2 Egypt

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I. Introduction

I.1 Background

Egypt is one of the cradles of civilization in the Middle East. Traces of early man were found in Egypt dating back as early as 700,000 years ago Ancient Egyptians used a phonetic-pictograph writing called hieroglyphics by the Ancient Greeks. Ancient Egypt boasted considerable achievements in art, medicine, astronomy and literature, and was the hub of civilization in much of the Near East and North Africa. Egypt is the gift of the Nile, meaning that it flourished on the top soil that was formed from silt brought by the recurrent floods of the Nile. A unified last kingdom arose circa 3200 B.C, and a series of dynasties ruled in Egypt for the next millennia. The native dynasty fell to Persians in 341 B.C., who were replaced by the Greeks, Romans, and Byzantines. It was the Arabs who introduced Islam and the Arabic Language in the 7 Century and who ruled for the next six centuries. A local military caste Mamluks took control about 1250 and continued to govern after the conquest of Egypt by the Ottoman Turks in 1517. Completion of the Suez Canal in 1869 elevated Egypt as an important World transportation hub which is a portion of the sea linking the Mediterranean Sea and the Indian Ocean. To protect its investment, Britain seized control of Egypt’s government in 1882, but nominal allegiance to the Ottoman Empire Continued until 1914. Partially independent from the UK in 1922, Egypt acquired full sovereignty from Britain in 1952. The country is formally known as the Arab Republic of Egypt and locally known as the Jumhuriyat Misr al-Arabiyah or just Misr.

I.2 Geography and Population

Location: Egypt is an African and Arabian country, located in a very unique location in North Africa and West Asia (**Sinai Peninsula**). Egypt bordered from the north by the Mediterranean Sea that separates it from Europe, from the east by Palestine, Red Sea and Gulf of Aqaba which separate Egypt from Jordan and Saudi Arabia, from the south by Sudan and from the west by Libya. The capital is Cairo. Area 1,002,000 square Km. Land 995.450sq Km and water 6.049 Km.

The Climate of Egypt: The weather in Egypt is usually hot, dry and sunny all year long especially during the summer as the temperature could reach 40 C (104 F) but in the winter months from September to April the climate is quite wonderful with low temperatures. The winter months are known to be the best time for tourists to visit Egypt as the climate becomes quite tolerable which create the best atmosphere for checking the various artifacts and monuments of the magical land.

Religions: Approximately 94.9% of the population of Egypt is Muslim. The majority of these individuals follow Sunni Islam. Egypt is home to Al-Azhar University, the most important and oldest university of Islamic studies in the world. Islamic beliefs and practices shape all levels of Egyptian society and government. The Christian religion is thought to be represented by 5.1% of the population. The vast majority, 95%, of Christians in Egypt belong to the Coptic Orthodox

Population: the current population of Egypt is 101,401,107(as August 21,2019) population growth rate average 1.8%. Egypt population is equivalent to 1.31% of the total world population. Egypt is the most populous country in North Africa, the Middle East, and the Arab world, the third-most populous in Africa (after Nigeria and Ethiopia), and the fifteenth-most populous in the world. The great majority of its people live near the banks of the Nile River, an area of about 40,000 square km (15,000 sq mi), where the only arable land is found. The large regions of the Sahara desert, which constitute most of Egypt's territory, are sparsely inhabited. About half of Egypt's residents live in urban areas, with most spread across the densely populated centers of greater Cairo, Alexandria and other major cities in the

Nile Delta. official language is Arabic language, English and French widely understood by educated class.

I.3 Political structure:

Egypt's government is based on the principle of republicanism, and it has a semi-presidential system of government with a unicameral legislature. The legal system is based on Islamic and civil law (particularly Napoleonic codes); and judicial review by a Supreme Court, which accepts compulsory International Court of Justice jurisdiction only with reservations. Islamic jurisprudence is the principal source of legislation. Sharia courts and qadis are run and licensed by the Ministry of Justice. The personal status law that regulates matters such as marriage, divorce and child custody is governed by Sharia. In a family court, a woman's testimony is worth half of a man's testimony.

In 2011, the army deposed longtime President Hosni Mubarak amid the Arab Spring protests. The ensuing political instability led to the election of a new parliament and president, recurring street demonstrations, and an army coup that ousted Mubarak’s unpopular successor, Mohamed Morsi of the Muslim Brotherhood’s Freedom and Justice Party. On 26 December 2012, the Muslim Brotherhood attempted to institutionalize a controversial new constitution. It was approved by the public in a referendum held on December 2012 with 64% support, but with only 33% electorate participation. It replaced the 2011 Provisional Constitution of Egypt, adopted following the revolution.

On 18 January 2014, the interim government successfully institutionalized a more secular constitution The president is elected to a four-year term and may serve 2 terms. The parliament may impeach the president Under the constitution, there is a guarantee of gender equality and absolute freedom of thought. The military retains the ability to appoint the national Minister of Defense for the next two full presidential terms since the constitution took effect. Under the constitution, political parties may not be based on "religion, race, gender or geography"

The Constitution of Egypt: The country had several constitutions over the years even when it was a monarchy state prior to 1952. The first one was in 1923 after the country’s independence. In 2011 the 1971 constitution was suspended following the civilian revolution. In 2012 another constitution was approved through a referendum, but was suspended in a military coup in 2013 and a new constitution was approved by voters in 2014.

Executive Branch of the Government of Egypt: The chief of state is the president who is voted by a majority vote (in a second round if the need arises) for a four-year office term and is entitled to a second term if re-elected. The last voting in Egypt was conducted in May 2014, and Abdelfattah Said Elisi was elected, and he is the current president. The next election will be held in May 2018. The premier is the head of government and receives the appointment from the president and must be approved by the legislature.

Legislature of The Government of Egypt: Egypt has a unicameral parliamentary system that is the House of Representatives also known as the Majlis Al-Nowaab that has 596 seats out of which 448 are directly elected, 120 members apportioned to the women, youth, and Christians, and 28 members selected by the president. The Parliamentary election is multiphase.

Judicial Branch of The Government of Egypt: The highest court in the country is the Supreme Constitutional Court (SSC) consisting of the court’s president and other ten justices. The Supreme Constitutional Court is the last court of arbitration on the constitutionality of country’s laws and other conflicts between the lower courts on matters concerning rulings and jurisdiction. The Supreme Administrative Court is the highest court of the state council. According to the 2014 constitution, all the judges and justices are selected by the Supreme Judiciary Council and the appointment is done by the president. Judges are appointed for life. There are other subordinate courts in the country which include the courts of Appeal, Courts of the First instance, courts of limited jurisdiction, and family courts that were established in 2004.

I.4 Education:

Egypt has made significant progress in a number of crucial areas in recent years—its official youth literacy rate, for instance, increased from 85 percent in 2005 to 94 percent in 2017, while the number of elementary-age out-of-school children has dropped by 50 percent over the past five years after skyrocketing during the revolution in 2011, per data from UNESCO Institute of Statistics (UIS).

But needless to say, Egypt's population growth places enormous strains on the country's education system. The total number of children enrolled in elementary school jumped from 9.5 million in 2005 to 12.2 million in 2017, and from 6.7 million in 2009 to 8.9 million in 2015 at the secondary level, resulting in greater funding requirements, capacity shortages, and overcrowded classrooms. The pupil-to-teacher ratio has slightly increased in both elementary and secondary education in recent years, while teacher salaries are falling. Parents have to spend more of their income on private tutoring and other education-related expenses. There's also a substantial amount of "disguised illiteracy," that is, some 30 percent of schoolchildren are estimated to "lack basic skills for reading and writing." Most of them live in rural regions.

I.5 Health

The Egyptian health care system faces multiple challenges in improving and ensuring the health and wellbeing of the Egyptian people. The system faces not only the burden of combating illnesses associated with poverty and lack of education, but it must also respond to emerging diseases and illnesses associated with modern, urban lifestyle. Emerging access to global communications and commerce is raising the expectations of the population for more and better care and for advanced health care technology.

A high birth rate combined with a longer life expectancy is increasing the population pressure on the Egyptian health system. By the year 2020 it is estimated that the population of Egypt will have grown to about 92 million people.

Health Sector Reform Strategy: The government of Egypt has articulated as its long-term goal the achievement of universal coverage of basic health services for all of its citizens. It has also stated the importance of targeting the most vulnerable population groups as its priority. Major components of the strategy include:

- Expanding the social health insurance coverage from 47 percent (in 2003) of the population to universal coverage based on the "family" as the basic unit. An affordable and cost-effective package of basic health services based on the priority health needs of the population will be provided.
- Reorganizing services so that they are provided through a holistic family health approach. Provision of the basic package will be based on competition and choice among the different public and private service providers, under a single Public and Health Insurance Fund (PHIF) using incentive-based and other provider payment mechanisms.
- Strengthening management systems and developing a regulatory framework and institutional relationships to ensure quality of care and to support the reform of the health sector.
- Developing the domestic pharmaceutical industry and reducing government involvement in the production of pharmaceuticals while strengthening its role as a financier.

II. Overview of macroeconomic activity and fiscal condition

Since the mid-2000s, the Egyptian economy has faced repercussion of socioeconomic and political changes that took place in both international and domestic sides. The global financial crisis disrupted the Egyptian Economy leading to slow down in economic growth. In 2009, real GDP growth started to decline reaching 1.8 percent in the aftermath of the 2011 revolution. Foreign reserve fell about 50 percent within the period December 2010-December 2011, reaching US $ 15.5 bn in 2012. The average CPI inflation was about 10 percent during 2005-2008, reaching a peak of 23 percent in August 2008.

For a long time, the country has suffered from low growth rate, high unemployment, increasing un equality, and deteriorating of living and economic condition which lead to the revolution in the early 2011. In 2014, Egypt adopted a new constitution and elected a new president. The government adopted plan for enhancing the structural reform, promote investments, create jobs and increase tax revenues by fiscal adjustments. The government continues to work steadily on achieving sound public finances and macroeconomic stability in order to provide the foundation on which sustainable growth will be built. Prudent fiscal and monetary policies constitute the core of the medium-term reform program and are geared toward correcting the country's large fiscal and current account deficits, dampening inflationary pressures and reassuring stakeholders that financing gaps are manageable. This policy framework will preserve confidence and encourage economic actors to expand investment activities and consequently consumption, thereby propelling growth.

To ensure that growth is sustainable, inclusive and high quality (i.e., investment-led), the macroeconomic policies are being complemented by measures to modernize the business environment, a large hike in public spending on human capital formation, a focus on revamping and expanding physical infrastructure both in Cairo as well as throughout the country, and a big-picture push to develop and launch several megaprojects over time.

By design, the government's medium-term strategy is ambitious and comprehensive. It requires a range of mutually reinforcing and well-designed policy interventions to remove existing distortions and create a strong new economic platform. The five-year plan (fy14/15 – fy18/19) will deliver the following broad targets:

- Sustainable real GDP growth reaching at least 6% by the end of the period
- A faster job creation in order to bring the unemployment rate below 10% and in particular to address the high rate of youth unemployment.
- efficient government spending in parallel with a planned reduction of the fiscal deficit to 8 - 8.5% of GDP, and the government debt to within a range of 80 - 85% of GDP.
- Headline Inflation within a 6 - 8% range.
- Higher rates of domestic investment.
- Improved export performance.
- The development of the country's human resources supported by increased spending on health, education and Research and Development (up to at least 10% of GDP) as mandated by the Constitution.
- Enhanced productivity on the national level and continued investment in and upgrading of infrastructure.

The government successfully implemented the first wave of macro-economic and structural reforms that helped to stabilize the economy, sustain growth and improve the participation of the private sector in the economy. In FY 2019 (ending June 30th, 2019), the GDP reached 5.6 percent, up from 5.3 percent in FY 2018. The pickup driven by the net exports. Private and foreign direct investment are picking up. The gas extractives, tourism, wholesale and retail trade, real state and construction have been the main drivers for growth. The monetary easing was triggered by the remarkable decline in the inflation in August 2019 to 7.5 percent. The unemployment decreased to 7.5 percent in the fourth quarter of FY 2019 from 9.9 percent a year earlier. This come due to the policies applied to contain energy subsidies and civil servants' wages, in addition to increase the revenue collection (from the VAT and income tax). However, significant risk remains in terms of debt size, the government debt is estimated to have decreased to 90.5 percent of GDP in end- June 2019, from 97.3 percent of GDP in end-June 2018. The Egyptian pound strengthen against the US $, reaching EGP/US$16.4 by med September 2019. While macroeconomic environment has improved, social conditions remain difficult. Between 2016 and 2018, nominal wage growth fell below inflation. In addition, the share of population living below the national poverty line in FY 2018 increased to 32.5 percent, from 27.8 in 2015. To alleviate the adverse effect of the economic reform on the poor, the government has to adopt social protection mitigation measure and increase investment in Egypt's human capital.

II.1 International Environment

II.1.1 Trade balance and Current Account

Egypt has been started program to reform trade balance by carrying out new regulation to liberate foreign trade with international society, applying unified exchange rate system and floating exchange rate as in 2016, the CBE adopted floating exchange rate system that reflects the supply and demand which led to greater transparency and foreign exchange liquidity. More than, the country adopted other policies such as cut taxes, reduce subsides, privatization of public sectors and liberalized trade and investment. Examples of, the industries that held widely by the private sector, are construction, non-financial services agriculture, domestic wholesale and retail trade.

Egypt's BOP ran an overall surplus of US$ 12.8 billion during FY 2017/18 (compared to US$ 13.7 billion in the previous FY). Below is a review of the main developments, during the reporting year, that affected the performance of the BOP and reflected the continued favorable effects of the decision of exchange rate liberalization. The volume of reserves covers nine months of imports. The export has increased of 40% and the remittance from expatriates increased to $26.4 billion. More than the political stability was reflected on the tourism sector revenue from Suez Canal hiked 15 percent. The economy started to change from depending on raw materials and natural resources to an economy focusing on deepening economic industrialization and human capital. As 5.3 percent growth comes from increased investment and net foreign trade, which is reflected in more job opportunities.

The current account deficit declined by 58.6 percent to just US$ 6.0 billion (compared to US$ 14.4 billion). The improved performance came as a result of the following developments:

The trade deficit stabilized at US$ 37.3 billion due to the increase in both export proceeds and import payments by US$ 4.1 billion each.

The services surplus surged by 98.1 percent to US$1 1.1 billion) against US$ 5.6 billion), mainly because the travel balance ran a surplus of US$ 7.4 billion (compared to US$ 1.6 billion), and Suez Canal receipts increased by 15.4 percent to US$ 5.7 billion (compared to US$ 4.9 billion).

Net unrequited current transfers rose by 21.2 percent to US$ 26.5 billion (against US$ 21.8 billion), due mainly to the rise in remittances from Egyptians working abroad by US$ 4.6 billion.

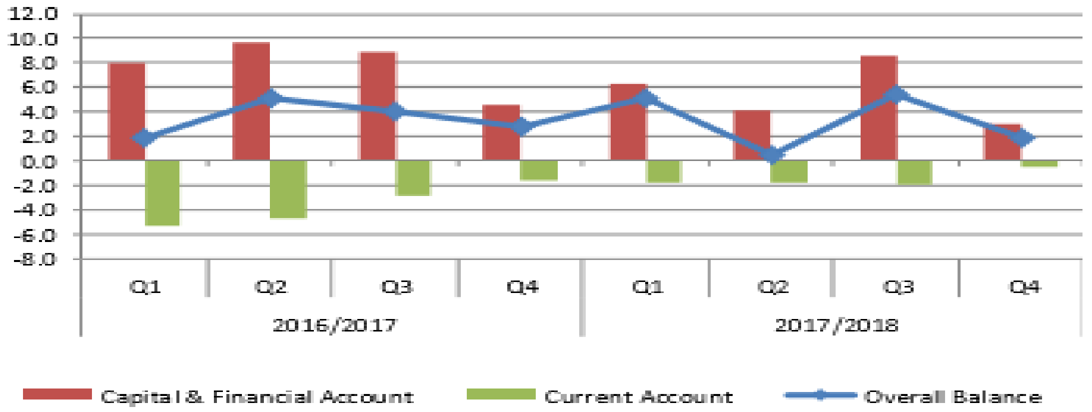
Investment income balance recorded a deficit of US$ 6.3 billion, mainly as its payments registered US$ 7.1 billion and its receipts posted only US$ 835.4 million. During the reporting year, the capital and financial account recorded a net inflow of US$ 22.0 billion (compared to US$ 31.0 billion), due to the following developments:

- FDI in Egypt recorded a net inflow of US$ 7.7 billion (against US$ 7.9 billion). Portfolio investment in Egypt fell, recording US$ 12.1 billion (against US$ 16.0 billion).
- Long- and medium-term loans and facilities achieved a net disbursement of US$ 7.9 billion (compared to US$ 8.0 billion).
- The net change in the liabilities of the CBE to the external world shifted to a net repayment of US$ 3.9 billion in the reporting year (from a net disbursement of US$ 8.1 billion), causing as such a decline in the liabilities of the CBE to the external world.

The chart below shows the development in Egypt's BOP main components, on quarterly basis during FY 2016/2017 and 2017/2018.

Figure1: Egypt's BOP main components during FY 2016/2017 and 2017/2018

US $ bn



Source: Central Bank of Egypt

The following table displays the balance of payment: current account including trade and service account, transfer, capital and financial account during the period 2015/2016 to 2018/2019.

Table 1: Balance of Payments during FY 2015/2016 to 2018/2019

(Million US$)

Item	2015/2016	2016/2017	2017/2018	2018/2019
Trade Balance	-38683.1	-37274.8	-37276.0	-38034.4
Export proceeds **	18704.6	21728.2	25827.0	28495.0
Petroleum exports	5674.3	6589.5	8773.0	11557.0
Other exports	13030.3	15138.7	17054.0	16938.0
Import payments**	-57387.7	-59003.0	-63103.0	-66529.4
Petroleum imports	-9293.6	-12015.5	-12489.8	-11548.9
Other imports	-48094.1	-46987.5	-50613.2	-54980.5
Services Balance	6533.0	5614.2	11122.4	13036.5
Receipts	16079.3	15400.1	21486.9	24423.6
Transportation	9534.6	7911.2	8707.9	8600.3
Of which: Suez Canal dues	5121.6	4945.3	5706.7	5730.7
Travel (tourism revenues)	3767.5	4379.7	9804.3	12570.6
Government receipts	378.0	776.4	636.7	718.8
Others	2399.2	2332.8	2338.0	2533.9
Payments	9546.3	9785.9	10364.5	11387.1
Transportation	1339.1	1332.1	1480.2	1792.4
Travel	4091.0	2739.9	2451.5	2902.9
Government expenditures	777.1	1124.1	1493.5	692.4
Others	3339.1	4589.8	4939.3	5999.4
Investment Income Balance	-4471.7	-4568.5	-6279.6	-8309.8
Receipts	396.9	497.9	835.4	1014.1
Payments	4868.6	5066.4	7115.0	9323.9
Of which: Interest paid	752.0	1231.9	1616.1	2574.1
Current Transfers	16790.7	21835.1	26470.9	25113.6
Private (net),	16689.2	21686.1	26264.7	24763.1
Of which: Remittances of Egyptians working abroad (1)	17077.4	21816.3	26392.9	25150.8
Official (net)	101.5	149.0	206.2	350.5
Balance of Current Account	-19831.1	-14394.0	-5962.3	-8194.1
Capital & Financial Account	21176.7	31015.1	21996.5	8523.5
Capital Account	-141.4	-113.3	-150.7	-129.2
Financial Account	21318.1	31128.4	22147.2	8652.7
Direct investment abroad	-164.2	-175.1	-271.2	-374.0
Direct investment in Egypt (net)	6932.6	7932.8	7719.5	5902.9
Portfolio investment abroad	192.1	208.4	-20.8	-96.4
Portfolio investment in Egypt (Net)	-1286.8	15985.3	12094.8	4230.1
Of which: Bonds	-1444.8	5491.5	5293.2	5094.2
Other Investments (Net)	15644.4	7177.0	2624.9	-1009.9
Net Borrowing	7102.7	9699.2	10278.8	6253.4
Medium- and Long-Term Loans	-186.3	5156.8	6738.5	3333.7
Disbursements	2523.4	7641.1	8846.4	5525.2
Repayments	-2709.7	-2484.3	-2107.9	-2191.5
Medium- and Long-Term Suppliers' Credit	1505.3	2795.1	1118.5	828.8
Disbursements	1560.7	2912.2	1313.6	1160.8
Repayments	-55.4	-117.1	-195.1	-332.0

S.T. Suppliers' Credit (Net)	5783.7	1747.3	2421.8	2090.9
Other Assets	-3476.9	-12095.7	-4511.9	-8881.6
CBE	-104.4	-27.5	-116.4	-23.4
Banks	2092.1	-9462.5	2161.7	-1764.7
Others	-5464.6	-2605.7	-6557.2	-7093.5
Other Liabilities	12018.6	9573.5	-3142.0	1618.3
CBE	5857.7	8128.6	-3879.2	1537.8
Banks	6160.9	1444.9	737.2	80.5
Net Errors & Omissions	-4158.6	-2903.9	-3246.5	-431.9
Overall Balance	-2813.0	13717.2	12787.7	-102.5

Source: Central Bank of Egypt

The following table shows the BOP main indicators according to GDP during the period 2015/2016 to 2018/2019.

Table2: BOP main indicators according to GDP during the period 2015/2016 to 2018/2019.

item	2015/2016	2016/2017	2017/2018	2018/2019
Change in CBE Reserve Assets (Increase -)	2813.0	-13717.2	-12787.7	102.5
Indicators (%)				
Merchandise Exports / Imports	32.6	36.8	40.9	42.8
Service Receipts / Service Payments	168.4	157.4	207.3	214.5
Current Receipts / Current Payments	72.4	80.5	92.6	90.6
Trade Balance / GDP	-11.5	-15.9	-14.9	-12.6
Current Account / GDP	-5.9	-6.1	-2.4	-2.7
Overall Balance / GDP	-0.8	5.8	5.1	-0.03
FDI in Egypt (net) / GDP	2.1	3.4	3.1	2.0

Source: Central Bank of Egypt

The following table shows the BOP main indicators according to GDP estimates and a detailed review of the developments in the BOP components during FY 2016/2017 and 2017/2018

Table3: BOP main indicators according to GDP estimates during FY 2016/17 and 2017/18.

Item	Fiscal Year (%)	
	2016/17*	2017/18*
Trade Balance		
- Merchandise exports / GDP	9.3	10.3
Oil exports / Total exports	30.3	34.0
Crude oil exports /Oil exports	58.8	52.4
- Merchandise imports / GDP	25.1	25.2
Non-oil imports / Total imports	79.6	80.2
Foodstuffs & cereal imports / Non-oil imports	22.6	21.7
Oil products imports / Total imports	17.1	15.8
- Volume of foreign trade / GDP	34.4	35.5
- Coverage ratio of merchandise exports / Merchandise imports	36.8	40.9
- Trade balance / GDP	(15.9)	(14.9)
Services Balance		
- Services balance /GDP	2.4	4.4
- Total services receipts / GDP, of which:	6.6	8.6
Suez Canal receipts / GDP	2.1	2.3
Tourism/GDP	1.9	3.9
Transfers: transfers / GDP	9.3	10.6
- Remittances of Egyptians working abroad / GDP	9.3	10.5
- Current account / GDP	(6.1)	(2.4)
- Current receipts / GDP	25.3	29.8
- Current payments / GDP	31.4	32.2
- Current receipts / current payments	80.5	92.6
Capital and Financial Account Net FDI in Egypt / GDP	3.4	3.1
Overall Balance / GDP	5.8	5.1
Months of merchandise and service imports covered by NIRs	5.5	7.2

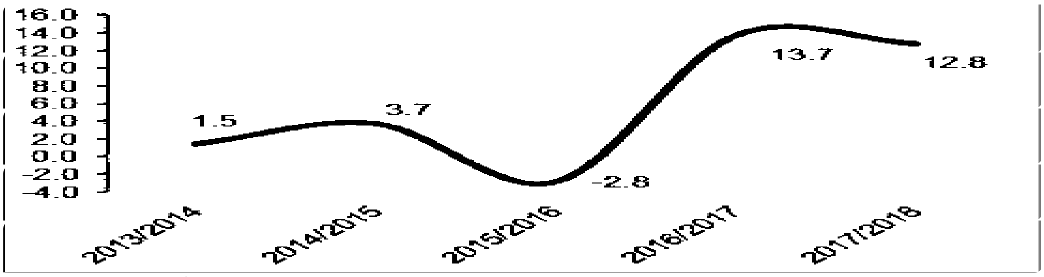
Source: Central Bank of Egypt

II.1.2 Current Account

The decreased in the current account by 58.6 percent was mainly due the rise in both services' surplus by 98.1 percent, net unrequited current transfers by 21.2 percent, and the trade deficit stabilized at US$ 37.3 billion. Such an improvement was restrained by the rise in investment income deficit by 37.5

percent. The figure below illustrates the development of (surplus/ deficit) balance of payment during the FY 2013/2014 to FY 2017/2018

Figure 2: The development of (surplus/ deficit) balance of payment during the FY 2013/2014 to FY 2017/2018



Source: Central bank of Egypt

II.1.3 Trade Balance

Trade deficit remained unchanged at US$ 37.3 billion, as export proceeds grew by 18.9 percent, and import payments by 6.9 percent. This can be seen as follows:

II.1.3.1Export proceeds

Merchandise export proceeds (oil and non-oil) grew by 18.9 percent to US$ 25.8 billion during the year under review. This was mainly due to the rise in both oil exports by US$ 2.2 billion and non-oil exports by US$ 1.9 billion.

Oil Export Proceeds: In FY 2017/2018, oil export proceeds scaled up by 33.1 percent to US$ 8.8 billion. This was owed to the increase in exports of both oil products by US$ 1.5 billion to US$ 4.2 billion (due to the rise in exported quantities), and crude oil by US$ 724.8 million to US$ 4.6 billion (due to the hike in the global prices of crude oil).

Non-Oil Export Proceeds (66.0 percent of total exports): Non-oil export proceeds increased by 12.7 percent to US$ 17.1 billion. This was traceable to the higher export proceeds of raw materials by 18.9 percent, finished goods by 14.3 percent and semi-finished goods by 7.4 percent. Exports of raw materials moved up by US$ 312.5 million to US$ 2.0 billion, due to higher exports of some goods such as fresh and dried fruits by US$ 122.0 million; and fresh, chilled or cooked vegetables by US$ 108.0 million. Exports of finished goods increased by US$ 1.3 billion to US$ 10.6 billion, reflecting higher exports of some goods, mainly household electrical appliances by US$ 244.0 million; phosphate and mineral fertilizers by US$ 203.3 million; and textiles by US$ 124.3 million. Semi-Finished Goods: Exports of semi-finished goods rose by US$ 296.7 million to US$ 4.3 billion, mainly ethylene-propylene polymers by US$ 189.6 million. The following table shows the main export by commodities and Geographical distribution during FY 2017/2018.

Table4: The main Export by commodities & Geographical distribution during FY 2017/2018.

(US $ Mn)

Item	EU	Other Euro. Count	USA	Arab Count	Asian Count	Other
Total Exports:	8979.1	2126.6	2080.7	6037.7	2678.9	3924.0
Main Commodities:	5670.8	1466.2	1391.6	2966.9	1883.5	3276.1
Petroleum products x	1662.0	370.6	459.7	499.1	376.9	803.9
Crude Oil	2050.0	0.0	95.9	0.0	924.9	1530.0
Gold	10.4	67.8	155.0	904.4	9.4	602.2
Phosphate or mineral fertilizers	392.5	278.9	50.3	149.1	69.5	24.5
Textiles	242.7	212.4	222.2	94.0	95.5	28.7
Ready-made clothes	165.4	96.2	229.2	76.3	142.9	6.2
Ethylene-propylene polymer	176.2	256.1	41.0	158.4	60.6	13.2
Organic and inorganic compounds	159.4	118.5	58.2	126.8	59.7	46.3
Household electrical appliances	192.8	38.3	15.6	391.1	65.9	36.7
Fresh, chilled, or cooked vegetables	186.2	20.0	29.4	205.9	18.3	64.1
Wires and cables	277.0	0.6	16.2	208.6	7.9	32.6
Fresh or dried fruits	156.2	6.8	18.9	153.2	52.0	87.7

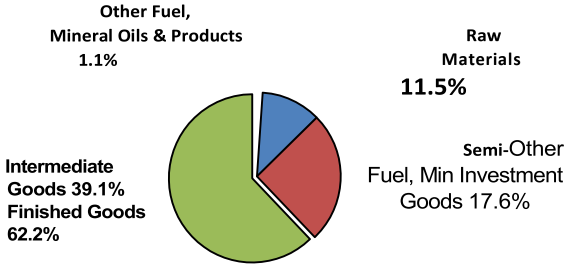
Source: Central Bank of Egypt

* Provisional

x Including natural gas & bunker and jet fuel.

The following figure illustrates the Relative Structure of Non-Oil Exports by Degree of Processing during FY 2017/2018.

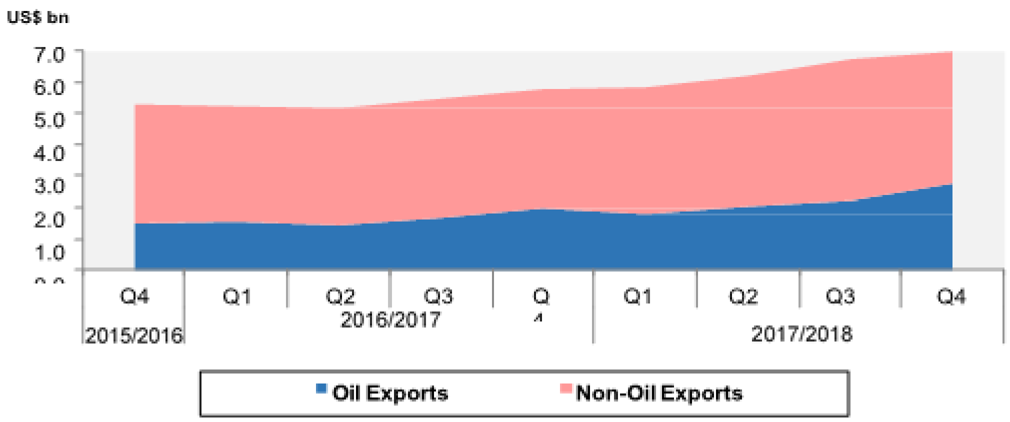
Figure 3: Non-Oil Exports by Degree of Processing during FY 2017/2018.



Source: Central Bank of Egypt

The following figure illustrates the oil and Non-Oil export during FYs 2016/2017 and FY 2017/2018.

Figure 4: Oil and Non-Oil export during FYs 2016/2017 and FY 2017/2018.



Source: Central Bank of Egypt

II.1.3.2 Imports

Import increased by 6.9 percent to US$ 63.1 billion (versus US$ 59.0 billion), as non-oil imports increased by 7.7 percent to US$ 50.6 billion (against US$ 47.0 billion), and oil imports by 3.9 percent to US$ 12.5 billion (against US$ 12.0 billion).

Oil Import Payments (19.8 percent of total imports): Oil imports went up by 3.9 percent to US$ 12.5 billion. This increase was due to increase imports of crude oil by US$ 635.5 million to US$ 2.5 billion (due to the hike in imported quantities), while imports of oil products decreased by US$ 161.2 million to only US$ 10.0 billion.

Non-Oil Import Payments (80.2 percent of total imports): Non-oil import payments increased by 7.7 percent to US$ 50.6 billion, reflecting the rise in imports of intermediate goods by 25.5 percent, consumer goods by 2.8 percent, and investment goods by 1.4 percent. however, imports of raw materials scaled down by 4.3 percent, intermediate goods rose by US$ 4.0 billion to US$ 19.8 billion, on the back of the higher imports of some goods, mainly cast iron by US$ 742.4 million, and wood in the rough and densified wood by US$ 336.7 million. Consumer Goods Imports increased by US$ 359.7 million to US$ 13.0 billion during the year under review. Investment Goods Imports increased by US$ 121.4 million to record US$ 8.9 billion, due to the rise in the imports of some goods, mainly machines and appliances for agriculture or horticulture by US$ 274.5 million; and machines & appliances for printing by US$ 141.0 million. Raw material imports declined by US$ 264.9 million to only US$ 5.9 billion, due to lower imports of some goods, mainly wheat by US$ 606.2 million, and iron ores by US$ 145.0 million. The following table shows the main imports by commodities and Geographical distribution during FY 2017/2018.

Table5: The main imports by commodities & Geographical distribution during FY 2017/2018.

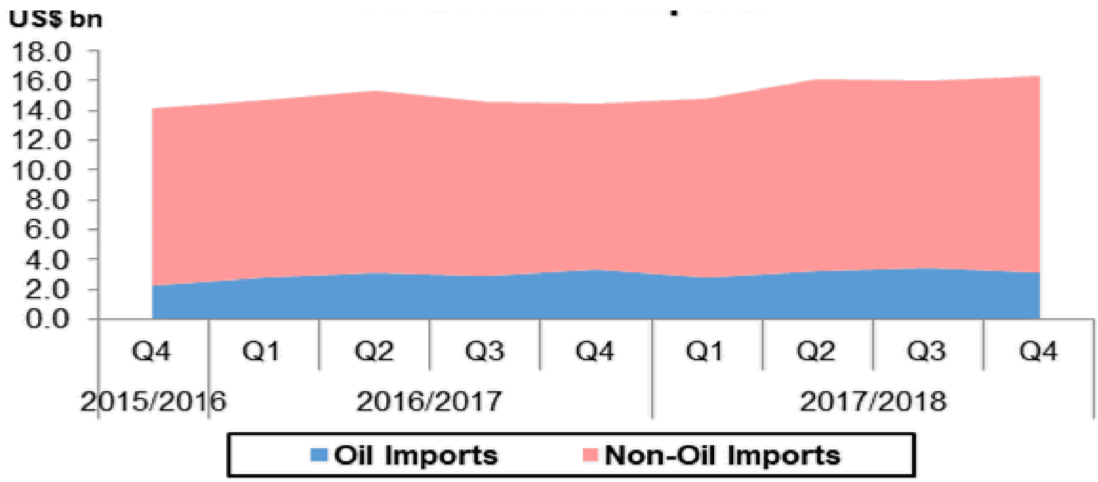
(US $ Mn)

Item	EU	Other Euro. Count	USA	Arab Count.	Asian Count	Other
Total import	16709	4258.2	2940.6	12370.7	12558.5	14266.2
Main Commodities:	6365.9	1661.7	914.3	8449.7	3505.9	6108.8
Petroleum products x	1772.5	562.2	322.9	4241.5	400.4	2655.9
Crude oil	93.2	0.0	0.0	2441.2	0.0	0.0
Wheat	194.6	1.1	27.6	3.8	0.2	1343.6
Spare parts and accessories for cars and tractors	407.9	50.9	18.5	65.4	712.5	25.3
Medicines	677.7	391.1	54.2	78.6	91.2	36.8
Organic and inorganic compounds	595.0	129.5	150.7	235.9	382.6	53.1
Maize	112.1	6.9	79.9	23.0	2.4	1348.8
Polypropylene	270.4	40.6	80.7	524.1	485.2	9.2
Spare parts for machines	606.8	84.5	92.3	170.4	291.7	48.0
Cast iron	352.0	176.6	19.1	436.0	136.1	410.1
Textiles	97.9	181.0	16.0	85.5	713.8	4.4
Passenger vehicles	422.3	16.3	34.0	106.4	173.2	12.0
Wood in the rough and densified wood	763.5	21.0	18.4	37.9	116.6	161.6

Source: Central Bank of Egypt

The following figure illustrates the oil and Non-Oil import during FYs 2016/2017 and FY 2017/2018.

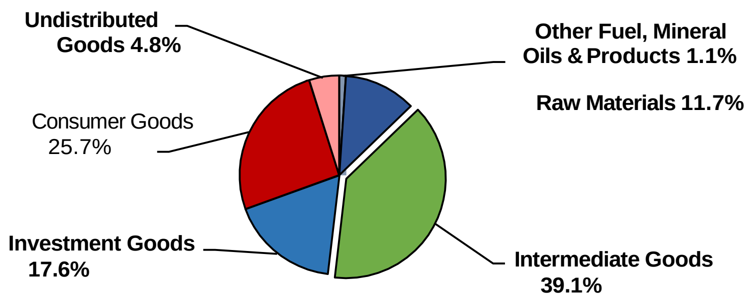
Figure 5: the oil and Non-Oil import during FYs 2016/2017 and FY 2017/2018



Source: Central Bank of Egypt

the following figure illustrates Relative Structure of Non-Oil Imports by Degree of Use during FY 2017/2018.

Figure 6: Relative Structure of Non-Oil Imports by Degree of Use during FY 2017/2018.

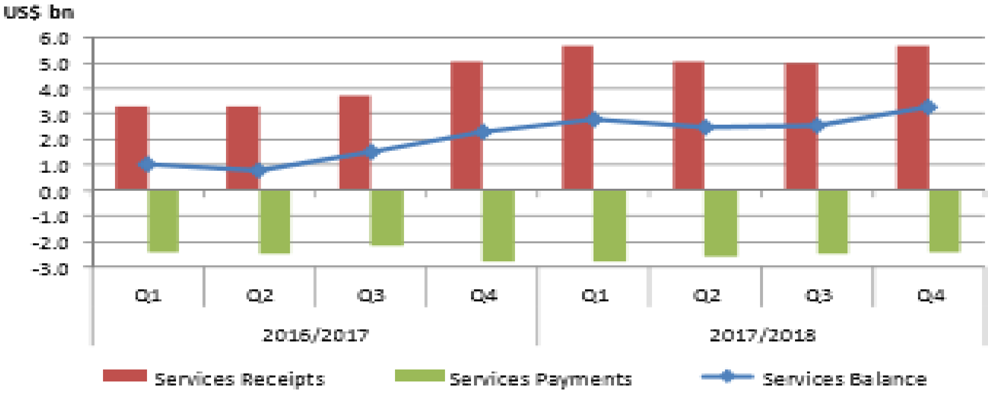


Source: Central Bank of Egypt

II.1.4 Services Balance

The services surplus widened by 98.1 percent to US$ 11.1 billion (compared to US$ 5.6 billion), as the increase in services receipts improve faster than that in services payments. The following figure illustrate the Service Balance during the FY 2016/2017 and 2017/2018:

Figure 7: The Service Balance during the FY 2016/2017 and 2017/2018:

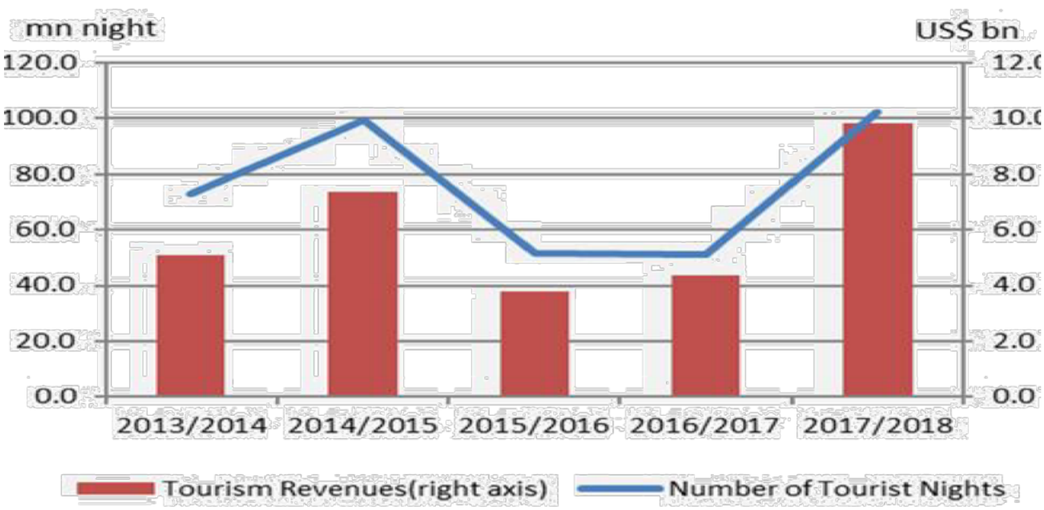


Source: Central bank of Egypt

II.1.4.1 Services Receipts

Services receipts rose by 39.5 percent to US$ 21.5 billion (from US$ 15.4 billion). This was a result of the rise in most items as follows: Travel receipts (tourism revenues) increased by 123.9 percent to US$ 9.8 billion (from US$ 4.4 billion), as the number of tourist nights have increased to 102.6 million from 50.9 million, with the increase in the average spending per tourist a night. Transportation receipts rose by 10.1 percent to US$ 8.7 billion (compared to US$ 7.9 billion). The rise mainly reflected the increase in Suez Canal receipts by 15.4 percent to US$ 5.7 billion (from US$ 4.9 billion), due to the increase in net tonnage of vessels by 9.8 percent and the appreciation of SDR versus the US dollar by 3.8 percent on average. Other services receipts rose by 0.2 percent to US$ 2.3 billion, due to enhance performance of construction and contracting; agencies' commissions and fees; and advertising and marketing researches. On the other hand, government receipts fell by 18.0 percent, to US$ 636.7 million (against US$ 776.4 million), due to the fall in other government receipts. The following figure displays Number of Tourist Nights and Tourism Revenue during FYs 2013/2014 to FY 2017/ 2018.

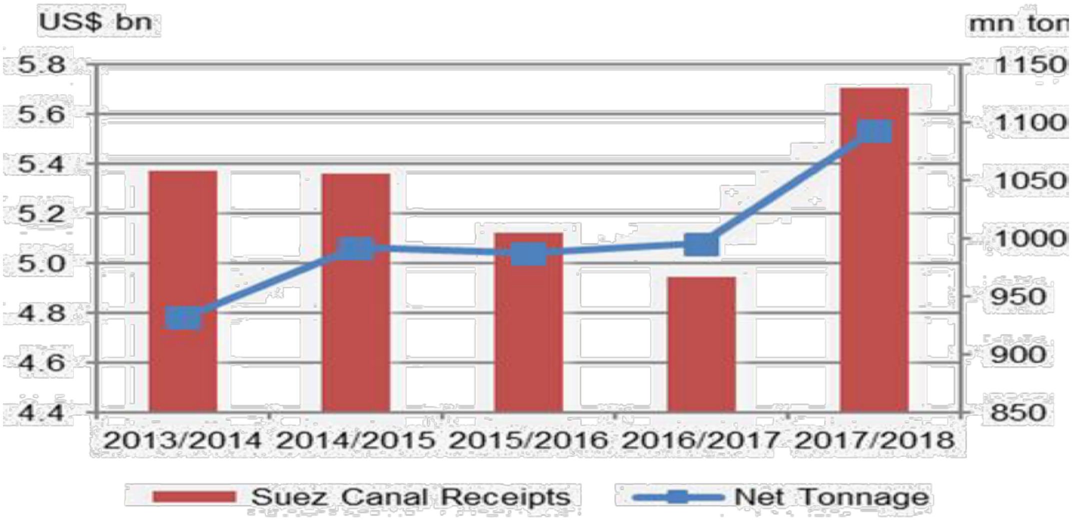
Figure 8: Number of Tourist Nights and Tourism Revenue during FYs 2013/14 to FY 2017/ 18.



Source: Central Bank of Egypt

The following figure illustrates Development of Net Tonnage and Suez Canal Receipts during FYs 2013/14 to FY 2017/ 18.

Figure 9: Development of Net Tonnage and Suez Canal Receipts during FYs 2013/14 to FY 2017/18.

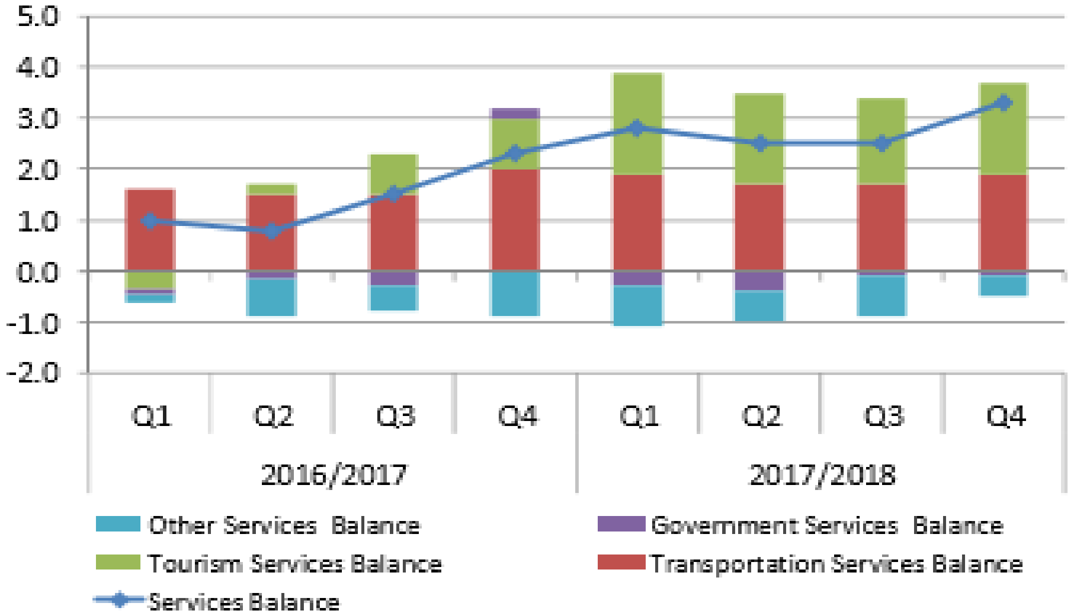


Source: Central Bank of Egypt

II.1.4.2 Services Payment

Services payments increased by 5.9 percent to US$ 10.4 billion (from US$ 9.8 billion), reflecting the increase in most of its items as follows: Government expenditures rose by 32.9 percent to US$ 1.5 billion (against US$ 1.1 billion), due to the increase in salaries & expenses of government employees seconded abroad, and the expenses of Egyptian embassies abroad. Other services payments rose by 7.6 percent to US$ 4.9 billion (from US$ 4.6 billion), due to the increase in the amounts transferred abroad by foreign petroleum companies. As the payments of communication services, royalties & license fees, computer services, and subscriptions for magazines & journals have increased. Transportation payments rose by 11.1 percent to US$ 1.5 billion (compared to US$ 1.3 billion). As the amounts transferred by foreign navigation and aviation companies; those transferred for aircraft and ship leasing, and those transferred for transportation services have increased. On the other hand, travel payments decreased by 10.5 percent to US$ 2.5 billion (compared with US$ 2.7 billion), primarily reflecting a decrease in e-card payments abroad. The service balances components during the FY 2016/2017 and 2017/2018.

Figure10: The service balances components during the FY 2016/2017 and 2017/2018.

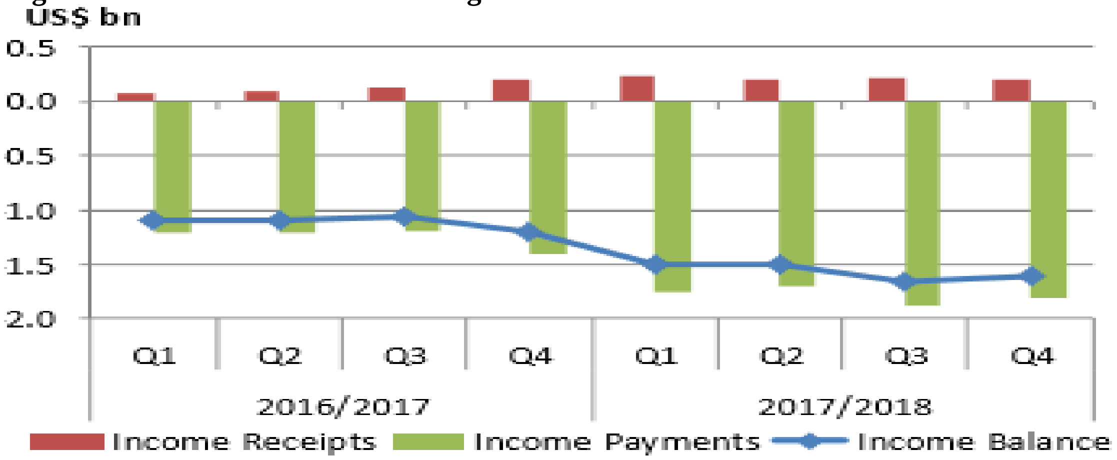


Source: Central bank of Egypt

II.1.5 Investment Income Balance

Investment income deficit increased by 37.5 percent to US$ 6.3 billion (against US$ 4.6 billion) during the FY2017/2018. The investment income payments recorded US$ 7.1 billion (compared with US$ 5.1 billion), as profit transfers of foreign companies operating in Egypt (petroleum and non-petroleum) constituted 58.7 percent of total payments. On the other hand, the investment income receipts recorded only US$ 835.4 million (against US$ 497.9 million). The following figure illustrate the income balance during the FY 2016/2017 and 2017/2018.

Figure 11: The income balance during the FY 2016/2017 and 2017/2018.

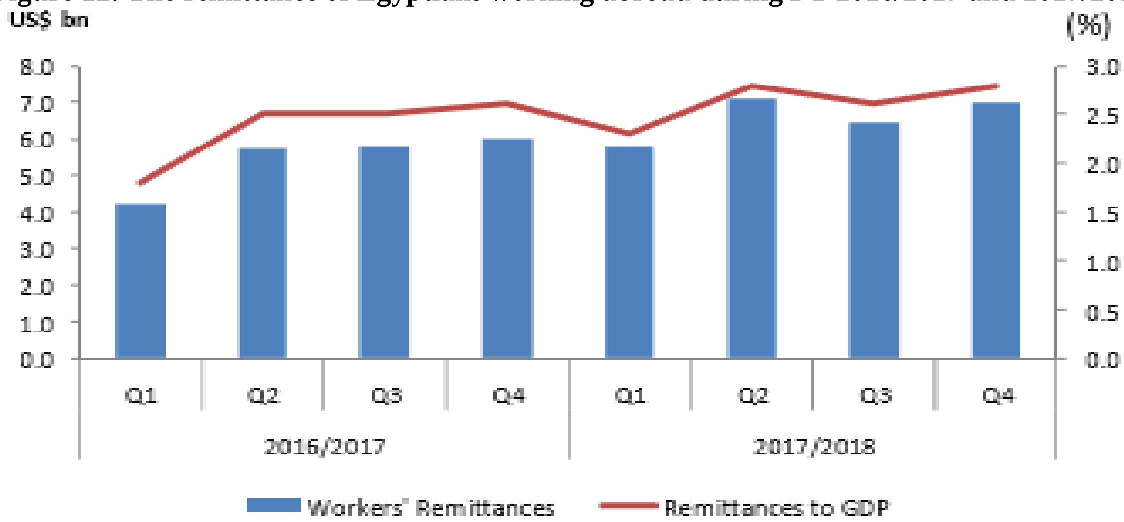


Source: Central bank of Egypt

II.1.6 Net Unrequited Current Transfers

During the year under review the Net unrequited current transfers rose by 21.2 percent to US$ 26.5 billion (against US$ 21.8 billion), reflecting the following developments: Net private transfers increased to US$ 26.3 billion (from US$ 21.7 billion) driven by an increase of US$ 4.6 billion in remittances of Egyptians working abroad. Net official transfers increased from US$ 149.0 million to US$ 206.2 million. The figure below illustrates the remittance of Egyptians working abroad during FY 2016/2017 and 2017/2018.

Figure 12: The remittance of Egyptians working abroad during FY 2016/2017 and 2017/2018.

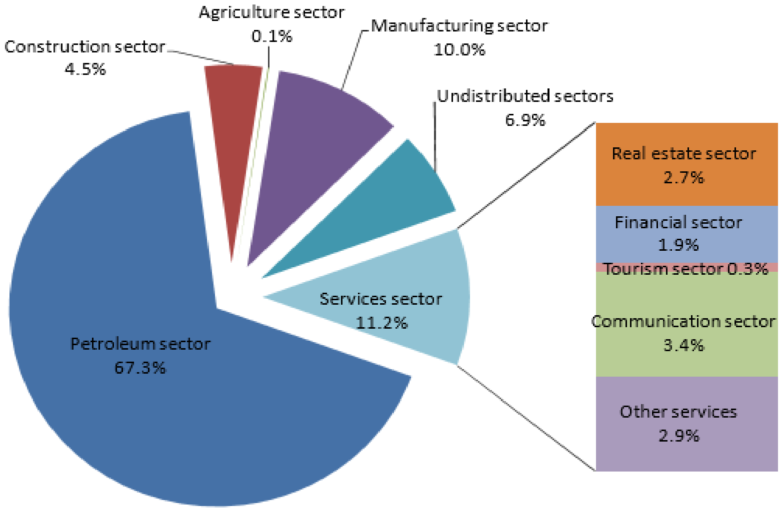


Source: Central bank of Egypt

II.1.7 Capital and Financial Account

The capital and financial account achieved a net inflow of US$ 22.0 billion in FY 2017/18 (against US$ 31.0 billion in the previous fiscal year). The following development reflected: FDI in Egypt recorded inflows of US$ 13.2 billion and outflows of US$ 5.4 billion. As a result, net FDI in Egypt posted US$ 7.7 billion (inflows). As the net investments of the oil sector registered US$ 4.5 billion. The figure below illustrates the total FDI in Egypt by Economic Sector during FY 2017/2018

Figure 13: The total FDI in Egypt by Economic Sector during FY 2017/2018.



Source: Central bank of Egypt

Table 6 illustrate the sectoral distribution of total FDI flows to Egypt during year 2016/2017 and 2017/2018

Table6: The Sectoral distribution of total FDI flows to Egypt during years 2016/17 and 2017/18:

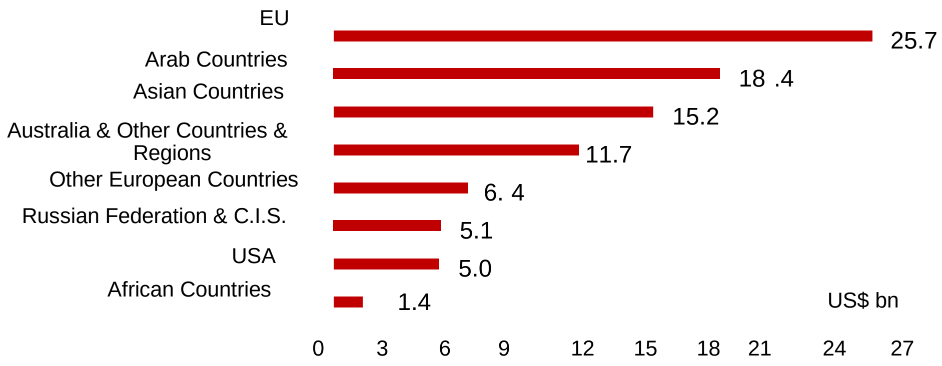
Activity Sector	FY July/Sept. 2016/17*	Share (%)	2017/18*	Share (%)
Total FDI Flows to Egypt	13366.1	100	13163.1	100
Oil	8191.6	61.3	8859.1	67.3
Manufacturing	776.4	5.8	1314.3	10.0
Agriculture	21.3	0.2	15.3	0.1
Construction	120.8	0.9	590.8	4.5
Services, of which:	1261.1	9.4	1476.0	11.2
Real estate	420.1	3.1	355.2	2.7
Finance	221.2	1.6	244.7	1.9
Tourism	50.7	0.4	43.0	0.3
Communication and IT	38.8	0.3	444.6	3.4
Other services	530.3	4.0	388.5	2.9
Undistributed	2994.9	22.4	907.6	6.9

Source: Central Bank of Egypt

II.1.7.1 Foreign Direct Investment in Egypt

According to the geographical distribution of foreign trade and main trade partners, foreign trade (oil and non-oil) between Egypt and all economic groups increased. Egypt's foreign trade with non-Arab Asian countries went up by 22.0 percent, Russian Federation and the Commonwealth of Independent States by 13.9 percent, the EU countries by 12.0 percent, other European countries by 8.3 percent, the USA by 6.5 percent, the Arab countries by 5.9 percent, the non-Arab African countries by 3.4 percent, and Australia and other countries & regions by 1.7 percent. At the level of trade partners, both the UAE and China came on top as the main trade partners with Egypt followed by the USA, Saudi Arabia, Italy and others. These countries combined constituted 48.3 percent of total foreign trade. The figure below shows the volume trade by geographical distribution FY 2017/2018

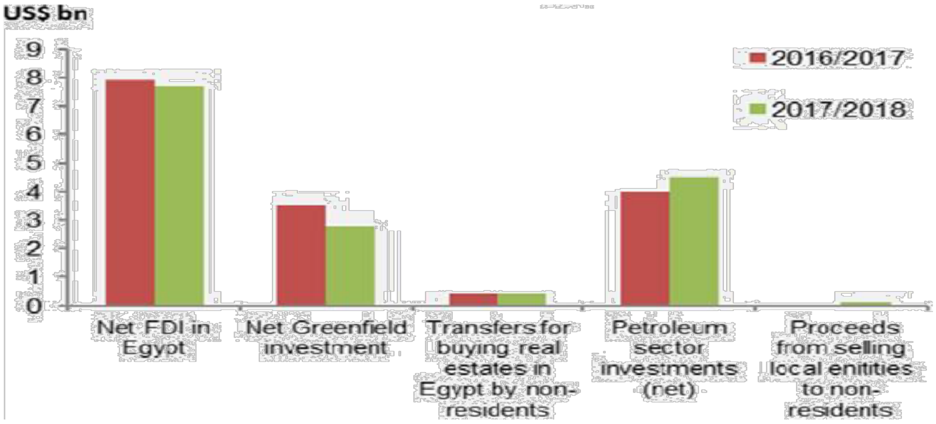
Figure 14: The Volume Trade by Geographical Distribution FY 2017/2018



Source: Central Bank of Egypt

The following figure illustrates the Net FDI in Egypt during FYs 2016/17 and FY 2017/18.

Figure 15: Net FDI in Egypt during FYs 2016/17 and FY 2017/18.

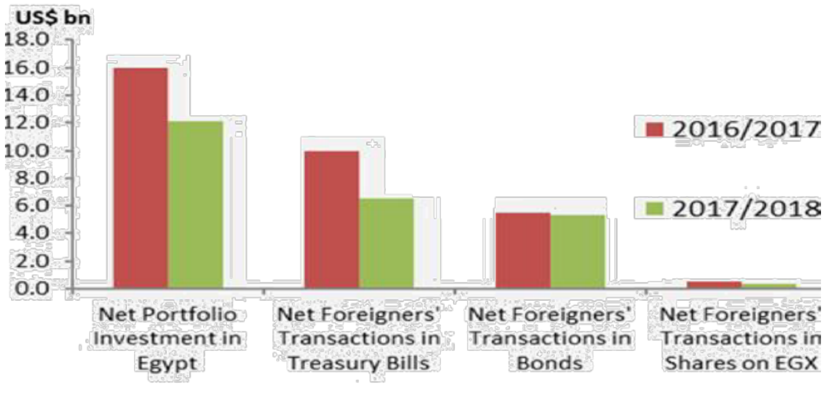


Source: Central Bank of Egypt

II.1.7.2 Portfolio Investment in Egypt

Portfolio investment in Egypt declined, recording a net inflow of US$ 12.1 billion (against US$ 16.0 billion). This was mainly due to the decrease investments of the foreigners in Egyptian Treasury bills, resulting in net purchases of US$ 6.5 billion (against US$ 10.0 billion). This was due to the current aspect of foreign investors to diversify his investments in the emerging markets. The following figure illustrates the Net Portfolio investment in Egypt during FYs 2016/2017 and FY 2017/2018.

Figure 16: Net Portfolio investment in Egypt during FYs 2016/2017 and FY 2017/2018.



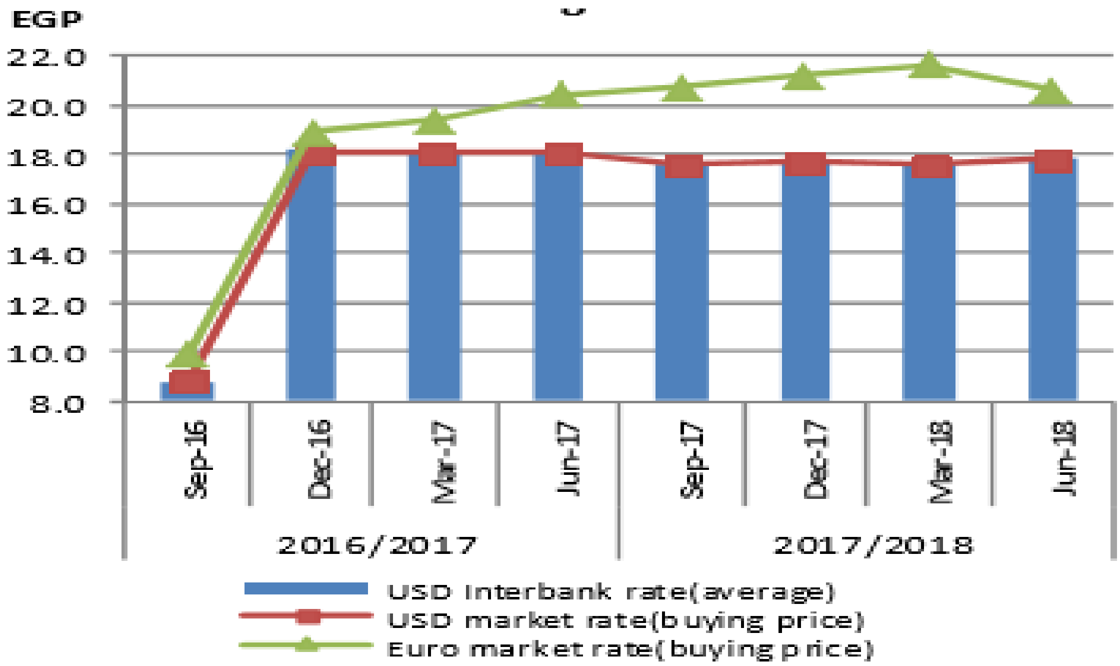
Source: Central Bank of Egypt

II.1.8 Foreign Exchange and Dollar Interbank Markets

On the 3rd of November 2016, the CBE took the decision of the liberalization of the Egyptian pound exchange rate, to be quoted according to the dynamics of supply and demand. This decision came as part of the economic reform program and this led to greater transparency and foreign exchange liquidity through attracting greater investment and the correction of assets prices. As a result of this policy, the Egyptian pound appreciated against US dollar and moved from 7.7 LE per 1$ to be 17.8 LE per 1$. Banks' foreign currency resources reached US$ 63.7 billion in FY 2017/2018 (of which US$ 45.2 billion, or 71.0 percent of the total, were customers' sales and US$ 18.5 billion, or 29.0 percent of the total, were investment inflows), against US$ 36.1 billion in FY 2016/2017 (of which US$ 24.4 billion, or 67.6 percent of the total, were customers' sales and US$ 11.7 billion, or 32.4 percent of the total, were investment inflows).

The weighted average of the US dollar interbank rate posted LE 17.8878 at end of June 2018 (against LE 18.0911 at end of June 2017), with a rise of 1.1 percent in the value of the Egyptian pound during FY 2017/2018. The following figure illustrate the Exchange rates of USD & Euro against EGP during FY 2016/2017 and 2017/2018.

Figure 17: The Exchange rates of USD & Euro against EGP during FY 2016/17 and 2017/18.

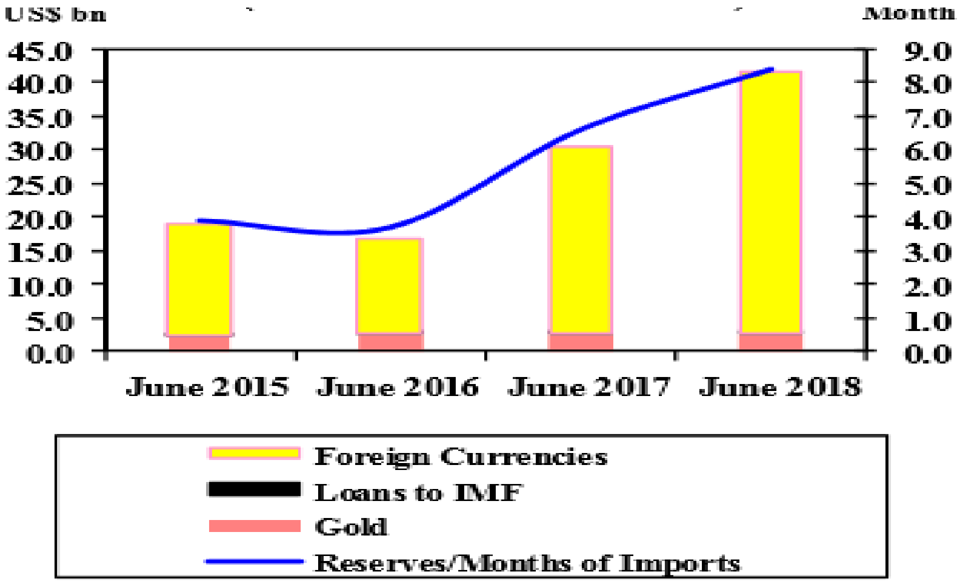


Source: Central Bank of Egypt

II.1.9 Management of International Reserves

Net international reserves (NIR) at the CBE increased by US$ 13.0 billion or 41.4 percent in FY 2017/2018. The balance at the end of the year is US$ 44.3 billion (covering 8.4 months of merchandise imports against 6.4 months at end of June 2017). The following figure illustrate the NIR& months of imports covered (Balance at End of the Month) during June 2015 to June 2018.

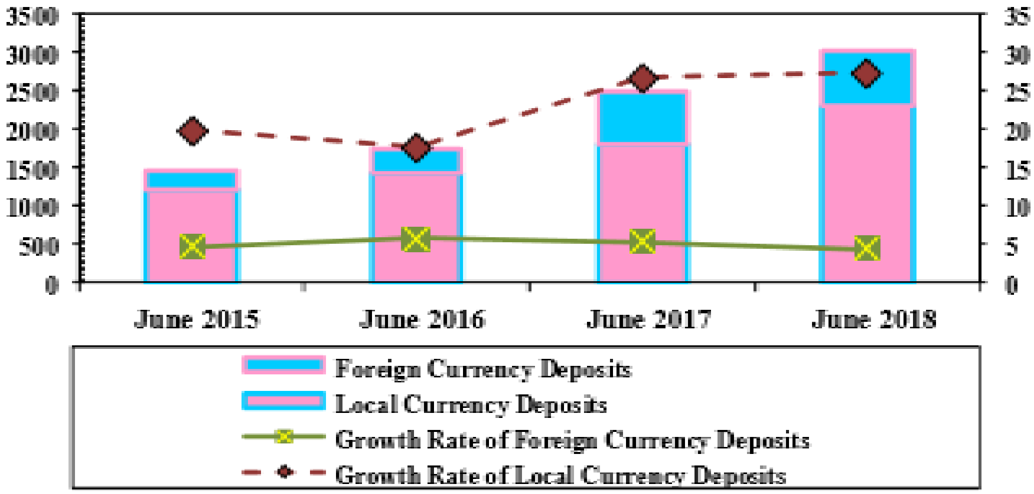
Figure 18: NIR & Months of Imports Covered (Balance at End of the Month)



Source: Central Bank of Egypt

The foreign currency with banks increased during the period concerned reaching US $ 40.2 billion at the end of June 2018. Also, the local currency deposits increased. The following figure illustrate the development in deposits by local and foreign currencies (end of month) during period 2015 to 2018.

Figure 19: The development in deposits by local and foreign currencies



Source: Central Bank of Egypt.

II.1.10 External Debt Indicators

Egypt's external debt indicators are within the thresholds under the Joint World Bank-IMF Debt Sustainability Framework for Low-Income countries. External debt reached US$ 92.6 billion at end of

June 2018, up by 17.2 percent compared to the end of June 2017. This increase was due to the rise in net acquired loans by US$ 13.2 billion in addition to the appreciation of most currencies of borrowing versus the US dollar by US$ 0.4 billion. The indicators show as compared to peer regional country group that:

- The ratio of external debt to GDP reached 37.0 percent at end of June 2018 (65.1 percent was owed to Central and Eastern Europe and 44.7 percent to Latin America and the Caribbean).
- The ratio of short-term external debt to total external debt reached 13.3 percent at end of June 2018 (21.1 percent was owed to Central and Eastern Europe and 14.2 percent to Latin America and the Caribbean).

The structure of medium- and long-term external debt at the end of June 2018 included rescheduled bilateral loans which registered US $ 7.6 billion, other bilateral loans reached US$ 7.6 billion, buyers '&supplier's credit reached US$ 8.4 billion, and debt of international and regional organizations recorded US$ 28.4 billion. The balance of Egyptian bonds and notes abroad which held by non-resident reached US $ 14.3 billion. Long-term deposits from Arab countries reached US$ 17.4 billion. Non-guaranteed debt of the private sector posted US$ 459.9 million. The following table illustrate the external debt indicators during FY 2016 to 2019

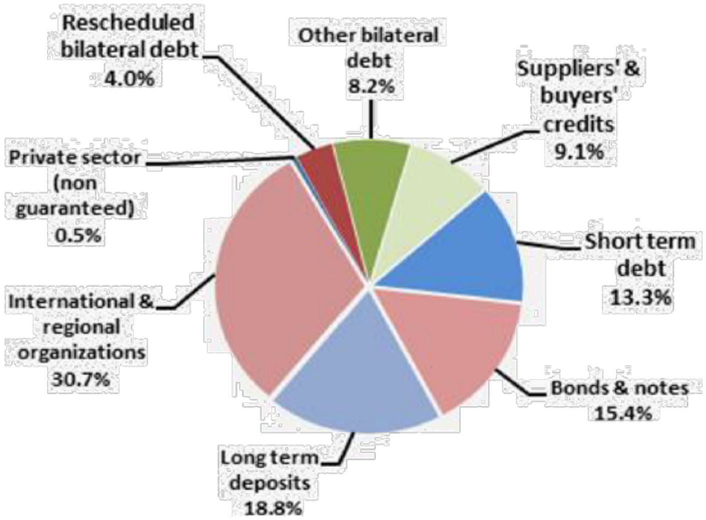
Table 7: The external debt indicators during FY 2016 to 2019

Indicators (%)	2016	2017	2018	2019
Long-term External Debt / Total External Debt	87.4	84.5	86.7	89.8
Short-term External Debt / Total External Debt	12.6	15.5	13.3	10.2
Short-term External Debt / Net International Reserves	40.0	39.2	27.8	24.9
Government External Debt / Total External Debt	43.8	44.1	51.4	52.7
Government External Debt / GDP**	7.3	14.8	19.0	19.0

Source: Central Bank of Egypt

The following figure shows the external debt structure at the end of June 2018.

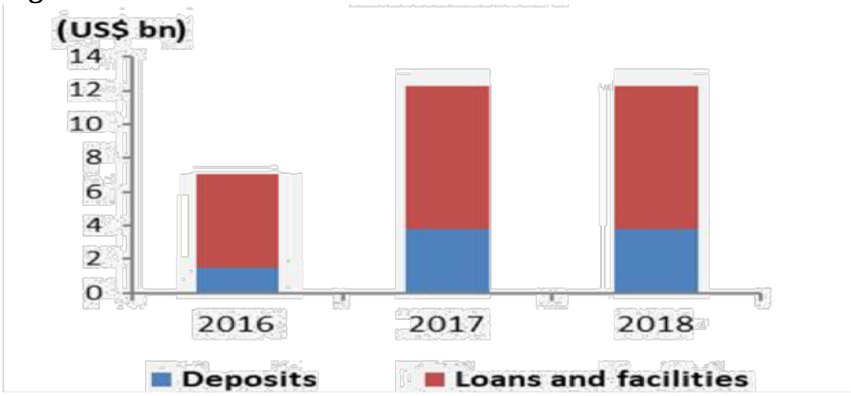
Figure 20: External Debt Structure at the End of June 2019



Source: Central Bank of Egypt

The short-term external debt increased by US$ 9.3 million at the end of June 2018 to record US$ 12.3 billion or 13.3 percent of total external debt. This increase was due to the pickup in cash loans and the decline in short term deposits. The following figure illustrates the short-term external debt structure at the end of June 2018

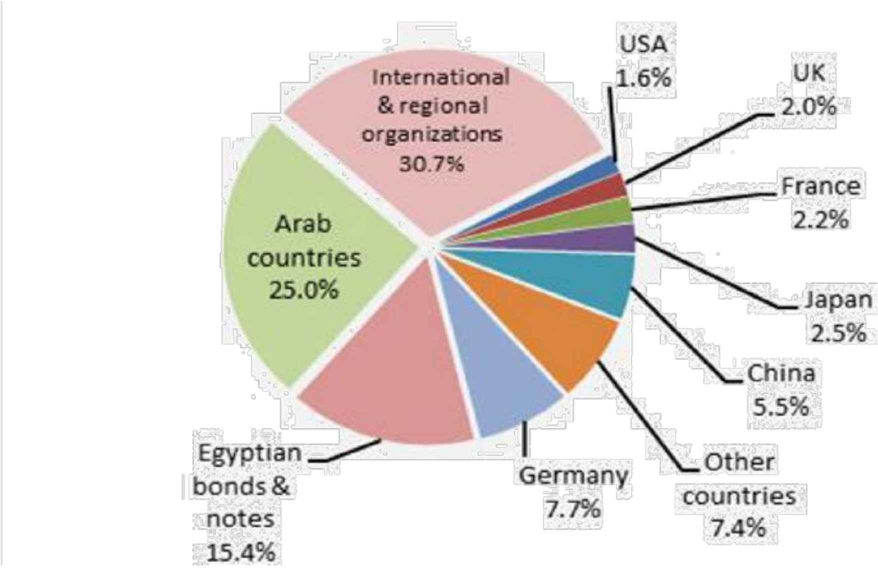
Figure 21: The short-term external debt structure at the end of June 2018



Source: Central Bank of Egypt

The break down of external debt by creditor at the end of June 2018 illustrates the following: the international and regional organization granted US$ 28.4 billion, US$ 23.1 billion were owed to Arab countries, mainly Saudi Arabia, UAE, and Kuwait, US$ 14.3 billion represented the balance of Egyptian bonds and notes issued abroad and held by foreigner. The other US$ 14.7 billion were owed to five members: Germany (7.7 percent), Japan (2.5 percent), France (2.2 percent), UK (2.0 percent), the USA (1.6 percent), and (5.5 percent) were owed to china. The following figure illustrates External debt by Creditor at the end of June 2018.

Figure22: External Debt by Creditors at the End of June 2018



Source: central Bank of Egypt

II.2 Domestic Environment

II.2.1 Gross Domestic Product (GDP)

Real GDP growth at factor cost increased to 5.2 percent in FY 2017/2018 against 3.6 percent in the previous year. Similarly, real GDP at market prices rose to 5.3 percent (against 4.2 percent a year earlier), thereby achieving the highest growth rate in the last 10 years, thanks to the economic reform measures adopted by Egypt. Table 3 shows the real GDP rates in FY 2016/2017and 2017/2018.

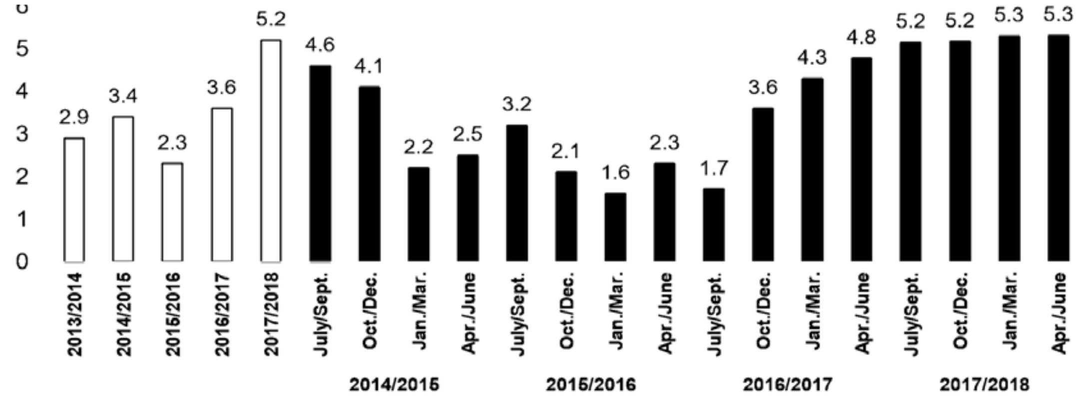
Table 8: Real GDP rates in FY 2016/2017and 2017/20148

Item	Value (in LE bn)		Rate of Change (%)	
	2016/17	2017/18	2016/17	2017/18
Real GDP at factor cost	3409.5	3588.4	3.6	5.2
Indirect taxes (net)	60.5	66.0	-	-
Real GDP at market prices	3470.0	3654.4	4.2	5.3

Source: Central Bank of Egypt

The figure below shows the Real GDP Growth Rate (at factor cost) during the FY 2014/15 to 2017/18:

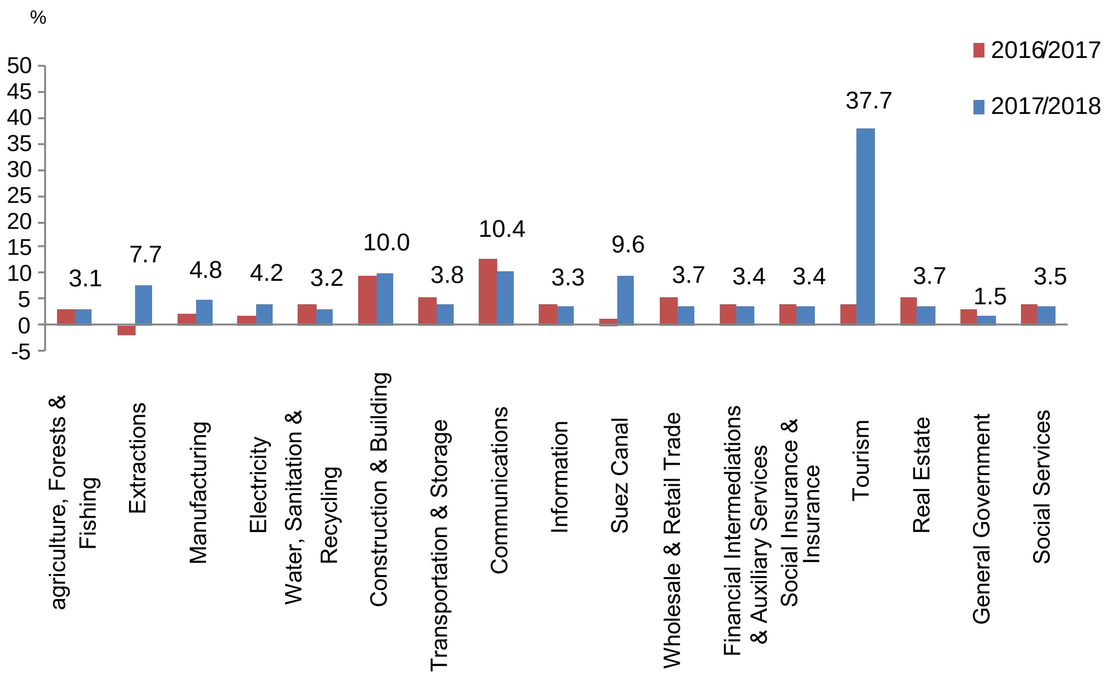
Figure 23: The Real GDP Growth Rate (at factor cost) during the FY 2014/15 to 2017/18:



Source: Central Bank of Egypt

On the supply side, the increase in real GDP growth at factor cost to 5.2 percent in FY 2017/2018 (from 3.6 percent in the previous FY) came as due to the improvement in the contributions of the following sectors: manufacturing (0.8 percentage point), extractions and tourism (0.7 point each), construction and building (0.6 point), wholesale and retail trade (0.5 point), and real estate and agriculture (0.4 point each). The figure below shows the rate of change in real GDP during FY 2016/2017 and 2017/2018:

Figure 24: Rate of Change in Real GDP during the FY 2016/2017 and 2017/2018



Source: Central Bank of Egypt

As regards the private and public sectors' contributions to real GDP growth (5.2 percent), the private sector contribution reached 3.7 percentage points during the reporting year. This was due to the rise in the shares of tourism (0.7 point), manufacturing (0.6 point), construction & building and wholesale & retail trade (0.5 point each), and real estate and agriculture (0.4 point each). Meanwhile, the contributions of other sectors combined reached 0.6 percentage point. On the other hand, the contribution of the public sector to GDP growth reached only 1.5 percentage point, due to the contributions of these sectors: extractions (0.6 point), and Suez Canal and manufacturing (0.2 point each).

On the demand side, the real GDP growth at market prices increased to 5.3 percent during the year (compared with 4.2 percent in the previous FY). This was driven by the rise in the contributions of: (i) domestic demand (consumption and investment) that reached 3.5 points, and (ii) net external demand (exports of goods and services less imports of goods and services expressed in LE) which reached 1.8 point as the increase in exports (32.2 percent) surpassed that of imports (11.3 percent). The table below illustrate Rates of Change and Shares of Demand Components in Real GDP Growth (at Market Prices) in FY 2016/2017 and 2017/2018

Table 9: Rates of Change and Shares of Demand Components in Real GDP Growth (at Market Prices) in FY 2016/2017 and 2017/2018

	Rates of Change + (-) During FY 2016/2017- 2017/2018 (%)		Share in Real GDP Growth During FY 2017/2018 (% Point)
Real GDP Growth	4.2	5.3	5.3
1- Domestic Demand	5.0	3.1	3.5
A- Final Consumption	4.0	1.2	1.1
Private	4.2	1.1	1.0
Public	2.5	1.7	0.1
B- Capital Formation (Including Change in Stock)	11.3	15.7	2.4
2- Net External Demand	13.7	(13.2)	1.8
A- Exports of Goods and Services	86.0	32.2	5.1
B- Imports of Goods and Services	52.5	11.3	3.3

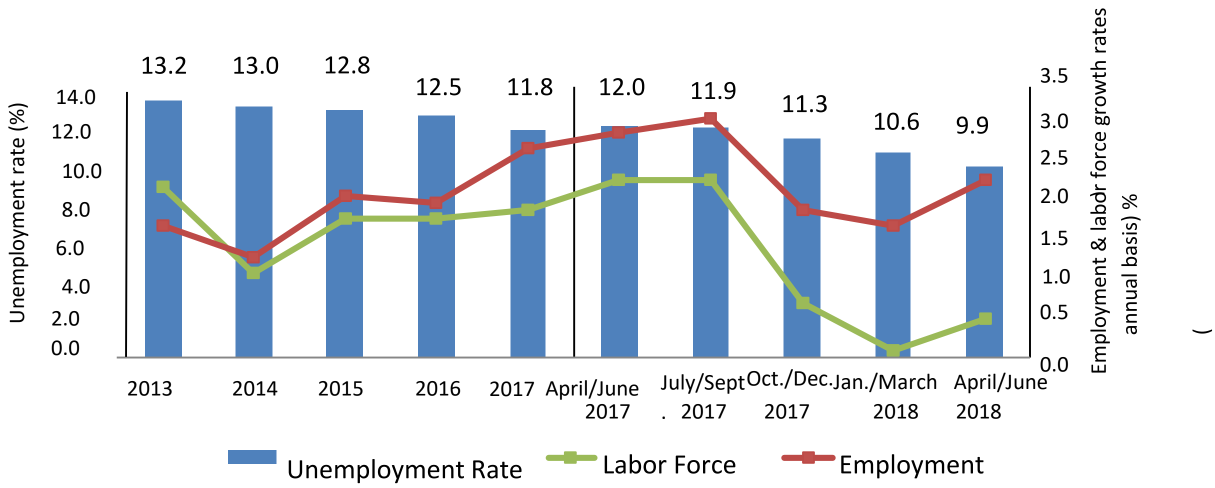
Source: Central Bank of Egypt

The share of domestic demand (3.5 percentage points) came on the back of the contribution of final consumption (government and private) that posted 1.1 percentage point, plus the contribution of capital formation that registered 2.4 percentage points (reflecting the rise in investments at constant prices by 16.9 percent during the reporting year), to stand at LE 601.3 billion. The reporting year witnessed a remarkable growth in investments at current prices by 40.2 percent to LE 721.1 billion compared with LE 514.3 billion in the previous year. Investments of the public sector implemented 56.1 percent, while private investments posted 43.9 percent of total investments. The distribution of these investments presented as follows: productive service (17.3 percent); social services (education, health, sanitation and others) (11.8 percent); electricity (11.3 percent); real estate (11.2 percent); extractions (11.0 percent); manufacturing (7.9 percent); agriculture, irrigation and fishing (3.4 percent); and construction and building (1.8 percent).

II.2.2 Labor Force, Employment and Unemployment

According to CAPMAS quarterly Labor Force Sample Survey (LFS) for Q4 (April/June 2017/2018), the size of labor force slightly declined by 0.5 percent, as compared with the corresponding quarter of FY 2016/2017, reaching 29.0 million persons. In contrast, the number of employed persons increased by 1.8 percent, to stand at 26.1 million persons. The majority of the total number of employed persons concentrated in the agriculture and finishing sector registered (23.1 percent) during the quarter under review, followed by wholesale and retail trade (13.7 percent), then manufacturing (12.1 percent), and construction and building (11.5 percent).

Figure 25: Developments of Labor Force Indicators



Source: Central Bank of Egypt

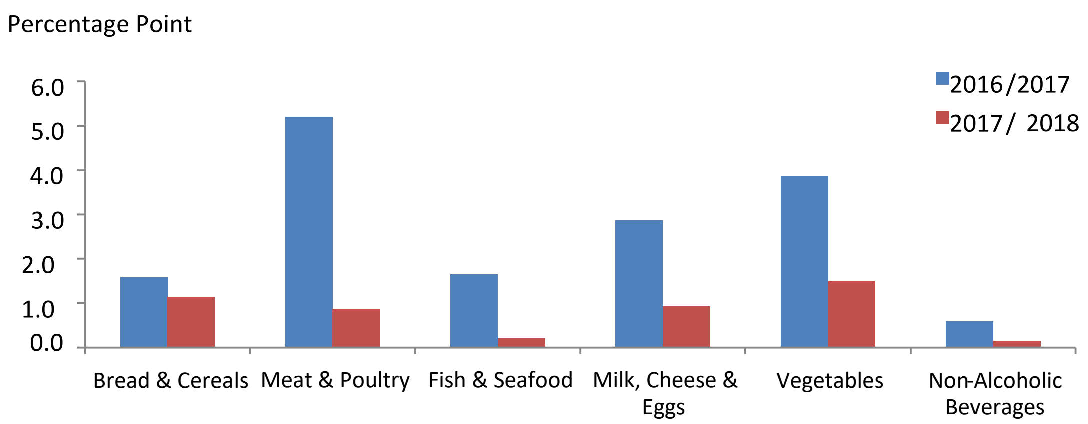
The number of unemployed retreated by 17.8 percent in the quarter under review (compared with the corresponding quarter of the preceding FY), to reach 2.9 million persons. Thus, the unemployment rate fell to 9.9 percent of the total labor force (the lowest rate since 2011), versus 12.0 percent in the corresponding quarter a year earlier.

II.2.3 Inflation

II.2.3.1 Consumer Price Index (CPI)

The annual headline CPI (urban) decreased at the end of FY 2017/2018 to register 14.4 percent (June/June), against a pickup of 29.8 percent at the end of the previous FY. The decline in inflation rate (14.4 percent) was mainly due to the lower contribution of food and non-alcoholic beverages to 5.3 percentage points (against 19.6 points). Add to this the lower contributions of some other groups, mainly, culture and recreation (0.2 point against 1.2 point); restaurants and hotels (0.6 point against 1.3 point); clothing and footwear (0.6 point against 1.2 point); furnishings, household equipment and routine maintenance (0.4 point against 0.9 point); and alcoholic beverages and tobacco (0.8 point against 1.3 point). The decline was tied by the higher contributions of the following groups: transportation (2.4 points against 1.1 point); housing, water, electricity, gas & fuel (2.0 points against 1.0 point); education (0.9 point against 0.7 point); and communications (0.2 point against nil). The following figure illustrates the contribution of Main Food and Beverages Items to Annual Headline Inflation During the Fiscal Year 2016/2017-2017/2018

Figure 26: Contribution of Main Food and Beverages Items to Annual Headline Inflation During the Fiscal Year 2016/2017-2017/2018



Source: Central Bank of Egypt

The following table shows the rates of change and shares of CPI groups (urban) in headline inflation in the years of review and comparison:

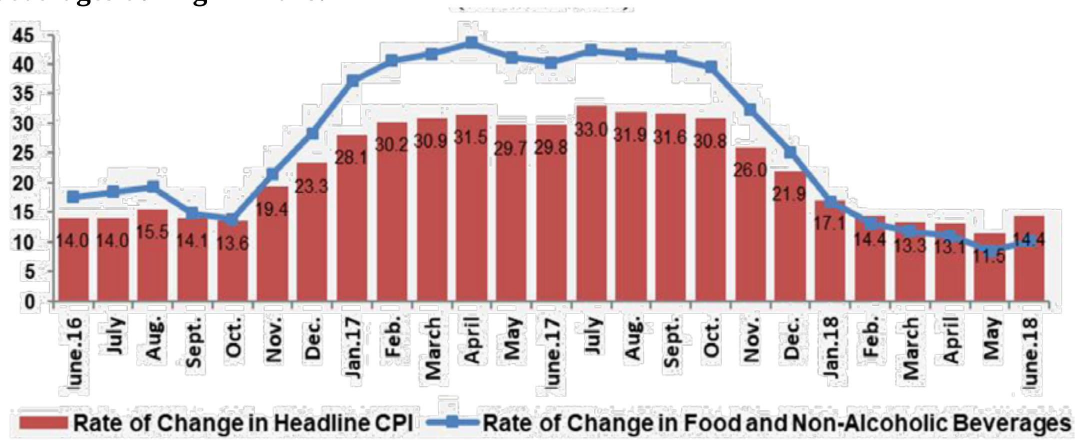
Table10: CPI Change Rate and Contribution of Main CPI Groups in headline inflation in the periods of review and comparison:

Main CPI Groups	relative Weight	Inflation Rate (%) 2016/17	2017/18	Share in Headline Inflation (% point) 2016/17	2017/18
General Index					
Food and non-alcoholic	100.0	29.8	14.4	29.8	14.4
beverages	39.92	40.3	10.1	19.6	5.3
Alcoholic& tobacco	2.19	33.9	21.2	1.3	0.8
Housing, water, electricity,	5.41	29.7	14.9	1.2	0.6
gas & fuel -	18.37	7.7	18.4	1.0	2.0
maintenance	3.77	28.2	12.6	0.9	0.4
Healthcare	6.33	12.7	11.3	0.7	0.6
Transportation	5.68	25.9	55.1	1.1	2.4
Communications	3.12	1.8	11.0	0.0	0.2
Culture & recreation	2.43	48.3	7.2	1.2	0.2
Education	4.63	12.3	19.6	0.7	0.9
Restaurants and hotels	4.43	24.5	12.9	1.3	0.6
services	3.72	31.9	16.7	0.8	0.4

Source: Central Bank of Egypt

The following figure illustrates Annual Change in Headline Consumer Price index (Urban)& Food and non- alcoholic beverages during FY 2018.

Figure 27: Annual Change in Headline Consumer Price index (Urban)& Food and non- alcoholic beverages during FY 2018.



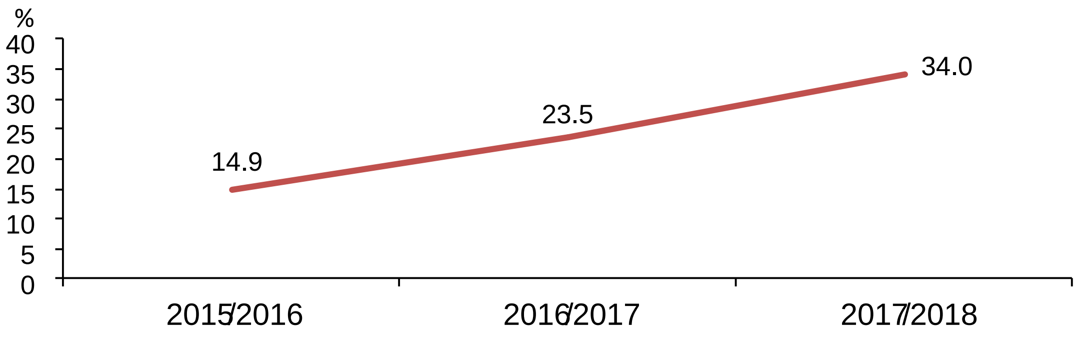
Source: central Bank of Egypt

The decrease in food and non-alcoholic beverages (5.3 percentage points against 19.6 points) was owed to the lower contribution of all the following subgroups: meat and poultry (0.9 point against 5.2 points); vegetables (1.5 point against 3.9 points); milk, cheese and eggs (0.9 point against 2.9 points); fish and seafood (0.2 point against 1.6 point); and oils and fats (0.2 point against 1.5 point)

II.2.3.2 Producer Price Index (PPI)

The headline PPI inflation rose in FY 2017/2018 by 34.0 percent against a rise of 23.5 percent in the preceding FY. This was mainly driven by the higher contributions of mining and quarrying (14.5 percentage points against 0.5 point); as well as water supply, sanitation, and waste treatment and management (0.7 point against 0.1 point). This rise was alleviated by the retreat of the contributions of the following items: food services and accommodation (0.1 point against 2.0 points); agriculture and fishing (3.9 points against 4.9 points); manufacturing (14.3 points against 15.1 points); electricity, gas, steam, and air conditioning supplies (0.5 point against 0.8 point); and transportation and storage (nil against 0.1 point). The following figure display Annual Rate of Change in Producer Price Index during FY 2015/2016 and 2017/2018.

Figure 28: Annual Rate of Change in Producer Price Index during FY 2015/2016 and 2017/2018.



Source: Central Bank of Egypt

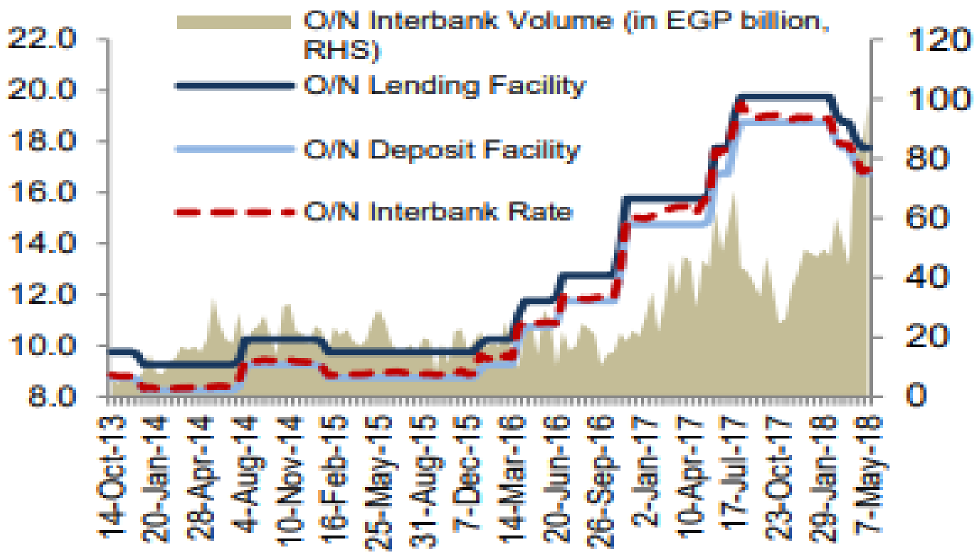
II.2.4 Monetary Policy

As the main objective of the monetary policy is price stability, the CBE strives to bring inflation to an appropriate and stable level which could increase confidence and stimulating investment and achieving the targeted economic growth. The operational target of the monetary policy is to stimulate overnight interbank interest rate whereby a framework based on the corridor system is applied, within which the ceiling is the overnight interest rate on lending from the Central Bank and the floor is the overnight deposit interest rate at the Bank. The excess liquidity declined in December 2018 to record 717.3 billion (13.5% of GDP). This absorption of excess liquidity was due to the seven days deposits auction and overnight deposit facility. The real monetary conditions remained tight despite the potential of future inflationary pressures from fiscal consolidation measures and the attempts to increasing lending activities and aid investment and consumption. To maintain tight monetary policy, the CBE decided to raise the overnight deposit and lending rates by 200 basis points to 18.75 percent and 19.75 percent. Also, the rate of the CBE's main operation and discount rate were raised by 200 bps to 19.25 percent each. By adopting the tighten monetary policy for the purpose of containing the inflation in the Egyptian economy, the inflation rate continued to fall. However, in 29 March 2018, the CBE decided to ease the tight stance that was successfully adopted and decreased the inflationary pressures. Accordingly, the overnight deposit and lending rates were lowered by 100 basis points to 17.25 percent each.

II.2.4.1Interest Rate

The CBE decision during the year affected both the overnight interbank interest rates and the interest rates on LE loans and deposits at banks. The MPC's decision during FY 2017/18 - whether by raising, maintaining, or lowering the interest rates - along with the CBE's sustained policy to absorb excess liquidity from the banking system through its longer maturities deposit acceptance operations - led to adopt high overnight interbank rates, to closely approach the mid-corridor level since the start of the fiscal year. However, down trend was taken since August 2017, moving closer to the overnight deposit rate and maintained this down trend. The decisions taken by the MPC during FY 2017/18 affected the money market interest rates. The following figure displays the Overnight Deposit Rate in % during June 2013 to June 2018.

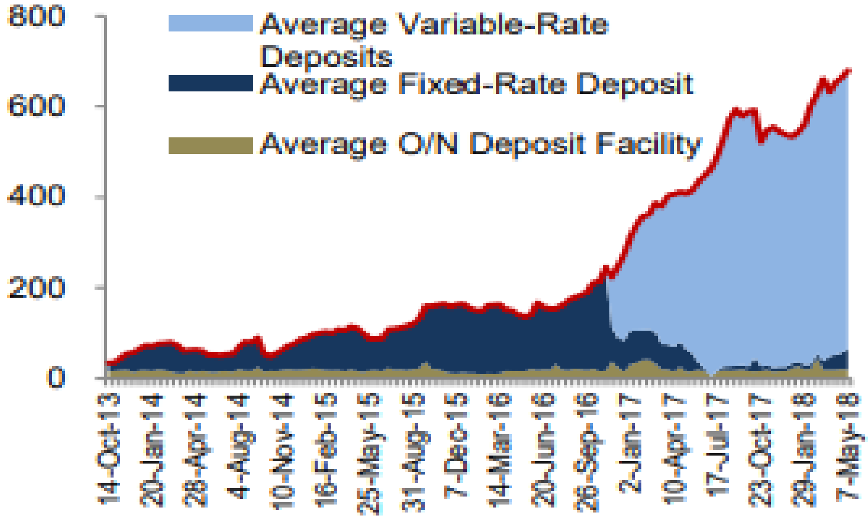
Figure 29: Overnight Deposit Rate in % during J**une 2013 to June 2018.**



Source: Central bank of Egypt

The figure below displays the Excess Liquidity in EGP billion during years 2014 to 2018.

Figure 30: The Excess Liquidity in EGP billion during years 2014 to 2018.



Source: Central Bank of Egypt

The following table display the interest rate during June 2017/June 2018.

Table 11: The Interest Rate in The Money Market during June 2017/June 2018:

Month	June 2017(%)	June 2018(%)
Deposits	11.2	11.7
More than one month and up to three months		
More than three months and up to six months	12.6	12.9
More than six months and up to one year	12.2	12.9
Loans*		
For one year or less	18.0	18.2

Source: Central Bank of Egypt

The figure below displays O/N Interbank and CBE policy rates during years 2013 to 2018

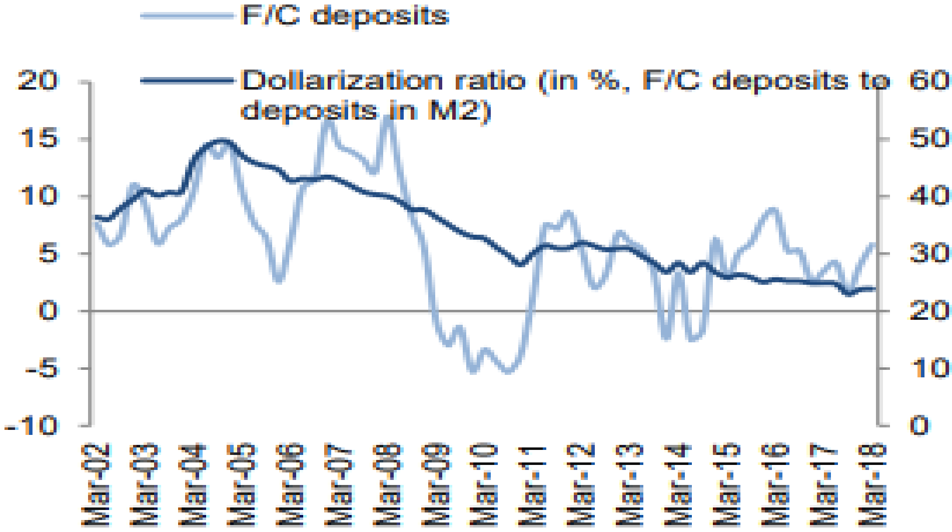
II.2.4.2Reserve Money

Reserve money reached LE 716.3 billion at end of June 2018, up by LE 138.7 billion or 24.0 percent during FY 2017/2018 (against an increase of LE 99.5 billion or 20.8 percent a year earlier). The increase in reserve money in this FY was reflected in the increase in the following: (i) banks' local currency deposits at the CBE increased by LE 108.2 billion or 86.2 percent, to reach LE 233.8 billion at end of June 2018 (ii) the currency in circulation outside the CBE increased by LE 30.5 billion or 6.7 percent, to reach LE 482.5 billion or 67.4 percent of reserve money at end of June 2018. In addition to the rise in issued banknote by LE 33.6 billion or 7.4 percent, to posted LE 486.7 billion at end of June 2018.The breakdown of the currency in circulation outside the CBE showed a continued rise in the importance of the LE 200 note, while the relative importance of LE 100 and LE 50-note declined. Consequently, the average value of the banknote decreased to about LE 58.68 at the end of June 2018, compared with LE 60.65 at the end of June 2017.

II.2.4.3 Domestic Liquidity and Counterpart Assets

The domestic liquidity (M2) grew by LE 536.1 billion or 18.4 percent to LE 3454.3 billion during the FY 2017/2018. It represented 77.8 percent of GDP for the year ending in June 2018. Such a rise was a dual effect of the increase in both quasi-money and money supply. The former increased by LE 423.0 billion or 19.1 percent during the reporting year to LE 2633.7 billion or 76.2 percent of total domestic liquidity at end of June 2018. The latter also rose by LE 113.1 billion or 16.0 percent to LE 820.6 billion at end of June 2018. The following figure displays development of F/C Deposits during period from 2002 to 2018.

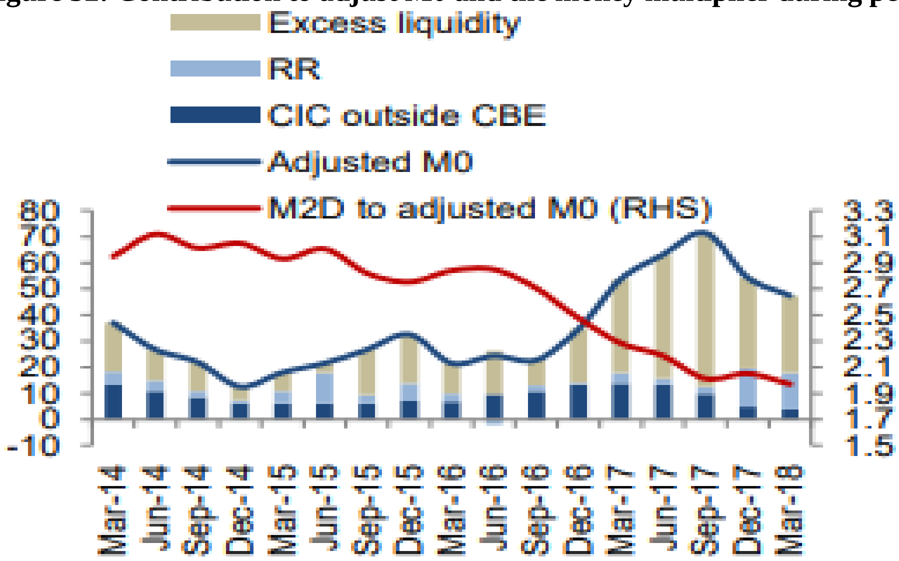
Figure 31: Development of F/C Deposits during period from 2002 to 2018.



Source: Central Bank of Egypt

The following figure shows Contribution to adjust M0 and the money multiplier during period from 2002 to 2018.

Figure 32: Contribution to adjust M0 and the money multiplier during period from 2002 to 2018.



Source: Central Bank of Egypt

Table below shows CBE Financial Position Reserve Money and Counter Part Assets during FYs 2016 to 2018.

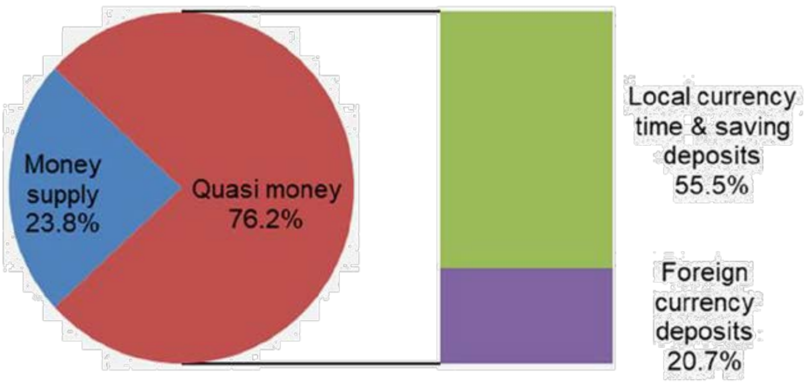
Table 12: CBE Financial Position Reserve Money and Counter Part Assets during FYs 2016 to 2018:

End of June	2016	2017	2018
Reserve Money	478076	577582	716309
Currency in circulation outside CBE *	368459	452035	482541
Banks' deposits in local currency at CBE	109617	125547	233768
Counterpart Assets	478076	577582	716309
Net Foreign Assets	-44863	3690	301494
Foreign Assets	149943	551514	775955
Gold	22820	46910	47066
Foreign securities	32795	225711	544057
Foreign currencies	94328	278893	184832
Foreign Liabilities	194806	547824	474461
Net Domestic Assets	522939	573892	414815
Net Claims on Government+	619410	708637	715474
Claims; of which:	706885	821975	759880
Government securities	390830	714454	683629
Deposits	87475	113338	44406
Net Claims on Banks	59621	157141	201439
Claims	120432	286855	326027
Deposits in foreign currencies	60811	129714	124588
Other Items (Net)	-156092	-291886	-502098

Source: Central Bank of Egypt

The following figure illustrates Domestic Liquidity Components at the End of June 2018

Figure 33: Domestic Liquidity Components at the End of June 2018

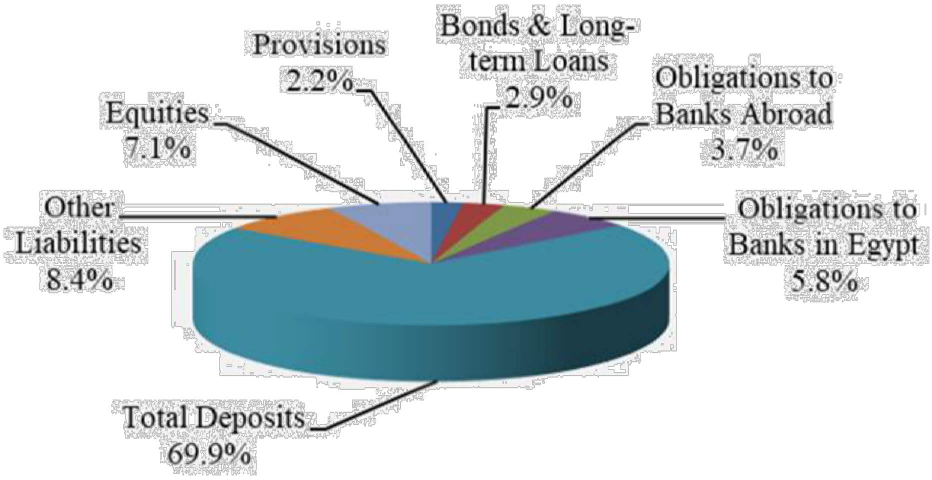


Source: central bank of Egypt

II.2.4.4 Banks

The banks operating in Egypt registered (38 in number) and their aggregate financial position posted LE 5080.6 billion at end of June 2018, up by LE 659.7 billion or 14.9 percent in FY 2017/2018, against a rise of LE 1574.8 billion or 55.3 percent in the preceding FY. 79.7 percent of the rise on the liabilities side during the year rose from deposits at banks which grew by LE 525.8 billion or 17.4 percent, posting LE 3553.6 billion at end of June 2018. The banks' equities also, increased by LE 48.6 billion, bonds and long-term loans by LE 21.6 billion, and obligations to banks in Egypt (including the CBE) by LE 10.7 billion. Meanwhile, obligations to banks abroad fell by LE 6.3 billion. The following figure illustrates Relative structure of Liabilities at the End of June 2018.

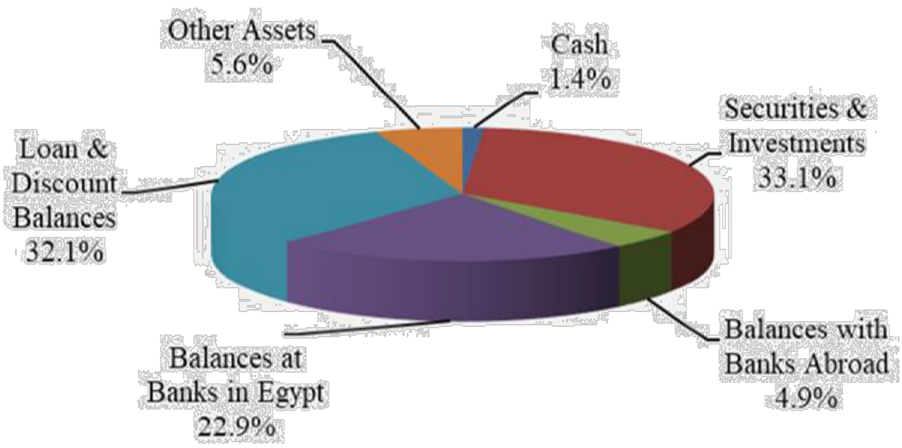
Figure 34: Relative structure of Liabilities at the End of June 2018.



Source: central bank of Egypt

On the other hand, the increase on the assets side was mostly attributed to the rises in balances with local banks (including the CBE) by LE 288.6 billion to post LE 1165.1 billion at the end of June 2018. Likewise, lending and discount balances rose by LE 203.2 billion and banks' investments in securities and TBs by LE 143.8 billion. On the other hand, balances with banks abroad declined by LE 33.5 billion worth. The following figure illustrates the Relative Structure of Assets at the End of June 2018

Figure 35: Relative Structure of Assets at the End of June 2018



Source: central bank of Egypt

The Following Table shows the Banks Aggregate Financial Position in FYs 2016 to 2018.

Table 13: Banks Aggregate Financial Position in FYs from 2016 to 2018.

(LE Mn)

End of June	2016	2017	2018
Assets			
Cash	31432	57471	68332
Securities & investments in TBs	1283616	1537036	1680811
Balances with banks in Egypt; of which:	374644	876544	1165139
Lending and discount balances	1682	4713	3807
Balances with banks abroad; of which:	51074	283966	250443
Lending and discount balances	1391	2502	4730
Clients' Lending and discount balances	942727	1426457	1629664
Other assets	162601	239386	286181
Assets = Liabilities	2846094	4420860	5080570
Liabilities			
Capital	100726	128420	149119
Reserves	63002	185846	213732
Provisions	66880	107859	109294
Bonds & long-term loans	48532	123960	145581
Obligations to banks in Egypt	60551	286116	296839
Obligations to banks abroad	86060	194551	188189
Total deposits	2116117	3027811	3553634
Other liabilities; of which:	304226	366297	424182
Payable cheques	10984	12300	13281

Source: Central Bank of Egypt

The net transactions of local banks with correspondents abroad decreased by LE 27.2 billion worth or 30.4 percent during the year, registering a credit balance of LE 62.2 billion worth at end of June 2018 (against LE 89.4 billion worth at end of June 2017). Such a decrease was attributed to the decline in their balances with banks abroad by LE 33.5 billion worth. The table below shows the transaction of local banks with correspondents abroad.

Table 14: The transaction of local banks with correspondents abroad for FY 2016/2017and 2017/2018:

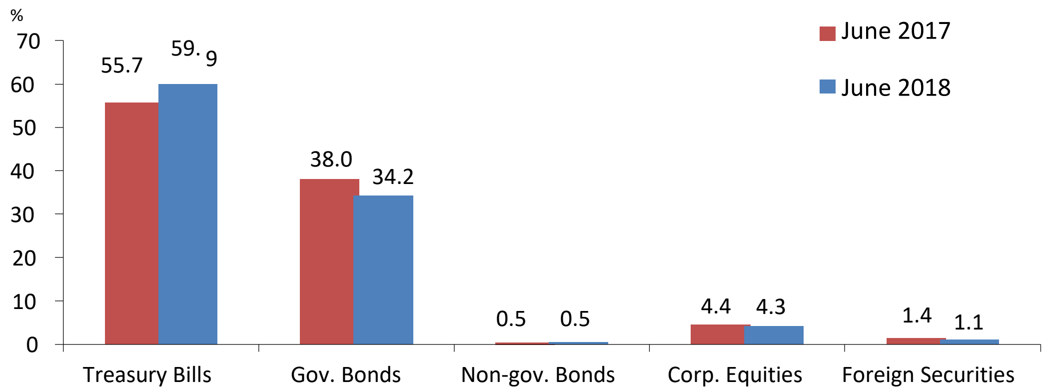
(LE Mn)

			Change + (-) in FY			
End of	June 2017	June 2018	2016/2017 Value	%	2017/2018 Value	%
Net Position	89415	62255	124401	(355.6)	(27160)	(30.4)
Balances with banks abroad	283966	250444	232892	456.0	(33522)	(11.8)
Obligations to banks abroad	194551	188189	108491	126.1	(6362)	(3.3)

Source: Central Bank of Egypt

Banks' investments in securities and bills rose during FY 2017/2018 by LE 143.8 billion or 9.4 percent, to post LE 1680.8 billion. This rose up in Bank's investments in treasury bills (up by LE 150.8 billion), corporate equities (up by LE 3.5 billion), and non-government bonds (up by LE 1.7 billion). however, banks' investments in government bonds decreased by LE 8.9 billion and in foreign securities by LE 3.3 billion worth. The following figure displays banks' investment in securities and bills during FY June 2017 and June 2018.

Figure 36: The structure of Bank's' Portfolio during FY June 2017 and June 2018.



Source: Central Bank of Egypt

II.2.4.4.1 Deposits

Banks' deposits (including government deposits) grew, during the reporting year, by LE 525.8 billion or 17.4 percent (versus LE 911.7 billion and 43.1 percent in the previous FY), standing at LE 3553.6 billion at end of June 2018.

Deposits in local currencies amounted to LE 2721.4 billion at end of June 2018, recording a rise of LE 600.6 billion or 28.3 percent during the reporting year. The main contributor, in this increase was the household sector by 68.2 percent of the rise in local currency deposits during the reporting year. Its deposits increased by LE 409.7 billion, to reach LE 1885.4 billion at end of June 2018. Likewise, deposits of the government sector increased by LE 106.4 billion, recording LE 410.1 billion including both the private and public business sectors by LE 73.9 billion and LE 8.6 billion, respectively; and those of the external sector by LE 2.0 billion.

On the other hand, deposits in foreign currencies amounted to LE 832.2 billion worth, decreased by LE 74.8 billion worth or 8.2 percent during the reporting year. This decline resulted from the drop in the deposits of both the government and the private business sectors (by LE 97.6 billion worth and LE 2.7 billion worth, in order). Such a retreat was compensated by the rise in deposits of both the household and public business sectors by LE 22.3 billon worth and LE 3.3 billion worth, respectively. The following Table show Deposits at Banks by sector from June 2016 to June 2018:

Table 15: Deposits at Banks by Sector from June 2016 to June 2018:

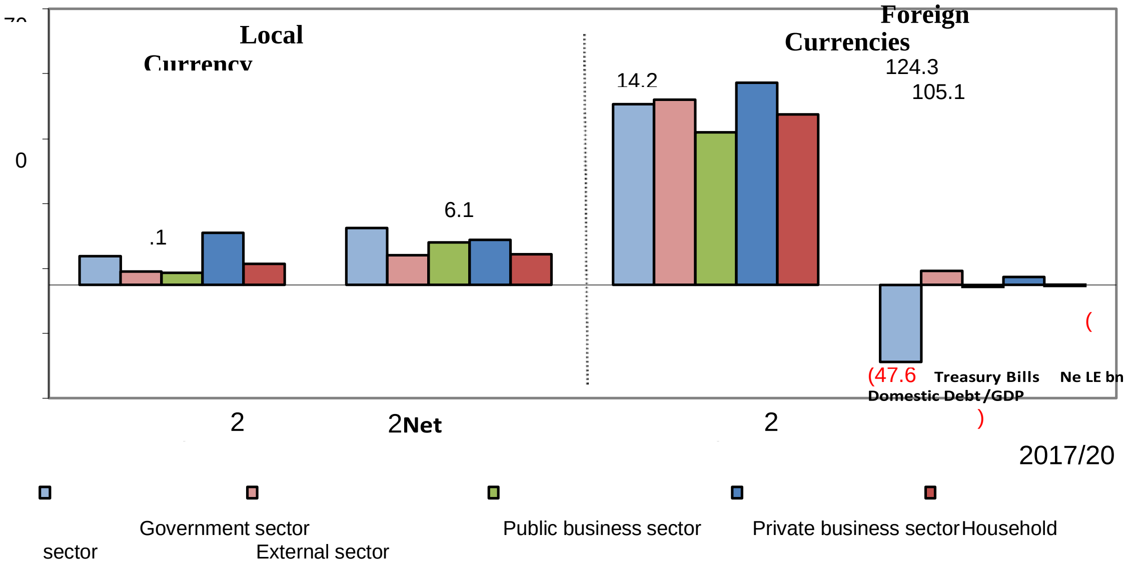
(LE Mn)

End of June	**2016**	**2017**	**2018**
Total Deposits	2116117	3027811	3553634
In Local Currency	1691590	2120787	2721418
Government sector	258021	303714	410147
Public business sector *	43733	47290	55921
Private business sector	263961	283312	357149
Household sector	1116316	1475679	1885391
External sector **	9559	10792	12810
In Foreign Currencies	424527	907024	832216
Government sector	96876	204858	107305
Public business sector *	17925	38388	41649
Private business sector	99432	192900	190161
Household sector	206491	463078	485365
External sector **	3803	7800	7736

Source: Central Bank of Egypt

The following figure shows Change Rate in Deposits by Sectors during FYs 2016/2017 and 2017/2018.

Figure 37: Change Rate in Deposits by Sectors during FYs 2016/2017 and 2017/2018.

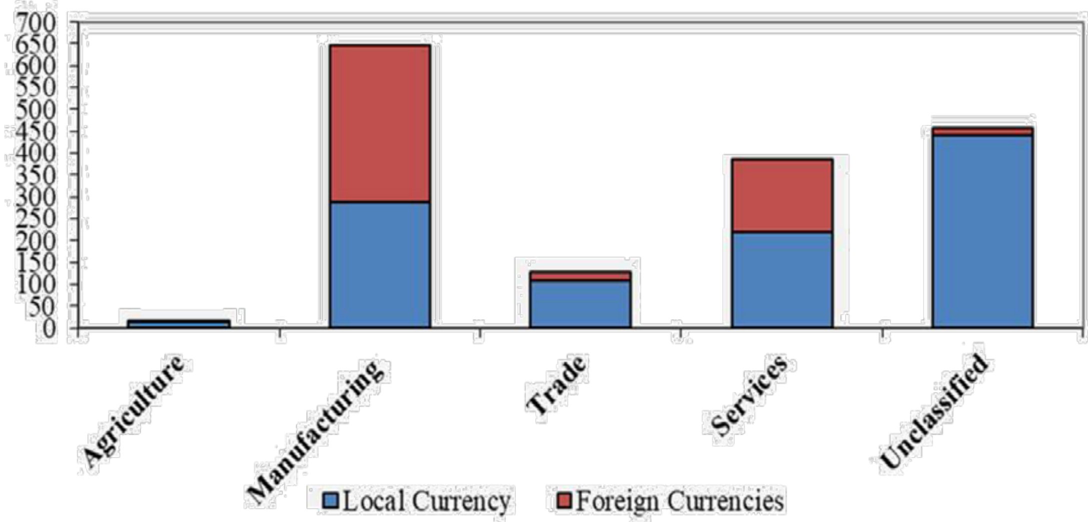


Source: Central Bank of Egypt

II.2.4.4.2 Lending Activity

Banks expanded their lending activity by LE 203.2 billion or 14.2 percent in the reporting year (against LE 483.7 billion and 51.3 percent a year earlier), bringing their lending balances to a total of LE 1629.6 billion, representing 32.1 percent of banks' aggregate financial position at end of June 2018. The pickup in lending and discount balances came on the rise in both local currency loans by LE 199.1 billion or 23.0 percent, to LE 1066.3 billion at end of June 2018, and in those extended in foreign currencies by LE 4.1 billion worth or 0.7 percent, to LE 563.3 billion worth at end of June 2018. According, to the lending granted in foreign currencies, 42.0 percent went to the government sector whose share rose up by LE24.4 billion worth. More than, loans extended to the household increased by 2.5 billion worth. But the loans to the private sector was decreased to record LE 12.8 billion worth, those to public sector by LE 7.5 billion worth and to the external sector by LE 2.5 billion worth. The following figure shows Credit Facilitates by Economic Activity at End of June 2018.

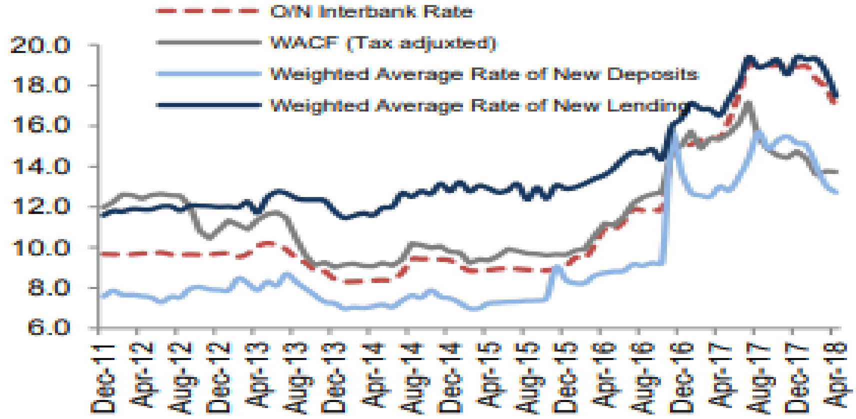
Figure 38: Credit Facilitates by Economic Activity at End of June 2018.



Source: Central Bank of Egypt

The following figure displays the select market interest rate (in %) during years 2011 to 2018.

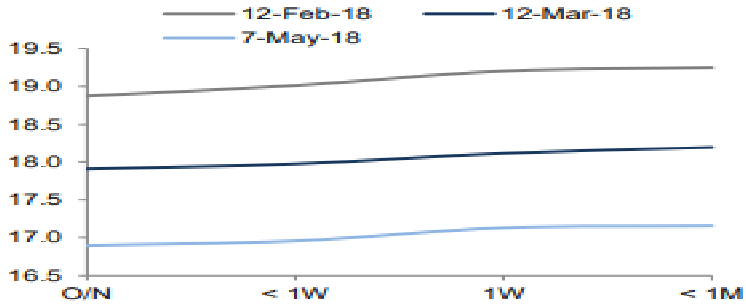
Figure 39: Select Market Interest Rate (in %) during years 2011 to 2018.



Source: Central Bank of Egypt

The following figure shows the short- term interbank Market yield Curve during 2018 (in % y/y)

Figure 40: The short- term interbank Market yield Curve during 2018 (in % y/y)



Source: Central Bank of Egypt

The following table illustrates bank lending and discount balances by Sector from June 2016 to 2018

Table 16: Bank Lending and Discount Balances by Sector from June 2016 to 2018

(LE Mn)

End of June	2016	2017	2018
Total Lending and Discount	942727	1426457	1629664
In Local Currency	672578	867213	1066324
Government sector	100230	142710	216549
Public business sector *	65169	95621	114349
Private business sector	302396	396626	462915
Household sector	204470	231403	271752
External sector	313	853	759
In Foreign Currencies	270149	559244	563340
Government sector	73510	212013	236368
Public business sector *	27663	52681	45228
Private business sector	157261	279601	266829
Household sector	3403	6938	9423
External sector	8312	8011	5492

Source: Central Bank of Egypt

II.2.4.4.3 Cash Flows

Bank’s' cash flows arising from local and foreign operations identifying the sources and uses of funds during the fiscal year. Banks' sources of funds come from either an increase in obligations or a decrease in assets. Uses of funds are directed to increasing assets or reducing obligations.

Regarding local operations, the resources of banks were generated from the increase in obligations (LE 684.2 billion) and the decrease in assets (LE 27.2 billion) in FY 2017/2018. The rise in obligations came mainly from deposits at banks which grew by LE 525.8 billion (reflecting the rise of LE 600.6 billion in local currency deposits and the retreat of LE 74.8 billion worth in foreign currency deposits). The contribution of the household sector recorded about 82.2 percent of this rise as its deposits rose by LE 432.0 billion. Similarly, equities increased by LE 48.6 billion, as well as obligations to the CBE (by LE 28.8 billion), loans & bonds (by LE 21.6 billion), provisions (by LE 1.5 billion) and other liabilities (by LE 57.9 billion). On the other hand, the decline in assets resulted primarily from the fall in balances at local banks by LE 27.2 billion. In the reporting year, the cash flow revealed deficit in local operations of LE 30.5 billion. However, external operation showed surplus equal to the deficit. The deficit of the local operation was financed by the surplus of external operation. The following table show Bank's Cash Flow Statement (local transaction) in the FY 2016/2017 and 2017/2018.

Table17: Banks' Cash Flows Statement in the FY 2016/2017 and 2017/2018.

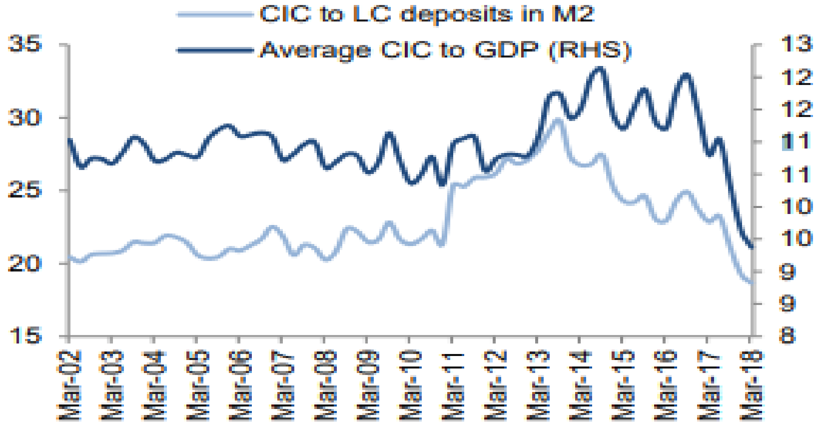
(LE Mn)

Items	**2016/2017**	**2017/2018**
1. Total Resources	1466275	711423
A. From the Increase in Obligations	1466275	684164
Deposits	911694	525824
Capital accounts (equities)	150538	48585
Obligations to the CBE	130224	28815
Obligations to local banks	95341	0
Loans and bonds	75428	21621
Provisions	40979	1435
Other liabilities	62071	57884
B. From the Decrease in Assets	0	27259
Balances with local banks	0	27259
2. Total Uses:	1332004	741910
A. To Reduce Obligations	0	18092
Obligations to local banks	0	18092
B. To Increase Assets	1332004	723818
Balances with the CBE	401222	315853
Lending and discount	483730	203207
Investments in securities and bills	243550	147102
Balances with local banks	100678	0
Cash	26039	10861
Other assets	76785	46795
Sources/Uses Surplus (+) or Deficit (-)	134271	-30487

Source: Central Bank of Egypt

As for banks' external transactions, their resources aroused from the decline in assets as a reflection of the decrease in both balances with banks abroad and investments in foreign securities and bills by LE 33.5 billion worth and LE 3.3 billion worth, respectively. Part of these funds was used in reducing obligations, mainly obligations to banks abroad by the equivalent of LE 6.3 billon. The following figure illustrates CIC outside the banking system (in %) during years 2002 to 2018.

Figure 41: The CIC outside the banking system (in %) during years 2002 to 2018.



Source: Central Bank of Egypt

The local banks are required to maintain minimum capital adequacy ratio 11.875 percent of the capital base to cover credit, market and operational risk. Also, for the branches of foreign banks, they are subject to Basel regulation but not required to maintain the aforementioned ratio. The following table show banks' Cash Flows Statement (external transaction) during FY 2016/2017 and 2017/2018.

Table 18: Banks' Cash Flows Statement (External Transaction) during FY 2016/2017 and 2017/2018:

(LE Mn)

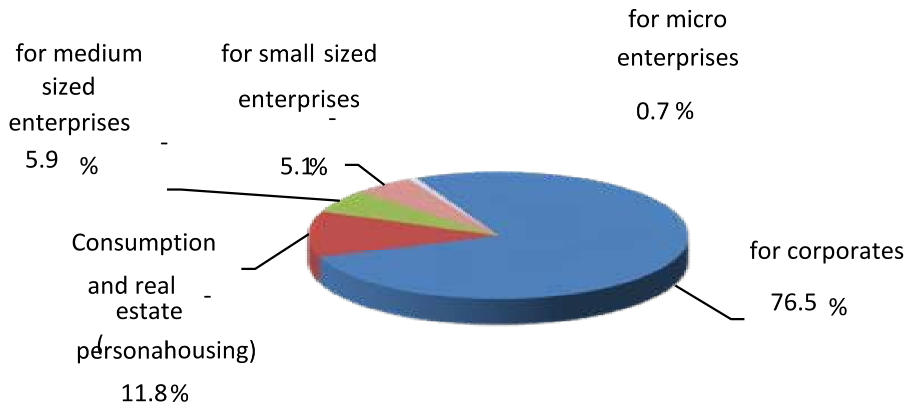
During	**2016/2017**	**2017/2018**
1.Total Resources:	108491	368490
A. From the Increase in Obligations	108491	
Obligations to banks abroad	108491	0
B. From the Decrease in Assets	0	36849
Balances with banks abroad	0	33522
Investment in foreign securities and bills	0	3327
2. Total Uses:	242762	6362
A. To Reduce Obligations	0	6362
Obligations to banks abroad	0	6362
B. To Increase Assets	242762	0
Balances with banks abroad	232892	0
Investment in foreign securities and bills	9870	0
Sources/Uses Surplus (+) or Deficit (-)	-134271	30487

Source: Central Bank of Egypt

II.2.4.4.4 Asset Quality

In 2005, the CBE issued regulation to govern customer credit rate and provision, considered the obligor rate (ORR), the purpose of the loan, the personal housing loan, and the loans for small and medium enterprises. Also, in 2008, the CBE issued rules for the preparation and presentation of bank's financial statement and the principle of recognition and measurement regarding the provision for impairment losses based. The following chart shows the beneficiary entities of credit facilities.

Figure 42: Bank's Contingent Liabilities and Loans at End of June 2018.

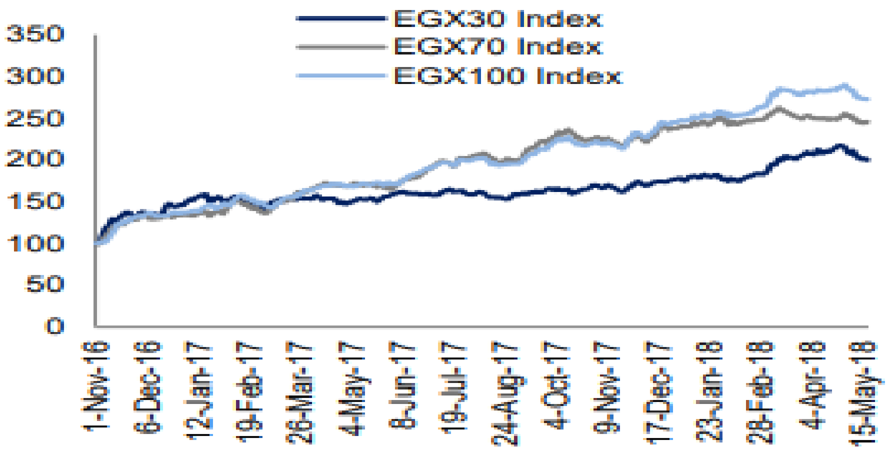


Source: Central Bank of Egypt

II.2.5 Stock Market

The performance of the Egyptian Exchange (EGX) in FY 2017/2018, marked increases in most of its indices except for NILEX index. Its benchmark index (EGX 30) rose by 22.0 percent to 16348.6 points at end of June 2018 during the reporting year. EGX 20 increased by 33.6 percent to 16473.3 points. EGX 50 EWI -which includes the top 50 companies in terms of liquidity and activity- also picked up by 31.8 percent to 2736.5 points at end of June 2018. Moreover, EGX 70 and EGX 100 went up by 23.9 percent and 36.6 percent to 804.6 points and 2062.1 points, in order. However, NILEX index which reflects the performance of small and medium-sized enterprises listed on Nile Stock Exchange- declined by 8.8 percent to 465.0 points at end of June 2018. Concerning the primary market, the number of new issues approved by FRA in FY 2017/2018 reached 6077 issues, with a total value of LE 187.5 billion (against 4411 issues, totaling LE 78.6 billion in the previous FY). Of this figure, issues for new businesses reached 3825 in number (62.9 percent of total issues), at a total value of LE 35.0 billion. Adds to this, the number of issues for capital increases of existing companies reached 2252 issues, totaling LE 152.5 billion (81.4 percent of the total value of issues) during the reporting year. The following figure shows the Stock Market Indices during period from 2016 to 2018.

Figure 43: Stock Market Indices during period from 2016 to 2018.



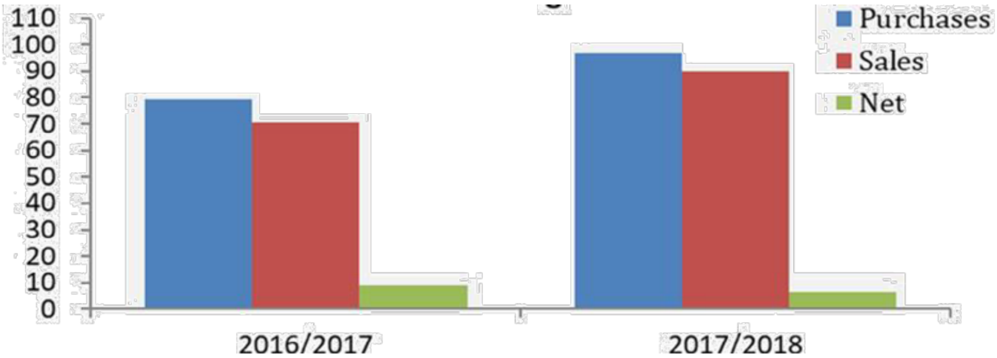
Source: Central Bank of Egypt

The trading in the secondary market (including NILEX) in FY 2o17/2018 showed increased in the traded securities by LE 6.9 billion or 2.1 percent recording LE 399.2 billion. More than, the number of transactions increased by 0.6 million or 8.3 percent posting 7.3 million transactions. In addition, Foreigner's transaction on the EGX (purchase and sale) during the year increased by 24.4 percent to LE

186.6 billion against LE 150.1 billion in the previous year. The following figure illustrates foreign investor's transaction during FYs 2016/2017 and 2017/2018

Figure44: The foreign investor's transaction during FYs 2016/2017 and 2017/2018

LE Bn



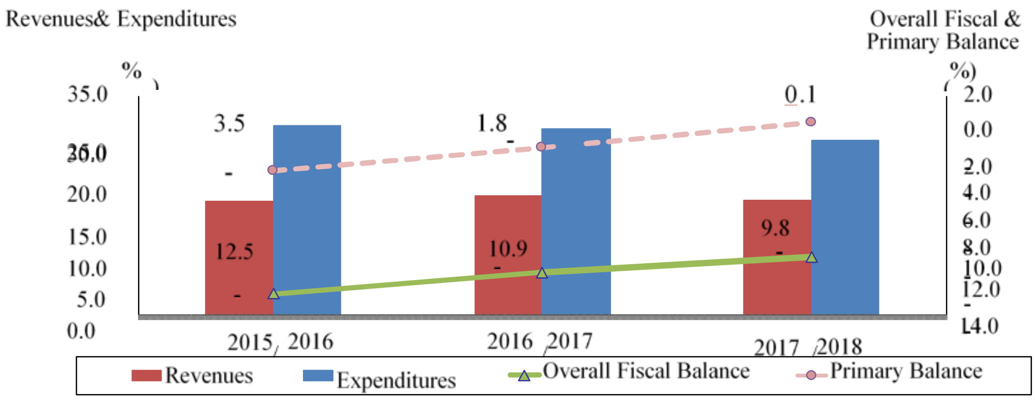
Source: central bank of Egypt

II.3 Public Finance

The actual implementation data of fiscal operations of the state budget (administrative system, local administration, and service authorities) released by the Ministry of Finance for FY 2017/2018 demonstrated that, the overall deficit widened by LE 53.1 billion to stand at LE 432.7 billion (against LE 379.6 billion in the previous FY). Despite the rise in the budget deficit as an absolute value, its ratio to GDP fell to 9.8 percent (from10.9 percent). also, the primary surplus reached LE 4.7 billion, against a primary deficit of LE 63.0 billion in FY 2016/2017.

The achievement of a primary surplus during the year compared to the previous year and the drop in the overall deficit as a percentage of GDP mirrored the continued positive effects of the corrective measures taken in the area of public finance under the comprehensive economic reform program currently adopted by the government. As the country has already freed up $14bn by reforming energy subsidies which reduced pressure on the national budget and allowed investment in other sectors. The country has potential huge sector to invest in such as the transport, energy, water and sanitation and agriculture. Also, it is observable the fundamental shift away from the state as provider of employment and output to the private sector. The following Figure Illustrate Revenues, Expenditure, and Overall Fiscal Primary Balance as a Percentage of GDP FOR 2015/2016 to 2017/2018.

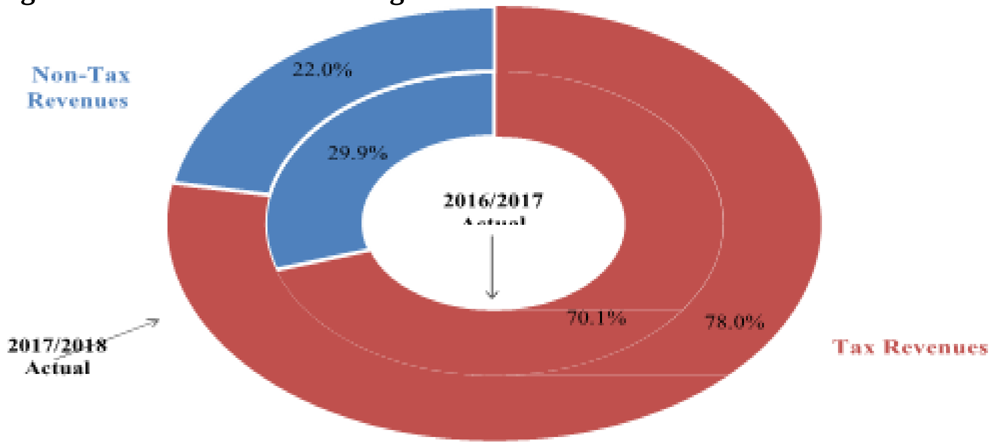
Figure 45: Revenues, Expenditure, and Overall Fiscal Primary Balance as a Percentage of GDP FOR 2015/2016 to 2017/2018



Source: Central Bank of Egypt

Total revenues registered LE 805.7 billion (18.3 percent of GDP) in FY 2017/2018, against LE 659.2 billion (19.0 percent of GDP) in the previous FY, up by LE 146.5 billion or 22.2 percent. This reflected the increase in tax revenues by LE 166.1 billion or 35.9 percent to LE 628.1 billion (78.0 percent of total revenues), and the fall in non-tax revenues by LE 19.6 billion or 9.9 percent to LE 177.6 billion (22.0 percent of total revenues). The following figure illustrates the total revenues during the FYs 2016/2017 and 2017/2018.

Figure 46: Total revenues during the FYs 2016/2017 and 2017/2018.



Source: Central Bank of Egypt

The increase in tax revenues by LE 166.1 billion mainly came as a consequence of the following developments:

- The increased in the Value-added taxes on goods and services which registered LE 85.2 billion or 40.8 percent, primarily due to the increase in the tax rate on goods and services by one percentage point, from 13 percent to 14 percent. According to the provisions of Article (3) of Law No. 67 of 2016. In addition, the rise in the proceeds from taxes on local & imported goods, services; and stamp duties.
- Taxes on income and capital gains increased by LE 40.0 billion, due to higher proceeds from taxes on: (1) companies by LE 14.1 billion, (2) salaries by LE 13.4 billion, (3) EGPC by LE 9.5 billion, (4) Suez Canal by LE 6.8 billion. By contrast, proceeds from taxes on profits from the CBE retreated by LE 3.8 billion.
- Property taxes went up by LE 14.9 billion or 40.5 percent, reflecting the rise in revenues from taxes on T-bills and bonds payable interest.
- Taxes on international trade (customs) increased by LE 3.2 billion, due to the increase in merchandise imports by LE 61.0 billion during the reporting year.

The fall in non-tax revenues by LE 19.6 billion was explained by the following developments:

- Property income declined by LE 24.8 billion, as a result of lower transfers from the CBE, Suez Canal and economic authorities. However, property income from the EGPC and other companies increased.
- External grants retreated by LE 15.8 billion during the FY.
- On the other hand, the Proceeds from selling goods and services grew by LE 6.6 billion, reflecting the increase in receipts from special accounts and funds during this year. In addition, the increase in the Financing investments which registered LE 4.1 billion and Other miscellaneous non-tax revenues picked up by LE 10.3 billion.

Total expenditures reached LE 1229.1 billion (27.9 percent of GDP) in FY 2017/2018, compared with LE 1031.9 billion (29.7 percent of GDP) in the preceding FY, up by LE 197.2 billion or 19.1 percent primarily as a result of:

- The rise in interest payments on domestic and external debts by LE 120.8 billion or 38.1 percent to LE 437.4 billion (against LE 316.6 billion).

- The subsidies, grants and social benefits scaled up by LE 52.4 billion, mainly as follows: (1) increase Subsidies of supply commodities which rose by LE 41.0 billion, oil subsidy by LE 5.8 billion, and other miscellaneous subsidy items by LE 2.2 billion, (2) the country increased its contribution in the pension fund and social benefits which moved up by LE 13.6 billion.
- Grants by the government extended to some international institutions, foreign governments and general government entities scaled down by LE 2.2 billion.
- The state workers' wages and compensations increased by LE 11.4 billion or 5.1 percent to stand at LE 236.9 billion (against LE 225.5 billion).
- The spending on purchases of goods and services are increased by LE 5.4 billion.
- The investments of budget sector related entities decreased by LE 3.5 billion (against an increase of LE 39.8 billion in FY 2016/2017).

Accordingly, the cash deficit of the budget sector reached LE 423.4 billion or 9.6 percent of GDP in FY 2017/2018. The overall deficit (including the net acquisition of financial assets) rose by LE 53.1 billion to post LE 432.7 billion or 9.8 percent of GDP (against LE 379.6 billion or 10.9 percent of GDP a year earlier). 53.2 percent of the deficit or LE 230.3 billion was financed by external sources and 40.7 percent or LE 176.2 billion by local banking sources. The rest was financed by other non-banking local sources and some local repayments were also made. By adding the fiscal operations of both the NIB and SIFs to those of the budget sector in FY 2017/18, total collected revenues would grow by LE 110.3 billion to LE 916.0 billion or 20.8 percent of GDP. Likewise, total expenditures would increase by LE 106.9 billion to LE 1336.0 billion or 30.3 percent of GDP. This resulted in an overall deficit of LE 425.4 billion or 9.7 percent of GDP in the consolidated fiscal operations of the general government (including net acquisition of financial assets). The following table illustrate Summary of the Fiscal Operations of the Budget Sector during the FY 2016/2017 and 2017/2018

Table 19: Summary of the Fiscal Operations of the Budget Sector during the FY 2016/2017 and 2017/2018

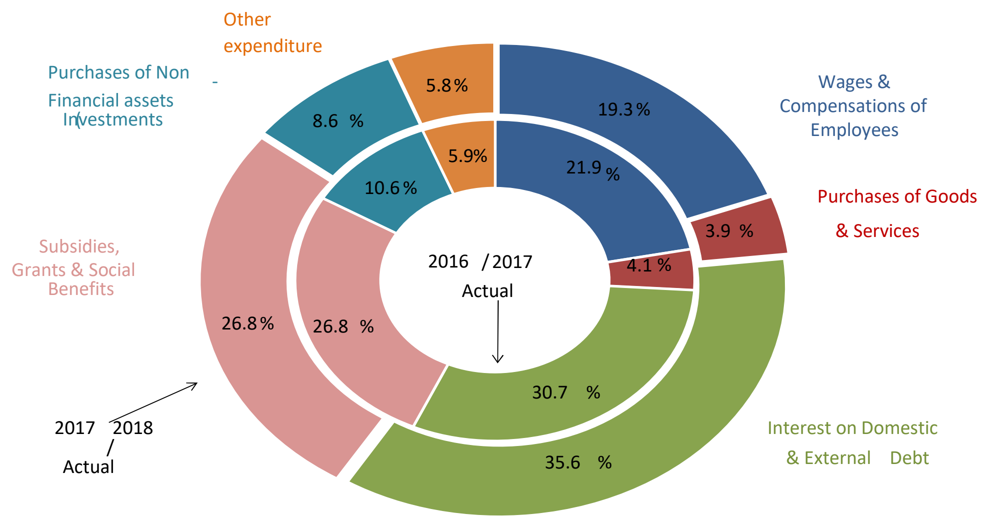
(LE Mn)

	2016/17	2017/18		2016/17	2017/18
Total Revenues	659184	805741	Total Expenditures	1031941	1229132
Tax revenues	462007	628083	Workers' wages &compensation	225513	236920
Taxes on income & profits	166897	206919	Purchases of goods &service	42450	47879
Taxes on property	36539	51353	Interest	316602	437359
Taxes on goods & services	208624	293809	Subsidies, grants & social benefits	276719	329076
Taxes on international trade (customs)	34255	37505	Subsidies	202559	243538
Other taxes	15692	38497	Grants	8919	6713
Non-tax revenues	197177	177658	Social benefits	64194	77751
Property income	95199	70317	Others	1047	1074
Sales of goods	38058		Other expenditures	61516	72314
& services	27282	44693 31430		48934	55002
Financing investments Grants	17683	1989		12582	17312
Others	18955	29229	Defense Others	109141	105584

Source: Central Bank of Egypt

The figure below illustrates the Total Expenditures for FY 2106/2017 and 2017/2018.

Figure 47: Total Expenditures for FY 2106/2017 and 2017/2018



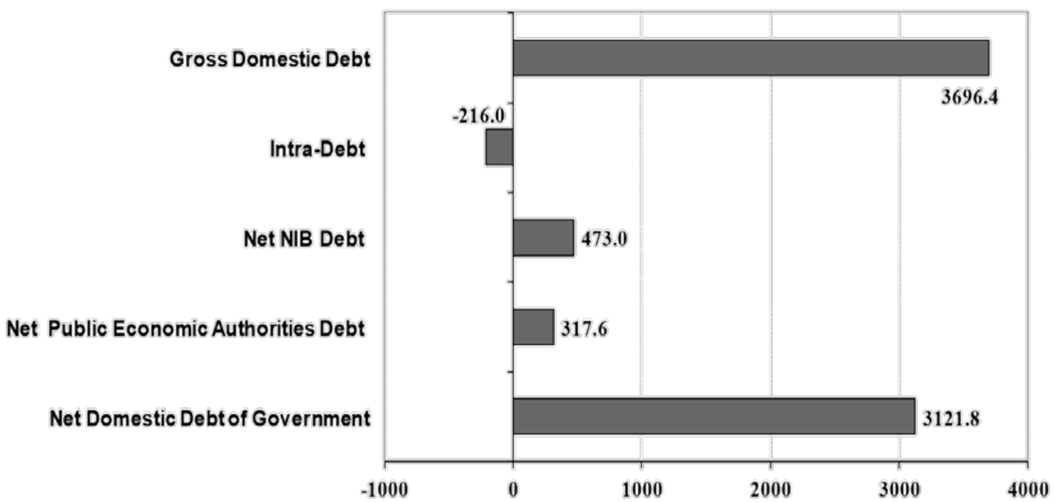
Source: Central Bank of Egypt

II.3.1Domestic Public Debt and External Debt

Domestic public debt includes net debt of the government. Net debt of public economic authorities, and that of the National Investment Bank (NIB), minus the intra-debt of both public economic authorities and the government to the NIB.

At end of June 2018, domestic public debt amounted to LE 3696.4 billion (against LE 3160.9 billion at end of June 2017), recording an increase of LE 535.5 billion or 16.9 percent during FY 2017/2018. Despite the rise of domestic public debt as an absolute figure, the public debt/GDP ratio deflated to 83.3 percent at end of June 2018 (versus 91.1 percent at end of June 2017). The following figure illustrate the gross domestic debt at end of June 2018 (LE bn)

Figure 48: Gross Domestic Debt at End of June 2018 (LE bn):



Source: Central Bank of Egypt

II.3.1.1 Net Debt of the Government

Net government domestic debt increased by LE 435.9 billion or 16.2 percent in FY 2017/2018, to LE 3121.8 billion at end of June 2018 (compared with LE 2685.9 billion at end of June 2017). Despite the increase in the net government domestic debt as an absolute figure, its ratio to GDP decreased to 70.3

percent at end of June 2018 (from 77.4 percent at end of June 2017). This was a result of the increase in the balances of treasury bonds and bills (traceable mainly to the higher balances of TBs) by LE 380.9 billion and the rise of LE 55.5 billion of the government net balances at the banking system (due to the increase in government loans by LE 31.0 billion and the decline in government deposits by LE 24.5 billion). Add to this the retreat in both the value of the issued Masri Dollar Certificates by LE 0.2 billion worth and the facilities from SIFs by LE 0.3 billion. The following table shows domestic debt of the government (Net) at Jun 2017and 2018. The following table shows domestic debt of the Government (Net) at June 2017 and 2018.

Table 20: Domestic Debt of the Government (Net) at June 2017 and 2018:

Balances at End of	June 2017 Value	June 2017 %	June 2018 Value	June 2018 %	Change + (-) 2017/2018
Domestic Government Debt (Net)	2685.9	100.0	3121.8	100.0	435.9
Balances of Bonds & Bills	3024.5	112.6	3405.4	109.1	380.9
Bonds, of which,	1838.8	68.5	1858.3	59.5	19.5
Tradable on exchanges	747.3	27.8	776.8	24.9	29.5
Treasury bills	1185.7	44.1	1547.1	49.6	361.4
Facilities from SIFs	0.3	0.0	0	0.0	(0.3)
Masri Dollar Certificates	0.2	0.0	0	0.0	(0.2)
Net Balances at the Banking System	-339.1	-12.6	-283.6	-9.1	55.5
Credit facilities	100.7	3.7	131.7	4.2	31.0
Deposits (-)	439.8	16.3	415.3	13.3	24.5
Net Domestic Government Debt/GDP (%)		77.4		70.3	

Source: Central Bank of Egypt

The increase of LE 380.9 billion in the balance of government bonds and bills was distributed as follows:

- LE 361.4 billion was in treasury bills (driven by the increase in TBs issued in Egyptian pound by LE 369.6 billion and those issued in euro by LE 0.4 billion worth, on the one hand, TBs issued in US dollar was declined by LE 8.6 billion worth.
- LE 19.5 billion was in government bonds, as a combined result of the increase in SIFs' bonds by LE 22.2 billion (against the transfer of NIB debt to the public Treasury), the amount of bonds floated abroad recorded LE 18.0 billion, Treasury bonds by LE 11.4 billion; and the decrease in the balance of the rest of government bonds by LE 32.1 billion.

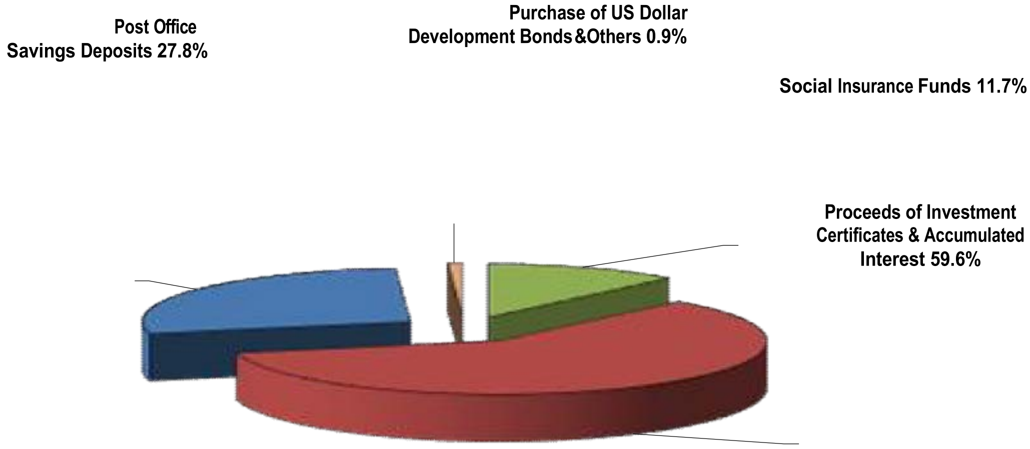
II.3.1.2 Net Debt of Public Economic Authorities

During FY 2017/2018, net debt of public economic authorities increased by LE 95.3 billion to LE 317.6 billion at end of June 2018. The rise was resulted from the increase in their net borrowing from the banking system by LE 75.2 billion (owing to the rise in their claims on the banking system by LE 35.9 billion and the decrease in their deposits therewith by LE 39.3 billion), as well as the rise in their borrowing from the NIB by LE 20.1 billion.

II.3.1.3 Net Debt of NIB

Net debt of NIB (including intra-debt) mounted to some LE 473.0 billion at end of June 2018, up by LE 136.1 billion in the reporting year. That was resulted from the increase in total resources invested at the NIB by LE 140.0 billion to LE 484.0 billion and the rise in its deposits at the banking system by LE 3.9 billion. The following figure shows the resources of the NIB at the end of June 2018.

Figure 49: Resources of the NIB at the end of June 2018.



Source: Central Bank of Egypt

II.3.1.4 Intra-Debt

Intra-debt of public economic authorities and the government to the NIB reached some LE 216.0 billion at end of June 2018 (against LE 84.3 billion at end of June 2017). NIB's investments in government securities (bills and bonds) recorded LE 144.3 billion, up by LE 111.7 billion in FY 2017/2018, while the loans extended by the NIB to these authorities registered LE 71.7 billion, up by LE 20.1 billion.

II.3.1.5 External Debt

External debt reached US$ 92.6 billion at end of June 2018, up by US$ 13.6 billion or 17.2 percent (compared to the end of June 2017). This driven by the rise in net disbursements of loans as well as the appreciation of most currencies of borrowing versus the US dollar. External Debt Structure: The external debt by original maturity indicated that long- and medium-term debts (guaranteed and non-guaranteed) registered US$ 80.3 billion (86.7 percent of total external debt) at end of June 2018. The long-term debt made up US$ 69.0 billion (mostly owed to international and regional organizations, non-residents' deposits, and Egyptian bonds and notes), while medium-term debt constituted US$ 11.3 billion. In the meantime, short-term debt stood at US$ 12.3 billion or 13.3 percent of total external debt. The indicators show as compared to peer regional country groups that: The ratio of external debt to GDP reached 37.0 percent at end of June 2018 (65.1 percent was owed to Central and Eastern Europe and 44.7 percent to Latin America and the Caribbean).

III. Tax Structure

The main sources for Egypt's government revenue are tax as it represents more than 70% of total revenues. In the recent history. Egypt had launched its first tax low no 14 of 1939, this low imposed taxes on mobile capitals, revenues commercial and industrial profits and payroll tax. In the meantime, Egyptian's government forced another tax low (Low no 114 of 1939) to tax agriculture lands, tax lows no 44of 1939 of stamp tax, then low no 142 of 144 of inheritance tax and low no 99 of 1949 of general income tax.

By the beginning of 1980s, Egypt tried to strengthen its economy and stimulate it by many ways with long run plans. One of these ways is reform tax system by imposing new tax lows in direct and indirect taxes such as, new stamp law no 111 of 1980, new income tax law no 157 of 1980 and replaced by income tax law no 91 of 2005, consumption tax law no 133 of 1981, general sales tax law no 11 of 1991 and property tax law no 117 of 2008, and replaced by value-add tax law no 67 of 2016. A country's tax structure identifies the composition of tax revenues by different tax types, this is an important indicator since different taxes has different economic and social effects.

The current Egyptian tax structure comprises of both types of taxes, direct taxes and indirect taxes as follow:

- Income Tax
- Value Add Tax
- Custom Tax
- Property Tax
- Other Taxes

The highest share of tax revenues in Egypt in FY 2017/2018 was contributed by VAT 46.7%. The second highest share of tax revenue was derived from the income tax 22.7% from total tax revenue. The following table displays Tax Revenues Growth for FY 2012/13 to 2017/18:

Table 21: Tax Revenue Growth for FY 2012/2013 to 2017/2018

(LE Million)

FY	Total Revenues	Total tax revenue	Tax revenue /total revenues
2012/2013	350322	251119	71.7%
2013/2014	456788	260289	57.0%
2014/2015	465241	305957	65.8%
2015/2016	491488	352315	71.7%
2016/2017	659184	462007	70.1%
2017/2018	805741	629,302	78.10%

Source: Egyptian Ministry of Finance

Ministry of Finance carries out the tax laws or amendments or regulation and circulation through its separated departments to be submitted from the parliaments for ratification. Each department has its own organization structure, and by law.

- Income tax and Value add tax department, this department is responsible of enforcement of income tax law, general tax sales, stamp and withholding tax.
- Custom department is in charge of carrying out the custom tax law
- Real state department, this department is in charge of the enforcement of agriculture and building tax law

All departments are under the direct control and supervision of Ministry of Finance, but the third department is also having another control from the local government.

III.1 Income Tax

Egypt as some other developing countries, income tax revenue is one of the vital sources of country's total revenues. Egypt had launched the income tax law No. 91 for year 2005 in 11 June 2005. It is effectively starting July 1, 2005 for personal income. The corporate income tax will be effectively starting January 1st 2006.The following table shows income tax revenue compared to total tax revenues from FY 2012/2013 to 2017/2018:

Table22: income Tax Revenue Growth for FY 2012/2013 to 2017/2018

(LE Million)

Fiscal Year	Total tax revenue	Income Tax	Income Tax/ Total tax revenue
2012/2013	251119	117762	46.9%
2013/2014	260289	120925	46.5%
2014/2015	305957	129818	42.4%
2015/2016	352315	144743	41.1%
2016/2017	462007	166897	36.1%
2017/2018	629302	207230	32.9%

Source: Egyptian Ministry of Finance

The previous table emphasize on the importance role of income tax against all tax revenue; however, it starts to fall down due to impose of the VAT law on 8^{th} September 2016.

Income tax is levied on the following sources of income:

- Worldwide income from employment or dependent services by the Egyptian government or any Egyptian public organization, regardless of the employee’s residence, the place service is rendered or the place of payment.
- The source of income from Egypt paid by the Egyptian or foreign firms or by other forms of legal entities to any worker resident in Egypt or abroad, in return of service rendered in Egypt Non-resident individuals and experts are taxed only on Egyptian-source income

Residence according to Egyptian Tax law, persons who have permanent home in the country and a person who resides more than 183 days in Egypt during a calendar year is deemed to be resident in Egypt for the tax purpose.

Income subject to tax on natural persons: income tax is levied on the following types of income:

- Employment income
- Business profits (which includes income from commercial and industrial activities)
- Noncommercial profits
- Income from immovable properties

Employment income the tax levied on salaries, wages, compensation award, overtime pay and all in-kind fringe benefits.

The following rules apply to the taxation of employment income:

- Casual workers
- Income generated from Egyptian sources
- Income generated from foreign sources for work performed in Egypt
- Tax imposed on all salaries and its kinds

Income exempted from tax as follows:

- Special allowances in-kind for employees (meals distributed to the workers. Transportation cost or equivalents costs, health care, tools necessary to perform the work)
- Workers’ share in the distributed profit to workers according to the low.
- All compensation received by member of diplomatic and consular corps, international organization, and other foreign diplomatic representative in the context of their official work.

Business income: income tax levied on the profits of business income from all activities carried on by commercial and industrial entities operation as sole trader, partnership and limited partnership in Egypt. The taxable net profit determined on basis of the total profits after taxable commercial and industrial income consists of net commercial and industrial profit derived within a calendar year from all business transaction, including sales of assets (after deduction of all business expenses, charges and personal allowances).

Capital gain on disposition of securities are subject to income tax but in different two situations as presented below

- If the securities are unlisted, the tax imposed on the capital gain from the disposal of securities at the normal tax rate.
- If the securities are listed, the capital gains from the disposal of securities or quotas are subject to tax at the rate of 10%without no deduction.

Resident individual shareholder who don't have any other taxable income from commercial or industrial activities should only be taxed on dividend income exceeding 10,000 EGP.

Non- resident individual shareholders will be subject to a 10% withholding tax on gains realized from the sale of Egyptian shares (irrespective of whether the business listed or not). Capital gain derived from transfer real estate are not subject to tax unless the real estate is used in trade or business. However, if the natural person derived capital gains from one transaction of selling urban land or building, he imposed to 2.5% tax on his gross revenues.

Exemption: Article (31) of law 91 of 2005 introduced exemption permitted under the law as listed under:

- Profits of the land reclamation or cultivation establishment for a period of ten years effective from the date of beginning the exercise of the activity.
- Profits of establishment of poultry production, bees breeding, cattle breeding and fattening pens, and fisher projects, as well as profits of trawlers projects, for a period of ten years from the date of beginning the exercise activity.
- Return from deposits, savings account in banks and obtain interest from bonds which are issued by the government in Egypt.
- Profits realized from the new projects established by finance from the social fund for development.

Deduction cost: all costs in general is deductible if it documented. In particular, the following specific deduction are allowed:

- Special deduction of workers (employment income) with LE 7000 per annum.
- Rent cost of premises
- Tax depreciation and accelerated depreciation for new machines
- Social insurance contribution and contribution to pensions and savings funds but with limitation of LE 10000 per annum or 15%of the net income, which is higher
- Interest on loans
- Social insurance premium payable by the owner
- Donation to the government or local public units
- Donation to non-government entities but limited to 10% of the annual net profit.

Noncommercial profession (self-employment): Income tax is levied on noncommercial profits derived by professionals or independent person practicing other noncommercial activities in Egypt (lawyer, accountants, artists, writers, etc.).

Deduction costs: graduates and member of professional association about to practice for the first time enjoys certain exemption depend on the professional type. Article (33) of the low demonstrates the deduction cost as follows:

- Registration fees and its likes
- Taxes paid for practicing of the profession
- Pension, life and health insurance (limited to LE 3000 per annum)
- Donation to the government or local public entities
- Donation to non- government entities but limited to 10% of the annual net profits

Exemptions:

- Revenues from editing and translation books, religious, scientific, etc. except of whom proceeds profits from the sale of printed work
- Revenue resulting from teaching staff from their books

Table 23 shows the tax rates are applied to individual and employment income:

Table 23: Tax rates applied to individual and employment income

(LE)

Taxable income	Tax rate on bracket
Zero to 7000	Zero%
7201 to 30,000	10.0%
30,001 to 45,000	15.0%
45,001 to 200,000	20.0%
More than 200,000	22.5%

Source: Egyptian Ministry of Finance

In addition, Discount on the accrued tax is applied for one time according to the highest Tax bracket, and if the individual taxpayer is taxable to the highest tax brackets, he will not have the discount. Table 24 shows the discount made for the following tax brackets:

Table 24: discount on accrual tax

(LE)

Taxable rate on bracket (%)	discount on accrual tax
7201 to 30,000	80.0%
30,001 to 45,000	40.0%
45,001 to 200,000	5.0%

Source: Egyptian Ministry of Finance

The above -mentioned brackets also apply to non-residents on the income they receive from an Egyptian treasury or against work performed in Egypt.

III.2 Corporate Income Tax

Resident legal entities are subject to corporate tax on their profits derived worldwide. Non-resident companies are subject to tax only on their profits derived from Egypt. Profits from industrial or commercial entities are determined based on the revenue resulting from industrial or commercial transaction.

Rates of corporate income tax. The standard rate of corporate income tax is 22.5%. Exceptions to the 22.5% rate exist. Oil prospecting and production companies are subject to tax on their profits at a rate of 40.55%. The Suez Canal Company, the Egyptian General Petroleum Company and the Central Bank of Egypt are subject to tax on their profits at a rate of 40%.

Legal entities

The following types shall be considered juridical persons:

- Association of capital and partnership as well as the corporation de facto:
- Cooperative societies and their unions
- Public entities and other public juridical persons
- Foreign banks, companies and institution even if them headquarter are abroad
- Units established by the local government with regard to the taxable activity

Residency

a company considered resident if it is incorporated under Egyptian law or its management and control is exercised in Egypt such as 50% of director's are resident, board of directors or manager's meetings taking place in Egypt.

Deductible costs

All costs and expenses incurred during the account period according to the accrual basis, the tax law provided for instance theses expenses (rent, depreciation, accelerated depreciation, social insurance, salaries and wages and other expenses).

Nondeductible costs

- Financial penalties and fines
- Interest on loans and debt paid to tax exempted entities
- Interest loans that exceed the double credit and discount rate that the central bank has declared after the tax period and at the beginning of the calendar year. Also, the maximum debt to equity ratio to be 4:1 and if the debt exceeds such a ratio, the excess interest is not considered as a reserve.

Provisions and reserves are not considered as deductible costs except for the following:

- 80% of loan provisions made by banks (required by the central bank of Egypt)
- Insurance companies' provisions determined by law No 10 of 198.

Capital gains

Capital gains on the sale of shares (whether the shares listed or not) should be included in the taxable profits with a credit for withholding tax paid.

Exemptions

- 10 years exemption for new agriculture and re-cultivation companies from the date of being considered productive
- 10 years exemption of new fishing boats organizations, fish farming entities and poultry farming companies from the date of being considered productive
- Nonprofit seeking entities
- Interest yielded from securities issued by the central bank of Egypt
- When 90% of the dividend income received by any Egyptian resident corporate shareholder will be exempt from tax if the shareholder holds at least 25% of the share's capital or the voting rights of the subsidiary company and the company holds or commits to hold the shares of the subsidiary for at least two years.

Corporate income tax rate

Tax rate corporate income tax rate generally taxed with 22.5% of the taxable income, special corporate tax rate for explorations and production of gas and oil companies taxed at 40.55% of taxable income, Suez Canal Authority, the Egyptian Petroleum Authority, and the central bank are taxed at rate of 40%.

Filling tax return

The taxable year is accounting year. Companies must file a tax return within 4 months following the end of the financial year or before the beginning of May (self-assessment is the main base). Tax mainly assessed on the information provided in the tax return.

III.3 Value Add Tax

A new value Add Tax (VAT) law no.31 was issued on the 8th September 2016, with immediate effect and so abolished the previously existent general sales tax law no.11 of 1991 (GST). The new VAT law differs from the abolished GST law as it is applied to a broader range of goods and services, it however exempts a number of basics goods and services which affects low-income earners (in addition to other exemption listed within the law). It also introduced the reserve charge mechanism in Egypt for the first time, whereby transaction involving non-residents providing services/ royalties to Egyptian residents have become subject VAT in Egypt.

VAT Rate

The standard VAT rate is 13% for the financial year 2016/2017 (until the 30th of June 2017), as the VAT rate increased to 14% on the 1st of July 2017, applicable on all goods and services, except for machinery and equipment used for production purposes, which are subject to a 5% VAT (although buses and passenger cars are subject to different rate). The table below shows taxes on goods and services to total tax revenues from FY 2012/2013 to 2017/2018:

Table 25: VAT Tax Revenue Growth for FY 2012/2013 to 2017/2018

(LE Million)

Fiscal Year	Total tax revenue	VAT Tax	VAT Tax/ Total tax revenue
2012/2013	251119	92924	37.0%
2013/2014	260289	91867	35.3%
2014/2015	305957	122930	40.2%
2015/2016	352315	140525	39.9%
2016/2017	462007	208624	45.2%
2017/2018	629,302	294257	46.7%

Source: Egyptian Ministry of Finance

Registration requirements:

- Business registered under the GST law will automatically be considered registered for VAT purposes, provide their annual turnover exceeds the new registration threshold of EGP 500,000
- Importers of taxable goods registered under the abolished GST law will automatically be considered registered, for VAT purposes regardless of their turnover
- Business not required to register under the GST law and that are required to register for VAT purpose under the new law, must apply to The Egyptian Tax Authority (ETA) for their VAT registration, with on thirty days from the date of reaching the VAT registration threshold.
- Business currently registered under the GST law with a turnover below the new VAT threshold shall be deregistered automatically, unless they specially request to remain registered within 30 days from the effective date of the new law.

Tax return:

The return shall be filled by the registered taxpayer (self – assessment is the main base) and must be submitted monthly. The e-filling has introduced by the ETA for the submission of the VAT return electronically through the ETA's website. The e-filling system will be effective starting from January 2019. Accordingly, the manual filing of VAT returns will not be acceptable as latter of the date mentioned.

III.4 Custom taxes

Custom and other import duties are all levies collected on goods that are entering the country or services delivered by non-residents to residents. They include levies imposed for revenue or protection purposes and determined on a specific or ad valorem basis as long as they are restricted to imported goods or services. The table below shows taxes on international trade (custom) to total tax revenue from FY 2012/2013 to 2017/2018

Table 26: Custom Tax revenue Growth for FY 2012/2013 to 2017/2018

(LE Million)

Fiscal Year	Total tax revenue	Custom Tax	Custom Tax/ Total tax revenue
2012/2013	251119	16771	6.7%
2013/2014	260289	17673	6.8%
2014/2015	305957	21867	7.1%
2015/2016	352315	28091	8.0%
2016/2017	462007	34255	7.4%
2017/2018	629,302	37505	5.9%

Source: Egyptian Ministry of Finance

Egyptian's present custom law no. 66/ 1963 amended by law no. 95/2005 and enacted in 2006. Tariff policies in Egypt are formulated by the ministry of finance and implemented by the custom. Egypt adopts a port-oriented management mode, checking and inspecting exports and imports directly by human focusing and other resources at the passageways there. Under the current custom law, taxes levied basically on and ad valorem basis.

In general, exports goods are exempted from custom taxes and with some exception of imports in certain circumstances such as: exported commodities, imported raw materials which used in local production and exported and free zone areas

Egypt's tariff rates mostly between 2% and 40% regarded to the agreement and cooperation with international monetary fund (IMF) and World Bank.

III.5 Real Estate Property Tax

Tax is levied on the revenue wealth includes revenue from exploitation of building and furnished units. This tax applies to all properties established on Egyptian land other than the non-taxable properties, whether rented or occupied by the owner himself who is the taxpayer, whether they are finished and inhabited, finished and uninhabited or inhabited and unfinished. This means that all current established properties are taxable, whether established villas, buildings, floating houses or chalets whatever their locations are. The following table showed tax on property (real estate) to total tax revenues from FY 2012/2013 to FY 2017/2018:

Table27: Property Tax Revenue Growth for FY 2012/2013 to 2017/2018

(LE Million)

Fiscal Year	Total tax revenue	Property Tax	Property Tax/ Total tax revenue
2012/2013	251119	16453	6.6%
2013/2014	260289	18761	7.2%
2014/2015	305957	21107	6.9%
2015/2016	352315	27990	7.9%
2016/2017	462007	36539	7.9%
2017/2018	629,302	51410	8.2%

Source: Egyptian Ministry of Finance

In determining the taxable revenues yields from real estate, there are two methods, the first method is estimating (the estimation guided by low no. 113 of 1939) and the second depends on the actual proper accounting books. Estimating method uses the following computing methods:

- Net revenues from horticulture corps and from productive orchards are estimated according to the following conditions; If the land is leased, the taxable revenue will equal net value estimated after deducting 20% for all expenses, or If the land is owned, the taxable revenue will equal twice the rent value after deducting 20% for all expenses.
- Net revenue from constructed real estate are determined on the rent (estimation according to the tax imposed by law no.196 of 2008)
- Net revenue results from furnished units (actual rent value) after deducting 50% for all expenses

Tax filling and payment procedures:

- Individuals who derived revenues from commercial, noncommercial and real estate must submit the annual tax return (self-assessment is the main base)
- The tax year is the normal calendar year. The tax returns must be filled before the 1st April non-filers taxpayers and filers after the due date pay 2% of the delayed amount plus the credit and discount rate set each January by the Central Bank of Egypt. In addition, non-fillers are imposed to a penalty from LE 5000 to 20000.
- Individual must notify the tax authority about their new business or professional activities within 30 days of starting such activities
- The tax return must give details of profits or losses, and must be supported by the relevant books of account and documents
- Individual taxpayers may request to extend the submission date (up to 60 days)
- Employees are not required to submit annual returns for the employment income
- Companies must withhold salaries tax on a monthly basis and remit such amounts to the tax authorities quarterly
- Taxes become due within 30 days after receipt of notice of final tax assessment for the tax authorities.

Tax Assessment

Tax is assessed on the return's taxable income which determined and computed by each taxpayer. The tax authority may amend or estimate the tax due depending on additional information or data did not included in the taxpayer's annual return.

Tax authority may amend an assessment within 5 years from the legal deadline for submitting the return and within 6 years if the taxpayer evaded the tax.

III.6 Stamp Taxes

Egyptian current stamp tax law no. 111/1980 and its amends. The stamp taxes levied on legal documents deeds, banking transactions, company formation, insurance premiums and other transactions.

The tax rate differs according to the type of document and the value of the transaction as follows:

- A document such as contracts, the tax is LE 0.9 for each paper
- % stamp tax is levied based on the value of the transaction
- An annual proportional tax at the rate of 0.4% is imposed on the highest debit balance in each quarter or credit facility and loans and advances provided by Egyptian Banks or branches of foreign banks during the financial year. The bank and the customer each bear half of the tax
- Stamp tax is imposed on advertising at the rate of 20%.

III.7 Social Insurance

Employees must pay social insurance contribution to the social insurance authority: employers must deduct the amount of the social insurance from the employee's salaries and wages on a monthly basis economy.

The social contribution of the employees is 14% of the basic salary up to LE 987.5 per month and by 11% of the variable payments (bonuses and incentives) up to LE 1,590 per month. The social contribution of the employer is 26% of the basic salary (up to EGP 1,012.50) and 24% of the variable salary (up to EGP 1,590).

III.8 International Tax

The Egyptian tax law 91 that was issued in 2005 set a regulation for the international transaction which conducted among Egypt and the cross-border countries. The law contained articles for defining the resident (Article 2), permanent establishment (Article 4), related person (Article 30), royalties, interest and service fees covered by (Article 56), Neutral person (Article 1). In addition, the international tax law combined with the tax law are the basic laws to prevent the double taxation and define the legal parameter of within which countries can exercise sovereignty to impose taxes. Egypt has concluded over 50 bilateral tax treaties**.** On 7 June 2017, Egypt and 67 other jurisdictions signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (the MLI) during a signing ceremony hosted by the Organization for Economic Co-operation and Development (OECD) in Paris.

At the time of signature, Egypt submitted a list of 56 tax treaties entered into by Egypt and other jurisdictions that Egypt would like to designate as Covered Tax Agreements (CTAs), i.e., tax treaties to be amended through the MLI. Together with the list of CTAs, Egypt also submitted a provisional list of reservations and notifications (MLI positions) in respect of the various provisions of the MLI. The definitive MLI positions will be provided upon the deposit of its instrument of ratification, acceptance or approval of the MLI. The table below shows come of the Egypt's tax treaties network:

Table 28: Some of Egypt's bilateral tax treaty network

Albania	Iraq	Poland	India
Algeria	Ireland	Romania	Indonesia
Austria	Italy	Russia	Pakistan
Bahrain	Japan	Serbia & Montenegro	Palestinian Territories
Belarus	Jordan	Singapore	Yemen
Belgium	Korea	South Africa	Hungary
Bulgaria	Kuwait	Spain	Oman
Canada	Lebanon	Sudan	United States
China	Libya	Sweden	
Cyprus	Macedonia	Switzerland	
Czech Republic	Malaysia	Syria	
Denmark	Malta	Tunisia	
Finland	Mauritius	Turkey	
France	Morocco	Ukraine	
Georgia	Netherlands	United Arab Emirates	
Germany	Norway	United Kingdom	

Source: pwc.com/ID/Egypt-Individual-Foreign-tax-relief-and-tax-treaties

III.8.1 Transfer price

On 21 October 2018, Egypt's Ministry of Finance issued Ministerial Decree No. 547 of 2018 (Decree No. 547), providing the authority for new transfer pricing guidelines to be published. On 23 October 2018, the Egyptian Tax Authority (ETA) published the new guidelines on its website. The guidelines introduce new tax compliance requirements. For the year ending 31 December 2018 as following:

- A taxpayer engaged in cross-border transactions with related parties is expected to prepare local transfer pricing documentation and submit it to the ETA within two months following the filing of the 2018 corporate tax return (i.e., 30 June 2019 if the return is filed by the statutory deadline).
- An Egyptian parent company of a multinational group with consolidated group revenue of at least EGP3b (€148m) will have to file a country-by-country (CbC) report (CbCR) in Egypt by 31 December 2019. The new rules may also affect the group's filing and notification requirements in other countries.
- An Egyptian parent company will also need to prepare a transfer pricing master file that the parent company and group members will use to support transfer pricing compliance requirements around the world.

If a taxpayer does not submit adequate transfer pricing documentation, the guidelines indicate that the ETA is likely to treat the taxpayer as a high tax risk, increasing the likelihood of audit and a transfer pricing adjustment. As this could also shift the burden of proof to the taxpayer to disprove the ETA's assessment position, taxpayers with cross-border related party transactions should review the new guidelines and ensure they can produce adequate transfer pricing documentation for the current fiscal year by 30 June 2019.

According to the Egyptian tax law, it is possible to enter into arrangement in advance with the tax department regarding a transfer pricing policy (advance price agreement (APA)). APA ensure that TP will not be challenged after the tax return is submitted and, accordingly, eliminates exposure to penalties and interest on the late payment of taxes resulting from adjustment of TP.

III.9 Incentive for foreign investors

Anew investment law was issued on 31 May 2017, abolishing the current law and introducing new incentives for investors. The executive regulation followed on 28 October 2017. The new law is now in force and include notable amendment such as returning back the private free zone which was previously abolished, moreover it provides several incentives such as tax exemption, unified customs rate and free lands. It also focuses on simplifying the incorporation procedures through electronic system. Egyptian government has become more attune to their benefits in recent years as free zone typically help economies by establishing export-oriented industries, attracting modern technology, providing employment opportunities and maximizing foreign currency such as customs and tax exemptions.

The general incentives granted by the law:

- Companies shareholder's & founder &establishment owners are granted investors' residency for a period of one year at least (to be renewed for five years) and not exceeding the project duration.
- Goods exported abroad or imported by free zones projects to exercise their activities shall not subject to import or export rules, or custom procedures related to export and imports, they shall also not be subject to custom taxes, VAT or any other taxes or duties.
- The companies established under this law are exempted from the stamp tax and authentication and publishing fees for 5 years from the date of registration, moreover the land contracts of the projects are exempted from registration fees.
- A fixed custom rate (2%) will be collected in any imported equipment necessary for establishing the project
- The foreign employees in the investment projects can reach up to 20% of the total workforce.

A special incentive:
30% or 50% discount (according to the geographical area of the project) on the investment costs, noting that the discount will be for a period not exceeding 7 years from the date of initiating the activity and discount value shall not exceed 80% of the paid-up capital of the project at the date of initiating the activity.

III.10 Thin Capitalization

The debt to equity ratio applies is 4:1. The tax deduction of any interest exceeded this ratio is disallowed. The deduction also disallowed for interest paid which exceeds twice the credit and discount rate (announced by the Central Bank at the beginning of each calendar year). In addition, the interest rate must be at the Arm's Length Principle and should be supported by proper transfer pricing documentation.

III.11 Controlled Foreign companies (CFC)

Income from investment in nonresident companies is recognized under the equity method of revenue recognition and is taxed in Egypt when the following conditions are met simultaneously: first, The Egyptian entity owns more than 10% of the nonresident company. Second, more than 70% of the nonresident company's income is derived from dividends, royalties, interest, management fees or rental fees ` passive income`. Third, the profit of the nonresident company is not subject in its country of residence, as the nonresident's profits are exempted or subject to a tax rate of less than 75% of the corporate tax rate in Egypt.

III.12 General Anti Avoidance Rules (GAAR)

The GAAR was introduced in 2014. The primary objective of this rule is to deter and prevent the taxpayer from entering into arrangement for the purpose of obtaining an abusive tax advantage. The GAAR gives the tax authority the right to challenge any case where the main objective of the transaction is to deter, reduce or avoid paying taxes and would have the right to reassess the taxes due.

III.13 Base Erosion and profit shifting (BEPS)

Egypt joined the BEPS project which was launched by the member states of the OECD and the G20 countries. This initiative is aimed at stopping multinational companies from avoiding, evading taxes and targets the situations which may result in aggressive tax planning or evasion. Egypt signed the Multilateral Instrument Agreement with the BEPS member countries and should start implementing it soon. The implementation will start with the four minimum standard action to cope with changes being introduced to the tax environment.

III.14 Withholding tax

Onshore, a withholding tax, also called a retention tax, is a legal requirement for the payer of an item of income to withhold or deduct tax from the payment, and pay that tax to the government instead. In Egypt, withholding on local payment of a value more than EGP 300 (per invoice) will be applicable, the amount of which will vary depending on the type of activity as follow:

- Supplies/ contracts 0.5%
- Services 2%
- Professional fees (individual) and commissions 5%

Offshore, for payment made to non-resident for services performed in or outside the country, a standard rate of tax is charged is 20% and is applicable to the following:

- Interests, the government, public entities, public sector companies and private sectors with loan no more than three years will exempt from the withholding tax.
- Royalties
- Service charge but there are some services which the withholding tax to non- resident is not applicable such as (transportation, shipping, insurance, training, participation in conferences and exhibition, direct advertising campaign and others).

III.15The audit cycle proceeds as follows:

Inspection: The tax authority inspects the company based on its documents and records in order to assess the total tax due on the company and determines the difference in tax due as per the company declaration and the tax authority assessment. The authority issues an assessment including the total tax due on the company. If the company objects to the inspection result, the dispute is transferred to the Internal Committee.

- Internal Committee: The dispute is transferred to the Internal Committee to discuss the dispute points that arose from the inspection further to issue a modified assessment based on its opinion. If the company objects to the Internal Committee result, the dispute is transferred to the Appeal Committee to review the dispute points arising from the Internal Committee.
- Appeal Committee: The Appeal Committee’s decision is final and binding on the company and the tax department unless a case is appealed by either of them at the court within 30 days of receiving the decision.
- Court: If the decision of the Appeal Committee is not satisfactory for either party, the case will be transferred to the court system, which is considered the final stage of the disputes. Normally, the court will appoint an expert witness to investigate the case and prepare a report. The court process usually takes a long period of time.

Statute of limitations: The statute of limitations is five years according to the Egyptian Income Tax Law and is extended to be seven years in case of tax evasion.

III.16 E-filling and E-payment

The ETA has introduced the e-filling for the submission of the VAT return electronically through the ETA’s website. The e-filling system will be effective starting from January 2019. Accordingly, the manual filing of VAT returns will not be acceptable as latter of the date mentioned. More than, the electronic filling of income tax return has become mandatory. As the taxpayer will be required to register on the ETA’s website to create an account as well as specific code. Upon submission of the tax return, the taxpayer can pay the tax due through on of the following methods: first, using bank transfer through the taxpayer’s own bank, or using smart card to pay the tax due, or through the banks or the National post Authority with which the ETA has specific agreements. On the other hand, for the individual taxpayers, they still have option to pay their taxes due, electronically or manually.

III.17 Penalties

There are many penalties apply such as, the failure to apply the system of withholding, collection and remittance of tax, failure to file a return and other. For the penalty that imposed when the amount of taxes disclosed in the tax return are less than the final assessed tax amount, the penalty imposed categorized based on the difference between the amounts included in the return and those in the assessment. The rate is 5% if the difference ranges from 10% to 20%, 15% if the difference above 20% and up to 50%, and 40% if the difference exceeds 50%. Interest is calculated 2% above the annual credit and discount rate by the central bank.

IV. Country Specific Fiscal Issues

Prior to the reform program, Egypt implemented inconsistent macroeconomic policies which, by 2016, had led to a build-up of significant imbalances. Large budget deficits, loose monetary policy, and a fixed exchange rate had resulted in a drastic reduction in foreign exchange reserves, high inflation, and unsustainably high levels of public debt. Growth had fallen and unemployment increased, especially among women and youth. The program's immediate priority was to address these issues, restore macroeconomic stability, and avoid a crisis.

IV.1 Exchange Rate

On the 3rd of November 2016, the CBE took the decision of the liberalization of the Egyptian pound exchange rate, to be quoted according to the dynamics of supply and demand. This decision came as part of the economic reform program and this led to greater transparency and foreign exchange liquidity through attracting greater investment and the correction of assets prices. Also led to restored equilibrium in the foreign exchange market, and eliminated the shortage of foreign exchange. As a result of this policy, the Egyptian pound appreciated against US dollar and moved from 7.7 LE per 1$ to be 17.8 LE per 1$. Banks' foreign currency resources reached US$ 63.7 billion in FY 2017/2018 (of which US$ 45.2 billion, or 71.0 percent of the total, were customers' sales and US$ 18.5 billion, or 29.0 percent of the total, were investment inflows), against US$ 36.1 billion in FY 2016/2017 (of which US$ 24.4 billion, or 67.6 percent of the total, were customers' sales and US$ 11.7 billion, or 32.4 percent of the total, were investment inflows).

IV.2 Inflation

The annual headline CPI (urban) picked up by 14.4 percent at the end of FY 2017/2018 (June/June), against a pickup of 29.8 percent at the end of the previous FY. Also tightened monetary policy by raising interest rates. These were critical measures to reduce public debt as a share of GDP and limit inflation.

IV.3 Public Debt and Budget Deficit

Placing public debt on a clearly declining path has been one of the main objectives of the authorities' program. Recovery in GDP growth rates and significant reduction in fiscal deficits have helped to reduce gross government debt from more than 100 percent of GDP in 2016/17 to 85 percent of GDP in 2018/19. This is a significant accomplishment. However, the debt level remains high and needs to be reduced further to strengthen Egypt's debt sustainability, reduce interest payments and thereby free up fiscal space for critical spending needs in health, education, infrastructure and social protection. The authorities' intention to maintain primary fiscal surpluses (i.e. fiscal balances excluding interest payments) at 2 percent of GDP in the medium term would ensure a stable decline in public debt to sustainable levels.

The ratio of external debt to GDP reached 37.0 percent at end of June 2018 (65.1 percent was owed to Central and Eastern Europe and 44.7 percent to Latin America and the Caribbean).

IIV.4 Other Macro Economic Issues

Another important component of the authorities' program was to address extensive fuel subsidies, which were a significant drain on the budget. These subsidies made fuel in Egypt one of the cheapest in the world, encouraging excessive consumption and benefiting the well-off far more than the poor because those with means consumed more. Phasing out fuel subsidies created more room in the budget for better-targeted social spending, as well as more investment in health, education, and public infrastructure.

The fuel subsidy reform gets the prices right, because when prices start reflecting costs, the economy improves by allocating resources more efficiently. Getting relative prices to reflect costs steers more private investment into sectors that create more jobs, rather than capital-intensive sectors that produce relatively fewer jobs but take advantage of fuel subsidies. Other changes, including increasing competitiveness, reforming public procurement, and increasing transparency of state-owned enterprises will help improve the effectiveness and efficiency of government. These efforts will also modernize the economy so that Egypt can become a bigger player in the global trading system—with the opportunity to take advantage of global and not just domestic growth. On the fiscal side, the country is seeking to reprioritizing and rationalizing its expenditure in addition to raising revenues. As the program implemented aims to decrease public state wages, eliminate the energy subsidies, improve the quality and targeting of social spending. The value added tax has with high rates and broader coverage adopted to increase tax revenue. The reform is targeted specific sector. Which stared with the energy sector and intended to extend to the health and the transportation sector. Also, the government has initiative to improve SOEs' governance, transparency and accountability by publishing report on state- owned enterprises, including their financial performance, activities, ownership, organization structure, and audited report. More than, the authorities implemented structural reforms to improve business environment. As recently, they enacted new industrial license law which aims facilitate procedure.

V. Conclusion where we stand and where we go?

Egypt's reform program supported by the IMF Extended Fund Facility (EFF) has made substantial progress as evident in the success achieved in macroeconomic stabilization and the recovery of growth.

Economic growth has been steadily improving since the beginning of the reforms, and at [5.5 percent] is among the highest in the region. At the same time, the budget for the 2018/19 fiscal year reached a primary surplus of 2 percent of GDP, which excludes interest payments; and inflation is on track to reach single digits by the end of 2019. Unemployment has declined to around [8 percent], which is the lowest in 20 years, and social protection measures have been expanded. These are considerable achievements.

Ensuring that the current cushion of foreign exchange reserves is preserved by maintaining a flexible exchange rate. Inflation should remain on the decline, along with public debt, which would create more room for investment in health, education and public infrastructure. The broader goal of these reforms is to ensure that the economy becomes increasingly market-oriented, where the role of the state becomes more of a facilitator rather than as a driver of growth. Indeed, Egypt needs at least 700,000 new jobs annually to absorb its young and growing population, and that can only come from the private sector.

Egypt needs to continue to press ahead with reforms to support private sector development and job creation. Significant steps have been taken to strengthen governance and competition, better integrate women and youth in the labor market, improve access to finance and land, and limit the role of the state in the economy. Continued efforts will be needed to deepen and broaden reforms to further improve the business climate, tackle corruption, reduce the role of the state, enhance non-oil exports, enhanced productivity on the national level and continued investment in and upgrading of infrastructure.

More than, Egypt seeks to develop the country's human resources supported by increased spending on health, enhance the education system, increase spending on the research and development (up to at least 10% of GDP) which become mandated by the Constitution.

As the fiscal deficit increase, the government is trying to increase the tax revenues by increasing international tax revenues as now we are seeking to impose tax on digital economy through advertising and digital platform and increase TP revenue, also the government are developing now the electronic system(electronic filling, electronic invoice, electronic payments, starts dealing with unified tax registration number, and replacing all tax file numbers, comes with ongoing process of modernization of tax data.

In addition, there is new draft law on the development of small medium enterprises include many tax and non- tax incentives to support this vital sector (simplified tax system to reduce tax burden and facilitate procedures). For increasing the Tax revenue from the large informal sector in Egypt which is messing and can lead to increase in the tax revenue and increase in the compliance of the taxpayer.

Egypt need to spend more on education and health and attract the private sector finance for contributing in the infrastructure development. As using private sector finance, management expertise and innovation in many sectors could help in convert the public sector resources for where they need most.

Recently, the Egyptian Tax Authority is seeking to modernize tax administration with developing fully integrated IT system. As income taxes and VAT will be administrated in a single integrated organization structure. Automation ETA will enhance the quality of the services provided and safe time and cost.

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