جمهورية مصر العربية
وزارة المالية

GENERAL FRAMEWORK
OF THE DRAFT STATE BUDGET FOR

FISCAL YEAR 2019/2020

Content

In the name of God, the Most Gracious the Most Merciful

"I only desire reform to the best of my power, and my guidance cannot come except from Allah, in Him I trust and unto Him I repent."

The Holy Quran, Chapter 11, Verse 88

Mr. Speaker of the House of Representatives
Ladies and Gentlemen, Members of the Distinguished House

I have the honor to present to you the Financial Statement of the Draft State Budget for Fiscal Year (FY) 2019/2020. This Statement includes the key features of the financial and economic policy of the country at this important stage, which establishes the foundation for achieving comprehensive economic and social development.

Based on the strategic vision which the Government of Egypt (GOE) announced through its national program for economic reform and submitted to your Distinguished House, the GOE is continuing the implementation of the necessary financial and economic reforms, which are supported by social protection measures. These reforms seek to raise growth rates, increase employment rates, and improve the efficiency of the services provided to its citizens. Furthermore, they seek to expand and diversify human development and social protection programs for citizens, especially low-income and disadvantaged groups, as well as programs benefitting the middle class.

Undoubtedly, steadily increasing economic growth rates require consistent confidence-building efforts in the Egyptian economy at both the domestic and international levels. Consequently, this requires the establishment of a climate favorable to investment and development. Moreover, it necessitates a gradual implementation of financial and structural reforms. Additionally, it must balance reform requirements on the one hand and the requirements of human development, justice and social protection on the other hand.

We would like to emphasize that a priority of the Government's program is to increase the allocation of funds for programs and activities aimed at creating jobs, human development, and social protection programs and improving the quality of services provided to the citizens. Therefore, the GOE aims to expand the funding of effective social protection programs and assist disadvantaged groups. Meanwhile, the GOE seeks to develop comprehensively health, education, wages and social security systems, as well as the expansion of housing, roads, drinking water and sanitation services, in order to improve the quality of life for Egyptians of all classes and categories.

I am honored to submit the draft State budget for fiscal year 2019/2020, which reflects the general framework of the GOE policy on economic and social tracks in light of the directives of the political leadership. These directives aim to achieve a comprehensive development renaissance throughout the country that is based on a clear vision, which in turn aims to achieve the desired balance between the requirements of economic reform to support growth and create more jobs.

At the same time, this vision seeks to achieve justice, social protection, and human development for Egyptian citizens. I assure you of the sincere desire to work hard with all partners, including the Distinguished House of Representatives, to build on the successes that have been achieved. If such success is maintained and accompanied by the continued pace of reform Egypt will take its rightful place and will overcome the challenges it faces. Finally, if the present Egypt is full of challenges, the future Egypt is full of promising opportunities.

May God help us all for the good of the country.

Minister of Finance
Dr. Mohamed Maait

Chapter One
General Framework of the Draft State Budget for Fiscal Year 2019/2020

The estimates of the Draft State Budget for FY 2019/2020 reflect the commitment of the GOE to continue the implementation of the comprehensive economic and social reform program. This program aims to push the Egyptian economy to grow at full capacity, thereby allowing the creation of sufficient, real, and productive jobs. Meanwhile, the GOE continues its efforts to achieve fiscal consolidation by reducing the ratio of the public debt and overall deficit in proportion to the Gross Domestic Product (GDP). The target is to reach sustainable low rates of debt. The GOE seeks to mobilize and generate more resources for the State to finance the goals of sustainable development and human resources development, as well as to provide social protection.

Mr. Speaker of the House of Representatives,

Ladies and Gentlemen, Members of the Distinguished House,

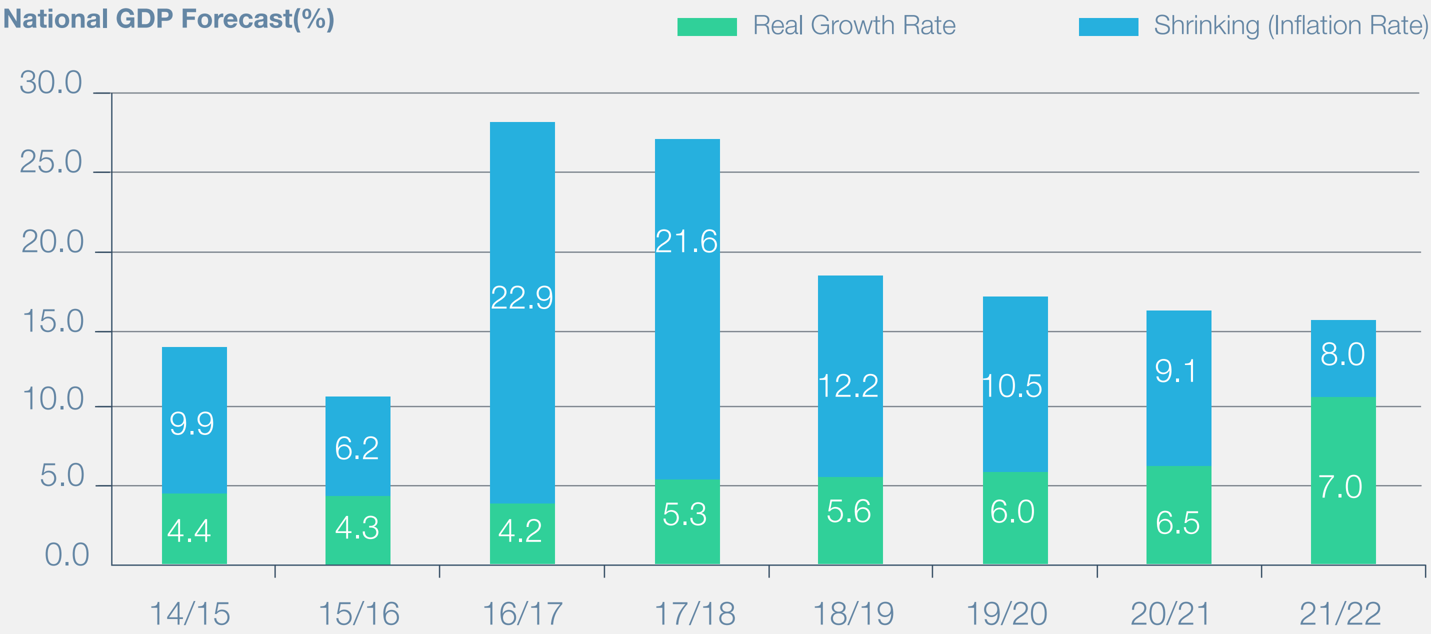
During the period 2010-2014, the Egyptian economy encountered a slowdown and inadequate and inefficient economic growth compared to the population growth rate. It suffered, as well, from deterioration of public financial indicators expressed in the high ratio of budget deficits and debt of budgetary agencies to GDP, high trade balance deficits, and balance of payments deficit. However, that negative endless loop has been seriously addressed through the implementation of integrated financial and monetary reform measures over the past years. In addition, the GOE has implemented some necessary structural reforms that have led to an initial economic recovery phase and improvement of macroeconomic indicators. These reforms have increased confidence in the capacity and potential of the Egyptian economy. In return, these results have been reflected in increasing budget capacity to provide additional resources that contribute to the financing of human development resources and social protection programs. These additional resources have financed the items that support economic activity, especially Government investments to create more job opportunities.

In the FY 2019/2020 budget and over the next three years, the GOE aims to continue efforts to gradually reduce the growing rates of debt of the budgetary agencies as a percentage of GDP to reach 80% by the end of June 2022. This measure will allow for significant improvement and reduction in the debt service bill burden. This requires an average annual growth rate of at least 6% as well as a sustainable annual primary surplus in the range of 2% of GDP to 2021/2022.

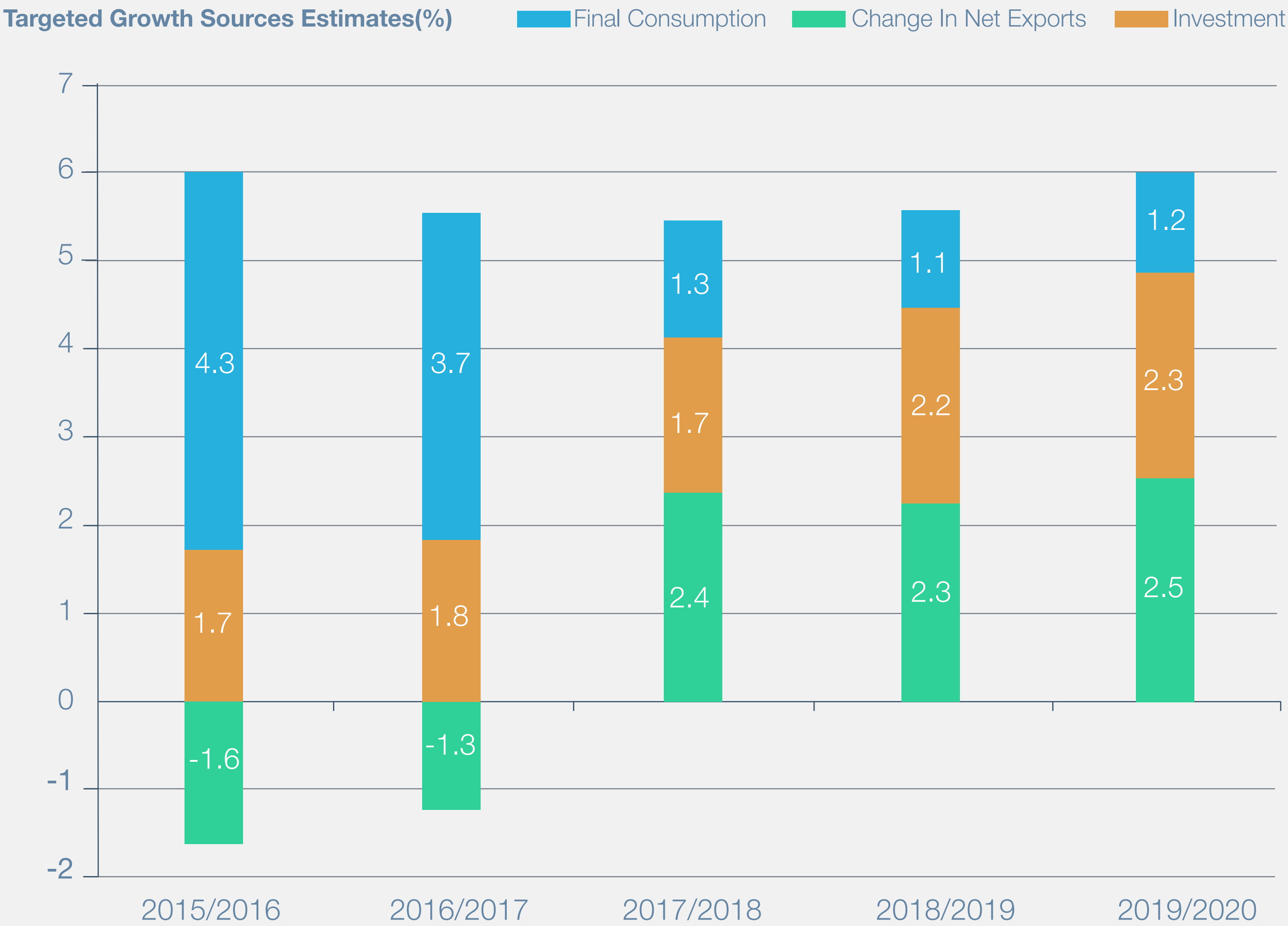
To achieve these goals, the GOE must continue efforts to increase the State's resources efficiently and without negative impact on production, investment, and economic activities. In addition, it must restructure public spending by determining the priorities in such a way that ensures the creation of fiscal space in the medium term. This will allow increased spending on human resources development and economic and social development projects in line with the constitutional entitlements. Meanwhile, it will allow fund allocations to improve the services provided to ensure a better future for citizens and create more job opportunities, especially for youth and women.

Egyptian Economy Growth Prospects:

The growth rate of GDP in FY 2019/2020 is targeted to reach 6% compared to the expected growth rate of 5.6% during FY 2018/2019. The GOE seeks to achieve the target rates of 6.5-7% per annum in the medium term. In addition, the GOE will support the efforts of the Central Bank of Egypt (CBE) to reduce annual inflation rates (less than 10%). This rise in targeted growth reflects the positive effects of the Government's efforts in implementing its comprehensive reform program. This program is based on stable economic and fiscal conditions that run in parallel with the implementation of structural reforms necessary to achieve inclusive and sustainable growth rates for all citizens. In turn, this helps to create more job opportunities, especially for youth and women, and to ensure that unemployment rates continue to decrease.

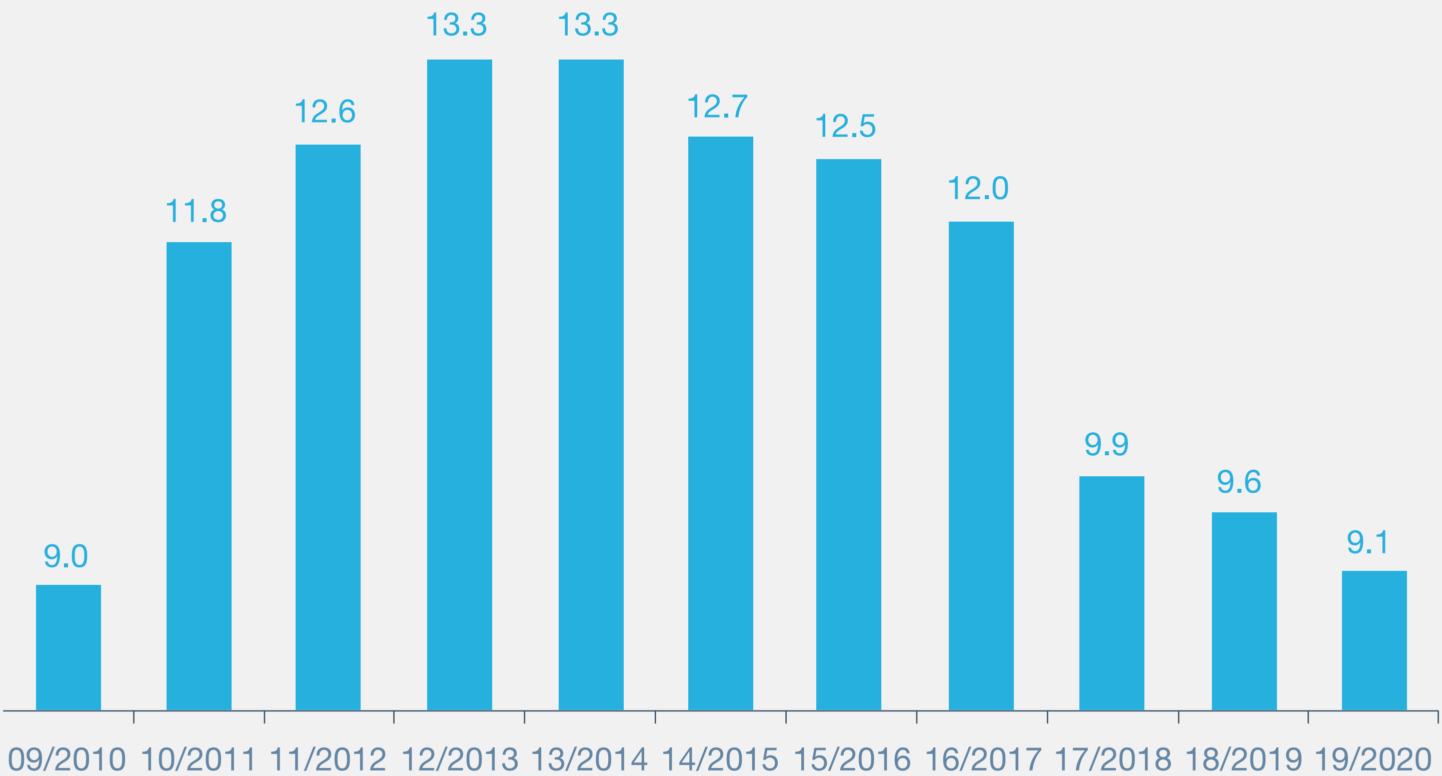


Source: MPMAR



Source: MPMAR

Unemployment Rate(%)



The constant increase in real growth rates in the Egyptian economy over the past years has been accompanied by a steady decline in unemployment rates. This result indicates that the achieved growth has contributed to the creation of real job opportunities in good numbers for those who wish to work. This is the economic reform program's key goal, where job creation is the most important means of improving citizens' incomes and the best protection and social justice program in terms of efficiency, impact, and sustainability. Unemployment rates are targeted to decrease from 13.3% in 2013/14 to 9% in the next fiscal year. The budget for FY 2019/2020 is based on several assumptions, the most important of which are described below.

Key Economic Assumptions in the Medium Term

ITEM	2018/2019		2019/2020	2020/2021	2021/2022
	BUDGET	FORECAST	DRAFT BUDGET	TARGET	
Real GDP Growth Rate (%)	5.8	5.6	6.0	6.5	7.0
Treasury Bills and Bonds Average Interest Rate (%)	14.7	18.0	15.5	11.5	10.0
Brent Barrel Average Price[1] (USD/bbl)	67.0	70.0	68.0	68.0	70.0
US Wheat Average Price[2] (USD/ton)	184.2	190.0	214.0	210.0	205.0

1/ Brent barrel price is predicted using the future purchase contracts. IMF predicted oil prices in the World Economic Outlook report. Forecasts are guided by many international financial institutions.

2/ The US wheat price is predicted using the average price of future purchase contracts traded on the Global Stock Exchange AHDB. Forecasts are guided by many international financial institutions.

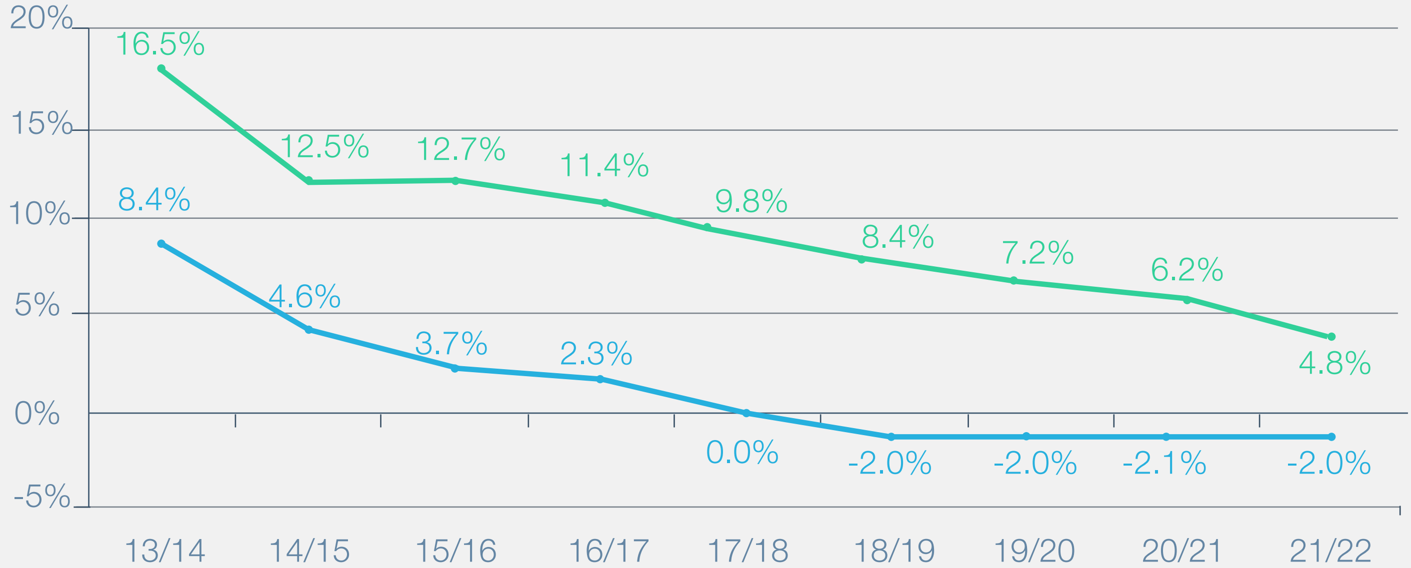
Source: MOF

First
Fiscal Targets of FY 2019/2020 Draft Budget

During fiscal year 2019/2020, the GOE aims to reduce the public debt rate to 89% of GDP, which requires a primary surplus of 2% of GDP as well as an economic growth rate of 6%. These estimates will allow for a reduction in overall budget deficit to 7.2% of GDP rather than a overall deficit of nearly 17% of GDP in FY 2013/2014. These findings confirm that we can, with the support of all partners, including the Distinguished House of Representatives, achieve a significant improvement in the performance indicators of public finance.

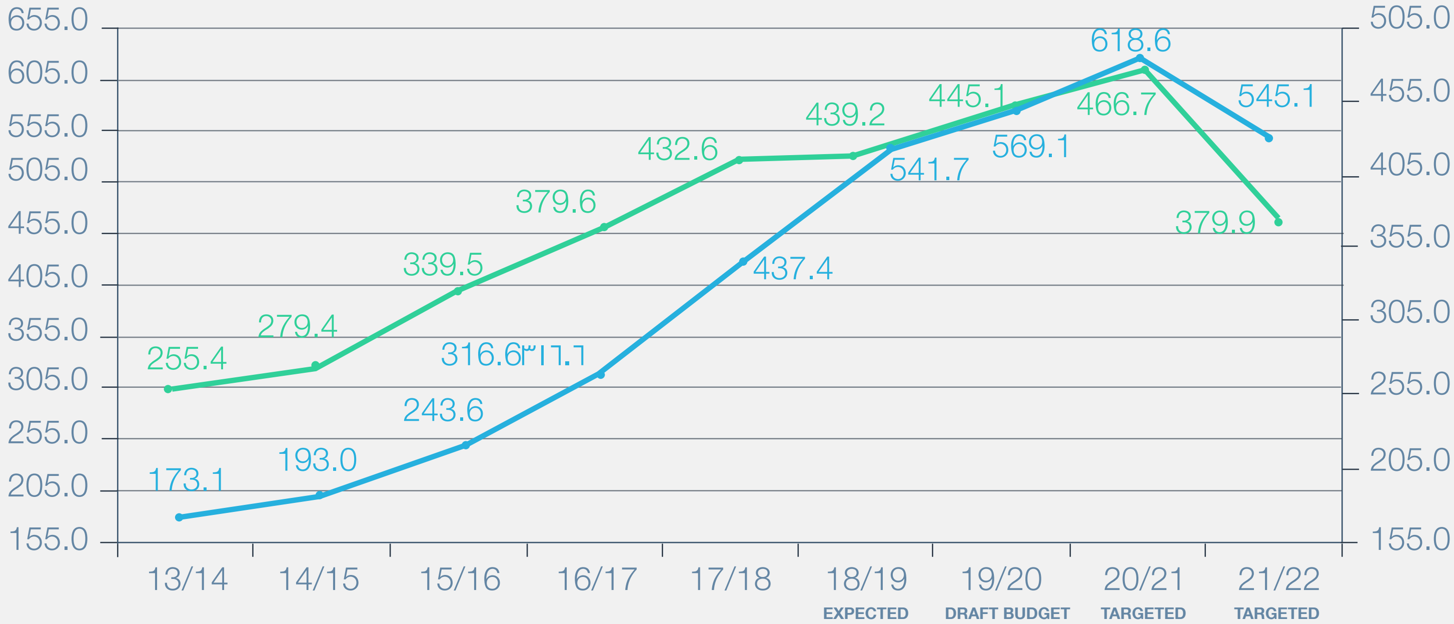
In the coming years, we aim to continue balanced financial control efforts that support growth and economic activity and to contribute to the gradual reduction of the public budgetary agencies' debt service burden by reducing the interest ratio paid to total budget expenditures and revenues.

Total and Initial Deficit (without Grants) (%GDP)

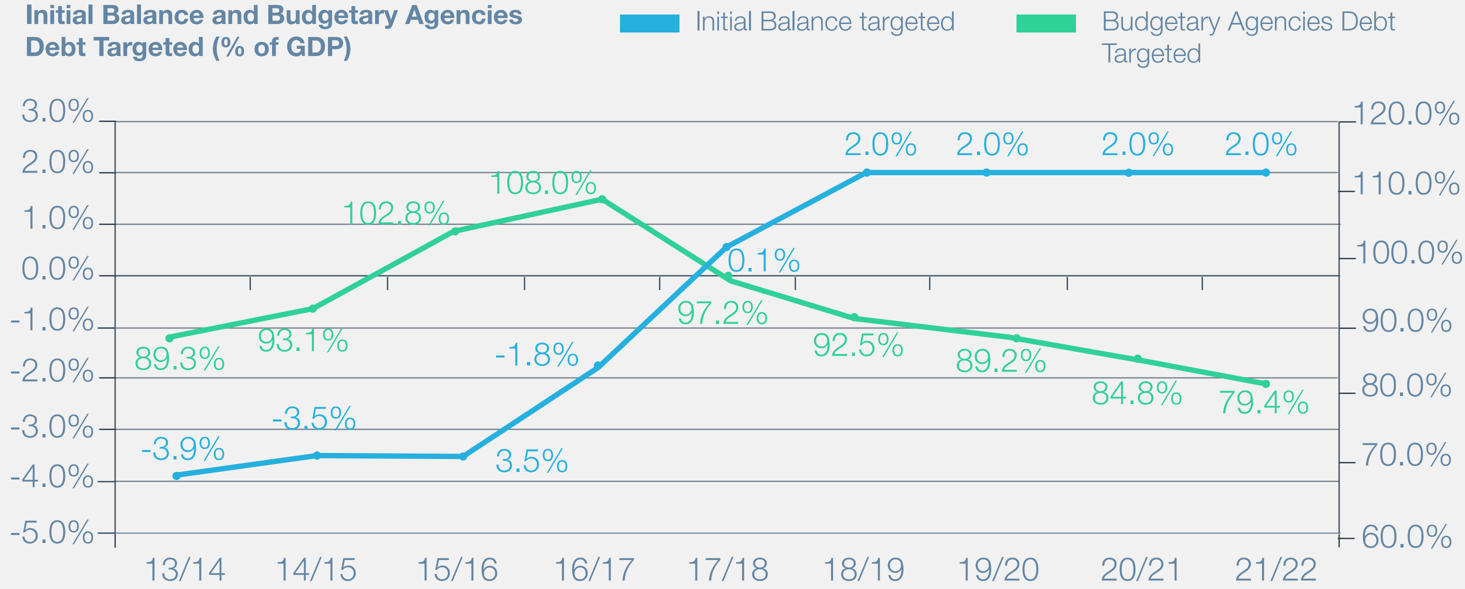


Source: MOF

Total Deficit and Interest Payment Evolution (LE billion)



Initial Balance and Budgetary Agencies Debt Targeted (% of GDP)



Source: MOF

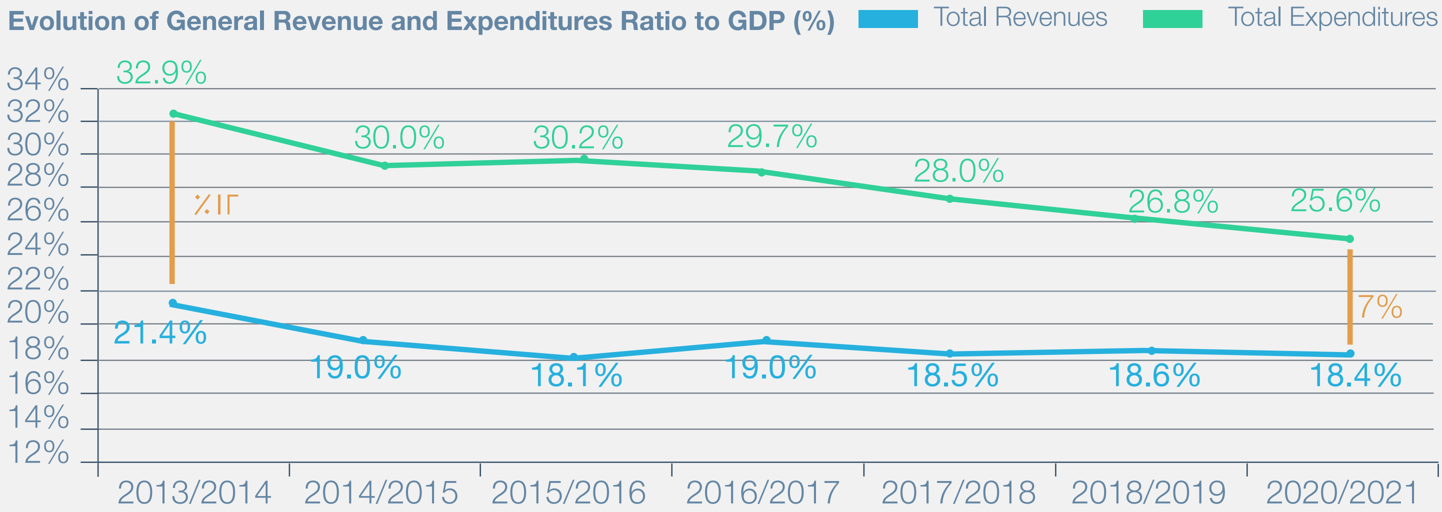
Below is a summary table of the State budget's main totals.

State Budget Performance Summary Table

LE Billion

	2015/2016	2016/2017	2017/2018	2018/2019 Expected	2019/2020 Draft Budget	2020/2021 Estimates	2021/2022 Estimates
Total Revenues	**491.5**	**649.2**	**821.1**	**976.6**	**1,134.4**	**1,398**	**1,249**
Growth Rate (%)	6%	34.1%	24.6%	18.9%	16.2%	12.0%	10.1%
Taxes	**352.3**	**462.0**	**629.3**	**759.9**	**856.6**	**1,157**	**1,028**
Non-Taxes Revenue	139.2	197.2	191.8	216.6	277.8	242	221
Total Expenditures	**817.8**	**1,031.9**	**١،٢٤٤.٤**	**1,412.0**	**1,574.6**	**1,765**	**1,705**
Growth Rate (%)	12%	26.2%	٪٢٠.٦	13.5%	11.1%	3.5%	8.3%
Total Deficit Targeted	**339.5**	**379.6**	**٤٣٢.٦**	**439.2**	**445.2**	**380**	**467**
GDP Ratio (%)	12.5%	10.9%	٪٩.٧	8.4%	7.2%	4.8%	6.2%
Initial Deficit or surplus Targeted	**95.9**	**63.0**	**-٤.٩**	**-102.5**	**-124.0**	**-164**	**-152**
GDP Ratio (%)	3.5%	1.8%	٪-٠.١	-2.0%	-2.0%	-2.0%	-2.0%

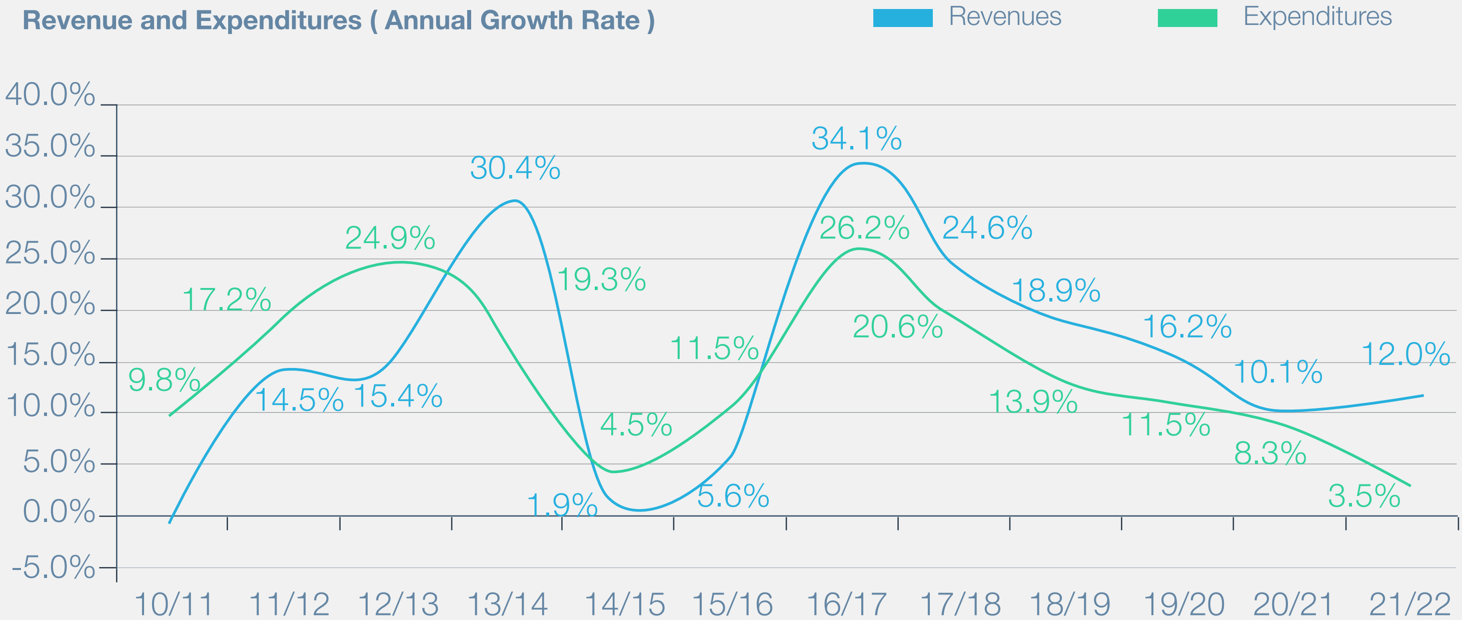
Evolution of General Revenue and Expenditures Ratio to GDP (%)



Source: MOF

As the following figure shows, the public finance indicators' improvement is due to the annual revenue growth rate which exceeded the expenditure growth rate. This has contributed to reducing the gap between revenues and expenditures, achieving a primary budget surplus and reducing overall deficit rates. Actions and reforms that support growth and economic activities have also contributed to the improved public finance conditions.

Revenue and Expenditures (Annual Growth Rate)



Source: MOF

Key Reforms and Assumptions as Reflected in the Draft Budget Estimates for FY 2019/2020

- Targeting a non-sovereign tax revenue increase of 0.5% of GDP, taking into account the efforts made to improve tax administration, expand automation and development programs, and broaden the tax base.

- Full activation of electronic payment and collection to ensure the timely payment of financial obligations in favor of the State budget and to reduce the need for borrowing as well as the commitment of all parties to the public budgetary agencies' financial allocations.

- Increasing budget allocations and procedures for stimulating economic activity significantly higher than the rate of growth of the remaining items of expenditures. The key allocations include export development, public investment, industrial utilities and provisions for maintenance, goods and services required for operation.

- Increasing the total number of Government investments funded by the Treasury to LE133 billion with a growth rate of 33% compared to the investment allocation in the previous fiscal year, which is the highest annual growth rate achieved across all budget chapters, other than approximately LE 7.0 billion in external loans to finance investments.

- Allocating LE3.5 billion for the delivery of natural gas to about 1.3 million new housing units during the fiscal year 2019/2020.

- Commitment to achieve constitutional entitlements (increase in the allocation of health, education and scientific research to 10% of GDP) while working to increase this expenditure's efficiency and ensure that it is used to develop and improve the services provided to citizens in health and education.

- Increasing health care budget allocations to reflect the fulfilment of the Treasury's obligations in the implementation of the Comprehensive Health Insurance Law, including the collection of resources provided for health insurance, noting that the allocations of treatment at the State's expense for those unable to afford the cost and health insurance in the "Subsidies, Grants and Social Benefits" chapter reaches about LE10 billion.

- Increasing budget allocations for local units to develop local services provided to citizens and to develop slum areas in order to implement constitutional provisions and considering the new local administration law's proposals being discussed in the House of Representatives.

- Increasing budget allocations of State budgetary agencies for water, lighting, and the use of fuel to meet increases in the prices of those services and goods and to ensure that the authorities can pay amounts due regularly to the Government agencies that provide those services to ensure their financial sustainability.

- Maintaining adequate and appropriate financial budget allocations to subsidize food commodities to ensure the availability of bread and basic ration commodities to some 70 million citizens.

- Expansion of centralized procurement to meet budgetary agencies' needs and in parallel maximizing budget financial savings.

General Revenues

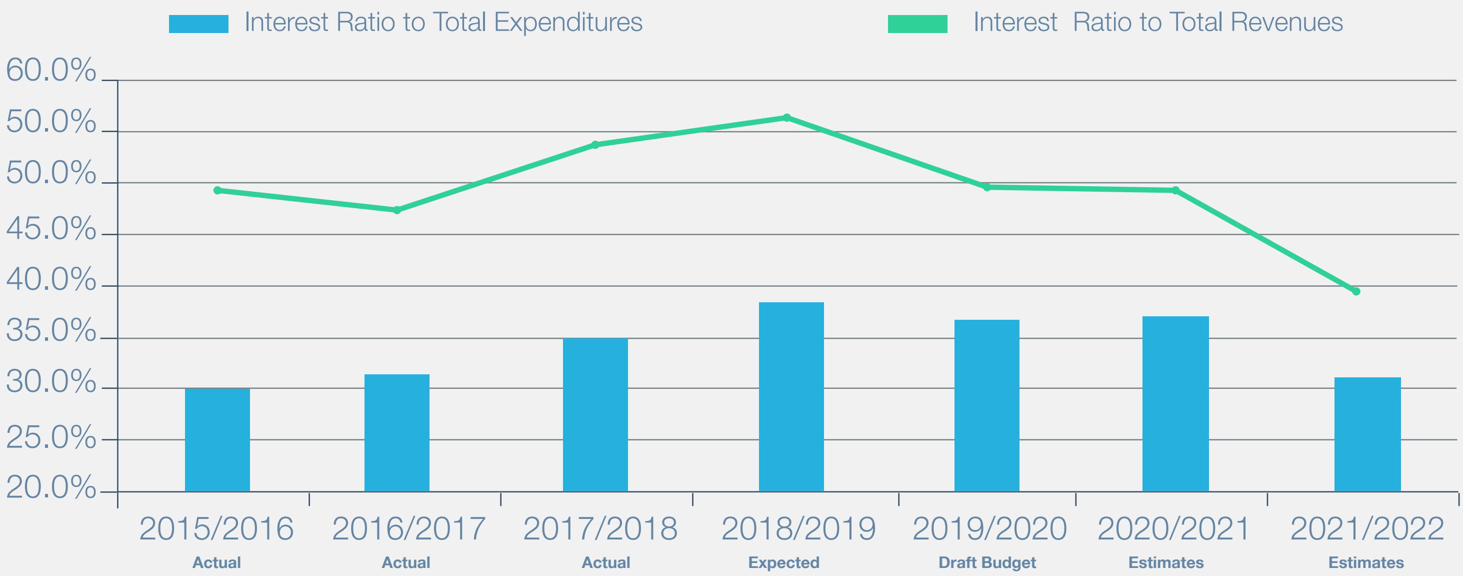
The draft budget for FY 2019/2020 includes an annual increase in total revenue by about 16% compared to the previous year's updated estimates to reach about LE1134.4 billion (18.4% of GDP). This result is due to the continued improvement in economic activity performance and the full implementation of tax and non-tax reform measures during the previous period as well as the measures targeted in the proposed draft budget.

This will broaden the revenue base effectively and equitably and increase tax base linkages to economic activity.

Furthermore, the estimates reflect the impact of automation reform implementation, tax administration performance improvement, and full and effective tax laws and decrees enforcement, the most important of which is the VAT Law, while increasing registrars' number subject to such Law. Moreover, estimates shall reflect the expansion in identifying the taxation community, services provided improvement, Self-Employment Law continued activation and self-employed registration expansion to broaden the tax base. Estimates shall also reflect implementation of the development fees law amendment approved by your Distinguished House last year, capital gains tax collection, tax treatment implementation on free zone transactions, in addition to the implementation of new treatment on Government securities returns, such as treasury bills and bonds.

General Expenditure

Given the economic targets and assumptions of growth rates, inflation rates, and expected interest rates on local and international bills and bonds issued by the Government and taking into account the most important primary commodities' global prices and targets for the general revenue range, both tax and non-tax revenue is expected to be collected. This is a result of the fiscal and economic reform program's continued implementation, as well as the goal to reduce budgetary agencies' debt ratio to GDP to 89% in June 2020 compared to 108% of GDP in June 2017. The general expenditure amount other than interest payments in the FY 2019/2020 draft budget must not exceed about LE1005.4 billion. This spending cap will allow the primary surplus target of 2% of GDP to be achieved, thus reducing budgetary agencies debt ratio to GDP.



Second: Government's National Economic Reform Program

Vision and Objectives:

Balance the achievement of social protection and human resources development requirements based on the constitutional entitlements and continued structural and institutional reforms. In the economic and human resources development draft budget for FY 2019/2020 we will focus on increasing budget allocations for education and health care system reform programs and increasing budget allocations for wages, pensions, and social protection programs that will support the broader categories of the middle class and disadvantaged groups. We will also work to support productive economic activities, maximizing the return on State assets and continuing proper pricing of production inputs with increased adoption of cash subsidies and improved targeting of disadvantaged groups on an accrual basis.

To achieve these requirements, the GOE will support the industry and export sectors, stimulate consumption and private investment, and control the Government spending structure by increasing allocations for education, health care, and other social programs that are efficient and effective. The GOE is also aiming to make Egypt a regional energy hub by increasing and stimulating investment in clean, new, and renewable energy projects, thus contributing to the targeted growth rates that ensure the creation of enough jobs that address the large and continuing increases in population.

The GOE will therefore pursue four main targets:

- Achieve high growth rates:
by increasing the real growth rate to about 6% during FY 2019/2020.

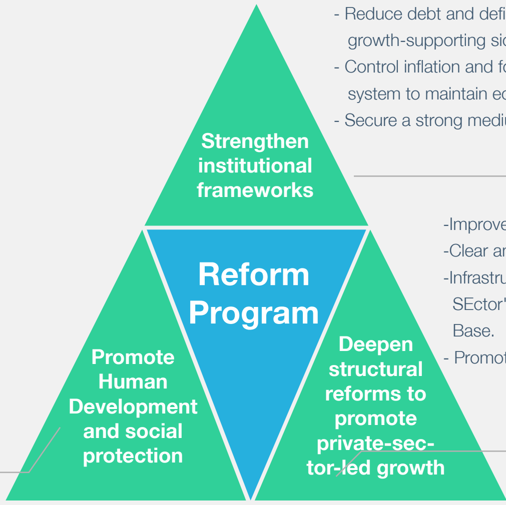
- Create new job opportunities:
by reducing unemployment rates by about 9% during FY 2019/2020 and providing decent, real, and productive job opportunities for young people.

- Maintain fiscal stability:
by achieving a primary surplus of the State budget of 2% of GDP and reducing public debt levels to 89% of GDP during 2019/2020.

-Stimulate the savings and investment policy:
by increasing investment rates to about 19% during the new fiscal year.

The GOE recognizes that sustainable development will be achieved only through an integrated reform program that incorporates economic and social reforms and human resources development reforms, in which priorities are identified and challenges are recognized and addressed in a full, integrated, and coordinated manner.
With this in mind, gradual implementation of reforms has been taken into account in order to meet the challenges and constraints that are most influential on economic activity and the business community in order to increase the competitiveness of the Egyptian economy and enhance its ability to attract investment, especially in sectors that contribute to the provision of decent living standards for the next generations in addition to the formulation and implementation of effective programs in the field of protection and social justice. Since FY 2018/2019 we have begun to focus on human resources development programs, especially education system reform programs, and started implementing health care programs and initiatives in preparation for the introduction of the comprehensive health insurance system in FY 2019/2020.

The Egyptian economic reform program is based on three main pillars



- Rationalize expenditures and enhance revenues.
- Reduce debt and deficit ratios to GDP to promote growth-supporting sical policies.
- Control inflation and follow a flexible exchange rate system to maintain economy competitvenss.
- Secure a strong medium-term energy supply system.

-Improve business environment.
-Clear and Predictable Tax System.
-Infrastructure Development with Increased Private SEctor's Role Simplify and Support Manufacturing Base.
- Promote Export Sectors.

-Universal Health Coverage for all.
-Modern and Integrated Educational System.
-Social Security Pension Systems Reform.
-Cash Transfer Programs.
-Social Housing Project.
-Expenditure Increase on Education, Health and

1-Strengthening the institutional frameworks and the ability to maintain the flexibility and stability of the macro economy,

which aims to integrate all policies pursued, especially fiscal and monetary policies. The purpose is to create a stable economic environment capable of attracting more foreign investment through the gradual adoption of an effective inflation-reduction system and a more flexible exchange rate management system. Furthermore, the GOE will seek to prepare, circulate, and implement the medium term debt strategy as well as the medium term revenue strategy.

2-Deepening structural reforms to promote private sector-led growth.

The GOE is currently adopting a new package that contains development of a new system to support, encourage, and increase export earnings. This system includes clear performance indicators that are audited annually, to help establish a strong and diversified export base and export products with higher added value. The GOE is also seeking to raise and increase the competitiveness of the Egyptian economy by adopting and applying a new system of allocating and pricing industrial lands to ensure the promotion of fair competition and the speed, ease, and clarity of the foundations of industrial land allocation and ensure land availability for every investor willing to invest in industrial activity. The GOE is also working to develop a new tax system to encourage and support small, medium, and micro enterprises and to encourage the integration of enterprises and entities that operate in the informal economy into the formal economy. The GOE also aims to address labor market challenges through the implementation of reforms that remedy the mismatch of employment skills (especially of young people) with labor market needs and increasing the rate of women's participation in the labor market.

In parallel, the GOE will implement the public offerings program to provide additional funding for these companies to carry out their expansions without borrowing and to add additional resources to the budget and to expand and provide additional investment opportunities through the Egyptian stock exchange to ensure its continued attractiveness.

3-Promoting human resources development and social protections;

The GOE is currently adopting a new package that contains development of a new system to support, encourage, and increase export earnings. This system includes clear performance indicators that are audited annually, to help establish a strong and diversified export base and export products with higher added value. The GOE is also seeking to raise and increase the competitiveness of the Egyptian economy by adopting and applying a new system of allocating and pricing industrial lands to ensure the promotion of fair competition and the speed, ease, and clarity of the foundations of industrial land allocation and ensure land availability for every investor willing to invest in industrial activity. The GOE is also working to develop a new tax system to encourage and support small, medium, and micro enterprises and to encourage the integration of enterprises and entities that operate in the informal economy into the formal economy. The GOE also aims to address labor market challenges through the implementation of reforms that remedy the mismatch of employment skills (especially of young people) with labor market needs and increasing the rate of women's participation in the labor market. In parallel, the GOE will implement the public offerings program to provide additional funding for these companies to carry out their expansions without borrowing and to add additional resources to the budget and to expand and provide additional investment opportunities through the Egyptian stock exchange to ensure its continued attractiveness.

Quantitative Objectives of the Economic Reform Program During FY 2019/2020 and in the Medium Term

Increase the annual real growth rate to 6% in 2019/2020 and to 6-7% in the medium-term.	**Increase Growth Rate**
Create real jobs opportunities to reduce unemployment to 9% in 2019/20202 and 7-8% in the medium-term.	**Employment**
Reduce budget deficit to 7.2% of GDP in 2019/2020 and reduce public debt of GDP 89%.	**Fiscal Control**
Increase foreign Exchange reserves to more than eight months of imports in 2019/2020.	**Foreign Exchange Reserve Balance**
Lower inflation rates to 10% in 2019/2020 so as to decrease in the medium-term.	**Price Control and Stabili-**
Increase savings and investment rates to about 12% and 19% respectively in 2019/2020.	**Saving and Investment Policies**

Current Achievements

Since the beginning of FY 2016/2017, the GOE has implemented its ambitious national economic reform program, which ensures implementation of fiscal, monetary, and structural reform packages and measures that have helped restore confidence in the Egyptian economy's capabilities. As can be seen in the following figures, in the years leading up to the end of FY 2018/2019, the GOE has committed to implement all targeted reforms within its comprehensive reform program, **with a recent focus on targeting structural reforms. Structural reforms are a priority during this phase of reform to ensure high and sustainable growth and employment rates and to provide adequate financial allocations that ensure the reforms' sustainability and benefits in the medium term.** Spending on social protection and human resources development programs will be increased, particularly the development of health care and education systems and a comprehensive health insurance system.

FY 2016/2017

Aug

Correction of electricity prices: implementation of electricity tariff increase for the third consecutive year(average increase of 27%), with the aim of improving energy sector efficiency and reducing the cost of subsidy.

adoption of the Civil Service Law: aims to contain the wage bull and introduce perfor-mance-based payment structures.

Sept

VAT Law: Approved and ratified by Parliament, with the aim of broadening the tax base and improving collection mechanisms.

Nov

Increase the prices of some pertoleum products from 31% to 47% the: The reform aims to increase the efficiency of subsidy granted to the citizens and reduce the financial burden on the budget.

Exchange rate liberalization: with the aim of eliminating the market distortions, stabilizing the exchange rate system and increasing the availability of foreign currency.

Dec

IM's Executive Board approves Egypt's $12 billion loan.

Jan

Issue Dollar bond: Egypt issued $billion in bonds on January 24, 2017. This is the largest and first edition in the international financial markets since June 2015.

April

Adoption of the Industrial Licenses Act the house of Representatives

May

Egypt reached an agreement at the IMF expert level to allow the loans 2nd tranche be made available for $1.25 billion.

The House of Representatives approved the Investment Law.

Egypt issued bonds: $3billion on three tranches on May 24, 2017.

June

$3billion on three tranches on May 24, 2017.

FY 2017/2018

Raise VAT from 13% to 14% on July 1, 2017.

Increase Cash Subsidy by about LE 100 monthly for beneficiaries of the 1.7 million households.

Implement **a new increase in the prices of some petroleum products** with an average of 43% to reduce subsidy

Repay $1.5 billion Arrears to foreign oil companies

July

Approve Exceptional Bonus of 17% and 10% with a minimum of LE 65 twice under 2017/2018 budget, for employees subject to Civil Service Law and Private cadres

Correct Electricity Prices: implement electricity tariff increase for the fourth consecutive year (average increase of 37%) to improve energy sector efficiency and reduce subsidy cost.

Increase **Tax Exemption** limit from LE 65,500 to 7,200.respectively.

Increase Pensions by 15% with a minimum of 130 for about 10 million pensioners.

Increase Monthly Cash Subsidy per capita on ration cards from LE 21 to 50 to allow doubling the amount of goods purchased by 140%.

Aug

Increase Bus Transport Tariff Increase Bus Transport Tariff by LE 0.5-1.00 + water Tariff by 50% on various consumer segments.

Nov

Cancel Paper Cheques Handling within all the State's Administrative Bodies and limit it to electronic transactions.

Close 61 thousand central bank accounts and fully activate Single Treasur Account.

Increase Taxes on Tobacco and Cigarettes' Retail Price by LE 0.75 to 1.25 per pack on Various consumer segments.

Dec

IMF's Executive Board Approves 3rd tranche Disbursement of the loan to support budget with $2 billion.

Adopt **Corporate LAw** Amendments.

Promulgate and Ratify the Universal Health Insurance Law to all Egyptians.

Jan

Activate Bankruptcy Law after its amendment which aims to facilitate the entering and exiting the market process and adding post-bankruptcy procedures.

Feb

March

Target All Unit Account Automation in the Stat's Administrative Bodies and implement GFMIS.

2018/2019

- Develop the property tax system on buildings and development of information, inventory and inspection systems.

- Establish a system for monitoring, evaluating and managing financial risks, including the issuance of government guarantees in a manner that ensures follow-up of their financial implications on the public treasury.

- Continue the program of rationalization of energy subsidy and use of savings to finance cash support program.

- Launch of the public offerings program IPO includes the identification of at least 6-8 governmental institutions and companies to offer part of it (non-Governing share) on the Egyptian stock exchange in order to provide additional investment opportunities for the money market, and to provide additional financing to those companies and the stare budget.

- Complete the automation of all the accounting units in the country and the application of the GFMIS system to achieve full financial control.

- Work with the UN Women to introduce and implement GRB.

2019/2020

-Continue the program of rationalization of energy subsidy and use of savings to finance the cash support program.

-Reform the pension system to ensure its financial sustainability and improving the conditions of pensioners.

-Rationalize of tax and customs exemptions and ensuring the effective application of the law.

-Continue the public offerings program.

-Work on a comprehensive review of the wage system and increasing the minimum wage from 1200 to 2000 pounds

-Promulgate the Uniform Customs LAw

-Increase the minimum amount for all job grades

-Law on standardization of tax procedures

We would like to reiterate the GOE's commitment and determination to continue implementing the economic reform program at the same pace and seriousness in the coming years, while accelerating implementation of the structural reforms necessary to sustain the fiscal and economic reforms that have taken place during the first phases of the reform. The GOE and the Ministry of Finance continue to expand protection and social justice programs, increase budget allocations for economic activity support and human resources development efforts, and improve basic services for citizens.

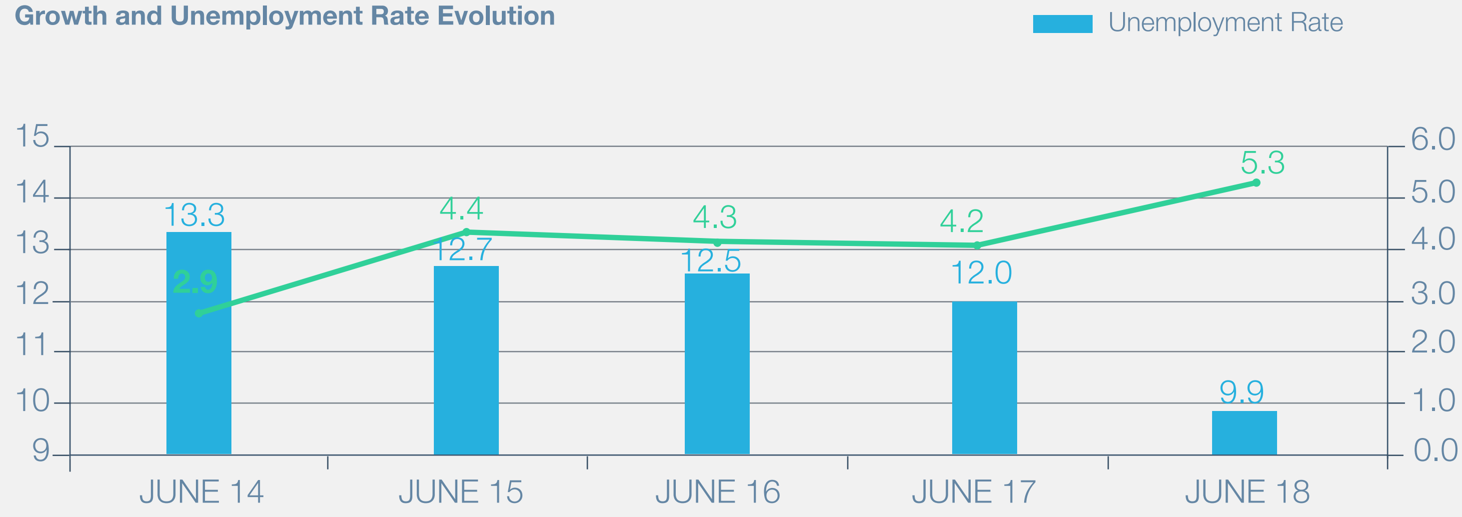
Third: Economic Performance Results during FY 2017/2018 and FY 2018/2019

A-Results of FY 2017/2018

The results issued by the Ministry of Planning, Monitoring and Administrative Reform indicate that the Egyptian economy has achieved a real growth rate of 5.3% during FY 2017/2018, despite the unprecedented challenges and reform measures taken by the Government to reduce the budget deficit and restore macroeconomic condition stability.

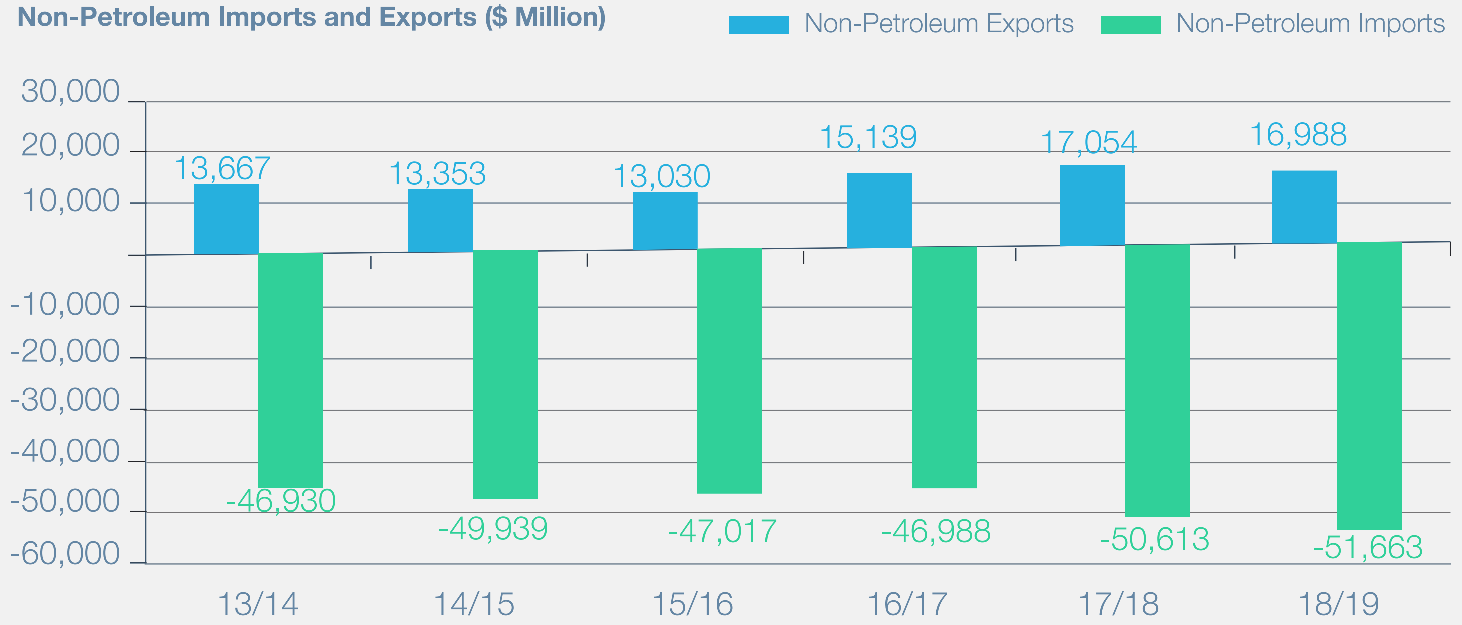
In view of the growth structure, the increased contribution of both investments and exports to growth has been evident compared to recent years. This is a positive development that indicates that the growth structure has become more balanced and sustainable, especially as domestic consumption has become a main contributor and engine of growth in recent years.

Growth and Unemployment Rate Evolution



During FY 2016/2017, the CBE took an unprecedented measure under the integrated economic reform program. This involved the exchange rate liberalization (floating) on November 3, 2016 and the deregulation of foreign exchange, which quickly led to a structural change in the exchange rate management policy to reflect the forces of supply and demand, elimination of the parallel foreign currency exchange market, and availability of foreign currency in the official markets for dealers. **In continuation of these efforts, the CBE implemented the second phase of the banking market control plan on December 31, 2018. It did so by terminating the CBE's mechanism for the transfer of foreign investors funds (repartition mechanism), which allowed for greater flexibility on both the supply and demand sides in foreign exchange markets.**

Non-Petroleum Imports and Exports ($ Million)



Source: CBE

Furthermore, the actual data indicate the stability of the balance-of-payments indicators during 2017/2018, particularly the non-oil balance of trade performance, which rose by 5.4% in 2017/2018 compared to the previous year. Non-oil exports rose by about 1.9 billion dollars, registering 17 billion dollars against 15.1 billion dollars in 2016/2017 with an annual growth rate of 12.7%. Foreign investment in Government securities increased to more than 12 billion dollars in June 2018, compared to less than 1 billion dollars before the exchange rate liberalization in November 2016.

Expected Economic Performance in FY 2018/2019

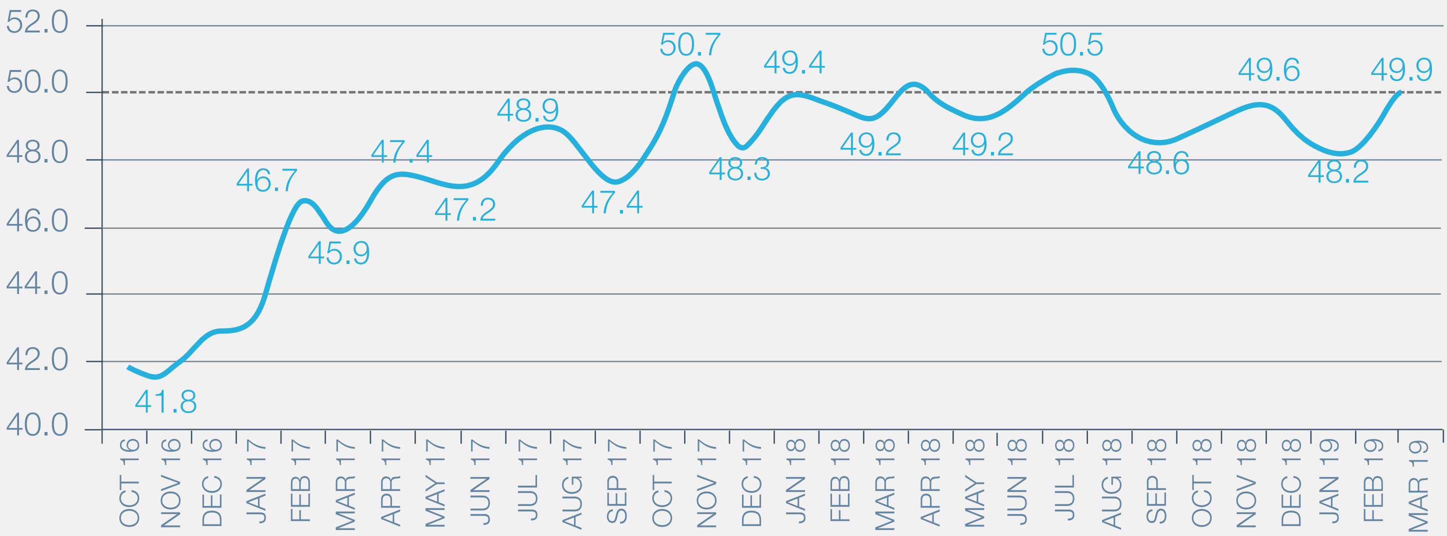
The Government's program aims to achieve an economic growth rate of at least 5.6% in FY 2018/2019 as a step toward achieving growth rates exceeding 6% over the medium term, with this growth being inclusive and sustainable so that its effects are reflected in the various segments of society. Such growth is accompanied by a significant increase in employment rates and the creation of jobs that absorb new entrants into the labor market every year in addition to unemployed, job-seeking people in order to reduce unemployment rates.

To achieve the target of lowering the unemployment rate during FY 2018/2019, 800,000 to 900,000 jobs should be created. It is therefore important to continue efforts to strengthen and boost economic activity and achieve the targeted growth rates to reduce the unemployment rate to 7-8% over the medium term.

In this context, the initial and promising results announced by the Ministry of Planning, Monitoring and Administrative Reform for the first half of FY 2018/2019 indicate a growth rate of 5.6%. This is a very good result, indicating continued economic performance improvement compared to the same period during the previous fiscal year that had a growth rate of 5.3%. This improvement in economic performance reflects the continued implementation of structural reforms and improved confidence in the Egyptian economy's capabilities. In addition, estimates show that the unemployment rate in December 2018 fell to its lowest level since fiscal year 2011/2012, registering 8.9% compared to about 10% during the same period in the previous year. This reflected the ability of growth to create enough jobs that contribute to unemployment reduction, a measure that undoubtedly makes many households and citizens feel they are reaping the benefits of growth.

The following figure shows an improvement in the Purchasing Managers' Index (PMI) performance. This reflects improved confidence in the economic performance and the economic outlook for the private sector operating in all economic sectors except the oil sector (oil and gas). This is a good indicator of improved demand for those companies' products, from either domestic demand or export requests from abroad.

Purchasing Managers' Index (PMI)



On the financial side, the initial financial indicators for the period July-March 2018/2019 indicate continued improvement in financial performance with the overall deficit as a ratio to GDP reaching 5.3% compared to 6.2% during the same period of the last fiscal year, while the primary balance achieved a surplus of 0.74% of GDP compared to a primary deficit of 0.2% of GDP during the same period of the previous year. This results from the continuation of economic activity indicators and the Government's continued economic and fiscal reform program implementation, where most budget target fiscal measures were approved at the beginning of the fiscal year (June and July 2018). Most important are the measures to rationalize energy subsidies (petroleum products and electricity), adoption of amendments to the development fees law and the law on tax disputes termination, as well as the tax increase on tobacco and cigarettes.

The July-March period also saw the continued growth of tax revenues with an annual growth rate of 16%, despite low tax revenues from sovereign authorities, where several types of tax revenues achieved a remarkable improvement in performance. This included income tax (20%), customs tax (18%), value-added tax on goods and services (18%), and real estate tax (71%).

In July 2018, the GOE announced the implementation of a comprehensive package of social measures, which included an increase in wages and pensions, a review of the tax-exempt limit to meet the increase in prices, and mitigation of the negative impact of reform actions on disadvantaged groups. The total annual cost of these measures was about 1.3% of GDP.

Government investments also saw an unprecedented increase during July-March of the current fiscal year, reaching about 50% or about LE90 billion, including LE68 billion of Treasury-funded investments. The fund allocation for the purchase of goods and services increased by 48% during July-March, particularly in the education and health sectors. This reflects the greatest possible interest in meeting the basic needs of citizens and increasing spending on human development, maintenance and infrastructure development in all governorates.

Fourth: Prospects of Global Economy for the Draft Budget of FY 2019/2020

The growth rate of global economic activity in 2019 is expected to reach 3.3%, down from 3.6% in 2018. World trade growth rates are projected to range from 3.4% in 2019 to 3.9% in 2020. The expected interest rates are also highly dependent on the developments of the economic activity in advanced economies and on the pursued course of macroeconomic policies. As a result of the predicted slowdown in global economic growth, the U.S. Federal Bank is not expected to raise interest rates until the end of 2019. The same is true for the European Central Bank (ECB), which is expected to maintain at least the prevailing interest rates in the first half of 2019.

1-Global Economy Performance, Interest and Exchange Rate

The growth of global economic activity is expected to slow in 2019 and 2020 to 3.3% and 3.5%, down from 3.6% in 2018. The global economy is still vulnerable to a number of risks that may negatively affect the performance of developed and emerging economies, including the Egyptian economy.

On the monetary policy side, the United States is adopting monetary policies that will raise interest rates in the long term and stabilize them in the extended short term from 2019 to 2020, with long-term inflation expectations moving downward. The U.S. Monetary Authority raised short-term interest rates in December 2018 to 2.25 - 2.5%, while monetary policy stabilized in most other developed economies.

It should be noted that the tightening of U.S. monetary policy leads to a tightening of external financing conditions at a time when many emerging countries are moving to issue foreign currency bonds to meet their budget deficit financing needs. Raising interest rates on the dollar may result in capital outflows from developing countries and emerging and emergent markets into the United States, thus creating potential pressures on interest and exchange rates in emerging countries and contributing to higher public debt service burdens in those countries.

Due to lower estimates of global economic growth, long-term sovereign bond yields declined in the United States, Britain, and Germany. The draft State budget for fiscal year 2019/2020 was prepared in light of the following assumptions on the prospects of the global economy.

Global Economy Prospects

Item	2018	2019	2020	2021	2022
Global Economy					
Real GDP Ratio to Growth Rate (%)	3.6	3.3	3.6	3.6	3.6
Inflation Rate (%)	3.6	3.6	3.6	3.5	3.5
Goods and Services Trade Growth Rate (%)	3.8	3.4	3.9	3.9	3.9
European Union					
Real GDP Ratio to Growth Rate (%)	2.1	1.6	1.7	1.7	1.6
Inflation Rate (%)	1.9	1.6	1.7	1.8	2.0
Emerging Markets and Developing Economies					
Real GDP Ratio to Growth Rate (%)	4.5	4.4	4.8	4.9	4.8
Inflation Rate (%)	4.8	4.9	4.9	4.5	4.4
Asia					
Real GDP Ratio to Growth Rate (%)	6.4	6.3	6.3	6.3	6.2
Inflation Rate (%)	2.6	2.8	3.1	3.3	3.3
MENA Region					
Real GDP Ratio to Growth Rate (%)	1.4	1.3	3.2	2.8	2.8
Inflation Rate (%)	11.4	10.0	9.6	8.8	8.4
Africa and the Sahara					
Real GDP Ratio to Growth Rate (%)	3.0	3.5	3.7	3.7	4.0
Inflation Rate (%)	8.5	8.1	7.4	7.0	6.9

All international reports confirm that there are many risks surrounding the global economy, which could negatively affect the prospects for economic growth. The trade dispute between the United States and China remains at the top of those risks, and the lack of agreement between the two countries may have negative repercussions on the growth of the world economy. The slowdown in China's economic growth compared to the high growth rates of the past decades will have negative repercussions on global growth rates, financial markets, and global commodity markets. The possibility of a delay in reaching an agreement between the United Kingdom and the European Union regarding Brexit adds further uncertainty and challenges for the European region’s economic performance.

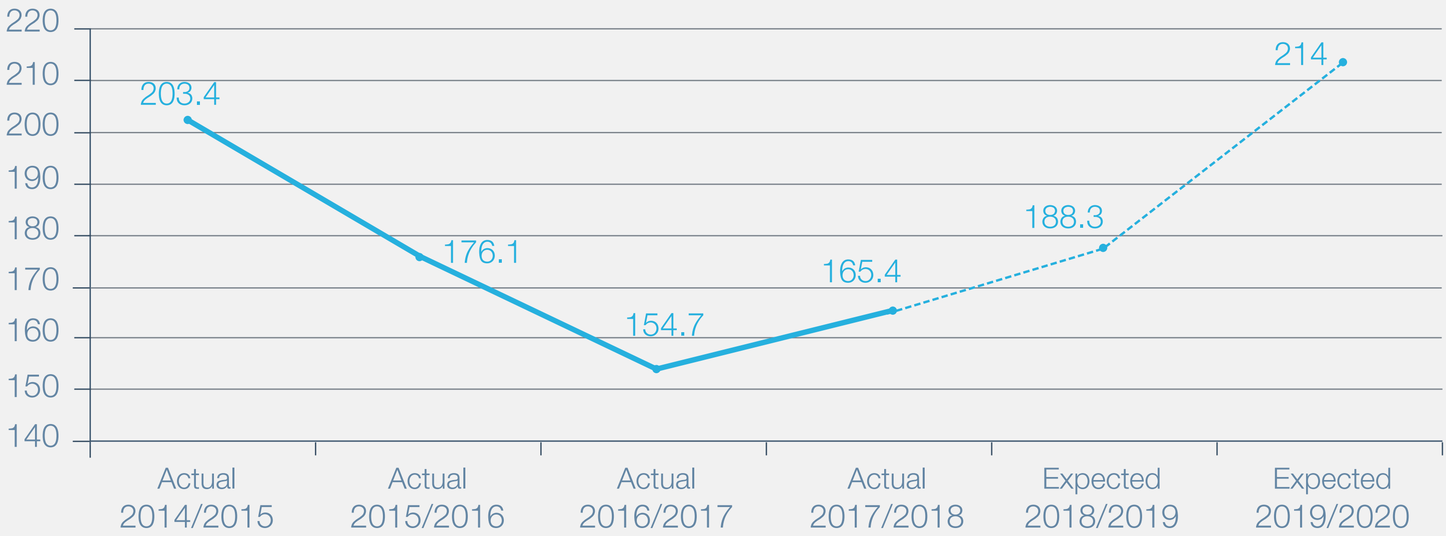
2-Basic Commodities

The latest global estimates indicate stability in world oil prices in 2019 at levels ranging from USD65 to USD70 per barrel, according to future oil prices purchase contracts, International Monetary Fund (IMF) forecasts, and several international financial institutions. Brent crude rose in the first quarter of 2019 by about 30% to about USD68 a barrel due to OPEC's and Russia's commitment to cut production, in addition to sanctions on Iran and low production levels in Venezuela due to political and economic instability.

With regard to mineral prices and markets, the IMF expects markets to witness rising prices during 2019, followed by a price drop in 2020, while the World Bank predicts price stability as a result of slower growth in China and the result of trade disputes between the United States and other countries. Similarly, for food commodities, the World Bank and the IMF expect a decline or at least price stability in 2019.

Prices of primary commodities, including wheat, are expected to break the downward trend in previous years and climb in the next fiscal year, so the State budget estimates have been prepared under the assumption of buying wheat at USD214 per tonne.

Global Wheat Prices-USD/ Tonne



3-International Trade Movement

World trade growth rates are expected to range between 3.4% in 2019 and 3.9% in 2020, compared to about 3.8% in 2018. This comes in light of the possibility that the United States may continue to adopt more trade restrictions and a continuing disparity in trade policy between the United States and China, as well as the impact of expectations for the continued slowdown in China's economic growth in the coming years.

Fifth: Prospects of Local Economy Accompanying the Draft Budget for FY 2019/2020

The assumptions of the Egyptian economy's performance over the next fiscal year 2019/2020 reflect increased growth rates of 6%, with a focus on inclusive and sustainable growth that is reflected in all segments of society. The Government aims to raise the levels of employment and reduce unemployment by providing decent, productive, and adequate jobs to absorb the number of new entrants into the labor market each year in the short and medium term.

Therefore, the GOE aims to implement new policies that will stimulate productive economic activities that support growth, especially in the industrial and export sectors, and stimulate savings and investment policies in infrastructure and human resources development that are the engine of economic growth. The Government also continues to implement sound pricing policies for production inputs to raise the Egyptian economy's competitiveness, encourage investment in labor-intensive projects, and encourage national industry. Therefore, during the current fiscal year 2018/2019, the Government liberalized the exchange rate for the customs dollar for non-essential goods. The Government is also working on legislative amendments to support small, micro, and medium-sized industries and enterprises, simplifying, facilitating, and clarifying the system of allocation and pricing of industrial land, and making amendments to the law on state owned enterprises and the law on protecting competition and monopoly prevention practices.

It should be noted that international institutions upgrading of Egypt's credit rating reflects the fact that international institutions and investors are aware of the Government's seriousness in implementing the policies of the national economic reform program. For its part, the GOE aims to continue to increase the value of investments funded by the public treasury during fiscal year 2019/2020 by about 40% compared to the current fiscal year to reach about LE140 billion (LE133 billion financing treasury deficit and LE7 billion of external loans to finance investments). During 2019/2020, the Government aims to launch the first green bonds that would finance investments in eco-friendly projects and reduce pollution, which will contribute to the GOE's fulfillment of the commitments issued at the Climate Change Summit in Paris.

The Government is also aiming to improve the living standards of citizens, especially as the financial control efforts associated with the economic reform program continue. The President has instructed the GOE to take many measures to improve and develop the State agencies' wage structure and increase pension amounts and the minimum pension, which will cost the Treasury about LE60 billion in FY 2019/2020. The Government also aims to include some 100,000 new households to benefit from Takaful and Karama subsidy programs starting July 1, at a cost of up to LE1 billion.

In an unprecedent step in the financial control process, work is underway to finalize the actuarial studies to start the payback of pension funds by the Ministry of Finance and National Investment Bank. The public treasury's and the National Investment Bank will refund to the pension funds, and the amounts required to complete this effort will be included in the State budget based on independent actuarial studies. The Central Accounting Agency is working to approve these studies, which will be promulgated by legislation by the Distinguished House of Representatives to regulate this. In addition, the GOE will endeavor to invest the insurance funds and their returns in a fair and secure manner for the benefit of pensioners and their beneficiaries.

In terms of the draft budget's basic assumptions for FY 2019/2020, the Brent crude oil price was assumed to be USD68 per barrel and the price range was assumed to be around an average of USD70 per barrel in the medium term. This represents a slight rise from the estimates for the previous FY 2018/2019 due to the supply-side fluctuations in the context of the extension of the OPEC+ group's decisions to reduce the daily production of crude, production disruptions in Venezuela and Nigeria, political turmoil in Libya, and some decisions of international maritime organizations to reduce carbon emissions and replace fuel oils with a higher fuel efficiency such as diesel, which would raise the levels of demand for diesel and thereby increase its price in the world market.

As for the primary commodities prices, including wheat, the budget estimates are based on the expectation that prices will rise by about 16%, which is the reversal of the downward trend in prices over the last three years. The average price estimates for wheat in FY 2019/2020 run about USD214 a ton, reaching USD250 a ton after adding the cost of transportation and freight. A price has been assumed for the purchase of local wheat equal to the purchase price of imported wheat to ensure that there is no parallel market and to eliminate any manipulation that would increase the cost to the country.

Sixth: Financial Policy and Key Results Achieved to Date

Fiscal policy is one of the main pillars and instruments of the GOE's comprehensive economic reform program because of its importance in stabilizing macroeconomic indicators through fiscal control and sustainability of public budget deficits and debt indicators in the medium term.

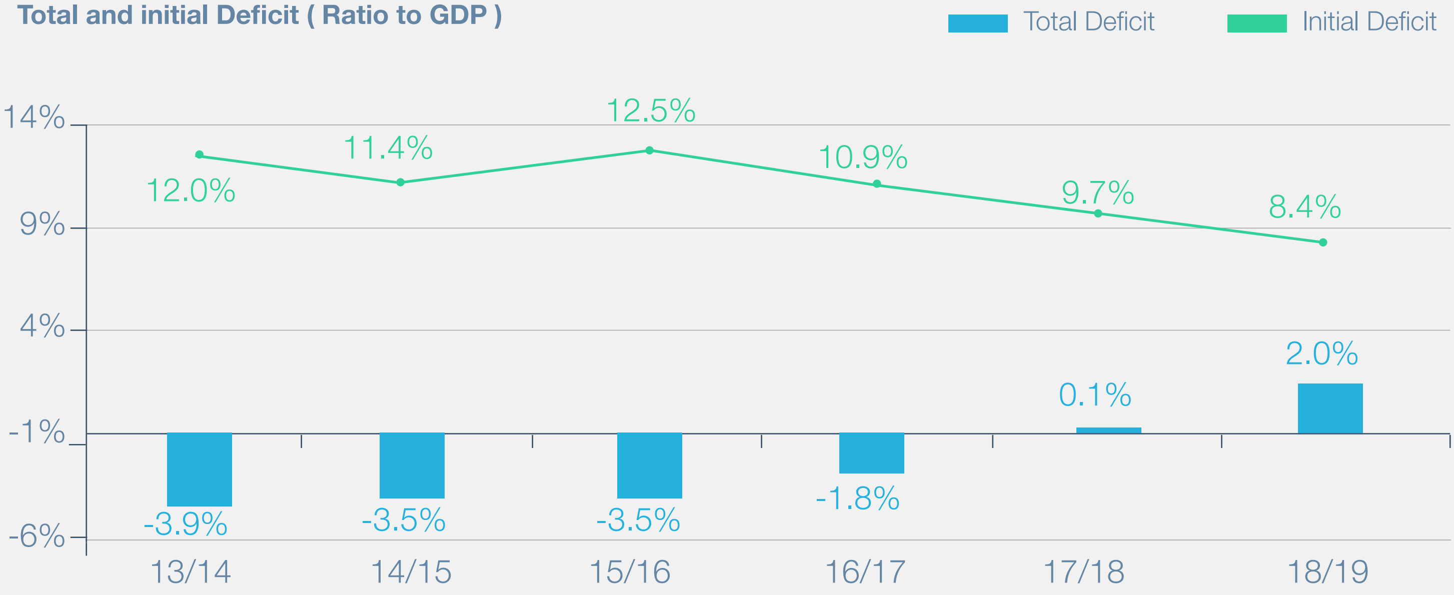
Fiscal policy has a vital role and contribution in stimulating economic activity and operating rates, enhancing the efficiency and capacity of the social protection system and improving the quality, efficiency, and availability of basic services to a broad spectrum of citizens.

In this context, reducing the budgetary agencies' debt rates is the main objective of fiscal policy in the medium term. The Ministry of Finance aims to reduce the budgetary agencies' debt rates to more sustainable rates of 80% of GDP by the end of fiscal year 2021/2022, compared to a debt ratio of 108% at the end of the year 2016/2017. To ensure this, fiscal policy aims to achieve an annual primary surplus of 2% during the period 2019/2020 to 2021/2022 compared to a primary surplus of 0.1% of GDP in 2017/2018. Fiscal policy aims to achieve this by broadening the tax and non-tax revenue base, continuing reforms to the public expenditure structure to ensure its effectiveness and to provide fiscal space to enable the State to increase its spending on employment, production, and human development rather than ineffective expenditures, such as the debt service bill. Fiscal policy therefore targets sustainable public expenditure growth rates below the rates of public revenue growth.

Updated Fiscal Estimates for FY 2018/2019

The GOE has confirmed its commitment to maintain the pace of economic reform and to continue to implement the fiscal and social measures targeted to achieve the original budget targets adopted by the Distinguished House of Representatives last June without any deviations. Accordingly, we aim to achieve a sustainable primary surplus of about 2% of GDP, reduce the budget deficit to 8.4% of GDP, and work to reduce the budgetary agencies' debt rate to 92.5% of GDP in June 2019 compared to about 97% in June 2018.

Total and initial Deficit (Ratio to GDP)



The GOE also aims to increase tax revenue to about 14.5% of GDP during FY 2018/2019 through the continued development of the tax system and revenue source diversification to raise the total revenue expected during the year by about 19% compared to the previous year due to higher revenues from non-sovereign taxes which amount to about 31%. The results achieved until the end of March 2019 and the targets of the entire fiscal year reflect the success of the Ministry of Finance's efforts in implementing the tax policy reform program and maximizing State revenue by improving actual implementation of the Real Estate Tax Law and strengthening the customs and general tax authority's performance.

The fiscal reform program also aims to gradually reduce public spending growth rates to about 13.9% in 2018/2019 compared to the 20.6% growth rate in FY 2017/2018 as a result of continued efforts to reform the spending structure and reduce the increase in the debt service bill. Controlling the growth of wage bill is expected during FY2018/2019, reducing its ratio of GDP to 5.1% compared to 5.4% in 2017/2018, due to the continued application of the Civil Service Law.

The allocations of subsidies for rationed goods is expected to increase in 2018/2019 by about 8% to reach LE87 billion, as well as cash subsidies (ration card subsidy + Solidarity Pension + Takaful and Karama subsidy program), in light of the increase in the value of cash subsidy for ration card holders by 138% compared to the beginning of 2017/2018 as well as the increase in the allocation of Takaful and Karama programs by about LE100 per month to the beneficiary households. Government investment is expected to continue high growth during fiscal year 2018/2019 to reach about LE149 billion, including about LE100 billion of deficit-funded investments (Government borrowing), with an annual growth rate of 45%. The allocation of goods and services is expected to increase by about 25% during FY 2018/2019, reflecting the greatest possible attention to meeting the basic needs of citizens and increasing spending on basic services and infrastructure development in all governorates.

Seventh: Financial Estimates Targeted by Draft Budget of FY 2019/2020

To achieve the ambitious and necessary financial targets in the draft budget of FY 2019/2020 as well as in the medium term, and most importantly to achieve a primary surplus of 2% of GDP and reduce the debt ratio to GDP to 80% in June 2020, the Ministry of Finance is continuing to target a comprehensive reform program. This program includes the implementation of policies and legislative reform measures and the development of the Ministry's working system and its agencies to ensure improved efficiency and capacity of its employees with emphasis on the following areas:

1-Broadening the tax base and increasing tax revenue by linking it to economic activity, as the ratio of tax to GDP in Egypt is limited and can be increased (13.5 to 14% on average from 2012/13 to 2018/2019 compared to a global average of about 18 to 20%). **This can be achieved by increasing the effectiveness of targeting non-sovereign tax increases as a ratio to GDP with an annual average of about 0.5% of GDP.**

2-Maximizing the return on State assets by adopting sound economic policies, such as pricing that covers the cost of providing goods, services, and production inputs, and vigorously pursuing the restructuring of the State's financial assets in a manner that ensures a gradual improvement in the financial situation of Government agencies and improvement in services provided, expansion of public-private partnership programs in investment areas, and management of State assets.

3-Raising the efficiency and reprioritization of public spending in favor of marginalized and low-income groups and regions, adopting more efficient and equitable distributive policies, as well as progressively expanding the use of in-kind subsidy programs for eligible groups and targeted areas, increasing the value and spending rates of investment aimed at improving infrastructure and enhancing public services, and automating and linking available databases so as to allow limited State resources to be channeled to eligible groups.

The following table shows the main targets of the draft budget for FY 2019/2020 compared to actual amounts in the previous year.

State Budget Performance Summary Table

Million LE

	2015/2016	2016/2017	2017/2018	2018/2019 Expected	2019/2020 Draft Budget	2020/2021 Estimates	2021/2022 Estimates
Total Revenues	**491,488**	**659,184**	**821,134**	**976,552**	**1,134,424**	**1,248,925**	**1,398,362**
Taxes	352, 315	462,007	629,302	759,948	856,616	1,028,030	1,156,667
Grants	3,543	17,683	3,194	1,150	3,805	3,842	3,842
Other Revenue	135,630	179,494	188,639	215,455	274,003	217,054	237,853
Total Expenditures	**817,844**	**1,031,941**	**1,244,408**	**1,411,996**	**1,574,559**	**1,705,018**	**1,764,671**
Wages and Employees Compensation	213,721	225,513	240,054	270,088	301,115	329,979	368,854
Goods and Services Procurement	35,662	42,450	53,088	60,123	74,923	97,725	111,023
Interests	243,635	316,602	437,448	541,747	569,135	618,605	545,117
Subsidy, Grants and Social Benefits	201,024	276,719	329,379	315,810	327,699	360,295	395,800
Other Expenditures	54,551	61,517	74,758	75,699	90,442	98,234	108,895
Non-Financial Assets Purchase (Investments)	69,250	109,141	109,680	148,530	211,245	200,180	234,983
Financial Assets Net Acquisition	13,139	6,834	9,306	3,762	5,005	10,603	13,579
Total Deficit Targeted	**339,495**	**379,590**	**432,580**	**439,206**	**445,140**	**466,696**	**379,888**
GDP Ration (%)	**12.5%**	**10.9%**	**9.7%**	**8.4%**	**7.2%**	**6.2%**	**4.8%**
Initial Deficit Targeted	**95,860**	**62,989**	**-4,868**	**-102,541**	**-123,995**	**-151,910**	**-165,229**
GDP Ration (%)	**3.5%**	**1.8%**	**-0.1%**	**-2.0%**	**-2.0%**	**-2.0%**	**-2.0%**

Source: MOF

General Revenue

General Tax:

In the draft budget for FY 2019/2020, the GOE will continue to aim to promote the linkage of the State's public revenue to economic activities and the potential untapped power in the Egyptian economy, taking into account the foundations and principles of social justice and ensuring equitable distribution of tax burdens to citizens without compromising disadvantaged classes and to work to improve tax administration to make it more efficient and comprehensive.

Tax revenue in FY 2019/2020 is expected to increase by 12.7% compared to the projection for FY 2018/2019. This mainly reflects the efforts to broaden the tax base as well as the application of structural measures for institutional reform of the tax system in Egypt.

The income tax and value added tax (VAT) are among the most important general tax sources. The income tax revenue from non-sovereign agencies (other than the CBE, Petroleum, the Suez Canal, and taxes on bills and bonds) is targeted to grow in 2019/2020 by 23% to reach LE675 billion, given the continued improvement of economic activity indicators and efforts made by the Egyptian Tax Authority (ETA) to improve performance.

With the efforts of the Ministry of Finance and the ETA to improve performance and increase the ability to achieve additional revenue properly, it is expected that the VAT on all goods and services in FY 2019/2020 will grow by 13.9% compared to the previous fiscal year. This will bring the total to LE364.7 billion, due to improved tax collection efficiency and broadening the tax base through the full implementation of the VAT Law.

Key Procedures for Institutional Reform of the Tax System

- **Development and Simplification of Procedures:**

  - A consultancy contract was signed with Ernest and Young to begin providing consultancy services for the preparation of the E-invoice system's processes and procedures and to prepare the tender documents for this system, which have been completed.

  - A team was sent to China, France, and Mexico to learn about international experiences on the E-invoice systems.

- **Technology and Automation:**

  - The tender for the development of the Egyptian Tax Authority's business process automation system was announced on August 30, 2018, and bids were received from four international alliances specializing in this and filed on October 22, 2018. The procedures for selecting the winning alliance, awarding, and contracting are planned to be completed before the end of the current fiscal year (2018/2019).

  - The VAT revenue registration control project (DONGL) is being implemented through a grant provided by the Japanese Government valued at 900,000 dollars. Other systems from China and France have been tested that have achieved the same results.

  - We have collected 3,000 POS for 250 companies in various activities and are ready for installation of equipment, and a protocol has been prepared with the Federation of Chambers of Commerce to participate in the process of implementing the system. Examining and approving the Chinese equipment is currently underway for introduction to the system.

  - The automation of tax returns was completed, and corporations started to submit their tax returns for Corporate Income Tax (CIT) electronically for the period ending on December 31, 2018, through the website of the ETA as well as submitting VAT returns electronically since the first of January 2019 to raise the efficiency of procedures and facilitate payment by taxpayers.

- **Human Resources Development:**

  - The new organizational structure of the ETA has been completed and presented to the Prime Minister, who approved it. In this regard, coordination was made with the Central Agency for Organization and Administration for review and approval.

  - A Risk Assessment Unit at the ETA has been established to provide specialized tax centers with priority files that are expected to achieve higher revenue through examination.

- **Draft New Tax Legislation:**

  - The draft unified tax procedure law was completed and is expected to be presented to the Prime Minister and the Economic Ministerial group, in preparation for community dialogue.

  - The Higher Committee for Financial Legislation at the Ministry of Finance has completed the preparation of a preliminary draft law on a simplified tax system for small and micro enterprises.

  - A draft law is currently being prepared to regulate the tax application of advertisements posted on various websites.

  - A draft law on the regulation of the electronic tax invoice has been completed and was put forward for community dialogue.

  - The E-commerce regulation draft law is being prepared with the aim of establishing the basis for tax calculation on all sales and purchases.

  - Tax Application on Returns of Public Treasury Bills and Bonds

- **Draft New Tax Legislation:**

  - The draft law was completed and approved by the Planning and Budget Committee of the House of Representatives. The law was then passed and implemented.

Real estate tax revenues are expected to rise by about 25.2% in FY 2019/2020 compared to the target of FY 2018/2019 to reach LE6.8 billion, which represents about 0.1% of GDP. This expected increase is the result of the modernization of the real estate tax system by updating residential areas geographical maps in cooperation with the Technical Research Authority. These maps will be used to build the database of real estate assets, in addition to the adoption of the electronic collection system for real estate tax, which was activated in April 2017.

The total collection of customs taxes is expected to rise by 14.1% compared to last year to reach LE51.7 billion in the 2019/2020 budget. The Egyptian Customs Authority is expected to continue overall institutional development during this year, which started from FY 2017/2018. **Key reforms targeted in this regard are as follows:**

- **Single Window Project:**

  A protocol was signed between the Customs Authority and the Technical Research Authority to develop the implementation and technical plan to finalize the development of the infrastructure of the Single Window project as well as the applications and databases between Customs and related entities. Specialized workshops were held on customs tariffs as well as general workshops aimed at familiarizing the business community with the project. The application of the system to trade in the Cairo airport has already been completed and a plan is being developed for the gradual implementation of the system in all ports in Egypt.

- **Model 4 Automation Project between Customs Authority and CBE:**

  This system has been activated at all customs outlets, where the necessary equipment and devices were delivered, and the leased lines were provided for the operation of the system. The electronic linkage process was completed for all automated customs sites. Employees of customs outlets of these ports were also trained on electronic linkage and on how to deal with the system.

- **Customs Single Administrative Declaration Project (SAD):**

  Minister of Finance Decree No. 40 for 2017 was issued to initiate the use of the SAD model in all Egyptian ports and the model has already been activated in all customs sites. This model is designed to be used in all customs clearance systems for goods, whether imports, exports or through transit system. Intentionally, it is of A4 size model to ensure its suitability for all aspects of development by inserting the model in any electronic means and print it. The model is secured through a secure program that contains codes that are read through an electronic reader, as well as the printing of a watermark on the model to prevent forgery.

Other Revenues

The GOE is working to develop and diversify State revenue sources, emphasizing that fiscal policy is not based on imposing new or additional burdens but mainly on measures to promote tax justice, diversify non-tax revenue sources, and to realize public treasury rights out of revenue on State-owned assets. This is achieved through the implementation of reforms, including the Initial Public Offerings for State assets and companies, within a multi-year timeframe that begins with a focus on banks, financial institutions, and companies working in the areas of energy, transport, and telecommunications.

The Government also aims to maximize the return on State assets by adopting sound economic policies. These policies include pricing that covers the cost of providing goods, services, and production inputs, and restructuring the State's financial assets and addressing the financial interactions between State entities in a manner that ensures gradual improvement in the financial situation of State agencies, improvement of services provided, expansion of public-private partnership programs in investment areas, and management of State assets.

The budget targets non-tax revenue collection from various sources amounting to about LE278 billion in FY 2019/2020. The key sources of revenue include the following.

- Proceed with the Initial Public Offerings program (IPO) for some State-owned companies, which is expected to achieve a total of LE8 billion for the Treasury in 2018/2019.

- Target the collection of about LE5 billion of the public enterprise companies' net profit (including the profits of the Egyptian Telecom Company) in favor of the public treasury in FY 2019/2020.

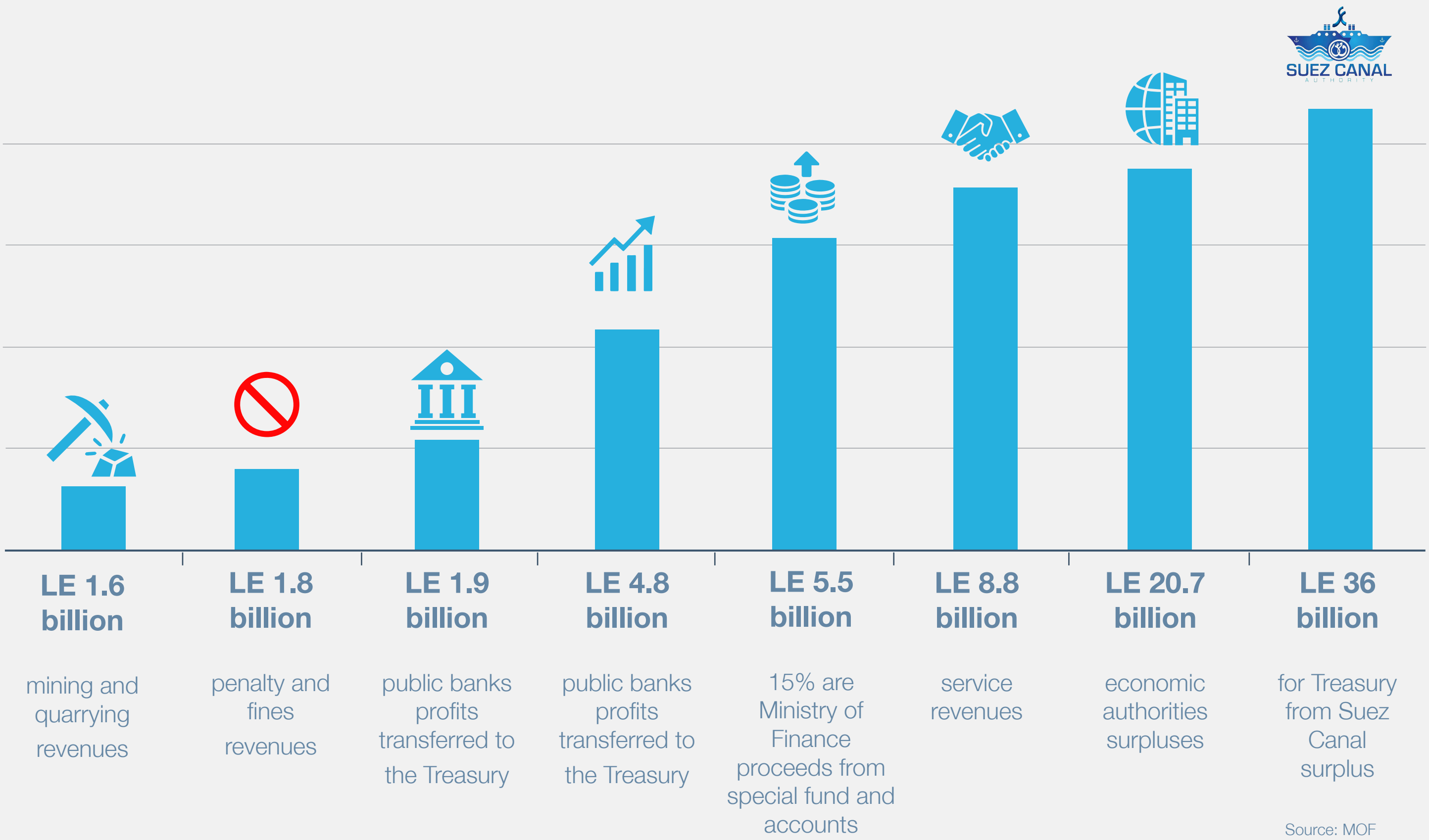
- Target the transfer of about LE20.7 billion of surpluses from the economic authorities to the General Treasury, other than the surplus of the Suez Canal transferred to the Treasury

Summary of the key indicators and data of the first phase of the IPO program

Unregistered Companies	14 Companies
Offer additional percentages of listed companies in Stock Market	9 Companies
Total companies to be offered	23 Companies
Expected increase in the Egyptian Stock Exchange market value	LE 430 billion
Program Duration	About 30 Months
Proposed percentage to be offered	Offer varying percentages about 15-30% in most cases, so the State continues to be the largest contributor

It will be agreed to direct the proceeds from offering on a case by case basis.

Key Non-Tax Revenues Item in the 2019/2020 Draft Budget



Source: MOF

In this context, public enterprise companies have achieved good financial results recently due to the implementation of important reform measures in the management of these companies. This confirms the possibility of increasing revenue transferred to the public treasury by those companies in the coming period.

The financial restriction policy applied by the CBE and its importance within the economic reform program's framework to control the inflation rate will contribute to lower interest rates in the medium term. This will have a positive impact on deficit reduction efforts and create additional fiscal space for the budget. The FY 2019/2020 draft budget was prepared on the assumption that the Treasury will not collect any revenue from the CBE except the transferred value tax, which is estimated at LE28.9 billion.

Major Structural Reforms

- **Modification and development of industrial land allocation procedures:**

  - With the assistance of a team of experts specializing in the study of allocation mechanisms and industrial lands pricing was sought. The Prime Minister's decree was issued in March 2019 regarding the guidelines for the allocation and pricing of industrial lands. These guidelines were prepared in accordance with international best practices.

  - The developed measures aims to meet the real demand for industrial land on a transparent and competitive basis, eliminating the phenomenon of profiteering and brokering, and preserving the State's resources while supporting the national industry strategy.

- **Restructuring of the National Investment Bank:**

  - The financial position of the National Investment Bank was studied with a view to developing a restructuring plan in a manner that preserves its financial sustainability and continues financing infrastructure projects properly.

  - The plan includes organizational and administrative restructuring, technological systems application, restructuring of bank's assets and liabilities, and improvement of liquidity position and financial structure.

  - A future development plan has been approved focusing on redesigning and defining the role and functions of the bank, developing the bank's business model and improving the bank's financial structure, in addition to amending the legal and legislative framework and considering the real value of the assets it owns, taking into account the application of governance standards.

- **Introduction of automatic pricing mechanism for petroleum products:**

  - The automatic pricing mechanism for petroleum products was introduced to address the financial risks resulting from the fluctuation of world oil prices and the impact on the subsidy bill.

  - The Prime Minister approved the proposed mechanism to start applying to Gasoline 95. The decree provides for implementation effective April 2019, which is already done, and that prices would be reviewed quarterly according to the change in the exchange rate and the price of world oil, and not to change the price by more than 10% to realize the social aspect, which has already been done.

- **Developing a hedging mechanism against the high prices of petroleum and food commodities:**

  - The hedging mechanism against the high prices of petroleum products has been introduced to protect the 2018/2019 budget from the fiscal risks resulting from the fluctuation of world oil prices and to reduce any negative effects on the subsidy bill.

- **Issuance of State-owned companies report and amendment of Law No. 203:**

  - This report will contribute to monitoring companies' financial performance and ensure the improvement of their financial structure and performance.

  - The report contains the actual results of public enterprise companies for a period of three years until the year 2017/2018.

  - The report aims to analyze and examine the financial position of public enterprise companies, which will help to develop sound reform plans for these companies to ensure the sustainability of their financial situation in the medium term.

- **Promulgation of a new law on small and medium enterprises:**

  - The law on small and medium-sized enterprises (SMEs) has been amended and updated as part of private sector support efforts, as SMEs are the engine of growth and main operation tool.

  - Tax procedures for these projects have been amended and a fixed tax has been imposed as a first step in simplifying the procedures for business entrepreneurs.

- **Promulgation of a new public procurement law:**

  - The law reflects the best international practices in this regard and aims to promote competition, improve the quality of public spending, eliminate corruption, enhance transparency, and develop complaint mechanisms.

  - The new law includes procurement methods that are in line with international best practices to accommodate the current and future needs of the Government, as well as the regulation of sub-contracting rights and obligations.

  - The Government will establish an electronic procurement portal which is specialized in Government procurement and will provide all relevant information, in addition to introducing a log for integrity codes for Government procurement officers.

- **We are also working on the promulgation of a new customs law and a new unified tax procedure law. In addition, the corporate law is being amended.**

General Expenditures

Reforming the structure of public expenditures is an essential pillar of economic and fiscal reform to ensure that financial targets are achieved in the medium term. The most important of which is to lower budgetary agencies' debt ratio to no more than 80% of GDP by the year 2021/2022, in addition to ensuring the sustainability of a primary surplus of about 2% of GDP.

In this context, 2019/2020 budget estimates have been prepared on the basis of targeting a growth rate of expenditures that is lower than general revenue. This is necessary to achieve targeted fiscal control and to reduce public debt rates in the medium term and to create fiscal space that allows for increased spending on social programs that target disadvantaged groups, in addition to increasing investment spending that can contribute to growth and the creation of real jobs.

The estimates of general expenditures were also prepared in light of the inevitable commitments to pay the debt-servicing interest and in light of the world prices of major primary commodities and the assumption that the constitutional entitlements of increasing allocations for education, health, and scientific research would be met. Also taken into account was the financial impact of the implementation of some targeted laws and reforms, such as the Comprehensive Health Insurance Law. The 2019/2020 draft budget also reflects the continued implementation of the expense growth control strategy and the reprioritization of expenditures to ensure optimum use. Hence, the budget estimates for the year 2019/2020, amounting to LE1005.4 billion without interest payments, reflect several reform policies that can be summarized as follows.

General Expenditures Items Summary Table

Million LE

ITEM	2017/2018	2018/2019	2019/2020	Growth Rate%
	Actual	Expected	Draft Budget	
Export Support and Development	2,305	4,000	6,000	50.0%
Natural Gas Home Delivery	1,200	3,500	3,500	0.0%
Treasury Contribution to Pension Funds	52,500	62,043	82,200	32.5%
Deficit-financed Investments and loans	70,631	100,00	140,00	40.0%

Source: MOF

1-FY 2019/2020 budget will be an economic and human development budget through focusing on funding education system reform programs, improving health services programs, increasing training allocations that qualify young people in the labor market, increasing support for Egypt's economic activity, and supporting efforts to create adequate and decent jobs.

2-Continue to direct additional resources to finance the investment plan to develop the infrastructure needed to increase the competitiveness of the economy and improve public services and utilities in all regions of the State. This is necessary in order to ensure that citizens benefit from the benefits of economic growth through the improvement of road networks, electricity networks, water, and sanitation. The GOE is therefore aiming to increase the total investment of budgetary agencies, other than the self-financing of those agencies, to about LE140 billion compared to LE100 billion in 2018/2019, which represents an annual growth rate of 40%.

3-Continue the effective implementation of the Civil Service Law with the linking of wages to performance, increasing the minimum wage from LE1,200 to 2,000 per month, and increasing the minimum level for each job grade in addition to approving an annual increase and an extraordinary increase in the wages of Government workers to improve the incomes of approximately 5 million employees working in the Government administrative body.

4-Increase the minimum pension up to LE900, an increase of LE150 per month in FY 2019/2020, and target an increase in pensions by 15% in the next year, which will benefit some 10 million pensioners.

5-Continue and strengthen efforts to create a modern and integrated social protection network that ensures access to subsidies for beneficiaries as well as mechanisms for reaching disadvantaged and vulnerable groups. Key reforms in this area are increased reliance on cash subsidies that efficiently target beneficiaries and are not directly linked to a particular commodity or service, in addition to channeling adequate allocations for the financing of the unified and comprehensive health insurance law, which entered into force in FY 2019/ 2020, in addition to expanding investment spending to improve the infrastructure and services provided to citizens.

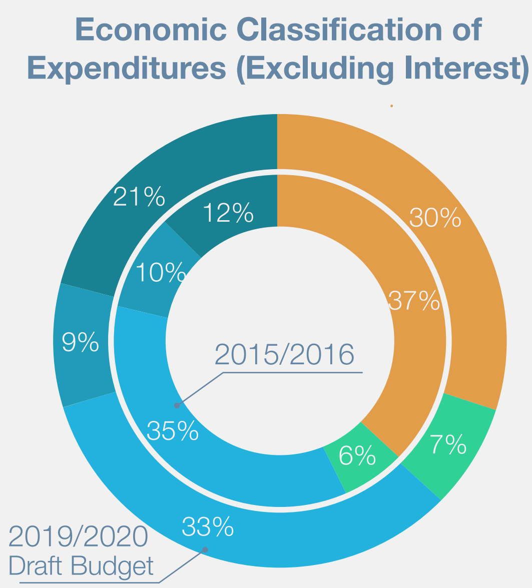
6-Commit to implement the ambitious plan of the State announced in 2017 aimed at rationalizing energy subsidies and reaching cost recovery for all products, except for butane gas and some other products that are mainly consumed by low-income or disadvantaged groups. This will create financial savings that allow for increased financial allocations for human development programs, especially health, education, social protection programs, and increased investments to create jobs.

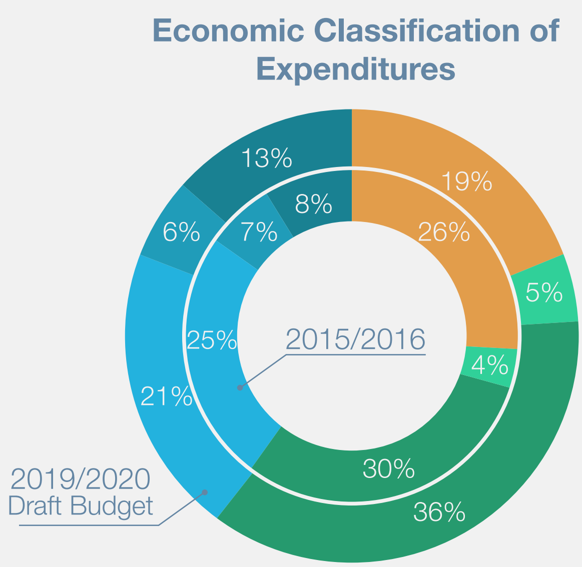
7-Develop the State budget preparation and implementation method through expanding the Program Based Budgeting application.

The Ministry of Finance’s framework aims to develop the State budget preparation process and control performance effectiveness. This framework aims to maximize expenditure returns and achieve the greatest possible usage of State resources in order to realize the greatest benefit to the community. To accomplish this, the Ministry of Finance is working on the application of the Program-Based Budgeting preparation and implementation system. The Ministry of Finance recognizes that this structural reform requires a great deal of effort and preparation, as the process of fully implementing Program-Based Budgeting may take several years based on other countries’ experiences. However, now more than ever, these procedures must be finalized in such a way as to achieve the maximum benefit of State resources and ensure the effectiveness of expenditures.

In addition to what has been accomplished during FY 2017/2018 regarding the implementation of the Program-Based Budgeting system along with Line-Item Budgeting according to the economic division for seven ministries (Ministry of Health and Population, Ministry of Transport, Ministry of Communications and Information Technology, Ministry of Housing, Utilities and Urban Communities, Ministry of Higher Education and Scientific Research, Ministry of Education and Technical Education, and Ministry of Social Solidarity), the Ministry of Finance extended implementation to nine additional ministries during FY 2018/2019 (Ministry of Planning, Monitoring and Administrative Reform, Ministry of Trade and Industry, Ministry of Supply and Internal Trade, Ministry of Youth and Sports, Ministry of Environment, Ministry of Local Development, Ministry of Manpower, Ministry of Antiquities, and Ministry of Finance). In the first phase these actions will be accompanied by the ministries extending the implementation to their service directorates. During FY 2019/2020 the number of ministries implementing Program-Based Budgeting has increased to 22 ministries. Application was extended to six new ministries.

8-Ongoing efforts to improve Government expenditure structure:





Wages and Employees compensation | Goods and Services Procurement | Interest | Subsidy, Grans and Social Benefits | Other Expenditures | Non-Financial Assets Purchase (Investment)

Wages and Employees Compensation

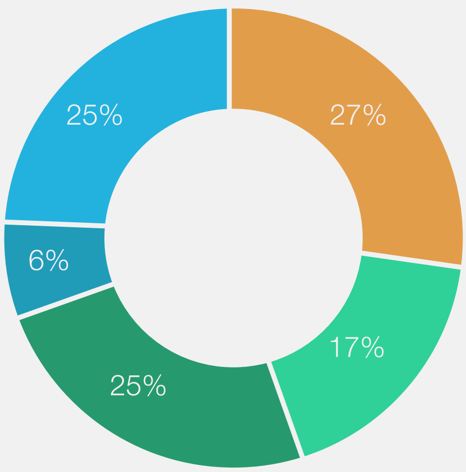
The Government is aiming to reduce the impact of necessary financial and economic reforms on citizens. Considering the political leadership directives, some bold measures have been targeted to improve the wage and pension system. It targets increasing the wage and pension bill by LE59 billion, including LE30.5 billion for wage increases and LE28.5 billion for pensions as of next July.

The wage increase includes raising the minimum wage from LE1,200 to 2,000 per month and financing the largest promotion movement in the history of the Government administrative body at an estimated cost of LE1.5 billion. This is in addition to approving and implementing periodic increments of 7% for civil servants and 10% for others, with a minimum of LE75 for all, as well as approving a special allowance for all Government employees of LE150, taking intoaccount junior staff and workers status. The Government also aims to increase pensions by about 15%, with a minimum of LE150, as well as raising the minimum pension to LE900. In the first precedent of its kind, the Ministry of Finance is currently working with the Ministry of Solidarity to complete actuarial studies of the pension funds in order to start pay back all amounts due for the insurance funds by the Ministry of Finance and the National Investment Bank.

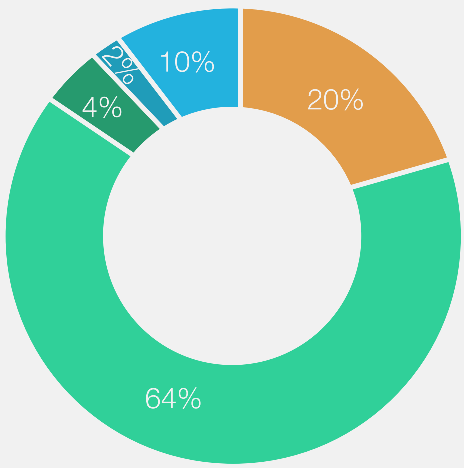
Subsidies, Grants, and Social Benefits

The Government plans to rationalize the subsidy bill through the gradual withdrawal of undirected in-kind support, especially the energy subsidy, and transform into cash and quasi-cash subsidies targeting disadvantaged groups and underserved areas.

FY 2019/2020 Budget



FY 2019/2020 Budget



Food Subsidy | Petroleum and Electricity Subsidy 17% | Contribution to Pension Funds | Cash Subsidy | Others

Source: MOF

Meanwhile, the Government is implementing a comprehensive program to develop and restructure the energy sector to improve its financial and regulatory status as well as properly pricing petroleum products to cost-effective prices. It also aims to reform the subsidy system and take measures to rationalize consumption and improve energy production and use efficiency. Additionally, it aims to gradually phase out electricity subsidies while continuing to provide protection to targeted groups. In the same context, the beneficiary data is being updated by filtering ration cards to reach the true beneficiaries. According to the food subsidy system estimates, the bread subsidy system covers about 79 million beneficiaries while the ration card system covers about 69 million beneficiaries.

Investments

The Government intends to use the savings resulting from the reform measures to increase investment allocations funded by the Treasury significantly more than most expense items

It is expected that the total investments listed in the draft budget, other than self-financed investments by the State budget in 2019/2020, will increase by about 40% compared to the current fiscal year (2018/2019), bringing the total allocation to LE140 billion (LE133 billion of Treasury deficit funding and LE7 billion of foreign loans to fund investments). This is the highest increase in investments in the past 10 years.

Eighth: Diversifying Funding Sources and Improving Public Debt Management

- The Ministry of Finance follows a policy of diversifying funding sources between domestic and foreign instruments and markets. With the beginning of the decline in the local interest rate, there is a possibility to expand the replacement of short-term borrowing with long-term financing instruments from the domestic market, which is targeted during the draft budget 2019/2020.
- The interest rate decline in the domestic market will contribute to the Ministry of Finance expanding the issuance of medium and long-term bonds instead of treasury bills to increase the debt term and reduce the risks of refinancing

The following table reflects the assumptions of financing budget needs from the domestic market or external borrowing.

State Budget Funding Needs

Million LE

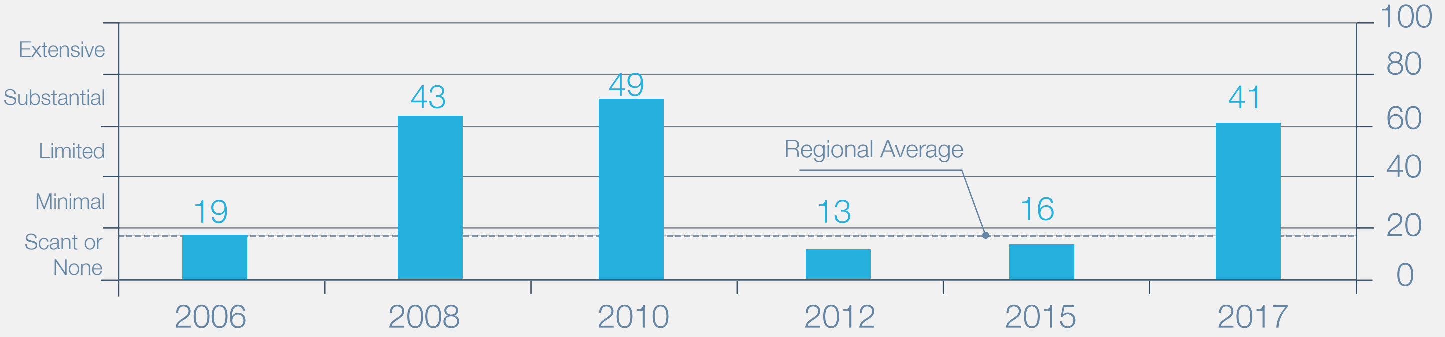
البيان	2016/2017 Actual	2017/2018 Actual	2018/2019 EStimated	2019/2020 EStimated
FY Funding Needs	**653,353**	**700,212**	**650,694**	**820,706**
Total Deficit	379,590	432,580	439,206	445,140
Domestic Loans Repayment	219,470	235,520	179,187	* 324,415
Foreign Loans Repayment	54,293	32,112	32,301	51,151
Funding Sources	**653,353**	**700,212**	**650,694**	**820,706**
External Funding	**174,000**	**179,215**	**149,550**	**95,550**
Loans from international institutions	22,213	26,605	-	-
IMF	48,128	70.947	72,000	22,750
International bonds Issuance	103,660	70.947	72,000	72,800
Loan from Germany	-	4,434	4,500	-
Loan from France	-	3,623	1,050	-
Loan from UK	-	2,660	-	-
Local Funding	**479,353**	**520,997**	**501,144**	**725,156**
Treasury Bills Issuance	302,553	345,497	350,801	435,093
Treasury Bonds Issuance	176,800	175,500	150,343	290,062

Source: MOF

Ninth:
Citizen Engagement and Transparency

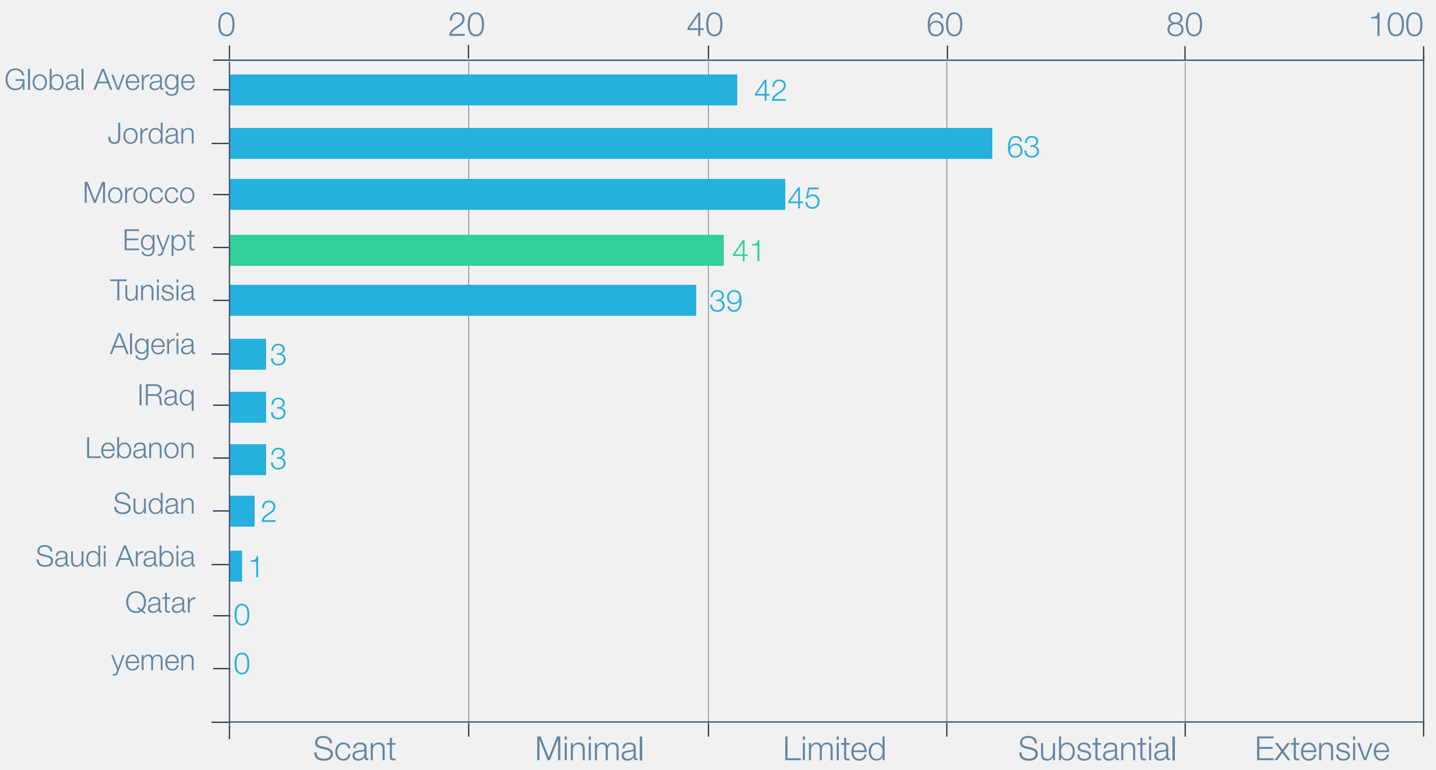
The Ministry of Finance's efforts to strengthen its transparency framework over the last five years have improved Egypt's ranking in the budget transparency index, which is published by the International Budget Partnership (IBP) every two years. For 2017, which was issued on 30 January 2018, Egypt scored 41, which is close to the global average score of 42, compared to its score of 16 in 2015. This exceeds the Middle East's average of 18 points by about 23 points. Thus, Egypt ranks 65th globally and 3rd regionally after Jordan and Morocco, improving from 89th in 2015 out of the 115 countries surveyed.

Egypt Transparency Results (2006-2007)



SOURCE: IBP

Regional Comparison for 2017



Source: IBP

The Ministry of Finance’s efforts to improve the transparency index during 2017 can be summed up in the reports published periodically in accordance with the IBP criteria, including: the Pre-Budget Statement, which was published for the third year in a row; the Financial Statement; the Enacted Budget; the Citizen's Budget, which was published for the fifth year in a row; the Economic and Financial Performance Report for the middle of the fiscal year, which was published after two years of suspension; and Year-End Reports.

Document	2006	2008	2010	2012	2015	2017
Pre-Budget Statement	Not Produced	Not Produced	Not Produced	Not Produced	Not Produced	Available to the Public
Executive’s Budget Proposal	Published Late, or Not Published Online, or Produced for Internal Use Only	Available to the Public	Available to the Public	Published Late, or Not Published Online, or Produced for Internal Use Only	Published Late, or Not Published Online, or Produced for Internal Use Only	Available to the Public
Enacted Budget	Available to the Public	Available to the Public	Available to the Public	Available to the Public	Available to the Public	Available to the Public
Citizens Budget	Not Produced	Not Produced	Not Produced	Not Produced	Not Produced	Available to the Public
In-Year Reports	Available to the Public	Available to the Public	Available to the Public	Available to the Public	Available to the Public	Available to the Public
Mid-Year Review	Available to the Public	Not Produced	Available to the Public	Not Produced	Available to the Public	Published Late, or Not Published Online, or Produced for Internal Use Only
Year-End Report	Available to the Public	Published Late, or Not Published Online, or Produced for Internal Use Only	Available to the Public	Available to the Public	Available to the Public	Published Late, or Not Published Online, or Produced for Internal Use Only
Audit Report	Published Late, or Not Published Online, or Produced for Internal Use Only	Published Late, or Not Published Online, or Produced for Internal Use Only	Published Late, or Not Published Online, or Produced for Internal Use Only	Published Late, or Not Published Online, or Produced for Internal Use Only	Published Late, or Not Published Online, or Produced for Internal Use Only	Published Late, or Not Published Online, or Produced for Internal Use Only

Available to the Public · Not Produced · Published Late, or Not Published Online, or Produced for Internal Use Only

Source: IBP

In order to ensure the continuity and sustainability of efforts and improve Egypt's future ranking, Minister of Finance Decree No. 574 for 2018 was issued to establish a special unit for transparency in the Ministry of Finance’s administrative structure, **based on three main pillars:**

1-Increasing disclosure and transparency,
2-Enhancing citizen engagement in financial and economic policies formulation, and
3-Developing communications and community monitoring mechanisms.

The first pillar includes the continuation of the preparation and publication of 7 detailed financial reports throughout the budget preparation and implementation stages, including the Pre-Budget Statement, Citizens Budget, Mid-Year Review, and other budget reports on Egyptian economic performance development. It also includes developing the Ministry of Finance’s interactive website and making the data available and electronically searchable.

The second pillar includes citizen engagement development in collaboration with the World Bank, UNICEF, and a group of NGOs. This involves governorate-level visits, holding seminars in the poorest villages to review the projects needed to improve citizens living standards, conducting meetings with decision-makers, business organizations, civil society, Parliament Representatives and citizens to highlight the GOE’s latest trends in fiscal policy in the short and medium term, and participating in the development of financial policies of concern to citizens that reflect their priorities and desires.

The third pillar on accountability and community monitoring is carried out in cooperation and coordination with both the Ministry of Planning, Monitoring and Administrative Reform and the Ministry of Local Development. It includes the compilation of observations on the budget in general, the projects included, or projects being implemented and the exchange of these observations with Government administration at different levels and across various communication platforms and channels. The Ministry of Finance also adopted a series of initiatives aimed at improving financial control and strengthening the governance of State-owned enterprises, which included a comprehensive report that was published for the first time in fiscal year 2017/2018. This report showed the financial performance of more than 300 State-owned enterprises, along with reviews on how the Government exercises its control and management policies, as well as the net relationship results of these enterprises with the Treasury and all the reforms and administrative measures adopted in each sector.

Tenth:
2019/2020 Draft Budget Financial Risks

(A) Economic Assumptions Change

Although the global economy has partially recovered, it is still vulnerable to a number of risks that may adversely affect the performance of both developed and emerging economies. Several major economies are undergoing political and economic changes that may have different implications, especially on interest rates, exchange rates, and global trade flows, in addition to the unclear implications of the ongoing public and private indebtedness burdens in the Eurozone. The increasing approach toward adopting protectionist trade policies could adversely affect growth and employment opportunities in a number of developed and developing countries. This approach could also increase financial risks in light of asset prices distortion, high real estate prices in a number of countries, and notable foreign exchange market fluctuations coinciding with the divergence of monetary policy paths between developed markets (especially in the United States and the European Union) and emerging markets.

The possibility of changing the internal and external economic assumptions on which the budget is based forms one of the financial risks in achieving FY 2019/2020 budget implementation. The key economic assumptions for FY 2019/2020 have been carefully prepared to ensure that any deviation from the targeted estimates is hedged, but financial targets may be affected by significant changes in the following assumptions.

1. Growth Rates

The growth rate is one of the main assumptions on which many items of the State budget are based, such as tax and customs revenue, and other revenues estimates. Thus, the risk of slowing economic growth rates from the estimated rates in the public budget, whether due to domestic reasons or to the global economy slowing growth rates, may adversely affect economic activity performance. This has a direct impact on changing financial targets, such as the Overall deficit target and primary surplus, and hence the public debt targets.
The growth rate of the global economic activity in 2019 is expected to decrease to 3.3%, down from 3.6% in 2018. This reflects the growth slowdown in the global economy, which may adversely affect public budget performance and economic growth rates in the event of higher rates slowdown.

2. Global Trade

In the same context, global trade growth rates are expected to grow between 3.4% in 2019 and 3.9% in 2020, compared to 3.8% in 2018. This is expected to affect public revenue collection, especially revenues from the Suez Canal, customs taxes, and import taxes. The negative financial impact of each 1% decline in the growth of global trade is estimated at a total of 2% of Suez Canal Treasury revenues, leading to a decrease of about LE1.5 billion in Treasury proceeds.

3. Exchange Rate

Given Egypt's adoption of a flexible exchange rate policy since November 2016, it is likely that any movement in the exchange rate during budget implementation compared to exchange rate estimates assumed when preparing the budget could lead to risks on several key items in the State budget on revenues and expenditures. This includes customs, petroleum and food products, the CBE taxes, and treasury bills and bonds taxes.
In the case of the Egyptian pound’s depreciation against the US dollar assumed at an average of LE1 during the fiscal year, this will negatively affect the primary surplus targeted in the State budget of LE2.7 billion, i.e. about 0.1% of GDP, **through the following effects:**

- Suez Canal revenues increase by about LE4.3 billion, representing about 0.07% of GDP.
- VAT collection on imported goods increases by LE4.5 billion, representing about 0.07% of GDP.
- Customs taxes increase by about LE3.2 billion, representing about 0.05% of GDP.
- Egyptian General Petroleum Corporation revenues increase by LE0.9 billion, representing about 0.01% of GDP.
- An increase in the petroleum products subsidy bill by LE10.7 billion, representing 0.2% of GDP.
- An increase in the supply commodities subsidy bill of about LE1.8 billion, representing about 0.03% of GDP.
- An increase in electricity subsidies and interest payments, in addition to some other items, by about LE2.1 billion, representing about 0.03% of GDP.

4. Interest Rates
Austerity monetary policy of several central banks may narrow the external financing situation available to Egypt, thus reducing the ability to issue foreign currency bonds to meet budget deficit financing needs and diversify funding sources. This represents the risk of higher than expected borrowing costs in the fiscal year 2019/2020 budget.

Therefore, it is important to clarify that the increase by about 100 points (1%) in local interest rates compared to what is targeted in the draft budget will have a negative impact on the budget deficit as a result of increasing the budgetary agency's debt servicing bill by about LE8 -10 billion annually.

5. Global Oil Prices
The latest global estimates indicate that global oil prices will stabilize in 2019 at levels ranging from USD65 to 70 per barrel, based on the future prices of oil purchase contracts, IMF projections, and many international financial institutions.

It should be noted that according to the economic assumptions of the Ministry of Finance, the Brent average price (USD/barrel) in the 2019/2020 budget is estimated at USD68 per barrel. However, if global oil prices rise to exceed the expected assumptions by about USD1 per barrel, this will lead to the deterioration of the net relationship with the Treasury as well as missing the overall deficit target. As a result, the net relationship of the Treasury with the Petroleum Authority will deteriorate by approximately LE2.3 billion, representing about 0.04% of the GDP.

(B) Contingent Liabilities (Guarantees and Financial Liabilities)

Contingent liabilities are considered to be financial risks. They are represented in undisclosed and indefinite financial liabilities arising as a result of past events. They may result in outflows from the public treasury in the occurrence or non-occurrence of future event under the Ministry of Finance's control.

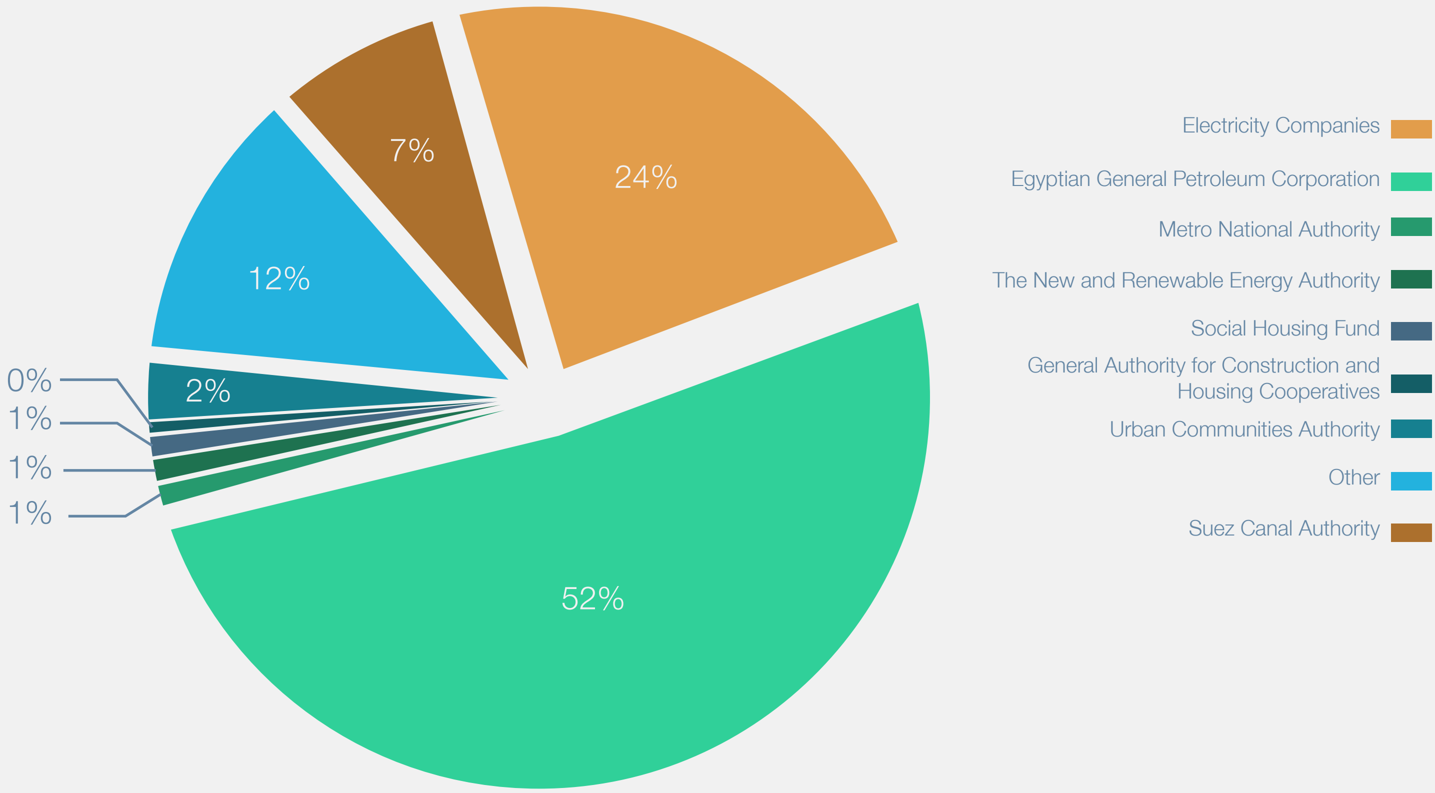
Potential Commitments

- Guaranteed loans and facilities from public treasury
- International arbitration cases against GOE
- Private-Public Partnership (PPP)

1. Public Treasury Secured Loans and Facilities

- The Ministry of Finance issues guarantees that enable State-owned entities to obtain loans from domestic or foreign financial institutions as well as facilities from suppliers to finance national projects and public utilities.
- A lender or business partner may not wish to take the risk in case there is no guarantee from the Ministry of Finance, and the funding cost decreases on the State-owned entity as a result of the public treasury loan guarantee.
- The initial estimate of net secured debt based on the public treasury at the end of December 2018 is about 20.4% of GDP, with domestic guarantees accounting for 9.1% of GDP and external guarantees accounting for 11.4% of GDP.
- It is noted that guarantee issuance is concentrated in two sectors: Energy (General Petroleum Corporation and Electricity Companies) and Transport (Suez Canal Authority). The guarantees issued to entities in these sectors represent 83% of the total outstanding guarantees. The following figure shows the value of the domestic and foreign guarantees at the end of December 2018, according to authorities.

Total Domestic and Foreign Guarantess (LE 1281.3 billion) distributed to Agencies on December 31, 2018



2. Potential Damages Awarded for Settling International Arbitration Cases

- The public treasury may be required to pay damages as a result of adjudicating or amicably settling arbitration cases filed against the Egyptian Government. When preparing the State budget, a contingency provision is included in the case of a claim for payment during the year.
- Although there are some international arbitration cases filed against Egypt currently being handled by a number of different parties, during the past five years most disputes have ended in the GOE's favor. This indicates that the likelihood of the Government having to pay compensation is considered low in light of the number of cases that have been handed down in favor of the GOE in previous years, assuming that one-quarter of these claims would be paid over three years.

Corrective measures to monitor and manage risks arising from contingent liabilities:

Recognizing the need to deal with these financial risks arising from contingent liabilities over the medium term, the Ministry of Finance has implemented a number of reform measures to monitor these risks for banking and non-banking institutions to develop and minimize the degree of risk posed by liability management.

The most important of these measures can be summarized as follows:

1-A Circular Letter was issued by the Cabinet in March 2017 requiring all ministries, before negotiating or contracting for programs or projects implementation, especially major nationalist-oriented projects entailing debts, loans or financial burdens, to coordinate with the Ministry of Finance and the Cabinet to ascertain their feasibility, the State's need for them, and the consequent liabilities requiring the issuance of Government guarantees or borrowing to fund such projects.

2-Forming a special committee on sovereign guarantees that includes all specialists in the Ministry of Finance to evaluate the issuance process, monitor applications for issuing new guarantees, verify the feasibility of the funded projects, and ensure the authority's ability to pay the due installments and indebtedness interest.

Develop a Modern Integrated System at the Ministry of Finance to Address Financial Risks

The Egyptian Ministry of Finance is working on developing a modern integrated system to manage, monitor, and address the significant financial risks in an effective, flexible, and efficient manner, thus contributing to public financial sustainability and increasing the ability to achieve budget targets through the following priorities and reforms.

1. Budget assumptions are prepared in real terms so that budget estimates are developed based on available actual data from previous year financial performance and not on previous year budget estimates. Economic assumptions are also made based on international reports and projections prepared by international financial institutions such as the IMF, the World Bank, and other international investment institutions and banks. Coordination is also carried out with the CBE and the Ministry of Planning, Monitoring and Administrative Reform to ensure economic assumption consistency and accuracy.

2. A mid-year report is prepared, including an identification and description of the most significant financial risks affecting the possibility of achieving the financial targets for the year in question and in parallel with the precautionary or corrective measures adopted to deal with the most important financial challenges. The report includes the most significant financial risks associated with any economic assumption deviation, risks associated with the budget implementation, and finally the risks associated with contingent liabilities.

3. Use hedging mechanisms to protect the budget against change and deviation risks of international commodity prices from original budget assumptions in light of the most recent estimates available at the time of budget preparation. A specialized unit at the Ministry of Finance is being set up to deal with the issue of hedging in an institutionalized and integrated manner in coordination with other concerned authorities.

4. An independent internal audit unit was established in 2018 under the direct supervision of the Minister of Finance. The unit assists the Minister of Finance and Senior Management of the Ministry of Finance to audit the performance of the Ministry's sectors and departments and identifies any risks or points requiring correction or improvement, contributing to achieving the Ministry and the Egyptian Government targets as well as developing and improving the performance on an ongoing basis.

5. Implement most of the targeted reforms included in the budget in their projected time to ensure the expected financial impact on the budget.

6. Prepare monthly targets for the budget, after coordinating with all sectors and departments, and monitoring target implementation accurately to ensure the identification of any risks associated with achieving financial targets early and address them through corrective or alternative measures.

7. The automatic pricing mechanism for petroleum products has been adopted and the implementation will be gradually expanded so that prices in the local market are adjusted and reviewed periodically in light of the basic price determinants, such as changes in the Brent crude price and exchange rate changes.

8. The strategy of addressing and reducing Government guarantees is being adopted to ensure that borrowing with Government guarantees will be directed to fund viable projects and according to the borrower's ability to properly service this debt.

Eleventh:
State Budget Estimates Over the Medium Term

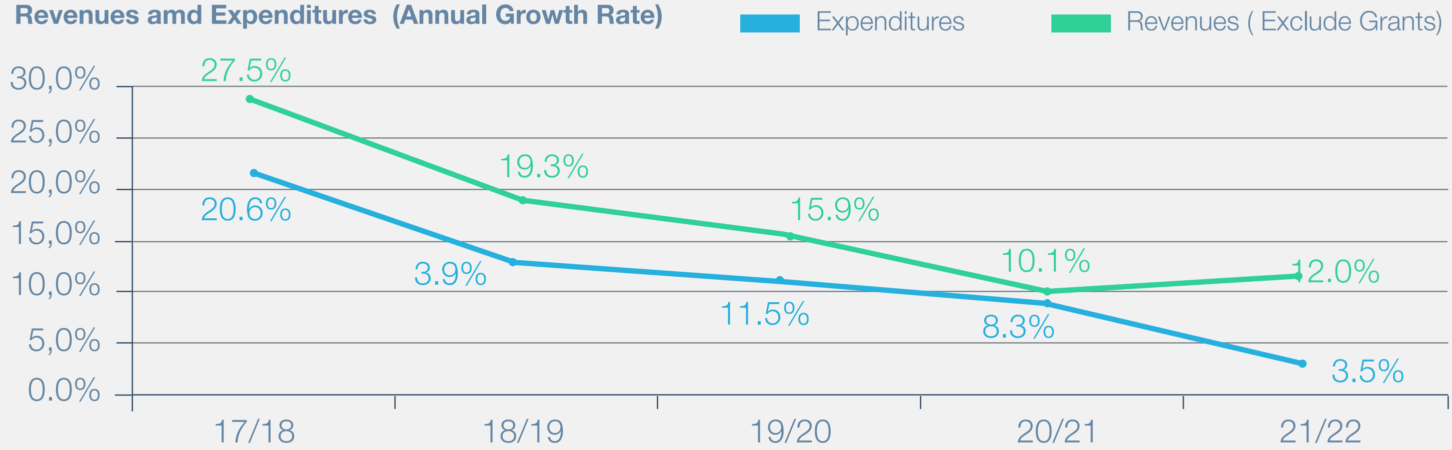
Achieving financial sustainability and economic stability requires reducing the State budget overall deficit to about 6.2% during FY 2020/2021. This takes into account the implementation of an economic program that balances the financial, economic, and structural reforms required to be implemented, while increasing expenditures on human resources development programs, especially in the fields of education and health, increasing spending on infrastructure investments to increase in the level of basic public services provided to citizens, and increasing spending on social protection programs, especially programs targeting disadvantaged groups.

The economic reform program includes a number of financial and monetary targets to be determined in order to continue correcting financial imbalances, balance of payments imbalances, boosting economic growth rates and employment, thus increasing the level of domestic and international confidence. This represents the most important targeted benefits from the reform program, taking into consideration social and developmental dimensions.

During the next three years the GOE aims to continue reducing the State Budget agencies' debt exposure. In fact, debt rates have declined from 108% in June 2017 to 97% of GDP in June 2018. The intended target is about 80% of output by June 2022. This gradual reduction in debt rates is expected to significantly improve the sustainability of public finances and increase its ability to deal with changes in future domestic and global macroeconomic indicators. Reducing indebtedness ratios contributes to increasing the Egyptian economy's competitiveness through lowering interest rate pressure, thus supporting private sector investments and creating real and sustainable job opportunities for new

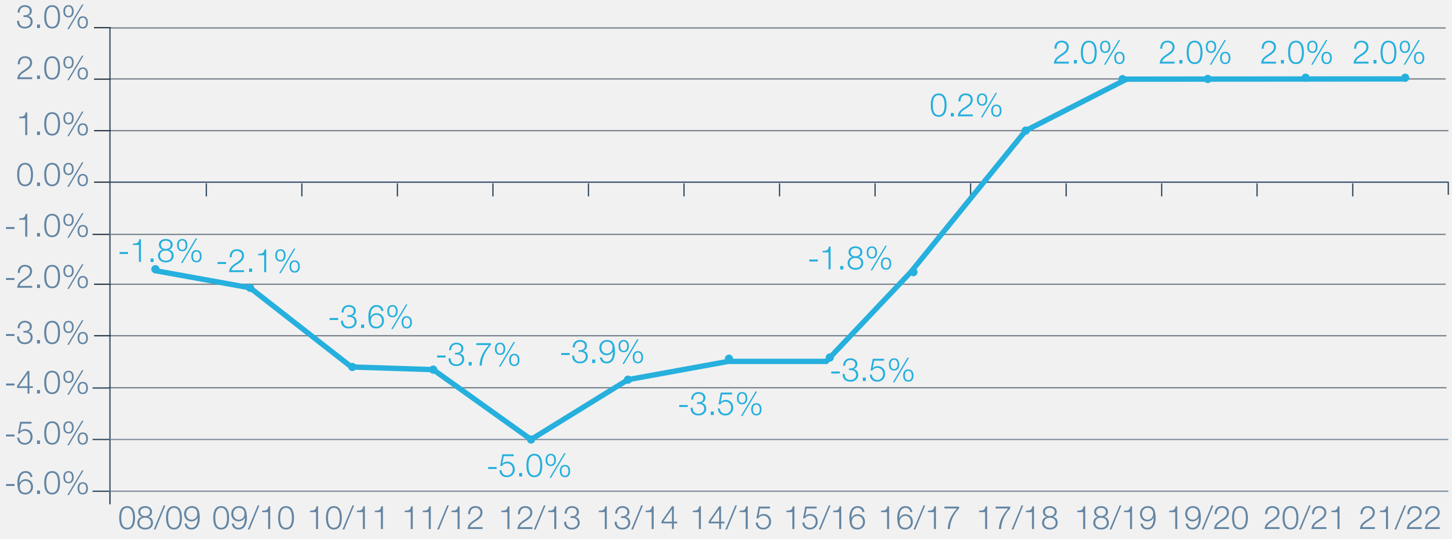
Debt stock reduction to 80% of GDP by 2021/2022 requires targeting a primary surplus of 2% of GDP over the medium term.

Revenues amd Expenditures (Annual Growth Rate)



Source:MOF

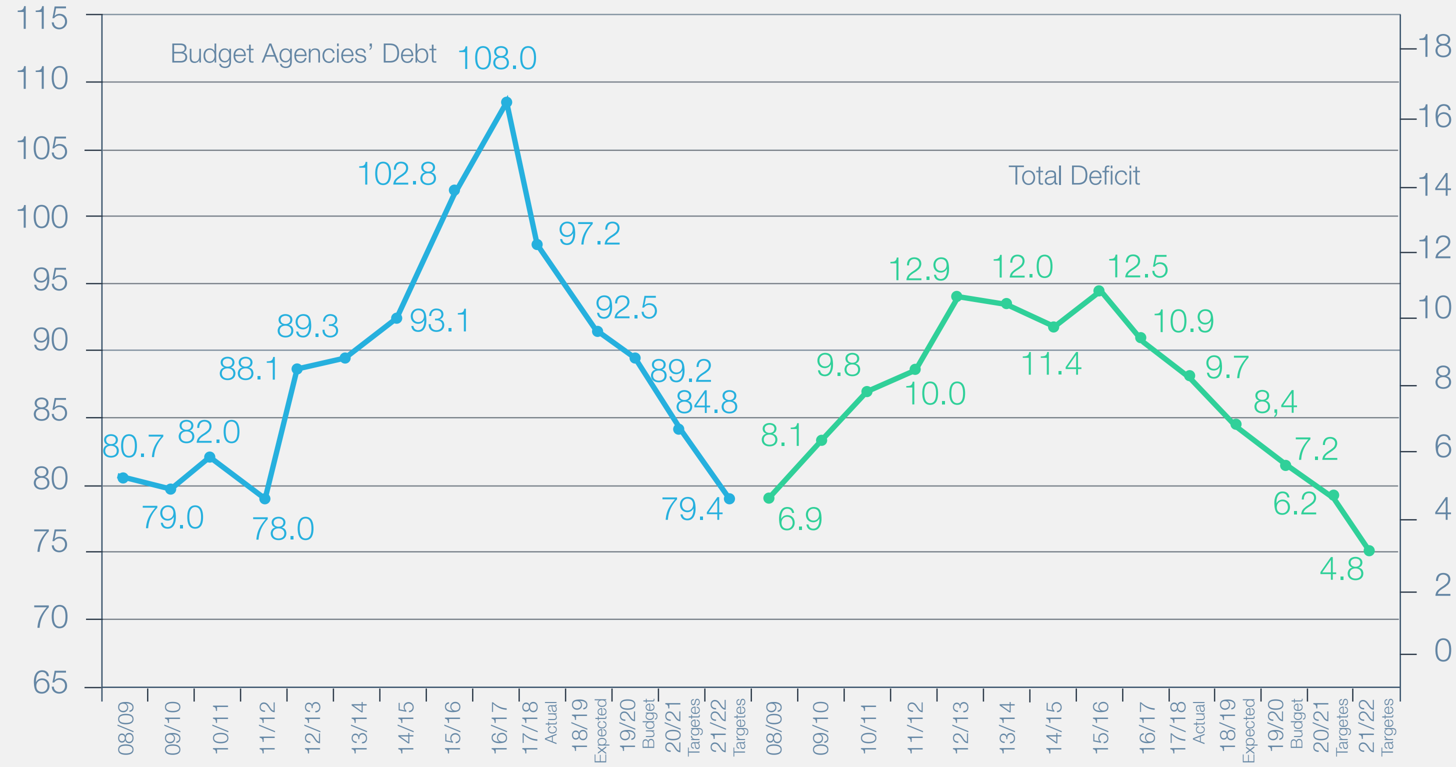
Initial Balance (%of GDP)



المصدر: وزارة المالية

The targeted path toward reducing the budget and increasing economic growth rates will contribute to the improvement of public debt indicators (domestic and foreign) to reach 89% of GDP during fiscal year 2019/2020. This is in connection with the ongoing application of fiscal discipline measures and will contribute to directing State resources toward development spending rather than debt servicing.

TArgeted Total Deficit and Budgetary Agencies' Debt (% of GDP)



المصدر: وزارة المالية

This requires continuing implementation of reform measures in the areas of inefficient expenditure rationalization, which indirectly affect disadvantaged groups. Reform measures include energy subsidies, increasing tax and non-tax revenues, and achieving a better return on the State assets. In the absence of such reforms, the overall budget deficit and the public debt can increase in a way that does not achieve the financial sustainability and stability necessary to control price growth rates and create an environment favorable to economic activity growth.

The Main Targeted Reform Measures on the Medium Term to Achieve Fiscal Control:

2018/2019

- Develop real estate tax system on buildings and develop information, inventory and inspection systems.

- Establish a system for monitoring, evaluating and managing financial risks, including the government guarantees issuance in a manner that ensures monitoring their financial implications on the Public Treasury.

- continues rationalization program of energy subsidies and use of savings to finance the cash subsidy program.

- Launch IPO program including the identification of at least 6-8 state-owned enterprises to offer part of it (non-governing share) on the Egyptian Exchange in order to provide additional investment opportunities for the stock exchange market, and to provide additional financing to those enterprises and the state budget.

- work with UN-Women on the GRB introduction and implementa-tion.

- Amend the tax law to allow for the delayed fines reduction to resolve many tax disputes and the speed the collection of tax arrears.

- Study the minimization of tax and customs exemptions and ensure actual enforcement of the law.

- Complete the standardization of Tax Procedures Law which will contribute to the standardization of the procedures the taxpayers are dealt with by the tax authorities.

2019/2020

- Continue rationalization program of energy subsidies and use of savings to finance the cash subsidy program.

- Reform the pension system to ensure its financial sustainability and improve the pension conditions.

- Minimize tax and customs exemptions and ensure actual enforcement of the law.

- Continue public offerings program implementation.

- work on a wage system comprehensive review and increase the minimum wage from LE 1,200 to 2,000.

- Promulgate the Unifrom Customs Law.

- Increase Professional levels' minimum limit.

- Standardize Tax Procedures Law

2020/2021

- Continue rationalization program of energy subsidies and use of savings to finance the cash subsidy program.

- Increase the tax base and increase the correlation degree of tax revenues with economic reform.

- Expand cash use reduction and integrate the informal economy.

2021/2022

- Continue rationalization program of energy subsidies and use of savings to finance the cash subsidy program.

- Minimize tax and customs exemption and ensure actual enforcement of the law.

- Increase the tax base and increase the correlation degree of tax revenues with economic reform.

- Expand cash use reduction and integrate the informal economy.

Expected Medium Term Funding Sources

The following table shows the assumptions of funding the needs of the budgetary agencies, whether from domestic or international markets, considering the expected economic assumptions and the targeted financial results in the medium term.

State Budget Funding Needs on the Medium Term (Targeted)

Million LE

البيان	2016/2017 Actual	2017/2018 Actual	2018/2019 EStimated	2019/2020 EStimated
FY Funding Needs	**653,353**	**700,212**	**650,694**	**820,706**
Total Deficit	379,590	432,580	439,206	445,140
Domestic Loans Repayment	219,470	235,520	179,187	* 324,415
Foreign Loans Repayment	54,293	32,112	32,301	51,151
Funding Sources	**653,353**	**700,212**	**650,694**	**820,706**
External Funding	**174,000**	**179,215**	**149,550**	**95,550**
Loans from international institutions	22,213	26,605	-	-
IMF	48,128	70.947	72,000	22,750
International bonds Issuance	103,660	70.947	72,000	72,800
Loan from Germany	-	4,434	4,500	-
Loan from France	-	3,623	1,050	-
Loan from UK	-	2,660	-	-
Local Funding	**479,353**	**520,997**	**501,144**	**725,156**
Treasury Bills Issuance	302,553	345,497	350,801	435,093
Treasury Bonds Issuance	176,800	175,500	150,343	290,062

Source: MOF

*/ This amount includes paying zero-coupon bonds. Negotiations are underway with banks to call LE 100 billion of such in FY 2019/2020 and call another LE 100 Billion in FY 2020/2021 to issue new long term bonds instead. This will reduce the domestic loan repayment amount in the two days.

Source: MOF

Ministry of Finance Strategic Plan

The Ministry of Finance has developed its own strategic plan emanating from Egypt's Sustainable Development Strategy 2030 Plan, which is in line with the Government's action plan and presidential mandates. It is based on a clear vision for a promising future that will achieve sustainable development rates and enhance the competitiveness of the Egyptian economy. This strategy was formulated through Ministry leadership, including senior leaders, executive leaders, revenue generating agencies, all sectors heads, and central departments heads, as well as middle management workers.

In this context, the Ministry held a series of seminars and workshops under the slogan "Together We Plan, Work, and Succeed" to prepare and formulate the strategic map in a sound scientific manner, ensuring that it includes specific reform functions and procedures, timetables for implementing them, those involved in implementation, as well as performance indicators from which results achieved can be measured and periodically audited. In light of this, the Ministry of Finance adopted the "Balanced Scorecard" model, which is one of the most important methods and techniques used to control strategic performance.

During the consultative process for the strategic map preparation the Ministry of Finance took a Top-Down, Bottom-Up Approach, taking into account all relevant policies, legislation, and functions of the Ministry in developing the strategic map and the challenges and opportunities faced by the State as well as the possibilities available.

In preparation for these meetings, several training courses were held on strategic planning for the leaders, which totaled 56 hours, in addition to 104 working hours to develop the strategic plan with the participation of more than 200 employees.

The efforts exerted by the Ministry cadres resulted in the establishment of a clear vision, mission, and values for the Ministry of Finance as follows:

Ministry Vision

"A leading Government body, a model to be followed at the regional and global level, a leading Egyptian economy, to be emulated on the global map."

Ministry Mission

"To design and implement the State financial and economic policies so as to achieve comprehensive economic growth, fiscal discipline, equitable and efficient distribution of State resources, and the establishment of a strong economy that achieves society welfare, protects the higher interests of the State and its national security, and safeguards the future generation's rights."

Ministry Values

"Respect, innovation, cooperation, communication, and transparency."

The Ministry of Finance's strategic map is based on three main goals to be achieved through 18 strategic sub-goals, of which 188 strategic objectives emanate across all sectors, as well as 652 strategic initiatives at the middle management level.

Ministry Main Strategic Goals

1. Financial situation stability and deficit and debt reduction.
2. Efficiency and effectiveness in the collection, allocation, and disbursement of State resources.
3. Maintenance of a sustainable economic growth rate.

The Ministry of Finance's efforts to establish strategic management principles and unify leaders' and employees' visions began in 2016 and resulted in the first draft of a unified strategic plan for the Ministry in 2017. The quality of this strategy has been improved, leading to the announcement of the modern and consistent Ministry strategy in March 2019. The following figure shows the Ministry of Finance's most important goals and subprograms targeted by all sectors and departments to achieve the Ministry's major goals.

Maintain a Sustainable Economic Growth Rate	Efficiency and Effectiveness in the collection, Allocation and Disbursement of State Resources		Financial Situation Stability and Deficit and Debt Reduction		Mission Concept
Inputs Proper Pricing	Comprehensive Integrated Automoation Application	Raise Funding Efficiency for Social Programs	Medium Term Strategy for Financial Revenue Development		Internal Operations Concept
	Raise the Tax Administration Efficiency	Implement PBB	Impove Financial Risk Management	Expenditure Efficiency Increase	
Financial Stimulation for Disadvantaged Groups	Achieving Fiscal Discipline and Compliance and setting Government Expenditure Controls	Opting for Top-Down Budgeting and Promoting Financial Decentralization Concept	Integrate informal economy into formal economy		
			Work through a Strategy to Manage the Public Debt over the medium term and Diversify Funding Sources		
Upgrading the Ministry Image					
Improve the Administrative Process Efficiency	Develop Perfomrance Management Systems and Encourage Innovation Culture		Train Staff in line with Development and Create a Second Tier of Leaders		Effectiveness and Efficiency Concept
Maximize the Benefits from Development Partners					Productivity and Resources Management Concept