

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** at market prices continues its gradual -yet slow- recovery during the second quarter of FY 2012/13 recording 2.2 percent, compared to 2.6 in the previous quarter and 0.4 percent during the same quarter last year. Meanwhile, real growth during the first half of FY 2012/13 recorded a **growth rate of 2.4 percent** compared to 0.3 percent during the same period last year, where public and private consumption remain the major contributors to the realized growth. In addition, the base effect that started to evolve since the third quarter of FY 2010/2011 continues to play a role in fostering the positive real growth.
- **Budget deficit to GDP** rose to **11.8 percent** during the period **July- May 2012/2013**, recording **LE 204.9 billion**, compared to **LE 136.5 billion** during **July- May 2011/2012**.
- **Domestic budget sector debt** increased to 80 percent of GDP as of end **March 2013** to record **LE 1387.2 billion** compared to **LE 1089.4 billion** as of end of March last year.
- **External debt stock** almost stabilized compared to December 2012, while increased remarkably if compared to March 2012. As of March 2013, external debt increased by **15.6 percent**, leveling at **14.9 percent of GDP (US\$ 38.6 billion)** compared to 13.1 percent of GDP (US\$ 33.4 billion) as of end of March 2012. The annual increase in debt stock is largely attributed to the increase in non-government debt in light of the Qatari deposit of US\$ 4 billion received during the second quarter of the fiscal year 2012/2013.
- **M2 annual growth** continued to rise as of end **March 2013** recording **17.2 percent** compared to **15.3 percent in February 2013**, stimulated by the increase in net domestic assets, mainly in net claims on government and GASC and claims on private sector. (It is noteworthy that detailed data for April 2013 are not yet available)
- **CPI annual Urban Inflation** inched up during **May 2013** reaching **8.2 percent** compared to **8.1 percent** during the previous month. Moreover, **annual core inflation** increased during **May 2013** registering **8 percent** compared to **7.5 percent** during **April 2013**.
- CBE announced the launch of **New Exceptional Foreign Exchange Auction** on May 22, 2013, offering US\$ 800 million to meet banks' import financing needs. The announced Auction aimed at rationalizing the usage of foreign exchange reserves, and to enable the CBE to effectively manage and monitor the domestic foreign exchange market.
- Additionally, during the **Monetary Policy Committee** meeting held on the 9th of **May, 2013**, CBE has decided to keep the overnight deposit rate and overnight lending rates unchanged at **9.75 percent** and **10.75 percent** respectively, and to keep the CBE's main operation¹ unchanged at **10.25 percent**. Moreover, the discount rate was also kept unchanged at **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

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

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 continued to show positive signs, growing by 2.2 percent during the second quarter of FY 2012/13 (compared to 0.4 percent during the corresponding quarter of 2011/2012). In the meantime, growth rates for the first half of 2012/2013 recorded **2.4 percent**; remarkably higher than 0.3 percent during the corresponding period in 2011/2012. The realized growth during the first half of the year was backed by private and public consumption growth. Comprising about 93.5 percent of total GDP, private and public consumption grew by 3.6 percent and 4.2 percent respectively. It is worth noting that the contribution of both public and private consumption to real growth has declined to 3.3 percent when compared to 4.3 percent during the first half of the previous year.

However, growth remains below potential; as the real economy is still greatly impacted by the consequences of the January 25th Revolution. This was directly reflected in the performance of investment spending during the period under study, which was the major factor that subdued GDP growth, albeit of a lesser extent. Investment spending recorded a negative growth rate of 3.6 percent during the first half of FY 2012/13 compared to a higher decline of 5.3 percent during the same period of last year. Although investment has started to show some signs of improvement, it is still contributing negatively to GDP growth by -0.5 percent.

Exports recorded a positive growth of **1.3 percent** during the first half of 2012/2013, (as opposed to a decline of 4.7 percent in the first half of 2011/12). Moreover, Imports of goods and services increased by only 2.7 percent during the first half of the fiscal year 2012/2013 (compared to a higher increase of 6 percent during the same period of the previous year). It is worth noting that GDP (at market prices) for the period July - December in 2012/2013 constant prices stands at **LE 814.6 billion** (LE 883.5 billion in current prices), compared to a fixed value of **LE 795.8 billion** the period **July-December of FY 2011/12** (as FY 2011/2012 became the new base year).

Real GDP at factor cost² recorded a growth rate of **2.3 percent** during the first half of 2012/2013. This was profoundly supported by the improvement in key sectors that contribute the most to GDP growth, including agriculture (2.9 percent growth; 15.6 percent of GDP), wholesale and retail (2.6 percent growth; 12.1 percent of GDP), and construction (4.5 percent growth; 4.4 percent of GDP). Other sectors witnessed a significant shift in their growth trends, yet their performance is still below potential, including the manufacturing industries (2.4 percent growth as opposed to 3.1 percent decline last year; 15.5 percent of GDP) and the tourism sector (6.8 percent growth as opposed to 8.6 percent decline during the same period of last year; 3.3 percent of GDP). On the other hand, the growth was faded by the continuous, yet of lesser extent, deterioration of other sectors, including Suez Canal (-3.6 percent growth; 2 percent of GDP), and the extractive industry sectors (-0.7 percent growth; 16.5 percent of GDP).

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

	Jul - Dec 2011/12	Jul - Dec 2012/13
Total GDP (at Factor cost)	0.3%	2.3%
Total Commodity Sector, of Which	0.2%-	1.0%
Agriculture, Forestry and Fishing	0.4%	0.5%
Petroleum	0.0%	0.0%
Natural Gas	0.1%-	0.1%-
Manufacturing Industry	0.5%-	0.4%
Construction and Building	0.1%-	0.2%
Total Production Services, of which	0.1%	0.9%
Transport and Warehousing	0.0%	0.1%
Telecommunications	0.2%	0.1%
Suez Canal	0.2%	0.1%-
Wholesale and Retail Trade	0.0%	0.3%
Financial Intermediation	0.0%	0.1%
Tourism (Hotels and Restaurants)	0.4%-	0.2%
Social Services	0.4%	0.4%

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, Taxes on goods and services chapter witnessed a notable increase of 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.

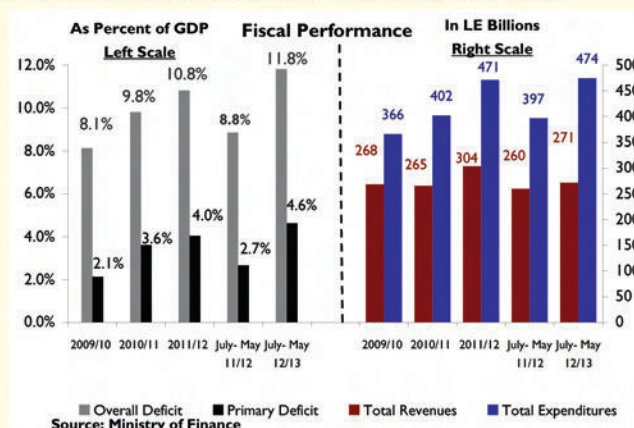
Moreover, Non-Tax Revenues increased by 31.4 percent during FY 2011/2012 mainly due to the increase in proceeds from most non-tax revenues chapters specially the step up in grants recording LE 10.1 billion compared to LE 2.3 billion during FY 2010/2011, due to the notable increase in grants from foreign 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 3.3 billion. Includes central administration, municipalities, and services authorities (education, health, etc).

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- May of the fiscal year 2012/2013 showed that the overall budget deficit to GDP ratio increased notably to 11.8 percent, reaching LE 204.9 billion, compared to LE 136.5 billion during the period July- May 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 4.6 percent during July- May 2012/2013, compared to 2.7 percent during the period July- May 2011/2012.

From the revenues side, total revenues increased only by 4.5 percent during the period of study, registering LE 271.3 billion compared to almost LE 259.7 billion during same period last year 2011/2012. The recorded increase is principally due to the 14.1 percent increase in tax revenues, which overcame the notable decrease in non-tax revenues by 17 percent.

On a more detailed level, the rise in tax revenues comes with the increase in all Tax Chapters, on the top of which; the increase in Income Tax and Taxes on Goods and Services by 13.8 percent and 13.2 percent reaching almost LE 91.7 billion and LE 80 billion during the period of study compared to LE 80.6 billion and LE 70.8 billion respectively during July- May 2011/2012. Also Property Taxes Chapter and Taxes on International Trade increased by 25.5 percent and 8.6 percent recording LE 15 billion and LE 14.3 billion during July- May 2012/2013 compared to LE 12 billion and LE 13.2 billion respectively during the same period last year.

It is noteworthy that the increase in revenues from Income Tax comes with the significant increase in proceeds from tax on income from employment by 24.8 percent reaching LE 18 billion during July- May 2012/2013 compared to LE 14.4 billion during July- May 2011/2012. Moreover, Taxes on corporate profit picked up mainly due to the increase in Proceeds from Other Companies by 17.2 percent reaching LE 23 billion compared to LE 19.7 billion during the same period last year. In addition, revenues from Property Tax chapter witnessed a notable increase due to the significant increase in proceeds from tax on T-bills and bonds payable interest by 31.4 percent to almost LE 12 billion compared to LE 9.2 billion during July- May 2011/2012.

Meanwhile, Non-Tax Revenues decreased notably by 17 percent during the period July- May 2012/2013 mainly due to the decrease in proceeds from Grants and Other Revenues by 48.7 percent and 13 percent reaching LE 4.6 billion and LE 62.2 billion compared to LE 9 billion and LE 71.6 billion respectively during the same period last year. The mentioned decrease in Other Revenues is mainly due to the notable decline in proceeds from Property Income by 28.9 percent reaching LE 38.5 billion during the period of study compared to LE 54 billion during July- May 2011/2012, mainly due the decrease in Dividends from EGPC, and Economic Authorities by 60 percent, and 9.7 percent, reaching LE 7.6 billion and LE 1.8 billion during July- May 2012/2013, compared to LE 19 billion and LE 2 billion respectively during July- May 2011/2012. In addition, Dividends from Public Enterprise Sector Companies, decreased by 5 percent, reaching LE 2.7 billion during July- May 2012/2013, compared to LE 2.9 billion during July- May 2011/2012.

On the other hand, total expenditures increased significantly during July- May 2012/2013 by 19.6 percent, recording LE 474.3 billion compared to LE 396.7 billion during the same period last year. The recorded increase comes with the expansion growth in all spending

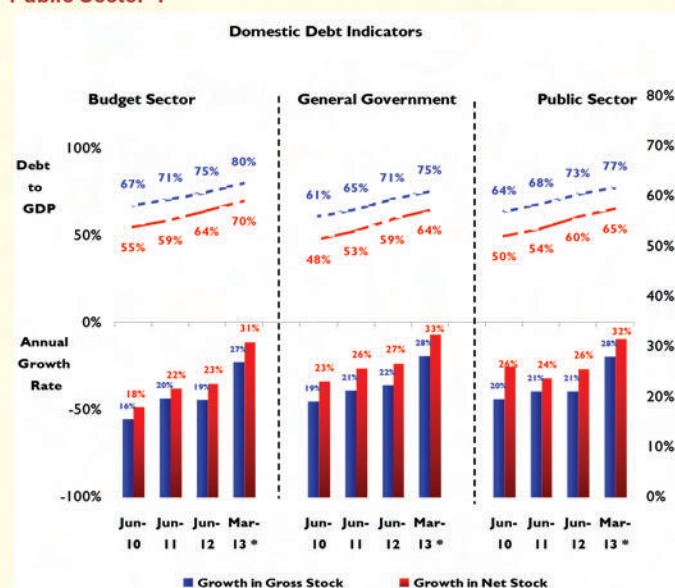
chapters; on the top of which, Subsidies, grants and social benefits (which represent almost 31.6 percent of total Expenditures and 55.3 percent of total Revenues) increasing by 14 percent to LE 150 billion compared to almost LE 131.5 billion during July- May last year. The Increase in Subsidies, grants and social benefits is mainly due to the increased subsidies for Electricity, Fuel, Food, and Contributions in Social Funds.

Moreover, Interest payments (which represent almost 26.3 percent of total Expenditures and 46 percent of total Revenues) have increased significantly by 30.7 percent recording almost LE 124.8 billion during July- May 2012/2013 compared to LE 95.5 billion during the same period last year. The increase in interest payments is due to the increase in interest bill to service a growing government debt.

In addition, compensation of employees has increased notably by 21 percent to LE 123 billion compared to LE 101.6 billion during July- May 2011/2012, mainly due to the significant increase of Salaries and Wages in Cash and in kind by LE 18.6 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 9.4 billion, and "Permanent Staff" (basic Pay) by LE 3.3 billion, and the increase in "Specific Allowances" by LE 5.1 billion. Moreover, Other Expenditures, and Purchases of Goods and Services increased by 9.2 percent and 11.4 percent to LE 28.7 billion and LE 20.2 billion during July- May 2012/2013, compared to LE 26.3 billion and LE 18 billion respectively during the same period last year. Moreover, Purchases of Non Financial Assets increased by 16.2 percent recording LE 27.6 billion during July- May 2012/2013, compared to LE 23.8 billion during the same period of the last year.

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 Sector⁵.



Recent statistics show that domestic budget sector debt increased to 80 percent of GDP as of end of March 2013 to some LE 1387.2 billion compared to LE 1089.4 billion as of end March 2012 (70.6 percent of GDP). As for net domestic budget sector debt, it reached LE 1211.3 billion (69.8 percent of GDP) compared to LE 924.9 billion (60 percent of GDP) as of end March last year. Accumulated budget sector debt at end of March 2013 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of March 2013 amount to LE 459.4 billion and LE 312.8 billion respectively versus LE 382.8 billion and LE 250 billion at end of March last year reflecting government's growing borrowing needs.

Gross domestic debt of the general government amounts to LE 1301.1 billion (75 percent of GDP) at end of March 2013, compared to some LE 1015 billion (65.8 percent of GDP) at end of March last year. Also, net domestic debt of the general government reached

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.

some LE 1117 billion (64.4 percent of GDP) compared to LE 843 billion (54.7 percent of GDP) at end of March 2012. The increase in general government debt at end of March 2013 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 10.1 billion amounting to almost LE 191.3 billion at end of March 2013.

Finally, gross domestic public debt reached LE 1342.2 billion (77.4 percent of GDP) at end of March 2013, compared to LE 1052.7 billion at end of March last year (68.3 percent of GDP). At the same time, net domestic public debt reached LE 1133.1 billion (65.3 percent of GDP) compared to LE 861 billion (55.8 percent of GDP) at end of March 2012. It is noteworthy that the realized increase in domestic public debt at end of March 2013 was due to an increase in accumulated debt of the General government by 286 billion to reach 1301.1 billion; in addition to an increase in Economic Authorities Domestic Debt by 4.1 billion to reach 107.4 billion at end March 2013.

Meanwhile, domestic debt service increased by almost 61.7 percent to reach LE 145.7 billion at end of March 2013, compared to LE 90.1 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 March 2013 compared to 1.3 at end of March 2012. Meanwhile, average interest rates on outstanding stock of T-bills and T-bonds increased to 13.26 percent at end of March 2013 compared to 12.89 percent at end of March 2012.

Egypt External Debt indicators almost stabilized compared to December 2012, while deteriorated if compared to March 2012. External debt stock recorded US\$ 38.6 billion in March 2013, increasing by 15.6 percent, compared to US\$ 33.4 billion at end of March 2012. Moreover, the ratio of external debt to GDP increased from 13.1 percent of GDP at end March 2012 to 14.9 percent of GDP at end March 2013. The notable annual increase in non-government external debt is largely attributed to a Qatari deposit in CBE amounting to US\$ 4 billion as part of a financial assistance pledge that was deposited in CBE during the second quarter of FY 2012/13.

Meanwhile, government external debt increased slightly by 1.8 percent to reach US\$ 25.9 billion (67.1 percent of total external debt) as of end of March 2013 compared to US\$ 25.4 billion (76.2 percent of total external debt) at end of March 2012⁶.

IV. Monetary Developments

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

On the monetary side, total liquidity recorded a notable monthly growth of 2.1 percent to register LE 1236.9 billion in March 2013, compared to LE 1211.3 billion in February 2013. Moreover, annual growth in total liquidity continued to pick-up in March 2013 recording 17.2 percent compared to 15.3 percent in the previous month, and 6.8 percent recorded in March 2012. 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 March 2013 reaching 14.6 percent to LE 910.4 billion compared to 14 percent in the previous month; mainly due to the notable increase in foreign currency demand deposits, which in turn could be explained in light of the depreciation of the Egyptian pound. Moreover, annual growth in **money (M1)** increased significantly at end of March 2013 recording 25.3 percent at end of the month of study reaching LE 326.5 billion, compared to a growth of 19.3 percent at end of the previous month.

It is worth noting that the growth witnessed in M1 is mainly due to the pick-up in **local currency demand deposits** annual growth rate, jumping to 31.4 percent to reach LE 105.2 billion, up from 13.4 percent in the previous month. This significant one-off increase is mainly due to the notable annual growth of private business and household sector deposits by 44.8 percent and 19.8 percent, compared to 14.4 percent and 15 percent in the previous month, respectively.

On a more detailed level, net foreign assets of the banking system continued to shrink on annual basis, recording a contraction of 25.2 percent during March 2013, reaching LE 129 billion. **Central Bank's net foreign assets** continued its decelerating path that began with the eruption of political unrest early in 2011, recording annual decline of 47.7 percent (compared to a peak of 55.5 percent in January 2012, highest rate of decline since July 2002) reaching LE 41.3 billion at end of March 2013. Additionally, **Bank's net foreign assets** recorded a modest annual decline of 5.6 percent to register LE 88 billion at 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.

the end of March 2013, compared to a slightly lower annual decline of 5.4 percent in March 2012.

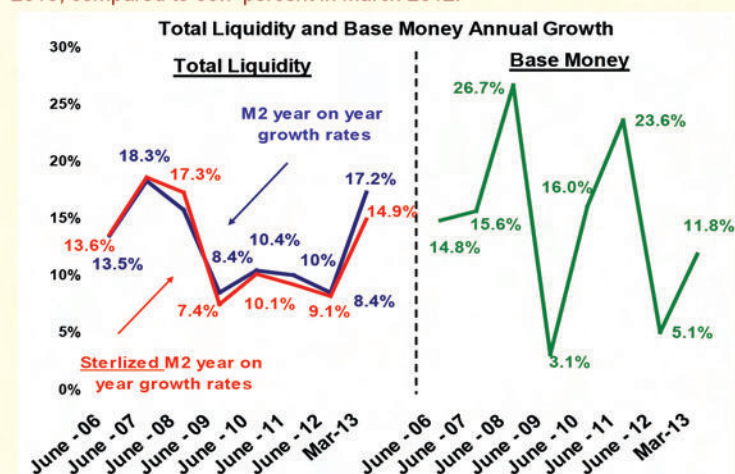
Meanwhile, **annual growth in net domestic assets of the banking sector** rose during March 2013 to 25.5 percent reaching LE 1107.6 billion, compared to growth of 23.6 percent in the previous month. The growth in net domestic assets of the banking sector was mainly supported by 35.9 percent growth in net claims on government and GASC, compared to 33.1 percent in February 2013. It is worth noting that growth in net claims on government and GASC amounted to almost 109 percent of annual liquidity growth at end of March 2013 reaching LE 751.7 billion.

Annual growth in the **credit to the private sector** continued to pick-up during March 2013 reaching 10 percent compared to 5.5 percent at end of March 2012 and compared to an average growth rate of 7.3 percent during the previous twelve months. The growth witnessed in credit to the private sector was mainly due to the notable increase in the annual growth rate of credit to the household sector in local currency by 13.6 percent. This has brought the stock of outstanding credit to the private sector to LE 485 billion. It is worth noting that **“net claims on the public business sector”** grew at 7.1 percent on annual basis to LE 44.1 billion, slightly lower than the annual increase of 9.8 percent registered last month.

CBE net international reserves (NIR) rose by US\$ 1.6 billion over the previous month to record US\$ 16 billion at end of May 2013 – the highest level since January 2012. The month of May witnessed a notable monthly increase of 11.2 percent and an annual growth of 3.4 percent – the first time since December 2010. The increase in NIR during the month of study was mainly in light of Qatari funds worth US\$ 3 billion, which will be converted into T-bonds of 3 years maturity with 3.5 percent interest rate. It is worth mentioning that the increase in April 2013 was on the back of US\$ 2 billion Libyan funds. To that end, NIR is covering 3.2 months of imports in May 2013, up from 2.88 months a month earlier. Also, it is important to highlight that Egypt has converted Qatari funds of US\$ 2.5 billion – received in December 2012 – into T-bonds of 18-month maturity, due in November 2014, with 4.25 percent annual interest.

Annual growth in total deposits with the banking sector (excluding CBE) increased notably at the end of March 2013 recording 14.2 percent registering LE 1147.8 billion, compared to 12.9 percent in previous month and compared to 5.9 percent recorded in March 2012. Out of total deposits, 89.2 percent belonged to the non-government sector at end of March 2013.

Moreover, annual growth rate in total lending by banking sector (excluding CBE) increased during the year ending March 2013 recording 8.2 percent, compared to 7.1 percent last month, and compared to 5.5 percent recorded a year earlier. This brings total loans to almost LE 536.7 billion at end of March 2013. On a more detailed level, annual growth in total lending to non-government sector registered 8.7 percent to reach some LE 501.9 billion at end of March 2013, while annual growth in total lending to government sector also increased, recording 1.5 percent to register LE 34.8 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits decreased at end of March 2013 registering 43.7 percent, compared to 46.4 percent in March 2012. In addition, loans-to-deposits ratio in foreign currencies posted a similar decrease on annual basis registering 56.1 percent at the end of March 2013, compared to 58.7 percent in March 2012.



Moreover, dollarization in total liquidity slightly decreased during March 2013 recording 17.8 percent compared to 18 percent last month, while increased if compared to 17.4 percent in March 2012. Dollarization in total deposits decreased during March 2013 recording 24.4 percent, compared to 24.7 percent last month, while increased if compared to 24 percent at end of March 2012.

V. Prices

Concerning domestic consumer prices, annual CPI inflation⁷ in urban areas increased slightly during May 2013 recording 8.2 percent compared to 8.1 percent recorded during the previous month, yet decreased if compared to 8.3 percent in May 2012. While, annual inflation for overall Egypt also increased recording 9 percent in May 2013 compared to 8.8 percent during the previous month, and compared to 8.6 percent in May 2012. The slight increase in annual inflation could be explained in light of the increase in annual inflation rate of «Housing, Water, Electricity, Gas and Other Fuels», «Clothing and Footwear», «Restaurants and Hotels», and «Transportation» groups, which was offset by the decrease in annual inflation rate of other groups. It is worth mentioning that despite annual inflation rate for «Food and Beverages» group (Highest weight in CPI) remained unchanged during the month of study. Yet, the monthly inflation rate for this group witnessed a decline of 0.6 percent during the month of study.

On a more detailed level, the annual inflation rate of some sub-items which belongs to «Housing, Water, Electricity, Gas and Other Fuels» group continued to increase at higher rate during the month of the study, on the top of which; «Electricity, Gas, and Other Fuels» (42.7 percent compared to 35.7 percent during last month; due to the increase in Electricity bill except for the First Tranche); in addition to the increase in annual inflation rate of the sub- item «Shoe Repair» (15.4 percent compared to stable prices during last month) in «Clothing and Footwear» group. In addition to the increase in annual inflation rate of the sub- item «Takeaway Food» (20.1 percent compared to 19.1 during last month) which belongs to «Restaurants and Hotels» group.

Furthermore, monthly inflation rate decelerated slightly recording -0.2 percent during May 2013 compared to an increase of 1.5 percent during last month, while stabilized if compared to -0.2 percent recorded in May 2012.

According to CBE inflation report, annual core inflation⁸ rose during May 2013 to 8 percent compared to 7.5 percent during the previous month, and compared to 7.2 percent recorded during the same month a year earlier.

As for producer prices, year-on-year PPI inflation continued to decelerated yet at a slower trend recording -1.8 percent during April 2013 compared to -3 percent recorded during previous month, and compared to an increase of 2.9 percent recorded in April 2012. On the other hand, monthly PPI inflation increased recording 2.6 percent during April 2013 compared to -0.8 percent during previous month.

Nevertheless, detailed data for April 2013 is not yet available. It is noteworthy that annual PPI inflation rate continued to decelerate during March 2013 recording -3 percent compared to -0.8 percent during February 2013. The decrease in PPI rate is mainly due to the continuous decline in the annual inflation rate of «Agriculture, Forestry and Fishing», and «Mining and Quarrying» recording -3.8 percent, and -12.4 percent during March 2013, compared to -4.3 percent, and -3.4 percent respectively during the previous month, in addition to the slight decrease in the annual inflation rate of «Manufacturing» recording 3 percent during March 2013, compared to 3.2 percent during February 2013.

It is worthy to note that the Central Bank of Egypt announced on May 22, 2013 the launch of Exceptional Foreign Exchange Auction. Through the new auction, CBE has offered US\$ 800 million to meet banks import financing needs. The announced Auction aimed at rationalizing the usage of foreign exchange reserves, and to enable the CBE to effectively manage and monitor the domestic foreign exchange market.

Additionally, during the Monetary Policy Committee meeting held on the 9th of May, 2013, CBE decided to keep the overnight deposit rate and overnight lending rate unchanged at 9.75 percent and 10.75 percent respectively, and keep the rate of the CBE's main operation⁹ unchanged at 10.25 percent. Moreover, the discount rate was kept unchanged at 10.25 percent.

The committee justified the decision to keep the interest rate unchanged, after being increased during the previous month, in light

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

⁸ 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.

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

of the balance between the risk of increasing inflation on one hand; and the slow down in the growth of local economy on the other hand. The upside risks to the inflation outlook could be explained in light of the depreciation of the Egyptian pound and the distortions in the local distribution channels, especially bottlenecks in diesel distribution in many governorates. However, the economic growth during the first half of 2012/2013 remains partly subdued by the weak performance in the Manufacturing sector, although both tourism and construction sector showed some signs of recovery. To that end, the upside risks to the inflation outlook is balancing the present downside risks to growth posed by the ongoing political transition. Therefore, MPC judges that the current key CBE rates are appropriate.

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 over the period July – December 2011/2012 deficit of US\$ 8 billion. 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.

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 2012/2013, 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 2011/2012. 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 (1.4 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 2011/2012. 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 2011/2012. 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 2012/2013 compared to US\$ 3.3 billion (1.3 percent of GDP) during July-December 2011/2012. 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 2012/13, compared to a net outflow of US\$ 1.5 billion during the same period last year.

VII. Stock Exchange

The EGX-30 index increased by 243 points during May 2013, reaching 5439 compared to 5196 during April 2013. Moreover, market capitalization increased during the month of study by 1.4 percent to reach LE 361 billion (20.8 percent of GDP) compared to a LE 356 billion during the previous month. The increase witnessed in the stock market indicators during the month of study could be explained in light of the increase in the confidence level of the investors, due to the recent pick-up in NIR.