3 Egypt

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I. Introduction

I.1 Background

"Egypt is the gift of the Nile" The quote was written by Herodotus from about 2,500 years ago. The regularity and richness of the annual Nile River flood, coupled with semi-isolation provided by deserts to the east and west, allowed for the development of one of the world's great civilizations. A unified kingdom arose circa 3200 B.C., and a series of dynasties ruled in Egypt for the next three millennia. The last native dynasty fell to the Persians in 341 B.C., who in turn were replaced by the Greeks, Romans, and Byzantines. It was the Arabs who introduced Islam and the Arabic language in the 7th century and who ruled for the next six centuries. A local military caste, the 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. Ostensibly to protect its investments, 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.

Egypt is one of a few countries all over world has kept its name unchanged over history, the equivalent Arabic name of Egypt is Misr, it was mentioned explicitly many times in the Holy Quran, the present official name of Egypt is Arab Republic of Egypt.

I.2 Geography and Population

Location: Northern Africa, bordering the Mediterranean Sea, between Libya and the Gaza Strip, and the Red Sea north of Sudan, and includes the Asian Sinai Peninsula. Long Formal Name: Arab Republic of Egypt and short name, Misr. The tem of Citizen: Egyptian(s) and Capital is Cairo. Area 1,002,000 square km. land 995.450sq km and water: 6.049sq km Climate: desert; hot; dry summers with moderate winters and terrain: vast desert plateau interrupted by Nile valley and delta.

Population: 98,079,802 (as Dec 31 2018).Population growth rate average 1.9% (as est.2017); Birth rate 26.8 births/1,000 population (as est.2017); Mortality annual rate 5.7 deaths/1,000 population (as est.2017) and the net immigration rate is -0.5 migrant(s)/1,000 population (as est.2017).Official language: Arabic (official), English and French widely understood by educated classes.

Religions: Muslim (predominantly Sunni) 90%, Christian (majority Coptic Orthodox, other Christians include Armenian Apostolic, Catholic, Maronite, Orthodox, and Anglican) 10% (as est.2012).

I.3 Political Structure

The population was growing rapidly more than any other country in the Arab world, limited land around the Nile River, limited resources and stress society.

The government tries hard to meet population demands through economic reform and with solid investment in communication and the main infrastructure.

A rapidly growing population (the largest in the Arab world), limited arable land, and dependence on the Nile all continue to overtax resources and stress society. By 2010, Egyptian opposition groups led to a large number of strikes extended throughout all the country influenced by Tunisian revolution, wrapping up with a main request of President Hosny Mubarak should leave his presidential position. On 11 February 2011, Egypt's military institution assumed as national leadership until new parliament was elected by early 2012, and at the same year, Mohamed Morsi won the presidential election. Through the spring of 2013, violent protests against Morsi's government and the Muslim Brotherhood group, the Egyptian Armed Forces intervened and removed Morsi from power by mid of 2013 and replace him with temporary president Adly Mansour. In the first two quarters of 2014, the voters approved new constitution by referendum. Presidential elections to replace Mansour are scheduled for late May 2014. According to the constitution and the government's transitional road map, preparations for parliamentary elections will begin by mid-July 2014. President Abdel Fattah al-Sisi won the elections in 2014 and became president of the Arab Republic of Egypt.

Constitution: The constitution approved by referendum held on 14-15 January 2014states that there should be no discrimination on the grounds of race or religion. The country is divided into 27 governorates, with governors appointed by the president. Moreover, the form of state is Democratic socialist republic.

Executive branch: Chief of state: President Abdel Fattah al-SISI (since presidential elections on 26-28 May 2014) and prime minister determined by the president.

Legislative branch: under the 2014 constitution, the unicameral system House of Representatives consists of minimum of 450 seats with up to 5 % appointed by the president; members to serve 5-year terms; the process for elected members as stated in Article 102 of the 2014 constitution may be majoritarian, proportional list, or a mixed system.

Judicial branch: mixed legal system based on Napoleonic civil and penal law, Islamic religious law, and vestiges of colonial-era (England) laws; judicial review of the constitutionality of laws by the Supreme Constitutional Court. The highest court(s): Court of Cassation (consists of the court president and 550 judges organized in circuits with cases heard by panels of 5 judges); Supreme Constitutional Court or SCC (consists of the court president and 10 justices); Supreme Administrative Court - the highest court of the State Council (consists of the court president and organized in circuits with cases heard by panels of 5 judges).

I.4 Education

According to the estimation of 2012, adult literacy to the total population was 73.9 %; male literacy 81.7 % and 65.8 % for females. Primary education is compulsory and free (ages 6-12). This followed by three years of intermediate school and three years of secondary school, which is also free but not compulsory. Primary school completion rate is 96 % for both sexes, male's rate is 97.5 % and female rate is 94.5 % (as est. 2009). (United Nation Statistics Division).

University graduates willing to work on office based professional employment and this led to the shortage of skilled labor.

I.5 Health Care

Mortality rates among infants and children from diarrhea and immunization preventable and respiratory infections from 89.5 infants in 1990 to 17.9 in 2012 (per 1000 live in birth). (Source WHO).

About 95% of population has access to care, safe water and sanitation. Egypt does not face a shortage of qualified staff. Insurance coverage has been improved from 8% in 1990 to 59% of population in 2011. Egypt produces over 90% of the pharmaceuticals it consumes. Moreover, Egypt is one of the four countries in the region as a main producer of vaccines. (Egyptian Ministry of health and population).

Despite all the improvements had accomplished in the last few decades, the health care system face critical issues such as:

- Health care system is complicated with large number of public institutions involved in the financing, management and provision of care.

- Poverty rate has been declined over the past thirty years; however, in the last three years (2000–2011) the poverty rate jump from 16% to 25.2% and increased to 34% in some rural areas. (World Bank statistics).
- The lack of adequate monitoring by the ministry of health and population over its budget, investment and planning.
- The poor allocation of workforce between Cairo and other cities; between primary, secondary and tertiary care and among different specialties.
- Egypt became the leading country in the world of road traffic death rate per 100,000 of 41.6.
- The centralized system with low rate of communications and interactions between sectors in Ministry of Health and Population leads to considerable degree of bureaucracy.
- Inefficiencies in the health delivery system

II. Overview of Macroeconomic Activity and Fiscal Position

In 1952, Egypt attained its political independence from British colony and changed its political system from the monarchical system to the republican system. After obtaining independence and during the period of 1954 to 1973, Egypt involved in three wars, which has negative effects on the economic growth because almost resources and revenues appointed to fund military needs during these wars. By 1973, Egypt won the war against Israel, freed its occupied land, and signed a peace agreement with Israel in 1979.

After the last war, Egypt started its economic activity by using economic openness policy and introducing the first law (Law 43 of 1974) which permits foreigners to invest directly in Egypt and establish their own banks and companies.

Because of economic openness policy and peace agreement, Egypt's economy was able to sustain increasable growth national product with average of 8% during 1974 to 1982.

From 1982 to 2010, Egypt tried to strengthen its economy and stimulate it by many ways such as; signing an agreement with IMF in 1991, financial agreement with the world bank to reschedule its debts, liberating the exchange rate specially for U.S. dollar, privatization of state-owned enterprises, etc..

By 2010, Egyptian opposition groups led to a large number of strikes extended throughout all the country influenced by Tunisian revolution, wrapping up with a main request of President Hosny Mubarak should leave his presidential position.

The spread of satisfaction and the sense of inequality among state employees fueled an uprising in the early 2011 in protest against the deteriorations of living and economic conditions. As the result, President Mubarak regime collapsed and Egypt economy entered dark tunnel and its growth held back by prolonged insecurity, political uncertainty, and global slowdown.

For a number of years Egypt has suffered from low and non-inclusive growth and from high unemployment. Since 2011, these problems have been compounded by large fiscal deficits and rising public debt and by external fragility evidenced by loss of foreign exchange reserves. In 2014, Egypt adopted a new constitution and elected a new president who was candid with the electorate on the need to reform the economy. The government has developed a plan centered on structural reform and investment promotion to raise growth and create jobs, and fiscal adjustment to bring the budget deficit and public debt under control. Crucially, the authorities have already begun to implement fuel subsidy reform, raising prices by 40–80 % in July 2014. They have also begun the reforms needed to raise tax revenue and to make Egypt a more attractive destination for investment.

A significantly overvalued exchange rate has undermined competitiveness and depleted international reserves. Weak revenue combined with poorly targeted subsidies and a growing public sector wage bill have resulted in persistent large fiscal deficits and a high level of public debt. Real and potential growth have slowed since 2011 as foreign exchange shortages and the weak business climate deterred investment and impeded productivity improvement and job creation. Regional instability and security concerns have also taken a toll on the economy, especially on tourism. Risks of economic distress increased.

With the liberalization of the foreign exchange (FX) market, the parallel market was eliminated and FX shortages virtually disappeared. The ongoing fuel subsidy reform, wage restraint, and significant revenue gains from the new value-added tax (VAT) underpin fiscal consolidation, which is critical for debt sustainability. Structural reforms to revive growth and employment are progressing well.

Following a build-up of macroeconomic imbalances that had resulted in declining growth, rising debt, and a widening current account deficit, the Egyptian authorities undertook decisive policy actions since the launch of the reform program in November 2016. These efforts are increasingly yielding results in terms of restored market confidence, strengthening growth momentum, a narrowing of budget and current account deficits, and adequate foreign exchange reserves. Sustaining the reform effort will help secure macroeconomic stabilization and unlock Egypt's potential for higher growth and much needed job creation. The reform program received strong approval from the business community, international development partners and foreign investors.

Egypt is progressing with a well-structured program to restore macroeconomic imbalances, address social inclusion priorities, and achieve high, sustainable and well-diversified growth. The government has made clear strides toward regaining confidence in the economy through serious and comprehensive reforms while moving steadily on advancing its political agenda.

II.1 International Environment

II.1.1 Trade Balance and current account

Through the period from 1991 to 2016, Egypt has been started program to reform trade balance by carrying out new regulations to liberate foreign trade with international society, applying unified exchange rate system and floating exchange rate, cut taxes, reduced subsidies, privatization of public sector and liberalized trade and investment. Some industries held widely by the private sector such as; construction, non-financial services, agriculture industries, domestic wholesale and retail trades.

In 2011, Egyptians made their revolution against Mubarak's regime and as a result of the political instability, the economy violently deteriorated. The government was unable to implement any meaningful fiscal consolidation measures. The fiscal deficit rose from 10.6 % in 2011/2012 to 13.7 % in 2012/2013. At the same period, the government spending increased by 24.9 % more than the increasing of revenues by nearly twice the 15 % rise in revenues.

Egypt's Balance of Payments recorded a deficit of USD2.8 billion in FY 2015/2016 compared to a surplus of USD3.7 billion in FY2014/2015. This is mainly attributed to a 53.7% increase in the current account deficit to reach USD18.7 billion against USD12.1 billion, while the capital and financial account registered a 10.7% increase in the net inflow to record USD19.9 billion compared to USD17.9 billion a year earlier.

The sharp increase in the current account deficit is due to the decline in the services surplus by 59.1% (affected by the drop of tourism revenues by 48.9% to USD3.8 billion). Meanwhile, trade balance deficit narrowed by 3.7% due to the decline in global oil prices which affected the Egyptian exports and imports.

Regarding the capital and financial account, Net Foreign Direct Investments (FDIs) in Egypt grew by 7.2% to USD 6.8 billion, on the back of an 18.4% rise in net inflows for green field investments which stood at USD4.5 billion compared to USD3.8 billion a year earlier, and a net inflow of USD1.6 billion in the oil sector.

The Balance of Payments (BOP (achieved an overall surplus of US$ 12.8 billion and a retreat in the current account deficit by 58.6 % during the FY 2017/2018, compared to a surplus of US$ 13.72 billion (5.8 % of GDP) in the FY 2016/2017. This was attributed to the fact that the current account deficit narrowed by 65.7%, as the current account deficit retreated by US$ 8.4 billion to only US$ 6.0 billion (against US$ 14.4 billion in the previous FY). The improvement reflects the continuous positive impact of the currency liberalization decision, as both services surplus rose by 98.1% and net current transfers rose by 21.2%, and the trade deficit stabilized at US$ 37.3 billion. And the capital and financial account unfolded a net inflow of US$ 22.0 billion (compared with US$ 31.0 billion). These developments resulted in an overall BOP surplus of US$ 12.8 billion in FY 2017/2018.

Table 1 displays the balance of payments: current account according to trade balance, receipts, payments, transfers, capital and financial account during the period from 2013/2014 to 2017/2018:

Table 1 Balance of Payments

(Million US$)

Item	2013/2014	2014/2015	2015/2016*	2016/2017*	2017/2018*
Trade Balance	**-34159.3**	**-39060.4**	**-38683.1**	**-37274.8**	**-37276.0**
Export proceeds **	26022.6	22245.1	18704.6	21728.2	25827.0
Petroleum exports	*12355.9*	*8891.9*	*5674.3*	*6589.5*	*8773.0*
Other exports	*13666.7*	*13353.2*	*13030.3*	*15138.7*	*17054.0*
Import payments**	-60181.9	-61305.5	-57387.7	-59003.0	-63103.0
Petroleum imports	*-13246.9*	*-12366.1*	*-9293.6*	*-12015.5*	*-12489.8*
Other imports	*-46935.0*	*-48939.4*	*-48094.1*	*-46987.5*	*-50613.2*
Services Balance	**8274.4**	**10742.9**	**6533.0**	**5614.2**	**11122.4**
Receipts	**17437.2**	**21811.8**	**16079.3**	**15400.1**	**21486.9**
Transportation	9466.0	9850.3	9534.6	7911.2	8707.9
Of which: Suez Canal dues	*5369.1*	*5361.7*	*5121.6*	*4945.3*	*5706.7*
Travel (tourism revenues)	5073.3	7370.4	3767.5	4379.7	9804.3
Government receipts	654.4	1381.5	378.0	776.4	636.7
Others	2243.5	3209.6	2399.2	2332.8	2338.0
Payments	**9162.8**	**11068.9**	**9546.3**	**9785.9**	**10364.5**
Transportation	1717.2	1535.0	1339.1	1332.1	1480.2
Travel	3044.5	3338.2	4091.0	2739.9	2451.5
Government expenditures	1073.9	854.1	777.1	1124.1	1493.5
Others	3327.2	5341.6	3339.1	4589.8	4939.3
Investment Income Balance	**-7262.7**	**-5700.9**	**-4471.7**	**-4568.5**	**-6279.6**
Receipts	194.2	212.8	396.9	497.9	835.4
Payments	7456.9	5913.7	4868.6	5066.4	7115.0
Of which: Interest paid	*652.5*	*643.6*	*752.0*	*1231.9*	*1616.1*
Current Transfers	**30367.9**	**21875.8**	**16790.7**	**21835.1**	**26470.9**
Private (net),	18447.7	19205.4	16689.2	21686.1	26264.7
Of which: Remittances of Egyptians working abroad (1)	*18518.7*	*19330.0*	*17077.4*	*21816.3*	*26392.9*
Official (net)	11920.2	2670.4	101.5	149.0	206.2
Balance of Current Account	**-2779.7**	**-12142.6**	**-19831.1**	**-14394.0**	**-5962.3**
Capital & Financial Account	**5189.5**	**17928.9**	**21176.7**	**31015.1**	**21996.5**
Capital Account	**194.1**	**-122.9**	**-141.4**	**-113.3**	**-150.7**
Financial Account	**4995.4**	**18051.8**	**21318.1**	**31128.4**	**22147.2**
Direct investment abroad	-326.6	-223.3	-164.2	-175.1	-271.2
Direct investment in Egypt (net)	4178.2	6379.8	6932.6	7932.8	7719.5
Portfolio investment abroad	65.9	47.2	192.1	208.4	-20.8
Portfolio investment in Egypt (Net)	1237.2	-638.6	-1286.8	15985.3	12094.8
Of which: Bonds	*926.7*	*-1147.5*	*-1444.8*	*5491.5*	*5293.2*
Other Investments (Net)	**-159.3**	**12486.7**	**15644.4**	**7177.0**	**2624.9**
Net Borrowing	**207.2**	**5036.2**	**7102.7**	**9699.2**	**10278.8**
Medium- and Long-Term Loans	**-956.2**	**-482.5**	**-186.3**	**5156.8**	**6738.5**
Disbursements	1153.4	1753.5	2523.4	7641.1	8846.4
Repayments	-2109.6	-2236.0	-2709.7	-2484.3	-2107.9
Medium- and Long-Term Suppliers' Credit	**-56.3**	**257.9**	**1505.3**	**2795.1**	**1118.5**
Disbursements	8.1	313.0	1560.7	2912.2	1313.6
Repayments	-64.4	-55.1	-55.4	-117.1	-195.1
S .T. Suppliers' Credit (Net)	**1219.7**	**5260.8**	**5783.7**	**1747.3**	**2421.8**
Other Assets	**-2278.1**	**-1220.6**	**-3476.9**	**-12095.7**	**-4511.9**
CBE	-44.6	-28.0	-104.4	-27.5	-116.4
Banks	661.5	4774.3	2092.1	-9462.5	2161.7
Others	-2895.0	-5966.9	-5464.6	-2605.7	-6557.2
Other Liabilities	**1911.6**	**8671.1**	**12018.6**	**9573.5**	**-3142.0**
CBE	1903.7	5474.1	5857.7	8128.6	-3879.2
Banks	7.9	3197.0	6160.9	1444.9	737.2
Net Errors & Omissions	**-931.2**	**-2061.4**	**-4158.6**	**-2903.9**	**-3246.5**
Overall Balance	**1478.6**	**3724.9**	**-2813.0**	**13717.2**	**12787.7**
Change in CBE Reserve Assets (Increase -)	**-1478.6**	**-3724.9**	**2813.0**	**-13717.2**	**-12787.7**
Indicators (%)					
Merchandise Exports / Merchandise Imports	43.2	36.3	32.6	36.8	40.9
Service Receipts / Service Payments	190.3	197.1	168.4	157.4	207.3
Current Receipts / Current Payments	96.4	84.5	72.4	80.5	92.6
Trade Balance / GDP	-11.2	-11.7	-11.5	-15.9	-14.9
Current Account / GDP	-0.9	-3.6	-5.9	-6.1	-2.4
Overall Balance / GDP	0.5	1.1	-0.8	5.8	5.1
FDI in Egypt (net) / GDP	1.4	1.9	2.1	3.4	3.1

Sources: Central Bank of Egypt

* Provisional.
** Including exports and imports of free zones.

II.1.2 Exports

gypt exports to other countries consist of oil and gas products and non-oil products. Exports proceeds by degree of processing of all merchandise groups increased in the FY2017/2018 by 18.9% to US$ 25.8 billion; raw material increased by 18.9%; fuel, mineral oils and products by 31.9%; semi-finished goods by 7.4%; and finished goods by 14.3%.

Fuel, Mineral Oils and products (37.7% of total exports) inched up 31.9% to US$ 8.9 billion (from US$ 6.7 billion), mainly because of the rise in the exports of crude oil (51.3% of the group's total exports), to US$ 4.6 billion. Exports of oil products (46.6% of the group's total exports) increased by 53.8% to US$ 4.1 billion.

Exports of finished goods (41% of total exports) scaled up 14.3% to US$ 10.5 billion from US$ 9.2 billion), this rise results from higher exports of some products, mainly, phosphate; textiles; household electrical appliances; ready-made clothes; wires and cables. Exports of semi-finished goods (16.7% of total exports) moved up 7.4% to US$ 4.3 billion (from US$ 4.0 billion), pushed by exports of ethylene-propylene polymer.

Exports of raw materials (7.6% of total exports) rose 18.9% respectively to US$ 1.9 billion (from US$ 1.6 billion), particularly exports of fresh, chilled, or cooked vegetables; fresh or dried fruits.

The Egyptian's authorities are launching a wide-ranging structural reform program. Key among the measures is a new licensing regime, which will include a one-stop shop. The bankruptcy and liquidation procedures will be simplified and a new insolvency law adopted. An efficient collateral registry will be developed to facilitate access to finance. To improve export performance, the authorities will develop an action plan to address bottlenecks to the growth of nonoil exports. To address high unemployment, they are developing specialized training programs for youth and intermediation programs, and will increase spending on public nurseries to support higher female labor force participation. During 2017, the number of documents required to export was reduced from 9 to 5, and to import from 11 to 6, and a further reduction is targeted in 2018 that aims to reduce the time to export to 2 days.

Further, the government will develop: a collateral registry to facilitate access to finance, which is among top complaints of SMEs; an action plan to rationalize the export-promotion regime and minimize non-tariff barriers to trade; and job intermediation schemes and specialized training programs for youth.

II.1.3 Imports

In the fiscal year 2017/2018, imports ascended by 6.9% to US$ 63.1 billion (from US$ 59.0billion), because of the rise in the imports of intermediate goods by 25.5%; fuel, mineral oils and products by 5.4%; consumer goods by 2.8%; and investment goods by 1.4%. Conversely, imports of raw materials have decreased by 4.3%.

Imports of intermediate goods (31.3% of total imports) raised by 25.5% to US$ 19.7 billion (from US$ 15.7 billion), due to the higher imports of spare parts for machines and appliances; and polypropylene.

Imports of consumer goods (20.6% of total imports) increased by 2.8% to US$ 12.9 billion compared to US$ 12.6 billion) on account of:

- The imports of non-durable goods increased by 3.7% to US$ 10.2 billion (from US$ 9.8 billion), mainly in the imports of textiles; meat and offal; tea; live, fresh, chilled or dried fish; and dairy products.

- The imports of durable goods decreased by 0.3% to US$ 2.7 billion, as a result of the lower imports of household electrical appliances; passenger vehicles; and televisions.

Imports of investments goods (14.1% of total imports) leveled up with 1.4% to US$ 8.9 billion (from US$ 8.8 billion), there was no much increase due to the decline in the imports of liquid and air pumps; communication and telephone equipment; data treatment computers; and cranes and bulldozers.

Imports of fuel, mineral oils and products (20.7% of total imports) scaled up by 5.4% to US$ 13.0 billion (from 12.3 billion), due to the 33.5% moved up in crude oil.

Imports of raw materials (9.4% of total imports) dropped by 4.3% to be US$ 5.9 billion (form US$ 6.1 billion) due to the lower imports of wheat; iron ore; and raw cane sugar. Conversely, imports of maize have decreased.

Table 2 displays the total imports and exports of commodities products with the world from 2013/2014 to 2017/2018:

Table 2 Imports and Exports and Imports by Geographical Distribution from 2013/2014 to 2017/2018:

(US$ mn)

	2013/2014	2014/2015	2015/2016	2016/2017*	2017/2018*
Total Exports **	**26022.6**	**22245.1**	**18704.6**	**21728.2**	**25827.0**
EU	10069.0	7473.8	6034.5	7031.9	8979.1
Other European countries	1371.0	1300.8	1325.3	1712.1	2126.6
Russian Federation & C.I.S.	183.9	511.7	244.3	213.8	301.2
USA	2510.6	2185.8	1275.2	1810.3	2080.7
Arab countries	5472.4	5514.3	5749.7	6409.0	6037.7
Asian countries (excluding Arab countries)	3467.4	3110.1	2064.4	1740.4	2678.9
African countries (excluding Arab countries)	485.3	498.2	508.2	527.9	670.8
Australia	16.0	25.5	21.3	37.8	33.5
Other countries and regions	2447.0	1624.9	1481.7	2245.0	2918.5
Total Imports**	**60181.9**	**61305.5**	**57387.7**	**59003.0**	**63103.0**
EU	16229.0	17815.3	17415.7	15894.0	16708.8
Other European countries	4287.4	4471.2	4072.4	4182.2	4258.2
Russian Federation & C.I.S.	2633.0	2977.9	3950.6	4295.2	4833.3
USA	4167.9	3904.2	2587.5	2906.0	2940.6
Arab countries	16679.0	13612.5	10423.7	10971.1	12370.7
Asian countries (excluding Arab countries)	12158.6	13301.2	11402.4	10749.3	12558.5
African countries (excluding Arab countries)	476.0	553.8	735.4	795.6	697.3
Australia	257.2	365.7	345.9	233.7	279.9
Other countries and regions	3293.8	4303.7	6454.1	8975.9	8455.7

Sources: Central Bank of Egypt
* Provisional.
** Including exports and imports of free zones.

II.1.4 Capital and financial account

The capital and financial account decreased by 29 % despite the withdrawal of foreign investors from the emerging markets, registering a net inflow of US$ 22.0 billion in FY 2017/2018, compared to US$ 31 billion during the last fiscal year, as follows:

- Total FDI inflows in Egypt recorded US$ 13.2 billion, while total outflows reached US$ 5.4 billion. Accordingly, net FDI in Egypt amounted to US$ 7.7 billion (inflows), mainly due to the net investment of US$ 4.5 billion in the oil sector.
- Portfolio investment in Egypt retreated, registering a net inflow of US$ 12.1 billion (versus US$ 16.0 billion). This was largely ascribed to the decrease in foreigners' investments in Egyptian TBs, recording net purchases of US$ 6.5 billion (against US$ 10.0 billion).

- Medium- and long-term loans and facilities recorded a net disbursement of US$ 7.9 billion (against US$ 8.0 billion).
- Net change in the CBE's liabilities to the external world reversed to a net external repayment of US$ 3.9 billion in the year under review (from a net disbursement of US$ 8.1 billion) causing a decline in the CBE's liabilities to the external world.

The decline in the capital and financial account exceeded the increase in current account which recorded US$ -6 billion in the FY 2017/2018, compared to US$ -14.4 billion in the last FY 2016/2017. This is attributed to the increase in the services balance surplus to record US$ 11.1 billion (4.4 % of GDP) during the FY 2017/2018, compared to a lower surplus of US$ 5.6 billion (2.4 % of GDP) in the period of comparison, coupled by an increase in workers' remittances by US$ 4.6 billion to record US$ 26.4 billion compared to US$ 21.8 billion in the period of comparison. Which covered the stability in trade balance deficit that remained at US$ 37.3 billion (-14.85 % of GDP) during the FY 2017/2018, compared to the same value last fiscal year. Table 3 illustrates the sectoral distribution of total FDI flows to Egypt:

Table 3 The Sectoral distribution of total FDI flows to Egypt

Activity Sector	July/Sept. 2015/2016*	Share (%)	2016/2017*	Share (%)
Total FDI Flows to Egypt	2904.7	100.0	3431.0	100.0
1- Oil	1552.1	53.4	1813.5	52.9
2- Manufacturing	235.6	8.1	50.4	1.5
3- Agriculture	0.3	0.0	0.2	0.0
4- Construction	6.8	0.3	33.5	1.0
5- Services, of which:	270.8	9.3	375.4	10.9
Real estate	39.8	1.4	24.7	0.7
Finance	8.1	0.3	148.7	4.3
Tourism	0.8	0.0	0.9	0.0
Communications & IT	53.1	1.8	1.9	0.1
Other services	169.0	5.8	199.2	5.8
6- Undistributed	839.1	28.9	1158.0	33.7

Sources: Central Bank of Egypt
* Provisional.

II.1.5 International finance

According to the international finance data during July/Sept. 2016/2017, international finance recorded a net inflow of US$ 4.0 billion (against US$ 6.4 million in the previous corresponding period). This was an outcome of the following developments:

- Net resources from abroad (inflows) rose to US$ 5.1 billion (from US$ 1.1 billion). Most of the increase was due to the rise in net external borrowing by US$ 2.9 billion and FDI in Egypt by US$ 515.2 million.
- Net outflow of interest payments and profit transfers retreated by US$ 11.6 million to US$ 1.1 billion.

Table 4 illustrates the Net International Finance from Abroad.

Table 4 Net International Finance from Abroad:

(US$ mn)

July/Sept.	2015/2016	2016/2017*	Change + (-)
Net International Finance from Abroad (A+B)	**6.4**	**4024.4**	**4018.0**
A- Resources from Abroad (inflow)	**1122.6**	**5129.0**	**4006.4**
1- Official grants (net)	21.9	33.8	11.9
2- External borrowing (net)**	1154.4	4098.2	2943.8
3- FDI in Egypt (net)	1357.0	1872.2	515.2
4- Portfolio investment in Egypt (net)	-1405.8	-840.9	564.9
5- FDI abroad	-40.3	-62.0	-21.7
6- Portfolio investment abroad (net)	35.4	27.7	-7.7
B- Interest Payments and Profit Transfers (outflow)	**-1116.2**	**-1104.6**	**11.6**
1- Net profit transfers of investment in securities	-46.0	-28.3	17.7
2- Net profit transfers of FDI	-936.9	-907.2	29.7
3- Interest on external loans and facilities	-143.2	-213.1	-69.9
4- Net interest on deposits	9.9	44.0	34.1

Sources: Central Bank of Egypt
* Provisional.
** Including non-resident deposits.

II.1.6 Foreign direct investment (FDI) in Egypt

Egypt's net FDI recorded an inflow of US$ 13.2 billion in the FY 2017/2018 (from US$ 13.4 billion in the preceded year). Investment inflows decreased by US$ 213.3 million (2.7%). the fall in the investment inflows regarded to the lower investments from EU to be US$ 7.9 billion (from US$ 8.7 billion in the previous year).

Table 5 introduces the geographical distribution of net FDI to Egypt form the FY 2013/2014 to year 2017/2018. The bulk inflows came from EU area by 60.4% of the total inflows; followed by USA with 17.1%; Arab countries by 14.6% and the rest of the world by 7.9% in year 2017/2018.

Table 5 Geographical distribution of FDI in Egypt

(US$ mn)

Items	2013/2014	2014/2015	2015/2016	2016/2017*	2017/2018*
Net Foreign Direct Investment	4178.2	6379.8	6932.6	7932.8	7719.5
Inflows	10855.8	12546.2	12528.7	13366.1	13163.1
USA	2230.3	2115.8	883	1832.9	2244.4
EU	6610	6522.5	7876.7	8710.5	7952.3
Arab Countries	1290.1	2667.5	2277.7	1800	1925.5
Other Countries	725.4	1240.4	1491.3	1022.7	1040.9
Outflows	-6677.6	-6166.4	-5596.1	-5433.3	-5443.6

Source: Central Bank of Egypt
* Provisional

II.1.7 Exchange rate and exchange system

The Central Bank of Egypt (CBE) has been working on addressing distortions in the foreign exchange market to achieve monetary stability, which is aimed at restoring confidence in the foreign exchange market, as well as the banking sector, and creating a conducive investment climate to unleash the potential of the Egyptian economy. Towards that end, the CBE devised a comprehensive plan to achieve these objectives.

- The foreign exchange system reform has recently witnessed several steps, the last of which was lifting the limits on cash deposits and withdrawals that were imposed in February 2015. These steps were vital to resolve market imbalances and allow an orderly foreign exchange market to re-attract foreign exchange inflows through the official banking sector channels in a regular and sustained manner after a year of interruptions.
- On March 14, 2016, the CBE decided to adopt a more flexible exchange rate regime that better reflects the underlying forces of supply and demand and, in turn, lead to greater transparency and foreign exchange liquidity through attracting greater investments and the correction of asset prices.

The CBE affirms that it will continue to closely monitor developments and will not hesitate to use all its tools and authority to maintain an orderly foreign exchange market and ensure price stability over the medium-term.

As a result of this policy, the Egyptian pound appreciated against US dollars, and moved from 7.7 LE per 1$ to be 17.8LE per 1$. The Egyptian pound appreciated against other main currencies such as EURO and British Pound. On the other hand the Net International Reserves (NIR) shows enormous improvement, inching up to a record high US$ 44.501 billion during October 2018 (covering 8.5 months of imports), compared to US$ 44.459 billion last month (covering 8.5 months of imports), and compared to a lowest level of US$ 13.4 billion at end of March 2013 (covering 3.5 months of imports).

Table 6 shows the average of exchange rate between Egyptian pound and main other currencies from 2014 to 2018.

Table 6 Average of Exchange Rate between Egyptian pound and other currencies from 2014 to 2018:

(LE)

Item	2014	2015	2016	2017	2018
Us dollar	7.078	7.707	10.086	17.893	17.878
Euro	9.470	8.493	11.099	20.206	21.139
Pound Sterling	11.717	11.770	13.487	23.048	23.906

Source: Central Bank of Egypt

II.1.8 External debt

External debt for public and private with all maturities inched up by US$ 13.6 billion to US$ 92.6 billion at the end of June 2018 (compared with US$ 79 billion in the preceding year, June 2017). The external debt increased by 17.2% from 2017 to 2018 as loans increased to US$ 33.4 billion end of June 2018, compared to US$ 25.9 billion at end of June 2017 to fund the disbursement of loans, facilities, deposits and bonds.

The ratio of external debt to GDP rose to 37% (from 33.6% last year) as at the end of June 2018. External debt per capita raised to be US$ 883.9 million (compared with US$ 754.1 million in the preceding year). In addition, the ratio of debt service to export proceeds of goods and services and to current receipts increased to 37% and 28% respectively.

Table 7 presents the main external debt indicators at the end of June from year 2014 to year 2018:

Table 7 External Debt Indicators

End of June

Items	2014	2015	2016	2017*	2018*
Total External Debt **	46067.1	48062.9	55764.4	79032.8	92643.9
Total Debt Service (during the period)	3198.9	5609.1	5084.7	7320.1	13227
Indicators (%)					
External Debt /GDP #	15.1	14.4	16.6	33.6	37
Debt Service /Exports G&S (Annually)	7.4	12.7	14.6	19.7	28
Debt Service /Current Receipts (Annually)	4.3	8.5	9.8	12.3	17.7
Interest Payments /Exports G&S (Annually)	1.6	1.5	2.4	3.3	4.6
Interest Payments /Current Receipts (Annually)	1	1	1.6	2	2.9
External Debt per capita (US$) ##	506.4	513.5	573.1	754.1	883.9
Medium- & Long-term External Debt / Total External Debt	92.1	94.6	87.4	84.5	86.7
Short-term External Debt / Total External Debt	7.9	5.4	12.6	15.5	13.3
Short-term External Debt / Net International Reserves	21.9	12.8	40	39.2	27.8
Government External Debt / Total External Debt	63.1	53.5	43.8	44.1	51.4
Government External Debt / GDP #	9.5	7.7	7.3	14.8	19

Source: Central Bank of Egypt

* Provisional.

** The difference from World Bank data is in short-term debt.

The annual GDP is calculated in US dollar by having the sum total of the quarterly GDP released by the Ministry of Planning, Monitoring and administrative Reform after being evaluated in US dollar based on the average exchange rate for each quarter.
External debt per capita has been updated according to the latest population census for 2017.

II.2 Domestic Environment

II.2.1 Gross Domestic Product (GDP)

Real GDP growth (at factor cost) increased to 3.6 % in year 2016/2017 (from 2.3 % in FY 2015/2016). Real GDP growth at market prices reached 4.2 % in year 2016/2017, against 4.3 % in the year 2015/2016. Real GDP growth (at factor cost) picked up to 5.2 % during FY17/2018, compared to 3.6 % during the last fiscal year. Table 8 shows the real GDP rates in FY 2015/2016 and 2016/2017:

Table 8 Real GDP *

Item	Value (in LE bn)		Real GDP Growth %	
	2015/2016	2016/2017	2015/2016	2016/2017
GDP at Factor cost and constant price	1906.1	1974.2	2.3	3.6
Indirect taxes (net)	12.0	24.1	-	-
GDP at market prices	1918.1	1998.3	4.3	4.2

Source: Central Bank of Egypt
* The base year is 2011/2012.

On the supply side, real GDP at factor cost slowed down to only 1.7 % during Q1 of FY 2016/2017, compared with 3.1 % in the previous corresponding period. This was attributed to the lower contributions of tourism (-0.9 point against -0.2 point); the general government (0.5 point against 0.9 point); electricity (nil against 0.2 point); extractions (-0.4 point against -0.3 point); and Suez Canal (nil against 0.1 point). Add to this the higher contribution of communications sector to 0.3 point against 0.2 point. Meanwhile, the contributions of other sectors combined remained unchanged at 2.2 points.

As regards the private and public sectors' contributions to real GDP growth (1.74 %) in Q1 of FY 2016/2017, the former accounted for the largest share (1.66 % point) which is lower than that recorded in Q1 2015/2016 (1.8 point). This came primarily as a combined result of the lower contribution of tourism sector (-0.9 point against -0.2 point) and the higher contribution of manufacturing sector (0.2 point against -0.4 point). Moreover, the contributions of other sectors combined remained unchanged at 2.4 % points in the period under review.

On the other hand, the share of public sector in real GDP growth significantly decreased to 0.08 % point (against 1.29 point). This was mainly ascribed to the decline in the contributions of the manufacturing sector (-0.5 point against 0.1 point); the general government (0.5 point against 0.9 point); extractions (-0.3 point against -0.2 point); and Suez Canal (nil against 0.1 point). Meanwhile, the contributions of other sectors combined remained unchanged at 0.4 % point.

On the demand side, the domestic demand (consumption and investment) continued to have the lion's share in real GDP growth at market prices (3.4 %) in Q1 2016/17. Its contribution amounted to 3.8 points (against 7.2 points in the same quarter a year earlier). Meanwhile, the share of external demand (exports of goods and services less imports of goods and services) stood at negative 0.4 % point (against negative 2.1 points), as imports increased by 2.5 %, outpacing as such the rise in exports (only 0.63 %).

The share of domestic demand (3.8 % points) was due to the contributions of both final consumption (government and private) that registered 2.0 % points (against 6.2 points) and capital formation (including change in stock) that reached 1.8 point (against 1.0 point).

Total investments (at current prices) augmented by 25.5 % during Q1 of FY 2016/2017 (against 20.7 % a year earlier), to register LE 98.0 billion (against LE 78.1 billion). The private sector implemented 69.2 % of the total (against 65.7 percent), whereas the public sector implemented 30.8 % (against 34.3 %).

The relative distribution of total investments indicates that productive services (transportation and storage; communications; information; Suez Canal; wholesale and retail trade; financial intermediation; social insurance and solidarity; and tourism) accounted for 29 %; real estate (20.3 %); extractions (15.4 %); social services (education, health, and sanitation) (13.6 %); and manufacturing (10 %). Moreover, the contributions of agriculture, irrigation, reclamation; electricity; water and construction & building combined remained almost unchanged at 11.7 %. Table 9 demonstrates the GDP at Factor Cost by Economic Activity - Constant Prices at 2011/2012 prices:

Table 9 GDP at Factor Cost by Economic Activity - Constant Prices at 2011/2012 prices:

(mn LE)

Sectors	2011/2012*	2012/2014*	2013/2014*	2014/2015*	2015/2016*	2016/2017*
Agriculture, Forestry & Fishery	188785.0	194453.1	200299.1	206451.1	212844.6	219743.3
Mining	278234.0	271932.7	261618.9	250996.5	237576.6	233309.6
Manufacturing Industries	270723.1	276861.1	290076.7	298943.5	301204.5	307402.7
Real Estate Activities	153041.9	158062.3	167866.6	173511.0	181515.2	190898.3
a-Real Estate Property	106337.2	110096.6	117014.4	121258.3	126794.5	133630.1
b- Business Services	46704.7	47965.7	50852.2	52252.7	54720.7	57268.2
General Government	150520.6	156051.6	164266.6	176629.0	185446.7	190959.0
Education, Health & Personal Services	79430.9	81739.0	85753.2	88347.8	92038.7	95699.1
Total GDP	1713146.0	1751312.5	1802400.1	1863168.7	1906133.9	1974185.9

Source: Egyptian Central Bank

II.2.2 Labor Force, Employment and Unemployment

According to CAPMAS quarterly Labor Force Sample Survey (LFS) for Q1 (July/Sept. 2016/2017), the size of the labor force increased by 814.0 thousand persons or 2.9% (compared with Q1 of 2015/2016), to reach 28.8 million persons. Similarly, the number of employed persons mounted by 770.0 thousand or 3.2%, to stand at 25.2 million. The sector of agriculture and fishing continued to acquire the majority of the total number of employed 20.5%, followed by wholesale and retail trade 13.3%, construction and building 13.1%, manufacturing 12.6%, and education 8.1%.

Against this background, the number of unemployed persons remained unchanged at 3.6 million persons (the same figure of the period of comparison).

As a result, the unemployment rate dropped to 12.6% of the total labor force (from 12.8%). It continued to decline reaching 11.9% and 11.3% during Q1 and Q2 of FY 2017/2018, respectively.

It is worthy to note that jobless males decreased from 9.3% to 8.7%, while jobless females rose from 24.9% to 25.9%. Data showed also that 88.4% of total jobless persons are holders of intermediate, above intermediate, university and post graduate degrees.

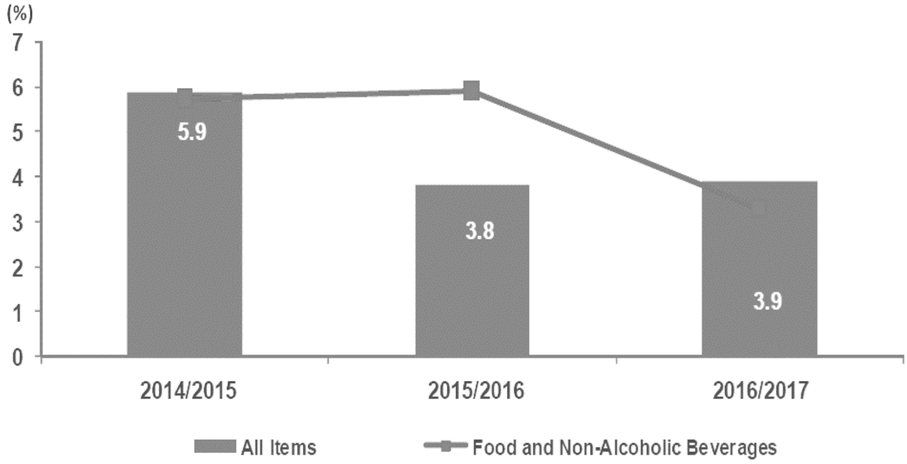
II.2.3 Inflation

According to the data published by the Central Agency for Public Mobilization and Statistics, the annual headline Consumer Price Index (CPI) (urban) picked up by 29.8 % in FY 2016/2017 (versus 14.0 % a year earlier). This pickup was ascribed to the measures taken by the State under the economic reform program, particularly liberalizing the LE exchange rate, enforcing the Value Added Tax (VAT) Law, and raising fuel prices within the framework of reforming the subsidy system.

This slight increase in headline inflation was mainly due to the higher contributions of some groups, namely; clothing and footwear; restaurants and hotels; miscellaneous goods and services; housing, water, electricity, gas and fuel; transportation; and culture and recreation. These groups combined contributed a total of 1.6 % point (versus 0.7 point). Add to this the higher contribution of alcoholic beverages and tobacco (0.6 point against nil).

However, the rise in inflation was held back by the decline in the contributions of food and beverages to 1.6 point (against 2.8 points) and healthcare (nil against 0.2 point), whereas the share of furnishings, household equipment and routine maintenance remained stable at 0.1 point. The following figure 1 illustrates the annual rates of change in headline consumer price index (CPI) % food and non-alcoholic beverages (Urban) (Jan 2010=100) July/Sept.

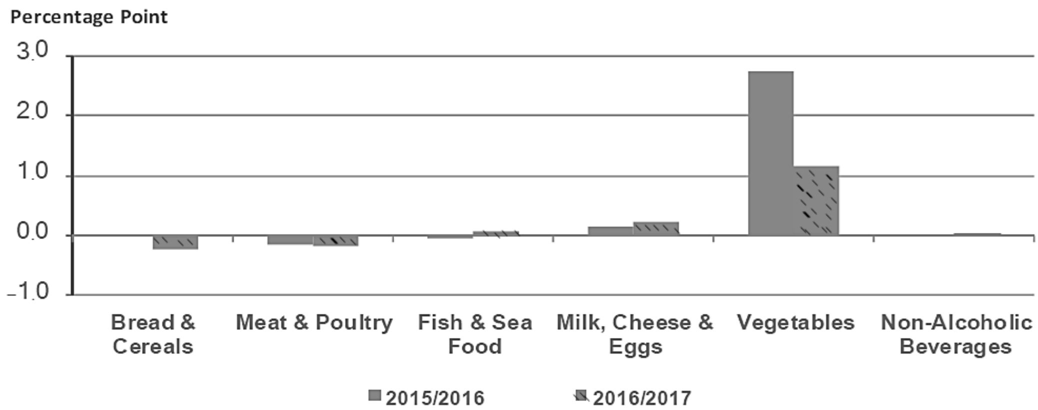
Figure 1 illustrates the annual rates of change in headline consumer price index (CPI) % food and non-alcoholic beverages (Urban) (Jan 2010=100) July/Sept:



Source: Central Bank of Egypt

The drop in the share of food and beverages from 2.8 points to 1.6 point came mainly on the back of the lower contributions of both vegetables (1.2 point against 2.8 points); and cereals and bread (negative 0.2 point against nil).the following figure 2 contribution of main food items to annual headline inflation during July/Sept for year 2015/2016 and 2016/2017:

Figure 2 contribution of main food items to annual headline inflation during July/Sept.



Source: Central Bank of Egypt

The following table illustrates CPI change Rates and contributions of main CPI groups in headline inflation in the periods of review and comparison.

Table 10 CPI change Rates and contributions of main CPI groups in headline inflation in the periods of review and comparison:

(Jan. 2010 = 100)

Main CPI Groups	Relative Weight	Inflation Rate (%)		Share in Headline Inflation (% point)	
		2015/2016	2016/2017	2015/2016	2016/2017
General Index	100.0	3.8	3.9	3.8	3.9
Food & non-alcoholic beverages	39.9	5.9	3.3	2.8	1.6
Housing, water, electricity & fuel	18.4	3.5	4.6	0.5	0.6
Healthcare	6.3	4.1	0.0	0.2	0.0
Transportation	5.7	0.4	3.3	0.0	0.1
Clothing and footwear	5.4	1.1	4.6	0.0	0.2
Education	4.6	0.0	0.0	0.0	0.0
Restaurants and hotels	4.4	2.5	5.9	0.1	0.3
Furnishings, household equipment & routine maintenance	3.8	2.4	2.8	0.1	0.1
Miscellaneous goods and Services	3.7	0.4	9.3	0.0	0.2
Telecommunications	3.1	0.0	1.7	0.0	0.0
Culture and recreation	2.4	5.3	7.5	0.1	0.2
Alcoholic beverages and Tobacco	2.2	0.0	15.6	0.0	0.6

Source: Central Bank of Egypt

II.2.4 Monetary Policy

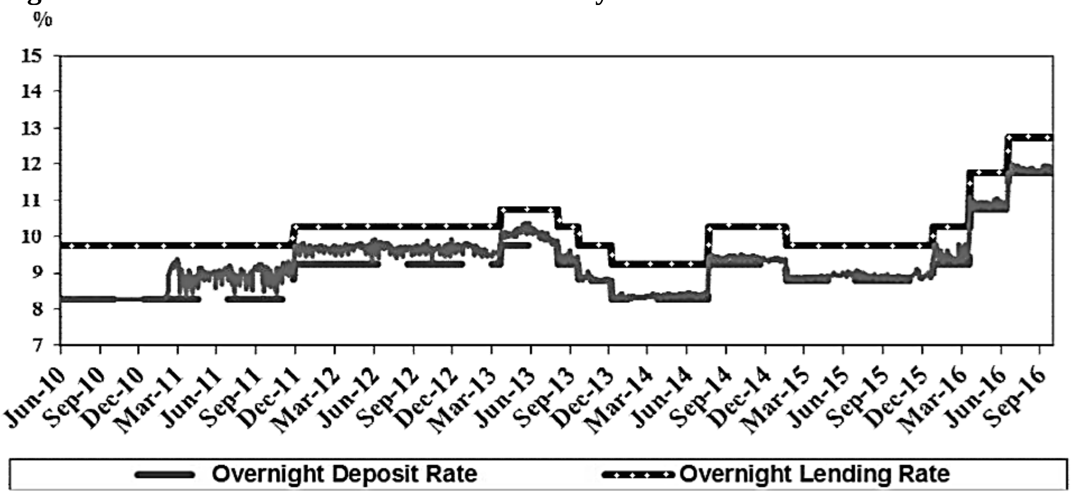
As the ultimate objective of the monetary policy is price stability, the CBE seeks to bring inflation to an appropriate and stable level conducive to building confidence, stimulating investment and achieving the targeted economic growth.

II.2.4.1 Interest rate

The overnight interbank interest rate is considered the operational target of the monetary policy, 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 MPC's decisions in the period in question affected the overnight interbank interest rates. Given the continuous increase in liquidity levels at the banking system, the weighted average of the overnight interbank interest rate moved close to the corridor floor rate, as illustrated in the following Figure.

Figure 3 O/N Interbank Interest Rate and Policy Rate:



Source: Central Bank of Egypt

The MPC's decisions also affected the interest rates in the money market that trended upwards as shown in the following table:

Table 11 the interest rates in the money market:

Month	June 2016 (%)	September 2016 (%)
Deposits		
More than one month and up to three months	7.5	8.1
More than three months and up to six months	8.2	8.6
More than six months and up to one year	8.9	9.2
Loans*		
For one year or less	13.4	13.9

Source: Central Bank of Egypt

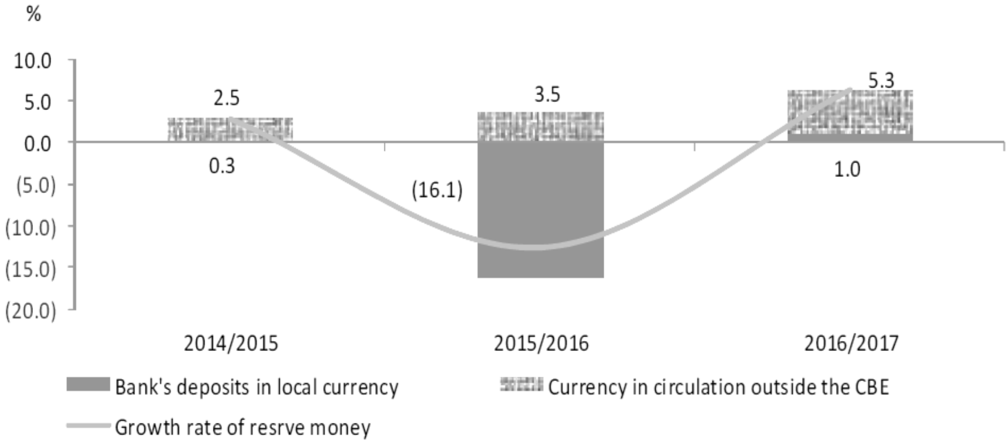
* The interest rate on corporate loans after the application of Domestic Money Monitoring System (DMMS).

II.2.4.2 Money Reserve (M0)

Reserve money is considered the base of money in its broader definition and is also known as the monetary base or high-powered money. It is composed of money in circulation outside the CBE and local currency deposits of banks therewith. The counterpart assets of reserve money are made up of the CBE's net foreign assets and net domestic assets. The latter includes net claims on both the government and banks, and net balancing items.

At the end of Sept. 2016, reserve money reached LE 508.2 billion, up by LE 30.1 billion or 6.3 % during July/Sept. 2016/2017 (against a retreat of LE 61.4 billion or 12.6 % in the previous corresponding period). The rise in reserve money was reflected in the pickup in both currency in circulation outside the CBE by LE 25.2 billion or 6.9 %, to LE 393.7 billion or 77.5 % of reserve money; and banks' local currency deposits at the CBE by LE 4.9 billion or 4.4 %, to LE 114.5 billion at end of Sept. 2016. The following figure shows the contribution of the components of reserve money to its change during July/Sept.

Figure 4 shows the contribution of the components of reserve money to its change during July/Sept:



Source: Central Bank of Egypt

The following table shows reserve money and counterpart assets.

Table 12 Reserve Money and Counterpart Assets derived from the CBE's balance sheet:

(LE mn)

Items	Balances at end of Sept. 2016	Change during July/Sept. + (-) 2015/2016 Value	2015/2016 %	2016/2017 Value	2016/2017 %
A- Reserve Money	**508167.0**	**-61445.0**	**-12.6**	**30091.0**	**6.3**
- Currency in circulation outside the CBE	393701.0	16839.0	5.4	25242.0	6.9
- Banks' local currency deposits	114466.0	-78284.0	-45.4	4849.0	4.4
B- Counterpart Assets	**508167.0**	**-61445.0**	**(12 .6)**	**30091.0**	**6.3**
Net Foreign Assets	**-57186.0**	**-29771.0**	**-117.8**	**-12323.0**	**27.5**
Foreign assets	167856.0	-25305.0	-17.1	17913.0	11.9
Foreign liabilities	225042.0	4466.0	3.6	30236.0	15.5
Net Domestic Assets	**565353.0**	**-31674.0**	**-6.9**	**42414.0**	**8.1**
Net claims on government	668145.0	72873.0	13.9	48735.0	7.9
Net claims on banks	87607.0	29854.0	-113.4	27986.0	46.9
Net balancing items	-190399.0	-134401.0	363.6	-34307.0	22.0

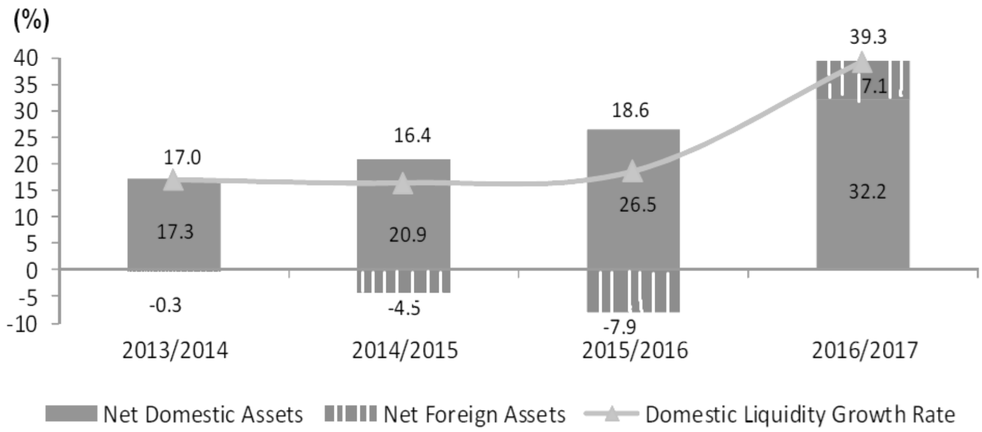
Source: Central Bank of Egypt

The breakdown of currency in circulation by denomination revealed a rise in the relative importance of the LE 200 note from 52.6 % at end of June 2016 to 53.2 % at end of Sept. and that of the LE 100 note from 35.9 % to 36.0 percent. Conversely, the relative importance of the LE 50 note retreated to 7.4 % (from 7.9 percent), and that of the medium denominations (LE 5, 10, and 20) to 2.9 % (from 3.1 percent). As a result, average value of the note increased to LE 59.41 at end of September 2016 (from LE 57.78 at end of June).

II.2.4.3 Domestic Liquidity (M2)

Domestic liquidity (M2) consists of currency in circulation outside the banking system and non-government deposits at banks (in both local and foreign currencies). In FY 2016/2017, domestic liquidity grew by LE 823.7 billion or 39.3 % (or by LE 470.3 billion or 22.5 % excluding the effect of the exchange rate liberalization on the 3rd of November 2016), against LE 329.0 billion or 18.6 % a year earlier. This brought total domestic liquidity to LE 2918.2 billion (down to LE 2564.8 billion when excluding the effect of the exchange rate liberalization) representing 84.1 % of the GDP for FY 2016/2017. Such a rise was a dual effect of the increase in both net domestic assets and net foreign assets. The former made a positive contribution of 32.2 % points to domestic liquidity growth, and the latter made a positive contribution of 7.1 points. The following figure illustrate the domestic liquidity growth by components during FY 2013/2014 to 2016/2017.

Figure 5 Domestic liquidity growth by components during FY 2013/2014 to 2016/2017:



Source: Central Bank of Egypt

II.2.4.4 Banks

The aggregate financial position of registered banks operating in Egypt (38 in number) posted LE 4420.9 billion at end of June 2017, up by LE 1574.8 billion or 55.3 % in FY 2016/2017, well above the figures of the previous FY 2015/2016 (LE 647.1 billion or 29.4 %).

Roughly 57.9 % of the rise on the liabilities side emanated from deposits at banks which grew by LE 911.7 billion or 43.1 %, posting LE 3027.8 billion. Increases were also observed in:

(i) Obligations to banks in Egypt (including the CBE) by LE 225.6 billion.
(ii) Banks' equities by LE 150.5 billion.
(iii) Obligations to banks abroad by LE 108.5 billion.
(iv) Bonds and long-term loans by LE 75.4 billion.
(v) Banks' provisions by LE 41.0 billion.

The following table shows the change in liabilities in FY 2015/2016 and 2016/2017.

Table 13 Change in Liabilities in FY 2015/2016 and 2016/2017:

(LE mn)

Items	Change in FY + (-)			
	2015/2016		2016/2017	
	Value	%	Value	%
Capital	8176.0	8.8	27694.0	27.5
Reserves	12922.0	25.8	122844.0	195.0
Provisions	831.0	1.3	40979.0	61.3
Bonds and long-term loans	10079.0	26.2	75428.0	155.4
Obligations to CBE	1637.0	65.3	130224.0	3143.2
Obligations to banks in Egypt	38151.0	209.0	95341.0	169.0
Obligations to banks abroad	55913.0	185.5	108491.0	126.1
Total deposits	381939.0	22.0	911694.0	43.1
Other liabilities, of which:	137467.0	82.4	62071.0	20.4
Cheques payable	2809.0	34.4	1316.0	12.0
Total Liabilities	**647115.0**	**29.4**	**1574766.0**	**55.3**

Source: Central Bank of Egypt

The increase on the assets side was mainly attributed to the hikes in balances with local banks (including the CBE) by LE 501.9 billion to post LE 876.5 billion at the end of June 2017. Likewise, lending and discount balances rose by LE 483.7 billion, banks' investments in securities and TBs by LE 253.4 billion, and balances with banks abroad by LE 232.9 billion worth. The following table shows the change in assets in FY 2015/2016 and 2016/2017.

Table 14 Change in Assets in FY 2015/2016 and 2016/2017:

(LE mn)

Items	Change in FY + (-)			
	2015/2016		2016/2017	
	Value	%	Value	%
Cash	4051.0	14.8	26039.0	82.8
Securities and investments in TBs	267591.0	26.3	253420.0	19.7
Balances with CBE	96932.0	43.9	401222.0	126.4
Balances with banks in Egypt, of which:	37376.0	189.4	100678.0	176.3
Loans and discount balances	182.0	12.1	3031.0	180.2
Balances with banks abroad, of which:	-3760.0	-6.9	232892.0	456.0
Loans and discount balances	-129.0	-8.5	1111.0	79.9
Loans and discount balances (market)	224728.0	31.3	483730.0	51.3
Other assets	20197.0	14.2	76785.0	47.2
Total Assets	**647115.0**	**29.4**	**1574766.0**	**55.3**

Source: Central Bank of Egypt

Banks' investments in securities and bills rose by LE 253.4 billion or 19.7 % to post LE 1537.0 billion (representing more than one-third of assets and more than half of deposits) at the end of June 2017. This rise was mostly due to the pickup in their investments in treasury bills (up by LE 198.6 billion), corporate equities (up by LE 25.1 billion), government bonds (up by LE 18.3 billion), and foreign securities (up by LE 9.9 billion worth). Meanwhile, banks' investments in non-government bonds increased by only LE 1.5 billion.

II.2.4.5 Interbank Transactions

Over FY 2016/2017, net transactions of local banks with correspondents abroad increased by LE 124.4 billion worth or 355.6 %, turning, as such, their net position into a credit balance of LE 89.4 billion worth at end of June 2017 (from a debit balance of LE 35.0 billion worth at end of June 2016). The increase was due to the hike in both their balances with banks abroad by LE 232.9 billion worth and their obligations thereto by LE 108.5 billion worth. The following table show the transactions of local banks with correspondents abroad for FY 2015/2016 and 2016/2017.

Table 15 the transactions of local banks with correspondents abroad for FY 2015/2016 and 2016/2017:

(LE mn)

End of	June 2016	June 2017	Change in FY +(-) 2015/2016 Value	2015/2016 %	2016/2017 Value	2016/2017 %
Net Position	**-34986**	**89415**	**(59673)**	**(241.7)**	**124401**	**(355.6)**
Balances with banks abroad	51074	283966	(3760)	(6.9)	232892	456.0
Obligations to banks abroad	86060	194551	55913	185.5	108491	126.1

Source: Central Bank of Egypt

II.2.5 Deposits

Banks' deposits (including government deposits) grew, during the FY 2016/2017, by LE 911.7 billion or 43.1 % (or by LE 450.1 billion and 21.3 %, excluding the effect of exchange rate liberalization), versus LE 381.9 billion or 22.0 % in the previous FY, to stand at LE 3027.8 billion (or more than two-thirds of banks' aggregate financial position at end of June 2017). About 47.1 % of the increase resulted from local currency deposits which rose by LE 429.2 billion or 25.4 %, to LE 2120.8 billion at end of June 2017.

Deposits in foreign currencies went up by LE 482.5 billion worth or 113.7 % (or by LE 20.9 billion worth and 4.9 %, after excluding the effect of the exchange rate liberalization), to post LE 907.0 billion worth at end of June 2017. The following table show deposits at banks by sector for FY 2015/2016 and 2016/2017.

Table 16 Deposits at Banks by Sector for FY 2015/2016 and 2016/2017:

(LE mn)

End of	June 2016	June 2017	Change in FY + (-) 2015/2016 Value	2015/2016 %	2016/2017 Value	2016/2017 %
Net Position	**-34986.0**	**89415.0**	**-59673.0**	**-241.7**	**124401.0**	**-355.6**
Balances with banks abroad	51074.0	283966.0	-3760.0	-6.9	232892.0	456.0
Obligations to banks abroad	86060.0	194551.0	55913.0	185.5	108491.0	126.1

Source: Central Bank of Egypt

Almost 83.7 % of the increase in local currency deposits came from the household sector, whose deposits scaled up by LE 359.4 billion or 32.2 % to LE 1475.7 billion at end of June 2017. Deposits of the government sector increased as well by LE 45.7 billion or 17.7 %, those of the private business sector by LE 19.3 billion or 7.3 %, those of the public business sector by LE 3.6 billion or 8.1 %, and those of the external sector by LE 1.2 billion or 12.9 %.

II.2.6 Lending Activity

Banks expanded their lending activity by LE 483.7 billion or 51.3 % in the reporting year (or by LE 199.1 billion and 21.1 %, when excluding the effect of the exchange rate liberalization), against LE 224.7 billion and 31.3 % a year earlier), bringing their lending balances to a total of LE 1426.5 billion, representing 32.3 % of total assets and 47.1 % of total deposits at end of June 2017. The following table show bank loans by sector for FY 2015/2016 and 2016/2017.

Table 17 Bank Loans by Sector for FY 2015/2016 and 2016/2017:

(LE mn)

End of June	Local Currency			Foreign Currencies		
	2015	2016	2017	2015	2016	2017
Total	**479357.0**	**672578.0**	**867213.0**	**238642.0**	**270149.0**	**559244.0**
Government sector	10855.0	100230.0	142710.0	55566.0	73510.0	212013.0
Public business sector	43742.0	65169.0	95621.0	19228.0	27663.0	52681.0
Private business sector	252405.0	302396.0	396626.0	151029.0	157261.0	279601.0
Household sector	171989.0	204470.0	231403.0	3302.0	3403.0	6938.0
External sector	366.0	313.0	853.0	9517.0	8312.0	8011.0

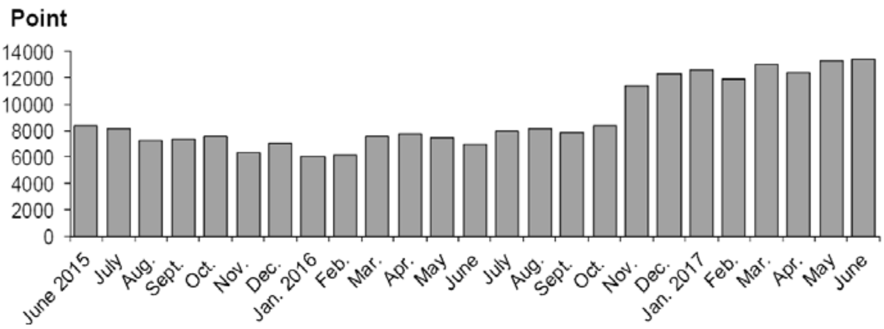
Source: Central Bank of Egypt

The pickup in lending and discount balances came on the back of the rise in both local currency loans by LE 194.6 billion or 28.9 %, to LE 867.2 billion at end of June 2017, and in those extended in foreign currencies by LE 289.1 billion worth or 107.0 % (or by LE 4.5 billion worth and 1.7 %, excluding the effect of the exchange rate liberalization), to LE 559.3 billion worth at end of June 2017.

II.2.7 Stock Market

Regarding the performance of the Egyptian Exchange (EGX) in FY 2016/2017, marked increases were seen in most of its indices. To elaborate, its benchmark index (EGX 30) rose by 93.0 % to 13395.8 points at end of June 2017, against 6942.5 points at end of June 2016. EGX 20 Capped increased by 76.7 % to 12326.0 points against 6977.4 points at end of June 2016. EGX 50 EWI, which includes the top 50 companies in terms of liquidity and activity, also picked up by 64.8 % to 2076.3 points against 1259.9 points. Moreover, EGX 70 and EGX 100 went up by 85.0 % and 102.9 %, in order, to 649.4 points and 1509.2 points (against 351.0 points and 743.7 points). Meanwhile, NILEX index- which reflects the performance of small and medium-sized enterprises listed on Nile Stock Exchange declined by 19.2 % to 510.1 points at end of June 2017 against 631.6 points at end of June 2016. The following figure illustrate the benchmark EGX 30 index form June 2015 to June 2017.

Figure 6 Benchmark EGX 30 Index form June 2015 to June 2017:



Source: Central Bank of Egypt

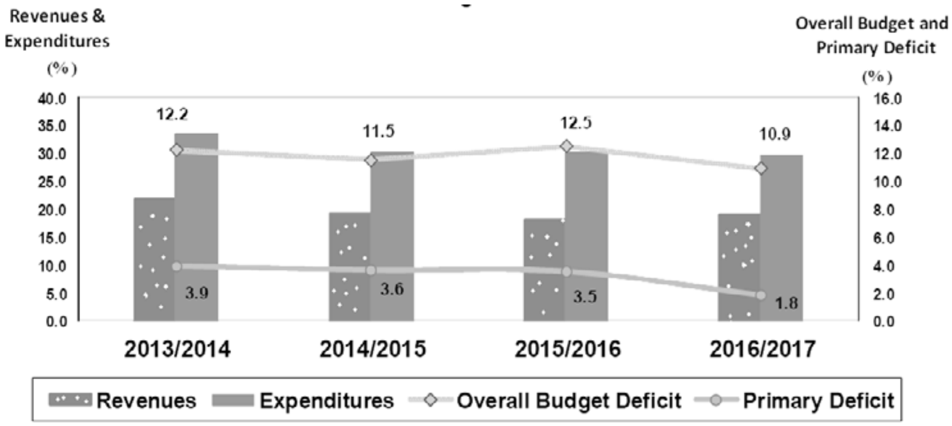
Concerning the primary market, the number of new issues approved by EFSA in FY 2016/2017 reached 4411, with a total value of LE 78.6 billion (against 4083 issues, totaling LE 97.9 billion in the previous FY). Of this figure, issues for new businesses reached 3280 in number (74.4 % of total issues), at a value of LE 19.0 billion. In addition, the number of issues for capital increases of existing companies stood at 1131, totaling LE 59.6 billion (75.8 % of the total value of issues).

II.3 Public Finance

According to the Ministry of Finance's preliminary data on the actual execution of fiscal operations of the state budget (administrative system, local administration and service authorities) for FY 2016/2017, the overall deficit widened by LE 40.0 billion to LE 379.5 billion, from LE 339.5 billion in the previous FY. Despite the rise in the budget deficit as an absolute value, its ratio to GDP fell to 10.9 % (against 12.5 %). Also, the primary deficit as a % of GDP declined from 3.5 % in FY 2015/2016 to 1.8 % in FY 2016/2017.

The drop in both the primary and overall deficit as a % of GDP –during the year under review compared to the year of comparison- mirrored the impact of the reforms and measures recently taken in the area of public finance to achieve fiscal sustainability under the comprehensive economic reform program currently adopted by the government. The following figure illustrate the revenues, expenditures, overall budget and primary deficit as a % of GDP for 2013/2014 to 2016/2017.

Figure 7 Revenues, Expenditures, Overall Budget and Primary Deficit as a % of GDP for 2013/2014 to 2016/2017:



Source: Central Bank of Egypt

Total revenues registered LE 659.2 billion (19.0 % of GDP) in FY 2016/2017, against LE 491.5 billion (18.1 % of GDP) in the preceding FY, up by LE 167.7 billion or 34.1 %. This was ascribed to the increase in tax revenues by LE 109.7 billion or 31.1 %, to LE 462.0 billion (70.1 % of total revenues); and non-tax revenues by LE 58.0 billion or 41.7 %, to LE 197.2 billion (29.9 % of total revenues).

- ❖ The surge in tax revenues by LE 109.7 billion mainly came as a confluence of the following developments:
  - Taxes on goods and services increased by LE 68.1 billion or 48.5 %, owing to the increase in revenues from taxes on both local & imported goods and on international and local communications services. Add to this the rise in stamp duties on contracts of water, electricity, gas and telephone companies, as well as advertisements, transportation services and insurance.
  - Taxes on income and capital gains augmented by LE 22.2 billion, due to higher proceeds from taxes on:

(1) Salaries by LE 8.7 billion.
(2) Suez Canal by LE 7.4 billion.
(3) EGPC by LE 5.2 billion.
(4) Other companies by LE 10.3 billion.

By contrast, proceeds from taxes on profits from the CBE retreated by LE 9.4 billion as the CBE incurred the burdens of high interest rates after the exchange rate liberalization during this fiscal year.

- Property taxes moved up by LE 8.5 billion or 30.5 %, reflecting the rise in revenues from taxes on T-bills and bonds' payable interest.
- Taxes on international trade (customs) increased by LE 6.2 billion.

❖ The rise in non-tax revenues by LE 58.0 billion was explained by the following developments:
- Property income went up by LE 21.7 billion, due to collecting exceptional revenues from selling the 4G frequencies to telecommunications companies.
- External grants increased by LE 14.1 billion during the FY.
- Proceeds from selling goods and services grew by LE 9.0 billion, owing to the increase in receipts from special accounts and funds during this year.
- Other miscellaneous non-tax revenues picked up by LE 13.2 billion.

Total expenditures reached LE 1031.9 billion (29.7 % of GDP) in FY 2016/2017, compared with LE 817.8 billion (30.2 % of GDP) in the preceding FY, up by LE 214.1 billion or 26.2 % as a result of:

❖ The rise in subsidies, grants and social benefits by LE 75.7 billion, mainly as follows:
- Subsidy costs rose by LE 63.8 billion, primarily due to the rise in both oil subsidy by LE 64.0 billion (in the light of the exchange rate liberalization); and subsidies of supply commodities by LE 4.8 billion. Meanwhile, other miscellaneous subsidy items fell by LE 5.0 billion.
- Social benefits moved up by LE 10.3 billion, ascribable to the country's higher contribution to pension funds.
- Grants extended by the government to some international institutions, foreign governments and general government entities scaled up by LE 1.1 billion.

❖ The increase in interest payments on domestic and external debts by LE 73.0 billion.
❖ The remarkable growth in investments of budget sector related entities by LE 39.9 billion, as the government continued to increase public investments to develop the infrastructure, and to expand both housing projects and investments in health and education sectors. This reflects the government's determination to go ahead with achieving the aspired objectives of the economic reform program.
❖ The rise in state workers' wages and compensations by LE 11.8 billion.
❖ The increase in spending on purchases of goods and services by LE 6.8 billion.
❖ The pickup in other miscellaneous expenditures by LE 6.9 billion.

Against this background, the cash deficit of the budget sector reached LE 372.7 billion or 10.7 % of GDP in FY 2016/2017. By adding the net acquisition of financial assets (LE 6.8 billion) to the cash deficit, the overall deficit would rise by LE 40.0 billion to post LE 379.5 billion or 10.9 % of GDP (against LE 339.5 billion or 12.5 % of GDP a year earlier). The following table show summary of the fiscal operations of the budget sector for FY 2015/2016 and 2016/2017.

Table 18 Summary of the Fiscal Operations of the Budget Sector for FY 2015/2016 and 2016/2017:

(LE mn)

Revenues	2015/2016	2016/2017	Expenditures	2015/2016	2016/2017
Total Revenues	**491488**	**659184**	**Total Expenditures**	**817844**	**1031941**
Tax revenues	352315	462007	Workers' wages and compensations	213721	225513
Taxes on income & profits	144743	166897	Purchases of goods & services	35662	42450
Taxes on property	27990	36539	Interest	243635	316602
Taxes on goods & services	140525	208624	Subsidies, grants & social benefits	201024	276719
Taxes on international trade (customs)	28091	34255	Subsidies	138724	202559
Other taxes	10966	15692	Grants	7806	8919
Grants	3543	17683	Social benefits	53919	64194
Other revenues, of which:	135630	179494	Others	575	1047
Property income	69452	91141	Purchases of non-financial assets (investments)	69250	109141
Sales of goods & services	29052	38058	Other expenditures	54552	61516

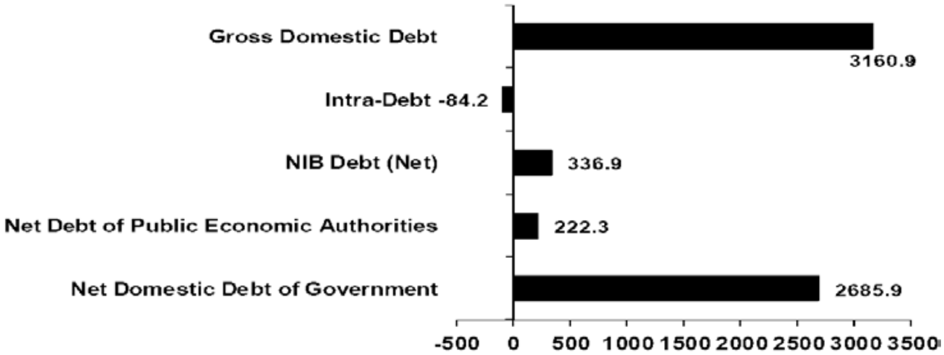
Source: Central Bank of Egypt

II.3.1 Domestic Public 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 2017, domestic public debt amounted to LE 3160.9 billion (against LE 2620.7 billion at end of June 2016), scoring an increase of LE 540.2 billion or 20.6 % during FY 2016/2017. Despite the rise of domestic public debt as an absolute number, the public debt / GDP ratio dwindled to 91.1 % at end of June 2017 (versus 96.7 % at end of June 2016). The following figure illustrate the gross domestic debt at end of June 2017 (LE bn).

Figure 8 Gross Domestic Debt at End of June 2017 (LE bn):



Source: Central Bank of Egypt

II.3.1.1 Debt of the Government (Net)

Net government domestic debt expanded by LE 400.3 billion or 17.5 % in FY 2016/2017 to LE 2685.9 billion at end of June 2017 (compared to LE 2285.6 billion at end of June 2016). Despite the increase in the net government domestic debt as an absolute figure, its ratio to GDP retreated to 77.4 % at end of June 2017 (from 84.4 % at end of June 2016).This was driven by the rise of LE 734.0 billion in the balances of treasury bonds and bills and the contraction of LE 332.8 billion in the net balances of the government at the banking system (due to the decline in government loans by LE 190.1 billion and the increase in government deposits by LE 142.7 billion). Add to this, the decline in the value of the issued Masri Dollar Certificates by LE 0.9 billion worth. The following table shows domestic debt of the Government (Net) at Jun 2016 and 2017.

Table 19 Domestic Debt of the Government (Net) at June 2016 and 2017:

(LE bn)

Balances at End of	June 2016		June 2017		Change + (-)
	Value	%	Value	%	2016/2017
Domestic Government Debt (Net)	**2285.6**	**100.0**	**2685.9**	**100.0**	**400.3**
- Balances of Bonds & Bills	**2290.5**	**100.2**	**3024.5**	**112.6**	**734.0**
Bonds, of which,	1474.5	64.5	1838.8	68.5	364.3
Tradable on exchanges	753.9	33.0	729.3	27.2	-24.6
Treasury bills	816.0	35.7	1185.7	44.1	369.7
- Facilities from SIFs	**0.3**	**0.0**	**0.3**	**0.0**	**0.0**
- Masri Dollar Certificates	**1.1**	**0.1**	**0.2**	**0.0**	**-0.9**
- Net Balances at the Banking System	**-6.3**	**-0.3**	**-339.1**	**-12.6**	**-332.8**
Credit facilities	290.8	12.7	100.7	3.7	-190.1
Deposits (-)	297.1	13.0	439.8	16.3	142.7
Net Domestic Government Debt/GDP (%)		**84.4**		**77.4**	

Source: Central Bank of Egypt
Ratios are calculated in terms of LE million.

The increase of LE 734.0 billion in the balance of government bonds and bills was distributed as follows:

- 49.6 % (or LE 364.3 billion worth) was in government bonds (of which LE 251.5 billion were treasury bonds at the CBE mostly to cover the cash deficit in government accounts, LE 72.1 billion worth were international euro bonds issued for the CBE in November 2016, and LE 41.3 billion worth were US dollar bonds issued for commercial banks).
- 50.4 % (or LE 369.7 billion worth) was in treasury bills (of which LE 201.3 billion were issued in Egyptian pound, LE 154.6 billion worth in US dollar, and LE 13.8 billion worth in euro).

II.3.1.2 Net Debt of Public Economic Authorities

During FY 2016/2017, net debt of public economic authorities hiked by LE 118.6 billion to LE 222.3 billion at end of June 2017. The rise was traceable to the pickup in their net borrowing from the banking system by LE 118.5 billion (owing to the rise in their claims on the banking system by LE 162.5 billion and in their deposits therewith by LE 44.0 billion), as well as the rise in their borrowing from the NIB by LE 0.1 billion.

II.3.1.3 Net Debt of NIB

Net debt of NIB (including intra-debt) mounted to some LE 336.9 billion at end of June 2017, up by LE 27.3 billion in the reporting year. That was driven by the increase in total resources invested at the NIB by LE 28.8 billion to LE 344.1 billion, on the one hand, and the rise in its deposits at the banking system by LE 1.5 billion, on the other.

II.3.1.4 Intra-Debt

Intra-debt of public economic authorities and the government to the NIB reached some LE 84.2 billion at end of June 2017 (against LE 78.2 billion at end of June 2016), recording an increase of LE 6.0 billion in FY 2016/2017. NIB's investments in government securities (bills and bonds) recorded LE 32.6 billion, up by LE 5.9 billion in FY 2016/2017, while the loans extended by the NIB to these authorities registered LE 51.6 billion, up by LE 0.1 billion.

II.3.1.5 External Debt

Total external debt (all maturities) increased by US$ 23.3 billion or 41.7 %, reaching US$ 79.0 billion at end of June 2017 (compared to the end of June 2016). This came due to the rise in net disbursements of loans, facilities and deposits by US$ 23.6 billion as well as the depreciation of most currencies of borrowing versus the US dollar by US$ 0.3 billion. External debt for public and private with all maturities inched up by US$ 13.6 billion to US$ 92.6 billion at the end of June 2018 (compared with US$ 79 billion in the preceding year, June 2017). The external debt increased by 17.2% from 2017 to 2018 as loans increased to US$ 33.4 billion end of June 2018, compared to US$ 25.9 billion at end of June 2017 to fund the disbursement of loans, facilities, deposits and bonds.

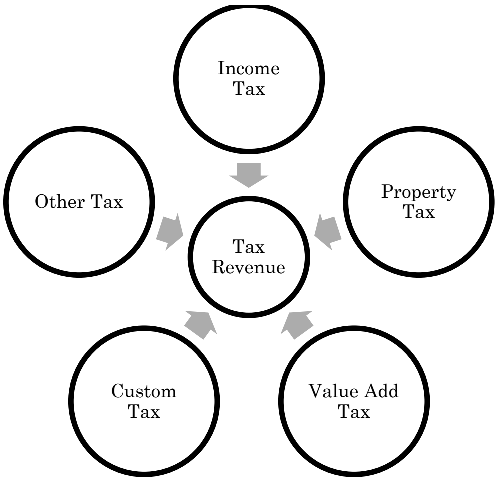
III. Tax structure

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

By the beginning of 1980s and after the peace agreement with Israel, 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 laws in direct and indirect taxes such as, new stamp tax 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 have different economic and social effects. The current Egyptian tax structure comprises of both types of taxes; direct taxes and indirect taxes as it in figure (10):

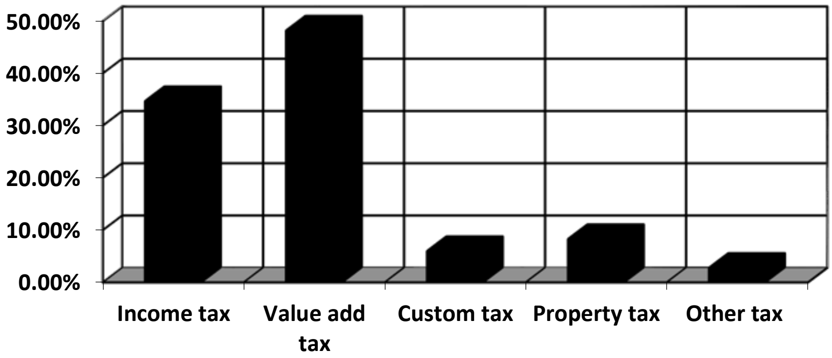
Figure 9 Egyptian Tax Structure:



Source: Egyptian Ministry of Finance

Tax structure refers to the share of each tax in total tax revenues. The highest share of tax revenues in Egypt in FY 2017/2018 was contributed by VAT 48.2%. The second highest share of tax revenue in FY 2017/2018 was derived from Income tax 34.7%.Figure 10 introduces the tax revenue structure of the FY 2017/2018:

Figure 10 Structure of Tax Revenues for FY 2017/2018:



Source: Egyptian Ministry of Finance

Tax revenues developments for FY 2011/2012 to 2016/2017 are in table 20:

Table 20 Tax Revenues Growth

(LE Million)

Fiscal year	Total Revenues	Total Tax Revenues	Total Tax Revenues / Total Revenues
2011/2012	303622	207410	68.3%
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%

Source: Egyptian Ministry of Finance

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

1) Income Tax and Value add tax department, this department is responsible of enforcement of income tax law, development fees law, general tax sales and stamp tax.
2) Custom department is in charge of carrying out the custom tax law.
3) 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 governments.

Hereunder is the breakdown of tax revenues department by its revenue relevance:

III.1 Income Tax

Egypt as some other developing countries, income tax revenue is one of the vital sources of country’s total revenues, Table 21 shows income tax revenue compared to total tax revenues from FY 2011/2012 to 2016/2017:

Table 21 Income Tax Revenues Growth

(LE Million)

Fiscal year	Total Tax Revenues	Income Tax	Income Tax / Total Tax
2011/2012	207410	91245	44.0%
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%

Source: Egyptian Ministry of Finance

Table 21 emphasis on the importance role of income tax against all tax revenues, its annual amount is always above 40% of total tax revenues, however it start to fall down under 40% of total tax revenue due to the impose of the VAT law in on the 8th September 2016.

Egypt has launched the income tax Law No. 91 for year 2005 in 11 June 2005, it is effective starting July 1, 2005 for personal income. The corporate income tax will be effective starting January 1st, 2006.

Income tax is levied on the following sources of income:

1) 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.
2) The source of income from Egypt paid by Egyptian or foreign firms or by other forms of legal entities to any worker resident in Egypt or abroad, in return for services 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 purposes.[1]

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 awards, overtime pay and all in-kind fringe benefits.

The following rules apply to the taxation of employment income:

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

Income exempted from tax as follows: [2]

- Special allowances in-kind for employees (meals distributed to the workers, transportation cost or equivalent costs, health care, tools necessary to perform the work).
- Workers' share in the distributed profit to the workers according to the law.

[1] Article 2 of the Executive Regulations of tax law states that an individual is considered to have a permanent residence in Egypt in certain conditions such as staying more than 183 days; commercial place or office; receive salary from an Egyptian public or private source.
[2] Article 13, law 91of 2005, describes in details all permitted exemptions for salaries and its like.

- All compensation received by member of diplomatic and consular corps, international organizations, and other foreign diplomatic representatives 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 operating as sole traders, partnerships and limited partnership in Egypt.[3]The taxable net profits determined on basis of the total profits after Taxable commercial and industrial income consists of net commercial and industrial profits derived within a calendar year from all business transactions, including sales of assets (after deducting of all business expenses, charges and personal allowances).

Capital gains on dispositions of securities are subjected to income tax but in different two situations as presented below:[4]

- If the securities are unlisted, the tax imposed on the capital gains from the disposal of securities at the normal tax rates.
- If the securities are listed, the capital gains from the disposal of securities or quotas are subject to tax at the rate of 10% with no deduction.

Resident individual shareholders who do not have any other taxable income from commercial or industrial activities should only be taxed on dividend income exceeding EGP 10,000.

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 gains derived from transfer real estate are not subjected 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 an urban land or building, he imposed to 2.5% tax on his gross revenues.

Exemptions: Article (31) of law 91 of 2005 introduces exemptions permitted under the law as listed under:

- Profits of the land reclamation or cultivation establishments for a period of ten years effective from the date of beginning the exercise of activity.
- Profits of establishments of poultry production, bees breeding, cattle breeding and fattening pens, and fisheries projects, as well as profits of trawlers projects, for a period of ten years from the date of beginning the exercise of activity;
- Return from deposits, saving accounts 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.

Deductible costs: All costs in general is deductible if it documented. In particular, the following specific deductions are allowed:

- Special deduction for workers (employment income) with LE 7000 per annum.
- Rental costs of premises
- Tax depreciation and accelerated depreciation for new machines.[5]
- Social insurance contributions and Contributions to pensions and saving funds but with limitation of LE 10000 per annum or 15% of the net income, whichever is higher.

[3] Article 19 of law 91 of 2005 presents a certain types of income in details.
[4] The law no. 53/2014 amends certain provisions of the income tax law no. 91/2005 and the stamp duty law no. 111/1980.
[5] Article (25) of law 91 of 2005 determines particular tax depreciations rates according to the asset type (building 5%, 10% of intangible asset, 50% of computers, 25% of small machinery, 25% of equipment, 25% of vehicles and furniture). In addition, article (27) added a 30% of the cost of new or used machines as accelerated depreciation.

- Interest on loans
- Social insurance premium payable by the owner
- Donation to the government or local public units.
- Donation to non-governmental 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 persons practicing other noncommercial activities in Egypt (lawyer, accountants, artists, writers, etc.) and the work is main element of the activity.

Deductibles costs: Graduates and members of a professional association about to practice for the first time enjoys certain exemptions depend on the profession type.[6]

Article (33) of the law demonstrates the deductible costs as follows:

- Registration fee 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-governmental entities but limited to 10% of the annual net profit.

Exemptions:

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

Table 22 shows the tax rates are applied to individual and employment income:

Table 22 Tax rates

(LE)

Taxable income	Tax rate on bracket (%)
Zero to 7,200	Zero%
7,201 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 that discount. Table 23 shows the discount made for the following tax brackets:

Table 23 discount on accrual tax:

(LE)

Tax rate on bracket (%)	discount on accrual tax
7,201 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.

[6] Article (36) of law 91 of 2005 and executive regulations of the law list the profession type and the exemption period.

The temporary 5% surtax will apply for three years (2014 – 2016).

Tax is imposed at rate of 10% on amounts paid and benefits provided to nonresidents performing activities in Egypt and on amounts received by resident employees from entities other than their original employees from entities other than their original employer.

Real Estate Property Tax

Tax is levied on the revenues from real estate wealth includes revenue from exploitation of building and furnished units. [7]

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

- Net revenues from horticulture corps and from productive orchards are estimated according to:
  - If the land is leased, the taxable revenue will equal rent value estimated after deducting 20% for all expenses
  - If the land is owned, the taxable revenue will equal twice the rent value after deducting 20% for all expenses.
- Net revenues 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 filed 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-filers are imposed to a penalty from LE 5,000 to 20,000.
- 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 taxpayer 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.

Corporate Income Tax

[7] Articles (37, 39, 45, 46) of law 91 and changed amended by law 196 of 2008 (real estate law), determines the taxable revenues.

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 transactions.

Legal entities

The following types shall be considered juridical persons:

- Association of capital and partnerships as well as the corporations de facto;
- Cooperative societies and their unions;
- Public entities and other public juridical persons;
- Foreign banks, companies, and institutions even if their headquarter are abroad;
- Units established by the local government with regard to the taxable activity they exercise.

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, etc. [8]

Deductible costs

all costs and expenses incurred during the account period according to accrual basis, the tax law provide for instances these expenses (rent, depreciation of fixed assets, accelerated depreciation, social insurance, salaries and wages and other expenses). [9]

Non-deductible costs

- Financial penalties and fines. [10]
- Interests on loans and debts 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 deductible costs.
- Reserves

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 provision determined by Law No 10 of 1981.

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 taxes paid[114]

Exemptions

- 10-year exemption for new agriculture and re-cultivation companies from the date of being considered productive.

[8] For more details, see law 91 of 2005
[9] For more details, see book (2), part (3) of the law 91 of 2005
[10] Financial penalties as a result of contractual liability may considered deductible expenses
[11] Income tax law 91 of 2005 amended by the law 53 of 2014 (profits from listed shares were exempted before amended by the law 53 of 2014).

- 10-year exemption for new fishing boats organizations, fish farming entities and poultry farming companies from the date of being considered productive.
- Non-profit seeking entities
- Interest yielded from securities issued by the Central Bank of Egypt
- When 90% of the dividends income received by an Egyptian resident corporate shareholder will be exempt from tax if the shareholder holds at least 25% of the share 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.

Tax rate:

Corporate income tax rate generally taxed with 22.5% of the taxable income. Special corporate tax rates for explorations and production of gas and oil companies taxed by 40.55% of taxable income, Suez Canal Authority, the Egyptian Petroleum Authority, and the Central Bank are taxed at a 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 (self-assessment is the main base). Tax mainly assessed on the information provided in the tax return.

III.1 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 basic goods and services which affects low-income earners (in addition to other exemptions listed within the law). It also introduced the reverse charge mechanism in Egypt for the first time, whereby transactions involving non-residents providing services / royalties to Egyptian resident entities have become subject to VAT in Egypt.

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 tax rates). Table 24 shows Taxes on Goods and Services to total tax revenues from FY 2011/2012 to 2016/2017:

Table 24 Taxes on Goods and Services:

(LE)

Fiscal year	Total Tax Revenues	Taxes on Goods and Services	Taxes on Goods and Services / Total Tax
2011/2012	207410	84594	40.8%
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%

Source: Egyptian Ministry of Finance

Registration requirements:

- Businesses registered under the GST law will automatically be considered registered for VAT purposes, provided 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.
- Businesses not required to register under the GST law and that are required to register for VAT purposes under the new law, must apply to the Egyptian Tax Authority ("ETA") for their VAT registration, within thirty days from the date of reaching the VAT registration threshold.

- Businesses currently registered under the GST law with a turnover below the new VAT threshold shall be deregistered automatically, unless they specifically 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.

III.3 Custom taxes

Customs and other import duties are all levies collected on goods that are entering the country or services delivered by nonresidents 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. Table 25 shows taxes on international trade (Custom) to total tax revenues from FY 2011/2012 to 2016/2017:

Table 25 Taxes on International Trade (Custom):

(LE)

Fiscal year	Total Tax Revenues	Taxes on International Trade	Taxes on International Trade / Total Tax
2011/2012	207410	14788	7.1%
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%

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 Customs. 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 an ad valorem basis.

In general, exports goods are exempted from custom taxes and with some exceptions of imports in certain circumstances such as: exported commodities, imported raw materials which used in local production and exported, and free zone areas.[12]

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

III.4 Real Estate tax

The current law for real estate is real estate tax law no. 196/2008.[13] According to the law articles, the majority of the property in Egypt is subject to real estate tax. The real estate tax revenue represents an important role to the total tax revenues in Egypt. Table 26 shows taxes on property (real estate) to total tax revenues from FY 2011/2012 to 2016/2017:

[12] For more details about custom exemptions, see law no. 66/1966, law no.95/2005 and law No 8 of 1997 law of investment guarantees and incentives Ch. 1, section 2 and Ch.2

[13] The real estate tax law no. 196/2008 supposed to be implemented since 2010, but it has been postponed several times. The law became effective from August 2014.

Table 26 Property (real estate):

(LE)

Fiscal year	Total Tax Revenues	Property Taxes	Property Taxes / Total Tax
2011/2012	207410	13089	6.3%
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%

Source: Egyptian Ministry of Finance

In general, the tax rate is 10% on the annual rent value after allowing deduction by 30% from the rental value to cover related costs for residential property and 32% deduction for non-residential property.

Exemptions

Residential unit with an annual rental value of less than LE 24,000 is exempted from the tax. The real estate's annual rental value is assessed every five years by the tax authorities.[14]

III.5 Stamp taxes

Egyptian current stamp tax law is law no. 111/1980 and its amends.[15] 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 documents and the value of the transactions 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 transactions.
- An annual proportional tax at the rate of 0.4% is imposed on the highest debit balance in each quarter of credit facilities 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 advertisements at the rate of 20%.

III.6 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 employee 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).

[14] For more details about custom exemptions, see law no. 66/1966, law no.95/2005 and law No 8 of 1997 law of investment guarantees and incentives Ch. 1, section 2 and Ch.2

[15] The real estate tax law no. 196/2008 supposed to be implemented since 2010, but it has been postponed several times. The law became effective from August 2014.

IV. Country Specific Fiscal Issues

IV.1 Egyptian pound appreciated against US dollars

The Central Bank of Egypt (CBE) has been working on addressing distortions in the foreign exchange market to achieve monetary stability, which is aimed at restoring confidence in the foreign exchange market, as well as the banking sector, and creating a conducive investment climate to unleash the potential of the Egyptian economy. Towards that end, the CBE devised a comprehensive plan to achieve these objectives.

- The foreign exchange system reform has recently witnessed several steps, the last of which was lifting the limits on cash deposits and withdrawals,
- Adopt a more flexible exchange rate regime that better reflects the underlying forces of supply and demand.

As a result of this policy, the Egyptian pound appreciated against US dollars, and moved from 7.7 LE per 1$ to be 17.8LE per 1$. The Egyptian pound appreciated against other main currencies such as EURO and British Pound.

IV.2 Public Debt and Deficit

External debt for public and private with all maturities inched up by US$ 13.6 billion to US$ 92.6 billion at the end of June 2018 (compared with US$ 79 billion in the preceding year, June 2017). The external debt increased by 17.2% from 2017 to 2018 as loans increased to US$ 33.4 billion end of June 2018, compared to US$ 25.9 billion at end of June 2017 to fund the disbursement of loans, facilities, deposits and bonds.

The ratio of external debt to GDP rose to 37% (from 33.6% last year) as at the end of June 2018. External debt per capita raised to be US$ 883.9 million (compared with US$ 754.1 million in the preceding year). In addition, the ratio of debt service to export proceeds of goods and services and to current receipts increased to 37% and 28% respectively.

External risks have increased in recent months, with a shift to capital outflows as tightening global financial conditions have contributed to a pullback by investors from emerging markets. The healthy level of foreign reserves and flexible exchange rate leaves Egypt well positioned to manage any acceleration in outflows, but this reinforces the importance of a sound macroeconomic framework and consistent policy implementation.

With the liberalization of the foreign exchange (FX) market, the parallel market was eliminated and FX shortages virtually disappeared. The ongoing fuel subsidy reform, wage restraint, and significant revenue gains from the new value-added tax (VAT) underpin fiscal consolidation, which is critical for debt sustainability. Structural reforms to revive growth and employment are progressing well. Ratio of External Debt /GDP raised from 15.1 in year 2014 to 37 in year 2018.

IV.3 Inflation

According to the data published by the Central Agency for Public Mobilization and Statistics, the annual headline Consumer Price Index (CPI) (urban) picked up by 29.8 % in FY 2016/2017 (versus 14.0 % a year earlier). This pickup was ascribed to the measures taken by the State under the economic reform program, particularly liberalizing the LE exchange rate, enforcing the Value Added Tax (VAT) Law, and raising fuel prices within the framework of reforming the subsidy system.

IV.4 Other Macroeconomic Issues

There has been a shift to capital outflows in recent months as tightening global financial conditions have contributed to a pullback by investors from emerging markets more broadly. Should these patterns intensify, financial conditions could tighten appreciably. A further increase in global oil prices would put pressure on the budget, and require a larger adjustment of domestic fuel prices to achieve cost-recovery. A deterioration of the security situation would disrupt the emerging recovery in tourism.[1]

In addition, adjustment fatigue may weaken reform momentum. These risks are mitigated by the authorities' record of sound macroeconomics policies and strong program implementation.[1]

All end-December quantitative targets were met, except for the performance criterion (PC) on the primary fiscal balance, which was missed by EGP0.1 billion, and the indicative target on Egyptian General Petroleum Company arrears, which was missed by $200 million. Two of the three structural benchmarks (SBs) were implemented with a delay. Most end-June PCs appear within reach, but the fuel subsidy bill is likely to exceed the target due to higher-than-programmed oil prices during 2017/18. The authorities are requesting a modification of this PC. The financing gap for 2018/19 is estimated at about $1 billion, to be financed with Eurobond issuance and/or from gross reserves.[16]

[16] Source:https://www.imf.org/~/media/Files/Publications/CR/2018/cr18213.ashx

V. Conclusion: Where We Stand and Where We Go?

Following a build-up of macroeconomic imbalances that had resulted in declining growth, rising debt, and a widening current account deficit, the Egyptian authorities undertook decisive policy actions since the launch of the reform program in November 2016. Egypt is progressing with a well-structured program to restore macroeconomic imbalances, address social inclusion priorities, and achieve high, sustainable and well-diversified growth. The government has made clear strides toward regaining confidence in the economy through serious and comprehensive reforms while moving steadily on advancing its political agenda.

These efforts are increasingly yielding results in terms of restored market confidence, strengthening growth momentum, a narrowing of budget and current account deficits, and adequate foreign exchange reserves. Sustaining the reform effort will help secure macroeconomic stabilization and unlock Egypt's potential for higher growth and much needed job creation. The reform program received strong approval from the business community, international development partners and foreign investors.

Among the boldest moves so far has been the government's decision to slash wasteful energy subsidies by 30% in July 2014, signaling its political will to confront even the most difficult issues – including longstanding taboos – in its quest to reinvigorate the economy. Other decisive steps have included measures to improve tax buoyancy and widen the tax base, to reform the foreign exchange market dynamics, and to begin the process of liberalizing generation, transmission and distribution activities in the power sector and eventually restricting the role of the state to that of regulator and supervisor.

Monetary tightening in 2017 helped anchor inflation expectations after the devaluation and fuel price hikes in 2016. The Central Bank of Egypt should maintain its restrictive stance to contain second-round effects of fuel and electricity price increases, with future policy changes guided by inflation expectations and demand pressures. Exchange rate flexibility is critical to safeguard competitiveness and help cushion against external shocks.

The economic situation has continued to improve during 2018. Strong program implementation and generally positive performance has been instrumental in achieving macroeconomic stabilization, with external and fiscal deficits narrowing, inflation and unemployment declining, and growth accelerating. The near-term growth outlook is favorable, supported by a recovery in tourism and rising natural gas production, while the current account deficit is expected to remain below 3 % of GDP and the public debt ratio to decline markedly by 2023.[17]

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[17] Source:https://www.imf.org/~/media/Files/Publications/CR/2018/cr18213.ashx

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