

Executive Summary

- Real GDP has recorded a growth rate of 2.1 percent during the fiscal year 2012/2013, where public consumption and exports remain the major contributors.
- The overall budget deficit ratio stabilized at 2.9 percent of GDP, during the first quarter of the fiscal year 13/14 reaching LE 59.9 billion, compared to LE 50.8 billion during July- September 2012/2013.
- Domestic budget sector debt increased to 73.5 percent of GDP as of end September 2013 to record LE 1506.3 billion compared to LE 1238.6 billion as of end of September last year.
- External debt stock stood at 17.3 percent of GDP (US\$ 43.2 billion) of end June 2013, and thereby increased by 25.7 percent compared to end of June 2012 debt stock.
- M2 annual growth continued to rise as of end July 2013 recording 19.5 percent compared to 8.1 percent in July 2012, stimulated by the increase in net domestic assets annual growth, mainly in net claims on government and GASC.
- CPI annual Urban Inflation increased during September 2013 reaching 10.1 percent compared to 9.7 percent during the previous month. Annual core inflation increased notably during September 2013 for the first time since March 2009 recording 11.2 percent, compared to 9 percent during August 2013.
- During the Monetary Policy Committee meeting held on the 31th of October 2013, CBE decided to keep the overnight deposit rate and overnight lending rates at 8.75 percent and 9.75 percent respectively, and to keep the CBE's main operation at 9.25 percent. Moreover, the discount rate was also kept at 9.25 percent.
- Additionally, 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.
- 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 2.1 percent during the fiscal year 2012/2013, compared to a slightly higher growth of 2.2 percent during last year, this feeble growth is the result of several factors:

On the demand side:

- Growth in public consumption by 3.5 percent compared to 3.1 percent in FY 2011/2012.
- The improvement in exports growth by 4.1 percent compared to an annual decline of 2.3 in the previous year.
- Notable deceleration in imports of goods and services, recording a decline of 1.1 percent, compared to a growth rate of 10.8 percent during FY 2011/2012.

However, this growth was counterbalanced by:

- The slowdown of private consumption growth, recording 2.8 percent during FY2012/2013, compared to a growth of 6.5 percent in the last year.
- The negative contribution of Investment spending, recording a negative growth rate of 9.6 percent compared to a positive growth rate of 5.8 percent in FY 2011/2012.

Moreover, GDP (at market prices) for the FY 2012/2013 constant prices stands at LE 1608.6 billion (LE 1753.3 billion in current prices), recording a growth rate of 2.1 percent.

Meanwhile, from the supply side this growth was mainly supported by growth in some sectors including:

- Construction: 5.9 percent growth, constituting 4.6 percent of GDP
- Telecommunications: 4.9 percent growth, constituting 2.6 percent of GDP
- Real estate: 4.2 percent growth, constituting 2.6 percent of GDP
- Insurance and social insurance: 3.1 percent growth, constituting 3.6 percent of GDP
- Financial intermediation: 2.7 percent growth, constituting 3.3 percent of GDP

However growth was hindered by below-potential performance of some sectors including, manufacturing industries (2.3 percent growth, constituting 15.8 percent of GDP); and tourism (6.6 percent growth, constituting 3.2 percent of GDP). In addition, some sectors hindered growth due to their subdued performance including:

- Suez Canal: -3.8 percent growth, constituting 2 percent of GDP
- Extractive industry sectors: -2.7 percent growth, constituting 16.5 percent of GDP

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

Total GDP (at Factor cost)	2011/12 (%)	2012/13
Total GDP (at Factor cost)	2.2%	2.1%
Total Commodity Sector, of Which	0.8%	0.7%
Agriculture, Forestry and Fishing	0.4%	0.4%
Petroleum	0.1%	-0.1%
Natural Gas	-0.1%	-0.4%
Manufacturing Industry	0.1%	0.4%
Construction and Building	0.2%	0.3%
Total Production Services, of which	1.0%	0.9%
Transport and Warehousing	0.1%	0.1%
Telecommunications	0.2%	0.1%
Suez Canal	0.1%	-0.1%
Wholesale and Retail Trade	0.2%	0.3%
Financial Intermediation	0.1%	0.1%
Tourism (Hotels and Restaurants)	0.1%	0.2%
Total Social Services	0.5%	0.5%

Fiscal Performance

According to FY 2012/2013 preliminary actual budget¹ outcomes, the overall budget deficit to GDP ratio increased to 13.7 percent, reaching LE 239.7 billion, compared to LE 166.7 billion during FY 2011/2012. In addition, the primary deficit to GDP increased to 5.3 percent compared to 4 percent during FY 2011/12.

“On the Revenues Side”, total revenues increased by 15.4 percent during the year of study, registering almost LE 350.3 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, in addition to the increase of non-tax revenues by 3.1 percent.

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 19.7 billion during 2012/2013, compared to LE 16 billion during 2011/2012.
 - Second, the increase in income from activity other than employment by 15.3 percent reaching LE 6.4 billion during 2012/2013, compared to LE 5.6 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 69.5 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 16.5 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 13.2 billion compared to LE 9.9 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 increased by 3.1 percent during FY 2012/2013, due to:

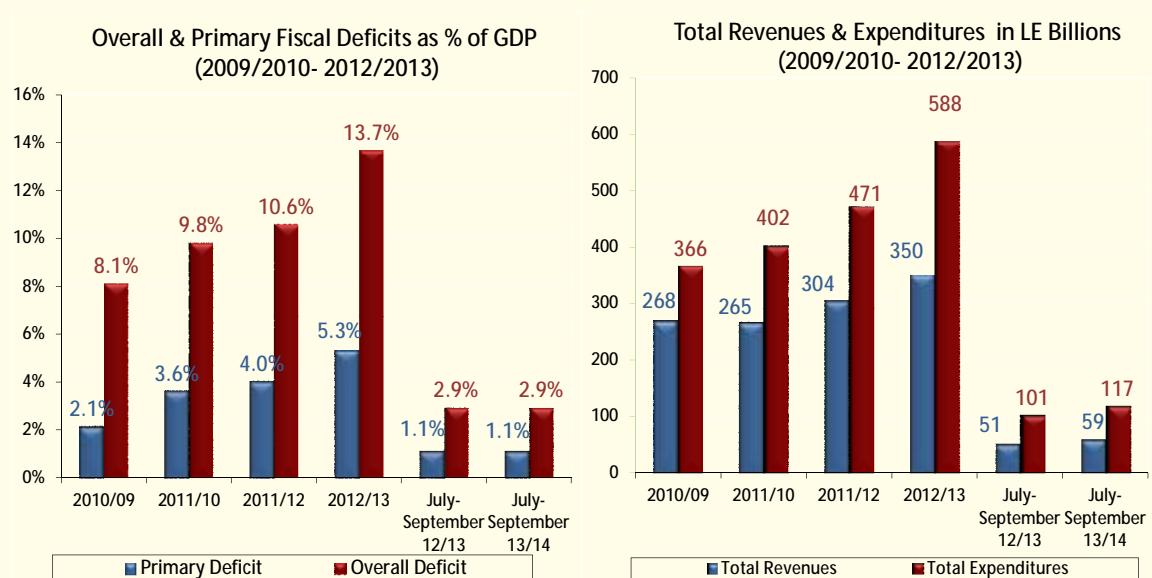
- The increase in Property Income by 0.9 percent recording LE 56.5 billion during the year of study compared to LE 56 billion during 2011/2012
- The increase in Proceeds from Sales of Goods and Services by 27.6 percent recording LE 22.7 billion during the year of study compared to LE 17.8 billion during 2011/2012 due to:
 - The increase in Current revenue from special accounts and funds by 32.6 reaching LE 18.9 billion during 2012/2013, compared to LE 14.3 billion during 2011/2012.
- The increase in Miscellaneous Revenues by 23 percent recording LE 13.7 billion during the year of study compared to LE 11 billion during 2011/2012 due to:

¹ 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.)

- The increase in Current Miscellaneous Revenues by 94.8 reaching LE 6.9 billion during 2012/2013, compared to LE 3.5 billion during 2011/2012.

“On the Expenditures Side”, total expenditures increased notably during FY 2012/2013 by 24.9 percent, recording LE 588.2 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, which declined by 0.6 percent recording LE 26.7 billion during 2012/2013 compared to LE 26.8 billion during 2011/2012, due to the decline in purchase of services by 1.9 percent recording LE 11.3 billion during the period of study compared to LE 11.5 billion during last year.
- However, Compensation of Employees have increased by 16.4 percent recording almost LE 143 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 8.6 billion up to LE 61.3 billion,
 - Increase in Permanent Staff (basic pay) by LE 4 billion up to LE 24 billion
 - The increase in Specific Allowances by LE 6 billion up to LE 17.3 billion.
- Moreover, Interest payments (which represent almost 25 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, which can be explained in light of :
 - First, 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 the increase in treasury bonds by LE 12.4 billion up to LE 37.4 billion during the year of study.
 - Second, the increase in interest on loans to finance investments by LE 1.4 billion percent reaching LE 17.7 billion during FY 2012/2013, compared to LE 16.3 billion during last FY year.
 - Third, the increase in interest on foreign debt by LE 0.5 billion reaching LE 3.9 billion during FY 2012/2013, compared to LE 3.4 billion during last FY year.
- Meanwhile, Subsidies, grants and social benefits (which represent almost 33.5 percent of total Expenditures) have increased by 31.2 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 25.6 billion to LE 120 billion,
 - In addition to the increase in food subsidies by LE 2.3 billion.
- On the other hand, both of Other expenditure and Purchases of non-financial assets (investments) increased by 13.6 percent and 10 percent to LE 35 billion, and LE 39.5 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- September” of the fiscal year 2013/2014” showed that:

The overall budget deficit ratio stabilized at 2.9 percent of GDP, during the first quarter of the fiscal year 13/14 reaching LE 59.9 billion, compared to LE 50.8 billion during July- September 2012/2013. Moreover, the primary deficit to GDP stabilized at 1.1 percent during the period of study, compared to the period July-September 2012/2013.

“On the Revenue Side”, total revenues increased notably by 15.7 percent during the period of study, registering LE 58.6 billion compared to almost LE 50.7 billion during same period last year.

- The recorded increase is principally due to the 78.6 percent increase in non-tax revenues, which counterbalanced the slight decrease in tax revenues by 0.8 percent.

The slight decrease in Tax Revenues could be explained in light of the declaration in proceeds from:

- Income Tax decreasing by 21 percent to record LE 12.3 billion during the period of study compared to LE 15.6 billion during July- September 2012/2013, mainly due to:
 - The notable decline in proceeds from Taxes on corporate profit by 32.4 percent, reaching LE 7.2 billion during the period of study compared to LE 10.7 billion, which could be explained in turn by the decrease in proceeds from Suez Canal by 16.4 percent to LE 2.3 billion compared to LE 2.8 billion during the same period last year.
 - The decrease in Proceeds from other companies by 12.9 percent reaching LE 2.4 billion compared to LE 2.7 billion during the same period last year.
- Taxes on International Trade also decreased by 8.7 percent reaching LE 3.1 billion during the period of study compared to LE 3.4 billion during July-September 2012/2013.
- The above mentioned decrease in tax Revenues was counterbalanced by the increase in the following chapters:
 - Property Tax increased by 24.6 percent reaching LE 4.8 billion compared to LE 3.9 billion during July- September 2012/2013.
 - Tax on Goods and Services increased by 13.7 percent reaching LE 19.3 billion compared to LE 17 billion during July- September 2012/2013.

Non- Tax Revenues increased notably, mainly due to:

- The significant increase of Grants reaching LE 7 billion during July- September 2013/2014 compared to LE -0.2 billion recorded during the same period last year, which could be mainly explained in light of the grant offered by the United Arab Emirates during the period of study amounting US\$ 1 billion.
- The notable increase of Property Income by 30.7 percent, reaching LE 7.9 billion during July- September 2013/2014 compared to LE 6 billion recorded during the same period last year.
- The above mentioned increase in tax revenues was counterbalanced by the decrease in sales of goods and services by 21.7 percent reaching LE 2.7 billion compared to LE 3.5 billion during July- September 2012/2013; mainly due to the decline in current revenues from special accounts and funds, owing to the revision of the proceeds' portion transferred to the state budget from 20 percent to 10 percent of the total monthly revenues of those funds, according to the law number 19 for the year 2013.

"On the Expenditures Side" total expenditures increased during July- September 2013/2014 by 15.7 percent, recording LE 117.2 billion compared to LE 101.3 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 about 38 percent of total expenditures and 76.5 percent of total revenues) increased notably by 38.5 percent to LE 44.9 billion during July- September 2013/2014 compared to LE 32.4 billion during the same period last year, mainly due to:
 - The significant increase of salaries and wages in cash and in kind by 37 percent recording LE 36.9 billion during the period of study compared to LE 26.9 billion during July-September 2012/2013, mainly due to the increase in "Rewards" by almost LE 7 billion, and "Permanent Staff" (basic Pay) by LE 1.2 billion, and the increase in "Specific Allowances" by LE 1.6 billion.
- Interest payments (which represent almost 31.9 percent of total expenditures and 63.7 percent of total revenues) increased significantly by 18.4 percent recording almost LE 37.4 billion during July- September 2013/2014, compared to LE 31.6 billion during the same period last year, due to:
 - The increase in interest on treasury bills and bonds on the Government state budget by 16.7 percent reaching LE 30.8 billion during July- September 2013/2014, compared to LE 26.3 billion during the same period of last year.
 - In addition to the increase in interest on loans to finance investments by 33.5 percent reaching LE 5.5 billion during July- September 2013/2014, compared to LE 4.1 billion during the same period of last year.
 - Moreover, the slight increase in interest on foreign debt by 2.5 percent reaching LE 1.17 billion during July- September 2013/2014, compared to LE 1.14 billion during the same period of last year.
- Other Expenditure increased by 4.1 percent recording almost LE 8 billion during July- September 2013/2014, compared to LE 7.8 billion during the same period last year, due to:
 - The increase of Contingency Reserves by 6.9 percent recording LE 7.8 billion during the period of study compared to LE 7.3 billion during July-September 2012/2013.
- Purchases of Non-Financial Assets (Investments), increased by 1.5 percent recording almost LE 3.6 billion during July- September 2013/2014, compared to LE 3.5 billion during the same period last year, due to:
 - The increase of Direct investment (including customs fees) by 7.7 percent recording LE 3.3 billion during the period of study compared to LE 3 billion during July-September 2012/2013.

Domestic Debt Profile

As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks¹ at three different levels of compilation; the Budget Sector, General Government and the Public Sector².

Domestic Budget Sector Debt

- Recent statistics show that domestic budget sector debt increased to 73.5 percent of GDP as of end of September 2013 to some LE 1506.3 billion compared to LE 1238.6 billion as of end September 2012 (70.6 percent of GDP).
- Net domestic budget sector debt reached LE 1315.6 billion (64.2 percent of GDP).
- Accumulated budget sector debt at end of September was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of September 2013 amount to LE 503.3 billion (including the Dollar and Euro bills) and LE 319.7 billion, respectively versus 417 billion and 296.6 billion at end of September 2012, reflecting government's growing borrowing needs.

Gross Domestic Debt of the General Government

- Gross domestic debt of the general government amounts to LE 1422.5 billion (69.4 percent of GDP) at end of September 2013, compared to some LE 1156.4 billion (66 percent of GDP) at end of September last year.
- Net domestic debt of the general government reached some LE 1222 billion (59.6 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 11.9 billion amounting to almost LE 200.8 billion at end of September 2013.

Gross Domestic Public Debt

- Gross domestic public debt reached LE 1458.6 billion (71.1 percent of GDP) at end of September 2013, compared to LE 1190.8 billion at end of September last year (67.9 percent of GDP).
- Net domestic public debt increased to reach LE 1242.5 billion (60.6 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 266 billion to reach 1422.5 billion.

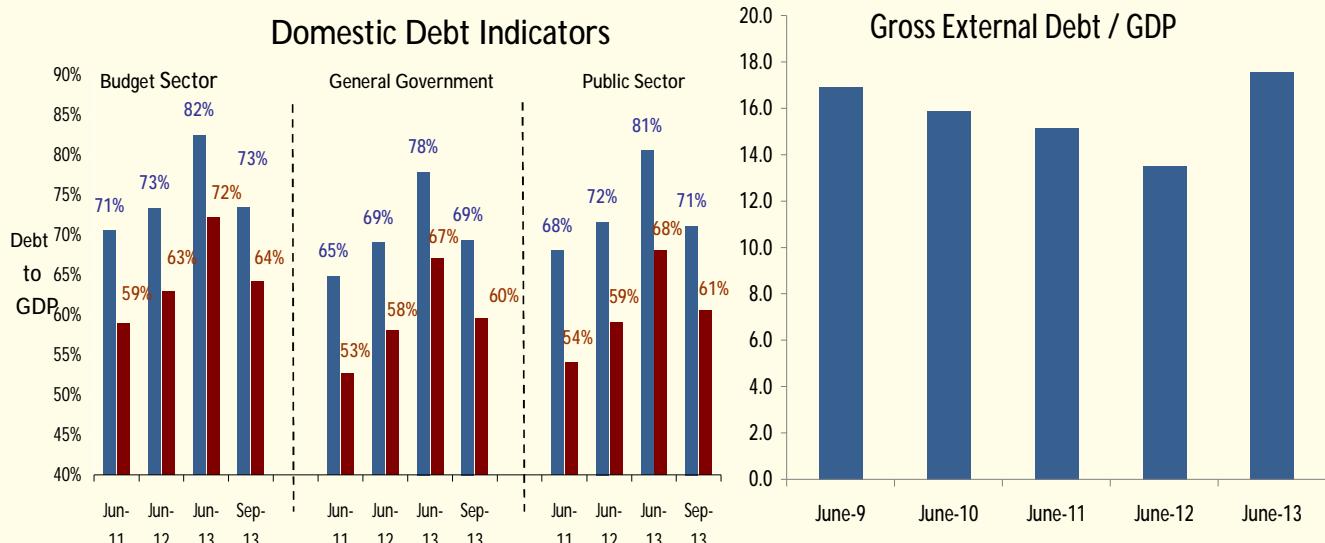
Meanwhile, domestic debt service increased by almost 66 percent to reach LE 203.2 billion at end of September 2013, compared to LE 122.3 billion during the same period last year.

The average life to maturity of outstanding T-bonds and T-bills decreased slightly to 1.4 years at end of September 2013 compared to 1.5 at end of September 2012. Moreover, average interest rates on

¹ Consolidated debt stocks exclude interrelated debt between entities at each level of compilation.

² 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.

outstanding stock of T-bills and T-bonds decreased to 12.98 percent at end of September 2013 compared to 13.85 percent at end of September 2012.



Egypt External Debt increased notably at end of June 2013 compared to June 2012

- External debt stock recorded US\$ 43.2 billion at end of June 2013, increasing by 25.7 percent on annual basis, compared to US\$ 34.4 billion at end of June 2012.
- The ratio of external debt to GDP increased from 13.2 percent of GDP at end June 2012 to 17.3 percent of GDP at end June 2013.
- The notable annual increase in non-government external debt can be explained in light of the significant rise in the monetary authorities external debt ; increasing during the first half of the fiscal year 2012/2013 mainly due to the USD 1.5 billion that were deposited in CBE as part of a Qatari financial assistance pledge. Moreover, monetary authorities continued to increase during the second half of the year in study in light of an additional Qatari deposit worth USD 3 billion, as well as the USD 2 billion from Libya for 8 years with zero interest rate .
- Meanwhile, government external debt annual growth increased by 11.3 percent to reach US\$ 28.5 billion (66 percent of total external debt) as of end of June 2013 compared to US\$ 25.6 billion (74.4 percent of total external debt) at end of June 2012[‡].

[‡] 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 August 2013 is not yet available)

Total Liquidity

Growth in total liquidity continued to escalate reaching 19.5 percent (1.5% m-o-m) to register LE 1316.2 billion in July 2013, compared to 8.1 percent a year earlier. This trend has been at play since the early 2012, as the treasury continued to rely heavily on domestic credit to finance the expanding budget deficit.

“From the assets side”, buoyant growth in government borrowing – through credit facilities and securities held by banks – remain to be the main driver behind growth in total liquidity. On a more detailed level data shows that;

- Annual growth in net claims on government and GASC recorded 37.3 percent, which amounted to almost 104.4 percent of annual liquidity growth reaching LE 822.9 billion.
- Moreover, credit to the private sector grew by 10.2 percent y-o-y, which brought the stock of outstanding credit to the private sector to LE 497.4 billion.
- Meanwhile, net claims on the public business sector annual growth reached 5.9 percent to record LE 43.6 billion.
- This has led to an increase of 23.8 percent in Net Domestic Assets (NDA) of the banking system annual growth ; recording LE 1170.5 billion during the month of study.
- On the other hand, Net Foreign Assets (NFA) of the banking system has continued to contract despite sizable aid flows during the past twelve month. During the year ending July 2013, NFA of the banking annual growth recorded a slower contraction of 6.7 percent reaching LE 145.7 billion at end of July 2013 as;
 - Central Bank’s NFA witnessed an annual decline of 35.7 percent to record LE 44.7 billion, compared to -51 percent at end of July 2012.
 - While NFA of other banks recorded an annual growth of 16.7 percent reaching LE 101 billion, compared to a decline of 22.6 percent for the same month last year.

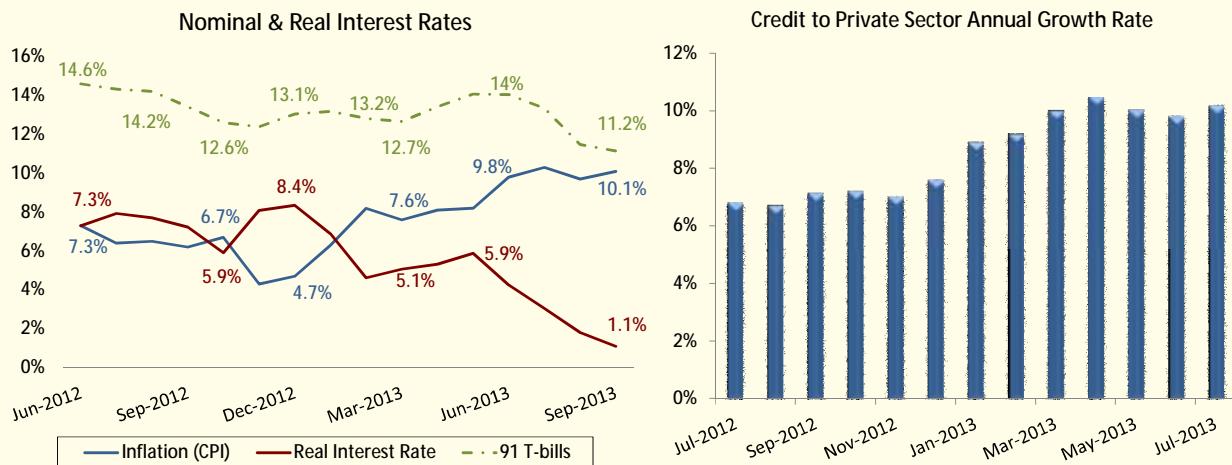
“From the liabilities side”,

- Quasi money annual growth increased during the month of study reaching 16.9 percent to record LE 962.3 billion, compared to 7.7 percent in July 2012.
- Moreover, money (M1) increased y-o-y recording 27 percent in July 2013 to LE 353.9 billion, compared to 9.5 percent a year earlier.

Net International Reserves (NIR)

- NIR shed by US\$ 0.2 billion to record US\$ 18.7 billion in September 2013, down from US\$ 18.9 billion in August 2013. The month of September witnessed a monthly decrease of 1.1 percent over the previous month, and annual deceleration of 24.3 percent.
- It is important to highlight that the CBE has received an amount of US\$ 2 billion as deposit from Kuwait in September 2013, while during the same month Egypt has

returned US\$ 2 billion in deposits to Qatar – as the deal to convert them to bonds failed. Therefore the net effect on aid flows in September 2013 is zero.



Loans and Deposits

- Annual growth in total deposits with the banking sector (excluding CBE) increased at the end of July 2013 recording 17.6 percent registering LE 1210.7 billion, compared to 5.8 percent recorded in July 2012. Out of total deposits, 88.7 percent belonged to the non-government sector at end of July 2013.
- Moreover, annual growth rate in total lending by banking sector (excluding CBE) increased during the year ending July 2013 recording 8.9 percent compared to 6.3 percent recorded a year earlier. This brings total loans to almost LE 550.3 billion at end of July 2013. On a more detailed level, annual growth in total lending to non-government sector registered 8.9 percent to reach LE 514 billion at end of July 2013. Moreover, annual growth in total lending to government sector increased by 9.3 percent to register LE 36.3 billion.
- As for the loans-to-deposits ratios, local currency loans-to-deposits decreased at end of July 2013 registering 42.5 percent, compared to 46.3 percent in July 2012. Moreover, loans-to-deposits ratio in foreign currencies decreased on annual basis registering 54.5 percent at the end of July 2013, compared to 58.1 percent in July 2012.

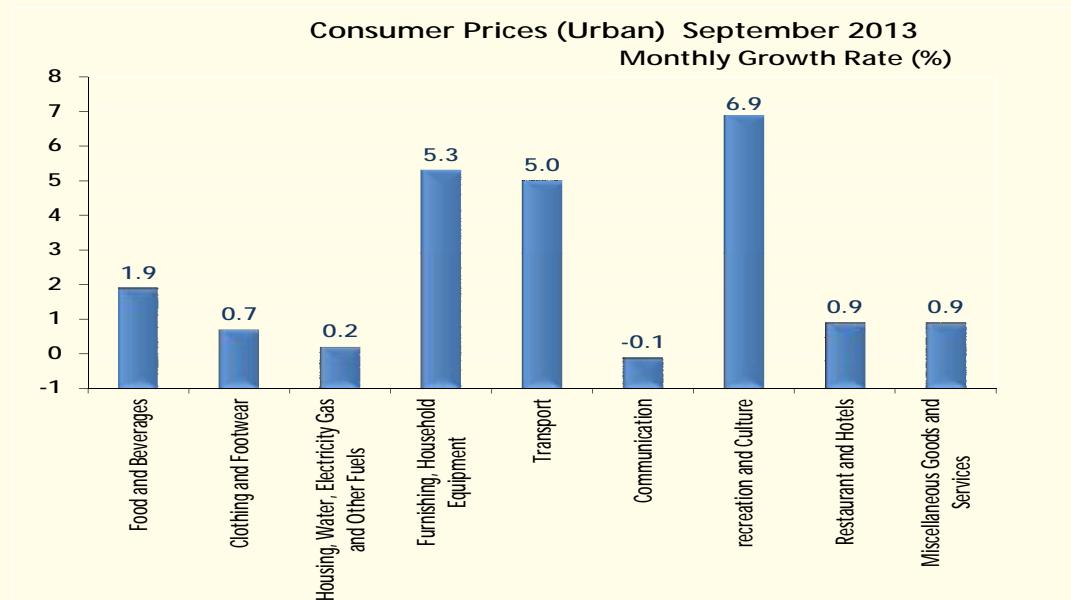
Dollarization Ratios

- Dollarization in total liquidity decreased slightly at end of July 2013 recording 17.2 percent compared to 17.3 percent during last month, while increased if compared to 16.9 percent recorded in July 2012.
- On the other hand, dollarization in total deposits increased during July 2013 recording 24.8 percent, compared to 24.4 percent last month and compared to 23.7 percent at end of July 2012.

Prices

Annual CPI headline inflation in urban areas increased during *September 2013* recording 10.1 percent compared to 9.7 percent during the previous month, and compared to an average of 8.5 percent during the first eight months of the year 2013. The y-o-y increase in CPI Headline inflation is largely attributed to:

- The increase in domestic demand during the month of study and the reduction in curfew hours.
- The rise in inflationary pressures due to other seasonal factors among which the beginning of school year and Haj Season.
- The increase in annual inflation rates of other main groups, on the top of which ; "Food and Beverages" (Weight 44.2%), and "Clothing and Footwear" (Weight 5.8%), "Furnishing, Household Equipment" (Weight 3.6%), and " Recreation and Culture" (Weight 2%).

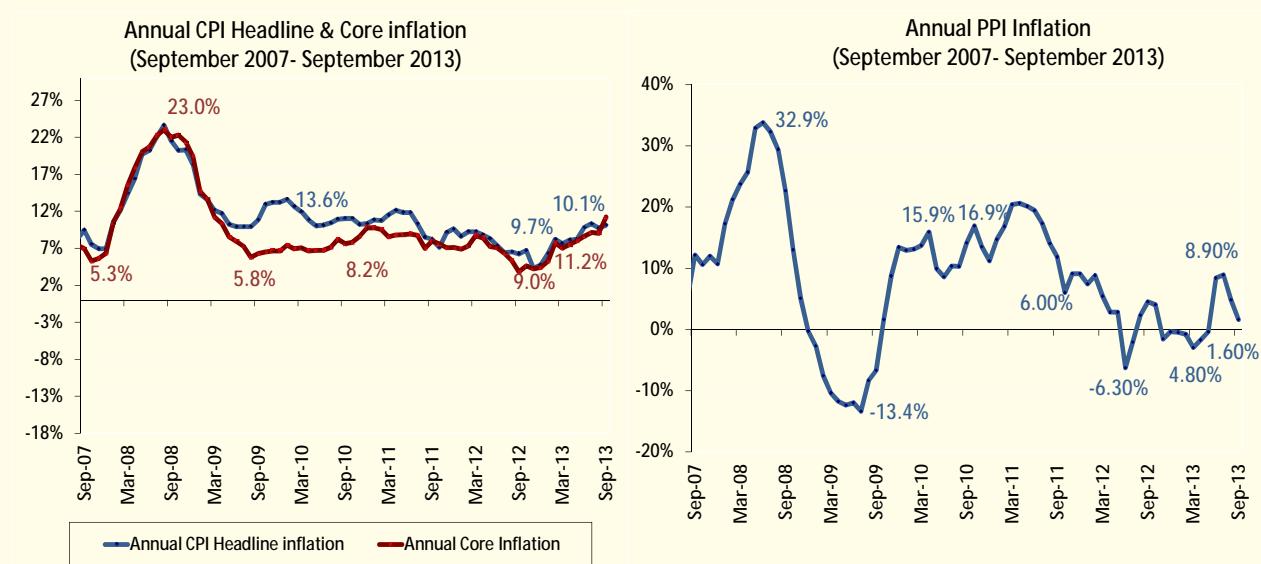


Furthermore, monthly inflation rate increased recording 1.6 percent during September 2013, compared to 0.7 percent recorded in the previous month, and compared to an average of 1.1 percent during the first eight months of the year 2013.

According to CBE inflation report, annual core inflation increased significantly - for the first time since March 2009 - recording 11.2 percent during September 2013, compared to 9 percent during the previous month, and compared to 3.8 percent recorded during the same month last year.

As for producer prices, y-o-y PPI inflation decreased significantly to 1.6 percent during September 2013 compared to 4.8 percent recorded during August 2013, and compared to 4.5 percent recorded during September 2012. Mainly due to:

- The significant deceleration in "Agriculture, Forestry and Fishing" recording -0.8 percent during September 2013 compared to an increase of 9.7 percent during the previous month.



During the Monetary Policy Committee meeting held on the 31th of October 2013, CBE decided to keep the overnight deposit rate and overnight lending rates at 8.75 percent and 9.75 percent respectively, and to keep the CBE's main operation^o at 9.25 percent. Moreover, the discount rate was also kept at 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 2012/2013 remains weak partly subdued by the weak performance in most of key sectors, namely manufacturing, and tourism, in addition to the contraction in the extraction sector.
 - 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 several food prices, combined with a number of non- food prices (due to the seasonable effects of Haj, and the start of school season).
 - To that end, the upside risks to the inflation outlook is balancing the present downside risks to growth. Therefore, MPC judges that the current key CBE rates are appropriate.

The Central Bank of Egypt announced on September 4th, 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.

^o 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) 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.

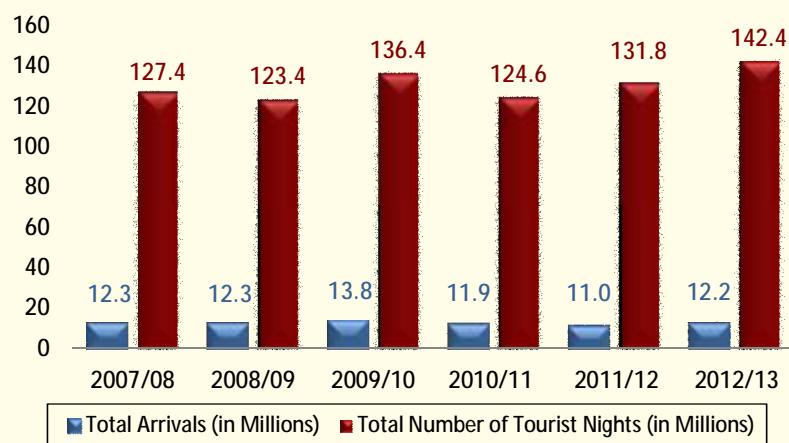
On the other hand, the Capital and Financial Account witnessed a notable increase in net inflows recording US\$ 9.7 billion during the year of study as a result of:

- 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

- Total number of tourists arrivals decelerated during the month of July 2013 by 25 percent reaching 0.8 million tourists (on the backdrop of political demonstration at end of June 2013), compared to 1 million tourists in July 2012. Moreover, number of tourists nights decreased by 40 percent to record 6.8 million in July 2013, compared to 11.4 million in July 2012.
- It is noteworthy that tourism receipts increased by 3 percent during 2012/2013 to record US\$ 9.7 billion compared to US\$ 9.4 billion 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 of 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 increased by 353 points during September 2013, reaching 5621 compared to 5268 during August 2013, which could be partially explained in light of the relative political stability the country witnessed recently.
- Moreover, market capitalization increased by 6.5 percent m-o-m during the month of study to reach LE 378 billion (18.4 percent of GDP) compared to a LE 355 billion during the previous month.