

Executive Summary

Latest Economic Developments

The Ministry of Finance has recently submitted the financial statement of the draft state budget for the FY 22/23 to the House of Representatives. The budget outlines that fiscal policy endeavors reform measures to mitigate the negative and inflationary repercussions resulting from global economic imbalances, mainly providing social safety support to the citizens and affected sectors in the economy, in a way that would enable a quick recovery from the crisis, while building foundations for a sustainable economic growth that secures decent lives and livelihoods for the Egyptian citizen and future generations.

The new fiscal year draft budget features achieving a primary surplus of LE 132 billion, which represents 1.5% of GDP, while reducing total budget deficit to 6.1% of GDP, compared to 12.5% at the end of June 2016. This would bring total debt levels to reach 84% of GDP in FY22/23 compared to 103% at end of June 2016, and brings debt medium-term declining path to reach less than 75% of GDP over the next four years. Meanwhile efforts would be exerted to integrate the informal economy into the formal economy that helps in expanding the tax base and increases tax revenues growth by 23.5% in FY22/23.

Main Spending Allocations in draft State Budget for FY22/23

Total expenditures amounted LE 2 trillion and 71 billion, and total revenues is expected to reach LE 1.5 trillion and 18 billion pounds.

Allocating LE 310 billion to health, LE 476.3 billion to university and pre-university education, and LE 79.3 billion to scientific research.

Increasing the allocations for social protections to reach LE 356 billion according to presidential directives, and allocating LE 22 billion to increase beneficiaries of “Takful & karama” and “Social Security” for four million families.

LE 400 billion for wages, and LE 90 billion for food supplies, and LE 191 billion for pension funds

LE 5 billion to appoint 60,000 teachers, doctors, pharmacists and to meet other needs in various sectors of the state, and LE 1 billion for promotions

LE 7 billion to raise the personal tax exemption threshold from 9 thousand pounds to thousand pounds, and from 24 thousand pounds to 30 thousand pounds, with increase of 25%

LE 376 billion for public investments, with an annual growth rate of 9.6% to improve services provided to citizens create more job opportunities, especially for youth, and increase environmentally friendly projects by 50% growth

LE 3.5 billion pounds to deliver natural gas to homes, and LE 7.8 billion to finance social housing initiatives

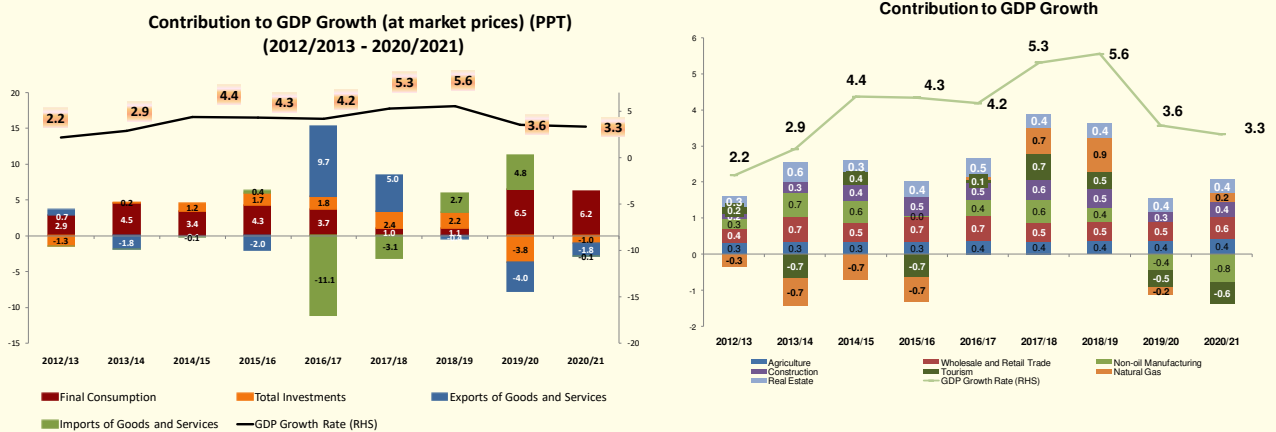
LE 18.5 billion for medicines and medical supplies, and LE 10.9 billion for treatment of ,those unable at the state’s expense, and the expansion of universal health insurance and continuing support for the “100 million health” initiatives, “eliminating hospitals waiting lists” and raising the efficiency of hospitals

LE 6 billion to continue financing Exporters Support Program and to repay the state budget obligations to exporters

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 April 2022, compared to lowest level of US\$ 13.4 billion at end of March 2013.
- Purchasing manager Index** reached 46.9 in April 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.

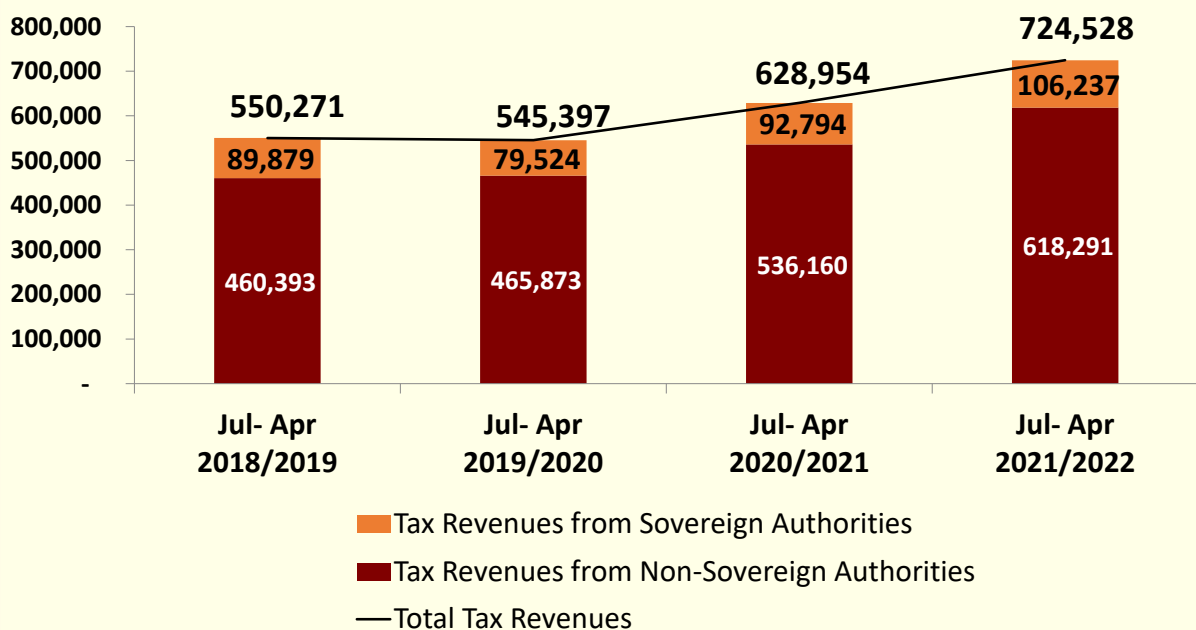
Fiscal Sector

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.

Total Tax Revenues from Sovereign and Non-Sovereign Authorities



▪ **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.

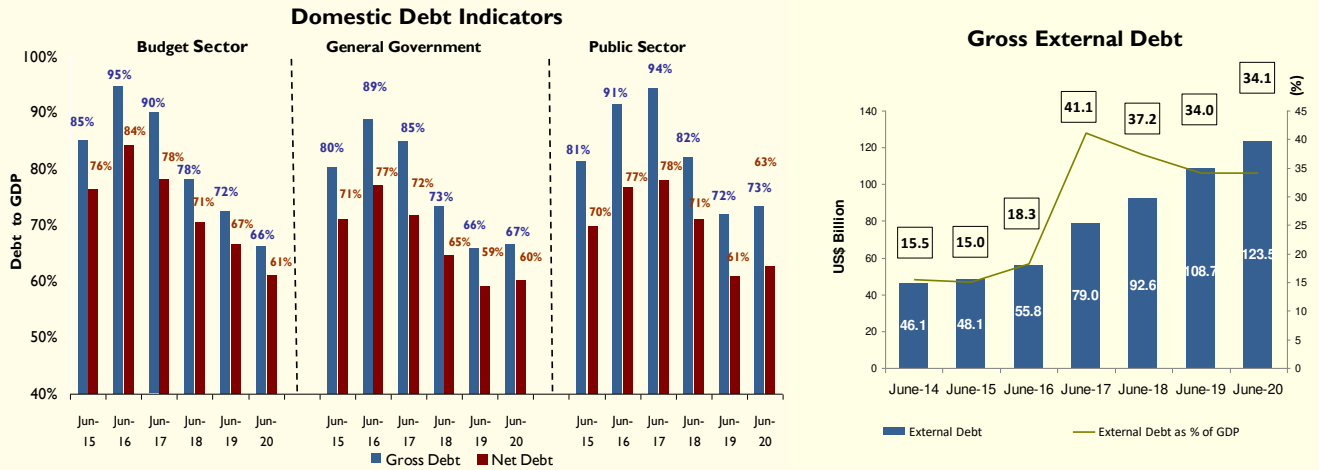
Fiscal Sector Performance during July-April 2021/2022

(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%

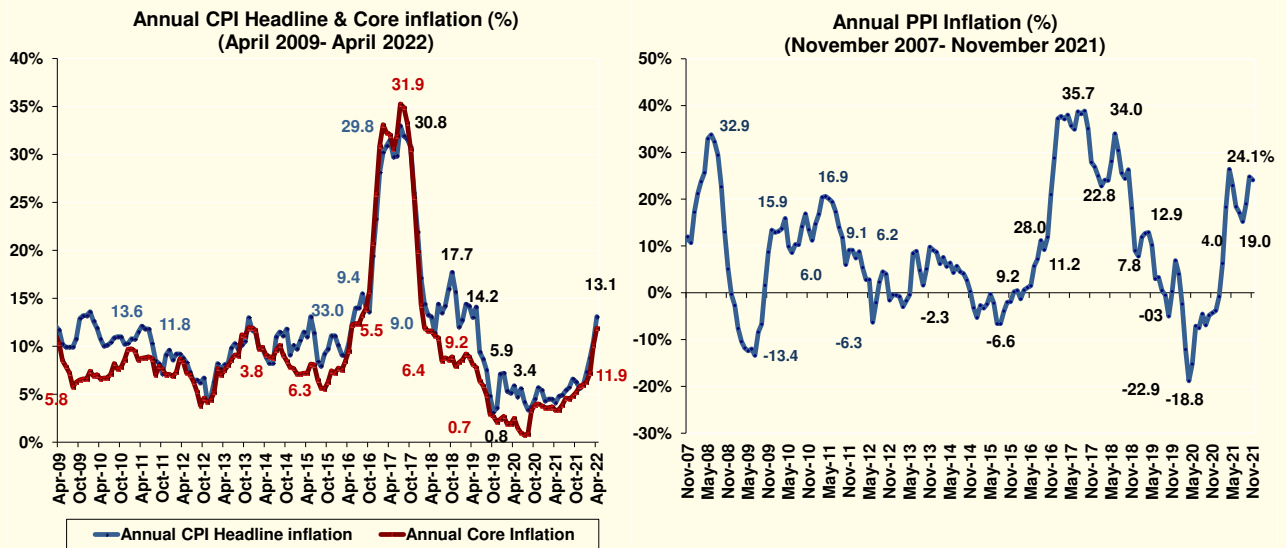
External & Domestic Debt

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 13.1 percent in April 2022, compared to 10.5 percent during last month. Meanwhile, average annual inflation rate reached 7.52 percent during July-April 21/22, compared to 4.4 percent during the same period of last year. Annual Core Inflation recorded 11.9 percent in April 2022, compared to 10.1 percent during last month.



Monetary Sector

According to recent data released by the CBE, M2 growth increased to record 18.5 percent in January 2022 (LE 5876 billion), compared to 18.3 percent last month. This is mainly due to the increase in Quasi Money increased to record 18.1 percent in January 2022, compared to 17.6 percent last month driven by the increase in foreign currency demand deposits to reach 20.6 percent in January 2022, compared to 15.6 percent last month and demand deposits in local currency increased to record 21.3 percent in January 2022, compared to 21.1 percent last month. Moreover, Money (M1) increased to record 19.8 percent in January 2022 driven by the increase in currency in circulation to record 14.6 percent in January 2022.

- **Net Foreign Assets (NFA)** annual growth decreased sharply to record -96.5 percent (LE 9674 billion) compared -3.2 percent last month driven by the decrease in Banks Reserves which recorded -41.3 percent in January 2022.
- **Net domestic assets (NDA)** annual growth has increased to 25.2 percent at end of January 2022 (LE 5866.9 billion) compared to 24.4 percent last month due to the increase in **Net Claims on Government, and GASC** to 15.8 percent in January 2022, compared to 14.1 percent last month.
- **Total Deposits annual growth rate– excluding deposits at the CBE** – has slightly increased to 24 percent (LE 6549 billion) at the end of January 2022, compared to 24.1 percent last month. **Out of total deposits, 79.4 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has stabilized at 48.3 percent at end of September 2021.
- **In the same context**, Monetary Policy Committee (MPC) decided on May 19th 2022 **to raise by 200 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 11.25 percent, 12.25 percent, and 11.75 percent, respectively. The discount rate was also raised by 200 basis points to reach at 11.75 percent.

External Sector

- **The Egyptian economy was resilient and being able to absorb external shocks caused by the global imbalances owing to the adopted reform program, which were reflected in the country’s economic transactions with the external world during the First Half of FY 21/22. The Balance of Payment recorded a marginal overall deficit of US\$ 14.1 million. This comes in light of the increase in the capital and financial account surplus to US\$ 11.4 billion** during the period of study compared to US\$ 9.2 billion last year, supported by net inflows of direct investments, which reflects the confidence of foreign investors in the Egyptian economy despite the global imbalances.

Detailed Balance of payment performance:

- **The current account deficit increased marginally by US\$ 0.2 million to record LE 7.8 billion during the period of study, compared to US\$ 7.6 billion during the same period of last year, mainly due to:**
 - **Non-Oil trade deficit rose by 24.2 percent to reach US\$ 23.8 billion** (compared to US\$ 19.1 billion during last year). Mainly due to the increase in imports of production inputs, such as propylene polymers and inorganic or organic compounds; and imports of agricultural products, mainly soybeans, wheat and corn, due to the rise in their global prices, and the increase in imports of pharmaceuticals, gauze pads and vaccines (in light of the country’s effort to combat COVID-19 pandemic). On the other hand, non-oil merchandise exports increased, however at a slower pace, mainly exports of; finished goods, phosphate, mineral fertilizers, household electric appliances, ready-made clothing, medicines, wires and cables, articles of aluminum and glassware.
 - **Investment income deficit widened**, which presents the difference between receipts and payments on investments to and from external world to reach US\$ 7.1 billion (compared to US\$ 5.4 billion during last year).

Which was offset by,

- **Oil trade balance shifted from a deficit of US\$ 54.2 million to a surplus of US\$ 2.1 billion.** This came as a main result of the rise in the value of natural gas exports by US\$ 2.6 billion, due to higher exported quantities, as well as the noticeable pickup in global prices.
- **Services surplus improved by US\$ 3.8 billion to record US\$ 5.6 billion during the period of study,** mainly due to:
 - **The increase in tourism receipts to record US\$ 5.8 billion during First Half of FY21/22** (compared to US\$ 1.8 billion during the same period of last year).
 - **The increase in transport receipts by 27.9 percent to record US\$ 4.7 billion during period of study** (compared to US\$ 3.6 billion during last year). **mainly driven by the increase in Suez Canal receipts by 16.6 percent to register US\$ 3.4 billion during the period of study.**
 - **The increase in remittances by 0.4 percent to record US\$ 15.6 billion.**

The Capital and Financial Accounts

- **The capital and financial accounts** recording net inflow of US\$ 11.4 billion during First Half of FY21/22, compared to US\$ 9.2 billion during the previous year, mainly driven by;
 - **FDIs net inflows has reached US\$ 3.3 billion during the year of study, of which FDIs in non-oil sector increased by US\$ 1.2 billion to record net inflows of US\$ 4.4 billion,** mainly due to the increase in investments or capital increases of existing companies to reach US\$ 1.4 billion (of which US\$ 160 million went to green field investments). Moreover, sale proceeds of companies and productive assets and net inflows for real estate purchases by non-residents has contributed to the increase in net FDIs inflows during the period of study. On the other hand, FDI in the oil sector registered US\$ 1.1 billion outflows, and portfolio investments in Egypt shifted to net outflows of US\$ 2.5 billion during the period of study.