Foreword:

Egypt's economy is currently undergoing a new phase of economic reforms that is unprecedented in terms of quality, coverage, and the pace of implementation. Reform measures now adopt a new philosophy aimed at formulating innovative and international best practice solutions in tackling economic challenges, with special attention devoted to preserving the social dimensions.

Positive macroeconomic developments have been closely synchronized with structural and legal reforms. This has contributed to a heightened sense of expectations regarding the outcomes such reforms will have on the overall economic performance, and their long-run sustainability. The ongoing reform process has increased the conviction that Egypt will manage to address domestic and international challenges.

Since the beginning of the past decade, the Government undertook major efforts in enhancing transparency, with the aim of disclosing and analyzing economic developments as they unfold. We believe that such an approach has helped in keeping researchers and other interested parties regularly and well- informed.

It is my pleasure to introduce this new monthly bulletin published by the Ministry of Finance to provide further highlights of underlying developments in the economy. This bulletin has a broad coverage with a wide selection of economic indicators and detailed analysis, and should give an updated and in-depth performance overview of the Public Finance sector in Egypt.

It is my sincere wish that this bulletin accomplishes its mission in serving all those who have interests in following economic and financial developments in Egypt, and I have confidence that it shall enable researchers to follow economic trends more easily and clearly. I also invite our readers to bring forward their comments, suggestions and opinions, so as to aid us in meeting up to the needs of all concerned parties.

Minister of Finance

Dr. Youssef Boutros-Ghali

EXECUTIVE SUMMARY

Egypt remains steady on its fast pace growth path during **FY 2007/2008**, with **real GDP at market prices growing at 7.2** percent mainly due to significant increases in investments and aggregate consumption. Implemented investments recorded real annual growth of 15.5 percent versus 23.8 percent during FY 2006/2007, whereas aggregate consumer spending grew by 5.2 percent. It is important to note that recent growth in aggregate consumer demand during 2007/2008 was prompted by 5.7 percent growth in private consumption and 2.1 percent growth in public consumption.

As for the first quarter of FY 2008/2009 real **GDP growth displayed signs of deceleration, with real GDP at market prices growing at 5.8 percent compared to 6.5 percent during the first quarter of FY 2007/2008.** Recent deceleration comes with the slowdown in investment growth during Jul-Sep 2008/2009 recording 4.8 percent versus 17.8 percent during Jul-Sep 2007/2008, nevertheless resilience of domestic consumer demand was a savior, growing at 5.5 percent versus 5 percent last year. It is noteworthy that investment spending during Jul-Sep 2008/2009 was highly concentrated in oil and manufacturing sectors (44.7 percent of total investments) followed by transportation and communication sectors (15.3 percent of total investments).

Also, GDP at factor cost[1] realized real growth of 5.9 percent during Jul-Sep 2008/2009 compared to 6.5 percent last year. It is noteworthy that tourism (3.3 percent of GDP, 14.2 percent growth), telecommunication (3.3 percent of GDP, 10.9 percent growth), Suez Canal (3.7 percent of GDP, 10.5 percent growth) and extractive industry (13.7 percent of GDP, 8.9 percent growth) sectors were the prime driving engines for growth realized during Jul-Sep 2008/2009.

Among the principal stimulants of current growth trajectory comes the implementation of structural reforms introduced in the fiscal and monetary sectors, supporting balanced and sustainable growth. With respect to the fiscal policy, the Ministry of Finance applied a set of measures since FY 2004/2005 aiming at consolidating fiscal indicators while stimulating the level and growth rate of economic activities in addition to supporting social programs. Reforms covering income tax regime, custom tariffs reductions, stamp duty, sales tax administration and reengineering of some spending programs, including streamlining of energy subsidies, and interrelation between the treasury and social insurance funds and other public bodies have improved fiscal balances, enhanced efficiency of expenditure and boosted confidence in the economy. The government complements its efforts by introducing newly tailored production related subsidies such as labor training programs and improving infrastructure in industrial zone and upper Egypt. In addition, the public private partnership (PPP) program was initiated for improving investment spending on infrastructure and other social service sectors like education and health sectors, and without adding significant pressures to the ongoing fiscal adjustment program.

Moreover, there was a notable improvement in ***Budget Sector***[2] **outturns for FY 2006/2007 that was sustained during FY 2007/2008.** According to Ministry of Finance preliminary data for FY 2007/2008, the overall deficit[3] to GDP improved by 0.5 percentage points, reaching LE 61.1 billion (6.8 percent of GDP), compared to LE 54.7 billion (7.3 percent of GDP) in 2006/2007. Whereas the primary deficit[4], in relation to GDP, has increased by 0.3 percentage points from 0.9 percent to 1.2 percent of GDP during 2007/2008.

Preliminary actual outturns indicate that total revenues and grants increased by 22.9 percent to LE 221.4 billion, as tax revenues increased by 20 percent to LE 137.2 billion, also non-tax revenues increased by 27.8 percent to LE 84.2 billion. On a more detailed level, income taxes increased by 14.6 percent to LE 67.1 billion. Taxes on goods and services and taxes on international trade increased by 26.1 percent to nearly LE 50 billion and by 35.2 percent to

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[1] Real GDP growth rates are calculated using 2006/07 as a base year.

[2] Includes central administration, municipalities, and services authorities (education, health, …etc).

[3] Revenues less expenditures, plus net acquisition of financial assets.

[4] Overall deficit less interest payments.

almost 14 billion respectively, in light of accelerated economic activity and business confidence as well as the surge in imports. In addition, returns on financial assets increased by 16.3 percent to LE 52.5 billion mainly due to the increase in dividends from Egyptian General Petroleum and Suez Canal by 129.6 percent and 26.5 percent to LE 25.3 billion and LE 15.1 billion respectively.

Meanwhile, total expenditures reported LE 282.3 billion during 2007/2008 (31.5 percent of GDP) compared to LE 222 billion (29.8 percent of GDP) a year earlier. The cost of subsidy bill surged by 56 percent to LE 84.2 billion compared to nearly LE 54 billion last year on the backdrop of high international prices of energy and food commodities. Wages and salaries increased by 20.5 percent to LE 62.8 billion during FY 2007/2008 compared to LE 52.2 billion during 2006/2007. Interest payments increased by 5.9 percent to LE 50.5 billion and finally, purchase of non-financial assets (investments) increased by 34.1 percent to LE 34.2 billion.

According to general government accounts [5], the overall deficit to GDP increased by 0.3 percentage points to 7.8 percent in 2007/2008, whereas the primary deficit to GDP increased by 0.8 percentage points to 3.2 percent in 2007/2008.

Fiscal indicators for the period July-November 2008/2009 show that the overall deficit to GDP has stabilized at 3.1 percent, compared to the same period last year. In addition, the primary deficit to GDP has declined by 0.1 percentage point to 1.1 percent of GDP during July-November 2008/2009 compared to 1.2 percent during July-November 2007/2008.

Total revenues increased significantly by 75.4 percent during July-November 2008/2009, reaching LE 93.7 billion (9.3 percent of GDP). This occurred as total tax revenue increased by 40 percent to nearly LE 50 billion and non-tax revenue increased by 148.6 percent to LE 43.5 billion. On a more detailed level, income tax increased by 33.3 percent to LE 18.3 billion, mainly due to the increase in corporate income tax by 24.7 percent to LE 13 billion. Also, taxes on goods and services grew by 49.4 percent to LE 24.5 billion, and taxes on international trade increased by 30 percent to LE 6.1 billion. In addition, grants have increased by more than 8 folds to LE 5.6 billion compared to LE 0.7 billion during July-November 2007/2008, also, other revenues have grown by 125 percent to nearly LE 38 billion[6] compared to LE 16.8 billion during the same period last year.

On the other side, total expenditures increased by 53 percent to LE 124.4 billion (12.3 percent of GDP) during July-November 2008/2009 compared to some LE 81.3 billion (9.1 percent of GDP) during July-November 2007/2008. This is mainly due to the leap in subsidies' bill by 154 percent to LE 34 billion compared to LE 13.4 billion in the same period last year, as well as the surge in social benefits' payments by more than 3 folds reaching some LE 12.5 billion[6] during July-November 2008/2009 compared to LE 3.3 billion during the equivalent period last year. In addition, wages and salaries increased by 19.9 percent to LE 28.6 billion, while interest payments increased by 18 percent to nearly LE 20 billion. Moreover, purchases of non-financial assets increased by 42.5 percent to LE 11.3 billion.

Public debt figures were also revised and reclassified in a clearer format. Ministry of Finance statistics depict consolidated debt stocks[7] at three different levels of compilation; the Budget Sector, General Government, and the Public Sector[8].

Debt statistics of the budget sector show that the improvement in fiscal performance during the last three years was accompanied by

[5] A broader economic consolidation level of government entities which consolidates operations of the Budget Sector Units, National Investment Bank (NIB), and Social Insurance Funds (SIF).

[6] The exceptional increase in other revenues (on the revenues side) and social benefits (on the expenditures side) during July-November 2008/2009 reflects the settlement between the budget and the pension funds.

[7] Consolidated debt stocks exclude interrelated debt between entities at each level of compilation.

[8] The Budget sector debt stock encompasses outstanding stocks of Central Government, Local Governments, and Public Service Authorities. The General Government debt stock includes the consolidated debt stocks of the Budget sector, the NIB, and SIF. The Public sector debt stock corresponds to the consolidated debt of the General Government and Economic Authorities.

notable improvement in domestic debt figures, with gross budget sector debt as percent of GDP declining by 34 percentage points during the previous three years, from 101 percent at end of June 2004/2005 to some 67 percent at end of June 2007/2008.

Recently issued statistics of domestic debt at end of FY 2007/2008 depict the improvement in debt stocks to GDP at end of FY 2007/2008; gross domestic debt of the budget sector reached LE 599.6 billion (66.9 percent of GDP) at end of FY 2007/2008 compared to LE 591 billion as of end 2006/2007 (79.4 percent of GDP). As for net domestic budget sector debt, it stabilized at nearly LE 479 billion (53.4 percent of GDP).

Gross domestic debt of the general government reached LE 512 billion (57.1 **percent of GDP**) at end of 2007/2008, compared to LE 486.2 billion (65.3 **percent of GDP**) at end of 2006/2007. Also, net domestic debt of the general government reached LE 385.5 billion (43 percent of GDP) compared to LE 369.3 billion (49.6 percent of GDP) at end of 2006/2007.

Finally, gross domestic public debt reached LE 536.6 billion (59.9 percent of GDP), compared to LE 493.9 billion at end of 2006/2007 (66.3 percent of GDP). At the same time, net domestic public sector debt reached LE 386.1 billion (43.1 percent of GDP) compared to LE 363.3 billion (48.8 percent of GDP) at end of 2006/2007.

As we move to foreign public debt, **external debt statistics as of end June 2008** reveal an increase in foreign public debt by 13.4 percent, to some US$ 33.9 billion (20.1percent of GDP), compared to some US$ 29.9 billion (22.8 percent of GDP) a year earlier. In general, foreign debt composition remains quite favorable, with only US$ 2.5 billion (7.4 percent of total foreign debt) of short term maturity. Also, gross government external debt accounts for US$ 21.6 billion (63.9 percent of total foreign debt) as of end of June 2008.

On the monetary side, total liquidity (M2) increased by merely 0.3 percent during October 2008 to some LE 780.5 billion. Meanwhile, annual M2 growth declined to 13.1 percent compared to 14.1 percent during last month, and compared to 17.1 percent in October 2007. This occurred as year on year growth in net foreign assets (NFA) and net domestic assets (NDA) reached 18.3 and 10.7 percent respectively at end of October 2008.

Recent deceleration in NFA growth comes with the severe decline in Banks' NFA by 41 percent, to almost LE 69 billion at end of October 2008. On the other hand, NDA growth has increased to 10.7 percent reaching LE 520.2 billion at end of October 2008, mainly due to growth in net claims on private sector during the year ending October 2008 by 14.1 percent to level LE 390 billion compared to LE 342 billion at and of October 2007. In addition, net credit to government and GASC increased by 17.9 percent to LE 219.4 billion and claims on public business sector increased by 8.7 percent to LE 28.6 billion.

As for the components of M2 from the liabilities' side, quasi money increased by 11.5 percent to LE 607.7 billion and money (M1) by 19.4 percent to LE 172.8 billion. It is noteworthy that CBE net international reserves (NIR) increased during the year ending October 2008 by 13.3 percent to US$ 35 billion.

Total deposits with the banking sector (excluding CBE) increased – at slower pace since April 2008- by 12.7 percent to some LE 768 billion at end of October 2008, of which 87.7 percent belongs to the non-government sector. Also, total lending by banking sector (excluding CBE) increased by 16.1 percent to almost LE 429 billion at end of October 2008, due to the increase in total lending to the non-government sector by 16.2 percent to LE 397.8 billion as well as the increase in total lending to government by 14.7 percent to LE 31.3 billion. As for the loans to deposits ratio at end of October 2008, it reached 50.6 percent for local currency and 70 percent for foreign currencies; compared to 51.5 percent and 61.3 percent a year earlier, respectively.

Moreover, dollarization in total domestic liquidity increased to 21.6 percent during October 2008 compared to 20.6 percent in September 2008, yet decreased compared to 22.3 percent in October 2007. Also, dollarization in total deposits increased to 26.9 percent at end of October 2008, compared to 25.8 percent last month, however it has declined compared to 27.3 percent at end of October 2007.

Annual CPI inflation[9] **increased by merely 0.1 percent during November 2008 reaching 20.3 percent** compared to 20.2 percent in October 2008, however, it is notably above CPI inflation rate recorded for November 2007 of 6.9 percent. In addition, monthly CPI inflation has declined for the second month in a row during November 2008 by 0.1 percent, driven by the monthly decline in food and beverages' prices by 0.2 percent. On the other hand annual inflation in producer prices decelerated remarkably during November 2008 to 5 percent compared to 13 percent last month and 12 percent during November 2007. The recent decline in annual PPI inflation is explained by the slump in mining and quarrying products' index by nearly 37 percent during the period of study.

Inspite of the moderation in domestic inflationary pressures, the CBE decided to keep the overnight deposit and lending rates unchanged at 11.5 percent and 13.5 percent during its meeting on December 25, 2008. The CBE justified its decision by the need to support current retreat in domestic inflation.

With respect to **the External Sector, recent statistics of the balance of payments** during July-September 2008/2009 depict an overall surplus of US$ 0.5 billion, lower than that realized during the same period last year of some US$ 1.2 billion. This occurred as current account deficit reached almost US$ 1 billion and capital and financial account surplus reached US$ 2.2 billion during July-September 2008/2009, compared to a current account deficit of US$ 0.1 billion and a capital and financial surplus of US$ 1.7 billion during July-September 2007/2008.

On the current account side, total commodity exports increased by 36 percent to US$ 8.2 billion during July-September 2008/2009, due to the increase in non-oil exports by 17 percent to almost US$ 4.1 billion, as well as the increase in oil exports by 63 percent to US$ 4.1 billion. At the same time commodity imports increased by 36 percent to US$ 15.2 billion. In conclusion, the trade deficit increased by 35 percent to US$ 7 billion during July-September 2008/2009, compared to US$ 5.2 billion during the same period last year.

As for traded services, total services receipts grew by 23 percent to US$ 7.4 billion due to the increase in receipts from all sub-items except investment income. Meanwhile, services payments increased by 11 percent to US$ 3.4 billion compared to 3 billion last year, all resulting in growing surplus from services account by 34 percent to almost US$ 4.1 billion during the period of study. It is worth mentioning that services receipts are currently 221.2 percent of services payments.

Private transfers decreased by 2.1 percent to US$ 1.9 billion during the period of study - for the first time since July-September 2002/03 - accordingly total current account receipts reported an increase of 24.6 percent (including net private and official transfers) during the first quarter of 2008/2009, reaching US$ 17.5 billion. At the same time, total current account payments increased by 30.2 percent to US$ 18.5 billion, hence current account deficit reached almost US$ 1 billion (0.5 percent of GDP) during the first quarter of 2008/2009. Moreover, the ratio of current account receipts to current payments during the period of study fell to 94.8 percent compared to 99.1 percent in during the previous year.

On the other hand, the capital and financial account reported net inflows of US$ 2.2 billion; versus US$ 1.7 billion during the same period last year. This comes with the increase in net inflows of other investments by almost 8 folds to US$ 4.8 billion compared to US$ 0.6 billion during the same period last year. which is mainly explained by the increase in net inflows of banks' assets registering US$ 6.9 billion during July-September 2008/2009 compared to only US$ 0.4 billion during July-September 2007/2008. Finally, net errors and omissions recorded net outflows worth US$ 0.8 billion during July-September 2008/2009, compared to a net outflows US$ 0.4 billion during the same period last year.

Meanwhile, net international reserves (NIR) imports coverage ratio decreased to 6.9 months during the period of study compared to 8 months during July-September 2007/2008, whereas the coverage ratio of

[9] CPI inflation based on new CAPMAS series with January 2007 as base value for the index.

commodity exports to imports increased slightly to 53.8 percent, compared to 53.5 percent during the first quarter of 2007/2008.

As for the performance of **Domestic Capital Market**, the CASE-30 index has declined by 510 points during November 2008 down to 4206 compared to 4716 last month, and compared to 9722 during November 2007 (56.7 percent decrease). Also, market capitalization decreased over the previous year by 36.4 percent, reaching LE 461 billion (45.7 percent of GDP).