Executive Summary

Main Highlights…

The economic reform program implemented by the Egyptian government is an important step in achieving development, and prosperity, and all the while tackling structural imbalances that the Egyptian economy has been suffering for years. The bold reforms implemented by the government since November 2016, have been welcomed by the international community such as the International Monetary Fund, the World Bank, the African Development Bank and the G7. These international institutions have given support to the government's ambitious program. Following economic indicators, it is clear that investors are increasingly interested in investing in the Egyptian economy and growing confidence in the economic reform program implemented by the government.

On the other hand، recently positive highlights from the international reports were as follows;

- The World Bank, in its latest report of April 2017, praised the reforms implemented by the Egyptian government, expecting that the growth rates of the Egyptian economy will accelerate to 4.6 percent in 2018 and 5.5 percent in 2019, driven by public spending and government investments. Exports will also witness an improvement because of the floating regime of the currency. The report said that the low exchange rate of the pound will help attract more foreign direct investment in the second half of this year and will stimulate the recovery process in the tourism sector. The World Bank report also predicted a decrease in consumer inflation to 20.1 percent in 2017 and 11.4 percent in 2019. In addition, according to the World Bank the fiscal deficit is expected to fall to 10.5 percent in the next fiscal year, depending on the government's commitment to the reform program, of which is the VAT.
- On the other hand, Bloomberg praised the recent reforms implemented by the Egyptian government, which helped attract many foreign investments in debt instruments, both in local currency and foreign currencies. In its report, the agency reported that foreign investors raised the value of their investments in Egyptian treasury bills to around LE 79 billion (4.4 billion US dollars) since the floatation until March of 2017.
- Meanwhile, Net International Reserves (NIR) increased to US$ 28.6 billion during April 2017, from US$ 28.5 billion in March 2017. This is the highest balance achieved since March 2011.

Moreover, fiscal performance has improved in light of recent reforms, whereas the state budget deficit has reached LE 273.3 billion (8.0 percent of GDP) during the period July-March 2016/2017, compared to LE 254.9 billion (9.4 percent of GDP) during the same period last year. This could be explained in light of the increase in revenues growth rate during the period of study compared to the same period of last year, exceeding the growth in expenditure during the same period, recording 24.9 percent for the first, and 18.4 percent for the later. On the revenue side, increases have been witnessed in tax revenues receipts driven by non-sovereign authorities, which are directly correlated to economic activity. That said tax receipts from non-sovereign authorities increased by almost 27.3 percent during the period July-March 2016/2017, mainly driven by the increase of non-sovereign income taxes by 16.9 percent, and an increase in non-sovereign receipts from taxes on goods and services by 34.2 percent. On the expenditure side, social justice still comes as a high priority in government spending. In this context, GASC subsidies increased to record LE 23.1 billion, while government contributions to pension funds have recorded LE 35 billion during the period of study. Moreover, investment spending rose by 25.3 percent to record LE 45.8 billion during the period of study.

Following the above mentioned; the government is seeking to radically reform the investment climate and business environment, as well as increasingly rely on the national and foreign private sector as major players in the economy. Together with a strong role of the State as a supporter, regulator and observer, the government is currently seeking the following:

- Issue a package of legislation to improve the business environment, including the newly issued investment law.
- Add the amendments to the Capital Market Law approved by the Council of Ministers.
- Issue the finance leasing law and amending the Companies Law, in addition to paying attention to the dispute settlement mechanism in terms of activating the decisions of the Investment Dispute Settlement Committee.
- Adopt a single-window mechanism by strengthening the institutions and complexes that deal with investors and linking them to technology to facilitate procedures, eliminate bureaucracy and develop the investment complex system.
- The Prime Minister's decision was issued last April to establish the Small and Microenterprise Development Authority in the context of the State's interest in creating the atmosphere that attracts them.
- Focus on structural reforms and remove obstacles to industry and export to increase the competitiveness of Egyptian products.

The following are the latest developments in economic indicators:-

- Real GDP growth has accelerated to 3.9% during Q3-FY16/17, compared to 3.6% during Q3-FY15/16 and up from 3.8% in Q2-FY16/17 and 3.4% in Q1-FY16/17. Growth was mainly driven by a pickup in investments and an improvement in net exports. On the supply side, non-oil manufacturing, communications, construction and wholesale and retail were key contributors to growth. On top of which, tourism shows signs of recovery as it rebounded 39.9% during Q3-FY16/17, following a contraction of 15.9% during Q2-FY16/17 and 37.5% in Q1-FY16/17.
- As for the monetary developments, M2 annual growth rate increased to 38.4 percent in March 2017 reaching LE 2750.8 billion, compared to 36.6 percent (LE 2627.2 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 at a slower pace to 36.3 percent y-o-y to reach 2795.1 billion during the month of study, compared to 37.8 percent (LE 2712.2 billion) in February 2017. This overcame the decline witnessed in Net foreign assets which reached a negative value of LE 44.3 billion in March 2017, compared to a negative value of LE 85 billion in the previous month.
- Meanwhile, Headline Urban Inflation continued to rise significantly to record 31.5 percent during April 2017, and 30.9 percent during March 2017, compared to 10.3 percent during April 2016. Factors contributing to inflationary pressures include: The increase in annual inflation of “Food and Beverages” group (the highest weight in CPI) to record 43.6 percent during April 2017, and 41.8 percent during March 2017, compared to 12.7 percent during April 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; "Health", "Alcoholic Beverages, Tobacco", "Transport", "Furnishing and House Equipment's", "Clothing and Footwear", "Miscellaneous Goods and Services", and "Recreation& Culture". However, it was noticed that annual inflation rates for those most main groups have either witnessed slower pace of increase, or have stabilized compared to last month.

As for average annual Headline inflation, it increased during July- April 16/17 to record 22.1 percent, compared to 9.6 percent during the same period last year.

- During its Monetary Policy Committee meeting held on May 21st, 2017, CBE decided to raise the overnight deposit rate, overnight lending rates and the rate of CBE's main operation by 200 basis points to record 16.75 percent, 17.75 percent and 17.25 percent, respectively. The discount rate was also raised by 200 basis points recording 17.25 percent.
- Moreover, total government debt (domestic and external) reached LE 3676 billion (107.9 percent of GDP) at end of March 2017.
- The Balance of Payments (BOP) showed an overall surplus of US$ 7 billion (2.4 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 (-3.3 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 (6.0 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.

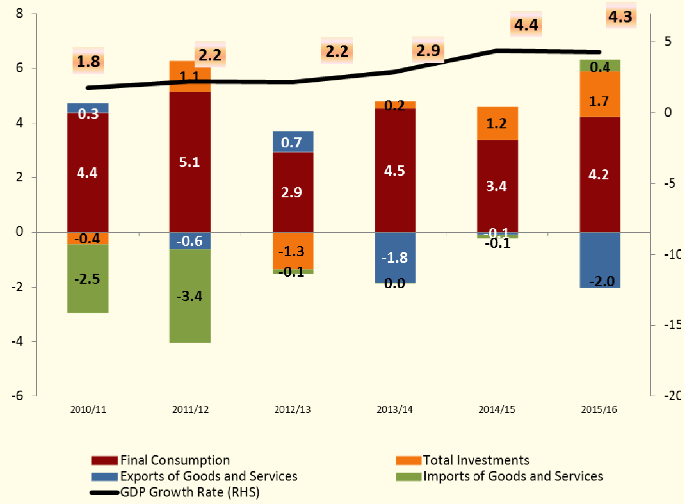
Real Sector:

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.

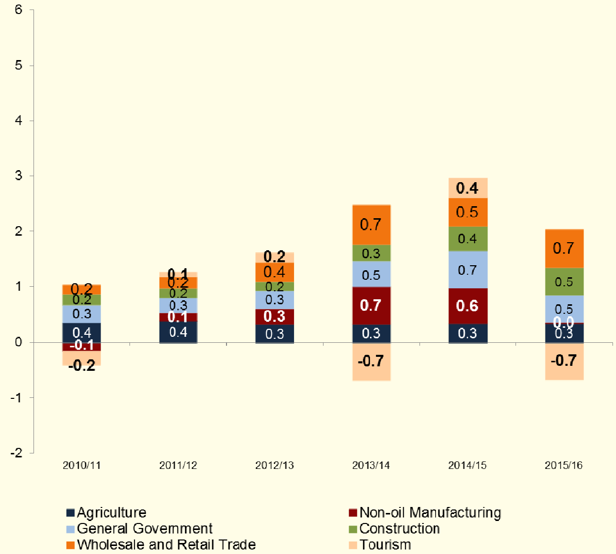
On the demand side, both public and private consumption maintained to be the key growth drivers during FY15/16. Private consumption grew by 4.6 percent y-o-y, compared to 3.1 percent during last fiscal year, while public consumption grew by 3.9 percent in the year of study, compared to 7.0 percent, during 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- March 2016/2017;*

Latest indicators for the period July-March 2016/2017 point to a decline in the budget deficit reaching 8.0 percent of GDP (LE 273.3 billion), compared to 9.4 percent of GDP (LE 254.9 billion) during the same period last year. This could be explained in light of the increase in revenues growth rate during the period of study compared to the same period of last year, exceeding the growth in expenditure during the same period, recording 24.9 percent for the first, and 18.4 percent for the later.

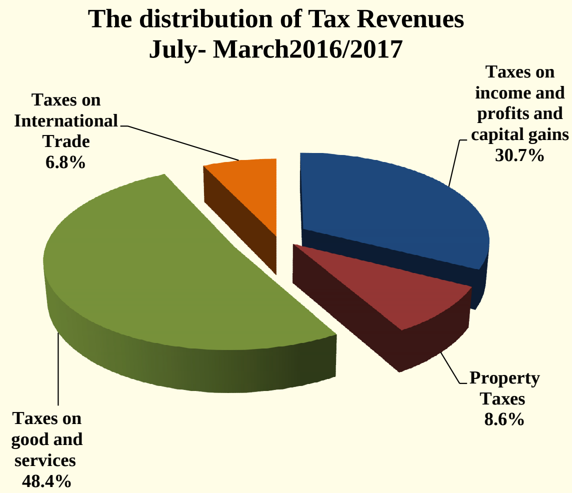
July- March 15/16 Budget Deficit LE 254.9 billion (9.4 percent of GDP)	July- March 16/17 Budget Deficit LE 273.3 billion (8.0 percent of GDP)
Revenues LE 291.1 billion (10.7 percent of GDP)	Revenues LE 363.7 billion (10.7 percent of GDP)
Expenditure LE 533.3 billion (19.7 percent of GDP)	Expenditure LE 631.4 billion (18.5 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

Detailed explanations are as follows:

On the Revenues Side,

- Total revenues recorded LE 363.7 billion during the period July-March 2016/2017, increasing by LE 72.6 billion (24.9 percent), compared to LE 291.1 billion during July-March 15/16. These developments could be explained mainly in light of the increase in tax revenues by LE 56.5 billion (26.6 percent) to record LE 268.9 billion during the period of study, compared to LE 212.4 billion during the same period last fiscal year. Meanwhile, Non-tax revenues increased by LE 16.1 billion (20.4 percent) to record LE 94.8 billion during July-March 16/17, compared to LE 78.7 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 27.3 percent during the period of study, mainly driven by the increase in non-sovereign income taxes and sales taxes receipts by 16.9 percent and 34.2 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 12.6 billion (17.9 percent growth) to reach LE 82.6 billion (2.4 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 30.7 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 3.2 billion (16.7 percent) to reach LE 22.6 billion.
- Increase in receipts from taxes on Suez Canal by LE 5.2 billion (54.2 percent) to reach LE 14.8 billion.
- Increase in receipts from taxes on other companies by LE 5.2 billion (25.6 percent) to reach LE 25.4 billion.

Taxes on Goods and Services increased by LE 30.3 billion (30.3 percent growth) to reach LE 130.3 billion (3.8 percent of GDP).

Taxes on goods and services receipts represent 48.4 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 61.9 percent to record LE 66.5 billion.
- The increase in general sales tax on services by 16.6 percent to record LE 12.4 billion.
- The increase in domestic commodities (Table 1) by 6.3 percent to record LE 36.1 billion.

Property Taxes increased by LE 3.2 billion (16.3 percent growth) to reach LE 23.2 billion (0.7 percent of GDP).
- **Property Taxes receipts represent 8.6 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 15.1 percent to reach LE 19 billion during the period of study.

Moreover, Taxes on international trade rose by LE 2.2 billion to reach LE 18.3 billion during the period of study, compared to LE 16.2 billion during the same period of last year.

On the Non-Tax Revenues Side,

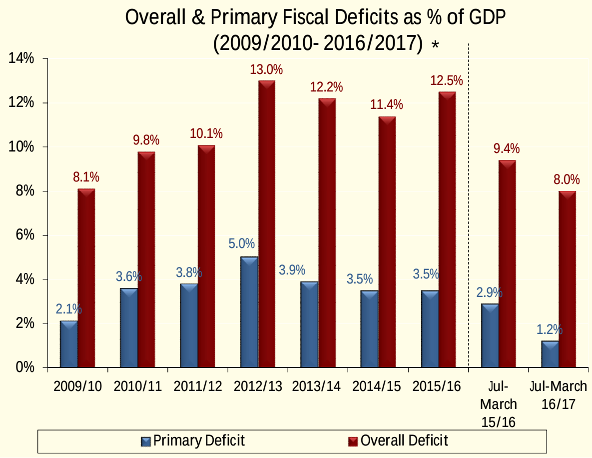
- Proceeds from Other Non-Tax Revenues rose by LE 18.9 billion (25 percent growth) to reach LE 94.3 billion during July-March 2016/2017, compared to LE 75.4 billion during the same period of last year.

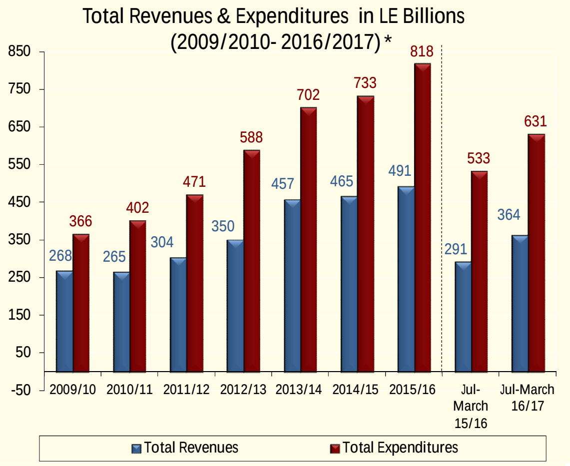
  Property income receipts recorded LE 59.7 billion rising by LE 15.7 billion (35.6 percent) during the period of study, compared to LE 44 billion recorded during July-March 15/16. This came in light of the increase in dividends collected from Economic Authorities by LE 4.5 billion (140.7 percent) to reach LE 7.6 billion during the period of study, compared to LE 3.2 billion during the same period last year. In addition, other property income rose to record LE 6.7 billion during July- March 16/17 (mainly due to the sale of 4G to the three telecommunication companies existing in Egypt), and Suez Canal dividends increased by LE 7.7 billion (64.4 percent) to record LE 19.8 billion during the period of study, compared to LE 12 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 4.4 billion (27.7 percent) to reach LE 20.2 billion during July- March 16/17, compared to LE 15.8 billion during July- March 15/16 (in light of the increase in receipts from special accounts and funds by LE 3.5 billion (30 percent) to reach LE 15 billion during the period of study, compared to LE 11.5 billion during July- March 15/16).

- Miscellaneous revenues recorded LE 12.3 billion declining by -15.7 percent during the period of study, compared to LE 14.5 billion recorded during July-March 15/16.
- Meanwhile, Grants recorded LE 0.5 billion during the period of study, compared to LE 3.3 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 631.4 billion (18.5 percent of GDP) during the period July-March 16/17, recording an increase of 18.4 percent, compared to the same period of last year. The increase in expenditure during the period of study is considered to be the lowest if compared to 20 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 158 billion (4.6 percent of GDP) during the period of study.
- Purchase of goods and services have increased by LE 3.4 billion (15.9 percent growth) to reach LE 24.5 billion (0.7 percent of GDP).
- Interest payments rose by 31.1 percent growth to reach LE 231.7 billion (6.8 percent of GDP).
- Subsidies, grants and social benefits rose by LE 21.5 billion (3.8 percent of GDP), (20.3 percent growth) to record LE 128 billion, compared to LE 106.4 billion compared to the same period last year.
    - ü Spending on Subsidies rose by LE 18.6 billion (31.9 percent growth) to reach LE 76.9 billion during the period of study, compared to LE 58.3 billion during the same period of last year, this came in light of; Petroleum subsidies recorded LE 22.1 billion during the period of study, compared to no settlement were received during same period last year. Meanwhile, GASC spending recorded LE 23.1 billion during the period of study, compared to LE 22.9 billion during July- March 15/16.
    - ü Social benefits have increased by LE 4.4 billion (10.3 percent growth) to reach LE 47.4 billion, in light of the increase in spending on health treatments financed by state budget, increasing by LE 3.5 billion during the period of study.

- Purchases of non-financial assets (investments) rose by LE 9.3 billion (1.3 percent of GDP), growing by 25.3 percent growth to reach LE 45.8 billion.
- Other Expenditures recorded LE 43.4 billion (1.3 percent of GDP), rising by 18.4 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:

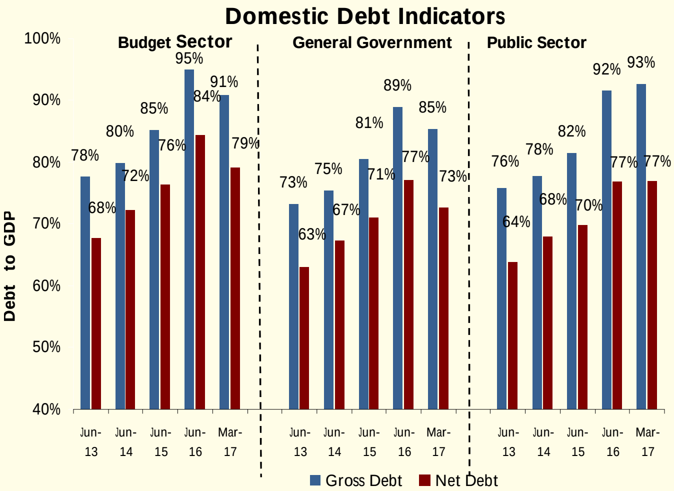
Total government debt (domestic and external) reached LE 3676 billion (107.9 percent of GDP) at end of March 2017, of which;

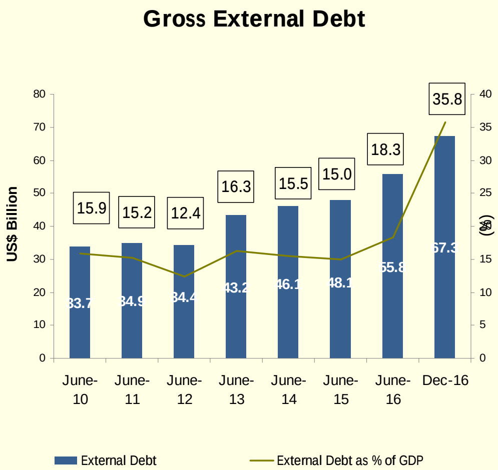
- Domestic budget sector debt recorded LE 3097,6 billion (90.9 percent of GDP) by end of March 2017, compared to LE 2573 billion (95 percent of GDP) by end of June 2016.

  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 (35.8 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$ 26.3 billion (14 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 to 38.4 percent in March 2017 reaching LE 2750.8 billion, compared to 36.6 percent (LE 2627.2 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 at a slower pace to 36.3 percent y-o-y to reach 2795.1 billion during the month of study, compared to 37.8 percent (LE 2712.2 billion) in February 2017. This overcame the decline witnessed in Net foreign assets which reached a negative value of LE 44.3 billion in March 2017, compared to a negative value of LE 85 billion in the previous month.

In March 2017, net claims on government annual growth increased to 27.5 percent (LE 1999.2 billion), compared to 26.9 percent during the previous month. Moreover claims on public business sector annual growth increased as well to reach 80.5 percent (LE 149.9 billion) in March 2017, compared to 79.2 percent at end February 2017. Annual growth in credit to the private sector increased to 39.9 percent (LE 959.3 billion) at the end of March 2017, compared to 37.9 percent last month. This comes on the back of the increase in claims on private businesses sector annual growth to 49.5 percent (LE 723.4 billion) during the month of study, compared to 46.7 percent in February 2017. Meanwhile, claims on household sector annual growth reached 16.9 percent (LE 235.9 billion) in March 2017, compared to a higher rate of 17.5 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 44.3 billion in March 2017, compared to LE -85 billion during the previous month. This decline continues in light of the drop in banks net foreign to LE -49.8 billion in March 2017, compared to LE -56.8 billion in February 2017. However, central bank net foreign assets recorded a positive value of LE 5.5 billion for the first time since August 2015.

From the liabilities side, quasi money annual growth increased to reach 45.4 percent during the month of study to reach LE 2119.8 billion in March 2017, compared to 42.3 percent (LE 1993.2 billion) in February 2017. On a detailed level, foreign currency time and savings deposits annual growth increased to reach 122.1 percent (LE 530.1 billion), in March 2017, compared to 120.6 percent in the previous month. Local currency time and savings deposits annual growth rate increased as well to reach 26.5 percent (LE 1446.2 billion) in March 2017, compared to 25.3 percent in February 2017.

Money annual growth increased at a slower pace to reach 19.1 percent (LE 631 billion) in March 2017, compared to 21.3 percent in the previous month. This could be attributed to the slowdown witnessed in currency in circulation annual growth, which reached 23.3 percent (LE 385.1 billion) in March 2017, compared to a higher rate of 25.6 percent in the previous month. Moreover, demand deposits in local currency annual growth, reached 13 percent (LE 245.9 billion) March 2017, compared to a higher rate of 15.3 percent in the previous month.

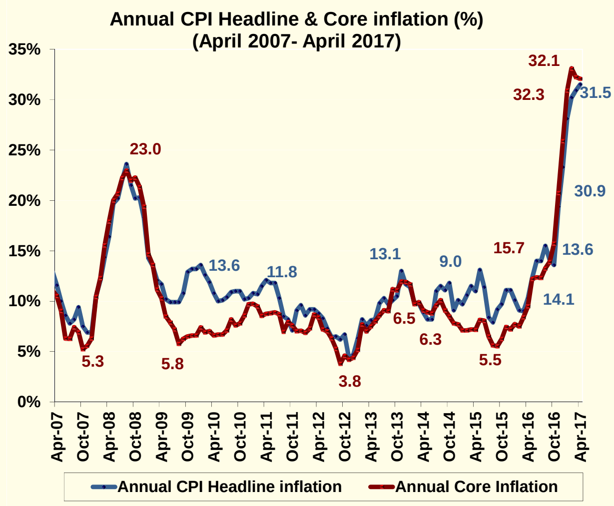
Total deposits annual growth – excluding deposits at the CBE – reached 44.2 percent y-o-y (LE 2761.2 billion) at the end of December 2016, compared to 44.3 percent at end of November 2016. Out of total deposits, 82.8 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by the banking sector (excluding CBE) slowed down to reach 64.3 percent (LE 1300.2 billion) in December 2016, compared to 65.1 percent in the previous month. To that end, the loans-to-deposits ratio decreased to 47.1 percent at end of December 2016, compared to 47.7 percent in November 2016 but increased compared to 41.3 in December 2015. (Detailed data for January and February 2017 are not yet available).

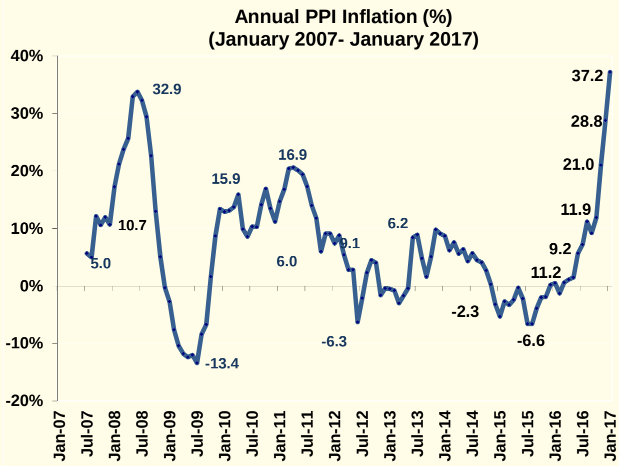
- During April 2017, net International Reserves (NIR) increased to US$ 28.6 billion during April 2017, from US$ 28.5 billion in March 2017.

- Headline Urban Inflation continued to rise significantly to record 31.5 percent during April 2017, and 30.9 percent during March 2017, compared to 10.3 percent during April 2016. Factors contributing to inflationary pressures include: The increase in annual inflation of “Food and Beverages” group (the highest weight in CPI) to record 43.6 percent during April 2017, and 41.8 percent during March 2017, compared to 12.7 percent during April 2016. In addition, most of other main groups have contributed to the increase in annual inflation rate during the month of study. However, it was noticed that annual inflation rates for most main groups have either witnessed slower pace of increase, or have stabilized compared to last month, on the top of which; “Health” to record 30.2 percent during April 2017, and has stabilized compared to last month, and compared to 13.8 percent during April 2016, “Alcoholic Beverages, Tobacco” to record 35.7 percent during April 2017, and has stabilized compared to last month, and compared to 0.6 percent during April 2016, “Transport” to record 27.5 percent during April

2017, and has grown at a slower pace compared to 28.2 percent recorded during last month, and compared to 2.4 percent recoded during April 2016, "Furnishing and House Equipment's" to record 30.2 percent during April 2017, and has grown at a slower pace compared to 31.1 percent recorded during last month, and compared to 11.2 percent recoded during April 2016, "Clothing and Footwear" to record 19.1 percent during April 2017, and has grown at a slower pace compared to 23.4 percent recorded during last month, and compared to 7 percent during April 2016, "Miscellaneous Goods and Services" to record 33.5 percent during April 2017, and has grown at a slower pace compared to 36.7 percent recorded during last month, and compared to 7 percent during April 2016, and "Recreation& Culture" to record 19.9 percent during April 2017, and has stabilized compared to last month, and compared to 10.7 percent during April 2016.

- As for average annual Headline inflation, it increased during July- April 16/17 to record 22.1 percent, compared to 9.6 percent during the same period last year.





- Meanwhile, Monthly inflation has slowed down for the second month in a row to recorded 1.7 percent during April 2017, compared to 2.0 percent during March 2017, and compared to 1.3 percent during April 2016. This could be explained in light of the increase in "Food and Beverages" group to record 3.2 percent during April 2017, compared to 3.0 percent during last month, and compared to 1.9 percent during April 2016.

- Annual core inflation[4] recorded 32.1 percent during April 2017, compared to 32.3 percent during the last month, and compared to 9.5 percent April 2016. for average annual Core inflation, it increased during July- April 16/17 to record 23 percent, compared to 7.2 percent during the same period last year. Meanwhile, monthly core inflation has recorded 1.1 percent during April 2017, compared to 1.0 percent during last month.

- During its Monetary Policy Committee meeting held on May 21st, 2017, CBE decided to raise the overnight deposit rate, overnight lending rates and the rate of CBE's main operation by 200 basis points to record 16.75 percent, 17.75 percent and 17.25 percent, respectively. The discount rate was also raised by 200 basis points recording 17.25 percent. The Committee has justified such decision in light of the continuous increase in annual inflation rates to record 31.5 percent in April 2017 affected by the structural reforms implemented since November 2016. However, monthly inflation rate has

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'.

declined to 1.69 percent during April 2017 compared to a peak of 4.85 percent recoded in November 2016 indicating faded effects of the structural reforms on monthly basis. Nevertheless, the decline in monthly inflation rates, CBE monetary policy committee clarified it not to be sufficient to achieve the targeted inflation levels on the medium term, and which justifies its decision to raise the interest rates.

Ø Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on May 9th, 2017 worth LE 50 billion with 7-day maturity at a fixed annual interest rate of 15.25 percent.

Ø The Egyptian Exchange market capitalization decreased by 1 percent m-o-m during April 2017 to reach LE 648.7 billion, compared to LE 655 billion in the previous month. The EGX-30 Index also decreased by 4.3 percent during April 2017 to reach 12433.6 points, compared to closing at 12994.8 points by the end of March 2017. On the contrary, the EGX-70 increased by 2.4 percent, closing at 583.47 points compared to 569.69 points in the previous month.

Ø *On the External Sector side:*

BOP showed an overall surplus of US$ 7 billion (2.4 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 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 (-3.3 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 (-6.1 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 (0.8 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 (6.0 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 (4.5 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 March 2017 to reach 0.65 million tourists, compared to 0.44 million tourists in March 2016. Moreover, tourist nights increased to reach 5.4 million nights during March 2017, compared to 2.5 million nights during the same month last year.