Executive Summary

Main Highlights...

Egypt's economy is viewed as one of the most diverse economies in the region with great potential and resources, which qualify the country to compete with emerging and advanced markets. However, market distortions accumulated throughout the years require time and cooperation from all stakeholders to share the burden of overcoming the involved repercussions and achieving economic stability. Since the beginning of last fiscal year, it is important to note that the government started executing a balanced and gradual reform agenda, which gained the trust of experts and international institutions. The reform agenda was designed to achieve inclusive growth, realize financial stability, fiscal adjustment and invest in human capital while ensuring an efficient and wide spread social protection. Moreover, the Ministry of Finance is currently adopting fiscal reforms with the aim of reprioritizing public expenditure through a maximum use of resources alongside disbursing savings towards social programs. On the same note, the Ministry of Finance is focusing on executing a fairer tax system, re-broadening the tax base, increasing tax collection efficiency as well as enhancing public debt management procedures. Meanwhile, the government continues 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 Egyptian wellbeing.

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-January 2015/2016 point to a marked improvement in the performance of tax revenues, which increased by almost 21.6 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 16.8 percent, Taxes on Goods and Services receipts by 19.5 percent, Property Taxes receipts by 23.2 percent, and Taxes on International Trade receipts by 14.9 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 26.5 percent, more specifically GASC spending increased by around 26.5 percent, along with a 34 percent increase in government contributions to pension funds and a 1.6 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$ 16.53 billion in February 2016, compared to US$ 16.48 billion in January 2016.

As for the **monetary developments**, **M2 annual growth** continued to increase at a slower pace during January 2016 to record 17.5 percent growth (y-o-y), reaching LE 1911.7 billion, compared to 18.6 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 24.9 percent reaching LE 1939 billion during the month of study, compared to 26.3 percent in December 2015. This offset the **major turnaround in net foreign assets of the banking system,** which declined by 136.3 percent to reach a negative value for the third month in a row amounting to LE 27.4 billion, compared to a lower decline of 120.4 percent reaching LE -17.2 billion in December 2015.

Meanwhile, **Headline Urban Inflation** declined to record 9.1 percent during February 2016, compared to 10.1 percent during the previous month, and compared to 10.6 percent during February 2015. Factors contributing to inflationary pressures include: the base effect (in light of the increase in annual inflation rate during February 2015 by 0.9 basis points to record 10.6 percent compared to 9.7 percent during January 2015 and which has contributed to the decline in annual inflation rate during the month of study), in addition the slower pace of increase in some main groups have contributed to the decline in the headline urban annual inflation rate (albeit at still high levels), on the top of which **"Food and Beverages" (the highest weight in CPI)** to record 12.5 percent during the month of study compared to 13.4 percent during the previous month, **"Furniture"** to record 10.3 percent compared to 10.6 percent, **"Hotels and Restaurants"** to record 14.8 percent compared to 15.4 percent.

Meanwhile, annual inflation rates have declined for other main groups including; **"Clothing & Footwear"** to record 6.9 percent compared to 10 percent, **"Alcoholic Beverages & Tobacco"** to record 0.6 percent compared to 11.6 percent. Otherwise, annual inflation rates have mainly stabilized for the rest of groups.

As for **average annual inflation,** it decelerated during the period July- February of FY15/16 to record 9.6 percent, compared to 10.6 percent 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 March 17th, 2016, CBE decided to raise the **overnight deposit rate** and **overnight lending rates**, as well as CBE's **main operation** and the **discount rate** by 150 basis points. Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held **deposit auctions** on March 15th, 2016 worth LE 145 billion with 7-day maturity at a fixed annual interest rate of 9.75 percent.

Moreover, **total government debt (domestic and external)** reached LE 2545 billion (89.8 percent of GDP) at end of December 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.

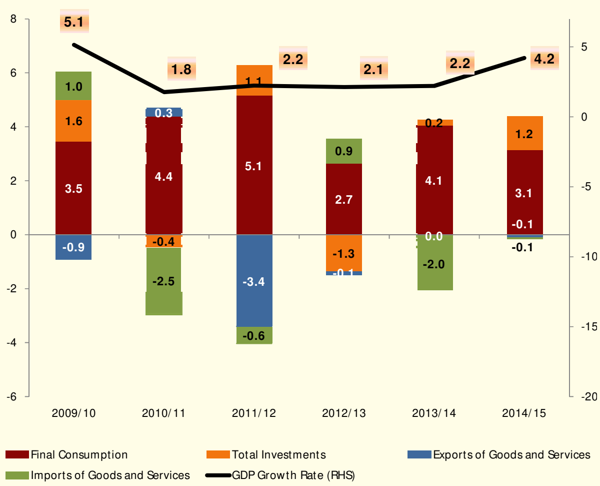
Real Sector:

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.

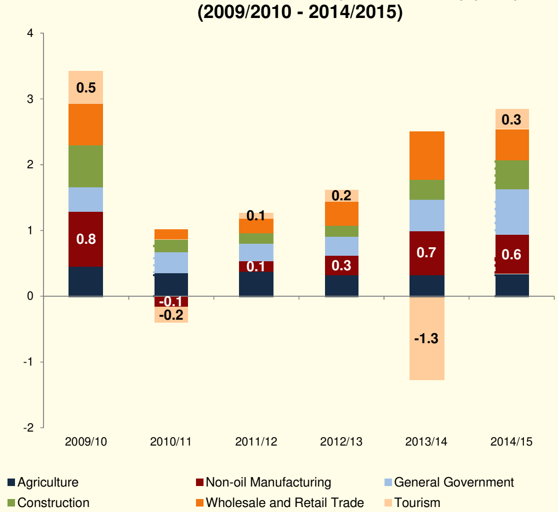
On the demand side, both public and private consumption witnessed relatively high growth rates during FY14/15. Private consumption grew by 2.8 percent y-o-y, compared to 4.1 percent during FY13/14, while **public consumption** grew by 7 percent in the year of study, compared to 6.6 percent during FY13/14.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

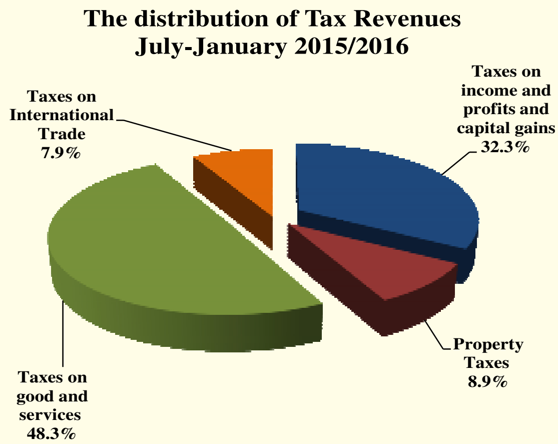
Fiscal Sector Performance during July-January 2015/2016;

The latest indicators for the period July-January 2015/2016 point to a **budget deficit** reaching LE 191.6 billion (6.8 percent of GDP), compared to a deficit of LE 159.1 billion (6.5 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 19.8 percent reaching LE 223.6 billion (7.9 percent of GDP), compared to LE 186.7 billion (7.7 percent of GDP) during the same period last fiscal year. Expenditures rose by 20.2 percent to reach LE 405.2 billion (14.3 percent of GDP) during the period of study, compared to LE 337.1 billion (13.9 percent of GDP) during the same period last fiscal year.

July- January 14/15 Budget Deficit LE 159.1 billion (6.5 percent of GDP)	**July- January 15/16 Budget Deficit** LE 191.6 billion (6.8 percent of GDP)
Revenues LE 186.7 billion (7.7 percent of GDP)	**Revenues** LE 223.6 billion (7.9 percent of GDP)
Expenditure LE 337.1 billion (13.9 percent of GDP)	**Expenditure** LE 405.2 billion (14.3 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

§ **On the Revenues Side,**



Total revenues increased by LE 36.9 billion (19.8 percent growth) to record LE 223.6 billion during July- January 2015/2016, compared to LE 186.7 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 28.5 billion (21.6 percent growth) to record LE 160.4 billion during the period of study, compared to LE 131.8 billion during the same period last fiscal year, in addition to the increase in non-tax revenues by LE 8.4 billion (15.3 percent growth) to record LE 63.3 billion during July- January 2015/2016, compared to LE 54.9 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 16.8 percent to LE 51.8 billion during the period of study, compared to LE 44.4 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, and other companies).

- Taxes on goods and services receipts also increased by around 19.5 percent to record LE 77.5 billion during the period of study, compared to LE 64.8 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 and petroleum products, and taxes on contracts).
- Moreover, property taxes receipts also increased by 23.2 percent to reach LE 14.2 billion during the period of study, compared to LE 11.6 billion during the same period last fiscal year.
- Taxes on international trade receipts grew by 14.9 percent to LE 12.6 billion during the period of study, compared to LE 11 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 12.6 billion (19.5 percent growth) to reach LE 77.4 billion (2.7 percent of GDP).

- **Taxes on goods and services receipts represent 48.3 percent of total tax revenues.**

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 6.7 percent to record LE 31.6 billion.
- The increase in excises on domestic commodities (Table 1) by 25.5 percent to record LE 26.3 billion (in light of increased sales tax on cigarettes by 32.7 percent to reach LE 16.5 billion, and increased receipts from sales tax on petroleum products by 5.5 percent to reach LE 6.3 billion during the period of study).
- The increase in general sales tax on services by 31.5 percent to record LE 8.2 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 67.9 percent to record LE 6 billion in light of the increase in receipts from stamp tax on contacts on each of; water, electricity, gas, telephone, and banking edits contracts.

Taxes on Income, Capital Gains and Profits increased by LE 7.4 billion (16.8 percent growth) to reach LE 51.8 billion (1.8 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 32.3 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 2.6 billion (20.8 percent) to reach LE 14.9 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 other companies by LE 1.7 billion (11.5 percent) to reach LE 16.2 billion.

Property Taxes increased by LE 2.7 billion (23.2 percent growth) to reach LE 14.2 billion (0.5 percent of GDP).

- **Property Taxes receipts represent 8.9 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 26.8 percent to reach 11.6 billion during the period of study.

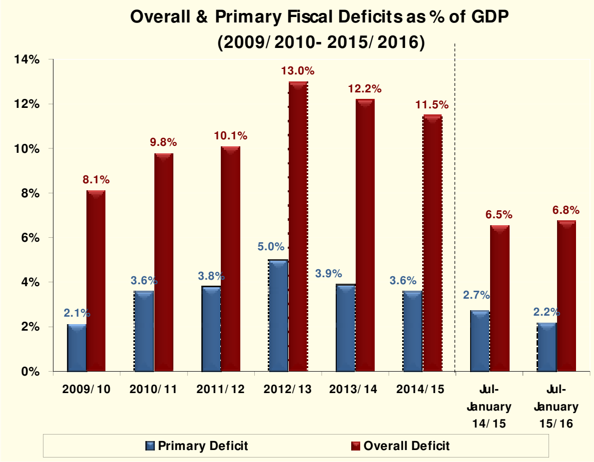
Taxes on International Trade increased by LE 1.6 billion (14.9 percent growth) to reach LE 12.6 billion (0.4 percent of GDP).

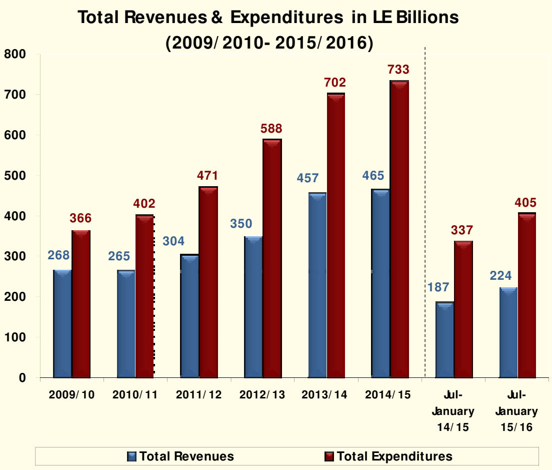
- **Taxes on International Trade receipts represent 7.9 percent of total tax revenues.**

In light of an increase in taxes on valued customs by 14.1 percent y-o-y to LE 12 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 9.6 billion (33.5 percent) to reach LE 38.4 billion during the period of study, compared to LE 28.8 billion during July-January 2014/2015, in light of the increase in dividends collected from the CBE by LE 11 billion (82.3 percent) to reach LE 24.5 billion during the period of study, compared to LE 13.4 billion during the same period last year. In addition, there was an increase in dividends collected from economic authorities by LE 1.3 billion (96 percent) to reach LE 2.7 billion during July-January 2015/2016, compared to LE 1.4 billion during the same period last fiscal year.
- The increase in **proceeds from sales of goods and services** by LE 1.2 billion (12.1 percent) to reach LE 11.5 billion during July- January 2015/2016, compared to LE 10.3 billion during the same period last fiscal year (in light of the increase in receipts from special accounts and funds by 12 percent to reach LE 8.4 billion during the period of study, compared to LE 7.5 billion during the same period last fiscal year).
- On the other hand, **other revenues** rose during the period of study by LE 1.9 billion (26 percent) to LE 9.4 billion, compared to LE 7.4 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 405.2 billion (14.3 percent of GDP) during July- January 2015/2016, mainly due to:

- The increase in **wages and compensation of employees** by LE 8.8 billion (7.9 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 120.6 billion (4.3 percent of GDP).
- The increase in **purchases of goods and services** by LE 1.8 billion (13.4 percent growth) to reach LE 15.3 billion (0.5 percent of GDP).

- The increase in **interest payments** by LE 36.7 billion (39.5 percent growth) to reach LE 129.6 billion (4.6 percent of GDP).
- The increase in **subsidies, grants and social benefits** by LE 18 billion (26.5 percent growth) to reach LE 85.8 billion (3 percent of GDP) during the period of study, compared to LE 67.8 billion during the same period of the last fiscal year. This can be explained in light of the following:-
  - The increase in spending on subsidies by LE 9.6 billion reached LE 46.2 billion during the period of study, compared to LE 36.6 billion during the same period last year, which reflects the following:

    General Authority for Supply Commodities subsidies rose by LE 4.2 billion (26.5 percent growth) to reach LE 20 billion during the period of study.

    Electricity subsidies rose by LE 3.1 billion to reach LE 18.1 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.
  - Meanwhile, social benefits rose by 8.5 billion (32.2 percent growth) to reach LE 35 billion during July-January 2015/2016, mainly due to:

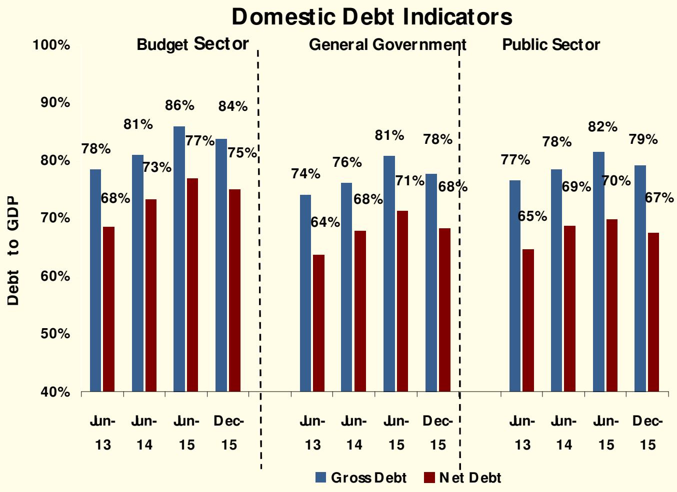
    Increased contributions to the pension funds by LE 7.5 billion (34.1 percent growth) to reach LE 29.7 billion during the period of study.
- The increase in **purchases of non-financial assets (investments)** by LE 0.4 billion (0.9 percent of GDP), representing 1.6 percent growth to reach LE 25.3 billion.

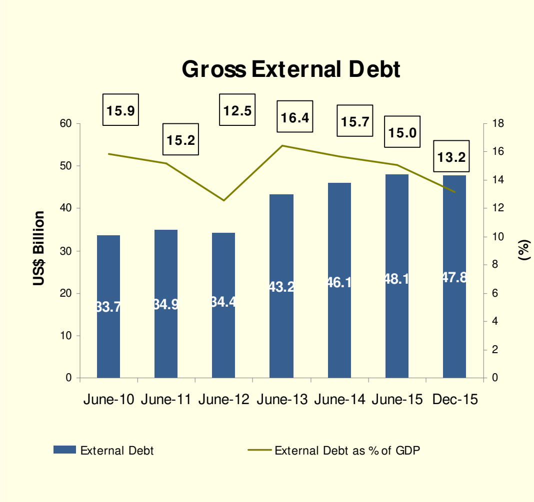
Public Debt:

Total government debt (domestic and external) reached LE 2545 billion (89.8 percent of GDP) at end of December 2015, of which;

- **Domestic budget sector debt** recorded LE 2368.5 billion (83.6 percent of GDP) by end of December 2015, compared to LE 1895.2 billion (78 percent of GDP) by end of December 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$ 47.8 billion (13.2 percent of GDP) at end of December 2015, compared to US$ 48.1 billion at end of June 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)**.**
- Meanwhile, **government external debt** recorded US$ 23.8 billion (6.6% of GDP) as of end of December 2015, compared to US$ 25.7 billion (8% of the GDP) at end of June 2015.

Monetary Perspective:

As for the **monetary developments**, **M2 annual growth** continued to increase at a slower pace during January 2016 to record 17.5 percent growth (y-o-y), reaching LE 1911.7 billion, compared to 18.6 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 24.9 percent reaching LE 1939 billion during the month of study, compared to 26.3 percent (LE 1922.7 billion) in December 2015. This offset the **major turnaround in net foreign assets of the banking system,** which declined by 136.3 percent to reach a negative value for the third month in a row amounting to LE 27.4 billion, compared to a lower decline of 120.4 percent (LE -17.2 billion) in December 2015.

In January 2016, **net claims on government** annual growth increased by 29.7 percent (LE 1491 billion), compared to a higher growth of 31.2 percent during the previous month. **Moreover, claims on public business sector** annual growth increased by 31.3 percent in January 2016 (LE 77.4 billion), compared to 31.5 percent in December 2015. Annual growth in **credit to the private sector** eased by 15.3 percent at end of January 2016 to LE 655.8 billion, compared to 17.5 percent last month. This comes on the back of the slowdown witnessed in **claims on private business sector** annual growth to reach 12.2 percent in January 2016, compared to 15.3 percent in the previous month. This offset the slight increase witnessed in **claims on household sector** annual growth by 23.1 percent during month of study, compared to 22.9 percent in December 2015.

On the other hand, **net foreign assets (NFA) of the banking system** continued to shrink on annual basis recording a contraction of 136.3 percent during the year ending January 2016, to record **a negative value of LE 27.4 billion**, compared to a lower decline of 120.4 percent (LE -17.2 billion) during the previous month. This was the third month in a row for NFA to reach a negative value. This turnaround continues in light the significant drop in central bank net foreign assets by 138 percent y-o-y to record LE -13.2 billion in January 2016, compared to a higher decline of 142 percent (LE -13.6 billion) in December 2015. In addition, **banks net foreign assets** declined by 134.8 percent **to reach a negative value for the third month in a row of LE 14.2 billion** in January 2016, compared to a lower decline of 106.9 percent (LE -3.6 billion) in December 2015.

From the liabilities side, **money** annual growth reached 16.5 percent (LE 520.8 billion) in January 2016, compared to a higher growth of 16.8 percent at end of December 2015. This could be attributed to the slowdown in **currency in circulation** annual growth to reach 9.4 percent (LE 306 billion) in January 2016, compared to 10.1 percent in the previous month, which offset the increase in **local currency demand deposits** by 28.3 percent (LE 214.8 billion) during the month of study, compared to 27.9 percent in December 2015.

Quasi money annual growth continued to ease by 17.8 percent (LE 1390.9 billion) during January 2016, compared to 19.3 percent in the previous month. This comes in light of the decrease witnessed in **foreign currency demand deposits** annual growth by 6.1 percent (LE 68.7 billion) in January 2016, compared to 13.5 percent in the previous month. Moreover, **time and savings deposits in local and foreign currency** annual growth slowed down to 18.7 percent (LE 1113.6 billion) and 17.5 percent (LE 208.6 billion), respectively, in January 2016, compared to 19.4 percent and 20.9 percent, respectively, in December 2015.

Total deposits annual growth – excluding deposits at the CBE – slowly increased by 22.7 percent y-o-y (LE 1914.5 billion) at the end of December 2015, compared to a slightly higher growth of 23.5 percent at end of November 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) increased at slower pace during the year ending December 2015 by 25.8 percent (LE 791.5 billion), compared to 26.9 percent in the previous month. To that end, the **loans-to-deposits ratio** eased to reach 41.3 percent at end of December 2015, compared to 41.7 percent at end of November 2015, while it increased if compared to 40.3 percent in December 2014. (Detailed data January 2016 are not yet available)

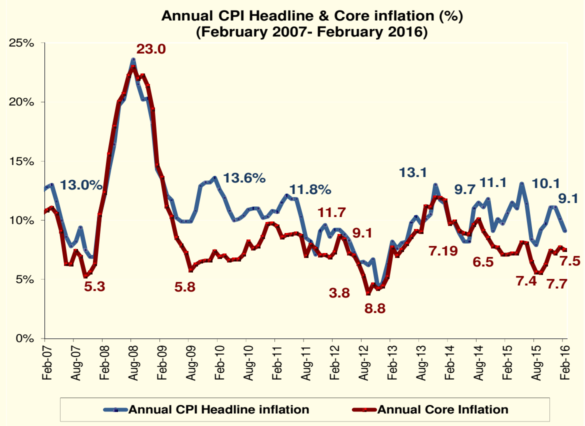
During February 2016, **net International Reserves (NIR)** slightly increased to record US$ 16.53 billion, compared to US$ 16.48 billion in January 2016.

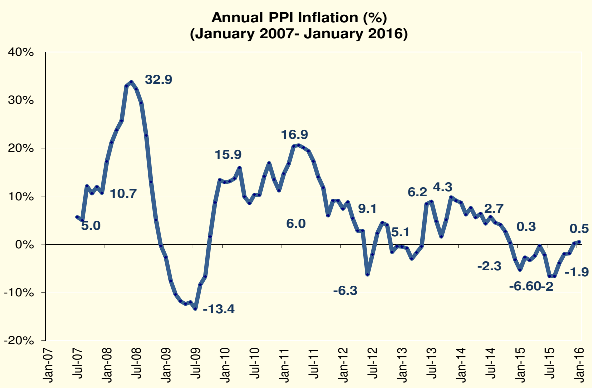
Meanwhile, **Headline Urban Inflation** declined to record 9.1 percent during February 2016, compared to 10.1 percent during the previous month, and compared to 10.6 percent during February 2015. Factors contributing to inflationary pressures include: the base effect (in light of the increase in annual inflation rate during February 2015 by 0.9 basis points to record 10.6 percent compared to 9.7 percent during January 2015 and which has contributed to the decline in annual inflation rate during the month of study), in addition the slower pace of increase in some main groups have contributed to the decline in the headline urban annual inflation rate (albeit at still high levels), on the top of which **"Food and Beverages" (the highest weight in CPI)** (albeit at still high levels) to record 12.5 percent during the month of study, compared to 13.4 percent during the previous month, in light of the increase in annual inflation rates of the sub items "Vegetables" to record 32.7 percent, "Fruits" to record 16.4 percent, "Milk & Eggs" to record 6.3 percent, "Meat" to record 9 percent, "Oil and Fats" to record 6.1 percent.

Meanwhile, other main groups have witnessed a slower pace of increase in annual inflation rates but are still at high levels including; “**Furniture**” to record 10.3 percent in February 2016, compared to 10.6 percent during the previous month (in light of the decline in Furniture, Carpets, and Other Floor Coverings), “**Hotels and Restaurants**” to record 14.8 percent, compared to 15.4 percent (in light of the decline in Catering Services prices),

On the other hand, annual inflation rates have declined for other main groups including; “**Clothing & Footwear**” to record 6.9 percent in February 2016, compared to 10 percent in January 2016 (in light of the decline in Garments prices), “**Alcoholic Beverages & Tobacco**” to record 0.6 percent compared to 11.6 percent (the lowest inflation rate since January 2014), in light of the decline in Tobacco prices resulting from faded base effects compared to February 2015. Otherwise, annual inflation rates have mainly stabilized for the rest of other groups.

As for **average annual inflation,** it decelerated during the period July- February of FY15/16 to record 9.6 percent, compared to 10.6 percent 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.





On the other hand, **monthly inflation** increased to reach 1 percent during February 2016, compared to 0.1 percent during last month.

Annual core inflation[1] declined to reach 7.5 percent during February 2016, compared to 7.7 percent during the last month, and compared to 7.2 percent during February 2015. Moreover, **monthly core inflation** declined to record 0.8 percent during the month of study, compared to 1 percent during last month.

During its Monetary Policy Committee meeting held on March 17th, 2016, CBE decided to raise the **overnight deposit rate and overnight lending rates** by 150 basis points to 10.75 percent and 11.75 percent, respectively, and to raise the **CBE's main operation** by 150 basis points to 11.25 percent. **The discount rate** was also raised by 150 basis points to 11.25 percent. The committee justified that decision in light of a rate hike is warranted to anchor inflation expectations.

Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held **deposit auctions** on March 15th, 2016 worth LE 145 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

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'.

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 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.

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.