Executive Summary

Main Highlights…2016 developments

Throughout the course of 2016, Egypt's civil community witnessed a succession of collective social dialogues to address the underlying structural imbalances facing the Egyptian economy. Years of concerted efforts culminated in the initiation of Egypt's economic reform program, encompassing among others; the liberalization of the FX regime to increase foreign currency supply and encourage investments and exports, the gradual phasing-out of energy subsides and efforts towards containing inflation.

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

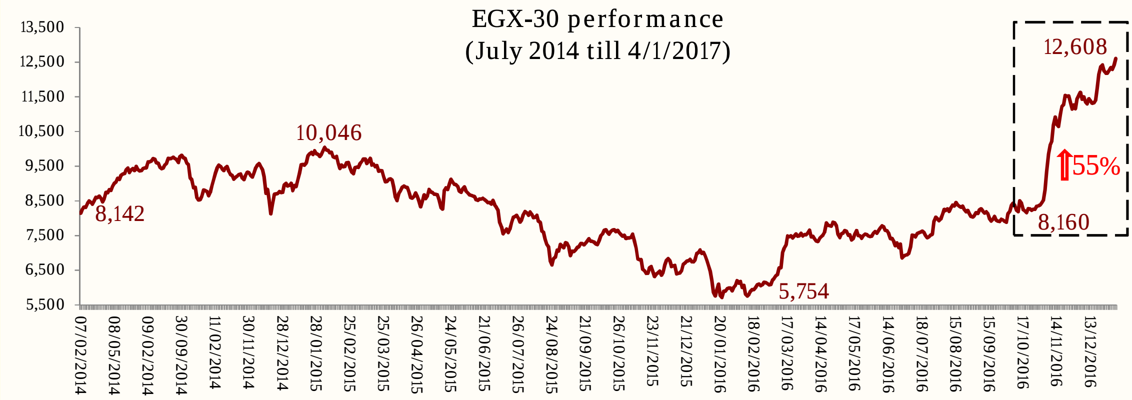
We are building a new Egypt that will be more self-reliant and brings its debts down, while still making sure we deliver opportunity for everyone

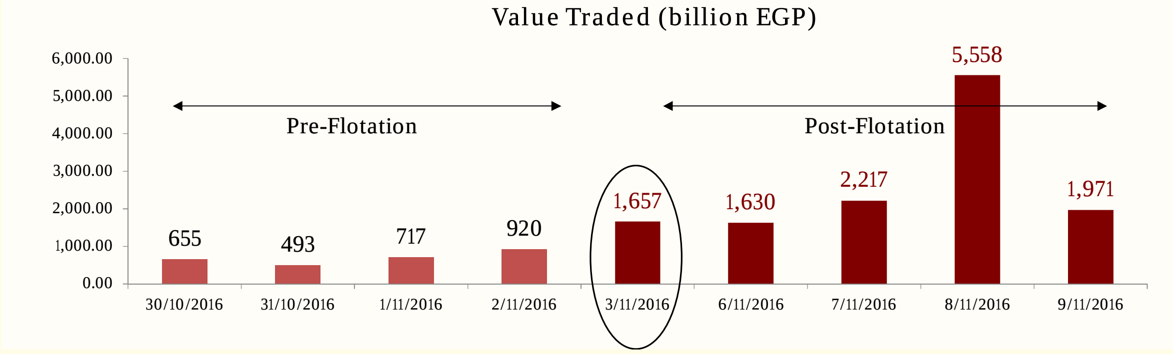
Reducing unemployment rates in the short and medium term, to between 10-11% by fiscal year 2018/2017

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 .....)

Moreover, the decision of floating the exchange rate certainly had positive repercussions on the Egyptian stock exchange, as it witnessed a steep recovery, in which the index climbed to its highest level since 2008. Market capitalization increased by a historic 37 percent m-o-m during November 2016 to reach LE 566.2 billion, while the EGX-30 Index also increased by 36.6 percent to reach 11453.3 points. This came on the back of foreign investors' increased trading, as a result of dollar availability. In addition, foreign trade balances that were collected and realized after floating the exchange rate amounted to $7.9 billion, of which $4.6 billion were used to repay letters of credit and collection documents. Moreover, during the period between the 3rd of November up through the 14th of December, new letters of credit were established amounting to $3.3 billion, compared to $7 billion dollars during all of 2016.

EGX index as well as daily liquidity have been consistently picking up





In the same context, the commencement of a number of mega projects came to light during 2016, most importantly; the start of 34 new projects carried out by the Engineering Authority of the Armed Forces with total investments of LE16 billion, in the fields of water purification and treatment, social housing and roads, as well as the launch of the new Ismailia city with an approximate area of up to 10 million square meters. In addition, the first and second phase of the housing project "Eskan Tahya Masr" in Alasamarat district has been initiated to house residents of various slum areas, with a total cost of LE1.5 billion. Moreover, 2016 also saw the launch of an aquaculture project as well as the floating Victory Bridge in Port Said, cultural and entertainment centers and the expansion of El Nasr company for intermediate Chemicals.

On the fiscal side, 2016 witnessed the continuation of the fiscal reform program which began in mid-2014 through the efforts undertaken by the Ministry of Finance to control public debt and reprioritize spending to improve public services such as health, education and infrastructure. In parallel, the government also set a clear roadmap to achieve social protection for low-income groups. In addition, some of the more significant laws which have been issued and ratified as part of the reform program are the new VAT Law and the Civil Service Law in 2016. It is also noteworthy to mention that the government is currently working on initiating the Mines and Quarries Act which will result in increased revenue receipts. The reform measures have reflected positively on the economy's overall performance during FY 15/16.

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

- Meanwhile, the latest indicators for the period July-November 2016/2017 point to a decline in the budget deficit reaching 4.4 percent of GDP (LE 144.4 billion), compared to 5 percent of GDP (LE 138.5 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 10 percent during the period of study. This is mainly driven by the increase in non-sovereign income taxes and sales taxes receipts by 14.5 percent and 7.1 percent, respectively. On the expenditure side, social justice still comes as a high priority in government spending. In this context, spending on GASC have reached LE 12 billion during the period of study, and government contributions to pension funds have reached LE 21 billion. Moreover, investment spending rose significantly by 19.7 percent to record LE 19.6 billion, which reflects the government interest to increase investments in infrastructure and to improve public services.

- It is noteworthy that final accounts of the state budget 2015/2016 is still under revision 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.

- 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) increased to US$ 24.3 billion in December 2016, from US$ 23.1 billion in November 2016.

- As for the monetary developments, M2 annual growth rate increased to 38.8 percent in November 2016 reaching LE 2604.9 billion, compared to 17.7 percent (LE 2198.2 billion) in the previous month, according to recent data released by the CBE. The growth rate of net domestic assets of the banking system increased to 48.3 percent y-o-y to reach 2798.2 billion during the month of study, compared to 24.7 percent (LE 2320.1 billion) in October 2016. This overcame the decline witnessed in net foreign assets of the banking system, which reached a negative value of LE 193.3 billion in November 2016, compared to a negative value of LE 121.9 billion in October 2016.

- Meanwhile, Headline Urban Inflation rose significantly to record 19.4 percent during November 2016, compared to 13.6 percent during October 2016, and compared to 11.1 percent during November 2015. Factors contributing to inflationary pressures include: The increase in annual inflation of “Food and Beverages” group (the highest weight in CPI) to record 21.5 percent during the month of study, compared to 13.8 percent during the previous month, and compared to 14.7 percent during November 2015. In addition, most of other main groups have contributed to the increase in annual inflation rate during the month of study, on the top of which; “Housing, Water, Electricity, Gas, and Other Fuels”, “Clothing and Footwear”, “Furnishing and House Equipment’s”, “Health”, “Restaurants and Hotels”, “Transport”, and “Education”.

  As for average annual Headline inflation, it increased during July- November 16/17 to record 15.3 percent, compared to 9.3 percent during the same period last year.

- During its Monetary Policy Committee meeting held on December 29th, 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.

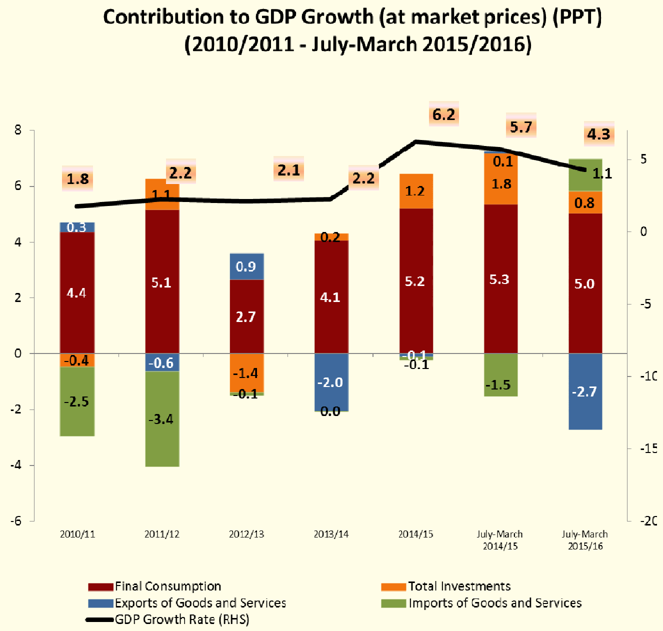
- The Balance of Payments (BOP) showed an overall surplus of US$ 1.9 billion (0.5 percent of GDP) during July-Sep 15/16, compared to a deficit of US$ 3.7 billion (-1 percent of GDP) during the same period last year. This mainly came in light of the increase witnessed in the current account deficit to record US$ 18.7 billion (-5.5 percent of GDP) during FY15/16, compared to a lower deficit of US$ 12.1 billion (-3.7 percent of GDP) during FY14/15. On the other hand, the capital and financial account witnessed net inflows of US$ 19.9 billion (5.8 percent of GDP) during the year of study, compared to lower net inflows of US$ 17.9 billion (5.4 percent of GDP) during FY14/15. Meanwhile, net errors and omissions recorded an outflow of US$ 4 billion (-1.2 percent of GDP) during the FY15/16, compared to an outflow of US$ 2.1 billion (-0.6 percent of GDP) during the year of comparison.

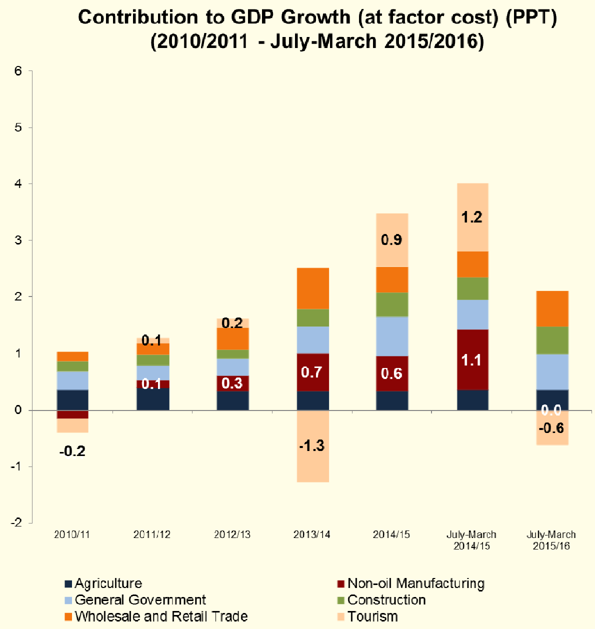
Ø *Real Sector:*

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.





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-November 2016/2017;*

Latest indicators for the period July-November 2016/2017 point to a decline in the budget deficit reaching 4.4 percent of GDP (LE 144.4 billion), compared to 5 percent of GDP (LE 138.5 billion) during the same period last year in light of the greater increase in revenues which surpassed the increase in expenditure as a percent of GDP.

Tax revenues receipts from non-sovereign authorities, which are directly correlated to economic activity, witnessed an increase by almost 10 percent during the period of study. This is mainly driven by the increase in non-sovereign income taxes and sales taxes receipts by 14.5 percent and 7.1 percent, respectively. Total Expenditures rose by 8.6 percent (it's the lowest growth rate recorded during the period July-November in the last three years), to reach LE 314.4 billion (9.7 percent of GDP) during the period of study, compared to LE 289.4 billion (10.4 percent of GDP) during the same period last fiscal year. This led to a deficit which referred in the following table.

July- November 15/16 Budget Deficit LE 138.5 billion (5 percent of GDP)	July- November 16/17 Budget Deficit LE 144.4 billion (4.4 percent of GDP)
Revenues LE 160.1 billion (5.8 percent of GDP)	Revenues LE 174.3 billion (5.4 percent of GDP)
Expenditure LE 289.4 billion (10.4 percent of GDP)	Expenditure LE 314.4 billion (9.7 percent of GDP)

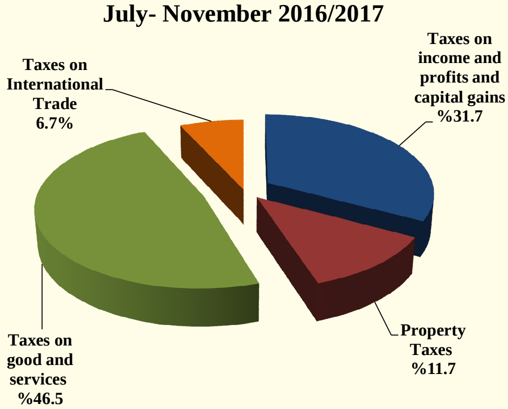
Source: Ministry of Finance, Macro Fiscal Policy Unit

Detailed explanations are as follows:

On the Revenues Side,

Total revenues increased by LE 14.2 billion (8.9 percent) to record LE 174.3 billion during the period of study, compared to LE 160.1 billion during July-November 15/16. These developments could be explained mainly in light of the increase in tax revenues by LE 8.6 percent to record LE 122.4 billion

The distribution of Tax Revenues July- November 2016/2017



during the period of study, compared to LE 112.7 billion during the same period last fiscal year. Meanwhile, Non-tax revenues increased by 9.6 percent to record LE 51.9 billion during July-November 16/17, compared to LE 47.4 billion during the same period last fiscal year.

On the Tax Revenues Side

Tax receipts from Income taxes, taxes on 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 Income, Capital Gains and Profits increased by LE 1.5 billion (4.1 percent growth) to reach LE 38.9 billion (1.2 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 31.7 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 1 billion (10.7 percent) to reach LE 11 billion in light of the increase in wages and salaries.
- Increase in receipts from taxes on Suez Canal by LE 0.6 billion (11.5 percent) to reach LE 5.8 billion.
- Increase in receipts from taxes on other companies by LE 2.4 billion (21.6 percent) to reach LE 13.5 billion.

Taxes on Goods and Services increased by LE 4.3 billion (8.1 percent growth) to reach LE 56.9 billion (1.8 percent of GDP).

Taxes on goods and services receipts represent 46.5 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 24.1 percent to record LE 28.4 billion.
- The increase in general sales tax on services by 13.5 percent to record LE 5.8 billion in light of the improved performance of Operating services for others.
- The increase in stamp tax (excludes stamp tax on salaries) by 19.8 percent to record LE 3.7 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, advertisement, and contracts.

Property Taxes increased by LE 4.4 billion (45 percent growth) to reach LE 14.3 billion (0.4 percent of GDP).
- **Property Taxes receipts represent 11.7 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 51.6 percent to reach LE 12.2 billion during the period of study.

Whereas, Taxes on international trade recorded LE 8.2 billion during the period of study compared to LE 8.7 billion during the same period of last year.

On the Non-Tax Revenues Side,

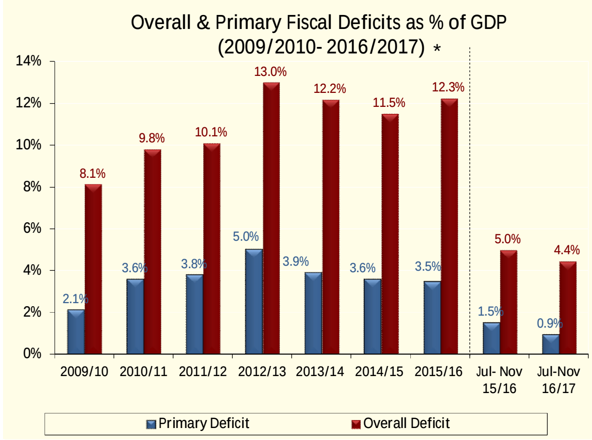
- Proceeds from Other Non-Tax Revenues rose by LE 4.5 billion (9.6 percent growth) to reach LE 51.9 billion during July-November 2016/2017, compared to LE 47.4 billion during the same period of last year.

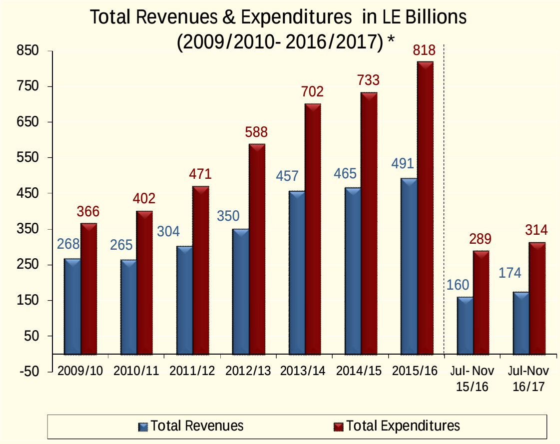
  Property income receipts recorded LE 36.3 billion rising by LE 5 billion (16.1 percent) during the period of study, compared to LE 31.2 billion recorded during July-November 15/16. This came in light of the increase in dividends collected from Economic Authorities by LE 2.1 billion (115.2 percent) to reach LE 3.9 billion during the period of study, compared to LE 1.8 billion during the same period last year. In addition, other property income rose to record LE 5 billion during July- November 16/17 (mainly due to the sale of 4G to the three telecommunication companies existing in Egypt), and Suez Canal dividends increased to record LE 8.3 billion during the period of study, compared to LE 6.3 billion during the same period last year. Those increases have counterparted the decline in dividends collected from CBE[1],

  Meanwhile, Proceeds from sales of goods and services rose by LE 1.4 billion (18.1 percent) to reach LE 9.1 billion during July- November 16/17, compared to LE 7.7 billion during July- November 15/16 (in light of the increase in receipts from special accounts and funds by LE 1.1 billion (20.3 percent) to reach LE 6.6 billion during the period of study, compared to LE 5.5 billion during July- November 15/16).

- Miscellaneous revenues recorded LE 4.8 billion declining by -8.3 percent during the period of study, compared to LE 5.2 billion recorded during July-November 15/16.
- Meanwhile, Grants recorded LE 0.5 billion during the period of study, compared to LE 2.7 billion recorded during the same period last fiscal year.

1/ 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.





* 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 314.4 billion (9.7 percent of GDP) during the period July-November 16/17, recording an increase of 8.6 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 29 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 1.5 percent to record LE 86.2 billion (2.7 percent of GDP) during the period of study.
- Purchase of goods and services have increased by LE 2.1 billion (20.3 percent growth) to reach LE 12.3 billion (0.4 percent of GDP).
- Interest payments rose by 18.1 percent growth to reach LE 113.7 billion (3.5 percent of GDP).
- Purchases of non-financial assets (investments) rose by LE 0.6 billion (0.6 percent of GDP), growing by 19.7 percent growth to reach LE 19.6 billion.
- Subsidies, grants and social benefits recorded LE 57.4 billion (1.8 percent of GDP) during the period of study, declining by -5.2 percent, compared to LE 60.6 billion during the same period of the last fiscal year.
    - ü GASC spending recorded LE 11.9 billion during the period of study, compared to LE 14.1 billion during July-November 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 billion (11.9 percent growth) to reach LE 27.8 billion, in light of the increase in spending on health treatments financed by state budget, increasing by LE 2.3 billion to reach LE 2.5 billion during the period of study.

- Other Expenditures recorded LE 25.3 billion (0.8 percent of GDP), rising by 19.7 percent, compared to the same period last fiscal year.

- It is noteworthy that final accounts of the state budget 2015/2016 is still under revision 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, miscellaneous revenues 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, Property income 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:

- Wages and Compensations to Employees 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.
- The increase in Purchases of Goods and Services 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, interest payments 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, subsidies, grants and social benefits 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.

- Other expenditure 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.

- Purchases of non-financial assets (investments) 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 *Public Debt:*

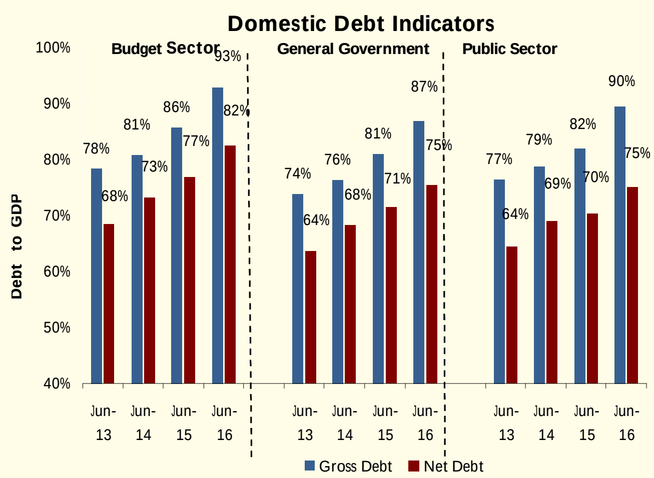
Total government debt (domestic and external) reached LE 2785.8 billion (100.5 percent of GDP) at end of June 2016, of which;

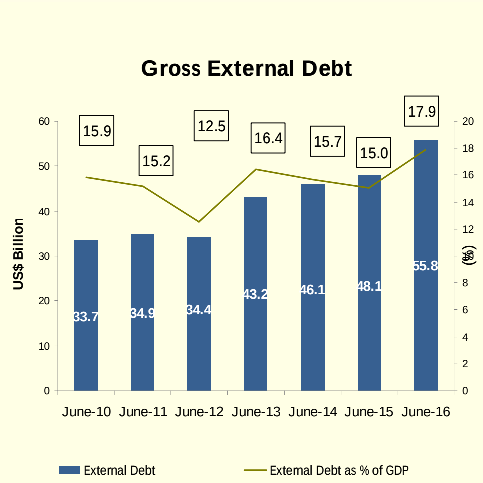
- Domestic budget sector debt recorded LE 2573 billion (92.8 percent of GDP) by end of June 2016, compared to LE 2084.7 billion (85.8 percent of GDP) by end of June 2015.

  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 to 38.8 percent in November 2016 reaching LE 2604.9 billion, compared to 17.7 percent (LE 2198.2 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 increased to 48.3 percent y-o-y to reach 2798.2 billion during the month of study, compared to 24.7 percent (LE 2320.1 billion) in October 2016. This overcame the decline witnessed in net foreign assets of the banking system, which reached a negative value of LE 193.3 billion in November 2016, compared to a negative value of LE 121.9 billion in October 2016.

In November 2016, net claims on government annual growth increased to 37.7 percent (LE 1988.3 billion), compared to 27.4 percent during the previous month. Moreover claims on public business sector annual growth increased to reach 63.2 percent (LE 124.2 billion) in November 2016, compared to 26.2 percent at end of October 2016. Annual growth in credit to the private sector increased to 45 percent (LE 931.1 billion) at the end of November 2016, compared to 15.3 percent last month. This comes on the back of the increase in claims on private businesses sector annual growth to 54.9 percent (LE 700 billion) during the month of study, compared to a much lower rate of 14.7 percent in October 2016. Meanwhile, claims on household sector annual growth increased to reach 21.5 percent (LE 231.1 billion) in November 2016, compared to 16.8 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 193.3 billion in November 2016, compared to LE -121.9 billion during the previous month. This decline continues in light of the significant drop in central bank net foreign to record LE -82.3 billion in November 2016, compared to LE -59.5 billion in October 2016. In addition, banks net foreign assets declined to reach a negative value of LE 111 billion in November 2016, compared to LE -62.5 billion in October 2016.

From the liabilities side, quasi money annual growth increased to reach 45.7 percent during the month of study to reach LE 1983.4 billion in November 2016, compared to 17.5 percent (LE 1584.9 billion) in October 2016. On a detailed level, foreign currency demand and time and savings deposits annual growth increased significantly to reach 110.5 percent (LE 145.9 billion) and 146.2 percent (LE 506.7 billion), respectively, in November 2016, compared to 5 percent and 20.4 percent, respectively, in the previous month. Local currency time and savings deposits annual growth rate increased as well to reach 22.5 percent (LE 1330.8 billion) in November 2016, compared to 17.8 percent in October 2016.

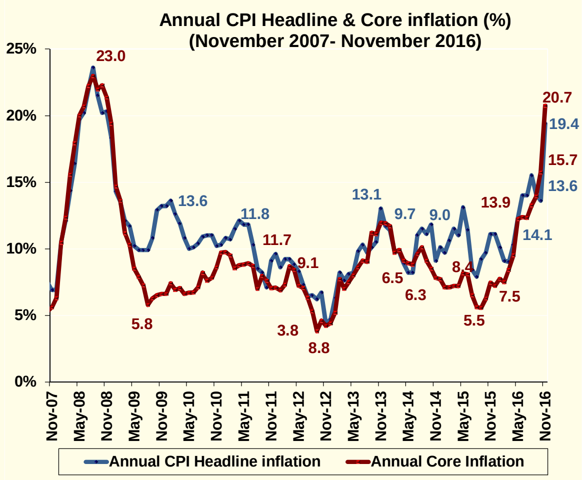
Money annual growth increased to reach 20.7 percent (LE 621.5 billion) in November 2016, compared to 18.1 percent in the previous month. This could be attributed to the increase witnessed in currency in circulation and demand deposits in local currency annual growth, which reached 24.7 percent (LE 379 billion) and 14.8 percent (LE 242.5 billion) respectively in November 2016, compared to 21.1 percent and 13.7 percent in the previous month.

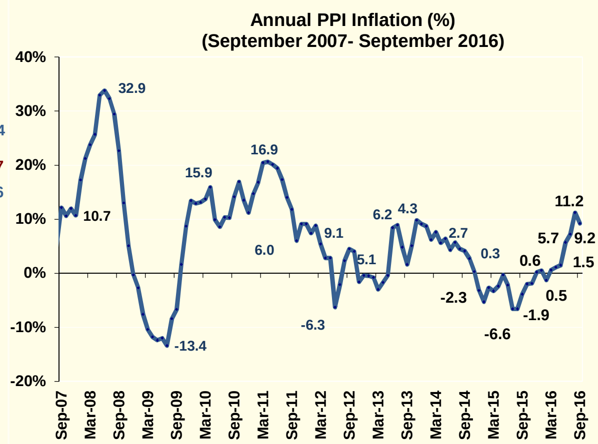
Total deposits annual growth – excluding deposits at the CBE – reached 19.5 percent y-o-y (LE 2202.1 billion) at the end of September 2016, compared to 20.1 percent at end of August 2016. Out of total deposits, 83 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by the banking sector (excluding CBE) decreased to reach 25.7 percent (LE 970.2 billion) in September 2016, compared to 29.8 percent in the previous month. To that end, the loans-to-deposits ratio increased to reach 44.1 percent at end of September 2016, compared to 44 percent at end of August 2016, and increased compared to 41.9 percent in September 2015. (Detailed data for October and November 2016 are not yet available).

- During December 2016, net International Reserves (NIR) increased to US$ 24.3 billion, from US$ 23.1 billion in November 2016.

- **Headline Urban Inflation** rose significantly to record 19.4 percent during November 2016, compared to 13.6 during October 2016, and compared to 11.1 percent during November 2015. Factors contributing to inflationary pressures include: The increase in annual inflation of "Food and Beverages" group (the highest weight in CPI) to record 21.5 percent during the month of study, compared to 13.8 percent during the previous month, and compared to 14.7 percent during November 2015. In addition, other main groups have contributed to the increase in annual inflation rate during the month of study, on the top of which; "Housing, Water, Electricity, Gas, and Other Fuels" to record 8.2 percent, compared to 6.5 percent during the previous month, "Clothing and Footwear" to record 19.8 percent, compared to 13 percent during the previous month, "Furnishing and House Equipment's" to record 22.6 percent, compared to 15.5 percent during the previous month, "Health" to record 27.4 percent, compared to 26.4 percent during the previous month, "Transport" to record 22 percent, compared to 7.6 percent during the previous month, "Restaurants and Hotels" to record 25.5 percent, compared to 20.1 percent during the previous month, and "Education" to record 12.3 percent during the month of study.

  As for average annual Headline inflation, it increased during July- November 16/17 to record 15.3 percent, compared to 9.3 percent during the same period last year.





- Meanwhile, Monthly inflation has recorded 8.4 percent during November 2016, compared to 1.7 percent during October 2016, and compared to a lower rate of -0.3 percent during November 2015. This could be explained in light of the increase in "Food and Beverages" group to record 5 percent during November 2016, compared to 1.4 percent during last month, and compared to -1.7 percent during November 2015.

- Annual core inflation[4] continued to rise reaching 20.7 percent during November 2016, compared to 15.7 percent during the last month, and compared to 7.4 percent during November 2015. As for the monthly core inflation, it has recorded 5.3 percent during November 2016, compared to 2.8 percent during last month. This could be explained in light of the increase in "Food Prices" contributing by 3.17 percentage points to the monthly core inflation. In addition to the increase in "Retail Items", "Other Services", "Paid Services" prices contributing by 1.4, and 0.55, and 0.21 percentage points respectively to the monthly core inflation.

4/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 December 29th, 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, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on December 27th, 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 6.3 percent m-o-m during December 2016 to reach LE 601.6 billion, compared to LE 566.2 billion in the previous month. The EGX-30 Index also increased by 7.8 percent during December 2016 to reach 12344.9 points, compared to closing at 11453.3 points by the end of November 2016. In addition, the EGX-70 increased by 1.5 percent, closing at 463.4 points compared to 456.6 points in the previous month.

- *On the External Sector side:*

  BOP showed an overall surplus of US$ 1.9 billion (0.5 percent of GDP) during July-Sep 16/17, compared to a deficit of US$ -3.7 billion (-1 percent of GDP) during the same period last fiscal year. These developments are mainly due to increased inflows in the capital and financial account, in addition to an improvement in the current account which surpassed the decline in the services account. 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$ 5 billion (-1.4 percent of GDP) during July-Sep 16/17, compared to a lower deficit of US$ 4 billion (-1.1 percent of GDP) during July-Sep 15/16. 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 decreased to record US$ 8.7 billion (-2.4 percent of GDP) during July-Sep 16/17, compared to a deficit of US$ 10 billion during the same period last fiscal year. These developments could be explained in light of the increase witnessed in merchandise exports by 11.2 percent to record US$ 5.3 billion, compared to US$ 4.7 billion in the comparison period. This was mainly driven by the increase in non-petroleum exports to reach US$ 3.7 billion during the period of study compared to 3.1 during the same period last year, Which overcame the decrease in petroleum exports that reached US$ 1.5 billion during July-Sep 16/17 compared to US$ 3.7 billion during the period of comparison, which is a consequence of the fall in global crude oil prices by around 8.4 percent and in quantities exported of crude oil by 10.5 percent during July-Sep 16/17 compared to the same period last year. This came in conjunction to the decrease in merchandise imports by 5.5 percent to record US$ 13.9 billion in July-Sep 16/17, compared to US$ 14.7 billion in July-Sep 15/16.

    - The services balance has declined by around 50.2 percent to record a surplus of US$ 1.4 billion (0.4 percent of GDP) during the period of study, compared to a higher surplus of around US$ 2.8 billion (0.8 percent of GDP) during the period of comparison. This came in light of the decline in current receipts by to record US$ 3.8 billion during July-Sep 2016/2017, compared to US$ 5 billion during the period of comparison. This was mainly due to the decrease witnessed in tourism receipts to reach US$ 0.8 billion during the period of study, compared to US$ 1.7 billion in the period of comparison, as the number of tourist nights decreased to reach 9.2 million nights during the period of study, compared to 23.8 million nights in July-Sep 2015/2016. In addition, travel payments increased to record US$ 1.1 billion, compared to US$ 0.8 billion, mainly due to higher visa card payments by US$ 0.4 billion. Moreover, Suez Canal transit receipts decreased by 4.8 percent as net tonnage of transiting vessels fell by 2.7 percent and SDRs depreciated against the US dollar by 0.4 percent.

– Net official transfers declined to record US$ 3.4 billion during the period of study, compared to US$ 4.3 billion during the comparison period – mainly ascribable to lower net private transfers to record US$ 3.4 billion, compared to US$ 4.3 billion given the drop in workers' remittances. On the other hand, net official transfers rose from US$ 21.9 million to US$ 33.8 million.

§ Meanwhile, the capital and financial account witnessed net inflows of US$ 7.1 billion (1.9 percent of GDP) during the period of study, compared to lower net inflows of US$ 1.6 billion (0.5 percent of GDP) during the comparison period, mainly due to the following:

– Net foreign direct investments in Egypt increased to reach US$ 1.9 billion (0.5 percent of GDP) during July- September 2016/2017, compared to US$ 1.4 billion (0.4 percent of GDP) in the comparison period, driven mainly by the rise in the net inflows for greenfield investments to reach US$ 1.6 billion during July- September 2016/2017, up from US$ 1.2 billion during the comparison period, and net inflow of US$0.5 billion for oil sector investments.

– Portfolio investment in Egypt recorded net outflows of US$ 0.8 billion (-0.2 percent of GDP) during July- September 2016/2017, compared to net outflows of US$ 1.4 billion (-0.4 percent of GDP) during the period of comparison, in light of the repayment of US$ 1.25 billion USD matured notes during the period of study.

– Other investments increased to register net inflows of US$ 6.1 billion (1.7 percent of GDP) during July- September 2016/2017, compared to net inflows of US$ 1.7 billion (0.5 percent of GDP) during the same period last fiscal year. This came on the back of the increase witnessed in Medium-term suppliers' credit to reach US$ 0.6 billion during the July- September 2016/2017, compared to US$ 0.07 billion during the period of comparison. This reflects the confidence in the Egyptian economy given its ability to commit to its external obligations. In addition, CBE other liabilities has recorded net inflows of US$ 5 billion during the period of study, compared to US$ 0.7 billion during the period of comparison.

– The net change in the liabilities of the CBE to the external world increased, thereby registering a net inflow of US$ 3.4 billion during the period of study, compared to US$ 1.2 million due to new deposits from some Arab countries.

§ Net errors and omissions recorded a net outflow of US$ 0.2 billion (-0.1 percent of GDP) during July- September 2016/2017, compared to an outflow of US$ 1.3 billion (-0.4 percent of GDP) during the period of comparison.

Ø According to the latest published figures, the total number of tourist arrivals declined during October 2016 to reach 0.51 million tourists, compared to 0.91 million tourists in October 2015. Moreover, tourist nights decreased to reach 3.3 million nights during the month of study, compared to 7.1 million nights during the same month last year.