Executive Summary

Latest Economic Developments

Fiscal policy focuses on enhancing business activity via stimulating productivity, boosting exports, while enabling the private sector to lead economic growth. Parallel efforts are manifested to expand social safety nets as an efficient buffer to counter global inflationary pressures.

In this context, the Egyptian state is exiting from non-strategic activities, and shifting towards greener and digital economy. While, transiting to inclusive growth that sets a priority to people needs, while expanding youth and women involvement in economic development.

Important measures to stimulate investment environment

“Higher investment Council” was established to boost investments.

The "Golden License" was initiated to shorten investment procedures.

The "State Ownership Policy " paves the way for empowering the private sector to lead economic growth.

Important social protection measures in draft state budget FY23/24

LE 529.7 billion for Subsidies grants and social benefits, with an annual growth rate 48.8% compared to previous budget.

LE 470 billion for “wages” in the new draft budget FY23/24.

LE 127.7 billion for GASC subsidies, with an annual growth rate 41.9%

LE 6 billion for Health Insurance and medicine, with an annual growth rate 58.2%

Above LE 8 billion allocated to citizens treatment, with an annual growth rate 13.7%

Exceptional increase in treasury financed investments to reach LE 306.7 billion, out of total investments LE 586.7 billion, with a growth rate 55.9%

Education spending rose by LE 48.6 billion to reach LE 305.2 billion in FY23/24, with a growth rate 19%

Health spending rose by LE 13.3 billion to reach LE 111.2 billion in FY23/24, with a growth rate 14%.

LE 28.1 billion allocated to export subsidies in FY23/24.

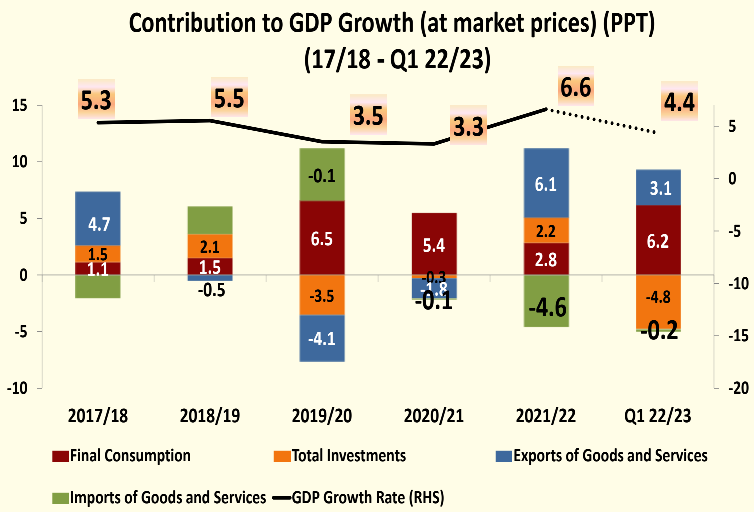
Recent Macroeconomic Indicators

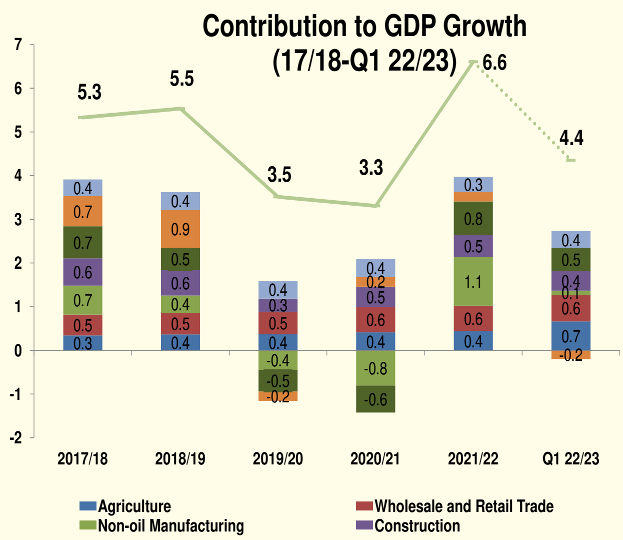
Real Sector

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).

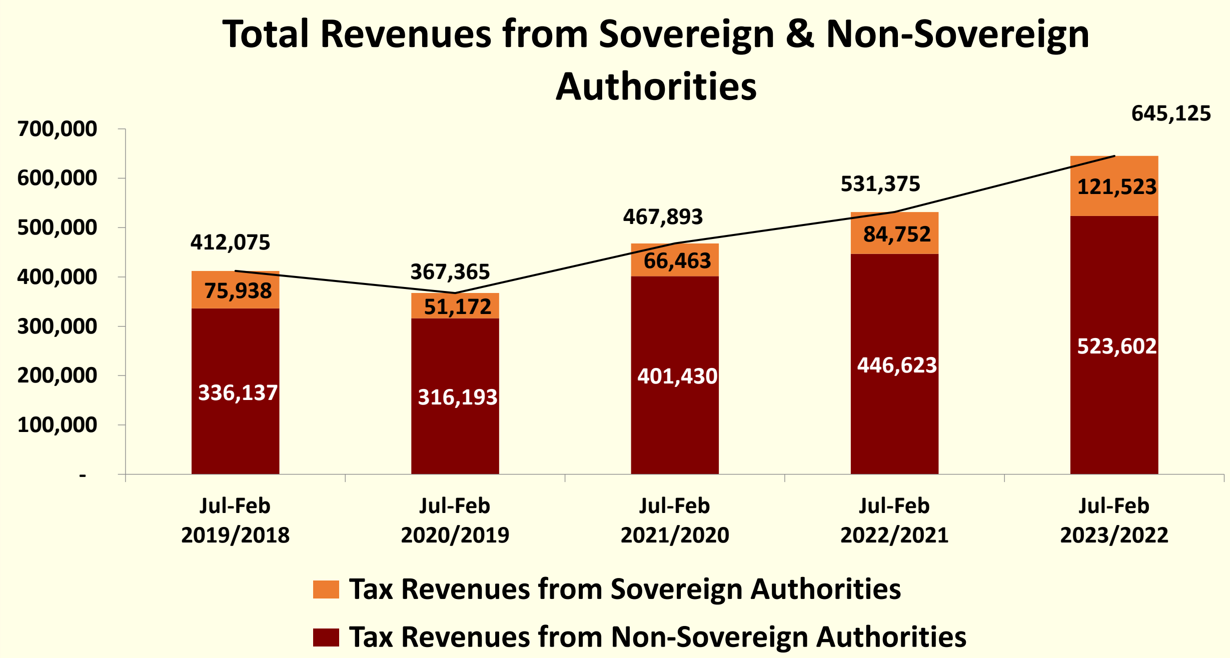
- **On the Supply Side,** the key sectors that led economic growth were; **First, Total Production Sector recording growth rate of 7 percent during Q1 FY22/23 (contributing positively to growth by 2.1 PPT),** mainly driven by the growth in Tourism (Hotels and Restaurants) by 26.3 percent (contributing 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 March 2023, compared to lowest level of US$ 13.4 billion at end of March 2013.
- **Purchasing manager Index** reached 46.7 in March 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 -5.1% during the period July-February FY22/23. While, primary balance has reached LE 41.8 billion (0.43% of GDP), up from 0.27% of GDP during the same period last year. This could be explained in light of the increase in revenues by 18.1%, and the increase in expenditures by 24.6% 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 123.5 billion (18.1 percent growth) to record around LE 807 billion during the period of study, compared to the same period of last year. Tax revenues constitute 80 percent of total revenues while non-tax revenues constitute 20 percent.



- **Tax Receipts** constituted around LE 645.1 billion of total revenues, increasing by LE 113.8 billion (21.4 percent growth), mainly driven by
  - **The rise in Tax Receipts from Sovereign Authorities** by LE 36.8 billion (43.4 percent growth) to record LE 121.5 billion during the period July-February 2022/2023, compared to LE 84.8 billion during the same period of last year.
  - **The rise in Tax Receipts from Non- Sovereign Authorities** by LE 77 billion (17.2 percent growth) to record LE 523.6 billion during the period of study, compared to LE 446.6 billion during the same period of last year.

This was supported by:

- **Receipts from Income Taxes rose by LE 37.8 billion** (22.3 percent growth) to reach LE 207.4 billion during the period of study.
  - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 8.2 billion (15.4 percent growth) to reach LE 61.1 billion during the period of study.
  - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 5.5 billion (25.1 percent growth) to reach LE 27.6 billion during the period of study.
  - ✓ **and tax receipts from Suez Canal rose** by LE 18 billion (84.1 percent growth) to reach LE 39.4 billion during the period of study.
  - ✓ **and tax receipts from Other Companies rose** by LE 8.4 billion (13.1 percent growth) to reach LE 73 billion during the period of study.
- **Receipts from Value Added Taxes rose by LE 49.4 billion** (18.4 percent growth) to reach LE 318.4 billion during the period of study.
  - ✓ **driven by the increase in receipts from value added tax on goods by LE 27.7 billion** (21.8 percent growth) to reach LE 154.9 billion during the period of study.

- ✓ **and the increase in receipts from value added tax on services by LE 4.3 billion** (12 percent growth) to reach LE 40.7 billion during the period of study.
- ✓ **receipts from excises on domestic commodities rose by LE 7.2 billion (**9.7 percent growth) to reach LE 81 billion during the period of study.
- ✓ **and the increase in receipts from development fees by LE 1.6 billion (**21.3 percent growth) to reach LE 9 billion during the period of study.
- ✓ **and the increase in receipts from stamp tax fees by LE 3 billion (21.4 percent growth)** to reach LE 16.7 billion during the period of study.
- ✓ **and the increase in receipts taxes on use of goods by LE 5 billion (52.7 percent growth)** to reach LE 14.2 billion during the period of study.
- ✓ **and the increase in receipts from taxes on specific services by LE 0.8 billion** to reach LE 2 billion during the period of study.

- ➢ **Receipts from property taxes rose by around LE 19.7 billion** (**30 percent growth)** to reach LE 85.4 billion during the period of study, compared to LE 65.7 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 19.7 billion (35.2 percent growth)** to reach around LE 75.8 billion during the period of study.
- ➢ **Moreover, Tax receipts from International Trade rose by LE 6.8 billion (25 percent growth**) to reach LE 34 billion during the period of study.

- **Non-Tax Revenues (20 percent of total revenues) rose by LE 9.8 billion to reach LE 161.8 billion during the period of study of which;**

- ➢ **Proceeds from Sales of Goods and Services** rose by LE 12.7 billion (26.3 percent growth) to record LE 61 billion during the period of study.
- ➢ **Property Income** reached LE 41.8 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 1.6 billion (25 percent growth), to reach LE 7.8 billion during the period of study.
  - o Public enterprise sector companies' dividends rose by LE 1.5 billion to reach LE 2.7 billion during the period of study.
- ➢ **Grants** has reached LE 2.3 billion during the period of study.
- ➢ **Miscellaneous Revenues** rose by LE 3.6 billion (7.1 percent growth) to reach LE 55 billion during the period of study.

On the Expenditure side, Total expenditures have increased by 24.6 percent to reach LE 1313 billion during the period July-February 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 22.6 billion (9.6 percent growth)** to reach LE 258.8 billion during the period of study.

Purchases of goods and services

- **Purchases of goods and services rose by LE 13 billion (23.3 percent growth) to reach LE 68.4 billion during the period of study mainly in light of increased spending on each of:**
  - **Maintenance** spending rose by LE 1.8 billion (30.8 percent growth), to reach LE 7.8 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 1.7 billion to reach LE 5 billion during the period of study.
  - **Food expenditures** rose by LE 4 billion to reach LE 9 billion during the period of study.
  - **Water and lighting** rose by LE 1.1 billion to reach LE 6.3 billion during the period of study.

Subsidies, grants & social benefits

- **Subsidies, grants, and social benefits rose by LE 35.8 billion (20.8 percent growth) to record LE 207.7 billion** during the period of study.
  - ✓ **Spending on treasury contributions in pensions rose by** LE 14.8 billion to reach LE 95.3 billion during the period of study in light of the settlements between the treasury and pension fund**.**
  - ✓ **Spending allocated to GASC** rose by LE 18.5 billion (40.6 percent growth) to reach LE 64.2 billion during the period of study, compared to LE 45.7 billion during the same period of last year.
  - ✓ **Spending on Housing for Low Income groups rose by LE 1.6 billion to** record LE 2.7 billion during the period of study.
  - ✓ **Spending on direct cash transfers (Takaful& Karama)** recorded LE 14.4 billion during the period of study.
  - ✓ **Spending on Health Insurance and Medicine rose by LE 0.9 billion to** record LE 1.4 billion during the period of study.

Purchases of non-financial assets

- **Purchases of non-financial assets rose by LE 26.2 billion (20.1 percent growth)** to reach LE 156.8 billion during the period of study.
  - **Spending on fixed assets increased by LE 19.8 billion (16.7 percent growth)** to record LE 138.3 billion during the period of study **in light of increased spending on dwellings, and construction.**
  - **Spending on Non-produced assets increased** by LE 3.8 billion to reach LE 9 billion during the period of study **in light of increased spending on purchase of lands by LE 3.8 billion to record LE 8.8 billion during the period of study.**

Social Spending and Human Development

- **Total Spending on Health** rose by LE 5.6 billion (7.5 percent growth) to reach LE 80.6 billion during the period of study, compared to LE 75 billion during the same period of last year.

- **Total Spending on Education** rose by LE 17.4 billion (14.8 percent growth) to reach LE 135 billion during the period of study, compared to LE 117.5 billion during the same period of last year.

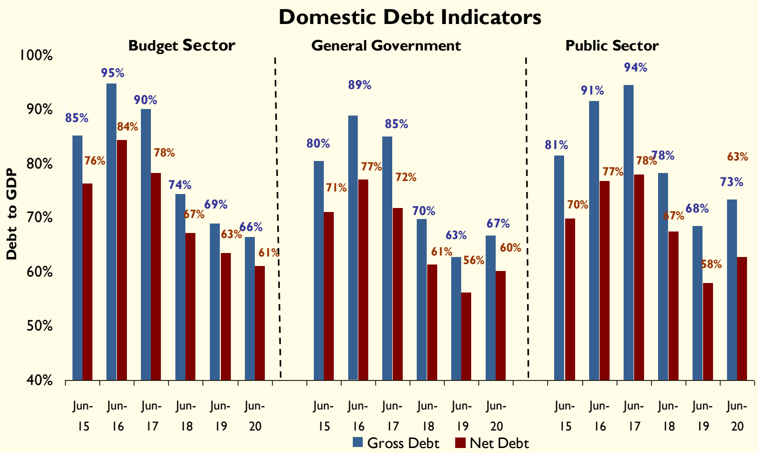
Fiscal Sector Performance during July-Feb 2022/2023

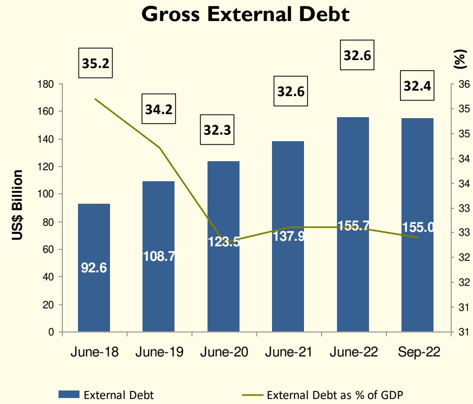
(LE billion)

	July-Feb	
	2023/22	**2022/21**
Revenues	**806,904**	**683,371**
Taxes	645,125	531,375
Grants	2,256.6	2,720.0
Other Revenues	159,523	149,276
Expenditure	**1,312,880**	**1,053,581**
Wages and Compensation of Employees	258,753	236,109
Purchase of Goods and Services	68,360	55,460
Interest Payments	543,320	389,690
Subsidies, Grants and Social Benefits	207,746	171,911
Other Expenditures	77,950	69,855
Purchases of Non-financial Assets (investments)	156,751	130,555
Cash Balance	**-505,976**	**-370,209**
Net Acquisition of Financial Assets	**-4,494**	**-2,073**
Overall Budget Balance	**-501,482**	**-368,137**
Budget Primary Surplus/or Deficit (%of GDP)	**0.43%**	**0.27%**
Budget Overall Balance (%of GDP)	**-5.10%**	**-4.64%**

External & Domestic Debt

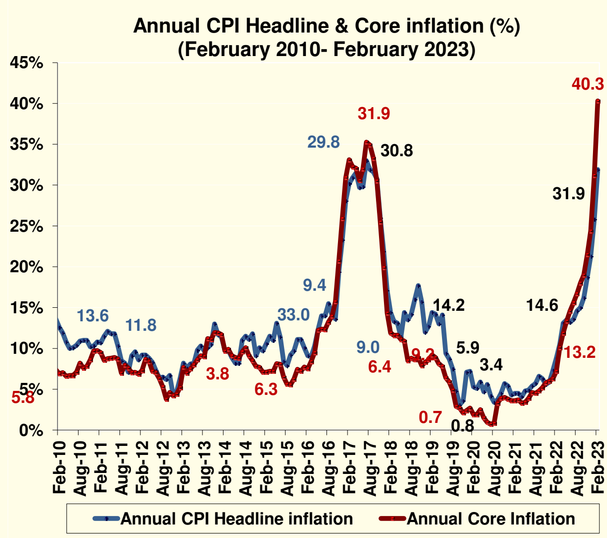
Total Government Debt (domestic and external) increased to LE 5094.2 billion (87.5 percent of GDP) at end of June 2020 compared to 4801.8 billion (90.2 percent of GDP) at end of June 2019. This is mainly driven by the increase in T-bonds stock worth LE 628 billion compared to LE 129.3 billion increase 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 32.7 percent in March 2023, compared to 31.9 percent during last month**. <u>Meanwhile, average annual inflation rate reached</u>** <u>19.6 percent during July-February FY22/23,</u> compared to 6.5 percent same period of last year. Annual Core Inflation recorded 39.5 percent in March 2023, compared to 40.3 percent during last month.



Monetary Sector

According to data released by the CBE; M2 (LE 7402 billion) rose at slower pace by 27.1 percent in December 2022, compared to 27.5 percent last month. This is mainly due to the increase at slower pace in **Quasi Money** by 27.5 percent in December 2022, compared to 28.4 percent last month driven by the increase in **foreign currency demand deposits** by 97.2 percent in December 2022, compared to 94.1 percent last month, **foreign currency time and savings deposits** rose by 72.2 percent in December 2022, compared to 71.8 percent last month, **and local currency time and Savings deposits** increased at slower pace by 18.8 percent in December 2022, compared to 19.8 percent last month. Meanwhile, **Money (M1)** increased by 25.8 percent in December 2022, compared to 24.5 percent last month, driven by the increase in **demand deposits in local currency** by 33.5 percent, compared to 32.8 percent last month, **and currency in circulation**

outside CBE rose by 18.4 percent, compared to 16.5 percent during last month.

- **Net Foreign Assets (NFA) recoded** (LE -494 billion) in December 2022, compared to (LE -542) last month**,** mainly driven by central bank net reserves to reach LE-205 billion in December 2022, compared to LE -208 billion during November 2022, while Banks' net reserves reached LE -289 billion during December 2022, compared to LE -333 billion during last month. **Central Bank Foreign Assets reached LE 812.5 billion in December 2022, up from LE 797.2 billion during last month. Net international reserve rose to record US$ 34 billion in December 2022, compared to US$ 33.5 billion during November 2022.**
- **Net domestic assets (NDA)** (LE 7897 billion) rose at slower pace by 36.5 percent at end of December 2022 compared to 38.9 percent during last month, mainly due to the increase in **net claims on government, and GASC** by 33.6 percent to reach LE 5025 billion in December 2022, compared to 30.3 percent growth during last month, and the rise at slower pace of **claims on private sector& household** by 28.5 percent during December 2022 to reach LE 2433 billion in December 2022, compared to 29.1 percent annual growth during last month.
- **Total Deposits** (LE 8580 billion) has increased by 33 percent at the end of December 2022, compared to 32.8 percent last month. **Out of total deposits, 77.3 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has reached 47.7 percent at end of December 2022.
- **In the same context,** Monetary Policy Committee (MPC) decided on March 30th 2023 **to raise by 200 basis points each of** the Central Bank of Egypt's (CBE) **overnight deposit rate, overnight lending rate, and the rate of the main operation to reach** 18.25 percent, 19.25 percent, and 18.75 percent, respectively. The discount rate was raised by 200 basis points to reach 18.75 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.**