

# Executive Summary

## Latest Economic Developments

September has witnessed the launching of the *8<sup>th</sup> edition of the Citizen's Budget for the FY 2021/2022, "Supporting Economic Activity, Consolidating the Principle of Citizenship, and Supporting Human Development and Social Protection"*. In the context of the government's interest to involve the citizen in formulating the priorities of the state's fiscal policies, the report includes a simplified explanation of the vision and objectives of economic reform and the role of the MoF in fiscal reform, highlighting the most important features of the state's general budget approved for the current FY. Accordingly, it introduces the citizen to the most important items of expenditure and revenues, social protection programs that he benefits from and other programs that directly affect the improvement of his standard of living.

The "Citizen's Budget" is one of the most important documents that the MoF uses to communicate directly with citizens and involve them in the government's vision; with the aim of building bridges of permanent societal communication that increases credibility and transparency in presenting the latest fiscal policy trends of the state. It is also one of the participatory budgeting tools that are used to train governmental and non-governmental cadres within the participatory budget activities that began in the governorates of Alexandria and Fayoum.

The Fiscal Transparency and Citizen Engagement Unit (FTCE) has recently held a visit to Fayoum Governorate for the youth to meet with the Governor and visit some of its most important development mega-projects. Through their dialogue with the Governor, as well as their visits to some of the projects, they have learnt about the improvements done to schools, to *Tunis Village* and in museums, targeting tourism stimulation. In addition to the purification project that has been implemented in the *Qarun Lake*, which provides job opportunities for thousands of fishermen and increases the occupation of hotels overlooking the lake. This is in addition to the national project "*Decent Life*" that aims at developing the Egyptian countryside. During its 1<sup>st</sup> phase, it serves a third of the governorate's population, lining canals, and provides decent housing to move citizens from slums.

Furthermore, it reveals the extent to which the Egyptian citizen has benefited from social protection and economic justice programs, especially that of health and education, in addition to an exceptional package of social programs to reduce the burden of reform on



citizens. It also includes more detailed information regarding initiatives directed to the citizen in various governorates, such as the “Decent Life (Hayah Karima)” Initiative, the comprehensive health insurance system, the initiative to support the export of cars and the support to exports revitalization initiative, and other social programs, which give a better picture to the citizen of the extent to which he benefits from these initiatives.

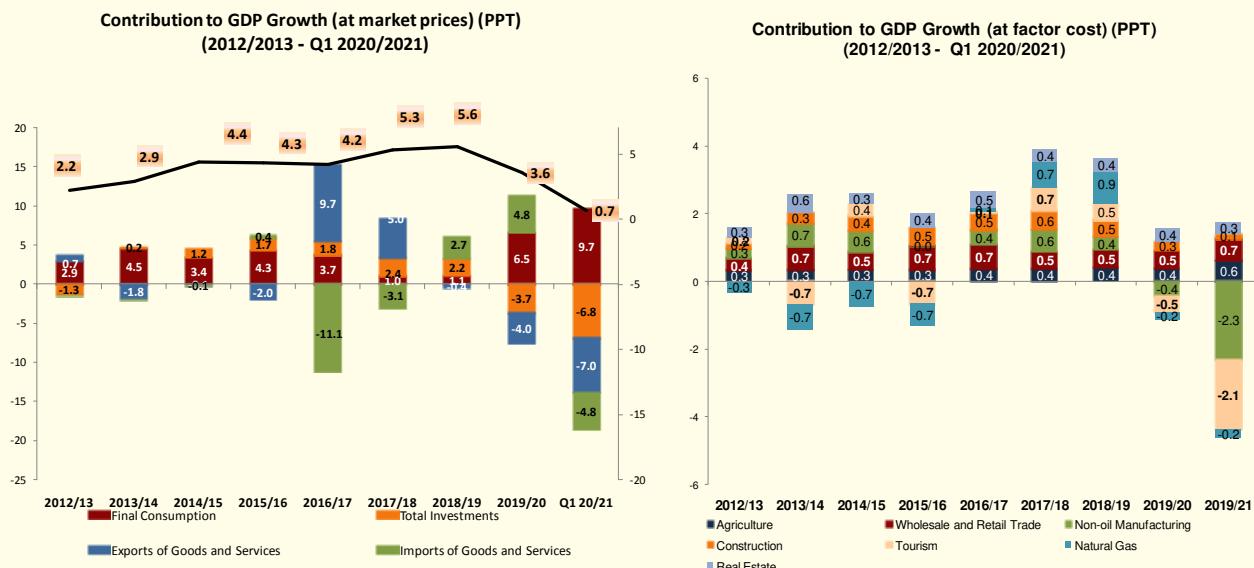
**Moreover, The 2021/2022 budget sheds light on the overall financial targets and the sectors driving economic growth in the investment plan for economic and social development,** which clarifies the focus on programs to deepen local industrialization, stimulate industrial investment, improve the quality of industrial products, enhance export competitiveness, as well as shift to a digital society and direct investments to sectors with labor-intensive productivity, along with empowering youth and women, and focusing on supporting SMEs that create job opportunities and improving the standard of living of citizens, and integrating those enterprises and entities operating in the informal economy into the formal economy.

## **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\$ 40.8 billion at end of September 2021, compared to lowest level of US\$ 13.4 billion at end of March 2013.
- **Purchasing manager Index** reached 48.9 in September 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

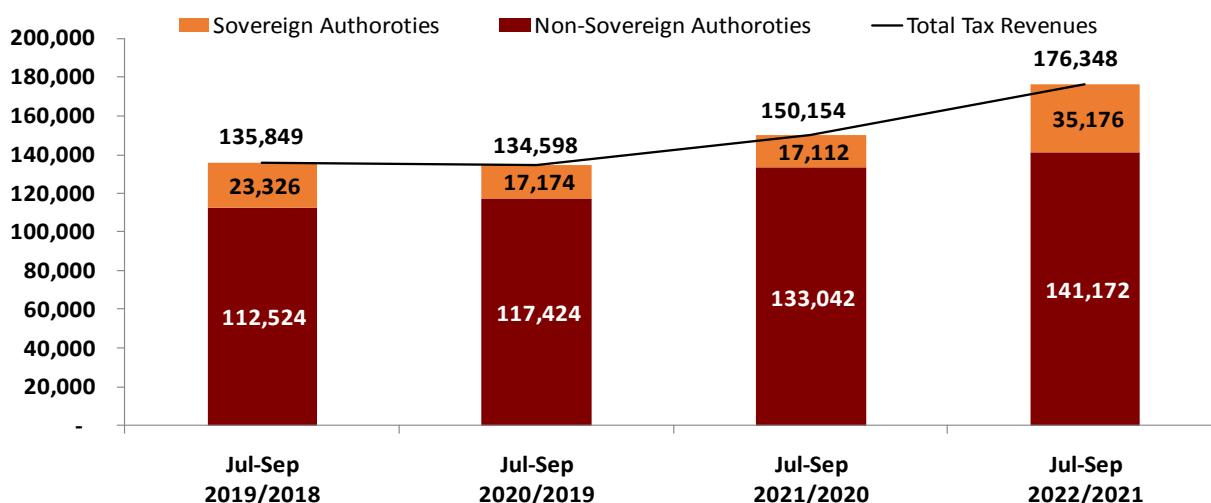
Over the past five years, the Egyptian government has undertaken many reform measures aimed at putting the Egyptian economy on track while raising the efficiency of public services. The Ministry of Finance has been keen on achieving sustainability of public finance indicator, rationalization of consumption 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.

Total fiscal balance as a percentage of GDP recorded -2.3% during the period July-September FY21/22. While, primary balance has reached -0.1% of GDP. This could be explained in light of the increase in revenues by 9.4%, while the increase in expenditures have exceeded the increase in

revenues, rising by 16.2% during the period of study, compared to the same period of last year, as the state budget could successfully maintain its commitments to increasing spending on health, education, investment finances through treasury, wages, and to fulfil payments to social welfare programs, despite Covid-19 effect on economic activity.

**Total Revenues increased by LE 19.2 billion (9.4 percent growth) to record around LE 224 billion during the period of study, compared to the same period of last year. Tax revenues constitute 78.8 percent of total revenues while non-tax revenues constitute 21.2 percent.**

### Total Tax Receipts from Sovereign and Non- Sovereign Authorities



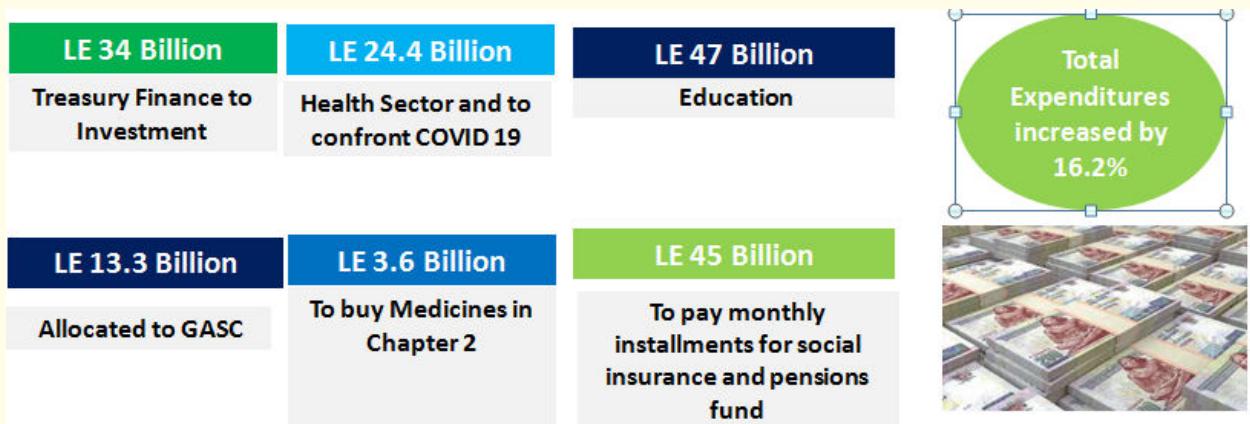
■ **Tax Receipts** constituted around LE 176.3 billion of total revenues, increasing by LE 26.2 billion (17.4 percent growth), mainly driven by

- The increase in Tax Receipts from Sovereign Authorities by LE 18.1 billion (106 percent growth) to record LE 35.2 billion during the period July-September 2021/2022, compared to LE 17.1 billion during the same period of last year.
- The rise in Tax Receipts from Non- Sovereign Authorities by LE 8.1 billion (6.1 percent growth) to record LE 141.2 billion during the period of study, compared to LE 133 billion during the same period of last year

This was supported by:

- On in income tax receipts front:
  - ✓ taxes on domestic salaries rose by LE 0.8 billion (6 percent growth) to reach LE 13.5 billion.
  - ✓ taxes on industrial & commercial profits payable by Individuals rose by LE 0.5 billion (9.4 percent growth) to reach LE 6.1 billion.
  - ✓ tax receipts from Suez Canal rose by LE 1.1 billion (16 percent growth) to reach LE 7.7 billion.

- Receipts from Value Added Taxes rose by LE 10.5 billion (14 percent growth) to reach LE 85.7 billion during the period of study
  - ✓ driven by the increase in receipts from value added tax on goods by LE 7.7 billion (21.8 percent growth) to reach LE 43.1 billion during the period of study.
  - ✓ and the increase in receipts from value added tax on services by LE 1.3 billion (15.1 percent growth) to reach LE 10.2 billion during the period of study.
  - ✓ receipts from excises on domestic commodities rose by LE 1.6 billion (7 percent growth) to reach LE 24.5 billion during the period of study.
  - ✓ and the increase in receipts from development fees by LE 0.5 billion (29 percent growth) to reach LE 2.3 billion during the period of study.
- Receipts from property taxes rose by around LE 17 billion to reach LE 29.5 billion during the period of study.
  - ✓ in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 17 billion to reach LE 26.5 billion during the period of study.
- Moreover, Tax receipts from International Trade by LE 0.5 billion (6 percent growth) to reach LE 9.1 billion during the period of study.
- Non-Tax Revenues (21.2 percent of total revenues) has reached LE 47.6 billion during the period of study of which;
  - Proceeds from Sales of Goods and Services rose by LE 2.2 billion to record LE 12.6 billion during the period of study.
    - ✓ mainly due to the increase in revenues from special accounts and funds by LE 1.6 billion to reach LE 9.7 billion during the period of study.
  - Property Income recorded LE 10.7 billion during the period of study.
  - Miscellaneous Revenues recorded LE 23.9 billion during the period of study.



On the Expenditure side, Total expenditures have increased by 16.2 percent to reach LE 391.3 billion during the period July-September 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 11.4 billion (14.5 percent growth)** to reach LE 90.1 billion during the period of study.

## **Purchases of goods and services**

- **Purchases of goods and services rose by LE 4.7 billion to reach LE 15.4 billion** during the period of study mainly in light of increased spending on medicine, and water and lighting.

## **Subsidies, grants & social benefits**

- **Subsidies, grants, and social benefits rose by LE 7.3 billion to reach LE 62 billion** during the period of study.
- ✓ **Spending on GASC subsidies rose by LE 0.9 billion to reach LE 13.3 billion** during the period of study.
- ✓ **Spending on transport allowances rose by LE 1.4 billion to reach LE 1.8 billion** during the period of study.
- ✓ **Spending on treasury contributions in pension rose by LE 5.5 billion to reach LE 34 billion** during the period of study.
- ✓ **Spending on social security benefits including Takaful& Karama cash transfer programs have reached LE 4.9 billion** during the period of study.

## **Purchases of non-financial assets**

- **Investment financed through treasury rose by LE 5.6 billion (20 percent growth)** to record LE 34 billion during the period of study, compared to LE 28.4 billion in light of the efforts to improve infrastructure, and the public services provided to citizens.
- ✓ **spending on machinery and equipment's rose by LE 4.4 during period of study.**

## **Social Spending and Human Development**

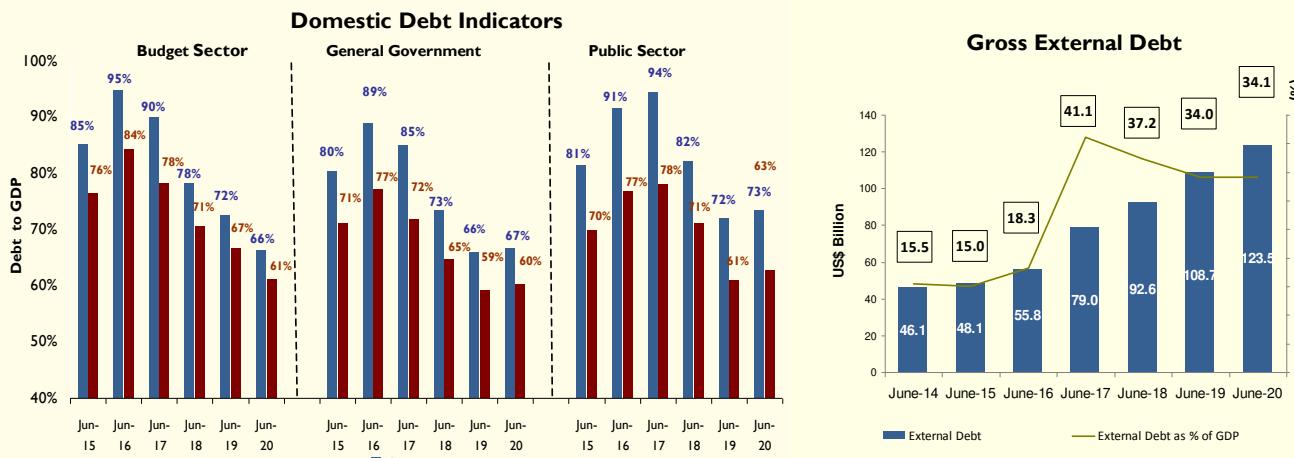
- **Total Social Spending rose by LE 20 billion (15.7 percent growth)** to reach LE 147 billion during the period of study, compared to LE 127 billion during the same period of last year .
- **Total Spending on Health rose by LE 6.3 billion (35.2 percent growth)** to reach LE 24.4 billion during the period of study, compared to LE 18 billion during the same period of last year .
- **Total Spending on Education rose by LE 7.6 billion (19.5 percent growth)** to reach LE 46.8 billion during the period of study, compared to LE 39.1 billion during the same period of last year .

## Fiscal Sector Performance during July-Sep 2021/2022

	July-Sep		(LE billion)
	2022/21	2021/20	
	<b>223,904</b>	<b>204,715</b>	
<b>Revenues</b>			
Taxes	176,348	150,154	
Grants	17	314	
Other Revenues	47,539	54,247	
<b>Expenditure</b>	<b>391,332</b>	<b>336,816</b>	
Wages and Compensation of Employees	90,149	78,736	
Purchase of Goods and Services	15,375	10,720	
Interest Payments	160,773	135,070	
Subsidies, Grants and Social Benefits	62,007	54,714	
Other Expenditures	25,282	17,627	
Purchases of Non-financial Assets (investments)	37,746	39,949	
<b>Cash Deficit</b>	<b>-167,428</b>	<b>-132,101</b>	
<b>Net Acquisition of Financial Assets</b>	<b>575</b>	<b>2,875</b>	
<b>Overall Budget Deficit</b>	<b>-168,003</b>	<b>-134,976</b>	
<b>Budget Overall Deficit (% of GDP)</b>	<b>-2.35%</b>	<b>-2.11%</b>	

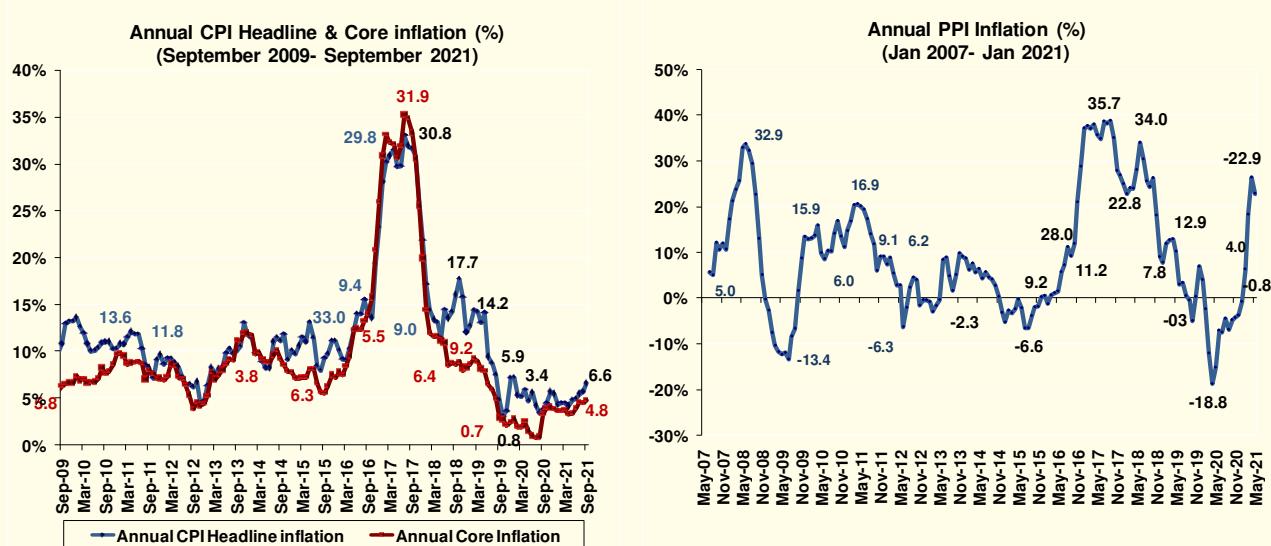
### **External & Domestic Debt**

**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 6.6 percent in September 2021, compared to 5.7 percent during last month. Meanwhile, average annual inflation rate reached 5.9 percent during July-September 21/22, compared to 3.8 percent during the same period of last year. Annual Core Inflation recorded 4.8 percent in September 2021, compared to 4.5 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 5<sup>th</sup> 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.