Executive Summary

Latest Economic Developments

- Overall deficit 6.3% of GDP in FY22/23
- Debt 90% of GDP in FY22/23
- 5.7% economic growth in FY22/23

The Ministry of Finance is on the process to prepare the draft budget for the FY22/23, "the budget of the new republic," which is expected to be issued before the end of next March. While holding in the coming months extensive community dialogue to ensure that the state's general budget meet the desires of citizens in aspects of allocating public spending and revenue collection.

It is planned that the community dialogue sessions will include representatives of the Federation of Chambers of Commerce, the Federation of Industries, the Export Councils, Investors Union, Businessmen Associations, the House of Representatives and the Senate, youth and women, and people of special needs, in addition to young executive leaders from Deputies and assistant ministers and governors, symbols of the press and media, economists, university professors and research centers. In the same vein, The Transparency and Communication Unit at MOF will publish next March the fifth edition of the pre-budget statement, which will shed light on more details and procedures included in the budget for the FY22/23, the vision of the Ministry of Finance in the medium term, and the most important measures included in the budget on the public spending side, and to mobilize revenues, and the social protection measures.

One of the main features of the new FY22/23 budget is to empower citizens to benefit from the fruits of economic growth, and to create productive job opportunities, raising the efficiency of basic services received by citizens, and improving health and education sectors to enhance human capital, and completing the largest project in the history of Egypt, which is "Decent life" project to improve the livelihood of 60% of Egyptians. Meanwhile, the FY22/23 state budget would focus on enhancing economic activity, particularly improving domestic manufacturing, stimulating exports, promoting small and medium enterprises, and undertaking broad structural reforms to provide better opportunities for the private sector to lead the economic growth.

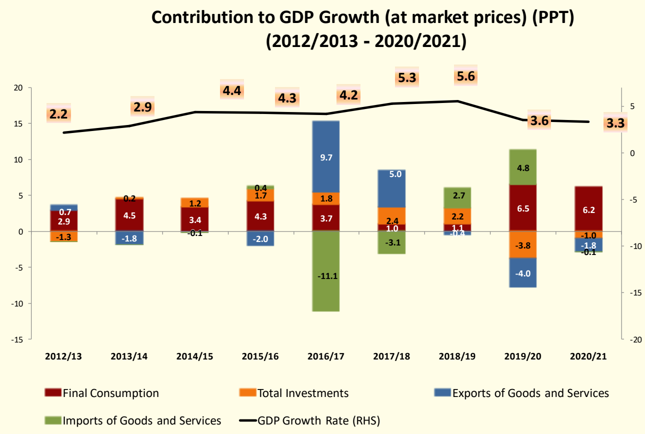
The most important indicators for the FY22/23 state budget is to achieve economic growth rate of 5.7%, gradually rising to 6% in FY24/25, and reducing the overall budget deficit to 6.1% of GDP in the FY 22/23, declining to 5.1% in FY24/25, bringing the debt-to-GDP ratio down to less than 90% in the FY22/23, and to 82.5% by June 2025, and reducing the debt service ratio of total budget expenditures to less than 30% compared to a target of 31.5% during the FY 21/22, while extending the life of the debt to 5 years in the medium term instead of currently at 3.4 years, and targeting new debt instruments such as sukuk, sustainable development bonds, and green bonds, which contributes to expanding the

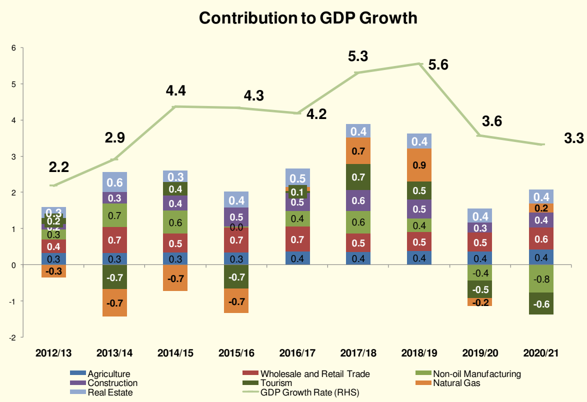
investor base and attracting additional liquidity to the debt market, that helps reduce Egypt's cost of debt.

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 December 2021, compared to lowest level of US$ 13.4 billion at end of March 2013.

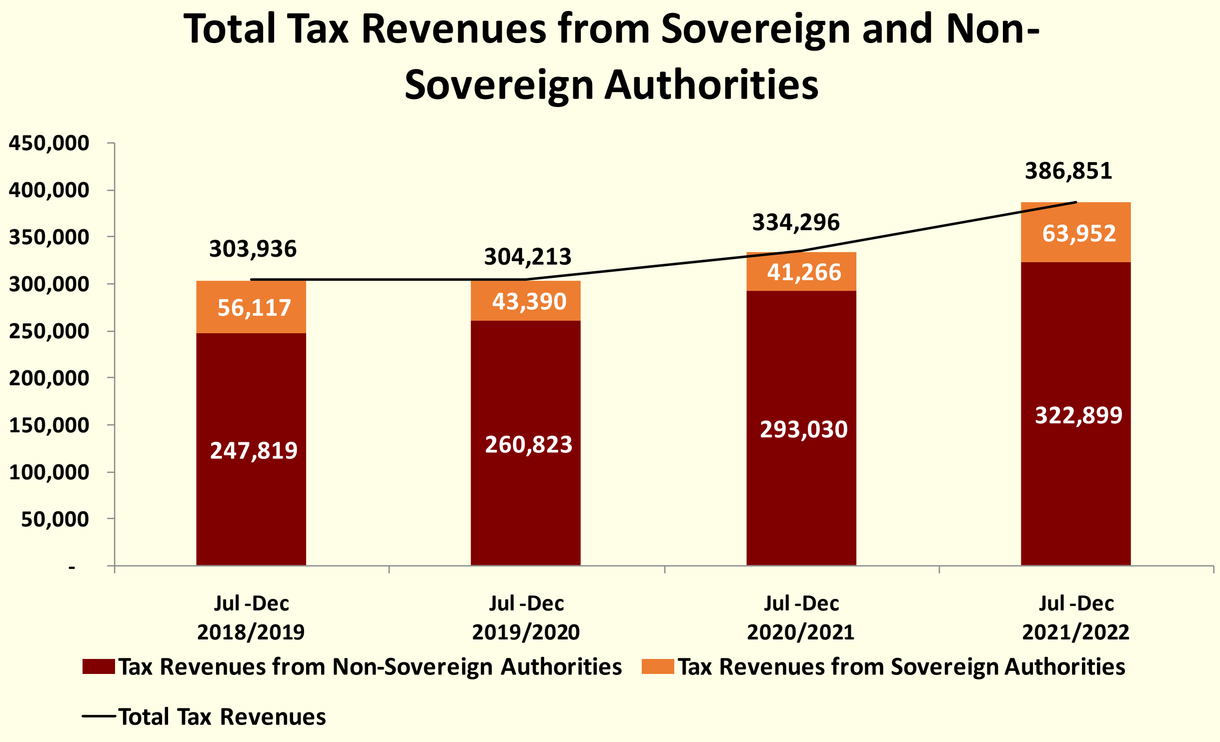
- **Purchasing manager Index** reached 49 in December 2021, compared to 37.1 in December 2012.
- **Tourism receipts** reached US**$12.5 billion** during FY18/19 compared to $9.8 billion during FY17/18.

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 -4.0% during the period July-December FY21/22. While, primary balance has reached 0.05% of GDP. This could be explained in light of the increase in revenues by 10.3%, while the increase in expenditures have exceeded the increase in revenues, rising by 15.4% 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 46.7 billion (10.3 percent growth) to record around LE 499.6 billion during the period of study, compared to the same period of last year. Tax revenues constitute 77.4 percent of total revenues while non-tax revenues constitute 22.6 percent.



- **Tax Receipts** constituted around LE 386.9 billion of total revenues, increasing by LE 52.6 billion (15.7 percent growth), mainly driven by

- The increase in Tax Receipts from Sovereign Authorities by LE 22.7 billion (55 percent growth) to record LE 64 billion during the period July-December 2021/2022, compared to LE 41.3 billion during the same period of last year.
- The rise in Tax Receipts from Non- Sovereign Authorities by LE 30 billion (10.2 percent growth) to record LE 322.9 billion during the period of study, compared to LE 293 billion during the same period of last year

This was supported by:

- **Receipts from Income Taxes rose by LE 5.4 billion** (4.7 percent growth) to reach LE 119.9 billion during the period of study
  - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 3 billion (9.9 percent growth) to reach LE 34.4 billion during the period of study.
  - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 1 billion (7.2 percent growth) to reach LE 14.9 billion during the period of study.
- **Receipts from Value Added Taxes rose by LE 24.7 billion** (14.4 percent growth) to reach LE 195.8 billion during the period of study
  - ✓ **driven by the increase in receipts from value added tax on goods by LE 10.7 billion** (13.1 percent growth) to reach LE 92.2 billion during the period of study.
  - ✓ **and the increase in receipts from value added tax on services by LE 3.8 billion** (18.1 percent growth) to reach LE 24.6 billion during the period of study.
  - ✓ **receipts from excises on domestic commodities rose by LE 5.6 billion (**11 percent growth) to reach LE 56.5 billion during the period of study.
  - ✓ **and the increase in receipts from development fees by LE 1.4 billion (32 percent growth)** to reach LE 5.7 billion during the period of study.
  - ✓ **and the increase in receipts from stamp tax by** (9.2 percent growth) to reach LE 9 billion during the period of study.
- **Receipts from property taxes rose by around LE 18.5 billion** to reach LE 50.6 billion during the period of study, compared to LE 32.1 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 18.6 billion** to reach around LE 43.3 billion during the period of study.
- **Moreover, Tax receipts from International Trade rose by LE 4 billion (23.9 percent growth**) to reach LE 20.6 billion during the period of study.

▪ **Non-Tax Revenues (22.6 percent of total revenues) has reached around LE 112.8 billion during the period of study of which;**

- **Proceeds from Sales of Goods and Services** rose by LE 7.4 billion to record LE 33.5 billion during the period of study.
  - ✓ **mainly due to the increase in revenues from special accounts and funds by LE 6.3 billion to reach LE 27 billion during the period of study.**
- **Property Income** rose by LE 9.7 billion (33.3 percent growth) to record LE 38.9 billion during the period of study.
  - ✓ mainly due to the increase in non-tax dividends receipts by LE 7 billion to reach LE 32.3 billion during the period of study.

- **Miscellaneous Revenues** recorded LE 39.3 billion during the period of study.

On the Expenditure side, Total expenditures have increased by 15.4 percent to reach LE 785.8 billion during the period July-December 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 16.7 billion (10.4 percent growth)** to reach LE 176.7 billion during the period of study.

Purchases of goods and services

- **Purchases of goods and services rose by LE 11.7 billion to reach LE 40 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 35.6 billion to reach LE 135.6 billion** during the period of study.
    - ✓ **Spending on treasury contributions in pension rose by LE 31.3 billion to reach LE 73.8 billion during the period of study in light of the settlements between the treasury and pension fund.**
    - ✓ **Spending on social security benefits including Takaful& Karama cash transfer programs rose by LE 0.9 billion to reach LE 9.5 billion during the period of study.**

Purchases of non-financial assets

- **Purchases of non-financial assets reached LE 93 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 Main Social Spending Items rose by LE 51.8 billion (20.6 percent growth)** to reach LE 299.3 billion during the period of study, compared to LE 247.5 billion during the same period of last year .
- **Total Spending on Health rose by LE 13 billion (30.4 percent growth)** to reach LE 56 billion during the period of study, compared to LE 43 billion during the same period of last year .
- **Total Spending on Education rose by LE 15.9 billion (21.1 percent growth)** to reach LE 91 billion during the period of study, compared to LE 75 billion during the same period of last year .

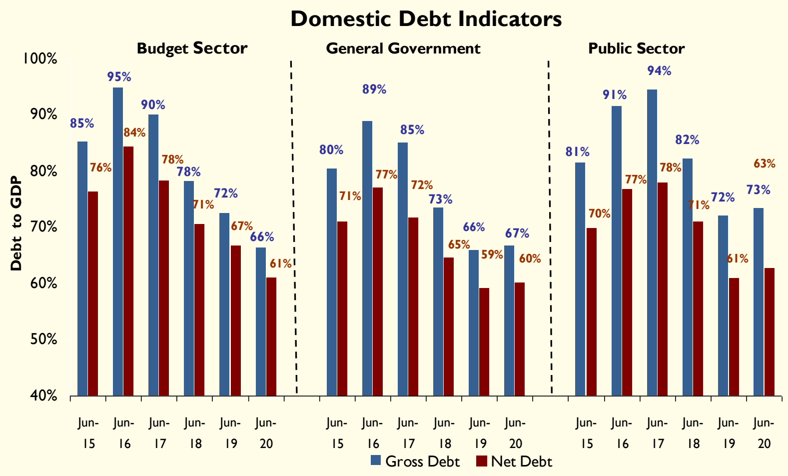
Fiscal Sector Performance during July-Dec 2021/2022

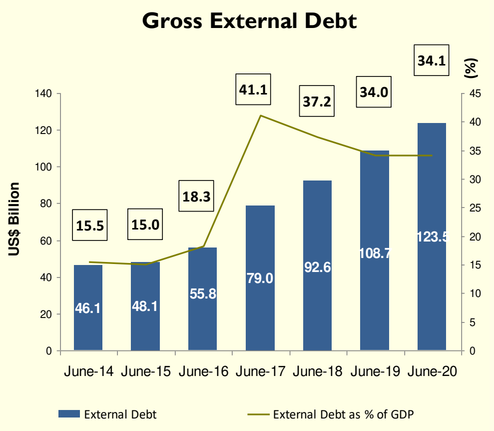
(LE billion)

	July-Dec	
	2022/21	2021/20
Revenues	**499,639**	**452,901**
Taxes	386,851	334,296
Grants	58	400
Other Revenues	112,730	118,206
Expenditure	**785,783**	**681,184**
Wages and Compensation of Employees	176,735	160,052
Purchase of Goods and Services	39,951	28,204
Interest Payments	288,361	245,710
Subsidies, Grants and Social Benefits	135,607	99,977
Other Expenditures	52,164	45,218
Purchases of Non-financial Assets (investments)	92,965	102,023
Cash Deficit	**-286,144**	**-228,283**
Net Acquisition of Financial Assets	**-1,015**	**3,459**
Overall Budget Deficit	**-285,130**	**-231,742**
Budget Primary Surplus/or Deficit (%of GDP)	**0.05%**	**0.2%**
Budget Overall Deficit (%of GDP)	**-4.0%**	**-3.6%**

External & Domestic Debt

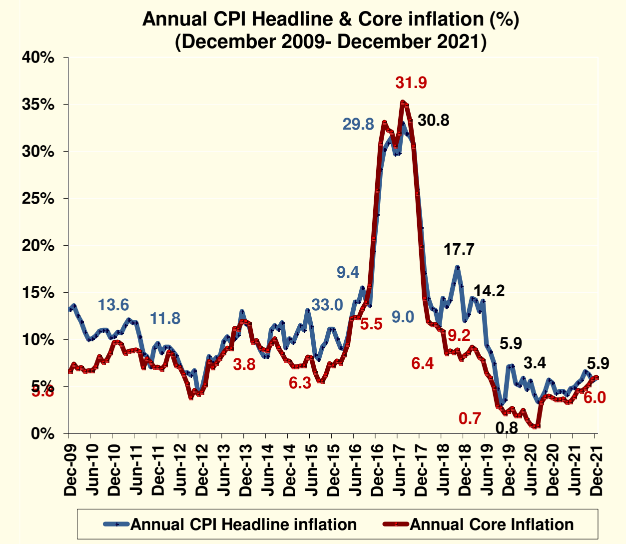
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase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

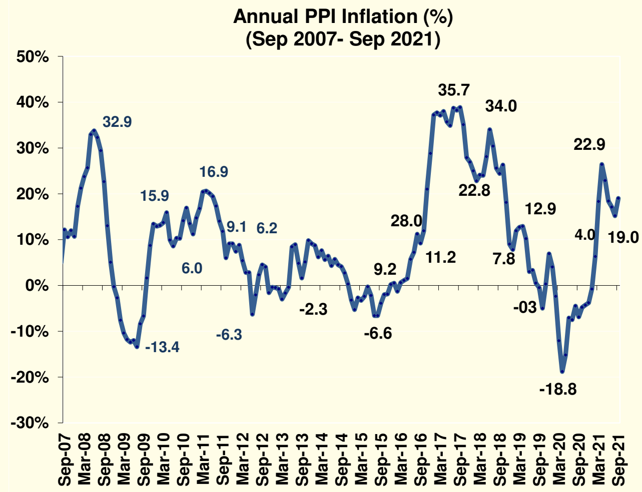




Inflation

Annual Urban Inflation increased to record 5.9 percent in December 2021, compared to 5.6 percent during last month**.** **<u>Meanwhile, average annual inflation rate reached</u>** <u>5.9 percent during July-December 21/22,</u> compared to 4.5 percent during the same period of last year. Annual Core Inflation recorded 6 percent in December 2021, compared to 5.8 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.