

Executive Summary

Latest Economic Developments

The Ministry of Finance is continuously adopting new instruments to raise the efficiency of public finance, and improve public debt management. Recently, MOF has in an unprecedented step launched the first Egyptian samurai bonds in the Japanese stock markets, with a total value worth 60 billion Japanese yen (equivalent to 500 billion dollars), with rate of return 0.85%, and reaching 2.33% annually. The new offering is considered to be more distinguished compared to international coupon prices, and reflects the success of the Egyptian economy in returning to the international bond market despite the unprecedented challenges the world is witnessing. Moreover, the new issuance will contribute to diversifying sources of financing, expanding investor base, taking into account geographical diversity, optimizing opportunities in global markets, and reducing the cost of financing, and it will support the implementation of development projects that leads to creating job opportunities, and hence improving the standard of living for Egyptians.



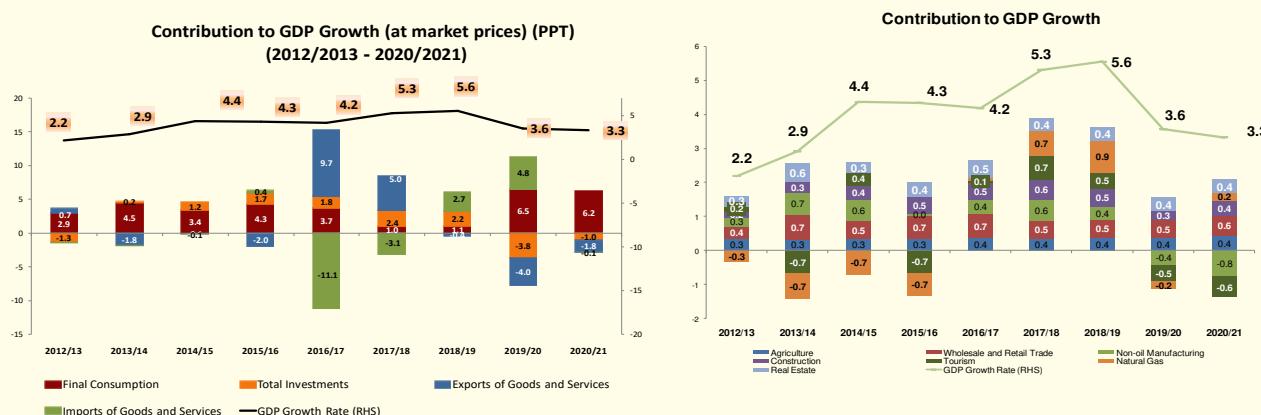
On the other hand, in an effort to support Citizens to face the inflationary pressures resulting from current global economic imbalances, the Ministry of Finance has approved a new fiscal stimulus worth LE 130 billion, of which LE 2.7 billion allocated to add 450,000 new beneficiaries among “Takaful and Karama”, and LE 190.5 billion has been allocated to the Social Insurance Authority to help disburse 13% annual increase for the pensionaries with a monthly minimum limit of LE 120 pounds, while increasing tax exemption by 25% from LE 24000 to 30000, and increasing periodical and special bonuses for public employees worth LE 36 billion, as of April 2022. While, the wage allocations in the next year's budget amounted LE 400 billion.

Moreover, MOF stimulus measures included support for the business community, and to revitalize the Egyptian Stock Exchange, allowing a tax deduction of 50% of the value of the capital gains achieved at the initial offering for a period of two years to be reduced to 25% in the next years, and exempting investment funds in debt instruments and investment funds in shares listed in the stock market, and completely tax exempting charitable funds. In addition, a “transparent tax entity” was established in the Egyptian Stock Exchange; which creates a good investment environment to support the Egyptian economy. Addition support measures for the business community included; the extension of tax disputes law until December 31, 2022, and setting the customs dollar for basic commodities and production requirements at LE 16 pounds, and instructing the state's budget to bear the real estate tax dues imposed on the industrial sectors for the coming 3 years, a reform measure that worth LE 3.75 billion pounds.

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.



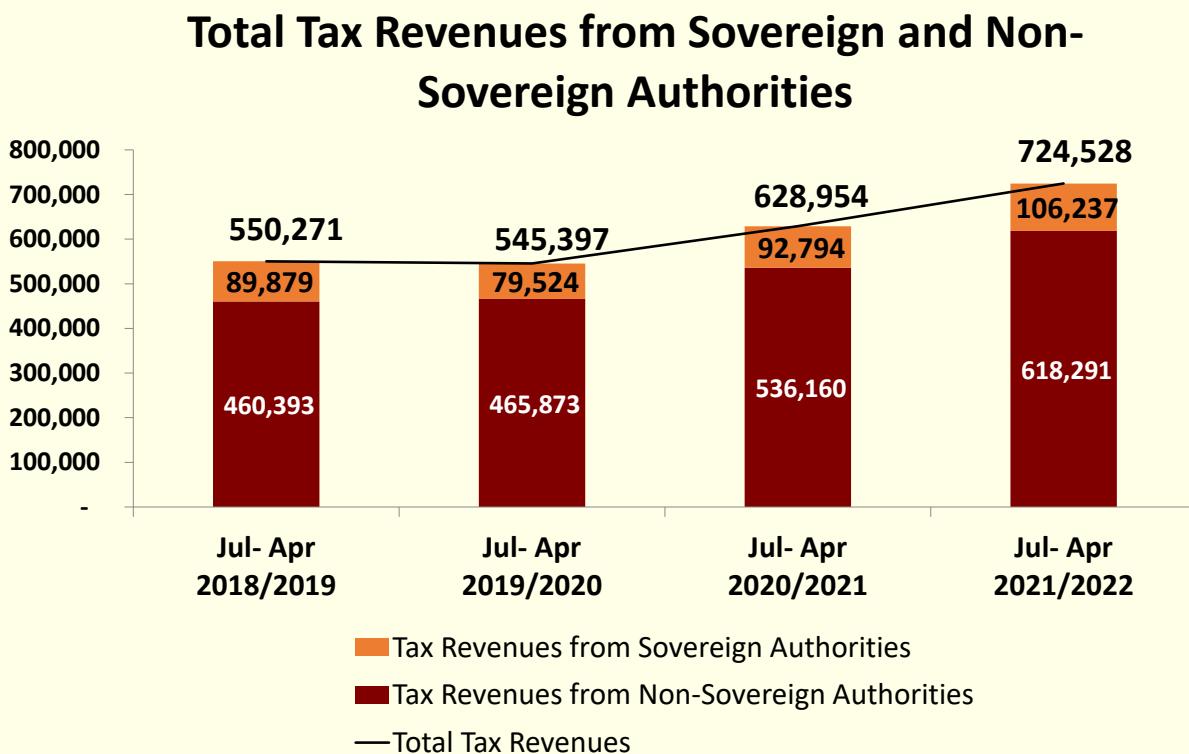
- **On the Demand Side**, Private consumption grew by 6.9 percent in FY20/21 (contributing to growth by 5.8 PPT during FY20/21), while Public Consumption grew by 3.7 percent in the year of study (contributing to growth by 0.4 PPT).
- **On the Supply Side**, main key sectors that led growth were **Total 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\$ 37.1 billion at end of March 2022, compared to lowest level of US\$ 13.4 billion at end of March 2013.
- **Purchasing manager Index** reached 46.5 in March 2022, 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 -5.17% during the period July-April FY21/22. While, primary balance has reached LE 59.7 billion (0.75% of GDP), up from 0.70% the same period last year. This could be explained in light of the increase in revenues by 9.8%, while the increase in expenditures have exceeded the increase in revenues, rising by 10.2% 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 82.1 billion (9.8 percent growth) to record around LE 918.6 billion during the period of study, compared to the same period of last year. Tax revenues constitute 79 percent of total revenues while non-tax revenues constitute 21.1 percent.



- **Tax Receipts** constituted around LE 724.5 billion of total revenues, increasing by LE 95.6 billion (15.2 percent growth), mainly driven by

- The increase in Tax Receipts from Sovereign Authorities by LE 13.4 billion (14.5 percent growth) to record LE 106.2 billion during the period July-April 2021/2022, compared to LE 92.8 billion during the same period of last year.
- The rise in Tax Receipts from Non- Sovereign Authorities by LE 82 billion (15.3 percent growth) to record LE 618.3 billion during the period of study, compared to LE 536.2 billion during the same period of last year.

This was supported by:

- **Receipts from Income Taxes** rose by LE 14.3 billion (5.9 percent growth) to reach LE 256.8 billion during the period of study.
 - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 5.4 billion (8.4 percent growth) to reach LE 69.3 billion during the period of study.
 - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 4.8 billion (15.3 percent growth) to reach LE 36.3 billion during the period of study.
 - ✓ **and tax receipts from Suez Canal** rose by LE 2.1 billion (8 percent growth) to reach LE 27.7 billion during the period of study.
 - ✓ **and tax receipts from Other Companies** rose by LE 8.2 billion (8.3 percent growth) to reach LE 107.2 billion during the period of study.
- **Receipts from Value Added Taxes** rose by LE 54.9 billion (18.4 percent growth) to reach LE 352.9 billion during the period of study.
 - ✓ **driven by the increase in receipts from value added tax on goods** by LE 19.2 billion (13.5 percent growth) to reach LE 161.8 billion during the period of study.
 - ✓ **and the increase in receipts from value added tax on services** by LE 9.8 billion (27.7 percent growth) to reach LE 45.4 billion during the period of study.
 - ✓ **receipts from excises on domestic commodities** rose by LE 15.2 billion (18 percent growth) to reach LE 99.7 billion during the period of study.
 - ✓ **and the increase in receipts from development fees** by LE 2.6 billion (34 percent growth) to reach LE 10.4 billion during the period of study.
 - ✓ **and the increase in receipts from stamp tax fees** by LE 4.1 billion (24.4 percent growth) to reach LE 21 billion during the period of study.
 - ✓ **and the increase in receipts from taxes on use of goods** by LE 3.2 billion to reach LE 12.2 billion during the period of study.
- **Receipts from property taxes** rose by around LE 19.2 billion (32.4 percent growth) to reach LE 78.3 billion during the period of study, compared to LE 59.2 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 19.2 billion to reach around LE 66.3 billion during the period of study.
- **Moreover, Tax receipts from International Trade** rose by LE 7.3 billion (24.9 percent growth) to reach LE 36.5 billion during the period of study.

- **Non-Tax Revenues (21.1 percent of total revenues) has reached around LE 194 billion during the period of study of which;**
 - **Proceeds from Sales of Goods and Services** rose by LE 13.5 billion (28.3 percent growth) to record LE 61.1 billion during the period of study.
 - ✓ mainly due to the increase in revenues from special accounts and funds by LE 11 billion to reach LE 49.4 billion during the period of study.
 - **Property Income** rose by LE 9.9 billion (16.9 percent growth) to record LE 69 billion during the period of study.
 - ✓ mainly due to the increase in non-tax dividends receipts by LE 12.7 billion to reach LE 56.3 billion during the period of study.
 - **Grants** rose to reach LE 2.7 billion during the period of study, mainly due to the increase in grants from international organization.
 - **Miscellaneous Revenues** recorded LE 59.4 billion during the period of study.

On the Expenditure side, Total expenditures have increased by 10.2 percent to reach LE 1332.3 billion during the period July-April 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 31.6 billion (11.9 percent growth) to reach LE 297.7 billion during the period of study.

Purchases of goods and services

- **Purchases of goods and services** rose by LE 18.1 billion to reach LE 70 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 29 billion to reach LE 232.4 billion during the period of study.
 - ✓ **Spending on treasury contributions in pension** rose by LE 14.5 billion to reach LE 105.5 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 0.7 billion to reach LE 17.6 billion during the period of study.
 - ✓ **Spending on GASC** rose by LE 6.8 billion to reach LE 61.5 billion during the period of study.

Purchases of non-financial assets

- **Purchases of non-financial assets** reached LE 173.7 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 62.7 billion (14.3 percent growth) to reach LE 501.6 billion during the period of study, compared to LE 438.9 billion during the same period of last year.
- **Total Spending on Health** rose by LE 17.1 billion (22.1 percent growth) to reach LE 94.6 billion during the period of study, compared to LE 77.5 billion during the same period of last year.
- **Total Spending on Education** rose by LE 22.7 billion (17.9 percent growth) to reach LE 148.8 billion during the period of study, compared to LE 126.1 billion during the same period of last year.

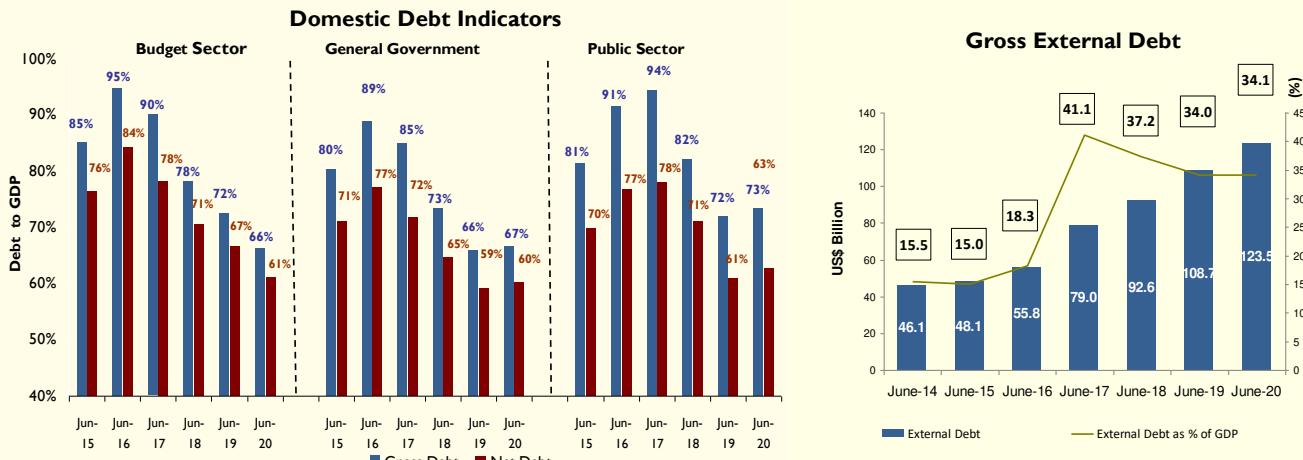
Fiscal Sector Performance during July-April 2021/2022

(LE billion)

	July-April	
	2022/21	2021/20
Revenues	918,564	836,422
Taxes	724,528	628,954
Grants	2,688	816
Other Revenues	191,348	206,653
Expenditure	1,332,288	1,209,387
Wages and Compensation of Employees	297,697	266,066
Purchase of Goods and Services	69,895	51,761
Interest Payments	470,541	428,200
Subsidies, Grants and Social Benefits	232,393	203,358
Other Expenditures	88,018	77,823
Purchases of Non-financial Assets (investments)	173,744	182,180
Cash Balance	-413,723	-372,965
Net Acquisition of Financial Assets	-2,919	6,761
Overall Budget Balance	-410,804	-379,726
Budget Primary Surplus/or Deficit (% of GDP)	0.75%	0.70%
Budget Overall Balance (% of GDP)	-5.17%	-5.48%

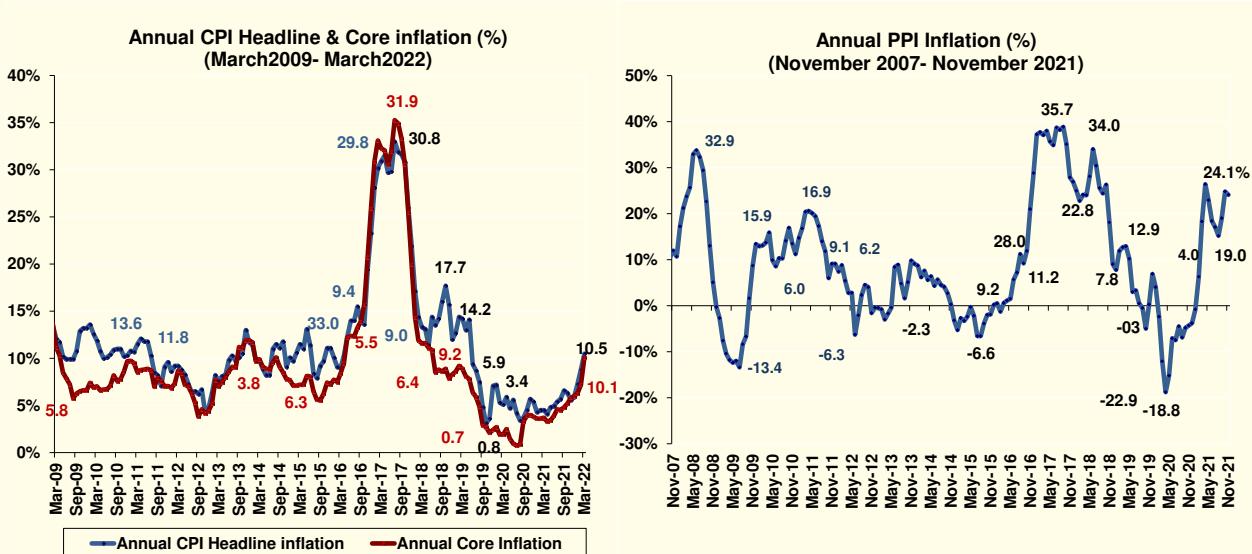
External & Domestic Debt

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 10.5 percent in March 2022, compared to 8.8 percent during last month. Meanwhile, average annual inflation rate reached 6.9 percent during July-March 21/22, compared to 4.5 percent during the same period of last year. Annual Core Inflation recorded 10.1 percent in March 2022, compared to 7.2 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 March 21st 2022 to raise by 100 basis points the Central Bank of Egypt's (CBE) **overnight deposit rate, overnight lending rate, and the rate of the main operation** to reach at 9.25 percent, 10.25 percent, and 9.75 percent, respectively. The discount rate was also raised by 100 basis points to reach at 9.75 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 Q1 FY 21/22. The Balance of Payment recorded an overall surplus of US\$ 311.4 million, compared to an overall deficit of US\$ 69.2 billion in Q1 FY20/21. This comes in light of the increase in the capital and financial account surplus to US\$ 6 billion during the period of study compared to US\$ 3.9 billion last year, supported by net inflows of direct, and portfolio investment, 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\$ 1.2 billion to record LE 4 billion during the period of study, compared to US\$ 2.8 billion during Q1 FY20/21, mainly due to:
 - Non-Oil merchandise deficit rose by 26.1 percent to reach US\$ 11 billion (compared to US\$ 8.7 billion during last year). Mainly due to the increase in imports of pharmaceutical, gauze pads, and vaccines (in light of efforts to combat COVID-19), and increased imports of soyabeans, cast iron and wheat. On the other hand, non-oil exports increased mainly of organic and inorganic compounds, phosphate, mineral fertilizers, wires and cables.
 - Investment income deficit widened, which presents the difference between receipts and payments on investments to and from external world by 26.6 percent to reach US\$ 3.9 billion (compared to US\$ 3.1 billion during last year).
 - Oil merchandise deficit has reached US\$ 101 million during the period of study.
 - Which was offset by, the increase in service account surplus by LE 2.1 billion to record US\$ 2.9 billion during the period of study, compared to 876.3 US\$ million during last year, mainly due to:
 - The increase in tourism receipts to record US\$ 2.8 billion during Q1 FY21/22 (compared to US\$ 801 million during last year).

- The increase in travel receipts by 31 percent to record US\$ 2.3 billion during period of study (compared to US\$ 1.7 billion during last year). mainly driven by the increase in Suez Canal receipts by 22.3 percent to register US\$ 1.7 billion during the period of study.
- The increase in remittances by 1.5 percent to record US\$ 8.1 billion.

The Capital and Financial Accounts

- The capital and financial accounts witnessed a notable increase recording net inflow of US\$ 6 billion during Q1 FY21/22, compared to US\$ 3.9 billion during the previous year. This represents an increase of US\$ 2.1 billion compared to last year, mainly driven by Net portfolio Investments to Egypt, and which has reached US\$ 3.6 billion compared to US\$ 6.7 billion during the previous year, and FDIs rose by 3.7 percent to record US\$ 1.7 billion during the year of study. Meanwhile, net investments in non-petroleum sector rose to US\$ 2.2 billion, of which the increase in net investment inflows in establishing new companies by US\$ 38.3 million to reach US\$ 351.6 million during the year of study, and net inflows for real estate purchases in Egypt by non-residents to reach US\$ 231 million.