

Executive summary

Egypt has been undergoing 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. Although the Egyptian economy was able to economically survive and grow during two consecutive global crises over the past five years, the current unfavorable global and domestic circumstances today are adversely impacting the performance of the economy, holding back growth and causing temporary disruption to the macroeconomic scene.

Recent updates:

- **Real GDP** recorded a growth rate of **1.8 percent** during the period **July-March of 2011/2012**, compared to **2.3 percent** during the corresponding period of the previous fiscal year. This signals a relative improvement if compared to the growth of **0.3 percent** recorded during the first half of the current fiscal year. It is worth noting that GDP growth rate is expected to continue its gradual recovery upon the dissipation of the base effect that started in the third quarter of FY 2010/2011.
- Budget deficit to GDP rose to 8.8 percent during the period July- May 2011/2012 recording LE 136.5 billion, compared to LE 112.6 billion during July- May 2010/2011. *(It is noteworthy that preliminary fiscal data for the year 2011/2012 is still under preparation and will be published when finalized).*
- **Domestic budget sector debt** increased to 70.5 percent of GDP as of end **March 2012 to record LE 1089.4 billion** compared to LE 932.6 billion as of end of March last year.
- **External debt indicators** relatively improved with a decrease in the external debt stock by 4.1 percent, leveling at **13 percent of GDP in March 2012 (US\$ 33.4 billion)** compared to 15.1 percent of GDP (US\$ 34.8 billion) as of end March 2011.
- **M2 annual growth** almost stabilized as of end **May 2012** recording **7.4 percent**, compared to **7.3 percent in April 2012**, albeit falling short of the **11 percent recorded in May 2011**. (It is noteworthy that detailed data for June 2012 are not yet available)
- **CPI annual Urban Inflation** decelerated during **July 2012** recording **6.4 percent** compared to 7.3 percent during the previous month. Moreover, **annual core inflation** declined during **July 2012** registering **6.3 percent** compared to **7.0 percent** during June 2012.
- **During the Monetary Policy Committee meeting held on July 26th, 2012, CBE has decided to keep the overnight deposit rate and overnight lending rate unchanged at 9.25 percent, and 10.25 percent respectively, and the 7-day repo at 9.75 percent. Moreover, the discount rate was also kept unchanged at 9.5 percent.**
- **BOP** recorded an **overall deficit of US\$ 11.2 billion** during the period of **July-March 2011/2012** compared to a deficit of **US\$ 5.5 billion** during the same period in the previous year; this could be explained in light of the recent events Egypt witnessed, which had negative effects, specially on tourism revenues and foreign investment inflows.

I. Real GDP Growth

GDP at market prices shows significant improvement during the third quarter of 2011/2012, recording a growth rate of 5.2 percent (compared to 0.4 percent during the previous quarter in 2011/2012). However, growth rates for the period July-March 2011/2012 (which recorded 1.8 percent) are relatively lower than the 2.3 percent recorded during the corresponding period in 2010/2011.

Despite the relative deceleration in total economic growth, private and public consumption growth – which comprise 89.3 percent of total GDP figure and contribute 4.8 percent to total growth – remained the main drivers of real GDP growth (market prices) in the period July-March 2011/2012. Private and public consumption grew by 6 percent and 3.1 percent respectively, in addition to an increase in investment spending (for the first time since December 2010) by 5.3 percent, which offsets the widening gap between exports and imports during the review period.

In fact, imports of goods and services increased by 11 percent during the period July-March 2011/2012 (compared to an increase of 11.8 percent during the same period last year), while exports decreased by only 1.3 percent, (as opposed to an increase of 7.9 percent in the period July-March of 2010/11). It is worth noting that GDP (at market prices) for the period of study in constant prices stands at **LE 678.4 billion** (LE 1141.9 billion in current prices), in comparison to **LE 666.1 billion** (LE 1021.5 billion in current prices) during the period July- March last year.

Regarding real GDP at factor cost¹, realized growth has picked up to **1.9 percent** during the period **July-March 2011/2012**. It is noteworthy that from a sectoral perspective, the main contributors to this growth were Agriculture (3.0 percent growth; 13.9 percent of GDP), Suez Canal (6.1 percent growth; 3.4 percent of GDP), Telecommunications (5.4 percent growth; 4.3 percent of GDP), Real Estate (3.2 percent growth; 2.7 percent of GDP). On the other hand, three main sectors (comprising more than 32 percent of GDP) contributed to the deceleration, most notably Manufacturing (-0.4 percent growth; 15.0 percent of GDP), and Extractive Industry (-0.2 percent growth; 13.2 percent of GDP); and Tourism (-1 percent growth; 4.1 percent of GDP).

II. Fiscal Performance

According to FY 2010/2011 actual budget² outcomes, the overall deficit³ to GDP recorded 9.8 percent with an increase of 1.7 percentage points over FY 2009/2010, reaching almost LE 134.5 billion, up from LE 98 billion a year earlier. The rise in overall deficit to GDP comes as a result of a relative decline in fiscal revenues accompanying an increase in fiscal expenditures during FY 2010/2011. Moreover, the primary deficit⁴ to GDP increased by 1.5 percentage points to register 3.6 percent versus 2.1 percent of GDP during FY 2009/2010.

On the revenue side, total revenues and grants decreased by 1.1 percent during FY 2010/2011, recording LE 265.3 billion compared to LE 268.1 billion during FY 2009/2010. The recorded decline is principally due to the 25 percent decrease in non-tax revenues, offsetting the 12.7 percent increase in tax revenues.

On a more detailed level, the increase in tax revenue items comes from the step up in revenues from taxes on income and profits, capital gains by 17 percent to almost LE 89.6 billion during the year 2010/2011 compared to LE 76.6 billion last year. In addition, revenues from Taxes on goods and services increased by 13.4 percent to LE 76 billion during the year of study compared to almost LE 67 billion during 2009/2010. Revenues from property taxes also increased by 7.8 percent to LE 9.5 billion compared to LE 8.8 billion during 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 6.7 billion during 2010/2011. However, revenues from taxes

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.

on international trade decreased by 5.7 percent to almost LE 13.9 billion during 2010/2011 compared to LE 14.7 billion in the preceding year, on the back of a number of factors, including impact of the recent events Egypt witnessed since 25th of January 2011 on trade during the second half of fiscal year, and the turmoil in the global international commodities prices.

On the other hand, non-tax revenues⁵ decreased notably by 25 percent during 2010/2011 mainly due to the retreat in both of which miscellaneous revenues and grants by 47.2 percent to record LE 10.8 billion and LE 2.3 billion compared to LE 20.4 billion and LE 4.3 billion respectively during 2009/10. Moreover, property income decreased by 24.5 percent to LE 41.2 billion compared to almost LE 54.6 billion in the preceding year. In addition, revenues from Sales of goods and services also declined to almost LE 17.4 billion during 2010/2011 compared to LE 17.2 billion during 2009/2010.

Furthermore, total expenditures increased during the fiscal year 2010/2011 by 9.8 percent, recording almost LE 402 billion compared to LE 366 billion during last year. The recorded increase comes with the expansion in all spending chapters except for purchases of goods and services, and purchases of non financial assets, both of which declined by 6.8 percent and 17.5 percent to LE 26.1 billion and LE 39.9 billion respectively during the year 2010/2011. Meanwhile other expenditures increased by 8.5 to almost LE 31.4 billion compared to LE 28.9 billion during 2009/2010. Also, compensation of employees increased by 12.8 percent to LE 96.3 billion compared to LE 85.4 billion during 2009/2010. Interest payments also increased by 17.6 percent to record almost LE 85 billion during 2010/2011 compared to LE 72.3 billion in the preceding year. In addition, Subsidies, grants and social benefits rose by 19.6 percent to LE 123 billion compared to almost LE 103 billion respectively during 2009/2010.

Moreover, recent data for the period July- May of the fiscal year 2011/2012 showed that the overall budget deficit to GDP ratio rose to 8.8 percent, reaching LE 136.5 billion, compared to LE 112.6 billion during the period July- May 2010/2011. It is noteworthy that during the period of study fiscal revenues increased at higher rate than the growth in fiscal expenditures. Meanwhile, the primary deficit to GDP decreased to 2.7 percent compared to 2.9 percent during July- May 2010/2011.

From the revenues side, total revenues increased notably by 29.4 percent during the period of study, registering almost LE 259.7 billion compared to LE 200.8 billion during July- May 2010/2011. The recorded increase is principally due to the 62.7 percent increase in non-tax revenues, in addition to a 18.4 percent increase in tax revenues.

On a more detailed level, the increase in tax revenues comes with the increase in all Tax Chapters mainly both of Income Tax and Property Taxes by 22.8 percent and 45 percent reaching LE 80.6 billion and LE 12 billion compared to LE 65.6 billion and almost LE 8.3 billion respectively during July- May 2010/2011.

It is noteworthy that the increase in revenues from Income Tax comes with the increase in proceeds from tax on income from employment by 17.8 percent reaching LE 14.4 billion during July- May 2011/2012 compared to LE 12.2 billion during July- May 2010/2011; in addition to the increase in proceeds from taxes from Corporate Profit mainly from EGPC by 37.3 percent reaching LE 31.3 billion compared to LE 22.8 billion during the same period last year, in addition to the increase in proceeds from both taxes From Suez Canal and Taxes on Other Companies by 14.9 percent and 21 percent reaching LE 10.8 billion and LE 19.7 billion during July- May 2011/2012, compared to LE 9.4 billion and LE 16.3 billion respectively during the same period last year. Moreover, revenues from Property Tax chapter increased mainly due to the increase in proceeds from tax on T-bills and bonds' payable interest by 50.5 percent to almost LE 9.2 billion compared to LE 6.1 billion during July- May 2010/2011.

Moreover, Non- Tax Revenues increased significantly by 62.7 percent during the period July- May 2011/2012 mainly due to the increase in proceeds from most non-tax revenue chapters specially the step up in

grants recording LE 9 billion compared to LE 1.3 billion during the period July- May 2010/2011, due to the notable increase in grants from foreign governments (includes a grant of US\$ 500 million from Qatar). Additionally, revenues from Property Income, and Sales of Goods and Services increased by 68.6 percent and 10 percent to almost LE 54 billion and LE 10.9 billion during July- May 2011/2012, compared to LE 32 billion and LE 9.9 billion during the same period last year.

On the other hand, total expenditures increased during July- May 2011/2012 by 25.9 percent, recording LE 396.7 billion compared to LE 315 billion during the same period last year. The recorded increase comes with the expansion growth in most spending chapters except for other expenditures and purchases of non financial assets which declined by 1.8 percent, and 18 percent, to LE 26.3 billion, and LE 23.8 billion during the period July- May 2011/2012 compared to LE 26.8 billion and LE 29 billion respectively during the same period last year. It is worth mentioning that the decrease in Other Expenditures Chapter could be explained in light of the decrease in Current Miscellaneous Expenditures by 10.7 percent to LE 2.3 billion during the period of study compared to LE 2.6 billion during the same period last month. While, the decrease in Purchase of non financial assets could be explained in light of the 18 percent decline in fixed assets reaching LE 21.4 billion compared to LE 26 billion during the same period last year.

However, compensation of employees has increased by 27.2 percent to LE 101.6 billion compared to LE 79.9 billion during July- May 2010/2011. Also, Interest payments (which represent almost 24 percent of total Expenditures) have increased by 31.3 percent recording almost LE 95.5 billion during July- May 2011/2012 compared to LE 72.7 billion during the same period last year. In addition, Subsidies, grants and social benefits (which represent almost 33 percent of total Expenditures) have increased by 46.6 percent to LE 131.5 billion compared to almost LE 89.7 billion during July- May last year.

III. Domestic Debt Profile

As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks⁶ at three different levels of compilation; the Budget Sector, General Government, and the Public Sector⁷.

Recent statistics show that domestic budget sector debt increased to 70.5 percent of GDP as of end of March 2012 to some LE 1089.4 billion compared to LE 932.6 billion as of end March 2011 (68.0 percent of GDP). As for net domestic budget sector debt, it reached LE 924.9 billion (59.8 percent of GDP) compared to LE 778.9 billion (56.8 percent of GDP) as of end March last year. Accumulated budget sector debt at end of March 2012 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of March 2012 amount to LE 382.8 billion and LE 250.1 billion respectively versus LE 320.4 billion and LE 206.8 billion at end of March last year reflecting government's growing borrowing needs.

Gross domestic debt of the general government amounts to LE 1015 billion (65.6 percent of GDP) at end of March 2012, compared to some LE 847.9 billion (61.8 percent of GDP) at end of March last year. Also, net domestic debt of the general government reached some LE 843 billion (54.5 percent of GDP) compared to LE 683.7 billion (49.8 percent of GDP) at end of March 2011. The increase in general government debt at end of March 2012 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 11.1 million amounting to almost LE 181.3 billion at end of March 2012.

Finally, gross domestic public debt reached LE 1052.7 billion (68.1 percent of GDP), compared to LE 890.7 billion at end of March last year (64.9 percent of GDP). At the same time, net

⁵ It is noteworthy that the notable decline in non-tax revenues is due to the decrease in other non-tax revenues from Petroleum sector by some LE10 billion, coupled with the retreat in Miscellaneous revenues (Capital) by some LE 9.6 billion due to the repayment of loans to New Urban Communities Authorities . In addition, FY 2009/10 included an exceptional (non-recurrent) LE 8 billion in the form of self-Financing resources for investment expenditures.

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.

domestic public debt reached LE 861 billion (55.7 percent of GDP) compared to LE 704.6 billion (51.4 percent of GDP) at end of March 2011. It is noteworthy that the realized increase in domestic public debt at end of March 2012 was due to an increase in accumulated debt of the General government by 167.1 million to reach 1015 billion while Economic Authorities Domestic Debt declined by 4.9 million to reach 103.3 billion at end March 2012.

Meanwhile, domestic debt service increased by 11.8 percent to almost LE 90.1 billion at end of March 2012, compared to LE 80.7 billion during the same period last year.

The average life to maturity of outstanding T-bonds and T-bills declined to 1.3 years at end of March 2012 compared to 1.5 at end of March 2011. Meanwhile, average interest rates on outstanding stock of t-bills and t-bonds increased to 12.89 percent at end of March 2012 compared to 10.91 percent at end of March 2011.

Egypt External Debt indicators showed slight improvement

External debt decreased by 4.1 percent at end March 2012 to US\$ 33.4 billion compared to US\$ 34.8 billion at end of March a year earlier. The ratio of external debt to GDP decreased from 15.1 percent of GDP at end March 2011 to 13 percent of GDP at end March 2012. Government external debt decreased by 4.8 percent to US\$ 25.5 billion (76.2 percent of total external debt) as of end of March 2012 compared to US\$ 26.8 billion (76.8 percent of total external debt) at end of March 2011⁸.

IV. Monetary Developments

(It is noteworthy that detailed data for June 2012 are not yet available)

On the monetary side, monthly growth rate in total liquidity remains subdued by tight liquidity conditions, growing by 0.8 percent to register LE 1067.6 billion in May 2012, compared to LE 1058.8 billion in April 2012. Annual growth in total liquidity has almost stabilized in May 2012, recording 7.4 percent compared to 7.3 percent in the previous month, albeit falling short of the 11 percent rate recorded in May 2011. From the assets side, net foreign assets has continued to shrink on annual basis recording a contraction of 37.9 percent at end of the month of study, while annual growth rate of net claims on government and GASC recorded a growth of 29.9 percent, compared to higher growth of 31 percent in the previous month. As for the **liabilities side**, annual growth rate of M1 recorded 8.4 percent at the end of May 2012 to LE 264.6 billion, compared to 8.6 percent at end of the previous month. Moreover, quasi money increased slightly reaching 7 percent during the month of study to LE 803 billion, compared to a growth of 6.9 percent in April 2012.

On a more detailed level, net foreign assets has continued to shrink on annual basis, recording a contraction of 37.9 percent at end of May 2012 which brings total NFA of the banking sector to LE 157.6 billion, compared to LE 164.8 billion last month. **Central Bank's net foreign assets** continued its decelerating path which began with the eruption of political unrest, recording annual decline of 49.7 percent (compared to a peak of 55.5 percent in January 2012, highest rate of decline since July 2002) reaching LE 75.4 billion at end of May 2012. Moreover, **Bank's net foreign assets** has declined by 20.6 percent to register LE 82.2 billion at the end of May 2012, compared to a decline of 15.9 percent last month reaching LE 85.3 billion.

On the other hand, growth in net domestic assets of the banking sector has increased recording 22.8 percent at end of May 2012 recording LE 910 billion primarily derived by 29.9 percent growth in net claims on government and GASC, compared to a growth of 31 percent last month and a peak of 45.3 percent in January 2012. It is worth noting that net claims on government and GASC growth

amounted to more than 178 percent of annual liquidity growth at the end of May 2012 reaching LE 564.8 billion.

Annual growth in the **credit to the private sector** accelerated in May 2012 registering 7.3 percent, compared to 6.3 percent in the previous month, and compared to an average growth rate of 3.2 percent during the previous twelve months. This has brought the stock of outstanding credit to the private sector to LE 448 billion. It is worth noting that **"net claims on the public business sector"** grew at 27 percent on annual basis up from an annual increase of 24.1 percent last month.

CBE net international reserves (NIR) have declined from a peak of US\$ 36 billion in December 2010, to US\$ 26.6 billion in June 2011 and further to US\$ 14.4 billion at end of July 2012, posting an overall decline of more than 60 percent since its peak. Moreover, the month of July witnessed a monthly decrease of 7.7 percent in NIR, which could be explained in the light of the maturity of the Egyptian Bonds and payment of the Paris Club member countries' debt totaling about US\$ 1.64 billion.

Annual growth in total deposits with the banking sector (excluding CBE) increased at a slower rate recording 6.2 percent at end of May 2012 compared to 6.7 percent in previous month registering LE 1011.2 billion, and compared to 7.8 percent recorded in May 2011. Out of total deposits, 87.8 percent belonged to the non-government sector at the reference date. On the other hand, annual growth rate in total lending by banking sector (excluding CBE) increased to 6.7 percent at the year ending May 2012, compared to last month and compared to only 3 percent a year earlier. This brings total loans to almost LE 502.3 billion at end of May 2012. On a more detailed level, annual growth in total lending to non-government sector registered 9.1 percent to reach some LE 469.6 billion at end of May 2012, while annual growth in total lending to government sector continued to decline recording -19.1 percent to register LE 32.7 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits has increased registering 47.1 percent at the end of May 2012, compared to 45 percent in May 2011. On the other hand, loans to deposits ratio in foreign currencies posted a pronounced decrease on annual basis registering 57.8 percent at the end of May 2012, compared to 63.4 percent in May 2011.

Moreover, dollarization in total liquidity has stabilized during May 2012 at 17.3 percent, compared to last month, while it decreased if compared to 17.9 percent in May 2011. On the other hand, dollarization in total deposits increased during the month of study reaching 24 percent, compared to 23.8 percent last month and decreased if compared to 24.5 percent during the same month last year.

V. Prices

Concerning domestic consumer prices, annual CPI inflation⁹ in urban areas continued decelerating to 6.4 percent during July 2012 compared to 7.3 percent recorded during the previous month, and compared to 10.4 percent in July 2011. **(As for overall Egypt, it also decelerated during July 2012 recording 6.3 percent compared to 7.4 percent during the previous month,** and compared to 10.7 percent in July 2011). The decline in annual inflation rate during the month of the study compared to previous month is mainly attributed to the deceleration in annual inflation rate of several main groups, notably "Food and Beverages" group, and more specifically the sub items; "Bread and Cereals" (-7.8%), "Oils and Fats" (1.6%), "Sugar and Confectionery" (1.3%), in addition to the slowdown in the annual inflation rate of all other main groups except for "Health" and "Recreation and Culture" groups. Consequently, the average inflation rate for the year 2012 recorded 8.2 percent compared to 11.3 percent during last year.

On the other hand, monthly inflation rate rose after a decline witnessed thought the previous two consequent months recording 0.4 percent during July 2012 compared to -0.6 percent during previous month.

Moreover, according to CBE inflation report, annual core inflation¹⁰ decelerated during July 2012 recording 6.3 percent compared to 7.0

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.

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.

percent during the previous month, and compared to 8.7 percent achieved during the same month a year ago.

As for producer prices, year-on-year PPI inflation decelerated significantly to -3.7 percent during June 2012 compared to growth of 2.8 percent recorded during previous month, and compared to 19.4 percent recorded in June 2011. Moreover, monthly PPI inflation fell down to -6.6 percent during June 2012 compared to -2.2 percent during May 2012. **Nevertheless, detailed data for June 2012 are not yet available.**

It is noteworthy that during May 2012, annual PPI inflation almost stabilized at 2.8 percent compared to 2.2 percent in April 2012. The annual PPI inflation rate stabilized during May 2012 mainly due to the unchanged annual inflation rates for most PPI groups, except for the decline in annual inflation of "Agriculture, Forestry, and Fishing", and "Manufacturing" recording 4.3 percent, and 2.8 percent during May 2012 compared to 4.5 percent, and 3.3 percent respectively during the previous month; while, "Mining and Quarrying" increased slightly by 0.4 percent during May 2012.

During the **Monetary Policy Committee meeting held on the 26th of July, 2012**, CBE has decided to **keep the overnight deposit rate and overnight lending rate unchanged at 9.25 percent, and 10.25 percent respectively**, and the **7-day repo at 9.75 percent**. Moreover, the **discount rate** was also kept unchanged at **9.5 percent**. The committee justified such decision in light of **"the balance of risks surrounding the inflation on one hand and a slowdown in the growth of local economy on the other hand**, in addition to the uncertainty at this juncture." Notwithstanding the present downside risks to growth posed by the ongoing political transition, inflationary pressures still exist in the economy mainly due to inefficiencies in local supply and distribution channels.

Additionally, as part of its monetary policy framework, the CBE has decided to introduce a 28-day repurchasing agreement (repo) starting July 10, 2012, at variable rate tenders with a minimum bid equal to the 7-day repo rate.

It is worth mentioning that on its board meeting held on May 22nd 2012, CBE decided, for the second time in 2012, to lower its reserve requirement ratio (RRR) on local currency deposits by two percentage points from 12 percent to 10 percent, effective the maintenance period starting June 26th 2012. It is note worthy that the CBE has first lowered its reserve requirement ratio on local currency deposits in March 20th 2012, by two percentage points from 14 percent to 12 percent with the objective of easing liquidity pressures in the banking sector.

VI. External Sector

Balance of payments (BOP) statistics- published by the Central Bank for the period July-March of the FY 2011/2012 registered a **deficit of US\$ 11.2 billion in the overall balance**, compared to a deficit of US\$ 5.5 billion during the same period previous year. The recorded deficit comes as a result of the 37 percent rise in the current account deficit registering US\$ 6.4 billion, in addition to an outflow of US\$ 3.7 billion in the capital and financial account. In the meantime, net errors and omissions recorded a net outflow of US\$ 1.1 billion. This is mainly due to the recent events that took place in Egypt and the Arab region, which had negative effects on various proceeds specially tourism revenues and foreign investment inflows.

The trade deficit registered US\$ 23.5 billion during July-March FY 2011/2012, increasing by 14 percent from the previous year's figure of US\$ 20.7 billion. This is due to the increase of import payments by 10 percent reaching US\$ 43.6 billion, while export proceeds increased at a lower pace by 6 percent amounting US\$ 20.1 billion. The increase in export proceeds is due to the 19 percent increase in petroleum exports to US\$ 9.8 billion which offsets the 4 percent decrease in non-oil exports to US\$ 10.3 billion. As for total commodity imports, the increase witnessed in the period of study is due to the notable increase in petroleum imports by 29 percent to US\$ 8.3 billion; in addition to a lower increase in non-oil imports by 6 percent to US\$ 35.3 billion.

Moreover, the services balance has accumulated a lower surplus during July-March 2011/2012, recording US\$ 3.8 billion compared to US\$ 6.8 billion during the same period previous year. Total services

receipts decreased to US\$ 15.6 billion as a result of the decline in most of the sub-items, except for the increase in receipts from transportation by 7 percent to US\$ to 6.4 billion, which includes an increase of 5 percent from Suez Canal receipts to reach US\$ 3.9 billion; and the increase in government services receipts by 118 percent reaching US\$ 0.2 billion, compared to US\$ 90 million during the same period last year. This increase was counteracted by the 19 percent decrease in travel receipts to US\$ 7.1 billion; in addition to a 19 percent decrease in other receipts. Moreover, receipts from investment income declined by 44 percent amounting US\$ 0.2 billion.

On the other hand, services payments increased during July-March 2011/2012 reaching US\$ 11.8 billion compared to US\$ 10.4 billion during the same period previous year. This comes due to the increase in most of the services payments sub-items, except for government expenditures, which decreased by 5 percent reaching US\$ 0.9 billion; and transportation declining by 10 percent to almost US\$ 1 billion. On the other hand, investment income payments increased by 15 percent to reach US\$ 5.3 billion. Moreover, travel payments have increased by 18 percent to reach US\$ 1.9 billion, compared to US\$ 1.6 billion for the same period last year.

It is worth noting that the Net international reserves (NIR) imports coverage ratio has significantly decreased to 3.1 months during the period of study compared to 6.8 months during the period of July - March FY 2010/2011.

Also, it is note worthy that private transfers notably increased during July-March 2011/2012 by 43 percent to nearly US\$ 12.8 billion, compared to US\$ 8.9 billion for the same period last year, mainly due to Egyptian workers' remittances transferred from abroad. On the other hand public transfers increased during July-March 2011/2012 to reach US\$ 0.6 billion compared to almost US\$ 0.2 billion during the same period last year, due to the increase of cash grants transferred to the Egyptian government. Consequently, Current payments increased by 10.8 percent to US\$ 55.4 billion, while current account receipts increased by 8.1 percent to US\$ 49 billion, bringing the ratio of current receipts to current payments (including official transfers) down to 88.5 percent compared to 90.7 percent during the same period previous year.

As a result of the factors mentioned above, the current account deficit increased by 37 percent, recording US\$ 6.4 billion during July-March 2011/2012, compared to a deficit of US\$ 4.7 billion during the same period previous fiscal year.

On the other hand, the capital and financial account reported a net outflow of US\$ 3.7 billion; versus an outflow of US\$ 1.8 billion during July-March 2010/2011. This comes as portfolio investments in Egypt recorded a notable net outflow of US\$ 4.6 billion during July-March 2011/2012 due to the foreigners' sales of their holding of securities, especially T-Bills (nearly US\$ 3.9 billion, as compared to US\$ 1.8 billion during the same period in previous year). Moreover, net foreign direct investments in Egypt recorded a net inflow of US\$ 0.2 billion compared to a net inflow of US\$ 2.1 billion during July-March in the previous fiscal year. Other investments recorded a net inflow of US\$ 1.1 billion, compared to a net outflow of US\$ 2 billion during July-March 2010/2011, as other assets amounted to a net inflow of US\$ 1.5 billion compared to net outflow of US\$ 2.5 billion during the same period in the previous fiscal year.

Finally, net errors and omissions recorded a net outflow of US\$ 1.1 billion during the period of July-March 2011/2012, compared to a net inflow of US\$ 0.9 billion during the same period previous fiscal year.

VII. Stock Exchange

The EGX-30 index increased by 154 points during July 2012, reaching 4863 compared to 4709 during June 2012. Meanwhile, market capitalization almost stabilized during the month of study at LE 340 billion (19.1 percent of GDP). Such developments might indicate a slow recovery in light of the most recent developments on the political scene.