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 year's 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 a 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

According to FY 2009 /2010 preliminary budget outcomes figures, the Egyptian government successfully outperformed its deficit target of 8.4 percent of GDP, with the preliminary deficit standing at less than 8.3 percent of GDP.

Recent figures for FY 2009 /2010 show that the overall deficit[2] to GDP increased by 1.3 percentage points to 8.3 percent, reaching almost LE 99 billion, compared to LE 71.8 billion during FY 2008 /2009. The increase in overall deficit[3] 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 0.4 percentage points, registering 2.2 percent versus 1.8 percent during FY 2008 /2009.

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

2 Revenues less expenditures, plus net acquisition of financial assets.

From the revenues side, total revenues and grants decreased by nearly 5 percent during FY 2009 /2010, registering LE 268.8 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 20 percent, offsetting the 6.2 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 93.1 percent to LE 2.1 billion compared to LE 31.1 billion, in addition to the 48.3 percent decline grants from foreign governments, recording almost LE 4 billion compared to LE 7.5 billion during FY 2008 /2009. Also, sales of goods and services declined by 2 percent to LE 15.9 billion compared to LE 16.2 billion during FY 2008 /2009. At the same time, revenues collected from taxes on corporate profits have slid by 7.5 percent to LE 61 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 of 7.6 percent, leveling LE 67.4 billion , on the backdrop of a high domestic demand. Also, revenues from property taxes increased by more than three folds to LE 8.4 billion compared to LE 2.8 billion during FY 2008 /2009, 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 5.8 billion during FY 2009 /2010. Moreover, taxes on international trade grew by 9.5 percent to LE 15.4 billion during FY 2009 /2010 compared to LE 14.1 billion during last year.

In an attempt to counteract the impact of the global financial crisis on the Egyptian economy, the government introduced three fiscal stimulus packages, the first of which amounted to some LE 15 billion (1.5% of GDP) and was introduced in the FY 2008 /2009; the second fiscal stimulus package was introduced in the FY 2009 /2010 and amounted to LE 5.5 -6 billion; the third package was implemented in the same year, worth LE 10 billion. The first package was enacted following the deceleration in economic growth rates, and was directed towards public investments, specifically towards accelerated implementation of infrastructure and utility projects (LE 10.8 billion). The second stimulus came in the form of additional outlays that go beyond the normal y-o-y increase in the investment budget. Finally the third package aimed at sustaining the gradual pick-up in economic activity and precluding probable downturn in growth rates once more, particularly amidst fears of heightened uncertainties facing global economic recovery.

On the other side, total expenditures increased by 4.5 percent to LE 367.3 billion (30.7 percent of GDP) during FY 2009 /2010 compared to LE 351.5 billion (33.8 percent of GDP) during FY 2008 /2009. This is due to a number of factors, mainly the increase in interest payments by 37.6 percent to LE 72.7 billion (due to the increase in domestic interest payments to non-government entities), as well as the surge in compensation of employees by 13.4 percent, reaching LE 86.4 billion during FY 2009 /2010 compared to LE 76.1 billion. In addition, purchases of non financial assets increased by 10.9 percent to LE 48.2 billion compared to LE 43.4 billion last year, mainly due to the implementation of the government third fiscal stimulus package. Moreover, purchases of goods and services increased by 10.2 percent reaching LE 27.6 billion during FY 2009 /2010.

However, there was a notable decline in spending on 'subsidies, grants and social benefits' during FY 2009 /2010 by 18.6 percent to LE 103.4 billion compared to LE 127 billion during FY 2008 /2009. This is mainly due to the drop in social benefits[5] by 85 percent, recording LE 4.3 billion during FY 2009 /2010 compared to LE 28.7 billion last year, which is related to the base effect of the financial settlement between the treasury and Social Insurance Funds during FY 2008 /2009. In addition, subsidy payments to GASC declined by 20.2 percent during FY 2009 /2010 to LE 16.8 billion compared to LE 21.1 billion during FY 2008 /2009, due to the decline in international food prices.

3 Includes central administration, municipalities, and services authorities (education, health, …etc).

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.