Executive summary

Egypt has been witnessing significant changes on its political front since January 25th 2011. Such developments are expected to make fundamental improvements in the transparency and efficiency of the economic policy setting that will invariably impact the lives of all Egyptians. While ongoing domestic and regional developments will no doubt have a toll on the Egyptian economy, it is premature to take a full view of its economic and financial impacts.

Recent updates:

- ***Real GDP growth*** *was temporarily setback to* ***2.3 percent during July-March 2010/2011,*** *compared to 5.0 percent in the corresponding period of the previous fiscal year, as a natural consequence of the aftereffects of the revolution.*

- ***Budget deficit to GDP*** *increased by* ***1*** *percentage points during July-May 2010/2011 to 8.2 percent (LE 112.6 billion), compared to 7.2 percent (LE 86.8 billion) during July- May 2009/2010.*

- **Domestic budget sector debt** increased to 67.7 percent of GDP as of end **March 2011 to record some LE 932.6 billion.**

- **External debt indicators inched upwards given the increase in external debt stock by 7.9 percent,** leveling 15.1 percent of GDP in March 2011 (US$ 34.8 billion) compared to 14.7 percent of GDP (US$ 32.3 billion) as of end March 2010.

- **M2 annual growth** recorded **10.8 percent** as of end **April 2011,** compared to annual increase of **11.2 percent in March 2011,** and **9.6 percent in April 2010.**

- ***CPI annual Urban*** *Inflation slightly fell during* ***May 2011*** *recording* ***11.8 percent*** *compared to* ***12.1*** *percent during last month. Meanwhile annual* ***core inflation increased slightly*** *during* ***May 2011*** *to* ***8.81 percent*** *compared to* ***8.76*** *percent during last month.*

- ***Overnight deposit and lending rates remained*** *unchanged- for the* ***fourteenth time*** *in a row since September 2009-* during the **Monetary Policy Committee meeting on June 9th, 2011** *and stand at 8.25 and 9.75 percent respectively.*

- ***BOP*** *recorded an* ***overall deficit of US$ 5.5 billion*** *during* ***July-March 2010/2011*** *compared to a surplus of US$ 3.1 billion during the same period last year.*

I. Real GDP Growth

While it is early to assess the long-term impact that the recent events will have on economic growth, data for the third quarter of the current fiscal year recorded a negative growth rate of 4.2 percent, compared to an average growth rate of 5.5 percent during the preceding two quarters due to the contraction of growth in tourism, other manufacturing industry, construction and real estate, transport and warehousing, in addition to wholesale and retail trade. It is worth noting that this is the first negative quarterly growth to be recorded since the publication of quarterly GDP data in 2001/2002 and it is also an unprecedented matter even when the Egyptian economy faced the global financial crises in 2008/2009.

GDP (market prices) growth for July-March 2010/2011 decelerated to 2.3 percent, compared to 5.0 percent realized growth in the first nine months of last year. The realized growth comes as a result of the strong GDP performance during the first two quarters of the current fiscal year, which overcame the negative growth in the third quarter. It is worth noting that the GDP figure in constant prices for July-March 2010/2011 stands at LE 666.1 billion (LE 1021.5 billion in current prices), in comparison to LE 651.1 billion (LE 895.9 billion in current prices) during July-March 2009/2010.

Despite, the deceleration in total economic growth, private and public consumption growth- which comprise 86 percent of total GDP figure and contribute 3.4 percent to total growth- were the main drivers of real GDP growth (market prices) during July-March 2010/2011. Private and public consumption grew by 4.1 percent and 3.6 percent respectively, while total investment spending decreased by 6.0 percent. Additionally, both exports and imports of goods and services increased by 7.3 percent and 6.3 percent, respectively (net exports contributed 0.05 percent to total growth).

Regarding real GDP at factor cost[1], realized growth has slowed down to 2.5 percent during the July-March 2010/2011. It is noteworthy that from a sectoral perspective, the main contributors to growth were telecommunications (8.5 percent growth; 4.1 percent of GDP), Suez Canal (11.1 percent growth; 3.3 percent of GDP), which is an improvement when compared to the decline of 6.8 percent during the first nine months of the preceding fiscal year, in addition to petroleum (3.5 percent growth; 5.7 percent of GDP). On the other hand, the sectors that recorded the most contraction were manufacturing (0.1 percent growth; 15.3 percent of GDP); wholesale and retail trade (1.4 percent growth, 10.7 percent of GDP); transport and warehousing (1.5 percent growth, 4.1 percent of GDP); and tourism (-1.7 percent growth; 4.2 percent of GDP).

II. Fiscal Performance

According to FY 2009/2010 preliminary-actual budget[2] outcomes, the Egyptian government successfully outperformed its deficit target of 8.4 percent of GDP, with preliminary deficit standing at 8.1 percent of GDP.

Figures for FY 2009/2010 show that the overall deficit[3] to GDP increased by 1.2 percentage points to 8.1 percent, reaching almost LE 98 billion, compared to LE 71.8 billion during FY 2008/2009. The increase in overall deficit to GDP reflects the impact of economic deceleration and global economic crisis on fiscal balances, depicted by the decline in fiscal revenues and the relative increase in fiscal expenditures during FY 2009/2010. Also, the primary deficit[4] to GDP increased by 0.3 percentage points, registering 2.1 percent of GDP versus 1.8 percent of GDP during FY 2008/2009.

On the revenue side, total revenues and grants decreased by nearly 5.1 percent during FY 2009/2010, registering LE 268.1 billion compared to LE 282.5 billion during FY 2008/2009. The recorded decline is principally due to lower non-tax revenues by 18.2 percent, offsetting the 4.5 percent increase in tax revenues) reflecting MOF efforts in expanding the tax base).

On a more detailed level, the recent decline in fiscal revenue items comes from the significant retreat in current miscellaneous non-tax revenues[5] that receded by 89.1 percent to LE 3.4 billion compared to

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

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

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

4 Overall deficit less interest payments.

5 It is noteworthy that the exceptional increase in other revenues (on the revenues side) and social benefits (on the expenditures side) during FY 2008/2009 reflects mainly the settlement between the budget and the pension funds. Hence, the decline in "other revenues" and spending on "social benefits" during FY 2009/2010 reflects the base effect due to the settlement mentioned above.

LE 31.1 billion, in addition to the 53.6 percent decline grants from foreign governments, to record almost LE 3.5 billion compared to LE 7.5 billion during FY 2008/2009. At the same time, revenues collected from taxes on corporate profits slid by 8.7 percent to LE 60.2 billion compared to nearly LE 66 billion during FY 2008/2009. On the other hand, revenues from taxes on goods and services recorded an increase of 7.1 percent, leveling LE 67.1 billion, on the backdrop of high domestic demand. Also, revenues from property taxes increased by more than three folds to LE 8.8 billion compared to LE 2.8 billion during FY 2008/2009, due to taxes collected on t-bills and t-bonds' payable interest that have been reclassified as part of property taxes starting 2009/2010 and account for LE 5.8 billion during FY 2009/2010. In addition, taxes on international trade grew by 4.3 percent to LE 14.7 billion during FY 2009/2010 compared to LE 14.1 billion during the preceding year.

Furthermore, total expenditures increased by 4.1 percent to LE 366 billion during FY 2009/2010 compared to LE 351.5 billion during FY 2008/2009. This is due to a number of factors, mainly the increase in interest payments by almost 37 percent to LE 72.3 billion (mainly due to the increase in domestic interest payments to non-government entities), as well as the surge in compensation of employees by 12.1 percent, reaching LE 85.4 billion during FY 2009/2010 compared to LE 76.1 billion. In addition, purchases of non financial assets increased by 11.3 percent to LE 48.4 billion compared to LE 43.4 billion last year, mainly due to the implementation of the government third fiscal stimulus package. Moreover, purchases of goods and services increased by almost 12 percent reaching LE 28.1 billion during FY 2009/2010.

However, there was a notable decline in spending on 'subsidies, grants and social benefits'[5] during FY 2009/2010 by 18.9 percent to LE 103 billion compared to LE 127 billion during FY 2008/2009. This is mainly due to the drop in social benefits by almost 84.4 percent, recording LE 4.5 billion during FY 2009/2010 compared to LE 28.7 billion last year, which is related to the base effect of the financial settlement between the treasury and Social Insurance Funds during FY 2008/2009. In addition, subsidy payments to GASC declined by 20.2 percent during FY 2009/2010 to LE 16.8 billion compared to LE 21.1 billion during FY 2008/2009, due to the decline in international food prices.

Moreover, recent data for July-May of the fiscal year 2010/2011 showed that the overall deficit to GDP ratio increased by 1 percentage points to 8.2 percent, reaching LE 112.6 billion, compared to LE 86.8 billion during July-May 2009/2010. This comes as fiscal revenues increased at slower rate than the growth in fiscal expenditures during July- May 2010/2011. In addition, the primary deficit to GDP has increased to 2.9 percent compared to 2 percent during July- May 2009/2010.

From the revenues side, total revenues increased by 4 percent during July- May 2010/2011, registering LE 200.8 billion compared to LE 193 billion during the same period last year. The recorded increase is principally due to the 12 percent increase in tax revenues, which offsets the decrease of 14.7 percent in non-tax revenues.

On a more detailed level, the increase in tax revenues items comes from the step up in revenues from taxes income, capital gains and profits by 18.2 percent to almost LE 65.6 billion during July- May 2010/2011 compared to LE 55.5 billion during July- May last year. Also, revenues from Taxes on goods and services have increased by 10.1 percent to almost LE 63.4 billion during July- May 2010/2011 compared to LE 57.6 billion during July- May last year. Also, revenues from property taxes increased by 13.8 percent to almost LE 8.3 billion compared to LE 7.3 billion during July- May 2009/2010, mainly due to taxes collected on t-bills and t-bonds' payable interest that have been reclassified as part of property taxes starting 2009/2010 and account for almost LE 6.1 billion during July- May 2010/2011. However, revenues from taxes on international trade have decreased by 3.9 percent to almost LE 11.8 billion during July- May 2010/2011 compared to LE 12.3 billion during July- May last year.

On the other hand, non-tax revenues decreased by 14.7 percent during July- May 2010/2011 mainly due to the retreat in property income that have declined by 15.5 percent to LE 32.1 billion compared to almost LE 38 billion during July- May 2009/2010. In addition, revenues from both Grants and Sales of goods and services also decreased by 48.4 and 8.6 percent to almost LE 1.3 and 9.9 billion during July- May 2010/2011 compared to LE 2.5 and 10.8 billion respectively during July- May 2009/2010. In addition, miscellaneous revenues have decreased by 9.2 percent recording LE 5.8 billion during July- May 2010/2011 compared to LE 6.4 billion during the same period last year.

Total expenditures increased during July- May 2010/2011 by 12.7 percent, recording LE 315.1 billion compared to LE 279.7 billion during the same period last year. The recorded increase comes with the expansion growth in all spending chapters except for purchases of goods and services, and purchases of non financial assets that have declined by 12.6 percent and 19.5 percent to LE 17.1 billion and LE 29 billion respectively during July- May 2010/2011. On the other hand, compensation of employees has increased by 13.8 percent to LE 79.9 billion compared to LE 70.2 billion during July- May 2009/2010. Also, Interest payments have increased by 15.4 percent recording almost LE 72.7 billion during July- May 2010/2011 compared to LE 63 billion during the same period last year. In addition, other expenditures and Subsidies, grants and social benefits have increased by 7.3 and 36 percent to LE 26.8 and 89.7 billion compared to almost LE 25 and 66 billion respectively during July- May 2009/2010.

III. Domestic Debt Profile

As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks[6] at three different levels of compilation; the Budget Sector, General Government, and the Public Sector[7].

Recent statistics show that domestic budget sector debt increased slightly to 67.7 percent of GDP as of end of March 2011 to some LE 932.6 billion compared to LE 810.0 billion as of end March 2010 (67.1 percent of GDP). As for net domestic budget sector debt, it reached LE 778.9 billion (56.5 percent of GDP) compared to LE 667.2 billion (55.3 percent of GDP) as of end March last year. Accumulated budget sector debt at end of March 2011 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of March 2011 amount to LE 320.4 billion and LE 206.8 billion respectively versus LE 285.3 billion and LE 141.8 billion at end of March last year reflecting government's growing borrowing needs.

Gross domestic debt of the general government amounts to LE 847.9 billion (61.5 percent of GDP) at end of March 2011, compared to some LE 726.0 billion (60.2 percent of GDP) at end of March last year. Also, net domestic debt of the general government reached some LE 683.7 billion (49.6 percent of GDP) compared to LE 572.2 billion (47.4 percent of GDP) at end of March 2010. The increase in general government debt at end of March 2011 was driven by the increase in consolidated budget sector debt, in addition to the increase in consolidated debt of the National Investment Bank by nearly LE 13.3 billion amounting to LE 170.1 billion at end of March 2011.

Finally, gross domestic public debt reached LE 890.7 billion (64.6 percent of GDP), compared to LE 754.7 billion at end of March last year (62.5 percent of GDP). At the same time, net domestic public debt reached LE 704.6 billion (51.1 percent of GDP) compared to LE 582.3 billion (48.3 percent of GDP) at end of March 2010. It

6 Consolidated debt stocks exclude interrelated debt between entities at each level of compilation.

7 The Budget sector debt stock encompasses outstanding stocks of Central Government, Local Governments, and Public Service Authorities. The General Government debt stock includes the consolidated debt stocks of the Budget sector, the NIB, and SIF. The Public sector debt stock corresponds to the consolidated debt of the General Government and Economic Authorities.

is noteworthy that the realized increase in domestic public debt at end of March 2011 was due to an increase in accumulated debt of the General government and the increase in total outstanding debt of Economic Authorities by LE 15 billion amounting to nearly LE 108.1 billion at end of March 2011.
Meanwhile, domestic debt service increased by 26.5 percent to almost LE 80.6 billion at end of March 2011, compared to LE 63.8 billion during the same period last year.

The average life to maturity of outstanding T-bonds and T-bills remained constant at 1.5 years at end of March 2011 compared end of March 2010. Meanwhile, average interest rates on outstanding stock of t-bills and t-bonds increased to 10.91 percent at end of March 2011 compared to 10.44 percent at end of March 2010.

Egypt External Debt shows resilience despite a slight deterioration

External debt increased by 7.9 percent at end March 2011 to US$ 34.8 billion compared to US$ 32.3 billion a year earlier. The ratio of external debt to GDP increased from 14.7 percent of GDP at end March 2010 to 15.1 percent of GDP at end March 2011. Government external debt increased by 7.1 percent to US$ 26.8 billion (76.8 percent of total external debt) as of end of March 2011 compared to US$ 25.0 billion (77.4 percent of total external debt) at end of March 2010 [8].

IV. Monetary Developments

On the monetary side, total liquidity decreased slightly on monthly basis by 0.1 percent during April 2011, registering LE 986.8 billion, compared to LE 988.1 billion at end of the previous month.

Consequently, Year-on-year growth in M2 increased at slower pace by 10.8 percent at end of April 2011, compared to 11.2 percent at end of the previous month. This could be explained from the **assets side** by the retreat in Central Bank net foreign assets annual growth rate to -14.9 percent, offsetting the step up in net claims on government and GASC annual growth rate recording 37.8 percent at end of the month of study. As for the **liabilities side**, annual growth rate of money fell slightly recording 17.7 percent at end of April 2011; while quasi money growth rate almost stabilized recording 8.8 percent compared to 8.9 percent at end of March 2011.

On a more detailed level, annual growth rate of NFA decreased notably at end of April 2011 reaching -11.3 percent registering LE 256.2 billion. This is mainly due to the decrease in **Central Bank's net foreign assets** annual growth rate recording -14.9 percent to L.E 154.8 billion at end of April 2011 compared to a decrease of 6.9 percent at end of March 2011. Moreover **Bank's net foreign assets** also decreased by 5.2 percent recording L.E 101.4 billion during April 2011, compared to an increase of 2.1 percent at the end of the previous month recording LE 98.6 billion.

However, annual growth in NDA increased significantly at end of April 2011 registering 21.5 percent reaching LE 730.5 billion compared to a growth of 18 percent last month, and an increase of 5.5 percent during the same month last year. This Y-o-Y increase is a result of the acceleration in net claims on government and GASC Y-o-Y growth recording 37.8 percent, reaching LE 427.5 billion at end of April 2011, compared to a growth of 30.6 percent at end of March 2011, mainly reflecting a swap in government security holdings from foreign investors to domestic banks in the aftermath of January 25th revolution.

Nevertheless, annual growth in claims on private sector decelerated slightly recording 4.5 percent at end of April 2011 reaching LE 417.8 billion compared to a higher increase of 6.2 percent at end of last month, while it increased compared to 2.2 percent at end of April 2010. However, annual change in net claims on public business sector continues its annual decline registering a contraction of 8.9 percent to LE 33.7 billion at end of April 2011 compared to an increase of 19.5 percent during the same month last year, It is noteworthy that this annual decline is induced by a step-down in a number of public sector companies debt to the banking sector in June 2010, and is thus expected to continue until the base effect dissipates in June 2011.

It is noteworthy that CBE Net International Reserves (NIR) decreased at end of April 2011 by 19.1 percent to US$ 28 billion, compared to an increase of 11.1 percent at end of the same month last year recording US$ 34.7 billion.

Total deposits with the banking sector (excluding CBE) increased at slower pace by 6.7 percent to LE 945.8 billion at end of April 2011, of which 87.6 percent belongs to the non-government sector. Moreover, total lending by banking sector (excluding CBE) annual growth rate decelerated slightly recording 4.4 percent registering almost LE 473 billion at end of April 2011, due to the increase in total lending to non-government sector yet at slower pace by 4.1 percent to reach LE 431.6 billion at end of April 2011 as well as the increase in total lending to government sector by only 7.7 percent to LE 41.4 billion. As for the loans to deposits ratio for local currency at end of April 2011, it increased slightly to 44.9 percent compared to 44.4 percent during last month, however it decreased compared to 45.2 percent in April 2010. Meanwhile, loans to deposits ratio for foreign currencies increased slightly during April 2011 reaching 65.5 percent compared to 65 percent last month, yet decreased compared to 70.3 percent in April 2010.

Moreover, dollarization in total domestic liquidity almost stabilized at 18.1 percent during April 2011 compared to 18.2 percent during last month, while it increased compared to 17.5 percent during April 2010. Furthermore, dollarization in total deposits stabilized at 24.7 percent during the month of study compared to last month, while increased compared to 23.6 percent during the same month last year.

V. Prices

Concerning domestic consumer prices, annual CPI inflation[9] in urban areas slowed down to 11.8 percent during May 2011 compared to 12.1 percent during last month, while it increased compared to 10.0 percent recorded during May 2010. (As for overall Egypt, it slightly decreased during May 2011 recording 12.2 percent compared to 12.4 percent during previous month, and recording 9.8 percent if compared to May 2010)."The slight deceleration in annual inflation rate was in contrast to economists expectations of increase on the back of the government's declarations concerning minimum wage increase, and providing unemployment subvention. However, it was clarified that the weak consumer purchasing power (around 20% decline in demand for commodities) was the main contributor to the drop in annual inflation rate" declared the head of the Central Agency for Public Mobilization and Statistics.

And with reference to detailed data, the decrease in annual inflation rate is mainly due to the slow down in annual inflation rate of the "Food and Beverages" group recording 19.8 percent compared to 21.7 percent during the previous month mainly due to the deceleration in the annual inflation rate of the sub items "Meat", "Vegetables", and "Milk, cheese and eggs", in addition to the slight decrease in annual inflation rate of the group "Miscellaneous goods and services" mainly due to the decline in the inflation rate for the sub item "personal effects" recording 17 percent during May 2011, compared to 18.7 percent during last month.

Which counterpart the increase in annual inflation rate for the groups "Alcohol, Beverages, Tobacco", "Housing, Water, Electricity, Gas and Other Fuels", " Clothing and Footwear", "Furnishing, Household equipment and Routine Maintenance of the House", and "Recreation and Culture", while annual inflation rates stabilized for most of other groups.

[8] The CBE revised basis for foreign debt classification as of September 2008. Accordingly, Government debt statistics reflect an increase of US$ 4.3 billion primarily due to the reclassification of on lent loans as part of Central and Local Government debt instead of "Other Sectors" debt. It is noteworthy that such reclassification has not had any impact on the total outstanding foreign debt; which however may have changed due to the net flows of debt repayments and borrowings from abroad. So far, CBE has not released any figures for modified historical data.

[9] CPI inflation based on new CAPMAS series with January 2010 as base value for the index.

Moreover, on a monthly basis, CPI in urban areas decreased to 0.2 percent during May 2011 compared to 1.2 percent during the previous month. This is mainly due to the notable decline in "Food and Beverages" group prices reaching -0.5 percent during the month of study compared to a growth of 2.6 percent during the last month, mainly due to the decrease in all sub items except "Other Food Products".
Moreover, according to CBE inflation report, annual core inflation[10] increased slightly during May 2011 recording 8.81 percent compared to 8.76 percent during the previous month, and compared to 6.7 percent during the same month a year ago.

As for producer prices, year-on-year PPI inflation stabilized during April 2011 at 20.5 percent compared to 20.4 percent during the previous month, and compared to 15.9 percent during April 2010. Nevertheless, detailed data for April 2011 are not yet available. It is noteworthy that during March 2011, PPI inflation increased to 20.4 percent compared to 16.9 percent during February 2011. Also, monthly PPI inflation increased during March 2011 recording 4.7 percent compared to 1.3 percent during the previous month, and compared to 1.6 percent in March 2010. This was mainly due to the increase in the monthly inflation rates for both of "Agriculture, Forestry and Fishing", and "Mining and Quarrying" recording 8.6 percent and 9.6 percent during March 2011 compared to -0.2 percent and 5.5 percent respectively during last month.

CBE decided to keep its overnight deposit and lending rates unchanged- for fourteenth times in a row since September 2009- during the Monetary Policy Committee meeting held on June 9th, 2011. The overnight deposit and lending rates currently stand at 8.25 and 9.75 percent respectively. The committee justified such decision in light that "The expected slowdown in domestic economy would counter the risk of any increase in future inflation. Nonetheless, the MPC is considering the current CBE interest rate to be appropriate. And with a close monitor regarding economic developments, the committees will not hesitate to adjust interest rates in order to stabilize prices in the medium term."

VI. External Sector

Balance of payments (BOP) statistics- published by the Central Bank- for July-March of FY 2010/2011 registered a **deficit of US$ 5.5 billion in the overall balance**, compared to a surplus of US$ 3.1 billion during the corresponding period of the previous fiscal year. The recorded deficit was expected in the aftermath of the events witnessed since the 25th of January. This comes as a result of the capital and financial account accruing an outflow of US$ 1.8 billion, in addition to the outflow of US$ 2.4 billion in the current account. In the meantime, net errors and omissions recorded a net outflow of US$ 1.3 billion.

The trade deficit registered US$ 18.4 billion during the first nine months of FY 2010/2011, falling by 0.7 percent from the previous year's figure of US$ 18.5 billion. Export proceeds increased by 11.5 percent to US$ 18.9 billion and import payments increased by 5.1 percent amounting US$ 37.3 billion. The increase in export proceeds is due to the 17.2 percent increase in petroleum exports to US$ 8.3 billion and the 7.4 percent increase in non-oil exports to US$ 10.6 billion. As for the increase in total commodity imports it is due to the 26.8 percent increase in petroleum imports to US$ 4.1, in addition to the increase in non-oil imports by only 2.9 percent to US$ 33.2 billion.

Moreover, the services balance has accumulated a lower surplus during July-March 2010/2011, recording US$ 6.8 billion compared to US$ 8.8 billion during the corresponding period of the previous year. Total services receipts slightly decreased to US$ 17.3 billion as a result of the decline in most of the sub-items, except for the increase in receipts from transportation by 15 percent to 6 billion and the stabilization of travel receipts at 8.7 billion, which was counteracted by the 55.2 percent decrease in receipts from investment income, the 34.6 percent decrease in government services receipts, and the 29.1 percent decrease in other receipts. On the other hand, services payments have increased by 15.9 percent to US$ 10.4 billion compared to almost US$ 9.0 billion during July-March 2009/2010, due to the significant increase in investment income by 56.4 percent to US$ 4.6 billion, and moderate increase in transportation by 15.5 percent to US$ 1.1 billion, which overcame the slight decline in other sub items. Accordingly, services receipts are currently 165.8 percent of services payments, compared to 197.6 percent during the first nine months of the previous fiscal year.
It is also worth mentioning that private transfers increased by 42.5 percent to nearly US$ 8.9 billion, while public transfers decreased by 75.2 percent to nearly US$ 0.2 billion during July-March 2010/2011.

As a result of the factors mentioned, the current account deficit dropped by 7.9 percent, recording US$ 2.4 billion during July-March 2010/2011, compared to a deficit of US$ 2.6 billion during the same period of the previous fiscal year.

On another note, current account receipts increased by 8.3 percent to US$ 45.3 billion, while total payments increased by 7.3 percent to US$ 47.7 billion, bringing the ratio of current receipts to current payments (including official transfers) up to 95 percent compared to 94.1 percent during July-March of last year.

The capital and financial account reported a net outflow of US$ 1.8 billion; versus an inflow of US$ 5.2 billion during July-March 2009/2010. This was supported by a net outflow of portfolio investments in Egypt that amounted to nearly US$ 1 billion during July-March 2010/2011, compared to a net inflow of US$ 7.1 billion during the same period of the previous year. Meanwhile, net foreign direct investments in Egypt decelerated significantly, recording a net inflow of US$ 2.1 billion; 51.8 percent lower than the US$ 4.3 billion recorded in the first nine months of the previous fiscal year. Other investments recorded a net outflow of US$ 2 billion, compared to a net outflow of US$ 4.9 billion during July-March 2009/2010, as other assets amounted to a net outflow of US$ 2.5 billion compared to a higher net outflow of US$ 8.4 billion in the corresponding period of the previous year.

Finally, net errors and omissions recorded a net outflow of US$ 1.3 billion during the first nine months of 2010/2011, compared to a net inflow of US$ 0.5 billion during the corresponding period of the previous year.

Also, net international reserves (NIR) imports coverage ratio decreased to 7.3 months during the period of study compared to 8.7 months during July-March 2009/2010. Additionally, the coverage ratio of commodity exports to imports increased to 50.7 percent, compared to 47.8 percent during the first nine months of FY 2009/2010.

It is worth noting that the Central Bank of Egypt stated in a press release issued recently that the BOP is expected to post a deficit exceeding US$ 9 billion by the end of FY 2010/2011 in light of preliminary data for April and May 2011, which show negatively affected tourism revenues and foreign investments in Egypt largely as a result of the events that took place in Egypt recently.

VII. Stock Exchange

The EGX-30 index decreased by 1026 points during May 2011, reaching 5523 compared to 6549 during May 2010. It is worth noting that the EGX-30 index increased for the first time since the events of January 25th by 519 points compared to last month. Similarly, market capitalization declined over the previous year by 3.7 percent in May 2011, to LE 410 billion (29.8 percent of GDP). Such negative developments are expected in light of the recent events Egypt witnessed since 25th of January 2011.

10 The Core Index excludes items characterized by inherent price volatility specifically 'fruits and vegetables' (6.9 percent of headline CPI basket), and those with managed prices 'regulated items' (18.7 percent of headline CPI basket). It is important to note that Core CPI is merely an analytical tool that compliments the Headline Index and does not replace it. **It is noteworthy that annual core inflation during December 2010 exceeded the targeted comfort zone set by the Central Bank which lay between (6-8%).**