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Executive summary

Egypt has been undergoing significant changes on its political front since January 25th 2011. Such developments are expected to make fundamental improvements in the transparency and efficiency of the economic policy setting that will invariably impact the lives of all Egyptians. Although the Egyptian economy was able to economically survive and grow during two consecutive global crises over the past five years, the current unfavorable global and domestic circumstances are causing temporary disruption to the macroeconomic scene, keeping growth below potential.

Recent updates:

- ***Real GDP*** 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.** (It is noteworthy that preliminary fiscal data for the year 2012/2013 is still under preparation and will be published when finalized)

- **Moreover, Budget deficit to GDP is expected to reach almost 9.1** percent during **the next fiscal year 2013/2014**, to record LE 186 billion.

- **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* ***April 2013*** *recording* ***18.3 percent*** *compared to* ***17.2 percent in March 2013****, stimulated by the increase in net domestic assets annual growth, mainly in net claims on government and GASC and claims on private sector.* (It is noteworthy that detailed data for May 2013 are not yet available)

- ***CPI annual Urban*** *Inflation increased significantly during* ***June 2013*** *reaching* 9.8 percent *compared to 8.2 percent during the previous month. Moreover,* ***annual core inflation*** *increased during* ***June 2013*** *registering* ***8.6 percent*** *compared to* ***8*** *percent during* ***May*** *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 20th of June, 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 operation**[1] **unchanged** at **10.25 percent.** Moreover, the **discount rate** was also kept unchanged at **10.25 percent**.

- ***BOP*** *overall deficit showed a relative improvement during the period July- March 2012/2013, as overall deficit amounted to* ***US$ 2.1 billion*** *compared to a deficit of* ***US$ 11.2 billion*** *during the same period last year.* This considerable improvement could be explained in light of the **decline in current account deficit,** recording US$ 3.9 billion compared to US$ 7.1 billion (driven by the notable increase in workers' remittances; and the considerable increase in tourism revenues). Meanwhile, the **capital and financial account** recorded a net **inflow** of US$ 4.3 billion compared to a net outflow of US$ 2.7 billion during the same period last year.

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

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,** g**rowth 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 p**rivate 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.

E**xports 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, I**mport**s **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 cost**[2] **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

(It is noteworthy that preliminary fiscal data for the year 2012/2013 is still under preparation and will be published when finalized)

According to FY 2011/2012 actual budget[3] 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.

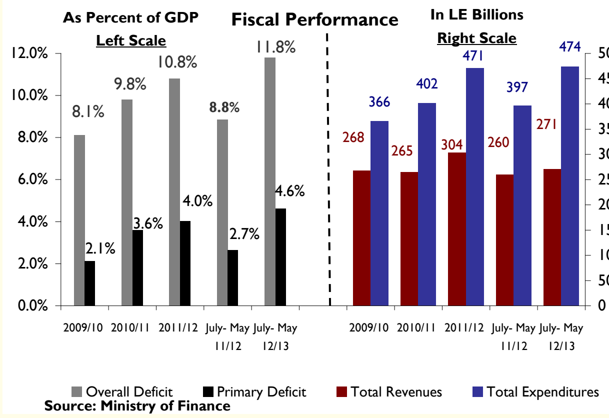
On a more detailed level, the increase in tax revenues comes with the increase in all Tax Chapters; mainly the Property Taxes chapter by 38.5 percent to LE 13.1 billion compared to LE 9.5 billion during FY 2010/2011. In addition, Taxes on goods and services chapter witnessed a notable increase of 11.2 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 (Investments)chapters declined by 1.8 percent and 10 percent to LE 30.8 billion, and LE 35.9 billion during FY 2011/2012 compared to LE 31.4 billion and LE 39.9 billion respectively during last year. It is worth mentioning that the decrease in Other Expenditures Chapter could be explained in light of the decrease in Current Miscellaneous Expenditures by 10.1 percent to LE 3 billion during the period of study compared to LE 3.4 billion during last FY. While, the decrease in Purchase of non financial assets could be explained in light of the 12.9 percent decline in fixed assets reaching LE 29 billion compared to LE 33.3 billion during last FY year.



Source: Ministry of Finance

Recent data for the period July- 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

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

(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.

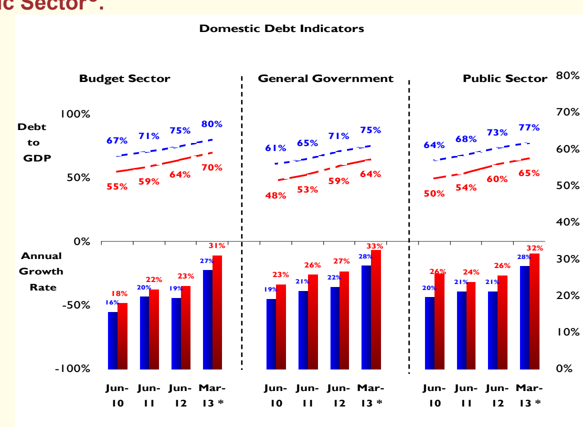
Budget figures for the next fiscal year 2013/2014, reveals that the overall budget deficit to GDP ratio is expected to reach 9.1 percent, recording LE 186 billion. The 2013/2014 budget aimed at a more inclusive economic growth, and a fair redistribution of economic surpluses among the population, particularly the most vulnerable groups. In this context, the government enacted a set of measures including; widening the tax base without imposing extra burdens on taxpayers, moving towards an efficient taxing system, and rationalizing expenditures, through cutting spending on wasteful expenditures, in particular fuel subsidies, and finding new means to ensure efficient targeting of the poorer population, and the most vulnerable groups. On the other hand, measures to resolve the financial entanglements between authorities (especially electricity and petroleum).

Total Revenues for the Budget FY 2013/2014 is expected to reach almost LE 505.5 billion, and Tax Revenues to record LE 358.7 billion. Moreover, Non- Tax revenues will reach almost LE 146.8 billion. On the other hand, Other Revenues is expected to reach LE 144.4 billion during the same period.

On the expenditures side, total Expenditures is expected to reach LE 689.3 billion, and Compensation of Employees is to reach LE 171.2 billion, and the Interest is to record LE 182 billion, while Subsidies, Grants and Social benefits is expected to record LE 204.7 billion during the same period.

III. Domestic Debt Profile

As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks[4] at three different levels of compilation; the Budget Sector, General Government, and the Public Sector[5].



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.

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 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 2012[6].

IV. Monetary Developments

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

On the monetary side, total liquidity recorded a monthly growth of 1.3 percent to register LE 1252.9 billion in April 2013, compared to LE 1236.9 billion in March 2013. Moreover, annual growth in total liquidity continued to pick-up in April 2013 recording 18.3 percent compared to 17.2 percent in the previous month, and 7.3 percent recorded in April 2012. Buoyant growth in government borrowing – through credit facilities and securities held by banks – in addition to growth in claims on private sector remain to be the main drivers 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 April 2013 reaching 16 percent to reach LE 924.2 billion compared to 14.6 percent in the previous month. The increase witnessed in quasi money annual growth rate was 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 against the US dollar (decreasing by 14 percent during the month of study), in addition to the base effect. Moreover, annual growth in **money (M1)** increased at end of April 2013 recording 25.1 percent to reach LE 328.7 billion, compared to a growth of 8.6 percent at end of April 2012.

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.

It is worth noting that the growth witnessed in M1 is mainly due to the notable increase in **local currency demand deposits** annual growth rate to 26.9 percent to reach LE 103.2 billion, compared to 5.7 percent during the same month last year. On a ,ore detailed level, the mentioned increase in local currency is mainly due to the notable annual growth of private business and household sector deposits by 33.7 percent and 20.3 percent, compared to 4.9 percent and 11 percent in April 2012, respectively.

On a more detailed level, net foreign assets of the banking system continued to shrink on annual basis, recording a contraction of 26.7 percent during April 2013, reaching LE 120.9 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 56.3 percent reaching LE 34.8 billion at end of April 2013. On the other hand, **Bank's net foreign assets** recorded an annual growth of merely 1 percent to register LE 86.1 billion at the end of April 2013, compared to an annual decline of 5.6 percent in the previous month and a much higher annual decline of 15.9 percent in April 2012.

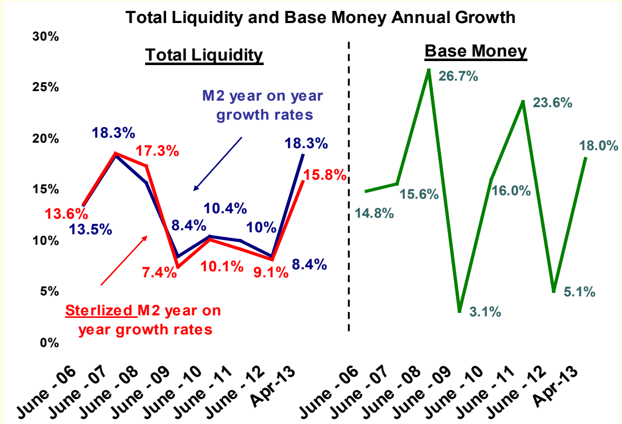
Meanwhile, **annual growth in net domestic assets of the banking sector** rose during April 2013 to 26.6 percent reaching LE 1132 billion, compared to growth of 25.5 percent in the previous month. The growth in net domestic assets of the banking sector was mainly supported by 37.6 percent growth in net claims on government and GASC, compared to 35.9 percent in March 2013. It is worth noting that growth in net claims on government and GASC amounted to almost 108.2 percent of annual liquidity growth at end of April 2013 reaching LE 770.4 billion.

Annual growth in the **credit to the private sector** continued to pick-up during April 2013 reaching 10.5 percent compared to 6.3 percent at end of April 2012 and compared to an average growth rate of 7.6 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 13.7 percent. This has brought the stock of outstanding credit to the private sector to LE 490.8 billion. It is worth noting that **"net claims on the public business sector"** grew at 6.2 percent on annual basis to LE 44.4 billion, slightly lower than the annual increase of 7.1 percent registered last month.

CBE net international reserves (NIR) fell by US$ 1.1 billion over the previous month to record US$ 14.9 billion at end of June 2013. The 7 percent decrease in NIR during the month of study was mainly due to the absence of external aid during the month of June and the increased weakening in the balance of payment fundamentals in anticipation of then-planned protests for June 30, 2013 and the expected decrease in other FX earners such as tourism and investment inflows. Moreover, the CBE's revaluation of monetary gold holdings have been revalued downwards as gold prices fell from their June 2012 levels. It is worth mentioning the Egypt's NIR performance had been positive over the last couple of months, reaching US$ 16 billion at end of May 2013, as Egypt had been receiving external financing from Qatar and Libya and rationing heavily on its merchandise imports. 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, and further May's Qatari funds worth US$ 3 billion, which will be converted into T-bonds of 3 years maturity with 3.5 percent interest rate.

Annual growth in total deposits with the banking sector (excluding CBE) increased at the end of April 2013 recording 15 percent registering LE 1159.8 billion, compared to 14.2 percent in previous month and compared to 6.7 percent recorded in April 2012. Out of total deposits, 89.3 percent belonged to the non-government sector at end of April 2013.

Moreover, annual growth rate in total lending by banking sector (excluding CBE) increased during the year ending April 2013 recording 8.9 percent, compared to 8.2 percent last month, and compared to 5.5 percent recorded a year earlier. This brings total loans to almost LE 543.2 billion at end of April 2013. On a more detailed level, annual growth in total lending to non-government sector registered 9.2 percent to reach some LE 508.3 billion at end of April 2013, while annual growth in total lending to government sector also increased, recording 3.5 percent to register LE 34.9 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits decreased at end of April 2013 registering 43.9 percent, compared to 46.5 percent in April 2012. Moreover, loans-to-deposits ratio in foreign currencies decreased significantly on annual basis registering 55.9 percent at the end of April 2013, compared to 59 percent in April 2012.



Moreover, dollarization in total liquidity stabilized for the second month in a row at 17.8 percent at end of April 2013, while increased if compared to 17.3 percent recorded in April 2012. Meanwhile, dollarization in total deposits increased during April 2013 recording 24.6 percent, compared to 24.4 percent last month and compared to 23.8 percent at end of April 2012.

V. Prices

Concerning domestic consumer prices, annual CPI inflation[7] in urban areas increased significantly during *June* 2013 recording 9.8 percent compared to 8.2 percent recorded during the previous month, and compared to 7.3 percent in June 2012**. While, annual inflation for overall Egypt also increased recording 10.9 percent in June 2013** compared to 9 percent during the previous month, and compared to 7.4 percent in June 2012. Consequently, the average inflation rate for the FY 2012/2013 fell recording 6.9 percent compared to 8.6 percent during last year. Moreover, the monthly developments in CPI Headline inflation is largely attributed to the notable increase in annual inflation rates of main "Food and Beverages group" (Highest weight in CPI) which in turn could be explained in light of growing consumer demands due to seasonable effects (the holly month of Ramadan) and fear of food shortages during the expected political tensions at end of the month of study. The abovementioned increase in "Food and Beverages" group, and the increase in prices levels of other groups such as; "Furnishing, Household, Equipments", and "Restaurants and Hotels", exceeded the effect of the decrease in annual inflation rate of "Housing, Water, Electricity, Gas and other Fuels", "Recreation and Culture", "Miscellaneous Goods and Services" groups.

On a more detailed level, the annual inflation rate of some sub-items which belongs to "food and Beverages" group increased notably during June 2013, on the top of which; "Vegetables" recording 22.1 percent compared to 5.8 percent, "Fruit" recording 11.6 percent compared to 8.4 percent, "Meat, and Poultry" recording 10 percent compared to 9.1 percent, "Fish and Seafood" recording 10.6 percent compared to 7.2 percent,

Furthermore, monthly inflation rate also increased recording 0.9 percent during June 2013 compared to -0.2 percent during last month, and compared to -0.6 percent recorded in June 2012.

According to CBE inflation report, annual core inflation[8] rose during June 2013 to 8.6 percent compared to 8 percent during the previous month, and compared to 7 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 pace recording -0.4** percent during May 2013 compared to -1.7 percent recorded during previous month, and compared to an increase of 2.8 percent recorded in May 2012. On the other hand, monthly PPI inflation decreased significantly recording 0.9- percent during May 2013 compared to 2.7 percent during previous month. The decrease in PPI rate is mainly due to the decline in the annual inflation rate of « Agriculture, Forestry and Fishing " recording –4.4 percent during May 2013, compared to -3 percent during the previous month. Meanwhile, the PPI annual inflation rate of "Mining and Quarrying" group continued to decelerate yet at a slower pace recording -5.3 percent during May 2013 compared to -12.4 percent during the previous month, which counterparts the increase in the annual inflation rate of "Manufacturing" group recording 6.1 percent during May 2013, compared to 5.9 percent during April 2013. While

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.

annual PPI inflation rate stabilized for most other groups during the period of study.

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 20th of June, 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 operation**[9] **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, in light 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 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–March 2012/2013 showed a relative improvement, as overall deficit amounted to **US$ 2.1 billion in the overall balance**, compared to a deficit of US$ 11.2 billion in the period July – March 2011/2012, decreasing by 81.3 percent. The recorded decrease in the overall deficit comes as a result of the 45 percent drop in the current account deficit (attributed basically to the increase in workers' remittances by 8 percent compared to the same period last year; and the noticeable improvement in tourism revenues by 14 percent). Meanwhile, the capital and financial account recorded a net inflow of US$ 4.3 billion, compared to a net outflow of US$ 2.7 billion in the same period last year. Net errors and omissions recorded a net outflow of US$ 2.5 billion.

Table (2): Main BOP Indicators

	Jul- Mar 2011/2012*	Jul- Mar 2012/2013*	Percent Change
Trade Balance	**-24,475**	**-23,817**	**-3%**
Export Proceeds	19,121	19,819	**4%**
Petroleum	8,851	9,447	**7%**
Non-Oil Exports	10,269	10,372	**1%**
Import Payments	-43,596	-43,637	**0.1%**
Services (net)	4,060	5,514	**36%**
Receipts	15,607	17,268	**11%**
Payments	11,548	11,754	**2%**
Current Account Receipts	**48,065**	**51,504**	**7%**
Current Payments	**55,143**	**55,391**	**0.4%**
Current Account	**-7,079**	**-3,887**	**-45%**
Capital and Financial Account	**-2,720**	**4,274**	**257%**
Capital Account	-79	-63	**-20%**
Financial Account	-2,642	4,337	**264%**
FDI	1,166	1,376	**18%**
Portfolio Investment in Egypt	-4,569	-791	**-83%**
Overall Balance	**-11,171**	**-2,090**	**-81%**

The trade deficit decreased by 3 percent to register a deficit of US$ 23.8 billion during July–March 2012/2013, compared to a deficit of US$ 24.5 billion in the same period last year. This slight improvement can be attributed to the 4 percent increase in exports proceeds to record US$ 19.8 billion, compared to US$ 19.1 in the same period last year. On a more detailed level, the slight decrease in the trade deficit could be explained in light of the increase in petroleum exports by 7 percent reaching US$ 9.4 billion, compared to US$ 8.9 billion in the same period last year, in addition to the slight increase in non-oil exports reaching US$10.4 billion, compared to US$10.3 billion over the period July-March 2011/2012. It is worth mentioning that non-oil exports has been ranked as the second most important source of foreign currency during the period of study amounting to 20.1 percent of total current account receipts. On the other hand, import payments almost stabilized during July –March 2012/2013 recording US$ 43.6 billion (15.8 percent of GDP), compared to the same period last year.

Based on the aforementioned, exports to imports coverage ratio increased throughout the first 9 months of the current fiscal year to achieve 45.4 percent compared to 43.9 percent in the period July –March 2011/2012.

Moreover, the services balance has accumulated a higher surplus of US$ 5.5 billion (1.6 percent of GDP) during July-March 2012/2013 compared to a surplus of US$ 4.1 billion during the same period last year. Total services receipts rose to US$ 17.3 billion mainly as a result of the increase in transportation receipts, tourism receipts, government receipts and other receipts. Tourism receipts increased notably during the period July –March 2012/2013 by 14 percent to record US$ 8.1 billion compared to US$ 7.1 during the same period last year. A more detailed analysis reveals that tourists nights increased by 14.1 percent to 114.6 million nights during the period July-March 2012/2013 compared to 100.4 million nights during the same period last year. It is worth mentioning that the number of tourist arrivals during the study period has reached 9.2 million tourists, compared to 8.2 million tourists in the same period of last year. It is worthy to note that the average number of tourists nights has recorded its highest level compared to the same period in the previous three years, recording 12.5 percent in the period July –March 2012/2013 compared to 12.2 percent, 10.6 percent and 10 percent in the same periods in 2011/2012, 2010/2011 and 2009/2010 respectively.

Furthermore, transportation receipts increased by 4 percent to reach US$ 6.7 billion, due to an increase in the receipts of Egyptian navigation and aviation companies. Moreover, government receipts have increased during the study period to reach US$ 348 million, compared to US$ 196 in the same period last year (It is worthy to note that Suez Canal revenue declined by 4 percent during the period of study to record US$ 3.8 billion, compared to US$ 3.9 billion in the period July –March 2011/2012). Moreover, other receipts increased during the study period to record US$ 2 billion compared to US$ 1.7 billion during the period July-March 2011/2012.

On the other hand, services payments increased during the period July-March 2012/2013 by 2 percent to record US$ 11.8 billion compared to US$ 11.5 billion in the same period last year. This comes due to the increase in transportation and tourism payments by 32.2 percent and 10 percent respectively to record US$ 1.3 billion and US$ 2.1 billion. In addition, other payments increased by 9.1 percent during the period of study to record US$ 3 billion compared to US$ 2.7 billion during the same period last year. Meanwhile, investment income payments and government payments decreased by 10 percent and 3.8 percent respectively to record US$ 4.5 billion and US$ 881 million.

Private transfers witnessed an increase of 8 percent to record US$ 13.8 billion during the first 9 months of the fiscal year 2012/2013 compared to US$ 12.8 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 26.8 percent of total current account receipts. Moreover, public transfers increased during July-March 2012/2013 to reach US$ 0.6 billion compared to US$ 0.57 billion during the same period last year. Consequently, current account receipts increased by 7.2 percent to US$ 51.5 billion, while current account payments increased by only 0.4 percent to US$ 55.4 billion, bringing the ratio of current receipts to current payments (including official transfers) up to 93 percent compared to 87.2 percent during the same period last year.

As a result of the factors mentioned above, the current account deficit decreased notably by 45 percent, recording US$ 3.9 billion during the period July-March 2012/2013, compared to a deficit of US$ 7.1 billion during the same period last year.

On the other hand, the capital and financial account witnessed a notable improvement, recording a net inflow of US$ 4.3 billion (1.5 percent of GDP) during the period July-March 2012/2013; versus an outflow of US$ 2.7 billion (1.1 percent of GDP) during July-March 2011/2012. This comes as **other investments** recorded a net inflow of US$ 3.8 billion, compared to a net inflow of US$ 1.1 billion during July-March 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$ 3.4 billion representing an amount of US$ 4 billion received as deposits from Qatar, and being recorded under CBE (Other liabilities). Moreover, **net foreign direct investments** in Egypt recorded a net inflow of US$ 1.4 billion (0.5 percent of GDP) compared to a net inflow of US$ 1.2 billion during July-March 2011/12. Finally, **portfolio investments** outflows decelerated notably to record US$ 0.8 billion (0.3 percent of GDP while decreased by 82.7 percent during the period of study), compared to a much higher value of US$ 4.6 billion (1.8 percent of GDP) during July-March 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$ 14.7 million, in comparison with US$ 3900 million in the same period of the previous year).

Finally, net errors and omissions recorded a net outflow of US$ 2.5 billion during the period July-March 2012/2013, compared to a net outflow of US$ 1.4 billion during the same period last year.

VII. Stock Exchange

The EGX-30 index decreased by 687 points during June 2013, reaching 4752 compared to 5439 during May 2013. Moreover, market capitalization decreased during the month of study by 10.8 percent to reach LE 322 billion (18.6 percent of GDP) compared to a LE 361 billion during the previous month. The decline witnessed in the stock market during the month of study could be explained in light of the recent instability and rising political tensions, which has taken its toll on the capital market performance.

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