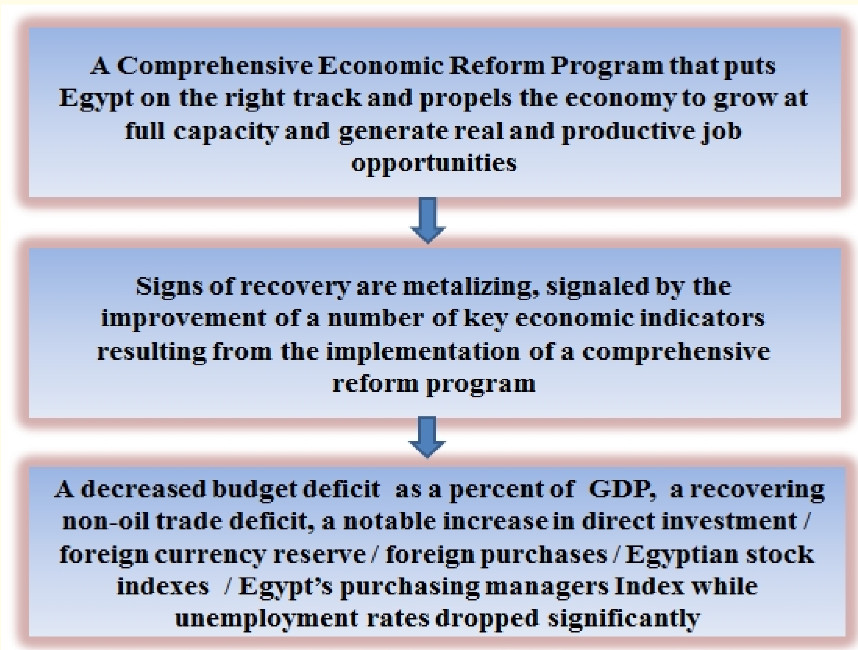
Executive Summary

Main Highlights…

The Egyptian economy is observing several promising developments that indicate a better economic and growth standing. Such improvements are expected to positively influence Egyptians' standards of living, boost employment rates and create real job opportunities. This is set in motion by the implementation of the Comprehensive Economic Reform Program which resulted into a jumpstart in a number of macroeconomic indicators, including;

- A recovery in the fiscal sector as well as a drop in budget deficit to 9.5 percent of GDP in July-May 16/17 compared to 11.5 percent during same period last year.
- An Increase in foreign direct investment by 19.8 percent during the first nine months of the current fiscal year compared to same period last year.
- A decrease in non-oil trade deficit by 13 percent the first nine months of the current fiscal year compared to same period last year.
- An increase in monthly inflows of foreigners' purchases in government securities.
- Egypt's Purchasing Managers Index reached 47.2 in June 2017 compared to 41.8 in November 2016, following the floatation of the Egyptian pound, as a result of implementing the Comprehensive Economic Reform Program and the restoration of investors' confidence in the Egyptian economy.

In this context, periodic reviews and appraisals by prestigious independent international institutions of the Egyptian economy underscore that the Comprehensive Economic Reform Program implemented by the government is making steady moves towards renewing confidence in the Egyptian economy.



Recently, the Parliament has approved the state budget for the FY 17/18, amounting to an all-time high of LE 1 trillion, and LE 206 billion. The FY17/18 state budget targets a primary surplus of around 0.3 percent of GDP, compared to a deficit of 3.5 percent in FY 15/16. An increased VAT by 1 percent to reach 14 percent is aimed at financing government spending.

Meanwhile, spending on health and education is to be increased to reach 10.3 percent of GDP, and fuel subsidies are planned to decline reaching 2.7 percent of GDP, and electricity subsidies are to reach 0.7 percent of GDP. Social spending, including GASC, pensions, cash subsidies (Takaful and Karama), and the rest of other social programs are to reach around LE 85 billion in next year's state budget. Overall budget deficit is to drop to 9 percent of GDP, compared to 12.5 percent of GDP for FY 15/16.

Moreover, the government recently announced a set of new increases in social programs as follows;

- Increasing cash transfers from LE 21 to LE 50 per person, with around 140 percent growth, and amounting to LE 85 billion, from LE 45 billion during last year.
- Increasing contributions to insurance pension funds by 15 percent, with a minimum amount of LE 150 per pensioner, benefiting around 10 million pensioners, representing an increase of around LE 30 billion, reaching LE 190 billion during FY 17/18 state budget.
- Increasing monthly cash transfers for Takaful and karama program rightful beneficiaries to LE 100 per person for a total number of 1 million and 750 thousand person, with a total spending reaching LE 8.25 billion, compared to LE 4 billion during last year.
- Incurring special bonus for public employees of 7 percent, a minimum of LE 65 per person under Civil Servant Law, additionally incurring exceptional 7 percent bonus to confront price increases with a minimum amount of around LE 130 per person for the two bonuses.
- Increasing tax exemptions from LE 6500 to LE 7200, and increasing tax cuts for the most vulnerable groups reaching around 80 percent of their income, with a total spending amounting to LE 7 to 8 billion.
- Postponing agricultural lands taxes for the next Three years to decrease tax burdens on agricultural sector.

Furthermore, recent international promising highlights are as follows;

- In their latest press release, the "International Monetary Fund" announced its confidence in the Reform Program implemented by the Egyptian government emphasizing that such program is geared towards placing Egypt on a path of economic development and prosperity. The Fund recently concluded its first review and approved the disbursement of the second tranche of $ 1.25 billion.
- "Fitch Ratings" announced that the credit rating of the Egyptian economy will be maintained at grade B with a stable outlook in June 2017. The institution commended the government's efforts in prompting the recent economic developments, in particular Parliament's approval of the new FY 2017/2018 State Budget which aims at reducing budget deficit, public debt ratios and record an unprecedented primary surplus.

- § The "World Bank" forecast in June 2016 that the Egyptian economy would grow the fastest in the MENA region next year. The Bank expects that the Egyptian economy will grow by 4.3% this year, 5% in 2018 and about 5.3% in 2019.
- § Egypt is the second Arab country in FDI inflows. A report issued by the "Arab Organization for Investment Guarantee and Export Credit" reveals that Egypt comes in second place in the rate of foreign direct investment flows to the Arab countries at a rate of 27%. According to the report, the biggest investors in Egypt during the past five years are China with 22.6 billion dollars, the UAE with 17.3 billion dollars, Greece with 10 billion dollars, Italy with 8.5 billion dollars and Saudi Arabia with 5.2 billion dollars. The report mentions that sectors most attracting to investments in Egypt are real estate, coal, petroleum, natural gas, chemicals, food, business services, industrial machinery, communications, cars and textiles.
- § "Tornos News" published an article on a number of German tourism companies that Greece and Egypt are top destinations for German tourists during the summer, followed immediately by Turkey, Croatia and Portugal, according to the report. Germany's tourism to Egypt was 31% higher than last year.
- § The "Global Investment Report" issued by "UNCTAD" showed out that FDI inflows to Egypt increased by 17% in 2016 with the support of fields discovered in Western Sahara. And it also show that the increase in direct investments to Egypt was a major contributor to reduce the decline in investments received by the North African countries included in the decision, which was limited to a decline of only 3 percent to about 59 billion dollars for those countries report.
- § The "Balance of Payments" recorded surplus by $ 11 billion in the first nine months of fiscal year 2016/2017, compared to only $ 3.6 billion in the same period last year. This was driven by a net inflow of $ 24.6 billion, while the current account deficit declined to $ 13.2 billion, from about $ 15 billion in the same period last year.
- § The "Tax Revenue" exceeds the target for the first time in the history of the stated budget by 30 percent compared to previous year, reaching LE 433 billion driven by a number of tax reforms including; VAT, and dispute settlements laws.
- § Meanwhile, Net International Reserves (NIR) increased to US$ 36 billion during July 2017, from US$ 31.3 billion in June 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.
- § According to the latest detailed data by the Ministry of Planning, GDP has witnessed a 4.3 percent growth rate during Q3-FY16/17, compared to 3.6 percent during the same period last fiscal year. Both public and private consumption continued to boost economic activity during Q3-FY16/17 with a total contribution of 3.0 PPT, compared to 4.4 PPT during Q3-FY15/16. Investments have contributed positively to growth by 1.0 PPT, compared to a lower contribution of 0.9 PPT during Q3-FY15/16. Moreover, net exports started to contribute positively to growth by 0.2 PPT, compared to a negative contribution of 1.6 PPT during Q3-FY15/16.

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 9.5 percent of GDP (LE 323.7 billion) during the period July-May 2016/2017, compared to 11.5 percent of GDP (LE 311 billion) 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 32.1 percent for the first, and 20.2 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 32.0 percent during the period July-May 2016/2017, mainly driven by the increase of non-sovereign income taxes by 22.1 percent, and an increase in non-sovereign receipts from taxes on goods and services by 52.0 percent. On the expenditure side, social justice still comes as a high priority in government spending. In this context, GASC subsidies increased by 7.6 percent to record LE 43.5 billion, while government contributions to pension funds have increased by 1.5 percent to record LE 41.8 billion during the period of study. Moreover, investment spending rose by 28.5 percent to record LE 61.2 billion during the period of study.

Recent Highlights for main Economic Indicators…

- Regarding the monetary developments, M2 annual growth rate increased to 39.4 percent in May 2017 reaching LE 2849.6 billion, compared to 38.8 percent (LE 2784.6 billion) in the previous month, according to recent data released by the CBE. The growth rate of net foreign assets of the banking system increased for the first time since October 2015, to reach a positive value of LE 69.2 billion in May 2017 compared to a negative value of LE 7.56 billion in the previous month. Meanwhile, net domestic assets recorded 30.7 percent y-o-y to reach 2780.4 billion during the month of study, compared to 34.1 percent (LE 2792.2 billion) in April 2017

- Meanwhile, Headline Urban Inflation stabilized at 29.8 percent during June 2017, compared to 29.7 percent during May 2017, while it increased notably if compared to 14.0 percent recorded during June 2016. Factors contributing to inflationary pressures include: The increase in annual inflation of "Food and Beverages" group (the highest weight in CPI) to record 40.3 percent during June 2017, and 41.1 percent during May 2017, and compared to 17.6 percent during June 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; "Alcoholic Beverages & Tobacco", "Clothing and Footwear", "Restaurant and Hotels", "Recreation & Culture", "Transport", and "Furnishing and House Equipment's". However, it was noticed that annual inflation rates for those most main groups have witnessed slight slower pace of increases compared to last month.

  As for average annual Headline inflation, it increased during the FY16/17 to record 23.3 percent, compared to 10.2 percent during the same period last year.

- During its Monetary Policy Committee meeting held on July 6th, 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 18.75 percent, 19.75 percent and 19.25 percent, respectively. The discount rate was also raised by 200 basis points recording 19.25 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$ 11.0 billion (4.4 percent of GDP) during July-Mar 16/17, compared to a deficit of US$ 3.6 billion (-1.1 percent of GDP) during the same period last year. This mainly came in light of the decrease witnessed in the current account deficit to record US$ 13.2 billion (-5.3 percent of GDP) during July-Mar 16/17, compared to a higher deficit of US$ 15.0 billion (-4.4 percent of GDP) during July-Mar 15/16. On the other hand, the capital and financial account witnessed net inflows of US$ 24.6 billion (9.9 percent of GDP) during the period of study, compared to lower net inflows of US$ 14.6 billion (4.2 percent of GDP) during the period of comparison. Meanwhile, net errors and omissions recorded an outflow of US$ 0.5 billion (-0.2 percent of GDP) during July-Mar 16/17, compared to an outflow of US$ 3.2 billion (-0.9 percent of GDP) during the period of comparison.

Real Sector:

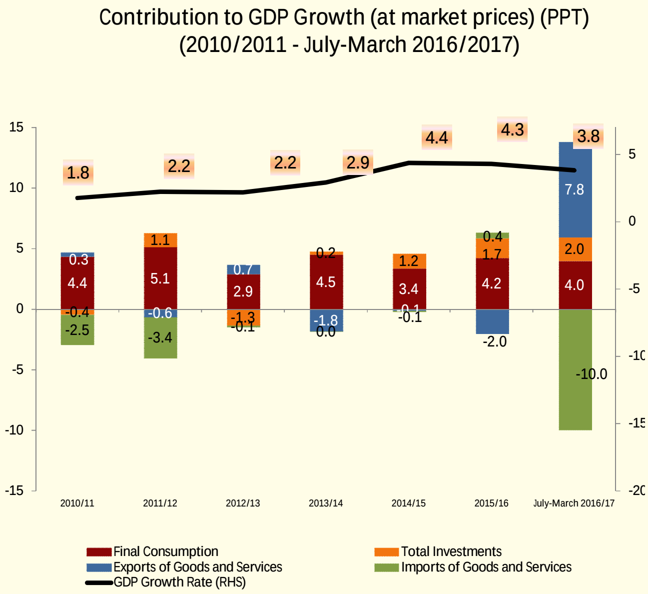
According to the latest detailed data by the Ministry of Planning, GDP has witnessed a 4.3 percent growth rate during Q3-FY16/17, compared to 3.6 percent during the same period last fiscal year. Both public and private consumption continued to boost economic activity during Q3-FY16/17 with a total contribution of 3.0 PPT, compared to 4.4 PPT during Q3-FY15/16. Investments have contributed positively to growth by 1.0 PPT, compared to a lower contribution of 0.9 PPT during Q3-FY15/16. Moreover, net exports started to contribute positively to growth by 0.2 PPT, compared to a negative contribution of 1.6 PPT during Q3-FY15/16.

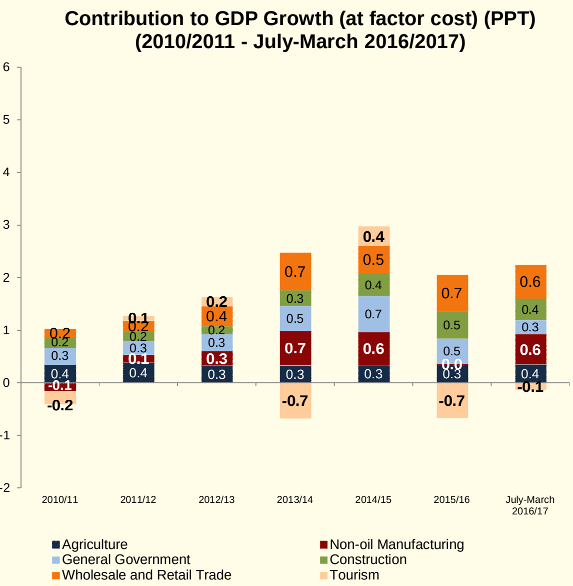
Furthermore, Total Production Index rose by 15.1 percent on quarterly basis recording an average of 189.4 points during Q3-FY16/17, compared to negative growth rate of 9.7 percent during Q3-FY15/16, driven mainly by tourism sub-index that hiked by 76.6 percent on quarterly basis recording an average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

Meanwhile, GDP has recorded a 3.8 percent growth rate during July-March FY16/17, compared to 4.2 percent during the same period last fiscal year.

On the demand side, both public and private consumption maintained to be the key growth drivers during July-March FY16/17. Private consumption grew by 4.4 percent y-o-y, compared to 5.5 percent during the same period last fiscal year (contributing to growth by 3.7 PPT, compared to 4.6 PPT), while public consumption grew by 2.4 percent in the period of study, compared to 3.6 percent, during July-March FY15/16 (contributing to growth by 0.3 PPT, compared to 0.4 PPT). In the meantime, recent data shows that investments have increased by 17.0 percent in Q1-FY16/17, compared to 7.6 percent during same period last fiscal year (contributing to growth by 2.0 PPT, compared to 0.8 PPT).

On the other hand, net exports constrained growth with a negative impact of 2.1 PPT, compared to a negative contribution of 1.5 PPT during July-March FY15/16. This development came in light of a 72.4 percent increase in exports, with a positive contribution of 7.8 PPT to real GDP growth, compared to a negative contribution of 2.6 PPT during July-March FY15/16, while imports increased by 47.0 percent in the period of study, contributing negatively by 10.0 PPT, compared to a positive contribution of 1.0 PPT during the same period last fiscal year.





On the supply side, eight key sectors led y-o-y growth, on top of which was the whole sale and retail sector which expanded to record a 4.7 percent real growth rate during the period of study (contributing 0.6 PPT during the period of study, compared to 0.7 PPT during same period last fiscal year). Moreover, the non-oil manufacturing sector recorded a real growth rate of 4.7 percent (contributing 0.6 PPT during the period of study, compared to -0.02 PPT during same period last fiscal year). Meanwhile, the construction sector witnessed a growth rate of 8.5 percent in July- March FY16/17, contributing by around 0.4 PPT to GDP, compared to 0.5 PPT during July-March FY15/16 and the general government sector recorded a 2.9 percent real growth rate in July-March FY16/17 (contributing 0.3 PPT during the period of study, compared to 0.5 PPT during the same period last fiscal year). Additionally, the agriculture sector witnessed a growth of 3.1 percent (stabilizing at a contribution of 0.4 PPT) and the real estate sector recorded a 4.3 percent real growth rate in July-March FY16/17 (stabilizing at a contribution of 0.4 PPT). Furthermore, the telecommunications sector expanded to record a 9.3 percent real growth rate during the period of study (contributing 0.3 PPT during the period of study, compared to 0.2 PPT during same period last fiscal year). It is also worthy to note that the natural gas sector expanded to record a 4.6 percent real growth rate during the period of study (contributing 0.2 PPT during the period of study (For the first time since 2013), compared to -0.7 PPT during same period last fiscal year).

Taken together, the above-mentioned 8 key sectors represented around 69.6 percent of total real GDP during the period of study.

Meanwhile, tourism has constrained growth during July-March FY16/17 declining by 6.7 percent (contributing negatively to growth by 0.1 PPT, compared to a negative contribution of 0.6 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

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.

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 in November 2016 to 47 in May 2017, illustrating a rise in manufacturing sector employment.

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

Latest indicators for the period July-May 2016/2017 point to a decline in the budget deficit reaching 9.5 percent of GDP (LE 323.7 billion), compared to 11.5 percent of GDP (LE 311.0 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 32.1 percent for the first, and 20.1 percent for the later.

July- May 15/16 Budget Deficit LE 311.0 billion (11.5 percent of GDP)	July- May 16/17 Budget Deficit LE 323.7 billion (9.5 percent of GDP)*
Revenues LE 356.6 billion (13.2 percent of GDP)	Revenues LE 471.0 billion (13.8 percent of GDP)
Expenditure LE 654.9 billion (24.2 percent of GDP)	Expenditure LE 787.1 billion (23.1 percent of GDP)

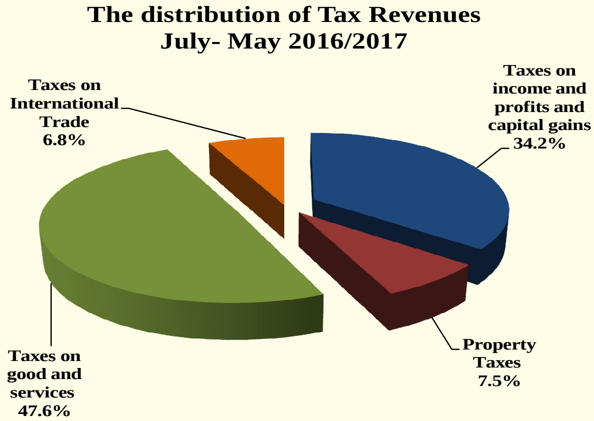
Source: Ministry of Finance, Macro Fiscal Policy Unit

*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 471 billion during the period July-May 2016/2017, increasing by LE 114.4 billion (32.1 percent), compared to LE 356.6 billion during July-May 15/16. These developments could be explained mainly in light of the increase in tax revenues by LE 89.4 billion (33.3 percent) to record LE 358 billion during the



period of study, compared to LE 268.6 billion during the same period last fiscal year. Meanwhile, Non-tax revenues increased by LE 25 billion (28.4 percent) to record LE 113 billion during July-May 16/17, compared to LE 88 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 32.0 percent during the period of study, mainly driven by the increase in non-sovereign income taxes and sales taxes receipts by 22.1 percent and 52.0 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 27.8 billion (29.3 percent growth) to reach LE 122.5 billion (3.6 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 34.2 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 4.4 billion (19.5 percent) to reach LE 32.5 billion.
- Increase in receipts from taxes on Suez Canal by LE 7.8 billion (63.9 percent) to reach LE 20 billion.
- Increase in receipts from taxes on other companies by LE 10.7 billion (32.1 percent) to reach LE 44 billion.

Taxes on Goods and Services increased by LE 47.1 billion (38.2 percent growth) to reach LE 170.3 billion (5 percent of GDP).

Taxes on goods and services receipts represent 47.6 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 66.1 percent to record LE 84.6 billion.
- The increase in general sales tax on services by 23.8 percent to record LE 16 billion.
- The increase in domestic commodities (Table 1) by 18.8 percent to record LE 49.8 billion.

Property Taxes increased by LE 1.8 billion (7.1 percent growth) to reach LE 26.7 billion (0.8 percent of GDP).
- **Property Taxes receipts represent 7.5 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 3.8 percent to reach LE 21.5 billion during the period of study.

Moreover, Taxes on international trade rose by LE 4.5 billion to reach LE 23.9 billion during the period of study, compared to LE 19.4 billion during the same period of last year.

On the Non-Tax Revenues Side,

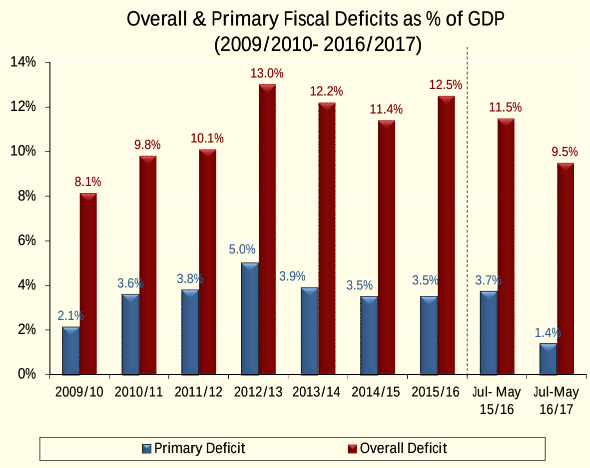
- Proceeds from Other Non-Tax Revenues rose by LE 27.7 billion (32.7 percent growth) to reach LE 112.4 billion during July-May 2016/2017, compared to LE 84.7 billion during the same period of last year.

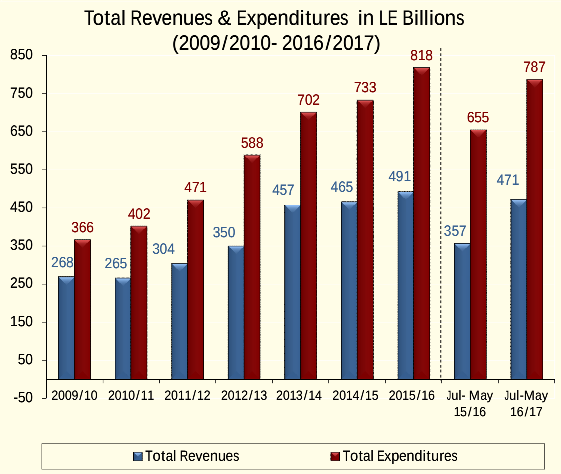
  Property income receipts recorded LE 70 billion rising by LE 22 billion (45.9 percent) during the period of study, compared to LE 48 billion recorded during July-May 15/16. This came in light of the increase in dividends collected from Economic Authorities by LE 3.4 billion (75.9 percent) to reach LE 7.8 billion during the period of study, compared to LE 4.4 billion during the same period last year. In addition, other property income rose to record LE 6.7 billion during July- May 16/17 (mainly due to the sale of 4G to the three telecommunication companies existing in Egypt), and Suez Canal dividends increased by LE 14 billion (114.6 percent) to record LE 26.3 billion during the period of study, compared to LE 12.2 billion during the same period last year. In addition to the increase in public enterprises dividends by LE 1.1 billion (68.3 percent) to reach LE 2.6 billion during July-May 16/17, compared to LE 1.6 billion during July-May 15/16. Those increases have counterparted the decline in dividends collected from CBE[2],

  Meanwhile, Proceeds from sales of goods and services rose by LE 4.7 billion (23.9 percent) to reach LE 24.4 billion during July- May 16/17, compared to LE 19.7 billion during July- May 15/16 (in light of the increase in receipts from special accounts and funds by LE 3.8 billion (26.9 percent) to reach LE 18 billion during the period of study, compared to LE 14.2 billion during July- May 15/16).

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.

- Miscellaneous revenues recorded LE 15.7 billion slightly increased by 0.7 percent during the period of study, compared to LE 15.5 billion recorded during July-May 15/16.
- Meanwhile, Grants recorded LE 0.6 billion during the period of study, compared to LE 3.3 billion recorded during the same period last fiscal year.





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 787.1 billion (23.1 percent of GDP) during the period July-May 16/17, recording an increase of 20.2 percent, compared to the same period of last year.

- Wages and compensation of employees rose by 2.8 percent to record LE 190 billion (5.6 percent of GDP) during the period of study.
- Purchase of goods and services have increased by LE 3.3 billion (12.5 percent growth) to reach LE 29.9 billion (0.9 percent of GDP).
- Interest payments rose by 31.9 percent growth to reach LE 277 billion (8.1 percent of GDP).
- Subsidies, grants and social benefits rose by LE 39.4 billion (5.3 percent of GDP), (28.1 percent growth) to record LE 179.7 billion, compared to LE 140.3 billion compared to the same period last year.
  - ü Spending on Subsidies rose by LE 34.6 billion (41.6 percent growth) to reach LE 117.8 billion during the period of study, compared to LE 83.2 billion during the same period of last year, this came in light of; Petroleum subsidies recorded LE 38.8 billion during the period of study, compared to no settlement were received during same period last year. Meanwhile, GASC spending recorded LE 43.5 billion during the period of study, compared to LE 40.4 billion during July- May 15/16.
  - ü Social benefits have increased by LE 7.9 billion (16 percent growth) to reach LE 57.4 billion, in light of the increase in spending on health treatments financed by state budget, increasing by LE 4.1 billion during the period of study.

- Purchases of non-financial assets (investments) rose by LE 13.6 billion (1.8 percent of GDP), growing by 28.5 percent growth to reach LE 61.2 billion.
- Other Expenditures recorded LE 49.4 billion (1.4 percent of GDP), rising by 8 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:*

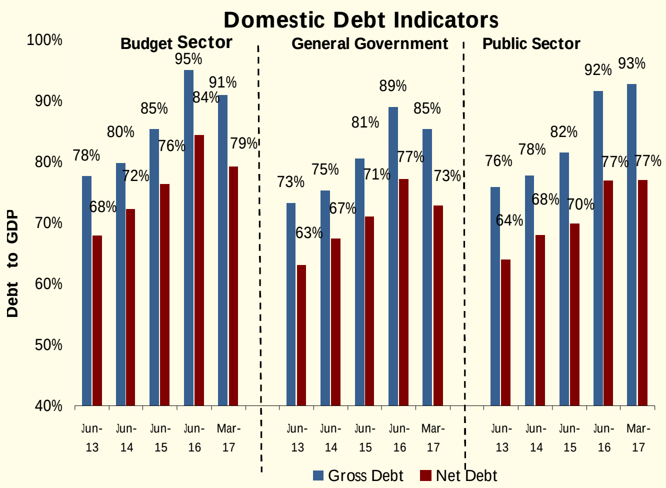
Total government debt (domestic and external) reached LE 3676 billion (107.9 percent of GDP) at end of March 2017, of which;

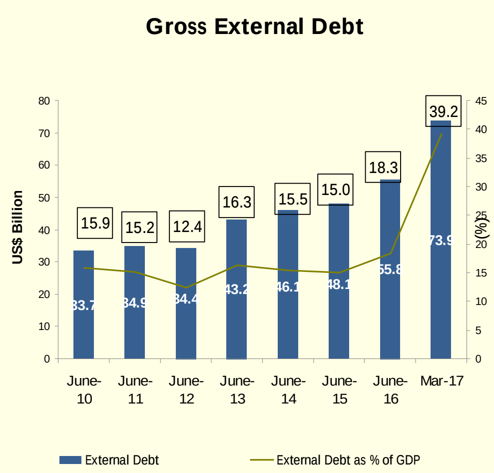
- Domestic budget sector debt recorded LE 3097,6 billion (90.9 percent of GDP) by end of March 2017, compared to LE 2573 billion (95 percent of GDP) by end of June 2016.

  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$ 73.9 billion (39.2 percent of GDP) at end of March 2017, compared to US$ 55.8 billion at end of June 2016.

- Meanwhile, government external debt recorded US$ 32.2 billion (17.1 percent of GDP) as of end of March 2017, 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 39.4 percent in May 2017 reaching LE 2849.6 billion, compared to 38.8 percent (LE 2784.6 billion) in the previous month, according to recent data released by the CBE. The growth rate of net foreign assets of the banking system increased for the first time since October 2015, to reach a positive value of LE 69.2 billion in May 2017, compared to a negative value of LE 7.56 billion in the previous month. Meanwhile, net domestic assets recorded 30.7 percent y-o-y to reach 2780.4 billion during the month of study, compared to 34.1 percent (LE 2792.2 billion) in April 2017.

In May 2017, net claims on government annual growth slowed down to 21 percent (LE 1965.2 billion), compared to 25.8 percent during the previous month. Moreover claims on public business sector annual growth reached 72.8 percent (LE 150.6 billion) in May 2017, compared to 72.6 percent at end April 2017. Annual growth in credit to the private sector reached 39 percent (LE 978.3 billion) at the end of May 2017, compared to 39.6 percent last month. This comes on the back of the decrease in claims on private businesses sector annual growth to record 50.5 percent (LE 739.5 billion) during the month of study, compared to 51.7 percent in the previous month. Meanwhile, claims on household sector annual growth reached 17.2 percent (LE 238.7 billion) in May 2017, compared to 17 percent in the previous month.

On the other hand, net foreign assets (NFA) of the banking system achieved a positive value for the first time since October 2015, recorded LE 69.2 billion in May 2017, compared to LE -7.56 billion during the previous month. This improvement is mainly a result of the steep increase in banks' net foreign assets which recorded LE 15.7 billion in May 2017, compared to LE -22.2 billion in April 2017. Moreover, central bank net foreign assets recorded a positive value of LE 53.5 billion in May 2017, compared to LE 14.6 billion in April 2017.

From the liabilities side, quasi money annual growth stabilized at 45.2 percent during the month of study to reach LE 2165.3 billion in May 2017, compared to LE 2130.4 billion in April 2017. On a detailed level, foreign currency demand deposits and Local currency time and savings annual growth rate nearly stabilized to reach 93.8 percent (LE 147.7 billion) and 26.2 percent (LE 1479.4 billion) in May 2017 respectively, compared to 93.9 percent and 26.1 percent in April 2017. Meanwhile, foreign currency time and savings deposits annual growth reached 121.6 percent (LE 538.2 billion), in May 2017, compared to 121.1 percent in the previous month.

Money annual growth increased to reach 23.7 percent (LE 684.3 billion) in May 2017, compared to 21.1 percent in the previous month. This could be attributed to the increase in demand deposits in local currency annual growth, which recorded 25.2 percent (LE 279.7 billion) in May 2017, compared to 22.3 percent in the previous month. In addition to the increase witnessed in currency in circulation annual growth, which reached 22.8 percent (LE 404.6 billion) in May 2017, compared to 20.3 percent in the previous month.

Total deposits annual growth – excluding deposits at the CBE – reached 43 percent y-o-y (LE 2869 billion) at the end of March 2017, compared to 40.3 percent at end of February 2017. 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) reached 57.6 percent (LE 1343.6 billion) in March 2017, compared to 57.1 percent in the previous month. To that end, the loans-to-deposits ratio reached 46.8 percent at end of March 2017, compared to 46.6 percent in February 2017. (Detailed data for April and May 2017 are not yet available).

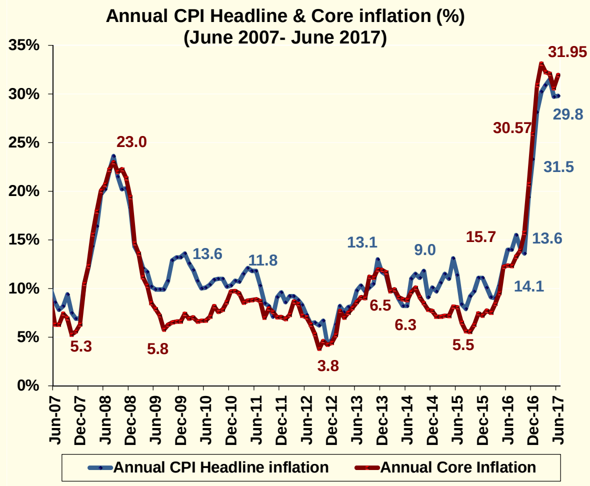
- During June 2017, net International Reserves (NIR) increased to US$ 36 billion in July 2017, from US$ 31.3 billion in June 2017. This is the highest balance achieved since March 2011.

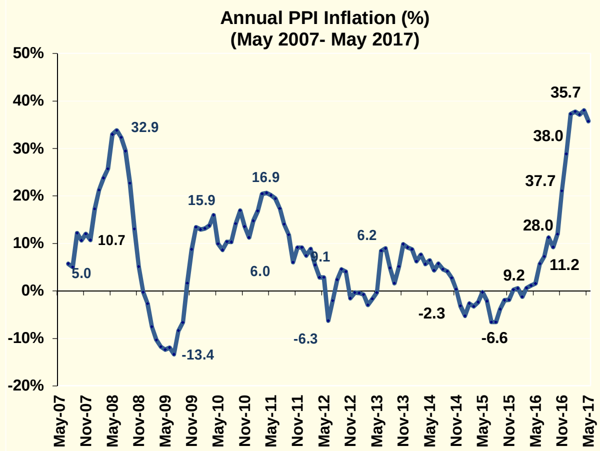
- Headline Urban Inflation stabilized at 29.8 percent during June 2017, compared to 29.7 percent during May 2017, while it increased notably if compared to 14.0 percent recorded during June 2016. Factors contributing to inflationary pressures include: The increase in annual inflation of "Food and Beverages" group (the highest weight in CPI) to record 40.3 percent during June 2017, and 41.1 percent during May 2017, and compared to 17.6 percent during June 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 slight slower pace of increase compared to last month.

  On the top of the main groups contributing to the increase in annual inflation rate comes; "Alcoholic Beverages & Tobacco" to record 33.9 percent during June 2017, compared to stable prices during last month, and compared to 2.0 percent during June 2016, "Clothing and Footwear" to record 29.7 percent during June 2017, compared to 19.1 percent during last month, and compared to 10.2 percent during June 2016, "Restaurant and Hotels" to record

24.5 percent during June 2017, compared to 24.4 percent during last month, and compared to 21.3 percent during June 2016, “Recreation & Culture” to record 48.3 percent during June 2017, compared to 47.9 percent during last month, and compared to 13.4 percent during June 2016 (in light of increased demand on Omra trips),"Transport" to record 25.9 percent during June 2017, compared to stable prices during last month, and compared to 3.7 percent during June 2016, “Furnishing and House Equipment’s" to record 28.2 percent during June 2017, compared to 29.2 percent during last month, and compared to 13.4 percent during June 2016, “Miscellaneous Goods and Services” to record 31.9 percent during June 2017, compared to 32.3 percent during last month, and compared to 8.6 percent during June 2016

- As for average annual Headline inflation, it increased during FY 16/17 to record 23.3 percent, compared to 10.2 percent during the same period last year.





- Meanwhile, Monthly inflation has declined significantly during the month of study to record an increase of 0.8 percent, compared to 1.7 percent during May 2017; 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 0.6 percent during June 2017, compared to 2.0 percent during last month, and compared to 1.1 percent during June 2016. Meanwhile, monthly inflation rates have stabilized for other main groups during the month of study.

- Annual core inflation[5] recorded 31.9 percent during June 2017, compared to 30.6 percent during the last month, and compared to 12.4 percent June 2016. As for average annual Core inflation, it increased during the FY 2016/2017 to record 24.4 percent, compared to 8.0 percent during the same period last year. Meanwhile, monthly core inflation has recorded 1.79 percent during June 2017, compared to 1.98 percent during last month.

- During its Monetary Policy Committee meeting held on July 6th, 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 18.75 percent, 19.75 percent and 19.25 percent, respectively. The discount rate was also raised by 200 basis points recording 19.25 percent. The Committee has justified such decision in light of the continuous increase in annual inflation rates, and which is not to be sufficient to achieve the targeted inflation levels on the medium term, and which justifies CBE monetary policy committee decision to raise the interest rates.

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'.

- Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on July 25th, 2017 worth LE 10 billion with 7-day maturity at a fixed annual interest rate of 19.25 percent.

- The Egyptian Stock market, market capitalization increased by 2.6 percent m-o-m during June 2017 to reach LE 693.5 billion, compared to LE 675.9 billion in the previous month. The EGX-30 Index also increased by 0.4 percent during June 2017 to reach 13395.8 points, compared to closing at 13339.6 points by the end of May 2017. In addition, the EGX-70 increased by 13.6 percent, closing at 649.4 points compared to 571.5 points in the previous month.

- *On the External Sector side:*

  BOP showed an overall surplus of US$ 11.0 billion (4.4 percent of GDP) during July-Mar 16/17, compared to a deficit of US$ 3.6 billion (-1.1 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 trade balance 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, as follows:

  - Current account recorded a deficit of US$ 13.2 billion (-5.3 percent of GDP) during July-Mar 16/17, compared to a higher deficit of US$ 15.0 billion (-4.4 percent of GDP) during July-Mar 15/16. This came as a result of the improvement in the trade balance, which outweighed the deceleration witnessed in the services balance and the investment income balance, as follows:

    - Trade balance deficit has decreased to record US$ 27.0 billion (-10.8 percent of GDP) during July-Mar 16/17, compared to a deficit of US$ 29.8 billion (-8.7 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 19.3 percent to record US$ 16.0 billion, compared to US$ 13.4 billion in the comparison period. This was mainly driven by the increase in non-petroleum exports to reach US$ 11.3 billion during the period of study compared to US$ 9.2 billion during the same period last year, and the increase in petroleum exports that reached US$ 4.7 billion during July-Mar 16/17 compared to US$ 4.2 billion during the period of comparison. This came in parallel to the decrease in merchandise imports by 0.5 percent to record US$ 43.0 billion in July-Mar 16/17, compared to US$ 43.3 billion in July-Mar 15/16.

    - The services balance has declined by around 18.7 percent to record a surplus of US$ 4.5 billion (1.8 percent of GDP) during the period of study, compared to a higher surplus of around US$ 5.5 billion (1.6 percent of GDP) during the period of comparison. This came in light of the decline in current receipts by 8 percent to record US$ 11.5 billion during July-Mar 16/17, compared to US$ 12.5 billion during the period of comparison. This was mainly due to the decrease witnessed in tourism receipts to reach US$ 2.8 billion during the period of study, compared to US$ 3.3 billion in the period of comparison, as the number of tourist nights decreased to reach 33.4 million nights during the period of study, compared to 45.1 million nights in July-Mar 15/16. In addition, Suez Canal receipts decreased by 4.2 percent as net tonnage of transiting vessels fell by 1.7 percent and SDRs depreciated against the US dollar by 1.6 percent.

    - Net official transfers slightly increased to record US$ 12.6 billion during the period of study, compared to US$ 12.4 billion during the comparison period – mainly due to higher net private transfers to record US$ 12.5 billion, compared to US$ 12.3 billion. It is also worthy to note that workers' remittances decreased slightly by 0.3 percent. Furthermore, net official transfers rose from US$ 60.7 million to US$ 82.5 million.

§ Meanwhile, the capital and financial account witnessed net inflows of US$ 24.6 billion (9.9 percent of GDP) during the period of study, compared to lower net inflows of US$ 14.6 billion (4.2 percent of GDP) during the comparison period, mainly due to the following:

– Net foreign direct investments in Egypt increased to reach US$ 6.6 billion (2.6 percent of GDP) during July- Mar 16/17, compared to US$ 5.9 billion (1.7 percent of GDP) in the comparison period, driven mainly by the rise in the net inflow for oil sector investments during the period of study to record US$ 3.3 billion, compared to US$1.5 billion.

– Portfolio investment in Egypt recorded net inflows of US$ 7.8 billion (3.1 percent of GDP) during July- March 16/17, compared to net outflows of US$ 1.5 billion (-0.4 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$ 4.3 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 slightly increased to register net inflows of US$ 10.34 billion (4.1 percent of GDP) during July- March 16/17, compared to net inflows of US$ 10.26 billion (3.0 percent of GDP) during the same period last fiscal year. Medium-term suppliers' credit recorded US$ 0.9 billion during the July- March 2016/2017, compared to US$ 0.7 billion during the period of comparison. In addition, other liabilities have recorded net inflows of US$ 8.7 billion during the period of study, compared to US$ 9.3 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$ 7.7 billion during the period of study, compared to US$ 4.4 billion during the period of comparison.

§ Net errors and omissions recorded a net outflow of US$ 0.5 billion (-0.2 percent of GDP) during July- March 16/17, compared to an outflow of US$ 3.2 billion (-0.9 percent of GDP) during the period of comparison.

Ø According to the latest published figures, the total number of tourist arrivals increased by 61 percent to reach 0.53 million tourists during June 2017, compared to 0.33 million tourists in June 2016. Moreover, tourist nights increased to reach 4.8 million nights during June 2017 increasing by 167 percent, compared to 1.8 million nights during the same month last year.