Executive Summary

Latest Economic Developments

The Ministry of Finance continues the reform program to achieve fiscal discipline, trim down the budget deficit and debt levels into sustainable path. Among the most recent reforms, MOF succeeded to comply with the requirements of Egypt inclusion to “JP Morgan’s Emerging Markets Bond Index”. This is considered to be a new certificate for the confidence of foreign investors’ in the Egyptian economy.

Through this inclusion Egypt has become one of only two countries in the Middle East and Africa to join the JP Index, with an estimated weight of 1.85 percent via 14 government bonds issuance worth a total value of about $26 billion in the index.

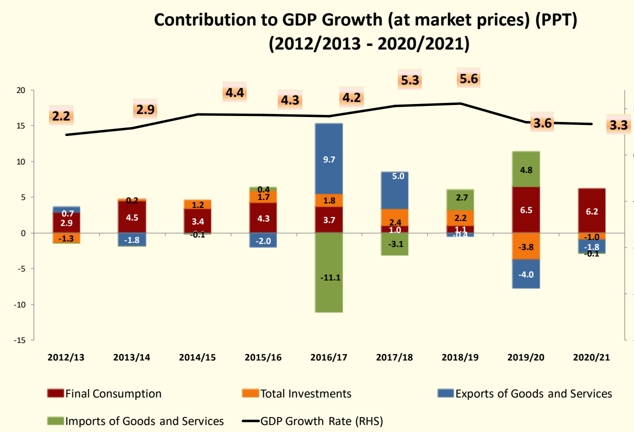
On the other hand, the Egyptian reform program soundness has been reflected in improving number of economic and fiscal indicators. Most recently, fiscal performance has continued to achieve primary surplus, and which has reached LE 3.2 billion (0.05% of the GDP) during the first half of FY21/22.These positive results come despite the negative repercussions of the Corona pandemic, in addition to successfully meeting all the needs of budget agencies, especially the health and education sectors, as well as the Decent Life Initiative financing needs, and the regular monthly payments to the Insurance and Pension Funds.

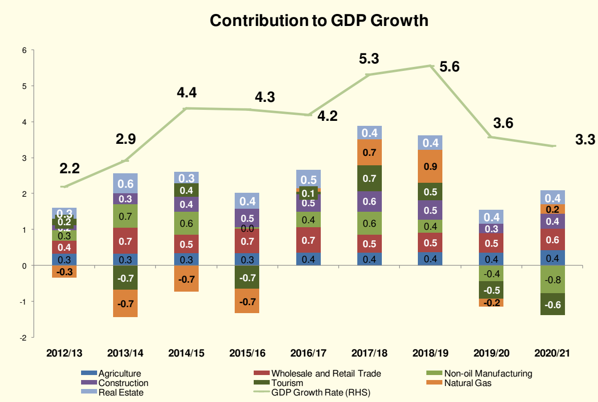
In the same vein, The World Bank has raised its estimates for the Egyptian economic growth by 1% to reach 5.5% during 2022, and the International Monetary Fund has also raised its estimates by 0.4% to 5.6% instead of 5.2% for the year 2022 (WEO, January 2022 edition), which was attributed -according to the IMF- to the effectiveness of the structural reform agenda implemented by the Egyptian authority that had led to maintaining macroeconomic stability, while ensuring public finance and debt sustainability, along with the effectively implemented monetary policy reforms, and the proactive reforms taken by the Egyptian government to manage the COVID-19 crisis, which led to increasing investors’ confidence in the Egyptian economy.

Recent Macroeconomic Indicators

Real Sector

In light of the responsiveness of recent macro-economic indicators to the comprehensive reform program, GDP grew by 3.3 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$ 40.98 billion at end of January 2021, compared to lowest level of US$ 13.4 billion at end of March 2013.

- **Purchasing manager Index** reached 47.9 in January 2021, compared to 37.1 in December 2012.

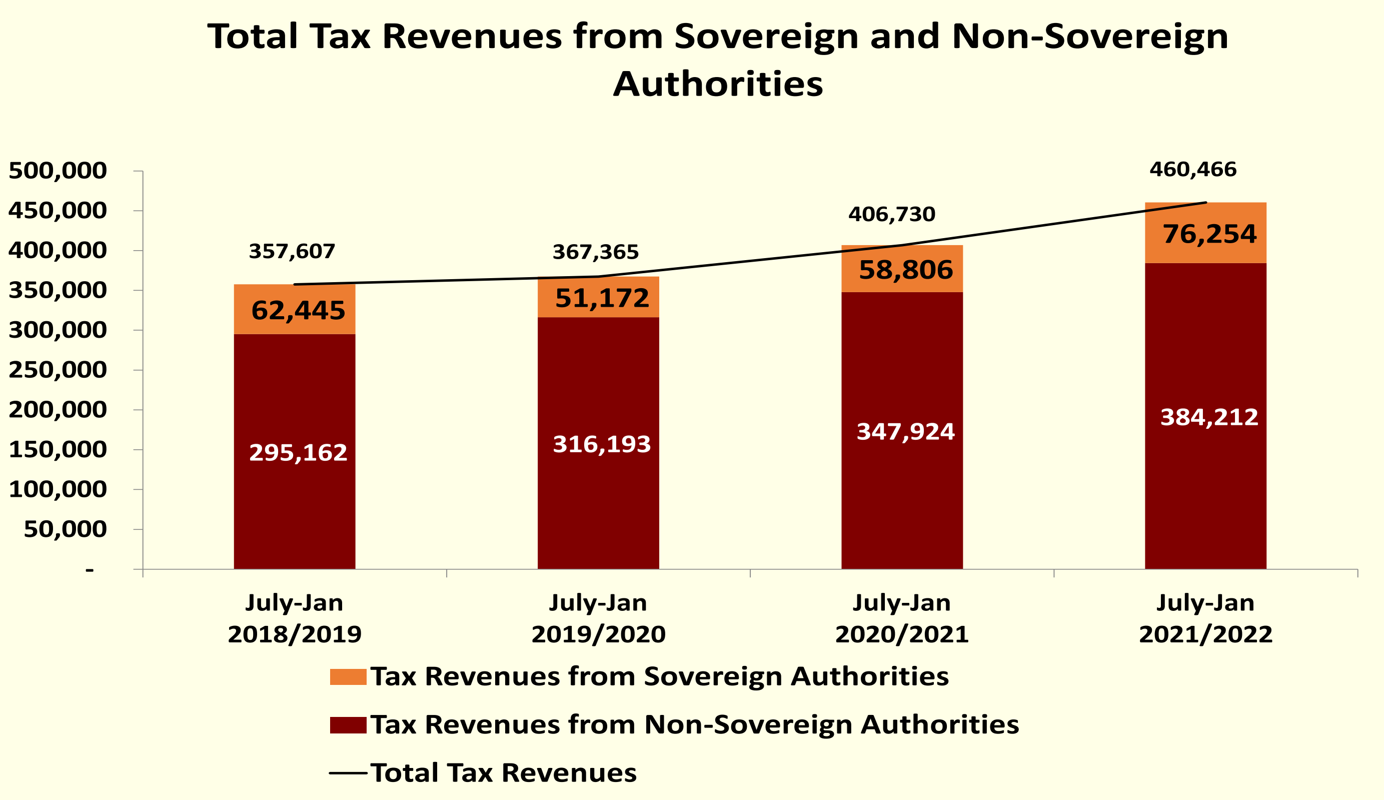
- **Tourism receipts** reached US**$12.5 billion** during FY18/19 compared to $9.8 billion during FY17/18.

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 -4.7% during the period July-January FY21/22. While, primary balance has reached 0.21% of GDP. This could be explained in light of the increase in revenues by 7.7%, while the increase in expenditures have exceeded the increase in revenues, rising by 12% 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 42.5 billion (7.7 percent growth) to record around LE 592.3 billion during the period of study, compared to the same period of last year. Tax revenues constitute 77.7 percent of total revenues while non-tax revenues constitute 22.3 percent.



- **Tax Receipts** constituted around LE 460.5 billion of total revenues, increasing by LE 53.7 billion (13.2 percent growth), mainly driven by

  - The increase in Tax Receipts from Sovereign Authorities by LE 17.4 billion (29.7 percent growth) to record LE 76.3 billion during the period July-January 2021/2022, compared to LE 58.8 billion during the same period of last year.
  - The rise in Tax Receipts from Non- Sovereign Authorities by LE 36.3 billion (10.4 percent growth) to record LE 384.2 billion during the period of study, compared to LE 347.9 billion during the same period of last year

This was supported by:

- **Receipts from Income Taxes rose by LE 0.7 billion** (0.5 percent growth) to reach LE 143.7 billion during the period of study.
  - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 4.4 billion (11.8 percent growth) to reach LE 41.8 billion during the period of study.
  - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 2 billion (12.2 percent growth) to reach LE 19.4 billion during the period of study.
- **Receipts from Value Added Taxes rose by LE 30.2 billion** (15 percent growth) to reach LE 232.2 billion during the period of study.
  - ✓ **driven by the increase in receipts from value added tax on goods by LE 15.2 billion** (16 percent growth) to reach LE 110.4 billion during the period of study.
  - ✓ **and the increase in receipts from value added tax on services by LE 5.1 billion** (19.9 percent growth) to reach LE 30.7 billion during the period of study.
  - ✓ **receipts from excises on domestic commodities rose by LE 4.3 billion (**7.2 percent growth) to reach LE 64.4 billion during the period of study.
  - ✓ **and the increase in receipts from development fees by LE 1.9 billion (38.5 percent growth)** to reach LE 6.8 billion during the period of study.
  - ✓ **and the increase in receipts from stamp tax by LE 1 billion** (10.1 percent growth) to reach LE 11 billion during the period of study.
- **Receipts from property taxes rose by around LE 20.1 billion** (**49.3 percent growth)** to reach LE 60.9 billion during the period of study, compared to LE 40.8 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 20.1 billion** to reach around LE 52.4 billion during the period of study.
- **Moreover, Tax receipts from International Trade rose by LE 2.7 billion (12.8 percent growth**) to reach LE 23.7 billion during the period of study.

- **Non-Tax Revenues (22.3 percent of total revenues) has reached around LE 131.8 billion during the period of study of which;**

  - **Proceeds from Sales of Goods and Services** rose by LE 8.6 billion to record LE 40.5 billion during the period of study.
    - ✓ **mainly due to the increase in revenues from special accounts and funds by LE 7.5 billion to reach LE 32.9 billion during the period of study.**

- **Property Income** rose by LE 4.1 billion (10.2 percent growth) to record LE 44.7 billion during the period of study.
  - ✓ mainly due to the increase in non-tax dividends receipts by LE 6.3 billion to reach LE 36.8 billion during the period of study.
- **Grants** rose to reach LE 2.6 billion during the period of study, mainly due to the increase in grants from international organization.
- **Miscellaneous Revenues** recorded LE 42.7 billion during the period of study.

On the Expenditure side, Total expenditures have increased by 12 percent to reach LE 927.9 billion during the period July-January 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 19.7 billion (10.6 percent growth)** to reach LE 206 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 48.5 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 21.8 billion to reach LE 156.3 billion** during the period of study.
  - ✓ **Spending on treasury contributions in pension rose by LE 13.3 billion to reach LE 75 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 2.6 billion to reach LE 12.5 billion during the period of study.**
  - ✓ **Spending on GASC rose by LE 5.7 billion to reach LE 40.3 billion during the period of study.**

Purchases of non-financial assets

- **Purchases of non-financial assets reached LE 107.3 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 48.6 billion (16.2 percent growth)** to reach LE 348.5 billion during the period of study, compared to LE 299.8 billion during the same period of last year .
- **Total Spending on Health rose by LE 14.5 billion (28.7 percent growth)** to reach LE 65 billion during the period of study, compared to LE 50.5 billion during the same period of last year.

- **Total Spending on Education rose by LE 17.5 billion (20.3 percent growth)** to reach LE 103.7 billion during the period of study, compared to LE 86.2 billion during the same period of last year.

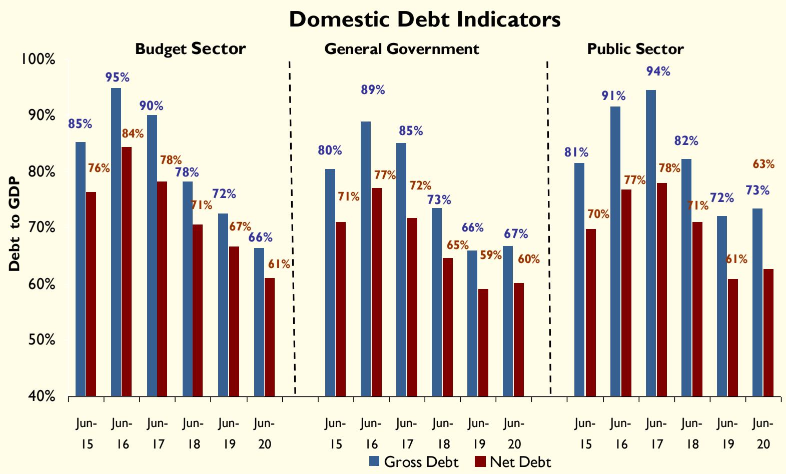
Fiscal Sector Performance during July-Jan 2021/2022

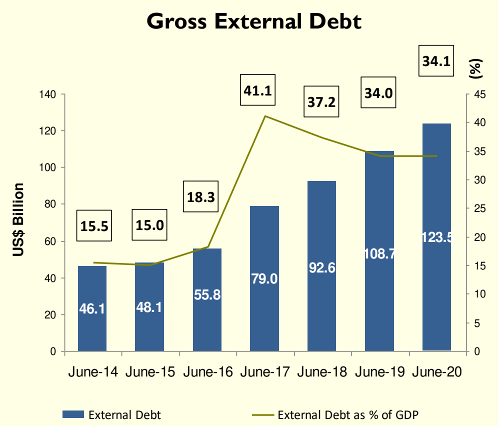
(LE billion)

	July-Jan	
	2022/21	**2021/20**
Revenues	**592,311**	**549,817**
Taxes	460,466	406,730
Grants	2,635	493
Other Revenues	129,211	142,594
Expenditure	**927,855**	**828,284**
Wages and Compensation of Employees	205,959	186,242
Purchase of Goods and Services	48,498	36,805
Interest Payments	349,410	300,510
Subsidies, Grants and Social Benefits	156,311	134,495
Other Expenditures	60,384	52,293
Purchases of Non-financial Assets (investments)	107,293	117,939
Cash Balance	**-335,544**	**-278,467**
Net Acquisition of Financial Assets	**-1,323**	**4,121**
Overall Budget Balance	**-334,221**	**-282,588**
Budget Primary Surplus/or Deficit (%of GDP)	**0.21%**	**0.3%**
Budget Overall Balance (%of GDP)	**-4.7%**	**-4.4%**

External & Domestic Debt

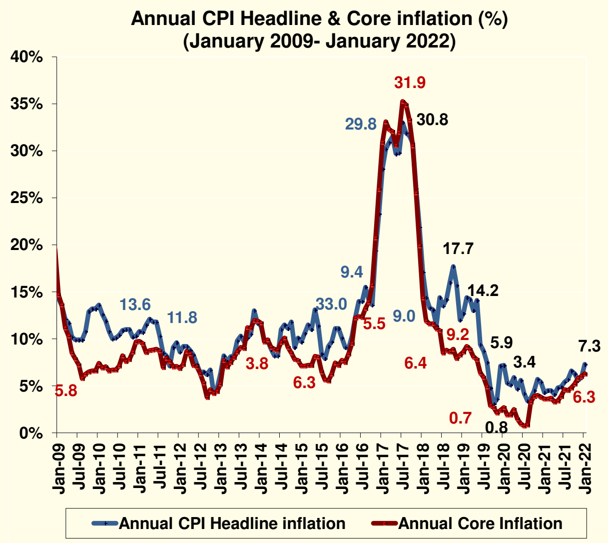
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase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

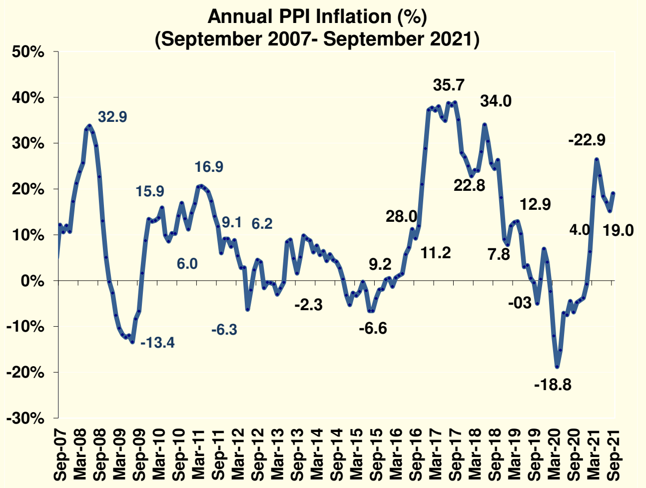




Inflation

Annual Urban Inflation increased to record 7.3 percent in January 2022, compared to 5.9 percent during last month**. <u>Meanwhile, average annual inflation rate reached</u>** <u>6.1 percent during July-January 21/22,</u> compared to 4.5 percent during the same period of last year. Annual Core Inflation recorded 6.3 percent in January 2022, compared to 6 percent during last month.





Monetary Sector

According to recent data released by the CBE; M2 growth stabilized to record 17.2 percent in September 2021 (LE 5574 billion), compared to 17.3 percent last month. This is mainly due to the increase in **Money (M1)** to record 17.2 percent in September 2021, compared to 16.8 last month, driven by the increase in currency in circulation to record 13.5 percent in September 2021, compared to 12.7 percent last month, and **demand deposits in local currency** stabilized at 21.6 percent in September 2021. Moreover, **Quasi Money increased** to record 17.2 percent in September 2021, driven by the increase in **foreign currency demand deposits** to reach 10.4 percent in September 2021, compared to 4.5 percent last month.

- **Net Foreign Assets (NFA)** annual growth recorded a decrease at -15.9 percent (LE 186.3 billion) compared -3.2 percent last month driven by the decrease in **Banks Reserves** which recorded -18.3 percent in September 2021.

  - **Net domestic assets (NDA)** annual growth has increased to 18.8 percent at end of September 2021 (LE 5387.7 billion) compared to 18 percent last month due to the increase in **Net Claims on Government, and GASC** to 10.5 percent in September 2020, compared to 8.4 percent last month.

- **Total Deposits annual growth rate– excluding deposits at the CBE** – has slightly decreased to 20.3 percent (LE 6077 billion) at the end of September 2021, compared to 22 percent last month. **Out of total deposits, 80.8 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has stabilized at 48.5 percent at end of September 2021.

- **In the same context,** Monetary Policy Committee (MPC) decided on February 3rd 2022 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.