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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 are causing temporary disruption to the macroeconomic scene, keeping growth below potential.

Recent updates:

- ***Real GDP** shows a relative improvement **during 2011/2012 recording a growth of 2.2 percent**, compared to* **1.8 percent** during the previous fiscal year. Such development could be explained in light of the improving performance of most of the sectors; in addition to the base effect that was revealed beginning the third quarter of FY 2010/2011.

- **Budget deficit to GDP increased to 2.9** percent during the period **July- September 2012/2013** recording LE 50.8 billion, compared to LE 41.4 billion during **July- September 2011/2012.**

- **Domestic budget sector debt** increased to 74.9 percent of GDP as of end **June 2012 to record LE 1155.3 billion** compared to LE 967.3 billion as of end of June last year.

- **External debt indicators relatively improved with a decrease in the external debt stock by 1.5 percent, leveling at 13.5 percent of GDP in June 2012 (US$ 34.4 billion)** compared to 15.2 percent of GDP (US$ 34.9 billion) as of end June 2011.

- ***M2 annual growth** slightly decreased as of end **July 2012** recording **8.1 percent**, compared to **8.4 percent in June 2012**, albeit falling short of the **10.4 percent recorded in July 2011**.* (It is noteworthy that detailed data for August 2012 are not yet available)

- ***CPI annual Urban** Inflation slows to* 6.2 percent *during **September 2012** compared to 6.5 percent during the previous month. Moreover, **annual core inflation** dropped during **September 2012** registering **3.8 percent** compared to **5.3** percent during August 2012.*

- ***During the Monetary Policy Committee meeting** held on **October 18th**, 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$ 11.3 billion** during the fiscal year **2011/2012** compared to a deficit of US$ 9.8 billion 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 continues to **show positive developments during the fourth quarter of 2011/2012,** recording a growth rate of 3.3 percent (compared to 0.3 percent during the same quarter in the previous year). Yet, it has slowed down if compared to a growth of 5.2 percent during the preceding quarter (January-March 2011/12). With this, **the Egyptian economy has grown at 2.2 percent** during the fiscal year 2011/2012, compared to **1.8 percent during the previous fiscal year.**

With regards to the main drivers to total economic activity during 2011/12, **private and public consumption** – which comprise 87.8 percent of total GDP figure and contribute 4.7 percent to total growth – remained the **main drivers of real GDP growth (market prices).** While private consumption continued to grow, leveling at 5.9 percent up from 5.5 percent last year, public consumption has dropped from 3.8 to 3.1 percent compared to the previous fiscal year. Moreover, investment spending recorded a notable increase of 8 percent during the year of study, thus reversing a contraction of 2.1 which was registered in 2010/11.

Both, the steady increase in consumption and the improvement in investment spending have offset the widening export- import gap during the year of review. In fact, **imports of goods and services increased** by 10.8 percent during the fiscal year 2011/12 (compared to an increase of 8.4 percent during the previous fiscal year). However, **exports of goods and services registered a slight deceleration** of 2.3 percent during the fiscal year 2011/12, (as opposed to an increase of 1.2 percent during the previous fiscal year. It is worth noting that **GDP** (at market prices) for the year of study **in constant prices** stands at **LE 913.8 billion** (LE 1542.3 billion in current prices), in comparison to **LE 893.9 billion** (LE 1371.1 billion in current prices) **during the previous year 2010/11.**

Regarding **real GDP at factor cost[1], realized growth has picked up to 2.2 percent during 2011/2012.** It is noteworthy that from a sectoral perspective, **all sectors have registered positive growth with varying degrees**. The **main contributors to this growth** were agriculture (2.9 percent growth, 13.4 percent of GDP), Construction and Building (3.3 percent growth; 5.4 percent of GDP), Telecommunications (5.2 percent growth; 4.4 percent of GDP), Suez Canal (3.9 percent growth; 3.4 percent of GDP), Real Estate (3.2 percent growth; 2.9 percent of GDP). On the other hand, the weak performance of some sectors mainly Manufacturing and Tourism -which have usually contributed positively to boost growth- have weighed heavily on GDP growth in 2011/12, showing a modest increase of (0.7 percent, 15.4 percent of GDP) and (2.3 percent growth , 3.9 percent of GDP) respectively during the fiscal year.

Table (1): Contribution of Key Sectors to Real GDP Growth

	2010/11	2011/12
Total GDP (at Factor Cost)	**1.9%**	**2.2%**
Total Commodity Sector, of Which	**0.6%**	**0.8%**
Agriculture, Forestry and Fishing	0.4%	0.4%
Petroleum	0.1%	0.1%
Natural Gas	0.1%-	0.1%-
Manufacturing Industry	0.2%-	0.1%
Construction and Building	0.2%	0.2%
Total Production Services,of Which	**0.8%**	**1.0%**
Transport and Warehousing	0.1%	0.1%
Telecommunications	0.3%	0.2%
Wholesale and Retail Trade	0.2%	0.2%
Financial Intermediation	0.1%	0.1%
Tourism (Hotels and Restaurants)	0.2%-	0.1%
Total Social Services	**0.5%**	**0.5%**

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

II. Fiscal Performance

According to FY 2011/2012 actual budget[2] outcomes, the overall budget deficit to GDP ratio increased to 10.8 percent, reaching LE 166.7 billion, compared to LE 134.5 billion during FY 2010/2011. This comes as fiscal expenditures increased at a higher rate than the growth in fiscal revenues. It is noteworthy that the recorded increase in expenditures comes mainly due to the increase in three main chapters; First, an increase in Compensation of Employees chapter due to a 50.3 increase in rewards and employees incentives. Second, an increase in Interest Chapter due to increase in interest on treasury bills by LE 10.1 billion up to LE 36.3 billion during FY 2011/2012, in addition to increase in interest on treasury bonds by LE 5.3 billion up to LE 25 billion during the year of study. Third, an increase in Subsidies Grants and Social benefits Chapter due to an increase in petroleum subsidies by LE 27.9 billion to LE 95.5 billion, and an increase in social insurance pensions and contributions in pension funds by LE 2.8 billion. In addition, the primary deficit to GDP increased during the year of study to 4 percent compared to 3.6 percent during FY 2010/11.

From the revenues side, total revenues increased by 14.5 percent during the year of study, registering almost LE 303.6 billion compared to LE 265.3 billion during FY 2010/2011. The recorded increase is principally due to the 31.4 percent increase in non-tax revenues, in addition to a 8 percent increase in tax revenues.

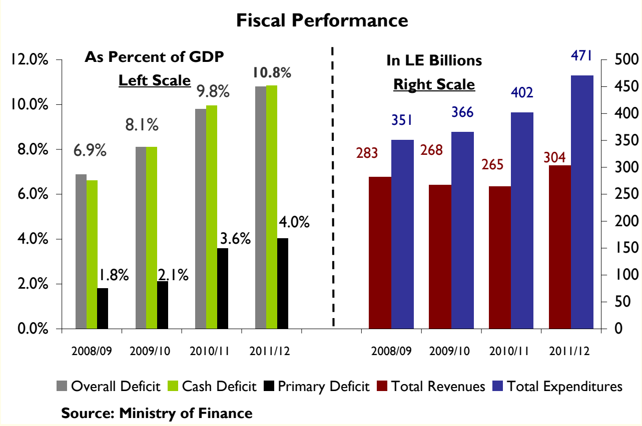
On a more detailed level, the increase in tax revenues comes with the increase in all Tax Chapters mainly Property Taxes chapter by 38.5 percent to LE 13.1 billion compared to LE 9.5 billion during FY 2010/2011; in addition to the notable increase in Taxes on goods and services chapter by 11.2 percent to LE 84.6 billion compared to LE 76.1 billion during FY 2010/2011. Revenues from Property Tax chapter increased mainly due to the increase in proceeds from tax on T-bills and bonds› payable interest by 47.6 percent to almost LE 9.9 billion compared to LE 6.7 billion during FY 2010/2011. Meanwhile, both of Taxes on International Trade and Other Taxes increased by 6.7 percent and 19.1 percent to LE 14.8 billion and LE 3.7 billion during FY 2011/2012 compared to LE 13.9 and LE 3.1 respectively. Additionally, Revenues from Income Tax increased due to the increase in proceeds from tax on income from employment by 19.5 percent reaching LE 16 billion during FY 2011/2012 compared to LE 13.4 billion during FY 2010/2011; in addition to the increase in proceeds from taxes from Suez Canal by 8.3 percent reaching LE 11.8 billion during FY 2011/2012, compared to LE 10.9 billion during last FY year.

Moreover, Non- Tax Revenues increased by 31.4 percent during FY 2011/2012 mainly due to the increase in proceeds from most non-tax revenues chapters specially the step up in grants recording LE 10.1 billion compared to LE 2.3 billion during FY 2010/2011, due to the notable increase in grants from foreign governments (includes two grants; US$ 500 million from Qatar and US$ 500 million from Saudi Arabia). Additionally, revenues from Property Income increased by 35.9 percent to almost LE 56 billion during FY 2011/2012, compared to LE 41.2 billion during last fiscal year. Moreover, proceeds from Sales of Goods and Services increased by 2.4 percent to almost LE 17.8 billion during FY 2011/2012, compared to LE 17.4 billion last year; which offset the decrease in most other chapters in Other Revenues.

On the other hand, total expenditures increased notably during FY 2011/2012 by 17.2 percent, recording LE 471 billion compared to LE 401.9 billion during last year. The recorded increase comes with the expansion growth in most spending chapters except for other expenditures and purchases of non financial assets. Compensation of employees increased notably by 27.6 percent to LE 122.8 billion compared to LE 96.3 billion during FY 2010/2011, which could be explained in light of the significant increase in rewards by LE 17.6 billion to 52.7 billion.

Moreover, Interest payments (which represent almost 22.2 percent of total Expenditures) have increased by 22.8 percent recording almost LE 104.4 billion during FY 2011/2012 compared to LE 85.1 billion during last FY year, mainly due to the increase in interests on treasury bills by LE 10.1 billion to LE 36.3 billion, in addition to the increase in interest on treasury bonds by LE 5.3 billion to LE 25 billion. In addition, Subsidies, grants and social benefits (which represent almost 31.9 percent of total Expenditures) have increased by 22 percent to LE 150.2 billion compared to almost LE 123 billion during last FY year. The recorded increase in Subsidies, grants and social benefits chapter could be explained in light of the increase in petroleum subsidies by LE 27.9 billion and social insurance pensions by LE 0.5 billion, in addition to the increase in contributions in pension funds by LE 2.8 billion.

On the other hand, both of other expenditure and purchases of non-financial assets chapters declined by 1.8 percent and 10 percent to LE 30.8 billion, and LE 35.9 billion during FY 2011/2012 compared to LE 31.4 billion and LE 39.9 billion respectively during 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 10.1 percent to LE 3 billion during the period of study compared to LE 3.4 billion during last FY. While, the decrease in Purchase of non financial assets could be explained in light of the 12.9 percent decline in fixed assets reaching LE 29 billion compared to LE 33.3 billion during last FY year.



Moreover, recent data for the period July- September of the fiscal year 2012/2013 showed that the overall budget deficit to GDP ratio increased to 2.9 percent, reaching LE 50.8 billion, compared to LE 41.4 billion during the period July- September 2011/2012. It is noteworthy that during the period of study fiscal expenditures increased at higher rate than the growth in fiscal revenues. Meanwhile, the primary deficit to GDP stabilized at 1 percent during July- September 2012/2013.

From the revenues side, total revenues increased notably by 15.6 percent during the period of study, registering almost LE 50.7 billion compared to LE 43.8 billion during July- September 2011/2012. The recorded increase is principally due to the 34.6 percent increase in tax revenues, which counterparts the decrease in non-tax revenues by 24.9 percent.

On a more detailed level, the step up in tax revenues comes with the increase in all Tax Chapters mainly the significant increase in Income Tax and Property Taxes by 88 percent and 25.5 percent reaching LE 15.6 billion and LE 3.9 billion compared to LE 8.3 billion and almost LE 3.1 billion respectively during July- September 2011/2012. Also Taxes on Goods and Services increased by 13.6 percent recording LE 17 billion during July-September 2012/2013, compared to LE 14.9 billion during the same period last year.

It is noteworthy that the increase in revenues from Income Tax comes with the increase in proceeds from tax on income from employment by 21.3 percent reaching LE 4.1 billion during July- September 2012/2013 compared to LE 3.3 billion during July- September 2011/2012; in addition to the notable increase in proceeds from taxes from Corporate Profit mainly from Other Companies by 35.9 percent reaching LE 2.7 billion compared to LE 2 billion during the same period last year. Moreover, revenues from Property Tax chapter increased significantly mainly due to the increase in proceeds from tax on T-bills and bonds' payable interest by 28.2 percent to almost LE 3.2 billion compared to LE 2.5 billion during July- September 2011/2012.

On the other side, Non- Tax Revenues decreased by 24.9 percent during the period July- September 2012/2013 mainly due to the decrease in proceeds from Other Revenues chapter specially Property Income, and which decreased by 26.2 percent, recording LE 6 billion during the period of study compared to LE 8.2 billion

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

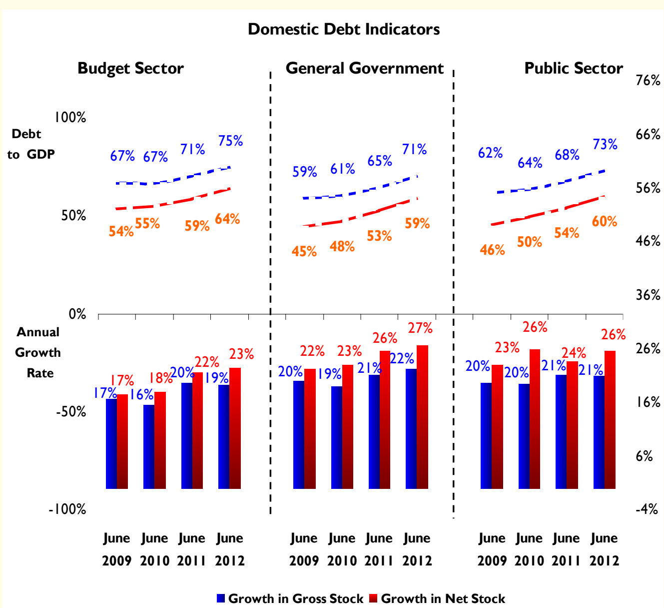
during the period July- September 2011/2012.

On the other hand, total expenditures increased during July-September 2012/2013 by 20.1 percent, recording LE 101.3 billion compared to LE 84.4 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 2.2 percent, and 24.7 percent, to LE 7.8 billion, and LE 3.5 billion during the period July- September 2012/2013 compared to LE 8 billion and LE 4.7 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 Contingency Reserves by 2.8 percent to LE 7.3 billion during the period of study, compared to LE 7.5 during the same period last Year. While, the decrease in Purchase of non financial assets could be explained in light of the 26.7 percent decline in fixed assets reaching LE 3.2 billion compared to LE 4.3 billion during the same period last year.

However, compensation of employees has increased by 18.9 percent to LE 32.4 billion compared to LE 27.3 billion during July- September 2011/2012. Also, Interest payments (which represent almost 31.1 percent of total Expenditures) have increased by 30.9 percent recording almost LE 31.6 billion during July- September 2012/2013 compared to LE 24.1 billion during the same period last year. In addition, Subsidies, grants and social benefits (which represent almost 21.9 percent of total Expenditures) have increased by 30.3 percent to LE 22.2 billion compared to almost LE 17.1 billion during July- September last year.

III. Domestic Debt Profile

As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks[3] at three different levels of compilation; the Budget Sector, General Government, and the Public Sector[4].



Recent statistics show that domestic budget sector debt increased to 74.9 percent of GDP as of end of June 2012 to some LE 1155.3 billion compared to LE 967.3 billion as of end June 2011 (70.5 percent of GDP). As for net domestic budget sector debt, it reached LE 991 billion (64.2 percent of GDP) compared to LE 808.1 billion (58.9 percent of GDP) as of end June last year. Accumulated budget sector debt at end of June 2012 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of June 2012 amount to LE 408.6 billion and LE 270.6 billion respectively versus LE 356.1 billion and LE 206.8 billion at end of June last year reflecting government's growing borrowing needs.

Gross domestic debt of the general government amounts to LE 1087.9 billion (70.5 percent of GDP) at end of June 2012, compared to some LE 889.1 billion (64.8 percent of GDP) at end of June last year. Also, net domestic debt of the general government reached some LE 914.7 billion (59.3 percent of GDP) compared to LE 722.5 billion (52.7 percent of GDP) at end of June 2011. The increase in general government debt at end of June 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 10.7 million amounting to almost LE 188.9 billion at end of June 2012.

Finally, gross domestic public debt reached LE 1129 billion (73.2 percent of GDP) during June 2012, compared to LE 932.5 billion at end of June last year (68 percent of GDP). At the same time, net domestic public debt reached LE 930.9 billion (60.4 percent of GDP) compared to LE 741.3 billion (54.1 percent of GDP) at end of June 2011. It is noteworthy that the realized increase in domestic public debt at end of June 2012 was due to an increase in accumulated debt of the General government by 198.9 million to reach 1087.9 billion while Economic Authorities Domestic Debt declined by 3.7 billion to reach 105.5 billion at end June 2012.

Meanwhile, domestic debt service increased by 20.2 percent to reach LE 140.9 billion at end of June 2012, compared to LE 117.3 billion during the same period last year.

The average life to maturity of outstanding T-bonds and T-bills declined to 1.1 years at end of June 2012 compared to 1.4 at end of June 2011. Meanwhile, average interest rates on outstanding stock of T-bills and T-bonds increased to 14.4 percent at end of June 2012 compared to 11.38 percent at end of June 2011.

Egypt External Debt indicators showed slight improvement

External debt decreased by 1.5 percent at end June 2012 to US$ 34.4 billion compared to US$ 34.9 billion at end of June a year earlier. The ratio of external debt to GDP decreased from 15.2 percent of GDP at end June 2011 to 13.5 percent of GDP at end June 2012. Government external debt decreased by 5.5 percent to reach US$ 25.6 billion (74.4 percent of total external debt) as of end of June 2012 compared to US$ 27.1 billion (77.6 percent of total external debt) at end of June 2011[5].

IV. Monetary Developments

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

On the monetary side, monthly growth rate in total liquidity increased merely by 0.7 percent to register LE 1101.9 billion in July 2012, compared to LE 1094.4 billion in June 2012. Annual growth in total liquidity slightly decreased in July 2012, recording 8.1 percent compared to 8.4 percent in the previous month, albeit falling short of the 10.4 percent rate recorded in July 2011. From the assets side, net foreign assets has continued to shrink on annual basis recording a contraction of 38.5 to reach LE 156.1 billion, while annual growth rate of net claims on government and GASC recorded a growth of 33.2 percent, compared to higher growth of 33.6 percent in the previous month. As for the **liabilities side**, annual growth rate of M1 recorded 9.5 percent at the end of July 2012 to LE 278.4 billion, compared to 10.4 percent at end of the previous month. Moreover, quasi money almost stabilized for the second month in a row during July 2012 at growth rate of 7.7 percent to reach LE 823.5 billion.

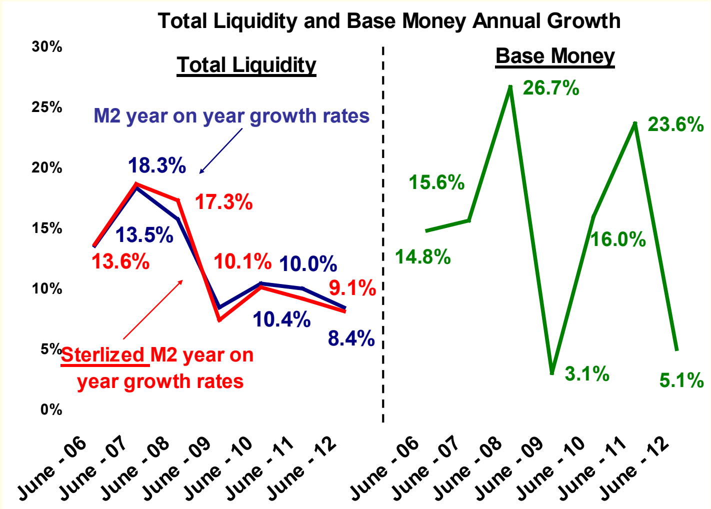
On a more detailed level, net foreign assets has continued to shrink on annual basis recording a contraction of 38.5 during July 2012 which brings total NFA of the banking sector to LE 156.1 billion, compared to a decrease of 10.5 percent at end of July 2011. **Central Bank's net foreign assets** continued its decelerating path which began with the eruption of political unrest, recording annual decline of 51 percent (compared to a peak of 55.5

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

4 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.

5 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.

percent in January 2012, highest rate of decline since July 2002) reaching LE 69.5 billion at end of July 2012. Moreover, **Bank's net foreign assets** has declined by 22.6 percent to register LE 86.6 billion at the end of July 2012, compared to a higher decline of 23.3 percent last month reaching LE 81.6 billion, and compared to an increase of 20.4 percent at end of July 2011 to LE 111.8 billion.



On the other hand, growth in net domestic assets of the banking sector registered 23.6 percent at end of July 2012 recording LE 945.8 billion, compared to growth of 23.9 percent in the previous month and 19.7 percent same month last year. The growth in net domestic assets of the banking sector is primarily derived by 33.2 percent growth in net claims on government and GASC, compared to 33.6 percent last month and a peak of 45.3 percent in January 2012. It is worth noting that increase in net claims on government and GASC growth amounted to more than 182 percent of annual liquidity growth at the end of July 2012 reaching LE 604.7 billion.

Annual growth in the credit to the private sector decelerated slightly at end of July 2012 recording 6.8 percent compared to 7.3 percent in the previous month, yet increased if compared to the 1.3 percent increase achieved at end of July 2011 and compared to an average growth rate of 4.1 percent during the previous twelve months. This has brought the stock of outstanding credit to the private sector to LE 451.5 billion. It is worth noting that **"net claims on the public business sector"** grew at 23.5 percent on annual basis to LE 41.2 billion, compared to 23.2 percent last month and 8.6 percent at end of July 2011.

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, finally residing at US$ 15.04 billion at end of September 2012, posting an overall decline of 58.2 percent since its peak. However, the month of September have witnessed a slight decrease of about US$ 84 million over the previous month. This could be explained in light of the rise in import value and the delay in scheduled Qatari deposits.

Annual growth in total deposits with the banking sector (excluding CBE) increased at a slower rate recording 5.8 percent at end of July 2012 compared to 6.4 percent in previous month registering LE 1029.6 billion, while it decelerated if compared to 8 percent recorded in July 2011. Out of total deposits, 88.6 percent belonged to the non-government sector at end of July 2012. On the other hand, annual growth rate in total lending by banking sector (excluding CBE) increased at slower rate recording 6.3 percent at the year ending July 2012, compared to 6.9 percent last month, yet increased notably if compared to only 2.3 percent a year earlier. This brings total loans to almost LE 505.1 billion at end of July 2012. On a more detailed level, annual growth in total lending to non-government sector registered 8.5 percent to reach some LE 472 billion at end of July 2012, while annual growth in total lending to government sector continued to decline recording -17.7 percent to register LE 33.2 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits has increased registering 46.3 percent at the end of July 2012, compared to 44.5 percent in July 2011. On the other hand, loans-to-deposits ratio in foreign currencies posted a pronounced decrease on annual basis registering 58.1 percent at the end of July 2012, compared to 62.5 percent in July 2011.

Moreover, dollarization in total liquidity has almost stabilized during July 2012 at 16.9 percent compared to 17 percent last month, yet decreased if compared to 17.6 percent in July 2011. Moreover, dollarization in total deposits recorded a marginal decrease during July 2012 to post 23.7 percent compared to 23.9 percent last month and 24.2 percent at end of July 2011.

V. Prices

Concerning domestic consumer prices, annual CPI inflation[6] in urban areas continues to slow down recording 6.2 percent during September 2012 compared to 6.5 percent recorded during the previous month, and compared to 8.2 percent in September 2011**. (As for overall Egypt, it stabilized at 6.3 in September 2012**, but it decreased if compared to 8.5 percent in September 2011). This decline in annual inflation rate could be explained in light of the slowdown of domestic demand and economic activity, in addition to favorable base effects.

Though annual inflation rate for the "Food and Beverages" group (the largest weight contributing to the general inflation rate) picked up due to higher annual inflation rates for some sub-items; mainly "Vegetables" (27.2%) and "Milk Cheese and Eggs" (9.5%) and Fruit (6.9%), yet this rise was offset by lower annual inflation rates recorded by some other major groups during the month of study, on the top of which "Clothing and Footwear", "Furnishings, Household Equipments", "Recreation and Culture", and "Restaurants and Hotels" groups.

On the other hand, monthly inflation rate stabilized for the second month in a row at 1.2 percent during September 2012, while it decreased if compared to 1.4 percent recorded during September 2011. This could be explained in light of the relative deceleration of "Food and Beverages" monthly inflation rate, recording 1.8% during the month of the study, compared to 2.5% during the previous month (mainly due to the dissipation of seasonal impact of higher food prices accompanying the month of Ramadan).

Moreover, according to CBE inflation report, annual core inflation[7] decelerated during September 2012 recording 3.8 percent compared to 5.3 percent during the previous month, and compared to 7.9 percent achieved during the same month a year ago.

As for producer prices, year-on-year PPI inflation **increased to 1.9** percent during August 2012 compared to -2.1 percent recorded during previous month, and compared to 14 percent recorded in August 2011. Meanwhile, monthly PPI inflation rose to 3.9 percent during August 2012 compared to 1.9 percent during July 2012. **Nevertheless, detailed data for August 2012 are not yet available**. It is noteworthy that annual PPI inflation rate continued declining during July 2012 recording -2.1, compared to -3.7 percent during June 2012. The decline in annual PPI rates is mainly due to the decline in annual inflation rates for most PPI groups, except for the increase in annual inflation of "Electricity, steam, gas and air conditioning supply", and "Accommodation and Food Service Activities" groups recording 7.3 percent, and 11.7 percent during July 2012, compared to stable prices, and 3.3 percent respectively during June 2012.

During the **Monetary Policy Committee** meeting **held on the 18th of October, 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**

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

7 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.

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 FY 2011/2012 registered a **deficit of US$ 11.3 billion in the overall balance**, increasing by 16 percent over the previous year's deficit of US$ 9.8 billion. The recorded deficit comes as a result of the 30.2 percent rise in the current account deficit registering US$ 7.9 billion, in addition to an outflow of US$ 1.4 billion in the capital and financial account. Moreover, net errors and omissions recorded a net outflow of US$ 1.9 billion. This could be explained in light of 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.

Table (2): Main BOP Indicators

(US $ Million)

	FY 2010/11	FY 2011/12	Percent Change
Trade Balance	**-27,103**	**-31,698**	**17%**
Export Proceeds	26,993	26,976	-0.1%
Petroleum	12,136	13,129	8%
Non-Oil Exports	14,857	13,847	-7%
Import Payments	-54,096	-58,674	8%
Services (net)	7,878	5,362	-32%
Receipts	21,873	20,872	-5%
Payments	13,995	15,511	11%
Current Account Receipts	**62,002**	**66,256**	**7%**
Current Payments	**68,090**	**74,184**	**9%**
Current Account	**-6,088**	**-7,928**	**30%**
Capital and Financial Account	**-4,199**	**-1,404**	**-67%**
Capital Account	-32	-96	197%
Financial Account	-4,166	-1,308	-69%
FDI	2,189	2,078	-5%
Overall Balance	**-9,754**	**-11,278**	**16%**

The trade deficit registered US$ 31.7 billion during FY 2011/2012, increasing by 17 percent from the previous year's figure of US$ 27.1 billion. This is due to the increase of import payments by 8 percent reaching US$ 58.7 billion, while export proceeds almost stabilized for the second year in a row at US$ 27 billion. Petroleum exports increased by 8 percent to reach US$ 13.1 billion, while non-oil exports recorded 7 percent decrease to reach US$ 13.8 billion. As for total commodity imports, the increase witnessed in the year of study is due to the notable increase in petroleum imports by 27 percent to US$ 11.8 billion; in addition to a lower increase in non-oil imports by 4.6 percent to US$ 46.9 billion.

Moreover, the services balance has accumulated a lower surplus during 2011/2012, recording US$ 5.4 billion compared to US$ 7.9 billion during the previous year. Total services receipts decreased to US$ 20.9 billion as a result of the decline in most of the sub-items, except for the increase in receipts from transportation by 6.4 percent to US$ 8.6 billion (which includes an increase of 3.1 percent from Suez Canal receipts to reach US$ 5.2 billion), in addition to the increase in government services receipts by 135 percent reaching US$ 276 million, compared to US$ 118 million during last year. This increase was counteracted by the 11 percent decrease in travel receipts to US$ 9.4 billion; in addition to a 12 percent decrease in other receipts to US$ 2.3 billion. Moreover, receipts from investment income declined by 41 percent amounting US$ 0.2 billion.

On the other hand, services payments increased during 2011/2012 reaching US$ 15.5 billion compared to US$ 14 billion during the previous year. This comes due to the increase in most of the services payments sub-items, except for transportation, which decreased by only 1 percent reaching US$ 1.4 billion. On the other hand, investment income payments increased by 7 percent to reach US$ 6.9 billion. Moreover, travel payments have increased by 18 percent to reach US$ 2.5 billion, compared to US$ 2.1 billion last year, while other payments increased by 21 percent to US$ 3.5 billion.

It is worth noting that the Net international reserves (NIR) imports coverage ratio has significantly decreased to 3.2 months during FY 2011/12 compared to 5.9 months during FY 2010/2011.

Also, it is note worthy that private transfers notably increased during 2011/2012 by 44 percent to nearly US$ 17.8 billion, compared to US$ 12.4 billion for previous year, mainly due to Egyptian workers' remittances transferred from abroad. On the other hand public transfers decreased during 2011/2012 to reach US$ 632 million compared to US$ 753 million during last year. Consequently, current account receipts increased by 6.9 percent to US$ 66.3 billion, while current account payments increased by 9 percent to US$ 74.2 billion, bringing the ratio of current receipts to current payments (including official transfers) down to 89.3 percent compared to 91.1 percent during the previous year.

As a result of the factors mentioned above, the current account deficit increased by 30 percent, recording US$ 7.9 billion during 2011/2012, compared to a deficit of US$ 6.1 billion during the previous fiscal year.

On the other hand, the capital and financial account reported a net outflow of US$ 1.4 billion; versus an outflow of US$ 4.2 billion during 2010/2011. This comes as portfolio investments in Egypt recorded a notable net outflow of US$ 5 billion during 2011/2012 due to the foreigners' sales of their holding of securities, especially T-Bills (nearly US$ 4 billion, as compared to US$ 3.1 billion in the previous year). Moreover, net foreign direct investments in Egypt recorded a net inflow of US$ 2.1 billion compared to a net inflow of US$ 2.2 billion in the previous fiscal year. Other investments recorded a net inflow of US$ 2 billion, compared to a net outflow of US$ 2.7 billion during 2010/2011, as other assets amounted a net inflow of US$ 1.2 billion compared to net outflow of US$ 3.4 billion during the previous fiscal year.

Finally, net errors and omissions recorded a net outflow of US$ 1.9 billion during the FY 2011/2012, compared to a net inflow of US$ 0.5 billion during the previous year.

VII. Stock Exchange

The EGX-30 index increased by 490 points during September 2012, reaching 5822 compared to 5332 during August 2012. Meanwhile, market capitalization shows a considerable growth of 9% during the month of study to exceed LE 400 billion for the first time since May 2011, reaching LE 406 billion (22.8 percent of GDP). Such developments indicate a slow recovery in light of the most recent developments on the political scene.