Executive Summary

Main Highlights…

The government drafted its economic program to further advance and improve the Egyptian economy. The program was presented to the Parliament and met widespread approval and the government was granted confidence. The program aims to achieve comprehensive economic and social development through the innovative and advanced management of the Egyptian economy, in order for it to reach its potential output and performance. To that extent, the Ministry of Finance is eagerly resuming its fiscal reform program which aims to reprioritize and control public spending through maximizing the use of resources alongside disbursing savings towards social programs. The Ministry of Finance is also focusing on executing a fairer tax system, re-broadening the tax base, increasing tax collection efficiency as well as enhancing public debt management. Moreover, MoF is seeking to increase spending on infrastructure in order to improve public services, while swiftly completing a number of major development projects. Finally the Ministry is also keen on raising the efficiency of social protection programs, therefore contributing to the achievement of tangible, positive change in the wellbeing of Egyptians.

On a different note, the Ministry of Finance is continuing to make significant strides towards engaging citizens in all phases of the state budget preparation, highlighting the importance of transparency, community participation and the involvement of citizens in the decision-making process. The Ministry has also issued the FY 16/17 pre-budget statement for the second consecutive year. The pre-budget statement assesses the domestic and external economic framework, underscoring the main underlying assumptions in which the budget is based. Through the preparation of the budget, the government seeks to revitalize the economy and achieve tangible results which meet the aspirations of Egyptians in terms of the rapid and sustainable improvement of living standards. The state is determined to continue carrying out its obligation of providing protection and social justice to its citizens, while investing in human development, modernizing infrastructure, and ensuring the stability and sustainability of the financial and economic systems throughout the medium term.

With regards to fiscal performance, latest indicators during the period July-February 2015/2016 point to a marked improvement in the performance of tax revenues, which increased by almost 22.1 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 17.7 percent, Taxes on Goods and Services receipts by 19.2 percent, Property Taxes receipts by 30.9 percent, and Taxes on International Trade receipts by 13.7 percent. Tax revenue increases were driven by the relative 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 increased by 24.2 percent, more specifically GASC spending increased by around 25.2 percent, along with a 36 percent increase in government contributions to pension funds and a 4.4 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) increased to record US$ 17.01 billion in April 2016, compared to US$ 16.56 billion in March 2016.

- As for the monetary developments, M2 annual growth slightly increased during February 2016 to record 17.5 percent growth (y-o-y), reaching LE 1923.6 billion, compared to 17.3 percent in the previous month, according to recent data released by the CBE. This comes in light of the increase witnessed in net domestic assets of the banking system by 25.7 percent reaching LE 1969.5 billion during the month of study, compared to 24.8 percent (LE 1936.8 billion) in January 2016. This offset the major turnaround in net foreign assets of the banking system, which declined by 165.2 percent to reach a negative value for the forth month in a row amounting to LE 45.9 billion, compared to a lower decline of 136.3 percent (LE -27.4 billion) in January 2016.

- Meanwhile, Headline Urban Inflation declined to record 9.0 percent during March 2016, compared to 9.1 percent during the previous month, and compared to 11.5 percent during March 2015. Factors contributing to inflationary pressures include: the base effect (in light of the increase in annual inflation rate during March 2015 by 0.9 basis points to record 11.5 percent compared to 10.6 percent during February 2015 and which has contributed to the decline in annual inflation rate during the month of study),

  In addition the decrease 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 12.1 percent during the month of study compared to 12.5 percent during the previous month, “Housing, Water, Electricity, Gas and Other Fuels” to record 0.1 percent compared to 2.9 percent. This has counterparted the increase of other main groups compared to previous month including; “Furniture”, “Health”, “Recreation & Culture”, and “Hotels and Restaurants”.

  As for average annual inflation, it decelerated during the period July- March of FY15/16 to record 9.5 percent, compared to 10.7 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 April 28th, 2016, CBE decided to keep the overnight deposit rate, overnight lending rates, and the rate of CBE's main operation unchanged at 10.75 percent, 11.75 percent, and 11.25 percent, respectively. The discount rate was also kept unchanged at 11.25 percent. Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on April 19th, 2016 worth LE 125 billion with 7-day maturity at a fixed annual interest rate of 11.25 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$ 3.4 billion (-0.9 percent of GDP) during H1-FY15/16, compared to a lower overall deficit of US$ 1 billion (-0.3 percent of

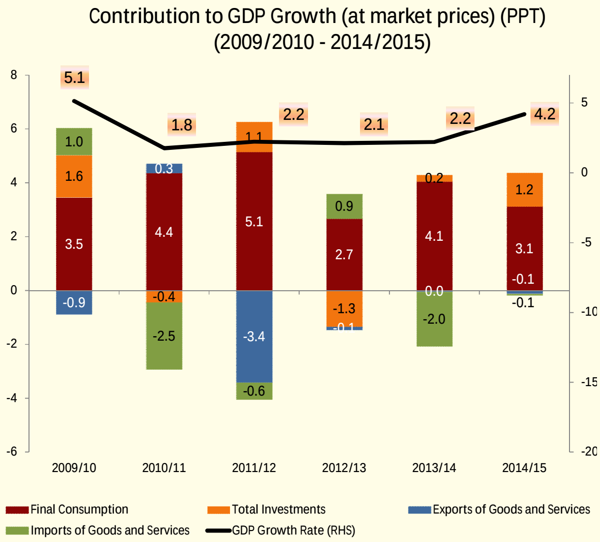
GDP) during H1-FY14/15. This mainly came in light of the increase witnessed in the current account deficit to record US$ 8.9 billion (-2.5 percent of GDP) during H1-FY15/16, compared to a lower deficit of US$ 4.3 billion (-1.3 percent of GDP) during H1-FY14/15. On the other hand, the capital and financial account witnessed net inflows of US$ 9.2 billion (2.6 percent of GDP) during the period of study, compared to net inflows of US$ 0.8 billion (0.2 percent of GDP) during H1-FY14/15. Meanwhile, net errors and omissions recorded an outflow of US$ 3.7 billion (-1.0 percent of GDP) during H1-FY15/16, compared to an inflow of US$ 2.5 billion (0.7 percent of GDP) during the period of comparison.

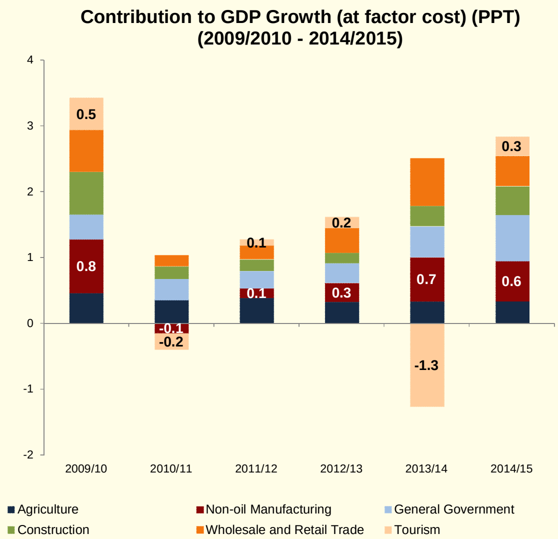
Ø *Real Sector:*

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.





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-February 2015/2016;*

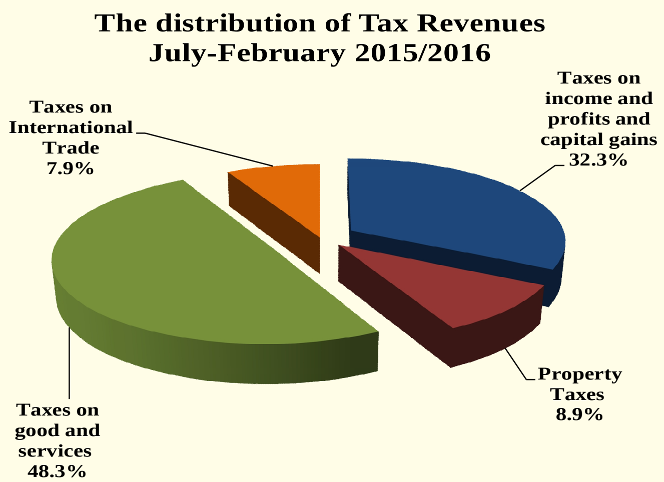
The latest indicators for the period July-February 2015/2016 point to a budget deficit reaching LE 223 billion (7.9 percent of GDP), compared to a deficit of LE 186 billion (7.7 percent of GDP) during the same period last fiscal year. These developments came in light of the increase in both revenues and expenditures during the period of study. Revenues rose by 21.7 percent reaching LE 253.2 billion (8.9 percent of GDP), compared to LE 208 billion (8.6 percent of GDP) during the same period last fiscal year. Expenditures rose by 21 percent to reach LE 466.2 billion (16.5 percent of GDP) during the period of study, compared to LE 385.2 billion (15.9 percent of GDP) during the same period last fiscal year.

July- February 14/15 Budget Deficit LE 186 billion (7.7 percent of GDP)	July- February 15/16 Budget Deficit LE 223 billion (7.9 percent of GDP)
Revenues LE 208 billion (8.6 percent of GDP)	Revenues LE 253.2 billion (8.9 percent of GDP)
Expenditure LE 385.2 billion (15.9 percent of GDP)	Expenditure LE 466.2 billion (16.5 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

§ On the Revenues Side,

Total revenues increased by LE 45 billion (21.7 percent growth) to record LE 253.2 billion during July- February 2015/2016, compared to LE 208 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 33 billion (22.1 percent growth) to record LE 182.8 billion during the period of study, compared to LE 149.8 billion during the same period last fiscal year, in addition to the increase in non-tax revenues by LE 12 billion (20.6 percent growth) to



record LE 70.3 billion during July- February 2015/2016, compared to LE 58.3 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 17.7 percent to LE 58 billion during the period of study, compared to LE 49.3 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, Suez Canal, and other companies).

- Taxes on goods and services receipts also increased by around 19.2 percent to record LE 88.8 billion during the period of study, compared to LE 74.5 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 30.9 percent to reach LE 17.6 billion during the period of study, compared to LE 13.5 billion during the same period last fiscal year.
- Taxes on international trade receipts grew by 13.7 percent to LE 14.2 billion during the period of study, compared to LE 12.5 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 14.3 billion (19.2 percent growth) to reach LE 88.8 billion (3.1 percent of GDP).

- **Taxes on goods and services receipts represent 48.6 percent of total tax revenues.**

Mainly as a result of higher receipts from:
- General sales tax on goods increasing by 7.2 percent to record LE 36.3 billion.
- The increase in excises on domestic commodities (Table 1) by 25.9 percent to record LE 30.3 billion (in light of increased sales tax on cigarettes by 41 percent to reach LE 22 billion).
- The increase in general sales tax on services by 27.7 percent to record LE 9.5 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 58 percent to record LE 6.6 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 8.7 billion (17.7 percent growth) to reach LE 58 billion (2 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 31.8 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 2.6 billion (18.7 percent) to reach LE 16.9 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 Suez Canal by LE 0.9 billion (11.7 percent) to reach LE 8.6 billion.
- Increase in receipts from taxes on other companies by LE 1.7 billion (10.1 percent) to reach LE 18 billion.

Property Taxes increased by LE 4 billion (30.9 percent growth) to reach LE 17.6 billion (0.6 percent of GDP).

- **Property Taxes receipts represent 9.6 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 36.4 percent to reach 14.6 billion during the period of study.

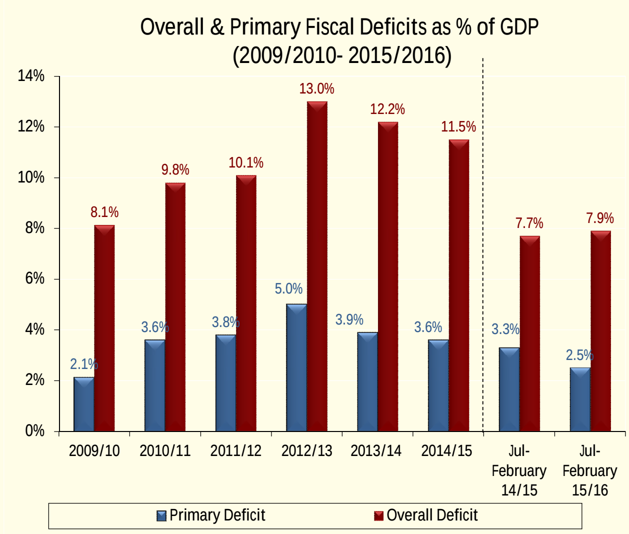
Taxes on International Trade increased by LE 1.7 billion (13.7 percent growth) to reach LE 14 billion (0.5 percent of GDP).

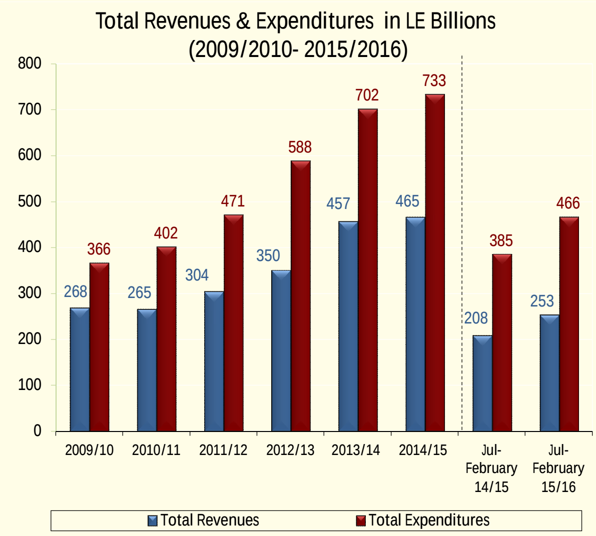
- **Taxes on International Trade receipts represent 7.7 percent of total tax revenues.**

In light of an increase in taxes on valued customs by 12.9 percent y-o-y to LE 13.4 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 10.8 billion (36.5 percent) to reach LE 40.3 billion during the period of study, compared to LE 29.5 billion during July-February 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 (85.5 percent) to reach LE 2.9 billion during July-February 2015/2016, compared to LE 1.6 billion during the same period last fiscal year.
- The increase in proceeds from sales of goods and services by LE 1.6 billion (13 percent) to reach LE 13.5 billion during July- February 2015/2016, compared to LE 12 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 9.7 billion during the period of study, compared to LE 8.7 billion during the same period last fiscal year).
- On the other hand, other revenues rose during the period of study by LE 4 billion (48.2 percent) to LE 12.3 billion, compared to LE 8.3 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 466.2 billion (16.5 percent of GDP) during July- February 2015/2016, mainly due to:

- The increase in wages and compensation of employees by LE 9.6 billion (7.7 percent) (the lowest rate of increase during the same period in the last three fiscal years in light of the recent reforms implemented by the Ministry of Finance to control the increase in the wage bill) to LE 134.9 billion (4.8 percent of GDP).
- The increase in purchases of goods and services by LE 1.4 billion (8.4 percent growth) to reach LE 17.5 billion (0.6 percent of GDP).

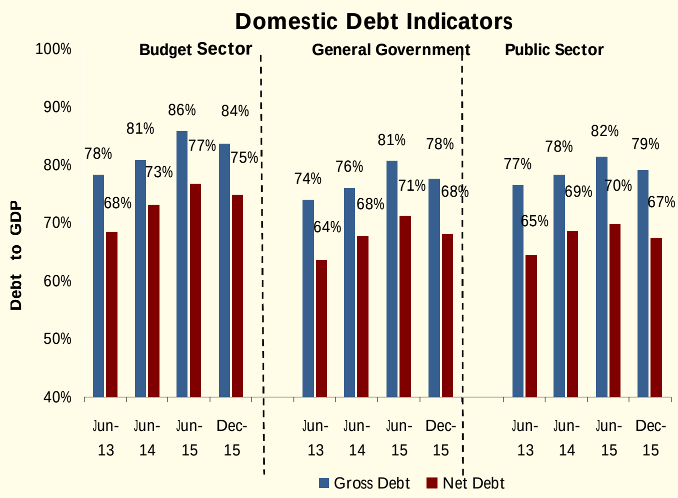
- The increase in interest payments by LE 47.3 billion (44.7 percent growth) to reach LE 153.2 billion (5.4 percent of GDP).
- The increase in subsidies, grants and social benefits by LE 18.9 billion (24.2 percent growth) to reach LE 97 billion (3.4 percent of GDP) during the period of study, compared to LE 78.2 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 9.3 billion reached LE 52.8 billion during the period of study, compared to LE 43.4 billion during the same period last year, which reflects the following:
    - General Authority for Supply Commodities subsidies rose by LE 3.7 billion (20.5 percent growth) to reach LE 21.5 billion during the period of study.
    - Electricity subsidies rose by LE 2 billion to reach LE 20.7 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 9.6 billion (32.3 percent growth) to reach LE 39.4 billion during July-February 2015/2016, mainly due to:
    - Increased contributions to the pension funds by LE 9 billion (36 percent growth) to reach LE 34 billion during the period of study.
- The increase in purchases of non-financial assets (investments) by LE 1.3 billion (1.1 percent of GDP), representing 4.4 percent growth to reach LE 30.8 billion.

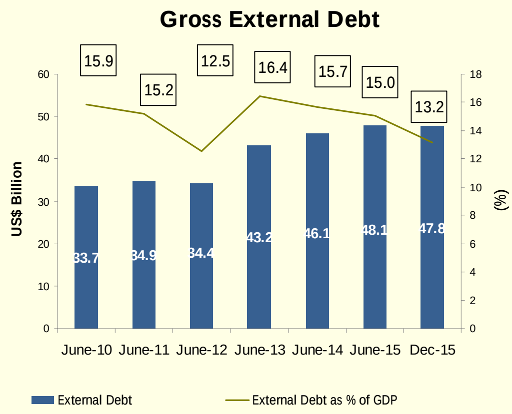
Public Debt:

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.

Ø *Monetary Perspective:*

As for the monetary developments, M2 annual growth slightly increased during February 2016 to record 17.5 percent growth (y-o-y), reaching LE 1923.6 billion, compared to 17.3 percent in the previous month, according to recent data released by the CBE. From the assets side, this comes in light of the increase witnessed in net domestic assets of the banking system by 25.7 percent reaching LE 1969.5 billion during the month of study, compared to 24.8 percent (LE 1936.8 billion) in January 2016. This offset the major turnaround in net foreign assets of the banking system, which declined by 165.2 percent to reach a negative value for the forth month in a row amounting to LE 45.9 billion, compared to a lower decline of 136.3 percent (LE -27.4 billion) in January 2016.

In February 2016, net claims on government annual growth increased by 31 percent (LE 1524.9 billion), compared to a lower growth of 29.5 percent during the previous month. Moreover, claims on public business sector annual growth increased by 34.1 percent in February 2016 (LE 79 billion), compared to 31.3 percent in January 2016. Annual growth in credit to the private sector eased by 14.5 percent at end of February 2016 to LE 659.8 billion, compared to 15.3 percent last month. This comes on the back of the slowdown witnessed in both claims on household and private business sector annual growth to reach 22.5 percent and 11.4 percent, respectively, in February 2016, compared to 23.1 percent and 12.2 percent, respectively, in the previous month.

On the other hand, net foreign assets (NFA) of the banking system continued to shrink on annual basis recording a contraction of 165.2 percent during the year ending February 2016, to record a negative value of LE 45.9 billion, compared to a lower decline of 136.3 percent (LE -27.4 billion) during the previous month. This was the fourth month in a row for NFA to reach a negative value. This turnaround continues in light of the significant drop in central bank net foreign assets by 164.4 percent y-o-y to record LE -22.7 billion in February 2016, compared to a lower decline of 138 percent (LE -13.2 billion) in January 2016. In addition, banks net foreign assets declined by 166.1 percent to reach a negative value for the fourth month in a row of LE 23.2 billion in February 2016, compared to a lower decline of 134.8 percent (LE -14.2 billion) in January 2016.

From the liabilities side, quasi money annual growth increased by 18.1 percent (LE 1401.1 billion) during February 2016, compared to 17.9 percent in the previous month. This comes in light of the increase witnessed in time and savings deposits in local currency annual growth by 19.3 percent (LE 1125.8 billion) in February 2016, compared to 18.8 percent in January 2016. This offset the slowdown witnessed in demand and time and savings deposits in foreign currency to 5.4 percent (LE 67 billion) and 16 percent (LE 208.4 billion), respectively, in February 2016, compared to 6.1 percent and 17.5 percent, respectively, in January 2016.

Meanwhile, money annual growth stabilized for the second month in a row at 15.9 percent (LE 522.5 billion) in February 2016, as currency in circulation annual growth increased from 9.4 percent in January 2016 to 9.7 percent in February 2016, while local currency demand deposits decreased from 26.6 percent to 25.9 percent.

Total deposits annual growth – excluding deposits at the CBE – slowed down by 20.7 percent y-o-y (LE 1923.5 billion) at the end of January 2016, compared to a growth of 22.7 percent at end of December 2015. Out of total deposits, 84.1 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by the banking sector (excluding CBE) slowed down during the year ending January 2016 by 23.4 percent (LE 797.7 billion), compared to 25.8 percent in the previous month. To that end, the loans-to-deposits ratio slightly increased to reach 41.5 percent at end of January 2016, compared to 41.3 percent at end of December 2015 and compared to 40.6 percent in January 2015. (Detailed data February 2016 are not yet available).

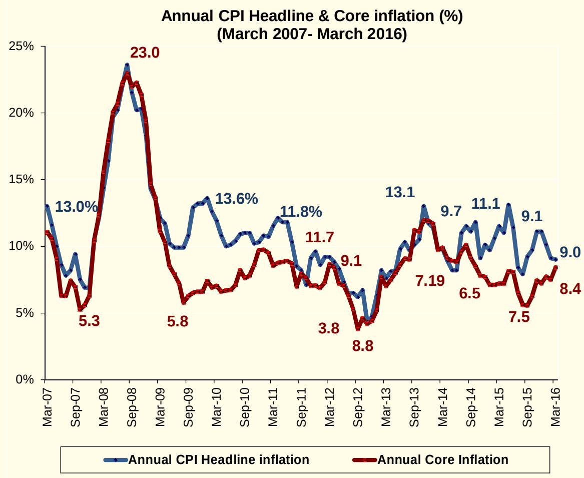
- During March 2016, net International Reserves (NIR) increased to record US$ 17.01 billion in April 2016, compared to US$ 16.56 billion in March 2016.

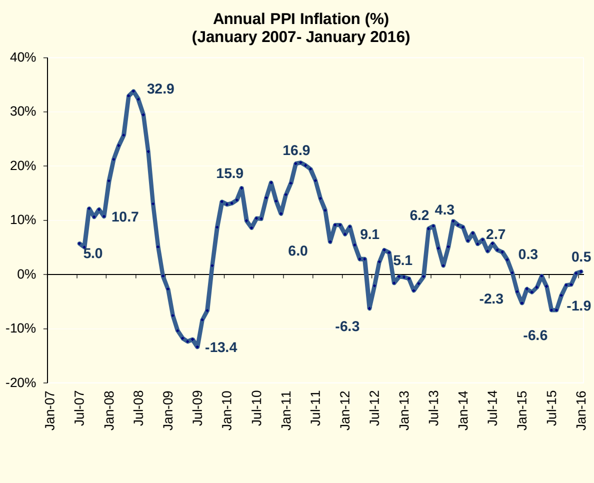
- Meanwhile, Headline Urban Inflation declined to record 9.0 percent during March 2016, compared to 9.1 percent during the previous month, and compared to 11.5 percent during March 2015. Factors contributing to inflationary pressures include: the base effect (in light of the increase in annual inflation rate during March 2015 by 0.9 basis points to record 11.5 percent compared to 10.6 percent during February 2015 and which has contributed to the decline in annual inflation rate during the month of study),

  In addition the decrease 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 12.1 percent during the month of study compared to 12.5 percent during the previous month, in light of the decrease in annual inflation rates of some sub items (albeit are still at high levels), “Vegetables” to record 26.2 percent compared to 32.7 percent during last month, “Milk & Eggs” to record 4.3 percent compared to 6.3 percent, “Oil and Fats” to record 5.5 percent compared to 6.1 percent. In addition to the decline of the annual inflation of “Housing, Water, Electricity, Gas and Other Fuels” to record 0.1 percent compared to 2.9 percent (in light of the decrease of Electricity prices by -10.5 percent during March 2016, compared to -0.3 percent during last month, and compared to 71 percent during March 2015).

This has counterparted the increase of other main groups including; "Furniture" to record 10.6 percent compared to 10.3 percent, "Health" to record 13.8 percent compared to 9.3 percent, "Recreation& Culture" to record 11.5 percent compared to 10.9 percent, and "Hotels and Restaurants" to record 18.6 percent compared to 14.8 percent.

As for average annual inflation, it decelerated during the period July- March of FY15/16 to record 9.5 percent, compared to 10.7 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 1.4 percent during March 2016, compared to 1 percent during last month.

Annual core inflation[1] increased to reach 8.4 percent during March 2016, compared to 7.5 percent during the last month, and compared to 7.2 percent during March 2015. Moreover, monthly core inflation increased to record 1.6 percent during the month of study, compared to 0.9 percent during last month. This could be explained in light of the increase in "Food Prices" contributing by 1.08 percentage points to the monthly core inflation, and the increase in "Other Services", "Retail items" and "Paid services" contributing by 0.54 percentage points to the monthly core inflation.

- During its Monetary Policy Committee meeting held on April 28th, 2016, CBE decided to keep the overnight deposit rate, overnight lending rates, and the rate of CBE's main operation unchanged at 10.75 percent, 11.75 percent, and 11.25 percent, respectively. The discount rate was also kept unchanged at 11.25 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 April 19th, 2016 worth LE 125 billion with 7-day maturity at a fixed annual interest rate of 11.25 percent.

- The Egyptian Exchange market capitalization increased by 1.4 percent m-o-m during April 2016 to reach LE 413.3 billion, compared to LE 407.5 billion in the previous month. Meanwhile, the EGX-30 Index also increased by 3.3 percent during April 2016 to reach 7773.2 points, compared

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'.

to closing at 7525.0 points by the end of March 2016. In addition, the EGX-70 increased by 1.9 percent, closing at 374.3 points at the end of April 2016, compared to 367.3 points in the previous month.

Ø *On the External Sector side:*

BOP showed an overall deficit of US$ 3.4 billion (-0.9 percent of GDP) during H1-FY15/16, compared to a lower overall deficit of US$ 1 billion (-0.3 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$ 8.9 billion (-2.5 percent of GDP) during H1-FY15/16, compared to a lower deficit of US$ 4.3 billion (-1.3 percent of GDP) during H1-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 has slightly decreased to record US$ 19.5 billion (-5.4 percent of GDP) during H1-FY15/16, compared to a deficit of US$ 20.4 billion during the same period last fiscal year, due to several factors on top of which the decline in world prices of oil and other staple commodities, which affects Egyptian imports and exports. These developments could be explained in light of the decrease witnessed in merchandise imports by 12.6 percent to record US$ 28.6 billion in H1-FY15/16, compared to US$ 32.7 billion in H1-FY14/15. This was accompanied by a 26 percent decrease in merchandise exports to record US$ 9.1 billion, compared to US$ 12.3 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$ 2.2 billion, as a consequence of the fall in global crude oil prices by around 51.4 percent and 43.4 percent during Q1-FY15/16 and Q2-FY15/16, respectively, despite the increase in quantities exported of crude oil during the period of study[2].

- The services balance has recorded a surplus of US$ 2.2 billion (0.6 percent of GDP) during the period of study, compared to a higher surplus of around US$ 4.1 billion (1.2 percent of GDP) during H1-FY14/15. This came in light of the decline in current receipts by 25.5 percent to record US$ 9.3 billion during H1-FY15/16, compared to US$ 12.5 billion in H1-FY14/15. This was mainly due to the decrease witnessed in tourism receipts to reach US$ 2.7 billion during H1-FY15/16, compared to US$ 4.0 billion in the same period last fiscal year, as the number of tourist nights decreased by 28.3 percent to record 38.3 million nights during the period of study in comparison to 53.4 million nights in H1-FY14/15.

- Net official transfers recorded US$ 0.03 billion during the period of study, compared to US$ 2.6 billion during H1-FY14/15 - of which US$ 1.4 billion in-kind grants in the form of petroleum shipments from Kingdom of Saudi Arabia and a cash grant of US$ 1 billion received from Kuwait. 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$ 9.2 billion (2.6 percent of GDP) during the period of study, compared to lower net inflows of US$ 0.8 billion (0.2 percent of GDP) during H1-FY14/15, mainly due to the following:

---

[2] It is worthy to highlight that exports of crude oil represent 64.4 percent of total oil exports and 22 percent of total merchandise exports during the period of study.

- Net foreign direct investments in Egypt increased to reach US$ 3.1 billion (0.9 percent of GDP) in H1-FY15/16, compared to US$ 2.6 billion (0.8 percent of GDP) in the comparison period, driven mainly by the rise in the net inflows for greenfield investments to reach US$ 2.5 billion in H1-FY15/16, up from US$ 1.4 billion during H1-FY14/15.
- Portfolio investment in Egypt recorded net outflows of US$ 1.6 billion (-0.4 percent of GDP) in H1-FY15/16, compared to net outflows of US$ 2.1 billion (-0.6 percent of GDP) during H1-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$ 7.8 billion (2.2 percent of GDP) during the period of study, compared to net inflows of US$ 0.5 billion (0.2 percent of GDP) during the same period last fiscal year. This came on the back of the increase witnessed in short-term suppliers' credit to reach US$ 4.0 billion during the period of study, compared to US$ 2.2 billion during H1-FY14/15. This reflects the confidence in the Egyptian economy given its ability to commit to its external obligations. In addition, CBE other assets and liabilities have recorded net inflows of US$ 4.3 billion in H1-FY15/16, compared to net outflows of US$ 1.6 billion during the period of comparison.

§ Net errors and omissions recorded a net outflow of US$ 3.7 billion (-1.0 percent of GDP) during H1-FY15/16, compared to an inflow of US$ 2.5 billion (0.7 percent of GDP) during H1-FY14/15.

Ø According to the latest published figures, the total number of tourist arrivals decreased during January 2016 to reach 0.36 million tourists, compared to 0.44 million tourists in the previous month, while, tourist nights increased to reach 2.6 million nights during the month of study, compared to 2.4 million nights during December 2015.