Executive Summary

Latest Update

The Ministry of Finance is keen to achieve further successes in the implementation of the comprehensive reform program through:

- Fiscal consolidation
- Public spending prioritization
- Upgrading public services
- Leveraging automation in tax and customs sectors
- Investment in human development & capacity building
- Improving social protection programs that target vulnerable groups especially throughout the pandemic

The highlights for February 2021 are as follows:

EGP 1 billion has been transferred to pay the third instalment of the second phase of the **exceptional grant** to irregular workers, which is estimated at **EGP 500 per worker**. Thus, more than **EGP 5.3 billion** of the exceptional grant for irregular workers have been transferred since the beginning of the "pandemic" until now

Salaries of regular employment are disbursed to workers in the affected sectors, especially tourism, spinning and weaving, through the Emergency Subsidy Fund at the Ministry of Manpower

100 thousand new families who are eligible for the "Takaful and Karama" program were added at the beginning of the crisis, and cash assistance was disbursed to them as of mid-April 2020.

In light of the state's efforts to shift towards a green economy, the Ministry of Finance is currently working to start a **new initiative to replace obsolete vehicles (manufacture 20 years or more ago) with dual vehicles that run on natural gas & gasoline.**

The state treasury will bear the burden of financing the first phase of the presidential initiative, provided that the owner of each **vehicles** will be granted **10%** of the price of the **new car, 20% of the price of the new taxi, 25% of the price of the new microbus**.

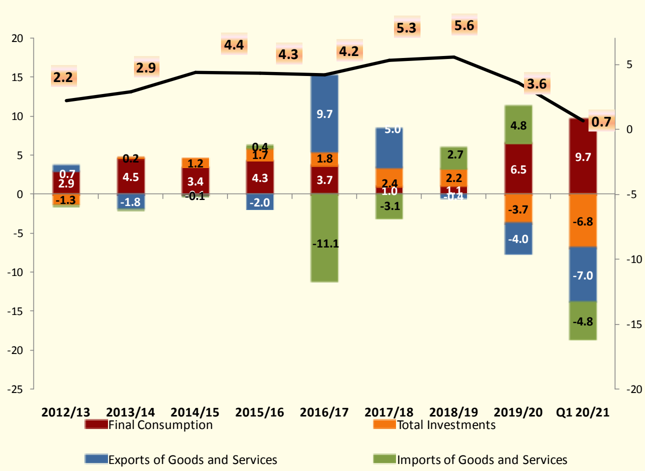
Recent Macroeconomic Indicators

Real Sector

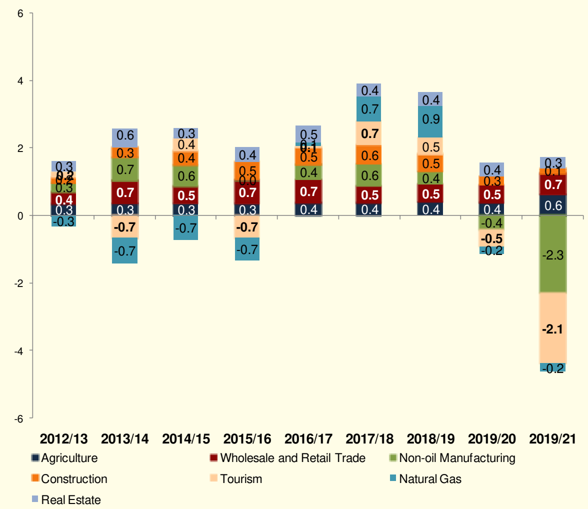
In light of the responsiveness of recent macro-economic indicators to the comprehensive reform program, GDP grew by 3.6 percent during FY19/20 compared to 2.3 percent during 2011-2014 on average. Meanwhile, GDP grew by 2 percent during the first half of FY20/21, and by 0.7 percent during Q1 FY20/21. 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, general government, education and health), and the increase in telecommunications, transport, and financial Intermediation sectors, and the increase in agriculture and construction sectors. This growth led to job creation as the unemployment rate dropped to 7.3 percent in Q3 2020.

During Q1 FY20/21, public and private consumption was the main drivers of economic growth contributing positively by 9.7 PPT, compared to a contribution of 3.1 PPT during the same period of last year. Meanwhile, Net Exports have contributed positively to growth by 2.2 PPT which compensated the decline in Investments contributing negatively to growth by 6.9 PPT during Q1 FY20/21.

Contribution to GDP Growth (at market prices) (PPT)
(2012/2013 - Q1 2020/2021)



Contribution to GDP Growth (at factor cost) (PPT)
(2012/2013 - Q1 2020/2021)



- **On the Demand Side,** Private consumption grew by 11.8 percent in Q1 FY20/21, compared to 3.6 percent during the same period of last fiscal year (contributing to growth by 9.4 PPT during Q1 FY20/21), while Public Consumption grew by 3.4 percent in the period of study, compared to 1.7 percent (contributing to growth by 0.3 PPT, compared to 0.2 PPT). Furthermore, Net Exports boosted growth with a positive contribution of 2.2 PPT during Q1 FY20/21.

- **On the Supply Side,** main key sectors that led growth were **Total Social Services Sector** recording growth rate of 4.5 percent during Q1 FY20/21 (contributing positively to growth by 1.1 PPT), mainly driven by the growth in general government by 5.6 percent (contributing by 0.5 PPT), real-estate growth by 3.4 percent (contributing by 0.3 PPT), telecommunications sector rose by 15.0 percent (contributing to growth by 0.4 PPT), and the growth in wholesale and retail by 4.7 percent (contributing to growth by 0.7 PPT), and the growth in transport by 5.2 percent (contributing by 0.2 PPT), agriculture sector rose by

4.2 percent (contributing by 0.6 PPT), and construction sector rose by 2.6 percent (contributing to growth by 0.1 PPT), and education sector rose by 4.5 percent (contributing to growth by 0.1 PPT), and health sector rose by 4.9 percent (contributing to growth by 0.1 PPT).

- **Net International Reserves (NIR)** has reached US$ 40.2 billion during February 2021, compared to lowest level of US$ 13.4 billion at end of March 2013.
- **Purchasing manager Index** reached 49.3 in February 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 -4.4% during the period July-January FY20/21, compared to -4.6% 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 12.3% compared to the same period of the previous year.

Total Revenues increased by LE 76 billion (16 percent growth) to record LE 550 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 percent.

- **Tax Receipts** (74 percent of total revenues) constituted around LE 406.7 billion of total revenues, increasing by LE 39.4 billion (10.7 percent growth), mainly driven by
  - the **increase in income tax receipts by LE 24.1 billion (20.3 percent growth) to record LE 143.1 billion during the period of study**
    - ✓ supported by the **rise in receipts from taxes on domestic salaries by LE 6.7 billion** (18.9 percent growth), to record LE 42.3 billion, compared to LE 35.6 billion during the same period last year
    - ✓ **increase in tax receipts from other companies by LE 12 billion** (26.8 percent growth) to reach LE 57 billion.
    - ✓ **increase in tax receipts from EGPC by LE 3.4 billion** to reach LE 7.3 billion.
    - ✓ **taxes on commercial profits rose by LE 3.2 billion** (24.1 percent growth) to record LE 16.4 billion during the period of study
  - **while tax receipts from Suez Canal** reached LE 17 billion during the period of study

- **receipts from value added taxes rose by LE 8.9 billion** (4.6 percent growth) to reach LE 201.9 billion during the period of study
- **driven by the increase in receipts from value added tax on goods by LE 6.8 billion** (7.7 percent growth) to reach LE 95.5 billion during the period of study.
- **and the increase in excises on domestic commodities by LE 1.6 billion** (2.8 percent growth) to reach LE 60.6 billion during the period of study.
- **and the increase in receipts from stamp tax by LE 1.3 billion** (15.2 percent growth) to reach LE 9.7 billion during the period of study.
- **receipts from property taxes rose by LE 7.6 billion** (23.1 percent growth) to reach LE 40.7 billion during the period of study
- in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 6.4 billion (24.9 percent growth) to reach LE 32.3 billion during the period of study
- and the increase in receipts from Taxes and fees on cars by LE 1.3 billion (33.9 percent growth) to reach LE 5.1 billion during the period of study

- **Non-Tax Revenues (26 percent of total revenues) increased by LE 36.5 billion (34.2 percent growth)** to record LE 143.1 billion during the period of study, compared to LE 106.6 billion during the same period last year

- **This is mainly attributed to the increase in dividends from Economic Authorities by 10.7%** recording LE 7.5 billion during the period of study.
- While, dividends from Suez Canal recorded LE 17 billion during the period of study.
- **Moreover, proceeds from Miscellaneous Revenues** rose by LE 41.6 billion to record LE 68.8 billion during the period of study.
- due to the increase in receipts from capital miscellaneous revenues by LE 27.9 billion to reach LE 34.2 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 13.7 billion to record LE 34.7 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, <u>Total expenditures have increased by 12.3 percent to reach LE 828.1 billion during the period July-January FY20/21,</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>

Compensation of Employees

- **Wages and compensation for employees rose by LE 14.8 billion (8.7 percent growth)** to reach LE 186.2 billion during the period of study.

Subsidies, grants & social benefits

- **on the other hand, spending on treasury contribution to pensions rose by LE 33.4 billion to reach LE 61.6 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 5.7 billion to reach LE 34.6 billion** during the period of study.
- **spending on exports subsidies rose by LE 1.2 billion to reach LE 3.2 billion** during the period of study.
- **spending on health insurance and medicine rose by LE 0.9 billion to reach LE 2.5 billion** during the period of study.

Purchases of non-financial assets

- **Investment Spending** rose by LE 41.3 billion (54.1 percent growth) to record LE 117.7 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 39.9 billion (56.7 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 50.2 billion during period of study, increasing by 51.3 percent compared to the previous year, and spending on Non-residential buildings amounted to LE 24.3 billion, increasing by 44.1 percent compared to the previous year, and spending on machinery has reached LE 18.9 billion during the period July-January FY20/21.**

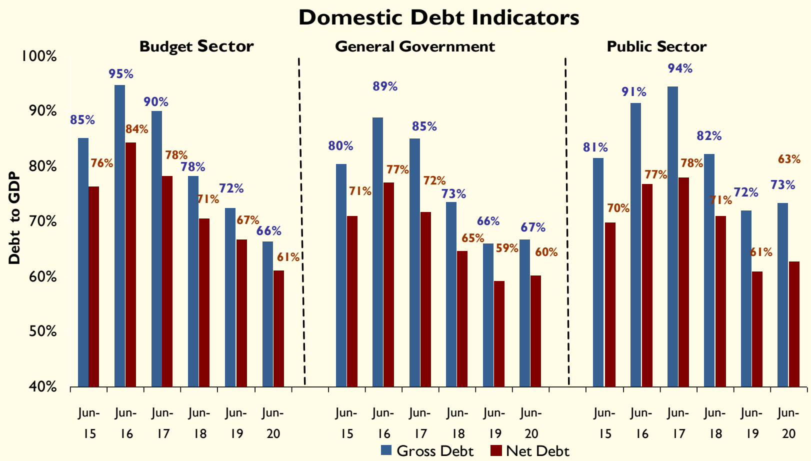
Fiscal Sector Performance during July- Jan 2020/2021

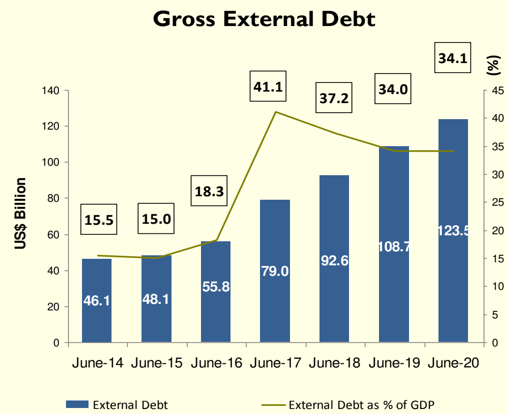
(LE billion)

	July- Jan		Growth rate
	2021/20	2020/19	
Revenues	**549,817**	**473,979**	**16.0%**
Taxes	406,730	367,365	10.7%
Grants	493	850	-42%
Other Revenues	142,594	105,765	34.8%
Expenditure	**828,059**	**737,105**	**12.3%**
Wages and Compensation of Employees	186,242	171,399	8.7%
Purchase of Goods and Services	36,805	36,331	1.3%
Interest Payments	300,510	301,900	-0.5%
Subsidies, Grants and Social Benefits	134,495	105,826	27.1%
Other Expenditures	52,293	45,268	15.5%
Purchases of Non-financial Assets (investments)	117,714	76,381	54.1%
Cash Deficit	**- 278,242**	**- 263,125**	
Net Acquisition of Financial Assets	**4,121**	**4,310**	
Overall Budget Deficit	**- 282,362**	**- 267,435**	
Budget Primary Surplus/or Deficit (%of GDP)	**0.3%**	**0.6%**	
Budget Overall Deficit (%of GDP)	**- 4.4%**	**- 4.6%**	

External & Domestic Debt

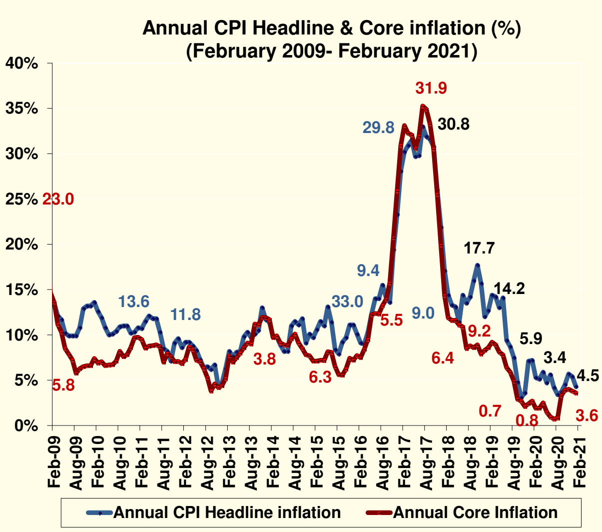
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase 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.

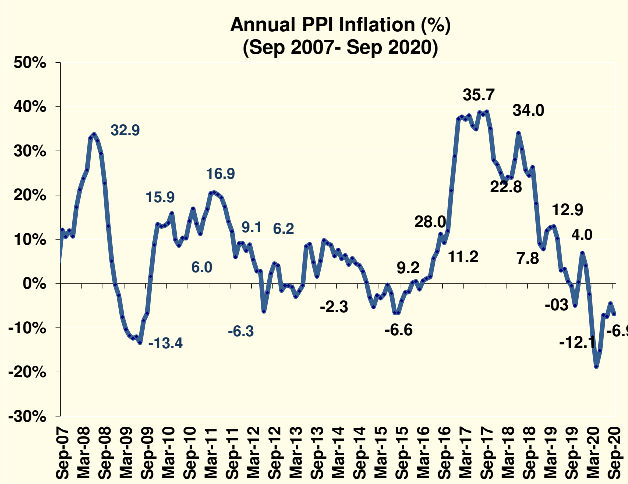




Inflation

Annual Urban Inflation recorded 4.5 percent in February 2021, compared to 5.3 percent during January 2021. **Meanwhile, average annual inflation rate reached** 4.5 percent during July-Feb FY20/21, compared to 5.9 percent during the same period of last year (in light of subdued food prices the biggest weight in CPI**)**. Moreover, Annual Core Inflation stabilized at 3.6 percent in February 2021.





Monetary Sector

***According to recent data released by the CBE; M2 growth increased** slightly to 19.6 percent in* November 2020 (LE 4845.9 billion), compared to 19.4 percent last month. This is mainly due to the increase in **Quasi Money** to record 20.1 percent in November 2020, compared to 19.3 last month, driven by the increase in **Local Currency Time & Saving Deposits** to reach 26.3 percent in November 2020, compared to 25.7 percent last month. However, **Money (M1)** declined to record17.9 percent in November 2020, compared to 19.8 percent last month driven by the decrease in **Demand Deposits in Local Currency** to 15 percent in November 2020, compared to 17.3 percent during last month, coupled with a decrease in **currency in circulation** to 20.6 percent in November 2020, compared to 22.0 percent last month.

- **Net Foreign Assets (NFA)** annual growth recorded a decrease at -29.1 percent (LE 249.7 billion) in November 2020 compared -27.6 percent last month driven by the decrease in **Banks Net Reserves (in LE terms)** which recorded 2.2 percent in November 2020, compared to 9.0 percent last month.
- **Net domestic assets (NDA)** annual growth has slightly increased to 24.2 percent at end of November 2020(LE 4596.3 billion) compared to 23.8 percent last month due to the rise in **Net Claims on Government, and GASC** to 26.1 percent in November 2020, compared to 24.8 percent last month.

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.

<u>This was mitigated by:</u>

- **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).

<u>The Capital and Financial Accounts</u>

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.