Executive Summary

Latest Economic Developments

In a continuous effort to build trust and to ensure more transparent fiscal policy among Egyptian Citizens, the Ministry of Finance has recently published the Citizen's budget for the FY22/23 at MOF official website; mof.gov.eg. The report is the Ninth annual edition, and highlights main features of the state's budget for the fiscal year 2022/2023, including revenues and spending allocations, while providing specific focus on social protection programs that directly affect the standard of living of Egyptian Citizens.

According to the report, fiscal policy objective for the FY 22/23 is to achieve a balance between attaining fiscal sustainability that targets the reduction of overall budget deficit and debt level into sustainable levels, while ensuring a continuous achievement of primary surpluses, and supporting social safety net programs, including to ensure food security for the Egyptians. From the other side, efficient tools would be deployed to enhance business environment that leads to promoting economic growth, creating job opportunities, and enhancing national prosperity.

Meanwhile, the Egyptian citizen will always remain the core of fiscal policy reforms, including policies to develop human capital. In this regard, the state budget for the FY22/23 allocates a sum of LE 310 billion to improve the health sector, and around LE 476.3 billion were allocated to the education, and LE 79.3 billion to enhance scientific research, while social protection allocations have reached LE 356 billion, and around LE 400 billion were allocated to wages for public workers.

On the macroeconomic front, the state budget focuses on three priority sectors: agriculture, industry, communications and information technology. And a specific focus is provided to deepening local industrialization, developing electronic industries and enhancing digital transformation. On the spending allocations side, green projects are targeted to reach 40% of total public investments, while targeting on the medium term to increase private sector investments from 30% to 65% within 3 years, and making expansions to increase agricultural productivity to achieve food security for citizens.

In a reflection to the government continuous reform efforts implemented during past years actual performance for the FY21/22 has improved noticeably as follows:

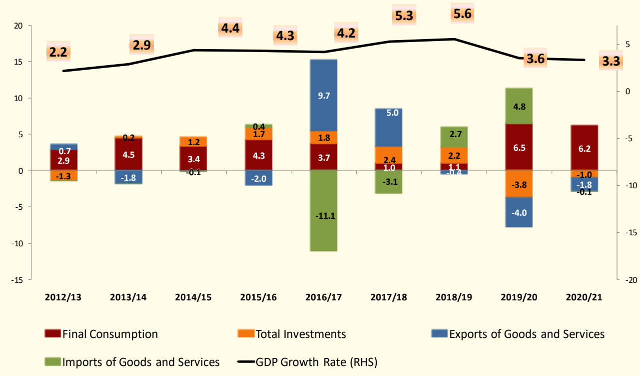
- **The highest economic growth rate was achieved since 2008 to reach 6.6% of GDP in fiscal year 2021/2022, compared to 3.2% the global average for emerging markets.**
- **Unemployment rate fell to 7.2% in June 2022, leading to the creation of 826,000 jobs.**
- **Overall budget deficit declined notably to 6.1% in the fiscal year 2021/2022, down from historic 13% of GDP in the year 2012/2013**

Recent Macroeconomic Indicators

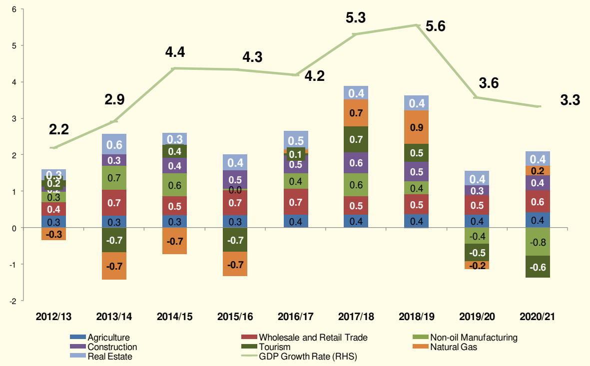
Real Sector

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.

Contribution to GDP Growth (at market prices) (PPT)
(2012/2013 - 2020/2021)



Contribution to GDP Growth



- **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$ 33.14 billion at end of August 2022, compared to lowest level of US$ 13.4 billion at end of March 2013.

- **Purchasing manager Index** reached 47.6 in August 2022, compared to 37.1 in December 2012.

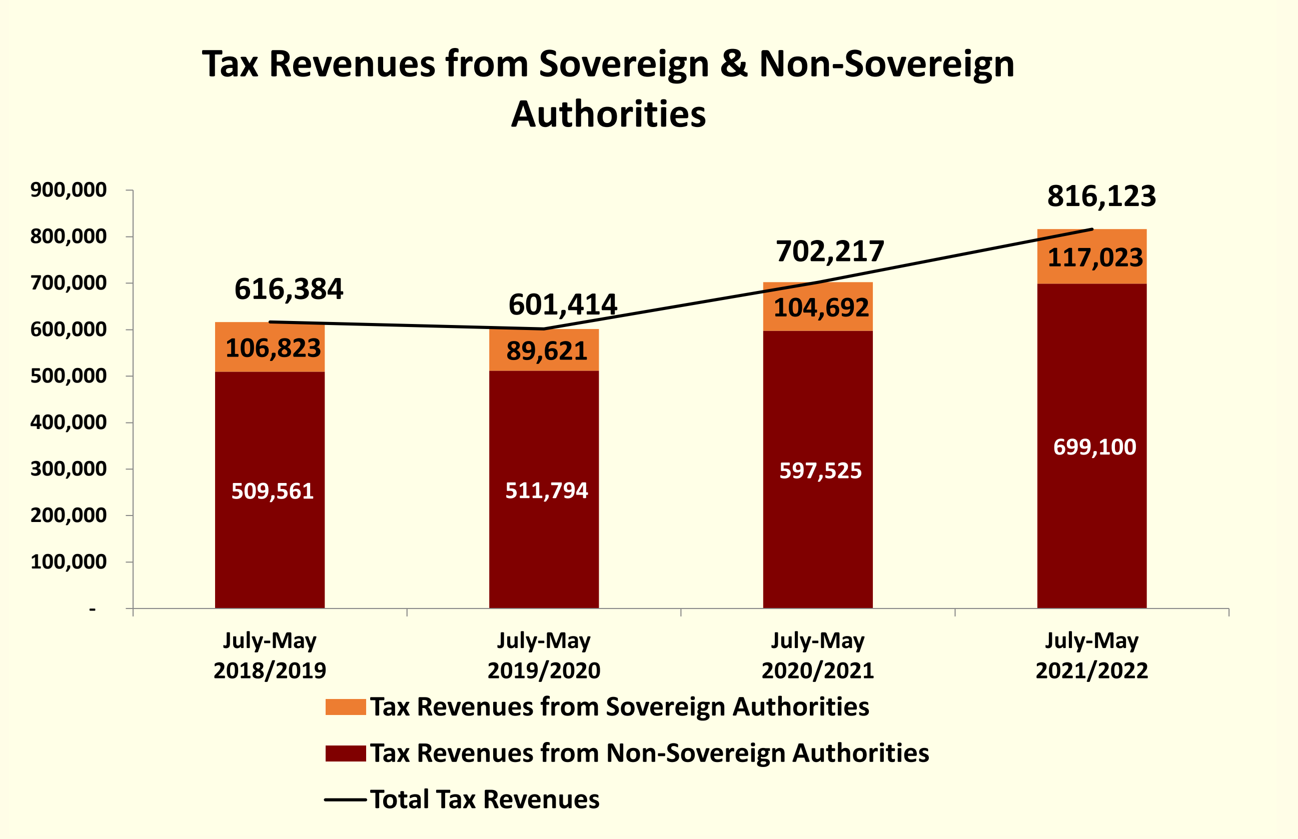
- **Tourism receipts** reached US**$12.5 billion** during FY18/19 compared to $9.8 billion during FY17/18.

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 -5.50% during the period July-May FY21/22. While, primary balance has reached LE 71.9 billion (0.91% of GDP), up from 0.74% the same period last year. This could be explained in light of the increase in revenues by 12.3%, and which has exceeded the increase in expenditures, rising by 11.2% 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 112.7 billion (12.3 percent growth) to record around LE 1030 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.



- **Tax Receipts** constituted around LE 816.1 billion of total revenues, increasing by LE 114 billion (16.2 percent growth), mainly driven by

  - The increase in Tax Receipts from Sovereign Authorities by LE 12.3 billion (11.8 percent growth) to record LE 117 billion during the period July-May 2021/2022, compared to LE 104.7 billion during the same period of last year.
  - The rise in Tax Receipts from Non- Sovereign Authorities by LE 102 billion (17 percent growth) to record LE 699.1 billion during the period of study, compared to LE 597.5 billion during the same period of last year.

This was supported by:

- **Receipts from Income Taxes rose by LE 32.7 billion** (12 percent growth) to reach LE 306 billion during the period of study.
  - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 8.8 billion (12.9 percent growth) to reach LE 76.8 billion during the period of study.
  - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 8 billion (21 percent growth) to reach LE 46.2 billion during the period of study.
  - ✓ **and tax receipts from Suez Canal rose** by LE 5.4 billion (18.6 percent growth) to reach LE 34.2 billion during the period of study.
  - ✓ **and tax receipts from Other Companies rose** by LE 17.4 billion (15.2 percent growth) to reach LE 131.6 billion during the period of study.
- **Receipts from Value Added Taxes rose by LE 59.9 billion** (18.2 percent growth) to reach LE 389.3 billion during the period of study.
  - ✓ **driven by the increase in receipts from value added tax on goods by LE 21.5 billion** (13.6 percent growth) to reach LE 179.4 billion during the period of study.
  - ✓ **and the increase in receipts from value added tax on services by LE 13.5 billion** (34.2 percent growth) to reach LE 53 billion during the period of study.
  - ✓ **receipts from excises on domestic commodities rose by LE 15 billion (**16.2 percent growth) to reach LE 107.6 billion during the period of study.
  - ✓ **and the increase in receipts from development fees by LE 1.5 billion** to reach LE 11.6 billion during the period of study.
  - ✓ **and the increase in receipts from stamp tax fees by LE 4 billion (23 percent growth)** to reach LE 21.3 billion during the period of study.
  - ✓ **and the increase in receipts from taxes on use of goods by LE 3.7 billion** to reach LE 13.8 billion during the period of study.
- **Receipts from property taxes rose by around LE 16 billion** (**24 percent growth)** to reach LE 83 billion during the period of study, compared to LE 67.1 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 LE15.2 billion** to reach around LE 69.8 billion during the period of study.
- **Moreover, Tax receipts from International Trade rose by LE 5.4 billion (16.6 percent growth**) to reach LE 37.8 billion during the period of study.

- **Non-Tax Revenues (20.8 percent of total revenues) has reached around LE 214 billion during the period of study of which;**

  - **Proceeds from Sales of Goods and Services** rose by LE 12.9 billion (23.5 percent growth) to record LE 67.7 billion during the period of study.
    - ✓ **mainly due to the increase in revenues from special accounts and funds by LE 10.4 billion to reach LE 54.9 billion during the period of study.**
  - **Property Income** rose by LE 7.2 billion (11.4 percent growth) to record LE 70.8 billion during the period of study.
    - ✓ mainly due to the increase in non-tax dividends receipts by LE 9.5 billion to reach LE 57 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 70.4 billion during the period of study.

On the Expenditure side, <u>Total expenditures have increased by 11.2 percent to reach LE 1470.9 billion during the period July-May FY21/22,</u> 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 33.6 billion (11.5 percent growth)** to reach LE 326.5 billion during the period of study.

Purchases of goods and services

- **Purchases of goods and services rose by LE 18.8 billion to reach LE 79.4 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 33.2 billion to reach LE 264.8 billion** during the period of study.
  - ✓ **Spending on treasury contributions in pension rose by LE 13.4 billion to reach LE 112.5 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 0.9 billion to reach LE 18.4 billion during the period of study.**
  - ✓ **Spending on GASC rose by LE 12.7 billion to reach LE 83 billion during the period of study.**

Purchases of non-financial assets

- **Purchases of non-financial assets rose by LE 5.3 billion (2.8% growth), to reach LE 196.2 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 70.1 billion (14.3 percent growth)** to reach LE 561.3 billion during the period of study, compared to LE 491.2 billion during the same period of last year.
- **Total Spending on Health rose by LE 18.5 billion (21.2 percent growth)** to reach LE 105.7 billion during the period of study, compared to LE 87.2 billion during the same period of last year.
- **Total Spending on Education rose by LE 26 billion (18.6 percent growth)** to reach LE 165.4 billion during the period of study, compared to LE 139.4 billion during the same period of last year.

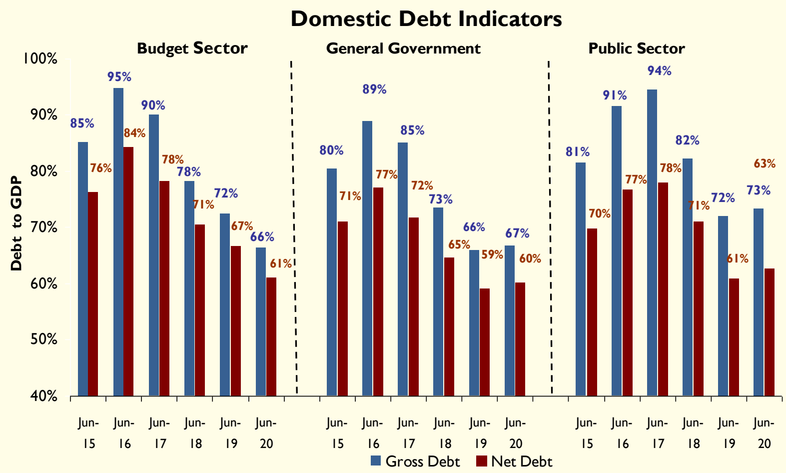
Fiscal Sector Performance during July-May 2021/2022

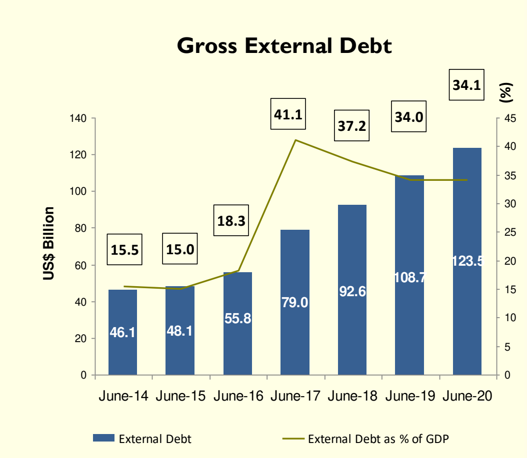
(LE billion)

	July-May	
	2022/21	**2021/20**
Revenues	**1,030,101**	**917,413**
Taxes	816,123	702,217
Grants	2,736	806
Other Revenues	211,242	214,390
Expenditure	**1,470,893**	**1,323,112**
Wages and Compensation of Employees	326,504	292,934
Purchase of Goods and Services	79,397	60,639
Interest Payments	508,506	463,956
Subsidies, Grants and Social Benefits	264,760	231,553
Other Expenditures	95,479	83,115
Purchases of Non-financial Assets (investments)	196,246	190,915
Cash Balance	**-440,792**	**-405,698**
Net Acquisition of Financial Assets	**-4,183**	**7,266**
Overall Budget Balance	**-436,609**	**-412,964**
Budget Primary Surplus/or Deficit (%of GDP)	**0.91%**	**0.74%**
Budget Overall Balance (%of GDP)	**-5.50%**	**-5.97%**

External & Domestic Debt

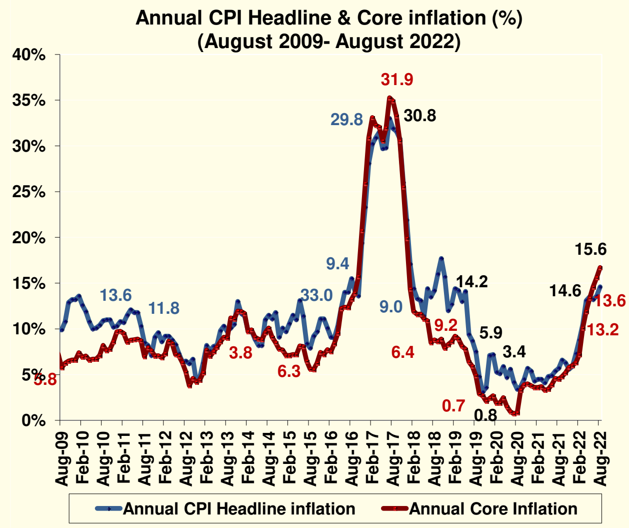
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase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

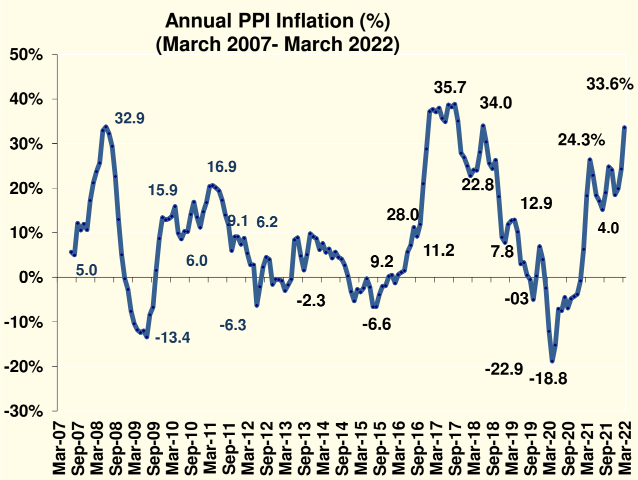




Inflation

Annual Urban Inflation increased to record 14.6 percent in August 2022, compared to 13.6 percent during last month. **<u>Meanwhile, average annual inflation rate reached</u>** <u>14.1 percent during July-August FY 22/23,</u> compared to 5.6 percent same period of last year. Annual Core Inflation recorded 16.7 percent in August 2022, compared to 15.6 percent during last month.





Monetary Sector

According to data released by the CBE; M2 (LE 6501 billion) rose at slower pace by 23.6 percent in May 2022, compared to 23.8 percent last month. This is mainly due to the increase in **Quasi Money** by 24.1 percent in May 2022, compared to 23.8 percent last month driven by the increase in **foreign currency demand deposits** by 63.4 percent in May 2022, compared to 45.6 percent last month **and local currency time and Savings deposits** increased at slower pace by 22.9 percent in May 2022, compared to 23.5 percent last month, **and foreign currency time and savings deposits** rose by 21 percent in May 2022, compared to 19.3 percent growth last month. Meanwhile, **Money (M1)** increased at slower pace by 22.1 percent in May 2022 driven by the increase by slower pace in currency in circulation by 13.7 percent, and the increase in **demand deposits in local currency** by 32.4 percent during the month of study.

- **Net Foreign Assets (NFA)** (LE -305 billion) decreased by -2.2 percent, compared to -1.9 percent last month, driven by the decline in central bank net reserves by -1.5 percent in May 2022, compared to -1.4 percent last month. Meanwhile, Bank net reserves declined by -8.4 percent during May 2022, compared to -3.8 percent last month. **Net international reserves has reached US$ 35.5 billion during May 2022, compared to US$ 37.1 billion during April 2022**.

- **Net domestic assets (NDA)** (LE 6806 billion) rose by 35.9 percent at end of May 2022 compared to 35.5 percent annual growth during last month, mainly due to the increase in **net claims on government, and GASC** by 24.8 percent, compared to 24.1 percent during last month, and the rise in **claims on private & household sector** by 24.6 percent during May 2022, compared to 24.7% annual growth during last month.

- **Total Deposits– excluding deposits at the CBE** – (LE 7210 billion) has increased by 28.1 percent at the end of May 2022, compared to 27.6 percent last month. **Out of total deposits, 80.1 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has stabilized at 48.7 percent at end of May 2021.

- **In the same context,** Monetary Policy Committee (MPC) decided on September 22nd 2022 **to keep** the Central Bank of Egypt's (CBE) **overnight deposit rate, overnight lending rate, and the rate of the main operation** at 11.25 percent, 12.25 percent, and 11.75 percent, respectively. The discount rate was also kept at 11.75 percent.

External Sector

- **The Balance of Payment recorded an overall deficit of US$ 7.3 billion during the period July-March 2021/2022. This** comes as **current account deficit almost stabilized at US$ 13.6 billion, while capital and financial account has recoded inflows of US$ 10.8 billion** during the period of study, compared to US$ 17 billion of inflows last year. This could be explained in light of the global imbalances **from the unprecedented inflationary waves currently sweeping the world as the sectors that had been deterred by the COVID-19 pandemic resumed their usual activity leading to widening global trade deficits, and Egypt was no exception. Furthermore,** the **ramifications of the Russia-Ukraine war affected large-scale portfolio outflows, as many countries tightened their monetary policies to contain inflation.**

Detailed Balance of payment performance:

- **The current account deficit recorded US$ 13.6 billion during the period of study, compared to US$ 13.3 billion during the same period of last year, mainly due to:**
  - **Non-Oil trade deficit rose by 22.5 percent to reach US$ 37.7 billion** (compared to US$ 30.7 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.
  - **Investment income deficit widened,** which presents the difference between receipts and payments on investments to and from external world to reach US$ 11.3 billion (compared to US$ 8.9 billion during last year).

Which was offset by,

- **Services surplus improved by US$ 4.8 billion to record US$ 7.9 billion during the period of study,** mainly due to:
  - **The increase in tourism receipts to record US$ 8.2 billion** (compared to US$ 3.1 billion during the same period of last year).
  - **The increase in transport receipts by 27.8 percent to record US$ 7 billion during period of study** (compared to US$ 5.5 billion during last year). **mainly driven by the increase in Suez Canal receipts by 16.9 percent to register US$ 5.1 billion during the period of study.**
  - **The increase in remittances by 1.1 percent to record US$ 33.6 billion**.
  - **Oil trade balance surplus rose to US$ 4.1 million.** This came as a main result of the rise in the value of natural gas exports to record US$ 5.6 billion, due to **opening new markets in Turkey and Europe, mainly in Italy, France, Spain, Croatia, and Greece.**

The Capital and Financial Accounts

- **The capital and financial** recorded inflows of US$ 10.8 billion during period of study, compared to of US$ 17 billion of inflows during the previous year, mainly driven by;
  - **Portfolio investment in Egypt** shifted from a net inflow of US$ 16.0 billion to a net outflow of US$ 17.2 billion.
  - **FDIs net inflows has reached US$ 7.3 billion during the year of study**, compared to **US$ 4.8 billion net inflows last year, of which FDIs in non-oil sector increased by US$ 3.9 billion to record net inflows of US$ 9 billion**, mainly due to the increase in investments or capital increases of existing companies to reach US$ 2.6 billion (of which US$ 208.2 million went to investments in new companies). 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$ 1.7 billion outflows during the period of study.
  - **Other liabilities have recoded inflows worth US$ 21.5 billion** during the period of study, mainly **due to change in the liabilities of the CBE posted net inflow of US$ 16.4 billion,** of which US$ 14.1 billion were recorded in January/March 2022, **mostly representing deposits from Arab countries.**