Executive summary

The Egyptian economy has proven to be resilient in face of the global crises, with real GDP growth reaching 4.7 percent during FY 2008 /2009 and 5.1 percent for the first three quarters of FY 2009 /2010. 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, the 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 2008 /2009 has decelerated to 4.7 percent, in response to the global financial crisis and the dynamics of international trade and international liquidity. Although realized growth is significantly below last years 7.2 percent, nevertheless it has exceeded market expectations supported –on the demand side- by the resilience of domestic final consumption that has partially offset the significant decline in private investment spending.

Recently issued GDP statistics indicate an improvement in economic performance during the third quarter of FY 2009 /2010, with real GDP growth increasing to 5.8 percent compared to 5.0 percent during the preceding quarter and compared to 4.3 percent during the third quarter of FY 2008 /2009. As for cumulative growth during the first three quarters of 2009 /2010, year-on-year real GDP growth increased to 5.1 percent compared to 4.7 percent during the first three quarters of 2008 /2009. Nevertheless, realized growth has not yet converged to its past levels.

Real GDP growth (market prices) during July-March 2009 /2010 was driven by the resilience of both private and public consumption growth, recording 3.8 percent and 4.4 percent respectively. Total investment spending also increased by 1.4 percent. On the other hand both exports and imports of goods and services have declined by 3.9 percent and 7.7 percent respectively.

Regarding real GDP at factor cost[1] , realized growth has also materialized to 5.1 percent during July-March 2009 /2010. It is noteworthy that from sectoral perspective growth was led by manufacturing (5.0 percent growth, 15.7 percent of GDP), wholesale and retail trade (6.2 percent growth, 10.8 percent of GDP), construction (13.7 percent growth, 5.1 percent of GDP), and tourism (12.0 percent growth, 4.4 percent of GDP). On the other hand, output derived from Suez Canal has declined by 6.8 percent during July-March 2009 /2010 compared to 0.3 percent decline during July-March 2008 /2009.

II. Fiscal Performance

Final accounts for FY 2008 /2009 show that the overall budget[2] deficit[3] to GDP stabilized at 6.9 percent, reaching LE 71.8 billion, compared to LE 61.1 billion in 2007 / 2008. However, the primary deficit[4] to GDP has increased during FY 2008 /2009 by 0.6 percentage points to 1.8 percent of GDP compared to 1.2 percent last year.
Total revenues increased by 27.6 percent during FY 2008 /2009, reaching LE 282.5 billion (27.2 percent of GDP). This occurred as total tax revenues increased by 19 percent to nearly LE 163.2 billion and non-tax revenues increased by 41.7 percent to LE 119.3 billion. On a more detailed level, income taxes grew by 19.7 percent to LE 80.1 billion, mainly due to the increase in corporate income tax by 18.7 percent to nearly LE 66 billion, in addition to the increase in individual income tax by 24.3 percent to LE 14.3 billion. Moreover, taxes on goods and services increased by 25.9 percent to LE 62.7 billion. However, taxes on international trade increased by merely 0.5 percent to LE 14.1 billion. As for non-tax revenues, grants have increased by more than 5 folds to nearly LE 8 billion compared to LE 1.5 billion during FY 2007 /2008. Also, other revenues have grown by 34.5 percent to nearly LE 111.3 billion[5] compared to LE 82.7 billion during last year.
On the other side, total expenditures increased by 24.5 percent to LE 351.5 billion (33.8 percent of GDP) during FY 2008 /2009 compared to LE 282.3 billion (31.5 percent of GDP) during FY 2007 /2008. This is due to a number of factors, mainly the increase in subsidies" bill by 11.4 percent to LE 93.8 billion, as well as the surge in social benefits" payments by more than 7 folds, reaching LE 28.7 billion[5] during FY 2008 /2009 compared to LE 4.1 billion during last year. In addition, wages and salaries increased by 21.2 percent to LE 76.1 billion compared to LE 62.8 billion during last year and interest payments increased by 4.5 percent to nearly LE 52.8 billion. In addition, purchases of non-financial assets increased by 27 percent to LE 43.4 billion mainly due to the implementation of government fiscal stimulus package launched during current fiscal year to prevent further deceleration in economic growth and employment.

The government introduced its first fiscal stimulus package amounting to LE 15 billion during FY 2008 /2009. The stimulus package was mainly directed towards public investments (LE 10.8 billion), specifically towards accelerated implementation of infrastructure and utility projects. In addition, LE 2.7 billion was devised to current spending as well as LE 1.5 billion of foregone fiscal revenues.

As for the period July-May 2009 / 2010, the overall deficit to GDP increased by 1 percentage points to 7.2 percent, reaching LE 86.8 billion, compared to LE 64.3 billion during July- May 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 notable decline in fiscal revenues and a softer decline in fiscal expenditures during July- May 2009 /2010. Also, the primary deficit to GDP has increased by 0.4 percentage points, registering 2 percent versus 1.6 percent during July- May 2008 /2009.

From the revenues side, total revenues and grants decreased by 18.8 percent during the July-May 2009 /2010, registering LE 193 billion compared to LE 237.7 billion during July- May 2008 /2009. The recorded decline is principally due to the decrease in non-tax revenues by 39.5 percent, in addition to the 4.8 percent decline in tax revenues.

On a more detailed level, the recent decline in total revenues and grants was driven by the significant retreat in current miscellaneous non-tax revenues that have declined by 91.3 percent to LE 2.1 billion during July -May 2009 /2010 compared to LE 23.8 billion, in addition to the 22.3 percent decline in dividends transferred to treasury from EGPC, Suez Canal and others, recording LE 29.4 billion compared to almost LE 37.8 billion during July- May 2008 /2009. Also, grants from foreign governments declined by 66 percent to LE 2.3 billion compared to LE 6.6 billion during the same period last year. At the same time, revenues collected from taxes on corporate profits have slid by 27.8 percent to LE 40.6 billion compared to nearly LE 56 billion during July-May 2008 /2009. On the other hand, revenues from taxes on goods and services recorded an increase of 4.6 percent, leveling LE 57.6 billion. Also, revenues from property taxes increased by more than three folds to LE 7.3 billion compared to LE 2.1 billion during the same period last year, mainly due to taxes collected on t-bills and t-bonds' payable interest that have been reclassified as part of property taxes starting 2009 /2010 and account for LE 5.3 billion during July- May 2009 /2010.

Total expenditures have also declined during July- May 2009 /2010 by 6.3 percent, recording LE 279.7 billion compared to LE 298.6 billion same period last year. The recorded decline comes with the 42.4 percent drop in total spending on "subsidies, grants and social benefits[5]" to LE 66 billion, that has offset the accumulated increase in fiscal spending on all other chapters.

The notable decline in spending on "subsidies, grants and social

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 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.