

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 is **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 8.2** percent during the period **July- February 2012/2013** recording LE 146.5 billion, compared to LE 94.7 billion during **July- February 2011/2012**.
- **Domestic budget sector debt** increased to 72.8 percent of GDP as of end **December 2012** to record LE 1293.9 billion compared to LE 1058.4 billion as of end of December last year.
- **External debt stock increased by 15.2 percent – for the first time since March 2008– leveling at 13.8 percent of GDP in December 2012 (US\$ 38.8 billion)** compared to 13.2 percent of GDP (US\$ 33.7 billion) as of end of December 2011. This notable increase is attributed to the US\$ 4 billion deposited in CBE during the second quarter of the fiscal year 2012/2013, as part of a Qatari financial assistance pledge.
- **M2 annual growth** continued to rise as of end **December 2012** recording **12.3 percent** compared to **11.2 percent in November 2012** - stimulated by the increase in domestic credit, mainly in net claims on government and GASC and claims on private sector - and compared to **6.7 percent recorded in December 2011**. (It is noteworthy that detailed data for January 2013 are not yet available)
- **CPI annual Urban Inflation** rose significantly during **February 2013** reaching 8.2 percent compared to 6.3 percent during the previous month. Moreover, **annual core inflation** increased during **February 2013** registering 7.7 percent compared to 5.2 percent during **January 2013**.
- During the **Monetary Policy Committee** meeting held on the **21st of March, 2013**, CBE has decided to **raise the overnight deposit rate and overnight lending rate** by 50 basis points to **9.75 percent and 10.75 percent** respectively, and **raise the rate of the CBE's main operation¹** by 50 basis points to **10.25 percent**. Moreover, the **discount rate was raised** by 75 basis points to **10.25 percent**.
- **BOP recorded an overall deficit of only US\$ 0.6 billion** during the first half of the year 2012/2013 compared to a deficit of **US\$ 8 billion** during the same period last year. This could be explained in light of the **decline in current account deficit** recording US\$ 3 billion compared to US\$ 4.1 billion (attributed basically to the notable increase in workers' remittances; and the noticeable improvement in the services surplus). Meanwhile, the **capital and financial account** recorded a net **inflow** of US\$ 4.2 billion compared to a net outflow of US\$ 2.4 billion.

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).

¹ The CBE main operations would be Repos or Deposit Auctions depending on the prevailing market liquidity conditions.

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 a slight negative contribution of 0.9 percent to GDP growth.

Regarding **real GDP at factor cost²**, **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.

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%

² Real GDP growth rates are calculated using 2011/12 as a base year.

II. Fiscal Performance

According to FY 2011/2012 actual budget³ 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.

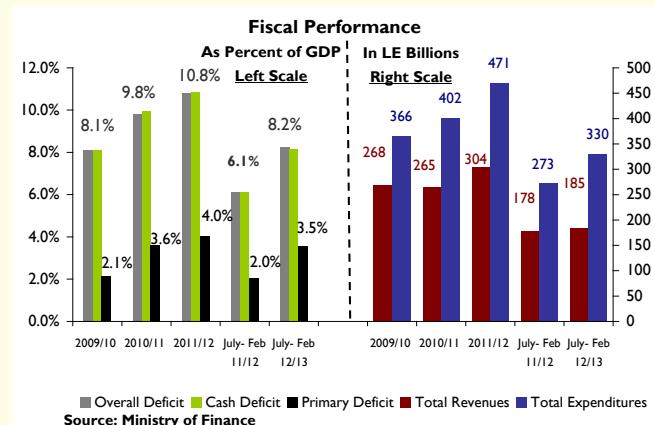
On the other hand, total expenditures increased notably during FY 2011/2012 by 17.2 percent, recording LE 471 billion compared to LE 401.9 billion during last year. The recorded increase comes with the expansion growth in most spending chapters except for other expenditures and purchases of non financial 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

³ Includes central administration, municipalities, and services authorities (education, health, etc).

billion during last FY year.



Recent data for the period July- February of the fiscal year 2012/2013 showed that the overall budget deficit to GDP ratio increased to 8.2 percent, reaching LE 146.5 billion, compared to LE 94.7 billion during the period July- February 2011/2012. This could be explained in light of the increase in fiscal expenditures at much higher rate than the growth in fiscal revenues during the period of study. Moreover, the primary deficit to GDP increased to 3.5 percent during July- February 2012/2013, compared to 2 percent during the period July- February 2011/2012.

From the revenues side, total revenues increased by only 3.9 percent during the period of study, registering LE 184.9 billion compared to almost LE 178 billion during same period last year 2011/2012. The recorded increase is principally due to the 16 percent increase in tax revenues, which overcame the notable decrease in non-tax revenues by 20 percent.

On a more detailed level, the rise in tax revenues comes with the increase in all Tax Chapters mainly the increase in Income Tax and Taxes on Goods and Services by 12.7 percent and 18.6 percent reaching LE 56.5 billion and LE 58.6 billion during the period of study compared to LE 50.1 billion and LE 49.4 billion respectively during July- February 2011/2012. Also Property Taxes Chapter and Taxes on International Trade increased by 29 percent and 9.3 percent recording LE 10.8 billion and LE 10.77 billion during July- February 2012/2013 compared to LE 8.4 billion and LE 9.9 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 24 percent reaching LE 12.6 billion during July- February 2012/2013 compared to LE 10.2 billion during July- February 2011/2012. Moreover, Taxes on corporate profit witnessed a notable increase mainly due to the increase in Proceeds from Other Companies by 17.6 percent reaching LE 10 billion compared to LE 8.5 billion during the same period last year. In addition, revenues from Property Tax chapter increased due to the significant increase in proceeds from tax on T-bills and bonds' payable interest by 36.8 percent to almost LE 8.7 billion compared to LE 6.3 billion during July- February 2011/2012.

Meanwhile, Non- Tax Revenues decreased by 20 percent during the period July- February 2012/2013 mainly due to the decrease in proceeds from Grants and Other Revenues by 64.6 percent and 12.5 percent reaching LE 3.1 billion and LE 44.9 compared to LE 8.7 billion and LE 51.3 billion respectively during the same period last year. The mentioned decrease in Other Revenues could be explained in light of the decrease in proceeds from Property Income by 31 percent reaching LE 27.3 billion during the period of study compared to LE 39.6 billion during July- February 2011/2012, mainly due to the decrease in Dividends from EGPC and Suez Canal by 46 percent and 5.7 percent reaching LE 7.6 billion and LE 9.9 billion during July- February 2012/2013, compared to LE 14 billion and LE 10.5 billion respectively during July- February 2011/2012.

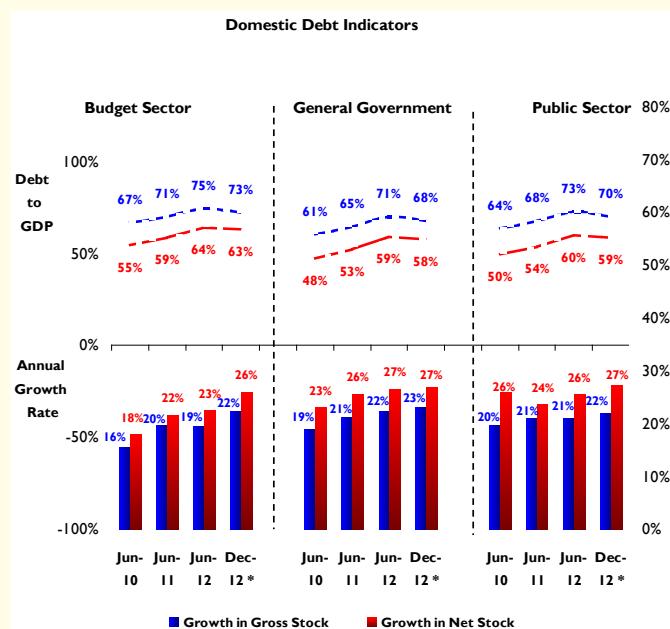
On the other hand, total expenditures increased significantly during July- February 2012/2013 by 21 percent, recording LE 329.9 billion compared to LE 272.8 billion during the same period last year. The recorded increase comes with the expansion growth in all spending chapters; on the top of which, Subsidies, grants and social benefits (which represent almost 31.9 percent of total Expenditures and 57 percent of total Revenues) increasing by 19.6 percent to LE 105.3 billion compared to almost LE 88 billion during July- February last year. Also, Interest payments (which represent almost 25.3 percent of total Expenditures and 45 percent of total Revenues) have increased by 32 percent recording almost LE 83.4 billion during July- February

2012/2013 compared to LE 63.2 billion during the same period last year.

In addition, compensation of employees has increased notably by 19.8 percent to LE 88.6 billion compared to LE 74 billion during July–February 2011/2012, mainly due to the significant increase of Salaries and Wages in Cash and in kind by LE 12.5 billion during the period of study. The above-mentioned increase in "Salaries and Wages" could be explained in light of the increase in "Rewards" by almost LE 7 billion, and "Permanent Staff" (basic Pay) by LE 1.9 billion, and the increase in "Specific Allowances" by LE 3.1 billion.

III. Domestic Debt Profile

As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks⁴ at three different levels of compilation; the Budget Sector, General Government, and the Public Sector.⁵



Recent statistics show that domestic budget sector debt increased to 72.8 percent of GDP as of end of December 2012 to some LE 1293.9 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 1126.8 billion (63.4 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 1207.2 billion (67.9 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 1031.6 billion (58 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 11.1 billion amounting to almost LE 191.1 billion at end of December 2012.

Finally, gross domestic public debt reached LE 1246.9 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 1051.6 billion (59.1 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 225.7 billion to reach 1207.2 billion; in addition to an increase in Economic Authorities

⁴ Consolidated debt stocks exclude interrelated debt between entities at each level of compilation.

⁵ The Budget sector debt stock encompasses outstanding stocks of Central Government, Local Governments, and Public Service Authorities. The General Government debt stock includes the consolidated debt stocks of the Budget sector, the NIB, and SIF. The Public sector debt stock corresponds to the consolidated debt of the General Government and Economic Authorities

Domestic Debt by 1.8 billion to reach 104.1 billion at end December 2012.

Meanwhile, domestic debt service increased by almost 63 percent to reach LE 83 billion at end of December 2012, compared to LE 60 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 exhibited relative deterioration

External debt recorded US\$ 38.8 billion in December 2012, increasing by 15.2 percent (the highest growth since March 2008) compared to US\$ 33.7 billion at end of December a year earlier. Moreover, the ratio of external debt to GDP increased from 13.2 percent of GDP at end December 2011 to 13.8 percent of GDP at end December 2012. It is worthy to note that this exceptional increase in external debt comes as a result of a Qatari deposit in CBE amounting to US\$ 4 billion as part of a financial assistance pledge.

Meanwhile, government external debt increased slightly by 1.8 percent to reach US\$ 26.2 billion (67.5 percent of total external debt) as of end of December 2012 compared to US\$ 25.7 billion (76.3 percent of total external debt) at end of December 2011⁶.

IV. Monetary Developments

(It is noteworthy that detailed data for January 2013 are not yet available)

On the monetary side, total liquidity recorded a notable monthly growth of 1.7 percent to register LE 1167.2 billion in December 2012, compared to LE 1147.5 billion in November 2012. Additionally, annual growth in total liquidity continued to pick up in December 2012 recording 12.3 percent compared to 11.2 percent in the previous month, and 6.7 percent recorded in December 2011. The increase in domestic credit – in particular the pick-up in credit to the private sector as well as the continuous increase in net claims on government – is the main driver behind growth in total liquidity from the assets side.

As for the liabilities side, the mentioned increase in total liquidity could be explained in light of the increase in quasi money annual growth rate at end of December 2012 reaching 12.2 percent to LE 879 billion compared to 11.2 percent in the previous month. Moreover, annual growth in money (M1) increased at end of the month of study reaching 12.7 percent recording LE 288.1 billion, compared to a growth of 11.4 percent at end of the previous month.

On a more detailed level, net foreign assets continued to shrink on annual basis, recording a contraction of 29.9 percent during December 2012, reaching LE 133.4 billion. Central Bank's net foreign assets continued its decelerating path that began with the eruption of political unrest, recording annual decline of 49.3 percent (compared to a peak of 55.5 percent in January 2012, highest rate of decline since July 2002) reaching LE 49 billion at end of December 2012. Moreover, Bank's net foreign assets has declined by 9.7 percent to register LE 84.3 billion at the end of December 2012, compared to a higher decline of 15.9 percent last month.

On the other hand, annual growth in net domestic assets of the banking sector registered 21.8 percent at end of December 2012 recording LE 1033.8 billion, compared to growth of 21.3 percent in the previous month and 26.9 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 28.3 percent in November 2012. It is worth noting that growth in net claims on government and GASC amounted to almost 126.8 percent of annual liquidity growth at end of December 2012 reaching LE 678.4 billion.

Annual growth in the credit to the private sector – continued to rise for the fourth month in a row during December 2012 – reaching 7.6 percent compared to 6.1 percent at end of December 2011 and compared to an average growth rate of 6.5 percent during the previous twelve months. This has brought the stock of outstanding credit to the private sector to LE 465.7 billion. It is worth noting that "net claims on the public business sector" grew at 13.1 percent on annual basis to LE 43.9 billion, lower than the annual increase of 17.6 percent registered last month.

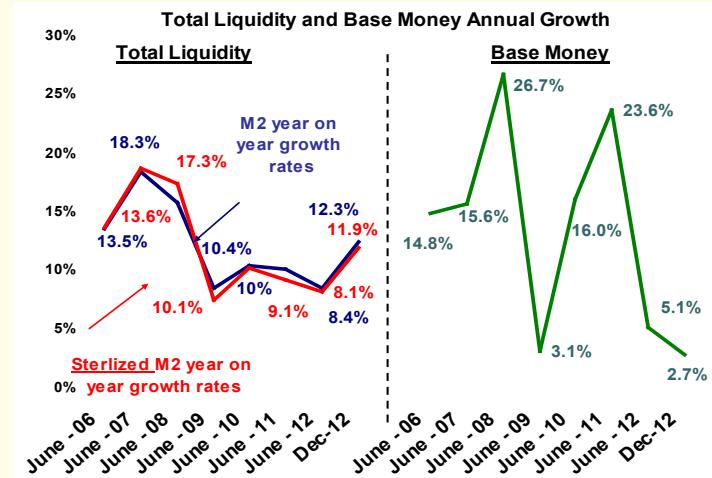
CBE net international reserves (NIR) have declined from a peak of US\$ 36 billion in December 2010, to US\$ 26.6 billion in June 2011, finally residing at US\$ 13.5 billion at end of February 2012, posting an overall decline of 62.5

⁶ The CBE revised basis for foreign debt classification as of September 2008. Accordingly, Government debt statistics reflect an increase of US\$ 4.3 billion primarily due to the reclassification of on-lent loans as part of Central and Local Government debt instead of "Other Sectors" debt. It is noteworthy that such reclassification has not had any impact on the total outstanding foreign debt; which however may have changed due to the net flows of debt repayments and borrowings from abroad. So far, CBE has not released any figures for modified historical data.

percent since its peak. However, NIR almost stabilized during the month of February, declining by only US\$ 105 million.

Annual growth in total deposits with the banking sector (excluding CBE) increased at the end of December 2012 recording 10.3 percent compared to 9.1 percent in previous month registering LE 1090.9 billion, and compared to 3.9 percent recorded in December 2011. Out of total deposits, 88.9 percent belonged to the non-government sector at end of December 2012.

On the other hand, annual growth rate in total lending by banking sector (excluding CBE) increased during the year ending December 2012 by 5.5 percent, compared to 5.2 percent last month and 6.9 percent recorded a year earlier. This brings total loans to almost LE 516.8 billion at end of December 2012. On a more detailed level, annual growth in total lending to non-government sector registered 6.5 percent to reach some LE 481.7 billion at end of December 2012, while annual growth in total lending to government sector continued to decline – yet by a lesser extent – recording -5.6 percent to register LE 35.1 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits decreased at end of December 2012 registering 44.9 percent, compared to 45.7 percent in December 2011. In addition, loans-to-deposits ratio in foreign currencies posted a pronounced decrease on annual basis registering 54.9 percent at the end of December 2012, compared to 61.7 percent in December 2011.



Moreover, dollarization in total liquidity increased during December 2012 recording 17.6 percent compared to 16.9 percent last month and 17.4 percent in December 2011. In addition, dollarization in total deposits increased during December 2012 recording 24.4 percent, compared to 23.5 percent last month and 23.7 percent at end of December 2011. This could be explained in light of the pick-up in foreign currency deposits along with the notable increase in currency in circulation outside banks during the month of study, which may be considered as early signs of weaker confidence levels.

V. Prices

Concerning domestic consumer prices, annual CPI inflation⁷ in urban areas continued to rise during February 2013 recording 8.2 percent compared to 6.3 percent recorded during the previous month, while it decreased if compared to 9.2 percent in February 2012. (As for overall Egypt, it also increased notably recording 8.7 percent in February 2013 compared to 6.6 percent during the previous month, while it decreased if compared to 9.9 percent in February 2012). The increase in annual inflation could be explained in light of the significant increase in the prices of some sub-items among «Food and Beverages» group due to seasonal effects, in addition to a rise in annual inflation rates of «Clothing and Footwear» and «Transportation» groups. Meanwhile, the continuous depreciation of the Egyptian pound against other currencies especially the U.S. dollar has contributed to the rise in price levels of many sectors during the month of study leading to increased inflationary pressures,

On a more detailed level, among «Food and Beverages» group, annual inflation rate of «Bread and Cereals» increased recording 4.2 percent (due to the increase in the prices of Rice, Wheat and Flour). Moreover, annual inflation rate of «Meat» and «Milk, Cheese and Eggs» recorded 10.2 percent and 13.6 percent during the month of study, compared to 10 percent and 9.6 percent respectively during the previous month. Moreover, annual inflation rate of «Vegetables» witnessed an increase of 8.6 percent (due to the increase in the prices of green beans, and peas, and potatoes). In addition, the annual inflation rate of the «Health» group increased notably especially the sub item «Medical Products, Appliances, and equipment» recording 13.4

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

percent during the month of study (due to the increase in the prices of some medical equipments for example, medical plasters). Also, the annual inflation rate of «Clothing and Footwear» group increased reaching 4.1 percent compared to 0.8 percent during the previous month.

Furthermore, monthly inflation rate increased significantly recording 2.5 percent during February 2013 –the highest rate since September 2010 - compared to 1.7 percent during last month, and compared to 0.7 percent recorded during February 2012.

According to CBE inflation report, annual core inflation⁸ rose notably during February 2013 recording 7.7 percent compared to 5.2 percent during the previous month, and compared to 7.3 percent achieved during the same month a year earlier.

As for producer prices, year-on-year PPI inflation continued to decelerate – for the third month in a row- recording -0.5 percent during January 2013 compared to -0.4 percent recorded during previous month, and compared to an increase of 7.4 percent recorded in January 2012. However, monthly PPI inflation increased recording 0.5 percent during January 2012 compared to a decrease of 0.1 percent during previous month.

The decrease in PPI rate is mainly due to the notable decline in the annual inflation rate of both "Agriculture, Forestry and Fishing", and "Accommodation and Food Service Activities" groups recording -5.2 percent and 5.8 percent during January 2013 compared to -8.1 percent and 34.8 percent respectively during the previous month; in addition to the decrease in the Producer Prices annual inflation rate of the "Mining and Quarrying" group recording 1.1 percent during January 2013 compared to 2.2 percent during the previous month. Meanwhile, the above mentioned decrease in Producer Prices inflation rates was counter parted by the increase in «Electricity, Steam, Gas and Air Conditioning Supply» group, and the «Manufacturing» group recording 10.6 percent and 1.9 percent during January 2013 compared to 9.9 percent and 1.6 percent respectively during the previous month.

During the Monetary Policy Committee meeting held on the 21th of March, 2013, CBE has decided to raise the overnight deposit rate and overnight lending rate by 50 basis points to 9.75 percent and 10.75 percent respectively, and raise the rate of the CBE's main operation⁹ by 50 basis points to 10.25 percent. Moreover, the discount rate was raised by 75 basis points to 10.25 percent.

The committee justified such increase in light of the upward pressures on inflation; as both CPI and Core Inflation recorded during February 2013 the highest levels since August 2010 on the back of the depreciation of the Egyptian pound and diesel distribution bottlenecks. Meanwhile the recorded GDP Growth during the first half of 2012/2013 remains partly subdued by the weak performance in the Manufacturing sector. To that end, the upside risks to the inflation outlook due to the inefficiencies in local supply and distribution channels, is overcoming the present downside risks to growth posed by the ongoing political transition. Therefore, an increase in CBE rates was required.

VI. External Sector

Balance of payments (BOP) statistics- published by the Central Bank- for the period July–December 2012/2013 registered a deficit of only US\$ 0.6 billion in the overall balance, decreasing by 93 percent compared to a deficit of US\$ 8 billion during the period July – December 2011/2012. The recorded decrease in the overall deficit comes as a result of the 25 percent drop in the current account deficit (attributed basically to the notable increase in workers' remittances; and the noticeable improvement in the services surplus). Meanwhile, the capital and financial account recorded a net inflow of US\$ 4.2 billion, compared to a net outflow of US\$ 2.4 billion. Net errors and omissions recorded a net outflow of US\$ 1.8 billion.

8The 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.

9 The CBE main operations would be Repos or Deposit Auctions depending on the prevailing market liquidity conditions.

Table (2): Main BOP Indicators

	(US \$ Million)		
	Jul- Dec 2011/2012*	Jul- Dec 2012/2013*	Percent Change
Trade Balance	-15,598	-16,789	8%
Export Proceeds	13,589	13,447	-1.0%
Petroleum	6,739	6,433	-5%
Non-Oil Exports	6,850	7,015	2%
Import Payments	-29,187	-30,236	4%
Services (net)	3,122	3,940	26%
Receipts	10,632	11,759	11%
Payments	7,510	7,819	4%
Current Account Receipts	32,643	35,011	7%
Current Payments	36,697	38,055	4%
Current Account	-4,054	-3,044	-25%
Capital and Financial Account	-2,412	4,246	276%
Capital Account	-32	-55	72%
Financial Account	-2,379	4,301	281%
FDI	-418	301	172%
Portfolio Investment in Egypt	-3,309	-260	-92%
Overall Balance	-8,005	-552	-93%

The trade deficit increased by 8 percent to register a deficit of US\$ 16.8 billion during July–December 2012/13, compared to a deficit of US\$ 15.6 billion in the same period last year. This could be attributed to the 4 percent increase in import payments to record US\$ 30.2 billion; in addition to the slight decrease in export proceeds reaching US\$ 13.4 billion, compared to US\$ 13.6 billion during the same period last year. On a more detailed level, petroleum imports increased notably by 24 percent to reach US\$ 6.7 billion, while non-oil imports slightly decreased reaching US\$ 23.5 billion, compared to US\$ 23.8 billion during the first half of 2011/12. As for total commodity exports, the decreased witnessed in the period of study is due to the 5 percent decrease in petroleum exports to US\$ 6.4 billion; while non-oil exports increased by only 2 percent to US\$ 7 billion.

Moreover, the services balance has accumulated a higher surplus of US\$ 3.9 billion (1.3 percent of GDP) during July–December 2012/2013 compared to a surplus of US\$ 3.1 billion during the same period last year. Total services receipts rose to US\$ 11.8 billion mainly as a result of the increase in tourism receipts by 10 percent to record US\$ 5.6 billion during the period of study compared to US\$ 5.1 during the same period last year. A more detailed analysis reveals that tourists nights increased by 8.4 percent to 77.3 million nights during the period July–December 2012/2013 compared to 71.3 million nights during the same period last year.

Furthermore, transportation receipts increased by 7 percent to reach US\$ 4.6 billion, compared to US\$ 4.3 billion for the same period last year. (It is worthy to note that Suez Canal revenue declined by 2 percent during the period of study to record US\$ 2.6 billion). Moreover, government services receipts increased during the study period to record US\$ 216 million compared to US\$ 61 million during the period July–December 2011/2012. Other receipts also increased during the period of study by 17 percent to record US\$ 1.3 billion.

On the other hand, services payments increased during the period July–December 2012/2013 by 4 percent to record US\$ 7.8 billion compared to US\$ 7.5 billion in the same period last year. This comes due to the increase in transportation and tourism payments by 47 percent and 9 percent respectively to record US\$ 879 million and US\$ 1.4 billion. In addition, other payments increased by 21 percent during the period of study to record US\$ 2.1 billion compared to US\$ 1.8 billion during the same period last year. Meanwhile, investment income payments and government payments decreased by 6 percent and 41 percent respectively to record US\$ 3 billion and US\$ 372 million.

Private transfers witnessed a notable increase of 16 percent to record US\$ 9.2 billion during the first half of the fiscal year 2012/2013 compared to US\$ 8 billion during the same period last year. It is worth mentioning that private transfers have shown to be the most important source of foreign currency during the period of study, amounting to 26.2 percent of total current account receipts. Moreover, public transfers increased during July–December 2012/2013 to reach US\$ 0.6 billion compared to US\$ 0.5

billion during the same period last year. Consequently, current account receipts increased by 7.3 percent to US\$ 35 billion, while current account payments increased by only 3.7 percent to US\$ 38 billion, bringing the ratio of current receipts to current payments (including official transfers) up to 92 percent compared to 89 percent during the same period last year.

As a result of the factors mentioned above, the current account deficit decreased by 25 percent, recording US\$ 3 billion during the period July–December 2012/2013, compared to a deficit of US\$ 4.1 billion during the same period in the previous year.

On the other hand, the capital and financial account reported a net inflow of US\$ 4.2 billion (1.5 percent of GDP) during the period July–December 2012/13; versus an outflow of US\$ 2.4 billion (0.9 percent of GDP) during July–December 2011/12. This comes as **other investments** recorded a net inflow of US\$ 4.3 billion, compared to a net inflow of US\$ 1.6 billion during July–December 2011/12. The increase in net inflow of other investments was due to the notable increase in CBE's liabilities, with a net inflow of US\$ 4 billion representing an amount of US\$ 4 billion received as deposits from Qatar. Moreover, **net foreign direct investments** in Egypt recorded a net inflow of US\$ 0.3 billion (0.1 percent of GDP) compared to a net outflow of US\$ 0.4 billion (0.2 percent of GDP) during July–December 2011/12. Finally, **portfolio investments** outflows decelerated notably by 92 percent to record US\$ 0.3 billion (0.1 percent of GDP) during July–December 2012/13 compared to US\$ 3.3 billion (1.3 percent of GDP) during July–December 2011/12. This could be explained in light of the decline in foreigners' sales of their holding of securities, especially T-Bills (reaching only US\$ 3 million, in comparison with US\$ 2.8 billion in the same period of the previous year).

Finally, net errors and omissions recorded a net outflow of US\$ 1.8 billion during the period July–December 2012/2013, compared to a net outflow of US\$ 1.5 billion during the same period last year.

VII. Stock Exchange

The EGX-30 index decreased by 117 points during February 2013, reaching 5489 compared to 5606 during January 2013. Moreover, market capitalization showed a slight decrease of 0.7 percent during the month of study to reach LE 374 billion (21 percent of GDP) compared to a LE 377 billion during the previous month. The weak performance of the stock market could be explained in light of the political uncertainty witnessed in Egypt during the ongoing transition period.