

# 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 4.5 percent** during the period July- November 2012/2013 recording LE 80.7 billion, compared to LE 58.4 billion during July- November 2011/2012.
- **Domestic budget sector debt increased to 69.7 percent of GDP as of end September 2012 to record LE 1238.6 billion** compared to LE 1019.5 billion as of end of September last year.
- **External debt stock increased by 2.1 percent, leveling at 11.9 percent of GDP in September 2012 (US\$ 34.7 billion)** compared to 13.1 percent of GDP (US\$ 34 billion) as of end September 2011.
- **M2 annual growth picked up as of end September 2012 recording 9.8 percent, compared to 8.9 percent in August 2012, and compared to 8 percent recorded in September 2011.** (It is noteworthy that detailed data for October 2012 are not yet available)
- **CPI annual Urban Inflation declined to 4.3 percent during November 2012 compared to 6.7 percent during the previous month. Moreover, annual core inflation decreased during November 2012 registering 4.2 percent compared to 4.6 percent during October 2012.**
- **During the Monetary Policy Committee meeting held on December 6th, 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 only US\$ 0.5 billion** during the period July-September 2012/2013 compared to a deficit of US\$ 2.4 billion during the same period last year; this could be explained in light of the decrease in current account deficit (attributed basically to the notable increase in workers' remittances and the decline in imports), which balanced the capital and financial account outflows.

## **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<sup>1</sup>**, **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**

	<b>2010/11</b>	<b>2011/12</b>
<b>Total GDP (at Factor Cost)</b>	<b>1.9%</b>	<b>2.2%</b>
<b>Total Commodity Sector, of Which</b>	<b>0.6%</b>	<b>0.8%</b>
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%
<b>Total Production Services, of Which</b>	<b>0.8%</b>	<b>1.0%</b>
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%
<b>Total Social Services</b>	<b>0.5%</b>	<b>0.5%</b>

## **II. Fiscal Performance**

According to FY 2011/2012 actual budget<sup>2</sup> 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

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

<sup>2</sup> Includes central administration, municipalities, and services authorities (education, health, etc.).

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 percent increase in rewards and employees incentives. Second, an increase in Interest Chapter due to the 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 the 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 "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.

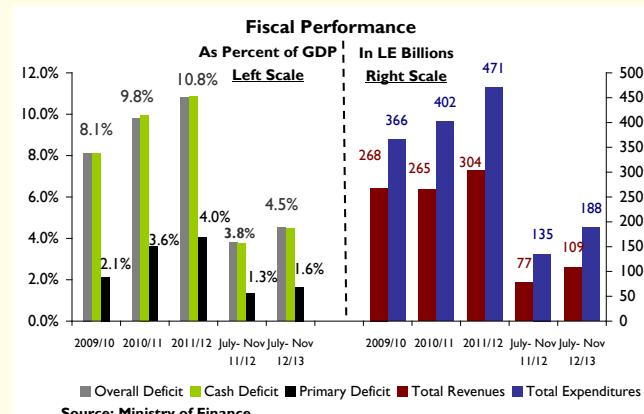
Moreover, Non-Tax Revenues increased by 31.4 percent during FY 2011/2012 mainly due to the increase in proceeds from most non-tax revenues chapters specially the step up in grants recording LE 10.1 billion compared to LE 2.3 billion during FY 2010/2011, due to the notable increase in grants from foreign 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 interest on treasury bonds increased by LE 5.3 billion to LE 25 billion. 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.



Recent data for the period July- November of the fiscal year 2012/2013 showed that the overall budget deficit to GDP ratio increased to 4.5 percent, reaching LE 80.7 billion, compared to LE 58.4 billion during the period July- November 2011/2012. It is noteworthy that during the period of study fiscal revenues increased slightly at higher rate than the growth in fiscal expenditures. Moreover, the primary deficit to GDP increased to 1.6 percent during July- November 2012/2013, compared to 1.3 percent during the period July- November 2011/2012.

From the revenues side, total revenues increased by 40.3 percent during the period of study, registering almost LE 108.5 billion compared to LE 77.4 billion during July- November 2011/2012. The recorded increase is principally due to the 46.1 percent increase in tax revenues, in addition to the increase in non-tax revenues by 26.7 percent.

On a more detailed level, the rise in tax revenues comes with the increase in all Tax Chapters mainly the significant increase in Income Tax and Property Taxes Chapters by 81.4 percent and 39.7 percent reaching LE 30.5 billion and LE 6.7 billion compared to LE 16.8 billion and almost LE 4.8 billion respectively during July- November 2011/2012. Also Taxes on Goods and Services increased notably by 30.9 percent recording LE 35.4 billion during July-November 2012/2013, compared to LE 27.1 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 percent reaching LE 7.4 billion during July- November 2012/2013 compared to LE 6.1 billion during July- November 2011/2012. Moreover, Taxes on corporate profit witnessed a notable increase mainly due to two reasons. First is the increase in taxes from EGPC by LE 5 billion during the period of study in light of EGPC settlements with the Ministry of Finance. The second reason is the increase in Proceeds from both taxes from Other Companies and Suez canal by 17.3 percent and 15.6 percent reaching LE 5.9 billion and LE 5.2 billion respectively compared to LE 5 billion and LE 4.5 billion during the same period last year. In addition, revenues from Property Tax chapter increased significantly due to the increase in proceeds from tax on T-bills and bonds' payable interest by 42.4 percent to almost LE 5.4 billion compared to LE 3.8 billion during July- November 2011/2012.

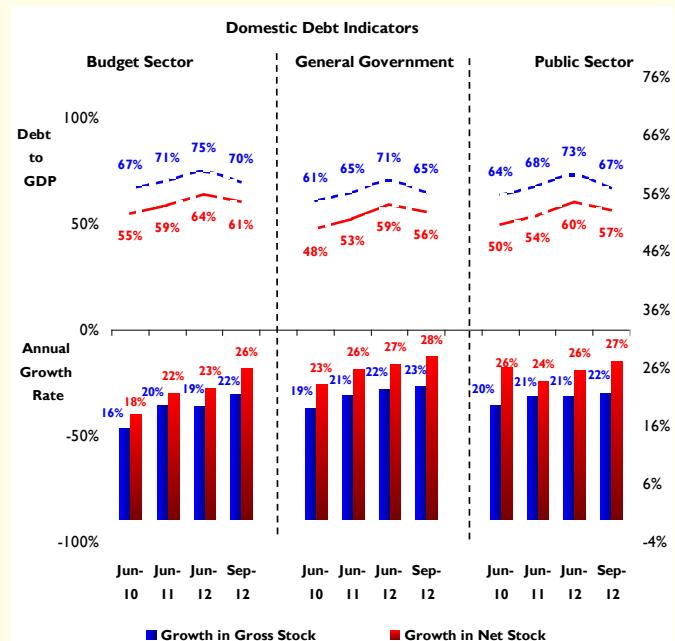
On the other side, Non- Tax Revenues increased by 26.7 percent during the period July- November 2012/2013 mainly due to the increase in proceeds from Other Revenues chapter by 70.9 percent reaching LE 29.6 billion compared to LE 17.3 billion. The mentioned increase in Other Revenues chapter could be explained in light of the increase in proceeds from Property Income, and proceeds from Sales of Goods and Services by 64.4 percent and 27 percent reaching LE 18.5 billion and LE 5.5 billion during the period of study compared to LE 11.3 billion and LE 4.3 billion respectively during July-November 2011/2012. In addition, Miscellaneous Revenues increased notably to

reach LE 5.4 billion during the period of study compared to LE 1.6 billion during the same period last year.

On the other hand, total expenditures increased significantly during July- November 2012/2013 by 38.8 percent, recording LE 187.9 billion compared to LE 135.4 billion during the same period last year. The recorded increase comes with the expansion growth in all spending chapters. On the top of which, Subsidies, grants and social benefits (which represent almost 28.4 percent of total Expenditures and 49.2 percent of total Revenues) increasing by 105.6 percent to LE 53.4 billion compared to almost LE 26 billion during July- November last year. Also, Interest payments (which represent almost 27.4 percent of total Expenditures and 47.5 percent of total Revenues) have increased by 36.4 percent recording almost LE 51.5 billion during July- November 2012/2013 compared to LE 37.8 billion during the same period last year. In addition, compensation of employees has increased by 22.1 percent to LE 54.5 billion compared to LE 44.6 billion during July- November 2011/2012.

### III. Domestic Debt Profile

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



Recent statistics show that domestic budget sector debt increased to 69.7 percent of GDP as of end of September 2012 to some LE 1238.6 billion compared to LE 1019.5 billion as of end September 2011 (66.1 percent of GDP). As for net domestic budget sector debt, it reached LE 1078 billion (60.7 percent of GDP) compared to LE 856.7 billion (55.5 percent of GDP) as of end September last year. Accumulated budget sector debt at end of September 2012 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of September 2012 amount to LE 417 billion and LE 296.6 billion respectively versus LE 350 billion and LE 221.3 billion at end of September last year reflecting government's growing borrowing needs.

**Gross domestic debt of the general government amounts to LE 1156.4 billion (65 percent of GDP) at end of September 2012, compared to some LE 941.3 billion (61 percent of GDP) at end of September last year. Also, net domestic debt of the general government reached some LE 987.9 billion (55.6 percent of GDP)**

<sup>3</sup> Consolidated debt stocks exclude interrelated debt between entities at each level of compilation.

<sup>4</sup> 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.

compared to LE 771.8 billion (50 percent of GDP) at end of September 2011. The increase in general government debt at end of September 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 9.1 billion amounting to almost LE 188.9 billion at end of September 2012.

Finally, gross domestic public debt reached LE 1190.8 billion (67 percent of GDP) at end of September 2012, compared to LE 976.6 billion at end of September last year (63.3 percent of GDP). At the same time, net domestic public debt reached LE 1006.7 billion (56.6 percent of GDP) compared to LE 790.9 billion (51.3 percent of GDP) at end of September 2011. It is noteworthy that the realized increase in domestic public debt at end of September 2012 was due to an increase in accumulated debt of the General government by 215 billion to reach 1156.4 billion while Economic Authorities Domestic Debt declined by 1.3 billion to reach 98 billion at end September 2012.

Meanwhile, domestic debt service increased by 46.2 percent to reach LE 53.9 billion at end of September 2012, compared to LE 36.9 billion during the same period last year.

The average life to maturity of outstanding T-bonds and T-bills increased to 1.5 years at end of September 2012 compared to 1.3 at end of September 2011. Meanwhile, average interest rates on outstanding stock of T-bills and T-bonds increased to 13.85 percent at end of September 2012 compared to 11.91 percent at end of September 2011.

### Egypt External Debt indicators showed slight improvement

On one hand, external debt increased by 2.1 percent at end September 2012 to US\$ 34.7 billion compared to US\$ 34 billion at end of September a year earlier. On the other hand, the ratio of external debt to GDP decreased from 13.1 percent of GDP at end September 2011 to 11.9 percent of GDP at end September 2012. Government external debt decreased by 2.4 percent to reach US\$ 25.4 billion (73.2 percent of total external debt) as of end of September 2012 compared to US\$ 26 billion (76.7 percent of total external debt) at end of September 2011<sup>5</sup>.

### IV. Monetary Developments

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

On the monetary side, monthly growth rate in total liquidity increased merely by 0.8 percent to register LE 1124.3 billion in September 2012, compared to LE 1115.3 billion in August 2012. Annual growth in total liquidity also picked up in September 2012, recording 9.8 percent compared to 8.9 percent in the previous month, and 8 percent recorded in September 2011. From the assets side, net foreign assets has continued to shrink on annual basis recording a contraction of 33.4 to reach LE 150 billion, while annual growth rate of net claims on government and GASC recorded a growth of 31.5 percent, compared to 41.3 percent in the previous month. As for the **Liabilities side**, annual growth rate of M1 increased at the end of September 2012 recording 11.4 percent to reach LE 282.9 billion, compared to 9.1 percent increase at end of the previous month. Moreover, Quasi money increased by 9.2 percent during September 2012 to reach LE 841.5 billion, compared to 8.8 percent in the previous month.

On a more detailed level, net foreign assets has continued to shrink on annual basis recording a contraction of 33.4 percent during September 2012, which brings total NFA of the banking sector to almost LE 150 billion, compared to a lower decrease of 27.8 percent at end of September 2011; this can be explained in light of increasing pressures on the Balance of Payments since the beginning of 2011. **Central Bank's net foreign assets** continued its decelerating path that began with the eruption of political unrest, recording annual decline of 46.8 percent (compared to a peak of 55.5 percent in January 2012, highest rate of decline since July 2002) reaching LE 70.2 billion at end of September 2012. Moreover, **Bank's net foreign assets** has declined by 14.5 percent to register LE 79.7 billion at the end of September 2012, compared to a higher decline of 21.2 percent last month.

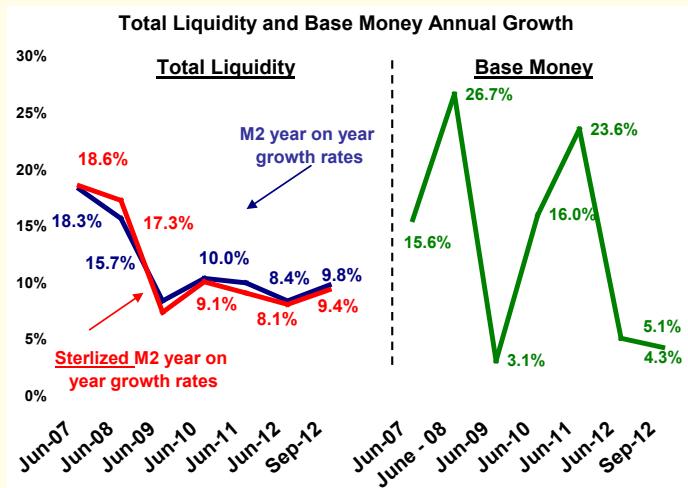
<sup>5</sup> The CBE revised basis for foreign debt classification as of September 2008. Accordingly, Government debt statistics reflect an increase of US\$ 4.3 billion primarily due to the reclassification of on-lent loans as part of Central and Local Government debt instead of "Other Sectors" debt. 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.

On the other hand, growth in net domestic assets of the banking sector registered 21.9 percent at end of September 2012 recording LE 974.4 billion, compared to growth of 23 percent in the previous month and 25.7 percent same month last year. The growth in net domestic assets of the banking sector is primarily derived by 31.5 percent growth in net claims on government and GASC, compared to 32.7 percent last month and a peak of 45.3 percent in January 2012. It is worth noting that growth in net claims on government and GASC amounted to almost 152 percent of annual liquidity growth at end of September 2012 reaching LE 634 billion.

Annual growth in the credit to the private sector increased during September 2012 posting a growth of 7.2 percent compared to 6.7 percent in the previous month, and 1.3 percent at end of September 2011 and compared to an average growth rate of 5 percent during the previous twelve months. This has brought the stock of outstanding credit to the private sector to LE 456.4 billion. It is worth noting that “**net claims on the public business sector**” grew at 20.2 percent on annual basis to LE 41.9 billion, slightly lower than the annual increase of 21.7 percent registered 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, finally residing at US\$ 15 billion at end of November 2012, posting an overall decline of 58 percent since its peak. Moreover, the month of November have witnessed a decrease of US\$ 0.5 billion, mainly in light of widening trade deficit and continued weaknesses in tourism and FDI inflows. This deceleration could be a result of renewed tensions on the political front.

Annual growth in total deposits with the banking sector (excluding CBE) increased at the end of September 2012 recording 7.4 percent compared to 6.5 percent in previous month registering LE 1050.5 billion, and compared to 5.9 percent recorded in September 2011. Out of total deposits, 88.9 percent belonged to the non-government sector at end of September 2012. On the other hand, annual growth rate in total lending by banking sector (excluding CBE) increased during the year ending September 2012 by 6.2 percent, compared to 6.1 percent last month, and compared to an increase of only 2.5 percent recorded a year earlier. This brings total loans to almost LE 508.4 billion at end of September 2012. On a more detailed level, annual growth in total lending to non-government sector registered 7.4 percent to reach some LE 473.4 billion at end of September 2012, while annual growth in total lending to government sector continued to decline recording -7.9 percent to register LE 35 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits has increased registering 45.4 percent at the end of September 2012, compared to 44.6 percent in September 2011. While, loans-to-deposits ratio in foreign currencies posted a pronounced decrease on annual basis registering 58.4 percent at the end of September 2012, compared to 62.9 percent in September 2011.



Moreover, dollarization in total liquidity decreased during September 2012 to post 16.7 percent compared to 16.8 percent last month, and 17.3 percent in September 2011. Likewise, dollarization in total deposits decreased during September 2012 recording 23.3 percent compared to 23.6 percent last month and 23.7 percent at end of September 2011.

## V. Prices

Concerning domestic consumer prices, annual CPI inflation<sup>6</sup> in urban areas declined during November 2012 recording 4.3 percent compared to 6.7 percent recorded during the previous month, and compared to 9.1 percent in November 2011. (As for overall Egypt, it also decreased recording 4.1 percent in November 2012 compared to 7 percent during the previous month, and compared to 10 percent in November 2011). This decrease in annual inflation rate could be explained as a result of the decline in annual inflation rates of most groups with high weights, on the top of which; “Food and Beverages”, and “Housing , Water, Electricity, Gas and Other Fuel”, “Clothing and Footwear”, and “Furnishers and Housing Equipments” groups.

On a more detailed level, annual inflation rates significantly declined for some sub-items in “Food and Beverages” group declined compared to the previous month, of which; “Vegetables” (1.7 percent compared to 18.8 percent during the previous month, due to the increase in the supply of Nile crops); “Milk, Cheese and Eggs” (8.1 percent compared to 8.7 percent, due to the increase in eggs production); in addition to the decline in annual inflation rate of “Housing, Water, Electricity, Gas and other Fuel” group (2.3 percent compared to 5.7 percent, due to the increase in the supply of butane gas cylinders).

On the other hand, monthly inflation rate declined notably recording -1.3 percent during November 2012 compared to an increase of 0.8 percent during last month, and compared to 1 percent increase recorded during November 2011. This could be explained in light of the continued relative deceleration of “Food and Beverages” monthly inflation rate, recording 2.7- percent during the month of the study, compared to -0.9 percent during the previous month.

Moreover, according to CBE inflation report, annual core inflation<sup>7</sup> decreased during November 2012 recording 4.2 percent compared to 4.6 percent during the previous month, and compared to 7 percent achieved during the same month a year earlier.

As for producer prices, year-on-year PPI inflation decreased to 4 percent during October 2012 compared to 4.5 percent recorded during previous month, and compared to 6 percent recorded in October 2011. Meanwhile, monthly PPI inflation decreased recording 1.9- percent during October 2012 compared to an increase of 3.4 percent during September 2012.

Nevertheless, detailed data for October 2012 are not yet available. It is noteworthy that annual PPI inflation rate increased by 4.5 percent during September 2012 compared to 2.3 percent during August 2012. The increase in annual PPI rate is mainly due to the notable increase in annual inflation rate of “Agriculture, Forestry and Fishing” group recording 10.1 percent during September 2012 compared to an increase of only 1.2 percent during the previous month.

Also annual inflation rate of “Manufacturing” group increased slightly recording 0.6 percent during September 2012 compared to 0.5 percent during the previous month; which counterparts the decrease in annual PPI inflation rate for “Mining and Quarrying” group reaching 1.7 percent compared to 5.4 percent during the previous month.

During the Monetary Policy Committee meeting held on the 6th of December, 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

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

<sup>7</sup> 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 complements the Headline Index and does not replace it.

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.

## VI. External Sector

Balance of payments (BOP) statistics- published by the Central Bank- for the period July–September 2012/2013 registered a **deficit of US\$ 0.5 billion in the overall balance**, decreasing by 78 percent over the period July – September 2011/2012 deficit of US\$ 2.4 billion. The recorded decrease in the overall deficit comes as a result of the 87 percent drop in the current account deficit (attributed basically to the notable increase in workers' remittances and the decline in imports), which relatively balanced the capital and financial account outflows. Net errors and omissions stabilized for the second year in a row recording a net outflow of US\$ 0.7 billion.

Table (2): Main BOP Indicators  
(US \$ Million)

	Jul- Sep 2011/2012*	Jul- Sep 2012/2013*	Percent Change
<b>Trade Balance</b>	<b>-7,823</b>	<b>-6,880</b>	<b>-12%</b>
Export Proceeds	6,765	6,948	2.7%
Petroleum	3,234	3,373	4%
Non-Oil Exports	3,531	3,575	1%
Import Payments	-14,588	-13,828	-5%
Services (net)	1,622	1,697	5%
Receipts	5,411	5,647	4%
Payments	3,790	3,950	4%
<b>Current Account Receipts</b>	<b>16,202</b>	<b>17,499</b>	<b>8%</b>
<b>Current Payments</b>	<b>18,377</b>	<b>17,778</b>	<b>-3%</b>
<b>Current Account</b>	<b>-2,175</b>	<b>-279</b>	<b>-87%</b>
<b>Capital and Financial Account</b>	<b>502</b>	<b>444</b>	<b>-12%</b>
Capital Account	-21	-39	88%
Financial Account	523	483	-8%
FDI	440	108	-75%
Portfolio Investment in Egypt	-1,730	-327	-81%
<b>Overall Balance</b>	<b>-2,356</b>	<b>-519</b>	<b>-78%</b>

The trade deficit dropped by 12 percent to register a deficit of US\$ 6.9 billion during July–September 2012/2013, compared to a higher deficit of US\$ 7.8 billion in the same period last year. This is due to the 3 percent increase in export proceeds to record US\$ 6.9 billion; along with the decrease of import payments by 5 percent reaching US\$ 13.8 billion. On a more detailed level, petroleum exports increased by 4 percent to reach US\$ 3.4 billion, while non-oil exports recorded only 1.2 percent increase to reach US\$ 3.6 billion. As for total commodity imports, the decreased witnessed in the period of study is due to the 7 percent decrease in non-oil imports to US\$ 11 billion; while petroleum imports increased by only 1.5 percent to US\$ 2.9 billion.

Moreover, the services balance has accumulated a surplus of US\$ 1.7 billion (0.6 percent of GDP) during July–September 2012/2013 compared to a slightly lower surplus of US\$ 1.6 billion during the same period of the previous year. Total services receipts increased to US\$ 5.6 billion mainly as a result of transportation receipts, which increased by 8 percent to US\$ 2.2 billion compared to US\$ 2 billion during the same period in the previous year (It is worthy to note that Suez Canal revenue declined by 5 percent during the period of study to record US\$ 1.3 billion). Moreover, government services receipts increased by 335 percent to record US\$ 81 million and the increase in other receipts by 13 percent to US\$ 632 million.

In the meantime, tourism receipts declined slightly by 2 percent to record US\$ 2.6 billion during the period of study compared to US\$ 2.7 during the same period of the previous year. A more detailed analysis reveals that tourists nights declined to 35.5 million nights during the period July-September 2012/2013 compared to 37.4 million nights during the same period last year.

On the other hand, services payments increased during the period July-September 2012/2013 by 4 percent to record US\$ 4 billion compared to US\$ 3.7 billion in the same period of the previous year. This comes due to the increase in transportation and tourism payments by 39 percent and 16 percent respectively to record US\$ 435 million and US\$ 724 million. In addition, other payments increased by 28 percent during the period of study to record US\$ 951 million compared to US\$ 744 million during the same period last year. Meanwhile, investment income payments and government payments decreased by 9 percent and 33 percent respectively to record USD 1.6 billion and 216 million.

Private transfers witnessed a notable increase of 21 percent to record US\$ 4.9 billion during the period July-September 2012/2013 compared to US\$ 4 billion during the same period in the year before, mainly due to Egyptian workers' remittances transferred from abroad. It is worthy to note that private transfers is ranked the first most important source of foreign currency, constituting 27.8 of total current account receipts. Moreover, public transfers increased during July-September 2012/2013 to reach US\$ 40 million compared to US\$ 16 million during the same period last year. Consequently, current account receipts increased by 8 percent to US\$ 17.5 billion, while current account payments decreased by 3.3 percent to US\$ 17.8 billion, bringing the ratio of current receipts to current payments (including official transfers) up to 98.4 percent compared to 88.2 percent during the same period last year.

As a result of the factors mentioned above, the current account deficit decreased significantly by 87 percent, recording US\$ 279 million during the period July-September 2012/2013, compared to a deficit of US\$ 2.2 billion during the same period in the previous year.

On the other hand, the capital and financial account reported a net inflow of US\$ 0.4 billion (0.2 percent of GDP) during the period July-September 2012/13; versus an inflow of US\$ 0.5 billion (0.2 percent of GDP) during July-September 2011/2012. This comes as portfolio investments outflows decelerated notably by 81 percent to record US\$ 0.3 billion (0.1 percent of GDP) during July-September 2012/2013 compared to US\$ 1.7 billion (0.7 percent of GDP) during July-September 2011/2012. This comes due to the decline in foreigners' sales of their holding of securities, especially T-Bills (reaching only US\$ 276 million, in comparison with US\$ 1.4 billion in the same period of the previous year). Moreover, net foreign direct investments in Egypt recorded a net inflow of US\$ 0.1 billion (0.04 percent of GDP) compared to a net inflow of US\$ 0.4 billion (0.2 percent of GDP) during July-September 2011/2012. Other investments recorded a net inflow of US\$ 0.7 billion, compared to a net inflow of almost US\$ 2 billion during July-September 2011/2012.

Finally, net errors and omissions stabilized to record a net outflow of US\$ 0.7 billion during the period July-September 2012/13.

## VII. Stock Exchange

The EGX-30 index decreased by 888 points during November 2012, reaching 4808 compared to 5696 during October 2012. Moreover, market capitalization shows a decrease of 14 percent during the month of study to reach LE 339 billion (19.1 percent of GDP) compared to a LE 394 billion during the previous month. This deceleration could be a result of renewed tensions on the political front.