Executive Summary

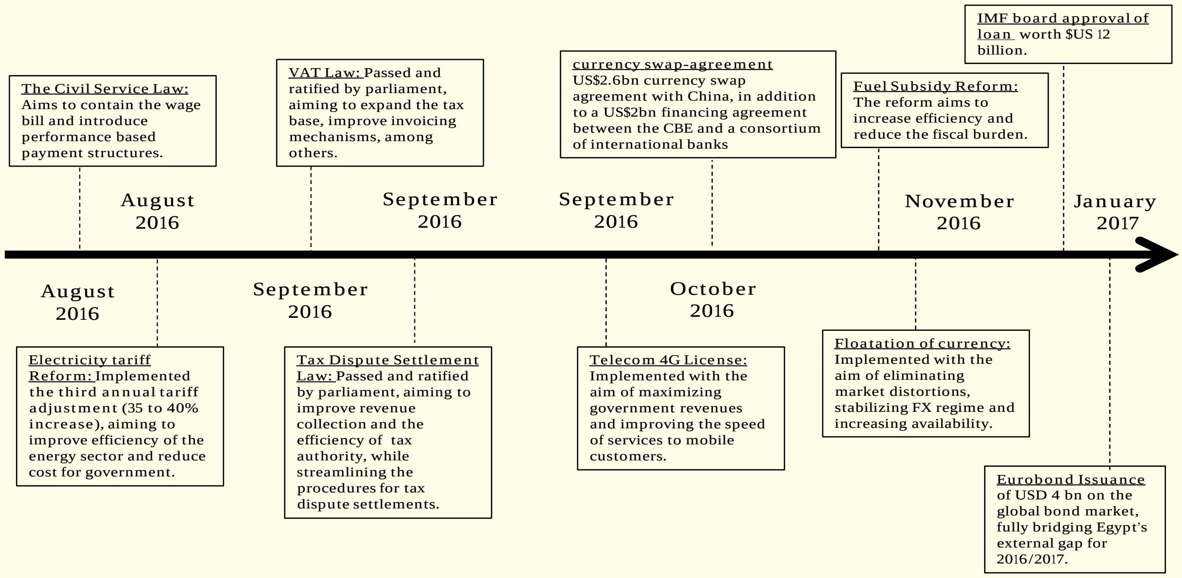
Main Highlights…

The Egyptian government has developed an ambitious economic reform program, aimed at addressing structural imbalances from which the Egyptian economy has been suffering for years. Evidently, the government has embarked on a number of important structural and financial reforms since last fiscal year, previously put on hold in the past years. Those reforms have had a positive impact on a number of important economic indicators as follows:

§ The growth in the real sector, specifically the rise in the manufacturing index to its highest level in November 2016 since last two years. In addition, the balance of payments has recorded a surplus of around $ 7 billion during the first half of the current fiscal year, compared to a deficit of $ 3.4 billion during the same period of the previous fiscal year.

§ Moreover, the decision to float the exchange rate in November 2016 has had a positive impact on the performance of a number of economic indicators, among which is the improvement in the Egyptian Stock Exchange mainly in the EGX 30 index, which rose at an unprecedented rate of 56.8% in mid-March 2017, as well as the threefold increase in foreign investments in T-bills during the last three months, reflecting investor confidence in the economic reform program implemented by the Egyptian government.

§ On the fiscal front, the Ministry of Finance is implementing an ambitious strategy to diversify the portfolio of investments in international markets without relying solely on domestic financing. The Ministry of Finance has issued $ 4 billion in Eurobonds in January 2017, the largest offering on international markets since June 2015. The Eurobond issuance mechanism is an effective way to diversify funding sources and offer support for foreign exchange reserves and treasury financing needs. In addition, such an issuance will ensure Egypt's presence in the global financial markets. The investors' interest in the Egyptian Eurobonds was a reflection of the increasing confidence in the Egyptian economy by international banks and investment funds, as well as a testament to the seriousness and consistency of the Egyptian economic reform program especially in the light of the important structural reforms recently implemented.



Meanwhile, the Ministry of Finance is continuing its efforts towards engaging citizens in all phases of the state budget preparation, highlighting the importance of transparency, community participation and the involvement of citizens in the decision-making process. In this regards, MOF has recently issued the FY 17/18 pre-budget statement for the third consecutive year. The pre-budget statement assesses the domestic and external economic framework, underscoring the main underlying assumptions in which the budget is based. The state is determined to continue carrying out its obligation of providing protection and social justice to its citizens, while investing in human development, modernizing infrastructure, and ensuring the stability and sustainability of the financial and economic systems throughout the medium term.

The following are the latest developments in economic indicators:-

- Latest indicators for the period July-January 2016/2017 point to an improvement in public finance. Budget deficit reached 6 percent of GDP (LE 195.8 billion), compared to a higher deficit reaching 7.1 percent of GDP (LE 191.6 billion) during the same period last year. This came in light of the increase in total revenues to record 22.2 percent during the period of study, and which exceeded the increase in expenditure to record 14.6 percent during the period of study, compared to the same period last 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. Actual budget figures for the FY15/16 reveals the overall budget deficit to record LE 339.5 billion (12.5 percent of GDP), compared to LE 279.4 billion (11.4 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.

- According to the latest detailed data by the Ministry of Planning, GDP has witnessed a 4.3 percent growth rate during FY15/16, compared to 4.4 percent during last fiscal year. Both public and private consumption continued to boost economic activity during FY15/16 with a total contribution of 4.2 PPT, compared to 3.4 PPT during last year. Investments have contributed positively to growth by 1.7 PPT, compared to a lower contribution of 1.2 PPT during FY14/15.

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 0.2 PPT during FY14/15.

- Net International Reserves (NIR) increased to US$ 28.5 billion during March 2017, from US$ 26.5 billion in February 2017.

- As for the monetary developments, M2 annual growth rate increased at a slower rate to 36.6 percent in February 2017 reaching LE 2627.3 billion, compared to 41.5 percent (LE 2701.6 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 at a slower pace as well to 37.7 percent y-o-y to reach 2711.4 billion during the month of study, compared to 45.8 percent (LE 2824.3 billion) in January 2017. This overcame the decline witnessed in Net foreign assets which reached a negative value of LE 84.1 billion in February 2017, compared to a negative value of LE 122.7 billion in the previous month

- Meanwhile, Headline Urban Inflation continued to rise significantly to record ٣٠,٢ percent during February 2017, and 28.1 percent during January 2017, compared to 9.1 percent during February 2016. Factors contributing to inflationary pressures include: The increase in annual inflation of “Food and Beverages” group (the highest weight in CPI) to record 40.5 percent during February 2017, and 37.2 percent during January 2017, compared to 12.5 percent during February 2016. 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; “Clothing and Footwear”, “Furnishing and House Equipment’s”, “Health”, “Transport”, and “Miscellaneous Goods and Services”.

  As for average annual Headline inflation, it increased during July- February 16/17 to record 19.8 percent, compared to 9.6 percent during the same period last year.

  During its Monetary Policy Committee meeting held on March 30th, 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 3498,8 billion (107.8 percent of GDP) at end of December 2016.

- The Balance of Payments (BOP) showed an overall surplus of US$ 7 billion (2.5 percent of GDP) during July-Dec 16/17, compared to a deficit of US$ 3.4 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$ 9.6 billion (-3.4 percent of GDP) during July-Dec 16/17, compared to a lower deficit of US$ 9.4 billion (-2.7 percent of GDP) during July-Dec 15/16. On the other hand, the capital and financial account witnessed net inflows of US$ 17.6 billion (6.3 percent of GDP) during the year of study, compared to lower net inflows of US$ 6.2 billion (1.8 percent of GDP) during the period of comparison. Meanwhile, net errors and omissions recorded an outflow of US$ 0.9 billion (-0.3 percent of GDP) during July-Dec 16/17, compared to an outflow of US$ 0.2 billion (-0.1 percent of GDP) during the period of comparison.

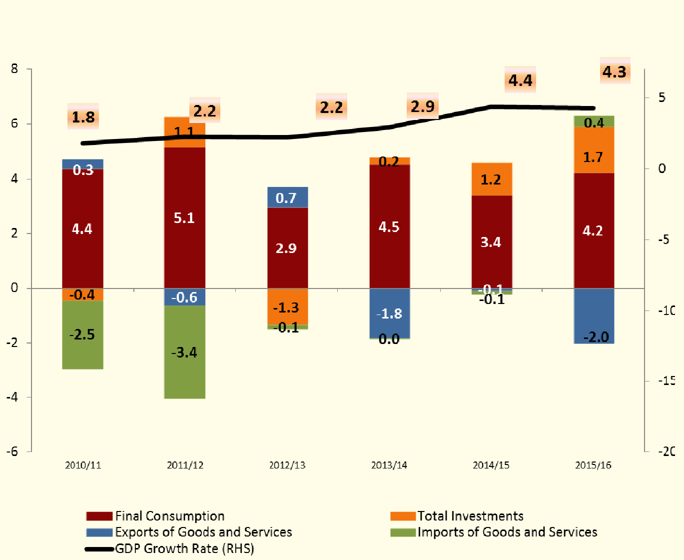
Real Sector:

According to the latest detailed data by the Ministry of Planning, GDP has witnessed a 4.3 percent growth rate during FY15/16, compared to 4.4 percent during last fiscal year. Both public and private consumption continued to boost economic activity during FY15/16 with a total contribution of 4.2 PPT, compared to 3.4 PPT during last year. Investments have contributed positively to growth by 1.7 PPT, compared to a lower contribution of 1.2 PPT during FY14/15. 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 0.2 PPT during FY14/15.

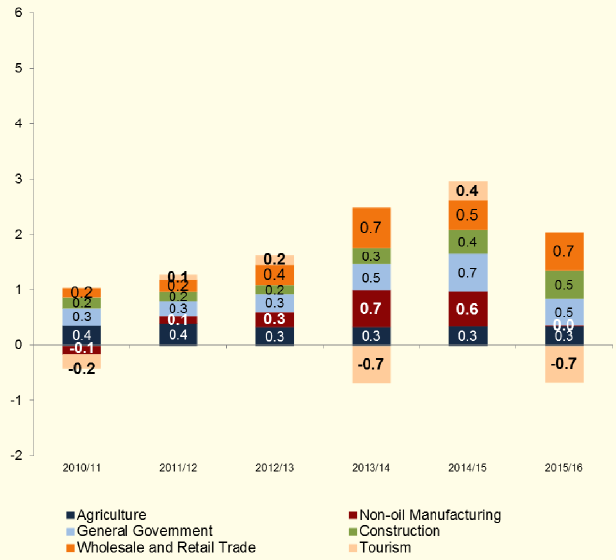
On the demand side, both public and private consumption maintained to be the key growth drivers during FY15/16. Private consumption grew by 4.6 percent y-o-y, compared to 3.1 percent during last fiscal year, while public consumption grew by 3.9 percent in the year of study, compared to 7.0 percent, during FY14/15. In the meantime, recent data shows that investments have increased by 11.2 percent in FY15/16, compared to 8.6 percent during 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 0.2 PPT during FY14/15. This development came in light of a 14.5 percent decline in exports, with a negative contribution of 2.0 PPT to real GDP growth, compared to a negative contribution of 0.1 PPT during last fiscal year, while imports decreased by 1.9 percent in the year of study, contributing positively by 0.4 PPT, compared to a negative contribution of 0.1 PPT during last fiscal year.

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



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



On the supply side, five key sectors led y-o-y growth, on top of which was the whole sale and retail sector expanded to record a 5.3 percent real growth rate during the year of study (contributing to growth by 0.7 PPT, compared to 0.5 PPT during last fiscal year). Meanwhile, the construction sector witnessed a growth rate of 10.8 percent in FY15/16, contributing to around 0.5 PPT to GDP during, compared to 0.4 PPT during last fiscal year. Moreover, the general government sector recorded a real growth rate of 5.0 percent (contributing 0.5 PPT during the year of study, compared to 0.7 PPT during last fiscal year). Additionally, the agriculture sector witnessed a growth of 3.1 percent (stabilizing at a contribution of 0.3 PPT) and the real estate sector recorded a 4.6 percent real growth rate in FY15/16 (contributing to growth by 0.4, compared to 0.3 PPT during last fiscal year)

Taken together, the above-mentioned 5 key sectors represented around 48.8 percent of total real GDP during the year of study.

Meanwhile, natural gas extraction continued to constrain growth during FY2015/16 declining by 11.0 percent (contributing negatively to growth by 0.7 PPT).

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

Latest indicators for the period July-January 2016/2017 point to a decline in the budget deficit reaching 6 percent of GDP (LE 195.8 billion), compared to 7.1 percent of GDP (LE 191.6 billion) during the same period last year.

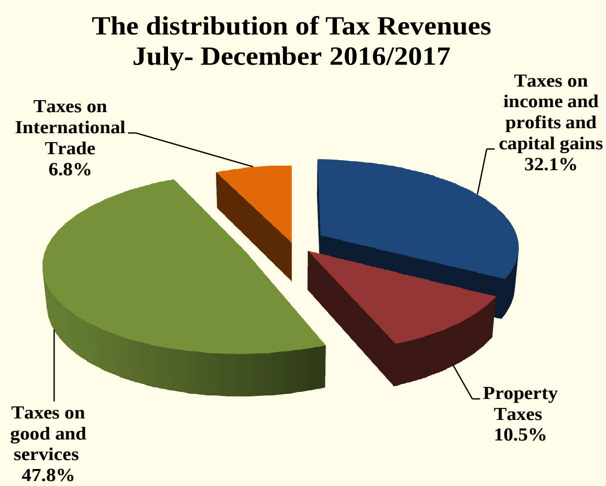
July- January 15/16 Budget Deficit LE 191.6 billion (7.1 percent of GDP)	July- January 16/17 Budget Deficit LE 195.8 billion (6 percent of GDP)
Revenues LE 223.6 billion (8.3 percent of GDP)	Revenues LE 273.2 billion (8.4 percent of GDP)
Expenditure LE 405.2 billion (15 percent of GDP)	Expenditure LE 464.4 billion (14.3 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

Detailed explanations are as follows:

On the Revenues Side,

§ Total revenues recorded LE 273.2 billion during the period July- January 2016/2017, increasing by LE 49.6 billion (22.2 percent), compared to LE 223.6 billion during July- January 15/16. These developments could be explained mainly in light of the increase in tax revenues by LE 38.3 billion (23.9 percent) to record LE 198.7 billion during the period of study, compared to LE 160.4 billion during the same period last fiscal year. Meanwhile, Non-tax revenues increased by LE 11.3 billion (17.9 percent) to record LE 74.6 billion during July- January 16/17, compared to LE 63.3 billion during the same period last fiscal year.



Tax revenues receipts from non-sovereign authorities, which are directly correlated to economic activity, witnessed an increase by almost ٢٤,٢ percent during the period of study, mainly driven by the increase in non-sovereign income taxes and sales taxes receipts by 14.٦ percent and ٣٠,٥ percent, respectively.

On the Tax Revenues Side

Tax receipts from Income taxes, taxes on goods and services, property taxes, and International Trade 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 11.4 billion (22 percent growth) to reach LE 63.3 billion (1.9 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 31.8 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE ٢ billion (١٤ percent) to reach LE ١٧ billion.
- Increase in receipts from taxes on Suez Canal by LE 3.2 billion (42.1 percent) to reach LE 10.8 billion.
- Increase in receipts from taxes on other companies by LE 3.6 billion (22.2 percent) to reach LE 19.7 billion.

Taxes on Goods and Services increased by LE 20.5 billion (26.5 percent growth) to reach LE 97.9 billion (3 percent of GDP).

Taxes on goods and services receipts represent 49.3 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 49.5 percent to record LE 47 billion.
- The increase in general sales tax on services by 4.1 percent to record LE 8.6 billion.
- The increase in domestic commodities (Table 1) by 16 percent to record LE 30.6 billion.

Property Taxes increased by LE 5 billion (35.4 percent growth) to reach LE 19.3 billion (0.6 percent of GDP).
- **Property Taxes receipts represent 9.7 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 39.3 percent to reach LE 16.2 billion during the period of study.

Moreover, Taxes on international trade rose by LE 1.4 billion to reach LE 14 billion during the period of study, compared to LE 12.6 billion during the same period of last year.

On the Non-Tax Revenues Side,

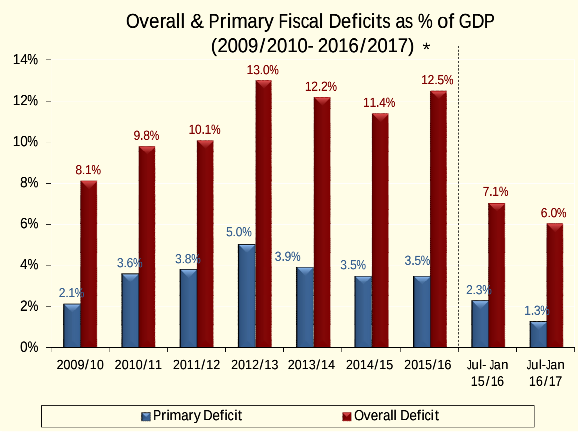
- Proceeds from Other Non-Tax Revenues rose by LE 14 billion (23.4 percent growth) to reach LE 74 billion during July-January 2016/2017, compared to LE 60 billion during the same period of last year.

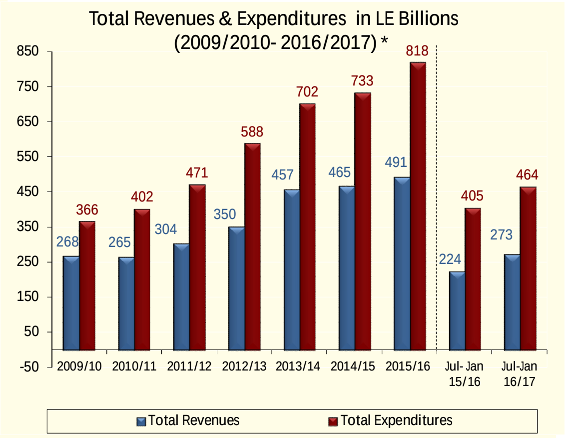
  Property income receipts recorded LE 50.3 billion rising by LE 11.9 billion (31.1 percent) during the period of study, compared to LE 38.4 billion recorded during July-January 15/16. This came in light of the increase in dividends collected from Economic Authorities by LE 4 billion (148.5 percent) to reach LE 6.7 billion during the period of study, compared to LE 2.7 billion during the same period last year. In addition, other property income rose to record LE 6.6 billion during July- January 16/17 (mainly due to the sale of 4G to the three telecommunication companies existing in Egypt), and Suez Canal dividends increased by LE 4.4 billion (45.2 percent) to record LE 14.3 billion during the period of study, compared to LE 9.8 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 2.4 billion (21.3 percent) to reach LE 14 billion during July- January 16/17, compared to LE 11.5 billion during July- January 15/16 (in light of the increase in receipts from special accounts and funds by LE 2.1 billion (24.5 percent) to reach LE 10.4 billion during the period of study, compared to LE 8.4 billion during July- January 15/16).

- Miscellaneous revenues recorded LE 8.1 billion declining by -13.4 percent during the period of study, compared to LE 9.4 billion recorded during July- January 15/16.
- Meanwhile, Grants recorded LE 0.4 billion during the period of study, compared to LE 3.2 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 464.4 billion (14.3 percent of GDP) during the period July-January 16/17, recording an increase of 14.6 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 to 24 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 1.4 percent to record LE 122.3 billion (3.8 percent of GDP) during the period of study.
- Purchase of goods and services have increased by LE 3.5 billion (23.1 percent growth) to reach LE 18.8 billion (0.6 percent of GDP).
- Interest payments rose by 19 percent growth to reach LE 154.2 billion (4.8 percent of GDP).
- Subsidies, grants and social benefits rose by LE 15.8 billion (3.1 percent of GDP), (18.4 percent growth) to record LE 101.6 billion, compared to LE 85.8 billion compared to the same period last year.

  ü Spending on Subsidies by LE 14.7 billion (31.7 percent growth) to reach LE 61 billion during the period of study, compared to LE 46.2 billion during the same period of last year, this came in light of; Petroleum subsidies recorded LE 13.9 billion during the period of study, compared to no settlement were received during same period last year. Meanwhile, Electricity Subsidies rose by LE 4.8 billion (26.3 percent growth) to reach LE 22.9 billion. Meanwhile, GASC spending recorded LE 17.7 billion during the period of study, compared to LE 20 billion during July- January 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.

- ü Social benefits have increased by LE 2.7 billion (7.8 percent growth) to reach LE 37.7 billion, in light of the increase in spending on health treatments financed by state budget, increasing by LE 3 billion during the period of study.

- Purchases of non-financial assets (investments) rose by LE 7.8 billion (1 percent of GDP), growing by 31 percent growth to reach LE 33.2 billion.
- Other Expenditures recorded LE 34.3 billion (1.1 percent of GDP), rising by 19.6 percent, compared to the same period last fiscal year.

Ø 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 (12.5 percent of GDP), compared to LE 279.4 billion (11.4 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.

Ø Public Debt:

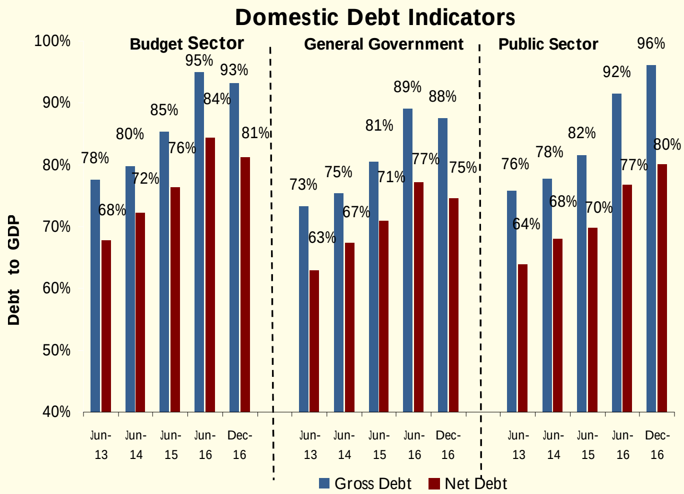
Total government debt (domestic and external) reached LE 3498,8 billion (107.8 percent of GDP) at end of December 2016, of which;

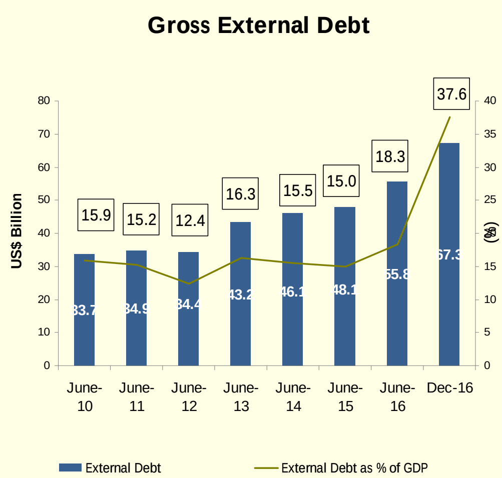
- Domestic budget sector debt recorded LE 3027,3 billion (93.2 percent of GDP) by end of December 2016, compared to LE 2573 billion (95 percent of GDP) by end of June 2016.

  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$ 67.3 billion (37.6 percent of GDP) at end of December 2016, compared to US$ 55.8 billion at end of June 2016.

- Meanwhile, government external debt recorded US$ 26.2 billion (14.7 percent of GDP) as of end of December 2016, compared to US$ 24.4 billion (8.0 percent of the GDP) at end of June 2016.





Ø Monetary Perspective:

As for the monetary developments, M2 annual growth rate increased at a slower rate to 36.6 percent in February 2017 reaching LE 2627.3 billion, compared to 41.5 percent (LE 2701.6 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 at a slower pace as well to 37.7 percent y-o-y to reach 2711.4 billion during the month of study, compared to 45.8 percent (LE 2824.3 billion) in January 2017. This overcame the decline witnessed in Net foreign assets which reached a negative value of LE 84.1 billion in February 2017, compared to a negative value of LE 122.7 billion in the previous month.

In February 2017, net claims on government annual growth slowed down to 26.9 percent (LE 1934 billion), compared to 38.7 percent during the previous month. Moreover claims on public business sector annual growth slowed down as well to reach 79 percent (LE 141.4 billion) in February 2017, compared to 97.3 percent at end January 2017. Annual growth in credit to the private sector declined to 37.9 percent (LE 910.1 billion) at the end of February 2017, compared to 46 percent last month. This comes on the back of the increase at a slower rate in claims on private businesses sector annual growth to 46.9 percent (LE 677.7 billion) during the month of study, compared to 57.7 percent in January 2017. Meanwhile, claims on household sector annual growth reached 17.1 percent (LE 232.4 billion) in February 2017, compared to a higher rate of 18.7 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 84.1 billion in February 2017, compared to LE -122.7 billion during the previous month. This decline continues in light of the drop in central bank net foreign to LE -28.2 billion in February 2017, compared to LE -37 billion in January 2017. In addition, banks net foreign assets declined to reach a negative value of LE 55.8 billion in February 2017, compared to LE -85.7 billion in January 2017.

From the liabilities side, quasi money annual growth slowed down to reach 42.4 percent during the month of study to reach LE 1993.3 billion in February 2017, compared to 49.4 percent (LE 2079.2 billion) in January 2017. On a detailed level, foreign currency time and savings deposits annual growth slowed down to reach 120.6 percent (LE 459.7 billion), in February 2017, compared to 161.9 percent in the previous month. This overcame the growth in local currency time and savings deposits annual growth rate which reached 25.3 percent (LE 1409.7 billion) in February 2017, compared to 24.1 percent in January 2017.

Money annual growth increased to reach 21.4 percent (LE 634 billion) in February 2017, compared to 20.2 percent in the previous month. This could be attributed to the increase witnessed in currency in circulation annual growth, which reached 25.7 percent (LE 384.2 billion) in February 2017, compared to 23.8 percent in the previous month. Moreover, demand deposits in local currency annual growth, recorded 15.3 percent (LE 250 billion) February 2017, compared to 14.9 percent in the previous month.

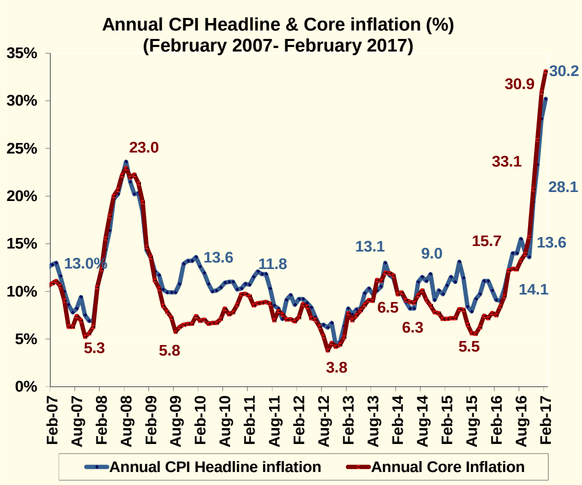
Total deposits annual growth – excluding deposits at the CBE – reached 44.3 percent y-o-y (LE 2714.4 billion) at the end of November 2016, compared to 18.8 percent at end of October 2016. Out of total deposits, 82.5 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by the banking sector (excluding CBE) increased to reach 65.1 percent (LE 1295.4 billion) in November 2016, compared to 25.4 percent in the previous month. To that end, the loans-to-deposits ratio increased to 47.7 percent at end of November2016, compared to 44.1 percent in October 2016 and compared to 41.7 in November 2015. (Detailed data for January and February 2017 are not yet available).

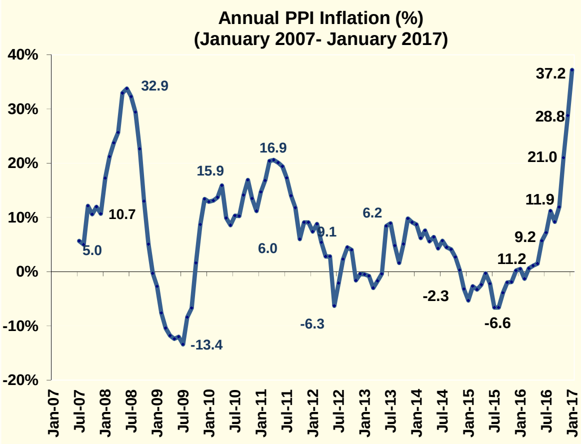
- During March 2017, net International Reserves (NIR) increased to US$ 28.5 billion, from US$ 26.5 billion in February 2017.

- Headline Urban Inflation continued to rise significantly to record 30.2 percent during February 2017, and 28.1 percent during January 2017, compared to 9.1 during February 2016. Factors contributing to inflationary pressures include: The increase in annual inflation of “Food and Beverages” group (the highest weight in CPI) to record 40.5 percent during February 2017, and 37.2 percent during January 2017, compared to 12.5 percent during February 2016. In addition, other main groups have contributed to the increase in annual inflation rate during the month of study, on the top of which; “Clothing and Footwear” to record 23.4 percent during February 2017, and 19.8 percent during January 2017, compared to 6.9 percent during February 2016, “Furnishing and House Equipment’s” to record 31.5 percent during February 2017, and 29.1 percent during January 2017, compared to 10.3 percent during February 2016, “Health” to record 35.6 percent during February 2017, and 32.9 percent during January 2017, compared to

9.3 percent during February 2016, “Transport” to record 28.8 percent during February 2017, and 25.1 percent during January 2017, compared to 2.2 percent during February 2016, and “Miscellaneous Goods and Services” to record 36 percent during February 2017, and 30.7 percent during January 2017, compared to 3.8 percent during February 2016.

As for average annual Headline inflation, it increased during July- February 16/17 to record 19.8 percent, compared to 9.6 percent during the same period last year.





- Meanwhile, Monthly inflation has recorded 2.6 percent during February 2017, compared to 4.1 percent during January 2017, and compared to 1 percent during February 2016. This could be explained in light of the increase in “Food and Beverages” group to record 4.1 percent during February 2017, compared to 6.8 percent during last month, and compared to 1.7 percent during February 2016.

- Annual core inflation[4] continued to rise reaching 33.1 percent during February 2017, compared to 30.9 percent during the last month, and compared to 7.5 percent during February 2016. As for the monthly core inflation, it has recorded 2.6 percent during February 2017, compared to 5 percent during last month. This could be explained in light of the increase in “Food Prices” contributing by 1.98 percentage points to the monthly core inflation. In addition to the increase in “Retail Items”, “Paid Services”, and “Other Services” prices contributing by 0.39, and 0.03, and 0.21 percentage points respectively to the monthly core inflation.

- During its Monetary Policy Committee meeting held on March 30th, 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 March 21st, 2017 worth LE 55 billion with 7-day maturity at a fixed annual interest rate of 15.25 percent.

- The Egyptian Exchange market capitalization decreased by a historic 3.9 percent m-o-m during February 2017 to reach LE 588.8 billion, compared to LE 612.8 billion in the previous month. The EGX-30 Index also decreased by 5.8 percent during February 2017 to reach 11937.67 points, compared to closing at 12672.49 points by the end of January 2017. On the contrary, the EGX-

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'.

70 increased by 0.9 percent, closing at 473.36 points compared to 468.95 points in the previous month.

Ø *On the External Sector side:*

BOP showed an overall surplus of US$ 7 billion (2.5 percent of GDP) during July-Dec 1٦/1٧, compared to a deficit of US$ 3.4 billion (-١percent 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 overcame 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$ 9.6 billion (-3.4 percent of GDP) during July-Dec 16/17, compared to a lower deficit of US$ 9.4 billion (-2.7 percent of GDP) during July-Dec 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$ 17.9 billion (-6.4 percent of GDP) during July-Dec 16/17, compared to a deficit of US$ 19.9 billion (-5.8 percent of GDP) during the same period last fiscal year. These developments could be explained in light of the increase witnessed in merchandise exports by 14.4 percent to record US$ 10.4 billion, compared to US$ 9.1 billion in the comparison period. This was mainly driven by the increase in non-petroleum exports to reach US$ 7.5 billion during the period of study compared to 6 during the same period last year, Which overcame the decrease in petroleum exports that reached US$ 2.9 billion during July-Dec 16/17 compared to US$ 3.1 billion during the period of comparison. This came in conjunction to the decrease in merchandise imports by 2.3 percent to record US$ 28.3 billion in July-Dec 16/17, compared to US$ 29 billion in July-Dec 15/16.

– The services balance has declined by around 47.2 percent to record a surplus of US$ 2.5 billion (0.9 percent of GDP) during the period of study, compared to a higher surplus of around US$ 4.7 billion (1.3 percent of GDP) during the period of comparison. This came in light of the decline in current receipts by to record US$ 7.3 billion during July-Dec 2016/2017, compared to US$ 9 billion during the period of comparison. This was mainly due to the decrease witnessed in tourism receipts to reach US$ 1.6 billion during the period of study, compared to US$ 2.7 billion in the period of comparison, as the number of tourist nights decreased to reach 19.2 million nights during the period of study, compared to 38.3 million nights in July-Dec 2015/2016. In addition, Suez Canal transit receipts decreased by 5 percent as net tonnage of transiting vessels fell by 2.5 percent and SDRs depreciated against the US dollar by 1.1 percent.

– Net official transfers declined to record US$ 8 billion during the period of study, compared to US$ 8.3 billion during the comparison period – mainly ascribable to lower net private transfers to record US$ 7.9 billion, compared to US$ 8.2 billion given the drop in workers' remittances by 5.7 percent. On the other hand, net official transfers rose from US$ 32.2 million to US$ 72.9 million.

§ Meanwhile, the capital and financial account witnessed net inflows of US$ 17.6 billion (6.3 percent of GDP) during the period of study, compared to lower net inflows of US$ 6.2 billion (1.8 percent of GDP) during the comparison period, mainly due to the following:

– Net foreign direct investments in Egypt increased to reach US$ 4.3 billion (1.5 percent of GDP) during July- December 2016/2017, compared to US$ 3.1 billion (0.9 percent of GDP) in the comparison period, driven mainly by the rise in the net inflow of US$1.8

billion for oil sector investments during the period of study, compared to US$0.1 billion. Meanwhile net inflows for greenfield investments recorded US$ 2.46 billion during July-December 2016/2017, compared to US$ 2.48 billion during the comparison period.

- Portfolio investment in Egypt recorded net Inflows of US$ 0.2 billion (0.1 percent of GDP) during July- December 2016/2017, compared to net outflows of US$ 1.6 billion (-0.5 percent of GDP) during the period of comparison, in light of the rise in foreigners' investments on the EGX, recording net purchases of US$ 0.3 billion. In addition, foreigners' investments in Egyptian treasury bills increased, to register net purchases of US$ 0.7 billion. This came despite the Egyptian authorities repayment of bonds that had fallen due in the reporting period, in the amount of US$ 1.0 billion, which attests to the confidence in the Egyptian economy, given its ability to honor its external obligations.
- Other investments increased to register net inflows of US$ 13.1 billion (4.7 percent of GDP) during July- December 2016/2017, compared to net inflows of US$ 4.7 billion (1.4 percent of GDP) during the same period last fiscal year. Medium-term suppliers' credit recorded US$ 0.9 billion during the July- December 2016/2017, compared to US$ 0.2 billion during the period of comparison. In addition, CBE other liabilities has recorded net inflows of US$ 9.5 billion during the period of study, compared to US$ 3.8 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$ 8.1 billion during the period of study, compared to US$ 1.5 million during the period of comparison.

§ Net errors and omissions recorded a net outflow of US$ 0.9 billion (-0.3 percent of GDP) during July- December 2016/2017, compared to an outflow of US$ 0.2 billion (-0.1 percent of GDP) during the period of comparison.

Ø According to the latest published figures, the total number of tourist arrivals increased during December 2016 to reach 0.55 million tourists, compared to 0.44 million tourists in December 2015. Moreover, tourist nights increased to reach 3.3 million nights during the month of study, compared to 2.4 million nights during the same month last year.