THE FINANCIAL MONTHLY
February 2013 . Volume 8, NO.4
Ministry of Finance

# 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. This growth was **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 6.7** percent during the period **July- January 2012/2013** recording LE 119.8 billion, compared to LE 88.2 billion during **July- January 2011/2012.**

- **Domestic budget sector debt** increased to 72.8 percent of GDP as of end **December 2012 to record LE 1294.3 billion** compared to LE 1058.4 billion as of end of December 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 (December 2012 data is still not available).

- ***M2 annual growth*** *continued to rise as of end* ***November 2012*** *recording* ***11.2 percent*** *–stimulated by the increase in domestic credit – compared to* ***11 percent in October 2012****, and compared to* ***7.1 percent recorded in November 2011****.* (It is noteworthy that detailed data for December 2012 are not yet available)

- ***CPI annual Urban*** *Inflation rose significantly during* ***January 2013*** *reaching* 6.3 percent *compared to* 4.7 *percent during the previous month. Moreover,* ***annual core inflation*** *increased during* ***January 2013*** *registering* ***5.2 percent*** *compared to* ***4.4*** *percent during December 2012.*

- ***During the Monetary Policy Committee meeting*** *held on* ***January 31st****, 2013, 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 of study.

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

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

| | Jul - Sep 2011/12 | Jul - Sep 2012/13 |
|---|---|---|
| **Total GDP (at Factor cost)** | **0.3%** | **2.5%** |
| **Total Commodity Sector, of Which** | **0.2%-** | **1.2%** |
| Agriculture, Forestry and Fishing | 0.5% | 0.5% |
| Petroleum | 0.0% | 0.0% |
| Natural Gas | 0.1%- | 0.0% |
| Manufacturing Industry | 0.5%- | 0.4% |
| Construction and Building | 0.1%- | 0.2% |
| **Total Production Services, of which** | **0.1%** | **0.8%** |
| Transport and Warehousing | 0.0% | 0.1% |
| Telecommunications | 0.1% | 0.1% |
| Suez Canal | 0.3% | 0.1%- |
| Wholesale and Retail Trade | 0.0% | 0.4% |
| Financial Intermediation | 0.0% | 0.1% |
| Tourism (Hotels and Restaurants) | 0.5%- | 0.0% |
| **Social Services** | **0.4%** | **0.5%** |

### *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 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.

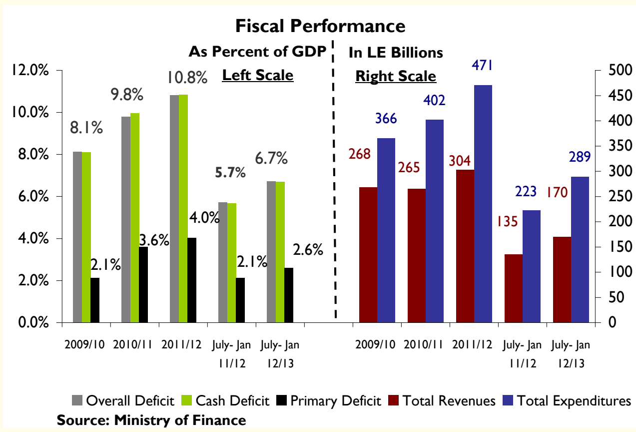
Moreover, Non- Tax Revenues increased by 31.4 percent during FY 2011/2012 mainly due to the increase in proceeds from most non-tax revenues chapters specially the step up in grants recording LE 10.1 billion compared to LE 2.3 billion during FY 2010/2011, due to the notable increase in grants from foreign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

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

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- January of the fiscal year 2012/2013 showed that** the overall budget deficit to GDP ratio increased to 6.7 percent, reaching LE 119.8 billion, compared to LE 88.2 billion during the period July- January 2011/2012. This could be explained in light of the increase in fiscal expenditures at higher rate than the growth in fiscal revenues during the period of study. Moreover, the primary deficit to GDP increased to 2.6 percent during July- January 2012/2013, compared to 2.1 percent during the period July- January 2011/2012.

From the revenues side, total revenues increased by 25.7 percent during the period of study, registering LE 169.7 billion compared to almost LE 135 billion during same period last year 2011/2012. The recorded increase is principally due to the 35.4 percent increase in tax revenues, in addition to the increase in non-tax revenues by 4.8 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 Goods and Services by 49 percent and 26.6 percent reaching LE 53.6 billion and LE 52.1 billion during the period of study compared to LE 36 billion and LE 41.1 billion respectively during July- January 2011/2012. Also Property Taxes Chapter and Taxes on International Trade increased by 31 percent and 24.1 percent recording LE 9.5 billion and LE 9.6 billion during July- January 2012/2013 compared to LE 7.2 billion and LE 7.7 billion respectively during the same period last year.

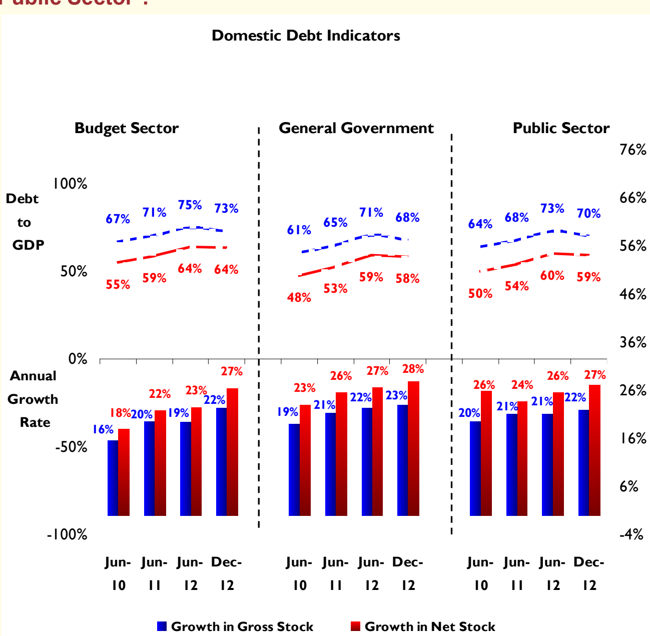
It is noteworthy that the increase in revenues from Income Tax comes with the increase in proceeds from tax on income from employment by 22 percent reaching LE 10.9 billion during July- January 2012/2013 compared to LE 8.9 billion during July- January 2011/2012. Moreover, Taxes on corporate profit witnessed a notable increase mainly due to the increase in three main components as follows: **First**, the increase in taxes from EGPC by LE 39.1 percent recording LE 15.8 billion during the period of study compared to LE 11.3 billion during July- January 2011/2012 in light of EGPC settlements with the Ministry of Finance. **Second**, the increase in Proceeds from Other Companies by 23.1 percent reaching LE 9.6 billion compared to LE 7.8 billion during the same period last year. **Third**, the increase in proceeds from Suez Canal by 9.2 percent reaching LE 7.1 billion compared to LE 6.5 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 39 percent to almost LE 7.6 billion compared to LE 5.5 billion during July- January 2011/2012.

On the other side, Non- Tax Revenues increased by 4.8 percent during the period July- January 2012/2013 mainly due to the increase in proceeds from Other Revenues by 14.3 percent reaching LE 41.7 billion compared to LE 36.5 billion during the same period last year. The mentioned increase in Other Revenues could be explained in light of the increase in proceeds from Sales of Goods and Services by 30.7 percent reaching LE 8.5 billion during the period of study compared to LE 6.5 billion during July- January 2011/2012. In addition, Miscellaneous Revenues increased notably by more than two folds recording LE 6.7 billion during the period of study compared to LE 3 billion during the same period last year.

On the other hand, total expenditures increased significantly during July- January 2012/2013 by 29.8 percent, recording LE 288.9 billion compared to LE 222.6 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 31.6 percent of total Expenditures and 53.8 percent of total Revenues) increasing by 49.9 percent to LE 91.2 billion compared to almost LE 60.9 billion during July- January last year. Also, Interest payments (which represent almost 25.4 percent of total Expenditures and 43.3 percent of total Revenues) have increased by 32.5 percent recording almost LE 73.5 billion during July- January 2012/2013 compared to LE 55.5 billion during the same period last year. In addition, compensation of employees has increased by 20.6 percent to LE 78.6 billion compared to LE 65.1 billion during July- January 2011/2012.

### *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 72.8 percent of GDP as of end of December 2012 to some LE 1294.3 billion compared to LE 1058.4 billion as of end December 2011 (68.6 percent of GDP). As for net domestic budget sector debt, it reached LE 1131.7 billion (63.7 percent of GDP) compared to LE 894.6 billion (58 percent of GDP) as of end December last year. Accumulated budget sector debt at end of December 2012 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of December 2012 amount to LE 432.6 billion and LE 312.3 billion respectively versus LE 371.2 billion and LE 231.6 billion at end of December last year reflecting government's growing borrowing needs.**

**Gross domestic debt of the general government amounts to LE 1208.3 billion (68 percent of GDP) at end of December 2012, compared to some LE 981.5 billion (63.6 percent of GDP) at end of December last year. Also, net domestic debt of the general government reached some LE 1037.2 billion (58.3 percent of GDP) compared to LE 811.2 billion (52.6 percent of GDP) at end of December 2011. The increase in general government debt at end of December 2012 was driven by the increase in consolidated budget sector debt, in addition to the increase in consolidated debt of the National Investment Bank by nearly LE 11.3 billion amounting to almost LE 191.2 billion at end of December 2012.**

**Finally, gross domestic public debt reached LE 1243.7 billion (70 percent of GDP) at end of December 2012, compared to LE 1019.6 billion at end of December last year (66.1 percent of GDP).** At the same time, net domestic public debt reached LE 1055 billion (59.3 percent of GDP) compared to LE 829.7 billion (53.8 percent of GDP) at end of December 2011. It is noteworthy that the realized increase in domestic public debt at end of December 2012 was due to an increase in accumulated debt of the General government by 226.8 billion to reach 1208.3 billion while Economic Authorities Domestic Debt declined by 2.2 billion to reach 100 billion at end December 2012.

**Meanwhile, domestic debt service increased by 63 percent to reach LE 83 billion at end of December 2012, compared to LE 51 billion during the same period last year.**

**The average life to maturity of outstanding T-bonds and T-bills increased to 1.4 years at end of December 2012 compared to 1.3 at end of December 2011. Meanwhile, average interest rates on outstanding stock of T-bills and T-bonds increased to 13.46 percent at end of December 2012 compared to 12.17 percent at end of December 2011.**

***Egypt External Debt indicators showed slight improvement (It is worth noting that December 2012 data are not yet available)***

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[5].

### *IV. Monetary Developments*

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

On the monetary side, monthly growth rate in total liquidity increased merely by 0.2 percent to register LE 1147.5 billion in November 2012, compared to LE 1144.7 billion in October 2012. Annual growth in total liquidity continued to pick up in November 2012 recording 11.2 percent compared to 11 percent in the previous month, and 7.1 percent recorded in November 2011. From the **assets side**, buoyant growth in government borrowing remains to be the main driver behind growth in total liquidity; that far exceeded the 29 percent contraction in net foreign assets. As for the **liabilities side**, annual growth rate of M1 increased at a slower pace at end of November 2012 recording 11.4 percent to reach LE 287.9 billion, compared to 12.2 percent increase at end of the previous month. On the other hand, annual growth of quasi money rose at an accelerated rate of 11.2 percent reaching LE 859.6 billion, compared to 10.6 percent in the previous month.

On a more detailed level, net foreign assets has continued to shrink on annual basis, recording a contraction of 29 percent during November 2012, reaching LE 147.1 billion. This could 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 40.9 percent (compared to a peak of 55.5 percent in January 2012, highest rate of decline since July 2002) reaching LE 64.1 billion at end of November 2012. Moreover, **Bank's net foreign assets** has declined by 15.9 percent to register LE 83 billion at the end of November 2012, compared to a higher decline of 16.7 percent last month.

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.

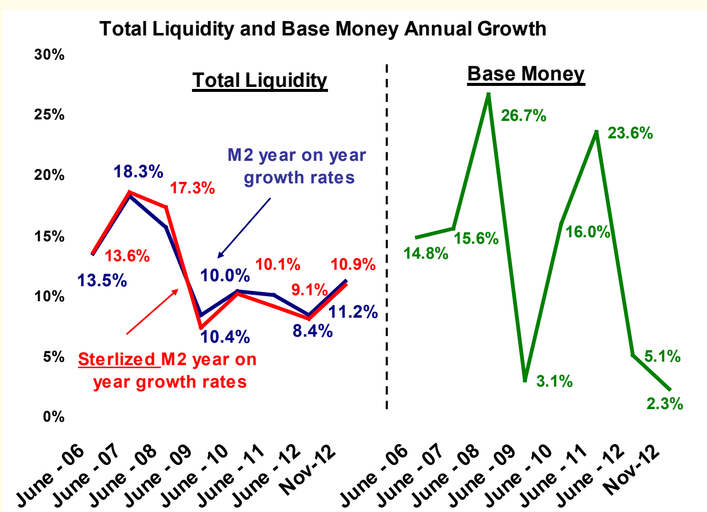
5 The CBE revised basis for foreign debt classification as of September 2008. Accordingly, Government debt statistics reflect an increase of US$ 4.3 billion primarily due to the reclassification of on lent loans as part of Central and Local Government debt instead of "Other Sectors" debt. It is noteworthy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

On the other hand, growth in net domestic assets of the banking sector registered 21.3 percent at end of November 2012 recording LE 1000.4 billion, compared to growth of 22.4 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 28.3 percent growth in net claims on government and GASC, compared to a higher growth of 43 percent in November 2011. It is worth noting that growth in net claims on government and GASC amounted to almost 124.4 percent of annual liquidity growth at end of November 2012 reaching LE 652.7 billion.

Annual growth in the credit to the private sector almost stabilized for the third month in a row during November 2012 at 7 percent compared to a growth of only 1.3 percent at end of November 2011 and compared to an average growth rate of 6 percent during the previous twelve months. This has brought the stock of outstanding credit to the private sector to LE 461.9 billion. It is worth noting that **"net claims on the public business sector"** grew at 17.6 percent on annual basis to LE 44 billion, lower than the annual increase of 19.6 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$ 13.6 billion at end of January 2012, posting an overall decline of 62.2 percent since its peak. However, the month of January has witnessed a monthly decrease of 9.3 percent, declining by US$ 1.4 billion. It is worth mentioning that during the month of January 2013 Egypt had paid US$ 0.6 billion to the Paris Club and received only US$ 0.5 billion as aid from Turkey. Consequently, the decline in NIR, along with the depreciation in the EGP and the worsening trade deficit would contribute to a further deterioration in BOP performance.

Annual growth in total deposits with the banking sector (excluding CBE) increased at the end of November 2012 recording 9.1 percent compared to 8.4 percent in previous month registering LE 1069.3 billion, and compared to 4.6 percent recorded in November 2011. Out of total deposits, 89.1 percent belonged to the non-government sector at end of November 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 November 2012 by 5.2 percent, compared to 5.8 percent last month, and compared to an increase of only 2.5 percent recorded a year earlier. This brings total loans to almost LE 511.6 billion at end of November 2012. On a more detailed level, annual growth in total lending to non-government sector registered 6.8 percent to reach some LE 479.8 billion at end of November 2012, while annual growth in total lending to government sector continued to decline recording -13.8 percent to register LE 31.8 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits decreased slightly at the end of November 2012 registering 45.3 percent, compared to 45.7 percent in November 2011. Besides, loans-to-deposits ratio in foreign currencies posted a pronounced decrease on annual basis registering 56.2 percent at the end of November 2012, compared to 62.2 percent in November 2011.




Moreover, dollarization in total liquidity increased during November 2012 recording 16.9 percent compared to 16.6 percent last month; yet decreased if compared to 17.4 percent in November 2011. In addition, dollarization in total deposits remained almost unchanged during November 2012 recording 23.5 percent, compared to 23.4 percent last month, yet decreased slightly if compared to 23.7 percent at end of November 2011.

*V. Prices*

**Concerning domestic consumer prices, annual CPI inflation[6] in urban areas rose significantly during January 2013 recording 6.3 percent** compared to 4.7 percent recorded during the previous month, while it decreased if compared to 8.6 percent in January 2012. (**As for overall Egypt, it also increased recording 6.6 percent in January 2013** compared to 4.7 percent during the previous month, while it decreased if compared to 9.2 percent in January 2012). This increase in annual inflation rate could be explained mainly due to the increase in annual inflation rates in most of the groups (on monthly and annual basis) on the top of which "Food and Beverages", and "Housing, Water, Electricity, Gas and Other Fuel", and "Furnishings, Household Equipment and Maintenance of the House". This could be partially explained in light of the depreciation of the Egyptian pound during the month of study, which led to an increase in the value of imports. In addition, expectations of future inflationary pressures is contributing to the continuous rise in price levels.

On a more detailed level, among "Food and Beverages" group, annual inflation rate of "Bread and Cereals" increased recording 2.1 percent compared to 1.2 percent during the previous month (due to the increase in the prices of Rice, Marconi, Wheat and Flour). Moreover, annual inflation rate of «Meat» increased by 10 percent compared to 9.4 percent during the previous month. «Vegetables» witnessed a significant increase of 7.6 percent during the month of study compared to 2 percent during the previous month. Annual inflation rate of «Tobacco» increased to record 7.7 percent during the month of study due to the increase in the prices of some cigarettes brands. Moreoever, annual inflation rate of the sub item "Electricity, Gas and Other Fuels" increased recording 34.2 percent, compared to 20.5 percent, due to the increase in the prices of electricity segments except for the first tranche in addition to the increase in butane prices due to the decrease in butane cylinders supply. Likewise, annual inflation rate of «Furnishings, Household Equipment and Maintenance of the House» group increased to 5.9 percent compared to 4.8 percent during the previous month.

Furthermore, monthly inflation rate increased significantly recording 1.7 percent during January 2013 compared to 0.2 percent during last month, and compared to 0.1 percent recorded during January 2012.

According to CBE inflation report, annual core inflation[7] increased during January 2013 recording 5.2 percent compared to 4.4 percent during the previous month, while it decreased if compared to 6.9 percent achieved during the same month a year earlier.

**As for producer prices, the year-on-year PPI** inflation **decreased significantly to -1.6** percent during November 2012 compared to an increase of 4 percent recorded during previous month, and compared to a bigger increase 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 inflation rate is attributed 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" by -10.9 percent during November 2012 compared to an increase of 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 31st of January, 2013,** 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.

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.

### *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 |
|---|---|---|---|
| **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 144 points during January 2013, reaching 5606 compared to 5462 during December 2012. Moreover, market capitalization showed a slight increase of 0.3 percent during the month of study to reach LE 377 billion (21.2 percent of GDP) compared to a LE 376 billion during the previous month. The volatile performance of the stock market could be explained in light of the political and economic events witnessed in Egypt since the revolution in 2011.