

# Executive Summary

## *Latest Economic Developments*

The Egyptian government and the Ministry of Finance are undertaking remarkable steps to support domestic industries, particularly (Manufacturing, and Agricultural), to help meet domestic consumption, and enhance import substitution that helps alleviate pressures on the foreign currency, while enhancing the competitiveness of Egypt's exports to reach future targets of US \$100 billion annual exports.

### **Among the recent measures to support productive industries**

- 32 companies covering 18 economic sectors were nominated in the government IPO Program until the first quarter of next fiscal year.
- The initiative to support (industrial and agricultural) sectors worth LE 150 billion pounds with a rate of return 11% has been expanded to reach new sectors; renewable energy, and free zone factories, with the public treasury bearing EGP 10 billion in interest rate differences.
- LE 48 billion were disbursed to exporters among the “Export Subsidies Program” that benefited around 2500 companies.
- 19 industrial sectors benefited from LE 5 billion real estate tax deferral for Three years, and the base of beneficiaries was expanded to include poultry industries.
- LE 6 billion were allocated annually from the treasury to subsidized electricity for the industrial sector.
- A draft law is in the pipeline to exempt mobile phone manufactures from custom taxes and development fees on imported components used to manufacture mobile phones domestically.
- Incentives are being provided to Egyptian farmer to expand cultivation of strategic crops such as oils, fodder, corn and soybeans, to reach self-sufficiency, and alleviate pressures on the foreign currency.

### **Egypt's foreign receipts increased notably during the FY 21/22**

- Suez Canal achieved the highest revenue historically to reach US\$ 7 billion during the year 21/22, with a growth rate of 18.4% compared to the previous year.
- Remittances of workers abroad rose to US\$ 32 billion during the FY 21/22.
- Revenues from the tourism sector increased significantly by 12% to reach US\$ 10.7 billion in FY 21/22
- Foreign direct investment increased notably by 71% to reach US\$ 9 billion in FY21/22.

Recent Macroeconomic Indicators

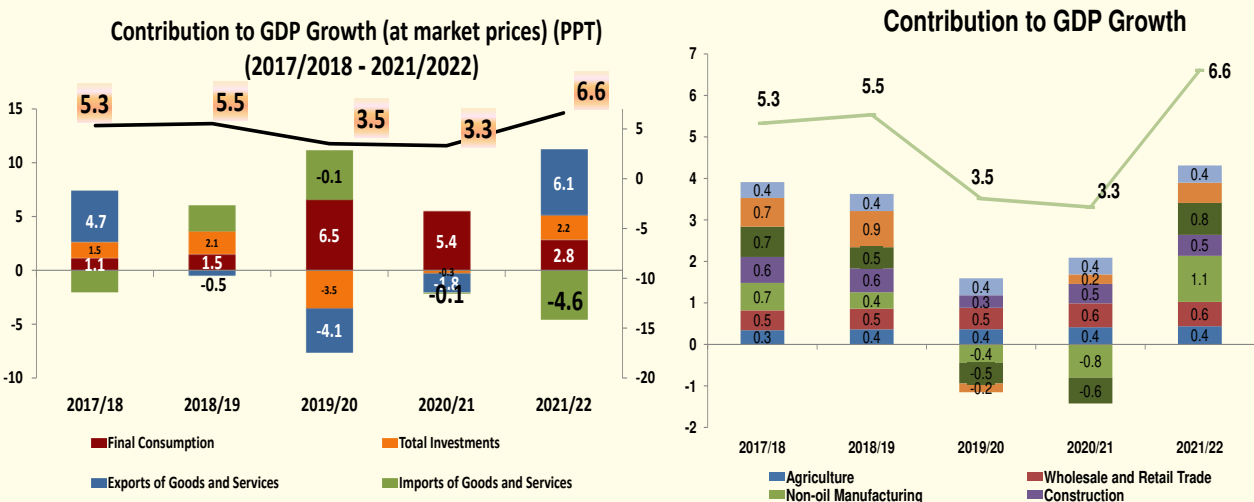
Real Sector

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\$ 34.2 billion at end of January 2022, compared to lowest level of US\$ 13.4 billion at end of March 2013.

▪ **Purchasing manager Index** reached 45.5 in January 2023, compared to 37.1 in December 2012.

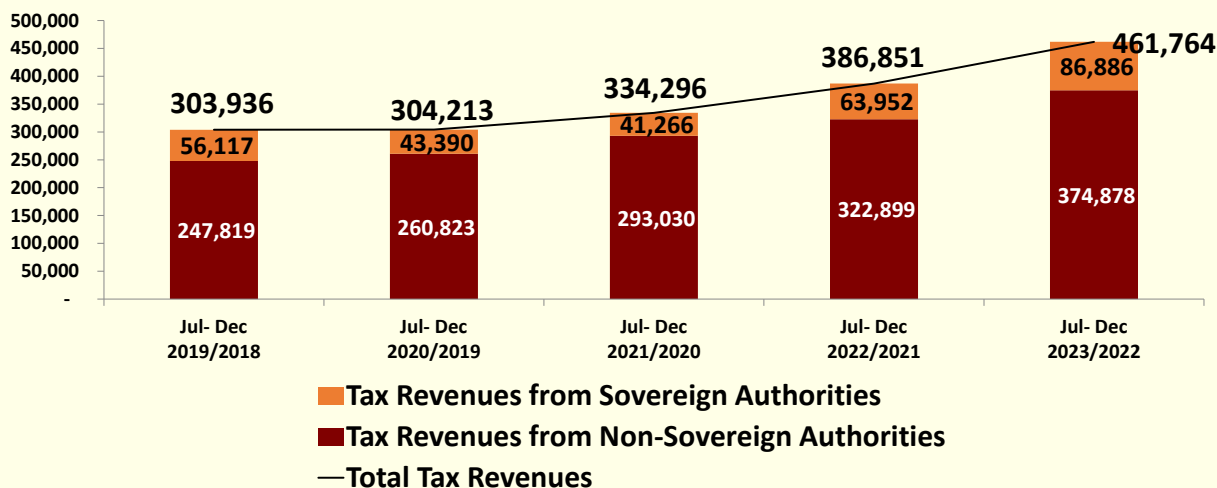
## ***Fiscal Sector***

Over the past five years, the Egyptian government has taken 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, and enhancing human development, such as; health and education, and raising the efficiency of infrastructure.

Total overall fiscal balance as percentage of GDP recorded -4% during the period July-December FY22/23. While, primary balance has reached LE 25.5 billion (0.27% of GDP), up from 0.04% of GDP during the same period last year. This could be explained in light of the increase in revenues by 14.6%, and the increase in expenditures by 19.7% during the period of study, compared to the same period of last year. 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 73 billion (14.6 percent growth) to record around LE 572.6 billion during the period of study, compared to the same period of last year. Tax revenues constitute 80.6 percent of total revenues while non-tax revenues constitute 19.4 percent.**

## Total Revenues from Sovereign & Non-Sovereign Authorities



- **Tax Receipts** constituted around LE 461.8 billion of total revenues, increasing by LE 75 billion (19.4 percent growth), mainly driven by
  - **The rise in Tax Receipts from Sovereign Authorities** by LE 23 billion (35.9 percent growth) to record LE 86.9 billion during the period July-December 2022/2023, compared to LE 63.9 billion during the same period of last year.
  - **The rise in Tax Receipts from Non- Sovereign Authorities** by LE 51.9 billion (16.1 percent growth) to record LE 374.9 billion during the period of study, compared to LE 322.9 billion during the same period of last year.

### This was supported by:

- **Receipts from Income Taxes rose by LE 24.3 billion** (20.3 percent growth) to reach LE 144.2 billion during the period of study.
  - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 6.7 billion (19.6 percent growth) to reach LE 41.1 billion during the period of study.
  - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 2.6 billion (17.7 percent growth) to reach LE 17.5 billion during the period of study.
  - ✓ **and tax receipts from Suez Canal rose** by LE 9.6 billion (66.5 percent growth) to reach LE 24 billion during the period of study.
  - ✓ **and tax receipts from Other Companies rose** by LE 8.7 billion (17.7 percent growth) to reach LE 57.8 billion during the period of study.
- **Receipts from Value Added Taxes rose by LE 32.3 billion** (16.5 percent growth) to reach LE 228 billion during the period of study.
  - ✓ **driven by the increase in receipts from value added tax on goods** by LE 17.4 billion (18.8 percent growth) to reach LE 109.8 billion during the period of study.
  - ✓ **and the increase in receipts from value added tax on services** by LE 3.7 billion (14.7 percent growth) to reach LE 28.8 billion during the period of study.

- ✓ **receipts from excises on domestic commodities rose by LE 5.5 billion (9.9 percent growth) to reach LE 61.2 billion during the period of study.**
- ✓ **and the increase in receipts from development fees by LE 0.8 billion (13.5 percent growth) to reach LE 6.4 billion during the period of study.**
- ✓ **and the increase in receipts from stamp tax fees by LE 1.6 billion (17.8 percent growth) to reach LE 10.7 billion during the period of study.**
- ✓ **and the increase in receipts from taxes on use of goods by LE 2.7 billion (38.8 percent growth) to reach LE 9.7 billion during the period of study.**
- ✓ **and the increase in receipts from taxes on specific services by LE 0.6 billion to reach LE 1.4 billion during the period of study.**
- **Receipts from property taxes rose by around LE 15.3 billion (30.2 percent growth) to reach LE 65.9 billion during the period of study, compared to LE 50.6 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 15.4 billion to reach around LE 58.7 billion during the period of study.**
- **Moreover, Tax receipts from International Trade rose by LE 3 billion (14.7 percent growth) to reach LE 23.6 billion during the period of study.**
- **Non-Tax Revenues (19.4 percent of total revenues) reached around LE 110.8 billion during the period of study of which;**
  - **Proceeds from Sales of Goods and Services** rose by LE 8.9 billion (26.8 percent growth) to record LE 42.4 billion during the period of study.
  - **Property Income** reached LE 33 billion during the period of study.
    - Suez Canal dividends rose by LE 2.7 billion (18.5 percent growth), to reach LE 17.3 billion during the period of study.
    - Economic authorities' dividends rose by LE 1.8 billion (40.8 percent growth), to reach LE 6 billion during the period of study.
  - **Grants** has reached LE 2 billion during the period of study.
  - **Miscellaneous Revenues** recorded LE 32 billion during the period of study.

**On the Expenditure side, Total expenditures have increased by 19.7 percent to reach LE 940.8 billion during the period July-December 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 17.2 billion (9.8 percent growth) to reach LE 194 billion during the period of study.**

### **Purchases of goods and services**

- **Purchases of goods and services rose by LE 12.4 billion (31.3 percent growth) to reach LE 52.4 billion during the period of study mainly in light of increased spending on each of:**
  - **Maintenance** spending rose by LE 1.5 billion (34.5 percent growth), to reach LE 5.9 billion during the period of study.

- **Subscription and fees** spending rose by LE 2.8 billion to reach LE 2.8 billion during the period of study.
- **Copy expenditures, periodicals and writing rights** rose by LE 2.5 billion to reach LE 4.8 billion during the period of study.
- **Food expenditures** rose by LE 3.9 billion to reach LE 6.2 billion during the period of study.

### **Subsidies, grants & social benefits**

- **Subsidies, grants, and social benefits rose by LE 2.6 billion (1.9 percent growth) to record LE 138.2 billion** during the period of study.
  - ✓ **Spending on treasury contributions in pensions recorded** LE 73.5 billion during the period of study in light of the settlements between the treasury and pension fund.
  - ✓ **Spending allocated to GASC** rose by LE 4.7 billion (17.5 percent growth) to reach LE 31.6 billion during the period of study, compared to LE 26.9 billion during the same period of last year.
  - ✓ **Spending on Housing for Low Income groups rose by LE 1 billion** to record LE 1.9 billion during the period of study.
  - ✓ **Spending for direct cash transfers (Takaful& Karama) rose by LE 1.2 billion** to record LE 10.7 billion during the period of study.

### **Purchases of non-financial assets**

- **Purchases of non-financial assets rose by LE 11.5 billion (12.4 percent growth) to reach LE 104.5 billion** during the period of study.
  - **Spending on fixed assets increased by LE 9.2 billion (10.9 percent growth) to record LE 93.2 billion** during the period of study in light of increased spending on dwellings, and construction.
  - **Spending on Non-produced assets increased** by LE 1.7 billion to reach LE 5.4 billion during the period of study in light of increased spending on purchase of lands to record LE 1.7 billion during the period of study.

### **Social Spending and Human Development**

- **Total Spending on Health** rose by LE 3.7 billion (6.6 percent growth) to reach LE 59.7 billion during the period of study, compared to LE 56 billion during the same period of last year.
- **Total Spending on Education** rose by LE 12.7 billion (14.1 percent growth) to reach LE 102.8 billion during the period of study, compared to LE 90.1 billion during the same period of last year.



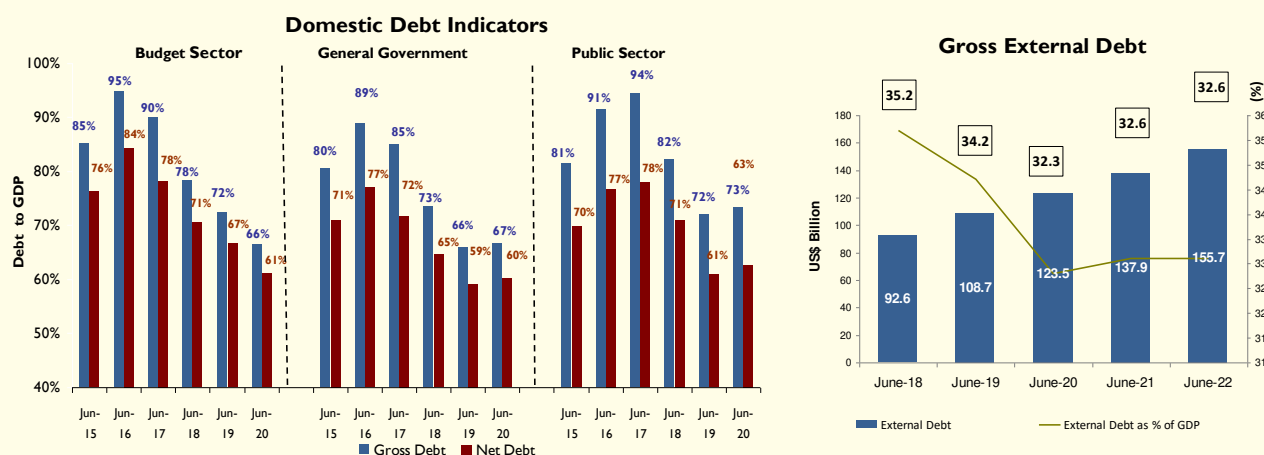
## Fiscal Sector Performance during July-Dec 2022/2023

(LE billion)

	July-Dec	
	2023/22	2022/21
<b>Revenues</b>	<b>572,553</b>	<b>499,639</b>
Taxes	461,764	386,851
Grants	2,130.5	58.0
Other Revenues	108,659	112,730
<b>Expenditure</b>	<b>940,808</b>	<b>785,783</b>
Wages and Compensation of Employees	193,974	176,735
Purchase of Goods and Services	52,442	39,951
Interest Payments	392,847	288,361
Subsidies, Grants and Social Benefits	138,223	135,607
Other Expenditures	58,867	52,164
Purchases of Non-financial Assets (investments)	104,455	92,965
<b>Cash Balance</b>	<b>-368,255</b>	<b>-286,144</b>
<b>Net Acquisition of Financial Assets</b>	<b>-865</b>	<b>-1,015</b>
<b>Overall Budget Balance</b>	<b>-367,391</b>	<b>-285,130</b>
<b>Budget Primary Surplus/or Deficit (%of GDP)</b>	<b>0.27%</b>	<b>0.04%</b>
<b>Budget Overall Balance (%of GDP)</b>	<b>-4.0%</b>	<b>-3.6%</b>

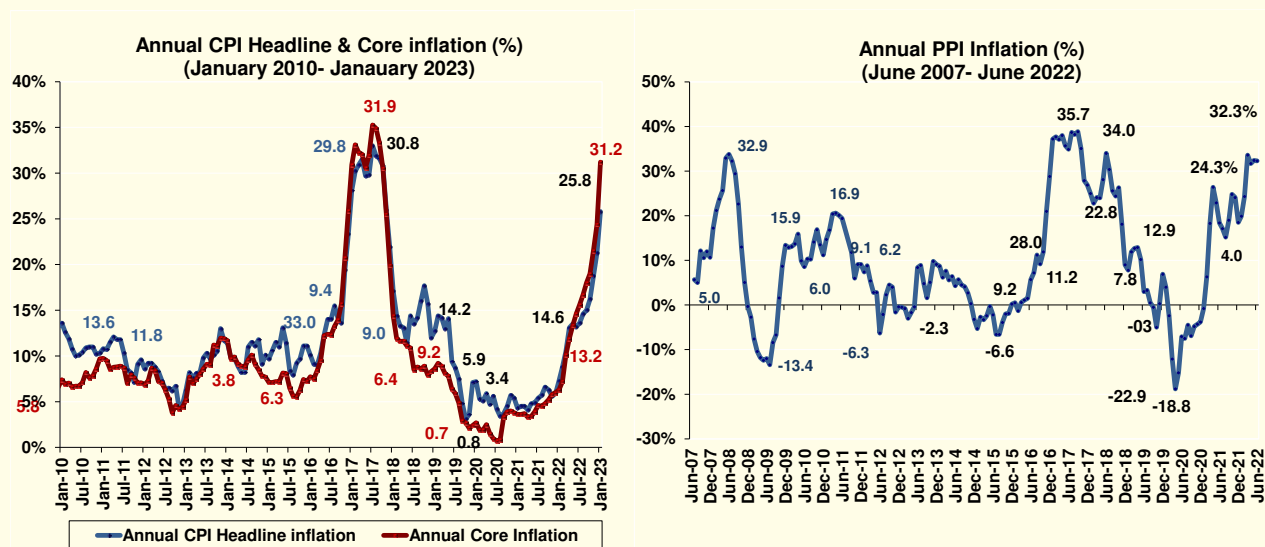
## External & Domestic Debt

**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\$ 53.3 billion end of June 2022, compared to US\$ 51.7 billion at end of June 2021. In addition, Banks debt increased to US\$ 17.7 billion at the end of June 2022, compared to US\$ 14.4 billion last fiscal year.



## Inflation

**Annual Urban Inflation increased to record 25.8 percent** in January 2023, compared to 21.3 percent during last month. **Meanwhile, average annual inflation rate reached 17.9 percent during July-January FY22/23**, compared to 6.1 percent same period of last year. Annual Core Inflation recorded 31.2 percent in January 2023, compared to 24.4 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 February 2<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 16.25 percent, 17.25 percent, and 16.75 percent, respectively. The discount rate was also kept at 16.75 percent.

## External Sector

- **The Balance of Payment recorded** an overall surplus of US\$ 523.5 million during Q1 FY22/23. The current account deficit narrowed by 20 percent to reach US\$ -3.2 billion (compared to larger deficit of US\$ -4 billion in the same period last year. The improvement in the current account deficit was mainly attributed to the increase in both tourism revenues and merchandise exports (oil and non- oil), together with the rise in Suez Canal receipts. On the other hand, capital and financial account has recoded inflows of US\$ 4.4 billion during the period of study, compared to larger inflows during last year reaching US\$ 6 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. **Meanwhile, FDI to Egypt doubled to US\$ 3.3 billion during Q1 FY22/23.**

### Detailed Balance of payment performance:

- **The improvement in current account deficit was mainly due to:**
  - **Non-Oil trade deficit narrowed by US\$ 2 billion to record US\$ -9 billion during the period of study, compared to US\$ -11 billion during the same period of last year, mainly due to the increase in non-oil merchandise exports by 5.1 percent to reach US\$ 6.3 billion during Q1 FY22/23** (mainly increased exports of phosphate, mineral fertilizers, gold, transmitter and receiver devices of radio/television, and ready-made clothes. **Meanwhile, non-oil merchandise imports declined by 9.9 percent to reach US\$ 15.3 billion during the period of study, compared to US\$ 17 billion during the same period last year** (mainly due to the decline in imports of passenger vehicles, telephones, pharmaceutical preparations, gauze pads and vaccines).
  - **Tourism receipts rose by 43.5 percent to record US\$ 4.1 billion** (compared to US\$ 2.8 billion during the same period of last year), in light of the rise in number of tourist nights by 47.1 percent to reach 43.6 million nights, and the rise in number of tourist arrivals to Egypt by 52.2 percent to reach 3.4 million tourists during the period of study.
  - **The increase in transport receipts by 33.7 percent to record US\$ 3 billion** during period of study (compared to US\$ 2.3 billion during same period of last year). mainly driven by the increase in Suez Canal receipts by 19.1 percent to register US\$ 2 billion

during the period of study (driven by the rise in net tonnages of vessels by 13.8 percent to reach 372.7 million tons).

- **The deficit of oil trade balance stabilized at US\$ 106 million.** This came as a main result of the surge in oil exports by US\$ 807.3 million during the period of study, on the back of increased natural gas exports. Such a rise was curbed by the decline in exports of crude oil, and the rise in imports of oil, and which led the oil trade deficit balance to stabilize during the period of study.

#### **The Capital and Financial Accounts performance**

- **The capital and financial recoded net inflows of US\$ 4.4 billion** during the period of study, mainly driven by;
  - **FDIs net inflows has doubled to reach US\$ 3.3 billion during Q1 FY22/23, compared to US\$ 1.7 billion net inflows last year**, as FDIs in non-oil sector increased to record net inflows of US\$ 3.6 billion, mainly due to capital increases of existing companies to reach US\$ 1 billion, and sale proceeds of companies and productive assets of non-residents recoded net inflows of US\$ 1 billion during the period of study. Meanwhile, FDI in the oil sector outflows declined to reach only US\$ 320.4 million during the period of study, compared to US\$ 489.2 million during the same period of last year.
  - **Portfolio investment in Egypt** recoded outflows of US\$ 2.2 billion during Q1 FY22/23, compared to US\$ 3.6 billion outflows during the same period last year, due to the repercussions from the war in Europe, and due to the global tight financial conditions.
  - **Change in the liabilities of the CBE posted a net inflow of US\$ 652.4 million during the period of study.**