

# 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 **0.5 percentage points during the period July- January 2011/2012** to 5.6 percent (LE 88.2 billion), compared to 5.1 percent (LE 70.5 billion) during July- January 2010/2011.

- **Domestic budget sector debt** increased to 67.4 percent of GDP as of end **December 2011 to record some LE 1058.5 billion** compared to 64.8 percent as of end of December 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** is steadily losing momentum recording **6.7 percent** as of end **December 2011**, compared to an annual increase of **7.1 percent in November 2011** and **12.4 percent in December 2010**.

- **CPI annual Urban Inflation** fell during **January 2012** recording **8.6 percent** compared to 9.6 percent during the previous month. Meanwhile, **annual core inflation** fell relatively during **January 2012** registering **6.9 percent** compared to 7.1 percent during December 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 last 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

<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.

events Egypt witnessed since 25<sup>th</sup> of January 2011 on trade during 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- January of the fiscal year 2011/2012** showed that the overall deficit to GDP ratio slightly increased by 0.5 percentage points to 5.6 percent, reaching LE 88.2 billion, compared to LE 70.5 billion during the period July-January 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 2.1 percent compared to 2 percent during July-January 2010/2011.

From the revenues side, total revenues increased by 18.4 percent during the period of study, registering almost LE 135 billion compared to LE 114 billion during July- January 2010/2011. The recorded increase is principally due to the 51.2 percent increase in non-tax revenues, in addition to a modest increase of 7.6 percent in tax revenues.

On a more detailed level, the slight increase in tax revenues comes with the increase in both of Income and Property Tax chapters by 11.4 percent and 33.3 percent reaching LE 36 billion and LE 7.2 billion compared to LE 32.3 billion and LE 5.4 billion respectively during July- January 2010/2011. Additionally, Taxes on Goods and Services increased by 3.8 percent recording LE 41.1 billion during July- January 2011/2012 compared to LE 39.6 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 16.2 percent reaching LE 8.9 billion during July- January 2011/2012 compared to LE 7.7 billion during July-January 2010/2011; in addition to the increase in taxes from Corporate Profit mainly from EGPC by 16.1 percent reaching LE 11.3 billion and from Suez Canal also by 16.1 percent reaching LE 6.5 billion during July- January 2011/2012. While Property Tax chapter increased mainly due to the increase in tax on T-bills and bonds' payable interest by 36 percent to almost LE 5.5 billion compared to LE 4 billion during July-January 2010/2011. At the same time, Taxes on Goods and Services receipts increased due to the increase of general sales tax on goods by 11.6 percent reaching LE 19.5 billion during July- January 2011/2012 compared to LE 17.5 billion during the same period last year.

Meanwhile, Taxes on International Trade, and Other Taxes decreased by 5.2 percent and 14 percent recording LE 7.7 billion and LE 0.2 billion compared to LE 8.1 billion and LE 0.3 billion respectively during the same period last year.

Moreover, Non- Tax Revenues increased by 51.2 percent during the period July- January 2011/2012 mainly due to the increase in most non-tax revenue chapters including the step up in grants by 134 percent to almost LE 6.2 billion compared to LE 2.6 billion during the period July- January 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 67.7 percent and 6.7 percent to almost LE 26.7 billion and LE 6.5 billion during July- January 2011/2012, compared to LE 15.9 billion and LE 6.1 billion during the same period last year.

On the other hand, total expenditures increased during July-January 2011/2012 by 19.7 percent, recording LE 222.6 billion compared to LE 185.9 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 4.2 percent, 29 percent, and 5.5 percent to LE 10.4 billion, LE 13.6 billion and LE 17.2 billion respectively during the period July- January 2011/2012. It is worth mentioning that the decrease in Purchase of non financial assets could be explained in light of the 29.8 percent decline in fixed assets reaching LE 12 billion compared to LE 17.1 billion during the same period last year. However, compensation of employees has increased by 27.9 percent to LE 65.1 billion compared to LE 50.9 billion during July-January 2010/2011. Also, Interest payments have increased by 28.3 percent recording almost LE 55.5 billion during July- January 2011/2012 compared to LE 43.2 billion during the same period last year. In addition, Subsidies, grants and social benefits have increased by 39.5 percent to LE 60.9 billion compared to almost LE 43.6 billion during July- January 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 67.4 percent of GDP as of end of December 2011** to some LE 1058.5 billion compared to LE 889.2 billion as of end December 2010 (64.8 percent of GDP). As for net domestic budget sector debt, it reached LE 895 billion (57.0 percent of GDP) compared to LE 738.9 billion (53.9 percent of GDP) as of end December last year. Accumulated budget sector debt at end of December 2011 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of December 2011 amount to LE 371.2 billion and LE 231.6 billion respectively versus LE 281.9 billion and LE 203.3 billion at end of December last year reflecting government's growing borrowing needs.

**Gross domestic debt of the general government amounts to LE 973.9 billion (62 percent of GDP) at end of December 2011, compared to some LE 806.1 billion (58.8 percent of GDP) at end of December last year.** Also, net domestic debt of the general government reached some LE 803.5 billion (51.2 percent of GDP) compared to LE 643.5 billion (46.9 percent of GDP) at end of December 2010. The increase in general government debt at end of December 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 2.0 billion amounting to LE 171.7 billion at end of December 2011.

<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.

<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.

**Finally, gross domestic public debt reached LE 1010.4 billion (64.4 percent of GDP), compared to LE 847.0 billion at end of December last year (61.7 percent of GDP).** At the same time, net domestic public debt reached LE 822.1 billion (52.4 percent of GDP) compared to LE 666.9 billion (48.6 percent of GDP) at end of December 2010. It is noteworthy that the realized increase in domestic public debt at end of December 2011 was due to an increase in accumulated debt of the General government by 167.8 billion to reach 973.9 billion while Economic Authorities Domestic Debt declined by 6.9 billion to reach 98.3 billion at end December 2011.

Meanwhile, domestic debt service increased by 26.8 percent to almost LE 51.0 billion at end of December 2011, compared to LE 40.2 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 December 2011 compared to 1.7 at end of December 2010. Meanwhile, average interest rates on outstanding stock of t-bills and t-bonds increased to 12.2 percent at end of December 2011 compared to 10.7 percent at end of December 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 1 percent on monthly basis registering LE 1039 billion in December 2011, compared to LE 1032 billion in November 2011. Year-on-year growth in M2 has declined during December 2011 to register 6.7 percent, compared to 7.1 percent during the previous month. This could be explained from the **assets side** in light of the continuous retreat in net foreign assets annual growth rate registering -37.8 percent at end of the month of study, which offset the robust annual growth rate of net claims on government and GASC recording 41 percent. As for the **liabilities side**, annual growth rate of M1 and quasi money slowed down recording 14.4 percent and 4.4 percent, respectively at end of December 2011 compared to 14.9 percent and 4.7 percent, respectively registered a month earlier.

On a more detailed level, net foreign assets remain to be a drain on total liquidity posting annual decline of 38 percent at end of December 2011, bringing total NFA of the banking sector to LE 190 billion, compared to LE 207 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 51 percent reaching LE 96.8 billion at end of December 2011, compared to a contraction of 44 percent at end of November 2011. In addition, **Bank's net foreign assets** declined on annual basis by 13 percent to register LE 93.2 billion at the end of December 2011, compared to a lower annual decline last month by 11 percent reaching LE 98.6 billion.

Growth in net domestic assets of the banking sector on the other hand is posting notable acceleration reaching 27 percent at end of December 2011 to record LE 848.9 billion primarily derived by 41.2 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 232 percent of annual liquidity growth at the end of December 2011 reaching LE 515.1 billion.

<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;

Meanwhile, credit to the private sector reversed its decelerating trend witnessed since March 2011 to post an exceptional annual rate of growth of 6.1 percent during the year ending December 2011, mainly due to base effect (low credit growth in December 2010). This has brought the stock of outstanding credit to the private sector to LE 432.8 billion. It is worth noting that "net claims on the public business sector" grew at 19.6 percent on annual basis.

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\$ 15.7 billion end of February 2012. It is noteworthy that NIR fell down by US\$ 0.7 billion during the month of February representing a 4.3 percent monthly decline, which is a significant improvement from the average monthly decline rate of 9 percent during the last four months since October 2011.

Annual growth in total deposits with the banking sector (excluding CBE) has been decelerating steadily, down from 10.8 percent in December 2010, to 3.9 percent at end of December 2011 to register LE 989.4 billion. Out of total deposits, 87.8 percent belonged to the non-government sector at the reference date. On the other hand, annual growth rate in total lending by banking sector (excluding CBE) increased notably recording 6.9 percent at the year ending December 2011, compared to Y-o-Y growth of 2.5 percent last month and 5.9 a year earlier, mainly due to base effect. This brings total loans to almost LE 489.7 billion at end of December 2011. On a more detailed level, annual growth in total lending to non-government sector registered 7.8 percent to reach some LE 452.5 billion at end of December 2011, while annual growth in total lending to government sector continued to decline for the second month in a row recording 2.5 percent to register LE 37.2 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits has increased registering 45.7 percent at the end of December 2011, compared to 41.4 percent in December 2010. On the other hand, loans to deposits ratio in foreign currencies posted a more pronounced decrease on annual basis registering 61.7 percent at the end of December 2011, compared to 72.2 percent in December 2010.

Moreover, dollarization in total domestic liquidity stabilized during December 2011 recording 17.4 percent compared to last month, while it increased if compared to 16.2 percent recorded in December 2010. Also, dollarization in total deposits stabilized during the month of study reaching 23.7 percent, while increased if compared to 21.9 percent during the same month last year.

#### ***V. Prices***

**Concerning domestic consumer prices, annual CPI inflation<sup>9</sup> in urban areas fell to 8.6 percent during January 2012 compared to 9.6 percent recorded during the previous month, and compared to 10.8 percent in January 2011. (As for overall Egypt, it also decreased during January 2012 recording 9.2 percent compared to 10.4 percent during the previous month, and compared to 11.0 percent in January 2011).** The decrease in annual inflation rate during the month of the study compared to previous month is mainly attributed to the deceleration in growth of sub items of "Food and Beverages" group mainly; Fruit (-3.1%) compared to -1.3 percent recorded last month, Bread and Cereals (11.7%) compared to 13.9 percent, Vegetables (33.8%) compared to 45.3 percent last month, in addition to the slowdown in growth in the prices of other sub items such as; Electricity, Gas and other Fuels (16.6%) compared to 25.8 percent of the group "Housing, Water, Electricity", and the sub item Package Holidays (12.4%) compared to 15.5 percent as part of the group "Recreation and Culture".

On the other hand, monthly inflation rate rose slightly by 0.1 percent during January 2012 compared to a decline of 0.2 percent during previous month. Consequently, the average inflation rate for the period July-January 2011/2012 recorded 8.7 percent compared to 10.6 percent during the same period last year.

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.



Moreover, according to CBE inflation report, annual core inflation<sup>10</sup> relatively declined during January 2012 recording 6.9 percent compared to 7.1 percent during the previous month, and compared to 9.7 percent achieved during the same month a year ago.

**As for producer prices, year-on-year PPI inflation declined during January 2012** registering 7.4 percent compared to 9.2 percent during the previous month, and compared to 14.7 percent recorded in January 2011. However, monthly PPI inflation increased recording 0.5 percent during January 2012 compared to a decline of 1.3 percent during December 2011. The decline in annual PPI inflation is mainly due to the slowdown in annual inflation rates for most groups mainly "Agriculture, Forestry, and Fishing" recording 9.7 percent during January 2012 compared to 12.9 percent during the previous month. In addition, annual inflation rate of "Manufacturing" group declined registering 3.6 percent during January 2012 compared to 5.2 percent during December 2011. Moreover, annual inflation rate of "Mining and Quarrying" group decreased slightly registering 13.7 percent compared to 13.9 percent during the previous month, while annual inflation rates for most other groups almost stabilized during the month of study.

**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 to 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 billion; 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 slightly 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, except 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 increased by 1026 points during January 2012, reaching 4648 compared to 3622 during December 2011. Similarly, market capitalization recorded a notable growth of 17.7 percent during the month of study for the first time since October 2011 reaching LE 340 billion (21.6 percent of GDP). Such developments indicate a slow recovery following the events that Egypt has been

<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.