

# Executive summary

*Egypt has been undergoing significant changes on its political front since January 25<sup>th</sup> 2011. Such developments are expected to make fundamental improvements in the transparency and efficiency of the economic policy setting that will invariably impact the lives of all Egyptians. While ongoing domestic and regional developments will no doubt have a toll on the Egyptian economy, it is premature to take a full view of its economic and financial impacts.*

## Recent updates:

- **Real GDP growth** slowed down to **0.2 percent** during the first quarter of 2011/2012, compared to 0.4 percent during the previous quarter and 5.5 percent during the same quarter in 2010/2011. This development is largely attributable to the aftereffects of the revolution.
- **Budget deficit to GDP** slightly increased by **0.3 percentage points** during the period **July- December 2011/2012** to 4.7 percent (LE 73.8 billion), compared to 4.4 percent (LE 60.4 billion) during July- December 2010/2011.
- **Domestic budget sector debt** increased to 64.9 percent of GDP as of end **September 2011** to record some **LE 1019.5 billion** compared to 63 percent as of end of September last year, yet decreased as compared to 70.5 percent as of end June 2011.
- **External debt indicators** relatively improved with a decrease in the external debt stock by **2.0 percent**, leveling at 12.9 percent of GDP in September 2011 (US\$ 34.0 billion) compared to 14.4 percent of GDP (US\$ 34.7 billion) as of end September 2010.
- **M2 annual growth** almost stabilized at **7.1 percent** as of end **November 2011**, compared to an annual increase of **7.2 percent** in **October 2011**, yet decreased compared to **12.8 percent** in **November 2010**.
- **CPI annual Urban Inflation** rose during **December 2011** recording **9.6 percent** compared to 9.1 percent during the previous month. While, **annual core inflation** relatively stabilized during **December 2011** registering **7.1 percent** compared to **7.0 percent** during November 2011.
- **During the Monetary Policy Committee meeting** held on **February 2nd, 2012**, CBE has decided to **keep the overnight deposit rate and overnight lending rate unchanged at 9.25 percent, and 10.25 percent respectively, and the 7-day repo at 9.75 percent. Moreover, the discount rate was also kept unchanged at 9.5 percent.**
- **BOP** recorded an **overall deficit of US\$ 2.4 billion** during the first quarter of **FY 2011/2012** compared to a surplus of **US\$ 15 million** during the same period previous year; in light of the recent events Egypt witnessed, which had negative effects, specially on tourism revenues and foreign investment inflows.

## I. Real GDP Growth

GDP at market prices shows a growth rate of **0.2 percent** for the **first quarter of 2011/2012**, considerably lower than 5.3 percent the **average growth rate** of the same period over

the past three years. However, the comparison with the previous quarter (fourth quarter in 2010/11) points to a slight deterioration (from 0.4 percent in Q4 2010/11).

Despite the deceleration in total economic growth, **private and public consumption growth**- which comprise 92.8 percent of total GDP figure and contribute 4.2 percent to total growth- were the **main drivers of real GDP growth (market prices) in the first quarter of 2011/2012**. Private and public consumption grew by 5 percent and 2.8 percent respectively, which offset the decline in investment spending by 11.4 percent. The slight increase in public business sector investments (8.6 percent growth on a quarterly basis) was outweighed by a stronger decline in private and government investment spending.

Additionally, **imports of goods and services increased** by 4.5 percent during the period of study (compared to an increase of 12.3 percent during the same period last year), while **exports decreased** by 2.9 percent, (as opposed to an increase of 10 percent in the first quarter of 2010/11). It is worth noting that **GDP (at market prices)** for the period of study in **constant prices** stands at **LE 231.8 billion** (LE 402.1 billion in current prices), in comparison to **LE 231.2 billion** (LE 364.3 billion in current prices) **during the same quarter last year.**

Regarding **real GDP at factor cost<sup>1</sup>**, realized growth has stabilized at **0.3 percent during the first quarter of 2011/2012**. It is noteworthy that from a sectoral perspective, the **main contributors to growth** were agriculture (3.1 percent growth; 16 percent of GDP), Suez Canal (8.4 percent growth; 3.5 percent of GDP), telecommunications (3.8 percent growth; 4 percent of GDP), general government services (2.7 percent growth; 8.8 percent of GDP), in addition to insurance (2.4 percent growth and 3.9 percent of GDP). On the other hand, **some sectors kept almost the same growth rates** during the first quarter compared to the previous quarter including the extractive and manufacturing industries, while **other sectors showed some deterioration**, particularly tourism, construction and building and natural gas extraction.

## II. Fiscal Performance

**According to FY 2010/2011 preliminary-actual budget<sup>2</sup> outcomes**, the overall deficit<sup>3</sup> to GDP recorded 9.8 percent with an increase of 1.7 percentage points over FY 2009/2010, reaching almost LE 134.5 billion, up from LE 98 billion a year earlier. The rise in overall deficit to GDP comes as a result of a relative decline in fiscal revenues accompanying an increase in fiscal expenditures during FY 2010/2011. Moreover, the primary deficit<sup>4</sup> to GDP increased by 1.5 percentage points to register 3.6 percent versus 2.1 percent of GDP during FY 2009/2010.

On the revenue side, total revenues and grants decreased by 1.1 percent during FY 2010/2011, recording LE 265.3 billion compared to LE 268.1 billion during FY 2009/2010. The recorded decline is principally due to the 25 percent decrease in non-tax revenues, offsetting the 12.7 percent increase in tax revenues.

On a more detailed level, the increase in tax revenue items comes from the step up in revenues from taxes on income and profits, capital gains by 17 percent to almost LE 89.6 billion during the year 2010/2011 compared to LE 76.6 billion last year. In addition, revenues from Taxes on goods and services increased by 13.4 percent to LE 76 billion during the year of study compared to almost LE 67 billion during 2009/2010. Revenues from property taxes also increased by 7.8 percent to LE 9.5 billion compared to LE 8.8 billion during 2009/2010, mainly due to taxes collected on t-bills and t-bonds' payable interest that have been reclassified as part of property taxes starting 2009/2010 and account for almost LE 6.7 billion during 2010/2011. However, revenues from taxes on international trade decreased by 5.7 percent to almost LE 13.9 billion during 2010/2011 compared to LE 14.7 billion in the preceding year, on the back of a number of factors, including impact of the recent events Egypt witnessed since 25<sup>th</sup> of January 2011 on trade during

<sup>1</sup> Real GDP growth rates are calculated using 2006/07 as a base year.

<sup>2</sup> Includes central administration, municipalities, and services authorities (education, health, etc).

<sup>3</sup> Revenues less expenditures, plus net acquisition of financial assets.

<sup>4</sup> Overall deficit less interest payments.

the second half of fiscal year, and the turmoil in the global international commodities prices.

On the other hand, non-tax revenues<sup>5</sup> decreased notably by 25 percent during 2010/2011 mainly due to the retreat in both of which miscellaneous revenues and grants by 47.2 percent to record LE 10.8 billion and LE 2.3 billion compared to LE 20.4 billion and LE 4.3 billion respectively during 2009/10. Moreover, property income decreased by 24.5 percent to LE 41.2 billion compared to almost LE 54.6 billion in the preceding year. In addition, revenues from Sales of goods and services also declined to almost LE 17.4 billion during 2010/2011 compared to LE 17.2 billion during 2009/2010.

Furthermore, total expenditures increased during the fiscal year 2010/2011 by 9.8 percent, recording almost LE 402 billion compared to LE 366 billion during last year. The recorded increase comes with the expansion in all spending chapters except for purchases of goods and services, and purchases of non financial assets, both of which declined by 6.8 percent and 17.5 percent to LE 26.1 billion and LE 39.9 billion respectively during the year 2010/2011. Meanwhile other expenditures increased by 8.5 to almost LE 31.4 billion compared to LE 28.9 billion during 2009/2010. Also, compensation of employees increased by 12.8 percent to LE 96.3 billion compared to LE 85.4 billion during 2009/2010. Interest payments also increased by 17.6 percent to record almost LE 85 billion during 2010/2011 compared to LE 72.3 billion in the preceding year. In addition, Subsidies, grants and social benefits rose by 19.6 percent to LE 123 billion compared to almost LE 103 billion respectively during 2009/2010.

**Moreover, recent data for the period July- December of the fiscal year 2011/2012** showed that the overall deficit to GDP ratio slightly increased by 0.3 percentage points to 4.7 percent, reaching LE 73.8 billion, compared to LE 60.4 billion during the period July-December 2010/2011. This comes as fiscal expenditures increased at higher rate than the growth in fiscal revenues during the period of study. In addition, the primary deficit to GDP merely increased to 1.9 percent compared to 1.8 percent during July- December 2010/2011.

From the revenues side, total revenues increased by 16.9 percent during the period of study, registering LE 116.6 billion compared to LE 99.7 billion during July- December 2010/2011. The recorded increase is principally due to the 51.7 percent increase in non-tax revenues, in addition to a modest increase of 5.7 percent in tax revenues.

On a more detailed level, the slight increase in tax revenues comes with the increase in both Income and Property Tax chapters by 8.9 percent and 29 percent reaching LE 32.6 billion and LE 5.9 billion respectively compared to LE 29.9 billion and LE 4.6 billion during July- December 2010/2011. Additionally, Taxes on Goods and Services increased by 2.6 percent recording LE 34.7 billion during July- December 2011/2012 compared to LE 33.8 billion during the same period last year.

It is noteworthy that the increase in Income Tax is a result of the increase in tax on income from employment by 14.4 percent reaching LE 7.4 billion during July- December 2011/2012 compared to LE 6.5 billion during July- December 2010/2011. In addition to the increase in taxes from Corporate Profit mainly EGPC and Suez Canal by 16.1 percent and 18 percent reaching LE 11.3 billion and LE 5.9 billion during the period of study compared to LE 9.8 billion and LE 5 billion respectively during July- December 2010/2011. While Property Tax chapter increased mainly due to the increase in tax on T-bills and bonds' payable interest by 36.4 percent to almost LE 4.7 billion compared to LE 3.4 billion during July-December 2010/2011. At the same time, Taxes on Goods and Services receipts increased due to the increase of general sales tax on goods by 11.5 percent reaching LE 16.8 billion during July- December 2011/2012 compared to LE 15.1 billion during the same period last year. Meanwhile, Taxes on International Trade, and Other Taxes decreased by 8 percent and by 6.4 percent recording LE 6.3 billion and LE 0.2 billion compared

to LE 6.9 billion and LE 0.3 billion respectively during the same period last year.

Moreover, Non- Tax Revenues increased by 51.7 percent during the period July- December 2011/2012 mainly due to the increase in most non-tax revenue chapters including the step up in grants by 179.6 percent to almost LE 6 billion compared to LE 2.1 billion during the period July- December 2010/2011, mainly due to the notable increase in grants from foreign governments (includes a grant of US\$ 500 million from Qatar). Additionally, revenues from Property Income, and Sales of Goods and Services increased by 65.7 percent and 4 percent to almost LE 23.4 billion and LE 5.4 billion during July- December 2011/2012, compared to LE 14.1 billion and LE 5.1 billion during the same period last year.

On the other hand, total expenditures increased during July-December 2011/2012 by 17.7 percent, recording LE 189.7 billion compared to LE 161.1 billion during the same period last year. The recorded increase comes with the expansion growth in all spending chapters except for purchases of goods and services, purchases of non financial assets, and other expenditures chapters that have declined by 11 percent, 29.3 percent, and 6.1 percent to LE 8.3 billion, LE 11.5 billion and LE 14.9 billion respectively during the period July-December 2011/2012. It is worth mentioning that the decrease in Purchase of non financial assets could be explained in light of the 30 percent decline in Fixed assets reaching LE 10.2 billion compared to LE 14.6 billion the same period last year. However, compensation of employees has increased by 27.3 percent to LE 54.1 billion compared to LE 42.5 billion during July-December 2010/2011. Also, Interest payments have increased by 23.3 percent recording almost LE 44 billion during July-December 2011/2012 compared to LE 35.7 billion during the same period last year. In addition, Subsidies, grants and social benefits have increased by 37 percent to LE 56.9 billion compared to almost LE 41.6 billion during July- December last year.

### III. Domestic Debt Profile

**As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks<sup>6</sup> at three different levels of compilation; the Budget Sector, General Government, and the Public Sector<sup>7</sup>.**

**Recent statistics show that domestic budget sector debt increased to 64.9 percent of GDP as of end of September 2011** to some LE 1019.5 billion compared to LE 863.8 billion as of end September 2010 (63.0 percent of GDP). As for net domestic budget sector debt, it reached LE 856.7 billion (54.6 percent of GDP) compared to LE 718.8 billion (52.4 percent of GDP) as of end September last year. Accumulated budget sector debt at end of September 2011 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of September 2011 amount to LE 349.9 billion and LE 221.3 billion respectively versus LE 268.8 billion and LE 181.3 billion at end of September last year reflecting government's growing borrowing needs.

Gross domestic debt of the general government amounts to LE 941.3 billion (60 percent of GDP) at end of September 2011, compared to some LE 780.6 billion (56.9 percent of GDP) at end of September last year. Also, net domestic debt of the general government reached some LE 771.8 billion (49.2 percent of GDP) compared to LE 621.6 billion (45.3 percent of GDP) at end of September 2010. The increase in general government debt at end of September 2011 was driven by the increase in consolidated budget sector debt, in addition to the increase in consolidated debt of the National Investment Bank by nearly LE 10.8 billion amounting to LE 180.0 billion at end of September 2011.

Finally, gross domestic public debt reached LE 976.6 billion (62.2 percent of GDP), compared to LE 816.8 billion at end of September last year (59.5 percent of GDP). At the same time,

<sup>7</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.

<sup>5</sup> It is noteworthy that the notable decline in non-tax revenues is due to the decrease in other non-tax revenues from Petroleum sector by some LE10 billion, coupled with the retreat in Miscellaneous revenues (Capital) by some LE 9.6 billion due to the repayment of loans to New Urban Communities Authorities . In addition, FY 2009/10 included an exceptional (non-recurrent) LE 8 billion in the form of self-Financing resources for investment expenditures.

<sup>6</sup> Consolidated debt stocks exclude interrelated debt between entities at each level of compilation.

net domestic public debt reached LE 790.9 billion (50.4 percent of GDP) compared to LE 643.4 billion (46.9 percent of GDP) at end of September 2010. It is noteworthy that the realized increase in domestic public debt at end of September 2011 was due to an increase in accumulated debt of the General government by 160.7 billion to reach 941.3 billion while Economic Authorities Domestic Debt declined by 1.7 billion to reach 99.4 billion at end September 2011.

Meanwhile, domestic debt service increased by 15.9 percent to almost LE 26.6 billion at end of September 2011, compared to LE 23.0 billion during the same period last year.

The average life to maturity of outstanding T-bonds and T-bills declined to 1.3 years at end of September 2011 compared to 1.7 at end of September 2010. Meanwhile, average interest rates on outstanding stock of t-bills and t-bonds increased to 11.91 percent at end of September 2011 compared to 10.64 percent at end of September 2010.

#### **Egypt External Debt indicators showed slight improvement**

External debt decreased by 2.0 percent at end September 2011 to US\$ 34.0 billion compared to US\$ 34.7 billion a year earlier. The ratio of external debt to GDP decreased from 14.4 percent of GDP at end September 2010 to 12.9 percent of GDP at end September 2011. Government external debt decreased by 3.3 percent to US\$ 26.1 billion (76.7 percent of total external debt) as of end of September 2011 compared to US\$ 26.9 billion (77.6 percent of total external debt) at end of September 2010<sup>8</sup>.

#### **IV. Monetary Developments**

On the monetary side, total liquidity increased merely by 0.1 percent on monthly basis registering LE 1032 billion in November 2011, compared to LE 1031 billion in October 2011. Consequently, year-on-year growth in M2 almost stabilized at 7.1 percent at end of November 2011, compared to 7.2 percent at end of the previous month. This could be explained from the **assets side** by the continuous retreat in net foreign assets annual growth rate registering -32 percent at end of the month of study, offsetting the significant increase in annual growth rate of net claims on government and GASC that recorded 43 percent. As for the **liabilities side**, annual growth rate of M1 slowed down recording 14.9 percent at end of November 2011 compared to 16.7 percent registered a month earlier. While, quasi money growth is inclining recording 4.7 percent at end of November 2011 compared to 4.4 percent at end of October 2011.

On a more detailed level, net foreign assets remain to be a drain on total liquidity posting annual decline of 32 percent at end of November 2011, bringing total NFA of the banking sector to LE 207 billion, compared to LE 221.8 last month. **Central Bank's net foreign assets** continued on its decelerating path which began with the eruption of political unrest, recording annual decline of 44 percent reaching LE 108.4 billion at end of November 2011, compared to a contraction of 38 percent at end of October 2011. In addition, **Bank's net foreign assets** declined on annual basis by 11 percent to register LE 98.6 billion at the end of November 2011, compared to a higher annual decline last month by 17 percent reaching LE 101.5 billion.

Growth in net domestic assets of the banking sector on the other hand is posting robust acceleration exceeding 25 percent at end of November 2011 to reach LE 824.7 billion primarily derived by unprecedented 43 percent growth in net claims on government and GASC. It is worth noting that net claims on government and GASC growth amounted to more than 223 percent of annual liquidity growth at the end of November 2011 reaching LE 508.7 billion.

Meanwhile, annual growth in claims on private sector increased by a limited 1.3 percent at end of November 2011 reaching LE 431.6 billion, compared to an annual increase of 0.9 percent at end of last month, while it has speed up on monthly basis to record 1 percent this month compared to 0.4 percent at end of October 2011.

On the other hand, annual growth in net claims on public business sector recorded 17.2 percent to LE 37.4 billion at end of November 2011, compared to an increase of 13.1 percent at the end of October 2011. It is noteworthy that the positive growth rate recorded since June 2011 has mainly occurred due to the dissipation of the base effect induced by a step-down in a number of public sector companies debt to the banking sector in June 2010.

CBE net international reserves (NIR) have declined from a peak of US\$ 36 billion in December 2010, to US\$ 26.6 billion in June 2011 and further to US\$ 16.4 billion at end of January 2012.

Annual growth in total deposits with the banking sector (excluding CBE) has been decelerating steadily, down from 11.6 percent in November 2010, to 4.6 percent at end of November 2011 to register LE 980 billion. Out of total deposits, 87.8 percent belonged to the non-government sector at the reference date. Similarly, annual growth rate in total lending by banking sector (excluding CBE) has been declining recording 2.5 percent at the year ending November 2011, compared to Y-o-Y growth of 9.6 a year earlier. This brings total loans to almost LE 486.3 billion at end of November 2011. On a more detailed level, annual growth in total lending to non-government sector registered 3.1 percent to reach some LE 449.5 billion at end of November 2011, while annual growth in total lending to government sector declined for the first time since June 2009 by 4.4 percent to register LE 36.8 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits has increased registering 45.7 percent at the end of November 2011, compared to 44 percent in November 2010. On the other hand, loans to deposits ratio in foreign currencies posted a more pronounced decrease on annual basis registering 62.2 percent at the end of November 2011, compared to 74.3 percent in November 2010.

Moreover, dollarization in total domestic liquidity increased slightly during November 2011 recording 17.4 percent if compared to 17.1 percent last month, and 16.3 percent recorded in November 2010. Also, dollarization in total deposits has increased to 23.7 percent during the month of study compared to 23.5 percent last month, and compared to 22 percent during the same month last year.

#### **V. Prices**

**Concerning domestic consumer prices, annual CPI inflation<sup>9</sup> in urban areas rose to 9.6 percent during December 2011 compared to 9.1 percent recorded during the previous month while it decreased if compared to 10.3 percent in December 2010. (As for overall Egypt, it also increased during December 2011 recording 10.4 percent compared to 10 percent during the previous month, and compared to 10.3 percent in December 2010).** The increase in annual inflation rate during the month of the study compared to previous month is mainly attributed to the increase in sub items of "Food and Beverages" group, mainly; Vegetables (45.3%), Meat (5.9%), Fish and seafood (11.3 %), and Milk, cheese and eggs (8.9%), in addition to an increase but at a slower pace in the prices of "Butane gas cylinder" a part of "Water, Electricity, Gas and Other Fuels" (25.8%) group, and the prices of Tobacco (37.4%) a part of "Alcohol, and tobacco" group. On the other hand, monthly inflation rate fell slightly by 0.2 percent during December 2011 compared to an increase of 1 percent during previous month.

Consequently, **the average inflation rate for the period July-December 2011/2012** recorded 8.8 percent compared to 10.6 percent during the same period last year. Moreover, **average annual inflation rate for the year 2011** recorded 10.1 percent compared to 11.1 percent recorded during 2010.

Moreover, according to CBE inflation report, annual core inflation<sup>10</sup> relatively stabilized during December 2011 recording 7.1 percent compared

<sup>8</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.

<sup>9</sup> CPI inflation based on new CAPMAS series with January 2010 as base value for the index.

<sup>10</sup> The Core Index excludes items characterized by inherent price volatility specifically 'fruits and vegetables' (6.9 percent of headline CPI basket), and those with managed prices 'regulated items' (18.7 percent of headline CPI basket). It is important to note that Core CPI is merely an analytical tool that compliments the Headline Index and does not replace it.



to 7 percent during the previous month, while it decreased if compared to 9.65 percent achieved during the same month a year ago.

As for producer prices, year-on-year PPI inflation almost stabilized during December 2011 registering 9.2 percent compared to 9.1 percent during the previous month, while it decreased if compared to 12.8 percent recorded during December 2010. Nevertheless, detailed data for December 2011 are not yet available. It is noteworthy that during November 2011, annual PPI inflation increased to 9.1 percent compared to 7.1 percent during October 2011. Also on monthly basis PPI inflation increased recording 1 percent during November 2011 compared to -1.4 percent during October 2011.

**During the Monetary Policy Committee meeting held on February 2nd, 2012, CBE has decided to keep the overnight deposit rate and overnight lending rate unchanged at 9.25 percent, and 10.25 percent respectively, and the 7-day repo at 9.75 percent. Moreover, the discount rate was also kept unchanged at 9.5 percent.** The committee justified such decision in light of “the balance of risks surrounding the inflation **on one hand** and a slowdown in the growth of local economy **on the other hand**, in addition to the uncertainty at this juncture.” Notwithstanding the present downside risks to growth posed by the ongoing political transition, inflationary pressures still exist in the economy mainly due to inefficiencies in local supply and distribution channels

## VI. External Sector

Balance of payments (BOP) statistics- published by the Central Bank for the first quarter of the FY 2011/2012 registered a **deficit of US\$ 2.4 billion in the overall balance** (1 percent of GDP), compared to a surplus of US\$ 15 million (0.01 percent of GDP) during the same period previous year. The recorded deficit comes as a result of the current account deficit registering US\$ 2.2 billion, in addition to an inflow of US\$ 0.5 billion in the capital and financial account. In the meantime, net errors and omissions recorded a net outflow of US\$ 0.7 billion. This is mainly due to the recent events that took place in Egypt and the Arab region, which had negative effects on tourism revenues and foreign investment inflows. It is worth noting that the BOP recorded an overall deficit of US\$ 12.7 billion during the period January-September 2011, compared to an overall surplus of US\$ 0.7 billion during the same period last year.

The trade deficit registered US\$ 7.8 billion during the first quarter of the FY 2011/2012, increasing by 10 percent from the previous year's figure of US\$ 7.1 billion. This is due the increase of import payments by 10.2 percent reaching US\$14.6 billion, while export proceeds increased by 10.9 percent amounting US\$ 6.8 billion. The increase in export proceeds is due to the 16 percent increase in petroleum exports to US\$ 3.2 billion and the 7 percent increase in non-oil exports to US\$ 3.5 billion. As for the increase in total commodity imports, it is due to the 37 percent increase in petroleum imports to US\$ 2.9; in addition to the increase in non-oil imports by only 5 percent to US\$ 11.7 billion. Consequently, the coverage ratio of commodity exports to imports increased to 46.4 percent, compared to 46.1 percent during the first quarter of FY 2010/2011.

Moreover, the services balance has accumulated a lower surplus during the first quarter of FY 2011/2012, recording US\$ 1.6 billion compared to US\$ 2.6 billion during the same period previous year. Total services receipts decreased to US\$ 5.4 billion as a result of the decline in most of the sub-items, except for the increase in receipts from transportation by 3 percent to US\$ 2.1 billion, which includes an increase of 8 percent from Suez Canal receipts to reach US\$ 1.4 billion. This increase was counteracted by the 26 percent decrease in travel receipts to US\$ 2.7 billion; in addition to a 40 percent decrease in other receipts. Moreover, receipts from investment income declined by 32 percent amounting US\$ 56 million, while government services receipts increased by 23 percent reaching US\$ 19 million. On the other hand, services payments have decreased by 7 percent to almost US\$ 3.8 billion compared to US\$ 4.1 billion during the first quarter of FY 2010/2011. This decrease in services payments is due to the slow down in most of the sub-items, expect for other payments, which increased by 14 percent reaching US\$ 0.7 billion. Investment income payments have decreased by 6 percent to US\$ 1.8 billion and transportation by 18 percent to US\$ 0.3 billion. The decrease in investment income payments can be explained in light of the drop in profits transferred abroad by foreign companies operating in Egypt.

Accordingly, services receipts receded to become 142.8 percent of services payments, compared to 164.4 percent during the period July-September of previous fiscal year.

It is worth noting that the Net international reserves (NIR) imports coverage ratio has obviously decreased to 4.9 months during the period of study compared to 8.1 months during the period of July-September FY 2010/2011.

Also, it is note worthy that private transfers notably increased by 31.2 percent to nearly US\$ 4 billion, which counterpart the decrease in public transfers by 89 percent to nearly US\$ 16 million during the first quarter of the FY 2011/2012. The increase in private transfers was the main factor behind the increase in current account receipts by 1.2 percent to US\$ 16 billion, while total payments increased by 6.2 percent to US\$ 18.4 billion, bringing the ratio of current receipts to current payments (including official transfers) down to 88.2 percent compared to 92.5 percent during the first quarter previous year.

As a result of the factors mentioned above, the current account deficit increased by 67 percent, recording US\$ 2.2 billion during the first quarter of FY 2011/2012, compared to a deficit of US\$ 1.3 billion during the same period previous fiscal year.

On the other hand, the capital and financial account reported a net inflow of US\$ 0.5 billion; versus an inflow of US\$ 1 billion during the first quarter of FY 2010/2011. This is explained mainly by the net outflow of portfolio investments in Egypt that amounted to US\$ 1.7 billion during the first quarter of FY 2011/2012 due to the foreigners' sales of their holding of securities, especially T-Bills (nearly US\$ 1.4 billion), as compared to a net inflow of US\$ 5.9 billion during the same period previous year. It is worth mentioning that the net sales of Egyptian T-Bills during the period of January-September 2011 amounted to US\$ 7.5 billion, compared to foreigners' purchases reaching US\$ 8.6 billion during the same period 2010. Moreover, net foreign direct investments in Egypt decelerated significantly, recording a net inflow of US\$ 0.4 billion; 72 percent lower than the US\$ 1.6 billion recorded during the first quarter previous fiscal year. Therefore, foreign direct investment during the period of study is around one quarter of the amount recorded during the same period in 2010. Other investments recorded a net inflow of US\$ 2 billion, compared to a net outflow of US\$ 6 billion during the first quarter of FY 2010/2011, as other assets amounted to a net inflow of US\$ 2 billion compared to net outflow of US\$ 6.5 billion during the same period in the previous fiscal year.

Finally, net errors and omissions recorded a net outflow of US\$ 0.7 billion during the period of July-September FY 2011/2012, compared to a net inflow of US\$ 0.3 billion during the same period previous fiscal year.

## VII. Stock Exchange

The EGX-30 index decreased by 398 points during December 2011, reaching 3622 compared to 4020 during November 2011. Similarly, market capitalization declined over the previous month by 5 percent, reaching LE 294 billion (18.7 percent of GDP). Such negative developments are expected in light of the recent events Egypt witnessed since 25<sup>th</sup> of January 2011.