

# Executive summary

Egypt has been witnessing significant changes on its political front since January 25<sup>th</sup> 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. While ongoing domestic and regional developments will no doubt have a toll on the Egyptian economy, it is premature to take a full view of its economic and financial impacts.

## Recent updates:

- **Real GDP growth** was temporarily setback to **2.3 percent during July-March 2010/2011**, compared to 5.0 percent in the corresponding period of the previous fiscal year, as a natural consequence of the aftereffects of the revolution.
- **Budget deficit to GDP** increased by **1.4 percentage points** during FY 2010/2011 to 9.5 percent (LE 130.4 billion), compared to 8.1 percent (LE 98 billion) during FY 2009/2010.
- **Domestic budget sector debt** increased to 70.6 percent of GDP as of end **June 2011 to record some LE 967.3 billion**.
- **External debt indicators** relatively improved despite a slight increase in external debt stock by **3.6 percent**, leveling at 15.2 percent of GDP in June 2011 (US\$ 34.9 billion) compared to 15.9 percent of GDP (US\$ 33.7 billion) as of end June 2010.
- **M2 annual growth** increased recording **10.4 percent** as of end **July 2011**, compared to **10 percent** at end of **June 2011**, however it almost stabilized compared to the same month last year.
- **CPI annual Urban Inflation** fell during **August 2011 to 8.5 percent** compared to 10.4 percent recoded during the previous month. In addition **annual core inflation** fell during **August 2011 to 6.98 percent** compared to **8.71 percent** during July 2011.
- **Overnight deposit and lending rates** remained unchanged- for the **sixteenth time** in a row since September 2009- during the **Monetary Policy Committee meeting on August 25<sup>th</sup>, 2011** and stand at 8.25 and 9.75 percent respectively.
- **BOP** recorded an **overall deficit of US\$ 9.8 billion** during **FY 2010/2011** compared to a surplus of **US\$ 3.4 billion** during the previous fiscal year.

## I. Real GDP Growth

While it is early to assess the long-term impact that the recent events will have on economic growth, data for the third quarter of the current fiscal year recorded a negative growth rate of 4.2 percent, compared to an average growth

rate of 5.5 percent during the preceding two quarters due to the contraction of growth in tourism, other manufacturing industry, construction and real estate, transport and warehousing, in addition to wholesale and retail trade. It is worth noting that this is the first negative quarterly growth to be recorded since the publication of quarterly GDP data in 2001/2002 and it is also an unprecedented matter even when the Egyptian economy faced the global crises in 2008/2009.

GDP (market prices) growth for July-March 2010/2011 decelerated to 2.3 percent, compared to 5.0 percent realized growth in the first nine months of last year. The realized growth comes as a result of the strong GDP performance during the first two quarters of the current fiscal year, which overcame the negative growth in the third quarter. It is worth noting that the GDP figure in constant prices for July-March 2010/2011 stands at LE 666.1 billion (LE 1021.5 billion in current prices), in comparison to LE 651.1 billion (LE 895.9 billion in current prices) during July-March 2009/2010.

Despite, the deceleration in total economic growth, private and public consumption growth- which comprise 86 percent of total GDP figure and contribute 3.4 percent to total growth- were the main drivers of real GDP growth (market prices) during July-March 2010/2011. Private and public consumption grew by 4.1 percent and 3.6 percent respectively, while total investment spending decreased by 6.0 percent. Additionally, both exports and imports of goods and services increased by 7.3 percent and 6.3 percent, respectively (net exports contributed 0.05 percent to total growth).

Regarding real GDP at factor cost<sup>1</sup>, realized growth has slowed down to 2.5 percent during the July-March 2010/2011. It is noteworthy that from a sectoral perspective, the main contributors to growth were telecommunications (8.5 percent growth; 4.1 percent of GDP), Suez Canal (11.1 percent growth; 3.3 percent of GDP), which is an improvement when compared to the decline of 6.8 percent during the first nine months of the preceding fiscal year, in addition to petroleum (3.5 percent growth; 5.7 percent of GDP). On the other hand, the sectors that recorded the most contraction were manufacturing (0.1 percent growth; 15.3 percent of GDP); wholesale and retail trade (1.4 percent growth, 10.7 percent of GDP); transport and warehousing (1.5 percent growth, 4.1 percent of GDP); and tourism (-1.7 percent growth; 4.2 percent of GDP).

## II. Fiscal Performance

According to FY 2010/2011 preliminary-actual budget<sup>2</sup> outcomes, the overall deficit<sup>3</sup> to GDP recorded 9.5 percent with an increase of 1.4 percentage points over FY 2009/2010, reaching almost LE 130.4 billion, up from LE 98 billion a year earlier. The rise in overall deficit to GDP comes as a result of a relative decline in fiscal revenues accompanying an increase in fiscal expenditures during FY 2010/2011. Moreover, the primary deficit<sup>4</sup> to GDP increased by 1.5 percentage points to register 3.6 percent versus 2.1 percent of GDP during FY 2009/2010.

On the revenue side, total revenues and grants decreased by 3.2 percent during FY 2010/2011, recording LE 259.6 billion compared to LE 268.1 billion during FY 2009/2010. The recorded decline is principally due to the 30.4 percent decrease in non-tax revenues, offsetting the 12.4 percent increase in tax revenues.

On a more detailed level, the increase in tax revenue items comes from the step up in revenues from taxes on income and profits, capital gains by 17 percent to almost LE 89.6 billion during the year 2010/2011 compared to LE 76.6 billion last year. In addition, revenues from Taxes on goods and services increased by 13 percent to LE

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

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

<sup>3</sup> Revenues less expenditures, plus net acquisition of financial assets.

<sup>4</sup> Overall deficit less interest payments.

75.9 billion during the year of study compared to almost LE 67 billion during 2009/2010. Revenues from property taxes also increased by 4.1 percent to LE 9.1 billion compared to LE 8.8 billion during 2009/2010, mainly due to taxes collected on t-bills and t-bonds' payable interest that have been reclassified as part of property taxes starting 2009/2010 and account for almost LE 10.5 billion during 2010/2011. However, revenues from taxes on international trade decreased by 5.8 percent to almost LE 13.9 billion during 2010/2011 compared to LE 14.7 billion in the preceding year, on the back of a number of factors, including impact of the recent events Egypt witnessed since 25<sup>th</sup> of January 2011 on trade during the second half of fiscal year, and the turmoil in the global international commodities prices.

On the other hand, non-tax revenues<sup>5</sup> decreased notably by 30.4 percent during 2010/2011 mainly due to the retreat in miscellaneous revenues by 55 percent to record LE 9.2 billion compared to LE 20.4 billion during 2009/10. Moreover, property income decreased by 24.5 percent to LE 41.2 billion compared to almost LE 54.6 billion in the preceding year. In addition, revenues from both Grants and Sales of goods and services also declined by 60 and 12 percent to almost LE 1.7 and 15.2 billion during 2010/2011 compared to LE 4.3 and 17.2 billion respectively during 2009/2010.

Furthermore, total expenditures increased during the fiscal year 2010/2011 by 7.1 percent, recording almost LE 392 billion compared to LE 366 billion during last year. The recorded increase comes with the expansion in all spending chapters except for purchases of goods and services, and purchases of non financial assets, both of which declined by 15.2 percent and 21.5 percent to LE 23.8 billion and LE 38 billion respectively during the year 2010/2011. On the other hand, compensation of employees increased by 11.4 percent to LE 95 billion compared to LE 85.4 billion during 2009/2010. Interest payments also increased by 12.1 percent to record almost LE 81 billion during 2010/2011 compared to LE 72.3 billion in the preceding year. In addition, other expenditures and Subsidies, grants and social benefits rose by 8.5 and 19.3 percent to LE 31.4 and 122.8 billion compared to almost LE 28.9 and 103 billion respectively during 2009/2010.

**Moreover, recent data for the period July-August of the fiscal year 2011/2012** showed that the overall deficit to GDP ratio slightly decreased by 0.1 percentage points to 2 percent, reaching LE 32.1 billion, compared to some LE 29 billion during July-August 2010/2011. This comes as fiscal revenues increased at slower rate than the growth in fiscal expenditures during July- August 2010/2011. In addition, the primary deficit to GDP has slightly decreased to 1 percent compared to 1.1 percent during July- August 2010/2011.

From the revenues side, total revenues increased by 1.2 percent during the period of study, registering LE 23.3 billion compared to LE 23.0 billion during July-August 2010/2011. The recorded increase is principally due to the 13.1 percent increase in non-tax revenues, which offsets the decrease by 1.5 percent in tax revenues.

On a more detailed level, the decrease in tax revenues items comes from the decline in all tax revenues chapters except for: property taxes and "income tax" that have increased by 15 percent and 6.6 percent reaching LE 2 billion and LE 5 billion respectively. On the other hand, revenues from taxes on goods and services decreased by 6.4 percent to almost LE 9.2 billion during July- August 2011/2012 compared to LE 9.8 billion during July- August last year, mainly due to decline in both excises on domestic commodities, and general sales tax on services by 32.6 percent and 19.0 percent respectively during July- August 2011/2012 compared to the same period last year. Also, revenues from tax on international trade decreased by 8.3 percent to almost LE 2.1 billion compared to LE 2.3 billion during July- August 2010/2011, mainly due to the decrease in tax on valued customs by 8.8 percent to almost LE 2 billion during July- August 2011/2012 compared to LE 2.2 billion

during the same period last year. Also, other taxes decreased by 6.4 percent to almost LE 0.2 billion during July-August 2011/2012 compared to same period last year.

On the other hand, non-tax revenues increased by 13.1 percent during July- August 2011/2012 mainly due to the step up in revenues from property income by 40.5 percent to LE 3.0 billion compared to almost LE 2.1 billion during July- August 2010/2011, mainly due to the increase in dividends by 44.4 percent to almost LE 2.8 billion during July-August 2011/2012, compared to LE 2 billion during the same period last year; which counterpart the decrease in "Sales of goods and Services" and "Miscellaneous Revenues" by 2.6 percent and 32.4 percent almost to LE 1.3 billion and LE 0.5 billion respectively.

On the other hand, total expenditures increased during July-August 2011/2012 by 5.9 percent, recording LE 55.4 billion compared to LE 52.3 billion during the same period last year. The recorded increase comes with the expansion growth in all spending chapters except for: "Purchases of goods and services", "Purchases of non financial assets", and "Other expenditures" chapters that have declined by 20.8 percent, 45.6 percent, and 15.8 percent to LE 1.7 billion, LE 2.6 billion and LE 5.6 billion respectively during the period July-August 2011/2012. The decrease in "Purchase of non financial assets" could be explained in light of the 45 percent decline in "Fixed assets" reaching LE 2.5 billion compared to LE 4.4 the same period last year. However, compensation of employees has increased by 12.1 percent to LE 17.1 billion compared to LE 15.2 billion during July- August 2010/2011. Also, Interest payments have increased by 15.1 percent recording almost LE 16.1 billion during July-August 2011/2012 compared to LE 14.1 billion during the same period last year. In addition, Subsidies, grants and social benefits have increased by 29.6 percent to LE 12.2 billion compared to almost LE 9.4 billion during July- August last year.

### III. Domestic Debt Profile

**As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks<sup>6</sup> at three different levels of compilation; the Budget Sector, General Government, and the Public Sector<sup>7</sup>.**

**Recent statistics show that domestic budget sector debt increased to 70.6 percent of GDP as of end of June 2011** to some LE 967.3 billion compared to LE 808.4 billion as of end June 2010 (67.0 percent of GDP). As for net domestic budget sector debt, it reached LE 808.1 billion (58.9 percent of GDP) compared to LE 663.8 billion (55.0 percent of GDP) as of end June last year. Accumulated budget sector debt at end of June 2011 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of June 2011 amount to LE 356.1 billion and LE 206.8 billion respectively versus LE 266.1 billion and LE 159.8 billion at end of June last year reflecting government's growing borrowing needs.

Gross domestic debt of the general government amounts to LE 889.0 billion (64.8 percent of GDP) at end of June 2011, compared to some LE 733.4 billion (60.8 percent of GDP) at end of June last year. Also, net domestic debt of the general government reached some LE 722.5 billion (52.7 percent of GDP) compared to LE 574.9 billion (47.6 percent of GDP) at end of June 2010. The increase in general government debt at end of June 2011 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 9.5 billion amounting to LE 178.2 billion at end of June 2011.

Finally, gross domestic public debt reached LE 932.5 billion (68.0 percent of GDP), compared to LE 769.8 billion at end of June last

<sup>5</sup> It is noteworthy that the notable decline in non-tax revenues is due to the decrease in other non-tax revenues from Petroleum sector by some LE10 billion, coupled with the retreat in Miscellaneous revenues (Capital) by some LE 10.6 billion due to the repayment of loans to New Urban Communities Authorities. In addition, FY 2009/10 included an exceptional (non-recurrent) LE 8 billion in the form of self-Financing resources for investment expenditures.

<sup>6</sup> Consolidated debt stocks exclude interrelated debt between entities at each level of compilation.

<sup>7</sup> The Budget sector debt stock encompasses outstanding stocks of Central Government, Local Governments, and Public Service Authorities. The General Government debt stock includes the consolidated debt stocks of the Budget sector, the NIB, and SIF. The Public sector debt stock corresponds to the consolidated debt of the General Government and Economic Authorities.

year (63.8 percent of GDP). At the same time, net domestic public debt reached LE 741.3 billion (54.1 percent of GDP) compared to LE 599.6 billion (49.7 percent of GDP) at end of June 2010. It is noteworthy that the realized increase in domestic public debt at end of June 2011 was due to an increase in accumulated debt of the General government and the increase in total outstanding debt of Economic Authorities by LE 9.1 billion amounting to nearly LE 109.3 billion at end of June 2011.

Meanwhile, domestic debt service increased by 14.8 percent to almost LE 100.5 billion at end of June 2011, compared to LE 87.6 billion during the same period last year.

The average life to maturity of outstanding T-bonds and T-bills declined to 1.4 years at end of June 2011 compared to 1.6 at end of June 2010. Meanwhile, average interest rates on outstanding stock of t-bills and t-bonds increased to 11.38 percent at end of June 2011 compared to 10.59 percent at end of June 2010.

#### **Egypt External Debt shows resilience despite a slight deterioration**

External debt increased by 3.6 percent at end June 2011 to US\$ 34.9 billion compared to US\$ 33.7 billion a year earlier. The ratio of external debt to GDP decreased from 15.9 percent of GDP at end June 2010 to 15.2 percent of GDP at end June 2011. Government external debt increased by 3.2 percent to US\$ 27.1 billion (77.6 percent of total external debt) as of end of June 2011 compared to US\$ 26.2 billion (77.9 percent of total external debt) at end of June 2010<sup>8</sup>.

#### **IV. Monetary Developments**

Despite an annual increase, total liquidity has witnessed a relative slowdown on monthly basis recording 0.9 percent in July 2011, compared to 1.5 percent in June 2011 -the fastest monthly growth since the 25<sup>th</sup> of January revolution- registering LE 1018.9 billion, compared to LE 1009.4 billion at end of the previous month. Year-on-year growth in M2 increased slightly to 10.4 percent at end of July 2011, compared to 10 percent at end of the previous month. This could be explained from the **assets side** by the significant increase in annual growth rate of net claims on government and GASC recording 31 percent offsetting the retreat in Central Bank net foreign assets annual growth rate to -25.6 percent at end of the month of study. As for the **liabilities side**, annual growth rate of M1 increased recording 19.2 percent at end of July 2011 compared to 16.2 percent registered a month earlier. However, quasi money growth has decelerated for the third month in a row recording 7.8 percent compared to 8.1 percent at end of June 2011.

On a more detailed level, annual growth rate of NFA has continued its declining trend at the end of July 2011, reaching -10.5 percent to bring total NFA of the banking sector to LE 253.6 billion. This comes on the backdrop of a notable contraction in **Central Bank's net foreign assets** by 25.6 percent to reach some L.E 141.7 billion at end of July 2011, compared to a contraction of 22.6 percent at end of June 2011. This outweighs the increase in **Bank's net foreign assets** annual growth by 20.4 percent in July 2011 to register L.E 111.8 billion.

On the other hand, NDA growth has increased at end of July 2011, registering 19.7 percent to reach LE 765.4 billion, compared to annual growth of 19 percent during the previous month. This Y-o-Y increase is a result of the acceleration in net claims on government and GASC recording 31 percent, to reach LE 453.9 billion at end of July 2011, mainly reflecting a swap in government securities

holdings from foreign investors to domestic banks in the aftermath of January 25<sup>th</sup> revolution.

Meanwhile, annual growth in claims on private sector increased after four months of consecutive deceleration recording 1.3 percent at end of July 2011 to reach LE 422.7 billion, compared to an annual increase of 0.8 percent at end of last month, however, it sharply decelerated compared to 9.1 percent recorded during July 2010.

On the other hand, annual growth in net claims on public business sector has slowed down to 8.6 percent to register some LE 33.3 billion at end of July 2011, compared to 10 percent at the end of June 2011. It is noteworthy that the positive growth rate recorded since last month has mainly occurred due to the dissipation of the base effect induced by a step-down in a number of public sector companies debt to the banking sector in June 2010.

It is noteworthy that CBE Net International Reserves (NIR) decreased during the year ending July 2011 by 27.1 percent to US\$ 25.7 billion, down from US\$ 35.3 billion (11.5 percent annual growth) recorded at the end of the previous fiscal year. It is however worth noting that the sharp wave of decline in NIR has started to dampen gradually, whereby the monthly decline therein has slowed down to 3.2 percent, compared to a peak of 9.7 percent during March 2011.

Total deposits with the banking sector (excluding CBE) increased by 8 percent to LE 972.8 billion at end of July 2011, of which 87.8 percent belongs to the non-government sector. Moreover, the annual growth rate in total lending by banking sector (excluding CBE) has increased recording 2.3 percent, bringing total loans to almost LE 475.4 billion at end of July 2011. This observed increase in total lending can be attributed to the pickup in the annual growth in total lending to non-government sector to 2.4 percent to reach LE 435.1 billion at end of July 2011, as well as the increase in total lending to government sector to 1.3 percent to register LE 40.3 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits has slightly declined to register 44.5 percent at the end of July 2011, compared to 44.7 percent at the end of last month, and 45.3 percent in July 2010. At the same time, loans to deposits ratio in foreign currencies decreased during July 2011 reaching 62.5 percent compared to 63.1 percent last month, and compared to 72.4 percent in July 2010.

Moreover, dollarization in total domestic liquidity has almost stabilized at 17.6 percent in July 2011 compared to 17.5 percent in last month, while it has increased compared to 17.2 percent recorded in July 2010. Furthermore, dollarization in total deposits has slightly increased to 24.2 percent during the month of study compared to 24 percent last month, and compared to 23 percent during the same month last year.

#### **V. Prices**

**Concerning domestic consumer prices, annual CPI inflation<sup>9</sup> in urban areas declined to 8.5 percent during August 2011 compared to 10.4 percent recorded during the previous month. (As for overall Egypt, it decreased during August 2011 recording 8.8 percent compared to 10.7 percent during the previous month, and compared to 11.5 percent in August 2010).**

Contrary to economists expectations for the annual inflation rate to rise during the month of Ramadan due to higher consumption patterns, the annual inflation rate fell unexpectedly if compared to the remarkable increase witnessed during August 2010, particularly due to high food prices. while other groups prices have stabilized.

With reference to detailed data, annual inflation rate fell during August 2011 mainly due to the slowed down increase in annual inflation rate for the groups; "Food and Beverages", and "Clothing and Footwear" recording; 12.3 percent, and 0.7 percent compared to 16.7 percent, and 2.3 percent respectively during the previous month. In addition to the group "Restaurants and Hotels" recording 9.9 percent during August 2011, compared to 12.4 percent during the previous month. On the other hand the annual inflation rate increased for the group "Recreation and

<sup>8</sup> The CBE revised basis for foreign debt classification as of September 2008. Accordingly, Government debt statistics reflect an increase of US\$ 4.3 billion primarily due to the reclassification of on lent loans as part of Central and Local Government debt instead of "Other Sectors" debt. It is noteworthy that such reclassification has not had any impact on the total outstanding foreign debt; which however may have changed due to the net flows of debt repayments and borrowings from abroad. So far, CBE has not released any figures for modified historical data.

<sup>9</sup> CPI inflation based on new CAPMAS series with January 2010 as base value for the index.



Culture” recording 12.5 percent compared to 9.5 percent during the previous month, yet its influence was limited to the annual inflation rate, due to its low weight in basket of the consumer price index.

Meanwhile on monthly basis, CPI in urban areas almost stabilized at 1.1 percent during August 2011 compared to 1.2 percent during the previous month, while it decreased compared to 2.9 percent recorded during the same month of the previous year.

Moreover, according to CBE inflation report, annual core inflation<sup>10</sup> fell during August 2011 recording 6.98 percent compared to 8.71 percent during the previous month, and it slightly decreased compared to 7.1 percent achieved during the same month a year ago.

As for producer prices, year-on-year PPI inflation fell during July 2011 to 17.3 percent compared to 19.4 percent during the previous month, while it increased compared to 10.3 percent recorded during July 2010. However, monthly PPI inflation increased recording 0.2 percent during July 2011 compared to a decline of -0.4 percent during June 2011.

**CBE decided to keep its overnight deposit and lending rates unchanged- for sixteenth times in a row since September 2009- during the Monetary Policy Committee meeting held on August 25<sup>th</sup>, 2011. The overnight deposit and lending rates currently stand at 8.25 and 9.75 percent respectively.** The committee justified such decision in light that “The expected slowdown in domestic economy would counter the risk of any increase in future inflation. In this context, the MPC is considering the current CBE interest rate to be appropriate. Nevertheless, with a close monitor regarding economic developments, the committee will not hesitate to adjust interest rates in order to stabilize prices in the medium term.”

## VI. External Sector

Balance of payments (BOP) statistics- published by the Central Bank- for FY 2010/2011 registered a **deficit of US\$ 9.8 billion** (4.1 percent of GDP) **in the overall balance**, compared to a surplus of US\$ 3.4 billion (1.5 percent of GDP) during the previous fiscal year. The recorded deficit was expected in the aftermath of the events witnessed since the 25<sup>th</sup> of January. This comes as a result of the capital and financial account accruing an outflow of US\$ 4.8 billion, in addition to the outflow of US\$ 2.8 billion in the current account. In the meantime, net errors and omissions recorded a net outflow of US\$ 2.2 billion. It is worth noting that the BOP recorded an overall surplus of almost US\$ 0.6 billion in the first half of FY 2010/2011, as opposed to an overall deficit of US\$ 10.3 billion during the period January-June 2010/2011 mainly due to the events that took place in Egypt and the Arab region, which had negative effects on tourism revenues and foreign investment inflows.

The trade deficit registered US\$ 23.8 billion during FY 2010/2011, falling by 5.3 percent from the previous year's figure of US\$ 25.1 billion. Export proceeds increased by 13.1 percent to US\$ 27.0 billion and import payments increased by 3.6 percent amounting US\$ 50.8 billion. The increase in export proceeds is due to the 18.3 percent increase in petroleum exports to US\$ 12.1 billion and the 9.1 percent increase in non-oil exports to US\$ 14.9 billion. As for the increase in total commodity imports, it is due to the 15.2 percent increase in petroleum imports to US\$ 5.9 in addition to the increase in non-oil imports by only 2.3 percent to US\$ 44.8 billion. Consequently, the coverage ratio of commodity exports to imports increased to 53.2 percent, compared to 48.7 percent during FY 2009/2010.

Moreover, the services balance has accumulated a lower surplus during FY 2010/2011, recording US\$ 7.9 billion compared to US\$ 10.3 billion during the previous fiscal year. Total services receipts decreased to US\$ 21.9 billion as a result of the decline in most of the sub-items, except for the increase in receipts from transportation by 11.8 percent to 8.1 billion, which includes an increase of 11.9 percent from Suez Canal receipts to reach US\$ 5.1 billion. This increase was counteracted by the 8.6 decrease in travel receipts to US\$ 10.6 billion, the 27.8 percent decrease in other receipts, and the decrease in receipts from investment income and government services receipts by 49.5 and

46.0 percent respectively. On the other hand, services payments have slightly increased by 5.8 percent to almost US\$ 14 billion compared to US\$ 13.2 billion during FY 2009/2010, due to the increase in investment income by 24.5 percent to US\$ 6.5 billion and transportation by 12.7 percent to US\$ 1.4 billion, which overcame the slight decline in other sub items. The increase in investment income payments can be explained in light of the increase in profits sent abroad by foreign companies operating in Egypt, especially in the petroleum sector. Accordingly, services receipts receded to become 156.3 percent of services payments, compared to 178.2 percent during the previous fiscal year.

It is also worth mentioning that private transfers notably increased by 30.2 percent to nearly US\$ 12.4 billion, which counteracted the decrease in public transfers by 21.1 percent to nearly US\$ 0.8 billion during FY 2010/2011. The increase in private transfers was the main factor leading to the increase of current account receipts by 7.1 percent to US\$ 62 billion, while total payments increased by 4.1 percent to US\$ 64.8 billion, bringing the ratio of current receipts to current payments (including official transfers) up to 95.7 percent compared to 93.1 percent during the previous fiscal year.

As a result of the factors mentioned, the current account deficit dropped by 35.9 percent, recording US\$ 2.8 billion during FY 2010/2011, compared to a deficit of US\$ 4.3 billion during FY 2009/2010.

On the other hand, the capital and financial account reported a net outflow of US\$ 4.8 billion; versus an inflow of US\$ 8.3 billion during FY 2009/2010. This is explained mainly by the net outflow of portfolio investments in Egypt that amounted to US\$ 2.6 billion during FY 2010/2011 due to the foreigners' sales of their holding of securities, especially T-Bills, as compared to a net inflow of US\$ 7.9 billion during the previous fiscal year. It is worth noting that the net sales of Egyptian T-Bills during the period January-June 2010/2011 amounted to US\$ 6.1 billion. Moreover, net foreign direct investments in Egypt decelerated significantly, recording a net inflow of US\$ 2.2 billion; 67.6 percent lower than the US\$ 6.8 billion recorded in the previous fiscal year. Foreign direct investment recorded an unprecedented negative figure of US\$ 65 million during the second half of FY 2010/2011. Other investments recorded a net outflow of US\$ 3.4 billion, compared to a net outflow of US\$ 4.8 billion during FY 2009/2010, as other assets amounted to a net outflow of US\$ 3.4 billion compared to a higher net outflow of US\$ 9.7 billion in the previous fiscal year.

Finally, net errors and omissions recorded a net outflow of US\$ 2.2 billion during FY 2010/2011, compared to a net inflow of US\$ 0.7 billion during the previous fiscal year.

Based on the above, net international reserves (NIR) imports coverage ratio decreased to 6.3 months during the year of study compared to 8.6 months during FY 2009/2010.

## VII. Stock Exchange

The EGX-30 index decreased by 1768 points during August 2011, reaching 4640 compared to 6408 during August 2010. Similarly, market capitalization declined over the previous year by 17 percent in August 2011, reaching LE 357 billion (22.8 percent of GDP). Such negative developments are expected in light of the recent events Egypt witnessed since 25<sup>th</sup> of January 2011.

<sup>10</sup> The Core Index excludes items characterized by inherent price volatility specifically 'fruits and vegetables' (6.9 percent of headline CPI basket), and those with managed prices 'regulated items' (18.7 percent of headline CPI basket). It is important to note

that Core CPI is merely an analytical tool that compliments the Headline Index and does not replace it.