Executive Summary

Main Highlights…

The Egyptian government is keen on fostering wide-spread economic development, ultimately paving the way for a prosperous and thriving economy. The government is also set on continuing its reform program in tackling some of Egypt's long standing structural problems. The economic reform program was launched in mid-2014 with the aim of improving the macro-economic environment and achieving fiscal and monetary stability, eventually realizing Egypt's true economic potential. To this end, since the launch of the program, a number of reforms came to fruition and their fiscal impact was realized in the state budget.

One of the key structural economic reforms came in the shape of the central bank's decision to liberalize the exchange rate regime in order to adjust foreign exchange policies, while putting an end to parallel market trading. In addition, the government also implemented the new phase of the petroleum subsidy reform, rearranged public spending to allocate additional resources towards funding the development of the health, education and infrastructure sectors, and issued dollar-denominated bonds in international markets to attract foreign investments.

Comprehensive reform program to achieve better distribution of income while creating tangible results to improve citizens' standards of living

Efficient and transparent fiscal policy :
Stable and fair tax system takes into account the lower-income groups, increases spending on social programs, controls public finance of the general budget to decrease public debt and deficit rates

Effective monetary policy:

A flexible exchange rate,
Structural and institutional reforms to control price hikes

We are building a new Egypt that will be more self-reliant and brings its debts down, while still making sure we deliver opportunity for everyone

Reducing unemployment rates in the short and medium term, to between 10-11% by fiscal year 2018/2017

Increasing government investment to develop infrastructure, improve public services, encourage economic activity and raise productivity to improve citizens' standards of living (water and sanitation systems, roads, bridges, subway lines .....)

The Egyptian government was also successful in securing a $12 billion IMF loan in November 2016. Following the loan approval, the International Monetary Fund issued a well-balanced press release elaborating on the strengths of the Egyptian economy, while pointing out imminent challenges facing it. The IMF also stressed its confidence in the fact that the economic reform program is well positioned and equipped to meet the cited challenges. In addition, the Fund also corroborated that the reform program would ultimately result in increased growth rates, fiscal and economic stability, protection of low-income groups and the improvement of public services. Finally it was stated that the reform program was constructed on four key pillars, they are:

1. A significant policy adjustment including (1) liberalization of the foreign exchange system to eliminate forex exchange shortages and encourage investment and exports; (2) monetary policy aimed at containing inflation; (3) strong fiscal consolidation to ensure public debt sustainability;
2. Strengthening social safety nets by increasing spending on food subsidies and cash transfers;

3. Far-reaching structural reforms to promote higher and inclusive growth, increasing employment opportunities for youth and women;
4. Fresh external financing to close the financing gaps

On the other hand, Standard & Poor's upgraded the future outlook of the Egyptian economy from the negative to stable during November 2016. This came in light of the preceding IMF endorsement and support of Egypt. Standard & Poor's also predicted that the Egyptian economy will begin to recover during 2018 and 2019, mitigated by increased foreign direct investments and the recovery of domestic consumption. In the same context, Fitch Ratings affirmed Egypt at “B” with stable future outlook, while Moody's retained its credit rating for Egypt at B3 with a stable outlook.

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 is still under review by the Parliament and will remain preliminary until being approved. Actual budget figures for the FY15/16 reveals the overall budget deficit to record LE 339.5 billion (12.3 percent of GDP), compared to LE 279.4 billion (11.5 percent of GDP) in the prior fiscal year. Excluding grants, the budget deficit fell by about 0.2 percentage points reflecting the magnitude of the underlying structural fiscal adjustment that was achieved during the period of study.

  On the other hand, better performance has been witnessed on the revenue side. Total revenues have increased by LE 26.3 billion (5.6 percent growth) to record LE 491.5 billion, compared to LE 465.2 billion during FY14/15. This came in light of the significant increase in tax revenues by LE 46.4 billion (15.2 percent growth), (83.4 percent of the same year budget). The notable increase in tax revenues is justified in terms of the structural reforms adopted by the government since the mid of FY 2014 contributing to the improvement in most tax chapters, on the top of which; the increase in receipts from taxes on income by 11.5 percent (91.2 percent of the same year budget), receipts from taxes on goods and services rose by 14.3 percent (76.3 percent of the same year budget), receipts from taxes on international trade increased by 28.5 percent (102.5 percent of the same year budget), receipts from property taxes rose by 32.6 percent (68 percent of the same year budget). On the other hand, non-tax revenues indicates few relies on Grants, and which has dropped to LE 3.5 billion during the FY 15/16, compared to LE 25 billion during FY 14/15, and compared to LE 95 billion during FY 13/14.

  On the expenditure side, tax revenues increases have helped contain the increase in expenditures. Total expenditures have increased by LE 84.5 billion (11.5 percent growth) to record LE 817.8 billion during FY15/16, compared to LE 733.3 billion during FY 14/15. Meanwhile, social spending remained as a key pillar in FY 2015/2016 to reach LE 396 billion (representing around 49.5 percent of total expenditures, and around 80.6 percent of total revenues), of which LE 43 billion were tailored to food subsidies, increasing by LE 3.3 billion (8.5 percent growth) compared to FY 14/15. Moreover, electricity subsidies have increased by LE 5 billion compared to FY 14/15, and health insurance has increased by 19.7 percent, and government contributions to pension funds have increased by 32.3 percent, and subsidies to promote exports have increased by 43 percent, while spending’s on Takaful and Karama program have reached LE 1.7 billion during the FY 15/16. Besides, spending on human capital comes as a priority in government spending, as spending on education has increased by 5.5 percent compared to FY 14/15 to record LE 98 billion during FY 15/16, and spending on health has risen by 18 percent to record LE 44 billion during FY 15/16. Moreover, investment spending rose significantly by 12 percent to record LE 69 billion, which reflects the government interest to increase investments in infrastructure and to improve public services.

- Meanwhile, the latest indicators for the period July-October 2016/2017 point to a decline in the budget deficit reaching 3.3 percent of GDP (LE 107.3 billion), compared to 3.5 percent of GDP (LE 96.7 billion) during the same period last year. Tax revenues receipts from non-sovereign authorities, which are directly correlated to economic activity, witnessed an increase by almost 6.8 percent during the period of study. This is mainly driven by the increase in non-sovereign income taxes and sales taxes receipts by 12.5 percent and 2.8 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 to record LE 17.3 billion during the period of study. Moreover, investment spending rose significantly by 24.6 percent to record LE 13.6 billion, which reflects the government interest to increase investments in infrastructure and to improve public services.

- GDP figures for FY15/16 are still under revision by the Ministry of Planning. 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 17.7 percent in October 2016 reaching LE 2198.2 billion, compared to 18 percent (LE 2183.1 billion) in the previous month, according to recent data released by the CBE. The growth rate of net domestic assets of the banking system stabilized at 24.7 percent y-o-y to reach LE 2320.1 billion during the month of study, compared to September 2016, which reached LE 2295 billion. This was overcome by the decline witnessed in net foreign assets of the banking system, which reached a negative value of LE 121.9 billion in October 2016, compared to a negative value of LE 111.8 billion in September 2016.

- Meanwhile, Headline Urban Inflation continued to rise recording 13.6 percent during October 2016, compared to a higher rate of 14.1 during September 2016, and compared to 9.7 percent during October 2015. Factors contributing to inflationary pressures include: The increase in annual inflation of “Food and Beverages” group (the highest weight in CPI) to record 13.8 percent during the month of study, compared to a higher rate of 14.8 percent during the previous month, and compared to 12.5 percent during October 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; “Health”, “Furnishing and House Equipment’s”, “Education”, “Transport”, and “Miscellaneous Goods and Services”. Meanwhile, other main groups have contributed to the increase in annual inflation rate during the month of study but at a slower pace compared to the previous month, on the top of which; “Alcoholic Beverages and Tobacco”, “Clothing and Footwear”, and “Restaurants and Hotels”.

  As for average annual Headline inflation, it increased during July- October 16/17 to record 14.3 percent, compared to 8.8 percent during the same period last year.

- During its Monetary Policy Committee meeting held on November 17th, 2016, CBE decided to keep the overnight deposit rate, overnight lending rates and the rate of CBE's main operation unchanged at 14.75 percent, 15.75 percent and 15.25 percent, respectively. The discount rate was also kept unchanged at 15.25 percent.

- Moreover, total government debt (domestic and external) reached LE 2785.8 billion (100.5 percent of GDP) at end of June 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.

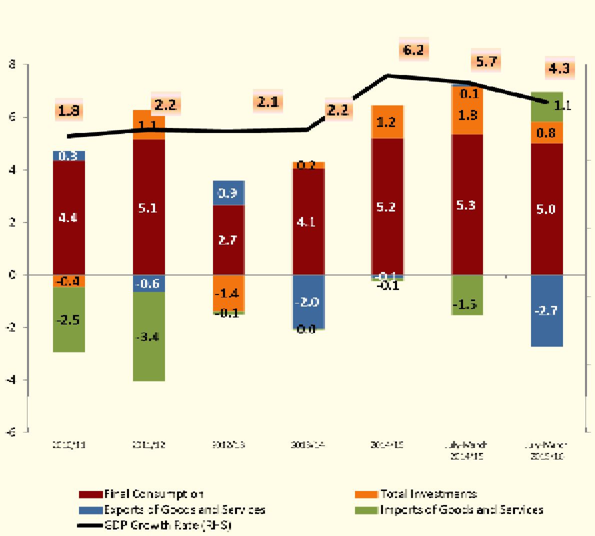
- *Real Sector:*

GDP figures for FY15/16 are still under revision by the Ministry of Planning. 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.

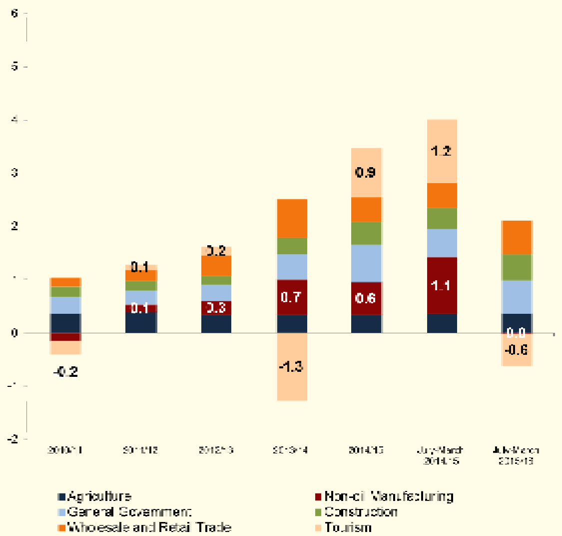
On the demand side, both public and private consumption maintained to be the key growth drivers during July-March15/16. Private consumption grew by 5.5 percent y-o-y, compared to 5.2 percent during the same period last fiscal year14/15, while public consumption grew by 3.6 percent in the period of study, 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).

- It is noteworthy that final accounts of the state budget 2015/2016 is still under review by the Parliament and will remain preliminary until being approved. According to FY15/16 actual budget outcomes, the overall budget deficit recoded LE 339.5 billion (12.3 percent of GDP), compared to LE 279.4 billion (11.5 percent of GDP) in the prior fiscal year. Excluding grants, the budget deficit fell by about 0.2 percentage points reflecting the magnitude of the underlying structural fiscal adjustment that was achieved during the period of study.

On the other hand, better performance has been witnessed on the revenue side. Total revenues have increased by LE 26.3 billion (5.6 percent growth) to record LE 491.5 billion, compared to LE 465.2 billion during FY14/15. This came in light of the significant increase in tax revenues by LE 46.4 billion (15.2 percent growth), (83.4 percent of the same year budget). The notable increase in tax revenues is justified in terms of the structural reforms adopted by the government since the mid of FY 2014 contributing to the improvement in most tax chapters, on the top of which; the increase in receipts from taxes on income by 11.5 percent (91.2 percent of the same year budget), receipts from taxes on goods and services rose by 14.3 percent (76.3 percent of the same year budget), receipts from taxes on international trade increased by 28.5 percent (102.5 percent of the same year budget), receipts from property taxes rose by 32.6 percent (68 percent of the same year budget). On the expenditure side, tax revenues increases have helped contain the increase in expenditures. Total expenditures have increased by LE 84.5 billion (11.5 percent growth) to record LE 817.8 billion, compared to LE 733.3 billion during FY 14/15. This led to a deficit which referred in the following table.

FY 14/15 Budget Deficit LE 279.4 billion (11.5 percent of GDP)	FY 15/16 Budget Deficit LE 339.5 billion (12.3 percent of GDP)
Revenues LE 465.2 billion (19.1 percent of GDP)	Revenues LE 491.5 billion (17.7 percent of GDP)
Expenditure LE 733.4 billion (30.2 percent of GDP)	Expenditure LE 817.8 billion (29.5 percent of GDP)

Detailed explanations are as follows:

§ *On the Revenues Side,* Actual budget figures for FY15/16 pointed to an increase in total revenues by 5.6 percent (11 percent growth when excluding extraordinary grants), registering almost LE 491.5 billion (17.7 percent of GDP). This could be explained in light of the increase in tax revenues by 15.2 percent to record LE 352.3 billion, and which offset the decline in non-tax revenues by -12.6 percent to record LE 139.2 billion during the period under study.

Tax Revenues increased mainly due to:

- Increase in receipts from Tax on Income, Capital Gains and Profits by LE 15 billion (11.5 percent growth) to reach LE 144.7 billion (91.2 percent of budget) during FY 15/16, compared to LE 129.8 billion during FY14/15, mainly due to:
  - The increase in receipts from income taxes from non-sovereign authorities by LE 4 billion (10.7 percent growth) to reach LE 42 billion (90.3 percent of budget) during FY 15/16, compared to LE 38 billion during FY14/15, mainly driven by:
    - § The increase in taxes on domestic by LE 4.3 billion (18 percent growth) to reach LE 28.1 billion during FY 15/16, compared to LE 23.8 billion during FY14/15.
  - The increase in receipts from Taxes on Corporate Profits, on the top of which;
    - § The increase in receipts from CBE by LE 9.6 billion to reach LE 13.2 billion during FY 15/16, compared to LE 3.7 billion during FY14/15, and receipts from EGPC rose by LE 1.3 billion (3.6 percent growth) to reach LE 37.3 billion during FY 15/16, compared to LE 36 billion during FY14/15, receipts from Suez Canal increased by LE 1.5 billion (11.2 percent

growth) to reach LE 15 billion during FY 15/16, compared to LE 13.4 billion during FY14/15.

- Increase in receipts from Taxes on Good and Services by LE 17.6 billion (14.3 percent growth) to reach LE 140.5 billion (76.3 percent of budget) during FY 15/16, compared to LE 123 billion during FY14/15, mainly driven by the following:

  – The increase in receipts from the general sales tax on goods by LE 4 billion (7.5 percent growth) to reach LE 57.5 billion during FY 15/16, compared to LE 53.4 billion during FY14/15,

  – The increase in receipts from the general sales tax on services by LE 2 billion (16.3 percent growth) to reach LE 14 billion during FY 15/16, compared to LE 12 billion during FY14/15 in light of improved performance of the international and domestic telecommunications services.

  – The increase in receipts from Excises on Domestic Commodities (Table 1) by LE 8.4 billion (21.1 percent growth) to reach LE 48 billion (105.6 percent of budget) during FY 15/16, compared to LE 39.8 billion during FY14/15 (in light of increased receipts from the sales tax on tobacco by 26.8 percent, and petroleum products by 9.8 percent).

  – The increase in receipts from stamp tax (excludes stamp tax on salaries) by LE 2 billion (25.7 percent growth) to reach LE 9.7 billion during FY 15/16, compared to LE 7.7 billion during FY14/15.

- Increase in receipts from Property Taxes by LE 7 billion (32.6 percent growth) to reach LE 28 billion during FY 15/16, compared to LE 21 billion during FY14/15, mainly due to:

  – The increase in receipts from the tax on T-bills and bonds payable interest by LE 6.4 billion (38.3 percent growth) to reach LE 23 billion (68 percent of budget) during FY 15/16, compared to LE 16.7 billion during FY14/15.

- Increase in receipts from taxes on International trade by LE 6.2 billion (28.5 percent growth) to reach LE 28 billion (102.5 percent of budget) during FY 15/16, compared to LE 22 billion during FY14/15, in light of efforts exerted by the customs authority in compacting smuggling, which has helped to improve customs proceeds.

o *Non- Tax Revenues*

Non-tax revenue receipts indicate minimal reliance on Grants, and which have dropped to LE 3.5 billion during FY 15/16, compared to LE 25 billion during FY 14/15, and compared to LE 95 billion during FY 13/14. This decrease acted as a main driver to the decline in non-tax revenues by LE 20 billion (-12.6 percent decline) during FY15/16, compared to FY14/15.

Other non-tax revenues have increased by LE 1.8 billion (1.3 percent growth) to reach LE 135.6 billion during FY 15/16, compared to LE 133.8 billion during FY14/15, mainly driven by the following:

- The increase in Sales of Goods and Services by LE 2.6 billion (9.8 percent growth) to reach LE 29 billion during FY 15/16, compared to LE 26.5 billion during FY14/15, mainly driven by;

 - The increase in receipts from Special Accounts and Funds by LE 1.6 billion (7.6 percent growth) to reach LE 22.6 billion during FY 15/16, compared to LE 21 billion during FY14/15.

- Meanwhile, <u>miscellaneous revenues</u> rose by LE 10 billion (41.8 percent growth) to reach LE 34.3 billion during FY 15/16, compared to LE 24.2 billion during FY14/15, mainly due to the acquirance of 25 percent of the delayed profits with a total amount of LE 1.5 billion, and the increase in resettlements revenues from Lands by LE 4 billion, in addition to the repayment of other tax dues by LE 3.5 billion during the year of study.

- On the Other hand, <u>Property income</u> has recorded LE 69.5 billion, declining by LE 12 billion (-14.7 percent growth), compared to LE 81.5 billion during FY14/15. This came in light of the following developments;
  - Decline in dividends collected from EGPC by LE 17.6 billion (-69.2 percent growth) to reach LE 7.8 billion during FY 15/16, compared to LE 25.4 billion during FY14/15 (mainly in light of the decline in international petroleum prices)
  - Decline in dividends collected from Suez Canal by LE 4.5 billion (-23.2 percent growth) to reach LE 14.8 billion during FY 15/16, compared to LE 19.2 billion during FY14/15 (partially due to the slowdown in international trade, and China economic growth. In addition, the decline in international oil prices has affected the number of vessels passing through Suez Canal.
  - Decline in dividends collected from economic authorities by LE 2.3 billion (-22.5 percent growth) to reach LE 7.8 billion during FY 15/16, compared to LE 10 billion during FY14/15.

§ *On the Expenditures Side*,

Tax revenues increases have helped contain the increase in expenditures. Total expenditures have increased by LE 84.5 billion (11.5 percent growth) to record LE 817.8 billion, compared to LE 733.3 billion during FY 14/15. Meanwhile, social spending remained as a key pillar in FY 2015/2016 to record LE 396 billion (representing around 49.5 percent of total expenditures, and around 80.6 percent of total revenues).

Actual budget figures for FY14/15 point to an increase in total expenditure by 4.5 percent (LE 31.8 billion), registering almost LE 733.4 billion (30.2 percent of GDP), compared to LE 701.5 billion during last year (33.4 percent of GDP), and which came mainly due to:

- <u>Wages and Compensations to Employees</u> increased by LE 15.3 billion (7.7 percent growth) to reach LE 213.7 billion during FY 15/16, compared to LE 198.5 billion during FY14/15, mainly due to:
  - An increase in Permanent Staff (basic pay) by LE 25.5 billion (92 percent growth) to reach LE 53.3 billion during FY 15/16, compared to LE 27.8 billion during FY14/15.
  - An increase in Specific Allowances by LE 1.6 billion (6.5 percent growth) to reach LE 25.7 billion during FY 15/16, compared to LE 24 billion during FY14/15.
- <u>The increase in Purchases of Goods and Services</u> by LE 4.4 billion (14 percent growth) to reach LE 35.7 billion during FY 15/16, compared to LE 31.3 billion during FY14/15, mainly due to:
  - Increased spending on raw materials by LE 0.9 billion (13 percent growth) to reach LE 7.9 billion during FY 15/16, compared to LE 7 billion during FY14/15.

- Increased spending on lightning & water by LE 0.3 billion (6.4 percent growth) to reach LE 5 billion during FY 15/16, compared to LE 4.6 billion during FY14/15.
- Increased spending on maintenance, by LE 0.9 billion (22 percent growth) to reach LE 5 billion during FY 15/16, compared to LE 4 billion during FY14/15.
- Increased spending on transportation by LE 0.2 billion (5 percent growth) to reach LE 3.1 billion during FY 15/16, compared to LE 2.9 billion during FY14/15.

• Moreover, <u>interest payments</u> have increased by (26.2 percent growth) to reach LE 243.6 billion during FY 15/16, compared to LE 193 billion during FY14/15.

• Meanwhile, <u>subsidies, grants and social benefits</u> have increased by LE 2.5 billion (1.2 percent growth) to reach LE 201 billion during FY 15/16, compared to LE 198.5 billion during FY14/15, this came in light of the following developments:

- Subsidies recorded around LE 138.7 billion, declining by LE 11.5 billion (-7.6 percent growth), compared to LE 150.2 billion during the previous fiscal year, mainly in light of:

- Petroleum subsidies have reached LE 51 billion during FY15/16, declining by LE 23 billion (-31 percent growth), compared to LE 74 billion during FY14/15 (mainly in light of the decline in international petroleum prices).

  § This has offset the rise in subsidies for other items, on the top of which; GASC subsidies have increased by LE 3.3 billion (8.5 percent growth) to reach LE 42.7 billion during FY 15/16, compared to LE 39.4 billion during FY14/15, electricity subsidies have increased by LE 5 billion (20.5 percent growth) to reach LE 28.5 billion during FY 15/16, compared to LE 23.6 billion during FY14/15, and export subsidies have increased by LE 1.1 billion (43.4 percent growth) to reach LE 3.7 billion during FY 15/16, compared to LE 2.6 billion during FY14/15.

- The decline in subsidies have been offset by the rise in social benefits, and which have increased by LE 12.9 billion (31.4 percent growth) to reach LE 54 billion during FY 15/16, compared to LE 41 billion during FY14/15, mainly due to:

  § The increase in contributions to the pension funds by LE 10.7 billion (32.3 percent growth) to reach LE 44 billion during FY 15/16, compared to LE 33.2 billion during FY14/15.

• <u>Other expenditure</u> rose by LE 4.3 billion (8.5 percent growth) to reach LE 54.6 billion during FY 15/16, compared to LE 50.3 billion during FY14/15.

• <u>Purchases of non-financial assets (investments)</u> increased by LE 7.5 billion (12.1 percent growth) to reach LE 69.3 billion during FY 15/16, compared to LE 61.8 billion during FY14/15, mainly due to the increase in infrastructure spending , more specifically spending on roads, transportation, buildings, hospitals and schools. To that extent, total spending on construction amounted to LE 29.2 billion during FY15/16, increasing by 44 percent compared to the previous year, and spending on Non-residential buildings amounted to LE 10 billion, increasing by 17.7 percent compared to the previous year.

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

Latest indicators for the period July-October 2016/2017 point to a decline in the budget deficit reaching 3.3 percent of GDP (LE 107.3 billion), compared to 3.5 percent of GDP (LE 96.7 billion) during the same period last year.

Tax revenues receipts from non-sovereign authorities, which are directly correlated to economic activity, witnessed an increase by almost 6.8 percent during the period of study. This is mainly driven by the increase in non-sovereign income taxes and sales taxes receipts by 12.5 percent and 2.8 percent, respectively. Total Expenditures rose by 6.4 percent (it's the lowest growth rate recorded during the period July-October in the last three years), to reach LE 235.4 billion (7.2 percent of GDP) during the period of study, compared to LE 221.2 billion (8 percent of GDP) during the same period last fiscal year. This led to a deficit which referred in the following table.

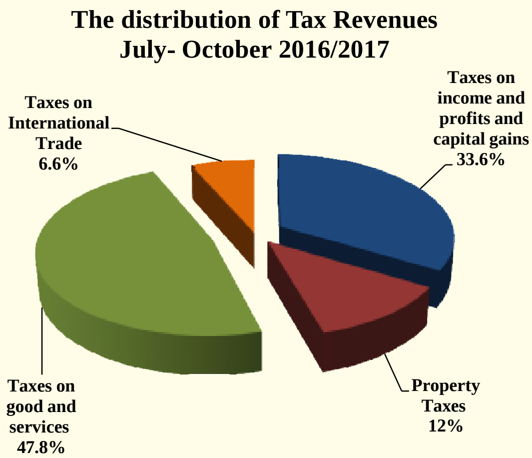
July- October 15/16 Budget Deficit LE 96.7 billion (3.5 percent of GDP)	July- October 16/17 Budget Deficit LE 107.3 billion (3.3 percent of GDP)
Revenues LE 132.9 billion (4.8 percent of GDP)	Revenues LE 131.7 billion (4.1 percent of GDP)
Expenditure LE 221.2 billion (8 percent of GDP)	Expenditure LE 235.4 billion (7.2 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

Detailed explanations are as follows:

On the Revenues Side,

Total revenues recorded LE 131.7 billion during the period of study, compared to LE 132.9 billion recorded during July-October 15/16. These developments could be explained mainly in light of the increase in tax revenues by LE 0.1 percent to record LE 89.5 billion during the period of study, compared to LE 89.4 billion during the same period last fiscal year. Non-tax revenues declined by LE 2.9 percent to record LE 42.2 billion during July-October 16/17, compared to LE 43.5 billion during the same period last fiscal year.



<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 3.6 percent (LE 1.5 billion) to record LE 42.8 billion during the period of study, compared to LE 41.3 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 37.8 percent (LE 3 billion) to reach LE 10.7 billion during the period of study, compared to LE 7.8 billion during the same period last fiscal year.

- On the other hand, receipts from taxes on income, capital gains, and profits recorded LE 30 billion during July-October 16/17, declining by -9 percent (LE 3 billion), compared to LE 33 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 rose by 14.9 percent compared to the same period last year, to record LE 11 billion during the period of study.

- Receipts from Taxes on international trade recorded LE 6 billion during July-October 16/17, compared to LE 7.3 billion during the same period last fiscal year.

Taxes on Goods and Services increased by LE 1.5 billion (3.6 percent growth) to reach LE 42.8 billion (1.3 percent of GDP).

Taxes on goods and services receipts represent 47.8 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 12.9 percent to record LE 20 billion.
- The increase in general sales tax on services by 18.7 percent to record LE 4.8 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 18.4 percent to record LE 3 billion in light of the increase in receipts from stamp tax on contacts on each of; banking edits, water, electricity, gas, telephone, as well as the increase in receipts on miscellaneous stamp tax, contracts, transportation, and insurance services.

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.

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, 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.

Property Taxes increased by LE 3 billion (37.8 percent growth) to reach LE 10.7 billion (0.3 percent of GDP).

- **Property Taxes receipts represent 12 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 42 percent to reach LE 9.2 billion during the period of study.

On the Non-Tax Revenues Side,

- Proceeds from Other Non-Tax Revenues rose by LE 1.3 billion (3.2 percent growth) to reach LE 42 billion during July-October 2016/2017, compared to LE 40.7 billion during the same period of last year.

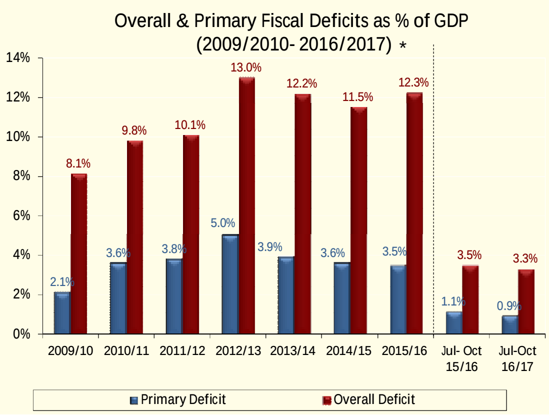
  Property income receipts recorded LE 31.3 billion rising by LE 0.9 billion (3 percent) during the period of study, compared to LE 30.3 billion recorded during July-October 15/16. This came in light of the increase in dividends collected from Economic Authorities by LE 2 billion (169.4 percent) to reach LE 3.1 billion during the period of study, compared to LE 1.2 billion during the same period last year. In addition, other property income rose to record LE 3.4 billion during July- October 16/17 (mainly due to the sale of 4G to the three telecommunication companies existing in Egypt). Those increases have counterparted the decline in dividends collected from CBE[3], and Suez[4] Canal during the period of study.

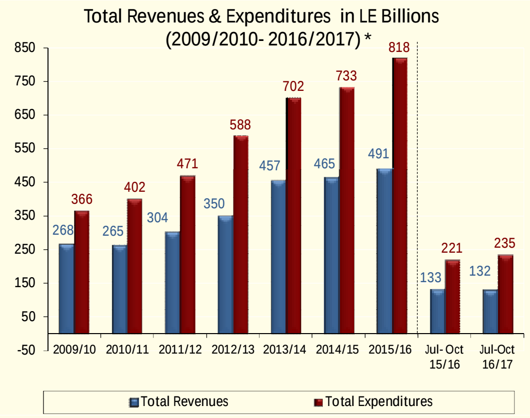
  Meanwhile, Proceeds from sales of goods and services rose by LE 0.7 billion (12.4 percent) to reach LE 6.7 billion during July- October 16/17, compared to LE 6 billion during July- October 15/16 (in light of the increase in receipts from special accounts and funds by LE 0.5 billion (12.8 percent) to reach LE 4.8 billion during the period of study, compared to LE 4.2 billion during July- October 15/16).

- Miscellaneous revenues recorded LE 3.5 billion declining by -14.2 percent during the period of study, compared to LE 4 billion recorded during July-October 15/16.
- Meanwhile, Grants recorded LE 0.1 billion during the period of study, compared to LE 2.7 billion recorded during the same period last fiscal year.

3/ The decline in dividends from CBE is mainly due the CBE's advanced repayment during the FY16/17. Unlike previous years the CBE's deduction of dividends was recorded during the corresponding year rather than the following year, and which led CBE tax receipts to appear at a lower amount during the period of study compared to the same period last year. This does not affect CBE income. Whereas, receipts from CBE are expected to record additional revenues during the coming period.

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





*** It is noteworthy that final accounts of the state budget 2015/2016 is still under review by the Parliament and will remain preliminary until being approved.**

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 235.4 billion (7.2 percent of GDP) during the period July-October 16/17, recording an increase of 6.4 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 0.6 percent to record LE 70.6 billion (2.2 percent of GDP) during the period of study.
- Purchase of goods and services have increased by LE 1 billion (14.2 percent growth) to reach LE 8.6 billion (0.3 percent of GDP).
- Interest payments rose by 17.9 percent growth to reach LE 77 billion (2.4 percent of GDP).
- Purchases of non-financial assets (investments) rose by LE 2.7 billion (0.4 percent of GDP), growing by 24.6 percent growth to reach LE 13.6 billion.
- Subsidies, grants and social benefits recorded LE 45.8 billion (1.4 percent of GDP) during the period of study, declining by -7.7 percent, compared to LE 49.6 billion during the same period of the last fiscal year.

    ü GASC spending recorded LE 8 billion during the period of study, compared to LE 12.6 billion during July-October 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 3.3 billion (16.5 percent growth) to reach LE 23.2 billion, in light of the increase in contribution to pension funds by LE 0.1 billion (0.7 percent growth) to reach to LE 17.3 billion.

- Other Expenditures recorded LE 19.8 billion (0.6 percent of GDP), rising by 12.3 percent, compared to the same period last fiscal year.

Ø Public Debt:

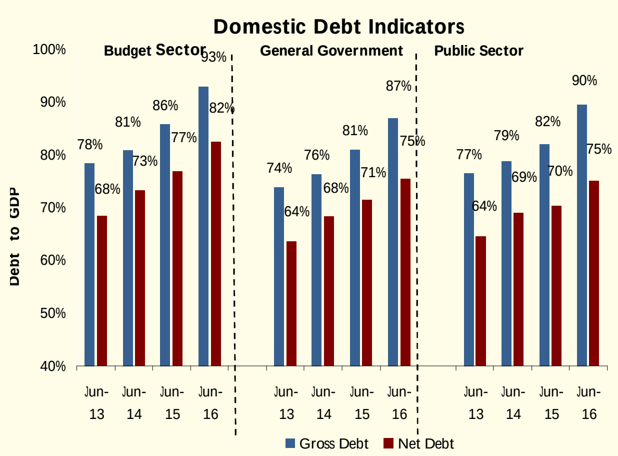
Total government debt (domestic and external) reached LE 2785.8 billion (100.5 percent of GDP) at end of June 2016, of which;

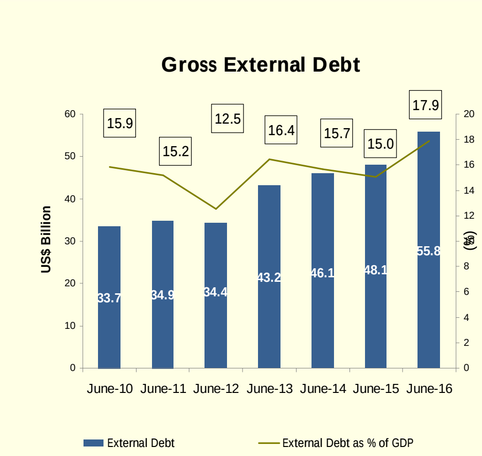
- Domestic budget sector debt recorded LE 2573 billion (92.8 percent of GDP) by end of June 2016, compared to LE 2084.7 billion (85.8 percent of GDP) by end of June 2015.

  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$ 55.8 billion (17.9 percent of GDP) at end of June 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$ 24.4 billion (7.8 percent of GDP) as of end of June 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 17.7 percent in October 2016 reaching LE 2198.2 billion, compared to 18 percent (LE 2183.1 billion) in the previous month, according to recent data released by the CBE. From the assets side, the growth rate of net domestic assets of the banking system stabilized at 24.7 percent y-o-y to reach LE 2320.1 billion during the month of study, compared to September 2016, which reached LE 2295 billion. This was overcome by the decline witnessed in net foreign assets of the banking system, which reached a negative value of LE 121.9 billion in October 2016, compared to a negative value of LE 111.8 billion in September 2016.

In October 2016, net claims on government annual growth increased to 27.4 percent (LE 1787.5 billion), compared to 27.1 percent during the previous month. Moreover claims on public business sector annual growth eased to reach 26.2 percent (LE 96 billion) in October 2016, compared to a higher rate of 26.9 percent at end of September 2016. Annual growth in credit to the private sector increased by 15.3 percent at end of October 2016 to LE 736.3 billion, compared to 15.6 percent last month. This comes on the back of the increase in claims on private businesses sector annual growth by 14.7 percent (LE 520.3 billion) during the month of study, compared to a higher rate of 14.9 percent in September 2016. Meanwhile, claims on household sector annual growth eased to reach 16.8 percent (LE 216 billion) in October 2016, compared to 17.2 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 121.9 billion in October 2016, compared to LE -111.8 billion during the previous month. This decline continues in light of the significant drop in central bank net foreign to record LE -59.5 billion in October 2016, compared to LE -57.2 billion in September 2016. In addition, banks net foreign assets declined to reach a negative value of LE 62.5 billion in October 2016, compared to LE -54.6 billion in September 2016.

From the liabilities side, quasi money annual growth eased to reach 17.5 percent during the month of study to reach LE 1584.9 billion in October 2016, compared to 18.6 percent (LE 1576 billion) in September 2016. On a detailed level, local currency and foreign currency time and savings deposits annual growth increased at a slower pace to reach 17.8 percent (LE 1258 billion) and 20.4 percent (LE 252.1 billion), respectively, in October 2016, compared to 18.5 percent and 23.8 percent, respectively, in the previous month. Foreign currency demand deposits annual growth rate almost stabilized to reach 5 percent (LE 74.8 billion) in October 2016, compared to 4.9 percent in September 2016.

Money annual growth increased to reach 18.1 percent (LE 613.3 billion) in October 2016, compared to 16.5 percent in the previous month. This could be attributed to the increase witnessed in currency in circulation and demand deposits in local currency annual growth, which reached 21.1 percent (LE 373.3 billion) and 13.7 percent (LE 240 billion) respectively in October 2016, compared to 18.9 percent and 12.9 percent in the previous month.

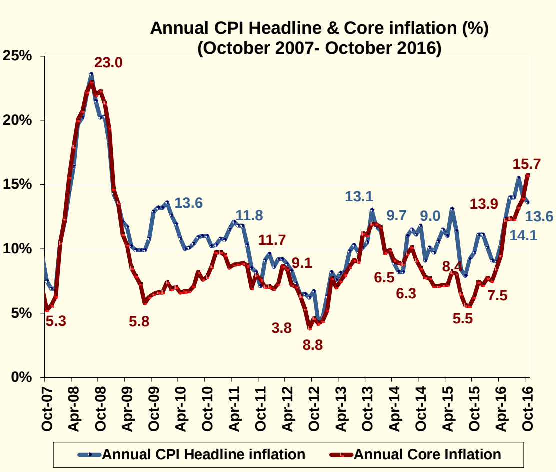
Total deposits annual growth – excluding deposits at the CBE – reached 20.1 percent y-o-y (LE 2172.9 billion) at the end of August 2016, compared to 20.2 percent at end of July 2016. Out of total deposits, 83 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by the banking sector (excluding CBE) slightly decreased to reach 29.8 percent (LE 956.6 billion) in August 2016, compared to 30 percent in the previous month. To that end, the loans-to-deposits ratio decreased to reach 44 percent at end of August 2016, compared to 44.2 percent at end of July 2016, while it increased if compared to 40.7 percent in August 2015. (Detailed data for September and October 2016 are not yet available).

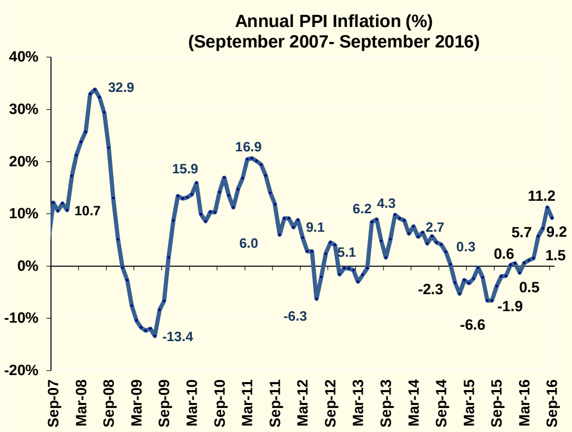
- During October 2016, net International Reserves (NIR) decreased to US$ 19.04 billion, from US$ 19.59 billion in September 2016. It is noteworthy to mention that during September 2016 an amount of US$ 3 billion was received (US$ 1 billion as a loan from the World Bank and US$ 2 billion as a deposit 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 13.6 percent during October 2016, compared to a higher rate of 14.1 during September 2016, and compared to 9.7 percent during October 2015. Factors contributing to inflationary pressures include: The increase in annual inflation of “Food and Beverages” group (the highest weight in CPI) to record 13.8 percent during the month of study, compared to a higher rate of 14.8 percent during the previous month, and compared to 12.5 percent during October 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; "Health" to record 26.4 percent, compared to 26.2 percent during the previous month, "Furnishing and House Equipment's" to record 15.5 percent, compared to 13.8 percent during the previous month, "Education" to record 12.3 percent, compared to 11.2 percent during the previous month, "Transport" to record 7.6 percent, compared to 6.7 percent during the previous month, and "Miscellaneous Goods and Services" to record 21.5 percent, compared to 18.2 percent during the previous month.

Meanwhile, other main groups have contributed to the increase in annual inflation rate during the month of study but at a slower pace compared to the previous month, on the top of which; "Alcoholic Beverages and Tobacco" to record 17.1 percent, compared to 17.9 percent during the previous month, "Clothing and Footwear" to record 13 percent, compared to 14.1 percent during the previous month, and "Restaurants and Hotels" to record 20.1 percent, compared to 25.5 percent during the previous month.

As for average annual Headline inflation, it increased during July- October 16/17 to record 14.3 percent, compared to 8.8 percent during the same period last year.





- Meanwhile, Monthly inflation has recorded 1.7 percent during October 2016, compared to 1.2 percent during September 2016, and compared to 2.2 percent during October 2015. This could be explained in light of the increase in "Food and Beverages" group to record 1.4 percent during October 2016, compared to 0.7 percent during last month, and compared to 2.3 percent during October 2015.

- Annual core inflation[5] continued to rise reaching 15.7 percent during October 2016, compared to 13.9 percent during the last month, and compared to 6.3 percent during October 2015. As for the monthly core inflation, it has recorded 2.81 percent during October 2016 (The highest rate since May 2016), compared to 1.39 percent during last month. This could be explained in light of the increase in "Food Prices" contributing by 1.64 percentage points to the monthly core inflation. In addition to the increase in "Retail Items", "Paid Services", "Other Services" prices contributing by 0.39, and 0.61, and 0.18 percentage points to the monthly core inflation.

5/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'.

- During its Monetary Policy Committee meeting held on November 17th, 2016, CBE decided to keep the overnight deposit rate, overnight lending rates and the rate of CBE's main operation unchanged at 14.75 percent, 15.75 percent and 15.25 percent, respectively. The discount rate was also kept unchanged at 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 December 20th, 2016 worth LE 75 billion with 7-day maturity at a fixed annual interest rate of 15.25 percent.

  The Egyptian Exchange market capitalization increased by a historic 37 percent m-o-m during November 2016 to reach LE 566.2 billion, compared to LE 413.4 billion in the previous month. The EGX-30 Index also increased by 36.6 percent during November 2016 to reach 11453.3 points, compared to closing at 8386 points by the end of October 2016. In addition, the EGX-70 increased by 32.4 percent, closing at 456.6 points compared to 344.9 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[7].

    - 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,

[7] 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.

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 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 0.47 million tourists, compared to 0.5 million tourists in August 2016. Moreover, tourist nights decreased to reach 3 million nights during the month of study, compared to 3.5 million nights during the previous month.