Executive Summary

Main Highlights…

During FY14/15, fiscal performance witnessed significant developments as a result of implementing a number of structural reforms that triggered a substantial tax revenue increase while achieving expenditure savings. This has directly reduced the overall deficit by more than four percentage points of GDP (excluding exceptional grants) compared to the previous fiscal year. Moreover, such reforms coupled with increased public investments, have positively impacted the Egyptian economy, leading to the undoubted return of domestic and international confidence in the Egyptian economy.

A key feature in FY 14/15 final accounts preliminary figures was the 31 percent increase in tax revenues (excluding sovereign revenues), compared to the previous fiscal year. This increase came in accordance to revenue reforms implemented by the Ministry of Finance. Reforms included: broadening the income tax base, optimizing the efficiency of tax collection and redistributing tax burdens on different segments of society, in order to achieve tax equality and justice. In addition, tax reform also involved raising the electronic tax collection system's efficiency, especially for large and medium sized tax payers. Furthermore, the Ministry of Finance's concerted efforts to enhance dispute settlement techniques, combat tax evasions and false tax bills and control smuggling at Egypt's ports, played a role in increasing tax revenues during the year of study.

Despite implementing the aforementioned revenue reforms during FY 14/15, public expenditures witnessed structural adjustments; where spending on health and education reached LE 129.5 billion, surpassing expenses of LE 97.5 billion on energy subsidies (petroleum products and electricity) for the first time. In addition, the state budget bore the burden of allocating additional expenses which were not included in the budget law, in order to finance the electricity emergency plan and establish six new plants to generate 3.6 gigawatts of electricity needed to close the energy gap resulting from production and consumption discrepancies, and eliminate frequent power cuts. Despite additional spending, high rates of investments funded by the public treasury were preserved, achieving a notable growth rate of 42.6 percent, the highest rate of treasury funded investments during the previous ten years. In addition, during FY 14/15 the Ministry of Finance adopted a number of structural expenditure reforms including: re-prioritizing public spending through reforming energy subsidies, controlling increases in the wage bill and redirecting part of the savings to increased spending on social sectors such as health and education, as well as increased investment spending.

Moreover, such reforms coupled with increased public investments have positively impacted the Egyptian economy. Based on the latest preliminary figures recently announced by the Ministry of Planning, GDP growth accelerated, reaching about 4.6 percent during first nine months of FY14/15, compared to 1.6 percent during the same period last year. On the supply side (GDP by sector), this growth mainly resulted from continued growth in the manufacturing sector reaching 9 percent, in addition to the high growth rate of the tourism sector recording 34.6 percent. The strong jump in FY 14/15 growth was achieved not withstand the continued decline in natural gas extraction, which recording a negative growth rate amounting to 11.3 percent. On the demand side (GDP by expenditure), both public and private consumption continued to boost economic activity during the first nine months of FY14/15 with total consumption growing by 4.5 percent. Moreover, the positive contribution of investments, which recorded 12.7 percent growth, more than offset the negative impact of net exports in light of imports growing by 6.4 percent, while exports grew by only 0.9

percent, and thereby also contributed to the higher July- March FY 14/15 growth rate. Moreover, according to preliminary estimates, growth rate for FY14/15 is estimated to be around 4.2 percent compared to 2.2 percent during FY13/14.

In the same context, a key outcome following the implementation of the fiscal structural reforms is the return of domestic and international confidence to the Egyptian economy. This was reflected by two sovereign rating upgrades and two changes to the outlook by rating agencies during FY14/15. Standard & Poor's Corporation elevated the Egyptian economy's future outlook from stable to positive last May, while Moody's had previously adjusted the outlook in October 2014 from negative to stable, and subsequently upgraded Egypt's sovereign rating from Caa1 to the B3 in April 2015. Then in July 15, 2015, Moody's also improved the banking sector outlook from negative to stable. Fitch upgraded Egypt's credit assessment in December 2015 from B- to B, and this played a role in decreasing the cost of financing for the Egyptian economy.

On the other hand, the following are the latest developments in economic indicators:-

- Net International Reserves (NIR) stabilized during October 2015 to record US$ 16.42 billion, compared to US$ 16.34 billion in September 2015.
- As for the monetary developments, M2 annual growth increased significantly at end of September 2015 to record 19.9 percent (y-o-y) reaching LE 1850.3 billion, compared to 16.8 percent in the previous month. This comes in light of the notable rise witnessed in net domestic assets (NDA) of the banking system annual growth to 29 percent, compared to 24.4 percent in August 2015, overcoming the major turnaround in central bank net foreign assets declining by more than 10 folds to reach a negative value of LE 4.5 billion for the first time since October 1992, compared to LE 10.5 billion in August 2015, and compared to a peak of LE 198.2 billion in December 2010.
- Meanwhile, Headline Urban inflation increased to record 9.7 percent during October 2015, compared to 9.2 percent during September 2015. Factors contributing to inflationary pressures include: the rise in the annual inflation rate of "Food and Beverages" (the highest weight in CPI) to record 12.5 percent during the month of study, compared to 11 percent during the prior month (in light of increases in prices of Vegetables by 33.8 percent, Fruits by 15.9 percent, Meat by 7.8 percent, Milk & Cheese and eggs by 7.2 percent, Oils and Fats by 5.6 percent, and Bread & Cereals by 2.9 percent).

  Moreover, most of the other main groups witnessed a significant increase in annual inflation rate, led by; "Alcoholic Beverages and Tobacco", "Clothing and Footwear", "Furnishing", "Recreation and Culture", "Restaurants and Hotels" and "Transport", which has outpaced the slow pace of increase in annual inflation rate of other main groups, on the top of which; "Education" to record 11.2 percent, compared to 24.7 percent, and "Housing, Water, Electricity, Gas and Other Fuels" to record 5.9 percent, compared to 6.4 percent.

  Meanwhile, average annual inflation decelerated during the period July-October of FY 2015/2016 to record 8.8 percent, compared to 11.4 percent during the corresponding period of the previous year. This could be explained mainly in light of faded base effect due to the introduction of reform measures during July 2014.
- During its Monetary Policy Committee meeting held on October 29th, 2015, CBE decided to maintain the overnight deposit rate and overnight lending rates, as well as CBE's main operation and the discount rate at their current levels. Moreover, in an attempt to absorb

excess liquidity and to protect the domestic currency, the CBE held deposit auctions on November 17th, 2015 worth LE 145 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

- Latest indicators for the period July-September 2015/2016 point to a budget deficit reaching LE 78.3 billion (2.8 percent of GDP), compared to a deficit of LE 65.8 billion (2.7 percent of GDP) during the same period last year. The slightly higher deficit reflects increases in both revenues and expenditures during the period of study. Revenues rose by 31 percent reaching LE 100 billion (3.5 percent of GDP), compared to LE 76.5 billion during the same period last year (3.1 percent of GDP). On the other hand expenditures rose by 20.6 percent to reach LE 169.9 billion (6 percent of GDP) during the period of study, compared to LE 140.9 billion (5.8 percent of GDP) during the same period last year. The increase in expenditures reflects increased social spending during the period of study.

  Tax revenues point to a marked improvement during the period July-September 2015/2016, recording an increase of 26.1 percent compared to the same period last year. This was driven by the tax reforms adopted since the beginning of the previous fiscal year and which continued to generate returns during the current fiscal year. Meanwhile, efforts exerted by tax agencies to ensure collection efficiency and tighten controls over Egyptian ports and harbors also contributed to revenues growth 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.

- The Balance of Payments (BOP) showed an overall surplus of US$ 3.7 billion (1.1 percent of GDP) during FY14/15, compared to an overall surplus of US$ 1.5 billion (0.5 percent of GDP) over the prior fiscal year. This was mainly because the capital and financial account witnessed net inflows of US$ 17.6 billion (5.3 percent of GDP) during the period of study, compared to net inflows of US$ 5.3 billion (1.8 percent of GDP) during FY13/14. On the other hand, the current account deficit recorded US$ 12.2 billion (-3.7 percent of GDP), compared to a deficit of US$ 2.7 billion (-0.9 percent of GDP) during the last year. Meanwhile, net errors and omissions recorded an outflow of US$ 1.7 billion (-0.5 percent of GDP) during FY14/15, compared to an outflow of US$ 1.1 billion (-0.4 percent of GDP) during FY13/14.

Ø *Real Sector:*

Based on the latest detailed preliminary figures recently announced by the Ministry of Planning, GDP accelerated during FY 14/15 reaching about 4.2 percent, compared to 2.2 percent during last year. Concerning Q2-FY14/15 performance, GDP signaled a 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 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. On the other hand, 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 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 2.5 percent during H1-FY13/14, while public consumption grew by 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.

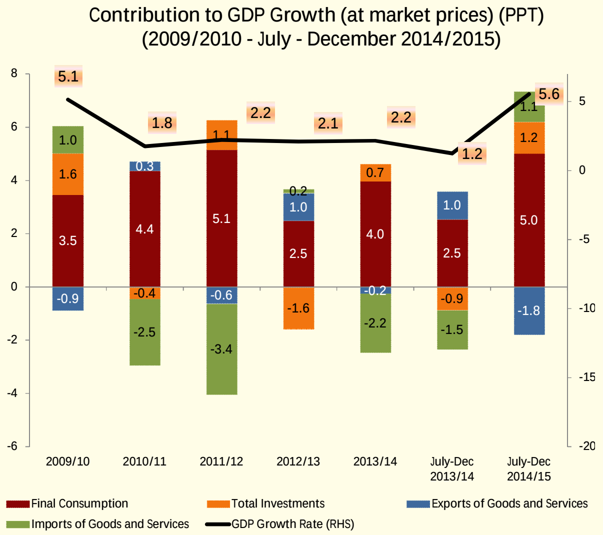
In the meantime, recent data reflects positive signs of recovery in showing that investments have increased by 9.2 percent in H1-FY14/15 y-o-y, compared to a negative growth of 6.3 percent during H1-FY13/14, contributing positively to growth by 1.2 PPT, compared to -0.9 PPT to growth during H1-FY13/14.

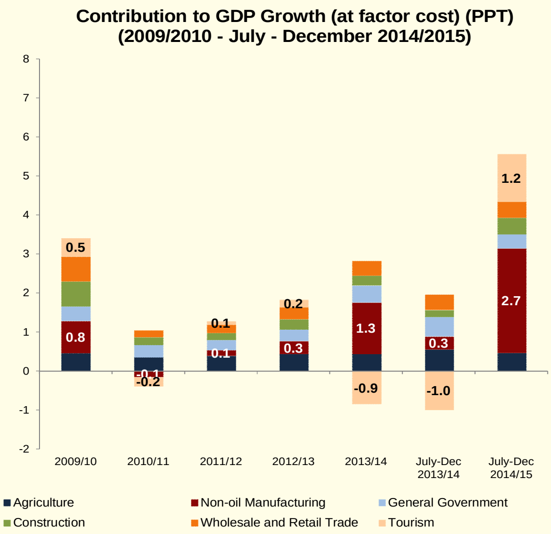
As for the distribution of total investments by economic agents (in nominal terms), public investments (government + economic authorities + public business sector) accounted for 29.8 percent of total investments during the period of study, while the private sector accounted for 70.2 percent in the same period. Approximately 64 percent of government investments were directed towards social services sectors.

On the other hand, 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. this development 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-FY13/14.

On the supply side, six key sectors led y-o-y growth, on top of which was the non-oil manufacturing sector recording growth of 18.4 percent, (contributing with the highest contribution of 2.7 percentage points to growth during H1-FY14/15, compared to 0.3 PPT during H1-FY13/14). It is noteworthy to mention that the 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 growth of 15.8 percent y-o-y.

Moreover, the tourism sector expanded 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, the tourism index – sub index under total production index – rose to 226.2 points during December 2014, compared to 176.9 points during December 2013, growing almost by 27.9 percent.





Additionally, the construction sector 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 the general government sector 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 recorded a real growth rate of 3.4 percent (stabilizing at a contribution of 0.4 PPT) and the agricultural sector witnessed growth of 2.9 percent (contributing by 0.5 PPT to growth, compared to 0.6 PPT during H1-FY13/14). Taken together, the above-mentioned 6 key sectors represented around 61 percent of total real GDP during the period of study.

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

Ø *Fiscal Sector performance during FY14/15:*

According to FY14/15 actual budget outcomes, the overall budget deficit recoded LE 279.4 billion (11.5 percent of GDP), compared to LE 255.4 billion (12.2 percent of GDP) in the prior fiscal year. Excluding grants in both FY13/2014 and FY14/15, the budget deficit fell by about 4 percentage points reflecting the magnitude of the underlying structural fiscal adjustment that was achieved during the period of study.

FY13/14 Budget Deficit LE 255.4 billion (12.2 percent of GDP)	FY14/15 Budget Deficit LE 279.4 billion (11.5 percent of GDP)
Revenues LE 456.8 billion (21.7 percent of GDP)	Revenues LE 465.2 billion (19.1 percent of GDP)
Expenditure LE 701.5 billion (33.4 percent of GDP)	Expenditure LE 733.4 billion (30.2 percent of GDP)

Actual budget figures for FY14/15 reflect positive outcomes on the revenue side represented by the significant increase in tax revenues, which increased by LE 45.7 billion (17.5 percent growth) compared to FY13/14, and compared to the 10.9 percent average for the previous three years. Meanwhile, tax revenues have reached 84 percent of the budgeted figure during the FY14/15, compared to 73 percent of the budgeted figures during the last year. The structural tax reforms adopted by the government since the beginning of last fiscal year and which continued during FY 14/15 contributed to the improvement in tax revenues represented by the increases in most tax chapters, at the top of which are; receipts from taxes on goods and services[1/] which increased by 33.8 percent (the highest rate of increase in the last three years), receipts from taxes on international trade increased by 23.7 percent (the highest since the last three years); receipts from property taxes which increased by 12.5 percent; and receipts from taxes on income, profits and capital gains which increased by 7.4 percent.

On the other hand, non-tax revenues were affected by the extraordinary grants provided by the Gulf Countries during FY13/14 with the purpose of helping and supporting Egypt financially, and economically during the period of transition. This led to a decline in non-tax revenues by LE 37.2 billion during FY14/15 (-18.9 percent growth) compared to the previous year.

On the expenditure side, signs of improvements show the reduction in public spending in light of the reform measures adopted during FY14/15 with the aim of re-prioritizing public spending. The reduction in petroleum subsidies and control over the wage bill freed resources to increase spending on health and education.

§ *On the Revenues Side,* Actual budget figures for FY14/15 pointed to an increase in total revenues by 1.9 percent (22 percent growth when excluding extraordinary grants), registering almost LE 465.2 billion (19.1 percent of GDP). This could be explained in light of the increase in tax revenues by 17.5 percent to record LE 305.9 billion, and which offset the decline in non-tax revenues by 18.9 percent to record LE 159.3 billion during the period under study.

- *Tax Revenues* increased mainly due to:

- Increase in receipts from Income Taxes by 7.4 percent to LE 129.8 billion compared to LE 120.9 billion during FY13/14, mainly due to:
  - The increase in receipts from taxes on domestic salaries by 23.1 percent reaching LE 23.8 billion during FY14/15, compared to LE 19.3 billion during FY13/14.
  - The increase in receipts from taxes on industrial and commercial profits by 25.6 percent reaching LE 10.6 billion during FY14/15, compared to LE 8.4 billion during FY13/14.
  - The increase in receipts from Other Companies by 53.4 percent to record LE 38.5 billion during the FY14/15, and which came in light of the increase in tax receipts from the implementation of the additional temporary 5 percent income tax on corporates during last year, as well as increased receipts from the capital gains tax, which has been delayed for the next two years.

- Increase in receipts from Taxes on Good and Services by 33.8 percent (the highest rate of increase in the last three years) reaching LE 122.9 billion during FY14/15, compared to LE 91.9 billion during FY13/14, in light of increased tax receipts resulting from raising the efficiency of the electronic tax system especially for large and medium sized

1/ Large taxpayers amount to 1,600 companies. It should be noted that the ten largest joint stock companies in terms of sales tax proceeds during the FY14/15 include "Eastern Tobacco and Cigarettes (Eastern Company)", "Philip Morris", "Vodafone Egypt Telecommunications", "The Egyptian Company for Mobile Services" ,"Etisalat Egypt", and "Coca-Cola Manufacturing and Bottling Company". Their contribution amounted to 51.4 percent of the total tax proceeds.

enterprises, enhancing dispute settlements techniques, and combating tax evasions and false tax bills. This came in light of the following:

- The increase in receipts from the general sales tax on goods by 24.3 percent to record LE 53.4 billion during FY14/15, compared to LE 42.9 billion during FY13/14;

- The increase in receipts from the general sales tax on services by 27.8 percent to record LE 12.1 billion during FY14/15, compared to LE 9.5 billion during FY13/14 in light of the improved performance of the tourism sector, more specifically, hotels and restaurants, and the improvement in international and domestic telecommunications services.

- The increase in receipts from Excises on Domestic Commodities (Table 1) by 64.3 percent to record LE 39.8 billion during FY14/15, compared to LE 24.2 billion during FY13/14 in light of increased receipts from the sales tax on petroleum products by 205 percent and on tobacco by 36.3 percent.

- The increase in receipts from stamp tax (excludes stamp tax on salaries) by 15.4 percent to record LE 7.7 billion.

- Increase in receipts from Property Taxes by 12.5 percent to LE 21 billion, compared to LE 18.8 billion during FY13/14, mainly due to:

  - The increase in receipts from the tax on T-bills and bonds payable interest by 9.3 percent to almost LE 16.7 billion during FY14/15, compared to LE 15.3 billion during FY13/14.

- Increase in receipts from taxes on International trade by 23.7 percent (the highest rate of increase in three years) to record LE 21.9 billion, compared to LE 17.7 billion during FY13/14, in light of improved efforts on the part of the customs authority efforts in controlling smuggling. In addition, increased economic activity has helped to improve customs proceeds.

o *Non- Tax Revenues* decreased by 18.9 percent during FY14/15, due to:

- The decrease in grants to record LE 25.4 billion during the year of study, compared to LE 95.9 billion during FY13/14.

- The increase in property income by 42.9 percent to record LE 81.5 billion during the year of study, compared to LE 56.9 billion during FY13/14, mainly due to:
  - Increase in dividends collected from CBE by 44.5 percent to reach LE 13.4 billion during the FY 14/15, compared to 9.3 billion during last year;
  - Increase in dividends collected from Suez Canal by 6.3 percent to reach LE 19.2 billion, compared to 18.1 billion during last year;
  - Increase in dividends collected from economic authorities by 519 percent to reach LE 10.1 billion during FY14/15, compared to 1.6 billion during last year, as a result of tax dues payments from the New Urban Communities Authority to the treasury by an amount of LE 5.1 billion.

- Meanwhile, miscellaneous revenues rose by 78.5 percent to record LE 24.2 billion, compared to LE 13.5 billion during FY13/14.

§ *On the Expenditures Side*, a set of notable reform measures have been implemented during FY14/15 that contribute to rationalizing public expenditures. The principal reforms were petroleum products and electricity price reforms, control of increase in the wage bill, liberalization of the electricity sector for the private investments, and the repayment of liabilities to foreign petroleum companies. Those reforms have contributed to increasing confidence in the Egyptian economy, as well as alleviate pressures on the overall fiscal deficit (if extraordinary grants were excluded) compared to the previous year.

Actual budget figures for FY14/15 point to an increase in total expenditure by 4.5 percent (LE 31.8 billion), registering almost LE 733.4 billion (30.2 percent of GDP), compared to LE 701.5 billion during last year (33.4 percent of GDP), and which came mainly due to:

- Wages and Compensations to Employees increased by 11.1 percent (the lowest rate of increase in the last three years) recording almost LE 198.5 billion during FY14/15 compared to LE 178.6 billion during the previous year, due to:
  - An increase in rewards and employees incentives by 6.3 percent up to LE 80 billion.
  - An increase in Permanent Staff (basic pay) by 4.9 percent up to LE 27.8 billion
  - An increase in Specific Allowances by 8.8 percent up to LE 24.1 billion.
  - An increase in Cash Benefit/ Allowance by 41.5 percent up to LE 25.1 billion.
- The increase in Purchases of Goods and Services by 14.8 percent to reach LE 31.3 billion compared to LE 27.2 billion during last fiscal year due to:
  - Increased spending on raw materials by 19.2 percent to reach LE 6.9 billion compared to LE 5.8 billion during the previous year.
  - Increased spending on lightning & water by 14.5 percent to reach LE 4.6 billion compared to LE 4 billion during the previous year.
  - Increased spending on maintenance, by 16.4 percent to reach LE 4 billion compared to LE 3.5 billion during the previous year.
  - Increased spending on transportation by 15.7 percent to reach LE 2.9 billion compared to LE 2.5 billion during the previous year.
- Moreover, interest payments have increased by 11.5 percent recording almost LE 193 billion during FY14/15 compared to LE 173 billion during the previous year.
- Other expenditure increased by 22.4 percent to LE 50.3 billion during FY14/15 compared to LE 41 billion during last fiscal year.
- Purchases of non-financial assets (investments) increased by 16.8 percent LE 61.8 billion during FY14/15, compared to LE 52.9 billion during the previous year, in light of;
  - Increased spending on direct investment by 18.9 percent to reach LE 45 billion compared to LE 38 billion during last fiscal year.
- Meanwhile, subsidies, grants and social benefits have reached LE 198.6 billion compared to almost LE 228.6 billion during the previous fiscal year, mainly due to:
  - Subsidies recorded around LE 150.2 billion, compared to LE 187.7 billion during the previous fiscal year, mainly in light of:
    - § Petroleum subsidies have reached LE 73.9 billion, during FY14/15 compared to LE 126.2 billion during the previous year.
    - § The rise in electricity & GASC subsidies, which have increased by 77.9 percent, and 11 percent, respectively, to record LE 23.6 billion and LE 39.4 billion during

the year of study, compared to LE 13.3 billion and LE 35.5 billion, respectively, during the previous fiscal year.

– The increase in social benefits by 16.6 percent to record LE 41 billion during FY14/15, compared to LE 35.2 billion during the previous fiscal year, mainly due to:

§ The increase in contributions to the pension funds by 13.7 percent to reach LE 33.2 billion during the period of study, compared to LE 29.2 billion during the previous fiscal year.

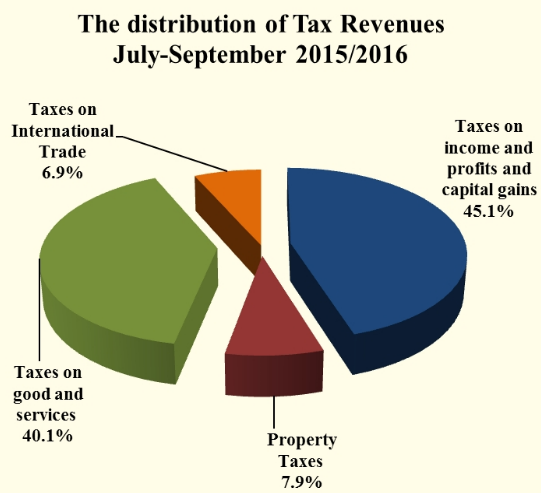
Ø Latest indicators for the period July-September 2015/2016 point to a budget deficit reaching LE 78.3 billion (2.8 percent of GDP), compared to a deficit of LE 65.8 billion (2.7 percent of GDP) during the same period last year. These developments came in light of increases in both revenues and expenditures during the period of study. Revenues rose by 31 percent reaching LE 100 billion (3.5 percent of GDP), compared to LE 76.5 billion during the same period last year (3.1 percent of GDP). Expenditures rose by 20.6 percent to reach LE 169.9 billion (6 percent of GDP) during the period of study, compared to LE 140.9 billion (5.8 percent of GDP) during the same period last year, reflecting increased social spending during the period of study in accordance with the government's announced policy priorities.

July- September 14/15 Budget Deficit LE 65.8 billion (2.7 percent of GDP)	July- September 15/16 Budget Deficit LE 78.3 billion (2.8 percent of GDP)
Revenues LE 76.5 billion (3.1 percent of GDP)	Revenues LE 100 billion (3.5 percent of GDP)
Expenditure LE 140.9 billion (5.8 percent of GDP)	Expenditure LE 169.9 billion (6 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

§ On the revenue side,

Total revenues increased by LE 23.7 billion (31 percent growth) to record LE 100 billion during July-September 2015/2016, compared to LE 76.5 billion during the same period last year. This developments could be explained mainly in light of the increase in tax revenues by LE 13.3 billion (26.1 percent growth) to record LE 64.5 billion during the period of study, compared to LE 51 billion during the same period last year, in addition to the increase in non-tax revenues by LE 10.3 billion (40.8 percent growth) to record LE 35.7 billion during July-September 2015/2016, compared to LE 25.3 billion the same period last year.



The improvement in tax receipts during the period of study was driven by tax reforms adopted since the beginning of the current fiscal year. Taxes on income increased by 30.5 percent to LE 23.6 billion during the period of study, compared to LE 18 billion during the same period last year (this was in particular driven by the increase in receipts from taxes on domestic salaries, the increase in taxes on industrial & commercial profits and the increase in receipts from taxes on CBE, Suez Canal and Other Companies). Taxes on goods and services also increased by around 25 percent (the highest rate of increase in the last three years) to record LE 29.9 billion during the period of study, compared to LE 23.9 billion during the same period last year (in light of the increase in receipts from general sales tax on domestic and imported goods, and increased sales tax from tourism, as well as increased receipts from sales tax on petroleum products and cigarettes). Moreover, property taxes also increased by 27.9 percent to reach LE 5.9 billion during the period of study compared to LE 4.6 billion during the same period last year. Finally, taxes on international trade grown by 13 percent to LE 5 billion during the period of study, compared to LE 4.6 billion during the same period last year (in light of the improved performance of economic activity and the efforts made in to raise collection efficiency).

Taxes on Income, Capital Gains and Profits increased by LE 5.5 billion (30.5 percent growth) to reach LE 23.6 billion (0.8 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 45.1 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 1.2 billion (18 percent) to record LE 7.6 billion, mainly due to:
    - o Increase in receipts from taxes on domestic salaries by LE 0.8 billion (17 percent) to reach LE 5.3 billion in light of the significant increase in wages and salaries.
    - o Increase in taxes on industrial & commercial profits by LE 0.4 billion (39.5 percent) to reach LE 1.5 billion.
- Increase in receipts from taxes on CBE by LE 3.2 billion (81 percent) to reach LE 7.2 billion.
- Increase in receipts from taxes on Suez Canal by LE 0.4 billion (11.1 percent) to reach LE 4 billion.
- Increase in receipts from taxes on Other Companies by LE 0.7 billion (17.8 percent) to reach LE 4.7 billion.

Taxes on Good and Services increased by LE 5.9 billion (25.1 percent growth) to reach LE 29.9 billion (1.1 percent of GDP).

- **Taxes on goods and services receipts represent 40.1 percent of total tax revenues.**

Mainly as a result of higher receipts from:

- The increase in general sales tax on goods by 16.3 percent to record LE 13.1 billion.
- The increase in excises on domestic commodities (Table 1) by 46.1 percent to record LE 10.4 billion (in light of increased sales tax on petroleum products by 61.2 percent to reach LE 2 billion and tobacco by 42.4 percent to reach LE 7.9 billion)
- The increase in general sales tax on services by 16.8 percent to record LE 32 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 18.1 percent to record LE 1.6 billion in light of the increase in advertising stamp tax and miscellaneous stamp taxes.

Taxes on International Trade increased by LE 0.6 billion (13 percent growth) to reach LE 5.1 billion (0.2 percent of GDP).

- **Taxes on International Trade receipts represent 6.9 percent of total tax revenues.**

In light of an increase in taxes on valued customs by 13.9 percent y-o-y to LE 5 billion, reflecting the efforts of the Egyptian Customs Authority to control Egypt's ports.

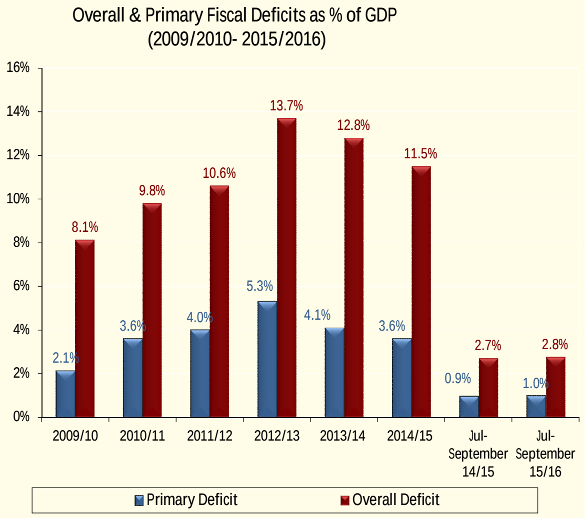
Property Taxes increased by LE 1.3 billion (27.9 percent growth) to reach LE 5.9 billion (0.2 percent of GDP).

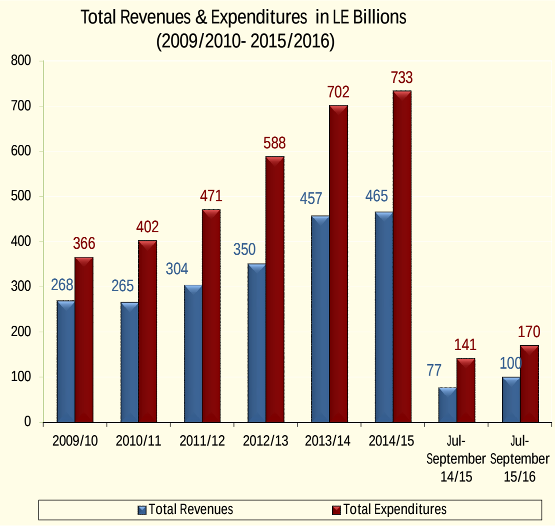
- **Property Taxes receipts represent 7.9 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 36.1 percent to reach 5 billion during the period of study.

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

- The increase in property income receipts by LE 5.7 billion (28.3 percent) to reach LE 25.8 billion, compared to LE 20 billion during July-September 2014/2015, in light of the increase in dividends collected from the Central Bank by LE 6 billion (45 percent) to reach LE 19.5 billion during the period of study compared, to LE 13.4 billion during the same period last year. In addition, the increase in dividends collected from economic authorities by LE 0.3 billion (42.4 percent) to reach LE 0.9 billion, compared to LE 0.7 billion during the same period last year;
- The increase in proceeds from sales of goods and services by LE 0.8 billion (23.6 percent) to reach LE 4.3 billion during July- September 2015/2016, compared to LE 3.5 billion during the same period last year (in light of the increase in receipts from special accounts and funds by 15.8 percent to reach LE 2.9 billion during the period of study, compared to LE 2.6 billion during the same period last year);
- On the other hand, other revenues rose during the period of study by LE 1.3 billion (82.7 percent) to LE 2.8 billion, compared to LE 1.5 billion during the same period last year.





Source: Ministry of Finance

§ *On the Expenditures Side:*

The government adopted fiscal reforms that target the reprioritization of public expenditure in favour of lower-income groups to achieve the best social yield through investment in human capital and better distribution of infrastructure provision, with these measures designed to improve basic services for citizens and to widen social safety nets.

The latest fiscal data shows total expenditure has reached LE 169.9 billion (6 percent of GDP) during July-September 2015/2016, mainly due to:

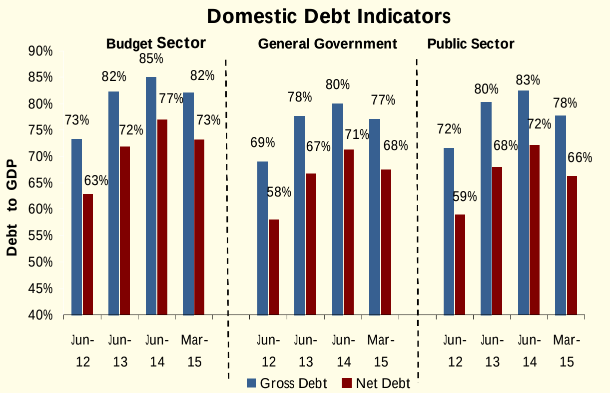
- The increase in wages and compensation of employees by LE 2.7 billion (5.2 percent) (the lowest rate of increase during the same period in the last three years) to LE 55.3 billion (2 percent of GDP);
- The increase in purchases of goods and services by LE 1.1 billion (27.9 percent growth) to reach LE 5.2 billion (0.2 percent of GDP);
- The increase in interest payments by LE 8 billion (18.7 percent growth) to reach LE 50.7 billion (1.8 percent of GDP);
- The increase in subsidies, grants and social benefits by LE 12.8 billion (50.6 percent growth) to reach LE 38 billion (1.3 percent of GDP) during the period of study, compared to LE 25.2 billion during the same period last year. This can be explained in light of the following:-
  - o The increase in spending on subsidies by LE 10.7 billion reached around LE 20.9 billion during the period of study, compared to LE 10.2 billion and reflects the following:
    - ü General Authority for Supply Commodities subsidies rose by LE 3 billion (43.5 percent growth) to reach LE 10 billion during the period of study.
    - ü Electricity subsidies rose by LE 6 billion to reach LE 7.8 billion during the period of study.
  - o Meanwhile, social benefits rose by 1.8 billion (13.7 percent growth) to reach LE 14.6 billion during July-September 2015/2016, mainly due to:
    - ü Increased contributions to the pension funds by LE 1.5 billion (13.3 percent growth) to reach LE 12.5 billion during the period of study.

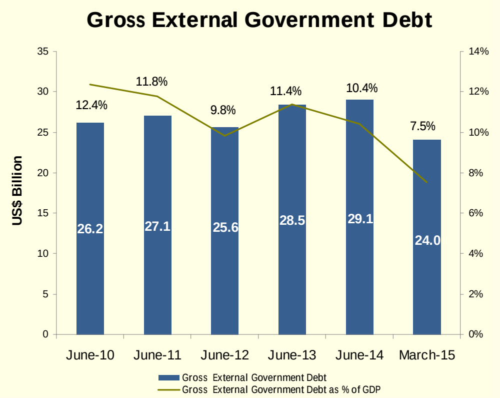
- The increase in purchases of non-financial assets (investments) by LE 2.1 billion (39 percent growth), represent 0.3 percent of GDP to reach LE 7.6 billion.

Ø Public Debt:

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) during the month of study, 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$ 48.1 billion at end of June 2015, compared to US$ 46.1 billion at end of June 2014. External debt as percent of GDP recorded 15 percent by the end of June 2015, which is relatively low if compared to the average of peer countries (for example, Middle East and North Africa countries recorded an average debt of 27 percent of GDP during the year 2013).

Meanwhile, government external debt witnessed a decrease of 11.5 percent to reach US$ 25.7 billion (53.4 percent of total external debt) as of end of June 2015, compared to US$ 29.1 billion (63.1 percent of total external debt) at end of June 2014.

Ø Monetary Perspective:

M2 annual growth increased significantly at end of September 2015 to record 19.9 percent (y-o-y) reaching LE 1850.3 billion, compared to 16.8 percent in the previous month, according to recent data released by the CBE. From the assets side, this came in light of the notable rise witnessed in net domestic assets (NDA) of the banking system annual growth to 29 percent (LE 1839.8 billion), mainly due to the increase in government borrowing, compared to 24.4 percent in August 2015. This overcame the major turnaround in central bank net foreign assets, which declining by more than 10 folds to reach a negative value of LE 4.5 billion for the first time since October 1992, compared to LE 10.5 billion in August 2015, and compared to LE 198.2 billion in December 2010.

Moreover, net claims on government increased by 32.1 percent (LE 1385.1 billion) in September 2015, compared to 25.2 percent during the previous month. Furthermore, claims on public business sector annual growth increased from 58 percent in August 2015 to 62.8 percent (LE 75 billion) in September 2015. Annual growth in credit to the private sector slowed down slightly to 15.3 percent (6.1 percent annual real growth) at end of September 2015 to LE 630.8 billion, compared to 17.7 percent last month. This came on the back of the slower pace witnessed in claims on household and private business sectors annual growth to reach 17.2

percent and 14.5 percent, respectively, in September 2015, compared to 21 percent and 16.5 percent, respectively, in the previous month.

On the other hand, net foreign assets (NFA) of the banking system recorded a high contraction on annual basis of 91.1 percent (LE 10.5 billion) during the year ending September 2015, compared to a lower decline of 75 percent (LE 30 billion) during the previous month.

This is mainly due to the significant drop in central bank net foreign assets, to decline for the first time recording LE -4.5 billion in September 2015, compared to LE 10.5 billion in the previous month. These developments could be explained in light of the faster rate in foreign assets depletion if compared to the liabilities; especially with the large volume of foreign outflows witnessed since the beginning of the current FY15/16, of which the payment of US$ 0.7 billion to Paris Club in July 2015, US$ 0.09 billion other loans repayment in August 2015, in addition to the repayment of US$ 1.25 billion USD matured notes in September 2015, which had been issued in 2005. Additionally, banks net foreign assets annual growth declined during the month of study by 80.9 percent to reach LE 15 billion, compared to a lower decline of 76 percent in August 2015 to reach LE 19.5 billion.

From the liabilities side, the surge in M2 comes as result of the growth witnessed in money annual growth reaching 21.7 percent (LE 521.3 billion), compared to 19 percent at end of August 2015, as annual growth of demand deposits in local currency and currency in circulation increased by 42.8 percent (LE 210 billion) and 10.7 percent (LE 311.3 billion), respectively, compared to 41.5 percent and 7.4 percent, respectively, in the previous month.

Moreover, quasi money annual growth increased to 19.1 percent (LE 1329 billion) during the month of study, compared to 16 percent in the previous month. This came in light of the increase in time and saving deposits in local and foreign currency annual growth to reach 20.1 percent and 18.2 percent, respectively, compared to 16.3 percent and 15.4 percent, respectively, in August 2015. These developments offest the decrease witnessed in foreign currency demand deposits annual growth from 12.5 percent in August 2015 to 8.4 percent in September 2015 to reach LE 71.1 billion.

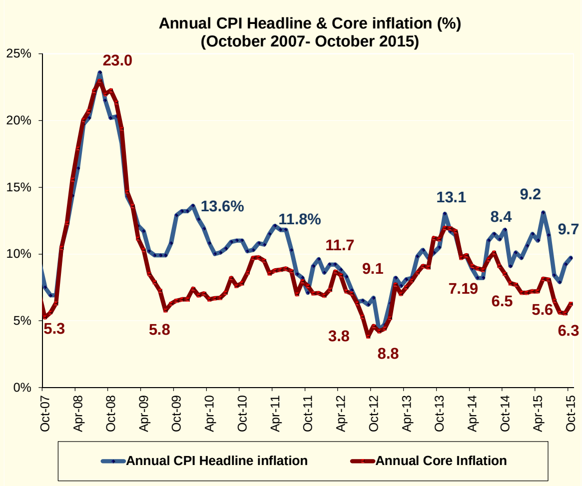
Total deposits annual growth – excluding deposits at the CBE – increased slightly by 22.3 percent y-o-y (LE 1809.1 billion) at the end of August 2015, compared to 22.2 percent at end of July 2015. Out of total deposits, 87.3 percent belonged to the non-government sector. Moreover, the annual growth rate in total lending by the banking sector (excluding CBE) increased during the year ending August 2015 by 25.3 percent (LE 736.9 billion), compared to 23.5 percent at end of July 2015. To that end, loans-to-deposits ratio slowed down at end of August 2015 registering 40.7 percent, compared to 40.8 percent at end of July 2015, while it increased if compared to 39.8 percent in August 2014. (Detailed data for September 2015 are not yet available)

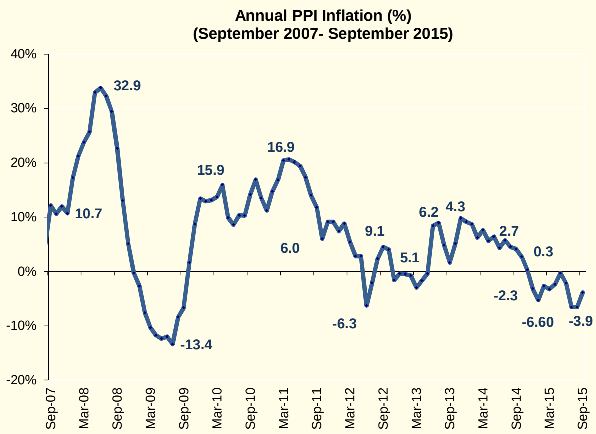
- During October 2015, net International Reserves (NIR) increased by US$ 0.08 billion to record US$ 16.42 billion, compared to US$ 16.34 billion in September 2015.

- CPI annual Urban Inflation increased to record 9.7 percent during October 2015, compared to 9.2 percent during September 2015. Factors contributing to the increase in inflationary pressures include; the rise in the annual inflation rate of the “Food and Beverage" group (the highest weight in CPI) to record 12.5 percent during the month of study, compared to 11 percent during the last month (in light of the increase in the prices of Vegetables by 33.8 percent, Fruits by 15.9 percent, Meat by 7.8 percent, Milk & Cheese and Eggs by 7.2 percent, Oils and Fats by 5.6 percent, and Bread& Cereals by 2.9 percent.

In addition, the increase in the annual inflation rate of other main groups have contributed to the inflationary pressures, headed by; “Alcoholic Beverages and Tobacco” to record 11.6 percent, compared to 10.9 percent, “Clothing and Footwear” to record 9.2 percent, compared to 8.3 percent, “Furnishing” to record 5 percent, compared to 4.7 percent; “Recreation and Culture” to record 10.8 percent, compared to 9.5 percent, “Restaurants and Hotels” to record 15.4 percent, compared to 9 percent, and “Transport” to record 2.4 percent, compared to 1.7 percent. This increase has surpassed the slow pace of increase in the annual inflation rate of other main groups, including; “Education” to record 11.2 percent during the month of study, compared to 24.7 percent in the previous month, and “Housing, Water, Electricity, Gas and Other Fuels” to record 5.9 percent, compared to 6.4 percent.

Meanwhile, the average annual inflation decelerated during the period July-October 2015/2016 to record 8.8 percent, compared to 11.4 percent during the same period last year. This could be explained mainly in light of the faded base effect due to the introduction of reform measures during July 2014.





On the other hand, monthly inflation slightly increased to reach 2.2 percent during October 2015, compared to 2.5 percent during last month, and compared to a lower growth of 1.7 percent recorded during October 2014.

Annual core inflation[2/] increased to reach 6.3 percent during October 2015, compared to 5.5 percent during the last month, while it declined if compared to 8.5 percent recorded during October 2014. Meanwhile, monthly core inflation increased recording 1.2 percent during the month of study, compared to 0.8 percent during the last month and compared to 0.5 percent recorded during October 2014. This could be explained in light of the increase in “paid services”, “other services” and “retail items” contributing by 1.24 percentage points to the monthly core inflation, while food prices remained broadly unchanged.

- During its Monetary Policy Committee meeting held on October 29th, 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.

2/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'.

- Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on November 17th, 2015 worth LE 145 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

- The Egyptian Exchange market capitalization increased by 0.98 percent m-o-m during October 2015 to reach LE 453.14 billion, compared to LE 448.73 billion during the previous month. Meanwhile, EGX-30 Index increased by 2.39 percent during October 2015, reaching 7507.89 points, compared to closing at 7332.88 points by the end of September 2015. As for the EGX-70, it increased by 2.41 percent, closing at 397.80 points, compared to 388.42 points during the previous month.

- *On the External Sector side:*

BOP showed an overall surplus of US$ 3.7 billion (1.1 percent of GDP) during FY14/15, compared to a lower overall surplus of US$ 1.5 billion (0.5 percent of GDP) during the last year.

On a more detailed level, the surplus recorded in the BOP occurred as a result of several factors, headed by:

- Current account recorded a deficit of US$ 12.2 billion (-3.7 percent of GDP), compared to a lower deficit of US$ 2.7 billion (-0.9 percent of GDP) during the 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 deficit has grown by around 13.9 percent to record US$ 38.8 billion (-11.7 percent of GDP) during FY14/15, compared to US$ 34.1 billion (-11.9 percent of GDP) during the last year, mainly due to the decrease witnessed in merchandise exports by 15.5 percent to record only US$ 22.1 billion, compared to US$ 26.1 billion in the comparison year, and the increase in merchandise imports by 1.1 percent to record US$ 60.8 billion compared to US$ 60.2 billion. It is worthy to mention that the decrease witnessed in merchandise exports was mainly driven by the drop in oil export proceeds by almost 30 percent, as a consequence of the fall in global oil prices by an average rate of around 40.6 percent during the period October-June 2014/2015 compared to the same period in FY13/14.

  - However, the services balance has recorded a larger surplus of US$ 4.7 billion (1.4 percent of GDP) during the period of study, compared to a surplus of around US$ 1.0 billion (0.3 percent of GDP) during FY13/14. This was mainly backed by the picking up in tourism receipts to reach US$ 7.4 billion during FY14/15, compared to US$ 5.1 billion in FY13/14, due to the increase in the number of tourist nights by almost 36.1 percent to record 99.2 million nights in comparison to 72.9 million nights during the last fiscal year. In addition the significant increase witnessed in government receipts to reach US$ 1.4 billion during the year of study, compared to US$ 0.7 billion in FY13/14.

  - Net official transfers recorded US$ 2.7 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$ 11.9 billion (4.2 percent of GDP) during 2013/2014, this cannot be considered as a deceleration since FY13/14 reflected exceptional inflows (of which, US$ 3 billion cash grant from UAE and Saudi Arabia and US$ 7.8 billion in-kind grants in the form of petroleum shipments).

- § Meanwhile, the capital and financial account witnessed net inflows of US$ 17.6 billion (5.3 percent of GDP) during the year of study, compared to net inflows of US$ 5.3 billion (1.8 percent of GDP) during FY13/14, mainly due to the following:

  - Net foreign direct investments in Egypt increased to reach US$ 6.4 billion (1.9 percent of GDP), compared to US$ 4.1 billion (1.4 percent of GDP) in the comparison period, driven mainly by the rise in the net inflow for greenfield investments to reach US$ 3.8 billion, up from US$ 2.2 billion during FY13/14. The net inflow for oil sector investments also witnessed an increase to reach US$ 1.7 billion during FY14/15, up from US$ 1.6 billion during last year. Investments in real estate purchases accelerated as well to post US$ 0.8 billion, during FY14/15 to only US$ 0.1 billion in the previous fiscal year.
  - Portfolio investment in Egypt recorded a net outflow of US$ 0.6 billion (-0.2 percent of GDP), compared to a net inflow of US$ 1.2 billion (0.4 percent of GDP) during FY14/15, in light of the repayment of US$ 2.5 billion bonds that had fallen due during the year of study, despite the issuance of dollar bonds US$ 1.4 billion.
  - The increase witnessed in the CBE liabilities to the rest of the world registering a net inflow of US$ 5.5 billion (1.7 percent of GDP) during the year of study, compared to inflows of US$ 1.9 billion (0.7 percent of GDP) during the last year. This came in light of the increase in deposits by some Arab countries.

- § Net errors and omissions recorded a net outflow of US$ 1.7 billion (-0.5 percent of GDP) during FY14/15, compared to a lower net outflow of US$ 1.1 billion (-0.4 percent of GDP) during FY13/14.

Ø According to the latest published figures, the total number of tourist's arrivals decreased during the period of July-September 2015/2016 reaching 2.6 million tourists, compared to 2.8 million tourist arrivals in the same period last year. Moreover, tourist nights also decreased to reach 23.7 million nights during the period July-September 2015/2016, compared to 26.1 million nights during the same period last year.