

Executive Summary

Latest Update

To complement the country's efforts to improve the lives of citizens by supporting productive activities and those most affected by the pandemic to boost the national economy, the Ministry of Finance continues to support the export sector by seeking to quickly reimburse the export burdens owed to exporting companies by the Export Development Fund for the cargo until the end of June, which contributes to providing cash liquidity that enables exporting companies to meet their obligations to their customers and to maintain workers during the pandemic.

In terms of initiatives that target improving the quality of services provided to citizens, particularly in the health and education sectors, the *Comprehensive Health Insurance System* will be implemented for all citizens in all governorates of Egypt within ten years instead of 15 years. The program aims to provide integrated health care following medical quality standards for all Egyptians of all categories to establish social justice. The work currently implemented in the remaining governorates of the 1st phase, namely Luxor, Ismailia, Aswan, Suez, and South Sinai, will be completed during the current and next fiscal year.

Moreover, to continue promoting community participation, disclosure, and transparency on the priorities and objectives of the state's fiscal policies, the Ministry of Finance issued the "Mid-Year Review" report during the first half of the current fiscal year 2020/2021, which included an explanation of the fiscal policy objectives and the most important measures taken by the government to address the repercussions of the COVID-19 crisis on the Egyptian economy, as well as the financial support packages addressed to support the most affected sectors by the pandemic.

This report is one of the most important financial reports annually issued by the Government as it assesses the financial performance and public spending after six months of the actual implementation of the budget, which helps measure the compatibility of actual performance with the financial policies of the country. It's also worth mentioning that the new report is of exceptional importance as it comes in the light of the outbreak of the COVID-19 pandemic, and thus shows the impact of the many measures taken by the government to address the economic repercussions of the pandemic, both, on the growth rates of the national economy and the performance of the general budget. Additionally, to develop national awareness financially, economically, and legislatively, the newly developed website of the Ministry of Finance has also been launched, developed in form and content, as it facilitates access to electronic browsing and information.



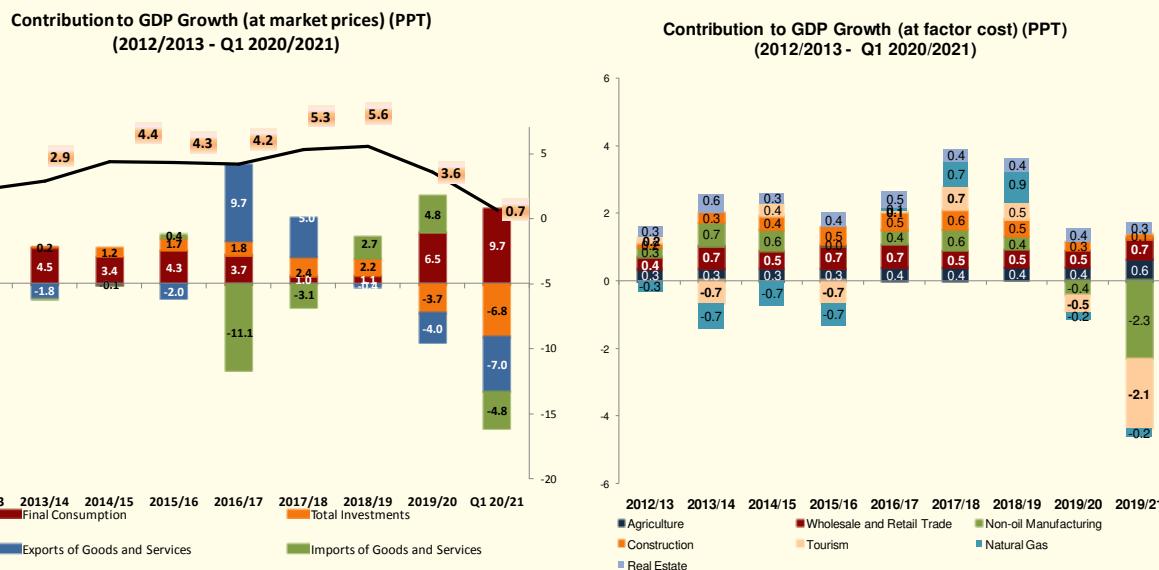
Recent Macroeconomic Indicators

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.



- **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\$ 40.3 billion during March 2021, compared to lowest level of US\$ 13.4 billion at end of March 2013.
- **Purchasing manager Index** reached 48 in March 2021, compared to 37.1 in December 2012.
- **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 -5.0% during the period July-February FY20/21, compared to -5.2% during the same period last year. This can be explained in light of the increase in revenues by 13.5%, which exceeded the increase in expenses at 10.5% compared to the same period of the previous year.

Total Revenues increased by LE 74.2 billion (13.5 percent growth) to record LE 625.4 billion during the period of study, compared to the same period of last year. Tax revenues constitute 75 percent of total revenues while non-tax revenues have increased to constitute 25 percent.

- **Tax Receipts** (75 percent of total revenues) constituted around LE 467.8 billion of total revenues, increasing by LE 44.8 billion (10.6 percent growth), mainly driven by
 - the increase in income tax receipts by LE 25.2 billion (18.2 percent growth) to record LE 164 billion during the period of study
 - ✓ supported by the rise in receipts from taxes on domestic salaries by LE 7 billion (17 percent growth), to record LE 74.7 billion, compared to LE 40.8 billion during the same period last year
 - ✓ increase in tax receipts from other companies by LE 11.3 billion (21 percent growth) to reach LE 65.2 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 4.4 billion (27.6 percent growth) to record LE 20.3 billion during the period of study
 - while tax receipts from Suez Canal reached LE 19.5 billion during the period of study.
 - receipts from value added taxes rose by LE 11.6 billion (5.2 percent growth) to reach LE 234.2 billion during the period of study
 - driven by the increase in receipts from value added tax on goods by LE 10.3 billion (10.3 percent growth) to reach LE 110.3 billion during the period of study.
 - and the increase in receipts from stamp tax by LE 4.5 billion to reach LE 13.9 billion during the period of study.
 - receipts from property taxes rose by LE 9.7 billion (26.1 percent growth) to reach LE 46.7 billion during the period of study
 - in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 8.3 billion (28.7 percent growth) to reach LE 37.2 billion during the period of study

- and the increase in receipts from Taxes and fees on cars by LE 1.4 billion (32.8 percent growth) to reach LE 5.6 billion during the period of study
- **Non-Tax Revenues (25 percent of total revenues) increased by LE 29.4 billion (22.9 percent growth)** to record LE 157.7 billion during the period of study, compared to LE 128.3 billion during the same period last year.
 - **This is mainly attributed to the increase in dividends from Suez Canal** to reach LE 19.3 billion during the period of study.
 - **Moreover, proceeds from Miscellaneous Revenues** rose by LE 41 billion to record LE 74 billion during the period of study.
 - due to the increase in receipts from capital miscellaneous revenues by LE 30 billion to reach LE 38.6 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 11 billion to record LE 35.6 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 10.5 percent to reach LE 941 billion during the period July-February 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 17 billion (8.7 percent growth)** to reach LE 211.2 billion during the period of study.

Subsidies, grants & social benefits

- **on the other hand, spending on treasury contribution to pensions rose by LE 24.2 billion to reach LE 66 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 8.8 billion to reach LE 41.7 billion** during the period of study.
- **spending on exports subsidies rose by LE 1 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 2.6 billion** during the period of study.

Purchases of non-financial assets

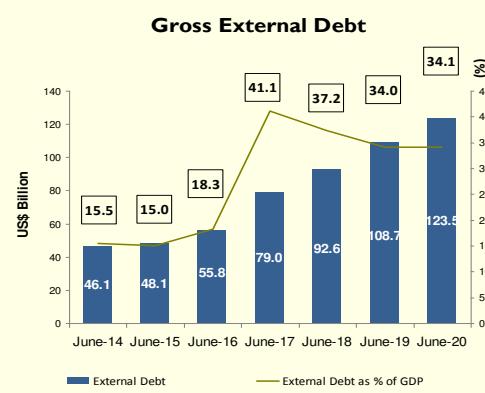
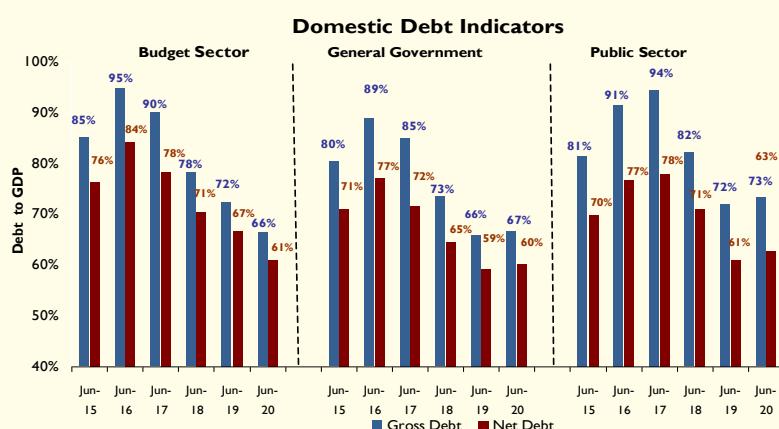
- **Investment Spending** rose by LE 43.8 billion (48.1 percent growth) to record LE 134.7 billion during the period of study in light of the efforts to improve infrastructure, and the public services provided to citizens. **It is noteworthy to mention that the increase in spending on Direct investment (including customs fees) by LE 43 billion (52 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 56.8 billion during period of study, increasing by 49 percent compared to the previous year, and spending on Non-residential buildings amounted to LE 28 billion, increasing by 42 percent compared to the previous year, and spending on machinery has reached LE 21.4 billion during the period July-February FY20/21.

		Fiscal Sector Performance during July–Feb 2020/2021		(LE billion)
		July–Feb	Growth rate	
Revenues	2021/20	2020/19	13.5%	
Taxes	467,757	422,992	10.6%	
Grants	573	1,996	-71%	
Other Revenues	157,083	126,264	24.4%	
Expenditure	941,022	851,745	10.5%	
Wages and Compensation of Employees	211,243	194,274	8.7%	
Purchase of Goods and Services	41,729	41,786	-0.1%	
Interest Payments	343,324	342,555	0.2%	
Subsidies, Grants and Social Benefits	149,634	127,540	17.3%	
Other Expenditures	60,411	54,657	10.5%	
Purchases of Non-financial Assets (investments)	134,683	90,934	48.1%	
Cash Deficit	-315,610	-300,494		
Net Acquisition of Financial Assets	4,593	4,500		
Overall Budget Deficit	-320,203	-304,994		
Budget Primary Surplus/or Deficit (% of GDP)	0.4%	0.6%		
Budget Overall Deficit (% of GDP)	-5.0%	-5.2%		

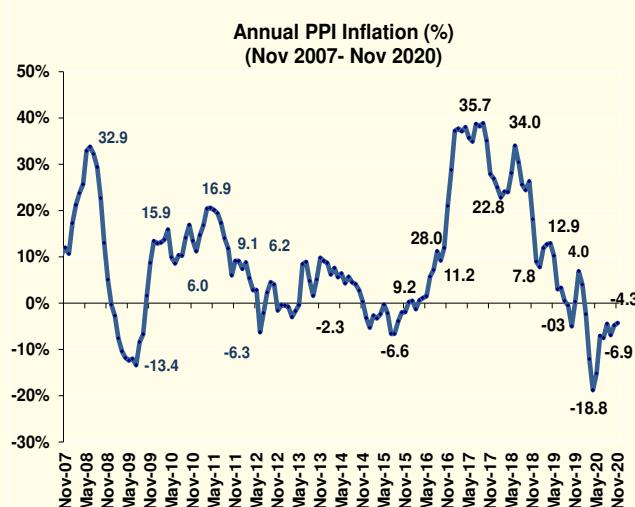
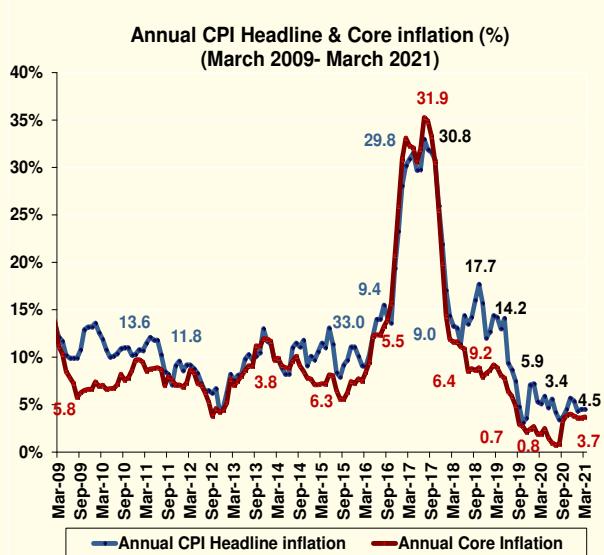
External & Domestic Debt

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 stabilized at 4.5 percent in March 2021, compared to the same level recorded during last month. **Meanwhile, average annual inflation rate reached 4.5 percent during July-March FY20/21**, compared to 5.8 percent during the same period of last year (in light of subdued food prices the biggest weight in CPI). Meanwhile, Annual Core Inflation recorded 3.7 percent in March 2021, compared to 3.6 percent during last month.



Monetary Sector

According to recent data released by the CBE; **M2 growth increased slightly to 19.8 percent in January 2021** (LE 4959.5 billion), compared to 19.7 percent last month. This is mainly due to the increase in **Quasi Money** to record 20.8 percent in January 2021, compared to 20.2 last month, driven by the increase in **Demand Deposits in Foreign Currency** to reach 11.6 percent in January 2021, compared to 5.7 percent last month. However, **Money (M1)** recorded a decline to 16.7 percent in January 2021, compared to 18.1 percent last month driven by the decrease in **Demand Deposits in Local Currency** to 13.4 percent in January 2021, compared to 15.4 percent during last month.

- **Net Foreign Assets (NFA)** annual growth recorded a decrease at -27.1 percent (LE 274.6 billion) in January 2021 compared -22.1 percent last month driven by the decrease in **Banks Net Reserves (in \$ terms)** which recorded -29.7 percent in January 2021, compared to -19.8 percent last month.
- **Net domestic assets (NDA)** annual growth has slightly increased to 24.5 percent at end of January 2021 (LE 4684.9 billion) compared to 23.6 percent last month due to the rise in **Net Claims on Government, and GASC** to 24.6 percent in January 2021, compared to 24.2 percent last month, and the increase in **Claims on Private Sector** to 24.5 percent in January 2021, compared to 24 percent last month.
- **Total Deposits annual growth rate- excluding deposits at the CBE** – has slightly increased to 24.4 percent (LE 5282.8 billion) at the end of January 2021, compared to 22.7 percent last month. **Out of total deposits, 82.6 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has slightly decreased to record 47.9 percent at end of January 2021, compared to 48 percent last month.

- **In the same context**, Monetary Policy Committee (MPC) decided on April 28th 2021 to keep the Central Bank of Egypt's (CBE) **overnight deposit rate, overnight lending rate, and the rate of the main operation unchanged** at 8.25 percent, 9.25 percent, and 8.75 percent, respectively. The discount rate was also kept unchanged at 8.75 percent.

External Sector

- **The Egyptian economy was able to absorb the shock caused by the COVID19 pandemic owing to the applied economic reforms, which were reflected in the country's economic transactions with the external world during the First Half of FY 2020/2021. The Balance of Payment recorded an overall surplus of US\$ 1.5 billion**, compared to an overall surplus of US\$ 410.9 million in the first half of FY2019/2020. **This comes in light of the increase in the capital and financial account surplus by 75.2 percent** during the study period compared to the First Half of FY 2019/2020, 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.

Detailed Balance of payment performance during First Half of FY20/21:

- **The current account deficit has reached US\$ 7.6 billion during the period of study, compared to US\$ 4.6 billion during the First Half of FY19/20, mainly due to:**
 - **Service account surplus dropped by 69.9 percent to record US\$ 1.9 billion during the study period**, compared to 6.3 US\$ billion during the same period last year, spurred by the decline in tourism revenues in light of COVID 19 implications.
 - **Oil merchandise deficit narrowed notably to reach only US\$ 54.2 million during the study period**, compared to US\$ 733.3 million during the same period last year, owing to the decline in global oil prices,
 - **Non-Oil merchandise deficit rose by 6.6 percent**, hampered by the increase in Non-Oil imports during the period of study.
 - **While, remittances rose notably by 13.5 percent** compared to last year, reaching US\$ 15.5 billion during the First Half of FY 20/21.

The Capital and Financial Accounts

- **The capital and financial accounts witnessed a notable increase recording net inflows of US\$ 9.2 billion during the First Half of FY2020/2021, compared to US\$ 5.2 billion during the same period of the previous year. This represents an increase of 75.2 percent compared to the First half of FY2019/2020**, mainly driven by the **remarkable increase in Net portfolio Investments to Egypt, and which has reached US\$ 10.2 during the period of study**, and FDIs has subdued to record US\$ 3.4 billion.