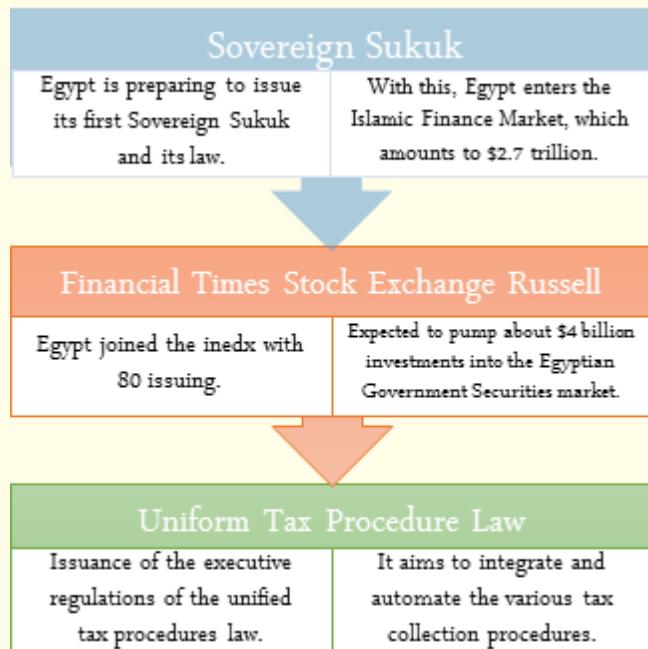


Executive Summary

Latest Economic Developments

The Egyptian economy has recently witnessed many developments, the most important of which are the legislative developments with the issuance of many laws supporting the increase and attraction of investments and improving the economic climate of the state. For example, Egypt is preparing to issue the first offering of "**Sovereign Sukuk**" immediately after the Parliament approval and the issuance of its law. With the issuance of this law, Egypt officially enters the Islamic Finance Market for the first time, with the volume of sukuk issuances reaching \$2.7 trillion, which contributes to attracting new Egyptian and foreign investors to invest in accordance with the principles of Islamic Sharia in both local and foreign currencies. This is expected to help achieve financial, economic and development goals by diversifying the sources of financing the state budget deficit.



The executive regulations of the "**Unified Tax Procedures Law**" were also issued, which aims to integrate, simplify and automate the procedures for linking and collecting income tax, value-added tax, stamp tax, development fees for the state's financial resources and any similar tax, which contributes to modernizing and digitalizing the tax management system and providing services to financiers and taxpayers electronically.

Moreover, Egypt recently joined the new "**Financial Times Russell**" bonds index, which tracks local currency bonds issued in emerging and developing markets. The index contains bonds issued by 13 countries with a value of \$414.8 billion. Egypt is included in this index with 80 issuances, the maximum allowed per country is 10%. This accession is expected to inject approximately \$4 billion in additional new investments into the Egyptian government securities market, including treasury bills and bonds. Earlier, Egypt joined the "**J.P. Morgan**" government bond index watch list and the **Green Bonds index**, which confirms Egypt's position on the global map of indices and raises the confidence of international financial institutions in the Egyptian economy and government securities market.

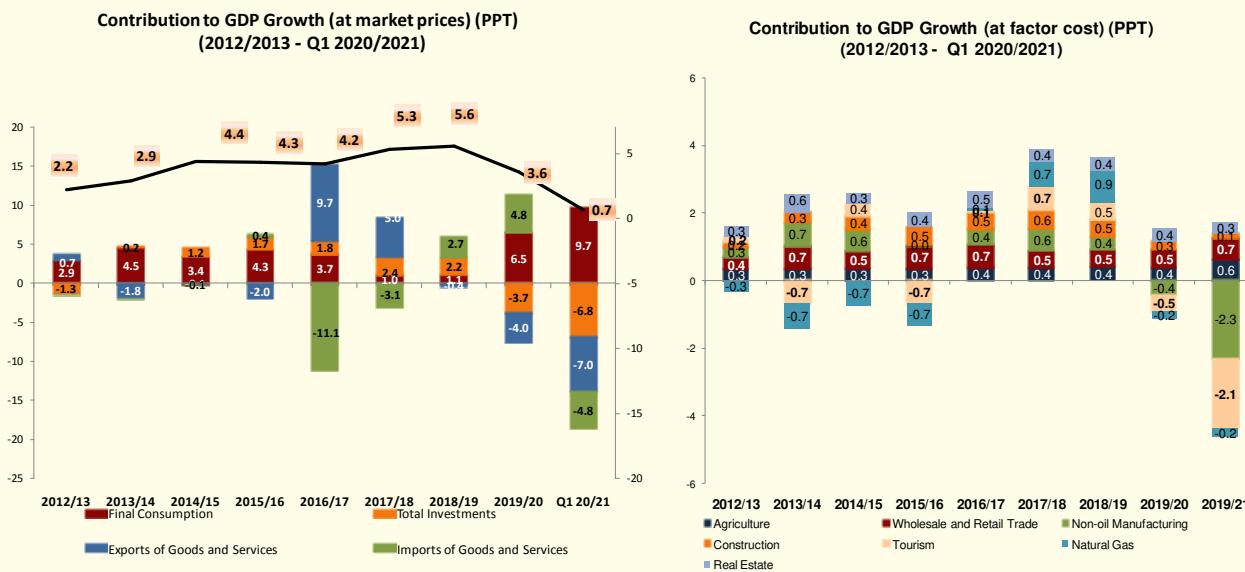
These reforms were reflected in the continued confidence of international institutions. For instance, **Moody's Rating Agency** announced that Egypt would maintain its credit rating in local and foreign currencies as it is, without modification at the **B2 credit level**, which reflects the effectiveness and balance of the economic and financial policies followed by the government during the past years. That is to say, the economy has maintained a primary surplus in the public budget through realizing savings on the public expenditure side and increasing public revenues along with a better-than-expected performance of tax revenue collection. This was thanks to the digitalization projects of the tax management system that have contributed to stimulating investment, facilitating taxpayers and raising the efficiency of tax collection. Accordingly, Moody's expect then that tax revenues will increase by 15% during the last fiscal year, which made the government's debt as a percentage of GDP up to 90.

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\$ 40.6 billion at end of July 2021, compared to lowest level of US\$ 13.4 billion at end of March 2013.
- **Purchasing manager Index** reached 49.1 in July 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 -6.5% during the period July-May FY20/21, compared to -6.7% during the same period last year. This can be explained in light of the increase in revenues by 16.6% which exceeded the increase in expenses at 13% compared to the same period of the previous year.

Total Revenues increased by LE 130.6 billion (16.6 percent growth) to record LE 917.4 billion during the period of study, compared to the same period of last year. Tax revenues constitute 76.5 percent of total revenues while non-tax revenues have increased to constitute 23.5 percent.

- **Tax Receipts** constituted around LE 702 billion of total revenues, increasing by LE 100.8 billion (16.8 percent growth), mainly driven by
 - the **increase in income tax receipts by LE 50 billion (22.4 percent growth)** to record LE 273.3 billion during the period of study
 - ✓ supported by the **rise in receipts from taxes on domestic salaries by LE 11 billion** (19.3 percent growth), to record LE 68 billion, compared to LE 57 billion during the same period last year.
 - ✓ **increase in tax receipts from other companies by LE 25.8 billion** (29.1 percent growth) to reach LE 114.2 billion.
 - ✓ **increase in tax receipts from EGPC by LE 0.9 billion** to reach LE 17.3 billion.
 - ✓ **taxes on commercial profits rose by LE 12 billion** (45.9 percent growth) to record LE 38.2 billion during the period of study
 - **While tax receipts from Suez Canal** reached LE 28.9 billion during the period of study.
 - **receipts from value added taxes rose by LE 30.8 billion** (10.3 percent growth) to reach LE 329.4 billion during the period of study

- **driven by the increase in receipts from value added tax on goods by LE 19.8 billion** (14.5 percent growth) to reach LE 157 billion during the period of study.
- **and the increase in receipts from stamp tax by LE 4.2 billion** (32.3 percent growth) to reach LE 17.3 billion during the period of study.
- **receipts from excises on domestic commodities rose by LE 2.7 billion** (3 percent growth) to reach LE 93 billion during the period of study.
- **receipts from property taxes rose by LE 18 billion** (36.6 percent growth) to reach LE 67 billion during the period of study.
- in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 15.2 billion (38.6 percent growth) to reach LE 54.6 billion during the period of study.
- and the increase in receipts from Taxes and fees on cars by LE 2.1 billion (38.8 percent growth) to reach LE 7.4 billion during the period of study
- and the increase in receipts from International trade by LE 2 billion (6.4 percent growth) to reach LE 32.4 billion during the period of study

▪ **Non-Tax Revenues (23.5 percent of total revenues) increased by LE 29.8 billion (16.1 percent growth)** to record LE 215.2 billion during the period of study, compared to LE 185.4 billion during the same period last year.

- **This is mainly attributed to the increase in dividends from** Public Sector Companies by LE 1.4 billion to reach LE 5.5 billion during the period of study.
- **Moreover, proceeds from Miscellaneous Revenues** rose by LE 35.2 billion to record LE 93.7 billion during the period of study.
- due to the increase in receipts from capital miscellaneous revenues by LE 40 billion to reach LE 61.2 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).

On the Expenditure side, Total expenditures have increased by 13 percent to reach LE 1323.1 billion during the period July-May 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 28.8 billion (10.9 percent growth)** to reach LE 293 billion during the period of study.

Subsidies, grants & social benefits

- **on the other hand, spending on treasury contribution to pensions rose by LE 44.2 billion to reach LE 99 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 6.7 billion to reach LE 70.2 billion** during the period of study.

- spending on health insurance and medicine rose by LE 0.8 billion to reach LE 2.9 billion during the period of study.

Purchases of non-financial assets

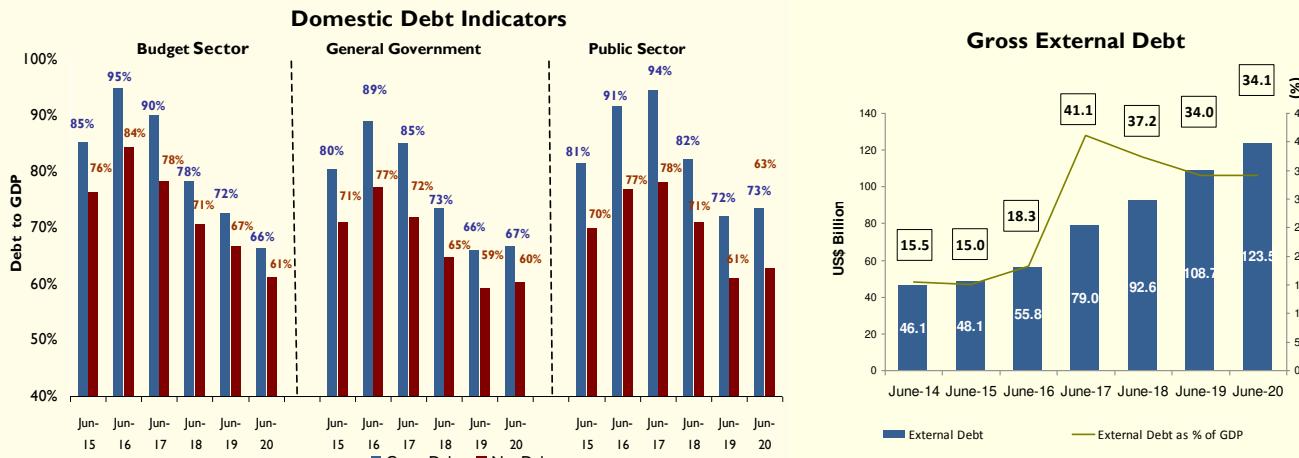
- **Investment Spending** rose by LE 47.4 billion (33 percent growth) to record LE 191 billion during the period of study in light of the efforts to improve infrastructure, and the public services provided to citizens. It is noteworthy to mention that the increase in spending on Direct investment (including customs fees) rose by LE 41 billion (31.3 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 74 billion during period of study, increasing by 28.4 percent compared to the previous year, and spending on Non-residential buildings amounted to LE 38.7 billion, increasing by 18.7 percent compared to the previous year, and spending on machinery has reached LE 10.2 billion during the period July-May FY20/21.

Fiscal Sector Performance during July-May 2020/2021			(LE billion)
	July-May		Growth rate
	2021/20	2020/19	
Revenues	917,414	786,794	16.6%
Taxes	702,217	601,414	16.8%
Grants	806	4,117	-80%
Other Revenues	214,391	181,263	18.3%
Expenditure	1,323,112	1,171,378	13.0%
Wages and Compensation of Employees	292,934	264,174	10.9%
Purchase of Goods and Services	60,639	55,040	10.2%
Interest Payments	463,956	440,682	5.3%
Subsidies, Grants and Social Benefits	231,553	195,889	18.2%
Other Expenditures	83,115	72,092	15.3%
Purchases of Non-financial Assets (investments)	190,915	143,501	33.0%
Cash Deficit	-405,698	-384,584	
Net Acquisition of Financial Assets	7,266	4,540	
Overall Budget Deficit	-412,965	-389,124	
Budget Primary Surplus/or Deficit (% of GDP)	0.8%	0.9%	
Budget Overall Deficit (% of GDP)	-6.5%	-6.7%	

External & Domestic Debt

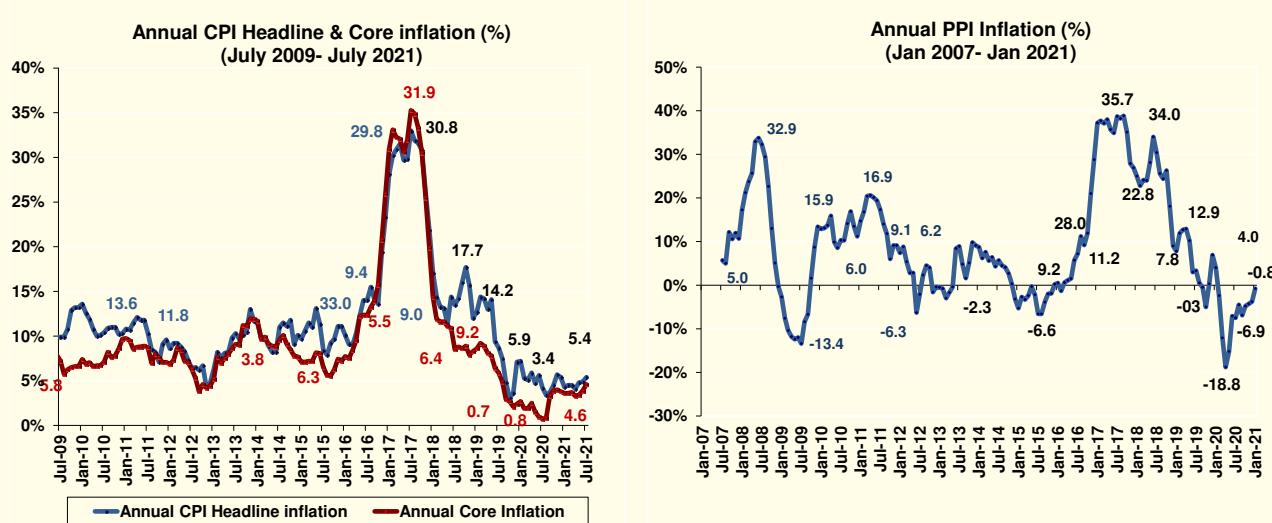
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase 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 5.4 percent in July 2021, compared to 4.9 percent during last month. Meanwhile, average annual inflation rate reached 4.5 percent during FY20/21, compared to 5.7 percent during the same period of last year (in light of subdued food prices the biggest weight in CPI). Meanwhile, Annual Core Inflation recorded 4.6 percent in July 2021, compared to 3.9 percent during last month.



Monetary Sector

According to recent data released by the CBE; M2 growth declined to 18.1 percent in May 2021 (LE 5257.4 billion), compared to 19.1 percent last month. This is mainly due to the decrease in Money (M1) to record 11.9 percent in May 2021, compared to 13.3 last month, driven by the decrease demand deposits in local currency to reach 12.8 percent in May 2021, compared to 16

last month. Moreover, due to the decrease in **Quasi Money** to record 20.1 percent in May 2021, compared to 20.9 last month, driven by the decrease in **foreign currency demand deposits** to reach 6.9 percent in May 2021, compared to 20 percent last month.

- **Net Foreign Assets (NFA)** annual growth recorded a decrease at 87.3 percent (LE 247.96 billion) compared 555.2 percent last month driven by the decrease in **Banks Reserves** which recorded -10 percent in May 2021, compared to 76.5 percent last month.
- **Net domestic assets (NDA)** annual growth has increased to 16 percent at end of May 2021 (LE 5009.4 billion) compared to 13.9 percent last month due to the increase in **Net Claims on Government, and GASC** to 12.1 percent in September 2020, compared to 11 percent last month.
- **Total Deposits annual growth rate– excluding deposits at the CBE** – has slightly decreased to 22.3 percent (LE 5628.8 billion) at the end of May 2021, compared to 22.9 percent last month. **Out of total deposits, 82 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has slightly increased to record 50 percent at end of May 2021, compared to 48.9 percent last month.
- **In the same context,** Monetary Policy Committee (MPC) decided on June 17th 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 period July-March of FY 2020/2021. The Balance of Payment recorded an overall surplus of US\$ 1.8 billion, compared to an overall deficit of US\$ -5.1 billion in July-March of FY2019/2020. This comes in light of the increase in the capital and financial account surplus by US\$ 13 billion during the period of study compared to the same period of last year, 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:

- The current account deficit has increased by US\$ 6 billion to record LE 13.3 billion during the period of study, compared to US\$ 7.3 billion during the same period of FY19/20, mainly due to:
 - Service account surplus dropped by 62.2 percent to record US\$ 3.2 billion during the study period, compared to 8.4 US\$ billion during the same period last year, spurred by the decline in tourism revenues in light of COVID 19 implications.
 - Non-Oil merchandise deficit rose by 12.7 percent to reach US\$ 30.7 billion (compared to US\$ 27.3 billion during the same period of last year). Due to the increase in imports from medicine, medical equipment's, wheat and cars' spare parts.
 - Which was offset by, Oil merchandise deficit narrowed to reach surplus of US\$ 174.9 million during the period of study, compared to US\$ 773.3 million during the same period last year.

- **The increase in remittances by 8.5 percent to record US\$ 33.4 billion** (compared to US\$ 21.5 billion during the same period of last year).
- **Investment income deficit narrowed**, which presents the difference between receipts and payments on investments to and from external world by 3.6 percent to reach US\$ -8.9 billion (compared to US\$ -9.2 billion during the same period of last year).

The Capital and Financial Accounts

- **The capital and financial accounts witnessed a notable increase** recording net inflow of US\$ 17.1 billion during July-March of FY2020/2021, compared to US\$ 4.1 billion during the same period of the previous year. This represents an increase of US\$ 13 billion compared to the same period of last year, mainly driven by the **remarkable increase in Net portfolio Investments to Egypt, and which has reached US\$ 16 billion** compared to US\$ 7.9 billion during the same period of the previous year, and FDIs has subdued to record US\$ 5.9 billion during the period of study. Meanwhile, net investments in non-petroleum sector stabilized at US\$ 5.1 billion, of which the increase in net investment inflows in establishing new companies, and or increase in companies' capital net investments by US\$ 154.8 million to reach US\$ 528.3 million during the period of study.