

Executive Summary

Latest Economic Developments

Within the framework of the MoF's keenness to achieve alignment and linkage between the budget and the goals of sustainable development, the Ministry continues to implement the capacity-building program for government officials specialized in preparing and implementing the "Programs and Performance" budget. Against this backdrop, 82% of service authorities and 69% of economic authorities have committed to submit their budgets for the current fiscal year on the basis of the "Programs and Performance" budget;

82% of service authorities and 69% of economic authorities presented the current FY's budgets on the basis of "programs and performance"

- Applying the highest standards of directing and controlling public spending to achieve economic goals.
- Gender-based Budgeting helps the government in integrating the most vulnerable groups.

Tax digitization projects are a model for successful partnership with the private sector

- Implementation of the national project to modernize and automate the tax and customs system.
- Raising the private sector's contributions to economic activity to 50% within 3 years.

The transition to a "non-cash" economy opens up stimulating development prospects for the private sector

- The "digitalization of taxes and customs" attracted the private sector to invest in information technology.
- Cooperation with major international companies in strengthening the governance of the tax and customs systems.

which contributes to laying the foundations for the good governance of public finances, setting priorities for public spending, in addition to achieving the highest level of transparency and disclosure in preparing, implementing and controlling the budget, and to preparing budget frameworks that ensure good financial planning.

The MoF is also preparing a gender-based budget that will help to establish equality and social integration for all citizens, especially the most vulnerable groups, by deepening the links between strategic planning and budget allocations, thereby ensuring the attainment of expenditures to the beneficiaries.

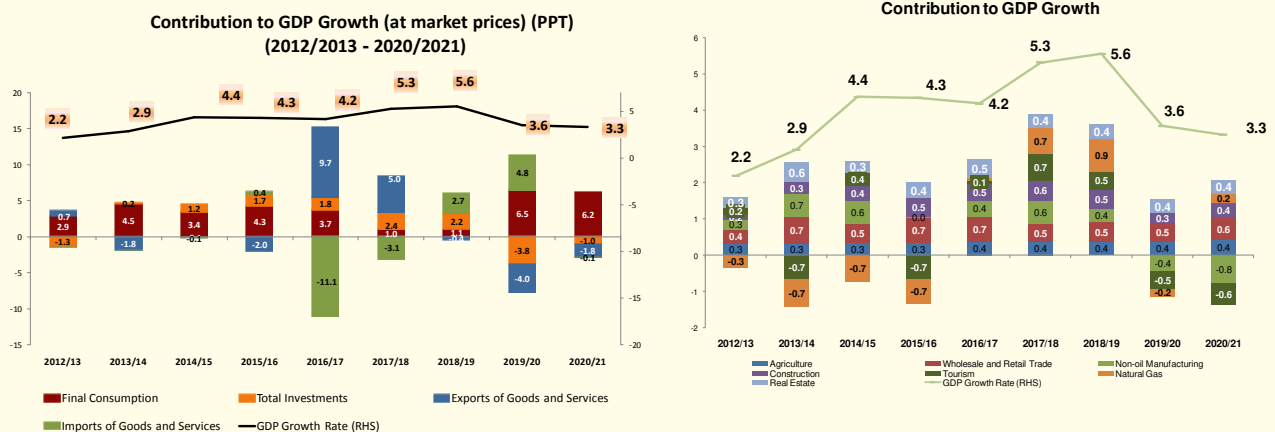
Moreover, "tax digitization" projects are a successful model for partnership with the private sector, since the national project to modernize and automate the tax and customs system is being implemented in cooperation with major international companies operating in Egypt, such as Microsoft, E-Finance, E-Tax, and ITIDA, to localize international expertise and the latest technological systems, in a manner consistent with the government's efforts to stimulate the business climate and maximize investment opportunities, considering the private sector the main driver of job-rich growth, which helps in strengthening the structure of the overall economy. Accordingly, the government aims to raise the private sector's contributions to economic activity to 50% within 3 years.

This was reflected in the government's efforts to transform into a cashless economy, which opens up stimulating development prospects for the private sector, pushing it to take advantage of promising investment opportunities in the IT sector. The law regulating the use of non-cash payment methods, with its new mechanisms to expand the base of financial inclusion, provides opportunities for the private sector to invest in electronic mechanisms for “non-cash payment and collection”, in a manner consistent with maximizing efforts to transition to a cashless society, especially after the success of fully automating the state's PFM.

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.

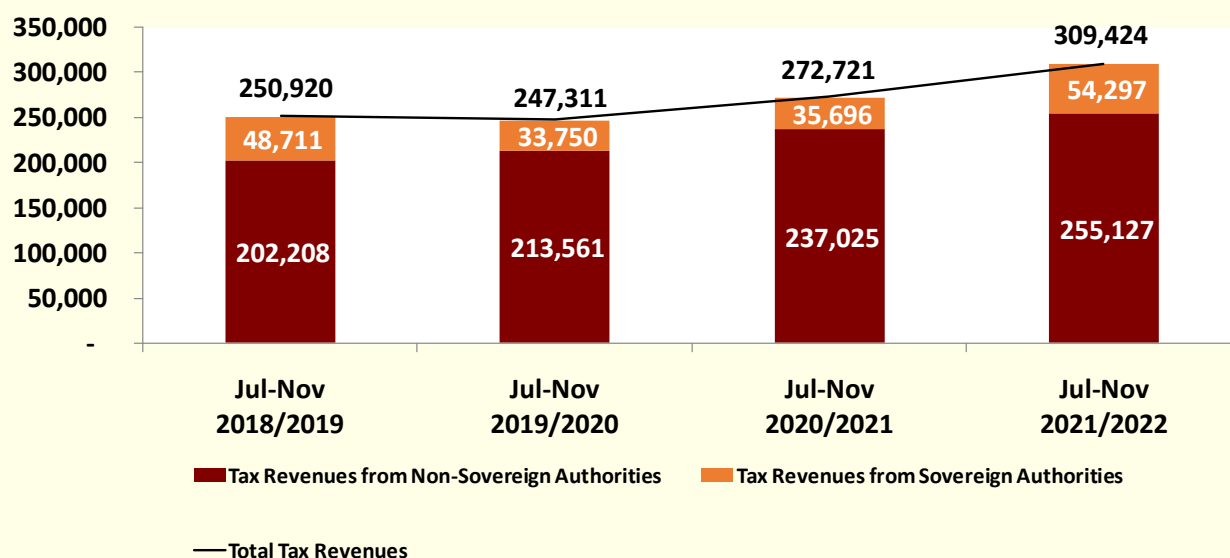
Fiscal Sector

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 -3.7% during the period July-November FY21/22. While, primary balance has reached -0.04% of GDP. This could be explained in light of the increase in revenues by 6.5%, while the increase in expenditures have exceeded the increase in revenues, rising by 16.1% 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 billion (6.5 percent growth) to record around LE 390.6 billion during the period of study, compared to the same period of last year. Tax revenues constitute 79.2 percent of total revenues while non-tax revenues constitute 20.8 percent.

Total Tax Revenues from Sovereign and Non-Sovereign Authorities



▪ **Tax Receipts** constituted around LE 309.4 billion of total revenues, increasing by LE 36.7 billion (13.5 percent growth), mainly driven by

- The increase in Tax Receipts from Sovereign Authorities by LE 18.6 billion (52.1 percent growth) to record LE 54.3 billion during the period July-November 2021/2022, compared to LE 35.7 billion during the same period of last year.
- The rise in Tax Receipts from Non- Sovereign Authorities by LE 18.1 billion (7.6 percent growth) to record LE 255.1 billion during the period of study, compared to LE 237.0 billion during the same period of last year

This was supported by:

- **Receipts from Value Added Taxes rose by LE 16.8 billion** (11.96 percent growth) to reach LE 157.4 billion during the period of study
 - ✓ **driven by the increase in receipts from value added tax on goods by LE 9.4 billion** (14.1 percent growth) to reach LE 76.2 billion during the period of study.
 - ✓ **and the increase in receipts from value added tax on services by LE 1.7 billion** (10.1 percent growth) to reach LE 18.5 billion during the period of study.
 - ✓ **receipts from excises on domestic commodities rose by LE 2.7 billion** (6.6 percent growth) to reach LE 44.2 billion during the period of study.
 - ✓ **and the increase in receipts from development fees by LE 1.4 billion** (42 percent growth) to reach LE 4.6 billion during the period of study.
 - ✓ **and the increase in receipts from stamp tax by** (2.1 percent growth) to reach LE 8 billion during the period of study.
- **Receipts from property taxes rose by around LE 17.8 billion** to reach LE 45.5 billion during the period of study, compared to LE 27.7 billion during the same period of last year.
 - ✓ **in light of the increase in receipts from Tax on T-bills and bonds' payable interest by LE 18.3 billion** to reach around LE 40 billion during the period of study.

- Moreover, Tax receipts from International Trade rose by LE 1.6 billion (11.7 percent growth) to reach LE 15.1 billion during the period of study.
- **Non-Tax Revenues (20.8 percent of total revenues) has reached around LE 81.2 billion during the period of study of which;**
 - **Proceeds from Sales of Goods and Services** rose by LE 5.4 billion to record LE 26.6 billion during the period of study.
 - ✓ mainly due to the increase in revenues from special accounts and funds by LE 4.5 billion to reach LE 21.3 billion during the period of study.
 - **Property Income** recorded LE 19.8 billion during the period of study.
 - **Miscellaneous Revenues** recorded LE 33.8 billion during the period of study.

On the Expenditure side, Total expenditures have increased by 16.1 percent to reach LE 658.9 billion during the period July-November 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 14.2 billion (10.5 percent growth) to reach LE 149.2 billion during the period of study.

Purchases of goods and services

- **Purchases of goods and services** rose by LE 9.7 billion to reach LE 31.2 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 21.3 billion to reach LE 102.2 billion during the period of study.
 - ✓ Spending on GASC subsidies rose by LE 1.5 billion to reach LE 22.6 billion during the period of study.
 - ✓ Spending on treasury contributions in pension rose by LE 19.5 billion to reach LE 58 billion during the period of study.
 - ✓ Spending on social security benefits including Takaful& Karama cash transfer programs rose by LE 1.6 billion to reach LE 7.7 billion during the period of study.

Purchases of non-financial assets

- **Purchases of financial assets** reached LE 69 billion during the period of study, in light of the efforts to improve infrastructure, and the public services provided to citizens.

Social Spending and Human Development

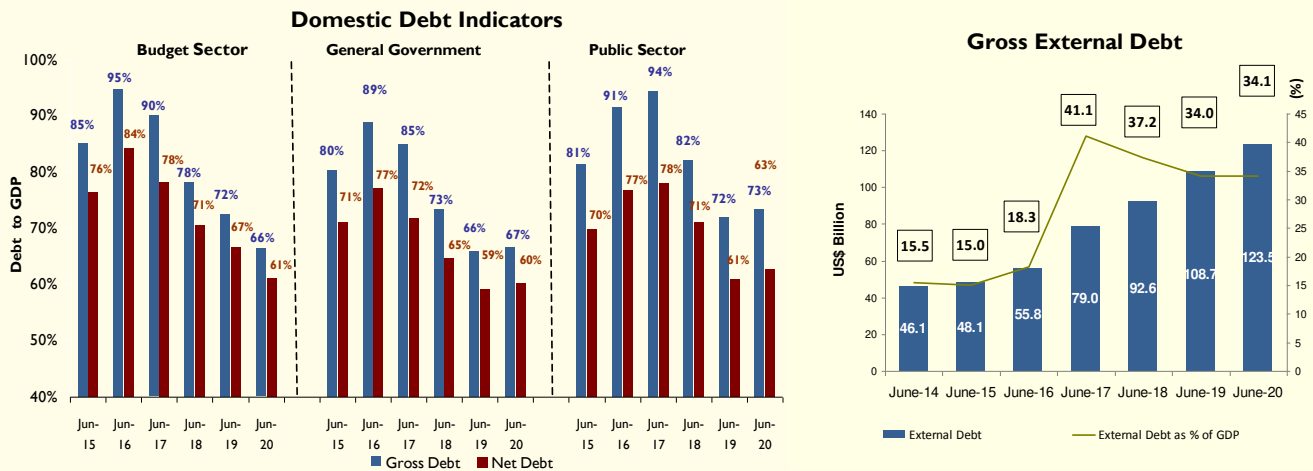
- **Total Social Spending** rose by LE 41.3 billion (20.1 percent growth) to reach LE 247.5 billion during the period of study, compared to LE 206.2 billion during the same period of last year .
- **Total Spending on Health** rose by LE 12.8 billion (39.4 percent growth) to reach LE 45.3 billion during the period of study, compared to LE 32.5 billion during the same period of last year .

- **Total Spending on Education rose by LE 13.4 billion (21.5 percent growth)** to reach LE 75.6 billion during the period of study, compared to LE 62.3 billion during the same period of last year .

Fiscal Sector Performance during July-Nov 2021/2022		
	(LE billion)	
	July-Nov	
	2022/21	2021/20
Revenues	390,612	366,627
Taxes	309,424	272,721
Grants	34	356
Other Revenues	81,154	93,551
Expenditure	658,917	567,495
Wages and Compensation of Employees	149,200	134,972
Purchase of Goods and Services	31,216	21,479
Interest Payments	263,978	213,902
Subsidies, Grants and Social Benefits	102,179	80,848
Other Expenditures	43,329	37,555
Purchases of Non-financial Assets (investments)	69,015	78,741
Cash Deficit	-268,305	-200,868
Net Acquisition of Financial Assets	-1,357	3,739
Overall Budget Deficit	-266,948	-204,607
Budget Overall Deficit (%of GDP)	-3.7%	-3.2%

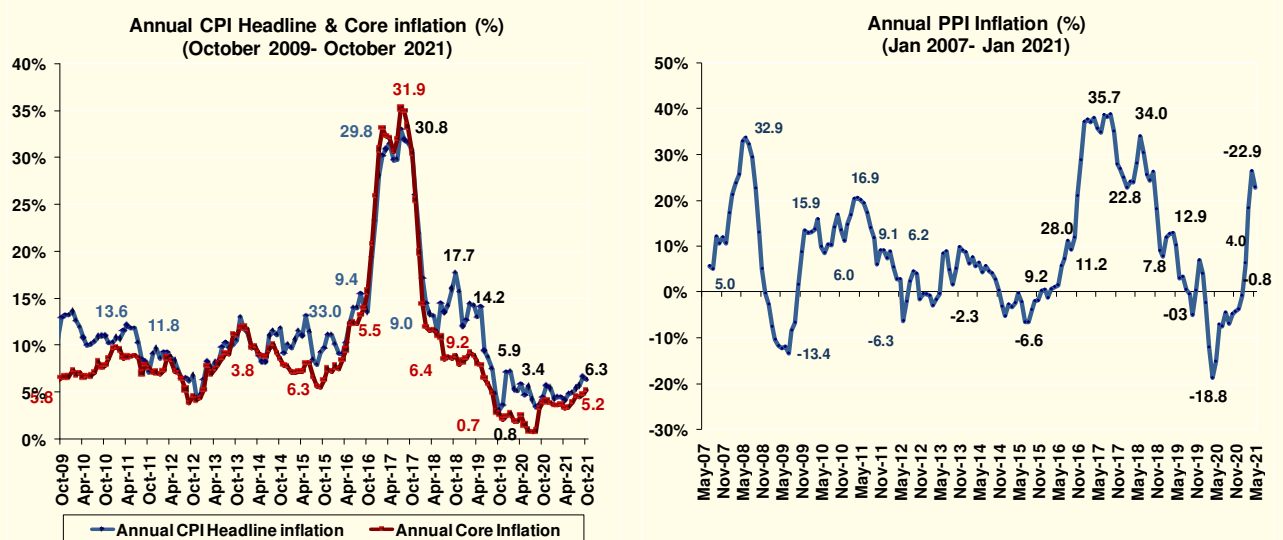
External & Domestic Debt

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 December 16th 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.