Foreword

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.

Minister of Finance

Dr. Ahmed Galal

Executive Summary

In light of the current political evolution, and the challenges currently facing Egypt; Egypt's economic indicators come as a typical representation of the challenging situation facing the country, and its impact on budget performance.

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. Noteworthy, the government has already adopted expansionary policies targeting increasing public investment in infrastructure aiming at stimulating GDP growth rate over the upcoming years.

Budget deficit recorded almost 3.6 percent of GDP in the period July-October 2013/2014, reaching LE 74.6 billion (compared to LE 69.6 billion during July- October 2012/2013). It is worth mentioning that the government is currently adopting fiscal consolidation policies aiming at achieving macroeconomic stability, while improving the efficiency of public investment and public debt.

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 recorded US$ 47 billion at end of September 2013, compared to US$ 34.7 billion at end of September 2012. External debt as percent of GDP recorded 15.8 percent at end of September 2013, which remains low if compared to average of peer countries (Middle East and North Africa countries recorded an average of 25.5 as percent of GDP during the year 2013)**.**

M2 annual growth continued its accelerating trend reaching **19.2 percent** as of end August 2013 compared to **8.9 percent** in August 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 October 2013 to **10.4 percent** from 10.1 percent during the previous month**. Annual core inflation stabilized** at 11.1 percent during October 2013 compared to 11.2 percent during September 2013 (the highest inflation since March 2009), and compared to 4.6 percent during October 2012.

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.**

In an attempt to absorb excess liquidity and to protect the domestic currency, the CBE announced the reintroduction of deposit operations. In this context, on December 3, 2013, the CBE introduced LE 45 billion worth of 7-day maturity at a fixed annual interest rate of 9.25 percent.

BOP showed a significant improvement during the FY 2012/2013 recording an overall surplus – for the first time in three years – of **US$ 237 million,** compared to an overall deficit of **US$ 11.3 billion** in the previous year, and a five-year average deficit of US$ 3.1 billion.

Real GDP Growth

Real GDP grew by **2.1 percent** during the fiscal year 2012/2013, slightly below the annual growth rate of 2.2 percent last year. Consumption and net exports (exports minus imports) contributed positively, whereas investment growth remains subdued.

<u>The main drivers of economic growth on the demand side were as follows:</u>

Substantial growth in **public consumption** by 3.5 percent compared to 3.1 percent in FY 2011/2012, while contributing to real GDP growth by 0.4 percentage points (PPT).

Private consumption continued to grow yet at a slower pace (2.8 percent YoY), compared to 6.5 percent during 2011/2012, while contributed to real GDP growth by the highest share of **2.3 PPT**.

The improvement in **exports** recording an annual growth of 4.1 percent compared to an annual decline of 2.3 in the previous year, contributing to real GDP growth by 0.7 PPT.

However, this growth was counterparted by:

Imports of goods and services contributed to real GDP growth by -0.3 PPT, despite the notable annual deceleration, recording an annual decline of 1.1 percent, compared to a growth rate of 10.8 percent during FY 2011/2012.

The negative contribution of **investment** spending, worth 1.6 PPT, 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 **<u>the supply side</u>** this growth was mainly supported by notable 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
- **Tourism**: 6.6 percent growth, constituting 3.2 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).
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	PPT	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 actual budget 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:
    - 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 :

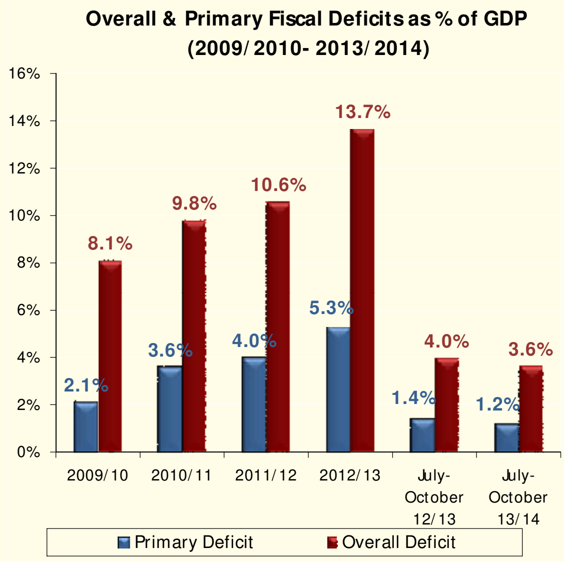
    - **First**, the increase in interest on treasury CBE Bonds by LE 11 billion up to LE 22.2 billion during FY 2012/2013, In addition to the increase in interest on treasury bills by LE 15 billion up to LE 51.3 billion during the year of study, and the increase in treasury bonds by LE 12.4 billion up to LE 37.4 billion during the year of study.

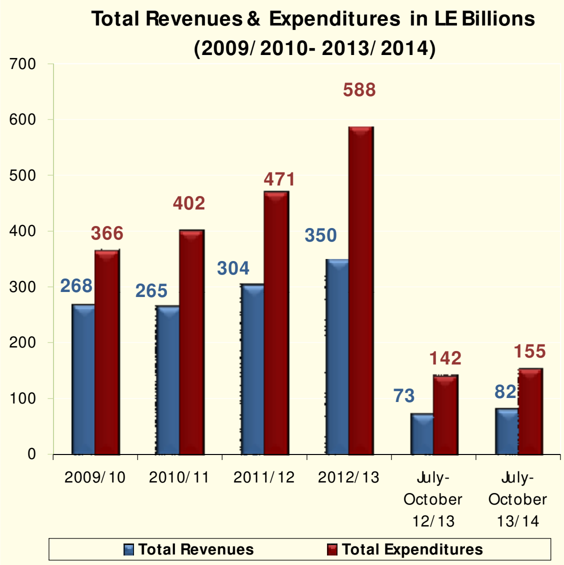
    - **Second, the increase in** interest on loans to finance investments by LE 1.4 billion percent reaching LE 17.7 billion during FY 2012/2013, compared to LE 16.3 billion during last FY year.

    - **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- October" of the fiscal year 2013/2014" showed that:

Overall budget deficit recorded almost 3.6 percent of GDP, during July- October 2013/2014 reaching LE 74.6 billion, compared to LE 69.6 billion during July- October 2012/2013. Moreover, the ***primary deficit to GDP*** recorded 1.2 percent during the period of study, as result of a dual impact of both revenues and expenditures.

"On the Revenue Side", total revenues increased by 12.6 percent during the period of study, registering LE 81.9 billion compared to almost LE 72.8 billion during same period last year.

- The recorded increase is principally due to the 52.7 percent increase in non-tax revenues, in addition to a feeble growth of 0.6 percent in Tax Revenues.

The slight increase in ***Tax Revenues*** could be explained in light of the increase in proceeds from:

- **Property Taxes** increased by 21.5 percent reaching LE 7 billion compared to LE 5.7 billion during July- October 2012/2013. This comes due to the increase of taxes on treasury bills and bonds by 26 percent reaching LE 6 billion during the period of study compared to the same period of last year.

- **Taxes on Goods and Services** increased by 10.3 percent reaching LE 26 billion compared to LE 23.6 billion during July- October 2012/2013.

Meanwhile, the above mentioned increase in tax Revenues was counterparted by the decrease in:

- **Taxes on Income, Capital Gains and Profits,** decreasing by 14 percent to record LE 18.9 billion during the period of study compared to LE 22 billion during July- October 2012/2013, mainly due to:
  - The notable decline in proceeds from Taxes on corporate profit by 28 percent, reaching LE 11 billion during the period of study compared to LE 15.3 billion, which could be explained in turn by the decrease in proceeds from Suez Canal by 44.6 percent to LE 2.3 billion compared to LE 4.2 billion during the same period last year, as Suez Canal has not transferred taxes on corporate profit payments during the month of October 2013.

- **Taxes on International Trade** also decreased by 6.2 percent reaching LE 4.2 billion during the period of study compared to LE 4.4 billion during July-October 2012/2013.

On the other hand, Non- Tax Revenues increased notably by 52.7 percent during the period of study, mainly due to:

  - The significant increase of **Grants** reaching LE 7 billion during July- October 2013/20104 compared to LE -0.1 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 **Proceeds from Sales of Goods and Services** by 92.7 percent, reaching LE 8.3 billion during July- October 2013/20104 compared to LE 4.3 billion recorded during the same period last year, due to the increase in **Current Revenue from Special Accounts and Funds** by 108.7 percent reaching LE 7.2 billion during the period of study compared to LE 3.5 billion recorded during the same period of last year.
  - This abovementioned increase was counter parted by the decrease in receipts from the Central Bank and, Suez Canal by 7 percent, and 22 percent respectively compared to the same period of last year.

- The increase in **Miscellaneous Revenues** by 6.8 percent reaching LE 1.8 billion during July- October 2013/20104 compared to LE 1.7 billion recorded during the same period last year.

"On the Expenditures Side" total expenditures increased during July- October 2013/2014 by 9.3 percent, recording LE 154.9 billion compared to LE 141.7 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 **36.9 percent of total expenditures and 69.7 percent of total revenues**) increased notably by 26.4 percent to LE 57.1 billion during July- October 2013/2014 compared to LE 45.2 billion during the same period last year, mainly due to:
    - The significant increase of salaries and wages in cash and in kind by 9.4 billion recording LE 47 billion during the period of study compared to LE 37.5 billion during July-October 2012/2013, mainly due to:
        - The increase in "Rewards" by almost LE 6.6 billion,
        - The increase in "Specific Allowances" by LE 2.2 billion,
        - the increase in "Permanent Staff" (basic Pay) by LE 1 billion.
- **Interest payments** (which represent almost **32.5 percent of total expenditures and 61.4 percent of total revenues**) increased significantly by 12 percent recording almost LE 50.3 billion during July- October 2013/2014, compared to LE 44.9 billion during the same period last year, due to:
    - The increase in interest on **Non-Government Domestic debt** including; the increase in interest on treasury bills by 8.5 percent reaching LE 19.4 billion during July- October 2013/2014, compared to LE 17.9 billion during the same period last year, in addition to the increase in interest on treasury bonds by 13.3 percent reaching LE 17.8 billion during July-October 2013/2014, compared to LE 15.7 billion during the same period of last year.
    - Moreover, the increase in interest on foreign debt by 13 percent reaching LE 1.7 billion during July- October 2013/2014, compared to LE 1.5 billion during the same period of last year.
- **Other Expenditure** increased by 6.2 percent recording almost LE 11.2 billion during July- October 2013/2014, compared to LE 10.6 billion during the same period last year, due to:
    - The increase of Contingency Reserves by 5 percent recording LE 10.5 billion during the period of study compared to LE 10 billion during July-October 2012/2013.
- **Meanwhile, Subsidies Grants and Social benefits, and Purchases of Non-Financial assets** increased by 14.8 percent, and 5 percent, recording almost LE 25 billion, and LE 5.9 billion during July- October 2013/2014, compared to LE 29.3 billion, and LE 6.2 billion during the same period last year.

Domestic Debt Profile

As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks[1] at three different levels of compilation; the Budget Sector, General Government and the Public Sector[2].

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)

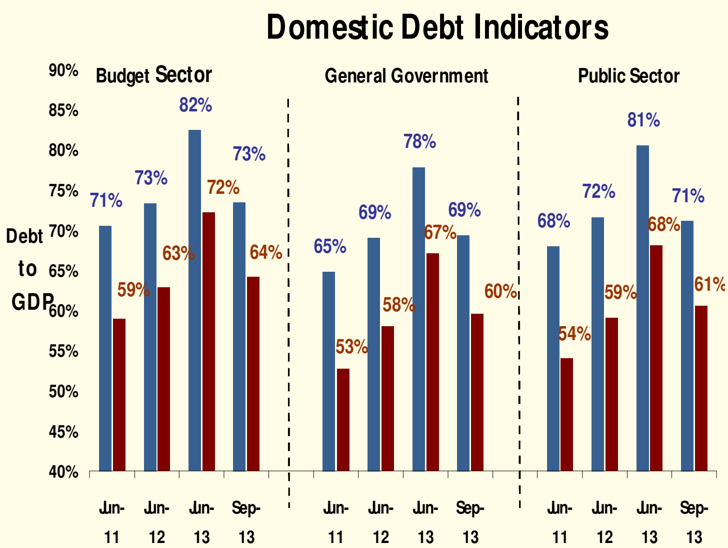
- The increase in gross domestic public debt can be explained in light of the increase in accumulated debt of the general government by **266** billion to reach **1422.5** billion.

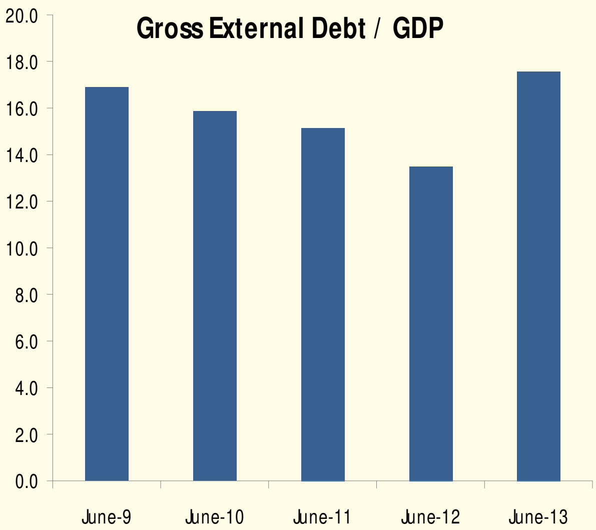
[1] Consolidated debt stocks exclude interrelated debt between entities at each level of compilation.

[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.

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 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.





External Debt

External debt stock recorded US$ 47 billion at end of September 2013, compared to US$ 34.7 billion at end of September 2012, which is considered within acceptable limits if compared to average of peer countries (Middle East and North Africa countries) recording US$ 852.7 billion at 2013.

- ***The ratio of external debt to GDP*** reached 15.8 percent of GDP at end September 2013, which is considered within average limits compared to peer countries (Middle East and North Africa countries), as the average of these countries recorded 25.5 percent at 2013.

- ***External debt solvency and liquidity indicators***:

  - External debt service to exports and services ratio has been unchanged since 2008/2009 with 6.4 percent till 2012/2013. This indicates a safe level to meet debt service obligations.

  - Short term debt to total external debt ratio slightly increased from 8.48 percent at the end of September 2012 to 8.52 percent at end of September

2013. This indicates an increased reliance by the government on short term financing.

- ***Despite the annual increase in the government external debt, its weight of total external debt has been decreased***
  - Government external debt annual growth increased by 15.6 percent to reach US$ 29.4 billion (62.5 percent of total external debt) as of end of September 2013 compared to US$ 25.4 billion (73.2 percent of total external debt) at end of September 2012[3].

- ***The annual increase in non-government external debt can be explained in light of the significant rise in the monetary authorities external debt***

  - This increase during the first half of the fiscal year 2012/2013 was mainly due to the US$ 1.5 billion that were deposited in CBE as part of a Qatari financial assistance pledge. Moreover, monetary authorities external debt continued to increase due to the additional Qatari deposit worth US$ 3 billion, as well as the US$ 2 billion from Libya (for 8 years with zero interest rate) received during the second half of 2012/2013.

Monetary Developments

[3] 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 noteworthy that detailed data for September 2013 is not yet available)

Total Liquidity

Total liquidity continued to grow notably recording an annual growth of 19.2 percent in August 2013 to register LE 1329.5 billion, compared to 8.9 percent a year earlier. This trend has been at play since mid-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 35.5 percent, which amounted to almost 102 percent of annual liquidity growth reaching LE 833.4 billion. This occurred as **credit facilities** to the government from the CBE almost doubled, and the stock of government **securities** held by commercial banks jumped by **20.6 percent**.

- Moreover, **credit to the private sector** grew by 9.4 percent Y-o-Y, bringing the stock of outstanding credit to the private sector to LE 496.1 billion.

- Meanwhile, **net claims on the public business sector** annual growth stabilized at 5.9 percent for the second month in a row to record LE 44.1 billion.

- All the above mentioned factors led to an annual increase of 24.2 percent in **Net Domestic Assets (NDA)** of the banking system annual growth; recording LE 1194.7 billion (58.3% of GDP) 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. This is justified in light of the increasing foreign liability of the Central Bank as most of foreign aid assistance to the country came in the form of deposits at the CBE. During the year ending August 2013, NFA of the banking annual growth recorded a slower contraction of 12.3 percent reaching LE 134.8 billion at end of August 2013 as;

    - **Central Bank's NFA** witnessed an annual decline of 36.6 percent to record LE 44.9 billion, compared to -48.5 percent at end of August 2012.

    - While **NFA of other banks** recorded an annual growth of 8.5 percent reaching LE 89.9 billion, compared to a decline of 21.2 percent at the same month last year.

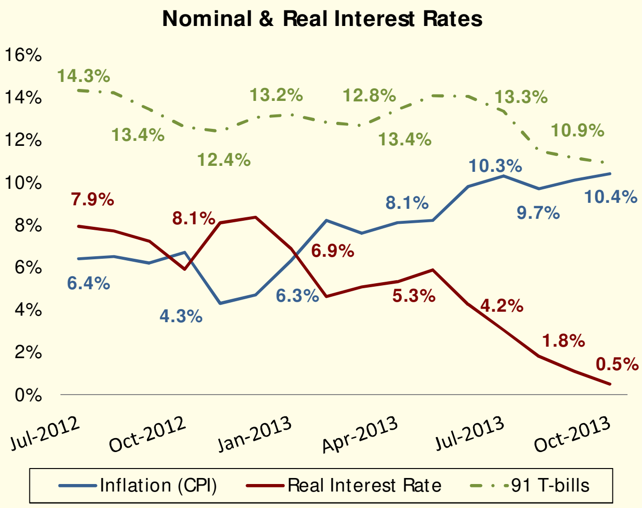
"From the liabilities side",

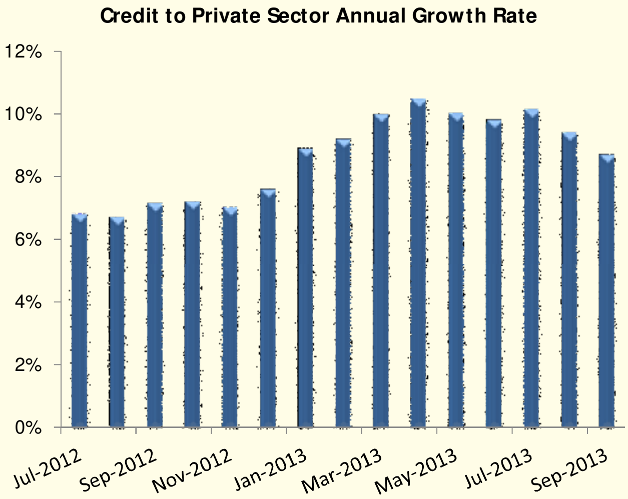
- **Quasi money** annual growth increased during the month of study reaching 16.2 percent to record LE 966.5 billion, compared to a growth of 8.8 percent in August 2012.

- Moreover, **money (M1)** increased notably y-o-y recording 27.9 percent in August 2013 to LE 363 billion, compared to an annual growth of 9.1 percent a year earlier.

Despite the monthly decrease, NIR records 20.2 percent annual growth

- During October 2013, ***Net International Reserves (NIR)*** has shed US$ 0.1 billion to record US$ 18.6 billion, down from US$ 18.7 billion in September 2013. It is worth noting that Y-o-Y growth in NIR amounts to 20.2 percent. Since the beginning of the fiscal year, NIR has increased by US$ 3.7 billion.





Loans and Deposits

- Annual growth in **total deposits** with the banking sector (excluding CBE) continued to pick-up at the end of August 2013 recording 17.5 percent registering LE 1.2 trillion, compared to 6.5 percent a year earlier. This comes on the back of monetary easing by the CBE as evidenced by aforementioned expansion in reserve money. It is worth noting that out of total deposits, 88.7 percent belonged to the non-government sector at end of August 2013.

- Moreover, annual growth rate in **total lending by banking sector** (excluding CBE) increased during the year ending August 2013 recording 8.9 percent compared to 6.1 percent recorded a year earlier. This brings total loans to almost LE 550.4 billion at end of August 2013. On a more detailed level, annual growth in total lending to non-government sector registered 8.8 percent to reach LE 513.3 billion at end of August 2013. Moreover, annual growth in total lending to government sector increased by 9.9 percent to register LE 37 billion.

- As for the **loans-to-deposits ratios**, local currency loans-to-deposits decreased at end of August 2013 registering 42.1 percent, compared to 46 percent in August 2012. Moreover, loans-to-deposits ratio in foreign currencies also declined on annual basis registering 54.9 percent at the end of August 2013, compared to 58 percent in August 2012.

Dollarization Ratios

- **Dollarization in total liquidity** decreased at end of August 2013 recording 16.7 percent compared to 17.2 percent during last month and compared to 16.8 percent recorded in August 2012.

- Moreover, **dollarization in total deposits** decreased during August 2013 recording 24.5 percent, compared to 24.8 percent last month, while increased if compared to 23.6 percent at end of August 2012.

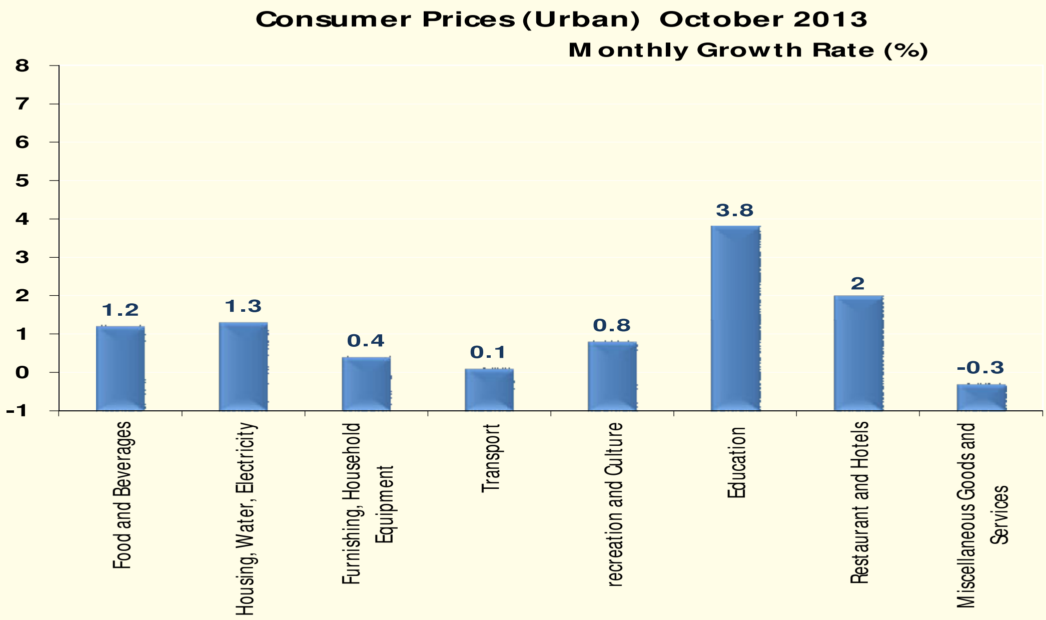
Prices

Annual CPI headline inflation in urban areas **increased during *October* 2013** to **10.4** percent from 10.1 percent during the previous month, and way above average inflation of **8.7 percent** recorded during the first nine months of the year 2013. The y-o-y increase in CPI Headline inflation is largely attributed to:

The rise in inflationary pressures due to seasonal factors such as; Eid El Adha, Haj Season, in addition to unfavorable base effect from last year.

The increase in annual inflation rates of other main groups, on the top of which ; "Food and Beverages" (Weight 44.2%), and "Restaurant and Hotels" (4.2%), and "Furnishing, Household Equipment" (3.6%).

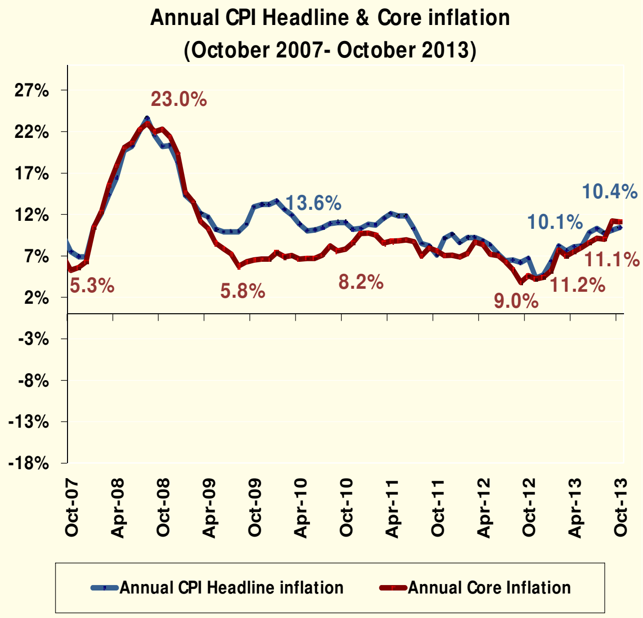
However, **monthly inflation rate** decreased slightly recording **1.06 percent** during October 2013, compared to 1.57 percent recorded in the previous month, which lies slightly below the average of 1.13 percent recorded during the first nine months of the year 2013. It is noteworthy that the bulk of monthly inflation increase was largely driven by the developments in "Food and Beverages" group, in addition to higher price of ready meals in "Restaurants and Hotels" group, and higher price of private schools tuition in "Education" group.

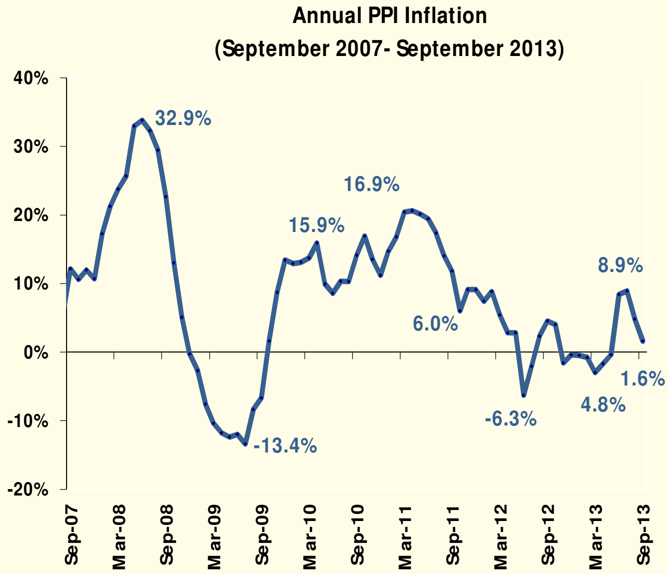


According to CBE inflation report**, annual core inflation** stabilized at 11.1 percent during October 2013 - the highest level since March 2009, compared to 11.2 percent during the previous month, and compared to 4.6 percent recorded during the same month last year.

As for producer prices, y-o-y PPI inflation **decelerated notably 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 draw back in annual inflation of "Agriculture, Forestry and Fishing" group recording -0.8 percent during September 2013 compared to an increase of 9.7 percent during the previous month.
- Overcoming the pick-up in annual inflation of " Manufacturing Industries" group to 6.5 percent compared to 6.1 percent during August 2013.





During the Monetary Policy Committee meeting held on October 31, 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[4] 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

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

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.

In an attempt to absorb excess liquidity and to protect the domestic currency, the CBE announced the reintroduction of deposit operations. In this context, on December 3, 2013, the CBE introduced LE 45 billion worth of 7-day maturity at a fixed annual interest rate of 9.25 percent.

External Sector

Egypt's **Balance of Payments** (BOP) showed a significant improvement, during the FY 2012/2013 recording an overall surplus – for the first time in three years – of **$ 237 million**, compared to an overall deficit of **US$ 11.3 billion** in the previous year and a five-year average deficit of US$ 3.1 billion. 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

(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 **<u>Capital and Financial Account</u>** 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.

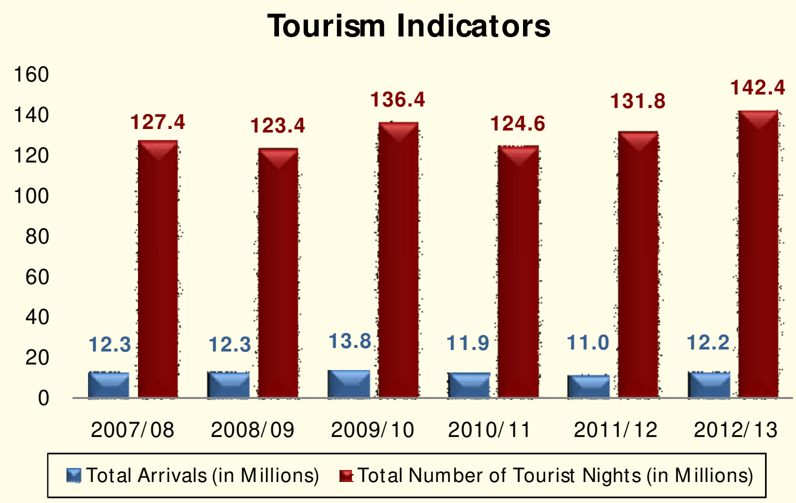
Net foreign direct investments in Egypt recorded a net inflow of US$ 3 billion during FY 2012/2013 (down from US$ 4 billion). This comes due to the decline in the proceeds from selling local entities to non-residents to US$ 281.7 million (compared to US$ 1678.2 million last year), despite the rise in 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 **September 2013** by 46.6 percent reaching 0.3 million tourists (on the backdrop of political demonstration at end of June 2013), compared to 0.6 million tourists in August 2013. Moreover, number of tourists nights decreased by 85 percent to record 1.1 million in **September 2013**, compared to 7.3 million in August 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 growth in average number of tourists nights reached 11.7 percent in the 2012/2013 compared to 12 percent in 2011/2012.



Stock Exchange

- The EGX-30 index increased by 353 points during September 2013, reaching 5621 compared to 5268 during August 2013.
- 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.