I.1 .. RECENT DOMESTIC TRENDS

The solid economic recovery in 2003/2004 is pursuing its course into 2005/2006.

Between fiscal years[1] 2000/2001 and 2002/2003, the Egyptian economy grew sluggishly at an average rate of some 3.2 percent, the lowest growth rate in more than a decade. The slowdown was due to a series of external economic shocks at the beginning of the millennium: the fallout of September 11, oil price shocks, the bursting of the equity price bubble, the abrupt slowdown of world trade in 2001, and regional conflict.

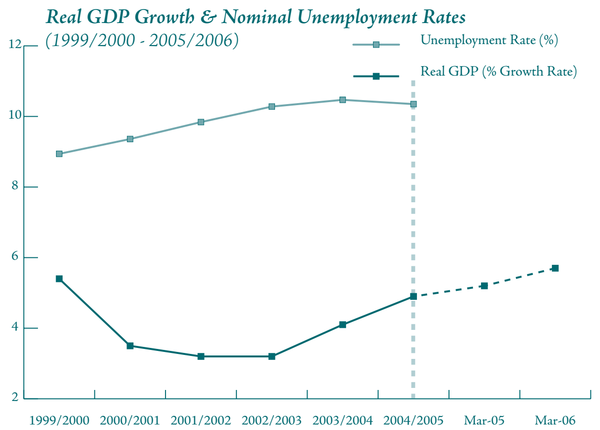

FIG. II.Ia Source: MOP

Economic activity has witnessed a turnaround since fiscal year 2004 as a result of a number of implemented bold trade and tax reforms.[2] GDP growth rates accelerated above the trend of previous years, reaching 4.2 percent in real terms in 2003/2004 and 5.1 percent in 2004/2005 (Figure II.1a). Economic growth is maintaining an even faster pace of 5.8 percent during the course of 2005/2006. The solid economic expansion has been accompanied by a reduction in unemployment rates (Appendix B, Table I.1).

Data available for the first three quarters of the fiscal year 2005/2006 (Figure II.1b) confirm that the GDP growth rate increased to 5.8 percent compared to 4.7 percent during the corresponding period of 2004/2005. Economic growth bounced to 6.1 percent during the second quarter of the current fiscal year, owing to a jump in gas discoveries. Gas extractions saw a one-time growth of 56 percent compared to 32 percent in the first quarter. In the third quarter, gas extractions growth witnessed a correction to 39.5 percent (Appendix B, Tables I.5a, I.5b, I.5c).

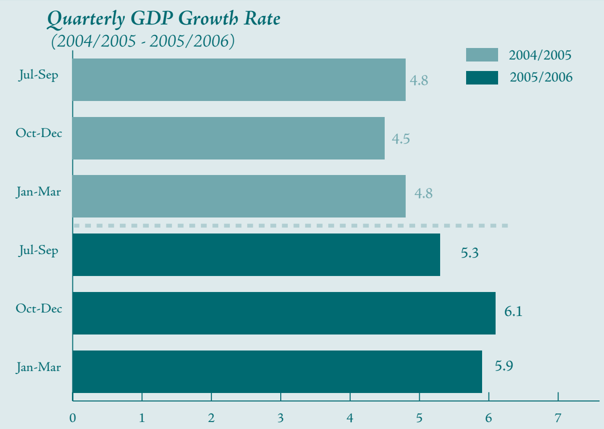

FIG. II.Ib Source: MOP

The Monitor forecasts continued strong economic growth for the full fiscal year. The stimulus from continued fiscal reforms, privatization and revived business confidence augurs well for more than a firm 6 percent expansion rate during the full year, especially as the third quarter of the fiscal year (January - March 2006), showed accelerated growth of 5.9 percent compared to 4.8 percent during the same quarter of 2004/2005 (January - March 2005).

The recovery during 2003/2004 was led by external demand...

Most of the growth momentum in 2002/2003 and 2003/2004 had been derived from the external sector (Figure II.1c; Appendix B, Tables 1.3a & 1.3b). During these two years, the contribution of external demand to GDP growth (2.1 percent and 4.2 percent respectively) had been consistently driven by export revenues, increased receipts from the Suez Canal, resurgent tourism, and improved confidence. During the same period, the contribution of domestic demand to economic growth was more timid (Figure II.1c) as a result of sluggish consumption and slow capital formation (Figure II.2).

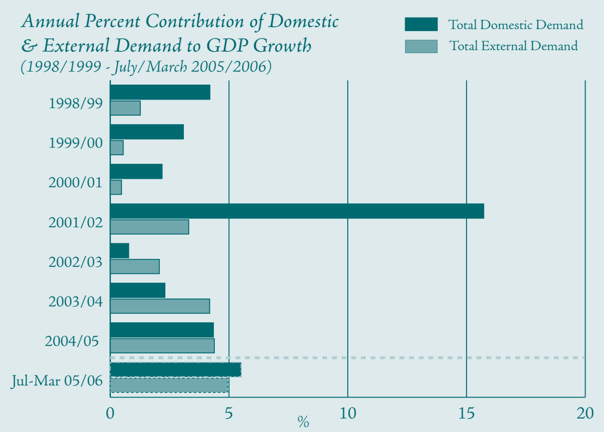

FIG. II.Ic Source: MOP

[1] A fiscal year starts July and ends June.
[2] See previous issues of the *Egyptian Economic Monitor* at **www.mof.gov.eg** for trade reforms.

...while growth in 2004/2005 was underpinned by equal contributions of external and domestic demands

The acceleration in economic expansion during 2004/2005 and 2005/2006 owed to export demand and also a rapid rise in domestic demand. The share of domestic demand in GDP growth doubled from 2.3 percent in 2003/2004 to nearly 4.3 percent in 2004/2005, while the contribution of external demand to GDP growth during the same period saw a smaller growth, from 4.2 percent to 4.4 percent (Figure II.1c).

Domestic demand gathered speed sharply as a spill-over effect of the external impulse sustained since 2001/2002, and in response to trade and fiscal reforms during 2004/2005.

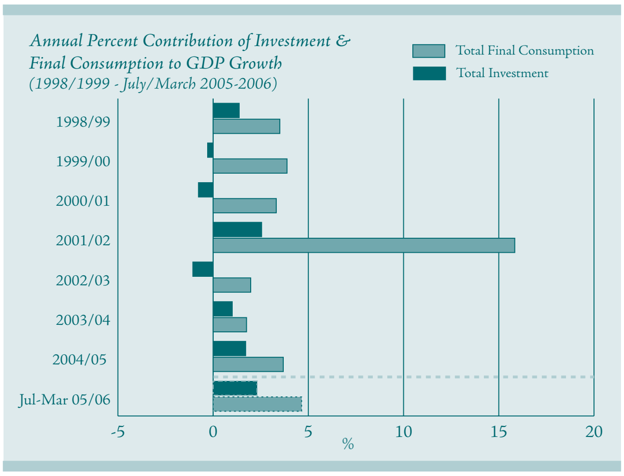

FIG. II.2 Source: MOP

In 2005/2006, domestic demand dominated the uptake in the economic expansion.

During the first three quarters of the current fiscal year, the contribution of domestic demand to GDP growth jumped to 5.5 percent while external demand also grew strongly by 5 percent. While a possible deceleration in global growth coupled with the appreciation of the pound could dampen growth in the external sector during the new fiscal year, there should be no significant impact on either tourism or the Suez Canal receipts.

External demand has played a crucial role in bolstering the economy during the past two years, but it is the strength of growth in domestic demand, particularly investment demand, that will essentially determine the resilience of economic growth in the medium term.

The Government implemented a number of important fiscal measures that helped strengthen domestic demand. September 2004 saw significant tariff reductions that were followed by a second round of cuts in December. Other measures include ongoing customs reforms and a new tax code[3] that was passed in June 2005. The new law reduced personal and corporate taxes by 50 percent. These cuts that took effect in July 2005 served to raise disposable income during 2005/2006, and further boosted domestic demand.

Strong growth in consumption demand is triggering strong secondary effects on investment.

The domestic impulse was largely driven by consumption demand which contributed 4.6 percent to the growth of domestic demand during the first three quarters of the current fiscal year; and 3.7 in 2004/2005 compared to 1.8 percent in the previous year. (Figure II.2).

This strong growth has triggered strong secondary effects on investment. Investment demand is already showing signs of recovery, albeit at a slower pace than consumption demand. In 2004/2005 its contribution to domestic demand growth was 1.7 percent compared to 1 percent in the previous year. As capital formation increased in response to economic policies that target domestic demand and economic growth, investment demand gained strong momentum during the first three quarters of 2005/2006, contributing 2.3 percent to domestic demand growth.
(Figure II.2; Appendix B, Tables 1.2, I.3a&1.3b).

Currently, investment constitutes 17 percent of GDP (Appendix B, Table I.3b). A sustained rise in domestic demand, in response to continued reforms, should uphold economic growth at 6 percent in the medium term. The saving rate amounts to 16 percent of GDP by end of June 2005. The relatively low savings rate is partly a function of per capita income in Egypt. It is also due to the stability in the inflation rates that the economy is witnessing for the past year, supported by a credible monetary policy and a stable exchange rate. In addition, recent trade and tax reforms have raised household sector wealth. Since wealth is a store of future income, less needs to be saved from current income in order to generate a given future income stream. Confidence in the economy is also encouraging the current consumption trend, especially as buoyant activity levels could encourage investment in property.

At the same time, low and middle income earners are either relying on inherited wealth and therefore do not seek to increase their savings, or are not able to increase their savings under the current pensions and insurance schemes. Current generous government benefits that are not matched by contributions give

[3] See **Appendix D** for main highlights of the new tax law.

pensioners little incentive to save. Pensions reform planned by the Ministry of Finance and ongoing insurance sector reform by the Ministry of Investment will cause a major shift in household behavior to start saving a proportion of incomes to increase expected future pensions and insurance incomes. Pensions reform will be addressed in future issues of the Monitor. Some ongoing insurance sector reform are pointed out in Appendix C: Economic News.

The macro-economy was more favorable to private sector led growth in 2004/2005. As a result, private sector growth will dominate the uptake in consumption demand.

Although private sector growth was negatively affected by the economic slowdown during the early years of the millennium, the acceleration of consumption demand since 2002/2003 (which is carrying into 2005/2006 at 4.6 percent) is owed mainly to a stronger private sector. As public sector consumption weakened, its contribution to total consumption growth in 2004/2005 is stagnant at 0.4 percent since the early years of the millennium. Thus In real terms, total consumption is almost exclusively driven by private consumption demand (Figure II.3; Appendix B, Table 1.3).

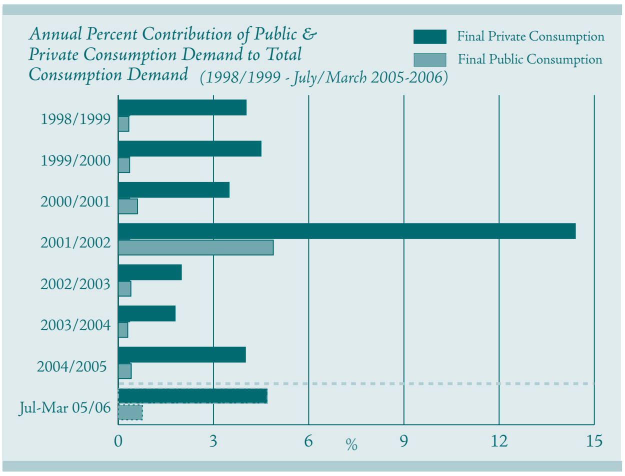

FIG. II.3 Source: MOP

In the meantime, inflation rates are still falling …

Inflation rates have maintained a single digit rate since January 2005. CPI inflation has stabilized at around 5.3 percent in May 2006. The drop in WPI inflation is even more pronounced. WPI rates fell from 21.7 percent in February 2004, to 4.8 percent in February 2005 to 2.5 percent in March 2006 (Figure II.4). The continued drop in the inflation rate suggests that the exchange rate has stabilized.

In addition, ongoing monetary policy reforms[4]—including steps towards anchoring inflation expectations— will enable the Central Bank to deal with inflationary pressures more efficiently.

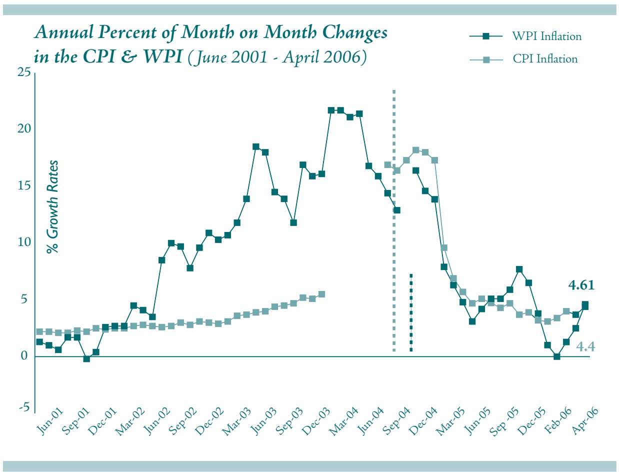

FIG. II.4 Source: CAPMAS

… as the pound stabilizes …

After the announcement of a free float in January 2003, both the nominal and real effective exchange rates fell significantly, reflecting a real depreciation of the pound, and increased competitiveness (Table II.1; Figure II.5).

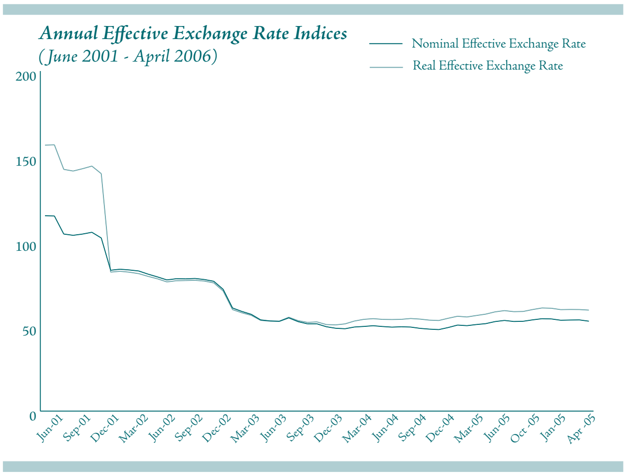

FIG. II.5 Source: IMF

… in response to a number of factors. Two key ingredients were:

the establishment of an interbank market…

The launch of a formal and active interbank market for foreign exchange in December 2004 served to create a liquid foreign exchange market and to converge the official and parallel market rates. In addition, confidence in the economy has spurred substantial inflows of private foreign capital that supported the accumulation of reserves and the repayment of external debt. The real effective exchange rate has

[4] See **Appendix C: Economic News** and previous issues of the Egyptian Economic Monitor available at **www.mof.gov.eg.**

thus shown signs of appreciation since December 2004 (Figure II.5)

...and the elimination of surrender requirements.

The Prime Minister issued Decree No. 2059/2004 rescinding Decree No. 506/2003 that required exporters to surrender 75 percent of their foreign exchange proceeds. This step helped enhance the liquidity of the market because it gave confidence to the international community that Egypt will pursue sound economic policies that preclude the need to use such a restriction.

Egypt's external debt position continues to be strong ...

Egypt's total external debt in terms of net present value has declined from US$29.9 billion in 1991 to US$24.6 billion in December 2005. Its maturity structure is favorable, with short term debt constituting less than 5.6 percent of total external debt (Figure II.25). As a percentage of GDP, foreign debt stood at less than 29 percent in March 2006, compared to 30 percent in June 2005 and 38 percent in June 2004. Debt service, as a percent of current account receipts and of exports of goods and services, was 7.6 percent and 9 percent compared to 7.9 percent and 9.4 percent respectively in June 2005, down from 9.2 percent and 10.8 percent a year earlier (Table II.1).

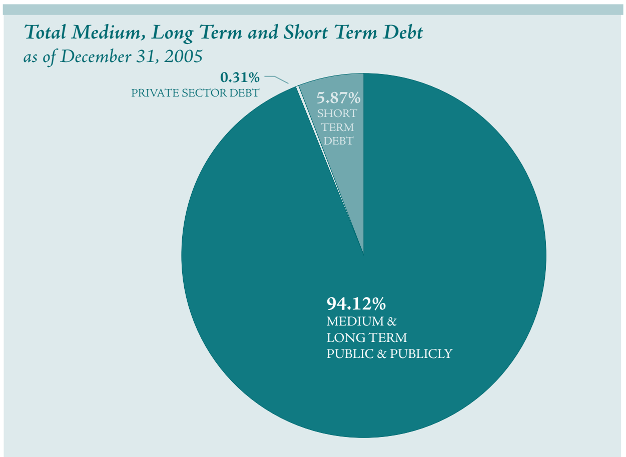

FIG. II.25 Source: CBE

... and the fiscal deficit continues to be under control.

The budget deficit according to the new IMF 2001 GFS classification standard (modified to cash principles)[5], is expected to increase from 9.5 percent in June 2005 to only 9.7 percent in June 2006, despite tariff reductions implemented in September 2004, and tax rate cuts of 50 percent implemented as of last July 2005.

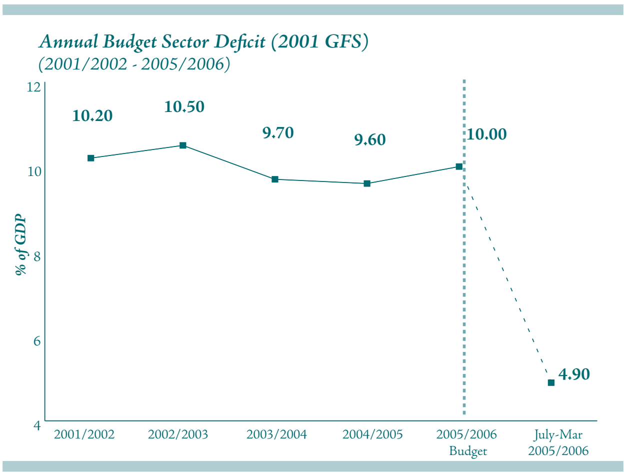

FIG. II.7 Source: MOF

The budget deficit is projected to rise by only less than half a percentage point during fiscal year 2005/2006 (Appendix A: Table I.1). The projected increase in the deficit is explained by a number of factors: (i) the continued drop in customs receipts in response to the September 2004 tariff reductions; (ii) the expected decline in income tax proceeds following tax cuts that became effective in July 2005 (Figure II.9); and (iii) the treatment of petroleum subsidies as explicit expenditure items.

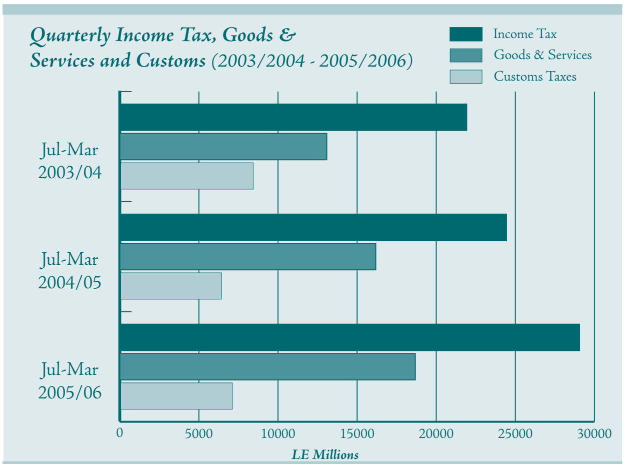

FIG. II.9 Source: MOF

After a period of sluggish growth, total revenue growth is outperforming expenditure growth in 2005/2006 as confirmed by data for the period July-March 2006 compared to July-March 2005.

As the economy expands and the taxable base widens, the contribution of both income and sales tax proceeds to total revenues and GDP growth should witness significant increases. Tax reductions, coupled with ongoing improvements in tax transformation, should increase FDI flows even more, as well as manufacturing exports and manufacturing value added.[6]

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[5] See **Appendix C: Economic News**

[6] UNCTAD (United Nations Conference on Trade and Development). April 2005. Note on Country Experiences with Tax Harmonization.

Data for the first three quarters of the current fiscal year (July-March 2006) confirm that income and customs tax receipts have picked up beyond their levels in the corresponding period of the previous years, despite the rate cuts (Table I.1a&b; Figure II.9).

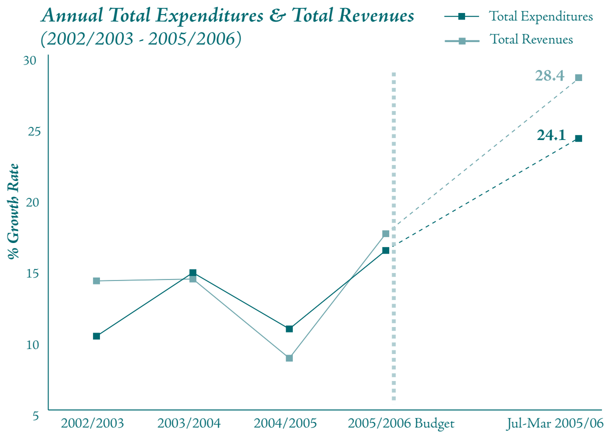

FIG. II.8 Source: MOF

Meanwhile, public and government debts remain manageable.

Despite more reliance on non-inflationary financing since 1999/2000, net budget sector and general government debts are stable. Relative to GDP, net budget sector debt was some 58 percent in December 2005 compared to 57.5 percent during the previous quarter, and 62 percent in June 2005. Net general government debt was 38.3 percent of GDP compared to 37.4 percent and 39.6 percent for the comparative periods (Figure II.11).

As the expected economic recovery takes hold and growth rates strengthen, domestic debt ratios will go down. Egypt's debt dynamics will benefit from expected strong nominal GDP growth; the resumption of privatization; and the stabilization of the exchange rate. Furthermore, better tax compliance under the new simplified tax system could help improve the fiscal position and public indebtedness.[7]

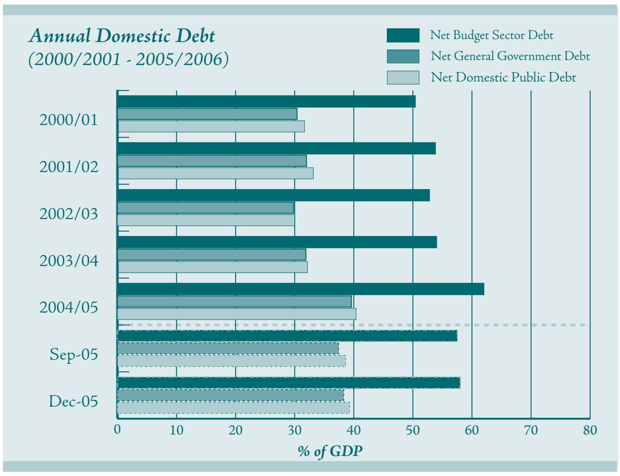

FIG. II.11 Source: MOF

The improvement in the competitiveness of the Egyptian economy will be further spurred by recent trade reforms.

Exports growth rates have been on an upward trend since 2001/2002 (Figure II.13). The competitiveness of Egypt's exports was prompted by the devaluation of the pound in 2003. In nominal terms, exports increased by 32 percent during 2004/2005 compared to 27.4 and 15.2 percent in 2003/2004 and 2002/2003 respectively. While the deceleration in global growth, the continued rise in oil prices, and the recent appreciation of the pound[8] could slightly dampen the demand for merchandize exports, ongoing trade and fiscal reforms are expected to stimulate export-oriented growth.

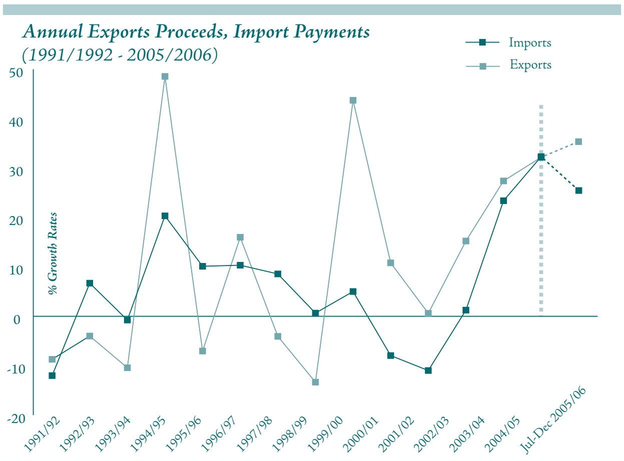

FIG. II.13 Source: CBE

Egypt's external position continues to be strong despite a small narrowing of the current account surplus and a slight widening in the trade deficit.

Higher investment demand associated with the September 2004 reduction in tariffs and the recent recovery in economic growth rates was reflected in a

[7] Fitch Ratings. January 2005. Arab Republic of Egypt: International Credit Update.

[8] The Egyptian pound has appreciated by some 8 percent since December 2004

rise in imports (32 percent in 2004/2005 compared to 23.4 and 1.3 percent respectively in 2003/2004 and 2002/2003). The rise in the current account surplus during the past four years has been driven by a significant improvement in the services balance. The fall in the value of the Egyptian pound through 2004 made Egypt an attractive tourist destination (Figures II.13&18).

The appreciation of the pound since end-December 2004 has caused a robust growth in imports , which could increase pressures on the trade deficit. However the services surplus should remain unaffected (the appreciation of the pound should not have a significant impact on either tourism or the Suez Canal receipts), and should more than make up for any pressures on the trade balance. The current account therefore remains in surplus, standing at 3.3 percent of GDP during 2004/2005 compared to 4.4 percent in 2003/2004. This performance has carried into 2005/2006 which has seen flows of US$1.1 billion during the first six months of the current year, compared to US$1.9 billion during the same period in 2004/2005 (Figure II.18).

The overall balance of payments has seen a surplus for the first time reaching US$8.1 billion In 2004/2005 compared in a deficit of US$158 million last year. The first six months of the fiscal year have seen inflows of US$2.6 billion compared to inflows of US$714 million last year (Tables 3.1&3.2).

Annual Current Account Balance, Trade Deficit and Net Services as Percent of GDP *(1991/1992 - 2005-2006)*

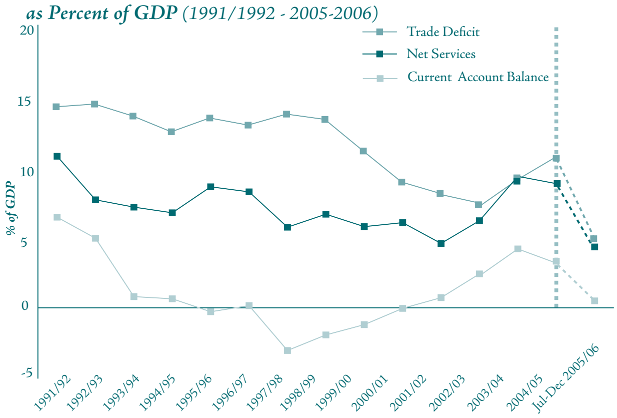

FIG. II.18 Source: CBE

Turning to the stock market, after a bullish performance through mid February, the market witnissed a correction..

Thus as 2005/2006 began, the foundations for a sustained economic expansion were already in place. In response, a positive market sentiment prevailed, pushing the stock market up through mid-February 2006; after which the market witnessed a process of correction to date. CASE-30 saw a 30 percent net decrease between April-June 2006 (Figures II.39&40).

Annual CASE-30 Performance *(January 2004 - June 2006)*

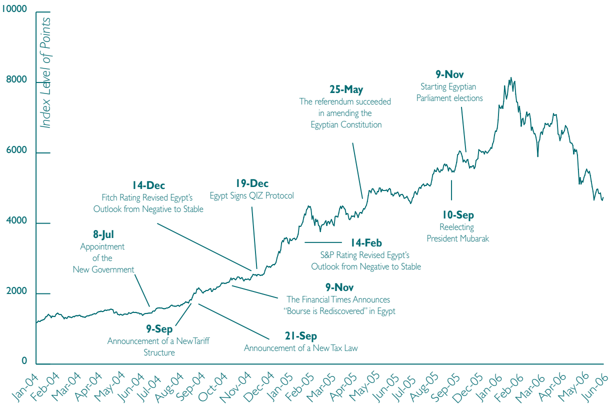

FIG. II.39 Source: MOF

This correction can be attributed to the entrance of small investors during recent IPOs[9]. These investors lacked the experience needed for investing in the stock market. Moreover, significant falls in several Arab stock markets forced large investors and some international financial institutions to sell their positions in order to decrease their overall losses.

Meanwhile, taking a glance at listed companies, we see that first-quarter results show a growth rate of 20 percent on average. The growth in these earnings illustrates that the sharp increase the Egyptian stock market achieved since July 2004 is not a bubble; it is a reflection of the recent economic expansion based on strong and stable fundamentals. This means that the outlook is still promising even if the stock market has not fully recovered. The key to maintaining the upward trend is to continue the development of the business environment and to accelerate privatization.

In addition, there are two positive signs that appeared recently in the Egyptian market. The first one is that non-Arab foreigners have turned into net buyers. This indicates that the negative effects that hit the Egyptian market from the Gulf markets will gradually be phased out. The second is that Fitch recently affirmed Egypt's foreign currency rating at BB+ and local currency rating at BBB, both with stable outlook.

Moreover, global investors are now shifting their interests into emerging markets in order to invest in the under-valued stocks. From this point of view, Egypt may benefit from global capital inflows.

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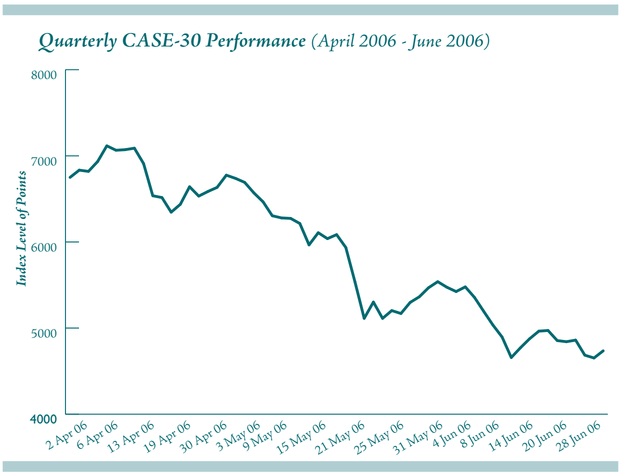

FIG. II.40 Source: MOF

Optimism and restored confidence in the economy has helped the CBE build up its NIRs…

The CBE continues to build its net international reserves (NIR), which at US$22.9 billion in May 2006 have surpassed the 1997 record level of US$20.3 billion. The robust NIR position owes to a strong current account and overall confidence in monetary policy and the exchange rate (Figure II.12a, II.12b).

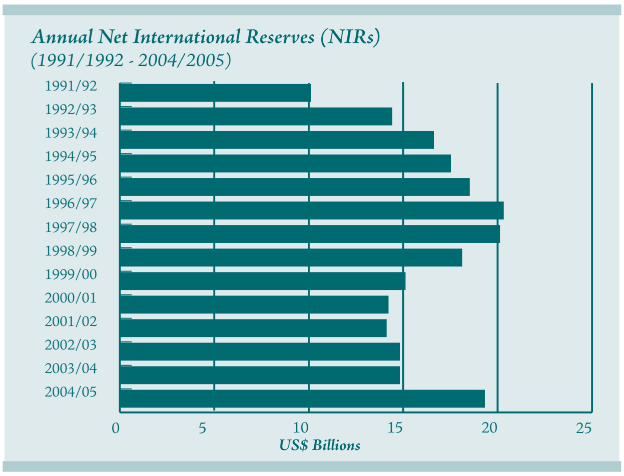

FIG. II.12a Source: CBE

FIG. II.12b Source: CBE

… and suggest that there is significant scope in attracting FDI to Egypt.

The recent policy initiatives in the areas of trade reform, taxation and revived privatization have been directed towards realizing Egypt's potential in attracting FDI. Privatization will extend to the banking sector as part of a broader financial sector restructuring plan. Recent leadership changes in the General Authority for Investment (GAFI) also bode well for foreign direct investment (FDI). GAFI is intent on improving conditions for existing investors in order to attract new inflows. In addition, new optimism has, as predicted in previous issues of the Monitor, reversed the downward trend of the past years. Over 2004/2005, non-oil FDI inflows tripled to US$1.3 billion, bringing total FDI flows to US$3.9 billion in June 2005. During the first six months of the fiscal year, FDI flows almost doubled to US$3.3 billion compared to last year (Figure II.27).

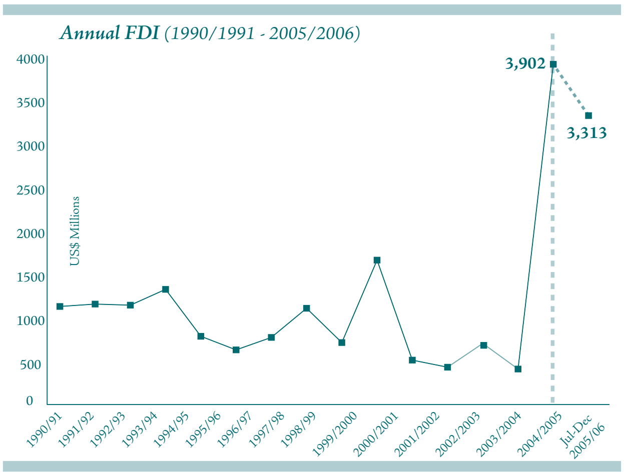

FIG. II.27 Source: CBE

I.2 .. GOVERNMENT FINANCES BUDGET EXECUTION: 2001/2002 - 2005/2006[10]

Revenues

Revenue implementation (actual revenues as a percent of budgeted or projected revenues) has overall strengthened between 2001/2002 and 2004/2005. The medium-term forecasting of revenues from the different revenue components is currently being enhanced in the newly established macro-fiscal unit with a view to making budget projections more accurate.

Concerning overall budget revenues, there are across the board overestimates of both tax and non-tax proceeds. However revenue execution has improved between 2001/2002 and 2004/2005, with implementation rates rising from 81 percent in 2001/2002 to 93.7 percent in 2004/2005. The execution of tax revenues has similarly improved to 95.1 percent, although customs proceeds weakened in 2004/2005 to 61.4 percent compared to previous years because of tariff reductions that became effective in September 2004.

During the first three quarters of 2005/2006 the performance of customs revenue was stronger, and on track, compared to the corresponding period of last year (77.1 percent versus 45.5 percent) as the tariff reductions were worked into the budget projections. Income tax performance is also stronger, with implemented income tax proceeds recording 69.6 percent of projected revenues compared to 66.2 percent during July-March 2005. The performance of individual tax revenues was particularly strong, yielding 70.1 percent of budgeted individual tax revenues, compared to 51.9 percent in the first three quarters of 2004/2005, indicating the impact of the tax awareness campaign, the elimination of exemptions and consequently improved transparency, compliance and less tax evasion. All these factors served to improve projections of individual tax receipts. In contrast, implemented corporate tax proceeds were lower, standing at 69.8 percent of projected receipts compared to 73.9 percent last year.

Concerning non-tax revenues, after strengthened implementation in 2002/2003 and 2003/2004, revenue execution from the Suez Canal and the Central Bank saw some weakening in 2004/2005. However July-March 2005/2006 saw an improved performance over the same period last year.

Expenditures

Looking at the expenditure levels provided for the past four years, we find that total expenditures executed are largely on track. Some expenditure items are overestimated but only by a small margin. Notable weaknesses are in defense, investment expenditures and other expenditures, which are consistently underestimated. While defense and other expenditures are almost always off track, investment expenditure projections are uneven.

Concerning interest payments, both domestic and foreign payments tend to be consistently overestimated. During the first three quarters of 2005/2006 expenditure implementation overall strengthened compared to the same period of 2004/2005.

The Budget Deficit

While fiscal consolidation is key to achieving a sustainable budget deficit, an equally important challenge on how to generate more revenues and improve revenue projections in order to make more informed expenditure estimates is currently being addressed. Current tax reformation is one step towards that objective. The new macro-fiscal unit at the Ministry is being developed and enhanced to be able to provide a more useful and accurate outlook of the budget, thus improving performance against budget estimates.

[10] Data available for the first three quarters of fiscal year 2005/2006 (July-March, 2006).

rise in imports (32 percent in 2004/2005 compared to 23.4 and 1.3 percent respectively in 2003/2004 and 2002/2003). The rise in the current account surplus during the past four years has been driven by a significant improvement in the services balance. The fall in the value of the Egyptian pound through 2004 made Egypt an attractive tourist destination (Figures II.13&18).

The appreciation of the pound since end-December 2004 has caused a robust growth in imports , which could increase pressures on the trade deficit. However the services surplus should remain unaffected (the appreciation of the pound should not have a significant impact on either tourism or the Suez Canal receipts), and should more than make up for any pressures on the trade balance. The current account therefore remains in surplus, standing at 3.3 percent of GDP during 2004/2005 compared to 4.4 percent in 2003/2004. This performance has carried into 2005/2006 which has seen flows of US$1.1 billion during the first six months of the current year, compared to US$1.9 billion during the same period in 2004/2005 (Figure II.18).

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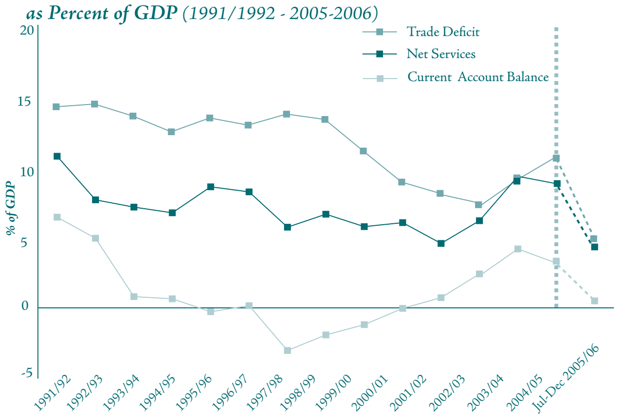

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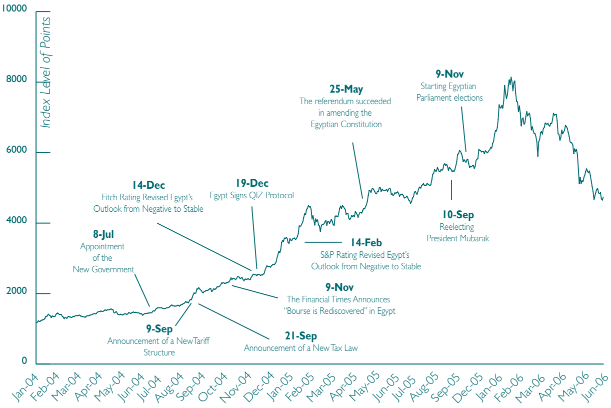

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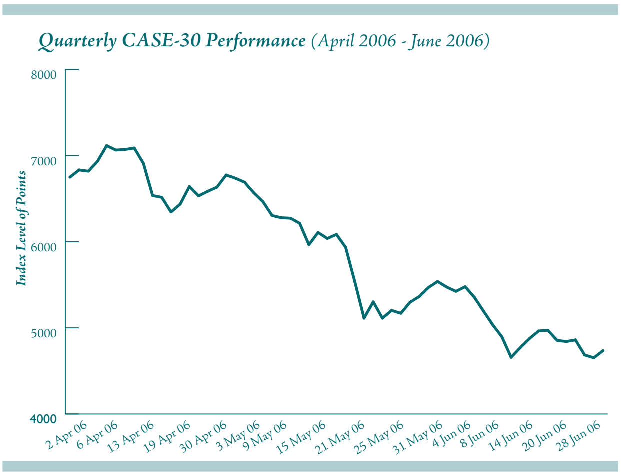

FIG. II.40 Source: MOF

Optimism and restored confidence in the economy has helped the CBE build up its NIRs…

The CBE continues to build its net international reserves (NIR), which at US$22.9 billion in May 2006 have surpassed the 1997 record level of US$20.3 billion. The robust NIR position owes to a strong current account and overall confidence in monetary policy and the exchange rate (Figure II.12a, II.12b).

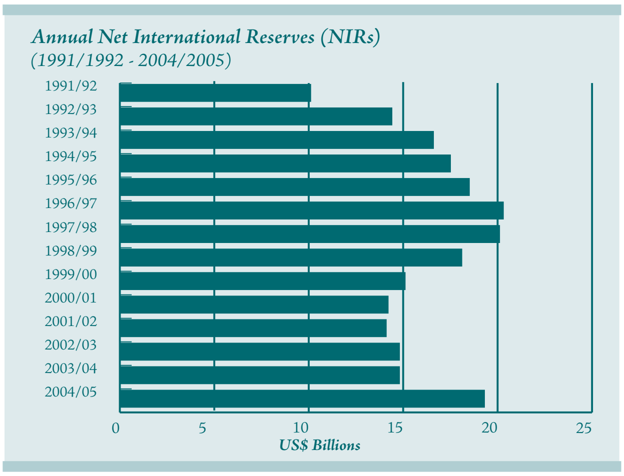

FIG. II.12a Source: CBE

FIG. II.12b Source: CBE

… and suggest that there is significant scope in attracting FDI to Egypt.

The recent policy initiatives in the areas of trade reform, taxation and revived privatization have been directed towards realizing Egypt's potential in attracting FDI. Privatization will extend to the banking sector as part of a broader financial sector restructuring plan. Recent leadership changes in the General Authority for Investment (GAFI) also bode well for foreign direct investment (FDI). GAFI is intent on improving conditions for existing investors in order to attract new inflows. In addition, new optimism has, as predicted in previous issues of the Monitor, reversed the downward trend of the past years. Over 2004/2005, non-oil FDI inflows tripled to US$1.3 billion, bringing total FDI flows to US$3.9 billion in June 2005. During the first six months of the fiscal year, FDI flows almost doubled to US$3.3 billion compared to last year (Figure II.27).

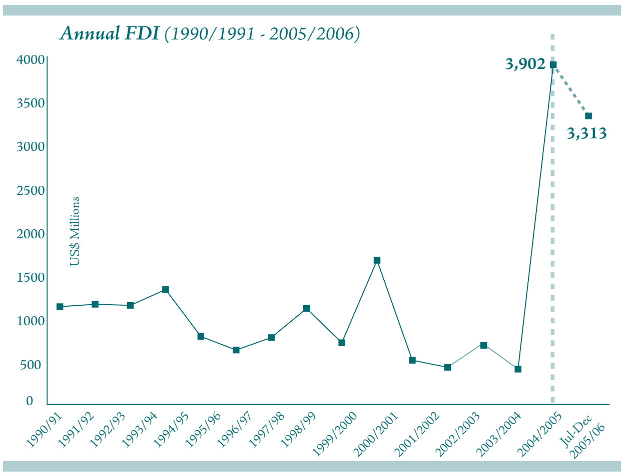

FIG. II.27 Source: CBE

I.2 .. GOVERNMENT FINANCES BUDGET EXECUTION: 2001/2002 - 2005/2006[10]

Revenues

Revenue implementation (actual revenues as a percent of budgeted or projected revenues) has overall strengthened between 2001/2002 and 2004/2005. The medium-term forecasting of revenues from the different revenue components is currently being enhanced in the newly established macro-fiscal unit with a view to making budget projections more accurate.

Concerning overall budget revenues, there are across the board overestimates of both tax and non-tax proceeds. However revenue execution has improved between 2001/2002 and 2004/2005, with implementation rates rising from 81 percent in 2001/2002 to 93.7 percent in 2004/2005. The execution of tax revenues has similarly improved to 95.1 percent, although customs proceeds weakened in 2004/2005 to 61.4 percent compared to previous years because of tariff reductions that became effective in September 2004.

During the first three quarters of 2005/2006 the performance of customs revenue was stronger, and on track, compared to the corresponding period of last year (77.1 percent versus 45.5 percent) as the tariff reductions were worked into the budget projections. Income tax performance is also stronger, with implemented income tax proceeds recording 69.6 percent of projected revenues compared to 66.2 percent during July-March 2005. The performance of individual tax revenues was particularly strong, yielding 70.1 percent of budgeted individual tax revenues, compared to 51.9 percent in the first three quarters of 2004/2005, indicating the impact of the tax awareness campaign, the elimination of exemptions and consequently improved transparency, compliance and less tax evasion. All these factors served to improve projections of individual tax receipts. In contrast, implemented corporate tax proceeds were lower, standing at 69.8 percent of projected receipts compared to 73.9 percent last year.

Concerning non-tax revenues, after strengthened implementation in 2002/2003 and 2003/2004, revenue execution from the Suez Canal and the Central Bank saw some weakening in 2004/2005. However July-March 2005/2006 saw an improved performance over the same period last year.

Expenditures

Looking at the expenditure levels provided for the past four years, we find that total expenditures executed are largely on track. Some expenditure items are overestimated but only by a small margin. Notable weaknesses are in defense, investment expenditures and other expenditures, which are consistently underestimated. While defense and other expenditures are almost always off track, investment expenditure projections are uneven.

Concerning interest payments, both domestic and foreign payments tend to be consistently overestimated. During the first three quarters of 2005/2006 expenditure implementation overall strengthened compared to the same period of 2004/2005.

The Budget Deficit

While fiscal consolidation is key to achieving a sustainable budget deficit, an equally important challenge on how to generate more revenues and improve revenue projections in order to make more informed expenditure estimates is currently being addressed. Current tax reformation is one step towards that objective. The new macro-fiscal unit at the Ministry is being developed and enhanced to be able to provide a more useful and accurate outlook of the budget, thus improving performance against budget estimates.

[10] Data available for the first three quarters of fiscal year 2005/2006 (July-March, 2006).