

# Executive Summary

## Latest Economic Developments

The “Egypt Sovereign Green Bond Allocation & Impact Report” was recently issued. The report showcases the environmental impact of the Egyptian sovereign green bonds issued with a value of 750 million dollars in September, as well as the size and amount of benefit coming from the financial return of these green bond proceeds targeting the financing of green projects; such as the 15 national projects, amongst which are: the “Monorail” project, expected to serve the governorates of Greater Cairo, the “Mahamid Water Treatment Plant” in Aswan, Water and Wastewater projects in Northern and Southern Upper Egypt, “El-Dabaa Desalination Plant” in Matrouh, and a water treatment plant in the village of Arab Al-Madabegh in Assiut.



The first sovereign green issuance of Egypt won the “**Sovereign Green market Pioneer**” award from the “**Climate Bonds Initiative**”, and the “**ESG & Sustainable Finance Deal of the Year**” from the “**Bonds, Loans & Sukuk Middle East Awards**”, as 46% of the financing used from the proceeds of the green issuance were allocated to clean transportation projects, and 54% for sustainable water and wastewater management projects, in a manner that contributes to creating new job opportunities and reducing emissions harmful to the environment.

On another hand, and in the context of the Egyptian government’s endeavor to transform to digital economy in various sectors of the state, and to develop and digitize government financial systems, **the Egyptian Real Estate Taxation Authority** continues to provide digitized services to citizens through a national project to **modernize and digitize the “real-estate tax management” system**. Accordingly, it’s currently allowed to pay the due real-estate tax in the public treasury of the RTA, in addition to providing many outlets in sports clubs, and collection machines in some tourist villages, while also allowing payment in real-estate taxation offices through electronic collection methods.

Modernization and Digitization of government financial systems

Facilitating the procedures for collecting real estate taxes by raising the efficiency of the missions and establishing new tax-collection centers in the governorates

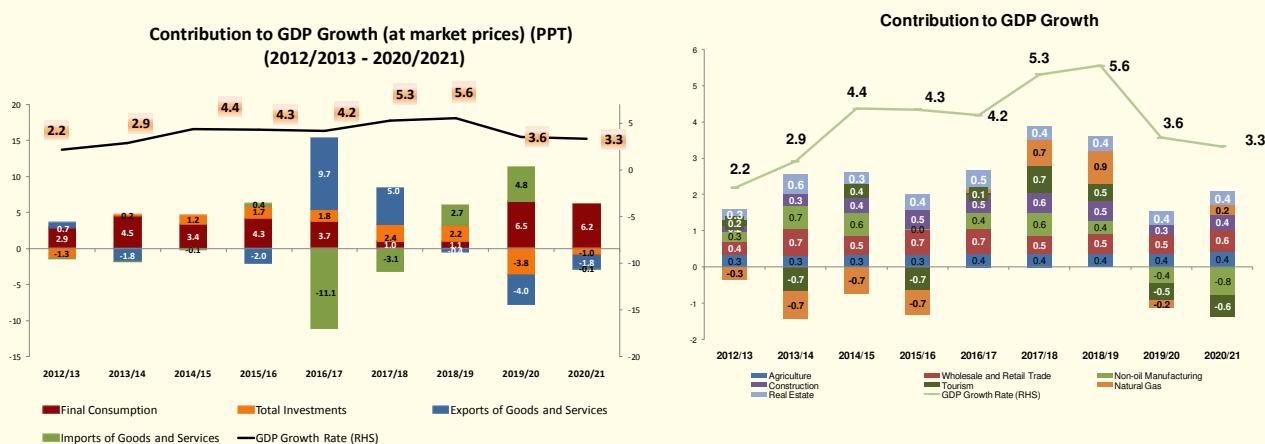
The pre-registration system for shipments contributes to raising the efficiency of customs collection

As for the modernization and digitization of the **customs system**, the creation of logistics centers at customs ports and dealing through the “Manfaz” platform contributed to reducing the average annual release time to 3.9 days in seaports during 2021 instead of 6.5 days in the West Port of Port Saïd, and 6.4 days in the East Port of Port Saïd, compared to before the implementation of “Manfaz”. Moreover, with the beginning of the mandatory implementation of the ACI system, the average customs release time in seaports decreased to 2.9 days; which helps in facilitating the movement of domestic and foreign trade.

## 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\$ 40.9 billion at end of November 2021, compared to lowest level of US\$ 13.4 billion at end of March 2013.
- **Purchasing manager Index** reached 48.7 in November 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.

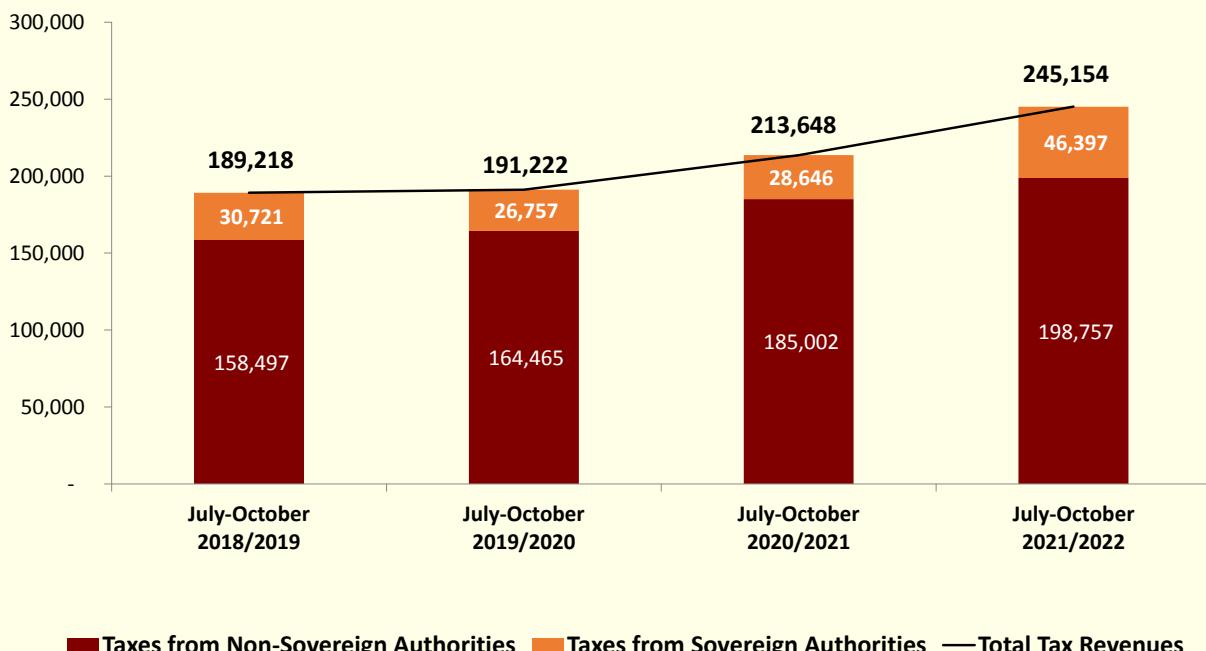
## ***Fiscal Sector***

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.**

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



- **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 .

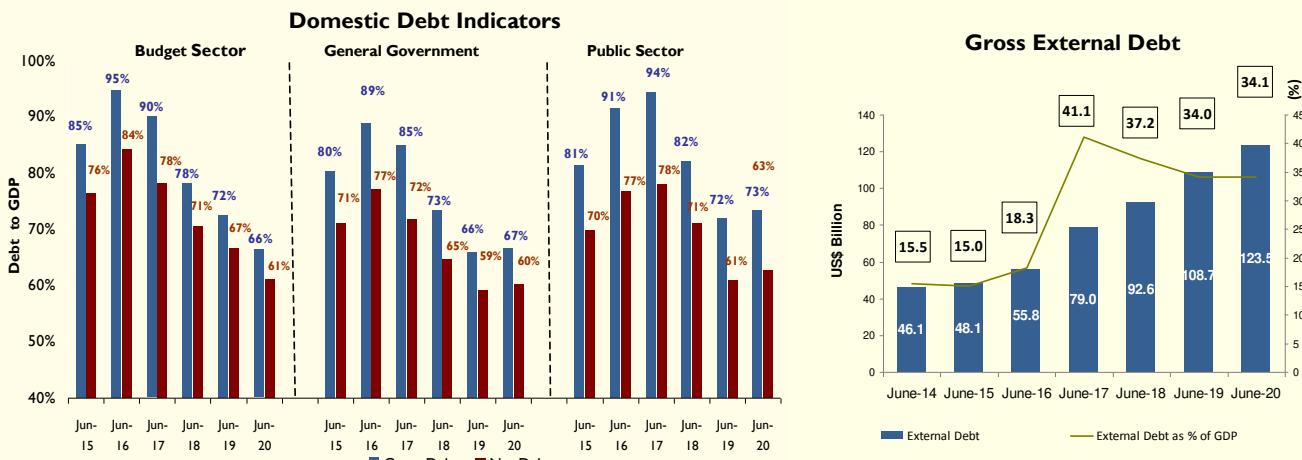
## **Fiscal Sector Performance during July-Oct 2021/2022**

(LE billion)

	<b>July-Oct</b>	
	<b>2022/21</b>	<b>2021/20</b>
<b>Revenues</b>	<b>311,291</b>	<b>287,059</b>
Taxes	245,154	213,648
Grants	28	337
Other Revenues	66,110	73,074
<b>Expenditure</b>	<b>530,656</b>	<b>455,191</b>
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
<b>Cash Deficit</b>	<b>-219,365</b>	<b>-168,132</b>
<b>Net Acquisition of Financial Assets</b>	<b>448</b>	<b>3,240</b>
<b>Overall Budget Deficit</b>	<b>-219,812</b>	<b>-171,372</b>
<b>Budget Overall Deficit (% of GDP)</b>	<b>-3.07%</b>	<b>-2.68%</b>

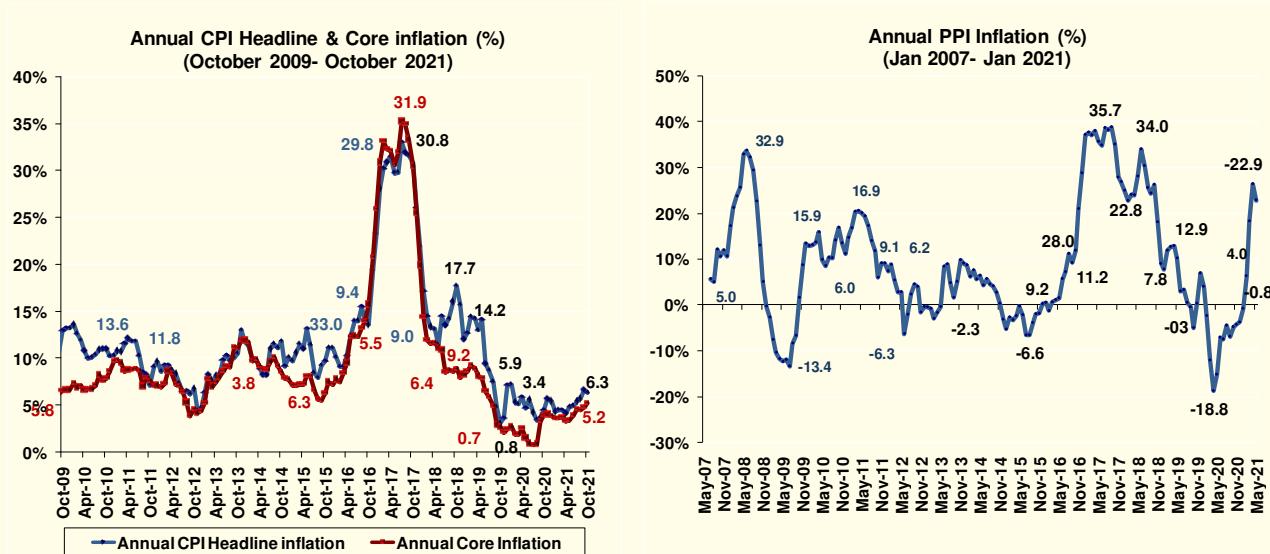
## ***External & Domestic Debt***

**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** 6.3 percent in October 2021, compared to 6.6 percent during last month. **Meanwhile, average annual inflation rate reached** 6 percent during July-October 21/22, 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 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 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.