

# Foreword

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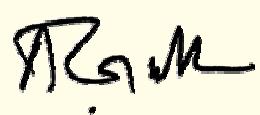
Egypt has been in transition since January 2011. Once new democratic institutions are put in place, along with good economic policies, the country will be ready to take off. Managing the economy during this transition is not easy, but is critical for moving forward on the political front.

Facing major macroeconomic imbalances, sluggish economic growth and rising poverty, the new interim government in office since mid-July 2013 decided to adopt a new strategy. The essence of the new strategy is expansionary rather than contractionary fiscal and monetary policies. With fresh injections of resources from abroad, the strategy aims at stimulating the economy through public investment in infrastructure, rationalizing expenditures by removing major distortions (e.g., energy subsidy) and reallocating expenditures in favor of social sectors (e.g., health). Fiscal consolidation is further pursued through the introduction of VAT, better management of public debt, along with improving tax collection.

To ensure greater transparency, accountability and participation of citizens in the decision making process, the Ministry of Finance is committed to continue to play a leading role in offering a coherent set of economic data on the Egyptian economy. This publication is evidence of this practice.

I do hope that the readers will find the information offered here useful. We also look forward to your feedback and suggestions on the following email: [fm@mof.gov.eg](mailto:fm@mof.gov.eg).

Minister of Finance



Dr. Ahmed Galal

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# Executive Summary

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- Real GDP has recorded a growth rate of 2.3 percent during the first 9 months of the fiscal year 2012/2013 where public consumption, and exports remain the major contributors.
- According to Fiscal Year 2012/2013 preliminary actual budget outcomes, the overall deficit to GDP rose to 13.8 percent, recording LE 239.9 billion, compared to LE 166.7 billion during FY 2011/2012.
- Domestic budget sector debt increased to 83.4 percent of GDP as of end June 2013 to record LE 1446.6 billion compared to LE 1155.3 billion as of end of June last year.
- External debt stock stood at 15 percent of GDP (US\$ 38.4 billion), and thereby increased by 14.8 percent compared to end of March 2012.
- M2 annual growth continued to rise as of end June 2013 recording 18.4 percent compared to 8.4 percent in June 2012, stimulated by the increase in net domestic assets annual growth, mainly in net claims on government and GASC, in addition to claims on private sector.
- CPI annual Urban Inflation slowed during August 2013 reaching 9.7 percent compared to 10.3 percent during previous month. Annual core inflation declined slightly during August 2013 to 9 percent compared to 9.1 percent during the previous month.
- CBE announced the launch of New Exceptional Foreign Exchange Auction on September 4, 2013, offering US\$ 1.3 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. Meanwhile, the New Exceptional Foreign Exchange Auction aims to confront black markets for foreign exchange.
- Additionally, during the Monetary Policy Committee meeting held on 19th of September 2013, CBE decided to cut the overnight deposit rate and overnight lending rates by 50 basis points to 8.75 percent and 9.75 percent respectively, and to cut the CBE's main operation by 50 basis points to 9.25 percent. Moreover, the discount rate was also cut to 9.25 percent.
- BOP overall deficit showed a significant improvement, during the FY 2012/2013 recording an overall surplus of \$ 237 million, compared to an overall deficit of US\$ 11.3 billion in the previous year.

## Real GDP Growth

Real GDP has recorded a growth rate of 2.3 percent during the first 9 months of the fiscal year 2012/2013 and this growth was mainly triggered by:

- Growth in public consumption by 3.4 percent compared to 3.1 percent in the same period last year.
- Significant improvement in exports growth by 2.9 percent compared to a negative growth of 1.3 during the same period last year.
- Significant deceleration in Imports of goods and services, increasing by only 1.4 percent, compared to a much higher increase of 11 percent during July – September 2011/2012.

On the other hand, this level of growth is still below the needed potential growth rate to create more job opportunities due to:

- The slowdown of private consumption growth, recording 3.0 percent during the period of study, compared to a growth of 6.4 percent in the same period last year.
- The negative contribution of Investment spending, recording a negative growth rate of 4.6 percent compared to a positive growth rate of 3.4 percent in the same period last year.
- The real economy is still suffering the consequences of the political turbulence that Egypt is witnessing nowadays.

Moreover, GDP (at market prices) for the period July - March in 2012/2013 constant prices stands at LE 1202.3 billion (LE 1307.1 billion in current prices), recording a growth rate of 2.2 percent.

It is noteworthy that this growth was backed by growth in certain sectors including:

- Tourism: 10.2 percent growth, constituting 3.4 percent of GDP
- Construction: 6.6 percent growth, constituting 4.4 percent of GDP
- Telecommunications: 5.4 percent growth, constituting 2.6 percent of GDP
- Real estate: 4.2 percent growth, constituting 2.4 percent of GDP

However constrained by below-potential performance of certain sectors including, manufacturing industries (2.5 percent growth, constituting 15.6 percent of GDP).

In addition, some sectors faded growth due to their subdued performance including:

- Suez Canal: -4.2 percent growth, constituting 1.9 percent of GDP
- Extractive industry sectors: -2.5 percent growth, constituting 16.6 percent of GDP

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

Total GDP (at Factor cost)	Jul - Mar 2011/12 (%)	Jul - Mar 2012/13
Total Commodity Sector, of Which	1.9%	2.3%
Agriculture, Forestry and Fishing	0.6%	0.8%
Petroleum	0.5%	0.5%
Natural Gas	0.03%	-0.1%
Manufacturing Industry	-0.1%	-0.3%
Construction and Building	-0.1%	0.4%
Total Production Services, of which	0.1%	0.3%
Transport and Warehousing	0.7%	1.0%
Telecommunications	0.1%	0.1%
Suez Canal	0.1%	0.1%
Wholesale and Retail Trade	0.1%	-0.1%
Financial Intermediation	0.2%	0.3%
Tourism (Hotels and Restaurants)	-0.03%	0.3%
Total Social Services	0.5%	0.5%

## Fiscal Performance

According to FY 2012/2013 preliminary actual budget<sup>1</sup> outcomes, the overall budget deficit to GDP ratio increased to 13.8 percent, reaching LE 239.9 billion, compared to LE 166.7 billion during FY 2011/2012. In addition, the primary deficit to GDP increased to 5.4 percent compared to 4 percent during FY 2011/12.

“On the Revenues Side”, total revenues increased by 13.5 percent during the year of study, registering almost LE 344.6 billion compared to LE 303.6 billion during FY 2011/2012. The recorded increase is principally due to the 21 percent increase in tax revenues, which overcomes the slight decrease by 2.8 percent in non-tax revenues.

Tax Revenues increased due to the increase in all Tax Chapters; mainly:

- Income Tax increased by 29 percent to LE 117.8 billion compared to LE 91.2 billion during FY 2011/2012, due to:
  - First, the increase in income from employment by 23 reaching LE 21.4 billion during 2012/2013, compared to LE 19.7 billion during 2011/2012.
  - Second, the increase in income from activity other than employment by 15 percent reaching LE 11.9 billion during 2012/2013, compared to LE 6.4 billion during 2011/2012.
  - Third, the increase in tax on corporate profit by 31.6 percent recording LE 91.5 billion during 2012/2013 compared to LE 70 billion during 2011/2012 due to the increase in proceeds from EGPC, Suez Canal, and Other Companies.
- Property Taxes increased by 25.7 percent to LE 16.4 billion compared to LE 13 billion during FY 2011/2012, mainly due to:
  - The increase in proceeds from tax on T-bills and bonds payable interest by 33 percent to almost LE 18.3 billion compared to LE 13.2 billion during FY 2011/2012.
- Taxes on goods and services witnessed an increase of 9.8 percent to LE 92.9 billion compared to LE 84.6 billion during FY 2011/2012.

Non-Tax Revenues decreased by 2.8 percent during FY 2012/2013, due to:

- The decrease in grants from foreign governments by 50 percent recording LE 4.7 billion during the year of study compared to LE 9.3 billion during 2011/2012.

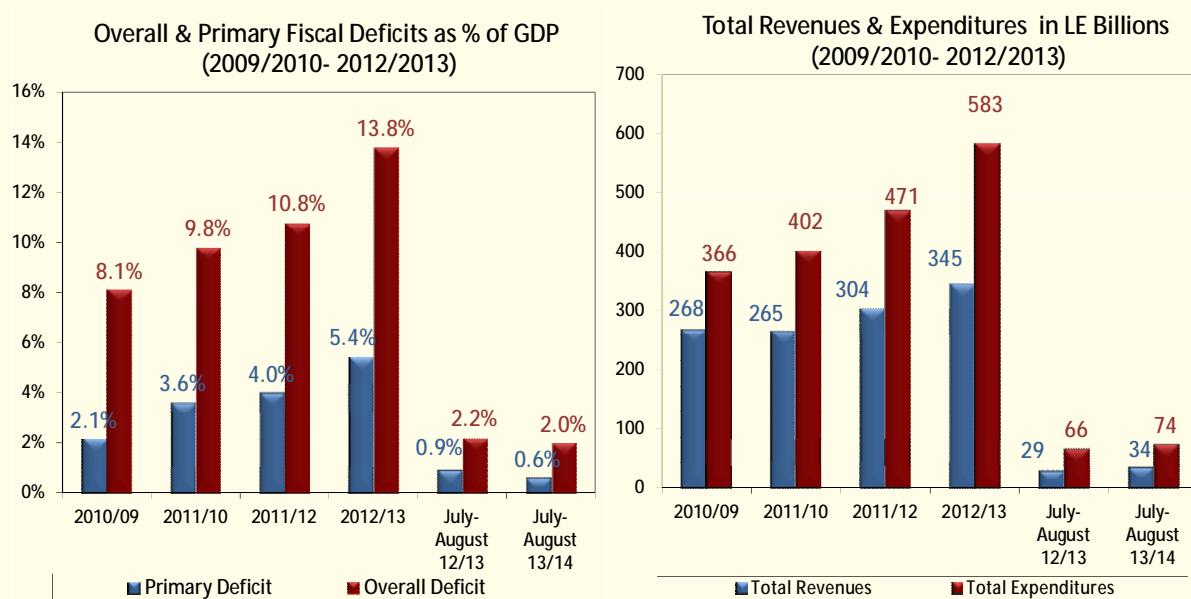
“On the Expenditures Side”, total expenditures increased notably during FY 2012/2013 by 23.7 percent, recording LE 582.7 billion compared to LE 471 billion during last year, mainly due to:

- The expansion growth in most spending chapters except for Purchases of Goods and Services, and which declined by 6.5 percent recording LE 25 billion during 2012/2013 compared to LE 26.8 billion during 2011/2012, due to the decline in purchase of services by 3.7 percent recording LE 11.6 billion during the period of study compared to LE 11 billion during last year.
- However, Compensation of Employees have increased by 14.8 percent recording almost LE 141 billion during FY 2012/2013 compared to LE 122.8 billion during last FY year, due to:
  - An increase in rewards and employees incentives by LE 7.8 billion up to LE 60.5 billion,

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<sup>1</sup> Includes central administration, municipalities, and services authorities (education, health, etc). (It is noteworthy that fiscal data for the year 2012/2013 is still preliminary and subject to further revision until final accounts for governmental units are disclosed.)

- Increase in Permanent Staff (basic pay) by LE 3.4 billion up to LE 23.3 billion
- The increase in Specific Allowances by LE 5.9 billion up to LE 17 billion.
- Moreover, Interest payments (which represent almost 25.2 percent of total Expenditures) have increased by 40.7 percent recording almost LE 147 billion during FY 2012/2013 compared to LE 104 billion during last FY year, and that due to:
  - The increase in interest on treasury CBE Bonds by LE 11 billion up to LE 22.2 billion during FY 2012/2013,
  - In addition to the increase in interest on treasury bills by LE 15 billion up to LE 51.3 billion during the year of study,
  - And finally, an increase in treasury bonds by LE 12.4 billion up to LE 37.4 billion during the year of study.
- Meanwhile, Subsidies, grants and social benefits (which represent almost 33.8 percent of total Expenditures) have increased by 31 percent to LE 197 billion compared to almost LE 150.2 billion during last FY year, due to:
  - The increase in petroleum subsidies by LE 24.5 billion to LE 120 billion,
  - In addition to the increase in social insurance pensions and contributions in pension funds by LE 10.2 billion.
- On the other hand, both of Other expenditure and Purchases of non-financial assets (investments) increased by 12.5 percent and 6 percent to LE 34.6 billion, and LE 38.1 billion during FY 2012/2013 compared to LE 30.8 billion and LE 35.9 billion respectively during last year.



Meanwhile data for the period “July- August of the fiscal year 2013/2014” showed that:

The overall budget deficit ratio recorded 2 percent of GDP, reaching LE 40 billion, compared to a slightly higher deficit of 2.2 percent of GDP during the period July- August 2012/2013 (LE 38 billion). Moreover, the primary deficit to GDP decreased to 0.6 percent during July- August 2013/2014, compared to 0.9 percent during the period July- August 2012/2013.

“On the Revenue Side”, total revenues increased notably by 19.9 percent during the period of study, registering LE 34.2 billion compared to almost LE 28.5 billion during same period last year.

- The recorded increase is principally due to the 137 percent increase in non-tax revenues, which offset the decrease in tax revenues by 2.3 percent.

The slight decrease in Tax Revenues could be explained in light of the declaration in proceeds from some tax revenues chapters which was complemented by the increase in other chapters as follows:

- Income Tax decreased by 35.2 percent reaching almost LE 5.6 billion during the period of study compared to LE 8.6 billion during July- August 2012/2013, mainly due to:
  - The decline in proceeds from Taxes on corporate profit notably by 60.5 percent, reaching LE 2.3 billion during the period of study compared to LE 5.8 billion, this could be explained in turn by the decrease in Proceeds from Suez Canal by 48.4 percent reaching LE 0.8 billion compared to LE 1.6 billion during the same period last year.
- Taxes on International Trade also decreased by 14.9 percent reaching LE 2 billion during the period of study compared to LE 2.3 billion during July- August 2012/2013.
- The above mentioned decrease in tax Revenues was counterbalanced by the increase in the following chapters:
  - Property Tax increased by 42.3 percent reaching LE 3.3 billion compared to LE 2.3 billion during July- August 2012/2013.
  - Tax on Goods and Services increased by 17.7 percent reaching LE 12.3 billion compared to LE 10.5 billion during July- August 2012/2013.

Non- Tax Revenues increased notably, mainly due to:

- The significant increase of Grants reaching LE 7 billion during July- August 2013/2014 compared to LE -0.2 billion recorded during the same period last year. This is due to the grant offered by the United Arab Emirates during the period of study.

"On the Expenditures Side" total Expenditures increased during July- August 2013/2014 by 11.4 percent, recording LE 73.9 billion compared to LE 66.3 billion during the same period last year, due to the expansion growth in some spending chapters; on the top of which:

- Compensation of employees (which represent 37.5 percent of total Expenditures and 81 percent of total Revenues) increased notably by 29.8 percent to LE 27.7 billion during July- August 2013/2014 compared to LE 21.4 billion during the same period last year, mainly due to:
  - The significant increase of Salaries and Wages in Cash and in kind by 29.3 percent recording LE 23 billion during the period of study compared to LE 17.8 billion during July-august 2012/2013, mainly due to the increase in "Rewards" by almost LE 4.5 billion, and "Permanent Staff" (basic Pay) by LE 0.3 billion, and the increase in "Specific Allowances" by LE 1 billion.
- Interest payments (which represent almost 36.2 percent of total Expenditures and 78.3 percent of total Revenues) increased significantly by 15.9 percent recording almost LE 26.8 billion during July- August 2013/2014, compared to LE 23.1 billion during the same period last year, due to:
  - The increase in interest on Domestic (Non-Government Individuals) by 18.7 percent reaching LE 23.2 billion during July- August 2013/2014, compared to LE 19.5 billion during the same period of last year, and which represents interest on treasury bills and bonds on the Government state budget.

## Domestic Debt Profile

As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks<sup>2</sup> at three different levels of compilation; the Budget Sector, General Government and the Public Sector<sup>3</sup>.

### *Domestic Budget Sector Debt*

- Recent statistics show that domestic budget sector debt increased to 83.4 percent of GDP as of end of June 2013 to some LE 1446.9 billion compared to LE 1155.3 billion as of end June 2012 (74.9 percent of GDP).
- Net domestic budget sector debt reached LE 1269.3 billion (73.2 percent of GDP).
- Accumulated budget sector debt at end of June 2013 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of June 2013 amount to LE 425.8 billion and LE 315.5 billion, respectively, reflecting government's growing borrowing needs.

### *Gross Domestic Debt of the General Government*

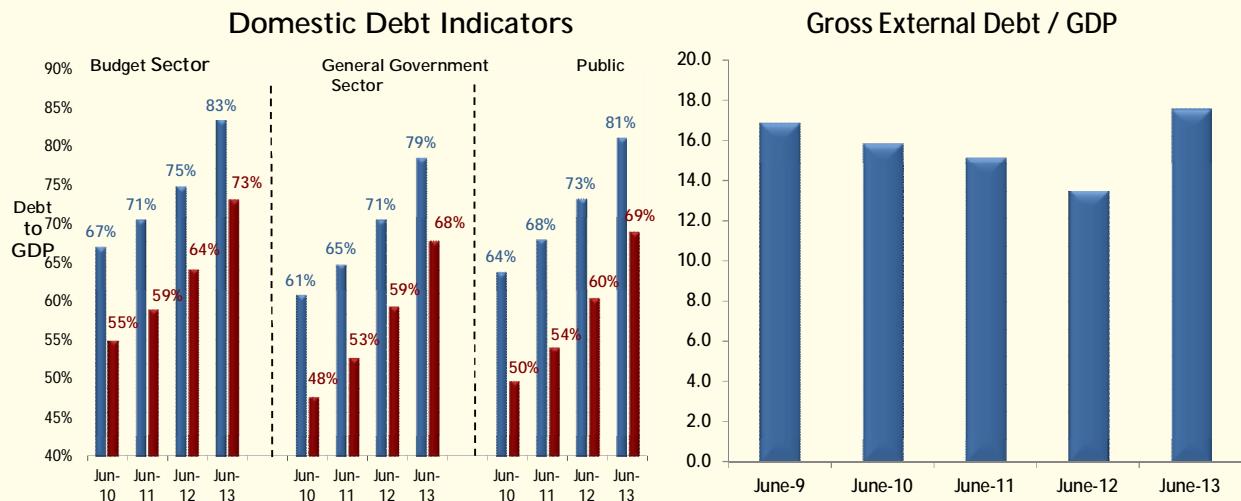
- Gross domestic debt of the general government amounts to LE 1359 billion (78.3 percent of GDP) at end of June 2013, compared to some LE 1087.9 billion (70.5 percent of GDP) at end of June last year.
- Net domestic debt of the general government reached some LE 1173.2 billion (67.6 percent of GDP).
- The increase in gross domestic debt of the general government 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 3.3 billion amounting to almost LE 192.2 billion at end of June 2013.

### *Gross Domestic Public Debt*

- Gross domestic public debt reached LE 1404.7 billion (81 percent of GDP) at end of June 2013, compared to LE 1129 billion at end of June last year (73.2 percent of GDP).
- Net domestic public debt increased to reach LE 1192.8 billion (68.8 percent of GDP)
- The increase in gross domestic public debt can be explained in light of the increase in accumulated debt of the general government by 271 billion to reach 1359.1 billion; in addition to the increase in Economic Authorities domestic debt by 3.1 billion to reach 108.6 billion at end June 2013.

<sup>2</sup> Consolidated debt stocks exclude interrelated debt between entities at each level of compilation.

<sup>3</sup> The Budget sector debt stock encompasses outstanding stocks of Central Government, Local Governments, and Public Service Authorities. The General Government debt stock includes the consolidated debt stocks of the Budget sector, the NIB, and SIF. The Public sector debt stock corresponds to the consolidated debt of the General Government and Economic Authorities.



Meanwhile, domestic debt service increased by almost 66.1 percent to reach LE 203.2 billion at end of June 2013, compared to LE 122.3 billion during the same period last year.

- Egypt External Debt indicators almost stabilized at end of March 2013 compared to December 2012, while increased notably if compared to March 2012.
  - External debt stock recorded US\$ 38.4 billion in March 2013, increasing by 14.8 percent, compared to US\$ 33.4 billion at end of March 2012.
  - The ratio of external debt to GDP increased from 13.1 percent of GDP at end March 2012 to 15 percent of GDP at end March 2013.
  - The notable annual increase in non-government external debt is significantly 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, in addition to an amount of US\$ 2.5 billion of Qatari Funds converted into T-bonds that was deposited in the third quarter of the same year.
  - Meanwhile, government external debt increased slightly by 1 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<sup>4</sup>.

<sup>4</sup> The CBE revised basis for foreign debt classification as of September 2008. Accordingly, Government debt statistics reflect an increase of US\$ 4.3 billion primarily due to the reclassification of on-lent loans as part of Central and Local Government debt instead of "Other Sectors" debt. It is noteworthy that such reclassification has not had any impact on the total outstanding foreign debt; which however may have changed due to the net flows of debt repayments and borrowings from abroad. So far, CBE has not released any figures for modified historical data.

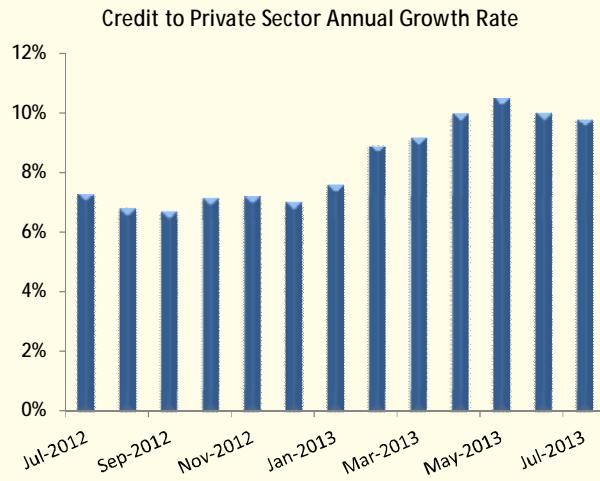
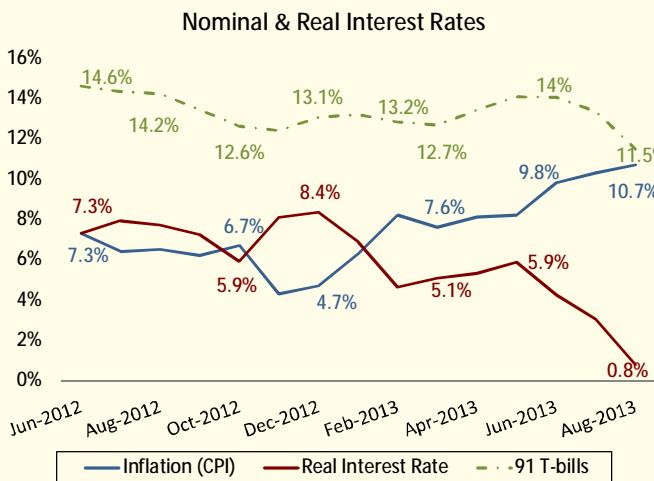
## Monetary Developments

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

### Total Liquidity

On annual basis total liquidity reached 18.4 percent (2.1% m-o-m) to register LE 1295.8 billion in June 2013, compared to 8.4 percent at end of June 2012. During the month of June 2013, data showed that main drivers of growth were:

- On the assets side, buoyant growth in government borrowing – through credit facilities and securities held by banks – in addition to growth in claims on private sector.
- While on the liabilities side, total liquidity increased due to rise in quasi money and money (M1) annual growth rate reaching 16.1 percent and 25.2 percent to record LE 952 billion and LE 343.7 billion, respectively.
- Net foreign assets (NFA) of the banking system recorded a contraction of 23.7 percent (-11.1% m-o-m) to reach LE 120.3 billion, compared to -37.8 percent at end of June 2012. Central Bank's NFA witnessed an annual decline of 53 percent to record LE 35.8 billion, compared to -48.3 percent at end of June 2012. On the other hand, NFA of other banks recorded an annual growth of 3.7 percent reaching LE 84.6 billion, compared to a decline of 23.3 percent for the same month last year.
- Annual growth in Net domestic assets (NDA) of the banking sector rose during June 2013 to 25.5 percent (3.7% m-o-m) recording LE 1175.4 billion, compared to a growth of 23.9 percent in June 2012. The growth in NDA of the banking sector was mainly fuelled by:
  - Annual growth of 39.2 percent in net claims on government and GASC, which amounted to almost 112.7 percent of annual liquidity growth reaching LE 805.5 billion.
  - Annual growth of 9.8 percent in credit to the private sector, which brought the stock of outstanding credit to the private sector to LE 497.7 billion.
  - Net claims on the public business sector grew at 5.5 percent y-o-y to reach LE 42.9 billion.



*Net International Reserves (NIR)*

- NIR almost stabilized at end of August 2013 compared to last month – increasing by only US\$ 30 million – to record US\$ 18.91 billion. The rise witnessed in NIR during the month of study was mainly due to the positive performance of FX earners, in addition to lower import prices as the currency strengthened.
- It is worth mentioning that Egypt's NIR reached a high level of US\$ 18.88 billion at end of July 2013, as the CBE has received a sum of US\$ 4 billion from Saudi Arabia and UAE – US\$ 2 billion from each country in form of interest-free deposits, in addition to US\$ 1 billion grant from UAE.

*Loans and Deposits*

- Annual growth in total deposits with the banking sector (excluding CBE) increased at the end of June 2013 recording 16 percent registering LE 1190.7 billion, compared to 6.4 percent recorded in June 2012. Out of total deposits, 89.4 percent belonged to the non-government sector at end of June 2013.
- Moreover, annual growth rate in total lending by banking sector (excluding CBE) increased during the year ending June 2013 recording 8.4 percent compared to 6.9 percent recorded a year earlier. This brings total loans to almost LE 549 billion at end of June 2013. On a more detailed level, annual growth in total lending to non-government sector registered 8.5 percent to reach LE 513.3 billion at end of June 2013. Moreover, annual growth in total lending to government sector increased by 6.5 percent to register LE 35.8 billion.
- As for the loans-to-deposits ratios, local currency loans-to-deposits decreased at end of June 2013 registering 43.1 percent, compared to 46.6 percent in June 2012. Moreover, loans-to-deposits ratio in foreign currencies decreased on annual basis registering 55.5 percent at the end of June 2013, compared to 58 percent in June 2012.

*Dollarization Ratios*

- Dollarization in total liquidity decreased recording 17.3 percent at end of June 2013 compared to 17.8 percent during last month, while increased if compared to 17 percent recorded in June 2012.
- Furthermore, dollarization in total deposits decreased during June 2013 recording 24.4 percent, compared to 24.8 percent last month, yet increased if compared to 23.9 percent at end of June 2012.

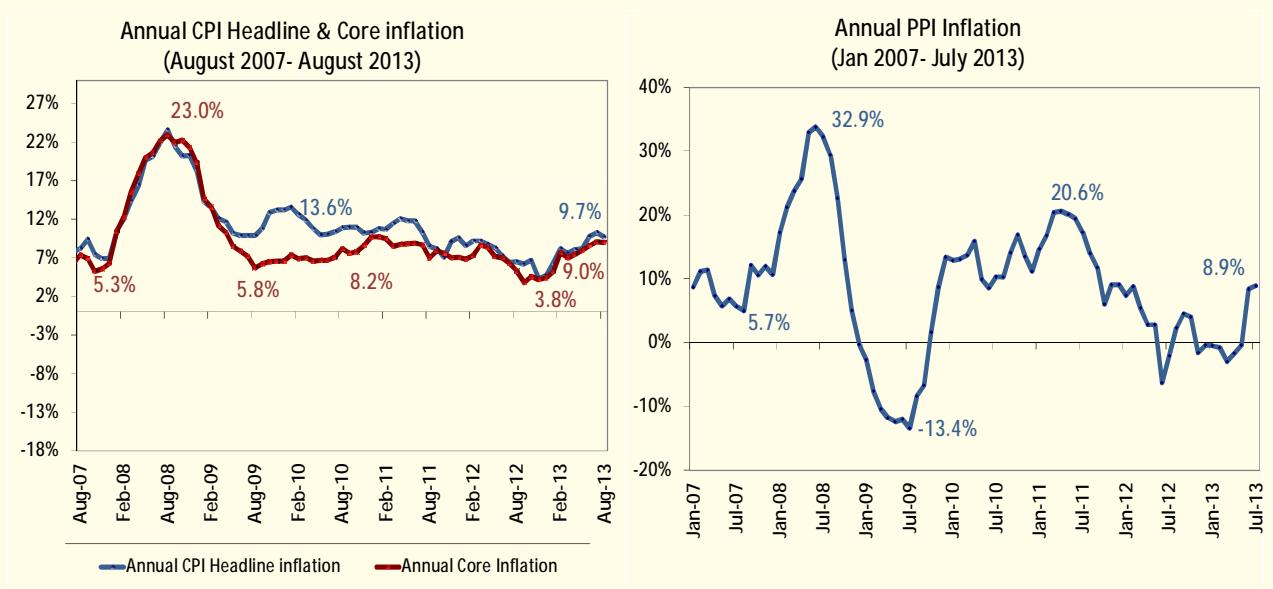
## Prices

Annual CPI Headline inflation in urban areas slowed during *August* 2013 recording 9.7 percent compared to 10.3 percent during previous month. However, it exceeded the recorded average for the first seven months of the year 2013 which amounted 8 percent. The year on year decline in CPI Headline inflation is largely attributed to:

- lower consumption activities at end of Ramadan, leading to reduced inflationary pressures, especially on Food and Beverages group (highest weight 44.2%); in addition to the curfew hours imposed by mid-month.
- The decrease in annual inflation rate of other main groups, of which groups; "Clothing and Footwear" (Weight 5.8%), and "Miscellaneous Goods and Services" (Weight 3.4%), which counterparts the increase in the annual inflation rate of some other groups; "Alcoholic Beverages and Tobacco" (Weight 2.5%), and " Recreation and Culture"( Weight 2%).

Furthermore, Monthly inflation rate slowed down recording 0.7 percent during August 2013, compared to 0.9 percent recorded during the previous month, and compared to an average of 1.13 percent during the first seven months of the year 2013.

- According to CBE inflation report, annual core inflation declined slightly during August 2013 to 9 percent compared to 9.1 percent during the previous month, while it increased notably if compared to 5.3 percent recorded during the same month last year.
- As for producer prices, year-on-year PPI inflation continues to increase recording 8.9 percent during July 2013 compared to 8.4 percent recorded during previous month, and compared to an average of 0.3 percent recorded during the first six months of the year 2013. On the other hand, monthly PPI inflation notably increased recording 2.3 percent during July 2013 compared to 1.5 percent during previous month. Developments in PPI rate is mainly due to:
  - The increase in the annual PPI inflation rate of " Agriculture, Forestry and Fishing ", and "Manufacturing" recording 17 percent, and 6.6 percent during July 2013, compared to 13.1 percent, and 6.2 percent respectively during the previous month.
  - The abovementioned increase was offset by the decrease in the annual PPI inflation rate of "Mining and Quarrying", and "Electricity, Steam, Gas and Air Conditioning Supply" recording 4.7 percent and 3.1 percent during July 2013, compared to 6.8 percent and 10.6 percent respectively during the previous month.
  - Moreover, annual PPI inflation rate of "Accommodation and Food Service Activities" recording a decline of 1.9 percent during the month of study compared to 6 percent during the previous month. While annual PPI inflation rate stabilized for most other groups during the month of study.



The Central Bank of Egypt announced on September 4<sup>th</sup>, 2013 the launch of Exceptional Foreign Exchange Auction.

- Through the new auction, CBE has offered US\$ 1.3 billion 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. Meanwhile, the New Exceptional Foreign Exchange Auction aims to confront black markets for foreign exchange.

During the Monetary Policy Committee meeting held on the 19th of September 2013, CBE decided to cut the overnight deposit rate and overnight lending rates by 50 basis points to 8.75 percent and 9.75 percent respectively, and to cut the CBE's main operation<sup>5</sup> by 50 basis points to 9.25 percent. Moreover, the discount rate was also cut to 9.25 percent.

- The committee justified such decision, in light of:
  - The increasing downward pressures surrounding the prospects of growth (especially with a persistently negative output gap since 2011); which is limiting the upside risks to the inflation outlook.
  - From one hand, the economic growth during the first nine months of the year 2013 remains partly subdued by the weak performance in the Manufacturing sector, although both tourism and construction sector showed some signs of recovery.
  - On the other hand, the upside risks to the inflation could be explained in light of the increase in core and headline inflation during the previous months mainly due to the increase in food prices.

<sup>5</sup> The CBE main operations would be Repos or Deposit Auctions depending on the prevailing market liquidity conditions.

## External Sector

Egypt's Balance of Payments (BOP) showed a significant improvement, during the FY 2012/2013 recording an overall surplus of \$ 237 million, compared to an overall deficit of US\$ 11.3 billion in the previous year. The recorded surplus in the overall balance comes as a result of:

- The drop in the current account deficit (by 45 percent), reaching US\$ 5.6 billion, compared to a higher deficit of US\$ 10.1 billion recorded in 2011/2012.
- Net inflow US\$ 9.7 billion in the capital and financial account, compared to a net inflow of only US\$ 1 billion in the previous fiscal year.
- Net errors and omissions recorded a net outflow of US\$ 3.9 billion, compared to a net outflow of US\$ 2.2 billion in 2011/2012.

**Table (2) Main Balance of Payments Indicators**

	2011/2012#	2012/2013*	(US \$ Million)
	2011/2012#	2012/2013*	Percent Change
Trade Balance	-34,139	-31,542	-8%
Export Proceeds	25,072	25,971	4%
Petroleum	11,225	12,006	7%
Non-Oil Exports	13,847	13,965	1%
Import Payments	-59,211	-57,513	-3%
Services (net)	5,585	6,692	20%
Receipts	20,872	22,221	6%
Payments	15,288	15,529	2%
Current Account Receipts	64,352	67,460	5%
Current Account Payments	74,498	73,042	-2.0%
Current Account	-10,146	-5,582	-45%
Capital and Financial Account	1,023	9,687	847%
Capital Account	-96	-87	-10%
Financial Account	1,119	9,774	773%
FDI	3,982	3,005	-25%
Portfolio Investment in Egypt	-5,025	1,477	129%
Overall Balance	-11,278	237	102%

# Data revised by the CBE

\*Preliminary

Current Account deficit decreased notably by 45 percent, recording US\$ 5.6 billion in light of:

- The drop in trade deficit by almost 8 percent, registering a deficit of US\$ 31.5 billion during the FY 2012/2013, due to a 4 percent increase in exports proceeds to record US\$ 26 billion, while import payments decreased by 3 percent to reach US\$ 57.5 billion.
- Moreover, the services balance has accumulated a higher surplus of US\$ 6.7 billion during 2012/2013 due to:
  - The rise in total services receipts to US\$ 22.2 billion, mainly as a result of the increase in most of its sub-items:
    - Transportation receipts by 7 percent to reach US\$ 9.2 billion, despite of the decrease in Suez Canal revenue by 3.4 percent to record US\$ 5.0 billion.
    - Tourism receipts by 3.5 percent to record US\$ 9.7 billion.
    - Other receipts by 13 percent to US\$ 2.7 billion.
    - Government receipts by 58 percent to reach US\$ 438 million.
- Except for investment income, which decreased by 20 percent to record US\$ 198 million.

- On the other hand, services payments increased merely by 2 percent during 2012/2013 to record US\$ 15.5 billion. This comes due to the increase in most of the services payments sub-items, except for investment income payments, which decreased by 11.6 percent to record US\$ 5.9 billion.
- Private transfers witnessed a 4 percent increase in 2012/2013 to record US\$ 18.4 billion, mainly due to Egyptian workers' remittances transferred from abroad. Moreover, public transfers increased during 2012/2013 to reach US\$ 0.8 billion compared to US\$ 0.6 billion last year.
- Noteworthy, exports to imports coverage ratio increased throughout 2012/2013 to achieve 45.2 percent compared to 42.3 percent in 2011/2012, while NIR imports coverage ratio has stabilized at 3.1 in 2012/2013.
- Consequently, current account receipts increased by 5 percent to US\$ 67.5 billion, while current account payments decreased by 2 percent to US\$ 73 billion, bringing the ratio of current receipts to current payments (including official transfers) up to 92.4 percent compared to 86.4 percent in 2011/2012.

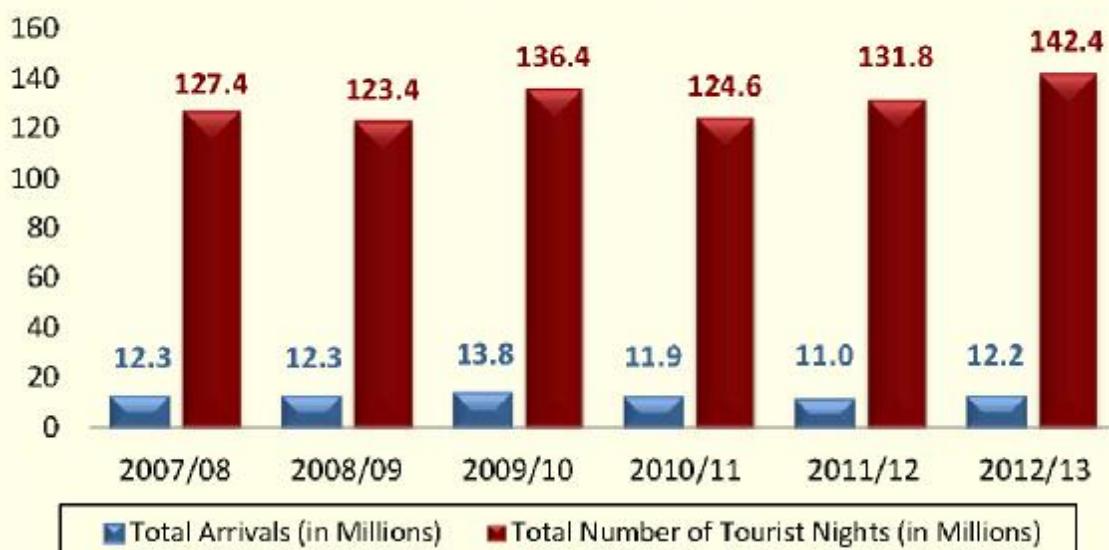
On the other hand, the Capital and Financial Account witnessed a notable increase in net inflows recording US\$ 9.7 billion during the year of study as a result of:

- The reverse in trend of Portfolio investments in Egypt, recording a net inflow of US\$ 1.5 billion (as the Egyptian government issued T-bonds worth US\$ 2.5 billion), compared to a net outflow of US\$ 5 billion.
- The rise in net liabilities of the CBE to the external world, recording US\$ 6.5 billion in 2012/2013, mainly due to the pickup in deposits transferred from some Arab countries.
- Net foreign direct investments in Egypt recorded a net inflow of US\$ 3 billion during FY 2012/2013 (down from US\$ 4 billion). This comes due to the decline in the proceeds from selling local entities to non-residents to US\$ 281.7 million (compared to US\$ 1678.2 million last year), despite the rise in net inflows of greenfield investments to reach US\$ 2.4 billion (compared to US\$ 2.1 billion last year) and the increase of net oil sector investments to US\$ 255.5 million (Compared to US\$ 130 million last year).

## Tourism

- Tourism receipts increased by 3 percent during the 2012/2013 to record US\$ 9.7 billion compared to US\$ 9.4 during FY 2011/2012. A more detailed analysis reveals that tourists nights increased by 8.1 percent to 142.4 million nights in FY 2012/2013 compared to 131.8 million nights in FY 2011/2012.
- It is worth mentioning that the number of tourist arrivals during the FY 2012/2013 has witnessed a notable increase by 11 percent to reach 12.2 million tourists, compared to 11 million tourists in 2011/2012. As a result, the average number of tourists nights has recorded 11.7 percent in the 2012/2013 compared to 12 percent in 2011/2012.

### Tourism Indicators



## Stock Exchange

- The EGX-30 index almost stabilized, decreasing slightly by 57 points during August 2013, reaching 5268 compared to 5325 during July 2013, on the back of increased concern and fear of military attack on Syria.
- Moreover, market capitalization remained almost unchanged during the month of study to reach LE 355 billion (17.3 percent of GDP) compared to a LE 357 billion during the previous month.