Executive Summary

Main Highlights…

On November 3, 2016, the Egyptian government announced a number of necessary and key reform measures, which come in line with the economic reform program launched since mid-2014. The reform program aims to improve Egypt's macro-economic environment, achieve fiscal and monetary stability, reduce inflation and increase growth and employment rates. On top of such reforms; the Central Bank of Egypt's decision to liberalize the exchange rate regime, in order to eliminate market distortions, combat parallel market trading, and increase availability. In accordance, a decision was taken to lift partially fuel subsidies which led to a relative increase in petroleum products prices with the aim of directing receipts towards supporting the most vulnerable low-income groups, particularly underprivileged governorates. Such redirection of funds is therefore geared towards improving the quality and efficiency of services such as health, education and infrastructure while reducing the state budget deficit.

The government recognizes parallely the importance of introducing key additional reform measures to achieve social protection for low-income groups to mitigate the expected effects from above mentioned reforms, some of which are:

- Increasing the number of families benefiting from "Takaful & Karama" from 1 million families to 1.7 million families, reducing the age of the beneficiaries from 65 to 60 years and increasing funds by an additional LE 2.5 billion by the end of June 2017.
- In accordance with the new Civil service Law, government employees will receive periodic bonuses effective July 1st 2016. This will amount to an additional LE 3.5 billion pounds borne by the state budget.
- Intensifying the efforts of state agencies to stabilize the market and prohibit the use of monopolistic practices. This will come in coordination with the Ministries of Interior, Supply and various governorates.
- Monthly increase from LE 18 to LE 21 pounds in the value of provisions targeted to each individual on their ration cards. This will amount to an additional expense of LE 2.5 billion. It is noteworthy to mention that provisions previously increased from LE 15 to LE 18 pounds. The total of past and current cost reached LE 5 billion to be borne by the state budget. There are also efforts underway to further develop ration cards to ensure provisions are delivered to those in need.
- Expansion of the school meal program to cover primary and secondary levels of education in schools, seven days a week, including 12 million students at a total cost of up to LE 1.25 billion, with the additional integration of kindergarten students in the program.
- Increase the supply prices of one ton of barely rice from LE 2,300 / LE 2,400 to LE 3,000.
- Increase the supply prices of agricultural crop to support Egypt's farmers, encouraging them to increase cultivation of strategic crops to meet basic needs and reduce imports.
- Provide US$ 1.8 billion for the importation of capital goods with the aim of creating ample strategic reserves from receipts for six months, in order to preserve the availability of USD in local markets.

In addition, the Ministry of Finance is steadfast in establishing permanent and continuous communication channels with the Egyptian civil society and is adamant in responding to requests and demands, in order to effectuate principles of transparency and free access to public financial data on a regular basis. Data is published on the ministry's website to facilitate healthy discourse and debate, while providing researchers and analysts easy access. In addition, starting next month, data will be published in accordance to a detailed functional classification.

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

- It is noteworthy that final accounts of the state budget 2015/2016 has been presented to the parliament and will be published by the next month financial monthly bulletin. Meanwhile, the latest indicators for the period July-September 2016/2017 point to a budget deficit reaching LE 76.8 billion (2.4 percent of GDP), compared to LE 78.3 billion (2.8 percent of GDP) during the same period last year. Despite the slight decrease in tax revenues; tax revenues receipts driven by non-sovereign authorities, which are directly correlated to economic activity, witnessed an increase by almost 8.8 percent during the period of study. This is mainly driven by the increase in non-sovereign income taxes and sales taxes receipts by 14 percent and 5.9 percent, respectively. 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 4.6 percent to record LE 13 billion. Moreover, investment spending rose significantly by 17 percent to record LE 8.9 billion, which reflects the government interest to increase investments in infrastructure and to improve public services.

- According to the latest detailed data by the Ministry of Planning, GDP has witnessed a 4.3 percent growth rate during July-March 15/16, 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-March 14/15. 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) decreased to US$ 19.04 billion in October 2016, from US$ 19.59 billion in September 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 2016 witnessed an inflow of US$ 1 billion as a deposit from UAE.

- As for the monetary developments, M2 annual growth rate increased at a slower pace by 18.1 percent in September 2016 reaching LE 2185.2 billion, compared to 18.3 percent (LE 2151.6 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 24.8 percent y-o-y to reach LE 2296.9 billion during the month of study, compared to a higher rate of 26.5 percent (LE 2263.9 billion) in August 2016. This offset the decline witnessed in net foreign assets of the banking system, which reached a negative value of LE 111.8 billion in September 2016, compared to a negative value of LE 112.2 billion in August 2016.

- Meanwhile, Headline Urban Inflation continued to rise recording 14.1 percent during September 2016, compared to a higher rate of 15.5 during August 2016, and compared to 9.2 percent during September 2015. Factors contributing to inflationary pressures include: The increase in annual inflation of "Food and Beverages" group (the highest weight in CPI) to record 14.8 percent during the month of study, compared to a higher rate of 19.3 percent during the previous month, and compared to 11 percent during September 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; “Alcoholic Beverages and Tobacco”, “Clothing and Footwear”, “Transport”, “Communications”, and “Restaurants and Hotels”.

As for average annual Headline inflation, it increased during July- September 16/17 to record 14.5 percent, compared to 8.5 percent during the same period last year.

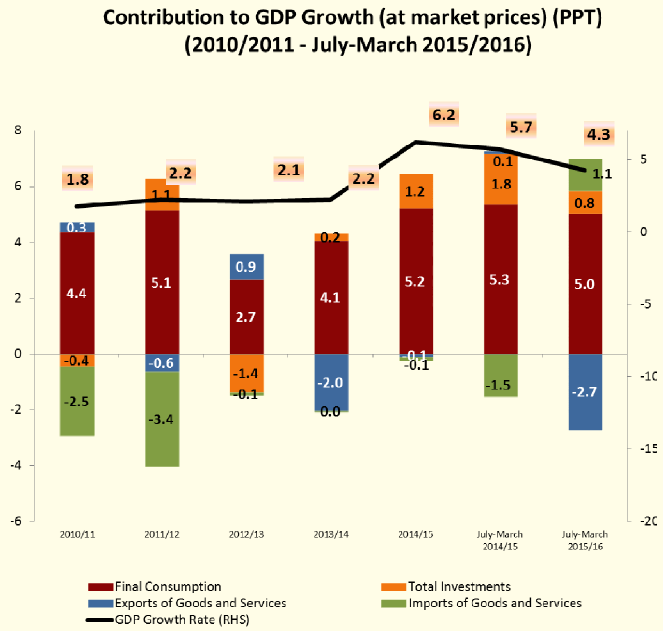
- During its Monetary Policy Committee meeting held on November 3rd, 2016, CBE decided to increase the overnight deposit rate, overnight lending rates and the rate of CBE's main operation by 300 basis points to record 14.75 percent, 15.75 percent and 15.25 percent, respectively. The discount rate was also increased by 300 basis points to record 15.25 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.

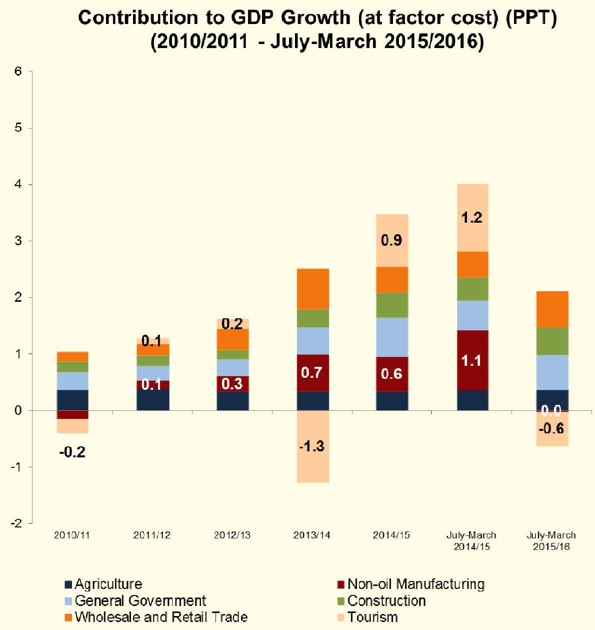
Real Sector:

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.





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-September 2016/2017;*

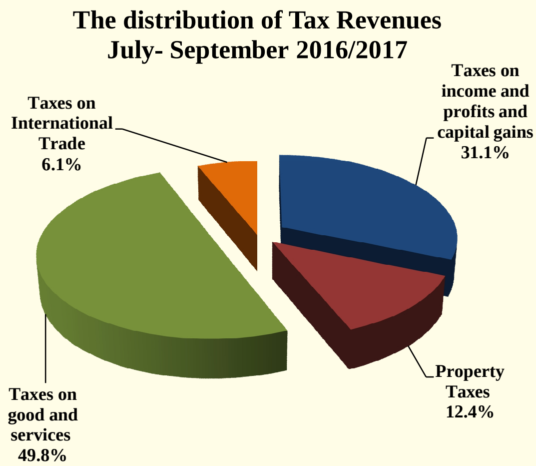
It is noteworthy that final accounts of the state budget 2015/2016 has been presented to the parliament and will be published by the next month financial monthly bulletin. Meanwhile, the latest indicators for the period July-September 2016/2017 point to that despite the slight decrease in tax revenues; tax revenues receipts driven by non-sovereign authorities, which are directly correlated to economic activity, witnessed an increase by almost 8.8 percent during the period of study. This is mainly driven by the increase in non-sovereign income taxes and sales taxes receipts by 14 percent and 5.9 percent, respectively. Expenditures rose by 1.3 percent (it's the lowest growth rate recorded during the period July-September in the last three years), to reach LE 172.2 billion (5.3 percent of GDP) during the period of study, compared to LE 170 billion (6.1 percent of GDP) during the same period last fiscal year. This led to a deficit which referred in the following table.

July- September 15/16 Budget Deficit LE 78.3 billion (2.8 percent of GDP)	July- September 16/17 Budget Deficit LE 76.8 billion (2.4 percent of GDP)
Revenues LE 100 billion (3.6 percent of GDP)	Revenues LE 96.8 billion (3 percent of GDP)
Expenditure LE 170 billion (6.1 percent of GDP)	Expenditure LE 172.2 billion (5.3 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

On the Revenues Side,

Total revenues recorded LE 96.8 billion during the period of study, compared to LE 100 billion recorded during July-September 15/16. These developments could be explained mainly in light of the decline of tax revenues by LE 0.4 billion to record LE 64.1 billion during the period of study, compared to LE 64.5 billion during the same period last fiscal year. Meanwhile, non-tax revenues declined by LE 3 billion to record LE 32.7 billion during July-September 16/17, compared to LE 35.6 billion the same period last fiscal year.



Detailed explanations are as follows:

<u>On the Tax Revenues Side</u>

Tax receipts from goods and services, and property taxes have improved during the period of study, mainly driven by tax reforms adopted since the beginning of the current fiscal year, which was reflected as follows:

- Taxes on goods and services receipts increased by 7 percent (LE 2 billion) to record LE 32 billion during the period of study, compared to LE 30 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 35 percent (LE 2 billion) to reach LE 8 billion during the period of study, compared to LE 6 billion during the same period last fiscal year.
- On the other hand, receipts from taxes on income, capital gains, and profits recorded LE 20 billion during July-September 16/17, declining by -15.3 percent (LE 3.6 billion), compared to LE 23.6 billion during the same period of the last fiscal year due to the decrease in taxes on corporate profits[2]. However, tax receipts from Other Companies

2/ The decline in taxes on corporate profit from Suez Canal is mainly due to the differences in time of recording Suez Canal receipts, and does not affect Suez Canal income. Whereas, taxes receipts from Suez Canal are expected to record additional revenues during the coming period.

rose by 11.2 percent, compared to the same period last year, to record LE 5.3 billion during the period of study.

- Receipts from Taxes on international trade recorded LE 4.2 billion during July-September 16/17, compared to LE 5 billion during the same period last fiscal year.

Taxes on Goods and Services increased by LE 2 billion (7 percent growth) to reach LE 32 billion (1 percent of GDP).

Taxes on goods and services receipts represent 49.8 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 7.5 percent to record LE 14 billion.
- The increase in general sales tax on services by 16.5 percent to record LE 3.4 billion in light of the improved performance of international & domestic telecommunications services and Operating services for others.
- Excises on domestic goods (Table 1) by 2.9 percent to record LE 10.7 billion
- The increase in stamp tax (excludes stamp tax on salaries) by 24 percent to record LE 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 2 billion (35 percent growth) to reach LE 8 billion (0.2 percent of GDP).

- **Property Taxes receipts represent 12.4 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 37 percent to reach 6.8 billion during the period of study.

On the Non-Tax Revenues Side,

- Proceeds from sales of goods and services rose by 1.6 percent to reach LE 4.4 billion during July- September 16/17, compared to LE 4.3 billion during July- September 15/16 (in light of

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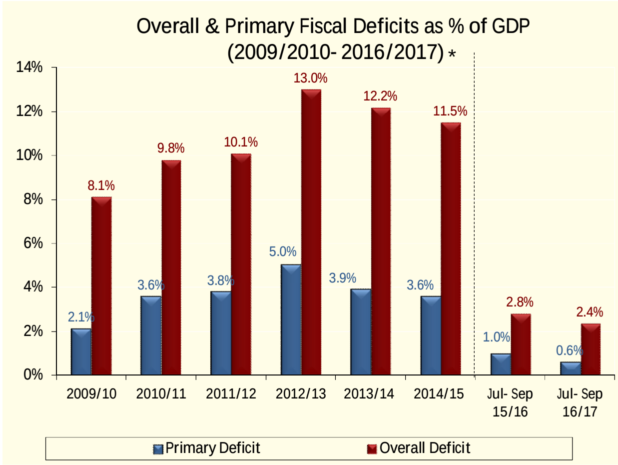
Meanwhile, the decline in taxes on corporate profit from CBE is mainly due the CBE's repayment of around LE 6 billion during the period of comparison (Q1-FY16/17), which represents an advanced income tax repayment for the FY15/16. Unlike previous years the CBE's deduction of income tax was recorded during the corresponding year rather than the following year. This does not affect CBE income. Whereas, taxes receipts from CBE are expected to record additional revenues during the coming period.

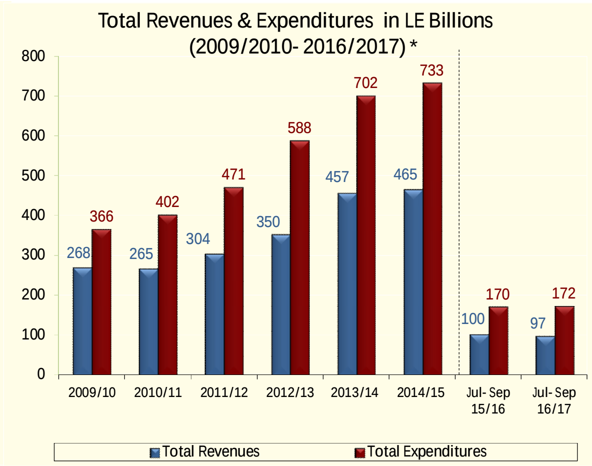
the increase in receipts from special accounts and funds by 12.6 percent to reach LE 3.3 billion during the period of study, compared to LE 3 billion during July- September 15/16).

- On the other hand, property income receipts recorded LE 24.8 billion declining by -3.7 percent during the period of study, compared to LE 25.8 billion recorded during July-September 15/16. However, dividends collected from Suez Canal increased by LE 0.2 billion (5.5 percent) to reach LE 4.8 billion during the period of study, compared to LE 4.5 billion during the same period last year. In addition, there was an increase in dividends collected from economic authorities by LE 0.8 billion (80.3 percent) to reach LE 1.8 billion during July-September 16/17, compared to LE 0.9 billion during the same period last fiscal year.

- Miscellaneous revenues recorded LE 2.7 billion declining by -3.9 percent during the period of study, compared to LE 2.8 billion recorded during July-September 15/16.

Meanwhile, Grants recorded LE 0.1 billion during the period of study, compared to LE 2.6 billion recorded during the same period last fiscal year.





* It is noteworthy that final accounts of the state budget 2015/2016 has been presented to the parliament and will be published by the next month financial monthly bulletin.

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 172.2 billion (5.3 percent of GDP) during the period July-September 16/17, recording an increase of 1.3 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 27 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 0.1 percent to record LE 55.3 billion (1.7 percent of GDP) during the period of study.
- Purchase of goods and services have increased by LE 0.5 billion (10 percent growth) to reach LE 5.7 billion (0.2 percent of GDP).
- Interest payments rose by 12.8 percent growth to reach LE 57.2 billion (1.8 percent of GDP).

- Purchases of non-financial assets (investments) rose by LE 1.3 billion (0.3 percent of GDP), growing by 17 percent growth to reach LE 9 billion.
- Subsidies, grants and social benefits recorded LE 32 billion (1 percent of GDP) during the period of study, declining by 15.4 percent, compared to LE 38 billion during the same period of the last fiscal year.
  - GASC spending recorded LE 5 billion during the period of study, compared to LE 10 billion during July-September 15/16. This is mainly due to the differences in the time of buying domestic and imported wheat, which doesn't affect GASC subsidies. It's noteworthy to mention that, GASC subsidies increased by 11.6 percent during Budget FY16/17, compared to Budget FY15/16.

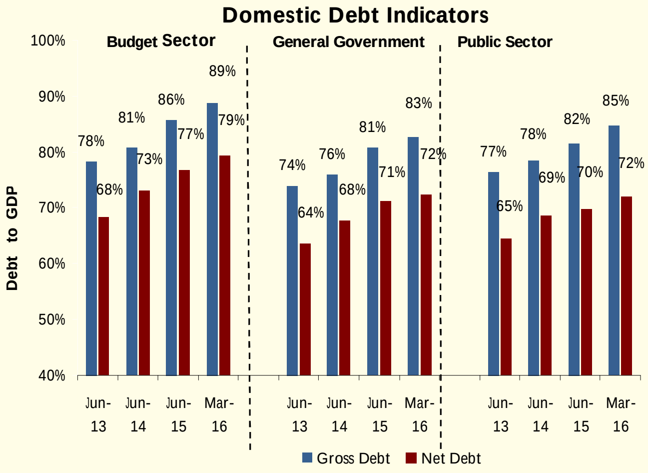
  However, social benefits have increased by LE 1.3 billion (9.2 percent growth) to reach LE 16 billion, in light of the increase in contribution to pension funds by LE 0.6 billion (4.6 percent growth) to reach to LE 13 billion.
- Other Expenditures recorded LE 13 billion (0.4 percent of GDP), declining by -1.4 percent, compared to the same period last fiscal year.

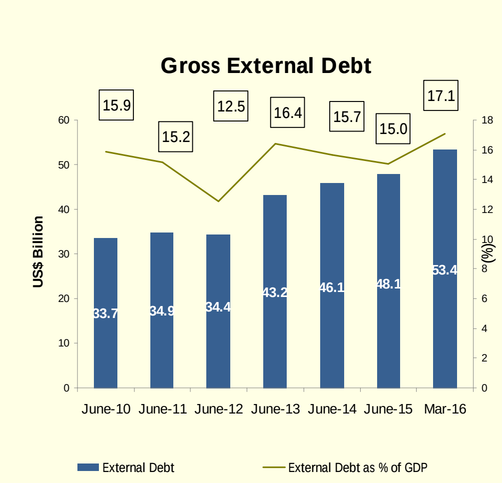
Public Debt:

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 at a slower pace by 18.1 percent in September 2016 reaching LE 2185.2 billion, compared to 18.3 percent (LE 2151.6 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 24.8 percent y-o-y to reach LE 2296.9 billion during the month of study, compared to a higher rate of 26.5 percent (LE 2263.9 billion) in August 2016. This offset the decline witnessed in net foreign assets of the banking system, which reached a negative value of LE 111.8 billion in September 2016, compared to a negative value of LE 112.2 billion in August 2016.

In September 2016, net claims on government annual growth increased at a slower rate by 27.3 percent (LE 1762.8 billion), compared to 28.7 percent during the previous month. Moreover claims on public business sector annual growth eased to reach 26.9 percent (LE 95.1 billion) in September 2016, compared to a higher rate of 29.6 percent at end of August 2016. Annual growth in credit to the private sector increased by 15.6 percent at end of September 2016 to LE 729 billion, compared to 14.5 percent last month. This comes on the back of the increase in claims on private businesses sector annual growth by 14.9 percent (LE 515.6 billion) during the month of study, compared to 13.1 percent in August 2016. Meanwhile, claims on household sector annual growth eased to reach 17.2 percent (LE 213.4 billion) in September 2016, compared to 18.3 percent in the previous month.

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 111.8 billion in September 2016, compared to LE -112.2 billion during the previous month. This decline continues in light of the significant drop in central bank net foreign to record LE -57.2 billion in September 2016, compared to LE -66.3 billion in August 2016. In addition, banks net foreign assets declined to reach a negative value of LE 54.6 billion in September 2016, compared to LE -45.9 billion in August 2016.

From the liabilities side, quasi money annual growth stabilized at 18.7 percent – for the second month in a row – to reach LE 1578 billion in September 2016. On a detailed level, local currency time and savings deposits and foreign currency demand deposits annual growth increased to reach 18.7 percent (LE 1251.7 billion) and 4.9 percent (LE 74.6 billion), respectively, in September 2016, compared to 18.3 percent and 4.6 percent, respectively, in the previous month. Foreign currency time and savings deposits annual growth rate slowed down to reach 23.8 percent (LE 251.8 billion) in September 2016, compared to 25.6 percent in August 2016.

Money annual growth slowed down to reach 16.5 percent (LE 607.2 billion) in September 2016, compared to 17.2 percent in the previous month. This could be attributed to the slowdown witnessed in currency in circulation annual growth, which reached 18.9 percent (LE 370.1 billion) in September 2016, compared to 20.5 percent in the previous month. This offset the increase witnessed in demand deposits in local currency from 12.4 percent in August 2016, to 12.9 percent (LE 237 billion) in September 2016.

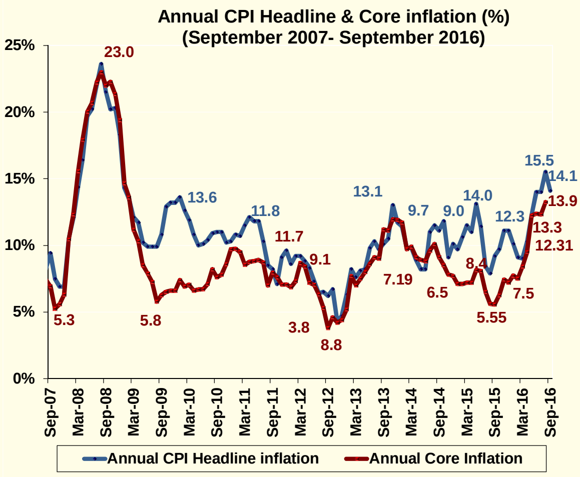
Total deposits annual growth – excluding deposits at the CBE – reached 20.2 percent y-o-y (LE 2138.5 billion) at the end of July 2016, compared to 22 percent at end of June 2016. Out of total deposits, 83.2 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by the banking sector (excluding CBE) slowed down to reach 30 percent (LE 944.3 billion) in July 2016, compared to 31.3 percent in the previous month. To that end, the loans-to-deposits ratio decreased to reach 44.2 percent at end of July 2016, compared to 44.4 percent at end of June 2016, while it increased if compared to 40.8 percent in July 2015. (Detailed data for August and September 2016 are not yet available).

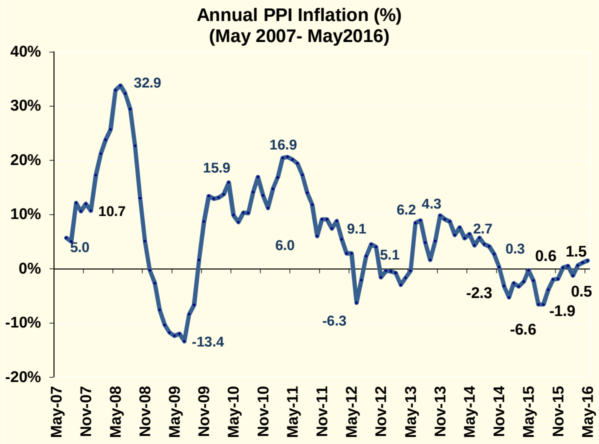
- During October 2016, net International Reserves (NIR) decreased to US$ 19.04 billion, from US$ 19.59 billion in September 2016. It is noteworthy to mention that during September 2016 an amount of US$ 3 billion was received (US$ 1 billion as a loan from the World Bank and US$ 2 billion as a deposit from Saudi Arabia). Moreover, the month of August 2016 witnessed an inflow of US$ 1 billion as a deposit from UAE.

- Headline Urban Inflation continued to rise recording 14.1 percent during September 2016, compared to a higher rate 15.5 during August 2016, and compared to 9.2 percent during September 2015. Factors contributing to inflationary pressures include: The increase in annual inflation of “Food and Beverages” group (the highest weight in CPI) to record 14.8 percent during the month of study, compared to a higher rate of 19.3 percent during the previous month, and compared to 11 percent during September 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; “Alcoholic Beverages and Tobacco” to record 17.9 percent, compared to 3 percent during the previous month, “Clothing and footwear” to record 14.1 percent, compared to 10.2 percent during the previous month, “Transport” to record 6.7 percent, compared to 6.2 percent during the previous month, “Communications” to record 1.7 percent, compared to 0.1 percent during the previous month, and “Restaurants and Hotels” to record 25.5 percent, compared to 19.5 percent during the previous month.

  Meanwhile, other main groups continued to record high annual inflation rates during the month of study, but at a slower pace compared to last month, on the top of which; “Health” to record 26.2 percent, compared to 31 percent during last month, “Recreation and Culture” to record 15.7 percent, compared to 16.7 percent during last month, “Furnishing and House Equipment’s” to record 13.8 percent, compared to 14 percent during last month. On the other hand, “Education” has recorded 11.2 percent during the month of study, stabilizing at the same rate during previous month.

  As for average annual Headline inflation, it increased during July- September 16/17 to record 14.5 percent, compared to 8.5 percent during the same period last year.





Meanwhile, Monthly inflation has recorded 1.2 percent during September 2016, compared to 1.9 percent during August 2016, and compared to 2.5 percent during September 2015. This could be explained in light of the increase in "Food and Beverages" group to record 0.7 percent during September 2016, compared to 1.6 percent during last month, and compared to 4.6 percent during September 2015.

- Annual core inflation[3] continued to rise reaching 13.93 percent during September 2016, compared to 13.25 percent during the last month, and compared to 5.6 percent during September 2015. On the other hand, average annual core inflation has increased during July-September 16/17 to record 13.2 percent, compared to 5.9 percent during the same period last year.

  As for the monthly core inflation, it has recorded 1.39 percent during September 2016, compared to 0.61 percent during last month. This could be explained in light of the increase in "Food Prices" contributing by 0.56 percentage points to the monthly core inflation. In addition to the increase in "Retail Items", "Paid Services" prices contributing by 0.40 and 0.44 percentage points to the monthly core inflation.

- During its Monetary Policy Committee meeting held on November 3rd, 2016, CBE decided to increase the overnight deposit rate, overnight lending rates, and the rate of CBE's main operation by 300 basis points to record 14.75 percent, 15.75 percent, and 15.25 percent, respectively. The discount rate was also increased by 300 basis points to record 15.25 percent. MPC justified such decision in light of the recent reform measures the CBE is implementing to ensure a liberalized exchange rate regime, and to quell the distortions in the domestic foreign currency market. Those reforms are complementing the fiscal reform measures the government is currently adopting, aiming to foster economic growth and increase job creation.

- Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on November 1st, 2016 worth LE 215 billion with 7-day maturity at a fixed annual interest rate of 12.25 percent.

  The Egyptian Exchange market capitalization slightly increased by 0.3 percent m-o-m during October 2016 to reach LE 413.4 billion, compared to LE 412 billion in the previous month. The EGX-30 Index also increased by 3.1 percent during October 2016 to reach 8386 points,

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3/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'.

compared to closing at 8133.1 points by the end of September 2016. On the other hand, the EGX-70 decreased by 1.9 percent, closing at 344.9 points compared to 351.7 points in the previous month.

Ø *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[5].

  – 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:

  – 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

[5] 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.

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 September 2016 to reach 0.5 million tourists, compared to 0.8 million tourists in September 2015. Moreover, tourist nights decreased to reach 3 million nights during the month of study, compared to 6.9 million nights during the same month last year.