Executive summary

- **The Egyptian economy maintained robust growth momentum during 2005/2006-2007/2008, with real GDP growth averaging 7 percent. Egypt's prominent economic performance was driven by the implementation of structural reforms, coupled with the increasing integration of the Egyptian market in the global economy and supported by favorable external conditions during this period.** As for economic activity during FY 2008/2009, GDP (market prices) growth 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 year's 7.2 percent, nevertheless it has exceeded market expectations supported by the resilience of domestic final consumption that has partially offset the significant decline in private investment spending.

  Recently issued GDP statistics indicate sustained economic recovery during the second quarter of FY 2009/2010, with real GDP growth increasing to 5 percent compared to 4.6 percent during the preceding quarter and compared to 4.1 percent during the second quarter of FY 2008/2009. As for cumulative growth during the first half of 2009/2010, year-on-year real GDP growth nearly stabilized at 4.8 percent compared to 4.9 percent during the first half of 2008/2009. Nevertheless, realized growth has not yet converged to its past levels.

  Real GDP growth (market prices) during July-December 2009/2010 was driven by the resilience of both private and public consumption growth, recording 4.8 percent and 4.4 percent respectively. On the other hand total investment spending declined by 1.2 percent and both exports and imports of goods and services have declined by 9.8 percent and 11.3 percent respectively.

  Regarding real GDP at factor cost[1] , realized growth has also materialized to 4.8 percent during July-December 2009/2010. It is noteworthy that from sectoral perspective growth was led by manufacturing (4.6 percent growth, 15.5 percent of GDP), construction (13.1 percent growth, 4.6 percent of GDP) and wholesale and retail trade (5.6 percent growth, 10.5 percent of GDP). On the other hand, output derived from Suez Canal has declined by 14.2 percent during July-December 2009/2010 compared to 10.3 percent growth during July-December 2008/2009.

- **On the fiscal side, there was a notable improvement in Budget Sector[2] outturns for FY 2006/2007 and FY 2007/2008 and was further sustained during FY 2008/2009. Despite exposure to the consequences of global imbalances in international prices and second-round effects of the global financial turmoil during 2008/2009, fiscal outcomes for 2008/2009 remain resilient with overall deficit stabilizing at 6.9 percent. With regard to total government debt to GDP (domestic and foreign) at end of June 2009, it stabilized at 81 percent. This comes in spite of recent CBE reclassification of US$ 4.3 billion as part of Central and Local Government debt instead of "Other Sectors" debt. Otherwise, total government debt to GDP would have declined by nearly 2 percentage points. It is noteworthy as well that total debt to GDP recorded a cumulative decline of 40 percentage points during the past four years.**

  Regarding fiscal performance during FY 2008/2009, preliminary statistics from Ministry of Finance show that the overall 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, increasing government investment spending by 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-January 2009/2010**, the overall deficit to GDP increased by 1.7 percentage points to 5.5 percent, reaching almost LE 65 billion, compared to LE 39 billion during July- January 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- January 2009/2010. Also, the primary deficit to GDP has increased by 1.1 percentage points, registering 2.2 percent versus 1.1 percent during July- January 2008/2009.

  Total revenues and grants decreased by 26.2 percent during July-January 2009/2010 to LE 108.6 billion compared to LE 147.1 billion during July- January 2008/2009. The recorded decline is principally due to the decrease in non-tax revenues by nearly 50 percent, in addition to the 7 percent decline in tax revenues. On a more detailed level, other revenues[6] decreased by 47.7 percent to LE 31 billion during July- January 2009/2010 compared to LE 59.3 billion during the same period last year and grants declined by nearly 69 percent to LE 1.9 billion compared to LE 6.4 billion during July- January 2008/2009. Also, revenues collected from income tax on corporate profits decreased by 34.7 percent to LE 19.1 billion compared to LE 29.3 billion during July- January 2008/2009, and taxes on international trade decreased by 6.9 percent to LE 7.7 billion. On the other hand, Property taxes increased by almost four folds to LE 4.9 billion compared

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.