Executive Summary

Latest Economic Developments

The Ministry of Finance key role is to achieve balance between setting policies to reduce the overall budget deficit and debt into a declining path, while securing social assistance to help alleviate inflationary pressures among most vulnerable groups. In this regard, and in light of the current international imbalances -arising from Russian-Ukraine- that has led to inflation spirals in many countries, with Egypt no exception. MOF has recently decided new social protection package to help support vulnerable groups at a cost of LE 67 billion.

New social protection package worth LE 67 billion

- Raising minimum wages to LE 3000, instead of LE 2700
- LE 300 monthly allowances were disbursed to public employees, and pensioners.
- Extending ration cards GASC subsidies to new layers LE 100/200/300
- Government decision to refrain from increasing electricity bills until 30 June 2023.

On economic front, the Economic Conference was launched during the month of November in order to set visions, seek solutions and alternatives on the needed institutional and regulatory reforms to help localize domestic industries, provide more enabling role for the private sector, and to raise Egypt export to reach LE 100 billion per year. In this regards, more than 40 roundtables of dialogue sessions and specialized workshops were held among the "State's Ownership Strategy" in the presence of 1,000 participants of key market players including; businessmen, civil society, and government officials, and has reached a consensus on the needed priorities for the different economic sector to help shape the government economic vision during the coming period.

Egypt also succeeded during the month of November to host the COP27 Conference on Climate Change in Sharm El-Sheikh, in which nearly 120 heads of state and government participated, and more than 60,000 participants have attended. On the sidelines of the conference, the government has launched the commence of the first green hydrogen project to be implemented in the economic zone of the Suez Canal, also "NOFI" platform was launched that would work to attract climate projects worth US$14 billion into Egypt, and MOUs was agreed between Egypt and the international institutions to attract investments in the renewable energy sector worth US$83 billion.

On the fiscal front, the Sharm El-Sheikh conference included an important workshop entitled "Finance Day", key speakers were finance ministers, heads of regional and international financing institutions and directors of number of international banks, and which discussed mechanisms to enhance finance in the area of "green economic recovery". Fiscal policy efforts to reduce CO_2 emissions via green financing would positively impact human beings through improving the health conditions of citizens, while preserving supply chains in the agricultural sector, industrial sector, and would ensure food security for citizens.

"Finance Day" Outputs at COP 27

• The announce of "Framework for Sustainable Sovereign Financing in Egypt", and which sets clear vision of Egypt's environmental, and social priorities during the coming period.

• The declared framework would help achieve most of the United Nations Sustainable Development Goals (SDGs).

• The declared framework received a quality rating of "Very Good Sustainability" from "Moody's" and "Outstanding" from "Citibank" and "Standard Chartered" Bank.

• The declared framework is compatibility with international standards set by the International Capital Market Association (ICMA) for green bonds, and the Association of Green Loan Market LMA.

• An agreement has been reached with the Asian Investment Bank (AIIB) to host in Egypt by next September the next meetings of the Bank's Board of Governors for climate control, which is an important step to attract foreign investments and financing opportunities to Egypt.

Recent Macroeconomic Indicators

Real Sector

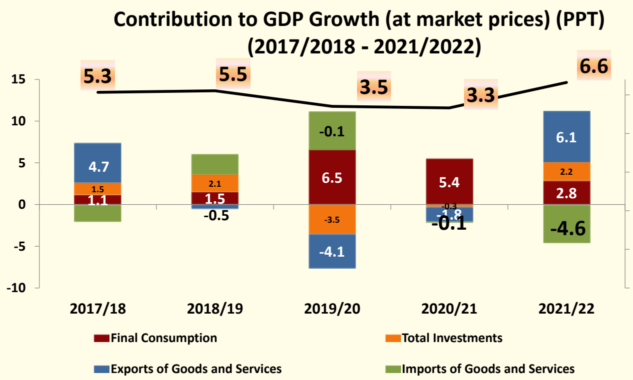
The Egyptian economy has proven resilience despite external shocks from Covid-19, and the war in Europe that contributed to disruption in supply chains and lead to dramatic increases in global commodity prices, of which strategic oil and food prices.

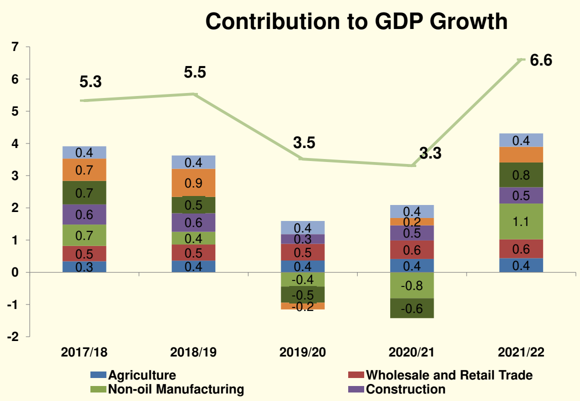
The government and the Ministry of Finance have developed a coherent and integrated framework to support citizens and business community, and has focused on providing swift cash transfers, and ensured the supply of strategic commodities to meet people needs, and the adequacy of sufficient reserves. In this regard, social assistance package worth "LE 130 billion pounds" was allocated from the state reserves buffers, and which provided aid disbursements to around 9.1 million families of the most vulnerable groups for a period of 6 months, while adopting exceptional wage bonuses to public employees and pensionaries. On the business side, assistances included tax exemption, tax deferral, postponed to property taxes, custom incentives, green incentives, dispute settlements, and providing export subsidies worth LE 35 billion in the past two year.

In this context, real GDP growth rate has reached 6.6% during the FY 21/22, according to the Ministry of Planning and Economic Development- which helped unemployment rate to decline approaching pre-pandemic level at 7.2% during the fourth quarter of 21/22, compared to 9.6% in 19/20. The rise in economic growth achieved in FY21/22 was driven by the spurt of economic growth achieved in the first nine months of 2011/22 by 7.8% In light of the recovery of economic activity in most sectors after the transition to the post-Covid-19 phase, while the negative impact of the war in Europe was mainly limited to economic growth indicators during the second quarter of FY21/22, especially with the implementation of economic tightening measures to counter inflationary pressures, as well as with the slowdown in economic activity in China and Russia.

The achievement witnessed in FY21/22 was basically led by the restaurants and hotels sector with a growth rate of 45.7%, followed by the communications sector with a growth rate of 16.5%, then the Suez Canal by about 11.7%, and the manufacturing industries by 9.6%. The sectors: construction, health, and education also witnessed remarkable growth rates during the last fiscal year.

The sectors that contributed the most to the GDP during the fiscal year 21/22 were; Manufacturing, trade, agriculture, real estate activities, and extractives, which contributed about 60% of the total GDP. The Suez Canal's revenues also achieved the highest monthly revenue of about $7 billion in ten years, in light of the growing trade movement in the canal and marketing policies to attract new shipping Ines.





- **On the Demand Side, exports grew by 57.3 percent** in FY21/22, compared to -13.8 percent last year (contributing to growth by 6.1 PPT during FY21/22), **investment grew by 16 percent** in FY21/22 compared to -1.9 percent last year (contributing to growth by 2.2 PPT during FY21/22), **and public consumption grew** by 4.9 percent in the year of study, compared to 3.4 percent of last year (contributing to growth by 0.5 PPT), **while total consumption has contributed to growth by** 2.8 PPT during the year of study.

- **On the Supply Side,** the key sectors that led economic growth were; **First, Total Manufacturing Industry recording growth rate of 9.6 percent during FY21/22 (contributing positively to growth by 1.4 PPT),** mainly driven by the growth in petroleum refinement by 8.7 percent (contributing by 0.3 PPT), construction and building by 7 percent (contributing by 0.5 PPT). **Second, Total Production Services recording growth rate of 8.4 percent during FY21/22 (contributing positively to growth by 2.5 PPT),** mainly driven by the growth in tourism (hotels and restaurants) by 45.7 percent (contributing by 0.8 PPT), telecommunications by 16.5 percent (contributing by 0.5 PPT), Suez Canal by 11.7 percent (contributing by 0.3 PPT), wholesale and retail trade by 4.4 percent (contributing by 0.6 PPT). **Third, Total Commodity Sector recording growth rate of 5.9 percent during FY21/22 (contributing positively to growth by 2.6 PPT),** mainly driven by the growth in agriculture, forestry and fishing by 4 percent (contributing by 0.4 PPT). **Fourth, Total Extractive Sectors recording growth rate of 2.0 percent during FY21/22 (contributing positively to growth by 0.2 PPT),** mainly driven by the growth in natural gas by 4.5 percent (contributing by 0.2 PPT). **Fifth, Total Social Services recording growth rate of 4 percent during FY21/22 (contributing positively to growth by 1 PPT)**, mainly driven by the growth in health by 5.1 percent (contributing by 0.1 PPT), education by 5 percent (contributing by 0.1 PPT), general government by 4.4 percent (contributing by 0.4 PPT) during the FY21/22.

- **Net International Reserves (NIR)** has reached US$ 33.5 billion at end of November 2022, compared to lowest level of US$ 13.4 billion at end of March 2013.

- **Purchasing manager Index** reached 45.4 in November 2022, compared to 37.1 in December 2012.

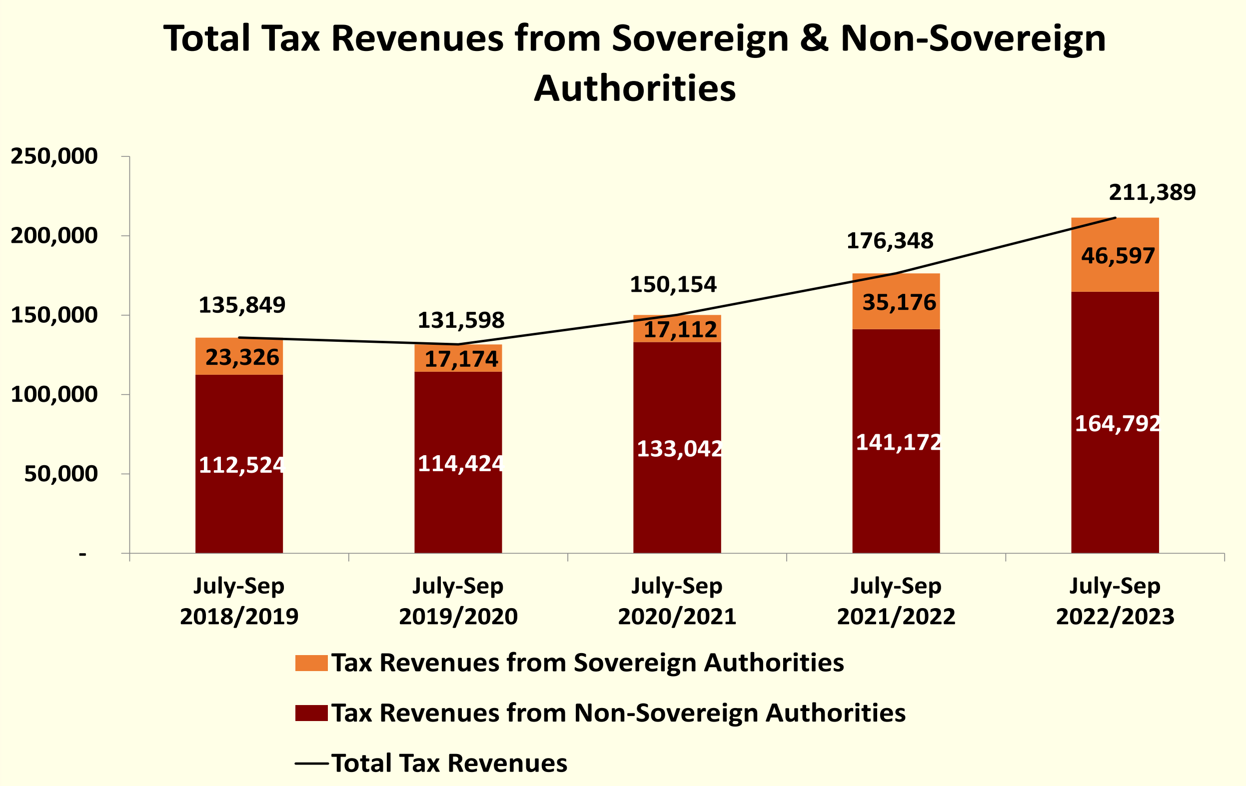
- **Tourism receipts** reached US**$12.5 billion** during FY18/19 compared to $9.8 billion during FY17/18.

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 -2.27% during the period July-September FY22/23. While, primary balance has reached LE 10.2 billion (0.1% of GDP), up from -0.09% of GDP during the same period last year. This could be explained in light of the increase in revenues by 15.6%, and the increase in expenditures by 19.2% 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.

Total Revenues increased by LE 35 billion (15.6 percent growth) to record around LE 258.9 billion during the period of study, compared to the same period of last year. Tax revenues constitute 81.7 percent of total revenues while non-tax revenues constitute 18.3 percent.



- **Tax Receipts** constituted around LE 211.4 billion of total revenues, increasing by LE 35 billion (19.9 percent growth), mainly driven by

  - The increase in Tax Receipts from Sovereign Authorities by LE 11.4 billion (32.5 percent growth) to record LE 46.6 billion during the period July-September 2022/2023, compared to LE 35.2 billion during the same period of last year.
  - The rise in Tax Receipts from Non- Sovereign Authorities by LE 23.6 billion (16.7 percent growth) to record LE 164.8 billion during the period of study, compared to LE 141.2 billion during the same period of last year.

This was supported by:

- **Receipts from Income Taxes rose by LE 9.8 billion** (18.9 percent growth) to reach LE 61.9 billion during the period of study.
  - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 3.4 billion (25.2 percent growth) to reach LE 16.9 billion during the period of study.
  - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 1.6 billion (25.8 percent growth) to reach LE 7.7 billion during the period of study.
  - ✓ **and tax receipts from Suez Canal rose** by LE 0.9 billion (11.1 percent growth) to reach LE 8.5 billion during the period of study.
  - ✓ **and tax receipts from Other Companies rose** by LE 3.8 billion (16 percent growth) to reach LE 27.3 billion during the period of study.
- **Receipts from Value Added Taxes rose by LE 14.6 billion** (17 percent growth) to reach LE 100.3 billion during the period of study.
  - ✓ **driven by the increase in receipts from value added tax on goods by LE 5.7 billion** (13.1 percent growth) to reach LE 48.7 billion during the period of study.
  - ✓ **and the increase in receipts from value added tax on services by LE 5.9 billion** (57.4 percent growth) to reach LE 16.1 billion during the period of study.
  - ✓ **receipts from excises on domestic commodities rose by LE 0.6 billion (**2.3 percent growth) to reach LE 25 billion during the period of study.
  - ✓ **and the increase in receipts from development fees by LE 0.4 billion** to reach LE 2.7 billion during the period of study.
  - ✓ **and the increase in receipts from stamp tax fees by LE 0.7 billion (27.1 percent growth)** to reach LE 3.2 billion during the period of study.
  - ✓ **and the increase in receipts from taxes on use of goods by LE 0.9 billion (31.1 percent growth)** to reach LE 3.7 billion during the period of study.
- **Receipts from property taxes rose by around LE 9.9 billion** (**33.8 percent growth)** to reach LE 39.5 billion during the period of study, compared to LE 29.5 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 9.8 billion** to reach around LE 36.3 billion during the period of study.
- **Moreover, Tax receipts from International Trade rose by LE 0.7 billion (7.7 percent growth**) to reach LE 9.7 billion during the period of study.

- **Non-Tax Revenues (18.3 percent of total revenues) has reached around LE 47.5 billion during the period of study of which;**

  - **Proceeds from Sales of Goods and Services** rose by LE 3.2 billion (25.7 percent growth) to record LE 15.8 billion during the period of study.
  - **Property Income** rose by LE 5.3 billion (49.1 percent growth) to record LE 16 billion during the period of study.
    - ✓ mainly due to the increase in non-tax dividends receipts by LE 4.9 billion to reach LE 14 billion during the period of study, mainly due to the rise in dividends receipts from each of:
      - Economic Authorities dividends rose by LE 0.9 billion (62.5 percent growth), to reach LE 2.4 billion during the period of study.
      - Suez Canal dividends rose by LE 2.3 billion (32.8 percent growth), to reach LE 9.1 billion during the period of study.
      - Public Sector and Public Enterprise dividends rose by LE 0.2 billion (28.3 percent growth), to reach LE 0.9 billion during the period of study.
  - **Grants** has reached LE 17.3 million during the period of study.
  - **Miscellaneous Revenues** recorded LE 15.2 billion during the period of study.

On the Expenditure side, Total expenditures have increased by 19.2 percent to reach LE 466.4 billion during the period July-September 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 (7.7 percent growth)** to reach LE 97 billion during the period of study.

Purchases of goods and services

- **Purchases of goods and services rose by LE 5.4 billion to reach LE 20.8 billion during the period of study mainly in light of increased spending on each of:**
  - **Maintenance** spending rose by LE 0.5 billion (25.7 percent growth), to reach LE 2.5 billion during the period of study.
  - **Food** spending rose by LE 1.9 billion (233.6 percent growth), to reach LE 2.7 billion during the period of study.
  - **Water and lighting** spending rose by LE 0.3 billion (64.7 percent growth), to reach LE 0.8 billion during the period of study.

Subsidies, grants & social benefits

- **Subsidies, grants, and social benefits recorded LE 63 billion** during the period of study.
  - ✓ **Spending on treasury contributions in pensions** recorded 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)** recoded LE 4 billion during the period of study.

- ✓ **Spending allocated to GASC** rose by LE 3.5 billion (26.2 percent growth) to reach LE 16.8 billion during the period of study, compared to LE 13.4 billion during the same period of last year.

Purchases of non-financial assets

- **Purchases of non-financial assets rose by LE 1.4 billion (3.8 percent growth)** to reach LE 39.2 billion during the period of study.
  - **Spending on fixed assets increased by (5.4 percent growth)** to record LE 36.5 billion during the period of study **in light of increased spending on dwellings, non-residential building, and construction.**
  - **Spending on Non-produced assets increased** by LE 0.6 billion during the period of study **in light of increased spending on purchase of lands to record LE 1.5 billion during the period of study.**

Social Spending and Human Development

- **Total Main Social Spending Items rose by LE 7.8 billion (5.4 percent growth)** to reach LE 154.5 billion during the period of study, compared to LE 146.6 billion during the same period of last year.

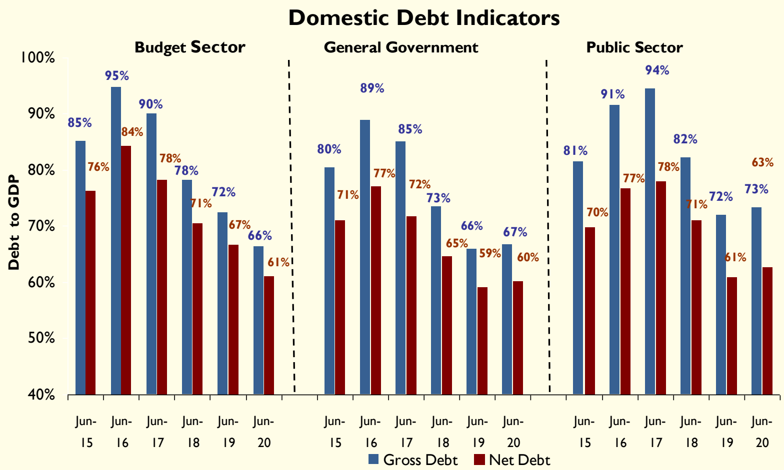
Fiscal Sector Performance during July-Sep 2022/2023

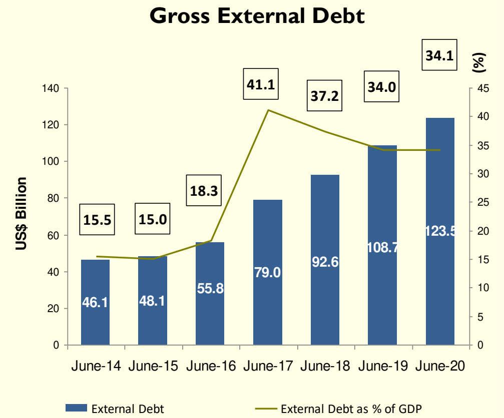
(LE billion)

	July-Sep	
	2023/22	2022/21
Revenues	**258,850**	**223,904**
Taxes	211,389	176,348
Grants	17.3	16.9
Other Revenues	47,444	47,539
Expenditure	**466,419**	**391,332**
Wages and Compensation of Employees	97,133	90,149
Purchase of Goods and Services	20,771	15,375
Interest Payments	216,940	160,773
Subsidies, Grants and Social Benefits	63,024	62,007
Other Expenditures	29,368	25,282
Purchases of Non-financial Assets (investments)	39,183	37,746
Cash Balance	**-207,569**	**-167,428**
Net Acquisition of Financial Assets	**-793**	**575**
Overall Budget Balance	**-206,775**	**-168,003**
Budget Primary Surplus/or Deficit (%of GDP)	**0.11%**	**-0.09%**
Budget Overall Balance (%of GDP)	**-2.27%**	**-2.12%**

External & Domestic Debt

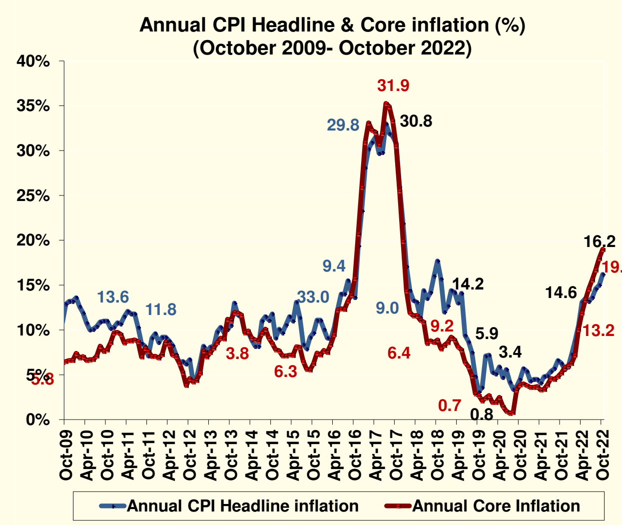
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase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

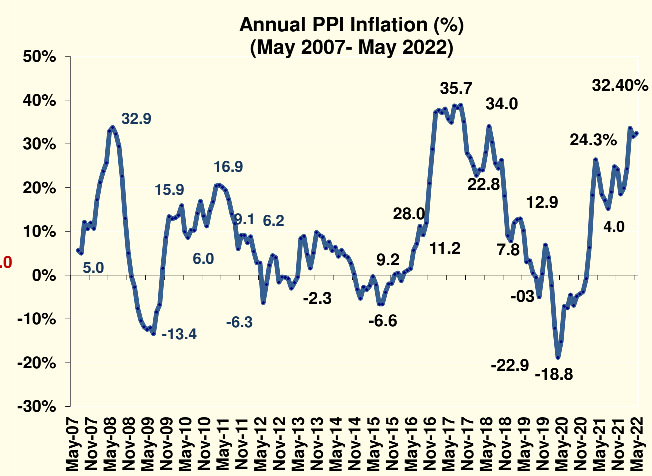




Inflation

Annual Urban Inflation increased to record 16.2 percent in October 2022, compared to 15.0 percent during last month**.** **<u>Meanwhile, average annual inflation rate reached</u>** <u>14.9 percent during July-October FY 22/23,</u> compared to 6.0 percent same period of last year. Annual Core Inflation recorded 19.0 percent in October 2022, compared to 18.0 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 October 27th 2022 **to raise** the Central Bank of Egypt's (CBE) **overnight deposit rate, overnight lending rate, and the rate of the main operation by 200 basis points** at 13.25 percent, 14.25 percent, and 13.75 percent, respectively. The discount rate at 13.75 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 recoded 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 tight 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 recoded 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 recoded inflows worth US$ 4.2 billion during the period of study.**