Executive Summary

Latest Economic Developments

The Ministry of Finance announced in March the release of exceptional social protection package to support Egyptian Citizens confront global inflationary pressures. The new package set monthly increases for public employees' wages, special cadres, and pensionaries, and would be in effect by the beginning of next April 2023. The social package would cost the state budget LE 190 billion, of which LE 150 billion would be sourced from FY23/24 state budget, and LE 40 billion pertaining to the state budget of FY22/23.

Detailed Social Package

- **The minimum wage for the sixth-grade employee is to reach LE 3,500 per month, and the third-grade to reach LE 5,000, and LE 6,000 for master's holders, and EGP 7,000 for PhD holders.**
- **8% monthly bonus for public employees, with a minimum amount LE 125, and 15% special monthly allowance for employees not addressed with Civil Service Law.**
- **Additional bonus incentive for public employees with lump-sum LE 300 for the sixth, fifth, and fourth degrees, and LE 400 for the third, second, and first degrees, and LE 500 for senior directors.**
- **15% monthly increases for pensionaries that benefits 11 million citizens, with a minimum increase of LE 170 and a maximum of LE 1635, at an annual estimated cost LE 55 billion.**
- **Increasing the allowance for medical professions by the range LE 400-475 to reach LE 1100-1700 for doctors and nursing staff, in addition to doubling allowances for night shifts, overnight stays, and emergency staff.**
- **Additional LE 300-performance allowance for teachers in postgraduates, higher education, faculty members, and El Azhar.**
- **Raising tax exemptions on personal annual income, at an annual estimated cost LE 10 billion.**
- **Increasing monthly payments to beneficiaries of "Takaful and Karama" by 25%, starting next April, at an annual estimated cost LE 6.5 billion.**

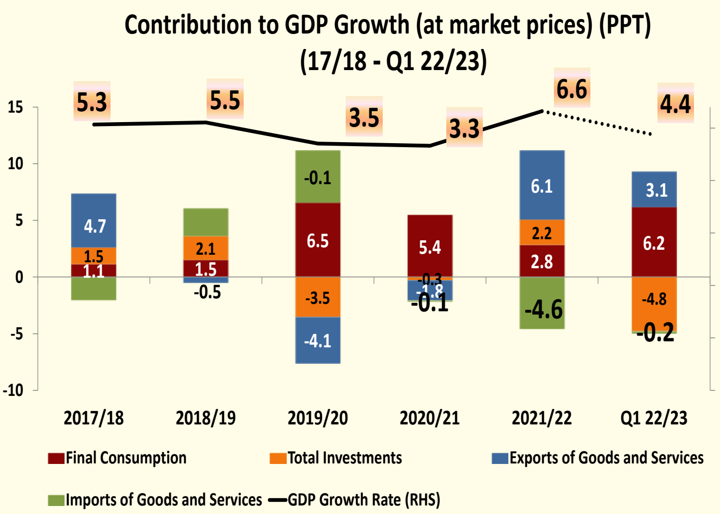
Recent Macroeconomic Indicators

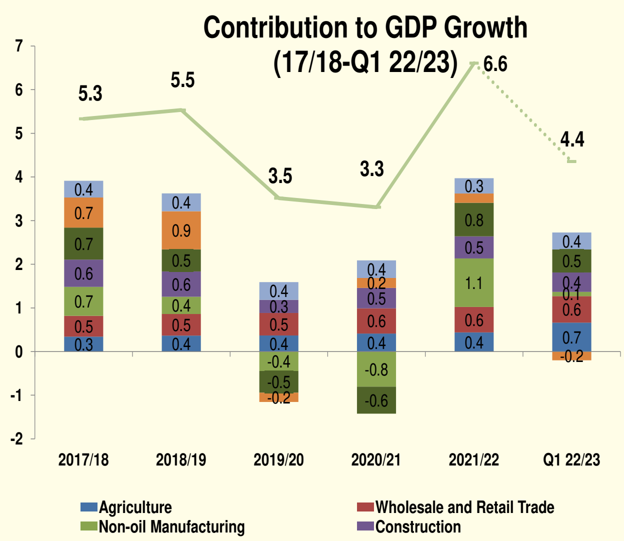
Real Sector

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 48 billion in the past two year.

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 lines.





<u>As for detailed data for Q1 FY22/23</u>

- **GDP economic growth recorded 4.4% in Q1 of FY22/23. <u>On the Demand Side</u>, exports grew by 26.7 percent in Q1 of FY22/23, (contributing to growth by 3.1 PPT during Q1 of FY22/23), total consumption grew by 6.7 percent in Q1 FY22/23 (contributing to growth by 6.2 PPT during Q1 FY22/23**), as **private consumption grew by 7.1 percent in the period of study (contributing to growth by 6.1 PPT), while public consumption has contributed to growth by 0.1 PPT during the period of**

study. Finally, imports grew by 1.1 percent during Q1 of FY22/23 (contributing to growth by 0.2 PPT during Q1 FY22/23).

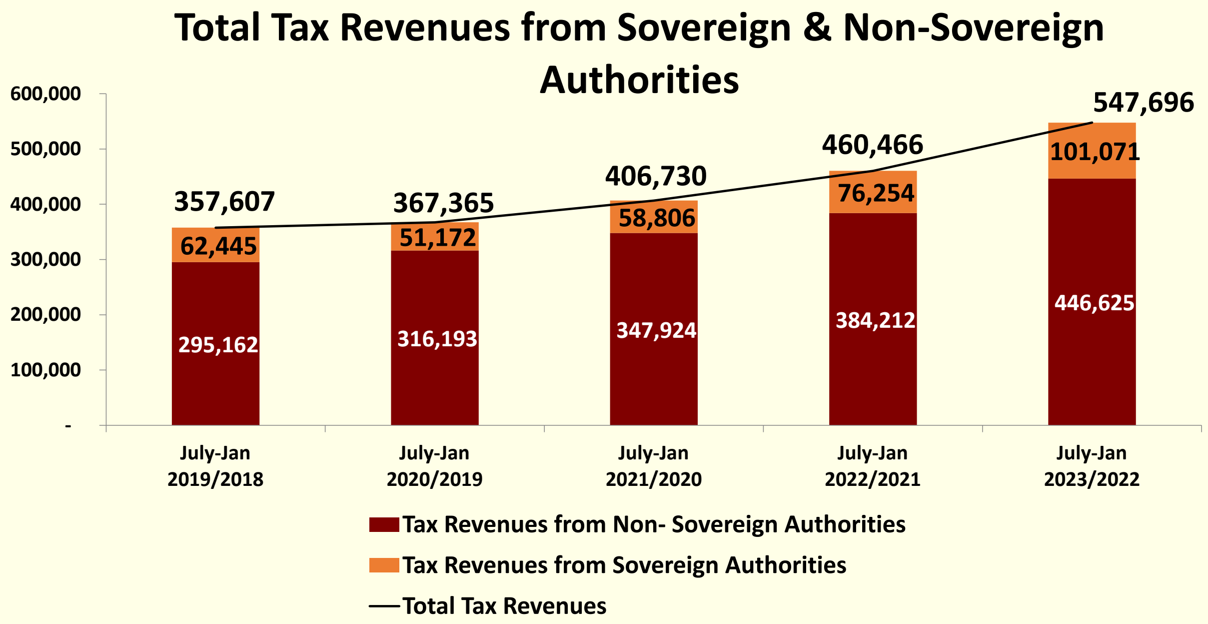
- **On the Supply Side,** the key sectors that led economic growth were; **First, Total Production Sector recording growth rate of 7 percent during Q1 FY22/23 (contributing positively to growth by 2.1 PPT),** mainly driven by the growth in Tourism (Hotels and Restaurants) by 26.3 percent (contributing by 0.5 PPT), Telecommunications by 16.4 percent (contributing by 0.4 PPT), Suez Canal by 14.3 percent (contributing by 0.2 PPT), Wholesale and Retail Trade by 4.3 percent (contributing by 0.6 PPT), Transport and Warehousing by 4.2 percent (contributing by 0.2 PPT). **Second, Total Social Services recording growth rate of 3.8 percent during Q1 FY22/23 (contributing positively to growth by 0.9 PPT),** mainly driven by the growth in Education by 5.9 percent (contributing by 0.1 PPT), Health by 5.7 percent (contributing by 0.2 PPT), Personal Services by 4.8 percent (contributing by 0.1 PPT).**Third, Total Commodity Sector recording growth rate of 2.7 percent during Q1 FY22/23 (contributing positively to growth by 1.3 PPT),** mainly driven by the growth in agriculture, forestry and fishing by 4.6 percent (contributing by 0.7 PPT). **Fourth, Total Manufacturing Industry recording growth rate of 1.3 percent during Q1 FY22/23 (contributing positively to growth by 0.2 PPT),** mainly driven by the growth of Construction and Building by 6.7 percent (contributing by 0.4 PPT), Petroleum Refinement by 5.4 percent (contributing by 0.1 PPT).
- **Net International Reserves (NIR)** has reached US$ 34.4 billion at end of February 2022, compared to lowest level of US$ 13.4 billion at end of March 2013.
- **Purchasing manager Index** reached 46.9 in February 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 -4.68% during the period July-January FY22/23. While, primary balance has reached LE 33.7 billion (0.35% of GDP), up from 0.19% of GDP during the same period last year. This could be explained in light of the increase in revenues by 16%, and the increase in expenditures by 22.5% during the period of study, compared to the same period of last year. The state budget successfully maintained its commitments to increasing spending on health, education, investment finances, wages, and to fulfil payments on social welfare programs.

Total Revenues increased by LE 94.6 billion (16 percent growth) to record around LE 686.9 billion during the period of study, compared to the same period of last year. Tax revenues constitute 79.7 percent of total revenues while non-tax revenues constitute 20.3 percent.



- **Tax Receipts** constituted around LE 547.7 billion of total revenues, increasing by LE 87.2 billion (18.9 percent growth), mainly driven by

  - **The rise in Tax Receipts from Sovereign Authorities** by LE 24.8 billion (32.5 percent growth) to record LE 101.1 billion during the period July-January 2022/2023, compared to LE 76.3 billion during the same period of last year.
  - **The rise in Tax Receipts from Non- Sovereign Authorities** by LE 62.4 billion (16.2 percent growth) to record LE 446.6 billion during the period of study, compared to LE 384.2 billion during the same period of last year.

This was supported by:

- **Receipts from Income Taxes rose by LE 32.1 billion** (22.3 percent growth) to reach LE 175.8 billion during the period of study.
  - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 9.1 billion (21.8 percent growth) to reach LE 51 billion during the period of study.
  - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 3.5 billion (17.9 percent growth) to reach LE 22.8 billion during the period of study.
  - ✓ **and tax receipts from Suez Canal rose** by LE 14.7 billion (84.5 percent growth) to reach LE 32.1 billion during the period of study.
  - ✓ **and tax receipts from Other Companies rose** by LE 7.4 billion (12.8 percent growth) to reach LE 65 billion during the period of study.
- **Receipts from Value Added Taxes rose by LE 40 billion** (17.2 percent growth) to reach LE 272.2 billion during the period of study.
  - ✓ **driven by the increase in receipts from value added tax on goods by LE 22.4 billion** (20.3 percent growth) to reach LE 132.8 billion during the period of study.
  - ✓ **and the increase in receipts from value added tax on services by LE 3.6 billion** (11.8 percent growth) to reach LE 34.3 billion during the period of study.

- ✓ **receipts from excises on domestic commodities rose by LE 6.1 billion (**9.5 percent growth) to reach LE 70.5 billion during the period of study.
- ✓ **and the increase in receipts from development fees by LE 0.8 billion (**11.9 percent growth) to reach LE 7.6 billion during the period of study.
- ✓ **and the increase in receipts from stamp tax fees by LE 2.8 billion (25.4 percent growth)** to reach LE 13.8 billion during the period of study.
- ✓ **and the increase in receipts taxes on use of goods by LE 3.6 billion (44.6 percent growth)** to reach LE 11.7 billion during the period of study.
- ✓ **and the increase in receipts from taxes on specific services by LE 0.7 billion** to reach LE 1.7 billion during the period of study.

- ➢ **Receipts from property taxes rose by around LE 11.3 billion** (**18.6 percent growth)** to reach LE 72.2 billion during the period of study, compared to LE 60.9 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 11.3 billion** to reach around LE 63.7 billion during the period of study.
- ➢ **Moreover, Tax receipts from International Trade rose by LE 3.8 billion (16 percent growth**) to reach LE 27.4 billion during the period of study.

▪ Non-Tax Revenues (20.3 percent of total revenues) rose by LE 7.3 billion to reach LE 139.2 billion during the period of study of which;

- ➢ **Proceeds from Sales of Goods and Services** rose by LE 12.3 billion (30.4 percent growth) to record LE 52.8 billion during the period of study.
- ➢ **Property Income** reached LE 38.1 billion during the period of study.
  - o Suez Canal dividends recorded LE 17.6 billion during the period of study.
  - o Economic authorities' dividends rose by LE 1.4 billion (25 percent growth), to reach LE 6.8 billion during the period of study.
  - o Public enterprise sector companies' dividends rose by LE 1.9 billion to reach LE 2.1 billion during the period of study.
- ➢ **Grants** has reached LE 2.2 billion during the period of study.
- ➢ **Miscellaneous Revenues** recorded LE 44.6 billion during the period of study.

On the Expenditure side, <u>Total expenditures have increased by 22.5 percent to reach LE 1136.5 billion during the period July-January FY22/23,</u> compared to same period last year. The government continues its efforts to reprioritize spending towards social protection, investment in human capital and better distribution of services and to develop infrastructure.

<u>Compensation of Employees</u>

- ➢ **Wages and Compensation for Employees rose by LE 19.8 billion (9.6 percent growth)** to reach LE 225.8 billion during the period of study.

<u>Purchases of goods and services</u>

- ➢ **Purchases of goods and services rose by LE 12.6 billion (26 percent growth) to reach LE 61.1 billion during the period of study mainly in light of increased spending on each of:**

- **Maintenance** spending rose by LE 1.7 billion (33.5 percent growth), to reach LE 6.8 billion during the period of study.
- **Subscription and fees** spending rose by LE 2.8 billion to reach LE 3 billion during the period of study.
- **Copy expenditures, periodicals and writing rights** rose by LE 2 billion to reach LE 5 billion during the period of study.
- **Food expenditures** rose by LE 4.9 billion to reach LE 8.5 billion during the period of study.

Subsidies, grants & social benefits

- **Subsidies, grants, and social benefits rose by LE 15.5 billion (9.9 percent growth) to record LE 171.8 billion** during the period of study.
  - ✓ **Spending on treasury contributions in pensions rose by** LE 10.3 billion to reach LE 85.3 billion during the period of study in light of the settlements between the treasury and pension fund**.**
  - ✓ **Spending allocated to GASC** rose by LE 6.4 billion (15.8 percent growth) to reach LE 46.7 billion during the period of study, compared to LE 40.3 billion during the same period of last year.
  - ✓ **Spending on Housing for Low Income groups rose by LE 1.3 billion to** record LE 2.2 billion during the period of study.
  - ✓ **Spending on direct cash transfers (Takaful& Karama)** recorded LE 12.7 billion during the period of study.

Purchases of non-financial assets

- **Purchases of non-financial assets rose by LE 19.1 billion (17.8 percent growth)** to reach LE 126.4 billion during the period of study.
  - **Spending on fixed assets increased by LE 14.6 billion (14.9 percent growth)** to record LE 112 billion during the period of study **in light of increased spending on dwellings, and construction.**
  - **Spending on Non-produced assets increased** by LE 3.4 billion to reach LE 7.4 billion during the period of study **in light of increased spending on purchase of lands to record LE 3.4 billion during the period of study.**

Social Spending and Human Development

- **Total Spending on Health** rose by LE 4.2 billion (6.4 percent growth) to reach LE 69.4 billion during the period of study, compared to LE 65.3 billion during the same period of last year.
- **Total Spending on Education** rose by LE 15.2 billion (14.7 percent growth) to reach LE 118.6 billion during the period of study, compared to LE 103.4 billion during the same period of last year.

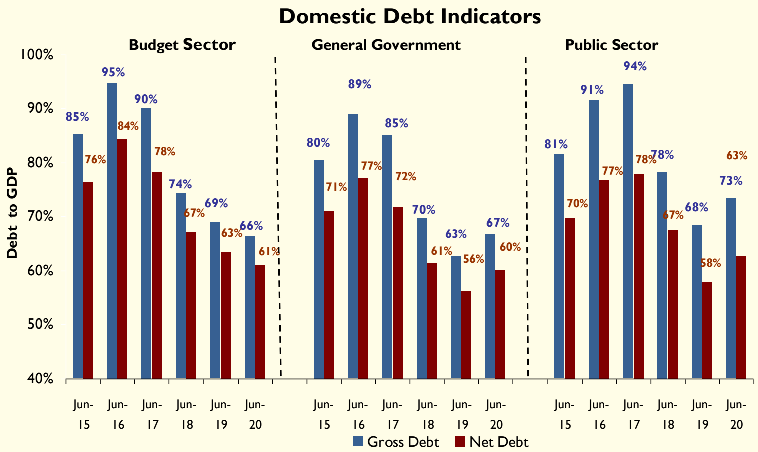
Fiscal Sector Performance during July-Jan 2022/2023

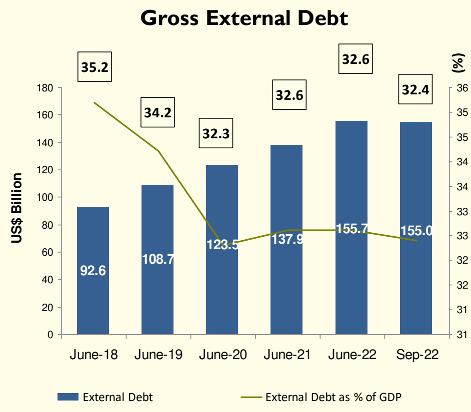
(LE billion)

	July-Jan	
	2023/22	**2022/21**
Revenues	**686,865**	**592,311**
Taxes	547,696	460,466
Grants	2,164.5	2,635.0
Other Revenues	137,004	129,211
Expenditure	**1,136,461**	**927,855**
Wages and Compensation of Employees	225,765	205,959
Purchase of Goods and Services	61,130	48,498
Interest Payments	482,620	349,410
Subsidies, Grants and Social Benefits	171,842	156,311
Other Expenditures	68,700	60,384
Purchases of Non-financial Assets (investments)	126,404	107,293
Cash Balance	**-449,596**	**-335,544**
Net Acquisition of Financial Assets	**-710**	**-1,323**
Overall Budget Balance	**-448,886**	**-334,221**
Budget Primary Surplus/or Deficit (%of GDP)	**0.35%**	**0.19%**
Budget Overall Balance (%of GDP)	**-4.68%**	**-4.21%**

External & Domestic Debt

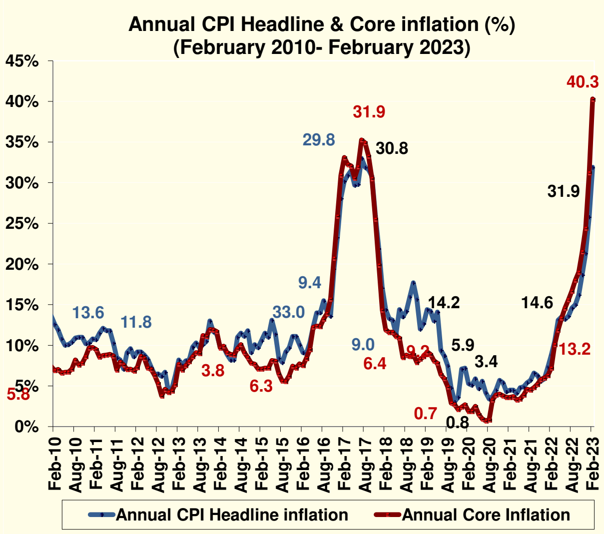
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase in T-bills stock implementing the ministry's policy of increasing debt maturity. Meanwhile, government external debt decreased as loans decreased to US$ 51.7 billion end of September 2022, compared to US$ 53.3 billion at end of June 2022. Meanwhile, Banks debt increased to US$ 18.3 billion at the end of September 2022, compared to US$ 17.7 billion last fiscal year.

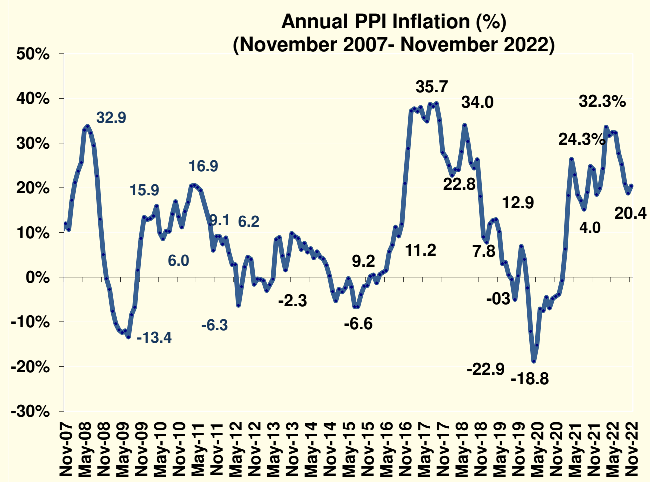




Inflation

Annual Urban Inflation increased to record 31.9 percent in February 2023, compared to 25.8 percent during last month**.** **Meanwhile, average annual inflation rate reached** 19.6 percent during July-February FY22/23, compared to 6.5 percent same period of last year. Annual Core Inflation recorded 40.3 percent in February 2023, compared to 31.2 percent during last month.





Monetary Sector

According to data released by the CBE; **M2** (LE 7317 billion) rose by 27.5 percent in November 2022, compared to 27.1 percent last month. This is mainly due to the increase in **Quasi Money** by 28.4 percent in November 2022, compared to 28.2 percent last month driven by the increase in **foreign currency demand deposits** by 94.1 percent in November 2022, compared to 92.8 percent last month, **foreign currency time and savings deposits** rose by 71.8 percent in November 2022, compared to 66.3 percent last month, **and local currency time and Savings deposits** increased at slower pace by 19.8 percent in November 2022, compared to 20.3 percent last month. Meanwhile, **Money (M1)** increased by 24.5 percent in November 2022, compared to 23.5 percent last month, driven by the increase in **demand deposits in local currency** by 32.8 percent, compared to 31.2 percent last month, **and currency in circulation outside CBE** rose by 16.5 percent, compared to 16.3 percent during last month.

- **Net Foreign Assets (NFA) recoded** (LE -542 billion) in November 2022, compared to (LE -552) last month**,** mainly driven by central bank net reserves to reach LE-208 billion in November 2022, compared to LE -219 billion during October 2022, while Banks' net reserves reached LE -334 billion during November 2022, compared to LE -333 billion during last month. **Central Bank Foreign Assets reached LE 797.2 billion in November 2022, up from LE 768.8 billion during last month. Net international reserve stabilized at US$ 33.2 billion in November 2022, compared to the same level during last month.**
- **Net domestic assets (NDA)** (LE 7859 billion) rose at slower pace by 38.9 percent at end of November 2022 compared to 39.7 percent during last month, mainly due to the increase in **net claims on government, and GASC at slower pace** by 30.3 percent to reach LE 4882 billion in November 2022, compared to 31 percent growth during last month, and the rise in **claims on**

private sector& household by 29.1 percent during November 2022 to reach LE 2405 billion in November 2022, compared to 28.7 percent annual growth during last month.

- **Total Deposits** (LE 8373 billion) has increased by 32.8 percent at the end of November 2022, compared to 28.9 percent last month. **Out of total deposits, 78.4 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has reached 47.4 percent at end of November 2022.
- **In the same context,** Monetary Policy Committee (MPC) decided on February 2nd 2023 **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.**