Executive Summary

Main Highlights…

The government aims to achieve inclusive social and economic development through the implementation of a prudent policy framework and by improving the allocation of resources. Its main goal is to facilitate the achievement of a higher rate of economic growth that is both sustainable and tangible in order to positively affect citizens' standards of living and to generate new employment opportunities. Concurrently, the government views the private sector as the key driver of economic growth, with private sector-led investment and technology expected to play a critical role in increasing the Egyptian economy's level of competitiveness.

The role of government is to create a secure, predictable and enabling operating environment for the private sector to flourish. To this end, it has embarked upon a process of streamlining regulations and reducing bureaucratic obstacles and costs in order to encourage both domestic and foreign investment. The effort remains ongoing, and the government is committed to continuing and deepening reforms to fulfill its stated goal to substantially improve Egypt's ranking in the World Bank "Doing Business Index" over the coming years. In addition, the government is tackling a host of infrastructure deficits – most notably, with respect to energy and both road and maritime transport networks.

Over recent months, the Egyptian government held a number of international conferences in order to engage the private sector and bring available investment opportunities to the forefront. Held most recently were the "Africa 2016" Forum and the "Conference of Global Navigation of the Suez Canal" under the title "Opportunities and Challenges". The government used these conference venues to present its economic program, in particular to highlight the array of implemented structural and legislative reforms designed to facilitate investment procedures and provide an attractive business climate. These reforms run in parallel to the comprehensive national scheme for urban, agricultural, and industrial development and the launch of a number of mega-projects offering investment opportunities in several sectors. The ambitious Suez Canal Axes project is also progressing, with the opening of the side channel in eastern Port Said being its latest new achievement.

In a related context, the performance of the state's general budget is one of the key indicators taken into account by investors when assessing the soundness of the economy. With regards to fiscal performance, the latest indicators during the period July-December 2015/2016 point to a marked improvement in the performance of tax revenues, which increased by almost 20.9 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 16.9 percent, Property Taxes receipts by 23.2 percent, and Taxes on International Trade receipts by 16.7 percent. Tax revenue increases were driven by the improvement in economic activity and the 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 20.2 percent, more specifically GASC spending increased by around 7.4 percent, along with a 31.7 percent increase in government contributions to pension funds and a 26.2 percent increase in investment 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 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 a negative impact of 0.2 PPT, compared to -2.1 PPT during FY13/14.

- Net International Reserves (NIR) slightly increased to record US$ 16.48 billion in January 2016, compared to US$ 16.45 billion in December 2015. It is worth mentioning that January 2016 witnessed the repayment of US$ 0.7 billion in debt installments to the Paris Club.

- As for the monetary developments, M2 annual growth continued to increase yet at a slower pace during December 2015 to record 18.6 percent growth (y-o-y), reaching LE 1905.5 billion, compared to 19.3 percent in the previous month, according to recent data released by the CBE. This comes in light of the slower increase witnessed in net domestic assets of the banking system by 26.5 percent reaching LE 1922.7 billion during the month of study, compared to 28.3 percent in November 2015. This offset the major turnaround in net foreign assets of the banking system, which declined by 120.4 percent to reach a negative value for the second month in a row amounting to LE 17.2 billion, compared to a lower decline of 109.7 percent reaching LE -9.9 billion in November 2015.

- Meanwhile, Headline Urban Inflation slowed down to record 10.1 percent during January 2016, compared to 11.1 during the previous month, and compared to 9.7 percent during January 2015. Factors contributing to inflationary pressures include: the decrease of the annual inflation rate of some main groups (albeit at still high levels), on the top of which "Food and Beverages" (the highest weight in CPI) to record 13.4 percent during the month of study, compared to 14.6 percent during the previous month. In addition, the annual inflation rates of other main groups increased, on top of which; "Alcoholic Beverages & Tobacco", "Clothing & Footwear", "Furniture", "Education", and "Restaurants & Hotels". Meanwhile, annual inflation rates have decelerated for other main groups, including "Housing, Water, Electricity, Gas and Other Fuels", "Transport", and "Miscellaneous goods & services".

  As for average annual inflation, it decelerated during the period July- January of FY15/16 to record 9.6 percent, compared to 10. 6percent during the corresponding period of the previous fiscal year. This deceleration could be explained mainly in light of the faded base effect due to the introduction of reform measures during July 2014.

- During its Monetary Policy Committee meeting held on January 28th, 2016, 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 February 23rd, 2016 worth LE 155 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, 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 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.

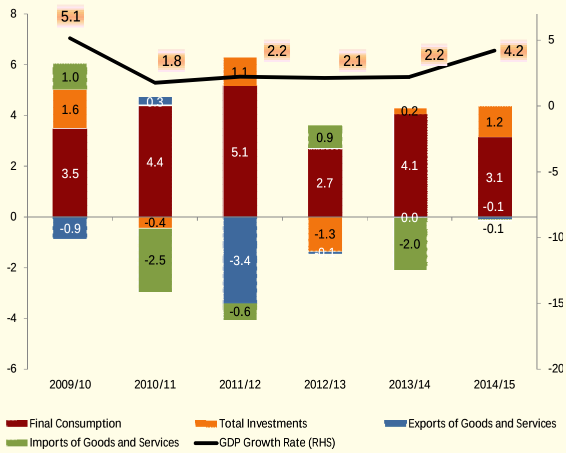
Ø *Real Sector:*

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 the 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 a negative impact of 0.2 PPT, but less so when compared to -2.1 PPT during FY13/14.

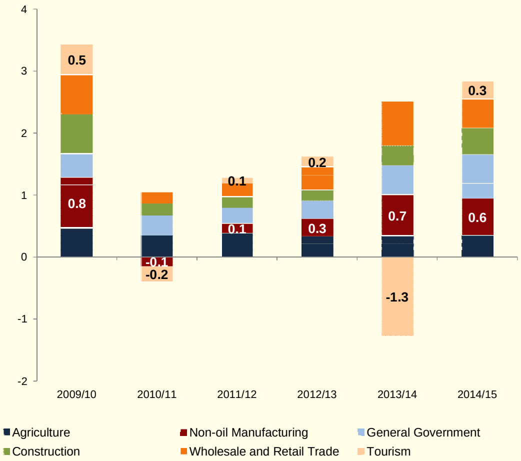
On the demand side, both public and private consumption witnessed relatively high growth rates during FY14/15. Private consumption grew by 2.8 percent y-o-y, compared to 4.1 percent during FY13/14, while public consumption grew by 7 percent in the year of study, compared to 6.6 percent during FY13/14. 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 a 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 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 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 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 July-December 2015/2016;*

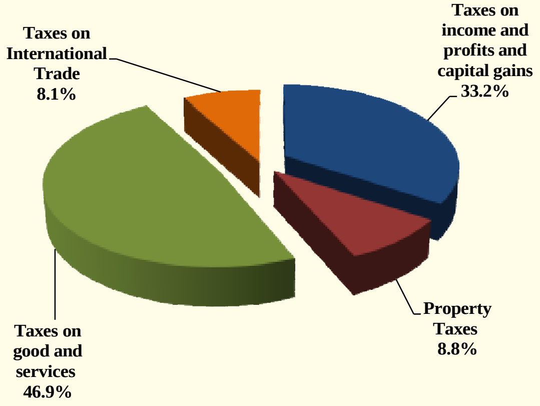
The latest indicators for the period July-December 2015/2016 point to a budget deficit reaching LE 167.8 billion (5.9 percent of GDP), compared to a deficit of LE 132 billion (5.4 percent of GDP) during the same period last fiscal year. These developments came in light of the increase in both revenues and expenditures during the period of study. Revenues rose by 17.5 percent reaching LE 192.2 billion (6.8 percent of GDP), compared to LE 163.6 billion (6.7 percent of GDP) during the same period last fiscal year. Expenditures rose by 21.7 percent to reach LE 349.9 billion (12.3 percent of GDP) during the period of study, compared to LE 287.4 billion (11.8 percent of GDP) during the same period last fiscal year.

July- December 14/15 Budget Deficit LE 132 billion (5.4 percent of GDP)	July- December 15/16 Budget Deficit LE 167.8 billion (5.9 percent of GDP)
Revenues LE 163.6 billion (6.7 percent of GDP)	Revenues LE 192.2 billion (6.8 percent of GDP)
Expenditure LE 287.4 billion (11.8 percent of GDP)	Expenditure LE 349.9 billion (12.3 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

§ On the Revenues Side,

The distribution of Tax Revenues July-December 2015/2016



Total revenues increased by LE 28.6 billion (17.5 percent growth) to record LE 192.2 billion during July-December 2015/2016, compared to LE 163.6 billion during the same period of the last fiscal year. These developments could be explained mainly in light of the increase in tax revenues by LE 23.9 billion (20.9 percent growth) to record LE 137.9 billion during the period of study, compared to LE 114.1 billion during the same period last year, in addition to the increase in non-tax revenues by LE 4.7 billion (9.6 percent growth) to record LE 54.2 billion during July-December 2015/2016, compared to LE 49.5 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 receipts increased by 16.4 percent to LE 45.7 billion during the period of study, compared to LE 39.3 billion during the same period of the 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 the CBE, the Suez Canal and other companies).

- Taxes on goods and services receipts also increased by around 16.9 percent to record LE 64.6 billion during the period of study, compared to LE 55.3 billion during the same period last fiscal year (in light of the increase in receipts from the general sales tax on domestic and imported goods, and increased sales tax receipts from tourism, and from international & local communication services, as well as increased receipts from the sales tax on cigarettes).

- Moreover, property taxes receipts also increased by 23.2 percent to reach LE 12.1 billion during the period of study, compared to LE 9.8 billion during the same period last fiscal year.

- Taxes on international trade receipts grew by 16.7 percent to LE 11.3 billion during the period of study, compared to LE 9.6 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 9.3 billion (16.9 percent growth) to reach LE 64.6 billion (2.3 percent of GDP).

- **Taxes on goods and services receipts represent 46.9 percent of total tax revenues.**

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 10.7 percent to record LE 27.7 billion.
- The increase in excises on domestic commodities (Table 1) by 22.5 percent to record LE 22.5 billion (in light of increased sales tax on tobacco by 32.7 percent to reach LE 16.5 billion).
- The increase in general sales tax on services by 15.8 percent to record LE 6.2 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 42.5 percent to record LE 4.2 billion in light of the increase in miscellaneous stamp tax and stamp taxes on contracts and on banking edits.

Taxes on Income, Capital Gains and Profits increased by LE 6.5 billion (16.4 percent growth) to reach LE 45.7 billion (1.6 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 33.2 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 2.2 billion (21.4 percent) to reach LE 12.5 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 0.2 billion (3.2 percent) to reach LE 6.4 billion.
- Increase in receipts from taxes on other companies by LE 0.7 billion (4.8 percent) to reach LE 14.5 billion.

Property Taxes increased by LE 2.3 billion (23.2 percent growth) to reach LE 12.1 billion (0.4 percent of GDP).

- **Property Taxes receipts represent 8.8 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 27.4 percent to reach 9.9 billion during the period of study.

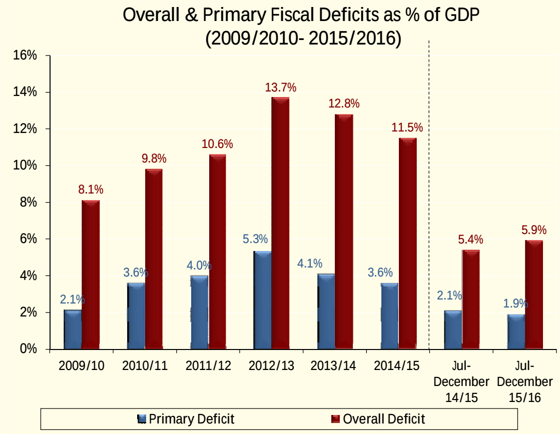
Taxes on International Trade increased by LE 1.6 billion (16.7 percent growth) to reach LE 11.3 billion (0.4 percent of GDP).

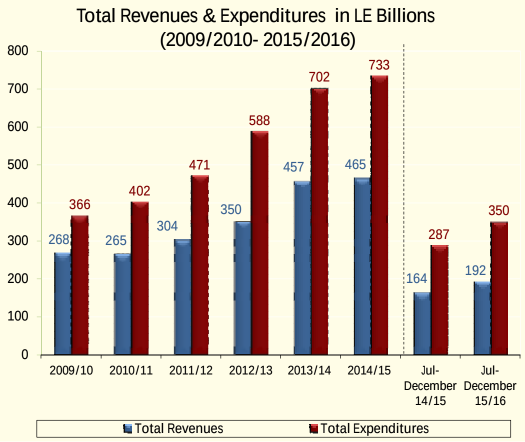
- **Taxes on International Trade receipts represent 8.1 percent of total tax revenues.**

In light of an increase in taxes on valued customs by 16.1 percent y-o-y to LE 10.7 billion, reflecting the efforts of the Egyptian Customs Authority to control Egypt's ports.

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 8 billion (31 percent) to reach LE 33.8 billion during the period of study, compared to LE 25.8 billion during July-December 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 amounting LE 2.5 billion that represent a part of the property taxes dues to be paid by the bank on quarterly basis to the state budget). In addition, there was an increase in dividends collected from economic authorities by LE 0.8 billion (66 percent) to reach LE 2 billion during July- December 2015/2016, compared to LE 1.2 billion during the same period last fiscal year.
- The increase in proceeds from sales of goods and services by LE 1.1 billion (12.5 percent) to reach LE 10 billion during July- December 2015/2016, compared to LE 8.7 billion during the same period last fiscal year (in light of the increase in receipts from special accounts and funds by 10.9 percent to reach LE 6.9 billion during the period of study, compared to LE 6.2 billion during the same period last fiscal year).
- On the other hand, other revenues rose during the period of study by LE 0.7 billion (10 percent) to LE 7.4 billion, compared to LE 6.7 billion during the same period of the last fiscal year.





Source: Ministry of Finance

§ *On the Expenditures Side:*

A key focus of the government's fiscal reforms is 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 services and infrastructure, with such measures designed to improve basic well-being and to widen social safety nets.

The latest fiscal data shows total expenditure has reached LE 349.9 billion (12.3 percent of GDP) during July- December 2015/2016, mainly due to:

- The increase in wages and compensation of employees by LE 8.2 billion (8.4 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 the wage bill) to LE 105.6 billion (3.7 percent of GDP).
- The increase in purchases of goods and services by LE 1.6 billion (13.8 percent growth) to reach LE 13 billion (0.5 percent of GDP).

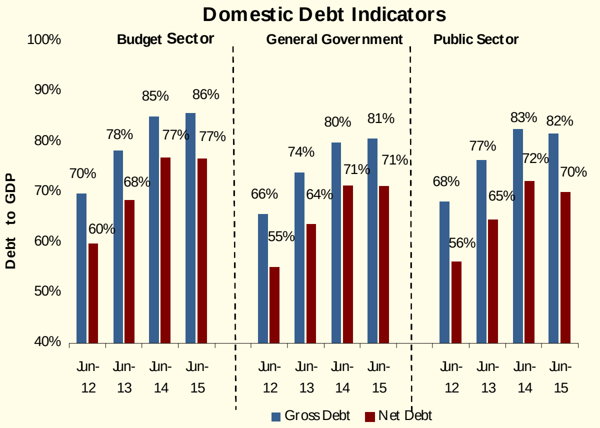
- The increase in interest payments by LE 34.1 billion (42.7 percent growth) to reach LE 114 billion (4 percent of GDP).
- The increase in subsidies, grants and social benefits by LE 12 billion (20.2 percent growth) to reach LE 71.4 billion (2.5 percent of GDP) during the period of study, compared to LE 59.5 billion during the same period of the last fiscal year. This can be explained in light of the following:-
    - o The increase in spending on subsidies by LE 4.9 billion reached LE 37.9 billion during the period of study, compared to LE 33 billion during the same period last year, which reflects the following:
        - ü General Authority for Supply Commodities subsidies rose by LE 1.1 billion (7.4 percent growth) to reach LE 15.6 billion during the period of study.
        - ü Electricity subsidies rose by LE 2 billion to reach LE 15.5 billion during the period of study in light of the repayment of monthly subsidy installment by the Ministry of Finance amounting LE 2.6 billion to be paid on a regular basis during the current fiscal year.
    - o Meanwhile, social benefits rose by 7 billion (30.6 percent growth) to reach LE 30.1 billion during July-December 2015/2016, mainly due to:
        - ü Increased contributions to the pension funds by LE 6.1 billion (31.7 percent growth) to reach LE 25.5 billion during the period of study.
- The increase in purchases of non-financial assets (investments) by LE 4.4 billion (0.7 percent growth), representing 26.2 percent of GDP to reach LE 21.1 billion.

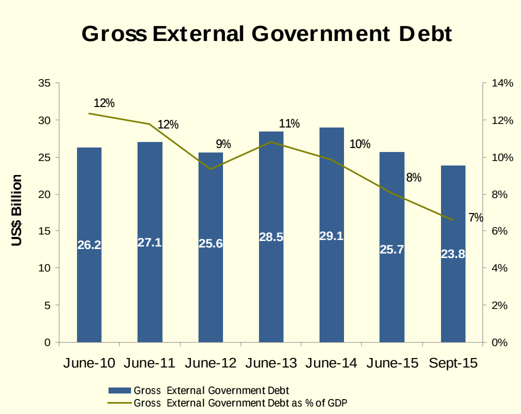
Ø *Public Debt:*

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 is due to financing for the budget deficit, in addition to reflecting the settling of some cross-debt issues among budget sector entities (particularly those of the SIF and EGPC, with these settlements expected eventually to enhance their financial performance.





Source: Ministry of Finance

- *External debt stock* (government and non-government debt) recorded US$ 48.1 billion (15 percent of GDP) at end of June 2015, compared to US$ 46.1 billion at end of June 2014.
- Meanwhile, government external debt recorded US$ 25.7 billion (8% of 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 *The 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 when compared to the average of peer countries (for example, Middle East and North Africa countries recorded an average external debt of 27 percent of GDP during the year 2013).

  External debt has witnessed a decrease by US$ 1.9 billion at the end of September 2015, compared to the 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 December 2015 to record 18.6 percent growth (y-o-y), reaching LE 1905.5 billion, compared to 19.3 percent in the previous month, according to recent data released by the CBE. From the assets side, this comes in light of the slower increase witnessed in net domestic assets of the banking system by 26.5 percent reaching LE 1922.7 billion during the month of study, compared to 28.3 percent in November 2015. This offset the major turnaround in net foreign assets of the banking system, which declined by 120.4 percent to reach a negative value for the second month in a row amounting to LE 17.2 billion, compared to a lower decline of 109.7 percent reaching LE -9.9 billion in November 2015.

Net claims on government annual growth increased by 31.3 percent (LE 1479.1 billion) in December 2015, compared to a higher growth of 32.3 percent during the previous month. Moreover, annual growth in credit to the private sector increased by 17.5 percent (6.4 percent annual real growth) to reach LE 651.6 billion at end of December 2015, compared to 16.3 percent last month. This comes on the back of the growth witnessed in claims on household and private business sectors annual growth by 22.9 percent and 15.4 percent, respectively, in December 2015, compared to 21.2 percent and 14.4 percent, respectively, in the previous month. Claims on public business sector annual growth slowed down by 30.5 percent (LE 76.4 billion) in December 2015, compared to 36.4 percent in the previous month.

On the other hand, net foreign assets (NFA) of the banking system recorded a large contraction on an annual basis of 120.4 percent during the year ending December 2015, to record a negative value of LE 17.2 billion, compared to a lower decline of 109.7 percent (LE -9.9 billion) during the previous month. This was the second month in a row for net foreign assets (NFA) to reach a negative value. This turnaround witnessed in NFA of the banking system is mainly due to the significant drop in central bank net foreign assets – for the fourth month in a row – by 142.1 percent y-o-y to record LE -13.6 billion, compared to a lower decline of 125.5 percent (LE -9.3 billion) in November 2015. In addition, banks net foreign assets declined by 106.9 percent to reach a negative of LE 3.6 billion in December 2015, compared to a lower decline of 101 percent (LE -0.7 billion) in November 2015. This was also the second month in a row for banks net foreign assets to record a negative value.

From the liabilities side, money annual growth slowed down by 16.8 percent during December 2015 to reach LE 520.6 billion, compared to 18.6 percent at end of November 2015, as annual growth of local currency demand deposits and currency in circulation increased at slower rates by 27.9 percent (LE 215.5 billion) and 10.1 percent (LE 305.1 billion), respectively, compared to 33 percent and 10.4 percent, respectively, in the previous month.

Moreover, quasi money annual growth eased by 19.3 percent (LE 1384.9 billion) during the month of study, compared to 19.6 percent in the previous month. This comes in light of the slow-down witnessed in local currency time and saving deposits annual growth by 19.4 percent (LE 1108.3 billion), compared to 20.3 percent in November 2015. This was counter to the increase witnessed in demand and time and saving deposits in foreign currency annual growth from 9.4 percent and 19.4 percent, respectively, in November 2015 to 13.5 percent (LE 69 billion) and 20.9 percent (LE 207.6 billion) in December 2015.

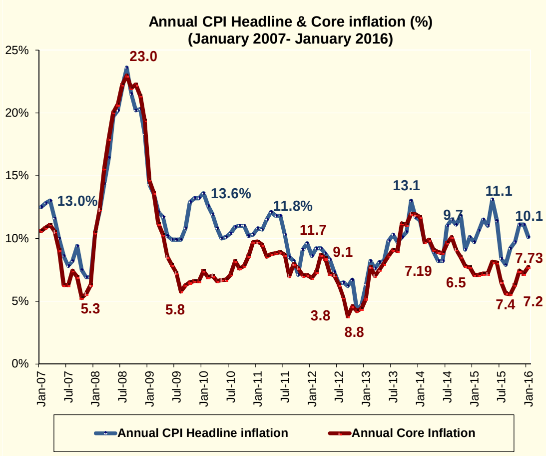
Total deposits annual growth – excluding deposits at the CBE – increased at a slower pace by 23.5 percent y-o-y (LE 1880.9 billion) at the end of November 2015, compared to 25.2 percent at end of October 2015. Out of total deposits, 84.4 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by the banking sector (excluding CBE) eased during the year ending November 2015 by 26.9 percent (LE 784.8 billion), compared to 27.1 percent at the end of previous month. To that end, The loans-to-deposits ratio slowed down in November 2015 to reach 41.7 percent, compared to 41.8 percent at end of October 2015, while it increased if compared to 40.6 percent in November 2014.

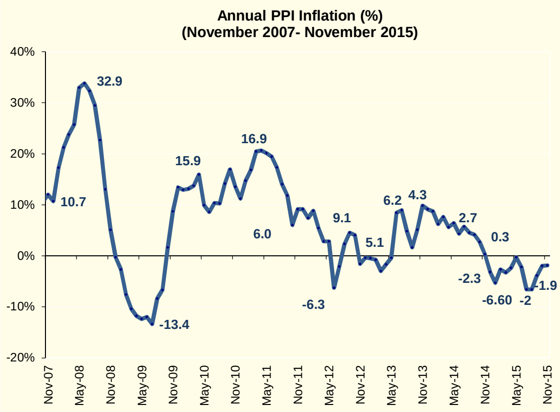
- Net International Reserves (NIR) slightly increased during January 2016 to record US$ 16.48 billion, compared to US$ 16.45 billion in December 2015. It is worth mentioning that January 2016 witnessed the repayment of US$ 0.7 billion in debt installments to the Paris Club.

- CPI annual urban inflation slowed down to record 10.1 percent during January 2016, compared to 11.1 during the previous month, and compared to 9.7 percent during January 2015. Factors contributing to inflationary pressures include: the decrease of the annual inflation rate of some main groups albeit at still high levels, on the top of which “Food and Beverages” (the highest weight in CPI) to record 13.4 percent during the month of study, compared to 14.6 percent during last month (more specifically “Vegetables” recorded 37.3 percent, compared to 47 percent, “Milk & Eggs” recorded 8.6 percent, compared to 9.2 percent, “Fish& Sea Food” recorded 0.6 percent, compared to 0.8 percent and “Other Food products” to recorded 2.8 percent, compared to 3.4 percent).

Besides, annual inflation rates have increased for other main groups, on the top of which, “Alcoholic Beverages & Tobacco” to record 11.6 percent, “Clothing & Footwear” to record 10 percent, “Furniture” to record 10.6 percent, “Education” to record 11.2 percent, and “Restaurants & Hotels” to record 15.4 percent. Meanwhile, annual inflation rates have decreased for other main groups; “Housing, Water, Electricity, Gas and Other Fuels” to record 2.7 percent compared to 6 percent , “Transport” to record 2.2 percent compared to 2.4 percent, and “Miscellaneous goods & services” to record 2.8 percent compared to 3.4 percent.

Average annual inflation decelerated during the period July- January of FY15/16 to record 9.6 percent, compared to 10. 6percent during the corresponding period of the previous fiscal 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 increased to reach 0.1 percent during January 2016, compared to -0.1 percent during December 2015 but it decreased if compared to 1 percent during January 2015.

Annual core inflation[1] increased to reach 7.73 percent during January 2016, compared to 7.23 percent during the last month. Moreover, monthly core inflation increased to record 1 percent during the month of study, compared to 0.1 percent during last month. This could be explained in light of the increase in "Food Prices" contributing by 0.74 percentage points to the monthly core inflation, and the increase in "Other Services", "Retail items" and "Paid services" contributing by 0.25 percentage points to the monthly core inflation.

During its Monetary Policy Committee meeting held on January 28th, 2016, CBE decided to keep the overnight deposit rate and overnight lending rates unchanged at 9.25 percent and 10.25 percent, respectively, and to keep the CBE's main operation unchanged at 9.75 percent. The discount rate was also kept unchanged at 9.75 percent. The committee justified that decision in light of balancing risks to the inflation outlook and to economic growth.

Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on February 23rd, 2016 worth LE 155 billion with 7-day maturity at a fixed annual interest rate of 9.75 percent.

- The Egyptian Exchange market capitalization slightly increased by 0.5 percent m-o-m during February 2016 to reach LE 393.1 billion, compared to LE 391.1 billion during the previous month. Meanwhile, the EGX-30 Index also increased by 2.6 percent during February 2016 to reach 6146.9 points, compared to closing at 5992.7 points by the end of January 2016. On the other hand, the EGX-70 decreased by 1.5 percent, closing at 351.1 points at the end of January 2016, compared to 356.4 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

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

result of the deceleration witnessed in the 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 a 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 the 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, there was a 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 represented 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 of the 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.

§ 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, the total number of tourist arrivals decreased during December 2015 to reach 0.4 million tourists, compared to 0.6 million tourists in the previous month. Moreover, tourist nights also decreased to reach 2.4 million nights during the month of study, compared to 5 million nights during November 2015.