Executive Summary

Main Highlights…

The government is working tirelessly to rapidly achieve an economic transformation that would reflect on the citizens' standards of living. Consequently, Since the beginning of the current fiscal year, a number of fiscal and economic policies, designed to boost economic activity, strengthen social protection, ensure financial stability and reduce the budget deficit were adopted. On the same note, The Ministry of Finance also began implementing a fiscal program aimed at re-broadening the tax base and raising collection efficiency. On the expenditure side, the program also aims at reprioritizing public expenditure through reforming energy subsidies, and enhancing public debt management procedures; in addition to a host of other public finance management reforms. Expenditure policies were based on the procedures which would effectively direct and allocate expenses; disbursing savings towards social programs and increasing health and education spending. Meanwhile, the government continues to intensify its efforts to develop and raise the efficiency of public services and modernize the infrastructure of the Egyptian economy, therefore contributing to the achievement of tangible, positive change in the daily life of Egyptians.

With regards to fiscal performance, the latest indicators point to a marked improvement in tax revenue growth since the beginning of the current fiscal year. Data also indicates a 22.6 percent increase in tax revenues during July-April of the current fiscal year compared to the same period of the previous fiscal year. Tax revenue increases were driven by the improvement in economic activity and the apt implementation of tax reforms during the beginning of the current fiscal year. Efforts exerted by tax agencies to ensure collection efficiency and tighten control over Egyptian ports and harbors also contributed to revenues growth during the current fiscal year.

The fiscal and structural reforms implemented by the government since the beginning of the current fiscal year had a positive impact on a number of economic indicators. The economy achieved a GDP growth rate of about 4.3 percent during October-December 2014 compared to only 1.4 percent during the same period of the previous fiscal year, in addition, unemployment rate declined during January-March 2015 reaching 12.8 percent compared to the 13.1 percent during the same period last year.

On a different note, it worth mentioning that Standard & Poor's improved the future outlook of the Egyptian economy to a positive rating last May instead of stable. This is recorded as the fourth rating agency upgrade over the last seven months, as Moody's improved the outlook in October 2014 to stable from negative and then elevated its assessment of the economy from Caa1 to B3 in April. This was followed by a Fitch Ratings upgrade in December from B- to B. Such successive upgrades confirm a positive sentiment on the part of international evaluation institutions and their support of the government's economic policies, clearly signifying the recovery of the Egyptian economy. They also express a reality witnessed by international markets of an ever growing confidence in the Egyptian economy and its management. Finally such positive upgrades will have a positive impact on reducing the cost of financing, attracting more investment to and in Egypt. The following are the latest economic indicators developments:

- Latest GDP figures signal continuous and sustainable growth path registering 4.3 percent y-o-y growth during the second quarter of FY14/15, compared to 1.4 percent during Q2-FY13/14. Both public and private consumption continued to boost economic activity during the Q2-FY14/15 with a total contribution of 4.8 PPT compared to 0.8 PPT during the same period last year. Investments have contributed positively to growth by 0.9 PPT compared to a negative contribution of 0.9 during the same period last year, while net exports constrained growth with its negative impact of 1.4 PPT compared to a positive contribution amounting to 1.5 PPT during Q2-FY13/14. Cumulatively, real GDP has recorded a growth of 5.6 percent y-o-y in the first half of FY14/15, compared to 1.2 percent during the same period last year.

- The latest fiscal performance developments during the period July-April 2014/2015 point to a budget deficit reaching 9.9 percent of GDP (LE 230.9 billion), compared to a deficit of 8.2 as percent of GDP (LE 163.3 billion) during the same period last year. It is worthy to note that during July-April 2013/2014 Egypt received exceptional cash and in-kind grants If these exceptional inflows were to be excluded, the budget deficit would have decreased by 0.4 percentage points during the period of study.

  On the other hand, demonstrating a commitment to reprioritize public expenditure in favour of lower-income groups to achieve the best social yield, including the implementation of social reform programs such as; minimum wages, physicians cadre, increased GASC subsidies including the introduction of new system for the distribution of bread increasing the number of beneficiaries to 66.7 million citizens, and the increase in expenditures allocated for electricity subsidies to implement the emergency plan aimed to increase electricity supplies during the months of summer to meet the increasing demands, and the increase in social solidarity pensions parallel to renovating new programs to widen the beneficiaries scheme and the social safety net, such as Takaful and Karama program, in addition to efforts to increase public investments to develop and modernize infrastructure, housing and transportation and on health and education sectors. The above-mentioned developments resulted in a higher magnitude of increase in the expenditures vis-à-vis revenues during the period of study.

- Moreover, total government debt (domestic and external) reached LE 2176.7 billion (93.8 percent of GDP) at end of March 2015, compared to LE 1806.3 billion (90.4 percent of GDP) at end of March 2014.

- Net International Reserves (NIR) increased during April 2015 to record US$ 20.53 billion, compared to US$ 15.29 billion in March 2015.

- As for the monetary developments, M2 annual growth increased at end of March 2015 to record 17 percent (y-o-y) reaching LE 1682.6 billion, compared to 15.5 percent during the last month and compared to 16.3 percent at end of March 2014, as annual growth for time and saving deposits in local and foreign currencies increased during the month of study.

- Meanwhile, Headline Urban inflation rose a slower pace to record 11 percent during April 2015, compared to 11.5 percent last month, and 8.9 percent recorded in April 2014. Factors contributing to that include; the decline in annual inflation rate of “Housing, Water, Electricity, Gas and Other Fuels” group to record 7.6 percent during the month of study compared to 13.4 percent during last month (in light of the decline in butane gas prices), In addition to the decline in annual inflation rate of other main groups including; “Furnishing, Household Equipment’s and Maintenance of House”, “Transport”, and “Recreation and Culture”. However, the abovementioned decelerations have been counterparted by the increase in annual inflation rate of “Food and Beverage" group recording 9.8 percent during the month of study, compared to 9.2 percent during last month, and which has driven the overall annual CPI inflation to increase during the month of study but at a slower pace if compared to last month.

- During its Monetary Policy Committee meeting held on April 23rd, 2015, CBE decided to keep the overnight deposit rate and overnight lending rates, and the CBE's main operation and the discount rate unchanged at its current levels. Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on May 19, 2015 worth LE 70 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

- The Balance of Payments (BOP) showed an overall deficit of US$ 1.0 billion (-0.3 percent of GDP) during H1-FY14/15, compared to an overall surplus of US$ 2.0 billion (0.7 percent of GDP) during the same period last year. This was mainly due to a current account deficit of US$ 4.3 billion (-1.3 percent of GDP), compared to a deficit of US$ 0.9 billion (-0.3 percent of GDP) during the same period last year, while the capital and financial account witnessed net inflows of US$ 0.9 billion (0.3 percent of GDP) during the period of study, compared to net inflows of US$ 3.2 billion (1.1 percent of GDP) during H1-FY13/14. Meanwhile, net errors and omissions recorded an inflow of US$ 2.4 billion (0.7 percent of GDP) during July – December 2014/2015, compared to an outflow of US$ 0.4 billion (-0.1 percent of GDP) during H1-FY13/14.

  By excluding exceptional financing received from Gulf Countries – amounting to US$ 2.4 billion (US$ 1.4 billion in-kind grants and US$ 1 billion cash grant) during H1-FY14/15, compared to US$ 10.7 billion (US$ 6 billion deposits, US$ 1 billion cash grant and US$ 3.7 billion in-kind grants) during the same period last year – the BOP performance would have been improved by 61 percent to reach an overall deficit of US$ 3.4 billion during the period of study, compared to US$ 8.7 billion during the H1-FY113/14. This comes despite the reimbursement of US$ 3.2 billion to Qatar (US$ 0.5 billion as accrued deposits and bonds worth US$ 2.7 billion) during October and November 2014. Moreover, Egyptian General Petroleum Company (EGPC) has returned US$ 3 billion in arrears owed to foreign energy companies during July – December 2014/2015.

  It is noteworthy to highlight that credit default swap (CDS) for five years witnessed a decrease to reach almost 332.27 points currently, down from 890 basis points at the beginning of July 2013. This directly affects risk perception of international investors toward the Egyptian economy, thus having a positive influence on their decision. In addition the purchasing managers' index (PMI) has achieved its highest rate since the preceding three months, recording 50 points during April 2015, compared to 49.6 during March 2015, boosted by a pick-up in output of private sector non-oil companies ending a three-month period of decline.

Real Sector:

Six key sectors led growth during H1-FY14/15…

- Latest GDP figures released by the Ministry of Planning signal continuous and sustainable growth path registering 4.3 percent y-o-y growth during Q2-FY14/15 up from 1.4 percent during Q2-FY13/14. Both public and private consumption continued to boost economic activity during the Q2-FY14/15 with a total contribution of 4.8 PPT compared to 0.8 PPT during the same period last year. Investments have contributed positively to growth by 0.9 PPT compared to a negative contribution of 0.9 during the same period last year, while net exports constrained growth with its negative impact of 1.4 PPT compared to a positive contribution amounting to 1.5 PPT during Q2-FY13/14.

  Cumulatively, real GDP has recorded a growth of 5.6 percent y-o-y in the first half of FY14/15, compared to 1.2 percent during the same period last year. On the demand side, both public and private consumption witnessed high growth rates during H1-FY14/15. Private consumption grew by 4.9 percent y-o-y, compared to a growth rate of 2.5 percent during H1-FY13/14, while public consumption grew at 7.7 percent in the period of study, compared to 4 percent during H1-FY13/14. It is also worthy to note that both public and private consumption led to a total contribution of 5 PPT to GDP growth during H1-FY14/15, compared to 2.5 PPT during the same period last year.

In the meantime, recent data reflects positive signs of change, showing that investments have increased by 9.2 percent compared to a negative growth level of 6.3 percent during H1-FY13/14, contributing positively to growth by 1.2 PPT compared to -0.9 PPT to growth during H1-FY13/14.

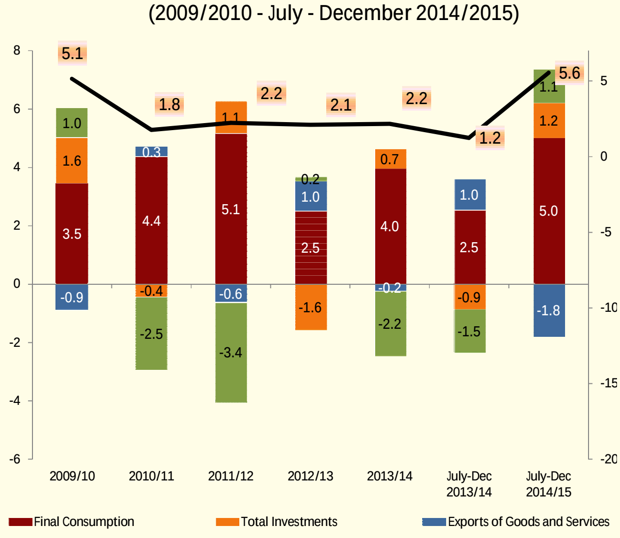
As for the distribution of total investments by economic agents (in nominal terms), public investments (government + economic authorities + public business sector) accounted for 29.8 percent of total investments in Egypt during the period of study, while the private sector accounted for 70.2 percent in the same period, noting that nearly 64.2 percent of government investments were directed towards social services sectors.

Meanwhile, net exports posted a negative contribution of 0.6 PPT during H1-FY14/15, compared to a negative contribution of 0.4 PPT during H1-FY13/14. These developments came in light of a 7.5 percent increase in Exports with a positive contribution of 1.1 PPT to real GDP growth, compared to a negative contribution of 1.5 PPT during the same period last year, while imports increased by 7.4 percent in the period of study, contributing negatively by 1.8 PPT, compared to a negative contribution of 1 PPT during H1-FY-13/14.

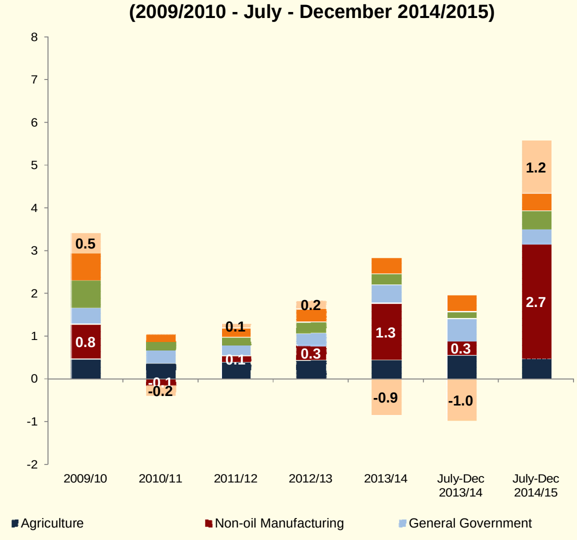
On the supply side, six key sectors led y-o-y growth, on top of which was the non-oil manufacturing sector recording a 18.4 percent growth rate, (contributing with the highest contribution of 2.7 percentage points to growth compared to 0.3 PPT during H1-FY13/14). Meanwhile, manufacturing index – sub index under total production index – hiked to reach 165.4 points during December 2014, compared to 142.8 points during December 2013, recording y-o-y growth of 15.8 percent.

Moreover, the tourism sector hiked to record a 52.7 percent real growth rate (contributing to growth by 1.2 PPT – 2nd highest contribution after non-oil manufacturing sector – compared to a negative contribution of 1 PPT during H1-FY13/14). It is noteworthy that, tourism improving performance reflects returning stability and strengthening confidence, raising tourism index – sub index under total production index – up to 226.2 points during December 2014, compared to 176.9 points during December 2013 growing almost by 27.9 percent.

Contribution to GDP Growth (at market prices) (PPT)
(2009/2010 - July - December 2014/2015)



Contribution to GDP Growth (at factor cost) (PPT)
(2009/2010 - July - December 2014/2015)



Moreover, construction sector have recorded a real growth rate of 9.5 percent (contributing by 0.4 PPT during the period of study, compared to 0.2 PPT during the same period last year). Meanwhile general government sector have recorded a real growth rate of 3.8 percent (contributing by 0.4 PPT to growth compared to 0.5 PPT during H1-FY13/14), wholesale and retail trade have recorded a real growth rate of 3.4 percent (stabilizing at a contribution of 0.4 PPT) and agricultural sector witnessed growth of 2.9 percent (contributing by 0.5 PPT to growth compared to 0.6 PPT during H1-FY13/14). Together, these above-mentioned 6 key sectors represented around 61 percent of total real GDP during the period of study.

Meanwhile, natural gas extraction continued to subdue growth during H1-FY14/15 declining by 12.5 percent, contributing negatively to growth by 1 PPT.

Fiscal Sector:

- The latest fiscal performance developments during the period July-April 2014/2015 point to a budget deficit reaching 9.9 percent of GDP (LE 230.9 billion), compared to a deficit of 8.2 as percent of GDP during the same period last year. This could be explained in light of the increase in mandatory expenses (such as wages, social benefits, and subsidies) during the period of study, exceeding the impact of increased revenue proceeds during the period of study.

  However, it is worthy to note that the decrease in government non tax revenues, came on the back of the decline in grants during the period of study, if compared to exceptional cash and in-kind grants received during July-April 2013/2014 to address the structural imbalances following the political strikes during January 25, 2011 revolution (including US$ 3 billion grants from the United Arab of Emirates and Saudi Arabia, in addition to LE 20.3 billion out of LE 29.7 billion allocated to finance the first stimulus package related to the presidential decree no. 105, 2013). If these exceptional inflows were to be excluded, the budget deficit would have decreased by 0.4 percentage points during the period of study.

  Meanwhile tax receipts increased by almost LE 44 billion (22.6 percent growth) to record LE 239 billion during the period of study, compared to LE 195 billion during the same period last year; coinciding with the tax collection season, and driven by tax reforms adopted since the beginning of the current fiscal year. Taxes on income has particularly increased by 14.7 percent to LE 103.7 billion during the period of study, compared to LE 90.4 billion during the same period last year (especially with petroleum settlements taking place during the period of study). Taxes on goods and services also increased by around 35 percent to record LE 97.5 billion during the period of study compared to LE 72.1 billion. Moreover, taxes on international trade has grown by 31.6 percent to LE 17.9 billion during the period of study, compared to LE 13.6 billion (in light of the improved performance of economic activity and the efforts made in to raise collection efficiency). The abovementioned increase in Tax-Revenues outweighed the declined in Non-Tax Revenues during the period of study, and which has simultaneously led total revenues to increase only by 2 percent during the period of study.

  On the other hand, demonstrating a commitment to reprioritize public expenditure in favour of lower-income groups to achieve the best social yield, including the implementation of social reform programs such as; minimum wages, physicians cadre, increased GASC subsidies including the introduction of new system for the distribution of bread increasing the number of beneficiaries to 66.7 million citizens, and the increase in expenditures allocated for electricity subsidies to implement the emergency plan aimed to increase electricity supplies during the months of summer to meet the increasing demands, and the increase in social solidarity pensions parallel to renovating new programs to widen the beneficiaries scheme and the social safety net, such as Takaful and Karama program, in addition to efforts to increase public investments to develop and modernize infrastructure, housing and transportation and on health and education sectors. The above-mentioned developments resulted in a higher magnitude of increase in the expenditures vis-à-vis revenues during the period of study.

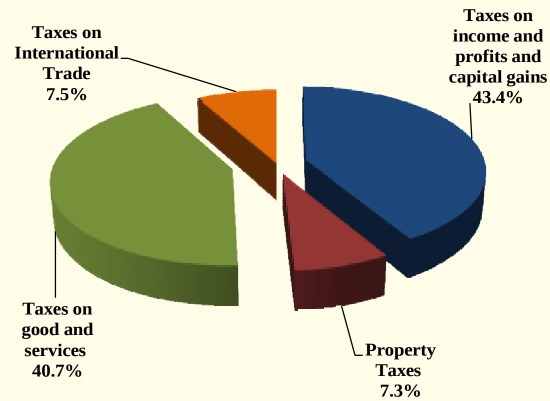
July- April 13/14 Budget Deficit LE 163.3 billion (8.2 percent of GDP)	July- April 14/15 Budget Deficit LE 230.9 billion (9.9 percent of GDP)
Revenues LE 314.8 billion (15.8 percent of GDP)	Revenues LE 321 billion (13.8 percent of GDP)
Expenditure LE 471.8 billion (23.6 percent of GDP)	Expenditure LE 541.7 billion (23.3 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

On the revenue side,

Total revenues increased by LE 6.3 billion (2 percent growth) to record LE 321 billion during July-April 2014/2015 compared to LE 314.8 billion during the same period last year. This developments could be explained mainly in light of the increase in tax revenues by 22.6 percent to record LE 239 billion during the period of study coinciding with the tax collection season, and which has outpaced the decline in non-tax revenues by 31.5 percent to record LE 82 billion during July-April 2014/2015, driven by the decline in grants during the period of study if compared to the exceptional grants received during the period of comparison July-April 2013/2014.

The distribution of Tax Revenues July-April 2014/2015



The improvement in tax revenues coincides with the tax collection season, and was driven by tax reforms adopted since the beginning of the current fiscal year. This has been reflected by the increase in tax receipts from sovereign authorities, specifically, Other Companies. In addition, CBE tax receipts have increased in light of the repayment of last year's tax arrears, and the petroleum settlement that occurred during the period of study. Meanwhile, taxes on goods and services revenues increased significantly, on the back of improved tourism sector performance during the period of study. Also, taxes on international trade have improved, reflecting the increased efforts of the Egyptian Customs Authority in controlling Egypt's ports. Finally, Real Estate Tax Authority efforts to raise tax collections efficiencies has contributed to the increase in property tax receipts during the period of study.

Taxes on Income, Capital Gains and Profits increased by LE 13.3 billion (14.7 percent growth) to reach LE 103.7 billion (4.5 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 43.4 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from Other Companies (excluding Sovereign authorities, such as EGPC,CBE, SCA) by LE 9.6 billion (45.4 percent) to record LE 30.8 billion.
- Increase in receipts from taxes on CBE by LE 0.9 billion (27.6 percent) to reach LE 4 billion.
- Increase in taxes on industrial & commercial profits by LE 2 billion (31.3 percent) to reach LE 8.4 billion.
- Increase in taxes on domestic salaries by LE 2.3 billion (14.6 percent) to reach LE 18.2 billion in light of the significant increase in wages and salaries.

Taxes on Good and Services increased by LE 25.3 billion (35.1 percent growth) to reach LE 97.5 billion (4.2 percent of GDP).

- **Taxes on goods and services receipts represent 40.8 percent of total tax revenues.**

Mainly as a result of higher receipts from:

- The increase in general sales tax on goods by 26.9 percent to record LE 43.4 billion.
- The increase in Excises on Domestic Commodities (Table 1) by 60.2 percent to record LE 31.5 billion (in light of increased sales tax on petroleum products by 213.9 percent to reach LE 9.4 billion and tobacco by 32.1 percent to reach LE 21 billion)
- The increase in general sales tax on services by 30 percent to record LE 9.5 billion in light of the improved performance of the tourism sector, specifically, hotels, and restaurants and the improvement of international and domestic telecommunications services.
- The increase in stamp tax (excludes stamp tax on salaries) by 9.5 percent to record LE 6 billion in light of the increase in stamp tax on electricity and gas consumption, insurance, and miscellaneous stamp taxes.

Taxes on International Trade increased by LE 4.3 billion (31.6 percent growth) to reach LE 17.9 billion (0.8 percent of GDP).

- **Taxes on International Trade receipts represent 7.5 percent of total tax revenues.**

In light of an increase in taxes on valued customs by 32 percent y-o-y to LE 17.2 billion reflecting the efforts of the Egyptian Customs Authority to control Egypt ports since the beginning of the current fiscal year 2014/2015.

Property Taxes increased by LE 1.5 billion (9.5 percent growth) to reach LE 17.3 billion (0.7 percent of GDP).

- **Property Taxes receipts represent 7.3 percent of the total tax revenues.**

Mainly as a result of the increase in Tax on T-bills and bonds' payable interest by 5.6 percent to reach 13.8 billion during the period of study and the increase of Taxes and Fees on Cars receipts by 26.6 percent to record LE 2.3 billion.

On the other hand, receipts from Other Taxes (which represents 1.1 percent of total tax revenues) declined by LE 0.5 billion (14.3 percent growth) to reach LE 2.7 billion (0.1 percent of GDP), mainly due to:

The reduction in non tax revenues could be explained mainly due to the decline in grants during the period July-April 2014/2015

On the non-tax revenues side, the decline could be explained in light of the following:

- The decrease in grants to record LE 7.9 billion during July-April 2014/2015 if compared to exceptional grants received during the same period last year recording almost LE 51.4 billion, due to the exceptional grants received during the period of comparison last year. It is noteworthy that the exceptional grants received last year were US$ 3 billion grant from the United Arab of Emirates and Saudi Arabia, in addition to LE 20.3 billion (out of LE 29.7 billion allocated to finance the first stimulus package related to the presidential decree no. 105, 2013).

- Revenues from special accounts and funds decreased by LE 2.3 billion (16.9 percent) to reach LE 11.5 billion during the period of study.

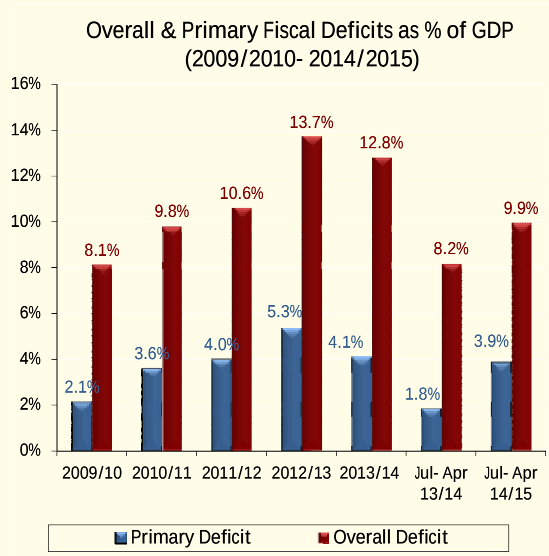
- On the other hand, property income receipts rose during the period of study (more specifically non-tax revenues from sovereign authorities) as follows:

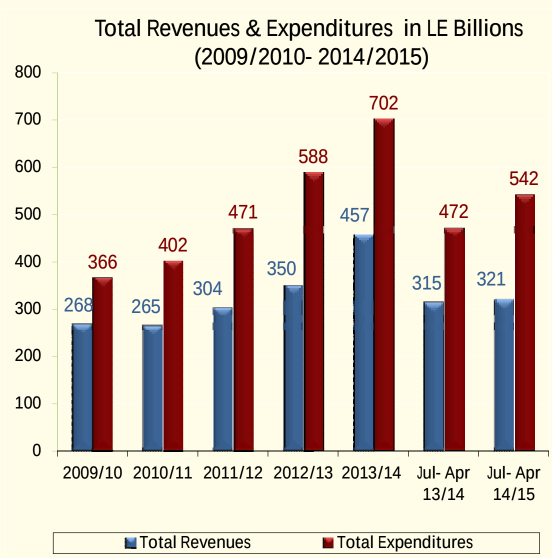
  § Increase in dividends collected from Central Bank by LE 4.1 billion to reach LE 13.4 billion (In light of collecting overdue payments from CBE that belonged to last year),

  § Increase in dividends collected from economic authorities by LE 0.8 billion to reach LE 2 billion,

  § Increase in royalties on petroleum by 70.4 percent to reach LE 2 billion during the study period.

- Meanwhile, Miscellaneous Revenues rose by 54.7 percent to record LE 10.8 billion (0.5 percent of GDP), mainly due to the increase in both current and capital miscellaneous revenues during the period of study.





Source: Ministry of Finance

The rise in Expenditures is mainly due to the increase in Wages, Investments, Subsidies and Social Benefits

On the Expenditures Side:

The government adopts fiscal reforms that target reprioritization of public expenditure in favour of lower-income groups to achieve the best social yield through investment in human capital and infrastructure aiming at improving basic services for citizens and widening social safety nets.

The latest fiscal data shows total expenditure has reached LE 541.7 billion (23.3 percent of GDP) during July-April 2014/2015, this was mainly due to:

§ The increase in wages and compensation of employees by 13.5 percent to LE 157.8 billion (6.8 percent of GDP).

§ The increase in Purchases of Goods and Services by LE 3.2 billion (18 percent growth) to reach LE 21.2 billion (0.9 percent of GDP).

§ The increase in interest payments by LE 14.2 billion (11.2 percent growth) to reach LE 140.7 billion (6.1 percent of GDP).

§ The increase in subsidies, grants and social benefits by LE 17 billion (13.3 percent growth) to reach LE 145 billion (6.2 percent of GDP) during the period of study compared to LE 128 billion during same period last year, this can be explained in light of the following:-

- The increase in Spending on subsidies reaching around LE 102.8 billion during the period of study compared to LE 91.6 billion and which comes in light of the following:
  - General Authority for Supply Commodities subsidies rose by LE 5.6 billion (27.2 percent growth) to reach LE 26 billion during the period of study.
  - Electricity subsidies rose by LE 11.4 billion (almost doubled) to reach LE 22.4 billion during the period of study.
- Meanwhile, Social Benefits rose by 5.2 billion (16.6 percent growth) to reach LE 36.7 billion during July-April 2014/2015, mainly due to:
  - Increased contributions to the pension funds by LE 3.7 billion (13.7 percent growth) to reach LE 30.4 billion during the period of study.
  - Increased social insurance pensions by LE 1.4 billion (35 percent growth) to reach LE 5.5 billion during the period of study.

§ The increase in purchases of non-financial assets (investments) by LE 9 billion (1.7 percent of GDP) (29.7 percent growth) to reach LE 39.3 billion.

Going forward, the government's strategy to lower budget deficit, and achieve social justice in FY14/15 budget, consists of two pillars: First, on the revenue side, the government is working towards restructuring the tax system to allow for a fair distribution of the tax burden. In addition, the government is also pursuing other strategies which include countering tax evasion, widening the tax base through a set of amendments for the income tax law, and transferring into the value added tax.

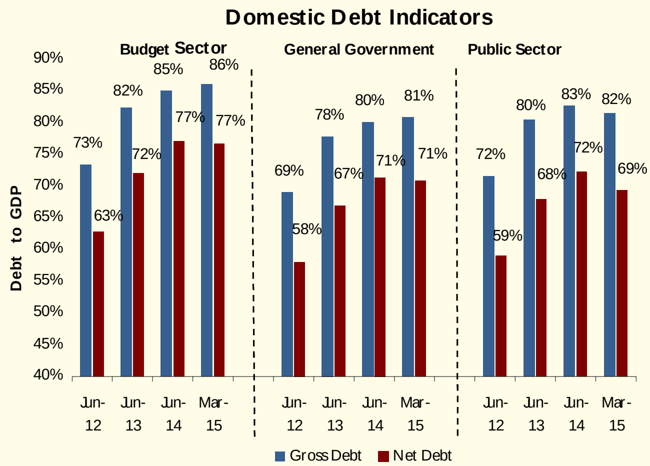
The second pillar envisages expenditure side reforms, that focuses on re-prioritizing public spending in favor of protecting the poor, particularly the neediest segments of the population. Meanwhile, some of the savings derived from the new revenue enhancement and subsidy cuts will be deployed to increase spending on health, education and R&D. Furthermore, additional spending will be allocated to fund important social programs, such as, pension programs, health insurance, improving the slum areas, providing citizens with basic commodities.

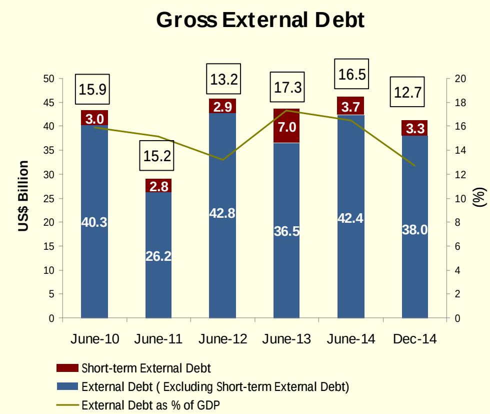
Public Debt:

Although value of total government debt increased, its ratio to GDP witnessed slight improvement …

Ø Domestic budget sector debt recorded LE 1998.2 billion (86.1 percent of GDP) by end of March 2015, compared to LE 1604.2 billion (80.3 percent of GDP) by end of March 2014.

It is worth mentioning that the total government debt (domestic and external) reached LE 2176.7 billion (93.8 percent of GDP) at end of March 2015, compared to LE 1806.3 billion (90.4 percent of GDP) at end of March 2014.





Source: Ministry of Finance

External debt stock (government and non-government debt) recorded US$ 39.9 billion at end of March 2015 compared to US$ 45.3 billion at end of March 2014. External debt as percent of GDP recorded 13.1 percent by the end of March 2015, which is relatively low if compared to the average of peer countries (Middle East and North Africa countries recorded an average of 27 percent of GDP during the year 2013).

Meanwhile, government external debt annual growth decreased by 19.2 percent to reach US$ 23.5 billion (60.7 percent of total external debt) as of end of March 2015, compared to US$ 29 billion (58.9 percent of total external debt) at end of March 2014.

Monetary Perspective:

M2 annual growth increased during March 2015 to reach 17 percent

- According to recent data released by the CBE, M2 annual growth increased at end of March 2015 to record 17 percent (y-o-y) reaching LE 1682.6 billion, compared to 15.5 percent during the last month and compared to 16.3 percent at end of March 2014. This notable increase could be explained – from the liabilities side – in light of the increase witnessed in quasi money annual growth recording 16.5 percent (LE 1223.4 billion), compared to 14.2 percent in the previous month, as time and saving deposits in local and foreign currencies annual growth increased to 17.3 percent and 14.6 percent, respectively, during the month of study, compared to 15.8 percent and 9.6 percent in the previous month. Meanwhile, demand deposits in foreign currency annual growth increased to 12 percent at end of March 2015 compared to 4.1 percent in the previous month. The increase in quasi money overcame the slight decrease witnessed in money annual growth reaching 18.1 percent (LE 459.1 billion), compared to 19.2 percent at end of February 2015, as demand deposits in local currency increased at a slower pace at end of March 2015 to record 36.1 percent (LE 180.7 billion), compared to 39.7 percent in the previous month.

From the assets side – net domestic assets (NDA) of the banking system annual growth increased during the month of study to record 23 percent (LE 1616.9 billion), compared to 21.4 percent during the previous month. On the other hand, net foreign assets (NFA) of the banking system has continued to shrink on annual basis, recording a contraction of 47.2 percent (LE 65.6 billion) at the end of March 2015, compared to a lesser decline of 44.5 percent during the previous month.

Net claims on the government and GASC annual growth increased to 26.2 percent (LE 1211.3 billion) during March 2015, compared to 24.2 percent in the previous month. Moreover, annual growth in credit to the private sector increased to reach 16.2 percent (4.6 percent annual real growth) at end of March 2015 to LE 593.5 billion, compared to 14.2 percent last month. This growth comes on the back of the increase witnessed in private business sector annual growth reaching 15.1 percent, compared to 12.6 percent in February 2015. On the other hand, claims on public business sector annual growth increased to 38.8 percent in March 2015 (LE 63.8 billion), compared 35.5 percent in February 2015.

Deposits and loans detailed data for March 2015 is not yet available. Total deposits annual growth – excluding deposits at the CBE – increased slightly to reach 20.4 percent y-o-y (LE 1615.7 billion) at the end of February 2015, compared to 20.3 percent at end of January 2015. Out of total deposits, 85 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by banking sector (excluding CBE) increased during the year ending February 2015 recording 18 percent (LE 656 billion), compared to 17 percent at end of January 2015. To that end, loans-to-deposits ratios stabilized at 40.6 percent for the second month on a row.

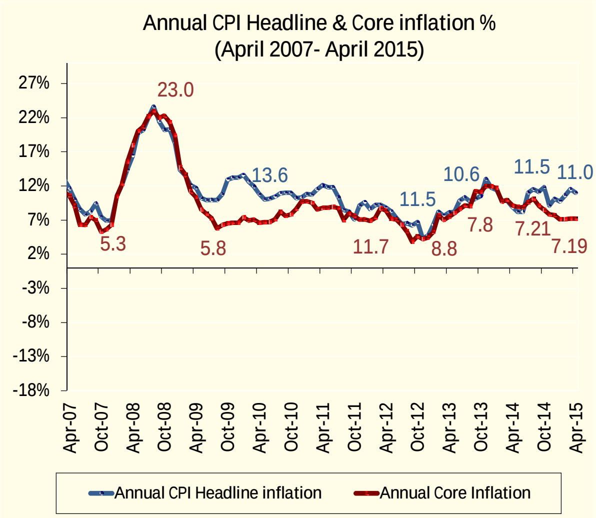
NIR increased significantly during April 2015 to record US$ 20.53 billion

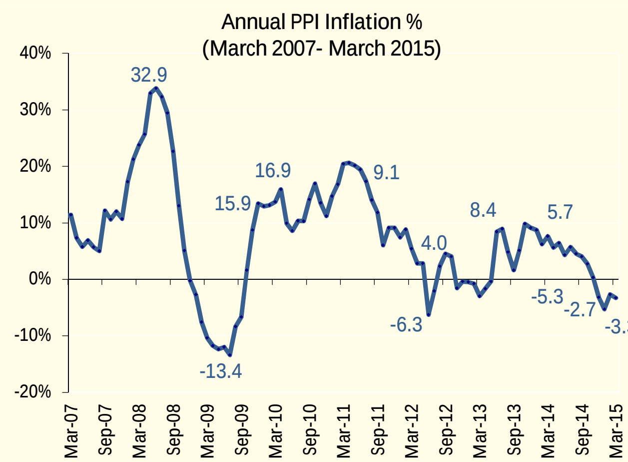
- Net International Reserves (NIR) increased during April 2015 to record US$ 20.53 billion, compared to US$ 15.29 billion in March 2015.

CPI rose during Jul-Apr 2014/2015 compared to same period last year

- CPI annual Urban Inflation rose at a slower pace to record 11 percent during April 2015, compared to 11.5 percent last month, and 8.9 percent recorded in April 2014. As a result, the average annual inflation rose to record 10.7 percent during the period July-April 2014/2015, compared to 10.5 percent during the same period last year. Factors contributing to that include; the decline in annual inflation rate of "Housing, Water, Electricity, Gas and Other Fuels" group to record 7.6 percent during the month of study compared to 13.4 percent during last month (in light of the decline in annual inflation rate of "Electricity Gas and Other Fuels" by 37.3 percent compared to 71 percent driven by the decline in butane gas prices, and the slight decline in "Water Supply and Dwellings" by 7 percent compared to 7.8 percent). Meanwhile, amongst other main groups that declined during the month of study were; "Furnishing, Household Equipment and Maintenance" to record 3.4 percent, compared to 4.5 percent, "Transport" to record 21.5 percent compared to 22 percent, and "Recreation and Culture" to record 14.8 percent compared to 15.2 percent.

However, the abovementioned decelerations have been counterparted by the increase in annual inflation rate of "Food and Beverage" group recording 9.8 percent during the month of study, compared to 9.2 percent during last month. This comes in light of the increase in the annual inflation rate of some sub-items including; "Vegetables" (to record 21.3 percent, compared to 19.8 percent), "Fruits" (to record 12.7 percent, compared to 7.7 percent), "Milk" (to record 8.1 percent, compared to 7.2 percent), "Oil and Fats" (to record 3.4 percent, compared to 2.5 percent), "Sugar" (to record 4.2 percent, compared to 3.8 percent).





On the other hand, monthly inflation declined notably to reach 0.1 percent during April 2015, compared to 1.5 percent during last month, and compared to 0.6 percent during April 2014.

Annual core inflation[1/] declined slightly to reach 7.19 percent during April 2015, compared to 7.21 percent during last month, and compared to 9.1 percent in April 2014. Meanwhile, monthly core inflation decelerated to record 0.2 percent during April 2015, compared to 0.8 percent during the previous month. The decrease in monthly inflation could be explained in light of the decline in the prices of “food items” contributing by 0.11 percentage points to the monthly core inflation, and which outweighed the increase in “Retail items, paid services, and other services” contributed by 0.34 percentage points.

- During its Monetary Policy Committee meeting held on April 23rd, 2015, CBE decided to keep the overnight deposit rate and overnight lending rates, unchanged at 8.75 percent and 9.75 percent respectively, and to keep the CBE's main operation unchanged at 9.25 percent. The discount rate was also kept unchanged at 9.25 percent. The committee justified that decision in light of balancing risks to the inflation outlook and the economic growth.

- Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on May 19, 2015 worth LE 70 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

- The Egyptian Exchange indices market capitalization declined by 0.8 percent m-o-m during May 2015 to reach LE 495.8 billion, compared to LE 499.8 billion during the previous month. However, EGX-30 Index increased by 110.3 points during May 2015, reaching 8782.6 points, compared to 8672.3 points by the end of April 2015. As for, the EGX70 it dropped as much as 1.2 percent, closing at 469.7 points, compared to closing the previous month at 475.4 points.

1/The Core Index excludes items with managed prices 'regulated items' (fuel, electricity, exported and imported tobacco), and items characterized by inherent price volatility specifically 'fruits and vegetables'.

On the External Sector side:

- BOP showed an overall deficit of US$ 1.0 billion (-0.3 percent of GDP) during H1-FY14/15, compared to an overall surplus of US$ 2.0 billion (0.7 percent of GDP) during the same period last year.

  By excluding exceptional financing received from Gulf Countries – amounting to US$ 2.4 billion (US$ 1.4 billion in-kind grants and US$ 1 billion cash grant) during H1-FY14/15, compared to US$ 10.7 billion (US$ 6 billion deposits, US$ 1 billion cash grant and US$ 3.7 billion in-kind grants) during the same period last year – the BOP performance would have been improved by 61 percent to reach an overall deficit of US$ 3.4 billion during the period of study, compared to US$ 8.7 billion during the H1-FY113/14. This comes despite the reimbursement of US$ 3.2 billion to Qatar (US$ 0.5 billion as accrued deposits and bonds worth US$ 2.7 billion) during October and November 2014. Moreover, Egyptian General Petroleum Company (EGPC) has returned US$ 3 billion in arrears owed to foreign energy companies during July – December 2014/2015.

  On a more detailed level, the deficit recorded in the BOP occurred as a result of several factors, on top of which:

  - Current account recorded a deficit of US$ 4.3 billion (-1.3 percent of GDP), compared to a lower deficit of US$ 0.9 billion (-0.3 percent of GDP) during the same period last year. This came as a result of the deceleration witnessed in the trade balance and transfers, which outweighed the improvement in the services balance, as follows:

    - Trade balance has recorded a deficit of US$ 20.2 billion (-6.2 percent of GDP), compared to a deficit of US$ 15.1 billion (-5.2 percent of GDP) during the same period last year, mainly due to the increase witnessed in merchandise imports by 14.7 percent to record US$ 32.4 billion compared to US$ 28.3 billion in the comparison period.

    - However, services balance has recorded a surplus of US$ 3.9 billion (1.2 percent of GDP) during the period of study, compared to a deficit of US$ 0.5 billion (-0.2 percent of GDP) during H1-FY13/14, mainly backed by the more-than-double picking up in tourism receipts to reach US$ 4 billion during July – December 2014/2015, (compared to US$ 1.9 billion in H1-FY13/14), in addition to the significant increase witnessed in government receipts to reach US$ 1.1 billion during the period of study, compared to US$ 0.2 billion in H1-FY13/14.

    - Net official transfers recorded US$ 2.6 billion (0.8 percent of GDP) (of which US$ 1.4 billion in-kind grants in the form of petroleum shipments and US$ 1 cash grant from Kuwait) compared to US$ 6.2 billion (2.2 percent of GDP) during July-December 2013/2014, this cannot be considered as a deceleration since the period in comparison H1-FY13/14 reflected exceptional inflows (of which, US$ 1 billion cash grant from UAE and US$ 3.8 billion in-kind grants in the form of petroleum shipments).

  - Meanwhile, the capital and financial account witnessed net inflows of US$ 0.9 billion (0.3 percent of GDP) during the period of study, compared to net inflows of US$ 3.2 billion (1.1 percent of GDP) during H1-FY13/14, mainly due to the following:

- Net foreign direct investments in Egypt increased to reach US$ 2.7 billion (0.8 percent of GDP), compared to US$ 2.1 billion (0.7 percent of GDP) in the comparison period driven mainly by the rise in the net inflow for oil sector investments to reach US$ 1.2 billion up from US$ 1.0 billion during H1-FY13/14. Net inflow for greenfield investments have also witnessed an increase to reach US$ 1.4 billion during H1-FY14/15 up from US$ 1.1 billion during the same period last year.

- Portfolio investment in Egypt has recorded a net outflow of US$ 2.1 billion (-0.6 percent of GDP) compared to a net inflow of US$ 1.2 billion (0.4 percent of GDP) during H1-FY14/15, in light of the repayment of a US$ 2.5 billion Qatari bond.

- The decrease witnessed in the CBE liabilities to the external world registering a net outflow of US$ 0.5 billion (-0.2 percent of GDP), compared to inflows of US$ 1.9 billion (0.7 percent of GDP) during the same period last year. This comes in light of the repayment of a Qatari deposit.

§ Net errors and omissions recorded a net inflow of US$ 2.4 billion (0.7 percent of GDP) during July – December 2014/2015, compared to a net outflow of US$ 0.4 billion (-0.1 percent of GDP) during H1-FY13/14.

Ø According to the latest published figures, total number of tourists arrivals increased during the month of March 2015, reaching 754.7 thousand tourists, compared to almost 640.2 thousand tourist arrivals in the previous month. Tourist nights also increased during the month of study to reach almost 6.7 million nights, compared to 5.6 million nights during February 2015.