

Executive Summary

Latest Economic Developments

The draft budget of the fiscal year 2023/2024 focuses on enhancing business environment while expanding social safety net to mitigate global inflationary pressures, and promoting greener economy and digitalization that improves the standard of livings of Egyptian citizens. Fiscal targets for the FY23/24 include to achieve highest primary surplus to reach 2.5% of GDP, and to get public debt into sustainable declining path to record lower than 80% of GDP in June 26/27. Revenues mobilization would be ensured through better management of state-owned assets, and the government intention to exit from non-strategic activities.

Main social spending measures in draft budget of FY23/24

- "Wages" spending increased in the new draft budget to reach LE 470 billion.
- LE 397 billion for the health sector.
- LE 691.5 billion for schools and postgraduate education and scientific research.
- LE 127.7 billion for food commodities subsidies GASC.
- LE 14.1 billion for health insurance, medicines and treatment for unable at the state's expense.
- LE 10.2 billion for social housing for low-income groups.
- LE 202 billion for treasury contributions to pensions, a 6% growth.
- Raise tax exemptions by 50% for public and private sector employees, at an annual cost LE 10 billion.
- LE 31 billion for social assistance and direct cash transfers program (Takaful& Karama).
- LE 3.5 billion for natural gas supply to houses.
- LE 3.7 billion to appoint 70,000 teachers, doctors, pharmacists, and others.
- LE 0.5 billion for promotions of public employees.

Main spendings to support economic activity in draft budget of FY23/24

- LE 28 billion for export subsidies to support exporters.
- LE 6 billion to reduce electricity prices for industrial activities.
- The treasury bears LE 1.5 billion the cost of real estate taxes on behalf of industrial sector.
- The "Initial Public Offerings Program" IPO would be implemented within the framework of the State Ownership Policy document.

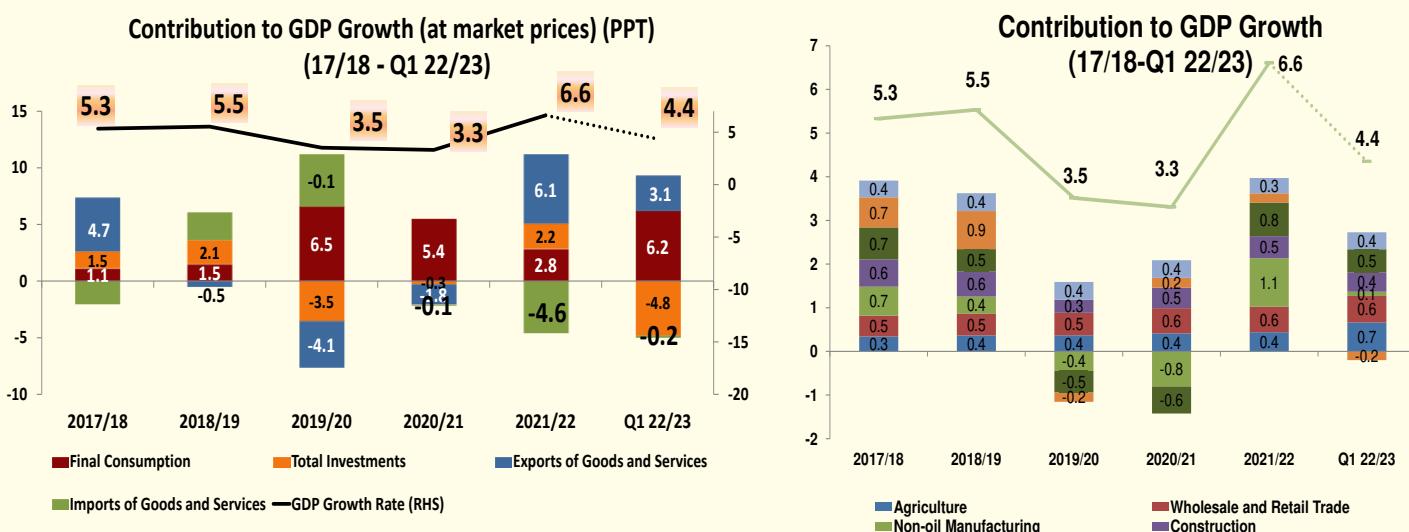
Recent Macroeconomic Indicators

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.



As for detailed data for Q1 FY22/23

- GDP economic growth recorded 4.4% in Q1 of FY22/23. On the Demand Side, 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).

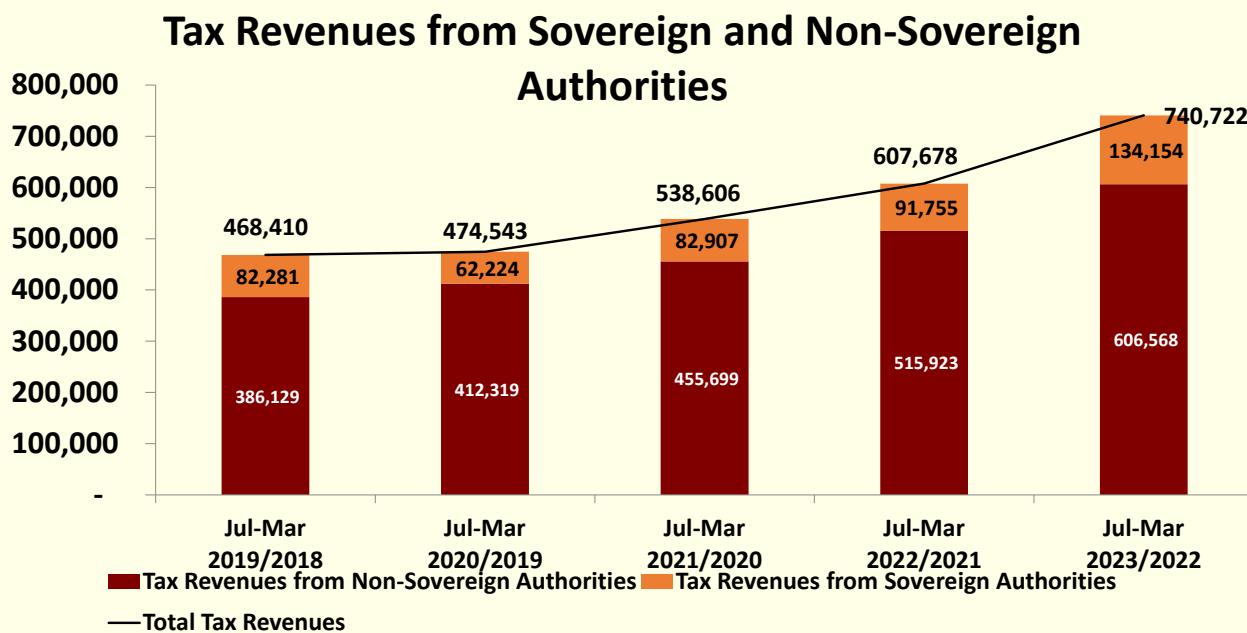
- **Net International Reserves (NIR)** has reached US\$ 34.6 billion at end of April 2023, compared to lowest level of US\$ 13.4 billion at end of March 2013.
- **Purchasing manager Index** reached 47.3 in April 2023, from 46.7 in March 2023, and compared to 37.1 in December 2012.

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 -5.5% during the period July-March FY22/23. While, primary balance has reached LE 50.1 billion (0.51% of GDP), up from 0.40% of GDP during the same period last year. This could be explained in light of the increase in revenues by 18.5%, and the increase in expenditures by 25.9% 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 144.1 billion (18.5 percent growth) to record around LE 925.1 billion during the period of study, compared to the same period of last year. Tax revenues constitute 80.1 percent of total revenues while non-tax revenues constitute 19.9 percent.



- **Tax Receipts** constituted around LE 740.7 billion of total revenues, increasing by LE 133 billion (21.9 percent growth), mainly driven by
 - **The rise in Tax Receipts from Sovereign Authorities** by LE 42.4 billion (46.2 percent growth) to record LE 134.2 billion during the period July–March 2022/2023, compared to LE 91.8 billion during the same period of last year.
 - **The rise in Tax Receipts from Non- Sovereign Authorities** by LE 90.6 billion (17.6 percent growth) to record LE 606.6 billion during the period of study, compared to LE 515.9 billion during the same period of last year.

This was supported by:

- **Receipts from Income Taxes** rose by LE 48.1 billion (24.6 percent growth) to reach LE 243.8 billion during the period of study.
 - ✓ **mainly driven by the increase in receipts from tax on domestic salaries** by LE 11 billion (18.3 percent growth) to reach LE 71.5 billion during the period of study.
 - ✓ **and taxes on industrial & commercial profits payable by Individuals** by LE 5.5 billion (20.1 percent growth) to reach LE 33 billion during the period of study.
 - ✓ **and tax receipts from Suez Canal** rose by LE 22.4 billion (92.7 percent growth) to reach LE 46.5 billion during the period of study.
 - ✓ **and tax receipts from Other Companies** rose by LE 11.3 billion (15.4 percent growth) to reach LE 84.7 billion during the period of study.
- **Receipts from Value Added Taxes** rose by LE 57 billion (18.4 percent growth) to reach LE 366.8 billion during the period of study.
 - ✓ **driven by the increase in receipts from value added tax on goods** by LE 35 billion (24.1 percent growth) to reach LE 180 billion during the period of study.

- ✓ and the increase in receipts from value added tax on services by LE 6 billion (14.2 percent growth) to reach LE 47.6 billion during the period of study.
- ✓ receipts from excises on domestic commodities rose by LE 6.2 billion (7.4 percent growth) to reach LE 89.8 billion during the period of study.
- ✓ and the increase in receipts from development fees by LE 0.7 billion (7.5 percent growth) to reach LE 10.1 billion during the period of study.
- ✓ and the increase in receipts from stamp tax fees by LE 2.7 billion (15.9 percent growth) to reach LE 19.8 billion during the period of study.
- ✓ and the increase in receipts taxes on use of goods by LE 5.5 billion (49 percent growth) to reach LE 16.8 billion during the period of study.
- ✓ and the increase in receipts from taxes on specific services by LE 0.9 billion to reach LE 2.6 billion during the period of study.

➤ Receipts from property taxes rose by around LE 20.3 billion (28.6 percent growth) to reach LE 91.2 billion during the period of study, compared to LE 70.9 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 20.2 billion (33.8 percent growth) to reach around LE 80 billion during the period of study.

➤ Moreover, Tax receipts from International Trade rose by LE 7.7 billion (24.7 percent growth) to reach LE 39 billion during the period of study.

■ Non-Tax Revenues (19.9 percent of total revenues) rose by LE 11 billion to reach LE 184.4 billion during the period of study of which;

- Proceeds from Sales of Goods and Services rose by LE 16 billion (29.8 percent growth) to record LE 69.4 billion during the period of study.
- Property Income reached LE 47.5 billion during the period of study.
 - Suez Canal dividends recorded LE 17.6 billion during the period of study.
 - Economic authorities' dividends rose by LE 2.3 billion (31.8 percent growth), to reach LE 9.4 billion during the period of study.
 - Interests collected from re-lending (includes interests of foreign loans re-lent by the treasury) rose by LE 3.6 billion to reach LE 8 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 (6 percent growth) to reach LE 63.3 billion during the period of study.

On the Expenditure side, Total expenditures have increased by 25.9 percent to reach LE 1474 billion during the period July-March 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 29.2 billion (11.1 percent growth) to reach LE 291.6 billion during the period of study.

Purchases of goods and services

- **Purchases of goods and services** rose by LE 17.5 billion (28.3 percent growth) to reach LE 79.5 billion during the period of study mainly in light of increased spending on each of:
 - **Maintenance** spending rose by LE 1.7 billion (25.5 percent growth), to reach LE 8.5 billion during the period of study.
 - **Subscription and fees** spending rose by LE 3.6 billion to reach LE 3.8 billion during the period of study.
 - **Copy expenditures, periodicals and writing rights** rose by LE 1.8 billion to reach LE 5.3 billion during the period of study.
 - **Food expenditures** rose by LE 4.2 billion to reach LE 9.3 billion during the period of study.
 - **Water and lighting** rose by LE 3.2 billion to reach LE 9 billion during the period of study.
 - **Copy expenditures, periodicals and writing rights** rose by LE 1.9 billion to reach LE 5.3 billion during the period of study.
 - **Operating fuels, oil, and moving parts** rose by LE 2 billion to reach LE 6 billion during the period of study.

Subsidies, grants & social benefits

- **Subsidies, grants, and social benefits** rose by LE 42.8 billion (22.3 percent growth) to record LE 234.7 billion during the period of study.
 - ✓ **Spending on treasury contributions in pensions** rose by LE 12.8 billion to reach LE 103.3 billion during the period of study in light of the settlements between the treasury and pension fund.
 - ✓ **Spending allocated to GASC** rose by LE 24 billion (48 percent growth) to reach LE 74 billion during the period of study, compared to LE 50 billion during the same period of last year.
 - ✓ **Spending on Housing for Low Income groups** rose by LE 1.6 billion to record LE 3.1 billion during the period of study.
 - ✓ **Spending on direct cash transfers (Takaful& Karama)** rose by LE 1 billion to record LE 17.1 billion during the period of study.
 - ✓ **Spending on Health Insurance and Medicine** rose by LE 1.3 billion to record LE 1.8 billion during the period of study.

Purchases of non-financial assets

- **Purchases of non-financial assets** rose by LE 29 billion (18.7 percent growth) to reach LE 184.2 billion during the period of study.

- **Spending on fixed assets increased by LE 20.2 billion (14.3 percent growth)** to record LE 161.5 billion during the period of study in light of increased spending on dwellings, and construction.
- **Spending on Non-produced assets increased by LE 4.1 billion** to reach LE 9.9 billion during the period of study in light of increased spending on purchase of lands by LE 4 billion to record LE 9.7 billion during the period of study.

Social Spending and Human Development

- **Total Spending on Health** rose by LE 8.8 billion (10.5 percent growth) to reach LE 93.3 billion during the period of study, compared to LE 84.5 billion during the same period of last year.
- **Total Spending on Education** rose by LE 19.4 billion (14.7 percent growth) to reach LE 151.2 billion during the period of study, compared to LE 131.8 billion during the same period of last year.

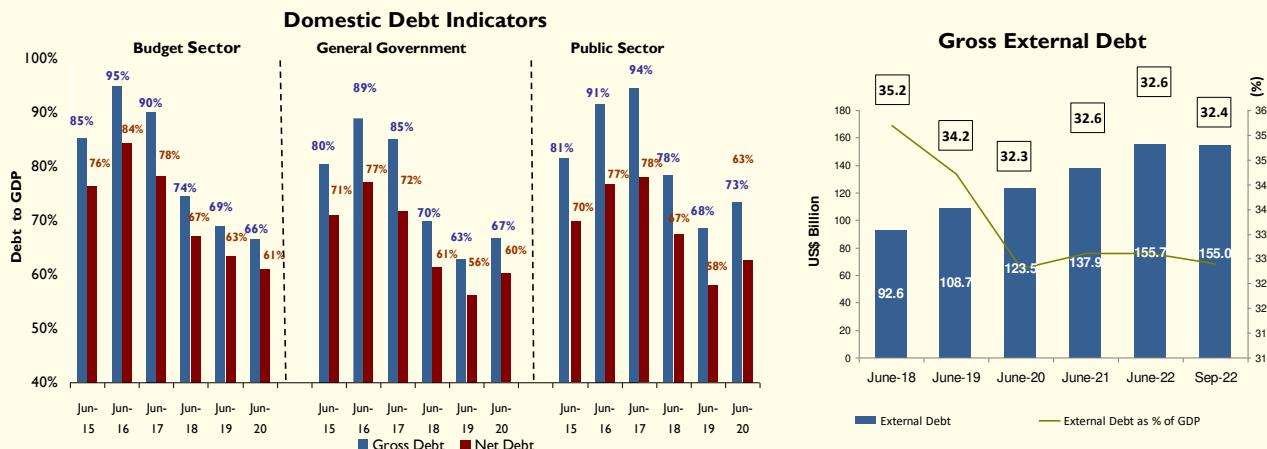
Fiscal Sector Performance during July-March 2022/2023

(LE billion)

	July-March	
	2023/22	2022/21
	925,134	780,996
Revenues		
Taxes	740,722	607,678
Grants	2,329	2,670
Other Revenues	182,084	170,648
Expenditure	1,473,929	1,171,168
Wages and Compensation of Employees	291,625	262,376
Purchase of Goods and Services	79,476	61,941
Interest Payments	595,798	420,066
Subsidies, Grants and Social Benefits	234,698	191,939
Other Expenditures	88,093	79,681
Purchases of Non-financial Assets (investments)	184,239	155,165
Cash Balance	-548,795	-390,172
Net Acquisition of Financial Assets	-3,066	-2,073
Overall Budget Balance	-545,729	-388,099
Budget Primary Surplus/or Deficit (% of GDP)	0.51%	0.40%
Budget Overall Balance (% of GDP)	-5.55%	-4.89%

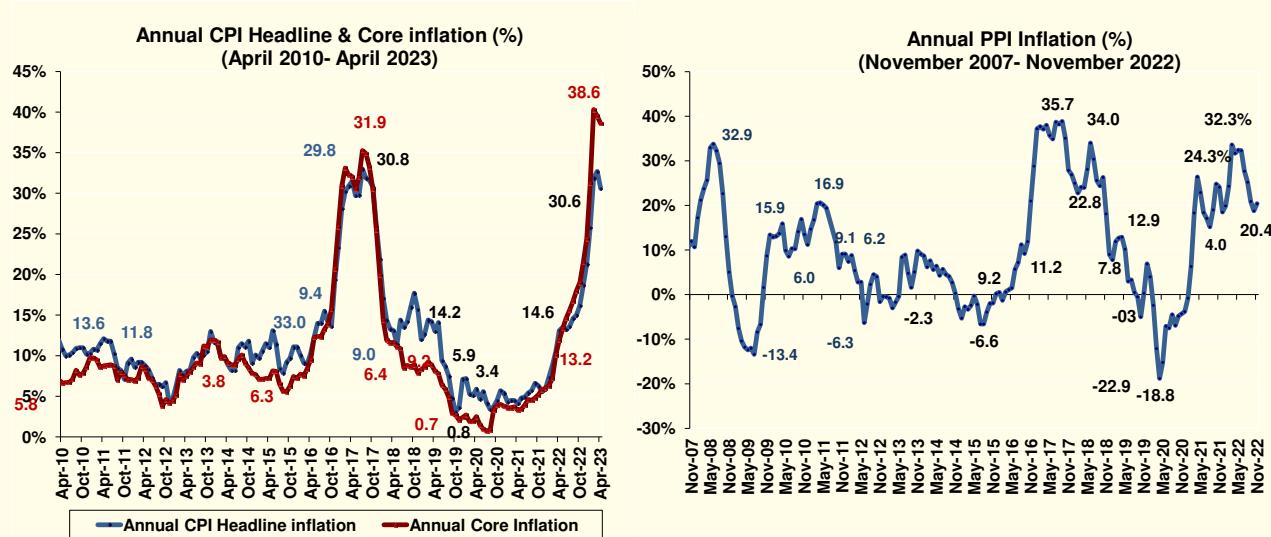
External & Domestic Debt

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 recorded 30.6 percent in April 2023, compared to 32.7 percent during last month. **Meanwhile, average annual inflation rate reached** 22 percent during July-April FY22/23, compared to 7.5 percent same period of last year. Annual Core Inflation recorded 38.6 percent in April 2023, compared to 39.5 percent during last month.



Monetary Sector

According to data released by the CBE; M2 (LE 7710 billion) rose by 31.2 percent in January 2023, compared to 27.1 percent last month. This is mainly due to the increase in **Quasi Money** by 34.9 percent in January 2023, compared to 27.5 percent last month driven by the increase in **foreign currency demand deposits** by 128.6 percent in January 2023, compared to 97.2 percent last month, **foreign currency time and savings deposits** rose by 111.7 percent in January 2023, compared to 72.2 percent last month, and **local currency time and Savings deposits** increased by 20.9 percent in January 2023, compared to 18.8 percent last month. Meanwhile, **Money (M1)** increased at slower pace by 19 percent in January 2023, compared to 25.8 percent last month, driven by the increase at slower pace in **demand deposits in local currency** by 25.7 percent, compared to 33.5 percent last month, and **currency in circulation outside CBE** rose at slower

pace by 12.6 percent, compared to 18.4 percent during last month.

- **Net Foreign Assets (NFA) recorded** (LE -654 billion) in January 2023, compared to (LE -494) last month, mainly driven by central bank net reserves to reach LE-260 billion in January 2023, compared to LE -205 billion during last month, while Banks' net reserves reached LE -394 billion during January 2023, compared to LE -289 billion during last month. **Central Bank Foreign Assets reached LE 971 billion in January 2023, up from LE 812.4 billion during last month.** Net international reserve rose to record US\$ 34.2 billion in January 2023, compared to US\$ 34 billion during December 2022.
- **Net domestic assets (NDA)** (LE 8365 billion) rose by 42.6 percent at end of January 2023 compared to 36.5 percent during last month, mainly due to the increase in **net claims on government, and GASC** by 39.2 percent to reach LE 5335 billion in January 2023, compared to 33.6 percent growth during last month, and the rise of **claims on private sector& household** by 32.6 percent during January 2023 to reach LE 2549 billion in January 2023, compared to 28.5 percent annual growth during last month.
- **Total Deposits** (LE 9021 billion) has increased by 37.7 percent at the end of January 2023, compared to 33 percent last month. **Out of total deposits, 77.3 percent belonged to the non-government sector.** Nevertheless, the **Loans-to-deposits Ratio** has reached 47.5 percent at end of January 2023.
- **In the same context**, Monetary Policy Committee (MPC) decided on May 18th 2023 to keep at the same level the Central Bank of Egypt's (CBE) **overnight deposit rate, overnight lending rate, and the rate of the main operation at** 18.25 percent, 19.25 percent, and 18.75 percent, respectively. The discount rate was also kept unchanged at 18.75 percent.

External Sector

- **The Balance of Payment recorded an overall surplus US\$ 599 million during the First half of FY22/23.** On the current account side, current account deficit narrowed by 77.2 percent to reach US\$ -1.8 billion (compared to larger deficit US\$ -7.8 billion in the same period last year). The improvement in current account balance was mainly attributed to improved trade deficit which has narrowed by US\$ 6.2 billion to reach US\$ -15.6 billion (driven by the fall in import payments by US\$ 5 billion, and the increase in export proceeds by US\$ 0.8 billion). The second contributor to improvement in current account balance is the uptick in services balance by US\$ 5.2 billion to reach US\$ 10.9 billion (driven by the surge in total receipts by US\$ 4.6 billion, mainly increased receipts from tourism and Suez Canal). On the capital and financial account side, it recorded net inflows US\$ 2.8 billion during the period of study, compared to US\$ 11.4 during the same period of last year.

Detailed Balance of payment performance:

- The improvement in current account deficit was mainly due to:
 - Non-Oil trade deficit narrowed by US\$ 6.5 billion to record US\$ -17.3 billion during the period of study, compared to US\$ -23.8 billion during the same period of last year, mainly due to the decline in non-oil merchandise imports by 17.3 percent to reach US\$ 30.2 billion during the period of study, compared to US\$ 36.5 billion during the same period last year (mainly due to the decline in imports of passenger vehicles, telephones, and spare parts and accessories for cars and tractors). Meanwhile non-oil merchandise exports rose slightly by US\$ 124.8 million to reach

US\$ 12.9 billion during July-December FY22/23 (mainly increased exports of gold, phosphate, mineral fertilizers, transmitter and receiver devices of radio/television).

- **Oil trade balance recorded surplus of US\$ 1.8 billion.** This came as a main result of the rise in oil exports by US\$ 690.6 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 oil products, and the rise in oil imports at a slower pace than the witnessed rise in oil exports leading to a surplus in overall oil trade balance.
- **Tourism receipts rose by 25.7 percent to record US\$ 7.3 billion** (compared to US\$ 5.8 billion during the same period of last year), in light of the rise in number of tourist nights by 27.2 percent to reach 78.4 million nights, and the rise in number of tourist arrivals to Egypt by 27.5 percent to reach 6.8 million tourists during the period of study.
- **The increase in transport receipts by 45.1 percent to record US\$ 6.8 billion** during period of study (compared to US\$ 4.7 billion during same period of last year). mainly driven by the increase in **Suez Canal receipts** by 17.8 percent to register US\$ 4 billion during the period of study, compared to US\$ 3.4 billion the same period las year (driven by the rise in net tonnages of vessels by 13.3 percent to reach 753.3 million tons).
- **The factors that mitigated the improvement of the current account:**
 - The decline in remittances of Egyptians working abroad by 23.0 percent to only US\$ 12.0 billion (against US\$ 15.6 billion).
 - The rise in investment income deficit by 25.5 percent to US\$ 8.9 billion (against US\$ 7.1 billion).

The Capital and Financial Accounts performance

- **The capital and financial account recoded net inflows US\$ 2.8 billion** during the period of study, compared to US\$ 11.4 billion during the same period of last year, mainly driven by:
 - **Net outflow of portfolio investment in Egypt rose to about US\$ 3.0 billion (against US\$ 2.5 billion).** This coincided with the contractionary monetary policies adopted by the Federal Reserve that led to the exodus of hot money from the emerging markets.
 - **Foreign assets at banks moved up by US\$ 1.8 billion** during the period under review (representing an outflow), against a decline of US\$ 8.3 billion (representing an inflow) in the corresponding period.
 - **Net inflow of FDI in Egypt went up to register US\$ 5.7 billion (against US\$ 3.3 billion).**
 - **The change in the CBE's liabilities posted a net inflow of US\$ 1.5 billion (against US\$ 2.3 billion).**