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Executive summary

Egypt has been witnessing 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. 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*** *reached* ***5.5 percent in July-December 2010/2011,*** *compared to 4.8 percent in the first half of the previous fiscal year.*
- ***Budget deficit to GDP*** *increased by* ***0.2*** *percentage points during July-April 2010/2011 to 7.2 percent (LE 99.2 billion), compared to 7 percent (LE 83.9 billion) during July- April 2009/2010.*
- **Domestic budget sector debt** increased slightly to 64.5 percent of GDP as of end **December 2010 to record some LE 889.2 billion.**
- **External debt indicators continued its declining trend, despite the increase in external debt stock by 5.1%,** leveling 14.7 percent of GDP in December 2010 (US$ 35 billion) compared to 15.1 percent of GDP (US$ 33.3 billion) as of end December 2009.
- ***M2 annual growth*** *recorded* ***11.2 percent*** *as of end* ***March 2011****, compared to annual increase of* ***12.2 percent in February 2011****, and* ***9.8 percent in March 2010.***
- ***CPI*** *annual Urban Inflation rose during* ***April 2011*** *recording* ***12.1 percent*** *compared to* ***11.5*** *percent during last month. At the same time annual* ***core inflation increased*** *during* ***April 2011*** *to* ***8.76*** *percent compared to* ***8.54*** *percent during last month.*
- ***Overnight deposit and lending rates remained*** *unchanged- for the* ***thirteenth time*** *in a row since September 2009-* during the **Monetary Policy Committee meeting on April 28th, 2011** *and stand at 8.25 and 9.75 percent respectively.*
- ***BOP*** *recorded an* ***overall surplus of US$ 0.6 billion*** *in the first* ***half of FY 2010/2011*** *compared to a higher surplus of US$ 2.7 billion during the same period last year.*

I. Real GDP Growth

The Egyptian economy proved to be resilient in face of the global crises due to its diverse sources of growth and the timely intervention of countercyclical fiscal packages during FY 2008/2009 and FY 2009/2010. Real GDP growth (in market prices) reached 5.2 percent for FY 2009/2010, compared to 4.7 percent during the previous year. It is worth mentioning that real GDP in market prices for FY 2009/2010 reached LE 878.5 billion (LE 1,206.7 billion in current prices) compared to LE 835.4 billion (LE 1,042.2 billion in current prices) in the previous year.

While it is early to assess the exact impact that the recent events would have on economic growth, the pace of growth achieved in the first half of FY 2010/2011 will likely decelerate, on the backdrop of slower consumption and investment spending and as production activity was temporarily disrupted during the third quarter. This comes after the Egyptian economy had shown growth prospects on the back of the notable improvement in economic activities during the first half of FY 2010/2011, achieving a real growth rate of 5.5 percent.

GDP (market prices) growth for July-December 2010/2011 continued to improve and increased to 5.5 percent, compared to 4.8 percent realized growth in the first half of last year. Growth was driven mainly by strong total consumption, followed by investment and a small contribution of exports to growth. It is noteworthy that GDP figure in constant prices for July-December 2010/2011 stands at LE 458.6 billion (LE 705.4 billion in current prices), in comparison to LE 434.5 billion (LE 604.5 billion in current prices) in the first half of FY 2009/2010.

The buoyancy of private and public consumption growth- which comprise 85 percent of total GDP figure and contribute 3.7 percent to total growth- drove real GDP growth (market prices) during July-December 2010/2011. Private and public consumption grew by 4.4 percent and 3.6 percent respectively, and total investment spending increased by 7.1 percent (contributed 1.2 percent to total growth). Additionally, both exports and imports of goods and services increased by 12.5 percent and 9.2 percent, respectively (net exports contributed 0.6 percent to total growth).

Regarding real GDP at factor cost[1], realized growth has materialized to 5.6 percent during the first half of FY 2010/2011. It is noteworthy that from a sectoral perspective growth was led by manufacturing (6.1 percent growth; 15.6 percent of GDP); wholesale and retail trade (6.3 percent growth, 10.6 percent of GDP); construction and building (12.6 percent growth, 5.3 percent of GDP); tourism (13.9 percent growth; 4.7 percent of GDP); transport and warehousing (6.3 percent growth, 4.4 percent of GDP), in addition to telecommunications (11 percent growth, 4.1 percent of GDP). Moreover, output from Suez Canal has increased by 11.1 percent during July-December 2010/2011, a great improvement when compared to the decline of 14.2 percent during the first half of the preceding fiscal year.

II. Fiscal Performance

According to FY 2009/2010 preliminary-actual budget[2] outcomes, the Egyptian government successfully outperformed its deficit target of 8.4 percent of GDP, with preliminary deficit standing at 8.1 percent of GDP.

Figures for FY 2009/2010 show that the overall deficit[3] to GDP increased by 1.2 percentage points to 8.1 percent, reaching almost LE 98 billion, compared to LE 71.8 billion during FY 2008/2009. The increase in overall deficit to GDP reflects the impact of economic deceleration and global economic crisis on fiscal balances, depicted by the decline in fiscal revenues and the relative increase in fiscal expenditures during FY 2009/2010. Also, the primary deficit[4] to GDP increased by 0.3 percentage points, registering 2.1 percent of GDP versus 1.8 percent of GDP during FY 2008/2009.

On the revenue side, total revenues and grants decreased by nearly 5.1 percent during FY 2009/2010, registering LE 268.1 billion compared to LE 282.5 billion during FY 2008/2009. The recorded decline is principally due to lower non-tax revenues by 18.2 percent, offsetting the 4.5 percent increase in tax revenues (reflecting MOF efforts in expanding the tax base).

On a more detailed level, the recent decline in fiscal revenue items comes from the significant retreat in current miscellaneous non-tax

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).
3 Revenues less expenditures, plus net acquisition of financial assets.
4 Overall deficit less interest payments.

revenues[5] that receded by 89.1 percent to LE 3.4 billion compared to LE 31.1 billion, in addition to the 53.6 percent decline grants from foreign governments, to record almost LE 3.5 billion compared to LE 7.5 billion during FY 2008/2009. At the same time, revenues collected from taxes on corporate profits slid by 8.7 percent to LE 60.2 billion compared to nearly LE 66 billion during FY 2008/2009. On the other hand, revenues from taxes on goods and services recorded an increase of 7.1 percent, leveling LE 67.1 billion, on the backdrop of high domestic demand. Also, revenues from property taxes increased by more than three folds to LE 8.8 billion compared to LE 2.8 billion during FY 2008/2009, 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 LE 5.8 billion during FY 2009/2010. In addition, taxes on international trade grew by 4.3 percent to LE 14.7 billion during FY 2009/2010 compared to LE 14.1 billion during the preceding year.

Furthermore, total expenditures increased by 4.1 percent to LE 366 billion during FY 2009/2010 compared to LE 351.5 billion during FY 2008/2009. This is due to a number of factors, mainly the increase in interest payments by almost 37 percent to LE 72.3 billion (mainly due to the increase in domestic interest payments to non-government entities), as well as the surge in compensation of employees by 12.1 percent, reaching LE 85.4 billion during FY 2009/2010 compared to LE 76.1 billion. In addition, purchases of non financial assets increased by 11.3 percent to LE 48.4 billion compared to LE 43.4 billion last year, mainly due to the implementation of the government third fiscal stimulus package. Moreover, purchases of goods and services increased by almost 12 percent reaching LE 28.1 billion during FY 2009/2010.

However, there was a notable decline in spending on 'subsidies, grants and social benefits'[5] during FY 2009/2010 by 18.9 percent to LE 103 billion compared to LE 127 billion during FY 2008/2009. This is mainly due to the drop in social benefits by almost 84.4 percent, recording LE 4.5 billion during FY 2009/2010 compared to LE 28.7 billion last year, which is related to the base effect of the financial settlement between the treasury and Social Insurance Funds during FY 2008/2009. In addition, subsidy payments to GASC declined by 20.2 percent during FY 2009/2010 to LE 16.8 billion compared to LE 21.1 billion during FY 2008/2009, due to the decline in international food prices.

Moreover, recent data for July-April of the fiscal year 2010/2011 showed that the overall deficit to GDP ratio increased by 0.2 percentage points to 7.2 percent, reaching LE 99.2 billion, compared to LE 83.9 billion during July-April 2009/2010. This comes as fiscal revenues increased at slower rate than the growth in fiscal expenditures during July- April 2010/2011. In addition, the primary deficit to GDP has increased slightly to 2.3 percent compared to 2.2 percent during July- April 2009/2010.

From the revenues side, total revenues increased by 5.2 percent during July- April 2010/2011, registering LE 182.7 billion compared to LE 173.6 billion during the same period last year. The recorded increase is principally due to the 12.7 percent increase in tax revenues, which offsets the decrease of 13 percent in non-tax revenues.

On a more detailed level, the increase in tax revenues items comes from the step up in revenues from taxes income, capital gains and profits by 16.1 percent to almost LE 59.7 billion during July- April 2010/2011 compared to LE 51.4 billion during July- April last year. Also, revenues from Taxes on goods and services have increased by 11.8 percent to almost LE 58 billion during July- April 2010/2011 compared to LE 52 billion during July- April last year. In addition, revenues from taxes on international trade have increased by 4.6 percent to almost LE 11.3 billion during July- April 2010/2011 compared to LE 10.8 billion during July- April last year. Also, revenues from property taxes increased by 13.6 percent to almost LE 7.7 billion compared to LE 6.7 billion during July- April 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 5.7 billion during July- April 2010/2011.

On the other hand, non-tax revenues decreased by 13 percent during July- April 2010/2011 mainly due to the retreat in property income that have declined by 15.5 percent to LE 28.2 billion compared to almost LE 33.3 billion during July- April 2009/2010. In addition, revenues from both Grants and Sales of goods and services also decreased by 56.7 and 5.7 percent to almost LE 1 and 9 billion during July- April 2010/2011 compared to LE 2.4 and 9.5 billion respectively during July-April 2009/2010. However, miscellaneous revenues have increased by 9.3 percent recording LE 5.3 billion during July- April 2010/2011 compared to LE 4.9 billion during the same period last year.

Total expenditures increased during July- April 2010/2011 by 9.9 percent, recording LE 283.1 billion compared to LE 257.7 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, and purchases of non financial assets that have declined by 12 percent and 17.2 percent to LE 15.4 billion and LE 26.1 billion respectively during July-April 2010/2011. On the other hand, compensation of employees has increased by 13 percent to LE 72.4 billion compared to LE 64.1 billion during July- April 2009/2010. Also, Interest payments have increased by 15.7 percent recording almost LE 66.9 billion during July- April 2010/2011 compared to LE 57.8 billion during the same period last year. In addition, other expenditures and Subsidies, grants and social benefits have increased by 4.9 and 22.7 percent to LE 24.3 and 78.1 billion compared to LE 23.1 and 63.7 billion respectively during July- April 2009/2010.

III. Domestic Debt Profile

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

Recent statistics show that domestic budget sector debt increased slightly to 64.5 percent of GDP as of end of December 2010 to some LE 889.2 billion compared to LE 777.4 billion as of end December 2009 (64.4 percent of GDP). As for net domestic budget sector debt, it reached LE 738.9 billion (53.6 percent of GDP) compared to LE 634.8 billion (52.6 percent of GDP) as of end December last year. Accumulated budget sector debt at end of December 2010 was mainly attained via increasing issuances of T-bills and T-bonds; outstanding stocks of T-bills and T-bonds at end of December 2010 amount to LE 281.9 billion and LE 203.3 billion respectively versus LE 251.8 billion and LE 124.3 billion at end of December last year reflecting government's growing borrowing needs.

Gross domestic debt of the general government amounts to LE 806.0 billion (58.5 percent of GDP) at end of December 2010, compared to some LE 695.6 billion (57.6 percent of GDP) at end of December last year. Also, net domestic debt of the general government reached some LE 643.5 billion (46.7 percent of GDP) compared to LE 536.5 billion (44.5 percent of GDP) at end of December 2009. The increase in general government debt at end of December 2010 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 14 billion amounting to LE 169.7 billion at end of December 2010.

Finally, gross domestic public debt reached LE 847.0 billion (61.5 percent of GDP), compared to LE 724.3 billion at end of December last year (60.0 percent of GDP). At the same time, net domestic public debt reached LE 666.9 billion (48.5 percent of GDP) compared to LE 549.1 billion (45.5 percent of GDP) at

5 It is noteworthy that the exceptional increase in other revenues (on the revenues side) and social benefits (on the expenditures side) during FY 2008/2009 reflects mainly the settlement between the budget and the pension funds. Hence, the decline in "other revenues" and spending on "social benefits" during FY 2009/2010 reflects the base effect due to the settlement mentioned above.

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

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.

end of December 2009. It is noteworthy that the realized increase in domestic public debt at end of December 2010 was due to an increase in accumulated debt of the General government and the increase in total outstanding debt of Economic Authorities by LE 13 billion amounting to nearly LE 105 billion at end of December 2010.

Meanwhile, domestic debt service increased by 2.6 percent to almost LE 40.2 billion at end of December 2010, compared to LE 39.2 billion during the same period last year. This comes with the 7.3 percent increase in domestic interest payments to LE 34.0 billion which counterpart the steep decline of 17.4 percent in domestic principal repayments to LE 6.2 billion.

The average life to maturity of outstanding T-bonds and T-bills increased to 1.7 years at end of December 2010 compared to 1.6 years at end of December 2009. Meanwhile, average interest rates on outstanding stock of t-bills and t-bonds increased to 10.38 percent at end of December 2010 compared to 10.33 percent at end of December 2009.

Egypt External Debt Position continues to be strong. External debt increased by 5.1 percent at end December 2010 to US$ 35.0 billion compared to US$ 33.3 billion a year earlier, however, the ratio of external debt to GDP saw a decline from 15.1 percent of GDP at end December 2009 to 14.7 percent of GDP at end December 2010. Government external debt increased by 3.7 percent to US$ 26.8 billion (76.7 percent of total external debt) as of end of December 2010 compared to US$ 25.9 billion (77.8 percent of total external debt) at end of December 2009[8].

IV. Monetary Developments

On the monetary side, total liquidity increased on monthly basis at a slower pace by 0.6 percent during March 2011, registering LE 988.1 billion, compared to LE 982.5 billion at end of the previous month.

Consequently, Year-on-year growth in M2 increased by 11.2 percent at end of March 2011, compared to 12.2 percent at end of the previous month. This could be explained from the **assets side** by the step up in net claims on government and GASC recording 30.6 percent, offsetting the slowdown in Central Bank net foreign assets annual growth rate to -6.9 percent at end of the month of study. As for the **liabilities side**, annual growth rate of money increased by 19.3 percent at end of March 2011; which counterpart the deceleration in quasi money growth rate at end of March 2011 recording 8.9 percent compared to 9.9 at end of February 2011 percent.

On a more detailed level, annual growth rate of NFA decreased at end of March 2011 reaching -3.7 percent registering LE 266 billion. This is mainly due to the decrease in **Central Bank's net foreign assets** annual growth rate recording -6.9 percent to L.E 167.4 billion at end of March 2011 compared to an increase of 3.7 percent at end of February 2011. While **Bank's net foreign assets** increased by 2.1 percent recording L.E 98.6 billion during March 2011, compared to a decrease of 3 percent at the end of the previous month recording LE 89.8 billion.

However, annual growth in NDA increased notably at end of March 2011 registering 18 percent reaching almost LE 722 billion compared to a growth of 17 percent last month, and an increase of 8.8 percent during the same month last year. This Y-o-Y increase is a result of the acceleration in net claims on government and GASC Y-o-Y growth recording 30.6 percent, reaching LE 419 billion at end of March 2011, compared to a growth of 26.1 percent at end of February 2011.

Nevertheless, annual growth in claims on private sector recorded an increase of 6.2 percent at end of March 2011 reaching almost LE 417.8 billion compared to a higher increase of 7.6 percent at end of last month and compared to an increase of 0.9 percent at end of March 2010. However, annual change in net claims on public business sector continues its annual decline registering a contraction of 8.3 percent to LE 33.7 billion at end of March 2011 compared to an increase of almost 19 percent during the same month last year, It is noteworthy that this annual decline is induced by a step-down in a number of public sector companies debt to the banking sector in June 2010, and is thus expected to continue until the base effect dissipates in June 2011.

It is noteworthy that CBE Net International Reserves (NIR) decreased at end of March 2011 by 12.8 percent to US$ 30.1 billion, compared to an increase of 7.2 percent at end of the same month last year recording US$ 34.5 billion.

Total deposits with the banking sector (excluding CBE) increased by 8.5 percent to LE 949.2 billion at end of March 2011, of which 87.6 percent belongs to the non-government sector. Moreover, total lending by banking sector (excluding CBE) rose by 6.5 percent registering LE 470 billion at end of March 2011, due to the increase in total lending to non-government sector by 5.7 percent to reach LE 431.7 billion at end of March 2011 as well as the increase in total lending to government sector by 16.2 percent to LE 38.3 billion. As for the loans to deposits ratio for local currency at end of March 2011, it increased slightly to 44.4 percent compared to 44 percent during last month, however it decreased compared to 44.7 percent in March 2010. Meanwhile, loans to deposits ratio for foreign currencies decreased during March 2011 reaching 65 percent compared to 68 percent last month, and compared to 69.5 percent in March 2010.

Moreover, dollarization in total domestic liquidity increased to 18.2 percent during March 2011 compared to 17.8 percent during last month, and compared to 17.7 percent during March 2010. Furthermore, dollarization in total deposits also increased to 24.7 percent during the month of study compared to 24.1 percent during last month and compared to 23.1 percent during the same month last year.

V. Prices

Concerning domestic consumer prices, annual CPI inflation[9] in urban areas increased notably to 12.1 percent during April 2011 compared to 11.5 percent during last month, and compared to 10.9 percent during April 2010. (As for overall Egypt, it increased during April 2011 recording 12.4 percent compared to 11.8 percent during March 2011, and recording 11.0 percent if compared to April 2010). The step up in annual inflation rate is mainly due to the significant increase in the "Food and Beverages" group recording 21.7 percent compared to 20.5 percent during the previous month mainly due to the increase in the prices of the sub items "Vegetables", "Bread and Cereals", "Oils and fats", "Meat", "Fruits", and "Mineral water, soft drinks, fruit and vegetable juices". It is worth mentioning that Al-Ahram newspaper indicated that some of the food and goods transporting trucks were attacked on desert highways due to lack of security measures, which contributed by almost 30% increase in some food commodities prices .

In the meantime, annual inflation rates increased also for the groups of "Housing, Water, Electricity, Gas and Other Fuels," "Furnishing, Household equipment and Routine Maintenance of the House", and "Health". While it slightly decreased for the group "Restaurants and Hotels", and stabalized for most of other groups. Moreover, on a monthly basis**,** CPI in urban areas increased by 1.2 percent during April 2011 yet lower than the "1.4" percent recorded during the previous month. This is mainly due to the increase in "Food and Beverages" group prices at slower pace reaching 2.6 percent during the month of study compared to 3.3 percent during the last month.

Moreover, monthly inflation rate increased for the group "Housing, Water, Electricity, Gas and Other Fuels," recording 0.2 percent during April 2011 compared to a decrease of 0.4 percent during previous month. Which counterpart the decrease in monthly inflation rate for both of "Health", and "Miscellaneous Goods and Services" registering 0.2 percent, and

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.

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

0.3 percent during April 2011 compared to a higher increase of 0.5 percent and 0.4 percent respectively during last moth.

Moreover, according to CBE inflation report, annual core inflation[10] increased during April 2011 recording 8.76 percent compared to 8.54 percent during the previous month, and compared to 6.6 percent during the same month a year ago.

As for producer prices, year-on-year PPI inflation escalated during March 2011 recording 20.4 percent compared to 16.8 percent during the previous month, and compared to 13.7 percent during March 2010. However, monthly PPI inflation recorded 4.7 percent during March 2011 compared to 1.3 percent during the previous month, and compared to 1.6 percent in March 2010. This was mainly due to the increase in the monthly inflation rates for both of "Agriculture, Forestry and Fishing", and "Mining and Quarrying" recording 8.6 percent and 9.6 percent during March 2011 compared to -0.2 percent and 5.5 percent respectively during last month.

CBE decided to keep its overnight deposit and lending rates unchanged- for the thirteen times in a row since September 2009- during the Monetary Policy Committee meeting held on April 28th, 2011. The overnight deposit and lending rates currently stand at 8.25 and 9.75 percent respectively. Despite the sharp increase in food prices, CBE kept its overnight and lending rates unchanged since non-food inflation as well as "underlying inflation pressures arising from the ongoing economic recovery remain contained". Nonetheless, the MPC is considering the risk of possible second-round effect shocks related to food items that can have an impact on other prices, and will continue to closely monitor all economic developments.

VI. External Sector

Balance of payments (BOP) statistics- published by the Central Bank- for July-December of FY 2010/2011 registered a **surplus of US$ 0.6 billion in the overall balance**, compared to a higher surplus of US$ 2.7 billion during the corresponding period of the previous fiscal year. This comes as a result of the capital and financial account accruing an inflow of US$ 2.8 billion, which counteracted the outflow of US$ 1.4 billion in the current account. In the meantime, net errors and omissions recorded a net outflow of US$ 0.8 billion.

The trade deficit registered US$ 13.3 billion during the first half of FY 2010/2011, 11.7 percent higher than the previous year's figure of US$ 11.9 billion. Export proceeds increased by 10 percent to US$ 12.7 billion, while import payments recorded a higher increase of 10.9 percent amounting US$ 26.0 billion. The increase in export proceeds is due to the 10.8 percent increase in non-oil exports to US$ 7.2 billion and the 8.9 percent increase in petroleum exports to US$ 5.4 billion. As for the increase in total commodity imports it is due to the 33.6 percent increase in petroleum imports to US$ 2.9, in addition to the increase in non-oil imports by 8.5 percent to US$ 23.1 billion.

Moreover, the services balance has accumulated a lower surplus during July-December 2010/2011, recording US$ 5.6 billion compared to US$ 6.3 billion during the corresponding period of the previous year. Total services receipts slightly increased to US$ 13 billion in light of the increase in receipts from transportation by 20.1 percent to 4.2 billion and travel by 15.6 percent to 6.9 billion, overcoming the 58.3 percent decrease in receipts from investment income and the 29.4 percent decrease in other government receipts. Furthermore, services payments have increased by 24.7 percent to US$ 7.5 billion compared to almost US$ 6.0 billion during July-December 2009/2010, due to the significant increase in investment income by 63.8 percent to US$ 3 billion, and moderate increase in government expenditure by 31.9 percent to almost US$ 0.8 billion and transportation by 38 percent to US$ 0.8 billion, which overcame the slight decline in other sub items. Accordingly, services receipts are currently 175 percent of services payments, compared to 205 percent during the first half of the previous fiscal year.

It is also worth mentioning that private transfers increased by 78.3 percent to nearly US$ 6.2 billion, while public transfers decreased by 81.5 percent to nearly US$ 0.2 billion during July-December 2010/2011.

As a result of the factors mentioned, the current account deficit widened by 9.2 percent, recording US$ 1.4 billion during July-December 2010/2011, compared to a deficit of US$ 1.3 billion during the same period of the previous fiscal year.

On the other hand, total current account receipts increased by 13.9 percent to US$ 32 billion, while total payments increased by 13.7 percent to US$ 33.5 billion, bringing the ratio of current receipts to current payments (including official transfers) up to 95.8 percent compared to 95.6 percent during July-December of last year.

The capital and financial account reported a net inflow of US$ 2.8 billion; versus almost US$ 3.3 billion during July-December 2009/2010. This was supported by a net inflow of portfolio investments in Egypt that amounted to US$ 4.6 billion during the first half of FY 2010/2011, compared to a net inflow of US$ 1.6 billion during the same period of the previous year. Meanwhile, net foreign direct investments in Egypt recorded a net inflow of US$ 2.3 billion; 14.2 percent lower than the US$ 2.6 billion recorded in the first half of the previous fiscal year. Other investments recorded a net outflow of US$ 3.5 billion, compared to a net outflow of US$ 0.5 billion during July-December 2009/2010 as other assets amounted to a net outflow of almost US$ 4.8 billion compared to a lower net outflow of US$ 3.3 billion in the corresponding period of the previous year. This comes as the banks increased their investments abroad amounting to US$ 3.8 billion, compared to a net inflow of US$ 0.4 billion in July-December 2009/2010.

Finally, net errors and omissions recorded a net outflow of US$ 845 million during the first half of 2010/2011, compared to a net inflow of US$ 648 million during the corresponding period of the previous year.

Also, net international reserves (NIR) imports coverage ratio decreased to 8.3 months during the period of study compared to 8.7 months during July-December 2009/2010. Additionally, the coverage ratio of commodity exports to imports decreased to 48.7 percent, compared to 49.1 percent during the first half of FY 2009/2010.

It is worth noting that the Central Bank of Egypt stated in a press release issued recently that the BOP is expected to post a deficit exceeding US$ 3 billion during the period July-March 2010/2011 in light of preliminary data for January and February 2011, which show negatively affected tourism revenues, export proceeds, Egyptian workers remittances, as well as foreign investments in Egypt largely as a result of the events that took place in Egypt recently.

VII. Stock Exchange

(It is worth noting that data for February 2011 is not available due to the closure of the Egyptian Stock Exchange during the month.)

The EGX-30 index decreased by 2448 points during April 2011, reaching 5004 compared to 7452 during April 2010. Similarly, market capitalization declined over the previous year by 19.3 percent in April 2011, to LE 388 billion (28.2 percent of GDP). Such negative developments are expected in light of the recent events Egypt witnessed since 25th of January 2011.

[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. **It is noteworthy that annual core inflation during December 2010 exceeded the targeted comfort zone set by the Central Bank which lay between (6-8%).**