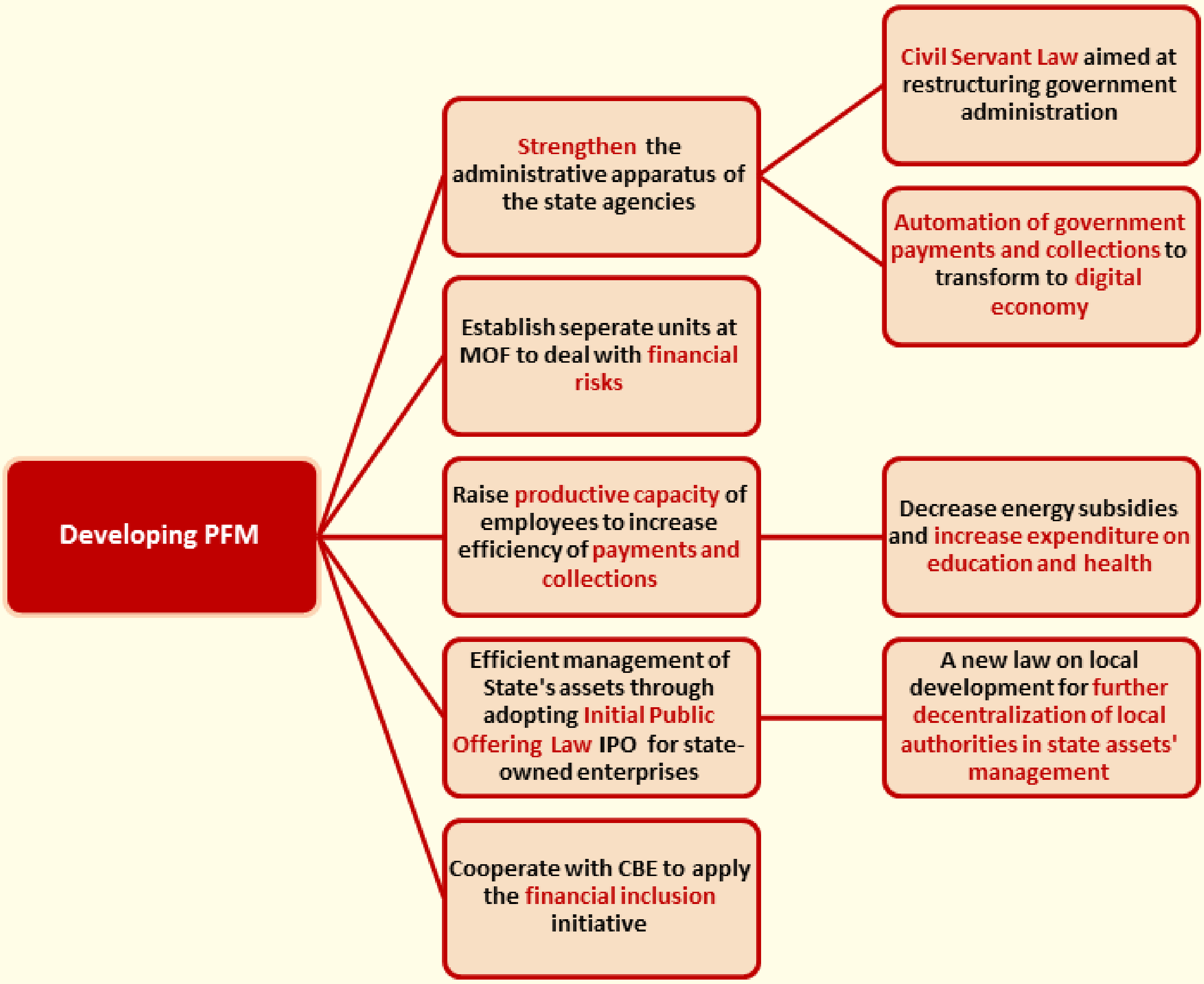
Executive Summary

Developing Public Finance Management

The economic reform program implemented by the Egyptian government is an important step towards achieving economic advancement. The main economic indicators continue to achieve positive results in the light of the reforms implemented by the government during the past years. In a related context, the Ministry of Finance is always keen to provide channels of direct communication with citizens and engage them in the economic vision and policy-making decisions. The Ministry has been conducting for the last five years social dialogues with all sectors of society such as: CSOs, private sector and political parties at the time of issuing any report containing the government's fiscal vision and plans. These reports include the Budget Statement for the fiscal year 2019/2020, which was presented to Parliament. It can be accessed via the Ministry's website: www.mof.gov.eg

In addition, fiscal policy plays a major role in stimulating economic activity, increasing productivity and creating jobs to meet the requirements for development, to contribute in raising the standard of living of citizens and to create the financial ability that increases spending on education, health, public services and social protection programs. In this regard, the Ministry is continuing the financial development within the framework of a comprehensive vision adopted by the Egyptian government through a package of laws and procedures, as follows:



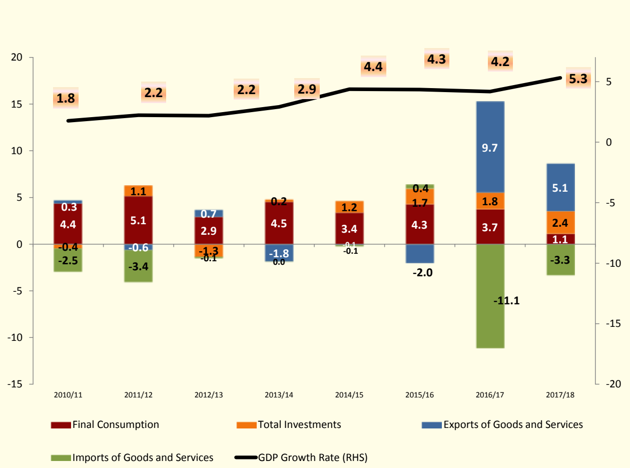
Recent Macroeconomic Indicators

Real Sector

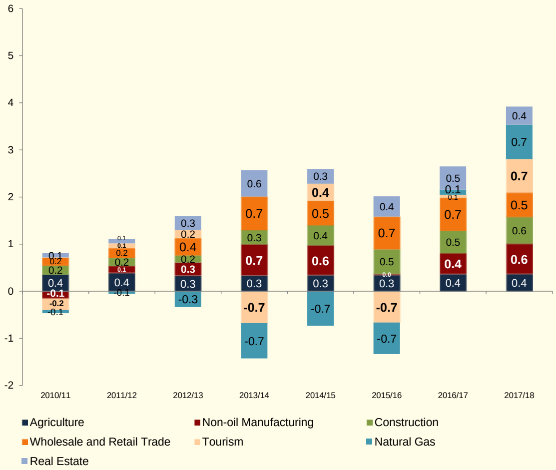
- **In light of the responsiveness of recent macro-economic indicators to the strong reforms, GDP grew by 5.5 percent during First half of FY18/19. As well as, it recorded 5.2 percent** during FY17/18, compared to 3.6 percent during the last fiscal year. **Net Exports performance was the highlight contributing positively** to growth by 1.8 PPT, compared to a negative contribution of 1.4 PPT during FY16/17. Meanwhile, **public and private consumption have contributed to growth by** a total contribution of 1.1 PPT, compared to 3.7 PPT during FY16/17. **Investments contributed positively** to growth by 2.4 PPT, compared to a lower contribution of 1.8 PPT during FY16/17.

Furthermore, **total Production Index rose by 7.5 percent on annual basis** recording an average of 130.2 points during FY17/18, compared to 121.1 points during FY16/17, **driven mainly by Natural Gas Sub-Index that picked-up by 13.1 percent** on annual basis, recording an average of 172.4 points during FY17/18, compared to 152.4 points during FY16/17.

Contribution to GDP Growth (at market prices) (PPT)
(2010/2011 - July- June 2017/2018)



Contribution to GDP Growth (at factor cost) (PPT)
(2010/2011 - July- June 2017/2018)



- **PMI[1] has recorded** 48.2 in May 2019 compared to a five-year low of 41.7 in July 2013.

- **Industrial Production witnessed vast improvement inching up by 27.6 percent** during July-September 2018 to record LE 185.3 billion, compared to LE 145.3 billion during the same period last year.

- **Net International Reserves (NIR) has reached US$** 44.27 **billion during May 2019**, compared to US$ 44.22 billion last month, and compared to a lowest level of US$ 13.4 billion at end of March 2013.

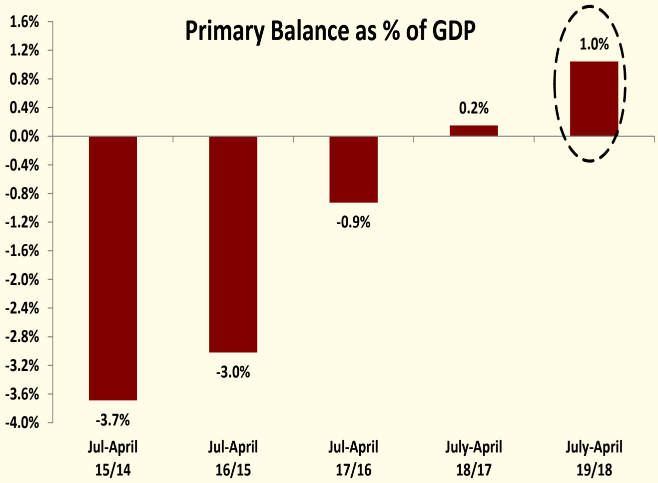
- **Regarding EGX indices,** the Egyptian Exchange market capitalization declined m-o-m by 1 percent reaching LE745 billion at end of May 2019. The EGX-30 Index decreased by 7.7 percent during May 2019 to reach 13,771.3 points, compared to closing at 14,920.2 points in the previous month. Meanwhile, the EGX-70 decreased by 7.9 percent, closing at 597.4 points compared to 648.3 points in the previous month.

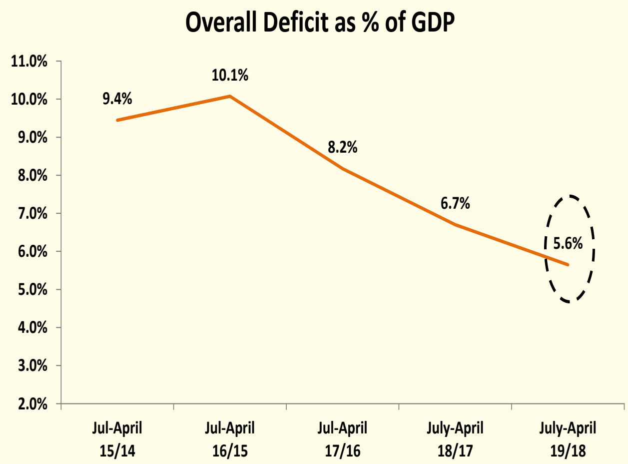
[1] **Definition: The Purchasing Managers' Index (PMI) is an economic indicator that surveys purchasing managers at businesses in a given sector. The PMI is based on components and indicators such as: new orders, inventory levels, output, stock purchases and the employment environment. The purpose of the PMI is to provide information about current business conditions to company decision makers, analysts and purchasing managers. PMI is produced by Emirates NBD Bank.**

Fiscal Sector

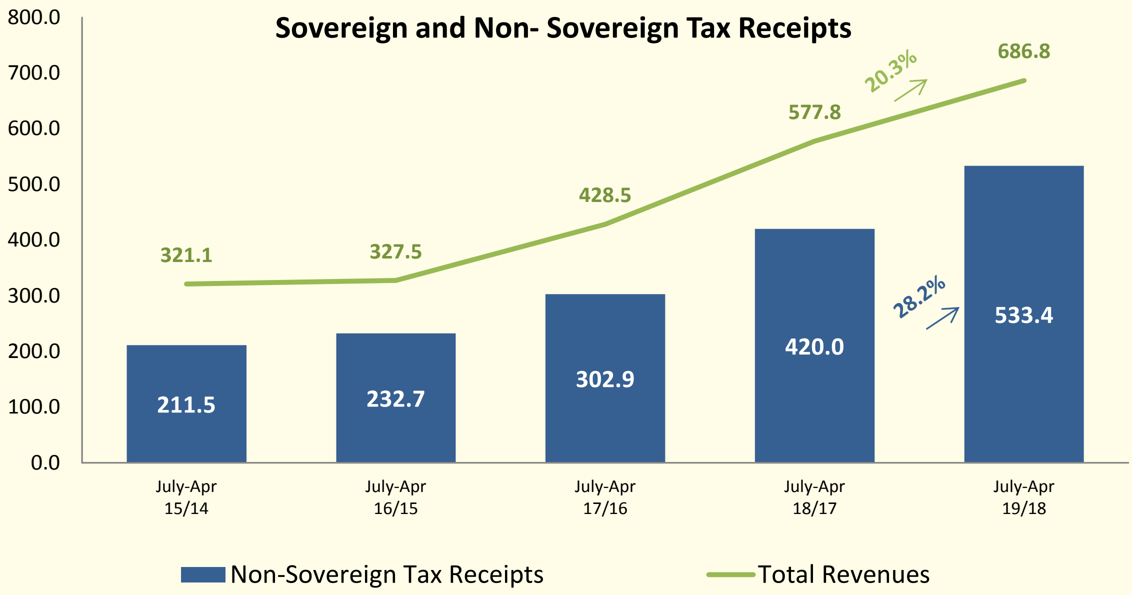
- **In light of the strategic vision announced through the National Economic Reform Program, the government has taken many reform measures during the past three years in various fields to put the economy on track to achieve its potential.** Those reforms had a noticeable impact on improving fiscal performance. one of the promising signals appears in achieving sustainable primary surplus during the first Ten months of the fiscal year 2018/2019.

- **A Primary Surplus has been recorded reaching LE 54.8 billion (1.0 percent of GDP),** compared to primary surplus of LE 6.7 billion (0.2 percent of GDP) during the same period last year. This surplus has been steadily attained on a monthly basis since August 2018. **Budget deficit recorded 5.6 percent of GDP** during the period July-April 2018/2019, compared to 6.7 percent during the same period last year. This could be explained in light of the **increase in Revenues by 18.9 percent during the period of study, exceeding the growth in expenditure recording 12.8 percent**.





- This is attributed to continued economic growth in light of the fiscal and economic reforms adopted by the Egyptian government, whereas most reform measures have been employed during last fiscal year, including subsidies reforms, amendments to development fees law, The law on ending tax disputes, increasing excises on tobacco, and implementing the real estate tax law. **On the Revenues Side,** results reflect the continued implementation of the tax reform program, improving tax administration, maximizing state revenues, and improving the performance of tax and customs. There is a **clear increase in Tax Receipts** (80.1 percent of total revenues) **by LE 79.8 billion** (17.0 percent growth increase) to record LE 550.3 billion during the period of study: **receipts from Value added taxes** recorded LE 276.7 billion increasing notably by 18.8 percent (LE 43.7 billion). Besides, **receipts from taxes on professional income rose by 53.4 percent** and from **corporate profits by 19.2 percent, and receipts from taxes on domestic salaries rose by 37.8 percent**. Meanwhile, **Tax Receipts from Suez Canal increased** by 30.9 percent (by LE 6.9 billion) to reach LE 29.2 billion, and receipts from **Other Companies** have increased by 33.5 percent (LE 19.3 billion) to reach LE 76.9 billion, and **Tax Receipts from EGPC** have reached LE 16.7 billion. As well, **Tax Receipts from International Trade have increased** by 15.6 percent (by LE 4.4 billion) to reach LE 32.4 billion during the period of study.



Fiscal Sector Performance during July- April 2018/2019

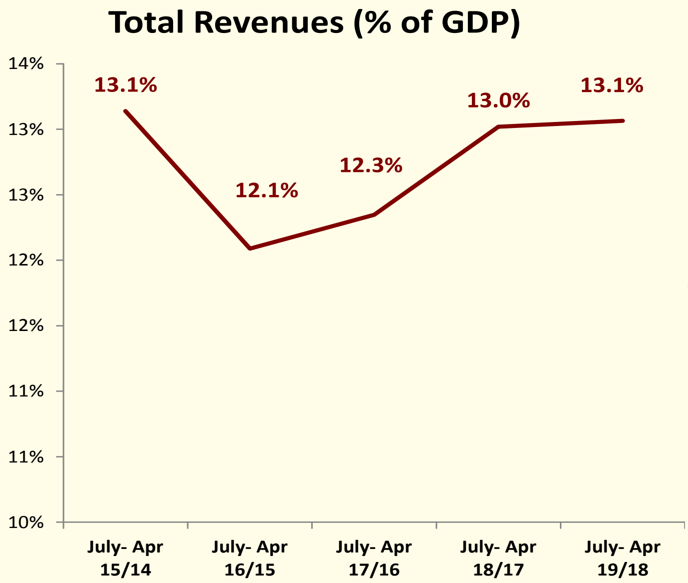
(LE billion)

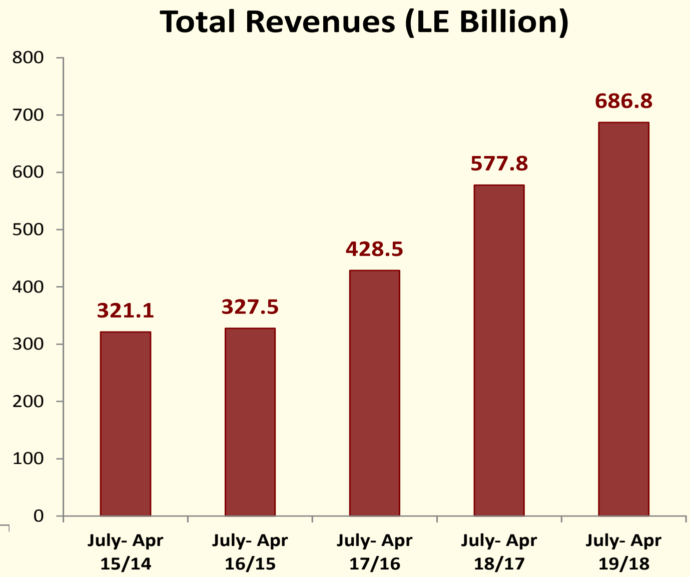
	July- April		Growth rate
	2019/18	2018/17	
Revenues	**686,783**	**577,784**	**19%**
As a percent of GDP	***13.1%***	***13.0%***	
Taxes	550,271	470,512	17%
Grants	635	544	17%
Other Revenues	135,877	106,728	27%
Expenditure	**982,452**	**870,869**	**13%**
As a percent of GDP	***18.7%***	***19.6%***	
Wages and Compensation of Employees	218,590	190,874	14.5%
Purchase of Goods and Services	48,887	32,783	49%
Interest Payments	351,320	304,250	15%
Subsidies, Grants and Social Benefits	202,784	222,224	-9%
Other Expenditures	61,505	55,018	12%
Purchases of Non-financial Assets (investments)	99,366	65,720	51%
Cash Deficit	**295,669**	**293,084**	
Budget Deficit	**296,516**	**297,582**	
Budget Primary Surplus (%of GDP)	**1.0%**	**0.2%**	
Budget Overall Deficit (%of GDP)	**5.6%**	**6.7%**	

Budget primary surplus represents the overall deficit excluding interest payments.

GDP actuals for FY17/18 has been revised recently to reach LE 4437.4 billion instead of 4440.6 billion. Meanwhile GDP projections for FY18/19 are estimated to reach LE 5250.9 billion as per the Ministry of Finance Calculations.

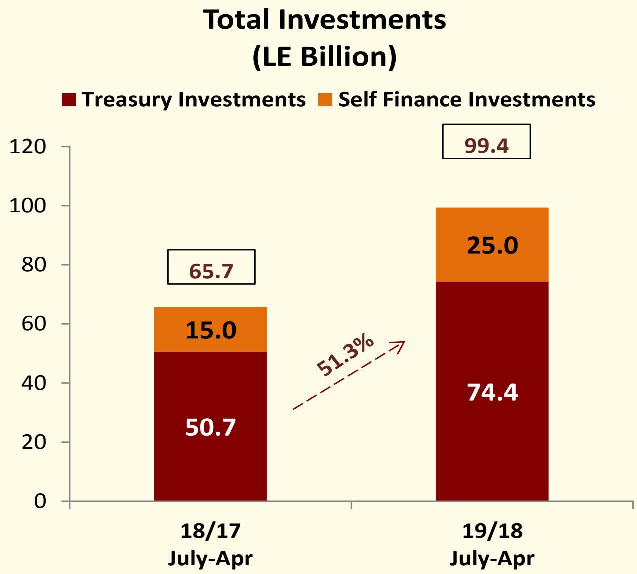
- **Moreover, Non-Tax Revenues** (19.9 percent of total revenues) increased **by LE 29.2 billion** (27.3 percent growth increase) to record LE 136.5 billion during the period of study. This came mainly in light of the increase of **Dividends from Suez Canal** by LE 9.3 billion (by 57.4 percent) to reach LE 25.5 billion during the period of study, compared to LE 16.2 billion during the same period of last year, and the increase in **Dividends from Economic Authorities** by LE 2.2 billion (by 28.0 percent) to reach LE 10.0 billion during the period of study, compared to LE 7.8 billion during the same period of last year. Moreover, **Proceeds from Sales of Goods and Services** have increased by LE 12.4 billion **(47.2 percent growth)** to reach LE 38.7 billion. In addition to the increase in proceeds from **Miscellaneous Revenues by** LE 7.0 billion compare to the same period last year.



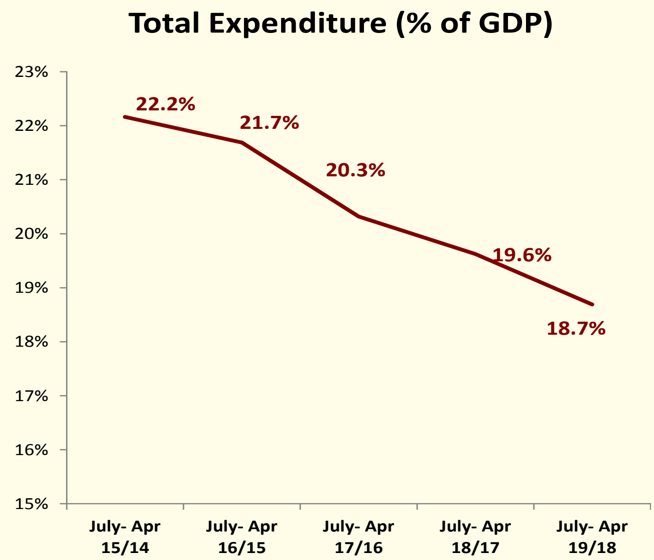


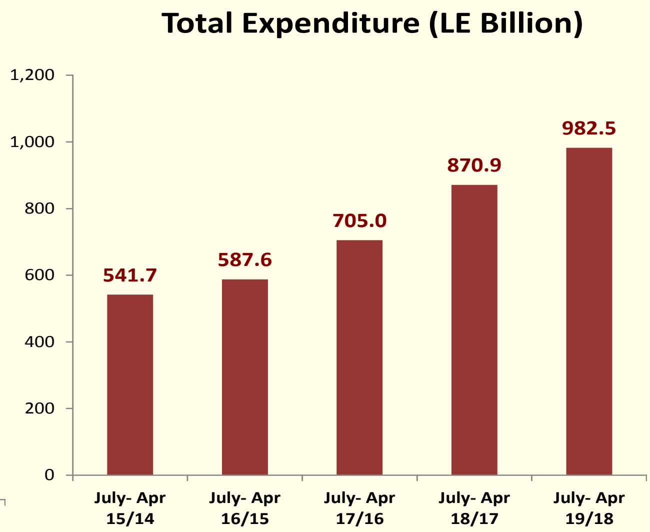
- **On the expenditure side, reprioritization is to achieve the best social yield through investment in human capital and better distribution of services and infrastructure. Total social annual spending has reached to date 1.3 percent of GDP.** In this regards, total expenditures have increased by 12.8 percent during July-April FY18/19, compared to last year.

- The period July-April 2018/2019 witnessed an **increase in wage growth rates** in light of the 7% annual bonus increase for public employees subject to civil service law, and 10% bonus increase for public employees non-subject to the law. In addition to awarding public employees exceptional bonus with a minimum limit of LE 180, and a maximum limit of LE 200 among the social package approved In July 2018.



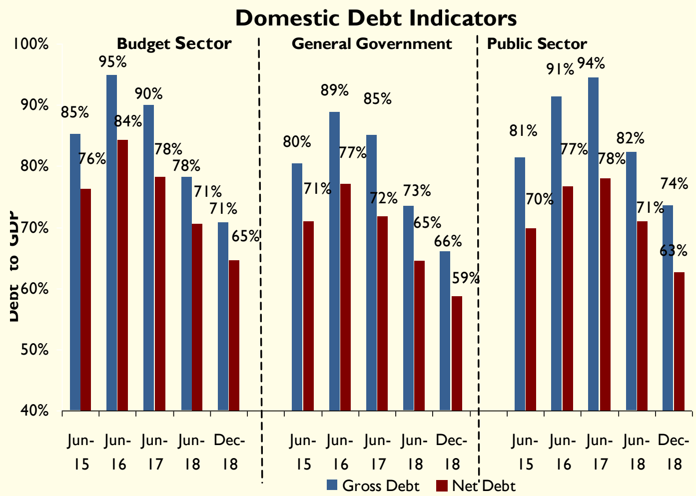
- Meanwhile, **Investment Spending rose notably** by 51.3 percent (LE 33.6 billion) to record LE 99.4 billion during the period of study, more specifically increased investments spending on health, and education sectors, and increased spending on infrastructure, and maintenance among most Egypt's governorates.

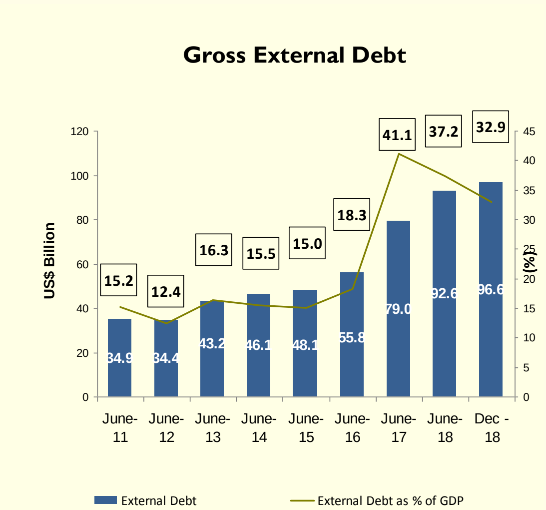




External & Domestic Debt

- **Total Government Debt (domestic and external)** increased to LE 4570.9 billion (87 percent of GDP) at end of December 2018 compared to 4315 billion (97.2 percent of GDP) at end of June 2018. This is driven mainly by increased Domestic debt since Treasury Bills debt increased to LE 1569.3 billion end of December 2018, compared to LE 1547 billion end of June 2018. Meanwhile, government external debt increased as loans increased to US$ 33.4 billion end of December 2018, compared to US$ 33.4 billion at end of June 2018. Meanwhile, Monetary Authorities debt increased to US$ 28.3 billion at the end of December 2018, compared to US$ 26.6 billion last fiscal year.





Inflation

- **Alternatively, monthly Urban Inflation** recorded 0.5 percent in April 2019, compared to 0.8 percent last month. Factors contributing to this include the slow pace of increase in monthly inflation rates among some main groups during the month of study compared to last month. On the top of which comes; **"Food & beverages"** by 0.5 percent, compared to 1.5 percent last month (in light of the decline in **"Meat"** prices by -1.5 percent, compared to 1.0 percent, **"Eggs& Milk"** prices by -0.1 percent, compared to 0.4 percent, and Vegetables by -0.5 percent compared to 3.1 percent), **"Health"** by 0.1 percent, compared to 0.2 percent, **"Restaurants & Hotels"** by 0.3 percent, compared to 0.5 percent.

- **On comparing the average annual inflation rate recorded since the beginning of current fiscal year it has declined to reach 14.3 percent during July - April 18/19,** compared to 23.3 percent recorded during the same period of last year.

Monetary Sector

- **According to recent data released by the CBE, M2 growth has slightly decreased to 11.5 percent in** February 2019 (LE 3674.7 billion), compared to 11.9 percent last month, and 25.4 percent in February 2018. This is mainly due to the fall in **Quasi Money** growth to 11.1 percent in February 2019, compared to 11.9 percent last month, driven by the decline in **Local Currency Time and Savings Deposits** to 12.1 percent in February 2019, compared to 13.7 during last month. However, **Money (M1)** increased to record 13 percent in February 2019 compared to 11.7 percent during last month, due to the hike in Demand Deposits in Local Currency to record 18.8 percent in February 2019, compared to 15.4 percent during last month.

Meanwhile, **Net domestic assets (NDA) annual growth decreased** to reach 14.8 percent at end of February 2019 (LE 3421.2 billion), compared to 16.1 percent last month. Moreover, there's a continuous decrease in annual growth trend in **Net Foreign Assets (NFA)** that records a negative value to reach -19.2 percent (LE 253.5 billion) at end of February 2019, compared to -41.1 percent (LE 143.5 billion) last month, mainly due to the decrease in Central Bank NFA to record 0.6 percent down from 27.4 percent last month.

Moreover, Total Deposits annual growth rate– excluding deposits at the CBE – decreases at **12.6 percent** (LE 3879 billion) at the end of February 2019, compared to 13 last month. Out of total deposits, 83.7 percent belonged to the non-government sector. However, annual growth rate in **Total Lending** by the banking sector (excluding CBE) decreased to record **21.2 percent** (LE 1836.4 billion) at end of February 2019, compared to 22.4 percent last month. Nevertheless, the **Loans-to-deposits Ratio decreased to record** 47.3 percent at end of February 2019, compared to 47.4 percent last month.

- **In the same context, CBE decided at Monetary Policy Committee meeting** held on May 23rd, 2019 to keep the **overnight deposit rate, and overnight lending rates** and the rate of **CBE's main operation** on hold at 15.75 percent, 16.75 percent and 16.25 percent, respectively. In addition, **the discount rate** was also kept at 16.25 percent.

External Sector

- **The Balance of Payments has recorded a deficit** of US$ 1.8 billion (0.6 percent of GDP) during First Half of FY 2018/2019. **Capital and financial account has recorded net inflows** of US$1.8 billion. While, **current account deficit** has slightly increased to reach US$ 3.9 billion compared to US$3.5 billion recorded during the same period last year, mainly driven by an accelerating services balance by 36.7 percent growth, reflecting significant increase in **Travel Surpluses** by 42.1 percent to record US$5.4 billion during First Half of FY18/19, **along with an increase in Suez Canal Receipts** by 5.8 percent to reach US$2.9 billion during the period of study. The increase in exports has outpaced the increase in imports, to reach 18.4 percent for the first, and 8.8 percent for the latter, respectively. Exchange rate competitiveness has led merchandise exports growth to reach US$14.3 billion during the period of study (driven by the growth in petroleum exports by 57.6 percent to reach US$6.0 billion, presenting 42.1 percent of total exports **(oil trade balance ran a surplus for the first time in more than four years posting US$150.8 million compared to a deficit of US$2.2 billion same period last year)** . **On the other side, capital and financial account** has recorded net inflows of US$1.8 billion (0.5 percent of GDP) during First Half of FY FY18/19, and FDI to Egypt has recorded total inflows of US$6.6 billion, while the outflows have reached US$3.8 billion. This has led to a recorded US$2.8 billion (inflows) of net FDI to Egypt during the period of study. Portfolio investments in Egypt registered net outflows of US$5.9 billion, compared to net inflows of US$8.0

billion, mainly in light of foreigners investments in Treasury Bills reversed to net sales of US$5.5 billion (from net purchases of US$8.1 billion)

- The World Economic Outlook report issued by the International Monetary Fund (IMF) indicates that the economic growth rate of Egypt increased by 5.3 percent, exceeding the average of 2 percent in the Middle East. This reflects the clear improvement in economic activity, increased confidence in the Egyptian economy and the impact of economic reform measures. The unemployment rate decreased by 8.9 percent in FY17/18 compared to 9.9 percent in the previous year. The improvement in economic activity led to an increase in tax revenues, which increased by 14.2 percent of GDP during the same year.