Executive Summary

Main Highlights…

The Ministry of Finance believes in the importance of maintaining direct communication channels with citizens, as well as engaging them in all manners related to shaping economic policies and prioritizing public expenditure. Since the last two years the Ministry of Finance has been keen to conduct continuous and long-lasting community dialogues with the civil society, from NGOs and private sector companies to political parties. Such communication acts as a bridge between the state and its citizens, therefore when issuing financial and economic policy reports, the government communicates directly with citizens to involve them in the formulation of economic policies. Some of the most noteworthy publication are "The Citizens' Budget" and the "Preliminary Financial Statement". On September 29th 2016, the Ministry of Finance launched the Third annual version of the "Citizens' Budget" entitled "Knowing your State's Budget", to inform citizens about key features of the 16/17 budget and shed light on the planned fiscal policies to be implemented in the medium and long term. The government fully recognizes that one of the citizens' inherent rights is for the state budget to address and meet their needs while promising improved standards of living. One can access the publication on the Ministry's website www.mof.gov.eg and or on the interactive Web site www.budget.gov.eg.

One of the main cornerstones of the Ministry's fiscal policy for the FY2016/17 is adapting an inclusive economic program to achieve sustainable development, economic growth, increase job creation and ensure social protection. As for the key features of the State budget for FY2016/17, budget figures reveal total revenues amount to LE 670 billion, with a growth rate of around 29 percent relative to revenue estimates of current fiscal year. On the other hand, general expenditure estimates reached around LE 975 billion with a growth rate of around 20.5 percent. In light of these developments, the overall budget deficit ran to around LE 319 billion (about 9.8 percent of GDP), compared to a deficit of 11.8 percent for FY2015/16, and 11.5 percent for FY2014/15.

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

- It is noteworthy to mention that preliminary fiscal data for the year 2015/2016 are still under preparation and will be published when finalized. Meanwhile, the latest indicators for the period July-August 2016/2017 point to a budget deficit reaching LE 68.5 billion (2.1 percent of GDP), compared to LE 68.3 billion (2.5 percent of GDP) during the same period last year. On the revenue side, increases have been witnessed in tax revenues receipts driven by non-sovereign authorities, which are directly correlated to economic activity. That said, tax receipts from non-sovereign authorities increased by almost 9.1 percent during the period July- August 2016/2017, mainly driven by the increase of non-sovereign income taxes by 19.5 percent, and an increase in non-sovereign receipts from sales taxes by 3.5 percent. On the expenditure side, social justice still comes as a high priority in government spending. In this context, government contributions to pension funds have increased by 4.7 percent to record LE 8.7 billion. Moreover, investment spending rose significantly by 74.9 percent to record LE 5.7 billion, and which reflects the government interest 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.

- According to the latest detailed data by the Ministry of Planning, GDP has witnessed a 4.3 percent growth rate during July-March15/16, compared to 5.7 percent during the same period last fiscal year. Both public and private consumption continued to boost economic activity during the first nine months of FY15/16 with a total contribution of 5 PPT, compared to 5.3 PPT during the same period last year. Investments have contributed positively to growth by 0.8 PPT, compared to a higher contribution of 1.8 PPT during July-March14/15. On the other hand, net exports continued to be a constrain on growth with a negative impact of 1.6 PPT, compared to a negative contribution of 1.4 PPT during the same period last fiscal year.

- Net International Reserves (NIR) increased to US$ 19.59 billion, compared to US$ 16.56 billion in August 2016. It is noteworthy to mention that during September 2016 an amount of US$ 3 billion was received (US$ 1 billion as a loan from the World Bank and US$ 2 billion as a deposit from Saudi Arabia). Moreover, the month of August witnessed an inflow of US$ 1 billion as a deposit from UAE.

- As for the monetary developments, M2 annual growth rate increased by 18.3 percent in August 2016 reaching LE 2151.6 billion, compared to 17.8 percent (LE 2119.7 billion) 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 26.2 percent y-o-y to reach LE 2257.7 billion during the month of study, compared to 26.8 percent (LE 2222 billion) in July 2016. This offset the decline in net foreign assets of the banking system, which reached a negative value of LE 106.1 billion in August 2016, compared to a negative value of LE 102.3 billion in July 2016.

- Meanwhile, Headline Urban Inflation continued to rise significantly to record 15.5 percent during August 2016 (the highest since the last seven years), compared to 14.0 during July 2016, and compared to 7.9 percent during August 2015. Factors contributing to inflationary pressures include: the base effect and the decline of the CPI inflation during the period of comparison (the annual Inflation declined by 0.5 percentage point during August 2015, compared to July 2015). In addition, the increase in annual inflation of "Food and Beverages" group (the highest weight in CPI) has contributed to the increase in annual inflation rate during the month of study to record 19.3 percent, compared to 18.4 percent during the previous month, and compared to 8.2 percent during August 2015. In addition, other main groups have contributed to the increase in annual inflation rate during the month of study, on the top of which; "Housing", "Transportation", "Recreation and Culture", "Furnishing and House Equipment's", and "Miscellaneous Goods and Services". Meanwhile, other main groups have stabilized to record high inflation rates during the month of study, among which are; "Health", "Education" stabilized on high levels of inflation.

  As for average annual Headline inflation, it decelerated during the FY15/16 to record 10.2 percent, compared to 11 percent during 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 such as the increase of oil, electricity, and Tobacco prices.

- During its Monetary Policy Committee meeting held on September 22th, 2016, CBE decided to keep the overnight deposit rate, overnight lending rates, and the rate of CBE's main operation unchanged at 11.75 percent, 12.75 percent, and 12.25 percent, respectively. The discount rate was also kept unchanged at 12.25 percent.

- Moreover, total government debt (domestic and external) reached LE 2676.9 billion (96.6 percent of GDP) at end of March 2016.

- The Balance of Payments (BOP) showed an overall deficit of US$ 2.8 billion (-0.8 percent of GDP) during FY15/16, compared to a surplus of US$ 3.8 billion (1.1 percent of GDP) during

FY14/15. This mainly came in light of the increase witnessed in the current account deficit to record US$ 18.7 billion (-5.5 percent of GDP) during FY15/16, compared to a lower deficit of US$ 12.1 billion (-3.7 percent of GDP) during FY14/15. On the other hand, the capital and financial account witnessed net inflows of US$ 19.9 billion (5.8 percent of GDP) during the year of study, compared to lower net inflows of US$ 17.9 billion (5.4 percent of GDP) during FY14/15. Meanwhile, net errors and omissions recorded an outflow of US$ 4 billion (-1.2 percent of GDP) during the FY15/16, compared to an outflow of US$ 2.1 billion (-0.6 percent of GDP) during the year of comparison.

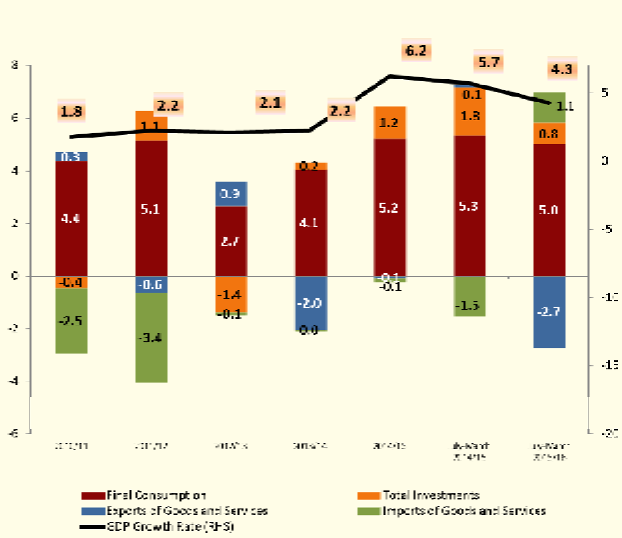
Ø *Real Sector:*

According to the latest detailed data by the Ministry of Planning, GDP has witnessed a 4.3 percent growth rate during July-March15/16, compared to 5.7 percent during the same period last fiscal year. Both public and private consumption continued to boost economic activity during the first nine months of FY15/16 with a total contribution of 5 PPT, compared to 5.3 PPT during the same period last year. Investments have contributed positively to growth by 0.8 PPT, compared to a higher contribution of 1.8 PPT during July-March14/15. On the other hand, net exports continued to be a constrain on growth with a negative impact of 1.6 PPT, compared to a negative contribution of 1.4 PPT during the same period last fiscal year.

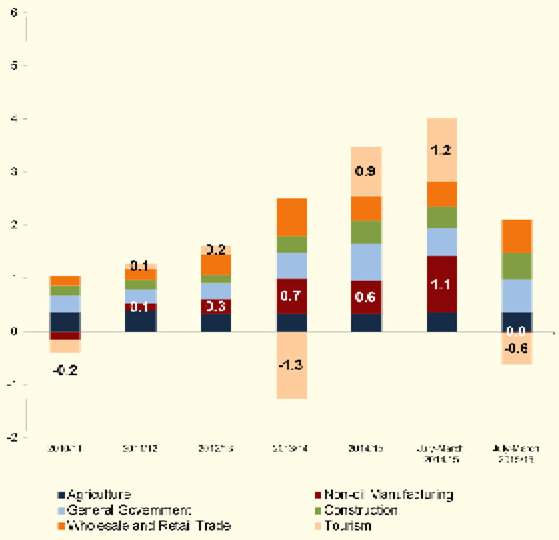
On the demand side, both public and private consumption maintained to be the key growth drivers during July-March15/16. Private consumption grew by 5.5 percent y-o-y, compared to 5.2 percent during the same period last fiscal year14/15, while public consumption grew by 3.6 percent in the period of study, compared to 8.7 percent, during the same period FY14/15. In the meantime, recent data shows that investments have increased by 5.6 percent in the first nine months of FY15/16, compared to 13.8 percent during the same period last fiscal year.

On the other hand, net exports constrained growth with a negative impact of 1.6 PPT, compared to a negative contribution of 1.4 PPT during July-March 14/15. This development came in light of a 19.4 percent decline in exports, with a negative contribution of 2.7 PPT to real GDP growth, compared to a positive contribution of 0.1 PPT during the same period last fiscal year, while imports decreased by 4.9 percent in the period of study, contributing positively by 1.1 PPT, compared to a negative contribution of 1.5 PPT during the same period last fiscal year.

Contribution to GDP Growth (at market prices) (PPT)
(2010/2011 - July-March 2015/2016)



Contribution to GDP Growth (at factor cost) (PPT)
(2010/2011 - July-March 2015/2016)



On the supply side, five key sectors led y-o-y growth, on top of which was the general government sector recorded a real growth rate of 7.0 percent (contributing 0.6 PPT during the period of study, compared to 0.5 PPT during the same period last fiscal year). Meanwhile, the construction sector witnessed a growth rate of 11.1 percent in the first nine months of FY15/16, contributing to around 0.5 PPT to GDP during, compared to 0.4 PPT during the same period last fiscal year. Moreover, the whole sale and retail sector expanded to record a 4.8 percent real growth rate during the period of study (contributing to growth by 0.6 PPT, compared to 0.5 PPT during the same period last fiscal year). Additionally, the agriculture sector witnessed a growth of 3.1 percent (stabilizing at a contribution of 0.4 PPT) and the real estate sector record a 3.9 percent real growth rate in July-March15/16 (contributing to growth by 0.3, compared to 0.2 PPT during the same period last fiscal year)

Taken together, the above-mentioned 5 key sectors represented around 47.7percent of total real GDP during the period of study.

Meanwhile, natural gas extraction continued to constrain growth during July – March 2015/16 declining by 11.2 percent (contributing negatively to growth by 0.7 PPT compared to 0.8 PPT).

Ø *Fiscal Sector Performance during July-August 2016/2017;*

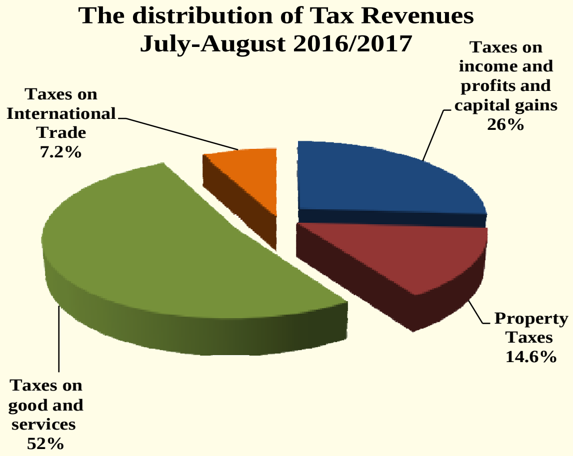
It is noteworthy that preliminary fiscal data for the year 2015/2016 is still under preparation and will be published when finalized. Meanwhile, the latest indicators for the period July-August 2016/2017 point to an improvement in tax revenue performance driven by non-sovereign authorities, which are directly correlated to economic activity. That said, tax receipts from non-sovereign authorities increased by 9.1 percent, mainly driven by the increase in non-sovereign receipts from income tax authority by 19.5 percent, and from sales taxes by 3.5 percent. Expenditures rose by 3.7 percent to reach LE 114.5 billion (3.5 percent of GDP) during the period of study, compared to LE 110.4 billion (4 percent of GDP) during the same period last fiscal year.

July- August 15/16 Budget Deficit LE 68.3 billion (2.5 percent of GDP)	July- August 16/17 Budget Deficit LE 68.5 billion (2.1 percent of GDP)
Revenues LE 46.3 billion (1.7 percent of GDP)	Revenues LE 46.7 billion (1.4 percent of GDP)
Expenditure LE 110.4 billion (4.0 percent of GDP)	Expenditure LE 114.5 billion (3.5 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

On the Revenues Side,

Total revenues increased by LE 0.3 billion (0.7 percent growth) to record LE 46.7 billion during July- August 2016/2017, compared to LE 46.3 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 1.8 billion (5 percent growth) to record LE 38 billion during the period of study, compared to LE 36 billion during the same period last fiscal year. Meanwhile, non-tax revenues declined by LE 1.5 billion (-14.3 percent growth) to record LE 8.7 billion during July-August 2016/2017, compared to LE 10.2 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 income has increased by 5.3 percent (LE 0.5 billion) to record LE 10 billion during the period of study, compared to LE 9.4 billion during the same period last fiscal year (especially with the increase in receipts from taxes on domestic salaries, and increased receipts from Other Companies).
- Taxes on goods and services receipts increased by 3.1 percent (LE 0.6 billion) to record LE 19.7 billion during the period of study, compared to LE 19.2 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 on services, as well as increased receipts from sales tax from stamp taxes).
- Moreover, property taxes receipts also increased by 36.8 percent (LE 1.5 billion) to reach LE 5.5 billion during the period of study, compared to LE 4 billion during the same period last fiscal year.

- On the other hand, receipts from taxes on international trade have recorded LE 2.7 billion during the period of study, declining by 22 percent, compared to LE 3.5 billion recorded during the same period of last fiscal year.

Detailed explanations are as follows:

Taxes on Income, Capital Gains and Profits increased by LE 0.5 billion (5.3 percent growth) to reach LE 10 billion (0.3 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 26 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from Other Companies (excluding Sovereign authorities, such as EGPC,CBE, SCA) by LE 1 billion (21.4 percent) to record LE 5.7 billion, of which:
    - Increase in taxes on domestic salaries by LE 0.5 billion (14 percent) to reach LE 4 billion in light of the significant increase in wages and salaries.
    - Increase in taxes on industrial & commercial profits by LE 0.2 billion (28 percent) to reach LE 1 billion.
- Increase in receipts from taxes on Other Companies by LE 0.4 billion (15.5 percent) to reach LE 2.8 billion.

Taxes on Goods and Services increased by LE 0.6 billion (3.1 percent growth) to reach LE 19.7 billion (0.6 percent of GDP).

Taxes on goods and services receipts represent 52 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 6.4 percent to record LE 8.9 billion.
- The increase in general sales tax on services by 13.5 percent to record LE 2.2 billion in light of the improved performance of international & domestic telecommunications services and Operating services for others.
- The increase in stamp tax (excludes stamp tax on salaries) by 15 percent to record LE 1.2 billion in light of the increase in receipts from stamp tax on contacts on each of; water, electricity, gas, telephone, as well as the increase in receipts on miscellaneous stamp tax, contracts, transportation, and insurance services.

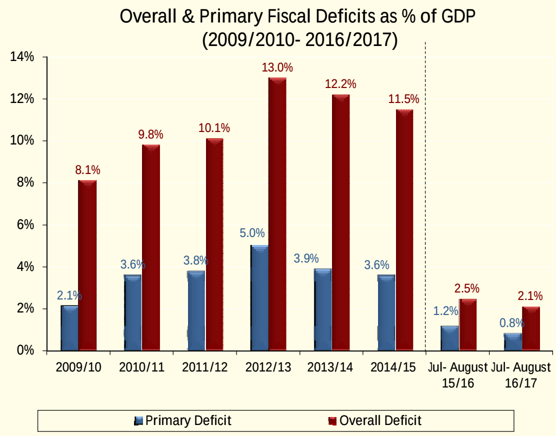
Property Taxes increased by LE 1.5 billion (36.8 percent growth) to reach LE 5.5 billion (0.2 percent of GDP).
- **Property Taxes receipts represent 14.6 percent of the total tax revenues.**

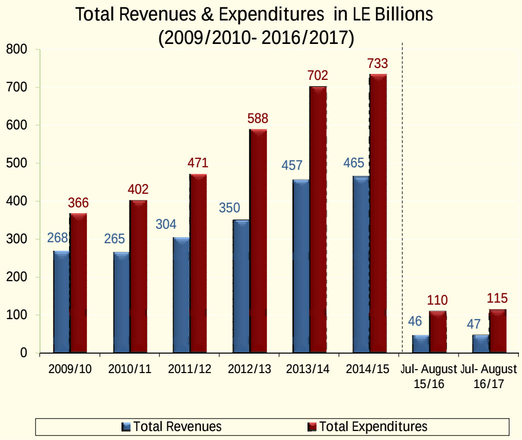
Mainly as a result of the increase in tax on T-bills and bonds payable interest by 42.7 percent to reach 4.9 billion during the period of study.

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

- Property income receipts recorded LE almost 3.8 billion rising by 15.1 percent during the period of study, compared to LE 3.3 billion recorded during July-August 2015/2016. Dividends collected from Economic Authorities increased by LE 0.1 billion (27.2 percent) to reach LE 0.6 billion during the period of study, compared to LE 0.5 billion during the same period last year.
- The increase in proceeds from sales of goods and services by LE 0.2 billion (8.4 percent) to reach LE 2.8 billion during July- August 2016/2017, compared to LE 2.5 billion during the same period last fiscal year (in light of the increase in receipts from special accounts and funds by 13.3 percent to reach LE 2 billion during the period of study, compared to LE 1.7 billion during the same period last fiscal year).
- Miscellaneous revenues rose during the period of study by LE 0.3 billion (21.8 percent) to LE 2 billion, compared to LE 1.6 billion during the same period of the last fiscal year.

- On the other hand, Grants declined by LE 2.6 billion during the period of study, compared to the same period last year.





Source: Ministry of Finance

§ *On the Expenditures Side:*

A key focus of the Ministry of Finance'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.

Total expenditures have reached LE 114.5 billion (3.5 percent of GDP) during the period July-August 2016/2017, recording an increase of 3.7 percent, compared to the same period of last year. The increase in expenditure during the period of study is considered to be the lowest if compared 26 percent representing the average achieved for the last three fiscal years during the same period of time, driven by the reforms implemented by the Ministry of Finance to control the increase in expenditures.

- Wages and compensation of employees rose by LE 0.9 billion (2.5 percent) to record LE 34.5 billion (1.1 percent of GDP) during the period of study.
- Purchase of goods and services have increased by LE 0.6 billion (23 percent growth) to reach LE 3 billion (0.1 percent of GDP).
- Interest payments rose by 17 percent growth to reach LE 41.7 billion (1.3 percent of GDP).
- Purchases of non-financial assets (investments) rose by LE 2.4 billion (0.2 percent of GDP), representing 74.9 percent growth to reach LE 5.7 billion.
- Subsidies, grants and social benefits have recorded LE 21 billion (0.6 percent of GDP) during the period of study, declining by 21.6 percent, compared to LE 26.7 billion during the same period of the last fiscal year. However, social benefits have increased by LE 0.7 billion (7.5 percent growth) to reach LE 10.4 billion, in light of the following:
  - ü The increase in contribution to pension funds by LE 0.4 billion (4.7 percent growth) to reach to LE 8.7 billion.

While, GASC spending has recorded LE 3.4 billion during the period of study compared to LE 8.3 billion the same period last year. This decline is mainly due to the differences in the time of buying domestic and imported wheat, and doesn't affect GASC subsidies. Whereas, GASC subsidies has increased by 11.6 percent during Budget FY2016/2017, compared to previous year budget.

- Other Expenditures recorded LE 8.7 billion (0.3 percent of GDP), declining by 0.3 percent compared to the same period last year.

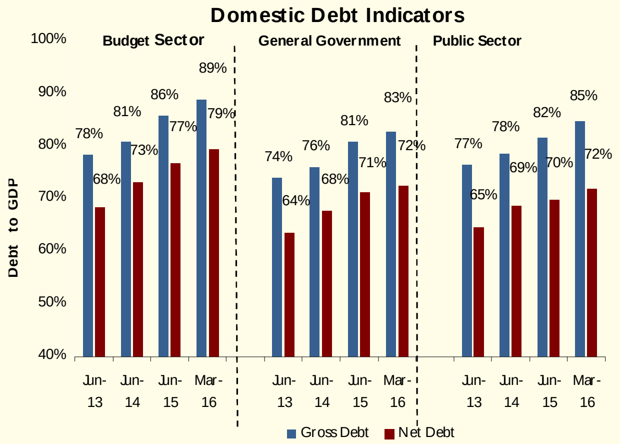
Ø *Public Debt:*

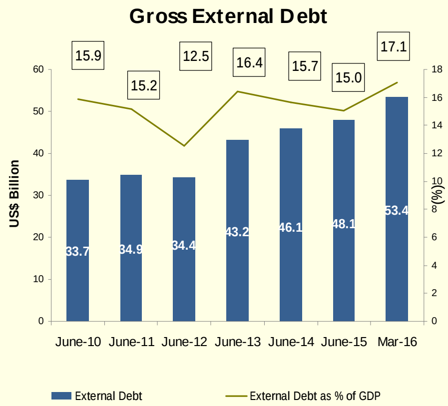
Total government debt (domestic and external) reached LE 2676.9 billion (96.6 percent of GDP) at end of March 2016, of which;

- Domestic budget sector debt recorded LE 2462.3 billion (88.9 percent of GDP) by end of March 2016, compared to LE 1998.2 billion (82.2 percent of GDP) by end of March 2015.

  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$ 53.4 billion (17.1 percent of GDP) at end of March 2016, 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$ 24.5 billion (7.8 percent of GDP) as of end of March 2016, compared to US$ 25.7 billion (8 percent of the GDP) at end of June 2015.





Ø *Monetary Perspective:*

As for the monetary developments, M2 annual growth rate increased by 18.3 percent in August 2016 reaching LE 2151.6 billion, compared to 17.8 percent (LE 2119.7 billion) 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 26.2 percent y-o-y to reach LE 2257.7 billion during the month of study, compared to 26.8 percent (LE 2222 billion) in July 2016. This offset the decline in net foreign assets of the banking system, which reached a negative value of LE 106.1 billion in August 2016, compared to a negative value of LE 102.3 billion in July 2016.

In August 2016, net claims on government annual growth increased by 29 percent (LE 1754.4 billion), compared to 27.8 percent during the previous month. Moreover annual growth in credit to the private sector increased by 14.5 percent at end of August 2016 to LE 720.7 billion, compared to 13.4 percent last month. This comes on the back of the increase in claims on private businesses sector annual growth by 13.1 percent (LE 508.3 billion) during the month of study, compared to 11.4 percent in July 2016. While claims on household sector annual growth reached 18.3 percent (LE 212.3 billion) in August 2016, compared to 18.5 percent in the previous month. Claims on public business sector annual growth slowed down to reach 29.6 percent (LE 94 billion) in August 2016, compared to a higher rate of 45.7 percent at end of July 2016.

On the other hand, net foreign assets (NFA) of the banking system continued to shrink significantly on annual basis, recording a negative value of LE 106.1 billion in August 2016, compared to LE -102.3 billion during the previous month. This decline continues in light of the significant drop in central bank net foreign to record LE -59.9 billion in August 2016, compared to LE -60.4 billion in July 2016. In addition, banks net foreign assets declined to reach a negative value of LE 46.2 billion in August 2016, compared to LE -41.9 billion in July 2016.

From the liabilities side, money annual growth increased to reach 17.2 percent (LE 594.1 billion) in August 2016, compared to 15.1 percent in the previous month. This could be attributed to the increase witnessed in currency in circulation annual growth, which reached 20.5 percent (LE 362.9 billion) in August 2016, compared to 14.9 percent in the previous month. This offset the slowdown witnessed in demand deposits in local currency from 15.5 percent in July 2016, to 12.4 percent (LE 231.2 billion) in August 2016.

Quasi money annual growth almost stabilized to reach 18.7 percent (LE 1557.5 billion) during August 2016, compared to 18.8 percent in July 2016. On a detailed level, local currency time and savings deposits and foreign currency demand deposits annual growth slowed down to reach 18.3 percent (LE 1229.6 billion) and 4.6 percent (LE 75.2 billion), respectively, in August 2016, compared to 18.6 percent and 5 percent, respectively, in the previous month. Foreign currency time and savings deposits annual growth rate increased by 25.6 percent (LE 252.8 billion) in August 2016, compared to 25.1 percent in July 2016.

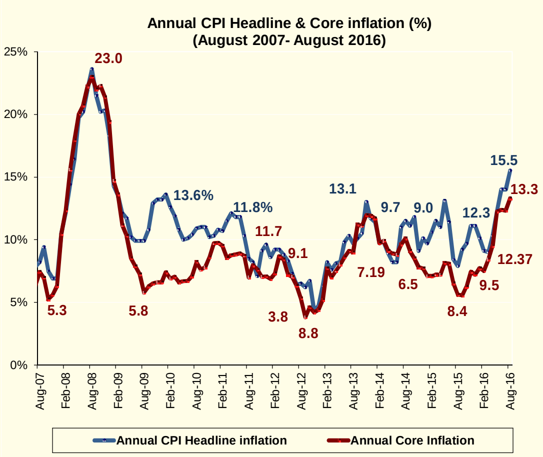
Total deposits annual growth – excluding deposits at the CBE – reached 22 percent y-o-y (LE 2123 billion) at the end of June 2016, compared to 22.3 percent at end of May 2016. Out of total deposits, 82.9 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by the banking sector (excluding CBE) increased by 31.3 percent (LE 942.7 billion) in June 2016, compared to 30.4 percent in the previous month. To that end, the loans-to-deposits ratio almost stabilized at 44.4 percent at end of June 2016, compared to 44.5 percent at end of May 2016, while it increased if compared to 41.3 percent in June 2015. (Detailed data for July and August 2016 are not yet available).

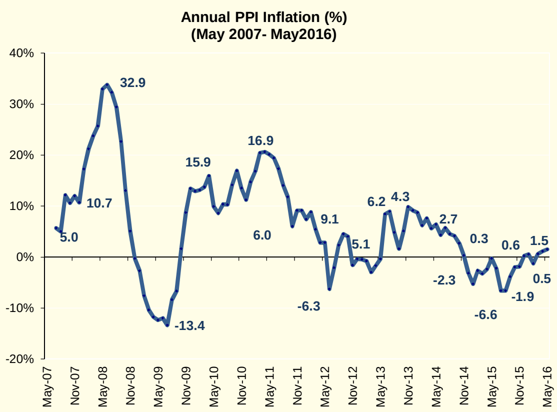
- During September 2016, net International Reserves (NIR) increased to US$ 19.59 billion, compared to US$ 16.56 billion in August 2016. It is noteworthy to mention that during September 2016 an amount of US$ 3 billion was received (US$ 1 billion as a loan from the World Bank and US$ 2 billion as a deposit from Saudi Arabia). Moreover, the month of August witnessed an inflow of US$ 1 billion as a deposit from UAE.

- Headline Urban Inflation continued to rise significantly to record 15.5 percent during August 2016 (the highest since the last seven years), compared to 14.0 during July 2016, and compared to 7.9 percent during August 2015. Factors contributing to inflationary pressures include: the base effect and the decline of the CPI inflation during the period of comparison (the annual Inflation declined by 0.5 percentage point during August 2015, compared to July 2015). In addition, the increase in annual inflation of “Food and Beverages” group (the highest weight in CPI) has contributed to the increase in annual inflation rate during the month of study to record 19.3 percent, compared to 18.4 percent during the previous month, and compared to 8.2 percent during August 2015.

- Meanwhile, other main groups have contributed to the increase in annual inflation rate during the month of study, on the top of which; “Housing, water, Electricity, Gas, and Other Fules” to record 8 percent, compared to 2.1 percent during last month, “Transport” to record 6.2 percent, compared to 3.8 percent during last month (in light of the increase in purchase of vehicles prices), “Recreation and Culture” to record 16.7 percent, compared to 12.6 percent during last month (in light of the increase in holidays prices), “Furnishing and House Equipment’s” to record 14 percent, compared to 13 percent during last month (in light of the increase in Household appliances prices), “Miscellaneous Goods and Services” to record 15.8 percent, compared to 13.9 percent during last month (in light of the increase in personal care products prices). Also, other main groups have stabilized to record high inflation levels during the month of study, on the top of which; "Health" to record 31 percent, "Education" to record 11.2 percent.

As for average annual Headline inflation, it decelerated during the FY15/16 to record 10.2 percent, compared to 11 percent during 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 such as the increase of oil, electricity, and Tobacco prices.





Meanwhile, Monthly inflation rose by 1.9 percent during August 2016, compared to 0.7 percent during July 2016, and compared to 0.6 percent during August 2015. This could be explained in light of the increase in "Food and Beverages" group to record 1.6 percent during August 2016, compared to 1.0 percent last month, and compared to 0.8 percent during August 2015.

Annual core inflation[1] continued to rise reaching 13.3 percent during August 2016, compared to 12.3 percent during the last month, and compared to 5.6 percent during August 2015. On the other hand, average annual core inflation has stabilized during the FY15/16 to record 8 percent, compared to 8.1 percent during the previous fiscal year. As for, the monthly core inflation it has recorded 0.6 percent during August 2016, compared to 0.2 percent during last month. This could be explained in light of the increase in "Retail items", "Paid Services", prices contributing by 0.43 percentage points to the monthly core inflation. In addition to the increase in "Food Prices", and "Other Services" contributing by 0.16, and 0.03 percentage points to the monthly core inflation.

- During its Monetary Policy Committee meeting held on September 22th, 2016, CBE decided to keep the overnight deposit rate, overnight lending rates, and the rate of CBE's main operation unchanged at 11.75 percent, 12.75 percent, and 12.25 percent, respectively. The discount rate was also kept unchanged at 12.25 percent.

- Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on October 11th, 2016 worth LE 200 billion with 7-day maturity at a fixed annual interest rate of 12.25 percent.

- The Egyptian Exchange market capitalization decreased by 2.0 percent m-o-m during September 2016 to reach LE 404.8 billion, compared to LE 413.2 billion in the previous month. The EGX-30 Index also decreased by a 3.4 percent during September 2016 to reach 7881.1

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'.

points, compared to closing at 8158 points by the end of August 2016. In addition, the EGX-70 also decreased by 1.6 percent, closing at 351.6 points compared to 357.5 points in the previous month.

- *On the External Sector side:*

BOP showed an overall deficit of US$ 2.8 billion (-0.8 percent of GDP) during FY15/16, compared to a surplus of US$ 3.7 billion (1.1 percent of GDP) during the 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$ 18.7 billion (-5.5 percent of GDP) during FY15/16, compared to a lower deficit of US$ 12.1 billion (-3.7 percent of GDP) during 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$ 37.6 billion (-11 percent of GDP) during FY15/16, compared to a deficit of US$ 39.1 billion during the last fiscal year, due to several factors on top of which the decline in world prices of oil and other staple commodities, which affect Egyptian imports and exports. These developments could be explained in light of the decrease witnessed in merchandise imports by 8.1 percent to record US$ 56.3 billion in FY15/16, compared to US$ 61.3 billion in FY14/15. This was accompanied by a 15.9 percent decrease in merchandise exports to record US$ 18.7 billion, compared to US$ 22.2 billion in the comparison year. 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) to reach US$ 5.7 billion during FY15/16 compared to US$ 8.9 billion during the previous fiscal year, which is a consequence of the fall in global crude oil prices by around 41.3 percent on average during FY15/16, despite the increase in quantities exported of crude oil during the year of study[2].
  - The services balance has declined by around 59.1 percent to record a surplus of US$ 2.1 billion (0.6 percent of GDP) during the year of study, compared to a higher surplus of around US$ 5 billion (1.5 percent of GDP) during FY14/15. This came in light of the decline in current receipts by 25.2 percent to record US$ 16.5 billion during FY15/16, compared to US$ 22 billion in FY14/15. This was mainly due to the decrease witnessed in tourism receipts to reach US$ 3.8 billion during FY15/16, compared to US$ 7.4 billion in the last fiscal year, as the number of tourist nights decreased to record 51.8 million nights during the year of study, compared to 99.2 million nights in FY14/15.
  - Net official transfers declined to record US$ 0.1 billion during the year of study, compared to US$ 2.7 billion during 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 year reflected exceptional inflows.
- Meanwhile, the capital and financial account witnessed net inflows of US$ 19.9 billion (5.8 percent of GDP) during the year of study, compared to lower net inflows of US$ 17.9 billion (5.4 percent of GDP) during FY14/15, mainly due to the following:

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[2] It is worthy to highlight that exports of crude oil represent 62.7 percent of total oil exports and 19 percent of total merchandise exports during the year of study.

  - Net foreign direct investments in Egypt increased to reach US$ 6.8 billion (2 percent of GDP) in FY15/16, compared to US$ 6.4 billion (1.9 percent of GDP) in the comparison year, driven mainly by the rise in the net inflows for greenfield investments to reach US$ 4.5 billion in FY15/16, up from US$ 3.8 billion during the last fiscal year, and net inflow of US$1.6 billion for oil sector investments.
  - Portfolio investment in Egypt recorded net outflows of US$ 1.3 billion (-0.4 percent of GDP) in FY15/16, compared to net outflows of US$ 0.6 billion (-0.2 percent of GDP) during the year of comparison, in light of the repayment of US$ 1.25 billion USD matured notes in September 2015, which were issued in 2005.
  - Other investments increased to register net inflows of US$ 14.4 billion (4.2 percent of GDP) during the year of study, compared to net inflows of US$ 12.5 billion (3.8 percent of GDP) during the last fiscal year. This came on the back of the increase witnessed in short-term suppliers' credit to reach US$ 5.8 billion during the year of study, compared to US$ 5.3 billion during the year of comparison. 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$ 8.3 billion during the year of study, compared to US$ 7.5 billion during the year of comparison.

- § Net errors and omissions recorded a net outflow of US$ 4 billion (-1.2 percent of GDP) during FY15/16, compared to an outflow of US$ 2.1 billion (-0.6 percent of GDP) during the year of comparison.

Ø According to the latest published figures, the total number of tourist arrivals declined during August 2016 to reach 0.5 million tourists, compared to 0.9 million tourists in August 2015. Moreover, tourist nights decreased to reach 3.5 million nights during the month of study, compared to 9 million nights during the same month last year.