

Executive summary

Egypt has been undergoing significant changes on its political front since January 25th 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. Although the Egyptian economy was able to economically survive and grow during two consecutive global crises over the past five years, the current unfavorable global and domestic circumstances today are adversely impacting the performance of the economy, holding back growth and causing temporary disruption to the macroeconomic scene.

Recent updates:

- **Real GDP growth decelerated to 0.3 percent during the first half of 2011/2012**, compared to the corresponding period of the previous fiscal year, which recorded 5.6 percent. This development is largely attributable to the aftereffects of the revolution.
- **Budget deficit to GDP rose to 7.2 percent during the period July- March 2011/2012** recording LE 113 billion, compared to LE 94 billion during July- March 2010/2011.
- **Domestic budget sector debt increased to 67.4 percent of GDP as of end December 2011 to record some LE 1058.4 billion** compared to 64.8 percent as of end of December last year, yet decreased if compared to 70.5 percent as of end June 2011.
- **External debt indicators relatively improved with a decrease in the external debt stock by 3.7 percent**, leveling at 12.9 percent of GDP in December 2011 (US\$ 33.7 billion) compared to 14.8 percent of GDP (US\$ 35.0 billion) as of end December 2010.
- **M2 annual growth decreased as of end February 2012 recording 6.9 percent**, compared to **7.6 percent in January 2012**, and **12.2 percent in February 2011**.
- **CPI annual Urban Inflation slowed down during March 2012 recording 9 percent** compared to 9.2 percent during the previous month. However, **annual core inflation rose during March 2012 registering 8.7 percent** compared to 7.3 percent during February 2012.
- **During the Monetary Policy Committee meeting held on May 3rd, 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.** Additionally, on its board meeting held on March 20th 2012, **the CBE decided to reduce the required reserve ration (RRR) on domestic currency deposits by 200 basis points from 14 percent to 12 percent, effective the maintenance period starting March 20th 2012.**
- **BOP recorded an overall deficit of US\$ 8 billion in the first half of FY 2011/2012** compared to a surplus of US\$ 0.6 billion 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 slow -yet gradual- recovery of the economy for the second quarter of 2011/2012, recording a growth

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

² Includes central administration, municipalities, and services authorities (education, health, etc).

rate of 0.4 percent (compared to 0.2 percent during the previous quarter in 2011/2012). However, **growth rates for the first half of 2011/2012 (which recorded 0.3 percent) are remarkably lower** than 5.6 percent during the corresponding period in 2011/2012.

Despite the deceleration in total economic growth, **private and public consumption growth**- which comprise 89.5 percent of total GDP figure and contribute 4.3 percent to total growth- remained the **main drivers of real GDP growth (market prices) in the first half of 2011/2012**. Private and public consumption grew by 5.3 percent and 2.9 percent respectively, which offset the decline in investment spending by 3.5 percent, largely due to the drop in private investments since the revolution, as well as the widening gap between exports and imports during the review period.

In fact, **imports of goods and services increased** by only 6 percent during the first half of the fiscal year 2011/2012 (compared to an increase of 10.9 percent during the same period last year), while **exports decreased** by 4.7 percent, (as opposed to an increase of 10.9 percent in the first half of 2010/11). It is worth noting that **GDP (at market prices) for the period of study in constant prices stands at LE 460.1 billion** (LE 779.4 billion in current prices), in comparison to **LE 458.6 billion** (LE 705.4 billion in current prices) **during the period July-December last year.**

Regarding **real GDP at factor cost¹**, **realized growth has decelerated to 0.3 percent during the first half of 2011/2012**. It is noteworthy that from a sectoral perspective, the **main contributors to this modest growth** were agriculture (3.0 percent growth; 14.2 percent of GDP), Suez Canal (7.2 percent growth; 3.5 percent of GDP), telecommunications (3.7 percent growth; 4.2 percent of GDP), general government services (2.8 percent growth; 8.9 percent of GDP). On the other hand, **five sectors (comprising almost 50 percent of GDP) contributed to the deterioration**, most notably tourism (-8.6 percent growth; 4.3 percent of GDP), manufacturing (-3.1 percent growth; 15.0 percent of GDP), construction and building (-1.6 percent growth; 5.2 percent of GDP), wholesale and retail (-0.04 percent growth; 10.6 percent of GDP) and the extractive industry (-0.8 percent growth; 12.8 percent of GDP)

II. Fiscal Performance

According to FY 2010/2011 actual budget² outcomes, the overall deficit³ 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 deficit⁴ 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

³ Revenues less expenditures, plus net acquisition of financial assets.

⁴ Overall deficit less interest payments.

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 25th 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 revenues⁵ 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- March of the fiscal year 2011/2012 showed that the overall budget deficit to GDP ratio rose to 7.2 percent, reaching LE 113 billion, compared to LE 94 billion during the period July-March 2010/2011. Though fiscal revenues increased during the period of study, yet it was offset by the significant increase in total expenditures. In addition, the primary deficit to GDP merely decreased to 2.2 percent compared to 2.4 percent during July- March 2010/2011.

From the revenues side, total revenues increased notably by 36.9 percent during the period of study, registering almost LE 197.5 billion compared to LE 144.3 billion during July- March 2010/2011. The recorded increase is principally due to the 86.6 percent increase in non-tax revenues, in addition to a 21 percent increase in tax revenues.

On a more detailed level, the increase in tax revenues comes with the increase in both of Income and Property Tax chapters by 38.1 percent and 38.7 percent reaching LE 54.3 billion and LE 9.7 billion compared to LE 39.3 billion and almost LE 7 billion respectively during July-March 2010/2011. Additionally, both Taxes on Goods and Services and Taxes on International Trade increased by 8.3 percent and 7.8 percent recording LE 55.3 billion and LE 10.8 billion during July- March 2011/2012 compared to LE 51.1 billion and LE 10 billion during the same period last year.

It is noteworthy that the increase in Income Tax comes with the increase in tax on income from employment by 16.5 percent reaching LE 11.5 billion during July- March 2011/2012 compared to LE 9.9 billion during July- March 2010/2011; in addition to the increase in taxes from Corporate Profit mainly from EGPC by more than two folds reaching LE 21.8 billion compared to LE 9.8 billion during the same period last year due to the settlement done with EGPC to increase subsidies on petroleum products during the period of study, also taxes from Suez Canal increased by 9.3 percent reaching LE 8.2 billion during July-

March 2011/2012, compared to LE 7.5 billion during the same period last year. Moreover, Property Tax chapter increased mainly due to the increase in tax on T-bills and bonds' payable interest by 42.4 percent to almost LE 7.4 billion compared to LE 5.2 billion during July- March 2010/2011.

At the same time, Taxes on Goods and Services receipts increased due to the increase of both General Sales Tax on Goods, and Excises on Domestic Commodities (Table 1) by 16.3 percent and 6 percent, reaching LE 25.8 billion, and LE 15.2 billion during July-March 2011/2012 compared to LE 22.2 billion and LE 14.3 billion respectively during the same period last year; which counterparts the decrease in General Sales Tax on Services by 7.4 percent, reaching LE 6.6 billion, compared to LE 7.1 billion during the same period last year.

Moreover, Non- Tax Revenues increased significantly by 86.6 percent during the period July- March 2011/2012 mainly due to the increase in all non-tax revenue chapters specially the step up in grants recording LE 8.8 billion compared to LE 0.8 billion during the period July- March 2010/2011, 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 102 percent and 8.2 percent to almost LE 42.4 billion and LE 8.8 billion during July- March 2011/2012, compared to LE 21 billion and LE 8.1 billion during the same period last year. Moreover, Miscellaneous Revenues increased by 6 percent, recording LE 4.9 billion, compared to LE 4.7 billion during the same period last year.

On the other hand, total expenditures increased during July- March 2011/2012 by 29.6 percent, recording LE 310.8 billion compared to LE 239.8 billion during the same period last year. The recorded increase comes with the expansion growth in all spending chapters except for other expenditures and purchases of non financial assets that have declined by 4.7 percent, and 22 percent, to LE 21.6 billion, and LE 18.5 billion respectively during the period July- March 2011/2012. It is worth mentioning that the decrease in Other Expenditures Chapter could be explained in light of the decrease in both Contingency Reserves and Current Miscellaneous Expenditures by 2.7 percent and 23.2 percent to LE 19.9 billion and 1.7 billion during the period of study compared to LE 20.5 billion and LE 2.3 billion respectively during the same period last month. While, the decrease in Purchase of non financial assets could be explained in light of the 22.1 percent decline in fixed assets reaching LE 16.5 billion compared to LE 21.2 billion during the same period last year.

However, compensation of employees has increased by 28.9 percent to LE 82.9 billion compared to LE 64.3 billion during July-March 2010/2011. Also, Interest payments (which represent more than 25 percent of total Expenditures) have increased by 28.2 percent recording almost LE 78 billion during July- March 2011/2012 compared to LE 60.8 billion during the same period last year. In addition, Subsidies, grants and social benefits (which represent more than 31 percent of total Expenditures) have increased by 75.1 percent to LE 95.4 billion compared to almost LE 54.5 billion during July- March last year.

III. Domestic Debt Profile

As for domestic debt figures, statistics issued by the Ministry of Finance depict consolidated debt stocks⁶ at three different levels of compilation; the Budget Sector, General Government, and the Public Sector⁷.

Recent statistics show that domestic budget sector debt increased to 67.4 percent of GDP as of end of December 2011 to some LE 1058.4 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 894.6 billion (57.0 percent of GDP) compared to LE 738.9 billion (53.9 percent of GDP) as of end December last

⁷ 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.

⁵ 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.

⁶ Consolidated debt stocks exclude interrelated debt between entities at each level of compilation.

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 981.5 billion (62.5 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 811.2 billion (51.7 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 10.3 billion amounting to almost LE 180 billion at end of December 2011.

Finally, gross domestic public debt reached LE 1019.6 billion (64.9 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 829.7 billion (52.8 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 175.4 billion to reach 981.5 billion while Economic Authorities Domestic Debt declined by 2.8 billion to reach 102.3 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 3.7 percent at end December 2011 to US\$ 33.7 billion compared to US\$ 35.0 billion a year earlier. The ratio of external debt to GDP decreased from 14.8 percent of GDP at end December 2010 to 12.9 percent of GDP at end December 2011. Government external debt decreased by 4.2 percent to US\$ 25.7 billion (76.3 percent of total external debt) as of end of December 2011 compared to US\$ 26.8 billion (76.7 percent of total external debt) at end of December 2010⁸.

IV. Monetary Developments

On the monetary side, monthly growth rate in total liquidity remains subdued by tight liquidity conditions, growing by 0.6 percent to register LE 1050 billion in February 2012, compared to LE 1044 billion in January 2012. Annual growth in total liquidity has decelerated slightly during February 2012 recording 6.9 percent, compared to 7.6 percent in the previous month. From the **assets side**, net foreign assets has continued to shrink on annual basis recording a contraction of 35.2 percent at end of the month of study, while annual growth rate of net claims on government and GASC slowed down recording 34.2 percent, compared to 45.3 percent in the previous month. As for the **liabilities side**, annual growth rate of M1 decreased recording 8.1 percent at the end of February 2012, compared to 12.8 percent at end of the previous month. On the other hand, quasi money has inched up reaching 6.5 percent during the month of study compared to 6 percent in January 2012.

⁸ 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.

On a more detailed level, net foreign assets remain to be a drain on total liquidity posting annual decline of 35.2 percent at end of February 2012, bringing total NFA of the banking sector to LE 177.9 billion, compared to LE 179.7 billion 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 55.4 percent reaching LE 82.4 billion at end of February 2012, compared to a contraction of 55.5 percent at end of January 2012. On the other hand, **Bank's net foreign assets** annual growth rate increased by 6.4 percent to register LE 95.5 billion at the end of February 2012, compared to only 1 percent growth last month reaching LE 93.5 billion.

On the other hand, growth in net domestic assets of the banking sector increased by 23.2 percent at end of February 2012 recording LE 872.2 billion primarily derived by 34.2 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 203 percent of annual liquidity growth at the end of February 2012 reaching LE 539.4 billion.

Annual growth in the credit to the private sector has increased at a slower rate in February 2012 recording 5.2 percent, compared to 5.4 percent in the previous month. However, the annual rate recorded during February remains higher than the average growth rate in the previous twelve months, which stands at 3.3 percent. This has brought the stock of outstanding credit to the private sector to LE 437.9 billion. It is worth noting that "net claims on the public business sector" grew at 21.2 percent on annual basis, up from an annual increase of 18.2 percent last month.

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\$ 15.2 billion at end of April 2012. It is noteworthy that NIR increased by US\$ 93.5 million during the month of April representing a monthly increase - for the first time since August 2010 - by 0.6 percent.

Annual growth in total deposits with the banking sector (excluding CBE) decelerated to 5.9 percent at end of February 2012 to register LE 999.4 billion, down from 9.4 percent in February 2011, while it increased slightly if compared to 5 percent recorded at end of last month. 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 by at slower rate recording 5.5 percent at the year ending February 2012, compared to Y-o-Y growth of 5.8 percent last month and 7.4 a year earlier. This brings total loans to almost LE 495 billion at end of February 2012. On a more detailed level, annual growth in total lending to non-government sector registered 6.5 percent to reach some LE 458.8 billion at end of February 2012, while annual growth in total lending to government sector continued to decline recording -6.5 percent to register LE 36.3 billion. As for the loans-to-deposits ratios, local currency loans-to-deposits has increased registering 46.4 percent at the end of February 2012, compared to 44 percent in February 2011. On the other hand, loans to deposits ratio in foreign currencies posted a more pronounced decrease on annual basis registering 59.4 percent at the end of February 2012, compared to 68 percent in February 2011.

Moreover, dollarization in total liquidity has almost stabilized on annual basis during February 2012 recording 17.8, compared to 17.7 percent last month and 17.8 percent in February 2011. On the other hand, dollarization in total deposits increased slightly during the month of study reaching 24.2 percent, compared to 24 percent last month and to 24.1 percent during the same month last year.

V. Prices

Concerning domestic consumer prices, annual CPI inflation⁹ in urban areas slowed down to 9 percent during March 2012 compared to 9.2 percent recorded during the previous month, and compared to 11.5 percent in March 2011. (As for overall Egypt, it decreased during March 2012 recording 9.5 percent compared to 9.9 percent during the previous month, and compared to 11.8 percent in March 2011). The slight decline in annual inflation rate during the month of the study compared to previous month is mainly attributed

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

to the deceleration in annual inflation rates of many sub items of "Food and Beverages" group mainly Oils and Fats, and Vegetables, which counterparts the notable increase in the prices of "Butane gas cylinder", and other sub items of "Food and Beverages" group. Consequently, the average inflation rate for the period July-March 2011/2012 recorded 8.8 percent compared to 10.7 percent during the same period last year.

On the other hand, monthly inflation rate rose by 1.2 percent during March 2012 compared to 0.7 percent during previous month.

Moreover, according to CBE inflation report, annual core inflation¹⁰ increased notably during March 2012 recording 8.7 percent compared to 7.3 percent during the previous month, and compared to 8.5 percent achieved during the same month a year ago.

As for producer prices, year-on-year PPI inflation decreased during March 2012 registering 5.3 percent compared to 8.8 percent during the previous month, and compared to 20.4 percent recorded in March 2011. Also, monthly PPI inflation decreased recording 1.4 percent during March 2012 compared to 2.6 percent during February 2012.

During the **Monetary Policy Committee meeting held on 3 of May, 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.

Additionally, on its board meeting held on March 20th 2012, the CBE decided to reduce the required reserve ration (RRR) on domestic currency deposits by 200 basis points from 14 percent to 12 percent, effective the maintenance period starting March 20th 2012.

VI. External Sector

Balance of payments (BOP) statistics- published by the Central Bank for the period July-December of the FY 2011/2012 registered a **deficit of US\$ 8 billion in the overall balance**, compared to a surplus of US\$ 0.6 billion during the same period previous year. The recorded deficit comes as a result of the 58 percent rise in the current account deficit registering US\$ 4.1 billion, in addition to an outflow of US\$ 2.4 billion in the capital and financial account. In the meantime, net errors and omissions recorded a net outflow of US\$ 1.5 billion. This is mainly due to the recent events that took place in Egypt and the Arab region, which had negative effects on various proceeds specially tourism revenues and foreign investment inflows.

The trade deficit registered US\$ 15.6 billion during the first half of the FY 2011/2012, increasing by 7.7 percent from the previous year's figure of US\$ 14.5 billion. This is due to the increase of import payments by 7.5 percent reaching US\$ 29.2 billion, while export proceeds increased at a lower pace by 7.3 percent amounting US\$ 13.6 billion. The increase in export proceeds is due to the 24 percent increase in petroleum exports to US\$ 6.7 billion which offsets the 5.4 percent decrease in non-oil exports to US\$ 6.9 billion. As for total commodity imports, the increase witnessed in the period of study is due to the notable increase in petroleum imports by 31.5 percent to US\$ 5.4 billion; in addition to a slight increase in non-oil imports by 3.2 percent to US\$ 23.8 billion.

Moreover, the services balance has accumulated a lower surplus during the first half of FY 2011/2012, recording US\$ 3.1 billion compared to US\$ 5.6 billion during the same period previous year. Total services receipts decreased to US\$ 10.6 billion as a result of the decline in most of the sub-items, except for the increase in receipts from transportation by 3.1 percent to US\$ 4.3 billion, which includes an increase of 7 percent from Suez Canal receipts to reach US\$ 2.7 billion. This increase was

counteracted by the 27 percent decrease in travel receipts to US\$ 5.1 billion; in addition to a 33.5 percent decrease in other receipts. Moreover, receipts from investment income declined by 48 percent amounting US\$ 110 million, in addition government services receipts decreased by 12.4 percent reaching US\$ 61 million.

On the other hand, services payments stabilized at almost US\$ 7.5 billion compared to the first half of FY 2010/2011. This comes due to the inch up in most of the services payments sub-items, expect for government expenditures, which decreased by 20 percent reaching US\$ 0.6 billion. Transportation has also decreased by 28.7 percent to US\$ 0.6 billion. On the other hand, investment income payments increased by 5.5 percent to reach US\$ 3.2 billion, which can be explained in light of the increase in profits transferred from Egypt to abroad. Moreover, travel payments have increased by 7.3 percent to reach US\$1.3 billion, compared to US\$ 1.2 billion for the same period last year.

It is worth noting that the Net international reserves (NIR) imports coverage ratio has significantly decreased to 3.7 months during the period of study compared to 8 months during the period of July - December FY 2010/2011.

Also, it is note worthy that private transfers notably increased during the first half of the FY 2011/2012 by 28 percent to nearly US\$ 7.9 billion, compared to US\$ 6.2 billion for the same period last year, mainly due to Egyptian workers' remittances transferred from abroad. On the other hand public transfers increased during the first half of the FY 2011/2012 to reach US\$ 0.5 billion compared to almost US\$ 0.2 billion during the same period last year, due to the increase of cash grants transferred to the Egyptian government. Current payments increased by 6 percent to US\$ 36.7 billion, while current account receipts increased only by 1.8 percent to US\$ 32.6 billion, bringing the ratio of current receipts to current payments (including official transfers) down to 89 percent compared to 92.6 percent during the first half of the previous year.

As a result of the factors mentioned above, the current account deficit increased by 58 percent, recording US\$ 4 billion during the first half of FY 2011/2012, compared to a deficit of US\$ 2.6 billion during the same period previous fiscal year.

On the other hand, the capital and financial account reported a net outflow of US\$ 2.4 billion; versus an inflow of US\$ 2.8 billion during the first half of FY 2010/2011. This comes as portfolio investments in Egypt recorded at notable net outflow of US\$ 3.3 billion during the first half of FY 2011/2012 due to the foreigners' sales of their holding of securities, especially T-Bills (nearly US\$ 2.8 billion), as compared to a net inflow of US\$ 4.6 billion during the same period previous year. Moreover, net foreign direct investments in Egypt recorded a net outflow of US\$ 0.4 billion compared to a net inflow of US\$ 2.3 billion during the first half of the previous fiscal year. Other investments recorded a net inflow of US\$ 1.6 billion, compared to a net outflow of US\$ 3.5 billion during the first half of FY 2010/2011, as other assets amounted to a net inflow of US\$ 1.5 billion compared to net outflow of US\$ 4.8 billion during the same period in the previous fiscal year.

Finally, net errors and omissions recorded a net outflow of US\$ 1.5 billion during the period of July-December 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 331 points during March 2012, reaching 5019 compared to 5350 during February 2012. Similarly, market capitalization reversed its positive pace after two months of positive developments, recording a contraction of 5.2 percent during the month of study reaching LE 362 billion (23.1 percent of GDP).

¹⁰ 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.