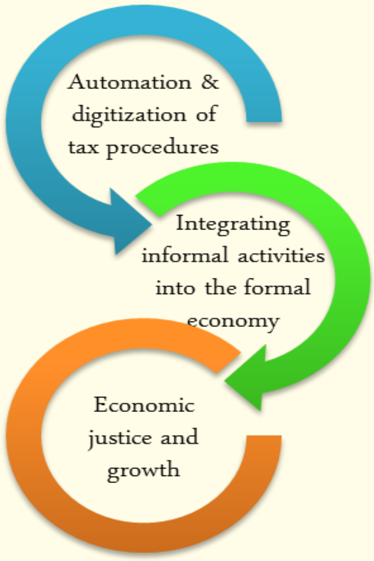
Executive Summary

Latest Economic Developments

The transformation to digital economy is one of the most important pillars for achieving a qualitative leap for the Egyptian economy and one of the most important components of reform within Egypt's Vision 2030, which is what the **Ministry of Finance (MoF) has adopted in its Strategy. This strategy is based on three axes which are**: supporting economic activity that contributes to achieving sustainable economic growth, developing, and raising the efficiency of collection, allocation, and disbursement of state resources, and sustaining the financial position of the budget and debt, through simplifying procedures, the cost of investment and production, the application of comprehensive mechanization and the use of artificial intelligence.



Accordingly, the GoE continues to improve the economic climate by automating, integrating, and simplifying the preparation, implementation, and control of the state's general budget through the **"Government Financial Information Management System "GFMIS"**, which is one of the manifestations of the optimal use of modern technology in enhancing the governance of the state's financial system. This system helps raise the efficiency of public spending in various administrative authorities, control financial performance, and tighten control over exchange in a way that maintains debt and deficit rates, as the size of the state's public treasury revenues and expenditures can be determined through the "electronic budget", which enables the state to estimate the correct position necessary to take any accurate decision related to the state's public finances, especially in light of internal and external crises and challenges such as the Covid-19 crisis.

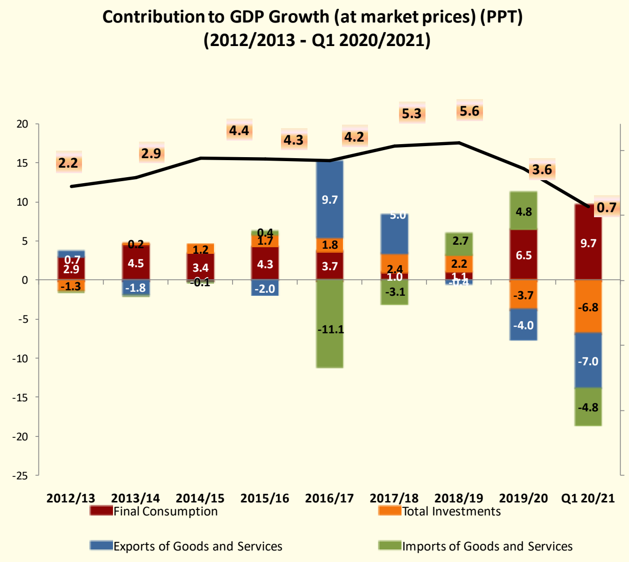
The digitization of "taxes" projects also contribute to raising the efficiency of tax collection and reducing evasion through the **"electronic invoice"** and **"electronic receipt"** projects, and then contribute to strengthening the governance of the state's public revenue system and **integrating the informal economy into the formal one**, this is reflected in the ability of these systems to confine the tax community more accurately, lay the foundations for tax justice, and seize the rights of the state's public treasury, in a way that helps achieve economic goals. The MoF also provides all the necessary means of support and provides a good business environment that helps **SMEs to join the formal** economy and expand investment activities in a way that stimulates the local industry. Accordingly, many exhibitions of heritage products and handicrafts were held under the auspices of the Ministry, which is a good outlet for the people of the border cities to display their local products and help them increase their income.

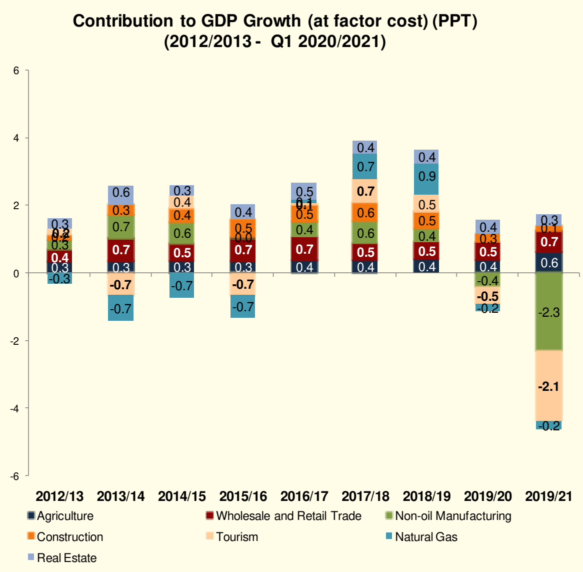
Recent Macroeconomic Indicators

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).

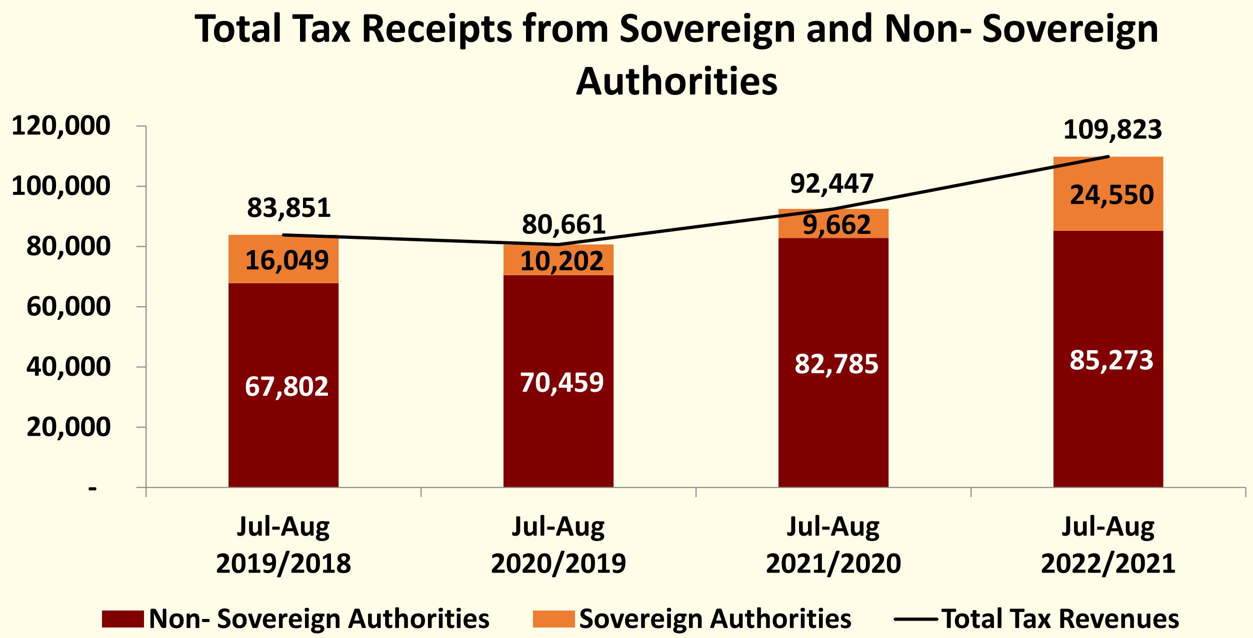
- **Net International Reserves (NIR)** has reached US$ 40.7 billion at end of August 2021, compared to lowest level of US$ 13.4 billion at end of March 2013.
- **Purchasing manager Index** reached 49.8 in August 2021, compared to 37.1 in December 2012.
- **Tourism receipts** reached US$**12.5 billion** 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 recorded only -1.7% during the period July-August FY21/22. This can be explained in light of the increase in revenues by 11.1%, while expenditures have increased by 19.7% compared to the same period of the previous year.

Total Revenues increased by LE 14 billion (11.1 percent growth) to record around LE 140 billion during the period of study, compared to the same period of last year. Tax revenues constitute 78.5 percent of total revenues while non-tax revenues have increased to constitute 21.5 percent.



- **Tax Receipts** constituted around LE 109.8 billion of total revenues, increasing by LE 17.4 billion (18.8 percent growth), mainly driven by

  - The increase in Tax Receipts from Sovereign Authorities by LE 14.8 billion (154.1 percent growth) to record LE 24.6 billion during the period July-August 2020/2021, compared to LE 9.7 billion during the same period of last year.
  - The rise in Tax Receipts from Non- Sovereign Authorities by LE 2.4 billion (3 percent growth) to record LE 85.3 billion during the period of study, compared to LE 82.8 billion during the same period of last year

  This was supported by:

  - **On in income tax receipts front:**
    - ✓ **tax receipts from other companies rose by LE 1.4 billion** (9.1 percent growth) to reach LE 16.3 billion.
    - ✓ **tax receipts from Suez Canal rose by LE 0.5 billion** (10.4 percent growth) to reach LE 17.3 billion.
  - **Receipts from Value Added Taxes rose by LE 6 billion** (12.8 percent growth) to reach LE 52.3 billion during the period of study
    - ✓ **driven by the increase in receipts from value added tax on goods by LE 4.8 billion** (21.5 percent growth) to reach LE 27 billion during the period of study.
    - ✓ **and the increase in receipts from value added tax on services by LE 1.2 billion** (20.3 percent growth) to reach LE 7.2 billion during the period of study.
    - ✓ **receipts from taxes on tobacco & cigarettes rose by LE 1.6 billion (**16.4 percent growth) to reach LE 11.1 billion during the period of study.
    - ✓ **and the increase in receipts from stamp tax by LE 0.1 billion** (8.3 percent growth) to reach LE 1.8 billion during the period of study.
  - **Receipts from property taxes rose by LE 14.4 billion** to reach LE 20.6 billion during the period of study.
    - ✓ **in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 14.4 billion** to reach LE 18.8 billion during the period of study.
    - ✓ **and the increase in receipts from Taxes and fees on cars to reach LE 1.1 billion during the period of study**
  - **Moreover, Tax receipts from International Trade by LE 0.5 billion (8.9 percent growth) to reach LE 6.5 billion during the period of study.**

- **Non-Tax Revenues (21.5 percent of total revenues) has reached LE 30.1 billion during the period of study of which;**

  - **Proceeds from Sales of Goods and Services** rose by LE 0.7 billion to record LE 7.2 billion during the period of study.
    - ✓ **mainly due to the increase in revenues from special accounts and funds by LE 0.5 billion to reach LE 5.5 billion during the period of study.**
  - **Property Income** recorded LE 7.3 billion during the period of study.
  - **Miscellaneous Revenues** recorded LE 15.4 billion during the period of study.

On the Expenditure side, Total expenditures have increased by 19.7 percent to reach LE 261 billion during the period July-Aug FY21/22, 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.

Compensation of Employees

- **Wages and Compensation for Employees rose by LE 6.6 billion (12.6 percent growth)** to reach LE 59 billion during the period of study.

Purchases of goods and services

- **Spending on Raw Materials rose by LE 1.2 billion to reach LE 2.5 billion** during the period of study in light of increased spending on medicine, and water and lighting.

Subsidies, grants & social benefits

- **Spending on GASC Subsidies rose by LE 0.2 billion to reach LE 8.6 billion** during the period of study.
- **Spending on Transport Allowances rose by LE 1.3 billion to reach LE 1.6 billion** during the period of study.
- **Spending on Treasury Contributions in Pension has reached LE 19 billion** during the period of study.
- **Spending on Social Security Benefits including Takaful& Karama cash transfer programs have reached LE 3.6 billion** during the period of study.

Purchases of non-financial assets

- **Investment Spending** rose by LE 7.4 billion (41.3 percent growth) to record LE 25.3 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 6.4 billion (37 percent growth) represents mainly increased spending in construction, machinery and equipment, in light of the government strategy to increase investments allocated to improve infrastructure. To that extent, total spending on construction amounted to LE 9.1 billion during period of study, increasing by 54 percent compared to the previous year, and spending on machinery and equipments has reached LE 5.5 billion during the period July-August FY21/22.**

Social Spending and Human Development

- **Total Social Spending rose by LE 4.3 billion (4.9 percent growth)** to reach LE 91.8 billion during the period of study, compared to LE 87.6 billion during the same period of last year .
- **Total Spending on Health rose by LE 3.1 billion (30.3 percent growth)** to reach LE 13.5 billion during the period of study, compared to LE 10.4 billion during the same period of last year .
- **Total Spending on Education rose by LE 4.8 billion (18 percent growth)** to reach LE 31.3 billion during the period of study, compared to LE 26.5 billion during the same period of last year .

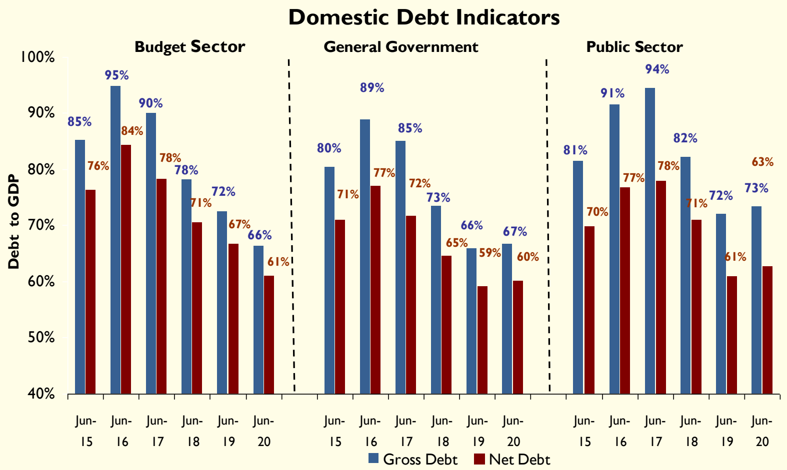
Fiscal Sector Performance during July-Aug 2021/2022

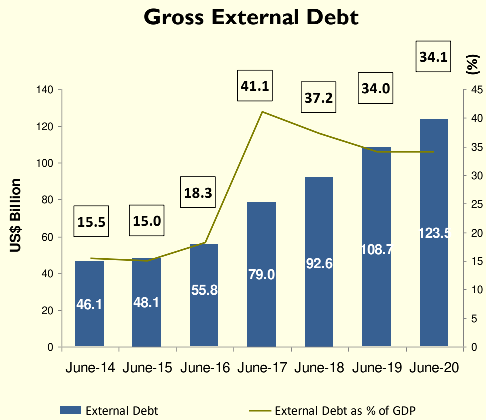
(LE billion)

	July-Aug		Growth rate
	2022/21	2021/20	
Revenues	**139,955**	**126,003**	**11.1%**
Taxes	109,823	92,447	18.8%
Grants	4	280	-98%
Other Revenues	30,127	33,277	-9.5%
Expenditure	**261,052**	**218,064**	**19.7%**
Wages and Compensation of Employees	59,059	52,435	12.6%
Purchase of Goods and Services	7,856	6,331	24.1%
Interest Payments	114,054	87,520	30.3%
Subsidies, Grants and Social Benefits	37,586	39,497	-4.8%
Other Expenditures	17,175	14,360	19.6%
Purchases of Non-financial Assets (investments)	25,322	17,920	41.3%
Cash Deficit	**-121,098**	**-92,061**	
Net Acquisition of Financial Assets	**-569**	**1,204**	
Overall Budget Deficit	**-120,528**	**-93,265**	
Budget Primary Surplus/or Deficit (%of GDP)	**-0.1%**	**-0.1%**	
Budget Overall Deficit (%of GDP)	**-1.7%**	**-1.5%**	

External & Domestic Debt

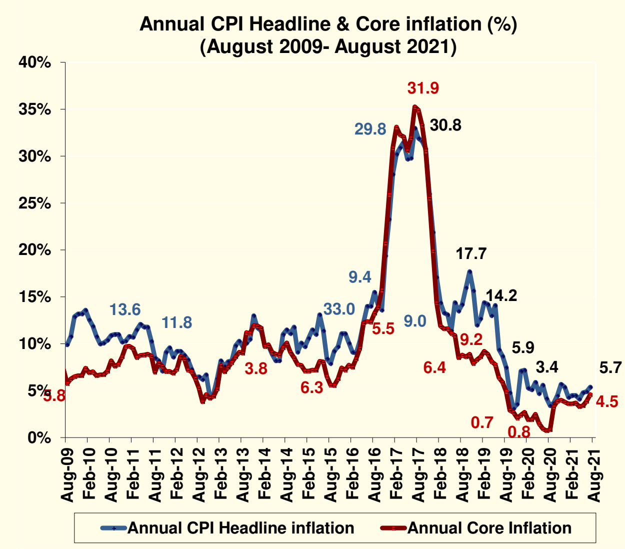
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase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

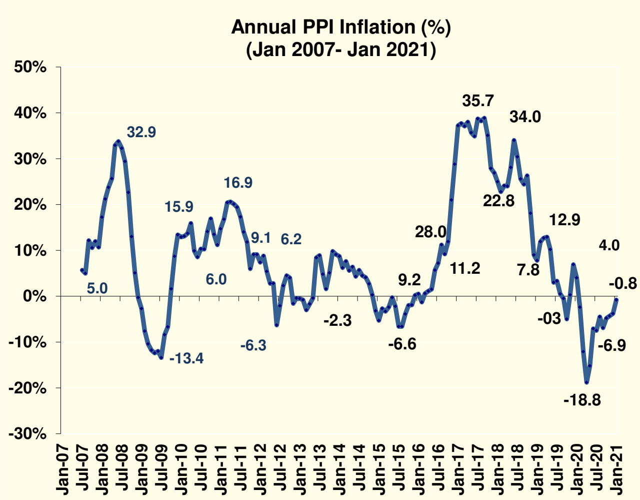




Inflation

Annual Urban Inflation increased to record 5.7 percent in August 2021, compared to 5.4 percent during last month**. <u>Meanwhile, average annual inflation rate reached</u>** <u>5.6 percent during July-August 21/22,</u> compared to 3.8 percent during the same period of last year. Annual Core Inflation recorded 4.5 percent in August 2021, compared to 4.6 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 August 5th 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.