Executive Summary

Latest Economic Developments

The Egyptian Authorities and the Ministry of Finance adopted tremendous efforts during the month of December to enhance investment environment. Among which is; the submission of the state ownership policy following the inclusion of experts' opinions and feedbacks during the social dialogue. The state ownership policy is an important step towards achieving economic prosperity and improving business climate, and which seeks to enhance the private sector role in the economy, improve the management of state-owned assets, and attract local and foreign investors.

The Ministry of Finance has also issued the "Simplified Guide of Taxes and Customs Incentives" and which explains the rules and procedures for investors to benefit from tax and customs incentives; In a way to create awareness about potential investment opportunities, expand export base, and build trust with investors and business community.

The guide is uploaded at MOF official website through the following link:
https://assets.mof.gov.eg/files/2022-11/49213fc0-6415-11ed-ad30-c5fd4641fdc3.pdf

In a related context, the Board of Directors of the "International Monetary Fund" supported the economic reform program of the Egyptian government, which aims to enhance macroeconomic stability particularly in the face of external shocks, and helps in bringing down overall budget deficit and debt into a sustainable path over the medium term. This would be achieved via inclusive reform program that protects the most vulnerable groups, while strengthening the efficiency and coverage of social safety net. The economic reform program also helps to raise the competitiveness of the Egyptian economy driven by a greater role for the private sector that supports economic development and job creation.

Among other investment achievements, the launch of electronic website for the "golden license". The license facilitates and speeds up the procedures for investors, allowing them to quickly obtain land and start activity, as it is considered as a "one stop mechanism" that grants all necessary approvals to establish new projects via single authority, thereby enhancing efficient and swift investment opportunities that contributes to economic advancement.

Recent Macroeconomic Indicators

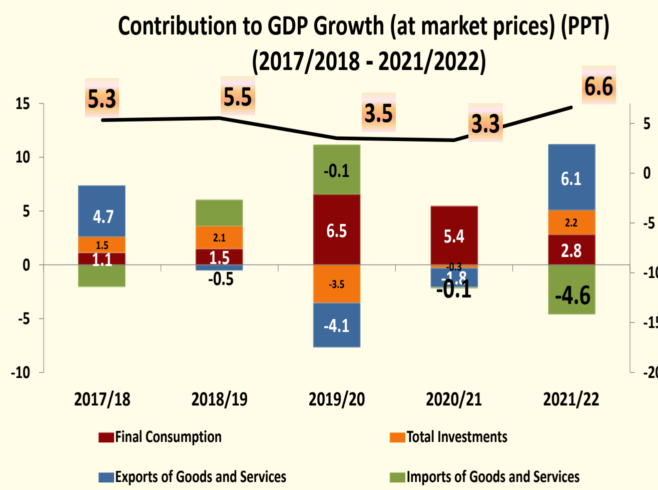
Real Sector

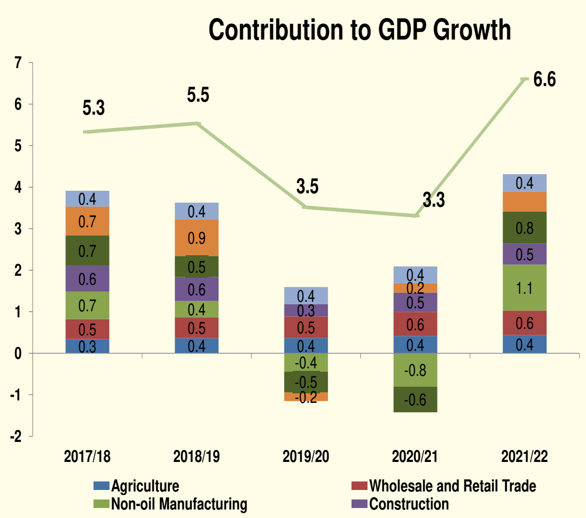
The Egyptian economy has proven resilience despite external shocks from Covid-19, and the war in Europe that contributed to disruption in supply chains and lead to dramatic increases in global commodity prices, of which strategic oil and food prices.

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$ 34 billion at end of December 2022, compared to lowest level of US$ 13.4 billion at end of March 2013.

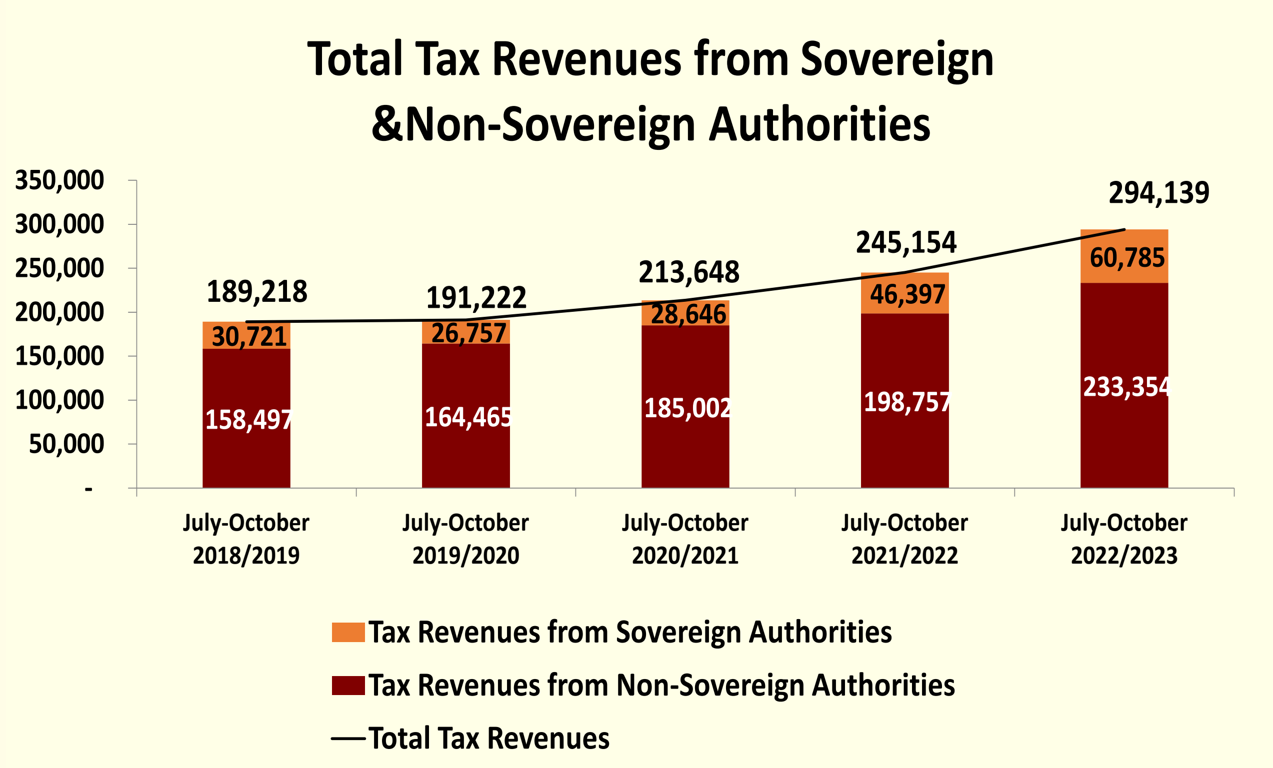
- **Purchasing manager Index** reached 47.2 in December 2022, compared to 37.1 in December 2012.

Fiscal Sector

Over the past five years, the Egyptian government has undertaken notable reform measures aimed at enhancing the Egyptian economy, while raising the efficiency of public finance via reprioritizing public spending and revenues mobilization, while ensuring diversity of sources of financing. In addition to supporting social welfare programs, including enhancing human development, such as; health and education, and raising the efficiency of infrastructure.

Total overall fiscal balance as percentage of GDP recorded -2.93% during the period July-October FY22/23. While, primary balance has reached LE 15.6 billion (0.17% of GDP), up from -0.05% of GDP during the same period last year. This could be explained in light of the increase in revenues by 15.9%, and the increase in expenditures by 18.5% 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, wages, and to fulfil payments on social welfare programs.

Total Revenues increased by LE 49.6 billion (15.9 percent growth) to record around LE 360.9 billion during the period of study, compared to the same period of last year. Tax revenues constitute 81.5 percent of total revenues while non-tax revenues constitute 18.5 percent.



- **Tax Receipts** constituted around LE 294.1 billion of total revenues, increasing by LE 49 billion (20 percent growth), mainly driven by

  - The increase in Tax Receipts from Sovereign Authorities by LE 14.3 billion (31 percent growth) to record LE 60.8 billion during the period July-October 2022/2023, compared to LE 46.4 billion during the same period of last year.
  - The rise in Tax Receipts from Non- Sovereign Authorities by LE 34.6 billion (17.4 percent growth) to record LE 233.4 billion during the period of study, compared to LE 198.8 billion during the same period of last year.

This was supported by:

- **Receipts from Income Taxes rose by LE 14.3 billion** (19.5 percent growth) to reach LE 87.6 billion during the period of study.
  - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 6.7 billion (36.4 percent growth) to reach LE 25.3 billion during the period of study.
  - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 1.6 billion (17.8 percent growth) to reach LE 10.5 billion during the period of study.
  - ✓ **and tax receipts from Suez Canal rose** by LE 2.4 billion (23.2 percent growth) to reach LE 12.5 billion during the period of study.
  - ✓ **and tax receipts from Other Companies rose** by LE 3.4 billion (10.1 percent growth) to reach LE 37.4 billion during the period of study.

- **Receipts from Value Added Taxes rose by LE 20.9 billion** (17.3 percent growth) to reach LE 141.6 billion during the period of study.
  - ✓ **driven by the increase in receipts from value added tax on goods by LE 9.7 billion** (16.4 percent growth) to reach LE 68.5 billion during the period of study.
  - ✓ **and the increase in receipts from value added tax on services by LE 4.8 billion** (31.9 percent growth) to reach LE 20 billion during the period of study.
  - ✓ **receipts from excises on domestic commodities rose by LE 1.9 billion (**5.7 percent growth) to reach LE 35.3 billion during the period of study.
  - ✓ **and the increase in receipts from development fees by LE 0.4 billion** to reach LE 3.9 billion during the period of study.
  - ✓ **and the increase in receipts from stamp tax fees by LE 1.5 billion (27 percent growth)** to reach LE 7.1 billion during the period of study.
  - ✓ **and the increase in receipts from taxes on use of goods by LE 2 billion (51.1 percent growth)** to reach LE 5.8 billion during the period of study.
- **Receipts from property taxes rose by around LE 10.6 billion** (**27 percent growth)** to reach LE 50 billion during the period of study, compared to LE 39.3 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 10.5 billion** to reach around LE 45.5 billion during the period of study.
- **Moreover, Tax receipts from International Trade rose by LE 3.3 billion (27.4 percent growth**) to reach LE 15 billion during the period of study.

▪ Non-Tax Revenues (18.5 percent of total revenues) has reached around LE 66.8 billion during the period of study of which;

- **Proceeds from Sales of Goods and Services** rose by LE 4.5 billion (22.8 percent growth) to record LE 24.2 billion during the period of study.
- **Property Income** rose by LE 6 billion (38 percent growth) to record LE 22 billion during the period of study.
  - ✓ mainly due to the increase in non-tax dividends receipts by LE 5.2 billion (37.7 percent growth) to reach LE 18.8 billion during the period of study, mainly due to the rise in dividends receipts from each of:
    - Suez Canal dividends rose by LE 3.7 billion (38.3 percent growth), to reach LE 13.3 billion during the period of study.
    - Public Sector and Public Enterprise dividends rose by LE 0.3 billion (33.6 percent growth), to reach LE 1 billion during the period of study.
- **Grants** has reached LE 87.9 million during the period of study.
- **Miscellaneous Revenues** recorded LE 19.8 billion during the period of study.

On the Expenditure side, Total expenditures have increased by 18.5 percent to reach LE 628.8 billion during the period July-October 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 8.5 billion (7.1 percent growth)** to reach LE 129.2 billion during the period of study.

Purchases of goods and services

- **Purchases of goods and services rose by LE 4.5 billion (18 percent growth) to reach LE 29.2 billion during the period of study mainly in light of increased spending on each of:**
  - **Maintenance** spending rose by LE 0.7 billion (24.1 percent growth), to reach LE 3.6 billion during the period of study.
  - **Subscription and fees** spending rose by LE 1.6 billion to reach LE 1.6 billion during the period of study.
  - **Copy expenditures, periodicals and writing rights** rose by LE 1.6 billion to reach LE 3 billion during the period of study.

Subsidies, grants & social benefits

- **Subsidies, grants, and social benefits rose by LE 10.4 billion (13.1 percent growth) to record LE 89.5 billion** during the period of study.
  - ✓ **Spending on treasury contributions in pensions rose by LE 2.7 billion (5.9 percent growth) to** record LE 47.7 billion during the period of study in light of the settlements between the treasury and pension fund**.**
  - ✓ **Spending allocated to GASC** rose by LE 4.9 billion (28.7 percent growth) to reach LE 22.1 billion during the period of study, compared to LE 17.2 billion during the same period of last year.
  - ✓ **Spending on Housing for Low Income groups rose by LE 0.8 billion to** record LE 1.2 billion during the period of study.
  - ✓ **Spending for treatment of Egyptian Citizens abroad rose by LE 1.6 billion to** record LE 3.8 billion during the period of study.

Purchases of non-financial assets

- **Purchases of non-financial assets rose by LE 2.3 billion (4 percent growth)** to reach LE 59.5 billion during the period of study.
  - **Spending on fixed assets increased by (3.6 percent growth)** to record LE 54.6 billion during the period of study **in light of increased spending on dwellings, and construction.**
  - **Spending on Non-produced assets increased** by LE 2 billion to reach LE 3.2 billion during the period of study **in light of increased spending on purchase of lands to record LE 3.2 billion during the period of study.**

Social Spending and Human Development

- **Total Spending on Health rose by LE 2.8 billion (7.8 percent growth)** to reach LE 37.4 billion during the period of study, compared to LE 34.7 billion during the same period of last year.
- **Total Spending on Education rose by LE 6.3 billion (10.3 percent growth)** to reach LE 67.2 billion during the period of study, compared to LE 60.9 billion during the same period of last year.

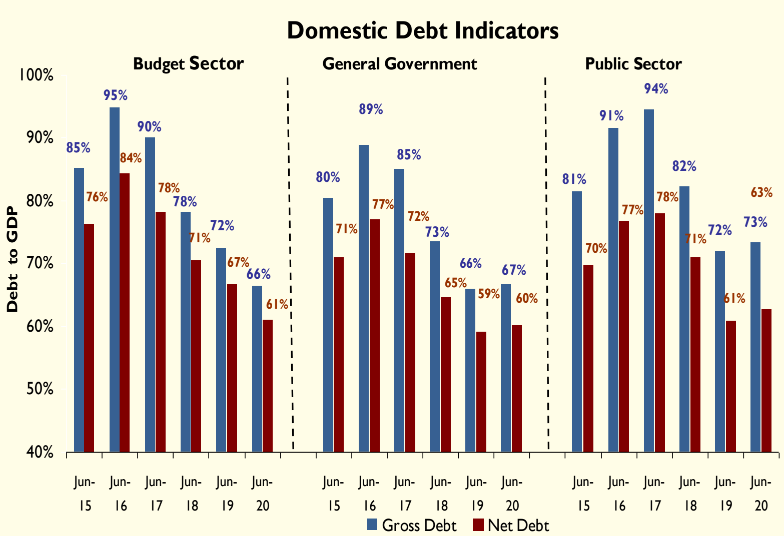
Fiscal Sector Performance during July-Oct 2022/2023

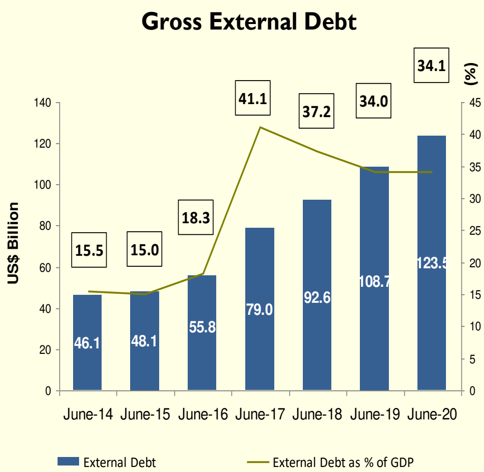
(LE billion)

	July-Oct	
	2023/22	**2022/21**
Revenues	**360,899**	**311,291**
Taxes	294,139	245,154
Grants	87.9	27.6
Other Revenues	66,672	66,110
Expenditure	**628,831**	**530,656**
Wages and Compensation of Employees	129,229	120,702
Purchase of Goods and Services	29,221	24,757
Interest Payments	282,143	215,801
Subsidies, Grants and Social Benefits	89,479	79,098
Other Expenditures	39,274	33,109
Purchases of Non-financial Assets (investments)	59,485	57,189
Cash Balance	**-267,932**	**-219,365**
Net Acquisition of Financial Assets	**-1,438**	**448**
Overall Budget Balance	**-266,494**	**-219,812**
Budget Primary Surplus/or Deficit (%of GDP)	**0.17%**	**-0.05%**
Budget Overall Balance (%of GDP)	**-2.93%**	**-2.77%**

External & Domestic Debt

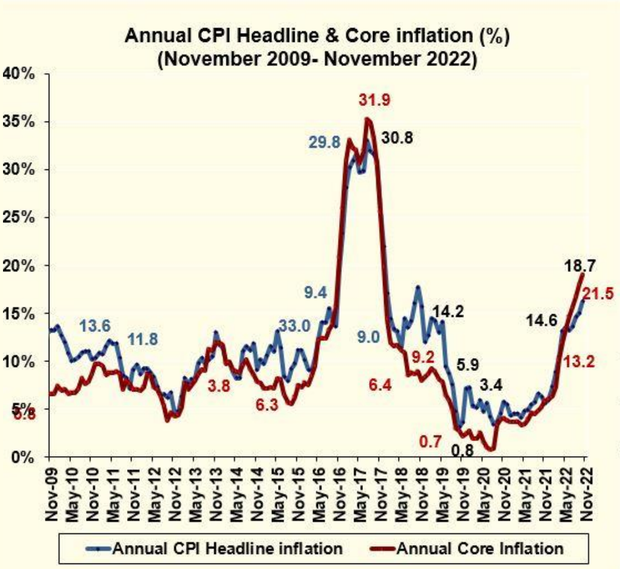
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase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

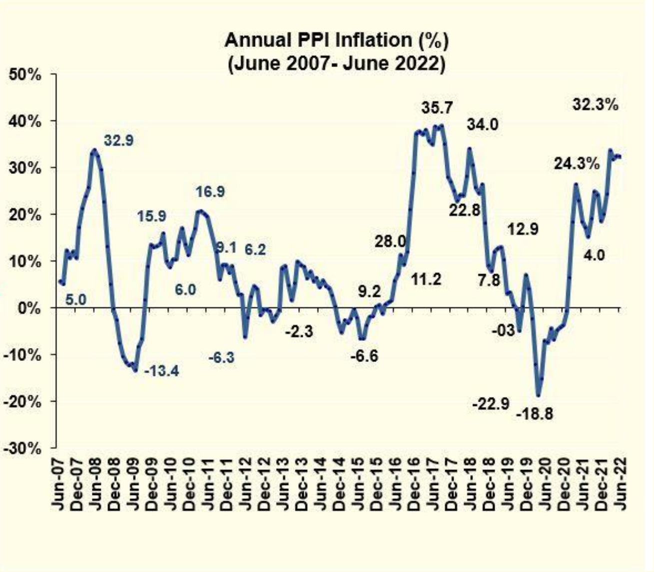




Inflation

Annual Urban Inflation increased to record 18.7 percent in November 2022, compared to 16.2 percent during last month**. Meanwhile, average annual inflation rate reached** 15.6 percent during July-November FY 22/23, compared to 5.9 percent same period of last year. Annual Core Inflation recorded 21.5 percent in November 2022, compared to 19.0 percent during last month.





Monetary Sector

According to data released by the CBE; M2 (LE 6950 billion) rose by 24.7 percent in September 2022, compared to 24 percent last month. This is mainly due to the increase in **Quasi Money** by 24 percent in September 2022, compared to 24.2 percent last month driven by the increase in **foreign currency demand deposits** by 65.3 percent in September 2022, compared to 64.3 percent last month, **foreign currency time and savings deposits** rose by 32.2 percent in September 2022, compared to 28.9 percent last month, **and local currency time and Savings deposits** increased at slower pace by 21.2 percent in September 2022, compared to 21.9 percent last month. Meanwhile, **Money (M1)** increased by 26.7 percent in September 2022, compared to 23.3 percent last month, driven by the increase in **demand deposits in local currency** by 39.5 percent, compared to 32.1 percent last month, **and currency in circulation outside CBE** rose at slower pace by 15 percent, compared to 15.4 percent during last month.

- **Net Foreign Assets (NFA)** (LE -443 billion) decreased mainly driven by the decline in central bank net reserves to reach LE-168 billion in September 2022, and the decline in Bank net reserves to reach LE -275 billion during June 2022. **Central Bank Foreign Assts reached LE 633.5 billion in September. Net international reserve recorded US$ 33.2 billion in September 2022, an increase from US$ 33.1 billion during August 2022**.
- **Net domestic assets (NDA)** (LE 7393 billion) rose by 37.2 percent at end of September 2022 compared to 35 percent during last month, mainly due to the increase in **net claims on government, and GASC** by 29.7 percent to reach LE 4647 billion, compared to 29 percent growth during last month, and the rise in **claims on private sector& household** by 25.8 percent during September 2022 to reach LE 2276 billion, compared to 25% annual growth during last month.

- **Total Deposits** (LE 7835 billion) has increased by 28.9 percent at the end of September 2022, compared to 28 percent last month. **Out of total deposits, 79.1 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has reached 47.2 percent at end of September 2021.

- **In the same context,** Monetary Policy Committee (MPC) decided on December 22nd 2022 **to raise** the Central Bank of Egypt's (CBE) **overnight deposit rate, overnight lending rate, and the rate of the main operation by 300 basis points** at 16.25 percent, 17.25 percent, and 16.75 percent, respectively. The discount rate at 16.75 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.**