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Executive summary

Recent updates:

- ***Real GDP growth*** *has gained momentum reaching* ***5.2*** *percent during* ***FY 2009/2010****, compared to 4.7 percent during the previous year.*
- ***Overall Budget deficit to GDP*** *slightly decreased by* ***0.1*** *percentage points during July-November 2010/2011 to 3.9 percent (LE 54.4 billion), mainly due to the minor decrease in fiscal revenues accompanied by an increase in fiscal expenditures.*
- **Domestic budget sector debt** increased slightly to 62.7 percent of GDP at the end of September 2010 to record some LE 863.8 billion.
- **External debt indicators continue its declining trend to** 14.3 percent of GDP in September 2010 (US$ 34.7 billion) compared to 14.7 percent of GDP (US$ 32.4 billion) at end of September 2009.
- ***M2 growth*** *picked up to* ***13.4 percent*** *at the end of October 2010, after two months of stabilization at 11.8 percent.*
- ***CPI*** *annual Urban Inflation* ***decreased*** *unexpectedly during* ***November 2010*** *recording* ***10.2*** *percent compared to 11 percent during last month, while annual* ***core inflation increased to 8.6*** *percent compared to 7.8 percent during last month.*
- ***Overnight deposit and lending rates remained*** *unchanged- for the* ***tenth time*** *in a row- and stand at 8.25 and 9.75 percent respectively.*
- ***BOP*** *performance* ***steadied*** *in the first quarter of the FY 2010/2011, with an* ***overall surplus of US$ 14.7 million****.*

Overview: **The Egyptian economy proved to be resilient in face of the global crises, with real GDP growth reaching 5.2 percent for the FY 2009/2010, compared to 4.7 percent during FY 2008/2009. Egypt's resistance to external shocks was partly due to the diversity of sectoral sources of growth, in addition to the timely intervention of countercyclical fiscal packages during FY 2008/2009 and FY 2009/2010. At the same time, monetary policy succeeded in bringing down domestic inflation rates without triggering negative effects on domestic economic activity. All of the afore-mentioned factors coupled with strong domestic demand helped Egypt sustain the drawbacks of the global crises.**

I. Real GDP Growth

GDP (market prices) growth for FY 2009/2010 has gained momentum and increased to 5.2 percent, an improved rate by all means in comparison to last year's 4.7 percent realized growth, given the turbulent global economic and financial environment. Growth was driven mainly by strong local consumption and investment spending, the revival of export-oriented sectors, and the diversity of the sources of growth. Although realized growth has not yet converged to its past levels, it has exceeded forecasts of international institutions and the average growth rates of many advanced and developing countries.

The buoyancy of private and public consumption growth- which comprise 85.9 percent of total GDP figure and contribute 4.2 percent to total growth- drove real GDP growth (market prices) during FY 2009/2010. Private and public consumption grew by 5.1 percent and 4.5 percent respectively, and total investment spending increased by 4.2 percent, compared to a decline of 9.1 percent last year. On the other hand both exports and imports of goods and services declined by 3.0 percent and 3.2 percent, respectively.

Regarding real GDP at factor cost[1], realized growth has materialized to 5.1 percent during FY 2009/2010. It is noteworthy that from a sectoral perspective growth was led by manufacturing (5.1 percent growth, 16.1 percent of GDP); Construction and Building (13.2 percent, 5.3 percent of GDP), and was also led by telecommunications (13.3 percent growth, 4.1 percent of GDP), transport and warehousing (6.8 percent growth, 4.3 percent of GDP), wholesale and retail trade (6.1 percent growth, 10.7 percent of GDP), in addition to tourism (12.0 percent growth, 4.3 percent of GDP). On the other hand, output from Suez Canal has declined at a slower pace by 2.9 percent during FY 2009/2010, compared to a decline of 7.2 percent during the preceding fiscal year.

Furthermore, recently issued GDP statistics indicate an improvement in economic performance during the fourth quarter of FY 2009/2010. Real GDP grew at 5.4 percent in the fourth quarter of FY 2009/2010, compared to 5.6 percent during the preceding quarter, and 4.6 percent in the fourth quarter of 2008/2009. It is noteworthy to acknowledge that the four quarters of FY 2009/2010 grew at a relatively higher rate from their counterparts in the previous year.

II. Fiscal Performance

According to FY 2009/2010 preliminary-actual budget[2] outcomes figures, the Egyptian government successfully outperformed its deficit target of 8.4 percent of GDP, with the preliminary deficit standing at 8.1 percent of GDP.

Figures for FY 2009/2010 show that the overall deficit[3] to GDP increased by 1.2 percentage points to 8.1 percent, reaching almost LE 98 billion, compared to LE 71.8 billion during FY 2008/2009. The increase in overall deficit to GDP reflects the impact of economic deceleration and global economic crisis on fiscal balances, depicted by the decline in fiscal revenues and the relative increase in fiscal expenditures during FY 2009/2010. Also, the primary deficit[4] to GDP has increased by 0.3 percentage points, registering 2.1 percent of GDP versus 1.8 percent of GDP during FY 2008/2009.

From the revenues side, total revenues and grants decreased by nearly 5.1 percent during FY 2009/2010, registering LE 268.1 billion compared to LE 282.5 billion during FY 2008/2009. The recorded decline is principally due to the decrease in non-tax revenues by 18.2 percent, offsetting the 4.5 percent increase in tax revenues (reflecting MOF efforts in expanding the tax base).

On a more detailed level, the recent decline in fiscal revenues items comes from the significant retreat in current miscellaneous non-tax revenues[5] that have declined by 89.1 percent to LE 3.4 billion compared to LE 31.1 billion, in addition to the 53.6 percent decline grants from foreign governments, recording almost LE 3.5 billion compared to LE 7.5 billion during FY 2008/2009. At the same time, revenues collected from taxes on corporate profits have slid by 8.7 percent to LE 60.2 billion compared to nearly LE 66 billion during FY

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.
5 It is noteworthy that the exceptional increase in other revenues (on the revenues side) and social benefits (on the expenditures side) during FY 2008/2009 reflects mainly the settlement between the budget and the pension funds. Hence, the decline in «other revenues» and spending on «social benefits» during FY 2009/2010 reflects the base effect of the settlement mentioned above.