Executive Summary

Main Highlights…

Throughout the previous fiscal year, the Ministry of Finance set out to implement a number of reform measures to bolster economic activity, achieve social justice, and preserve financial sustainability. On the expenditure side, the fiscal program aimed at reprioritizing public expenditure through reforming energy subsidies, while redirecting savings towards social programs and increasing health and education spending. On the same note, The Ministry of Finance also began implementing reforms designed to at re-broaden the tax base and raise collection efficiency, and enhance public debt management procedures. Meanwhile, the government has continued to intensify its efforts to develop and raise the efficiency of public services and modernize the infrastructure of the Egyptian economy, therefore contributing to the achievement of tangible, positive change in the daily life of citizens.

In addition, the ministry has recently established a three year Medium Term Debt Management Strategy1 (MTDS) in order to achieve an appropriate debt portfolio composition, which reflects the government's preferences with regards to cost-risk tradeoffs. The MTDS also complies with the international sound practices as defined in the World Bank's and International Monetary Fund's guidelines for debt strategy. The MTDS' main objective is to ensure that the treasury funding requirements and payment obligations are met at a relatively low cost, while being consistent with a prudent degree of risk. Furthermore, the strategy aims to support the development of the domestic securities market.

The new MTDS follows the previously prepared debt management strategies of 2011 and 2014, but expands on them by being based on eight newly developed analysis stages. The first step is to clearly identify the objectives and scope of the MTDS, followed by a review of the cost-risk characteristics of existing debt in order to determine the need for change. Reviewing potential funding sources for future borrowing comes next, alongside an analysis of the macroeconomic market environment and medium-term forecasts on an annual basis. Risk factors to which the economy is exposed and which should be taken into account within the context of the debt management strategy are identified. The MTDS analysis then defines and analyzes the cost-risk performance of alternative debt management strategies and reviews the preferred strategy with policy makers and market participants. Finally, a debt management strategy document is produced for approval by the Minister of Finance and subsequent public dissemination.

With regards to fiscal performance, the latest indicators during the period July-November 2015/2016 point to a marked improvement in tax revenues which increased by almost 23 percent compared to the same period of the previous fiscal year, mainly due to the increase in receipts from Taxes on Income, Capital Gains and Profits by 16.4 percent, Taxes on Goods and Services receipts by 21.3 percent, Property Taxes receipts by 20 percent, and Taxes on International Trade receipts by 10.6 percent. Tax revenue increases were driven by the improvement in economic activity and the

[1] The MTDS is available in details on the Ministry of Finance Website:
http://www.mof.gov.eg/MOFGallerySource/English/Reports/monthly/2015/September2015/MTDS%20-English%20-%20Publication%20Final.pdf

effective implementation of tax reforms during the beginning of the current fiscal year. Meanwhile, on the expenditure side, spending on Subsidies, Grants, and Social Benefits notably increased by 38.9 percent, more specifically GASC spending increased by around 17.4 percent, along with a 28.4 percent increase in government contributions to pension funds and a 29.2 percent increase in investments spending.

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) increased slightly during December 2015 to record US$ 16.44 billion, compared to US$ 16.42 billion in November 2015.
- As for the monetary developments, M2 annual growth continued to increase yet a slightly slower pace during November 2015 to record 19.4 percent (y-o-y) reaching LE 1878.2 billion, compared to 19.7 percent in the previous month, according to recent data released by the CBE. This comes in light of the notable increase witnessed in net domestic assets of the banking system to reach LE 1888.1 billion during the month of study, which overcame the major turnaround in net foreign assets of the banking system <u>declining for the first time since October 1992 to reach a negative value of LE 9.9 billion.</u>
- Meanwhile, Headline Urban Inflation stabilized at a high rate recording 11.1 percent during December 2015, and which is the same inflation rate recorded during the previous month (the highest since the beginning of current fiscal year), and compared to 10.1 percent during December 2014. Factors contributing to inflationary pressures include: the stabilization of annual inflation rate of some main groups but at still high levels, on the top of which "Food and Beverages" (the highest weight in CPI) to record 14.6 percent during the month of study, compared to 14.7 percent during the previous month. Besides, "Alcoholic Beverages & Tobacco", "Education", "Housing, Water, Electricity, Gas and Other Fuels", "Health, "Recreation & Culture", and "Transport".

  Meanwhile, average annual inflation decelerated during the period July-December of FY15/16 to record 9.6 percent, compared to 10.8 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 January 19th, 2016 worth LE 140 billion with 7-day maturity at a fixed annual interest rate of 9.75 percent.
- Moreover, total government debt (domestic and external) reached LE 2275.8 billion (93.7 percent of GDP) at end of June 2015.
- The Balance of Payments (BOP) showed an overall deficit of US$ 3.7 billion (-1.2 percent of GDP) during Q1-FY15/16, compared to an overall surplus of US$ 0.4 billion (0.1 percent of GDP)

during Q1-FY14/15. This mainly came in light of the increase witnessed in the current account deficit to record US$ 4 billion (-1.3 percent of GDP), compared to a lower deficit of US$ 1.6 billion (-0.6 percent of GDP) during Q1-FY14/15. On the other hand, capital and financial account witnessed net inflows of US$ 1.5 billion (0.5 percent of GDP) during the period of study, compared to net inflows of US$ 0.4 billion (0.1 percent of GDP) during Q1-FY14/15. Meanwhile, net errors and omissions recorded an outflow of US$ 1.2 billion (-0.4 percent of GDP) during Q1-FY15/16, compared to an inflow of US$ 1.7 billion (0.6 percent of GDP) during the period of comparison.

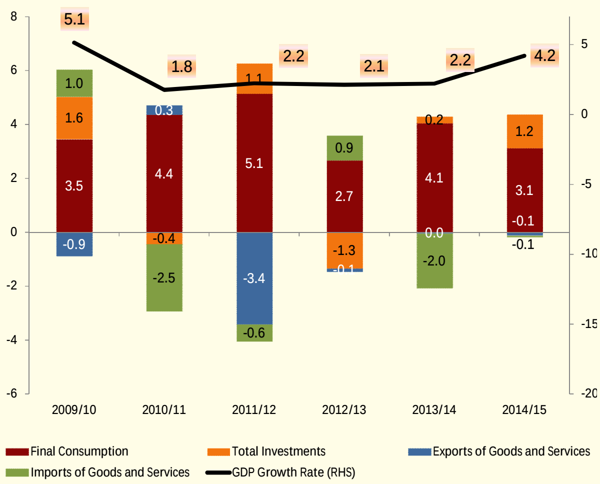
Ø *Real Sector:*

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, but less so when compared to -2.1 PPT during FY13/14.

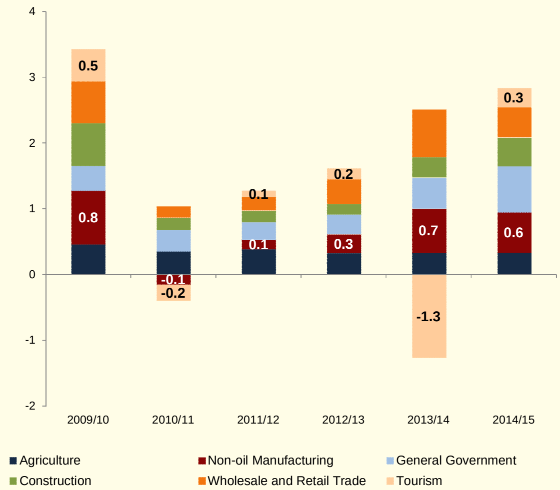
On the demand side, both public and private consumption witnessed relatively high growth rates during FY14/15. Private consumption grew by 2.8 percent y-o-y, compared to 4.1 percent during FY13/14, while public consumption grew by 7 percent in the year of study, compared to 6.6 percent during FY13/14. 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.

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



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



On the supply side, six key sectors led y-o-y growth, on top of which was the general government sector which 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 to mention 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 recorded 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[2/] 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.

2/ 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.

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 fiscal year.

On the expenditure 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 in alleviating pressures on the overall fiscal deficit 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).

Ø *Fiscal Sector Performance during July-November 2015/2016;*

Latest indicators for the period July-November 2015/2016 point to a budget deficit reaching LE 138.5 billion (4.9 percent of GDP), compared to a deficit of LE 107.9 billion (4.4 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 27 percent reaching LE 160.1 billion (5.7 percent of GDP), compared to LE 126.1 billion (5.2 percent of GDP) during the same period last fiscal year. Expenditures rose by 24.9 percent to reach LE 289.4 billion (10.2 percent of GDP) during the period of study, compared to LE 231.8 billion (9.5 percent of GDP) during the same period last fiscal year.

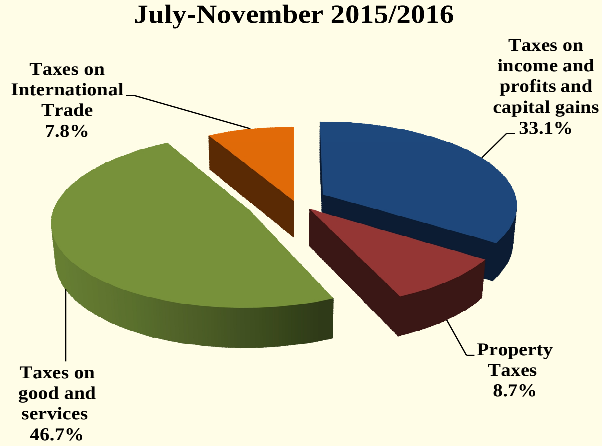
July- November 14/15 Budget Deficit LE 107.9 billion (4.4 percent of GDP)	July- November 15/16 Budget Deficit LE 138.5 billion (4.9 percent of GDP)
Revenues LE 126.1 billion (5.2 percent of GDP)	Revenues LE 160.1 billion (5.7 percent of GDP)
Expenditure LE 231.8 billion (9.5 percent of GDP)	Expenditure LE 289.4 billion (10.2 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

§ On the Revenues Side,

Total revenues increased by LE 34 billion (27 percent growth) to record LE 160.1 billion during July-November 2015/2016, compared to LE 126.1 billion during the same period last fiscal year. These developments could be explained mainly in light of the increase in tax revenues by LE 21 billion (23.1 percent growth) to record LE 112.7 billion during the period of study, compared to LE 91.6 billion during the same period last year, in addition to the increase in non-tax revenues by LE 12.9 billion (37.3 percent growth) to record LE 47.4

The distribution of Tax Revenues July-November 2015/2016



billion during July-November 2015/2016, compared to LE 34.5 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, and which was reflected as follows:

- Taxes on income increased by 16.4 percent to LE 37 billion during the period of study, compared to LE 32 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 21.3 percent (the highest rate of increase in the last three fiscal years during the same period) to record LE 52.6 billion during the period of study, compared to LE 43.4 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 20 percent (the highest rate of increase in the last three fiscal years during the same period) to reach LE 9.9 billion during the period of study, compared to LE 8.2 billion during the same period last fiscal year.

- Taxes on international trade grewn by 10.6 percent to LE 8.7 billion during the period of study, compared to LE 7.9 billion during the same period last fiscal year (in light of the improved performance of economic activity and the efforts made to raise collection efficiency). Finally, other taxes also increased to record LE 4.2 billion during the period of study.

Taxes on Goods and Services increased by LE 9.2 billion (21.3 percent growth) to reach LE 52.6 billion (1.9 percent of GDP).

- **Taxes on goods and services receipts represent 46.7 percent of total tax revenues.**

Mainly as a result of higher receipts from:
- General sales tax on goods increasing by 14.9 percent to record LE 22.9 billion.
- The increase in excises on domestic commodities (Table 1) by 33.1 percent to record LE 18.5 billion (in light of increased sales tax on petroleum products by 17.8 percent to reach LE 4 billion and tobacco by 37.5 percent to reach LE 13.6 billion).
- The increase in general sales tax on services by 15.2 percent to record LE 5 billion in light of the improved performance of the tourism sector, specifically hotels and restaurants and the improvement of international and domestic telecommunications services.
- The increase in stamp tax (excludes stamp tax on salaries) by 28.4 percent to record LE 3.1 billion in light of the increase in miscellaneous stamp tax and stamp taxes on advertising and contracts.

Taxes on Income, Capital Gains and Profits increased by LE 5.3 billion (16.4 percent growth) to reach LE 37.3 billion (1.3 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 33.1 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 1.6 billion (19.2 percent) to reach LE 10 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 0.3 billion (6.1 percent) to reach LE 5.2 billion.
- Increase in receipts from taxes on other companies by LE 0.5 billion (4.3 percent) to reach LE 11.1 billion.

Property Taxes increased by LE 1.6 billion (20 percent growth) to reach LE 9.9 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 22.9 percent to reach 8.1 billion during the period of study.

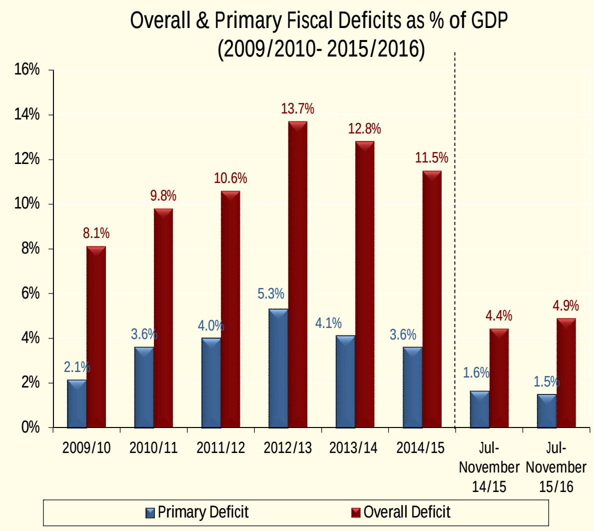
Taxes on International Trade increased by LE 0.8 billion (10.6 percent growth) to reach LE 8.7 billion (0.3 percent of GDP).

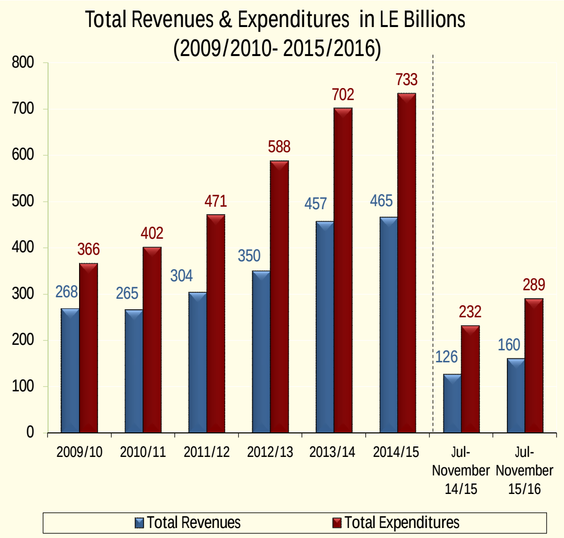
- **Taxes on International Trade receipts represent 7.8 percent of total tax revenues.**

In light of an increase in taxes on valued customs by 10.7 percent y-o-y to LE 8.3 billion, reflecting the efforts of the Egyptian Customs Authority to control Egypt’s ports.

<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 7.3 billion (30.5 percent) to reach LE 31.2 billion during the period of study, compared to LE 23.9 billion during July-November 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 0.8 billion (81.6 percent) to reach LE 1.8 billion during July-November 2015/2016, compared to LE 1 billion during the same period last fiscal year.
- The increase in proceeds from sales of goods and services by LE 1.2 billion (18.9 percent) to reach LE 7.7 billion during July- November 2015/2016, compared to LE 6.5 billion during the same period last fiscal year (in light of the increase in receipts from special accounts and funds by 20.1 percent to reach LE 5.5 billion during the period of study, compared to LE 4.6 billion during the same period last fiscal year).
- On the other hand, other revenues rose during the period of study by LE 2.1 billion (70.2 percent) to LE 5.2 billion, compared to LE 3.1 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 289.4 billion (10.2 percent of GDP) during July-November 2015/2016, mainly due to:

- The increase in wages and compensation of employees by LE 5.3 billion (6.6 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 84.9 billion (3 percent of GDP).

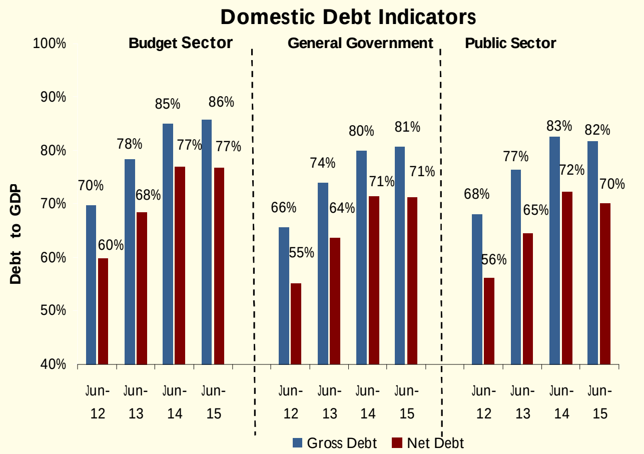
- The increase in purchases of goods and services by LE 1.6 billion (17.9 percent growth) to reach LE 10.3 billion (0.4 percent of GDP).
- The increase in interest payments by LE 27.9 billion (40.8 percent growth) to reach LE 96.3 billion (3.4 percent of GDP).
- The increase in subsidies, grants and social benefits by LE 17 billion (38.9 percent growth) to reach LE 60.6 billion (2.1 percent of GDP) during the period of study, compared to LE 43.6 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 11.8 billion reached around LE 33 billion during the period of study, compared to LE 21.2 billion during the same period last year, which reflects the following:
    - General Authority for Supply Commodities subsidies rose by LE 2.1 billion (17.4 percent growth) to reach LE 14 billion during the period of study.
    - Electricity subsidies rose by LE 7.5 billion to reach LE 13 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 5.2 billion (26.3 percent growth) to reach LE 24.8 billion during July-November 2015/2016, mainly due to:
    - Increased contributions to the pension funds by LE 4.7 billion (28.4 percent growth) to reach LE 21.3 billion during the period of study.
- The increase in purchases of non-financial assets (investments) by LE 3.7 billion (0.6 percent growth), represent 29.2 percent of GDP to reach LE 16.3 billion.

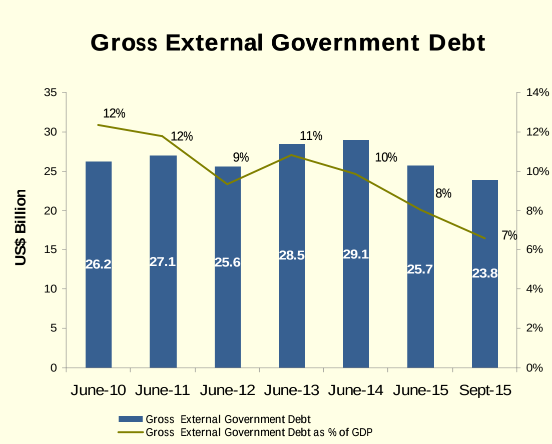
Public Debt:

Total government debt (domestic and external) reached LE 2275.8 billion (93.7 percent of GDP) at end of June 2015, of which;

- Domestic budget sector debt recorded LE 2084.7 billion) 85.8 percent of GDP) by end of June 2015, compared to LE 1699.9 billion (85.1 percent of GDP) by end of June 2014.

  The rise in Domestic budget sector debt during the period of study -other than the budget deficit- can be explained in light of settling some of the cross-debt issues among budget sector entities on top of which the SIF and EGPC which will help eventually, enhance their financial performance.





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, while, government external debt recorded US$ 25.7 billion (8% of the GDP) as of end of June 2015, compared to US$ 29.1 billion (9.9% of the GDP) at end of June 2014.
- Moreover, as per the most updated figures *External debt stock* (government and non-government debt) recorded at end of September 2015 around US$ 46.1 billion, 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 when 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).

  External debt has witnessed a decrease by US$ 1.9 billion at end of September 2015, compared to end of June 2015 mainly in light of the repayment of a dollar bond worth US$ 1.25 billion, which was issued in 2005.

  Furthermore, 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:*

As for the monetary developments, M2 annual growth continued to increase yet at a slower pace during November 2015 to record 19.4 percent (y-o-y) reaching LE 1878.2 billion, compared to 19.7 percent in the previous month, according to recent data released by the CBE. From the assets side, this comes in light of the notable increase witnessed in net domestic assets of the banking system to reach LE 1888.1 billion during the month of study, compared to LE 1860.7 billion in October 2015. This overcame the major turnaround in net foreign assets of the banking system declining for the first time since October 1992 to reach a negative value of LE 9.9 billion, compared to LE 7.5 billion in October 2015, and compared to a highest pick of LE 315.3 billion in October 2010.

Net claims on government annual growth recorded an increase of 32.3 percent (LE 1443.3 billion) in November 2015, compared to a slightly higher growth of 32.6 percent during the previous month. Moreover, annual growth in credit to the private sector increased by 16.3

percent (5.2 percent annual real growth) at end of November 2015 to LE 642.1 billion, compared to 16.1 percent last month. This comes on the back of the growth witnessed in claims on household annual growth by 21.2 percent in November 2015, compared to 18.2 percent in October 2015 and 19.2 percent in November 2014. Claims on private business sectors annual growth slightly slowed down during the month of study to 14.4 percent, compared to 15.3 percent in October 2015, while it increased if compared to 7.7 percent to in November 2014. Claims on public business sector annual growth stabilized at 36.4 percent (LE 76.1 billion) in November 2015 compared to the previous month.

On the other hand, net foreign assets (NFA) of the banking system recorded a high contraction on annual basis of 109.7 percent during the year ending November 2015, to record for the first time a negative value of LE 9.9 billion, compared to a lower decline of 93.3 percent (LE 7.5 billion) during the previous month. This turnaround witnessed in NFA of the banking system is mainly due to the significant drop in central bank net foreign assets – for the third month in a row – by 125.5 percent y-o-y to record LE -9.3 billion, compared to LE -4 billion in October 2015. In addition, banks net foreign assets declined for the first time since October 1992, to reach a negative value of LE 0.7 billion in November 2015, recording a significant decrease of 101.1 percent y-o-y, compared to a lower decline of 83.3 percent (LE 11.5 billion) in October 2015.

From the liabilities side, the increase in M2 comes as result of the growth witnessed in quasi money annual growth by 19.7 percent (LE 1363.1 billion) during the month of study, compared to 19.5 percent in the previous month. This comes in light of the increase in local currency time and saving deposits annual growth by 20.5 percent (LE 1087.9 billion), compared to 19.8 percent and in October 2015. This counter-parted the slowdown witnessed in demand and time and saving deposits in foreign currency annual growth from 10.7 percent and 21.1 percent, respectively, in October 2015 to 9.4 percent (LE 69.3 billion) and 19.4 percent (LE 205.8 billion), respectively, in November 2015.

On the other hand, money annual growth eased slightly during November 2015 increasing by 18.6 percent to reach LE 515.1 billion, compared to 20.4 percent at end of October 2015, as annual growth of local currency demand deposits and currency in circulation increased at slower pace by 33 percent (LE 211.3 billion) and 10.4 percent (LE 303.8 billion), respectively, compared to 37.3 percent and 11 percent in the previous month.

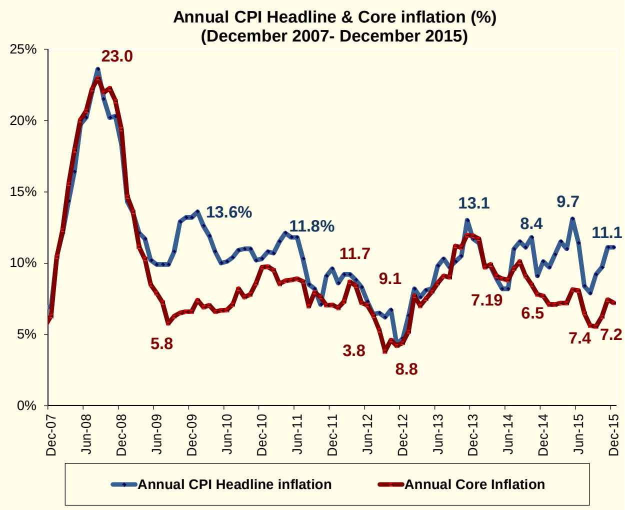
Total deposits annual growth – excluding deposits at the CBE –increased by 25.8 percent y-o-y (LE 1843.4 billion) at the end of September 2015, compared to 22.3 percent at end of August 2015. Out of total deposits, 84.3 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by 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 and compared to 41 percent in September 2014. (Detailed data for October 2015 and November 2015 are not yet available)

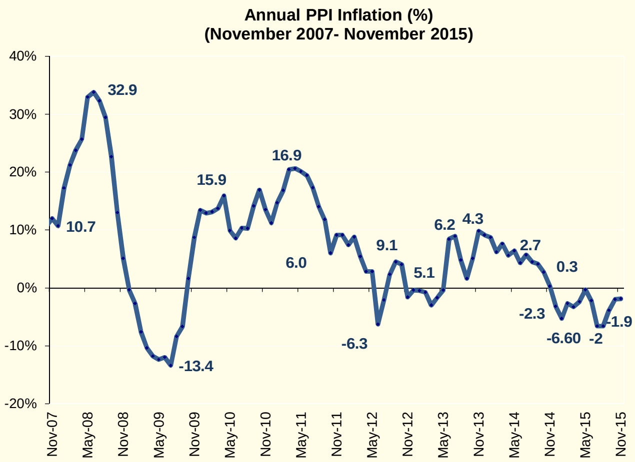
- Net International Reserves (NIR) increased slightly during December 2015 to record US$ 16.44 billion, compared to US$ 16.42 billion in November 2015.

- CPI annual urban inflation stabilized at a high rate recording 11.1 percent during December 2015, compared to the previous month (the highest since the beginning of current fiscal year), while it increased if compared to 10.1 percent during December 2014. Factors contributing to inflationary pressures include the stabilization of annual inflation rate of some main groups at high levels, on the top of which "Food and Beverages" (the highest weight in CPI) to record 14.6 percent during the month of study, compared to 14.7 percent during the previous month (more specifically the increase in annual inflation rate of some sub items; such as, "Vegetable", "Fruits", "Milk & Eggs", "Meat", and "Oil &Fats").

Besides, annual inflation rates have stabilized for other main groups, but are still at high levels, on the top of which, "Alcoholic Beverages & Tobacco" to record 11.6 percent, "Education" to record 11.2 percent (in light of the increase in Primary & Higher education prices), "Housing, Water, Electricity, Gas and Other Fuels" to record 6 percent (in light of the increase in the prices of Housing Maintenance), "Health" to record 9.3 percent, "Recreation & Culture" to record 10.9 percent (in light of the increase in Holidays prices), and "Transport" to record 2.4 percent during the month of study.

Meanwhile, average annual inflation decelerated during the period July-December of FY15/16 to record 9.6 percent, compared to 10.8 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.





On the other hand, monthly inflation declined to reach -0.1 percent during December 2015, compared to -0.3 percent during last month.

Annual core inflation[3] increased at slower pace to reach 7.2 percent during December 2015, compared to 7.4 percent during the last month. Meanwhile, monthly core inflation decreased to record 0.1 percent during the month of study, compared to 1 percent during last month. This could be explained in light of the decrease in "Food Prices" contributing by -0.2 percentage points to the monthly core inflation, and which offset the increase in "Other Services" and "Retail items" contributing by 0.12 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.

3/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 January 19th, 2016 worth LE 140 billion with 7-day maturity at a fixed annual interest rate of 9.75 percent.

- The Egyptian Exchange market capitalization increased by almost 4.1 percent m-o-m during December 2015 to reach LE 429.8 billion, compared to LE 413 billion during the previous month. Meanwhile, EGX-30 Index also increased by 10.2 percent during December 2015 to reach 7006 points, compared to closing at 6356.7 points by the end of November 2015. Furthermore, the EGX-70 increased by 9.9 percent, closing at 378.7 points at the end of December 2015, compared to 344.5 points during the previous month.

- *On the External Sector side:*

  BOP showed an overall deficit of US$ 3.7 billion (-1.2 percent of GDP) during Q1-FY15/16, compared to an overall surplus of US$ 0.4 billion (0.1 percent of GDP) during the same period last fiscal year. On a more detailed level, the deficit recorded in the BOP during the period of study occurred as a result of several factors, headed by:

  - Current account recorded a deficit of US$ 4 billion (-1.3 percent of GDP), compared to a lower deficit of US$ 1.6 billion (-0.6 percent of GDP) during Q1-FY14/15. This came as a result of the deceleration witnessed in transfers and services balance, which outweighed the slight improvement in the trade balance, as follows:

    – Trade balance deficit stabilized at US$ 10 billion (-3.2 percent of GDP) during Q1-FY15/16, compared to the same period last fiscal year, mainly due to the decrease in merchandise imports by 10.4 percent to record US$ 14.6 billion in Q1-FY15/16, compared to US$ 16.3 billion in Q1-FY14/15. This was accompanied by 26.5 percent decrease in merchandise exports to record US$ 4.6 billion, compared to US$ 6.3 billion in the comparison period. It is worthy to mention that the decrease witnessed in merchandise exports was mainly driven by the drop in oil export proceeds (crude oil and products) by almost US$ 1.2 billion, as a consequence of the fall in global crude oil prices by around 51.4 percent during the period of study, compared to the comparison period.

    – On the other hand, the services balance has recorded a surplus of US$ 1.7 billion (0.5 percent of GDP) during the period of study, compared to a higher surplus of around US$ 2.2 billion (0.7 percent of GDP) during Q1-FY14/15. This was mainly due to the decline in tourism receipts to reach US$ 1.7 billion during Q1-FY15/16, compared to US$ 2.1 billion in the same period last fiscal year, as number of tourist nights decreased by 9.1 percent to record 23.7 million nights in comparison to 26.1 million nights in Q1-FY14/15. In addition, the significant decrease witnessed in government receipts to reach US$ 0.1 billion during the period of study, compared to US$ 0.6 billion in Q1-FY14/15.

    – Net official transfers recorded US$ 0.02 billion (0.01 percent of GDP) compared to US$ 1.5 billion (0.5 percent of GDP) during Q1-FY14/15 - of which US$ 1.4 billion in-kind grants in the form of petroleum shipments. Therefore, this cannot be considered as a deceleration since the comparison period reflected exceptional inflows.

  - Meanwhile, the capital and financial account witnessed net inflows of US$ 1.5 billion (0.5 percent of GDP) during the period of study, compared to lower net inflows of US$ 0.4 billion (0.1 percent of GDP) during Q1-FY14/15, mainly due to the following:

    – Net foreign direct investments in Egypt increased to reach US$ 1.4 billion (0.4 percent of GDP) in Q1-FY15/16, compared to US$ 1.3 billion (0.5 percent of GDP) in the comparison period, driven mainly by the rise in the net inflows for greenfield investments by 48.5 percent to reach US$ 1.1 billion, up from US$ 0.7 billion during Q1-FY14/15.

- Portfolio investment in Egypt recorded net outflows of US$ 1.4 billion (-0.5 percent of GDP) in Q1-FY15/16, compared to net inflows of US$ 0.3 billion (0.1 percent of GDP) during Q1-FY14/15, in light of the repayment of US$ 1.25 billion USD matured notes in September 2015, which were issued in 2005.
- Other investments registered net inflows of US$ 1.6 billion (0.5 percent of GDP) during the period of study, compared to net outflows of US$ 1.1 billion (-0.4 percent of GDP) during the same period last fiscal year. This came on the back of the increase in short-term suppliers' and buyers' credit to reach US$ 1.4 billion, compared to US$ 0.9 billion during Q1-FY14/15, highlighting investors' confidence in the Egyptian economy.

§ Net errors and omissions recorded a net outflow of US$ 1.2 billion (-0.4 percent of GDP) during Q1-FY15/16, compared to an inflow of US$ 1.7 billion (0.6 percent of GDP) during Q1-FY14/15.

Ø According to the latest published figures, total number of tourist 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.