

# Executive Summary

## *Latest Economic Developments*

The Economic and Fiscal reform program implemented during past years has helped the Egyptian economy to be more resilient in the face of internal and external shocks, while creating a fiscal room that successfully allocated LE 135 billion in the form of social protection package to help support around 9 million of the most vulnerable beneficiaries during the global crisis; COVID 19, and the outbreak of the Russian-Ukrainian war.

In the same vein, the release of the “State Ownership-Private Sector Enabling Strategy” marks a continued structural reform that opens new horizons to attract foreign direct investments worth LE 10 billion dollars annually during the next four years. The strategy endeavors reforms to provide more enabling role to the private sector, and to localize domestic industry, rely on local production, and targets increased investments in green projects. This would contribute to achieving economic, and sustainable development, and improving the standard of living of citizens.

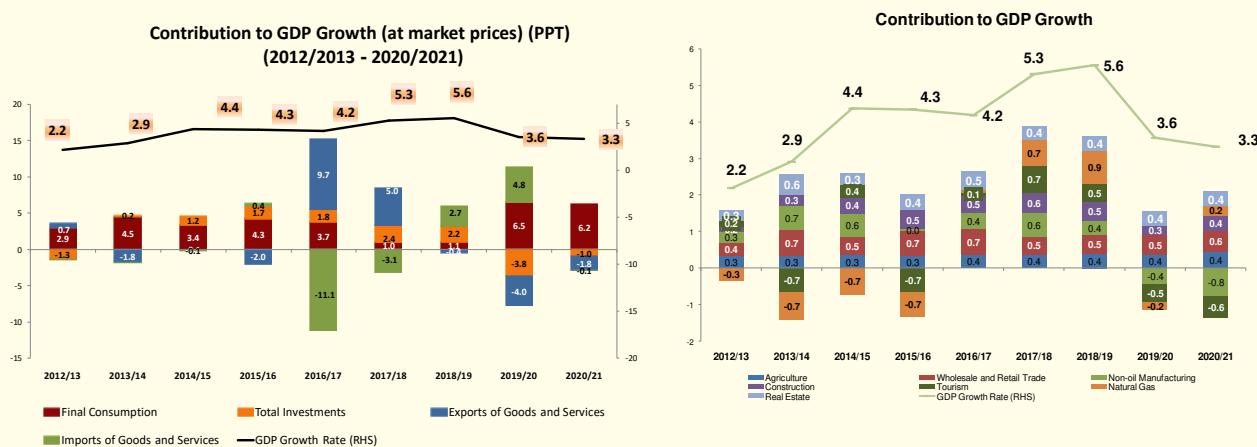
The adopted reforms implications were also reflected in achieving a noticeable improvement in many of the economic performance indicators, as follows:

- The state's budget achieved a primary surplus 1.3% of GDP during FY 21/22, and overall budget deficit declined to 6.1%, and debt decreased to 87.3%, and is targeted to reach 75% of GDP by 2026.
- Suez Canal achieved the highest return in ten years to reach US\$ 7 billion during FY21/22, an increase of 18.4% over the previous year.
- The tourism sector regained momentum. Its revenues more than doubled compared to the previous fiscal year, to record US\$10.8 billion during FY21/22
- Foreign direct investment to Egypt achieved the highest yield in ten years, reaching about US\$9 billion during FY21/22
- The total export proceeds increased by 53% to reach US\$44 billion compared to the previous year (the country aims exports to reach \$100 billion by 2025).
- Non-oil exports alone increased by 29% annually.
- Egypt's exports of natural gas reached 600 million dollars per month.
- GDP growth rate increased in 2021/22 to 6.6%, compared to 3.3% during previous year.

## 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\$ 33.19 billion at end of September 2022, compared to lowest level of US\$ 13.4 billion at end of March 2013.

- **Purchasing manager Index** reached 47.6 in September 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.

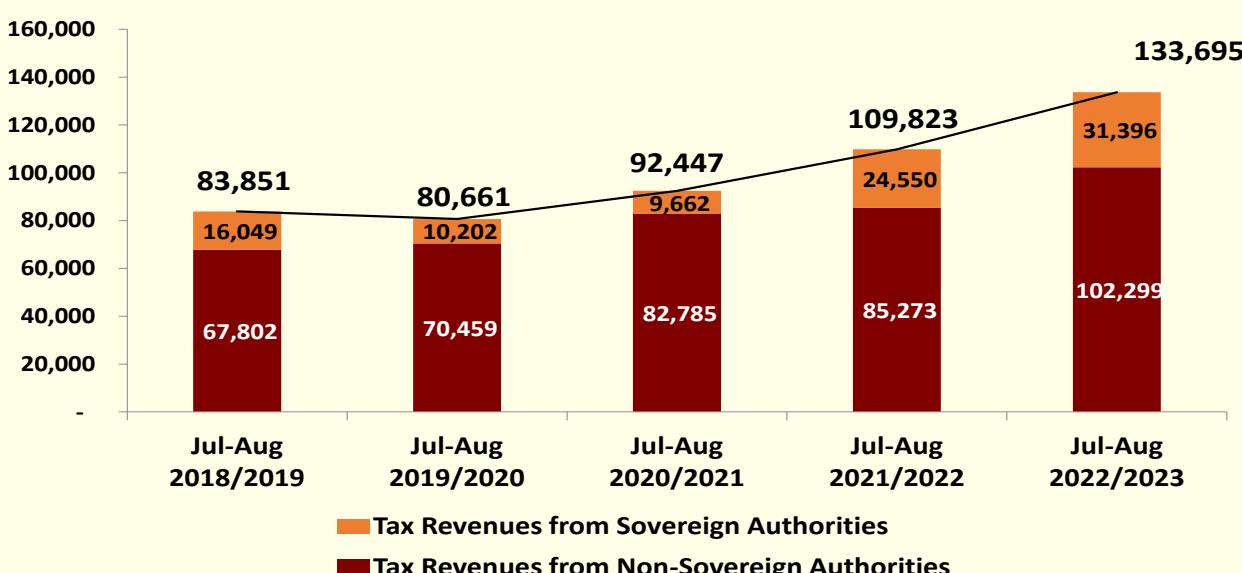
## Fiscal Sector

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 -1.6% during the period July-August FY22/23. While, primary balance has reached LE 5 billion (0.1% of GDP), up from -0.1% of GDP during the same period last year. This could be explained in light of the increase in revenues by 15.5%, and the increase in expenditures by 17.8% 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.

**Total Revenues increased by LE 21.7 billion (15.5 percent growth) to record around LE 161.6 billion during the period of study, compared to the same period of last year. Tax revenues constitute 82.7 percent of total revenues while non-tax revenues constitute 17.3 percent.**

### Tax Revenues from Sovereign & Non-Sovereign Authorities



- **Tax Receipts** constituted around LE 133.7 billion of total revenues, increasing by LE 23.9 billion (21.7 percent growth), mainly driven by

- The increase in Tax Receipts from Sovereign Authorities by LE 6.8 billion (27.9 percent growth) to record LE 31.4 billion during the period July-August 2022/2023, compared to LE 24.6 billion during the same period of last year.
- The rise in Tax Receipts from Non- Sovereign Authorities by LE 17 billion (20 percent growth) to record LE 102.3 billion during the period of study, compared to LE 85.3 billion during the same period of last year.

**This was supported by:**

- **Receipts from Income Taxes rose by LE 6.3 billion** (20.7 percent growth) to reach LE 36.8 billion during the period of study.
  - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 6 billion (114.1 percent growth) to reach LE 11.2 billion during the period of study.
  - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 0.7 billion (24.5 percent growth) to reach LE 3.6 billion during the period of study.
  - ✓ **and tax receipts from Suez Canal rose** by LE 0.2 billion (3.8 percent growth) to reach LE 5.5 billion during the period of study.
- **Receipts from Value Added Taxes rose by LE 9.7 billion** (18.6 percent growth) to reach LE 62 billion during the period of study.
  - ✓ **driven by the increase in receipts from value added tax on goods** by LE 2.7 billion (10 percent growth) to reach LE 29.7 billion during the period of study.
  - ✓ **and the increase in receipts from value added tax on services** by LE 1.9 billion (27.1 percent growth) to reach LE 9.1 billion during the period of study.
  - ✓ **receipts from excises on domestic commodities rose by LE 3.1 billion** (22.4 percent growth) to reach LE 17 billion during the period of study.
  - ✓ **and the increase in receipts from development fees** by LE 0.5 billion to reach LE 1.5 billion during the period of study.
  - ✓ **and the increase in receipts from stamp tax fees** by LE 0.5 billion (26.5 percent growth) to reach LE 2.3 billion during the period of study.
  - ✓ **and the increase in receipts from taxes on use of goods** by LE 0.5 billion to reach LE 1.8 billion during the period of study.
- **Receipts from property taxes rose by around LE 6.5 billion (31.4 percent growth)** to reach LE 27 billion during the period of study, compared to LE 20.5 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 6.4 billion to reach around LE 25.1 billion during the period of study.
- **Moreover, Tax receipts from International Trade rose by LE 1.4 billion (21.2 percent growth)** to reach LE 7.9 billion during the period of study.

▪ **Non-Tax Revenues (17.3 percent of total revenues) has reached around LE 27.9 billion during the period of study of which;**

- **Proceeds from Sales of Goods and Services** rose by LE 0.9 billion (12.8 percent growth) to record LE 8.1 billion during the period of study.
- **Property Income** rose by LE 3 billion (40.7 percent growth) to record LE 10.3 billion during the period of study.
  - ✓ mainly due to the increase in non-tax dividends receipts by LE 3 billion to reach LE 9.2 billion during the period of study, mainly due to the rise in dividends receipts from each of:
    - Economic Authorities dividends rose by LE 0.1 billion (8.9 percent growth), to reach LE 1.2 billion during the period of study.
    - Suez Canal dividends rose by LE 1.3 billion (27.4 percent growth), to reach LE 6 billion during the period of study.
    - Public Sector and Public Enterprise dividends rose by LE 0.1 billion (32.7 percent growth), to reach LE 0.5 billion during the period of study.
- **Grants** has reached LE 4.3 million during the period of study.
- **Miscellaneous Revenues** recorded LE 9.3 billion during the period of study.

On the Expenditure side, **Total expenditures have increased by 17.8 percent to reach LE 307.4 billion during the period July-August FY22/23, 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 7 billion (11.9 percent growth) to reach LE 66 billion during the period of study.

### Purchases of goods and services

- **Purchases of goods and services** rose by LE 4.5 billion to reach LE 12.3 billion during the period of study mainly in light of increased spending on each of:
  - **Maintenance** spending rose by LE 0.4 billion (34.1 percent growth), to reach LE 1.6 billion during the period of study.
  - **Food** spending rose by LE 1.7 billion (389 percent growth), to reach LE 2.1 billion during the period of study.
  - **Medicines** spending rose by LE 0.2 billion (12.3 percent growth), to reach LE 1.4 billion during the period of study.
  - **Water and lighting** spending rose by LE 0.2 billion (122 percent growth), to reach LE 0.4 billion during the period of study.
  - **Public transportations** spending rose to reach LE 0.6 billion during the period of study.

## Subsidies, grants & social benefits

- Subsidies, grants, and social benefits rose by LE 12.1 billion (32.1 percent growth) to reach LE 49.6 billion during the period of study.
- ✓ Spending on treasury contributions in pension rose by LE 12.8 billion to reach LE 31.8 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 0.5 billion to reach LE 3.9 billion during the period of study.

## Purchases of non-financial assets

- Purchases of non-financial recorded LE 11 billion during the period of study. Although treasury investments declined to reach LE 8.2 billion during the period of study. However, self-financing investments was on the rise notably by 238 percent growth, to reach LE 3 billion during the period of study.

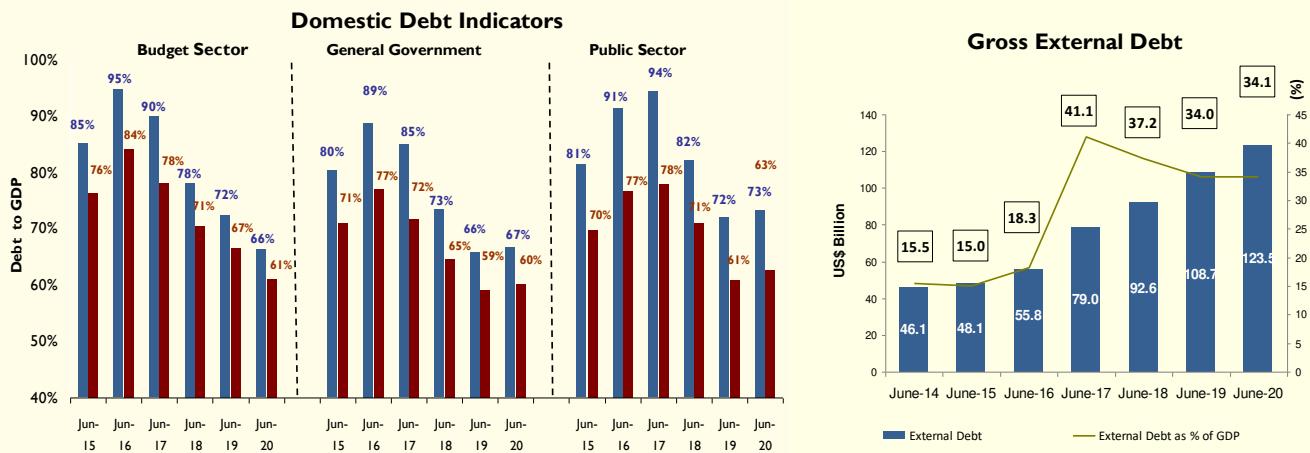
## Social Spending and Human Development

- Total Main Social Spending Items rose by LE 21.5 billion (23.4 percent growth) to reach LE 113.3 billion during the period of study, compared to LE 91.8 billion during the same period of last year.

<b>Fiscal Sector Performance during July-Aug 2022/2023</b>		
	(LE billion)	
	July-Aug	
	2023/22	2022/21
<b>Revenues</b>	<b>161,647</b>	<b>139,955</b>
Taxes	133,695	109,823
Grants	4	4
Other Revenues	27,948	30,127
<b>Expenditure</b>	<b>307,413</b>	<b>261,052</b>
Wages and Compensation of Employees	66,115	59,059
Purchase of Goods and Services	12,320	7,856
Interest Payments	149,921	114,054
Subsidies, Grants and Social Benefits	49,637	37,586
Other Expenditures	18,367	17,175
Purchases of Non-financial Assets (investments)	11,053	25,322
<b>Cash Balance</b>	<b>-145,766</b>	<b>-121,098</b>
<b>Net Acquisition of Financial Assets</b>	<b>-873</b>	<b>-569</b>
<b>Overall Budget Balance</b>	<b>-144,893</b>	<b>-120,528</b>
<b>Budget Primary Surplus/or Deficit (% of GDP)</b>	<b>0.1%</b>	<b>-0.1%</b>
<b>Budget Overall Balance (% of GDP)</b>	<b>-1.6%</b>	<b>-1.5%</b>

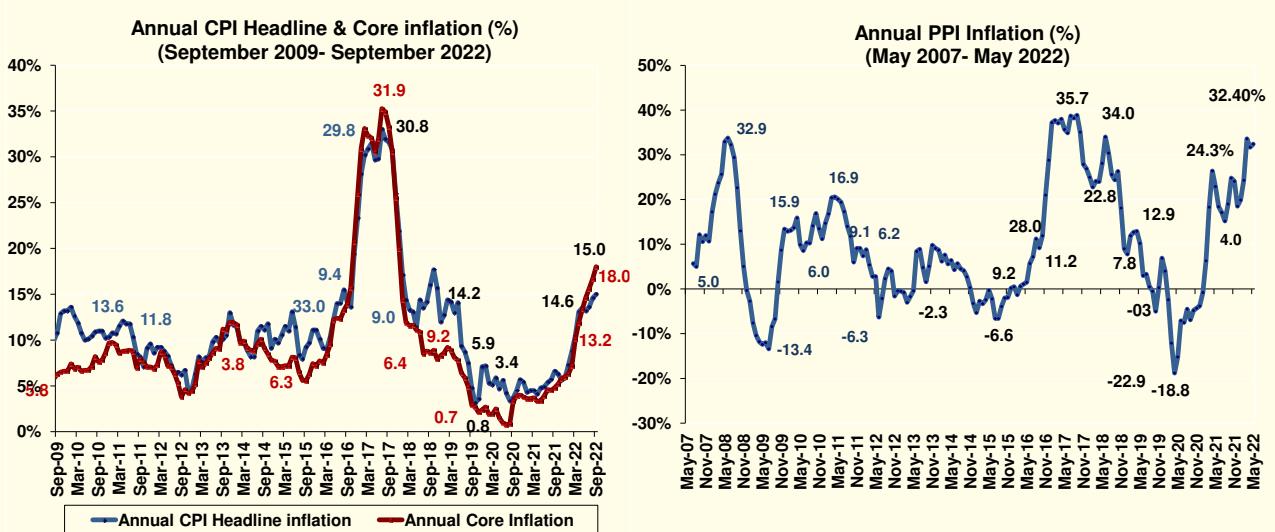
## External & Domestic Debt

**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 15.0 percent in September 2022, compared to 14.6 percent during last month. **Meanwhile, average annual inflation rate reached 14.4 percent during July-September FY 22/23**, compared to 5.9 percent same period of last year. Annual Core Inflation recorded 18.0 percent in September 2022, compared to 16.7 percent during last month.



## Monetary Sector

According to data released by the CBE; M2 (LE 6612 billion) rose at slower pace by 23.3 percent in June 2022, compared to 23.6 percent last month. This is mainly due to the slower pace of increase in Quasi Money by 23.5 percent in June 2022, compared to 24.1 percent last month

driven by the slower pace of increase in **foreign currency demand deposits** by 54.5 percent in June 2022, compared to 63.4 percent last month **and local currency time and Savings deposits** increased at slower pace by 22.3 percent in June 2022, compared to 22.9 percent last month, **and foreign currency time and savings deposits** rose by 23 percent in June 2022, compared to 21 percent growth last month. Meanwhile, **Money (M1)** increased by 22.7 percent in June 2022 driven by the increase in currency in circulation by 15.6 percent, and the increase in **demand deposits in local currency** by 30.9 percent during the month of study.

- **Net Foreign Assets (NFA)** (LE -370 billion) decreased mainly driven by the decline in central bank net reserves to reach LE-154 billion in June 2022, and the decline in Bank net reserves to reach LE -217 billion during June 2022. **Net international reserves has reached US\$ 33.4 billion during June 2022, compared to US\$ 35.5 billion during May 2022.**
- **Net domestic assets (NDA)** (LE 6982 billion) rose by 36.5 percent at end of June 2022 compared to 35.9 percent annual growth during last month, mainly due to the increase in **net claims on government, and GASC** by 26.5 percent, compared to 24.8 percent during last month, and the rise in **claims on private sector& household** by 23.6 percent during June 2022, compared to 24.6% annual growth during last month.
- **Total Deposits– excluding deposits at the CBE –** (LE 7372 billion) has increased by 28.2 percent at the end of June 2022, compared to 28.1 percent last month. **Out of total deposits, 79.7 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has stabilized at 48.4 percent at end of June 2021.
- **In the same context,** Monetary Policy Committee (MPC) decided on September 22<sup>nd</sup> 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\$ -10.5 billion during the FY2021/2022. The current account deficit narrowed to reach US\$ -16.6 billion (compared to larger deficit of US\$ -18.4 billion in the preceding fiscal year. The improvement in the current account deficit was mainly attributed to the unprecedented increase in merchandise exports (oil and non- oil) rising by 53.1 percent, together with the significant recovery of the tourism revenues which more than doubled compared to the previous fiscal year. Moreover, a marked increase was seen in Suez Canal receipts. On the other hand, capital and financial account has recorded inflows of US\$ 11.8 billion during the period of study, compared to larger inflows during last year reaching US\$ 23.3 billion. This could be explained in light of the global imbalances from spiking inflation, driving the federal reserve to tighten its monetary policy to contain inflationary pressures, and which has affected large-scale portfolio outflows, and Egypt was no exception.

### Detailed Balance of payment performance:

- **The current account deficit narrowed to US\$ -16.5 billion during the period of study, compared to US\$ -18.4 billion during the same period of last year, mainly due to:**
  - **Non-Oil trade deficit** rose by 13.7 percent to reach US\$ 47.8 billion (compared to US\$ 42.1 billion during last year). Mainly due to the increase in imports of

production inputs, such as propylene polymers, cast iron 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, transmitter and receiver devices, 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\$ 15.8 billion (compared to US\$ 12.4 billion during last year).

**Which was offset by,**

- **Services surplus improved by US\$ 6 billion to record US\$ 11.2 billion during the period of study**, mainly due to:
  - **The increase in tourism receipts to record US\$ 10.7 billion** (compared to US\$ 4.8 billion during the same period of last year).
  - **The increase in transport receipts by 29.3 percent to record US\$ 9.7 billion during period of study** (compared to US\$ 7.5 billion during last year). **mainly driven by the increase in Suez Canal receipts by 18.4 percent to register US\$ 7 billion during the period of study.**
  - **The increase in remittances by 1.6 percent to record US\$ 31.9 billion.**
- **Oil trade balance surplus rose to US\$ 4.4 million. (Against a slight deficit of US\$ 6.7 million in the previous year)**. This came as a main result of the rise in the value of oil exports to record US\$ 9.4 billion, **in light of the increase in the value of natural gas exports on the back of the noticeable hike of global prices and the rise of their exported quantities, along with the opening of new markets in Turkey, Italy, France, Spain, Croatia, and Greece.**

**The Capital and Financial Accounts**

- **The capital and financial** recorded inflows of US\$ 11.8 billion in FY21\22, compared to larger inflows of US\$ 23.4 billion during the previous year, mainly driven by:
  - **Portfolio investment in Egypt** shifted from a net inflow of US\$ 18.7 billion in FY20/21 to a net outflow of US\$ 20.9 billion during FY21/22, and which reflects **investors' concerns over the Russian-Ukraine conflict, as well as the contractionary monetary policies adopted by the Federal Reserve leading to outflows of hot money from emerging markets.**
  - **FDIs net inflows has reached US\$ 8.9 billion during the year of study, compared to US\$ 5.2 billion net inflows last year**, of which FDIs in non-oil sector increased by US\$ 5.2 billion to record net inflows of US\$ 11.6 billion, mainly due to the increase in green field investments or capital increases of existing companies to reach US\$ 3.4 billion (of which US\$ 238.2 million went to investments in new greenfield investments). Moreover, sale proceeds of companies and productive assets and net

inflows to 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\$ 2.6 billion outflows during the period of study.

- **Other liabilities have recorded inflows worth US\$ 21.6 billion** during the FY 21\22, mainly **due to change in the liabilities of the CBE posted net inflow of US\$ 15.7 billion**, of which US\$ 14.1 billion were recorded in Jan-March 2022, **mostly representing deposits from Arab countries. Meanwhile, change in the liabilities of the Banks posted net inflow of US\$ 5.9 billion, compared to US\$ 1.5 billion during the previous year.**
- **Other assets have recorded inflows worth US\$ 4.2 billion** during the period of study.