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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*** growth continued to show positive signs during the first quarter of the fiscal year 2012/13 recording 2.6 percent, compared to 0.3 percent during the same period of the previous fiscal year, **driven mainly by public and private consumption,** which contributed by 2.3 percent to real growth. Part of this growth can also be attributed to the base effect which began to evolve since the third quarter of FY 2010/2011.
- **Budget deficit to GDP increased to 5.1** percent during the period **July- December 2012/2013** recording LE 91.5 billion, compared to LE 73.8 billion during **July- December 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* ***October 2012*** *recording* ***11 percent****, compared to* ***9.8 percent in September 2012****, and compared to* ***7.2 percent recorded in October 2011****.* (It is noteworthy that detailed data for November 2012 are not yet available)
- ***CPI annual Urban*** *Inflation rose slightly to 4.7 percent during* ***December 2012*** *compared to 4.3 percent during the previous month. Moreover,* ***annual core inflation*** *increased during* ***December 2012*** *registering* ***4.4 percent*** *compared to* ***4.2*** *percent during November 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****.*

  Moreover, The Central Bank of Egypt announced the launch of new FX Auction mechanism starting Sunday, December 30th 2012. *Through the new mechanism CBE offers periodical biddings for the banks to buy U.S. dollars. As been implemented by many countries the new mechanism aims at rationalizing the usage of foreign exchange reserves and is to operate complementary with the existing interbank system.*
- ***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 **recorded a growth rate of 2.6 percent during the first quarter of 2012/13,** compared to a modest growth rate of 0.3 percent during the same quarter in the previous year. Yet, it is relatively lower than the growth of 3.3 percent recorded during the preceding quarter (April-June 2011/12).

It is worth noting that **GDP** (at market prices) for the quarter under study **in constant prices** stands at **LE 412.4 billion** (LE 445.8 billion in current prices), in comparison to a fixed value of **LE 402.1 billion during the same quarter of the previous year 2011/12** (as FY 2011/2012 became the new base year).

Private and public consumption, which comprised 94.1 percent of total GDP, remained the **main drivers of real GDP growth (market prices).** Both public and private consumption have continued to grow at a slower pace when compared to the first quarter of fiscal year 2011/12. Growth rate of private consumption leveled 2.4 percent during the first quarter of 2012/13 compared to 5.4 percent during the same quarter of last year. Public consumption has almost maintained the same growth rate leveling 2.7 percent during the first quarter of 2012/13. It is worth noting that the contribution of both public and private consumption to real growth has declined to 2.3 percent when compared to 4.5 percent during the same quarter of the previous year.

The export- import gap showed a slight improvement for the first quarter of the fiscal year 2012/13. **Imports of goods and services decreased** by 4.4 percent during the first quarter of the fiscal year 2012/13 (compared to an increase of 4.5 percent during the same quarter of the previous year). In the meantime, **exports of goods and services registered a slight improvement** of 0.4 percent during the first quarter of the fiscal year 2012/13, (as opposed to an decrease of 2.9 percent during the same quarter of the previous year.

On the other hand, **investment spending** recorded a lower decline of 7.4 percent during the first quarter of the fiscal year 2012/13, compared to a decline of 13.4 percent recorded during the same period of the previous year, which was reflected in in a slight negative contribution of 0.9 percent to GDP growth.

Regarding **real GDP at factor cost**1, **realized growth has picked up to 2.5 percent during the first quarter of 2012/2013.** It is noteworthy that from a sectoral perspective, **almost all sectors have registered positive growth with some exceptions**. The **main contributors to this growth** were agriculture (3 percent growth, 17.7 percent of GDP), manufacturing industries (2.8 percent growth, 15 percent of GDP), wholesale and retail (3.8 percent growth, 11.1 percent of GDP), telecommunications (5.1 percent growth, 2.4 percent of GDP) and Real Estate (4.2 percent growth; 2.5 percent of GDP). Moreover, Tourism sector recorded a slight increase of 0.6 percent during the period of study, thus reversing a contraction of 10.4 percent which was registered in the same quarter of the previous year. On the other hand, the weak performance of some sectors mainly extractive industries and Suez canal, which have usually contributed positively to boost growth, have weighted negatively on GDP growth recording (-0.1 percent growth, 16 percent of GDP) and (-3.4 percent growth, 2 percent of GDP) respectively during the quarter under study.

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

	Jul - Sep ٢٠١١/١٢	Jul - Sep ٢٠١٢/١٣
Total GDP (at Factor cost)	٠,٣٪	٢,٥٪
Total Commodity Sector, of Which	٠,٢٪ -	١,٢٪
Agriculture, Forestry and Fishing	٠,٥٪	٠,٥٪
Petroleum	٠,٠٪	٠,٠٪
Natural Gas	٠,١٪ -	٠,٠٪
Manufacturing Industry	٠,٥٪ -	٠,٤٪
Construction and Building	٠,١٪ -	٠,٢٪
Total Production Services, of which	٠,١٪	٠,٨٪
Transport and Warehousing	٠,٠٪	٠,١٪
Telecommunications	٠,١٪	٠,١٪
Suez Canal	٠,٣٪	٠,١٪ -
Wholesale and Retail Trade	٠,٠٪	٠,٤٪
Financial Intermediation	٠,٠٪	٠,١٪
Tourism (Hotels and Restaurants)	٠,٥٪ -	٠,٠٪
Social Services	٠,٤٪	٠,٥٪

1 Real GDP growth rates are calculated using 2011\2012 as a base year.

II. Fiscal Performance

According to FY 2011/2012 actual budget2 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 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.

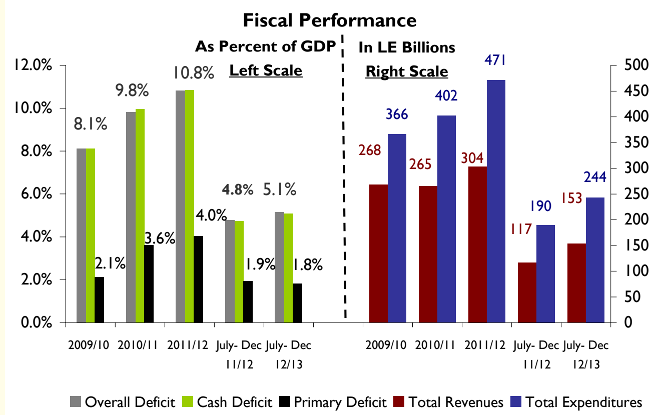
On a more detailed level, the increase in tax revenues comes with the increase in all Tax Chapters; mainly the Property Taxes chapter by 38.5 percent to LE 13.1 billion compared to LE 9.5 billion during FY 2010/2011. In addition to the notable increase in Taxes on goods and services chapter by 11.2 percent 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.



Source: Ministry of Finance

Recent data for the period July- December of the fiscal year 2012/2013 showed that the overall budget deficit to GDP ratio increased to 5.1 percent, reaching LE 91.5 billion, compared to LE 73.8 billion during the period July- December 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 decreased merely to 1.8 percent during July- December 2012/2013, compared to 1.9 percent during the period July- December 2011/2012.

From the revenues side, total revenues increased by 31 percent during the period of study, registering almost LE 153 billion compared to LE 116.6 billion during July- December 2011/2012. The recorded increase is principally due to the 39.3 percent increase in tax revenues, in addition to the increase in non-tax revenues by 13.4 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 Taxes on International Trade Chapters by 53 percent and 33 percent reaching LE 49.8 billion and LE 8.4 billion compared to LE 32.6 billion and almost LE 6.3 billion respectively during July- December 2011/2012. Also Taxes on Goods and Services increased notably by 29 percent recording LE 44.8 billion during July-December 2012/2013, compared to LE 34.7 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 21.9 percent reaching LE 9 billion during July- December 2012/2013 compared to LE 7.4 billion during July- December 2011/2012. Moreover, Taxes on corporate profit witnessed a notable increase mainly due to the increase in three main components as follows: **First**, the increase in taxes from EGPC by LE 39 percent recording LE 15.8 billion during the period of study compared to LE 11.3 billion during July- December 2011/2012 in light of EGPC settlements with the Ministry of Finance. **Second**, the increase in Proceeds from Other Companies by 31.9 percent reaching LE 8.8 billion compared to LE 6.6 billion during the same period last year. **Third**, the increase in proceeds from Suez Canal by 5.1 percent reaching LE 6.2 billion compared to LE 5.9 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 33.2 percent to almost LE 6.2 billion compared to LE 4.7 billion during July- December 2011/2012.

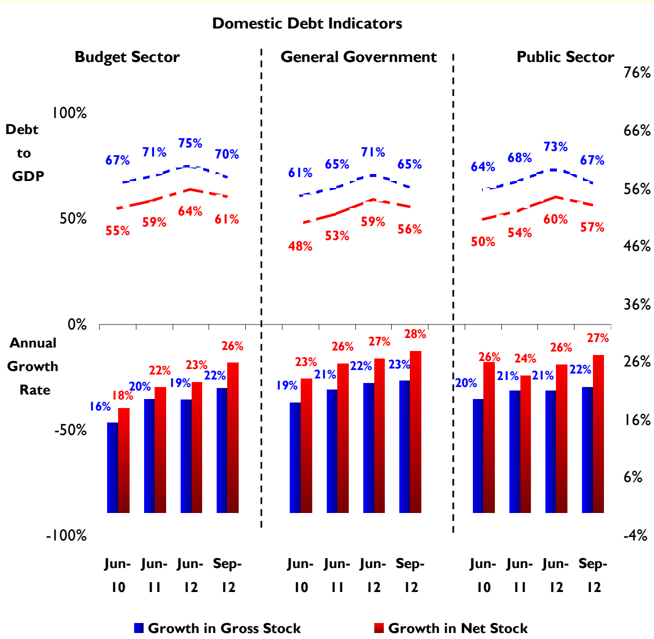
On the other side, Non- Tax Revenues increased by 13.4 percent during the period July- December 2012/2013 mainly due to the increase in proceeds from Other Revenues by 25.6 percent reaching LE 38.8 billion compared to LE 30.9 billion. The mentioned increase in Other Revenues could be explained in light of the increase in proceeds from Property Income, and proceeds from Sales of Goods and Services by 6.4 percent and 38 percent reaching LE 24.9 billion and LE 7.4 billion during the period of study compared to LE 23.4 billion and LE 5.4 billion respectively during July- December 2011/2012. In addition, Miscellaneous Revenues increased notably by more than three folds to reach LE 6.3 billion during the period of study compared to LE 2 billion during the same period last year.

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

On the other hand, total expenditures increased significantly during July-December 2012/2013 by 28.4 percent, recording LE 243.5 billion compared to LE 189.7 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 32.3 percent of total Expenditures and 51.5 percent of total Revenues) increasing by 38.3 percent to LE 78.7 billion compared to almost LE 56.9 billion during July- December last year. Also, Interest payments (which represent almost 24.3 percent of total Expenditures and 38.7 percent of total Revenues) have increased by 34.3 percent recording almost LE 59 billion during July-December 2012/2013 compared to LE 44 billion during the same period last year. In addition, compensation of employees has increased by 26 percent to LE 68 billion compared to LE 54 billion during July- December 2011/2012.

///. Domestic Debt Profile

As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks3 at three different levels of compilation; the Budget Sector, General Government, and the Public Sector4.



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) 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.

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.

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 20115.

IV. Monetary Developments

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

On the monetary side, monthly growth rate in total liquidity increased by 1.8 percent to register LE 1144.7 billion in October 2012, compared to LE 1124.3 billion in September 2012. Annual growth in total liquidity continued to pick up in October 2012 – for the third month in a row – recording 11 percent compared to 9.8 percent in the previous month, and 7.2 percent recorded in October 2011. From the **assets side**, buoyant growth in government borrowing remains to be the main driver behind growth in total liquidity; which overcame the 30.4 percent contraction in net foreign assets. As for the **liabilities side**, annual growth rate of M1 increased at the end of October 2012 recording 12.2 percent to reach LE 291.7 billion, compared to 11.4 percent increase at end of the previous month. Moreover, Quasi money annual growth also increased by 10.6 percent during October 2012 to reach LE 853 billion, compared to 9.2 percent in the previous month.

On a more detailed level, net foreign assets has continued to shrink on annual basis recording a contraction of 30.4 percent during October 2012, which brings total NFA of the banking sector to almost LE 154.4 billion, compared to a lower decrease of 29.7 percent at end of October 2011; which 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 42 percent (compared to a peak of 55.5 percent in January 2012, highest rate of decline since July 2002) reaching LE 69.8 billion at end of October 2012. Moreover, **Bank's net foreign assets** has declined by 16.7 percent to register LE 84.5 billion at the end of October 2012, compared to a lower decline of 14.5 percent last month.

On the other hand, growth in net domestic assets of the banking sector registered 22.4 percent at end of October 2012 recording LE 990.3 billion, compared to growth of 21.9 percent in the previous month and 25.3 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 a higher growth of 41.3 percent in October 2011 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 136.5 percent of annual liquidity growth at end of October 2012 reaching LE 647.4 billion.

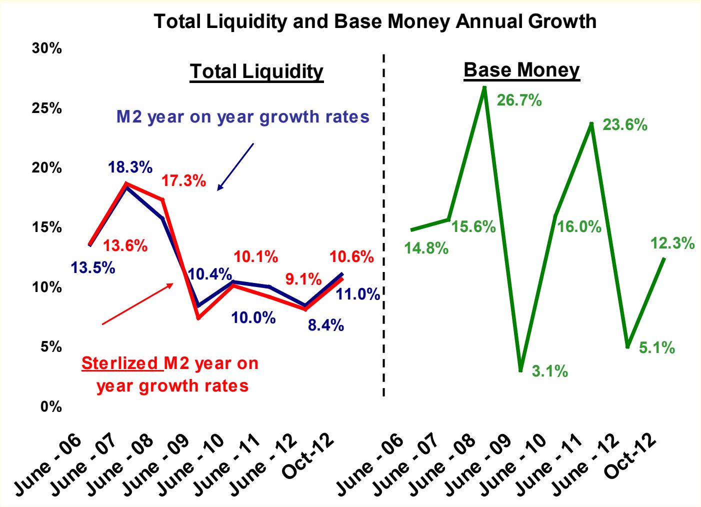
Annual growth in the credit to the private sector stabilized for the second month in a row during October 2012 at 7.2 percent compared to a growth of only 0.9 percent at end of October 2011 and compared to an average growth rate of 5.5 percent during

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.

the previous twelve months. This has brought the stock of outstanding credit to the private sector to LE 458.4 billion. It is worth noting that **"net claims on the public business sector"** grew at 19.6 percent on annual basis to LE 43.1 billion, slightly lower than the annual increase of 20.2 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 December 2012, posting an overall decline of 58.3 percent since its peak. However, on monthly basis, NIR remained almost unchanged during the month of December compared to the previous month, decreasing by only US$ 20 million. It is noteworthy that the sources of FX in Egypt's balance of payment remained weak during the month, with exports, investments, and tourism (although expected to have improved during Christmas holidays), suffering the most. It is worth mentioning that during the month of December 2012 Egypt has received a sum of US$ 3 billion deposits from Qatar (US$ 0.5 billion by the beginning of the month + US$ 2.5 billion at the end of December) to help support the economy.

Annual growth in total deposits with the banking sector (excluding CBE) increased at the end of October 2012 recording 8.4 percent compared to 7.4 percent in previous month registering LE 1063.4 billion, and compared to 4.6 percent recorded in October 2011. Out of total deposits, 89 percent belonged to the non-government sector at end of October 2012. On the other hand, annual growth rate in total lending by banking sector (excluding CBE) increased at a slower pace during the year ending October 2012 by 5.8 percent, compared to 6.2 percent last month, and compared to an increase of only 2.2 percent recorded a year earlier. This brings total loans to almost LE 509.5 billion at end of October 2012. On a more detailed level, annual growth in total lending to non-government sector registered 7.3 percent to reach some LE 476.4 billion at end of October 2012, while annual growth in total lending to government sector continued to decline recording -12.6 percent to register LE 33.1 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits almost stabilized registering 45.1 percent at the end of October 2012, compared to 45 percent in October 2011. Besides, loans-to-deposits ratio in foreign currencies posted a pronounced decrease on annual basis registering 57 percent at the end of October 2012, compared to 62.5 percent in October 2011.



Moreover, dollarization in total liquidity almost stabilized during October 2012 at 16.6 percent compared to 16.7 percent last month; yet decreased if compared to 17.1 percent in October 2011. In addition, dollarization in total deposits remained almost unchanged during October 2012 recording 23.4 percent, compared to 23.3 percent last month and 23.5 at end of October 2011.

V. Prices

Concerning domestic consumer prices, annual CPI inflation6 **in urban areas rose during December 2012 recording 4.7 percent** compared to 4.3 percent recorded during the previous month, while it decreased if compared to 9.6 percent in December 2011**.** (**As for overall Egypt, it also increased recording 4.7 percent in December 2012** compared to 4.1 percent during the previous month, and compared to 10.4 percent in December 2011). This increase in annual inflation rate could be explained mainly due to the increase in annual inflation rates of "Food and Beverages", and "Housing, Water, Electricity, Gas and Other Fuel" groups (which represents the highest weights in the general inflation rate)

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

On a more detailed level, among "Food and Beverages" group, annual inflation rate of "Fruits" increased recording 16.5 percent compared to 14.2 percent during the previous month, due to the increase in the prices of Lemon by 155 percent; «Fish and Sea Food» (increased by 12.1 percent compared to 11.5 percent); « Coffee Tea and Cocoa» (11.3 percent compared to 8.2 percent, due to the increase in the prices of Nescafe, Tea and Coffee); in addition to the increase in annual inflation rate of «Housing, Water, Electricity, Gas and other Fuel» group (20.5 percent compared to 14.5 percent, due to the increase in the prices of electricity segments except for the first tranche and the increase in butane prices); in addition to the increase in annual inflation rate of «Health» group (4.4 percent compared to 2.5 percent) more specifically the increase in the prices of the sub item «Out-Patient Services» (due to the increase in doctor fees)
On the other hand, monthly inflation rate increased recording 0.2 percent during December 2012 compared to -1.3 percent during last month, and compared to -0.2 percent recorded during December 2011.

Moreover, according to CBE inflation report, annual core inflation7 increased during December 2012 recording 4.4 percent compared to 4.2 percent during the previous month, while it decreased if compared to 7.1 percent achieved during the same month a year earlier.

As for producer prices, year-on-year PPI inflation **decreased significantly to -1.6** percent during November 2012 compared to 4 percent recorded during previous month, and compared to 9.1 percent recorded in November 2011. Meanwhile, monthly PPI inflation decreased recording -4.4 percent during November 2012 compared to -1.9 percent during October 2012.

The decrease in annual PPI rate is mainly due to the notable decrease in annual inflation rate of "Agriculture, Forestry and Fishing" group recording -9.8 percent during November 2012 compared to an increase of 4.5 percent during the previous month (due to the decrease in annual PPI of the sub item "Crop and Animal production, Hunting, and related service activities" recording -10.9 percent during November 2012 compared to 4.5 percent during the previous month. Also Annual PPI for "Mining and Quarrying" group declined recording 0.6 percent during the month of study compared to 5.5 percent during the previous month, which counterparts the increase in "Manufacturing" group recoding 1.2 percent during November 2012 compared to -0.1 percent during 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 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.

It is noteworthy that The Central Bank of Egypt announced the launch of a new FX Auction mechanism starting on Sunday, December 30th 2012. Through the new mechanism CBE offers periodical biddings for the banks to buy U.S. dollars. As been implemented by many countries the new mechanism aims at rationalizing the usage of foreign exchange reserves and to operate complementary to the existing interbank system.

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.

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.

Table (2): Main BOP Indicators

(US $ Million)

	Jul- Sep 2011/2012	Jul- Sep 2012/2013	Percent Change
Trade Balance	**-7,823**	**-6,880**	**-12%**
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%
Current Account Receipts	**16,202**	**17,499**	**8%**
Current Payments	**18,377**	**17,778**	**-3%**
Current Account	**-2,175**	**-279**	**-87%**
Capital and Financial Account	**502**	**444**	**-12%**
Capital Account	-21	-39	88%
Financial Account	523	483	-8%
FDI	440	108	-75%
Portfolio Investment in Egypt	-1,730	-327	-81%
Overall Balance	**-2,356**	**-519**	**-78%**

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 2011/12. 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 increased by 655 points during December 2012, reaching 5462 compared to 4808 during November 2012. Moreover, market capitalization showed an increase of 11 percent during the month of study to reach LE 376 billion (21.1 percent of GDP) compared to a LE 339 billion during the previous month.