Executive Summary

Latest Economic Developments

During October, the Organization for Cooperation and Development (OECD) announced the accession of 136 countries to the "Global Tax Agreement", including Egypt, which will address the tax challenges emanating from the digitization of the economy. This historic agreement expects the redistribution of about USD125 billion from the profits of Big-Tech companies, to other countries according to specific rules, so that each country gets its fair share of tax on profits, in addition to imposing a minimum tax of 15% on multinational companies operating in multiple country, ensuring the stability of the international tax system and increasing tax certainty for companies as well as tax administrations alike.

On another front, and within the framework of the implementation of the “Programs and Performance” budget, which is considered a tool for monitoring the effectiveness of spending and public initiatives with measurable goals to ensure raising the efficiency and quality of public spending and consolidating the concepts of transparency, the Ministry of Finance, in coordination with the USAID, has organized last September a workshop to train representatives of 6 economic bodies on the implementation of program and performance budgets, namely: “The Railway Authority, the New and Renewable Energy Authority, the Universal Health Insurance Authority, the Industrial Development Authority, the National Training Academy, and the National Organization for Social Insurance”.

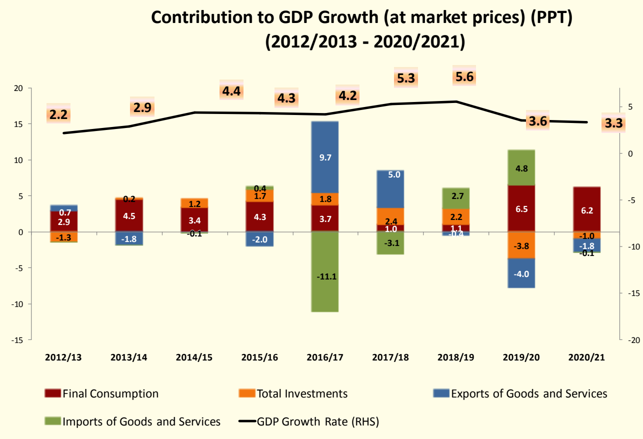
Within the framework of these developments and reforms on the revenue and expenditure side, **the *“Arab Economic Outlook”* report of the Arab Monetary Fund (AMF) presented a more optimistic outlook of the growth of the Egyptian economy than the ones estimated by the IMF.** According to the report, the Egyptian economy is expected to grow by 5.4% during the current fiscal year 2022/2021, up from 3.3% last FY, which is a slightly higher estimate than the IMF’s expectations, forecasting a growth of 5.2% during this year in its periodic report *"World Economic Outlook"*. The report also expects inflation in Egypt to rise by 5.9% during the current FY, 0.4 percentage point lower than the International Monetary Fund's IMF’s estimate of a 6.3% inflation rate during the same period.

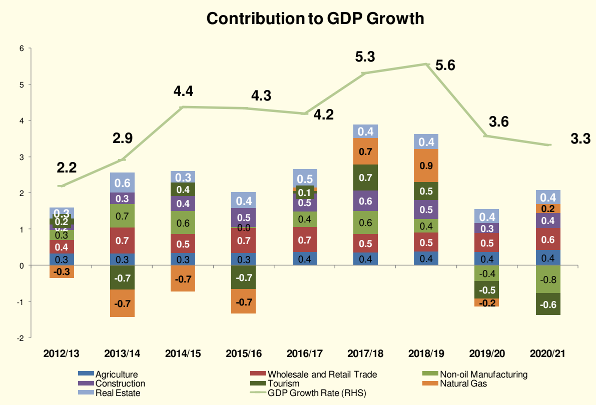
These prospects were reflected in the Egyptian economy’s ability to respond positively to the repercussions of the pandemic and showing. This was embodied in its success in achieving positive financial indicators, in a way that prompted international institutions to renew their confidence. Accordingly, "Fitch" and "S&P" have fixed Egypt's credit rating at "B+" and "B" while maintaining a stable outlook for the Egyptian economy for the 3rd and 4th time in a row since the start of the COVID-19 pandemic.

Recent Macroeconomic Indicators

Real Sector

In light of the responsiveness of recent macro-economic indicators to the comprehensive reform program, GDP grew by 3.3 percent during FY20/21 compared to 2.3 percent during 2011-2014 on average. 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, construction, and natural gas sectors. Meanwhile, during FY20/21, public and private consumption was the main drivers of economic growth contributing positively by 6.2 PPT. This growth led to job creation as the unemployment rate dropped to 7.3 percent in Q2 2021, compared to 9.9 in Q2 2020.





- **On the Demand Side,** Private consumption grew by 6.9 percent in FY20/21 (contributing to growth by 5.8 PPT during FY20/21), while Public Consumption grew by 3.7 percent in the year of study (contributing to growth by 0.4 PPT).

- **On the Supply Side,** main key sectors that led growth were **Total Social Services Sector** recording growth rate of 4.4 percent during FY20/21 (contributing positively to growth by 1.1 PPT), mainly driven by the growth in general government by 4.9 percent (contributing by 0.4 PPT), real-estate growth by 3.8 percent (contributing by 0.4 PPT), telecommunications sector rose by 16.1 percent (contributing to growth by 0.4 PPT), and the growth in wholesale and retail by 4.4 percent (contributing to growth by 0.6 PPT), and the growth in transport by 4.6 percent (contributing by 0.2 PPT), agriculture sector rose by 3.8 percent (contributing by 0.4 PPT), and construction sector rose by 6.8 percent (contributing to growth by 0.4 PPT), and education sector rose by 4.7 percent (contributing to growth by 0.1 PPT), and health sector rose by 5.4 percent (contributing to growth by 0.1 PPT). Natural Gas sector rose by 5 percent (contributing to growth by 0.2 PPT)

- **Net International Reserves (NIR)** has reached US$ 40.8 billion at end of October 2021, compared to lowest level of US$ 13.4 billion at end of March 2013.

- **Purchasing manager Index** reached 48.7 in October 2021, compared to 37.1 in December 2012.

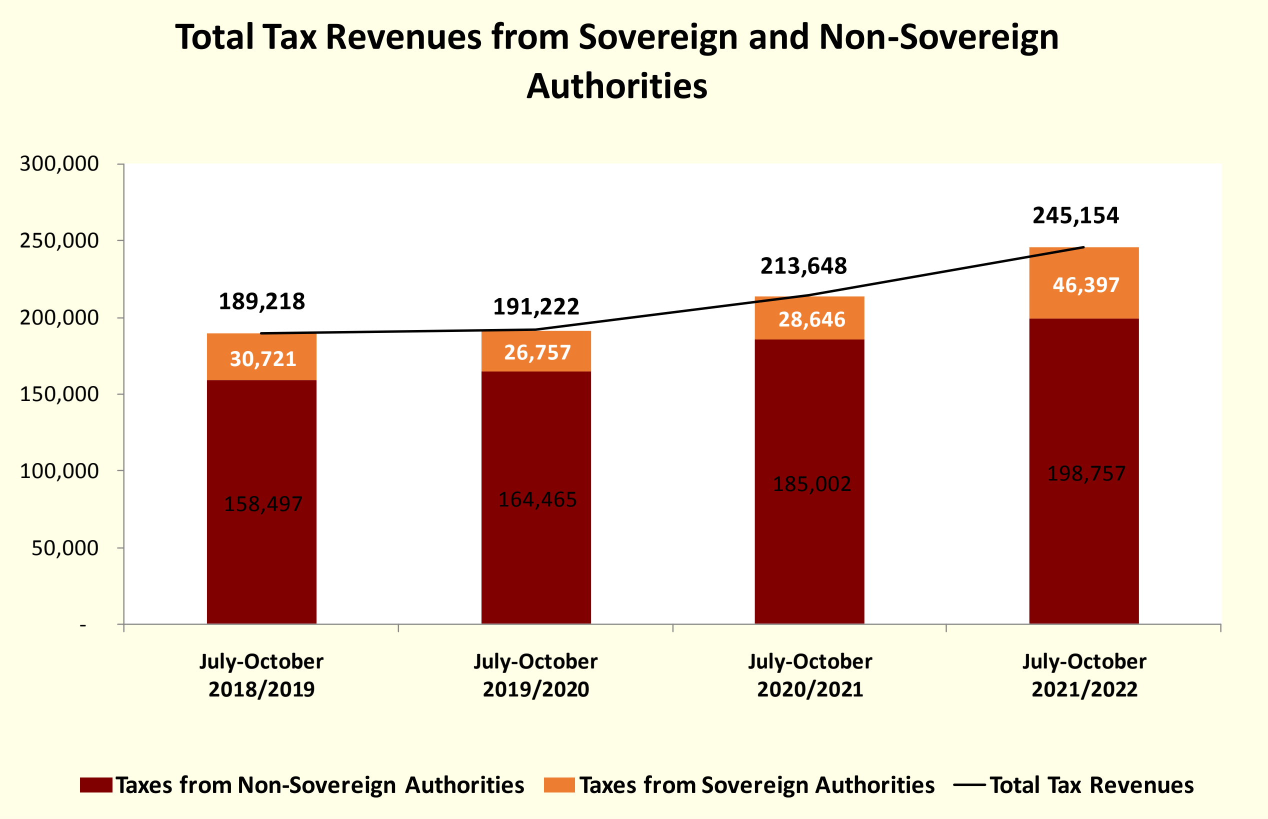
- **Tourism receipts** reached US$**12.5 billion** during FY18/19 compared to $9.8 billion during FY17/18.

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 -3.1% during the period July-October FY21/22. While, primary balance has reached -0.1% of GDP. This could be explained in light of the increase in revenues by 8.4%, while the increase in expenditures have exceeded the increase in revenues, rising by 16.6% 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 24.2 billion (8.4 percent growth) to record around LE 311.3 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.



- **Tax Receipts** constituted around LE 245.2 billion of total revenues, increasing by LE 31.5 billion (14.7 percent growth), mainly driven by

  - The increase in Tax Receipts from Sovereign Authorities by LE 17.8 billion (62 percent growth) to record LE 46.4 billion during the period July-October 2021/2022, compared to LE 28.6 billion during the same period of last year.
  - The rise in Tax Receipts from Non- Sovereign Authorities by LE 13.8 billion (7.4 percent growth) to record LE 198.8 billion during the period of study, compared to LE 185 billion during the same period of last year

  This was supported by:

  - **Receipts from Value Added Taxes rose by LE 16.2 billion** (15.5 percent growth) to reach LE 120.8 billion during the period of study
    - ✓ **driven by the increase in receipts from value added tax on goods by LE 9.7 billion** (19.7 percent growth) to reach LE 58.9 billion during the period of study.
    - ✓ **and the increase in receipts from value added tax on services by LE 1.9 billion** (14.4 percent growth) to reach LE 15.2 billion during the period of study.
    - ✓ **receipts from excises on domestic commodities rose by LE 1.8 billion (**5.6 percent growth) to reach LE 33.4 billion during the period of study.
    - ✓ **and the increase in receipts from development fees by LE 0.9 billion** (36.2 percent growth) to reach LE 3.4 billion during the period of study.
    - ✓ **and the increase in receipts from stamp tax by LE 0.8 billion** (16.4 percent growth) to reach LE 5.6 billion during the period of study.
  - **Receipts from property taxes rose by around LE 17.3 billion** to reach LE 39.3 billion during the period of study.
    - ✓ **in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 17.7 billion** to reach LE 35 billion during the period of study.
  - **Moreover, Tax receipts from International Trade by LE 1 billion (9.9 percent growth) to reach LE 11.8 billion during the period of study.**

- **Non-Tax Revenues (21.2 percent of total revenues) has reached LE 66.2 billion during the period of study of which;**

  - **Proceeds from Sales of Goods and Services** rose by LE 6.4 billion to record LE 19.7 billion during the period of study.
    - ✓ **mainly due to the increase in revenues from special accounts and funds by LE 5.8 billion to reach LE 15.7 billion during the period of study.**
  - **Property Income** recorded LE 16 billion during the period of study.
  - **Miscellaneous Revenues** recorded LE 29.8 billion during the period of study.

On the Expenditure side, Total expenditures have increased by 16.6 percent to reach LE 530.7 billion during the period July-October 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 11.2 billion (10.2 percent growth)** to reach LE 120.7 billion during the period of study.

Purchases of goods and services

- **Purchases of goods and services rose by LE 9.2 billion to reach LE 24.8 billion** during the period of study mainly in light of increased spending on raw materials, and water and lighting.

Subsidies, grants & social benefits

- **Subsidies, grants, and social benefits rose by LE 9.4 billion to reach LE 79.1 billion** during the period of study.
  - ✓ **Spending on GASC subsidies rose to reach LE 17.2 billion during the period of study.**
  - ✓ **Spending on treasury contributions in pension rose by LE 10.5 billion to reach LE 45 billion during the period of study.**
  - ✓ **Spending on social security benefits including Takaful& Karama cash transfer programs have reached LE 6.7 billion during the period of study.**

Purchases of non-financial assets

- **Purchases of financial assets rose by LE 2.6 billion** (4.9 percent growth) to record LE 57.2 billion during the period of study, compared to LE 54.5 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 5.4 billion to reach LE 10.7 billion during period of study.**

Social Spending and Human Development

- **Total Social Spending rose by LE 27.3 billion (16 percent growth)** to reach LE 197.7 billion during the period of study, compared to LE 170.4 billion during the same period of last year .
- **Total Spending on Health rose by LE 9.8 billion (39.3 percent growth)** to reach LE 34.5 billion during the period of study, compared to LE 24.8 billion during the same period of last year .
- **Total Spending on Education rose by LE 10.2 billion (20.2 percent growth)** to reach LE 61 billion during the period of study, compared to LE 50.8 billion during the same period of last year .

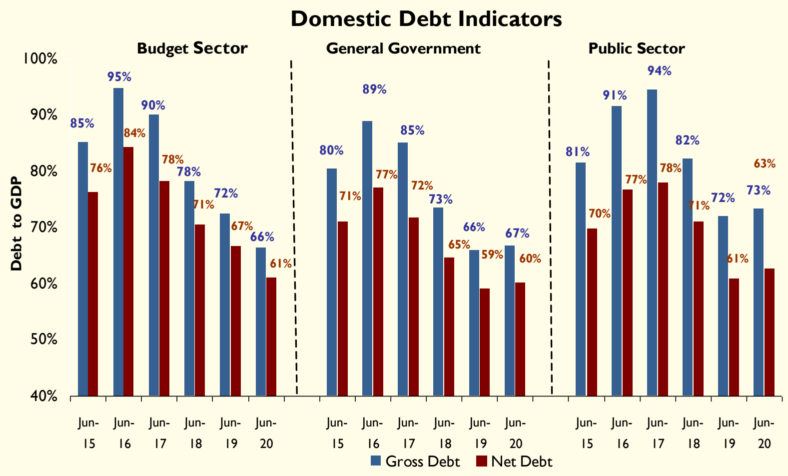
Fiscal Sector Performance during July-Oct 2021/2022

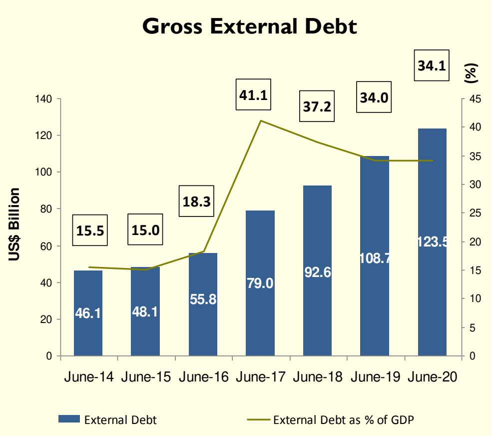
(LE billion)

	July-Oct	
	2022/21	2021/20
Revenues	**311,291**	**287,059**
Taxes	245,154	213,648
Grants	28	337
Other Revenues	66,110	73,074
Expenditure	**530,656**	**455,191**
Wages and Compensation of Employees	120,702	109,530
Purchase of Goods and Services	24,757	15,585
Interest Payments	215,801	176,570
Subsidies, Grants and Social Benefits	79,098	69,731
Other Expenditures	33,109	29,232
Purchases of Non-financial Assets (investments)	57,189	54,543
Cash Deficit	**-219,365**	**-168,132**
Net Acquisition of Financial Assets	**448**	**3,240**
Overall Budget Deficit	**-219,812**	**-171,372**
Budget Overall Deficit (%of GDP)	**-3.07%**	**-2.68%**

External & Domestic Debt

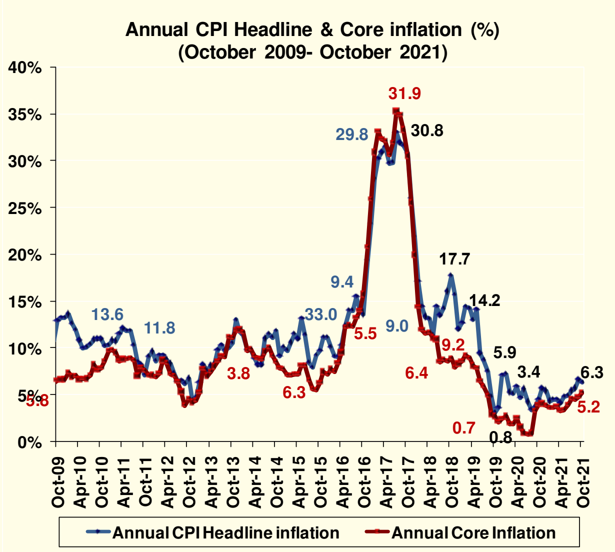
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase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

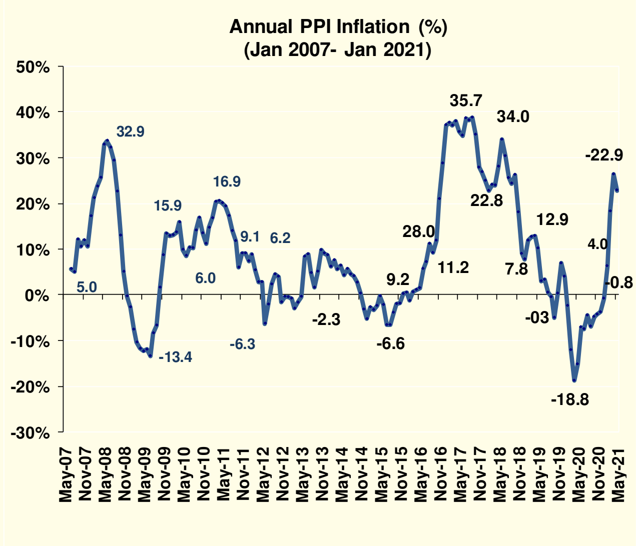




Inflation

Annual Urban Inflation increased to record 6.3 percent in October 2021, compared to 6.6 percent during last month**. <u>Meanwhile, average annual inflation rate reached</u>** <u>6 percent during July-October 21/22,</u> compared to 3.9 percent during the same period of last year. Annual Core Inflation recorded 5.2 percent in October 2021, compared to 4.8 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 FY 2020/2021. The Balance of Payment recorded an overall surplus of US$ 1.9 billion,** compared to an overall deficit of US$ -8.6 billion in FY2019/2020. **This comes in light of the increase in the capital and financial account surplus to US$ 23.4 billion** during the year of study compared to US$ 5.4 billion 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$ 7.3 billion to record LE 18.4 billion during the year of study, compared to US$ 11.2 billion during the FY19/20, mainly due to:**
    - **Service account surplus dropped by 42.9 percent to record US$ 5.1 billion during the year of study,** compared to 9 US$ billion during last year, spurred by the decline in tourism revenues in light of COVID 19 implications.
    - **Investment income deficit widened,** which presents the difference between receipts and payments on investments to and from external world by 9.2 percent to reach US$ -12.4 billion (compared to US$ -11.4 billion during last year).
    - **Non-Oil merchandise deficit rose by 16.7 percent to reach US$ 42.1 billion** (compared to US$ 36 billion during last year). Due to the increase in imports from **intermediate goods, raw materials, and imports of investment goods, this reflects recovery in economic activity.**
    - **Which was offset by, Oil merchandise deficit narrowed to reach surplus of US$ 6.7 million during the year of study,** compared to US$ 421 million during last year.
    - **The increase in remittances by 13.2 percent to record US$ 31.4 billion during FY20/21** (compared to US$ 27.8 billion during last year).

The Capital and Financial Accounts

- **The capital and financial accounts witnessed a notable increase** recording net inflow of US$ 23.4 billion during FY2020/2021, compared to US$ 5.4 billion during the previous year. This represents an increase of US$ 18 billion compared to last year, mainly driven by the **remarkable increase in Net portfolio Investments to Egypt**, **and which has reached US$ 18.7 billion** compared to US$ 7.3 billion during the previous year, and FDIs has subdued to record US$ 5.2 billion during the year of study. Meanwhile, net investments in non-petroleum sector rose to US$ 70.2 million, of which the increase in net investment inflows in establishing new companies by 24.7 percent to reach US$ 77.8 million during the year of study.