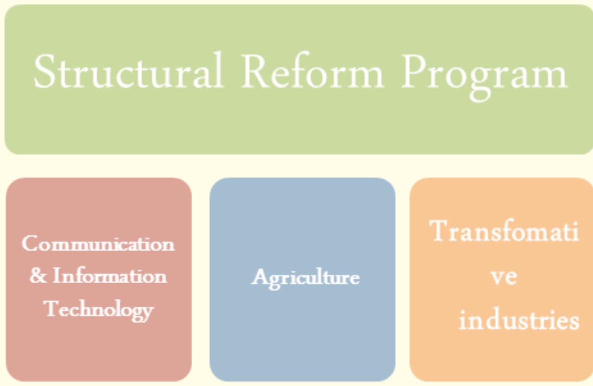
Executive Summary

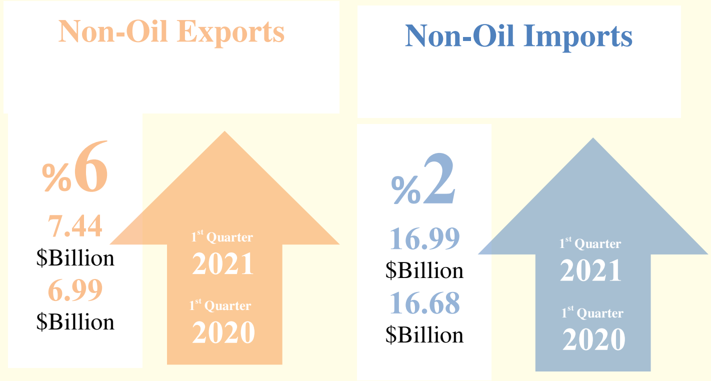
Latest Update



The Egyptian government announced the **launch of the second phase of the economic and social reform program** - structural reform program - which extends for a period of 3 years until 2023/2024. This stage aims at **radical structural reforms in the manufacturing, agriculture, communications and information technology sectors** by increasing the contribution of these sectors to the Gross Domestic Product and creating new job opportunities; In addition to **enhancing financial inclusion and providing financing, developing technical education and vocational training, improving the business environment, developing the role of the private sector** and involving it in the development process.

In this context, the Ministry of Finance sets the fiscal policy objectives in light of Egypt's Vision 2030, and sets medium-term and annual plans to implement these objectives, including the expenditure plan and the budget for FY 21/22. Accordingly, the MoF has presented the Executive Budget Proposal of the draft budget for the next fiscal year 2021/2022 in the Parliament. The state's general budget aims to **increase total expenditures to reach about 1.8 trillion EGP, and total revenues estimated at 1.365 trillion EGP, and public investments witnessed an increase of 27.6%, which ensures maximizing spending on development projects and improving services provided to citizens, in addition to increasing allocations for wages and workers compensation by 11.4% with the aim of improving the conditions of state workers, and 331 billion EGP were allocated for social protection**, including support for food commodities, social security pensions, the "Solidarity and Dignity" program and treatment of citizens at the expense of the state extending the comprehensive health insurance system to some governorates; The budget mainly aims to continue efforts to **improve the quality of infrastructure and enhance human development, especially in the health and education sectors**, and to support some national projects such as the national project for the **development of the Egyptian countryside, and investment in the green economy and modern technology, while continuing to support the sectors and groups most affected by the pandemic**, without negatively affecting to the sustainability of Budget and debt indicators.

On the revenue side, the latest data issued by the Ministry of Trade and Industry in April 2021 indicated that Egyptian **non-oil exports have achieved a remarkable increase, reaching 6% during the first quarter of 2021 ($7.44 billion) compared to $6.99 billion during the same period in 2020, Egyptian non-oil imports also increased by 2% to reach $16.99 billion, compared to $16.68 billion during the same period in 2020, which consequently led to a decrease in the trade balance deficit by 1%. The month of March also witnessed the proceeds of tax and customs duties revenues totaling 7.6 billion EGP for Alexandria, 2.7 billion EGP for Dekheila and Damietta, and 3 billion EGP for Port Said, thanks to the efforts made to improve work performance in customs administrations, reduce customs release time and automate tax procedures.**

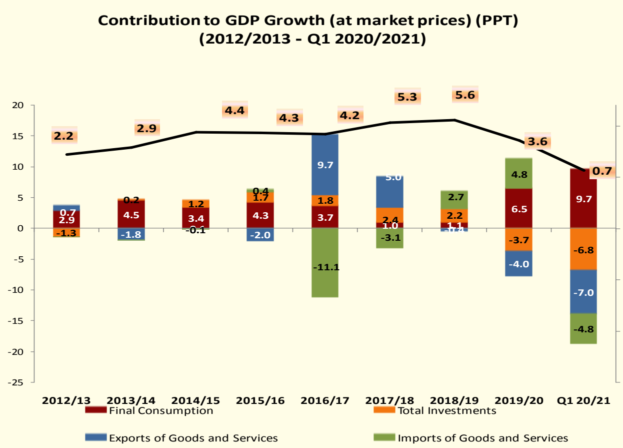


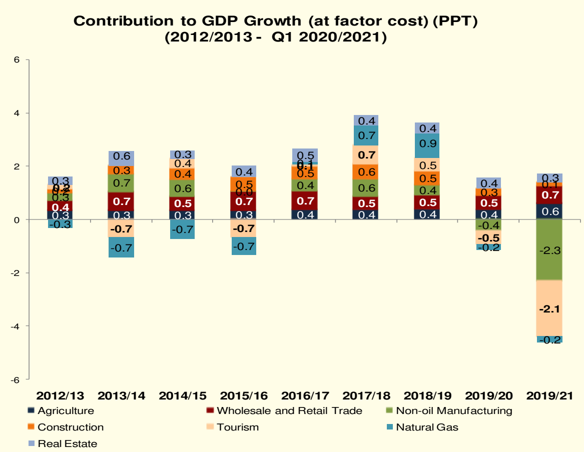
Recent Macroeconomic Indicators

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$ 40.4 billion during April 2021, compared to lowest level of US$ 13.4 billion at end of March 2013.

- **Purchasing manager Index** reached 47.7 in April 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 -5.4% during the period July-March FY20/21, compared to -5.7% during the same period last year. This can be explained in light of the increase in revenues by 14.6% which exceeded the increase in expenses at 11.3% compared to the same period of the previous year.

Total Revenues increased by LE 92.4 billion (14.6 percent growth) to record LE 725 billion during the period of study, compared to the same period of last year. Tax revenues constitute 74.3 percent of total revenues while non-tax revenues have increased to constitute 25.7 percent.

- **Tax Receipts** (74.3 percent of total revenues) constituted around LE 538.6 billion of total revenues, increasing by LE 63.9 billion (13.5 percent growth), mainly driven by
    - the **increase in income tax receipts by LE 36.7 billion (23.4 percent growth) to record LE 193.2 billion during the period of study**
        - ✓ supported by the **rise in receipts from taxes on domestic salaries by LE 9.7 billion** (21 percent growth), to record LE 56 billion, compared to LE 46.3 billion during the same period last year.

- ✓ **increase in tax receipts from other companies by LE 10.2 billion** (17 percent growth) to reach LE 70 billion.
- ✓ **increase in tax receipts from EGPC by LE 12.6 billion** to reach LE 16.5 billion.
- ✓ **taxes on commercial profits rose by LE 4 billion** (21 percent growth) to record LE 23.3 billion during the period of study

- **while tax receipts from Suez Canal** reached LE 22.5 billion during the period of study.
- **receipts from value added taxes rose by LE 15.7 billion** (6.3 percent growth) to reach LE 267.2 billion during the period of study
- **driven by the increase in receipts from value added tax on goods by LE 10.6 billion** (9.1 percent growth) to reach LE 127 billion during the period of study.
- **and the increase in receipts from stamp tax by LE 4.7 billion** to reach LE 15.6 billion during the period of study.
- **receipts from excises on domestic commodities rose by LE 1.2 billion** (1.6 percent growth) to reach LE 76.4 billion during the period of study.
- **receipts from property taxes rose by LE 11.2 billion** (27.7 percent growth) to reach LE 51.5 billion during the period of study.
- in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 9.6 billion (30.7 percent growth) to reach LE 40.9 billion during the period of study.
- and the increase in receipts from Taxes and fees on cars by LE 1.3 billion (26.7 percent growth) to reach LE 6.2 billion during the period of study

▪ **Non-Tax Revenues (25.7 percent of total revenues) increased by LE 28.6 billion (18.1 percent growth)** to record LE 186.4 billion during the period of study, compared to LE 157.8 billion during the same period last year.

- **This is mainly attributed to the increase in dividends from** Suez Canal to reach LE 22.1 billion during the period of study.
- **Moreover, proceeds from Miscellaneous Revenues** rose by LE 36.7 billion to record LE 87.7 billion during the period of study.
- due to the increase in receipts from capital miscellaneous revenues by LE 34.5 billion to reach LE 50 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 2.2 billion to record LE 37.8 billion during the period of study (mainly due to the increase in receipts from previous year's revenues).

On the Expenditure side, Total expenditures have increased by 11.3 percent to reach LE 1067.5 billion during the period July-March 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 20.7 billion (9.6 percent growth)** to reach LE 237.5 billion during the period of study.

Subsidies, grants & social benefits

- **on the other hand, spending on treasury contribution to pensions rose by LE 25.8 billion to reach LE 80.8 billion** during the period of study in light of the implementation of the new pension law number 148 for the year 2019.
- **spending on cash transfers including Takaful& Karam program rose by LE 0.8 billion to reach LE 13.1 billion** during the period of study.
- **spending on GASC subsidies rose by LE 8.8 billion to reach LE 45.7 billion** during the period of study.
- **spending on exports subsidies rose by LE 0.5 billion to reach LE 3.3 billion** during the period of study.
- **spending on health insurance and medicine rose by LE 0.9 billion to reach LE 2.8 billion** during the period of study.

Purchases of non-financial assets

- **Investment Spending** rose by LE 50.8 billion (45 percent growth) to record LE 163.7 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) rose by LE 46 billion (44.5 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 69.4 billion during period of study, increasing by 42.1 percent compared to the previous year, and spending on Non-residential buildings amounted to LE 31.3 billion, increasing by 41.8 percent compared to the previous year, and spending on machinery has reached LE 27.3 billion during the period July-March FY20/21.**

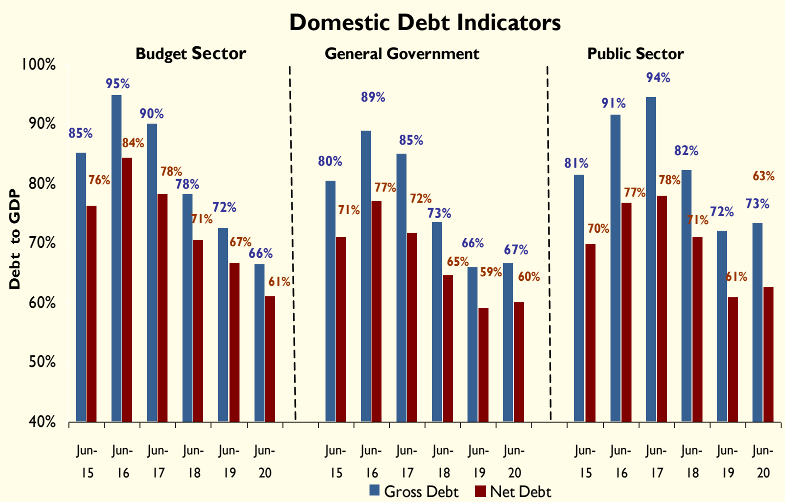
Fiscal Sector Performance during July-Mar 2020/2021

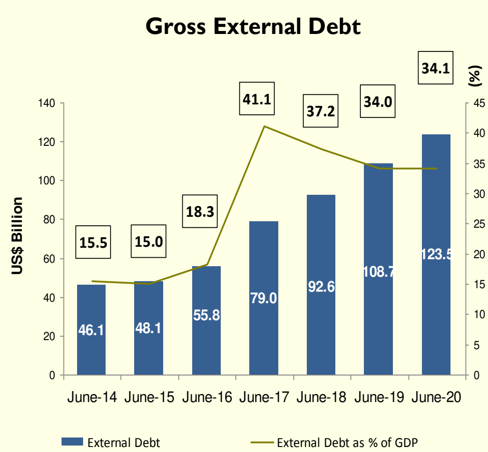
(LE billion)

	July-Mar		Growth rate
	2021/20	2020/19	
Revenues	**724,985**	**632,504**	**14.6%**
Taxes	538,599	474,738	13.5%
Grants	616	4,000	-85%
Other Revenues	185,770	153,765	20.8%
Expenditure	**1,067,465**	**959,252**	**11.3%**
Wages and Compensation of Employees	237,466	216,728	9.6%
Purchase of Goods and Services	46,934	46,305	1.4%
Interest Payments	373,678	371,674	0.5%
Subsidies, Grants and Social Benefits	176,988	150,849	17.3%
Other Expenditures	68,657	60,752	13.0%
Purchases of Non-financial Assets (investments)	163,742	112,945	45.0%
Cash Deficit	**-342,480**	**-326,748**	
Net Acquisition of Financial Assets	**5,907**	**4,381**	
Overall Budget Deficit	**-348,387**	**-331,129**	
Budget Primary Surplus/or Deficit (%of GDP)	**0.4%**	**0.7%**	
Budget Overall Deficit (%of GDP)	**-5.4%**	**-5.7%**	

External & Domestic Debt

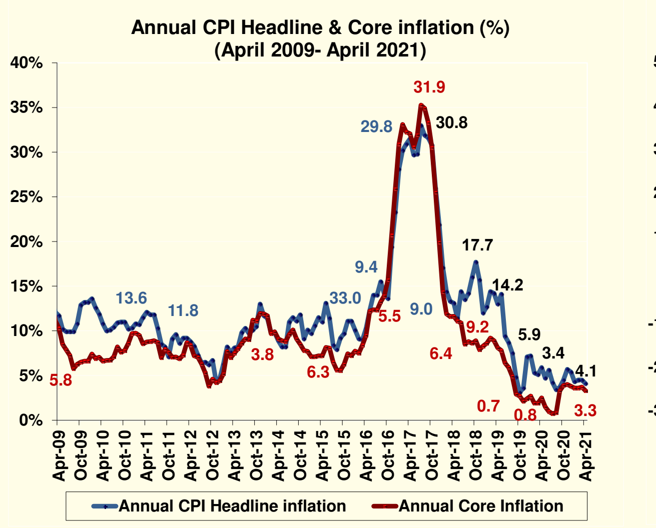
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase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

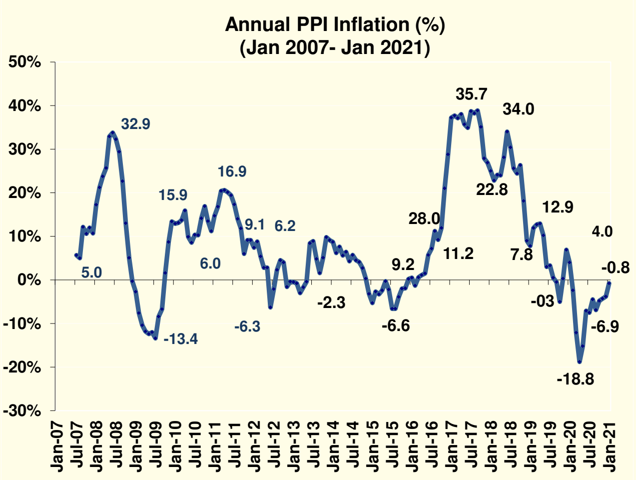




Inflation

Annual Urban Inflation declined to 4.1 percent in April 2021, compared to 4.5 percent during last month. **Meanwhile, average annual inflation rate reached** 4.4 percent during July-April 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 3.3 percent in April 2021, compared to 3.7 percent during last month.





Monetary Sector

***According to recent data released by the CBE; M2 growth stabilized** at 20 percent in* March 2021 (LE 5131.9 billion), compared to the same level of growth last month. This is mainly due to **Quasi Money** almost stabilized at 21.5 percent in March 2021, compared to 21.8 last month driven by the increase in slower pace in **Demand Deposits in Foreign Currency** to reach 12.2 percent in March 2021, compared to 16.2 percent Last month. While, **Money (M1)** recorded an increase of 15.2 percent in March 2021, compared to 14.2 percent last month driven by the increase in **Demand Deposits in Local Currency** to 16.2 percent in March 2021, compared to 9.3 percent during last month.

- **Net Foreign Assets (NFA)** annual growth recorded an increase by 127 percent (LE 277.4 billion) in March 2021 compared -15 percent last month driven by the increase in **Banks Net Reserves (in $ terms)** which recorded 19.4 percent in March 2021, compared to -18.7 percent last month.
- **Net domestic assets (NDA)** annual growth has increased at slower pace to 16.8 percent at end of March 2021 (LE 4854.5 billion) compared to 23.4 percent last month due to the increase in slower pace in **Net Claims on Government, and GASC** to 15.4 percent in march 2021, compared to 22.3 percent last month, and the **Claims on Private Sector** to 23 percent in March 2021, compared to 25.1 percent last month.
- **Total Deposits annual growth rate– excluding deposits at the CBE** –almost stabilized at 24.6 percent (LE 5516 billion) at the end of March 2021, compared to 24.8 percent last month. **Out of total deposits, 82.2 percent belonged to the non-government sector. Loans-to-deposits Ratio** has stabilized at 48 percent at end of March 2021, compared almost same level during 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.