Executive Summary

Main Highlights…

The government is engaged tirelessly to achieving tangible economic results that would directly reflect on citizens' standards of living. To that end, structural reforms aimed at spurring economic activity, strengthening social protection and achieving financial sustainability were implemented throughout the previous and current fiscal years.

The fiscal and structural reforms implemented by the government since the beginning of last fiscal year and which continued during current fiscal year had a positive impact on a number of economic indicators. The economy achieved a GDP growth rate of about 4.2 percent during FY14/15 compared to only 2.2 percent during last fiscal year, in addition, unemployment rate declined during the period July-September 2015 reaching 12.8 percent compared to the 13.1 percent during the same period last year. Meanwhile, average annual inflation decelerated during the period July-November of FY15/16 to record 9.3 percent, compared to 10.9 percent during the corresponding period of the previous year, mainly in light of faded base effect due to the introduction of reform measures during July 2014.

With regards to fiscal performance, the latest indicators during the period July-October 2015/2016 point to a marked improvement in tax revenues and which have increased by almost 25.2 percent compared to the same period of the previous fiscal year. Tax revenue increases were driven by the improvement in economic activity and the apt implementation of tax reforms during the beginning of the current fiscal year. Meanwhile, on the expenditure side, spending on Subsidies, Grants, and Social Benefits have increased notably by 52 percent, more specifically the increase in GASC spending by around 32.7 percent, along with the increase in government contributions in pension funds by 24 percent. Besides, investments spending have increased by 22.5 percent.

To complement the efforts carried out by the government during the recent period, it is of vital importance to continue implementing the fiscal and economic reforms introduced during the previous fiscal year. The reform program is geared towards boosting economic growth, employment rates and competitiveness in the Egyptian economy, while achieving fiscal stability and developing infrastructure, public services and human capital. In addition, reforms will raise the efficiency of social protection programs and targeting mechanisms, all in an effort to increase local and international confidence in the Egyptian economy.

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

- Based on the latest detailed preliminary figures recently announced by the Ministry of Planning, GDP accelerated during FY14/15 reaching about 4.2 percent, compared to 2.2 percent during last fiscal year. Both public and private consumption continued to boost economic activity during FY14/15 with a total contribution of 3.1 PPT, compared to 4.1 PPT during last fiscal year. Investments have contributed positively to growth by 1.2 PPT, compared to 0.2 during FY13/14. On the other hand, net exports constrained growth with its negative impact of 0.2 PPT, compared to -2.1 PPT during FY13/14.
- Net International Reserves (NIR) stabilized during November 2015 to record US$ 16.42 billion, compared to US$ 16.41 billion in October 2015.

- As for the monetary developments, M2 annual growth eased during October 2015 to record 19.6 percent (y-o-y) reaching LE 1866.8 billion, compared to 19.9 percent in the previous month, according to recent data released by the CBE.

- Meanwhile, Headline Urban Inflation increased to record 11.1 percent during November 2015 (the highest rate of increase since the beginning of current fiscal year), compared to 9.7 percent during October 2015, and compared to 9.1 percent during November 2014. Factors contributing to inflationary pressures include: the base effect from the same month last year. In addition, the increase in annual inflation rate of "Food and Beverages" (the highest weight in CPI) has contributed to the increase in annual inflation rate to record 14.7 percent during the month of study, compared to 12.5 percent during the prior month. Besides, the increase in annual inflation rate of other main groups, on the top of which; "Clothing and Footwear", "Housing, Water, Electricity, Gas and Other Fuels", "Furnishing", "Health", "Restaurants and Hotels", and "Miscellaneous Goods and Services".

  Meanwhile, average annual inflation decelerated during the period July-November of FY15/16 to record 9.3 percent, compared to 10.9 percent during the corresponding period of the previous fiscal 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 December 24th, 2015, CBE decided to raise the overnight deposit rate and overnight lending rate, as well as CBE's main operation and the discount rate by 50 percentage points. Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on December 15th, 2015 worth LE 150 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

- Latest indicators for the period July-October 2015/2016 point to a budget deficit reaching LE 96.7 billion (3.4 percent of GDP), compared to a deficit of LE 84.5 billion (3.5 percent of GDP) during the same period last fiscal year. These developments came in light of increase in both revenues and expenditures during the period of study. Revenues rose by 31.6 percent reaching LE 133 billion (4.7 percent of GDP), compared to LE 101 billion (4.2 percent of GDP) during the same period last fiscal year. Expenditures rose by 20.4 percent to reach LE 221.2 billion (7.8 percent of GDP) during the period of study, compared to LE 183.7 billion (7.6 percent of GDP) during the same period last fiscal year, reflecting increased social spending during July-October 2015/2016.

  Tax revenues point to a marked improvement during the period July-October 2015/2016, recording an increase of 25.2 percent compared to the same period last fiscal 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.

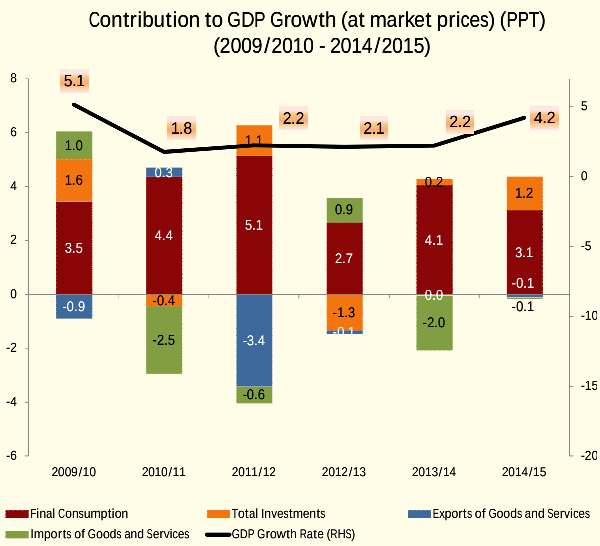
- The Balance of Payments (BOP) showed an overall surplus of US$ 3.7 billion (1.1 percent of GDP) during FY14/15, compared to a lower overall surplus of US$ 1.5 billion (0.5 percent of GDP) over the prior fiscal year. This was mainly because the capital and financial account witnessed net inflows of US$ 17.6 billion (5.3 percent of GDP) during the year 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 fiscal 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.

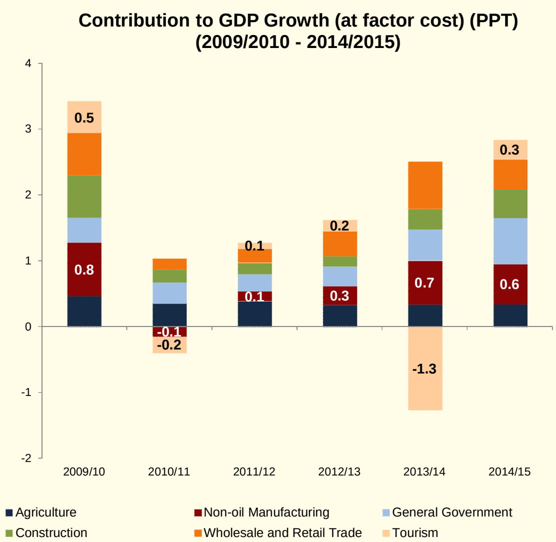
Ø *Real Sector:*

Based on the latest detailed preliminary figures recently announced by the Ministry of Planning, GDP accelerated during FY14/15 reaching about 4.2 percent, compared to 2.2 percent during last fiscal year. Both public and private consumption continued to boost economic activity during FY14/15 with a total contribution of 3.1 PPT, compared to 4.1 PPT during last fiscal year. Investments have contributed positively to growth by 1.2 PPT, compared to 0.2 during FY13/14. On the other hand, net exports constrained growth with its negative impact of 0.2 PPT, compared to -2.1 PPT during FY13/14.

On the demand side, both public and private consumption witnessed relatively high growth rates during FY14/15. Private consumption grew by 2.8 percent y-o-y, compared to 4.1 percent during FY13/14, while public consumption grew by 7 percent in the year of study, compared to 6.6 percent during FY13/14. In the meantime, recent data shows that investments have increased significantly by 8.6 percent in FY14/15, compared to 1.5 percent during FY13/14.

On the other hand, net exports constrained growth with its negative impact of 0.2 PPT, compared to -2.1 PPT during FY13/14. This development came in light of a 0.4 percent decline in Exports, with a negative contribution of 0.1 PPT to real GDP growth, compared to a negative contribution of 2.0 PPT during the last fiscal year, while imports increased by 0.5 percent in the year of study, contributing negatively by -0.1 PPT, compared to a negative contribution of 0.04 PPT during FY13/14.





On the supply side, six key sectors led y-o-y growth, on top of which was the general government sector recorded a real growth rate of 7.5 percent (contributing by 0.7 PPT to growth compared to 0.5 PPT during FY13/14). Additionally, the construction sector recorded a real growth rate of 9.7 percent (contributing by 0.4 PPT during the year of study, compared to 0.3 PPT during the last fiscal year). Meanwhile, wholesale and retail trade recorded a real growth rate of 3.5 percent (contributing by 0.5 PPT during the year of study, compared to 0.7 PPT during the last fiscal year) and the agricultural sector witnessed growth of 3 percent (stabilizing at 0.3 PPT). Meanwhile, the non-oil manufacturing sector recorded growth of 5 percent, (contributing with 0.6 percentage points to growth during FY14/15, compared to 0.7 PPT during FY13/14).

Moreover, the tourism sector expanded to record a 19.5 percent real growth rate (contributing to growth by 0.3 PPT compared to a negative contribution of 1.3 PPT during FY13/14). It is noteworthy that, the tourism index – sub index under total production index – rose to 297.5 points during June 2015, compared to 271.4 points during June 2014, growing almost by 9.6 percent.

Taken together, the above-mentioned 6 key sectors represented around 53.1 percent of total real GDP during the year of study. Meanwhile, natural gas extraction continued to constrain growth during FY14/15 declining by 10.4 percent, contributing negatively to growth by 0.7 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 FY13/14 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 fiscal years. The structural tax reforms adopted by the government since the beginning of last fiscal year and which continued during FY14/15 contributed to the improvement in tax revenues represented by the increase 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 fiscal years), receipts from taxes on international trade increased by 23.7 percent (the highest since the last three fiscal 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

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 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.

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 fiscal 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 year of study.

- o *Tax Revenues* increased mainly due to:

- Increase in receipts from Income Taxes by 7.4 percent to LE 129.8 billion during FY14/15, 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 FY14/15 compared to LE 25 billion during FY13/14. This came in light of the increase in tax receipts from the implementation of the additional temporary 5 percent income tax on corporates during last fiscal year, as well as increased receipts from the capital gains tax, 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 fiscal 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 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 during FY14/15, compared to LE 6.7 billion during FY13/14.

- Increase in receipts from Property Taxes by 12.5 percent to LE 21 billion during FY14/15, 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 last three fiscal years) to record LE 21.9 billion during FY14/15, 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 FY14/15, compared to 9.3 billion during last fiscal 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 fiscal 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 fiscal 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 during FY14/15, 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 which contributed to rationalize 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 in 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 fiscal 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 fiscal 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 fiscal years) recording almost LE 198.5 billion during FY14/15, compared to LE 178.6 billion during the previous fiscal 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 during FY14/15, 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 fiscal year.
- Increased spending on lightning & water by 14.5 percent to reach LE 4.6 billion, compared to LE 4 billion during the previous fiscal year.
- Increased spending on maintenance by 16.4 percent to reach LE 4 billion, compared to LE 3.5 billion during the previous fiscal year.
- Increased spending on transportation by 15.7 percent to reach LE 2.9 billion, compared to LE 2.5 billion during the previous fiscal year.

- Moreover, <u>interest payments</u> have increased by 11.5 percent recording almost LE 193 billion during FY14/15, compared to LE 173 billion during the previous fiscal year.
- <u>Other Expenditures</u> increased by 22.4 percent to LE 50.3 billion during FY14/15 compared to LE 41 billion during last fiscal year.
- <u>Purchases of non-financial assets (investments)</u> increased by 16.8 percent LE 61.8 billion during FY14/15, compared to LE 52.9 billion during the previous fiscal 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, <u>subsidies, grants and social benefits</u> 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 fiscal 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 year of study, compared to LE 29.2 billion during the previous fiscal year.

Fiscal Sector Performance during July-October 2015/2016;

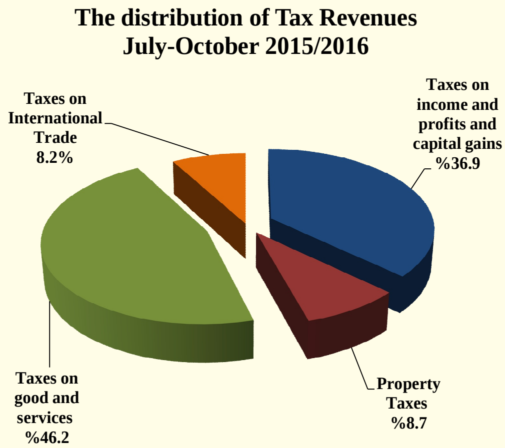
Latest indicators for the period July-October 2015/2016 point to a budget deficit reaching LE 96.7 billion (3.4 percent of GDP), compared to a deficit of LE 84.5 billion (3.5 percent of GDP) during the same period last year. Budget deficit stabilized as percent of GDP mainly in light of the increase in revenues exceeding the increase in expenditures during the period of study. Revenues rose by 31.6 percent reaching LE 133 billion (4.7 percent of GDP), compared to LE 101 billion (4.2 percent of GDP) during the same period last fiscal year. Expenditures rose by 20.4 percent to reach LE 221.2 billion (7.8 percent of GDP) during the period of study, compared to LE 183.7 billion (7.6 percent of GDP) during the same period last fiscal year.

July- October 14/15 Budget Deficit LE 84.5 billion (3.5 percent of GDP)	July- October 15/16 Budget Deficit LE 96.7 billion (3.4 percent of GDP)
Revenues LE 101 billion (4.2 percent of GDP)	Revenues LE 133 billion (4.7 percent of GDP)
Expenditure LE 183.7 billion (7.6 percent of GDP)	Expenditure LE 221.2 billion (7.8 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

§ On the Revenues Side,

Total revenues increased by LE 32 billion (31.6 percent growth) to record LE 133 billion during July-October 2015/2016, compared to LE 101 billion during the same period last year. These developments could be explained mainly in light of the increase in tax revenues by LE 18 billion (25.2 percent growth) to record LE 89.4 billion during the period of study, compared to LE 71.4 billion during the same period last year, in addition to the increase in non-tax revenues by LE 14 billion (47.2 percent growth) to record LE 43.5 billion during July-October 2015/2016, compared to LE 29.5 billion the same period last fiscal 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 26.6 percent to LE 33 billion during the period of study, compared to LE 26 billion during the same period last fiscal year (this was in particular driven by the increase in receipts from taxes on domestic salaries, and the increase in receipts from taxes on CBE, Suez Canal and other companies). Taxes on goods and services also increased by around 25.9 percent (the highest rate of increase in the last three fiscal years) to record LE 41.3 billion during the period of study, compared to LE 32.8 billion during the same period last fiscal 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 21.7 percent (the highest rate of increase in the last three fiscal years) to reach LE 7.8 billion during the period of study, compared to LE 6.4 billion during the same period last fiscal year. Finally, taxes on international trade grown by 20 percent to LE 7.3 billion during the period of study, compared to LE 6 billion during the same period last fiscal 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 7 billion (26.6 percent growth) to reach LE 33 billion (1.2 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 37 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 1.5 billion (22.6 percent) to reach LE 8 billion in light of the significant increase in wages and salaries.
- 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 1.6 billion (44.4 percent) to reach LE 5.2 billion.
- Increase in receipts from taxes on other companies by LE 0.8 billion (9 percent) to reach LE 9.5 billion.

Taxes on Good and Services increased by LE 8.5 billion (25.9 percent growth) to reach LE 41.3 billion (1.5 percent of GDP).

- **Taxes on goods and services receipts represent 46.2 percent of total tax revenues.**

Mainly as a result of higher receipts from:

- The increase in general sales tax on goods by 15 percent to record LE 17.8 billion.
- The increase in excises on domestic commodities (Table 1) by 46 percent to record LE 14.4 billion (in light of increased sales tax on petroleum products by 88.2 percent to reach LE 3 billion and tobacco by 37 percent to reach LE 10.8 billion).
- The increase in general sales tax on services by 19.9 percent to record LE 4 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 28.1 percent to record LE 2.6 billion in light of the increase in stamp tax on contracts and transportation services.

Taxes on International Trade increased by LE 1.2 billion (20 percent growth) to reach LE 7.3 billion (0.3 percent of GDP).

- **Taxes on International Trade receipts represent 8.2 percent of total tax revenues.**

In light of an increase in taxes on valued customs by 20.7 percent y-o-y to LE 7 billion, reflecting the efforts of the Egyptian Customs Authority to control Egypt's ports.

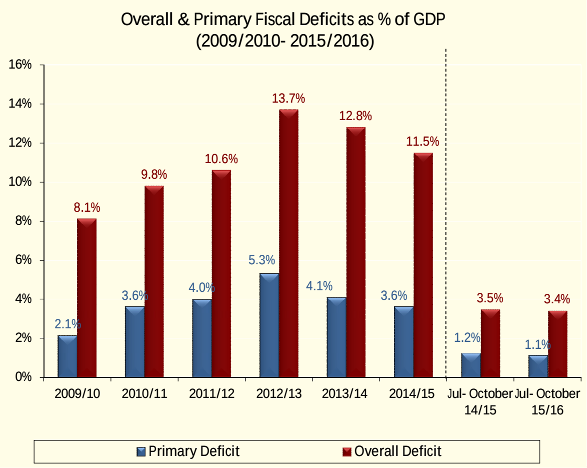
Property Taxes increased by LE 1.4 billion (21.7 percent growth) to reach LE 7.8 billion (0.3 percent of GDP).

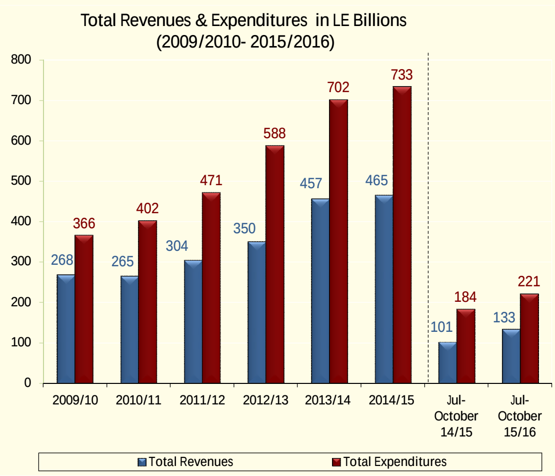
- **Property Taxes receipts represent 8.7 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 24.5 percent to reach 6.5 billion during the period of study.

<u>On the Non-Tax Revenues Side</u>, the increase in other revenues could be explained in light of the following:

- The increase in property income receipts by LE 8.7 billion (39.9 percent) to reach LE 30.3 billion, compared to LE 21.7 billion during July-October 2014/2015, in light of the increase in dividends collected from the CBE by LE 8.5 billion (63.7 percent) to reach LE 22 billion during the period of study, compared to LE 13.4 billion during the same period last year (in light of the repayment of the first installment by the CBE with an amount of LE 2.5 billion representing a part of the property taxes dues to be paid by the bank on quarterly basis to the state budget). In addition, the increase in dividends collected from economic authorities by LE 0.2 billion (26.3 percent) to reach LE 1.2 billion during July- October 2014/2015, compared to LE 0.9 billion during the same period last fiscal year.
- The increase in proceeds from sales of goods and services by LE 0.8 billion (16.7 percent) to reach LE 6 billion during July- October 2015/2016, compared to LE 5 billion during the same period last year (in light of the increase in receipts from special accounts and funds by 18.1 percent to reach LE 4.2 billion during the period of study, compared to LE 3.6 billion during the same period last year).
- On the other hand, other revenues rose during the period of study by LE 1.8 billion (76.5 percent) to LE 4 billion, compared to LE 2.3 billion during the same period last fiscal 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.

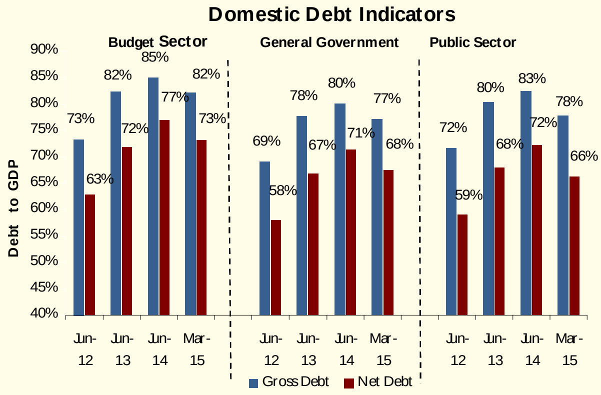
The latest fiscal data shows total expenditure has reached LE 221.2 billion (7.8 percent of GDP) during July-October 2015/2016, mainly due to:

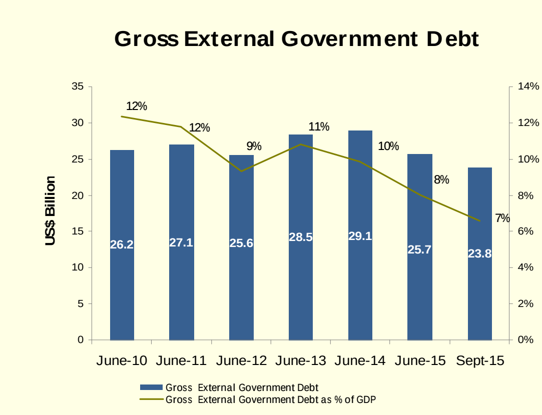
- The increase in wages and compensation of employees by LE 3.8 billion (5.7 percent) (the lowest rate of increase during the same period in the last three fiscal years in light of the recent reforms implemented by the ministry of finance to control the increase in wage bill) to LE 70.2 billion (2.5 percent of GDP).
- The increase in purchases of goods and services by LE 1.3 billion (20.9 percent growth) to reach LE 7.5 billion (0.3 percent of GDP).
- The increase in interest payments by LE 10.3 billion (18.8 percent growth) to reach LE 65.4 billion (2.3 percent of GDP).
- The increase in subsidies, grants and social benefits by LE 17 billion (52 percent growth) to reach LE 49.6 billion (1.8 percent of GDP) during the period of study, compared to LE 32.6 billion during the same period last fiscal year. This can be explained in light of the following:-
  - The increase in spending on subsidies by LE 13.2 billion reached around LE 27 billion during the period of study, compared to LE 14 billion during the same period last year, which reflects the following:
    - General Authority for Supply Commodities subsidies rose by LE 3 billion (32.7 percent growth) to reach LE 12.6 billion during the period of study.
    - Electricity subsidies rose by LE 8.6 billion to reach LE 10.4 billion during the period of study in light of the repayment of monthly subsidy installment by the Ministry of Finance with an amount of LE 2.6 billion to be paid in a regular basis during the current fiscal year.
  - Meanwhile, social benefits rose by 3.6 billion (22.4 percent growth) to reach LE 19.9 billion during July-October 2015/2016, mainly due to:
    - Increased contributions to the pension funds by LE 3.3 billion (24 percent growth) to reach LE 17.2 billion during the period of study.
- The increase in purchases of non-financial assets (investments) by LE 2 billion (0.4 percent growth), represent 22.5 percent of GDP to reach LE 10.9 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 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$ 46.1 billion at end of September 2015, compared to US$ 44.9 billion at end of September 2014. External debt as percent of GDP recorded 12.7 percent by the end of September 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 14.5 percent to reach US$ 23.8 billion (51.7 percent of total external debt) as of end of September 2015, compared to US$ 27.9 billion (62.1 percent of total external debt) at end of September 2014.

Ø *Monetary Perspective:*

M2 annual growth increased at a slower pace during October 2015 to record 19.6 percent (y-o-y) reaching LE 1866.8 billion, compared to 19.9 percent in the previous month, according to recent data released by the CBE.

From the liabilities side, this came in light of the slowdown witnessed in money annual growth reaching 20.4 percent (LE 519.3 billion) during the month of study, compared to 21.7 percent at end of September 2015, as annual growth of demand deposits in local currency eased to 37.3 percent (LE 211 billion), compared to 42.8 percent in the previous month, while currency in circulation inched up to 11 percent (LE 308.3 billion) during the month of study, compared to 10.7 percent in September 2015.

On the other hand, quasi money annual growth increased slightly by 19.4 percent (LE 1347.5 billion) in October 2015, compared to 19.1 percent in the previous month. This came in light of the increase in foreign currency demand and time and saving deposits annual growth by 10.7 percent and 21.1 percent, respectively, during the month of study, compared to 8.4 percent and 18.2 percent, respectively, in September 2015. These developments offset the decrease witnessed in local currency time and saving deposits annual growth from 20.1 percent in September 2015 to 19.7 percent in October 2015 reaching LE 1066.9 billion.

From the assets side, the slowdown in M2 comes as result of the deceleration witnessed in net domestic assets (NDA) of the banking system annual growth to 28.3 percent (LE 1859.4 billion) in October 2015, compared to 29 percent in the previous month. Moreover, claims on public business sector annual growth eased to reach 36.4 percent in October 2015 (LE 76.1 billion) from 62.8 percent in September 2015. This slowdown overcame the increase witnessed in both net claims on government and credit to the private sector annual growth in October 2015 to record 32.6 percent and 16.1 percent, respectively, compared to 32.1 percent and 15.3 percent, respectively, in the previous month.

Furthermore, net foreign assets (NFA) of the banking system recorded a high contraction on annual basis of 93.3 percent (LE 7.5 billion) during the year ending October 2015, compared to a lower decline of 91.1 percent (LE 10.5 billion) in the previous month.

This is mainly due to the significant drop in CBE net foreign assets, to decline recording LE -4 billion in October 2015, compared to LE -4.5 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 83.3 percent to reach LE 11.5 billion, compared to a lower decline of 81 percent in September 2015 to reach LE 15 billion.

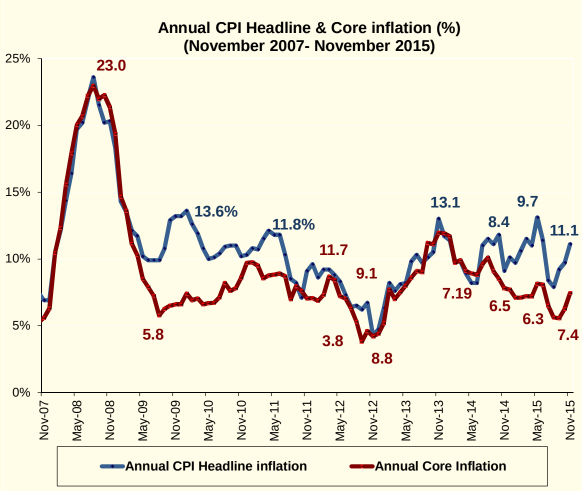
Total deposits annual growth – excluding deposits at the CBE – increased by 25.8 percent y-o-y (LE 1843.4 billion) at the end of September 2015, compared to 22.3 percent at end of August 2015. Out of total deposits, 84.3 percent belonged to the non-government sector. Moreover, the annual growth rate in total lending by the banking sector (excluding CBE) increased during the year ending September 2015 by 28.3 percent (LE 771.6 billion), compared to 25.3 percent at end of August 2015. To that end, loans-to-deposits ratio increased at end of September 2015 registering 41.9 percent, compared to 40.7 percent at end of August 2015. (Detailed data for October 2015 are not yet available)

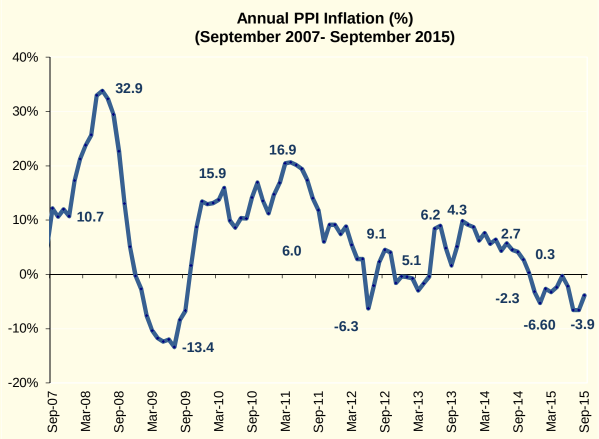
- Net International Reserves (NIR) stabilized during November 2015 to record US$ 16.42 billion, compared to US$ 16.41 billion in October 2015.

- CPI annual urban inflation increased to record 11.1 percent during November 2015 (the highest rate of increase since the beginning of current fiscal year), compared to 9.7 percent during October 2015, and compared to 9.1 percent during November 2014. Factors contributing to inflationary pressures include: the base effect from the same month last year (in light of the decrease in CPI index during the same month of last year by around 2.7 percentage points).

In addition, the increase in annual inflation rate of "Food and Beverages" (the highest weight in CPI) has contributed to the increase in annual inflation rate to record 14.7 percent during the month of study, compared to 12.5 percent during the prior month. Besides, the increase in annual inflation rate of other main groups, on the top of which; "Clothing and Footwear" to record 10.7 percent compared to 9.2 percent (in light of the increase in Clothing Materials and Footwear prices), "Housing, Water, Electricity", Gas and Other Fuels" to record 6 percent compared to 5.9 percent (in light of the increase in repair and maintenance of housing prices), "Furnishing" to record 5.8 percent compared to 5 percent (in light of the increase in furniture, carpets and housing equipment's prices), "Health" to record 9.3 percent compared to 4.2 percent (in light of the increase in hospital and clinic prices), and "Restaurants and Hotels" to record 15.7 percent compared to 15.4 percent (in light of the increase in catering and hotel services prices), and "Miscellaneous Goods and Services" to record 2.9 percent compared to 1.3 percent (in light of the increase in personal care prices).

Meanwhile, average annual inflation decelerated during the period July-November of FY15/16 to record 9.3 percent, compared to 10.9 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.





On the other hand, monthly inflation declined significantly to reach -0.3 percent during November 2015 (the lowest rate since the beginning of current fiscal year), compared to 2.2 percent during last month. This came in light of the government efforts for reducing inflation rates in cooperation with the Holding Company for Food Industries and Armed Forces to create new consumer complexes for introducing subsidized food with discounts reaching around 25 percent.

Annual core inflation[2] increased to reach 7.4 percent during November 2015, compared to 6.3 percent during the last month. Meanwhile, monthly core inflation recorded 1 percent during the month of study, compared to 1.2 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” contributing by 0.73 percentage points to the monthly core inflation. In addition, Food Prices contributing by 0.23 percentage points to the monthly core inflation.

- During its Monetary Policy Committee meeting held on December 24th, 2015, CBE decided to raise the overnight deposit rate and overnight lending rates, by 50 percentage points to 9.25 percent and 10.25 percent, respectively, and to raise the CBE's main operation by 50 percentage points to 9.75 percent. The discount rate was also raised by 50 percentage points to 9.75 percent.
- Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on December 15th, 2015 worth LE 150 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.
- The Egyptian Exchange market capitalization decreased by 8.86 percent m-o-m during November 2015 to reach LE 431 billion, compared to LE 453.14 billion during the previous month. Meanwhile, EGX-30 Index also decreased by 15.33 percent during November 2015 to reach 6356.65 points, compared to closing at 7507.89 points by the end of October 2015. Furthermore, the EGX-70 decreased by 13.4 percent, closing at 344.48 points at the end of November, compared to 397.80 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.

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'.

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 FY13/14, 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 year, 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, compared 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 fiscal 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, total number of tourist's arrivals increased during October 2015 to reach 0.9 million tourists, compared to 0.8 million tourists in the previous month. Moreover, tourist nights also increased to reach 7.1 million nights during the month of study, compared to 6.9 million nights during September 2015.