Executive Summary

Main Highlights…

The government is persistently working towards achieving the anticipated and desired economic development for Egypt. This effort is reflected in the rapid improvement of a number of leading macroeconomic indicators and the increased willingness of investors to invest in the Egyptian economy signaling growing confidence in Egypt's economic reform program. The reform program was launched last year with the aim of tackling long lasting structural imbalances threatening the wellbeing of the Egyptian economy for years.

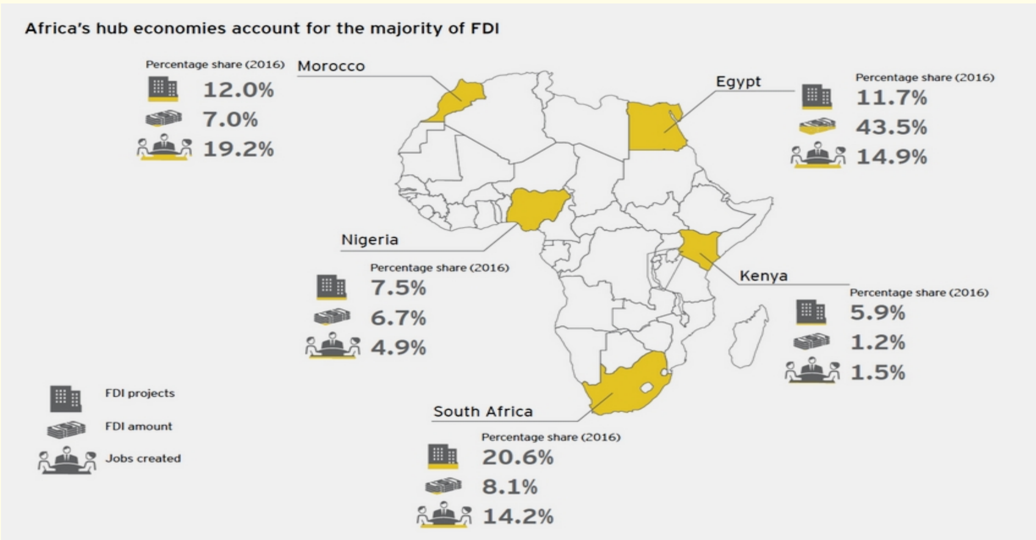
On the other hand, recently positive highlights were as follows;

A comprehensive economic reform program that places Egypt on the right track and activates the economy to grow at full capacity and generate real job opportunities across all sectors of the economy

The bold reforms implemented by the government since November 2016, have been welcomed by the international community as a vital remedy to overcome the rising fiscal deficit and debt ratios

A number of economic indicators are signaling the growing confidence in the reform program, among which are the increased investors' demand on dollar T-bills and bonds, the improvement of Egyptian stock indexes, and the marked increase in FDIs, and Net International reserves

Egypt achieved the highest growth in FDIs among African countries in 2016



§ According to Ernst & Young's "Africa Attractiveness 2017" report, Egypt achieved the highest growth in foreign direct investment inflows among African countries by about 43.5 percent in 2016. Meanwhile, Egypt ranked third in the list of the most attractive foreign direct investment countries in terms of value after Morocco and South Africa, which remained the first recipients of foreign direct investment in Africa. Moreover, Egypt ranked eleventh in the index of investments attractiveness, based on several criteria, of which; the extent of macroeconomic flexibility, market size, and business empowerment, investment in infrastructure, and economic diversification and governance.

§ The total number of tourist arrivals to Egypt has increased notably during the first quarter of 2017 by 51 percent, compared to the same period of last year. In addition, the number of tourist nights increased by 107 percent during the same period of the year. The recent hosting of numerous political, artistic and sporting events in several countries has contributed positively to the influx of tourists, therefore, lifting a number of travel bans by European countries.

§ Egypt earned $3 billion from the sale of euro bonds, which is double the government's target and come at a lower cost than selling the same bonds for the first time in January. The government issued bonds worth $750 million for five years with a yield of 5.45 percent, which is less than the 6.125 percent in January. In addition the government also issued $10 billion in 10 year bonds with a yield of 6.65 percent compared to 7.50 percent in the previous issue. The third was $1.25 billion for 30 years with a yield of 7.95 percent, lower than the previous issue's 8.50 percent yield. Such bond issuances are necessary in order to diversify Egypt's sources of finance, where by borrowing at lower costs and not crowding out private sector credit, through internal borrowing.

§ Meanwhile, Net International Reserves (NIR) increased to US$ 31.1 billion during May 2017, from US$ 28.6 billion in April 2017. This is the highest balance achieved since March 2011.

§ Unemployment rate has declined to record 12 percent during Q1 of 2017 and the number of employed persons has reached 25.7 million, compared to an unemployment rate of 12.7 percent during Q1 of the previous year and 24.4 million employed, and compared to an unemployment rate of 13.4 percent during Q4 of 2013 and 23.5 million employed persons during the same year. This brings an average of around 700 thousands newly created jobs per year.

§ Real GDP growth has accelerated to 4.3% during Q3-FY16/17, compared to up from 3.8% in Q2-FY16/17 and 3.4% in Q1-FY16/17 and compared to 3.6% during Q3-FY15/16. 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 sector which showed strong signs of recovery.

On the Fiscal front, fiscal performance has improved in light of recent reforms, whereas the state budget deficit as percent of GDP has declined to LE 283.6 billion (8.3 percent of GDP) during the period July-April 2016/2017, compared to LE 273 billion (10.1 percent of GDP) during the same period last year. The decline in budget deficit as percent of GDP could be explained in light of the increased growth rate in revenues with more diversity during the period of study compared to the same period of last year, exceeding the growth in expenditure during the same period, recording 31 percent for the first, and 20 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 32.2 percent during the period July-April 2016/2017, mainly driven by the increase of non-sovereign income taxes by 22 percent, and an increase in non-sovereign receipts from taxes on goods and services by 40.2 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 28 billion, while government contributions to pension funds have recorded LE 38.4 billion during the period of study. Moreover, investment spending rose by 27.1 percent to record LE 52.7 billion during the period of study.

Recent Highlights for main Economic Indicators…

- Regarding the monetary developments, M2 annual growth rate increased to 38.7 percent in April 2017 reaching LE 2783 billion, compared to 38.0 percent (LE 2743.8 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 34 percent y-o-y to reach 2790.7 billion during the month of study, compared to 36 percent (LE 2789.1 billion) in March 2017. This overcame the decline witnessed in Net foreign assets which reached a negative value of LE 7.74 billion in April 2017, compared to a negative value of LE 45.2 billion in the previous month.

- Meanwhile, Headline Urban Inflation continued to rise significantly to record 29.7 percent during May 2017, and 31.5 percent during April 2017, compared to 12.3 percent during May 2016. Factors contributing to inflationary pressures include: The increase in annual inflation of "Food and Beverages" group (the highest weight in CPI) to record 41.1 percent during May 2017, and 43.6 percent during April 2017, compared to 14.3 percent during May 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; "Recreation & Culture" (in light of the increased demand for Omra Trips during the holy month of Ramadan), "Alcoholic Beverages & Tobacco", "Transport", "Furnishing and House Equipment's", "Clothing and Footwear", and "Miscellaneous Goods and Services". However, it was noticed that annual inflation rates for those most main groups have witnessed slower pace of increases compared to last month.

  As for average annual Headline inflation, it increased during July- May 16/17 to record 22.8 percent, compared to 9.8 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:

- Real GDP growth has accelerated to 4.3% during Q3-FY16/17, compared to up from 3.8% in Q2-FY16/17 and 3.4% in Q1-FY16/17 and compared to 3.6% during Q3-FY15/16. 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 sector which showed strong signs of recovery.

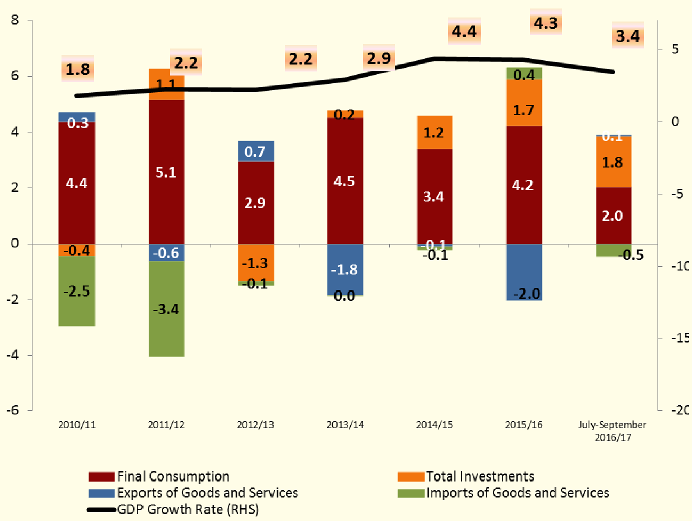
- Furthermore, Total Production Index rose by 15.1 percent on quarterly basis recording an average of 189.4 points during Q3-FY16/17, compared to negative growth rate of 9.7 percent during Q3-FY15/16, driven mainly by tourism sub-index that hiked by 76.6 percent on quarterly basis recording an average of 186 points during Q3-FY16/17, compared to negative growth rate of 57.5 percent during Q3-FY15/16, and manufacturing sub-index that picked-up by 24.5 percent on quarterly basis recording an average of 218.3 points during Q3-FY16/17, compared to negative growth rate of 0.1 percent during Q3-FY15/16.

- According to the latest detailed data by the Ministry of Planning, GDP has witnessed a 3.4 percent growth rate during Q1-FY16/17, compared to 5.1 percent during the same period last fiscal year. Both public and private consumption continued to boost economic activity during Q1-FY16/17 with a total contribution of 6.2 PPT, compared to 2.0 PPT during Q1-FY15/16. Investments have contributed positively to growth by 1.8 PPT, compared to a lower contribution of 1.0 PPT during Q1-FY15/16. On the other hand, net exports continued to be a constrain on growth with a negative impact of 0.4 PPT, compared to a negative contribution of 2.1 PPT during Q1-FY15/16.

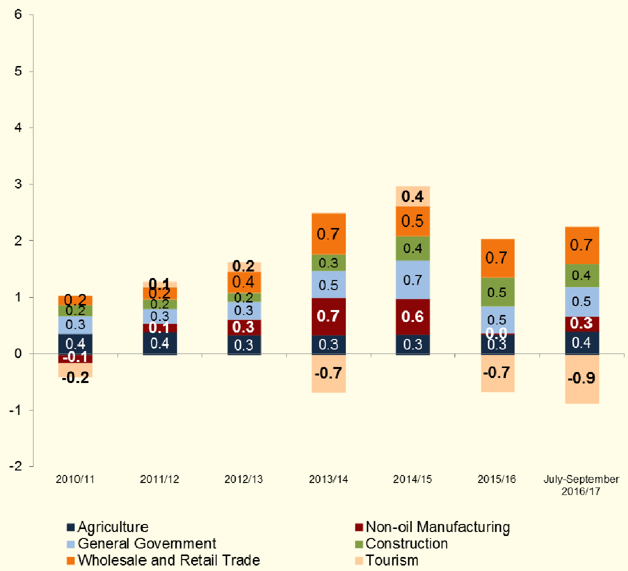
- On the demand side, both public and private consumption maintained to be the key growth drivers during Q1-FY16/17. Private consumption grew by 2.1 percent y-o-y, compared to 6.6 percent during the same period last fiscal year, while public consumption grew by 1.8 percent in the period of study, compared to 5.7 percent, during Q1-FY15/16. In the meantime, recent data shows that investments have increased by 15.0 percent in Q1-FY16/17, compared to 8.7 percent during same period last fiscal year.

- On the other hand, net exports constrained growth with a negative impact of 0.4 PPT, compared to a negative contribution of 2.1 PPT during Q1-FY15/16. This development came in light of a 0.6 percent increase in exports, with a positive contribution of 0.1 PPT to real GDP growth, compared to a negative contribution of 3.6 PPT during Q1-FY15/16, while imports increased by 2.5 percent in the period of study, contributing negatively by 0.5 PPT, compared to a positive contribution of 1.4 PPT during the same period last fiscal year.

Contribution to GDP Growth (at market prices) (PPT)
(2010/2011 - July-September 2016/2017)



Contribution to GDP Growth (at factor cost) (PPT)
(2010/2011 - July-September 2016/2017)



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 5.0 percent real growth rate during the period of study (stabilizing at a contribution to growth by 0.7 PPT). Moreover, the general government sector recorded a real growth rate of 5.7 percent (contributing 0.5 PPT during the period of study, compared to 0.9 PPT during same period last fiscal year). Meanwhile, the construction sector witnessed a growth rate of 10.0 percent in Q1-FY16/17, contributing to around 0.4 PPT to GDP during, compared to 0.3 PPT during Q1-FY15/16. Additionally, the agriculture sector witnessed a growth of 3.0 percent (stabilizing at a contribution of 0.4 PPT) and the real estate sector recorded a 4.7 percent real growth rate in FY15/16 (stabilizing at a contribution of 0.4 PPT)

Taken together, the above-mentioned 5 key sectors represented around 50.3 percent of total real GDP during the period of study.

Meanwhile, natural gas extraction continued to constrain growth during Q1-FY16/17 declining by 2.6 percent (contributing negatively to growth by 0.1 PPT, compared to a negative contribution of 0.5 PPT during same period last fiscal year).

Since the devaluation, Egypt's non-oil private sector *PMI*[1] reached 47.3 in May 2017, slightly dropping for April's 47.4 but largely improving from the post devaluation figure of 41.8 in November 2016. Since November 2016, new exports orders increased from 44.3 reaching 54.8 in May 2017, signaling an upward trends export activity. New orders also increased from 36.3 in November 2016 to reach 45.7 in May 2017, which highlights increased supply-side and demand-side activity in the manufacturing sector. In addition, the output index increased from 36.8 in November 2016 to reach 46 in May 2017, signaling increased overall output of the manufacturing sectors which aligns with its overall trend. Stocks of purchases also increased from 38.2 in November 2016 to reach 47.3 in May 2017. Finally since the devaluation, the employment index component of the PMI increased from 45.1 in November 2016 to 47 in May 2017, illustrating a rise in manufacturing sector employment.

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

Latest indicators for the period July-April 2016/2017 point to a decline in the budget deficit reaching 8.3 percent of GDP (LE 283.6 billion), compared to 10.1 percent of GDP (LE 273 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 30.8 percent for the first, and 20.0 percent for the later.

1/ Definition: The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI is based on components and indicators such as: new orders, inventory levels, output, stock purchases and the employment environment. The purpose of the PMI is to provide information about current business conditions to company decision makers, analysts and purchasing managers. PMI is produced by Emirates NBD Bank.

July- April 15/16 Budget Deficit LE 273 billion (10.1 percent of GDP)	July- April 16/17 Budget Deficit LE 283.6 billion (8.3 percent of GDP)*
Revenues LE 327.5 billion (12.1 percent of GDP)	Revenues LE 428.5 billion (12.6 percent of GDP)
Expenditure LE 587.6 billion (21.7 percent of GDP)	Expenditure LE 705.0 billion (20.7 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

*GDP estimates for FY16/17 have been revised recently to reach LE 3407.7 billion compared to a previous estimate of LE 3246.5 billion in light of the higher deflator and inflation compared to what was estimated earlier.

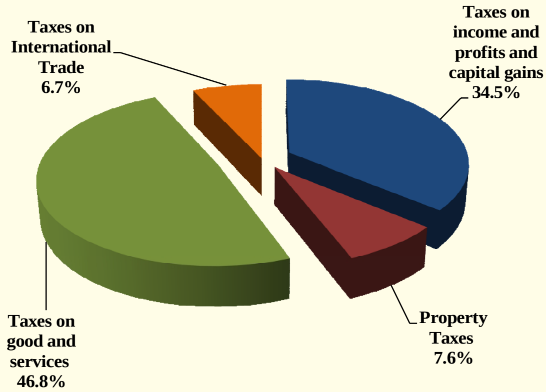
Detailed explanations are as follows:

On the Revenues Side,

§ Total revenues recorded LE 428.5 billion during the period July-April 2016/2017, increasing by LE 101 billion (30.8 percent), compared to LE 327.5 billion during July-April 15/16. These developments could be explained mainly in light of the increase in tax revenues by LE 81.6 billion (33.5 percent) to record LE 325.4 billion during the period of study, compared to LE 243.8 billion during the same period last fiscal year. Meanwhile, Non-tax revenues increased by LE 19.3 billion (23.1 percent) to record LE 103.1 billion during July-April 16/17, compared to LE 83.7 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 32.2 percent during the period of study, mainly driven by the increase in non-sovereign income taxes and sales taxes receipts by 22 percent and 40.2 percent, respectively.

The distribution of Tax Revenues July- April 2016/2017



<u>On the Tax Revenues Side</u>

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 26.4 billion (30.7 percent growth) to reach LE 112.3 billion (3.3 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 34.5 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 3.8 billion (17.4 percent) to reach LE 25.6 billion.
- Increase in receipts from taxes on Suez Canal by LE 7.4 billion (77.1 percent) to reach LE 17 billion.
- Increase in receipts from taxes on other companies by LE 11.9 billion (38.8 percent) to reach LE 42.5 billion.

Taxes on Goods and Services increased by LE 40.6 billion (36.3 percent growth) to reach LE 152.2 billion (4.5 percent of GDP).

Taxes on goods and services receipts represent 46.8 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 63.9 percent to record LE 75 billion.
- The increase in general sales tax on services by 20.8 percent to record LE 14.2 billion.
- The increase in domestic commodities (Table 1) by 18.1 percent to record LE 45.1 billion.

Property Taxes increased by LE 2.5 billion (11.5 percent growth) to reach LE 24.7 billion (0.7 percent of GDP).

- **Property Taxes receipts represent 7.6 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 9.6 percent to reach LE 20.1 billion during the period of study.

Moreover, Taxes on international trade rose by LE 3.9 billion to reach LE 21.7 billion during the period of study, compared to LE 17.8 billion during the same period of last year.

On the Non-Tax Revenues Side,

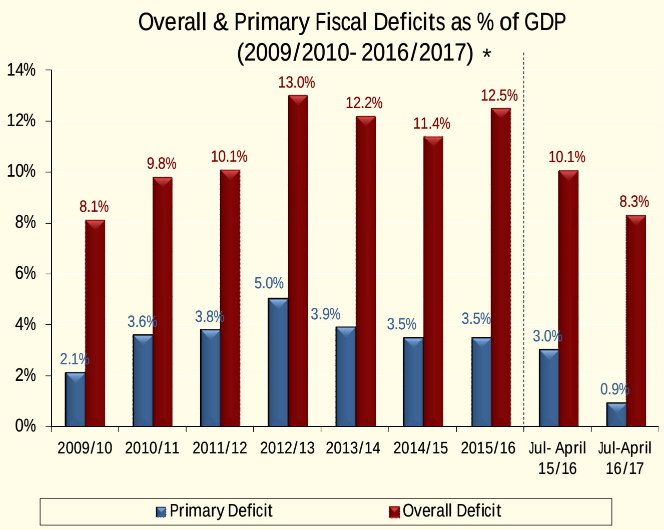
- Proceeds from Other Non-Tax Revenues rose by LE 22.1 billion (27.5 percent growth) to reach LE 102.5 billion during July-April 2016/2017, compared to LE 80.4 billion during the same period of last year.

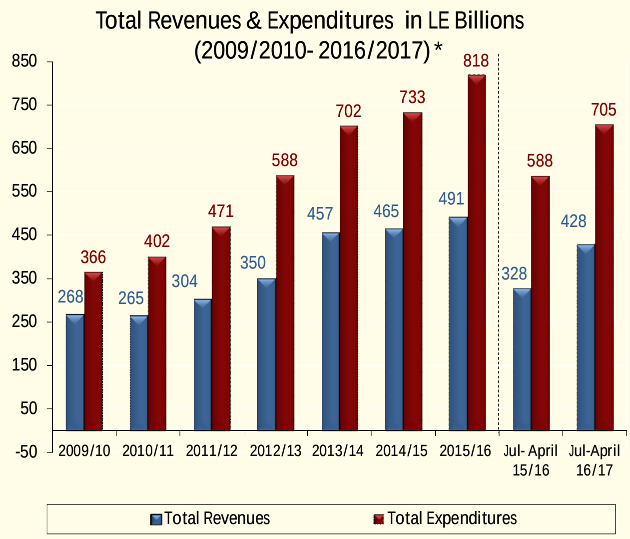
  Property income receipts recorded LE 64.3 billion rising by LE 17.6 billion (37.6 percent) during the period of study, compared to LE 46.8 billion recorded during July-April 15/16. This came in light of the increase in dividends collected from Economic Authorities by LE 3.5 billion (82.5 percent) to reach LE 7.7 billion during the period of study, compared to LE 4.2 billion during the same period last year. In addition, other property income rose to record LE 6.7 billion during July- April 16/17 (mainly due to the sale of 4G to the three telecommunication companies existing in Egypt), and Suez Canal dividends increased by LE 9.5 billion (80.6 percent) to record LE 21.3 billion during the period of study, compared to LE 11.8 billion during the same period last year. Those increases have counterparted the decline in dividends collected from CBE[2],

  Meanwhile, Proceeds from sales of goods and services rose by LE 4.6 billion (26.4 percent) to reach LE 22.2 billion during July- April 16/17, compared to LE 17.6 billion during July- April 15/16 (in light of the increase in receipts from special accounts and funds by LE 3.7 billion (28.8 percent) to reach LE 16.5 billion during the period of study, compared to LE 12.8 billion during July- April 15/16).

- Miscellaneous revenues recorded LE 13.6 billion declining by -8.0 percent during the period of study, compared to LE 14.8 billion recorded during July-April 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.

2/ 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 705 billion (20.7 percent of GDP) during the period July-April 16/17, recording an increase of 20 percent, compared to the same period of last year.

- Wages and compensation of employees rose by 2 percent to record LE 173 billion (5.1 percent of GDP) during the period of study.
- Purchase of goods and services have increased by LE 3.2 billion (13.5 percent growth) to reach LE 27.2 billion (0.8 percent of GDP).
- Interest payments rose by 31.5 percent growth to reach LE 251.3 billion (7.4 percent of GDP).
- Subsidies, grants and social benefits rose by LE 33.8 billion (4.5 percent of GDP), (28 percent growth) to record LE 154.4 billion, compared to LE 120.6 billion compared to the same period last year.

ü Spending on Subsidies rose by LE 30.1 billion (44.5 percent growth) to reach LE 97.7 billion during the period of study, compared to LE 67.6 billion during the same period of last year, this came in light of; Petroleum subsidies recorded LE 36.3 billion during the period of study, compared to no settlement were received during same period last year. Meanwhile, GASC spending recorded LE 28 billion during the period of study, compared to LE 27.7 billion during July- April 15/16.

ü Social benefits have increased by LE 5.8 billion (12.3 percent growth) to reach LE 52.6 billion, in light of the increase in spending on health treatments financed by state budget, increasing by LE 4 billion during the period of study.

- Purchases of non-financial assets (investments) rose by LE 11.3 billion (1.5 percent of GDP), growing by 27.1 percent growth to reach LE 52.7 billion.
- Other Expenditures recorded LE 46.4 billion (1.4 percent of GDP), rising by 13.3 percent, compared to the same period last fiscal year.

Ø <u>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</u>. 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:

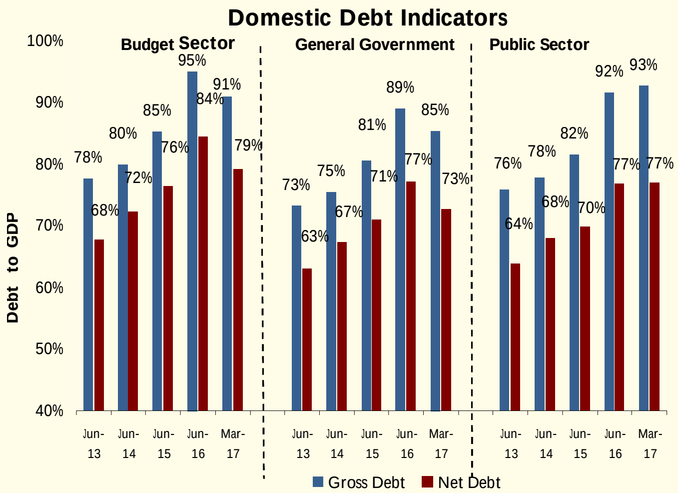
Total government debt (domestic and external) reached LE 3676 billion (107.9 percent of GDP) at end of March 2017, of which;

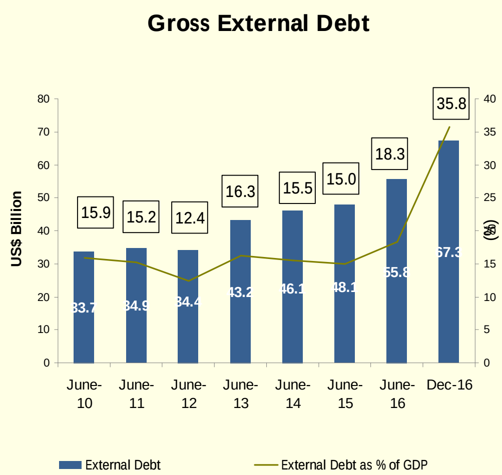
- Domestic budget sector debt recorded LE 3097,6 billion (90.9 percent of GDP) by end of March 2017, compared to LE 2573 billion (95 percent of GDP) by end of June 2016.

  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 38.7 percent in April 2017 reaching LE 2783 billion, compared to 38.0 percent (LE 2743.8 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 34 percent y-o-y to reach 2790.7 billion during the month of study, compared to 36 percent (LE 2789.1 billion) in March 2017. This overcame the decline witnessed in Net foreign assets which reached a negative value of LE 7.74 billion in April 2017, compared to a negative value of LE 45.2 billion in the previous month.

In April 2017, net claims on government annual growth slowed down to 25.8 percent (LE 1994.8 billion), compared to 27.2 percent during the previous month. Moreover claims on public business sector annual growth slowed down as well to reach 72.6 percent (LE 148.4 billion) in April 2017, compared to 80.4 percent at end March 2017. Annual growth in credit to the private sector reached 39.6 percent (LE 970.4 billion) at the end of April 2017, compared to 39.9 percent last month. This comes on the back of the decrease in claims on household sector annual growth which reached 15.9 percent (LE 236.1 billion) in April 2017, compared to 16.8 percent in the previous month. Meanwhile, claims on private businesses sector annual growth stabilized at 49.5 percent (LE 734.3 billion) during the month of study.

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 7.7 billion in April 2017, compared to LE -45.2 billion during the previous month. This decline continues in light of the drop in banks net foreign to LE -22.4 billion in April 2017, compared to LE -50.7 billion in March 2017. However, central bank net foreign assets recorded a positive value of LE 14.7 billion in April 2017, compared to LE 5.5 billion in March 2017.

From the liabilities side, quasi money annual growth increased to reach 45.2 percent during the month of study to reach LE 2129.2 billion in April 2017, compared to 44.9 percent (LE 2112.8 billion) in March 2017. On a detailed level, foreign currency demand deposits and Local currency time and savings annual growth rate increased to reach 93.7 percent (LE 147.2 billion) and 26.1 percent (LE 1449.1 billion) in April 2017 respectively, compared to 89.4 percent and 25.9 percent in March 2017. This overcame the slowdown in foreign currency time and savings deposits annual growth which reached 120.8 percent (LE 532.9 billion), in April 2017, compared to 122.1 percent in the previous month.

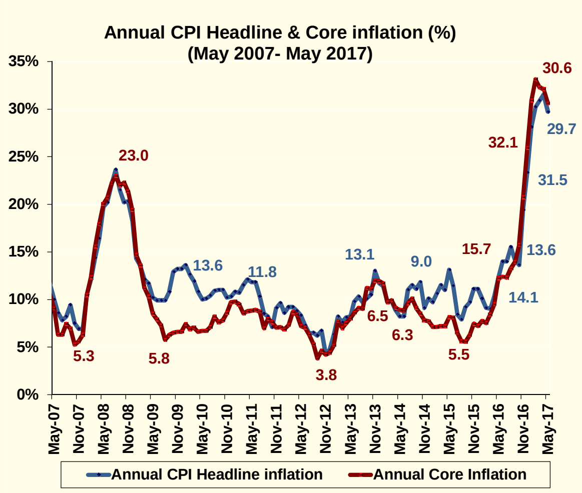
Money annual growth increased to reach 21 percent (LE 653.8 billion) in April 2017, compared to 19.1 percent in the previous month. This could be attributed to the significant increase in demand deposits in local currency annual growth, which recorded 22.1 percent (LE 245.9 billion) in April 2017, compared to 13.0 percent in the previous month. This overcame the slowdown witnessed in currency in circulation annual growth, which reached 20.3 percent (LE 387.4 billion) in April 2017, compared to a higher rate of 23.3 percent in the previous month.

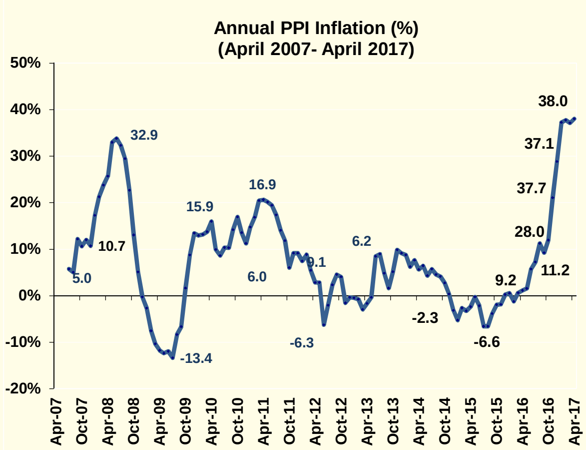
Total deposits annual growth – excluding deposits at the CBE – reached 40.3 percent y-o-y (LE 2714.6 billion) at the end of February 2017, compared to 47 percent at end of January 2017. Out of total deposits, 83.2 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by the banking sector (excluding CBE) slowed down to reach 57.1 percent (LE 1264 billion) in February 2017, compared to 69.6 percent in the previous month. To that end, the loans-to-deposits ratio decreased to 46.6 percent at end of February 2017, compared to 47.8 percent in January 2017 but increased compared to 41.6 in February 2016. (Detailed data for March and April 2017 are not yet available).

- During May 2017, net International Reserves (NIR) increased to US$ 31.1 billion, from US$ 28.6 billion in April 2017. This is the highest balance achieved since March 2011.

- Headline Urban Inflation continued to rise significantly to record 29.7 percent during May 2017, and 31.5 percent during April 2017, compared to 12.3 percent during May 2016. Factors contributing to inflationary pressures include: The increase in annual inflation of "Food and Beverages" group (the highest weight in CPI) to record 41.1 percent during May 2017, and 43.6 percent during April 2017, compared to 14.3 percent during May 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 witnessed a slower pace of increase compared to last month, on the top of which; Recreation& Culture" to record 47.9 percent during May 2017, compared to 19.9 percent during last month, and compared to 13.1 percent during May 2016 (in light of the increased demand for Omra Trips during the holy month of Ramadan), "Alcoholic Beverages & Tobacco" to record 33.9 percent during May 2017, compared to 35.7 percent during last month, and compared to 2.0 percent during May 2016, “Transport” to record 25.9 percent during May 2017, compared to 27.5 percent recorded during last month, and compared to 3.7 percent recoded during May 2016, “Furnishing and House Equipment’s” to record 29.2 percent during May 2017, compared to 30.2 percent recorded during last month, and compared to 12.2 percent recoded during May 2016, “Clothing and Footwear” to record 19.1 percent during May 2017, and has stabilized compared to last month, and compared to 7 percent during May 2016, “Miscellaneous Goods and Services” to record 32.3 percent during May 2017, compared to 33.5 percent recorded during last month, and compared to 8 percent during May 2016. On the other hand, the annual inflation rate of "Health" has slowed down notably to record 12.7 percent during May 2017, compared to 30.2 percent during last month (mainly in light of the base effect resulting from the increase in Medicine prices during the period of comparison of last year affected by the price increases declared by the Ministry of Health during that time of the year).

- As for average annual Headline inflation, it increased during July- May 16/17 to record 22.8 percent, compared to 9.8 percent during the same period last year.





- Meanwhile, Monthly inflation has stabilized during the month of study to record 1.7 percent; however, it has slowed down notably compared to 4.8 percent recorded during November 2016 (the month of implementing economic reforms). This could be explained in light of the increase in “Food and Beverages” group to record 2 percent during May 2017, compared to 3.2 percent during last month, and compared to 3.8 percent during May 2016. Meanwhile, monthly inflation rates have stabilized for other main groups during the month of study, except for the "Recreation & Culture" group, and which has increased notably to record 26.6 percent during May 2017, compared to stabilized prices during last month (mainly in light of the increased demand for Omra Trips during the holy month of Ramadan).

- Annual core inflation[5] recorded 30.6 percent during May 2017, compared to 32.1 percent during the last month, and compared to 12.2 percent May 2016. As for average annual Core inflation, it increased during July- May 16/17 to record 23.7 percent, compared to 7.6 percent during the same period last year. Meanwhile, monthly core inflation has recorded 2.0 percent during May 2017, compared to 1.1 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

5/The Core Index excludes items with managed prices 'regulated items' (fuel, electricity, exported and imported tobacco), and items characterized by inherent price volatility specifically 'fruits and vegetables'.

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 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.

- Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on June 13th, 2017 worth LE 5 billion with 7-day maturity at a fixed annual interest rate of 17.25 percent.
- The Egyptian Exchange market capitalization increased by 4.2 percent m-o-m during May 2017 to reach LE 675.9 billion, compared to LE 648.7 billion in the previous month. The EGX-30 Index also increased by 2.9 percent during May 2017 to reach 12791.83 points, compared to closing at 12433.6 points by the end of April 2017. On the contrary, the EGX-70 decreased by 2 percent, closing at 571.53 points compared to 583.47 points in the previous month.
- *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.