The capital and financial accounts have recorded net inflows of US$ 3.9 billion during the period July-Sep. 2020/2021, compared to US$ 0.7 billion during the same period of the previous year. **That was mainly affected by the switch in the portfolio investments to record inflows of US$ 6.7 billion** (compared to outflows of US$ 2 billion during the same period of the last FY), **as well as the slight decrease in the Net Foreign Direct Investments (FDI) that recorded US$ 1.6 during the period of study.** This performance comes despite the uncertainty that resulted from the Covid-19 pandemic and its effect on the investment inflows globally, which reflects the confidence of the foreign investors in the resilience of the Egyptian economy.