Executive Summary

Main Highlights…

The state budget for the FY 15/16 was recently released according to presidential decree number 32 for the year 2015. One of the budget's key aspects is to develop social protection programs to improve Egyptians' standard of living. This will come on the back of increasing social solidarity pensions and medical care programs for lower-income groups and low-cost housing. In addition, the government is keen on improving the slum areas, as well as boosting investments in infrastructure and improve public services. The budget also advocates policies which will control the deficit and the escalating public debt, while completing the implementation of the structural reform program initiated since the beginning of the FY 14/15. The reform program strives to achieve a balance between spurring economic activity, re-prioritizing public expenditure and attaining fiscal sustainability over the medium and long term, in order to promote economic growth, increase domestic and foreign investment and reduce inflation, taking into account that higher income individuals would bear the burden of applying the aforementioned reform measures.

The 2015/2016 state budget estimates LE 622 billion in revenues, representing an expected growth of 28 percent. Also, public expenditure estimates are at about LE 865 billion, representing a growth of 17.4 percent. In light of these developments, the total deficit in the general budget is calculated at LE 251 billion (8.9 percent of GDP), compared to a projected 10.8 percent deficit for the FY 14/15 and compared to a deficit of about 12.8 percent in 2013/2014.

In the same context, and with the increased confidence of international institutions in the Egyptian economy, on the 19th of June, Fitch credit agency stressed on Egypt's credit rating of "B", confirming a "stable" outlook through the semi-annual credit review for the country. This is part of a number of positive steps taken by international credit rating agencies recently as Egypt ratings improved four times during the last seven months, to confirm that the economic policies currently pursued by the government are heading towards in the right direction. This positive sentiment also points to a continued restoration of confidence in the performance of the Egyptian economy, which started with the implementation of the economic reform program at the beginning of the FY 14/15. The following are the latest developments in economic indicators- :

- Based on the latest preliminary figures recently announced by the Ministry of Planning, GDP is shown to have accelerated, reaching about 4.7 percent during the first nine months of fiscal year 2014/2015, compared to 1.6 percent during the same period of the previous year. It is worthy to highlight that detailed data are still under preparation and will be published once officially announced by the Ministry of Planning. Concerning Q2-FY14/15 performance, GDP figures signal continuous and sustainable growth path registering 4.3 percent y-o-y growth, 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.

- With regards to fiscal performance for the fiscal year 2014/2015, the latest indicators point to a marked improvement in tax revenue growth since the beginning of the FY 14/15, recording 22.5 percent compared to the same period last year. This was driven by the improvement in economic activity and the apt implementation of tax reforms. 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.

- Fiscal performance developments during the period July-May 2014/2015 point to a budget deficit reaching LE 261.8 billion, compared to a deficit of LE 189.4 billion during the same period last year. It is worthy to note that during July-May 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 1 percentage points during the period of study.

- Moreover, total government debt (domestic and external) reached LE 2181 billion (89.7 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 June 2015 to record US$ 20.08 billion, compared to US$ 19.56 billion in May 2015.

- As for the monetary developments, M2 annual growth decreased at end of April 2015 to record 16.5 percent (y-o-y) reaching LE 1700.4 billion, compared to 16.9 percent during the last month, as annual growth for time and saving deposits in local currencies decreased during the month of study.

- Meanwhile, Headline Urban inflation rose significantly to record 13.1 percent (the highest rate since May 2014) during May 2015, compared to 11 percent last month, and compared to 8.2 percent recorded during May 2014. Factors contributing to inflationary pressures include; higher food prices (the largest weight in CPI), as well as an unfavorable base effect. "Food and Beverage" group recorded 14.8 percent during the period of study, compared to 9.8 percent during last month, as well as “Alcoholic Beverages and Tobacco” hiked by 33.7 percent during the period of study.

- During its Monetary Policy Committee meeting held on June 11th, 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 June 16, 2015 worth LE 75 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 the period July-March FY14/15, compared to an overall surplus of US$ 2.2 billion (0.8 percent of GDP) during the same period last year. This was mainly due to a current account deficit of US$ 8.4 billion (-2.5 percent of GDP), compared to a deficit of US$ 0.5 billion (-0.2 percent of GDP) during the same period last year, while the capital and financial account witnessed net inflows of US$ 7.0 billion (2.1 percent of GDP) during the period of study, compared to net inflows of US$ 3.0 billion (1.0 percent of GDP) during July-March FY13/14. Meanwhile, net errors and omissions recorded an inflow of US$ 0.4 billion (0.1 percent of GDP) during July – March 2014/2015, compared to an outflow of US$ 0.2 billion (-0.1 percent of GDP) during July-March FY13/14.

  By excluding exceptional financing received from Gulf Countries during the period July-March FY14/15– amounting to US$ 2.4 billion (US$ 1.4 billion in-kind grants and US$ 1 billion cash grant), compared to US$ 14.8 billion (US$ 6 billion deposits, US$ 3 billion cash grant and US$ 5.8 billion in-kind grants) during the same period last year – the BOP performance would have been improved by 73 percent to reach an overall deficit of US$ 3.4 billion during the period of study, compared to US$ 12.6 billion during the period July-March 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.

Real Sector:

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

- Based on the latest preliminary figures recently announced by the Ministry of Planning, GDP is shown to have accelerated, reaching about 4.7 percent during the first nine months of fiscal year 2014/2015, compared to 1.6 percent during the same period of the previous year. It is worthy to highlight that detailed data are still under preparation and will be published once officially announced by the Ministry of Planning. Concerning Q2-FY14/15 performance, GDP figures released by the Ministry of Planning signal continuous and sustainable growth path registering 4.3 percent y-o-y growth 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.

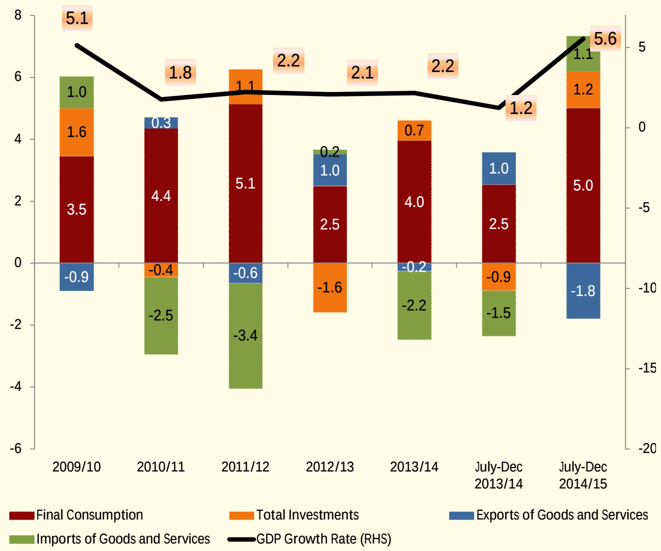
Meanwhile, net exports posted a negative contribution of 0.6 PPT during H1-FY14/15, compared to a negative contribution of 0.4 PPT during H1-FY13/14. These developments came in light of a 7.5 percent increase in Exports with a positive contribution of 1.1 PPT to real GDP growth, compared to a negative 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).

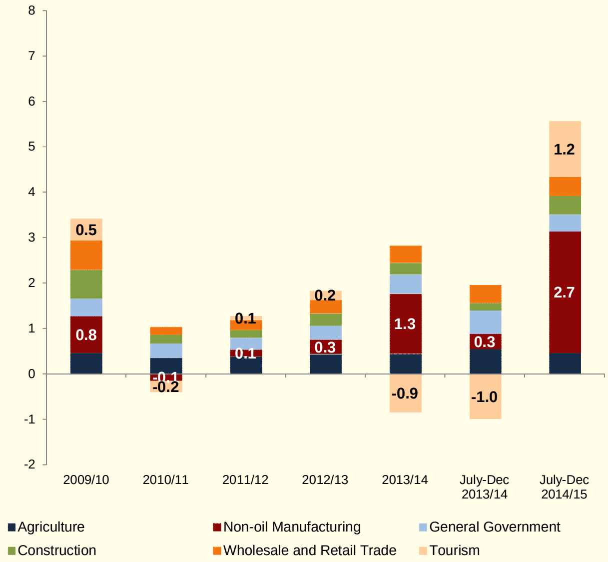
Meanwhile, manufacturing index – sub index under total production index – hiked to reach 165.4 points during December 2014, compared to 142.8 points during December 2013, recording y-o-y growth of 15.8 percent.

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-May 2014/2015 point to a budget deficit reaching LE 261.9 billion (10.8 percent of GDP), compared to a deficit of 9.5 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-May 2013/2014 to address the structural imbalances following the political strikes during January 25, 2011 revolution (including US$ 3 billion grants from the

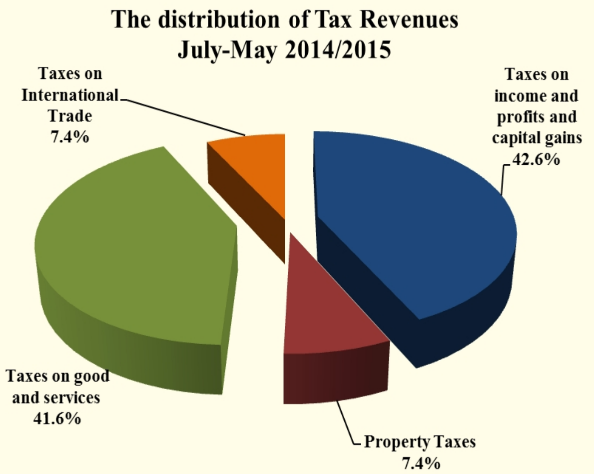
United Arab of Emirates and Saudi Arabia, in addition to LE 20.3 billion out of LE 29.7 billion allocated to finance the first stimulus package related to the presidential decree no. 105, 2013). If these exceptional inflows were to be excluded, the budget deficit would have decreased by 1 percentage points during the period of study.

Meanwhile tax receipts increased by almost LE 48 billion (22.5 percent growth) to record LE 261 billion during the period of study, compared to LE 213 billion during the same period last year; driven by tax reforms adopted since the beginning of the current fiscal year. Taxes on income has particularly increased by 14.2 percent to LE 111 billion during the period of study, compared to LE 97.2 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 34.8 percent to record LE 108.4 billion during the period of study compared to LE 80.4 billion. Moreover, taxes on international trade has grown by 30 percent to LE 19.4 billion during the period of study, compared to LE 14.9 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 3.6 percent during the period of study.

July- May 13/14 Budget Deficit LE 189.4 billion (9.5 percent of GDP)	July- May 14/15 Budget Deficit LE 261.8 billion (10.8 percent of GDP)
Revenues LE 337.8 billion (16.9 percent of GDP)	Revenues LE 350 billion (14.4 percent of GDP)
Expenditure LE 519.7 billion (26 percent of GDP)	Expenditure LE 601.4 billion (24.7 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

On the revenue side,



Total revenues increased by LE 12.2 billion (3.6 percent growth) to record LE 350.1 billion during July-May 2014/2015 compared to LE 337.8 billion during the same period last year. This developments could be explained mainly in light of the increase in tax revenues by 22.5 percent to record LE 261 billion during the period of study coinciding with the tax collection season, and which has outpaced the decline in non-tax revenues by 28.6 percent to record LE 89.2 billion during July-May 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-May 2013/2014.

The improvement in tax revenues 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 13.8 billion (14.2 percent growth) to reach LE 111 billion (4.8 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 42.6 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 9.8 billion (42.5 percent) to record LE 33 billion.
- Increase in receipts from taxes on CBE by LE 0.9 billion (27.6 percent) to reach LE 4 billion.
- Increase in receipts from taxes on Suez Canal by LE 0.2 billion (1.7 percent) to reach LE 11.7 billion.
- Increase in taxes on industrial & commercial profits by LE 1.5 billion (19.8 percent) to reach LE 8.9 billion.
- Increase in taxes on domestic salaries by LE 2.9 billion (16.7 percent) to reach LE 20.4 billion in light of the significant increase in wages and salaries.

Taxes on Good and Services increased by LE 28 billion (34.8 percent growth) to reach LE 108.4 billion (4.7 percent of GDP).

- **Taxes on goods and services receipts represent 41.6 percent of total tax revenues.**

Mainly as a result of higher receipts from:

- The increase in general sales tax on goods by 25.4 percent to record LE 48 billion.
- The increase in Excises on Domestic Commodities (Table 1) by 65 percent to record LE 35.2 billion (in light of increased sales tax on petroleum products by 223.8 percent to reach LE 10.5 billion and tobacco by 36.3 percent to reach LE 23.5 billion)
- The increase in general sales tax on services by 29.9 percent to record LE 10.8 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 9.8 percent to record LE 6.4 billion in light of the increase in stamp tax on electricity and gas consumption, insurance, advertising stamp tax, and miscellaneous stamp taxes.

Taxes on International Trade increased by LE 4.5 billion (30 percent growth) to reach LE 19.4 billion (0.8 percent of GDP).

- **Taxes on International Trade receipts represent 7.4 percent of total tax revenues.**

In light of an increase in taxes on valued customs by 30.2 percent y-o-y to LE 18.6 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 2.1 billion (12.4 percent growth) to reach LE 19.4 billion (0.8 percent of GDP).

- **Property Taxes receipts represent 7.4 percent of the total tax revenues.**

Mainly as a result of the increase in Tax on T-bills and bonds' payable interest by 8.9 percent to reach 15.4 billion during the period of study and the increase of Taxes and Fees on Cars receipts by 27.9 percent to record LE 2.6 billion.

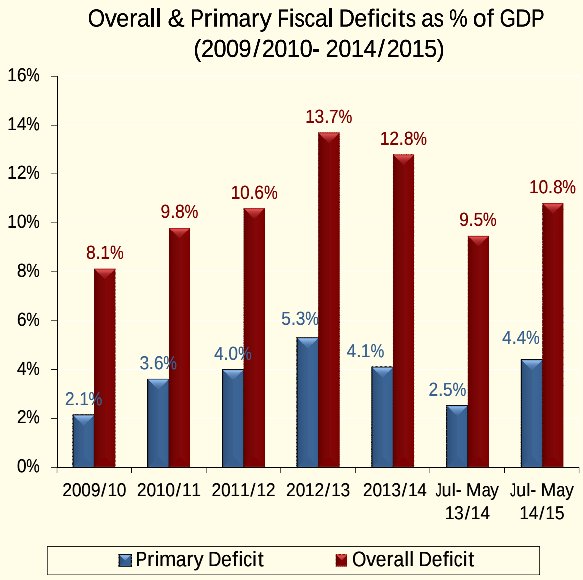
On the other hand, receipts from Other Taxes (which represents 1 percent of total tax revenues) declined by LE 0.5 billion (14.3 percent growth) to reach LE 2.7 billion (0.1 percent of GDP), mainly due to:

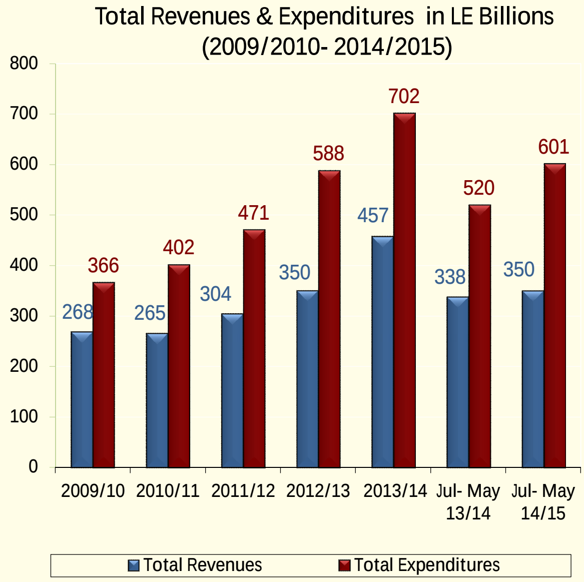
The reduction in non tax revenues could be explained mainly due to the decline in grants during the period July-May 2014/2015

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

- The decrease in grants to record LE 8 billion during July-May 2014/2015 if compared to exceptional grants received during the same period last year recording almost LE 51.5 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).

- On the other hand, Other Revenues rose during the period of study by 10.6 percent to record LE 81.1 billion (3.5 percent of GDP).





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 601.4 billion (25.9 percent of GDP) during July-May 2014/2015, this was mainly due to:

§ The increase in wages and compensation of employees by 13.2 percent to LE 172 billion (7.4 percent of GDP).

§ The increase in Purchases of Goods and Services by LE 4 billion (20.7 percent growth) to reach LE 24 billion (1 percent of GDP).

§ The increase in interest payments by LE 15.4 billion (11.1 percent growth) to reach LE 154.5 billion (6.7 percent of GDP).

§ The increase in subsidies, grants and social benefits by LE 22 billion (15.7 percent growth) to reach LE 162.7 billion (7 percent of GDP) during the period of study compared to LE 140.7 billion during same period last year, this can be explained in light of the following:-

- The increase in Spending on subsidies reaching around LE 116.7 billion during the period of study compared to LE 101 billion and which comes in light of the following:
    - General Authority for Supply Commodities subsidies rose by LE 7.8 billion (27.9 percent growth) to reach LE 35.9 billion during the period of study.
    - Electricity subsidies rose by LE 12 billion (almost doubled) to reach LE 24.3 billion during the period of study.
- Meanwhile, Social Benefits rose by 5.5 billion (16 percent growth) to reach LE 40 billion during July-May 2014/2015, mainly due to:

  - o Increased contributions to the pension funds by LE 4 billion (13.7 percent growth) to reach LE 33.2 billion during the period of study.

  - o Increased social insurance pensions by LE 1.4 billion (30.7 percent growth) to reach LE 6 billion during the period of study.

- § The increase in purchases of non-financial assets (investments) by LE 11 billion (2 percent of GDP) (32 percent growth) to reach LE 45.8 billion.

As for the Fiscal Year 2014/2015 state budget, demonstrating a commitment to reprioritize public expenditure in favour of lower-income groups to achieve the best social yield, a number of social reform programs have been implemented, such as; minimum wages, physicians cadre, the introduction of new system for the distribution of bread, 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.

On the other hand for new fiscal year 2015/2016 state budget, revenues are estimated to record LE 622 billion, representing an expected growth of 28 percent. Also, public expenditure estimates are at about LE 865 billion, representing a growth of 17.4 percent. In light of these developments, the total deficit in the general budget is calculated at LE 251 billion (8.9 percent of GDP), compared to a projected 10.8 percent deficit for the FY 14/15 and compared to a deficit of about 12.8 percent in 2013/2014.

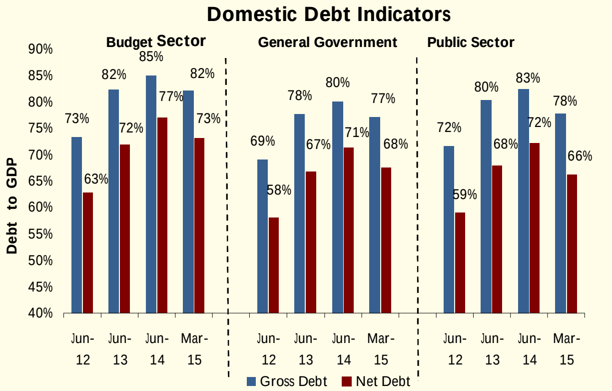
One of the main programs included in the budget of FY 15/16 is a new social package to achieve improved subsidy targeting for low income families and individuals. This is to be achieved through the expansion of direct cash support programs, programs to support health insurance and medicines for the incapable, the completion of the baking and food commodities support system that was developed this year to be fully implemented nationwide during the next fiscal year, bringing the total number of beneficiaries to about 70 million citizens. The new social programs also include the provision and rehabilitation of low-income housing, social housing, improvement of slum areas and the poorest villages. In addition, the program focuses on increasing education, health and scientific research expenditure, while increasing spending on various training programs in the interest of human capital development to improve individuals' employment possibilities and ensure their contribution to economic growth.Meanwhile, the FY 15/16 budget also takes into account the completion of projects that have been implemented since the start of the FY 14/15 in various sectors, including road network development and agricultural reform projects.

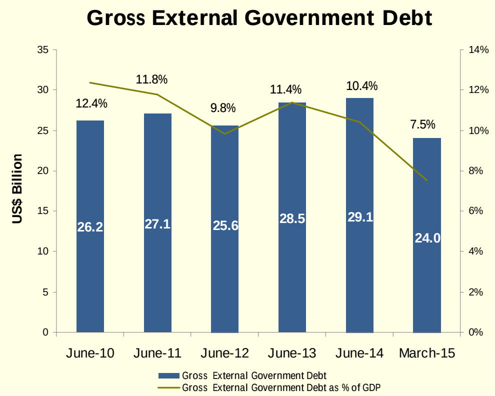
Public Debt:

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

Domestic budget sector debt recorded LE 1998.2 billion (82.2 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 2181 billion (89.7 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 12.5 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 witnessed a decrease of 17.2 percent to reach US$ 24 billion (60.3 percent of total external debt) as of end of March 2015, compared to US$ 29 billion (63.1 percent of total external debt) at end of June 2014.

Monetary Perspective:

M2 annual growth decreased during April 2015 to reach 16.5 percent

According to recent data released by the CBE, M2 annual growth decreased at end of April 2015 to record 16.5 percent (y-o-y) reaching LE 1700.4 billion, compared to 16.9 percent during the last month. These developments could be explained – from the liabilities side – in light of the slow down witnessed in quasi money annual growth recording 15.9 percent (LE 1234.7 billion), compared to 16.5 percent in the previous month, as time and saving deposits in local currency annual growth decreased to 16.6 percent during the month of study, compared to 17.2 percent in the previous month. Meanwhile, demand deposits in foreign currency annual growth decreased to 7.3 percent at end of April 2015 compared to 12 percent in the previous month. The decrease in quasi money overcame the slightly increase witnessed in money annual growth reaching 18.2 percent (LE 465.7 billion), compared to 18.1 percent at end of March 2015, as currency in circulation annual growth inched up to reach 9.0 percent (LE 282.7 billion) at end of April 2015, compared to 8.8 percent in March 2015. Meanwhile, demand deposits in local currency decreased at end of April 2015 to record 35.7 percent (LE 183 billion), compared to 36.1 percent in the previous month.

From the assets side – net domestic assets (NDA) of the banking system annual growth almost stabilized during the month of study to record 23.1 percent (LE 1646.4 billion), compared to 22.9 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 55.9 percent (LE 54.1 billion) at the end of April 2015, compared to a lesser decline of 46.5 percent during the previous month.

Net claims on the government and GASC annual growth eased to 25.9 percent (LE 1234.8 billion) during April 2015, compared to 26.1 percent in the previous month. Moreover, annual growth in credit to the private sector increased to reach 16.9 percent (5.9 percent annual real growth) at end of April 2015 to LE 604.9 billion, compared to 16.1 percent last month. This growth comes on the back of the increase witnessed in private business sector annual growth reaching 15.6 percent, compared to 15 percent in March 2015. On the other hand, claims on public business sector annual growth decreased to 37.7 percent in April 2015 (LE 63.5 billion), compared 39 percent in March 2015.

Deposits and loans detailed data for April 2015 is not yet available. Total deposits annual growth – excluding deposits at the CBE – increased to reach 22.2 percent y-o-y (LE 1663.8 billion) at the end of March 2015, compared to 20.4 percent at end of february 2015. Out of total deposits, 85.3 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by banking sector (excluding CBE) increased during the year ending March 2015 recording 20.6 percent (LE 679.3 billion), compared to 18 percent at end of February 2015. To that end, loans-to-deposits ratios inched up at end of March 2015 registering 40.8 percent, compared to 40.6 percent at end of February 2015.

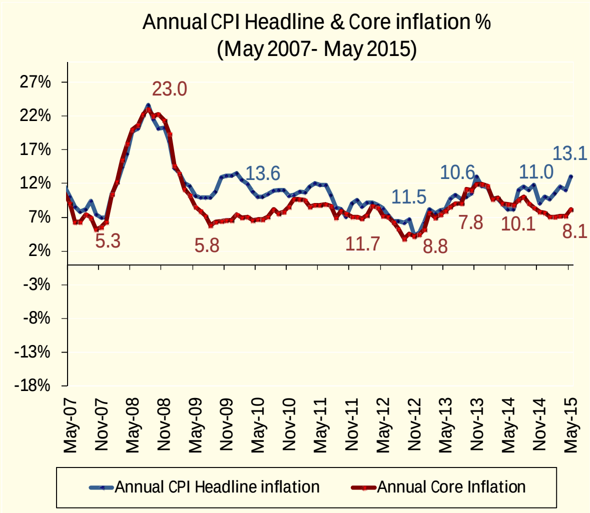
NIR increased during June 2015 to record US$ 20.08 billion

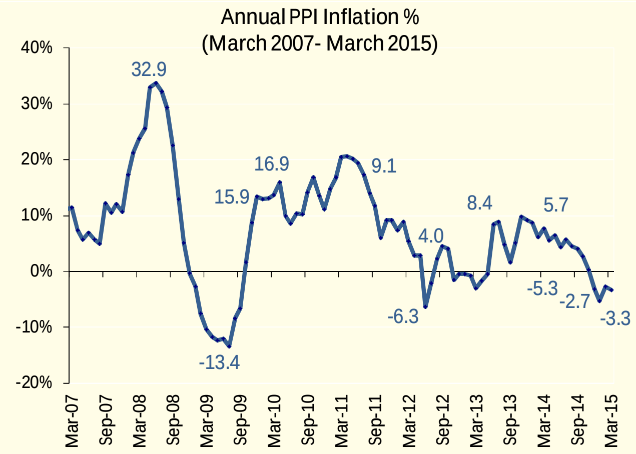
- Net International Reserves (NIR) increased during June 2015 to record US$ 20.08 billion, compared to US$ 19.56 billion in May 2015.

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

- CPI annual Urban Inflation rose significantly to record 13.1 percent during May 2015 (the highest rate since November 2013), compared to 11 percent last month, and compared to 8.2 percent recorded during May 2014. As a result, the average annual inflation rose to record 11 percent during the period July-May 2014/2015, compared to 10.3 percent during the same period last year. Factors contributing to inflationary pressures include; higher food prices (the largest weight in CPI), as well as an unfavorable base effect. "Food and Beverage" group recorded 14.8 percent during May 2015, compared to 9.8 percent during last month. This increase comes on the back of the pickup in annual inflation rate of sub-items among the "Food and Beverage" group, on top of which "Vegetables" (hiked by 42.1 percent), “Meat” (hiked by 13.7 percent), “Sugar” (hiked by 5.3 percent), in addition “Alcoholic Beverages and Tobacco” group hiked by 33.7 percent during the period of study.

Meanwhile, amongst other main groups that contributed to the annual inflation increase during the month of study, include; “Restaurant and Hotels” which recorded an annual inflation of 17.8 percent compared to 16.7 percent last month (due to the increase in catering services prices), “Transport” increased by 21.8 percent compared to 21.5 percent (due to the increase in prices of operation of personal transport, and purchase of vehicles prices). Additionally, annual inflation rates of “Housing, Water, Electricity, Gas and Other Fuels” group rose at a slower pace to record 6.1 percent during the month of study, compared to 7.6 percent last month. The abovementioned increases have counterparted the decline in annual inflation rate of “Communication” group by -0.2 percent during the period of study.





On the other hand, monthly inflation increased notably to reach 1.2 percent during May 2015, compared to 0.1 percent during last month, and compared to -0.7 percent during May 2014.

Meanwhile, Annual core inflation[1/] rose to reach 8.1 percent during May 2015, compared to 7.2 percent during last month, and it declined if compared to 8.8 percent the recoded annual inflation during May 2014. In addition, monthly core inflation increased to record 0.7 percent during May 2015, compared to 0.2 percent during the previous month. The increase in monthly inflation could be explained in light of the increase in the prices of "food items" contributing by 0.56 percentage points to the monthly core inflation, and the increase in "Retail items, and other services" contributed by 0.09 percentage points.

- During its Monetary Policy Committee meeting held on June 11th, 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 June 16, 2015 worth LE 75 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

- The Egyptian Exchange indices market capitalization declined by 2.1 percent m-o-m during June 2015 to reach LE 485.2 billion, compared to LE 495.8 billion during the previous month. Meanwhile, EGX-30 Index decreased by 411.1 points during June 2015, reaching 8371.5 points, compared to 8782.6 points by the end of May 2015. As for, the EGX70 it dropped as much as 5.3 percent, closing at 444.7 points, compared to closing the previous month at 469.7 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 the period July-March FY14/15, compared to an overall surplus of US$ 2.2 billion (0.8 percent of GDP) during the same period last year.

  By excluding exceptional financing received from Gulf Countries during the period July-March FY14/15– amounting to US$ 2.4 billion (US$ 1.4 billion in-kind grants and US$ 1 billion cash grant), compared to US$ 14.8 billion (US$ 6 billion deposits, US$ 3 billion cash grant and US$ 5.8 billion in-kind grants) during the same period last year – the BOP performance would have been improved by 73 percent to reach an overall deficit of US$ 3.4 billion during the period of study, compared to US$ 12.6 billion during the period July-March 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$ 8.4 billion (-2.5 percent of GDP), compared to a much lower deficit of US$ 0.5 billion (-0.2 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$ 29.6 billion (-8.8 percent of GDP), compared to a deficit of US$ 24.1 billion (-8.4 percent of GDP) during the same period last year, mainly due to the increase witnessed in merchandise imports by 6.3 percent to record US$ 46.4 billion compared to US$ 43.7 billion in the comparison period; and the decrease witnessed in merchandise exports by 13.8 percent to record US$ 16.9 billion compared to US$ 19.6 billion in the comparison period .

    - However, services balance has recorded a surplus of US$ 4.2 billion (1.3 percent of GDP) during the period of study, compared to a surplus of US$ 0.4 billion (0.1 percent of GDP) during the period July-March FY13/14, mainly backed by the picking up in tourism receipts to reach US$ 5.5 billion during July – March 2014/2015, (compared to US$ 3.5 billion in July-March FY13/14), in addition to the significant increase witnessed in government receipts to reach US$ 1.2 billion during the period of study, compared to US$ 0.5 billion in July-March 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$ 10.0 billion (3.5 percent of GDP) during July-March 2013/2014, this cannot be considered as a deceleration since the period in comparison July-March FY13/14 reflected exceptional inflows (of which, US$ 3 billion cash grant from UAE and Saudi Arabia and US$ 5.8 billion in-kind grants in the form of petroleum shipments).

- § Meanwhile, the capital and financial account witnessed net inflows of US$ 7.0 billion (2.1 percent of GDP) during the period of study, compared to net inflows of US$ 3.0 billion (1.0 percent of GDP) during July-March FY13/14, mainly due to the following:

  – Net foreign direct investments in Egypt increased to reach US$ 5.7 billion (1.7 percent of GDP), compared to US$ 3.1 billion (1.1 percent of GDP) in the comparison period driven mainly by the rise in the net inflow for oil sector investments to reach US$ 2.0 billion up from US$ 1.3 billion during July-March FY13/14. Net inflow for greenfield investments have also witnessed an increase to reach US$ 2.8 billion during July-March FY14/15 up from US$ 1.7 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 July-March 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$ 2.0 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$ 0.4 billion (0.1 percent of GDP) during July – March 2014/2015, compared to a net outflow of US$ 0.2 billion (-0.1 percent of GDP) during July-March FY13/14.

Ø According to the latest published figures, total number of tourists arrivals increased during the month of April 2015, reaching 923.9 thousand tourists, compared to almost 754.7 thousand tourist arrivals in the previous month. Tourist nights also increased during the month of study to reach almost 9.5 million nights, compared to 6.7 million nights during March 2015.