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Executive summary

Egypt has been witnessing significant changes on its political front since January 25th 2011. Such developments are expected to make fundamental improvements in the transparency and efficiency of the economic policy setting that will invariably impact the lives of all Egyptians. While ongoing domestic and regional developments will no doubt have a toll on the Egyptian economy, it is premature to take a full view of its economic and financial impacts.

Recent updates:

- ***Real GDP growth*** *reached* ***5.5 percent in July-September 2010/2011,*** *compared to 4.6 percent in the same quarter last year.*

- ***Budget deficit to GDP*** *decreased by* ***0.3*** *percentage points during July-January 2010/2011 to 5.1 percent (LE 70.5 billion), compared to 5.4 percent (LE 65 billion) during July-January 2009/2010.*

- **Domestic budget sector debt** increased slightly to 62.7 percent of GDP as of end **September 2010 to record some LE 863.8 billion.**

- **External debt indicators continued its declining trend** leveling 14.3 percent of GDP in September 2010 (US$ 34.7 billion) compared to 14.7 percent of GDP (US$ 32.4 billion) as of end September 2009.

- ***M2 annual growth*** *recorded* ***12.8 percent*** *as of end* ***November 2010****, compared to annual increase of* ***13.4 percent in October 2010****, and* ***8.8 percent in November 2009.*** *(Note that detailed data for December 2010 is not yet available)*

- ***CPI*** *annual Urban Inflation increased during* ***January 2011*** *to* ***10.8 percent*** *compared to* ***10.3*** *percent during last month. Moreover annual* ***core inflation continued escalating, reaching 9.74*** *percent in January 2011 compared to 9.65 percent during December 2010.*

- ***Overnight deposit and lending rates remained*** *unchanged- for the* ***eleventh time*** *in a row since September 2009-* during the **Monetary Policy Committee meeting on January 27th, 2011***and stand at 8.25 and 9.75 percent respectively.*

- ***BOP*** *performance* ***steadied*** *in the first quarter of the FY 2010/2011, with a slight* ***overall surplus of US$ 14.7 million****.*

I. Real GDP Growth

The Egyptian economy proved to be resilient in face of the global crises due to its diverse sources of growth and the timely intervention of countercyclical fiscal packages during FY 2008/2009 and FY 2009/2010. Real GDP growth (in market prices) reached 5.2 percent for FY 2009/2010, compared to 4.7 percent during the previous year. It is worth mentioning that real GDP in market prices for FY 2009/2010 reached LE 878.5 billion (LE 1,206.7 billion in current prices) compared to LE 835.4 billion (LE 1,042.2 billion in current prices) in the previous year.

GDP (market prices) growth for July-September 2010/2011 has gained momentum and increased to 5.5 percent, beginning an upward trend in comparison to 4.6 percent realized growth in the first quarter of last year. Growth was driven mainly by strong total consumption, followed by investment, despite the retreat in the contribution of exports to growth. It is noteworthy that GDP figure in constant prices for the first quarter of FY 2010/2011 stands at LE 231.2 billion (LE 364.3 billion in current prices), in comparison to LE 219.2 billion (LE 311.1 billion in current prices) in the same quarter of FY 2009/2010.

The buoyancy of private and public consumption growth- which comprise 86.9 percent of total GDP figure and contribute 3.8 percent to total growth- drove real GDP growth (market prices) during July-September 2010/2011. Private and public consumption grew by 5.0 percent and 4.2 percent respectively, and total investment spending increased by 10.1 percent. Additionally, both exports and imports of goods and services increased by 8.6 percent and 7.2 percent, respectively.

Regarding real GDP at factor cost[1], realized growth has materialized to 5.5 percent during the first quarter of FY 2010/2011. It is noteworthy that from a sectoral perspective growth was led by manufacturing (6.3 percent growth; 15.4 percent of GDP); construction and building (12.5 percent growth, 4.9 percent of GDP); tourism (12.1 percent growth; 5.0 percent of GDP); telecommunications (12.0 percent growth, 3.8 percent of GDP), in addition to transport and warehousing (7.4 percent growth, 4.4 percent of GDP) and wholesale and retail trade (7.2 percent growth, 9.9 percent of GDP). Moreover, output from Suez Canal has increased by 12 percent during July-September 2010/2011, a great improvement when compared to the decline of 19 percent during the first quarter of the preceding fiscal year.

II. Fiscal Performance

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

Figures for FY 2009/2010 show that the overall [3] deficit 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 increased by 0.3 percentage points, registering 2.1 percent of GDP versus 1.8 percent of GDP during FY 2008/2009.

On the revenue 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 lower 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 revenue items comes from the significant retreat in current miscellaneous non-tax revenues[5] that receded 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, to record 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 slid by 8.7 percent to LE 60.2 billion compared to nearly LE 66 billion during FY 2008/2009. On the other hand, revenues from taxes on goods and services recorded an increase

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 due to the settlement mentioned above