

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-December 2010/2011**, compared to 4.8 percent in the first half of the previous fiscal year.
- **Budget deficit to GDP decreased by 0.4 percentage points during July-March 2010/2011 to 6.8 percent (LE 94 billion)**, compared to 7.2 percent (LE 86.9 billion) during July- March 2009/2010.
- **Domestic budget sector debt increased slightly to 64.5 percent of GDP as of end December 2010 to record some LE 889.2 billion.**
- **External debt indicators continued its declining trend** leveling 14.7 percent of GDP in December 2010 (US\$ 35 billion) compared to 15.1 percent of GDP (US\$ 33.3 billion) as of end December 2009.
- **M2 annual growth recorded 12.2 percent as of end February 2011**, compared to annual increase of 11.8 percent in January 2011, and 9.5 percent in February 2010.
- **CPI annual Urban Inflation rose during March 2011 recording 11.5 percent** compared to 10.7 percent during last month. Meanwhile **annual core inflation decreased during March 2011 to 8.54 percent** compared to 9.5 percent during last month
- **Overnight deposit and lending rates remained unchanged- for the twelfth time in a row since September 2009- during the Monetary Policy Committee meeting on March 10th, 2011 and stand at 8.25 and 9.75 percent respectively.**
- **BOP recorded an overall surplus of US\$ 0.6 billion in the first half of FY 2010/2011** compared to a higher surplus of US\$ 2.7 billion during the same period last year.

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.

While it is early to assess the exact impact that the recent events would have on economic growth, the pace of growth achieved in the first half of FY 2010/2011 will likely decelerate, on the backdrop of slower consumption and investment spending and as production activity was temporarily disrupted during the third quarter. This comes after the

Egyptian economy had shown growth prospects on the back of the notable improvement in economic activities during the first half of FY 2010/2011, achieving a real growth rate of 5.5 percent.

GDP (market prices) growth for July-December 2010/2011 continued to improve and increased to 5.5 percent, compared to 4.8 percent realized growth in the first half of last year. Growth was driven mainly by strong total consumption, followed by investment and a small contribution of exports to growth. It is noteworthy that GDP figure in constant prices for July-December 2010/2011 stands at LE 458.6 billion (LE 705.4 billion in current prices), in comparison to LE 434.5 billion (LE 604.5 billion in current prices) in the first half of FY 2009/2010.

The buoyancy of private and public consumption growth- which comprise 85 percent of total GDP figure and contribute 3.7 percent to total growth- drove real GDP growth (market prices) during July-December 2010/2011. Private and public consumption grew by 4.4 percent and 3.6 percent respectively, and total investment spending increased by 7.1 percent (contributed 1.2 percent to total growth). Additionally, both exports and imports of goods and services increased by 12.5 percent and 9.2 percent, respectively (net exports contributed 0.6 percent to total growth).

Regarding real GDP at factor cost¹, realized growth has materialized to 5.6 percent during the first half of FY 2010/2011. It is noteworthy that from a sectoral perspective growth was led by manufacturing (6.1 percent growth; 15.6 percent of GDP); wholesale and retail trade (6.3 percent growth, 10.6 percent of GDP); construction and building (12.6 percent growth, 5.3 percent of GDP); tourism (13.9 percent growth; 4.7 percent of GDP); transport and warehousing (6.3 percent growth, 4.4 percent of GDP), in addition to telecommunications (11 percent growth, 4.1 percent of GDP). Moreover, output from Suez Canal has increased by 11.1 percent during July-December 2010/2011, a great improvement when compared to the decline of 14.2 percent during the first half of the preceding fiscal year.

II. Fiscal Performance

According to FY 2009/2010 preliminary-actual budget² 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 deficit³ 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 deficit⁴ 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 revenues⁵ 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 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.

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.