Executive Summary

Main Highlights...

The government considers social justice a high priority and a main pillar in achieving comprehensive and sustainable development. In attaining a more productive and inclusive economy, achieving social justice depends first and foremost on integrating the largest number of citizens in the labor market and in the production process, so as to ensure fair participation and income equality. The national projects being launched in Upper Egypt, New Valley, North-West coast, the Suez Canal and Sinai, are perhaps an appropriate means to achieving a geographically balanced economic growth that is both tangible and inclusive. In addition to these projects, the government is keen on raising the efficiency of social protection programs and seeks to increase investments in infrastructure and to improve public services, thereby contributing to the achievement of tangible positive change in the daily lives of Egyptians.

To that end, Social justice priorities were reflected in the fiscal performance during the period July-March 2015/2016 as the Ministry of Finance was keen on directing more spending on social protection and safety net; among which comes increasing spending on GASC by around 7.2 percent to record LE 23 billion, along with a 16.7 percent increase in electricity subsidies to record LE 24 billion, in the meanwhile government contributions to pension funds have increased by 32.2 percent to record LE 36.6 billion. Moreover, investment spending's increased by 7.5 percent to record LE 36.6 billion, and Purchase of Goods and Services have increased by 12.8 percent to record LE 21.2 billion. On the revenue side, data reveals an improvement has been witnessed in the performance of tax revenues, and which has increased by almost 3.7 percent to record LE 212.4 billion, mainly due to the increase in receipts from Taxes on Goods and Services by 15.7 percent to record LE 100 billion, Property Taxes receipts increased by 30.2 percent to record LE 20 billion. Tax revenue increases were driven by the effective implementation of tax reforms which has started during the previous fiscal year and continued during current fiscal year.

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

Based on the latest press release presented by Minister of Planning, monitoring and administrative reform **GDP** has witnessed 4.5 percent growth rate during H1-FY15/16 compared to 5.5 percent during H1-FY14/15 slightly affected with the global slowdown of growth. It is worthy to highlight that data for the first half of FY15/16 will be published once finalized by the ministry of planning. According to the latest detailed data published by the Ministry of Planning, GDP has witnessed a 3.0 percent growth rate during Q1-FY15/16, compared to 5.6 percent during last fiscal year. Both public and private consumption continued to boost economic activity during Q1-FY15/16 with a stable total contribution of 4.2 PPT. Investments have contributed positively to growth by 1.0 PPT, compared to 0.7 during Q1-FY14/15. On the other hand, net exports constrained growth with a negative impact of 2.2 PPT, compared to a positive contribution of 0.7 PPT during same period last year.

Net International Reserves (NIR) increased to record US$ 17.52 billion in May 2016, compared to US$ 17.01 billion in April 2016.

As for the **monetary developments, M2 annual growth** increased by 18.1 percent during March 2016 reaching LE 1986.8 billion, compared to 17.4 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 26.9 percent y-o-y reaching LE 2050.3 billion during the month of study, compared to 25.6 percent (LE 1968.6 billion) in February 2016. This offset the major turnaround in net foreign assets of the banking system, which declined by 195.4 percent to reach a negative value for the fifth month in a row amounting to LE 63.5 billion, compared to a lower decline of 165.2 percent (LE -45.9 billion) in February 2016.

Meanwhile, **Headline Urban Inflation** rose significantly to record 10.3 percent during April 2016, compared to 9 percent during the previous month, while it increased at a slower pace compared to 11 percent during April 2015. **Factors contributing to inflationary pressures include:** the increase in annual inflation of "**Food and Beverages**" group (the highest weight in CPI) to record 12.7 percent during the month of study compared to 12.1 percent during the previous month. In addition to the increase in annual inflation rates of other main groups, on the top of which; "**Housing, Water, Electricity, Gas and Other Fuels**", "**Furnishing and House Equipment's**", " **Restaurant and Hotels**", and "**Miscellaneous Goods and Services**".

As for **average annual Headline inflation**, it decelerated during the period July- April of FY15/16 to record 9.6 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 May 10th, 2016 worth LE 115 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 (91.8 percent of GDP) at end of December 2015.

The Balance of Payments (BOP) showed an overall deficit of US$ 3.4 billion (1.0 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 (1.1 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.

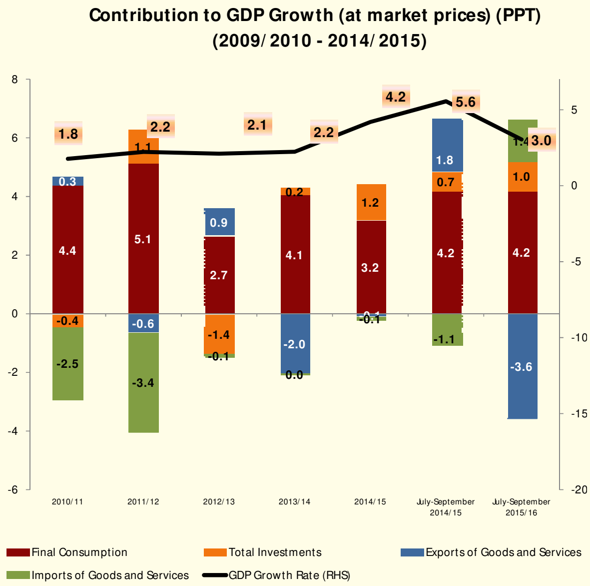
Real Sector:

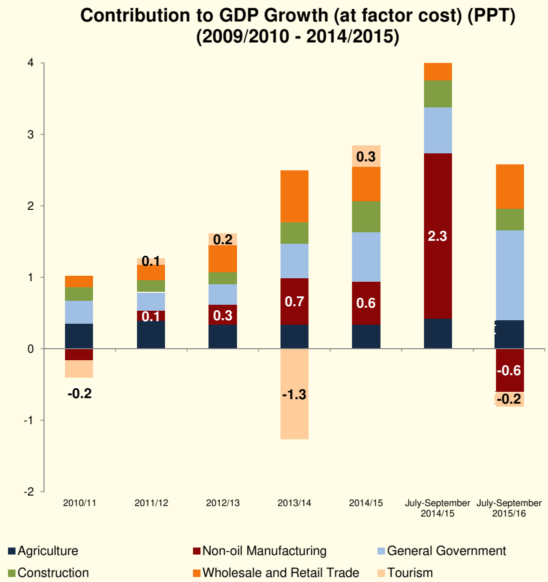
Based on the latest press release presented by Minister of Planning, monitoring and administrative reform GDP has witnessed 4.5 percent growth rate during H1-FY15/16 compared to 5.5 percent during H1-FY14/15 slightly affected with the global slowdown of growth. It is worthy to highlight that data for the first half of FY15/16 will be published once finalized by the ministry of planning.

According to the latest detailed data published by the Ministry of Planning, GDP has witnessed a 3.0 percent growth rate during Q1-FY15/16, compared to 5.6 percent during last fiscal year. Both public and private consumption continued to boost economic activity during Q1-FY15/16 with a stable total contribution of 4.2 PPT. Investments have contributed positively to growth by 1.0 PPT, compared to 0.7 during Q1-FY14/15. On the other hand, net exports constrained growth with a negative impact of 2.2 PPT, compared to a positive contribution of 0.7 PPT during same period last year.

On the demand side, both public and private consumption maintained to be the key growth drivers during Q1-FY15/16. Private consumption grew by 4.2 percent y-o-y, compared to 3.8 percent during Q1-FY14/15, while **public consumption** grew by 5.7 percent in the period of study, compared to 8.2 percent during Q1-FY14/15. In the meantime, recent data shows that **investments** have increased significantly by 8.7 percent in Q1-FY15/16, compared to 6.0 percent during Q1-FY14/15.

On the other hand, net exports constrained growth with a negative impact of 2.2 PPT, compared to a positive contribution of 0.7 PPT during Q1-FY14/15. This development came in light of a 25.6 percent decline in **exports**, with a negative contribution of 3.6 PPT to real GDP growth, compared to a positive contribution of 1.8 PPT during Q1-FY14/15, while **imports** decreased by 6.8 percent in the period of study, contributing positively by 1.4 PPT, compared to a negative contribution of 1.1 PPT during Q1-FY14/15.





On the supply side, five key sectors led y-o-y growth, on top of which was the general government sector which recorded a real growth rate of 14.4 percent in Q1-FY15/16 (contributing 1.3 PPT to growth, compared to 0.6 PPT during Q1-FY14/15). Additionally, the construction sector recorded a real growth rate of 7.5 percent (contributing 0.3 PPT during the period of study, compared to 0.4 PPT during the same period last fiscal year). Meanwhile, wholesale and retail trade recorded a real growth rate of 4.7 percent (contributing 0.6 PPT during the period of study, compared to 0.4 PPT during Q1-FY14/15) and the agricultural sector witnessed growth of 3 percent (stabilizing at 0.4 PPT). Moreover, the real state sector expanded to record a 4.5 percent real growth rate in Q1-FY15/16 (contributing to growth by 0.4 PPT, compared to a contribution of 0.3 PPT during Q1-FY14/15).

Taken together, the above-mentioned 5 key sectors represented around 49.9 percent of total real GDP during the period of study.

Meanwhile, **natural gas** extraction continued to constrain growth during Q1-FY15/16 declining by 8.7 percent (contributing negatively to growth by 0.5 PPT). Moreover, the tourism sector also witnessed a decline by 9.1 percent real growth rate (contributing to growth by -0.2 PPT, compared to a positive contribution of 0.7 PPT during Q1-FY14/15).

Fiscal Sector Performance during July-March 2015/2016;

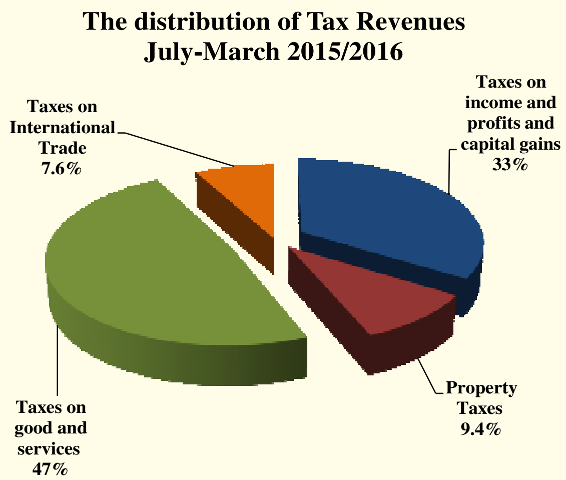
The latest indicators for the period July-March 2015/2016 point to a **budget deficit** reaching LE 254.9 billion (9.2 percent of GDP), compared to a deficit of LE 218.3 billion (9 percent of GDP) during the same period last fiscal year. These developments came in light of the increase in both revenues and expenditures during the period of study. Revenues rose by 3.2 percent reaching LE 291.1 billion (10.5 percent of GDP), compared to LE 282.1 billion (11.6 percent of GDP) during the same period last fiscal year. Expenditures rose by 8.7 percent to reach LE 533.3 billion (19.2 percent of GDP) during the period of study, compared to LE 490.6 billion (20.2 percent of GDP) during the same period last fiscal year.

July- March 14/15 Budget Deficit LE 218.3 billion (9 percent of GDP)	**July- March 15/16 Budget Deficit** LE 254.9 billion (9.2 percent of GDP)
Revenues LE 282.1 billion (11.6 percent of GDP)	**Revenues** LE 291.1 billion (10.5 percent of GDP)
Expenditure LE 490.6 billion (20.2 percent of GDP)	**Expenditure** LE 533.3 billion (19.2 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

§ **On the Revenues Side,**

Total revenues increased by LE 9 billion (3.2 percent growth) to record LE 291.1 billion during July- March 2015/2016, compared to LE 282.1 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 7.5 billion (3.7 percent growth) to record LE 212.4 billion during the period of study, compared to LE 204.9 billion during the same period last fiscal year, in addition to the increase in non-tax revenues by LE 1.5 billion (1.9 percent growth) to record LE 78.7 billion during July- March 2015/2016, compared to LE 77.2 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 goods and services receipts increased by 15.7 percent to record LE 100 billion during the period of study, compared to LE 86.4 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 international & local communication services, as well as increased receipts from the sales tax on cigarettes).

- Moreover, property taxes receipts also increased by 30.2 percent to reach LE 19.9 billion during the period of study, compared to LE 15.3 billion during the same period last fiscal year.
- Other taxes also increased by LE 4 billion to record LE 6.3 billion during the period of study.
- On the other hand, receipts from Taxes on income recorded LE 70 billion declining by 16.7 percent during the period of study, compared to LE 84 billion during the same period of the last fiscal year, affected by the fact that no petroleum settlements were received from EGPC during the period of study. However, if petroleum receipts were excluded, Tax income receipts from sovereign authorities are shown to increase by around LE 15 billion (53 percent), mainly driven by the increase in tax receipts from CBE by 162.7 percent, and Tax on T-bills and bonds' payable interest by LE 4.3 billion (35.8 percent growth). On the other hand, receipts from taxes from non-sovereign authorities rose by 18.5 percent during the period of study, compared to the same period last year.
- Receipts from Taxes on international trade recorded LE 16.2 billion declining by 1.6 percent during the period of study, compared to LE 16.4 billion recorded during the same period last fiscal year.

Taxes on Goods and Services increased by LE 13.5 billion (15.7 percent growth) to reach LE 100 billion (3.6 percent of GDP).

Taxes on goods and services receipts represent 47 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 5.3 percent to record LE 41.1 billion.
- The increase in excises on domestic commodities (Table 1) by 21.1 percent to record LE 34 billion (in light of increased sales tax on cigarettes by 32.8 percent to reach LE 24.7 billion).
- The increase in general sales tax on services by 26.7 percent to record LE 10.6 billion in light of the improved performance of international and domestic telecommunications services.
- The increase in stamp tax (excludes stamp tax on salaries) by 45.9 percent to record LE 7.3 billion in light of the increase in receipts from stamp tax on contacts on each of; water, electricity, gas, telephone, and banking edits contracts.

Property Taxes increased by LE 4.6 billion (30.2 percent growth) to reach LE 19.9 billion (0.7 percent of GDP).

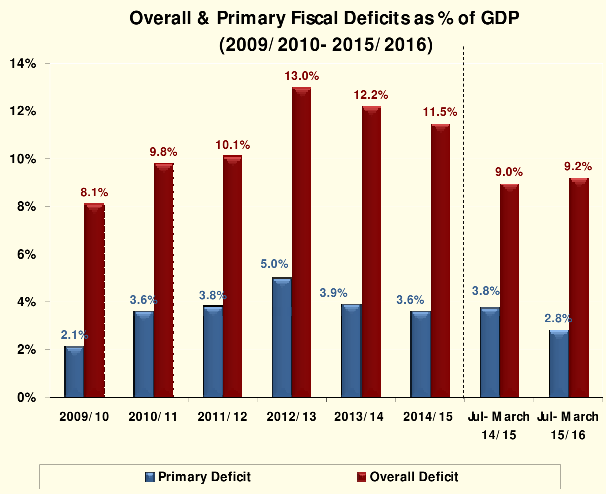
- **Property Taxes receipts represent 9.4 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 35.8 percent to reach 16.5 billion during the period of study.

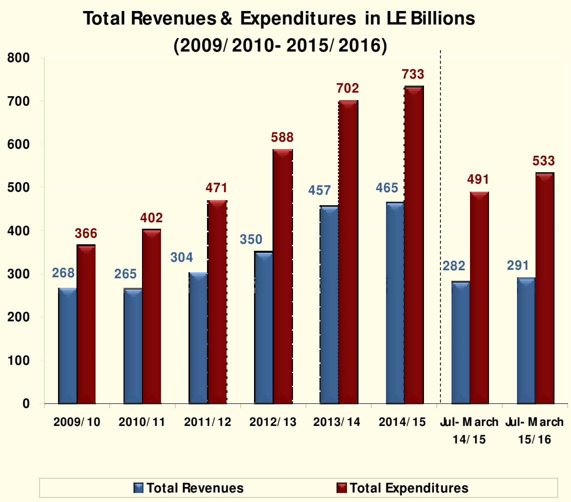
On the Non-Tax Revenues Side, the increase in other revenues could be explained in light of the following

- The increase in **proceeds from sales of goods and services** by LE 1.7 billion (11.9 percent) to reach LE 15.8 billion during July- March 2015/2016, compared to LE 14.1 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 11.5 billion during the period of study, compared to LE 10.3 billion during the same period last fiscal year).
- **Miscellaneous revenues** rose during the period of study by LE 5 billion (53.5 percent) to LE 14.5 billion, compared to LE 9.5 billion during the same period of the last fiscal year.
- On the other hand, **property income receipts** recorded LE 44 billion declining by 2.3 percent during the period of study, compared to LE 45.1 billion recorded during July-March 2014/2015. However, dividends collected from the CBE increased by LE 13.5 billion (100.9 percent) to reach LE 27 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 (72.2 percent) to reach LE 3.2 billion during July-March 2015/2016, compared to LE 1.8 billion during the same period last fiscal year.

- Meanwhile, **Grants** recorded LE 3.3 billion declining by LE 4.6 billion during the period of study, compared to LE 7.9 billion recorded during the same period last 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 533.3 billion (19.2 percent of GDP) during July- March 2015/2016, mainly due to:

- The increase in **wages and compensation of employees** by LE 12.5 billion (8.7 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 155.8 billion (5.6 percent of GDP).
- The increase in **purchases of goods and services** by LE 2.4 billion (12.8 percent growth) to reach LE 21.2 billion (0.8 percent of GDP).
- The increase in **interest payments** by LE 49.7 billion (39.1 percent growth) to reach LE 176.8 billion (6.4 percent of GDP).
- The increase in **purchases of non-financial assets (investments)** by LE 2.5 billion (1.3 percent of GDP), representing 7.6 percent growth to reach LE 36.6 billion.

- However, **subsidies, grants and social benefits** declined by 20.2 percent to reach LE 106.4 billion (3.8 percent of GDP) during the period of study, compared to LE 133.4 billion during the same period of the last fiscal year. This can be explained in light of the decline in spending on petroleum subsidies mainly due to the fact that no petroleum settlements were received during the study period.

  However, subsidies increased for the following:

  General Authority for Supply Commodities subsidies rose by LE 1.5 billion (7.2 percent growth) to reach LE 23 billion during the period of study.

  Electricity subsidies rose by LE 3.4 billion (16.7 percent growth) to reach LE 24 billion during the period of study.

  o Meanwhile, social benefits rose by 9.7 billion (29 percent growth) to reach LE 42.9 billion during July-March 2015/2016, mainly due to:

  Increased contributions to the pension funds by LE 8.9 billion (32.3 percent growth) to reach LE 36.6 billion during the period of study.

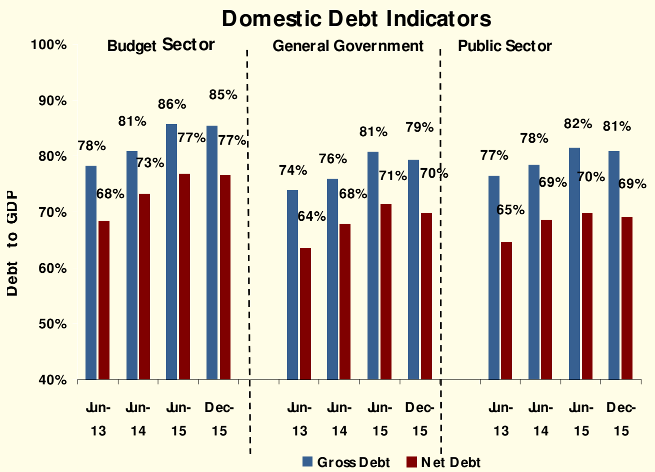
Public Debt:

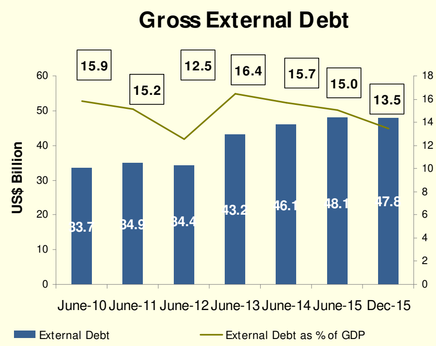
Total government debt (domestic and external) reached LE 2545 billion (91.8 percent of GDP) at end of December 2015, of which;

- **Domestic budget sector debt** recorded LE 2368.5 billion (85.5 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 was mainly due to financing the budget deficit, in addition to the impact of settling of some cross-debt issues among budget sector entities (particularly those of the SIF and EGPC, it is worthy to note that these settlements are expected eventually to enhance their financial performance.

- ***External debt stock*** **(government and non-government debt)** recorded US$ 47.8 billion (13.5 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 (6.7 percent of GDP) as of end of December 2015, compared to US$ 25.7 billion (8 percent of the GDP) at end of June 2015.





Monetary Perspective:

As for the monetary developments, **M2 annual growth** increased by 18.1 percent during March 2016 reaching LE 1986.8 billion, compared to 17.4 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 26.9 percent y-o-y reaching LE 2050.3 billion during the month of study, compared to 25.6 percent (LE 1968.6 billion) in February 2016. This offset the major turnaround in **net foreign assets of the banking system**, which declined by 195.4 percent to reach a negative value for the fifth month in a row amounting to LE 63.5 billion, compared to a lower decline of 165.2 percent (LE -45.9 billion) in February 2016.

In March 2016, **net claims on government** annual growth increased by 29.6 percent (LE 1569.1 billion), compared to a higher growth of 31 percent during the previous month. Meanwhile, **claims on public business sector** annual growth slowed down from 34.1 percent in February 2016 to 30 percent in March 2016 (LE 83 billion). Annual growth in **credit to the private sector** increased by 15.6 percent at end of March 2016 to LE 685.6 billion, compared to 14.5 percent last month. This comes on the back of the growth witnessed in **claims on private business sector** y-o-y to reach 13.1 percent in March 2016, compared to 11.4 percent in the previous month, which offset the slight slowdown in **claims on household sector** annual growth by 22 percent during month of study, compared to 22.5 percent in February 2016.

On the other hand, **net foreign assets (NFA) of the banking system** continued to shrink on annual basis recording a contraction of 195.4 percent during the year ending March 2016, to record **a negative value of LE 63.5 billion**, compared to a lower decline of 165.2 percent (LE -

45.9 billion) during the previous month. This was the fifth 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 217.7 percent y-o-y to record LE -40.4 billion in March 2016, compared to a lower decline of 164.4 percent (LE -22.7 billion) in February 2016. In addition, **banks net foreign assets** declined by 171.8 percent to reach a negative value of LE 23.1 billion in March 2016, compared to a lower decline of 166.1 percent (LE -23.2 billion) in February 2016.

From the liabilities side, **quasi money** annual growth increased by 19.1 percent (LE 1457.1 billion) during March 2016, compared to 18 percent in the previous month. This comes in light of the increase witnessed in **foreign currency demand** and **time and savings deposits** annual growth by 14.3 percent (LE 75.8 billion) and 25.4 (LE 238.7 billion), respectively, in March 2016, compared to 5.4 percent and 16 percent, respectively, in the previous month. **Local currency time and savings deposits** annual growth slowed down to 18.2 percent (LE 1142.6 billion) in March 2016, compared to 19.2 percent in February 2016.

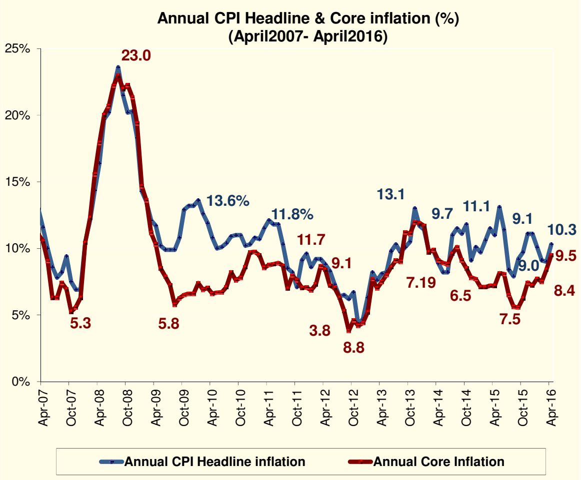
On the other hand, **money** annual growth eased to reach 15.4 percent (LE 529.7 billion) in March 2016, compared to 15.9 percent in the previous month. This could be attributed to the slowdown in **local currency demand deposits** from 25.9 percent in February 2016, to 20.4 percent(LE 217.6 billion) in March 2016. This offset the increase in **currency in circulation** annual growth to reach 12.1 percent (LE 312.1 billion) in March 2016, compared to 9.7 percent in the previous month.

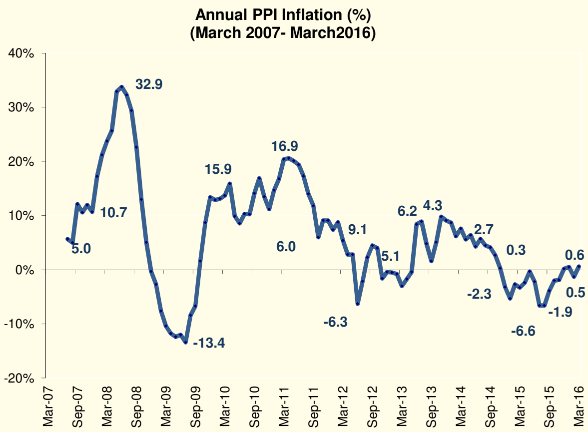
Total deposits annual growth – excluding deposits at the CBE – slowed down by 20.7 percent y-o-y (LE 1923.5 billion) at the end of January 2016, compared to a growth of 22.7 percent at end of December 2015. Out of total deposits, 84.1 percent belonged to the non-government sector. Moreover, annual growth 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 for February and March 2016 are not yet available).

During April 2016, **net International Reserves (NIR)** increased to record US$ 17.52 billion in May 2016, compared to US$ 17.01 billion in April 2016.

Meanwhile, **Headline Urban Inflation** rose significantly to record 10.3 percent during April 2016, compared to 9 percent during the previous month, while it increased at a slower pace compared to 11 percent during April 2015. **Factors contributing to inflationary pressures include**: the increase in annual inflation of "**Food and Beverages**" group (the highest weight in CPI) to record 12.7 percent during the month of study compared to 12.1 percent during the previous month. In addition to the increase in annual inflation rates of other main groups, on the top of which; "**Housing, Water, Electricity, Gas and Other Fuels**" to record 5.5 percent compared to 0.1 percent last month, "**Furnishing and House Equipment's**" have increased by 11.2 percent, compared to 10.6 percent, "**Restaurant and Hotels**" rose by 20 percent compared to 18.6 percent (in light of increased catering prices by 18.6 percent), and "**Miscellaneous Goods and Services**" rose by 7 percent compared to 4.6 percent (in light of increased personal care prices by 21 percent).

As for **average annual Headline inflation**, it decelerated during the period July- April of FY15/16 to record 9.6 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** continued to increase reaching 1.3 percent during April 2016, compared to a little bit higher increase of 1.4 percent during last month.

Annual core inflation[1] increased to reach 9.5 percent during April 2016, compared to 8.4 percent during the last month, and compared to 7.2 percent during April 2015. While, monthly core inflation has increased to record 1.2 percent, compared to a higher rate of 1.6 percent during last month. This could be explained in light of the increase in "**Food Prices**" contributing by 0.73 percentage points to the monthly core inflation, and the increase in **"Retail items"** and **"Other Services"** prices contributing by 0.52 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 May 10th, 2016 worth LE 115 billion with 7-day maturity at a fixed annual interest rate of 11.25 percent.

The Egyptian Exchange market capitalization decreased by 3.1 percent m-o-m during May 2016 to reach LE 400.5 billion, compared to LE 413.3 billion in the previous month. Meanwhile, the EGX-30 Index also decreased by 3.7 percent during May 2016 to reach 7483.6 points, compared to closing at 7773.2 points by the end of April 2016. The EGX-70 slightly decreased by 0.13 percent, closing at 373.8 points at the end of May 2016, compared to 374.3 points in the previous month.

On the External Sector side:

BOP showed an overall deficit of US$ 3.4 billion (1.0 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

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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'.

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 (5.5 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:

- **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.

[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.

- **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 (1.1 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.

According to the latest published figures, **the total number of tourist arrivals** decreased during February 2016 to reach 0.35 million tourists, compared to 0.36 million tourists in the previous month. Additionally, **tourist nights** decreased to reach 1.8 million nights during the month of study, compared to 2.6 million nights during January 2016.