Executive Summary

Main Highlights…

The enacted 2014/2015 budget will reposition Egypt on the path towards economic growth and inclusive development, while re-prioritizing public spending and achieving social justice. The Egyptian economy met significant adverse domestic and global shocks throughout the recent years, and its full potential is yet to be realized. To that extent, the government is prepared to take the necessary actions to achieve the desired progress and has adopted a fiscal reform package, put into effect during the front end of July 2014.

Through the implementation of such fiscal policy measures, the government aims to achieve economic and financial stability while restoring investor confidence and increasing employment opportunities. In addition, the government is also keen on providing additional resources to be spent on improving public services and developing infrastructure.

*Meanwhile, according to **the new budget for the fiscal year 2014/2015**, government **revenues** are estimated to **reach LE 549 billion**, recording an annual growth of 8 percent, compared to LE 507 billion, which is expected during FY13/14. While government **expenditures** are estimated to reach **LE 790 billion** with 7 percent annual growth. To that end, the **budget deficit** is estimated to record **LE 240 billion**, which represents 10 percent of GDP, compared to 14 percent of GDP incase no reform measures were incurred, while **total government debt** (domestic and external) will reach a sum of **LE 2.2 trillion** at the end of FY14/15 (about 91.5 percent of GDP, decreasing from 93.8 percent of GDP for FY12/13).*

*It is noteworthy to mention that **preliminary fiscal data** **for the year 2013/2014 is in the final stages of preparation and will be published when finalized.** Meanwhile, **the budget deficit has recorded LE 189.4 billion (about 9.3 percent of GDP),** according to the latest figures **for the period July-May 2013/2014,** compared to 11.7 percent during the same period last year. This was mainly due to an increase in taxes on income, and exceptional grants, accompanied with a slower rate of implementation in investments during the period of study.*

*Moreover, **total government debt (domestic and external)** reached LE 1909.8 billion (93.9 percent of GDP) at end of June 2014, compared to LE 1644.1 billion (93.8 percent of GDP) at end of June 2013.*

***GDP** quarterly data suggest the economy's recovery pace is starting to speed up, with Q3-FY13/14 registering around 2.5 percent growth, compared to 2.2 percent in the same period last year. Both **public and private consumption** continued to boost economic activity during the Q3-FY13/14. And for the first time since Q4- FY11/12, **investments** have contributed positively to growth, while **net exports** constrained growth with its negative impact. Cumulatively, **real GDP** has recorded a growth of 1.6 percent y-o-y in the first nine months of FY13/14, compared to 2.3 percent during the same period last year, nevertheless recovery in the last quarter of FY13/14 is expected to follow a faster pace.*

*It is worthy to highlight that, the **Purchasing Manager Index (PMI)** has reached in June 2014 a six-month high of 51.5 points, implying an improvement in operating conditions at Egypt's non-oil producing private sector companies. Furthermore**, Manufacturing Index** continued to rise* *significantly – for the second month in a row – recording an annual growth of 28.8 percent to reach 188.2 points during May 2014, compared to 146.1 points in May 2013 and compared to 185.1 points during April 2014.*

*Moreover in the **external sector,** the **BOP** showed a significant improvement during the first nine months of FY13/14 **recording an overall surplus of US$ 2.2 billion (0.8 percent of GDP)**, compared to an overall deficit of **US$ 2.1 billion** (0.7 percent of GDP) during the same period last year. This can be explained in light of the notable decrease in **current account deficit**, on the backdrop of the noticeable increase in **public transfers** coupled with the deceleration in **trade deficit**. Moreover, the **capital and financial account** witnessed net inflows of US$ 3.5 billion (1.2 percent of GDP), compared to net inflows of US$ 6.5 billion during the same period last year.*

*During July 2014, **Net International Reserves (NIR)** increased slightly to record US$ 16.74 billion, up from US$ 16.69 billion in June 2014. This slight increase in July 2014 came as a result of the higher revenues recorded by the Suez Canal at the end of FY13/14, as well as the decline seen in Egypt's imports over the last two months.*

*As for the **monetary developments, M2 annual growth** stabilized for the second month in a row at 17 percent by the end of June 2014, while it decelerated if compared to **18.4** percent recorded in June 2013. Meanwhile, **Headline Urban inflation** rose significantly during July 2014 recording 10.6 percent (3.1 percent m-o-m the highest inflation since January 2008) after it had stabilized at 8.2 percent for the previous two months in a row.*

*During its **Monetary Policy Committee** meeting held on July 17, 2014, CBE decided to raise the **overnight deposit rate** and **overnight lending rates**, and the CBE's **main operation** by 100 basis points to 9.25 percent, 10.25 percent, and 9.75 percent, respectively. The **discount rate** was also raised by 100 basis points to 9.75 percent.*

GDP growth rate:

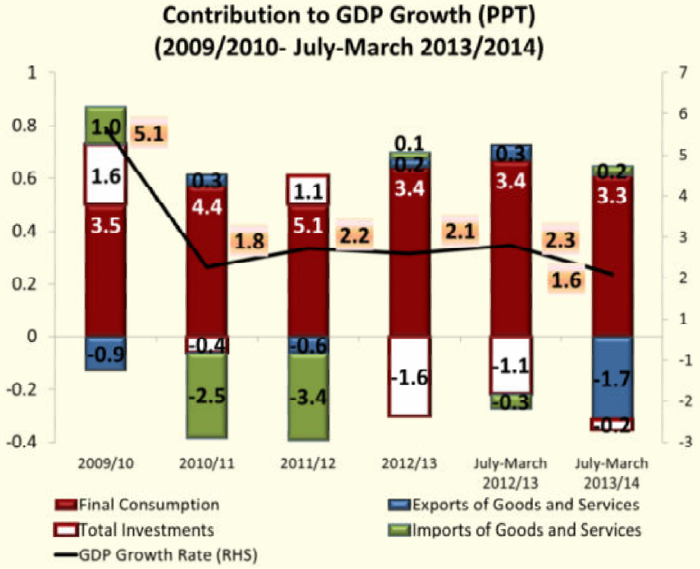
The recent **GDP quarterly data** published suggest the economy's recovery pace is starting to speed up, with Q3-FY13/14 registering around 2.5 percent growth, compared to 2.2 percent in the same period last year. Both **public and private consumption** continued to boost economic activity during Q3- FY13/14. And for the first time since Q4- FY11/12, **investments** have contributed positively to growth, while **net exports** constrained growth with its negative impact. Cumulatively, **real GDP** has recorded a humble growth of 1.6 percent y-o-y in the first nine months of FY13/14, compared to 2.3 percent during the same period last year, and compared to an average of 3.2 percent during last five years. Nevertheless recovery in the last quarter of FY13/14 is expected to follow a faster pace.

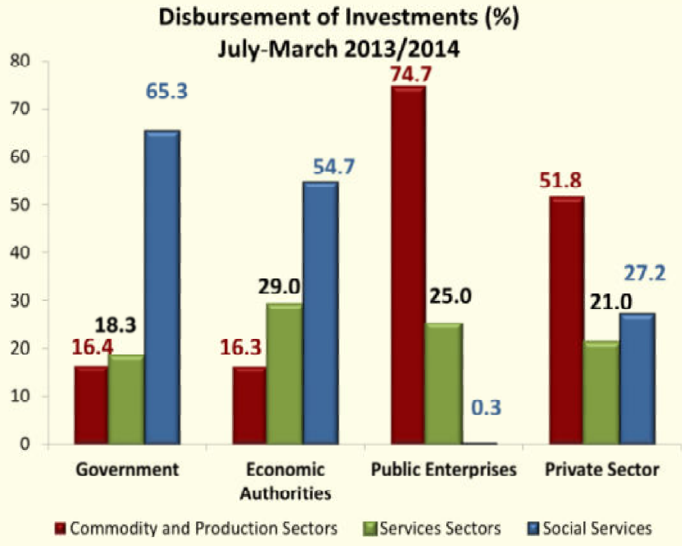
Five key sectors led growth in 9M-FY13/14…

On the supply side, key sectors driving growth in the first 9 months of FY13/14 were the **agricultural sector** and the **general government**, with real growth rates of 3.5 and 4.8 percent respectively (both contributing by 0.5 percentage points to growth, compared to 0.5 and 0.3 PPT a year earlier). **Wholesale and retail trade** real growth came at 3.8 percent in the same period (0.4 PPT compared to 0.3 PPT a year earlier), while **non-oil manufacturing sector** and the **construction sector** witnessed growth at 3.5 and 6.6 percent (0.5 and 0.3 PPT) respectively. Together, these above-mentioned 5 key sectors represented around 57 percent of total real GDP in the period of study.

Meanwhile, **tourism and natural gas extraction sectors** continued to subdue growth in the period July-March FY13/14. Tourism has been severely hit due to several unfortunate events, falling by 29 percent y-o-y in the first 9 months of FY13/14, while natural gas extraction fell by

9.5 percent in the same period, both contributing negatively to growth by -1 and -0.9 PPT respectively.





On the demand side, both **public and private consumption** continued to boost economic activity during the first 9 months of FY13/14. **Private consumption** grew by 3.2 percent y-o-y, after having grown by 2.5 percent y-o-y in H1-FY13/14, implying that Q3-FY13/14 real growth came at an accelerated rate of 4.8 percent. Similarly, **public consumption** grew at 6.1 percent in the period of study, compared to 4.8 percent during H1-FY13/14, after having accelerated by 9.1 percent in Q3-FY13/14. It is also worthy to note that both public and private consumption led to a total contribution of 4.9 PPT to GDP growth during Q3-FY13/14, compared to 1.3 PPT a year earlier.

In the meantime, recent data reflects positive signs of change in **investments**, for the first time since Q4-FY11/12, showing that investments have contributed positively to growth during Q3-FY13/14 by 1.1 PPT, compared to a negative contribution of 2.3 PPT during the same period last year. Moreover, investments have witnessed a deceleration in the negative contribution during 9M-FY13/14 making a negative real contribution of 0.2 PPT, compared to 1.1 PPT negative contribution in the same period last year.

As for the distribution of total **investments by economic agents** (in nominal terms),public investments (government + economic authorities + public business sector) accounted for 33.7 percent of total investments in Egypt during the period of study, while the private sector accounted for 66.3 percent in the same period, noting that nearly 65.3 percent of government investments were directed towards social services sectors.

Meanwhile**, net exports** posted a negative contribution of 1.5 PPT in the first nine months, down from neutral effect (zero PPT) a year earlier. **Exports** decreased by 9.6 percent during 9M-FY13/14, with a contribution of -1.7 PPT to real GDP growth, compared to 0.3 PPT a year earlier. While **imports** dropped by -0.7 percent in the same period, contributing positively by 0.2 PPT, compared to -0.3 PPT in the same period last year.

It is worthy to highlight that, the **Purchasing Manager Index (PMI)** has reached in June 2014 a six-month high of 51.5 points, implying an improvement in operating conditions at Egypt's non-oil producing private sector companies. Furthermore, **Manufacturing Index** continued to rise significantly – for the second month in a row – recording an annual growth of 28.8 percent to reach 188.2 points during May 2014, compared to 146.1 points in May 2013 and compared to 185.1 points during April 2014.

Fiscal Sector:

It is noteworthy to mention that **preliminary fiscal data for the year 2013/2014 is in the final stages of preparation and will be published when finalized.** Meanwhile, according to latest figures **budget deficit continued to decline during the first 11 months of FY13/14 in value and as percent of GDP,** compared to the same period last year. This was mainly due to an increase in tax revenues and exceptional grants, with a slower rate of implementation in investments.

Budget Deficit continued its decelerating trend…

July- May 13/14 Budget Deficit LE 189.4 billion (9.3 percent of GDP)	**July- May 12/13 Budget Deficit** LE 204.9 billion (11.7 percent of GDP)
Revenues LE 337.8 billion (16.6 percent of GDP)	**Revenues** LE 271.3 billion (15.5 percent of GDP)
Expenditure LE 519.7 billion (25.6 percent of GDP)	**Expenditure** LE 474.3 billion (27.1 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

Both Tax and Non-Tax Revenues increased during the period of study…

On the revenue side,

- Total revenues increased significantly during July-May 2013/2014 by 24.5 percent, recording LE 337.8 billion (16.6 percent of GDP), mainly due to the increase in taxes on income by 6 percent (4.8 percent of GDP), and non-tax revenues increased significantly by 86.9 percent (6.1 percent of GDP).

Tax Revenues increased due to:

Taxes on Income, Capital Gains and Profits increased by LE 5.5 billion (6 percent growth) to reach LE 97.2 billion (4.8 percent of GDP).

Mainly on the back of an increase in:
- Taxes on domestic salaries by LE 2.2 billion reaching LE 17.5 billion.
- Taxes on industrial & commercial profits by LE 2.3 billion to LE 7.5 billion.
- Taxes on Corporate Profit on EGPC by LE 4.9 billion to reach LE 30.6 billion (1.5 percent of GDP), after including the first and second settlements in December 2013, and January 2014 in a row.
- Receipts from Suez Canal by LE 0.7 billion.
- Receipts from Other Companies by LE 0.1 billion.

Taxes on Property increased by LE 2.2 billion (14.6 percent growth) to reach LE 17.3 billion (0.8 percent of GDP)

Mainly as a result of an increase in Taxes on T-bills and bonds payable interest by 17.2 percent y-o-y to LE 14.2 billion (0.7 percent of GDP)

Taxes on International Trade increased by LE 1 billion (4.1 percent growth) to reach LE 14.9 billion (0.7 percent of GDP)

In light of an increase in taxes on valued customs by 7.3 percent y-o-y to LE 14.3 billion (0.7 percent of GDP)

- **The abovementioned increase came despite of**;
    - The decline of Other Taxes by 3.1 percent (particularly due to the decline in Tax on movable capital revenues from CBE)

...while Non tax revenues hiked mainly due to extraordinary grants, in addition to an increase in receipts from Sovereign Authorities

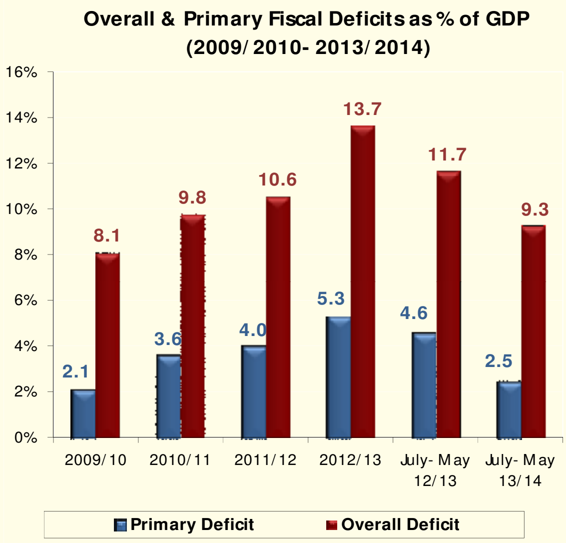
Moreover, the significant increase in non-tax revenues could be explained in light of the following:

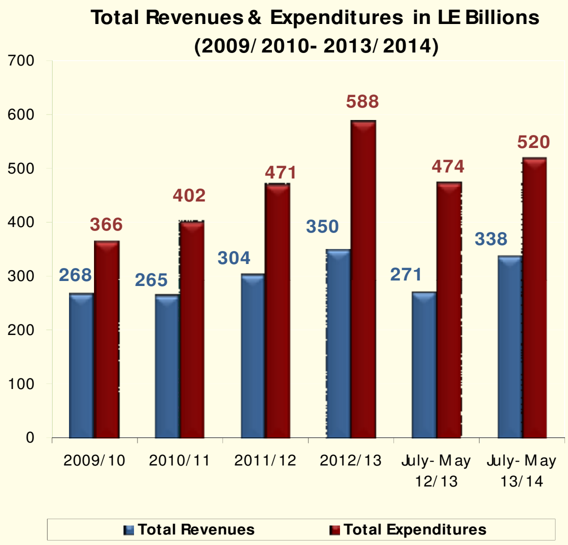
- Increase in grants to reach LE 51.5 billion during July-May 2013/2014 (2.5 percent of GDP), mainly due to:

    a) LE 29.7 billion increase in grants—half of the dollar denominated deposits at the central bank- to be allocated to finance the first stimulus package related to the presidential decree no. 105, 2013.

    b) LE 21 billion (the equivalent of US$ 3 billion) cash grants from Gulf countries.

- Increase in dividends collected from EGPC by LE 7 billion, dividends collected from Central Bank by LE 1.8 billion, and dividends collected from Suez Canal by LE 1.4 billion.
- Increase in revenues from sales of goods and services by 34 percent y-o-y to LE 18.4 billion (0.9 percent of GDP) due to the increase in revenues from special accounts and funds[1] by LE 4 billion to record LE 14.9 billion in the period of study compared to LE 10.8 billion during the same period last year.





Source: Ministry of Finance

1 The increase comes in light of the law number 19 for the year 2013, which stipulated that budget entities should pay to the Ministry of Finance 10 percent of the revenues from special accounts and funds; additionally, 25 percent of the outstanding balance were repaid to the treasury beginning from 1st of July 2013.

Increase in Wages, Investments and Social Benefits

On the Expenditures Side:

Total expenditures increased during July- May 2013/2014 by 9.6 percent, recording LE 519.7 billion (25.6 percent of GDP), mainly due to:

- The increase in wages and compensation of employees by LE 28.9 billion to LE 151.9 billion (7.5 percent of GDP).
- The increase in interest payments by LE 14.3 billion to LE 139 billion (6.8 percent of GDP).
- The rise in other expenditures by LE 4.7 billion to LE 33.4 billion (1.6 percent of GDP).
- The increase in purchases of non-financial assets (investments) by LE 7 billion (1.7 percent of GDP). It is worthy to note that some LE 34.7 billion were disbursed as purchases of non-financial assets (investments) during the period of study increasing by 25.5 percent compared to the same period last year.

The abovementioned increase in expenditures came despite of;

- The decrease in subsidies grants and social benefits by LE 9.4 billion to LE 140.7 billion (6.9 percent of GDP) in light of the following:-
  - Subsidies decreased by LE 26.2 billion during July-May 13/14, to reach LE 101 billion, compared to LE 127.2 billion during the same period last year, mainly due to the delay in completing the settlements that were planned to take place during the fiscal year.
- The decrease in Purchases of Goods and Services by LE 0.2 billion to LE 20 billion (1 percent of GDP) in light of the following:-
  - The decline in spending on goods by LE 0.6 billion during July-May 13/14, to reach LE 9 billion, compared to LE 9.5 billion during the same period last year, mainly due to the decline of spending on Water and Lighting by 12.3 percent to reach LE 3 billion.

Going forward, the government's strategy to lower budget deficit, and achieve social justice in FY14/15 budget, consists of two pillars: First, **on the revenue side**, the government is working towards restructuring the tax system to allow for a fair distribution of the tax burden. In addition, the government is also pursuing other strategies which include countering tax evasion, widening the tax base through a set of amendments for the income tax law, and transferring into the value added tax.

The second pillar envisages **expenditure side** reforms, that focuses on re-prioritizing public spending in favor of protecting the poor, particularly the neediest segments of the population. Meanwhile, some of the savings derived from the new revenue enhancement and subsidy cuts will be deployed to increase spending on health, education and R&D. Furthermore, additional spending will be allocated to fund important social programs, such as, pension programs, health insurance, improving the slum areas, providing citizens with basic commodities

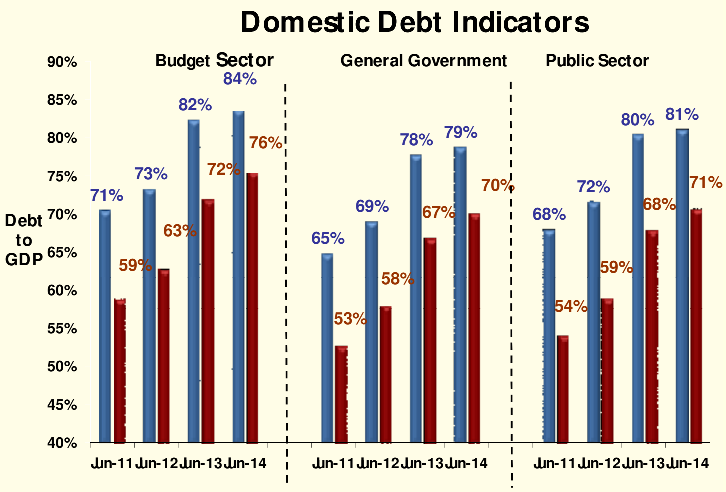
Meanwhile, according to the new budget for the FY14/15, **government revenues** are estimated to reach **LE 549 Billion**, recording an annual growth of 8 percent, compared to LE 507 billion, which is expected during the fiscal year 2013/2014. While **government expenditures** are estimated to reach **LE 790 billion** with 7 percent annual growth. To that end, the **budget deficit** is estimated to record **LE 240 billion**, which represents10 percent of GDP, compared to 14 percent of GDP incase no reform measures were incurred, while **total government debt** (domestic and external) will reach a sum of **LE 2.2 trillion** at the end of FY14/15 (about 91.5 percent of GDP, decreasing from 93.8 percent of GDP for FY12/13).

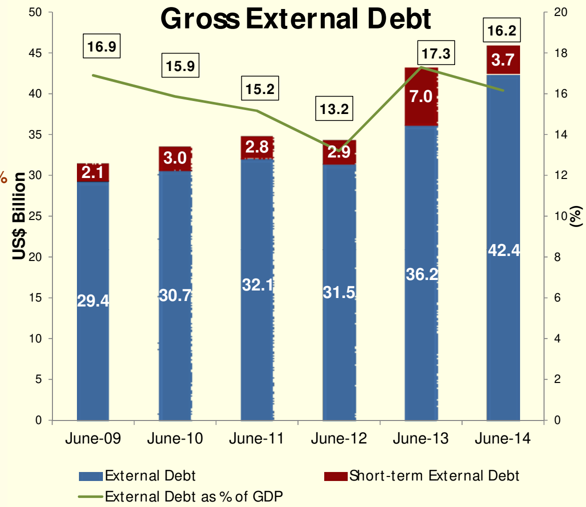
Public Debt:

Increase in Domestic Debt…

Domestic budget sector debt recorded LE 1702.4 billion (83.7 percent of GDP) by end of June 2014, compared to LE 1444.4 billion (82.4 percent of GDP) by end of June 2013.

It is worth mentioning that the **total government debt (domestic and external)** reached LE 1909.8 billion (93.9 percent of GDP) at end of June 2014, compared to LE 1644 billion (94 percent of GDP) at end of June 2013.





Source: Ministry of Finance

External debt stock[2] **(government and non-government debt)** recorded US$ 46.1 billion by the end of June 2014 compared to US$ 43.2 billion by the end of June 2013 (most of the increase represented aid from the Gulf Countries with concessional and preferential terms). External debt as percent of GDP recorded 16.2 percent by the end of June 2014, which is relatively low if compared to the average of peer countries (Middle East and North Africa countries recorded an average of 25.5 percent of GDP during the year 2013)**.**

Moreover, **short-term debt to total external debt ratio** decreased from 16.3 percent at end of June 2013 to 7.9 percent at end of June 2014. This could be explained mainly for redeeming Qatari short-term deposit worth US$ 2 billion by end of December 2013, in addition to another matured deposits worth US$ 1 billion, and the payment of around US$ 0.7 billion to the creditor countries under the Paris Club Agreement.

Monetary Perspective:

M2 annual growth rate stabilized during June 2014 for the second month in a row

According to recent data released by the CBE, **M2 annual growth** stabilized for the second month in a row at 17 percent (Y-o-Y) at end of June 2014 to reach LE 1516.6 billion, while it eased if compared to 18.4 percent recorded at end of FY13/14. These developments could be explained – from the liabilities side – in light of the slower pace in **money** annual growth rate

2 The notable increase in non-government external debt during FY13/14 can be explained in light of a net increase of nearly US$ 2 billion in external debt on the monetary authorities compared to FY12/13. The mentioned increase in monetary authorities' debt could be explained as a result of net change of deposits inflows and redemption of other deposits. The breakdown of inflows is as follows: US$ 2 billion from UAE, US$ 2 billion from Saudi Arabia and US$ 2 billion from Kuwait. Meanwhile, Egypt has returned a total of US$ 3 billion deposits to Qatar (US$ 2 billion was cancelled and US$ 1 billion was matured), additionally a Qatari deposit worth US$ 1 billion was converted into T-bonds.

registering 19.3 percent (LE 410.5 billion), compared to 20.9 percent recorded during the last month. This slight deceleration was compensated by the rise in **quasi money** annual growth to reach 16.2 percent (LE 1106 billion), compared to 15.6 percent recorded in the previous month.

It is noteworthy to mention that annual growth of total liquidity increased significantly to record an average of 17.8 percent during FY13/14, compared to an average of 13.7 percent during FY12/13. This increase comes on the back of the surge witnessed in net domestic assets fuelled by the government borrowing through credit facilities from the CBE.

Meanwhile – from the assets side – annual growth of **net domestic assets of the banking system** slowed down during the month of study reaching 18.4 percent (LE 1388.2 billion), compared to 19.9 percent recorded during May 2014 and an average of 21.5 percent during FY13/14, down from 23.5 percent during the previous year. **Net foreign assets** annual growth witnessed early signs of improvement turning to positive growth of 4.2 percent (LE 128.4 billion) during June 2014, compared to annual decline of -6.9 percent recorded at end of May 2014. It is noteworthy that NFA annual deceleration amounted to an average of -9.2 percent during FY13/14, compared to significant higher average of -27.8 percent during FY12/13. This could be justified in light of the decrease in CBE NFA outflows, due to foreign aid assistance received from gulf countries in the form of cash and petroleum products.

Net claims on the government annual growth rose during the month of study reaching 30.3 percent (LE 1045.9 billion), compared to 26.8 percent recorded in May 2014 (and an average growth of 32.6 percent in FY13/14). Furthermore, **claims on private sector** increased to record an annual growth of 7.4 percent (LE 534.6 billion) compared to 6.9 percent recorded in May 2014 (and an average growth of 7.3 percent in FY13/14). This growth comes on the back of the increase witnessed in both claims on household sector and private business sector annual growth reaching 17 percent and 7.9 percent, respectively, compared to 12.9 percent and 4.8 percent recorded in the previous month, respectively. **Claims on public business sector** almost stabilized to reach 5.8 percent compared to 5.9 percent in the previous month.

According to recent data published by the CBE, **total deposits** annual growth – excluding deposits at the CBE – increased to reach 20 percent y-o-y (LE 1403.3 billion) at the end of May 2014, compared to 15.7 percent in May 2013. Out of total deposits, 87.3 percent belonged to the non-government sector. On the other hand, **annual growth rate in total lending by banking sector** (excluding CBE) decreased during the year ending May 2014 recording 6.2 percent (LE 579.5 billion), compared to 8.6 percent recorded at end of May 2013. To that end, loans-to-deposits ratios declined at end of May 2014 registering 41.3 percent, compared to 46.7 percent in May 2013. (Deposits and loans detailed data for June 2014 is not yet available).

NIR has increased during July 2014

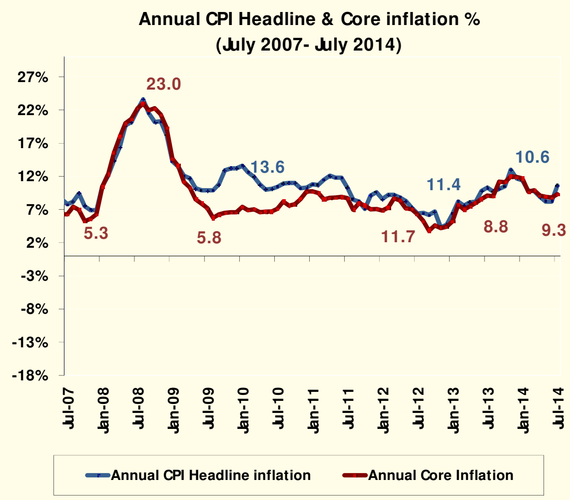
During July 2014, **Net International Reserves (NIR)** increased slightly to record US$ 16.74 billion, up from US$ 16.69 billion in June 2014. This slight increase in July 2014 as a result of the higher revenues recorded by the Suez Canal at the end of FY13/14, as well as the decline seen in Egypt's imports over the last two months.

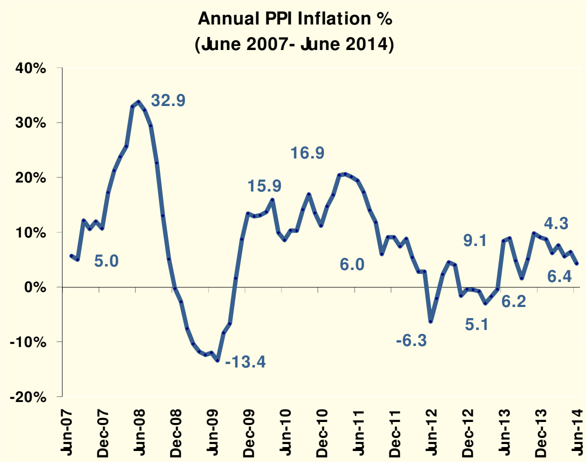
Monthly CPI rose during July 2014 compared to the annual inflation rate recorded during the FY13/14

CPI annual Urban Inflation increased during the FY13/14 recording an average of 10.1 percent, compared to 6.9 percent during the same period of last year. Factors contributing to inflationary pressures include; higher food prices (the largest weight in CPI), supply-side bottlenecks, as well as unfavorable base effects and other seasonal reasons.

Moreover, it is noteworthy to mention that the annual inflation growth rate rose significantly during July 2014 recording 10.6 percent after it had stabilized at 8.2 percent for the previous two months in a row. This development is mainly attributed to the measures taken by the government to increase the prices of fuel, electricity, natural gas, and cigarettes. On a more detailed level, the increase in annual inflation come in light of the pickup in the inflation rate of some sub items in the “Food and Beverages” group, in addition to the significant annual increase in other main groups, on the top of which; "Housing, Water, Electricity, and Gas", "Transport", "Recreation and Culture", and "Restaurant and Hotels".

On the other hand, **monthly inflation** rose to 3.1 percent during July 2014 (the highest monthly inflation since January 2008) compared to 0.8 percent in the previous month.





Annual core inflation increased to reach an average of 10.2 percent during FY13/14, compared to an average of 6.1 percent recoded during FY12/13. Additionally, monthly core inflation rose to 1.6 percent during July 2014, compared to 0.7 percent during June 2014. The monthly inflation could be explained in light of the increase in food prices contributing by 0.81 percentage points. Moreover, other services contributed by 0.68 percentage points. Meanwhile, the prices of paid services and retail items contributed marginally by 0.10 percentage points to monthly core inflation.

During its ***Monetary Policy Committee*** meeting held on July 17, 2014, CBE decided to raise the **overnight deposit rate** and **overnight lending rates**, and the CBE's **main operation** by 100 basis points to 9.25 percent, 10.25 percent, and 9.75 percent, respectively. The **discount rate** was also raised by 100 basis points to 9.75 percent. This is considered the third time for CBE to raise policy rates since November 2011 (first time in November 2011, second in March 2013).

The committee justified such decision, in light of the expected inflationary pressures due to government’ price adjustments recent decision, while taking into consideration the GDP outlook, more specifically:

- The economic growth during the Q3-FY13/14 picked up slightly due to the improved performance in manufacturing, and construction sectors, despite the contraction witnessed in the tourism and petroleum sectors.

- Meanwhile, the upside risks to the inflation could be explained in light of the government’s recent decision to adjust the prices of several regulated items, such as fuel, electricity, and tobacco, as part of FY14/15 fiscal consolidation plan. This is expected to result in a shift in both headline and core CPI by the end of September 2014.

- To that end, MPC decided to introduce a preemptive rate hike to curb inflation expectations and to counter inflationary risks to the Egyptian economy over the medium term.

Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE introduced **deposit auctions** on August 12, 2014 worth LE 65 billion with 7-day maturity at a fixed annual interest rate of 9.75 percent.

It is noteworthy that the CBE has offered US$ 1.1 billion on May 14, 2014 at **Foreign Exchange exceptional auction** to meet banks import financing needs.

The **EGX-30 Index** increased by 664 points during July 2014, reaching 8826 points compared to 8162 during June 2014. On the other hand, market capitalization increased by 4.8 percent m-o-m during the month of study to reach LE 501 billion (24.6 percent of GDP) compared to LE 478 billion during the previous month.

On the External Sector side:

BOP showed a significant improvement during the first nine months of 2013/2014 **recording an overall surplus of US$ 2.2 billion** (0.8 percent of GDP), compared to an overall deficit of **US$ 2.1 billion** (0.7 percent of GDP) in the same period last year, and compared to an average deficit of US$ 3.6 billion over the last 5 years. The recorded surplus can be explained in light of the notable decrease in the **current account deficit**, recording US$ 0.2 billion (0.1 percent of GDP) compared to a deficit of US$ 5.7 billion (2.1 percent of GDP) in the same period last year. This was mainly driven by the noticeable increase in **public transfers** coupled with the deceleration in **trade deficit**. Moreover, the **capital and financial account** witnessed net inflows of US$ 3.5 billion (1.2 percent of GDP), compared to net inflows of US$ 6.5 billion (2.3 percent of GDP) during the same period last year, while net errors and omissions recorded an outflow of US$ 1.1 billion, compared to an outflow of US$ 2.8 billion during the period July-March 2012/2013.

§ On a more detailed level, the decrease witnessed in the **current account balance deficit** can be attributed to:

- The significant increase in **public transfers** during the first nine months of 2013/2014 recording US$ 10.5 billion in light of grants received from Arab countries (US$ 1 billion from the United Arab Emirates, US$2 billion from the Kingdom of Saudi Arabia, US$ 5.8 billion in-kind grants from Gulf countries in the form of petroleum shipments and US$ 1.7 billion international funding and grants from various countries), compared to US$ 0.6 billion during the same period last year.
- The decline in **trade deficit** by 1.5 percent to reach US$ 25.2 billion during the period of study, compared to US$ 25.6 billion during the same period last year. This was mainly due to the increase in exports proceeds by 4.2 percent, and thus resulted in the following:
  - Increase in **exports to imports coverage ratio** to reach 42.8 percent during the period July-March 2013/2014, compared to 41.4 percent during the same period last year.
  - Rise in **NIR imports coverage ratio** to record 3.6 months of imports during the first nine months of FY 13/14 compared to 2.8 months of imports during the same period last year.

§ On the other hand, **services balance** decreased significantly by 75.5 percent to record a surplus of US$ 1.3 billion compared to a surplus of US$ 5.4 billion during the same period last year. This deterioration was driven mainly by an annual decrease of 57.3 percent and 15 percent in tourism receipts and other receipts, respectively.

§ Meanwhile, the surplus recorded in the **capital and financial account** was due to the following developments:

- The increase in **net foreign direct investments in Egypt** by 31.9 percent, recording a net inflow of US$ 4.7 billion (1.6 percent of GDP) during July-March 2013/2014, compared to US$ 3.6 billion (1.3 percent of GDP) during the same period last year.
- **Portfolio investments in Egypt** recorded a net inflow of US$ 1.2 billion (0.4 percent of GDP) during the period of study, compared to a net outflow of US$ 0.8 billion (0.3 percent of GDP) during the period of study, due to the government issuance of bonds equivalent to US$ 1 billion, as a replacement for a Qatari deposit with the same value.
- The decrease in **liabilities of the CBE**, recording a net inflow of US$ 2 billion compared to a net inflow of US$ 4 billion during the same period last year, as CBE reimbursed part of the deposits that have been placed by some Arab countries (of which US$ 1 billion to Qatar).

According to the latest published figures, total number of tourists arrivals decreased during the month of May 2014, reaching 768.2 thousand tourists compared to 860 thousand tourists in the previous month. Moreover, Tourists nights also decreased during the month of study to record 7331.5 nights compared to 7621.4 nights. It's important to highlight, that Germany lifted its travel ban on Sharm El-Sheikh in South Sinai during the month of July 2014, according to the tourism ministry. Additionally, other European countries in light of Germany's decision are considering lifting their warnings too, which could have a positive effect on the number of tourists in the coming period.