Executive Summary

Main Highlights…

Issued under law No. 8/2016, the FY2016/17 State budget strives to achieve a balance between spurring economic activity and reprioritizing general expenditure in favor of developing social protection programs. Through its economic and social reform package, it aims to generate job opportunities and achieve a noticeable increase in income of all tranches of society. In addition the budget also addresses economic imbalances such as the high budget deficit, inflation rates and the debt-to-GDP ratio. The reform program also focuses on achieving fiscal and monetary sustainability over the medium and long term while fostering an adequate and stable environment, allowing for increased economic activity and the stabilization of general price levels.

Revenue estimates for FY2016/17 amount to around LE 670 billion, with a growth rate of around 29% relative to revenue estimates of current fiscal year. On the other hand, general expenditure estimates reached around LE 975 billion with a growth rate of around 20.5%. In light of these developments, the overall budget deficit ran to around LE 319 billion (about 9.8% of GDP), compared to a deficit of 11.8% for FY2015/16, and 11.5% for FY2014/15.

Among the most important programs and projects in the state budget for FY2016/17, developing the health system, applying a universal health insurance system and expanding security and pension programs as well as cash support programs such as "Takaful and Karama". Security pension credits amount to LE 11.2 billion for FY2016/17 (LE 7.1 billion for security pension, in addition to around LE 4.1 billion for the "Takaful and Karama" program). The government intends on (i) completing 256,000 housing units by end of 2016 to provide adequate housing to those most in need, (ii) completing the third and fourth metro lines to extend the metro network of Greater Cairo Area and its suburbs, (iii) bridging the energy gap by introducing three new power plants to generate 14.4 gigawatts worth of electricity during 2016/17, (iv) completing the rationalizing of subsidies and better targeting mechanisms, (v) increasing human capital investments and supporting social justice norms and systems, (vi) improving food subsidy mechanisms with a cost of around LE 41 billion for FY2016/17 as well as increasing the number of beneficiaries to around 69 million, (vii) increasing the number of beneficiaries from the bread point and flower warehouse support systems to around 82 million beneficiary, (viii) in addition to completing the execution of a number of major development projects with allocated funds of around LE 147 billion.

It is noteworthy that preliminary fiscal data for the year 2015/2016 is still under preparation and will be published when finalized. Meanwhile, the latest indicators for the period July-May 2015/2016 point to a budget deficit reaching LE 311 billion (11.2 percent of GDP), compared to LE 262 billion (10.8 percent of GDP) during the same period last year. 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 11.1 percent during the period July- May 2015/2016, mainly driven by the increase of non-sovereign income taxes by 8.7 percent, and an increase in non-sovereign receipts from taxes on goods and services by 13.2 percent. On the expenditure side, social justice still comes as a high priority in government spending. In this context, GASC spending rose by around 12.6 percent to record LE 40.4 billion. In addition electricity subsidies increased by 17.3 percent, to record LE 28.5 billion, while government contributions to pension funds have similarly increased by 24.1 percent to record LE 41.2 billion. Moreover, investment spending rose by 4.1 percent to record LE 47.6 billion.

On the other hand, the following are the latest developments in economic indicators:-

- According to the latest detailed data published by the Ministry of Planning, GDP has witnessed a 3.3 percent growth rate during Q1-FY15/16, compared to 5.6 percent during Q1-FY14/15. Both public and private consumption continued to boost economic activity during Q1-FY15/16 with a total contribution of 4.8 PPT, compared to 3.9 PPT during the same period last year. Investments have contributed positively to growth by 1.0 PPT, compared to 0.7 PPT during Q1-FY14/15. On the other hand, net exports constrained growth with a negative impact of 2.4 PPT, compared to a positive contribution of 1.0 PPT during same period last fiscal year.

- Net International Reserves (NIR) almost stabilized to record US$ 17.55 billion in June 2016, compared to US$ 17.52 billion in May 2016. It is important to highlight that during May 2016 an amount of US$ 0.5 billion were received from the African Development Bank as a first tranche from a loan of US$ 1 billion.

- As for the monetary developments, M2 annual growth increased by 18.9 percent in May 2016 reaching LE 2044.7 billion, compared to 18 percent in the previous month, according to recent data released by the CBE. This comes in light of the increase witnessed in net domestic assets of the banking system by 27.1 percent y-o-y to reach LE 2127.5 billion during the month of study, compared to 26.5 percent (LE 2082 billion) in April 2016. This offset the major turnaround in net foreign assets of the banking system, which reached a negative value of LE 82.8 billion in May 2016, compared to a negative value of LE 75.4 billion in April 2016.

- Meanwhile, Headline Urban Inflation rose significantly to record 14 percent during June 2016 (the highest since 2009), and compared to 12.3 percent during May 2016, and compared to 11.4 percent during June 2015. Factors contributing to inflationary pressures include: the base effect and the increase of the CPI index during May 2015 (the annual Inflation rose by 5.4 percentage point during May 2015, compared to April 2015). In addition, the increase in annual inflation of “Food and Beverages” group (the highest weight in CPI) has contributed to the increase in annual inflation rate during the month of study to record 17.6 percent, compared to 14.3 percent during the previous month, and compared to 10.9 percent during June 2015. Also, other main groups have increased during the month of study, on the top of which; “Furnishing and House Equipment’s”, “Clothing and Footwear”, “Recreation and Culture”, “Miscellaneous Goods and Services”, “Health”, “ Restaurant and Hotels”.

  As for average annual Headline inflation, it decelerated during the FY15/16 to record 10.2 percent, compared to 11 percent during the previous fiscal year. This deceleration could be explained mainly in light of the faded base effect due to the introduction of reform measures during July 2014 such as the increase of oil, electricity, and Tobacco prices.

- During its Monetary Policy Committee meeting held on July 28th, 2016, CBE decided to keep the overnight deposit rate, overnight lending rates, and the rate of CBE's main operation unchanged at 11.75 percent, 12.75 percent, and 12.25 percent, respectively. The discount rate was also kept unchanged at 12.25 percent.

- Moreover, total government debt (domestic and external) reached LE 2545 billion (91.8 percent of GDP) at end of December 2015.

- The Balance of Payments (BOP) showed an overall deficit of US$ 3.6 billion (1.0 percent of GDP) during the period July-March 2015/2016, compared to a lower overall deficit of US$ 1 billion

(0.3 percent of GDP) during the period July-March 2014/2015. This mainly came in light of the increase witnessed in the current account deficit to record US$ 14.5 billion (4.1 percent of GDP) during the period July-March 2015/2016, compared to a lower deficit of US$ 8.3 billion (2.5 percent of GDP) during the period July-March 2014/2015. On the other hand, the capital and financial account witnessed net inflows of US$ 13.9 billion (3.9 percent of GDP) during the period of study, compared to net inflows of US$ 6.6 billion (2 percent of GDP) during the period July-March 2014/2015. Meanwhile, net errors and omissions recorded an outflow of US$ 3.1 billion (0.9 percent of GDP) during the period July-March 2015/2016, compared to an inflow of US$ 0.7 billion (0.2 percent of GDP) during the period of comparison.

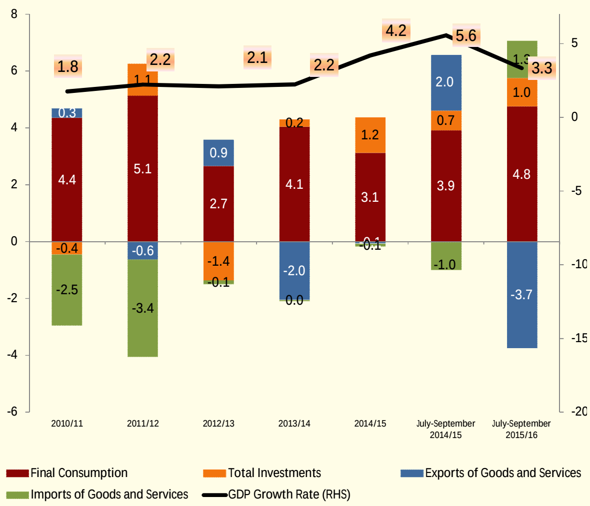
Ø *Real Sector:*

According to the latest detailed data published by the Ministry of Planning, GDP has witnessed a 3.3 percent growth rate during Q1-FY15/16, compared to 5.6 percent during Q1-FY14/15. Both public and private consumption continued to boost economic activity during Q1-FY15/16 with a total contribution of 4.8 PPT, compared to 3.9 PPT during the same period last year. Investments have contributed positively to growth by 1.0 PPT, compared to 0.7 PPT during Q1-FY14/15. On the other hand, net exports constrained growth with a negative impact of 2.4 PPT, compared to a positive contribution of 1.0 PPT during same period last fiscal year.

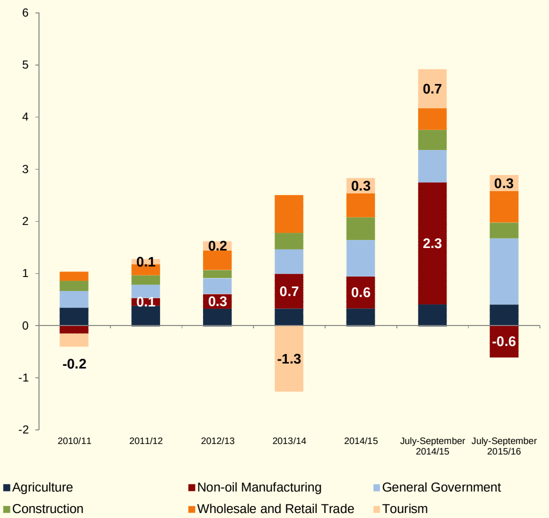
On the demand side, both public and private consumption maintained to be the key growth drivers during Q1-FY15/16. Private consumption grew by 4.9 percent y-o-y, compared to 3.6 percent during Q1-FY14/15, while public consumption grew by 5.7 percent in the period of study, compared to 8.2 percent during Q1-FY14/15. In the meantime, recent data shows that investments have increased by 8.7 percent in Q1-FY15/16, compared to 6.0 percent during Q1-FY14/15.

On the other hand, net exports constrained growth with a negative impact of 2.4 PPT, compared to a positive contribution of 1.0 PPT during Q1-FY14/15. This development came in light of a 26.4 percent decline in exports, with a negative contribution of 3.7 PPT to real GDP growth, compared to a positive contribution of 2.0 PPT during Q1-FY14/15, while imports decreased by 6.3 percent in the period of study, contributing positively by 1.3 PPT, compared to a negative contribution of 1.0 PPT during Q1-FY14/15.

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



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



On the supply side, five key sectors led y-o-y growth, on top of which was the general government sector recorded a real growth rate of 14.4 percent (contributing 1.3 PPT during the period of study, compared to 0.6 PPT during the same period last fiscal year). Meanwhile, the construction sector witnessed a growth rate of 7.5 percent in Q1-FY15/16, contributing to around 0.3 PPT to GDP during Q1-FY15/16, compared to 0.4 PPT during the same period last fiscal year. Moreover, the whole sale and retail sector expanded to record a 4.7 percent real growth rate in Q1-FY15/16 (contributing to growth by 0.4 PPT, compared to 0.6 PPT during Q1-FY14/15). Additionally, the agriculture sector witnessed a growth of 3.0 percent (stabilizing at a contribution of 0.4 PPT) and the real estate sector record a 4.5 percent real growth rate in Q1-FY15/16 (contributing to growth by 0.4 PPT, compared to 0.3 PPT during Q1-FY14/15)

Taken together, the above-mentioned 5 key sectors represented around 49 percent of total real GDP during the period of study.

Meanwhile, natural gas extraction continued to constrain growth during Q1-FY15/16 declining by 8.7 percent (contributing negatively to growth by 0.5 PPT).

Ø *Fiscal Sector Performance during July-May 2015/2016;*

It is noteworthy that preliminary fiscal data for the year 2015/2016 is still under preparation and will be published when finalized. Meanwhile, the latest indicators for the period July-May 2015/2016 point to an improvement in tax revenue performance driven by non-sovereign authorities, which are directly correlated to economic activity. That said, tax receipts from non-sovereign authorities increased, mainly driven by the increase in non-sovereign receipts from taxes on income and goods and services. Expenditures rose by 8.9 percent to reach LE 655 billion (23.6 percent of GDP) during the period of study, compared to LE 601.4 billion (24.8 percent of GDP) during the same period last fiscal year.

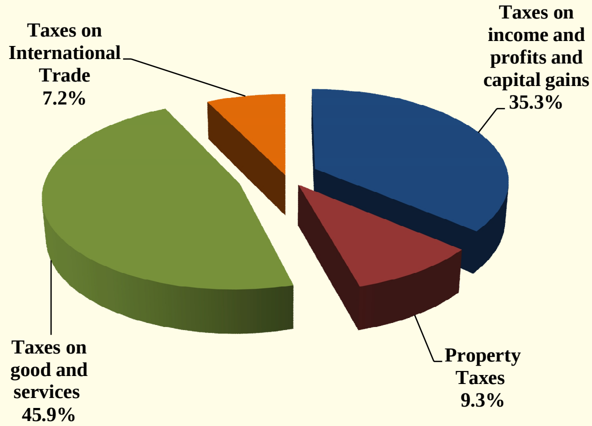
July- May 14/15 Budget Deficit LE 262 billion (10.8 percent of GDP)	July- May 15/16 Budget Deficit LE 311 billion (11.2 percent of GDP)
Revenues LE 350.1 billion (14.4 percent of GDP)	Revenues LE 356.6 billion (12.9 percent of GDP)
Expenditure LE 601.4 billion (24.8 percent of GDP)	Expenditure LE 655 billion (23.6 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

§ On the Revenues Side,

Total revenues increased by LE 6.5 billion (1.9 percent growth) to record LE 356.6 billion during July- May 2015/2016, compared to LE 350.1 billion during the same period of the last fiscal year. These developments could be explained mainly in light of the increase in tax revenues by LE 7.7 billion (3 percent growth) to record LE 268.6 billion during the period of study, compared to LE 261 billion during the same period last fiscal year. Meanwhile, non-tax revenues declined by LE 1.2 billion (-1.3 percent growth) to record LE 88 billion during

The distribution of Tax Revenues July-May 2015/2016



July-May 2015/2016, compared to LE 89.2 billion the same period last fiscal year.

The improvement in tax receipts during the period of study was driven by tax reforms adopted since the beginning of the current fiscal year, and which was reflected as follows:

- Taxes on goods and services receipts increased by 13.8 percent (LE 15 billion) to record LE 123.3 billion during the period of study, compared to LE 108.4 billion during the same period last fiscal year (in light of the increase in receipts from the general sales tax on domestic and imported goods, and increased sales tax receipts on services, as well as increased receipts from sales tax on cigarettes and increased receipts from stamp taxes).
- Moreover, property taxes receipts also increased by 28.3 percent (LE 5.5 billion) to reach LE 25 billion during the period of study, compared to LE 19.4 billion during the same period last fiscal year.
- Other taxes also increased by LE 3.6 billion to record LE 6.3 billion during the period of study, compared to LE 2.7 billion during the same period last year.

- On the other hand, receipts from Taxes on income recorded LE 94.8 billion during July-May 2015/2016, compared to LE 111 billion during the same period of the last fiscal year, affected by the fact that no petroleum settlements were received from EGPC during the period of study. However, if petroleum receipts were excluded, Tax income receipts from sovereign authorities are shown to increase by 47.5 percent, mainly driven by the increase in tax receipts from CBE by 162.7 percent (LE 10.9 billion), tax receipts from Suez Canal rose by 4.3 percent (LE 0.5 billion), and Tax on T-bills and bonds' payable interest by LE 4.7 billion (30.5 percent growth). On the other hand, receipts from taxes from non-sovereign authorities rose by 11.1 percent during the period of study, compared to the same period last year and which reflects the improvement of economic activity.
- Receipts from Taxes on international trade recorded LE 19.38 billion during July-May 2015/2016, compared to LE 19.41 billion recorded during the same period last fiscal year.

Taxes on Goods and Services increased by LE 15 billion (13.8 percent growth) to reach LE 123.3 billion (4.4 percent of GDP).

Taxes on goods and services receipts represent 45.9 percent of total tax revenues.

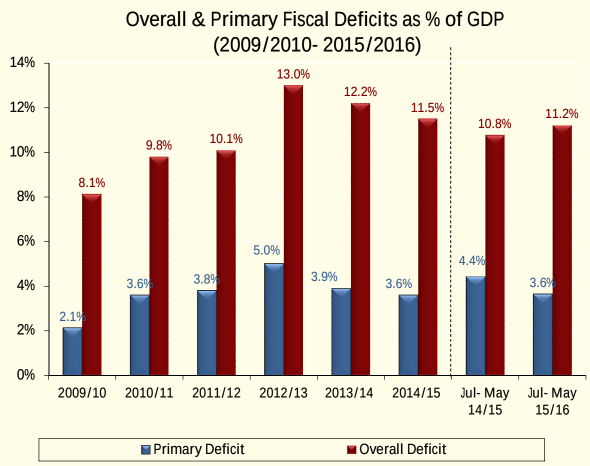
Mainly as a result of higher receipts from:
- General sales tax on goods increasing by 5.9 percent to record LE 51 billion.
- The increase in excises on domestic commodities (Table 1) by 18.9 percent to record LE 42 billion (in light of increased sales tax on cigarettes by 28.3 percent to reach LE 30.1 billion).
- The increase in general sales tax on services by 19.3 percent to record LE 12.9 billion in light of the improved performance of international & domestic telecommunications services and Operating services for others.
- The increase in stamp tax (excludes stamp tax on salaries) by 38.8 percent to record LE 8.9 billion in light of the increase in receipts from stamp tax on contacts on each of; water, electricity, gas, telephone, as well as the increase in receipts on miscellaneous stamp tax, banking edits, contracts, and transportation services.

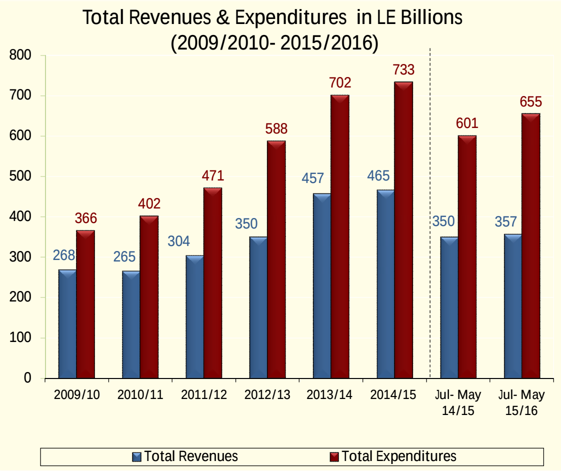
Property Taxes increased by LE 5.5 billion (28.3 percent growth) to reach LE 25 billion (0.9 percent of GDP).
- **Property Taxes receipts represent 9.3 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 32.5 percent to reach 18.3 billion during the period of study.

On the Non-Tax Revenues Side, the increase in other revenues could be explained in light of the following

- The increase in proceeds from sales of goods and services by LE 2.3 billion (12.9 percent) to reach LE 19.7 billion during July- May 2015/2016, compared to LE 17.5 billion during the same period last fiscal year (in light of the increase in receipts from special accounts and funds by 11.3 percent to reach LE 14.2 billion during the period of study, compared to LE 12.8 billion during the same period last fiscal year).
- Miscellaneous revenues rose during the period of study by LE 3.2 billion (26.2 percent) to LE 15.5 billion, compared to LE 12.3 billion during the same period of the last fiscal year.
- On the other hand, property income receipts recorded LE almost 48 billion declining by 4.9 percent during the period of study, compared to LE 50.4 billion recorded during July-May 2014/2015. However, dividends collected from the CBE increased by LE 13.5 billion (100.9 percent) to reach LE 27 billion during the period of study, compared to LE 13.4 billion during the same period last year. In addition, there was an increase in dividends collected from economic authorities by LE 2.3 billion (107.6 percent) to reach LE 4.4 billion during July- May 2015/2016, compared to LE 2.1 billion during the same period last fiscal year.
- Meanwhile, Grants recorded LE 3.3 billion declining by LE 4.7 billion during the period of study, compared to LE 8 billion recorded during the same period last 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 655 billion (23.6 percent of GDP) during the period July-May 2015/2016, recording an increase of 8.9 percent, compared to the same period of last year. The increase in expenditure during the period of study is considered to be the lowest if compared 15 percent representing the average achieved for the last three fiscal years during the same period of time, driven by the reforms implemented by the Ministry of Finance to control the increase in expenditures.

- Wages and compensation of employees rose by LE 12.8 billion (7.4 percent) (the lowest rate during the same period in last three fiscal years in light of the Ministry of Finance reforms to control the increase in the wage bill) to record LE 184.9 billion (6.7 percent of GDP).
- Purchase of goods and services have increased by LE 2.5 billion (10.3 percent growth) to reach LE 26.6 billion (1 percent of GDP).
- Interest payments rose by 35.9 percent growth to reach LE 210 billion (7.6 percent of GDP).
- Purchases of non-financial assets (investments) rose by LE 1.9 billion (1.7 percent of GDP), representing 4.1 percent growth to reach LE 47.6 billion.
- Other Expenditures rose by LE 3.3 billion (1.7 percent of GDP), representing 7.9 percent growth to reach LE 45.7 billion.
- Subsidies, grants and social benefits have recorded LE 140.3 billion (5.1 percent of GDP) during the period of study, declining by 13.8 percent, compared to LE 162.7 billion during the same period of the last fiscal year. This could be explained in light of the decline in spending on petroleum subsidies mainly due to the fact that no petroleum settlements were received during the study period. However, subsidies have increased for the following:

  ü General Authority for Supply Commodities subsidies rose by LE 4.5 billion (12.6 percent growth) to reach LE 40.4 billion during the period of study.

- ü Electricity subsidies rose by LE 4.2 billion (17.3 percent growth) to reach LE 28.4 billion during the period of study.

- o Meanwhile, social benefits rose by 9.4 billion (23.6 percent growth) to reach LE 49.5 billion during July-May 2015/2016, mainly due to:
  - ü Increased contributions to the pension funds by LE 8 billion (24.1 percent growth) to reach LE 41.2 billion during the period of study.

Ø Public Debt:

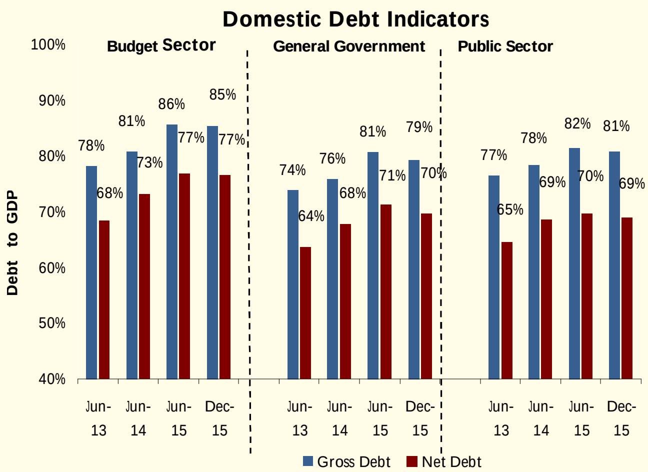
Total government debt (domestic and external) reached LE 2545 billion (91.8 percent of GDP) at end of December 2015, of which;

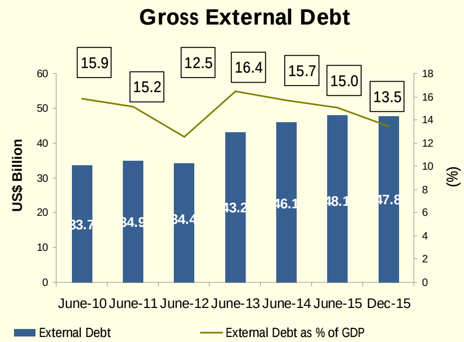
- Domestic budget sector debt recorded LE 2368.5 billion (85.5 percent of GDP) by end of December 2015, compared to LE 1895.2 billion (78 percent of GDP) by end of December 2014.

  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$ 47.8 billion (13.5 percent of GDP) at end of December 2015, compared to US$ 48.1 billion at end of June 2015, which is relatively low when compared to the average of peer countries (for example, Middle East and North Africa countries recorded an average external debt of 27 percent of GDP during the year 2013).

- Meanwhile, government external debt recorded US$ 23.8 billion (6.7 percent of GDP) as of end of December 2015, compared to US$ 25.7 billion (8 percent of the GDP) at end of June 2015.





Ø Monetary Perspective:

As for the monetary developments, M2 annual growth increased by 18.9 percent in May 2016 reaching LE 2044.7 billion, compared to 18 percent in the previous month, according to recent data released by the CBE. From the assets side, this comes in light of the increase witnessed in net domestic assets of the banking system by 27.1 percent y-o-y to reach LE 2127.5 billion during the month of study, compared to 26.5 percent (LE 2082 billion) in April 2016. This offset the major turnaround in net foreign assets of the banking system, which reached a negative value of LE 82.8 billion in May 2016, compared to a negative value of LE 75.4 billion in April 2016.

In May 2016, net claims on government annual growth increased by 31 percent (LE 1625.3 billion), compared to 28.4 percent during the previous month. Meanwhile, claims on public business sector annual growth increased by 37 percent (LE 87.1 billion) in May 2016, compared to 35.4 percent at end of April 2016. Annual growth in credit to the private sector increased by 13.9 percent at end of May 2016 to LE 703.9 billion, compared to a higher rate of 14.9 percent last month. This comes on the back of the increase in claims on private businesses sector annual growth by 11.8 percent (LE 497.3 billion) during month of study, compared to 12.7 percent in April 2016. Claims on household sector annual growth reached 19.5 percent (LE 206.6 billion) in May 2016, compared to 20.6 percent in the previous month.

On the other hand, net foreign assets (NFA) of the banking system continued to shrink significantly on annual basis, to record a negative value of LE 82.8 billion in May 2016, compared to a lower negative value of LE 75.4 billion during the previous month. This turnaround continues in light of the significant drop in central bank net foreign to record LE -45.2 billion in May 2016, compared to a lower value of LE -36.6 billion in April 2016. In addition, banks net foreign assets declined to reach a negative value of LE 37.6 billion in May 2016, compared to LE -38.8 billion in April 2016.

From the liabilities side, quasi money annual growth increased by 19.9 percent (LE 1491.3 billion) during May 2016, compared to 18.8 percent in April 2016. On a detailed level, local and foreign currency time and savings deposits annual growth increased by 19.2 percent (LE 1172.3 billion) and 25.8 percent (LE 242.9 billion), respectively, in May 2016, compared to 17.8 percent and 24.5 percent, respectively, in the previous month. Foreign currency demand deposits annual growth rate reached 13.9 percent (LE 76.2 billion) in May 2016, compared to 16.3 percent in April 2016.

Money annual growth rate almost stabilized at 16.1 percent (LE 553.4 billion) in May 2016, compared to 16 percent in the previous month. This could be attributed to the higher growth rate in currency in circulation from 13.9 percent in April 2016, to 14.5 percent (LE 329.6 billion) in May 2016. This offset the slowdown in demand deposits in local currency annual growth, which reached 18.5 percent (LE 223.8 billion) in May 2016, compared to 19.2 percent in the previous month.

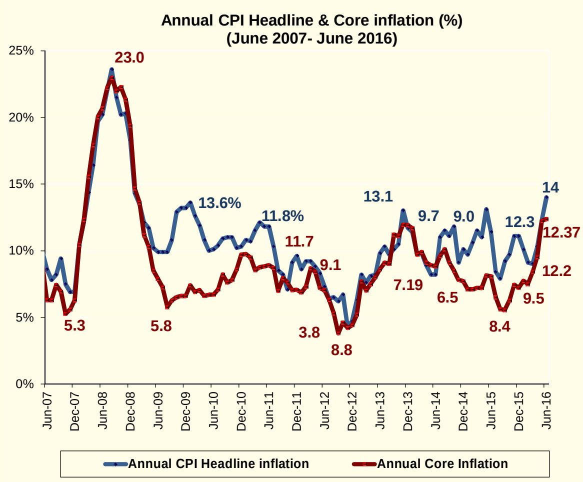
Total deposits annual growth – excluding deposits at the CBE – increased at a slower rate by 20.2 percent y-o-y (LE 2014.1 billion) at the end of April 2016, compared to a growth of 20.6 percent at end of March 2016. Out of total deposits, 84.3 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by the banking sector (excluding CBE) increased at a slower pace during the year ending April 2016 by 24.4 percent (LE 865.4 billion), compared to 25.5 percent in the previous month. To that end, the loans-to-deposits ratio slightly increased to reach 43 percent at end of April 2016, compared to 42.5 percent at end of March 2016 and compared to 41.5 percent in April 2015. (Detailed data for May 2016 are not yet available).

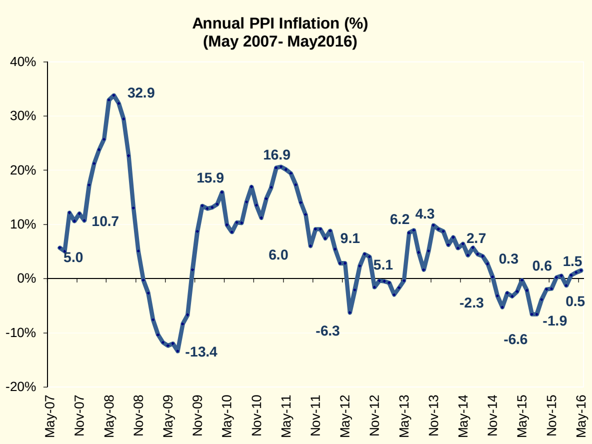
- During April 2016, net International Reserves (NIR) almost stabilized to record US$ 17.55 billion in June 2016, compared to US$ 17.52 billion in May 2016. It is important to highlight that during May 2016 an amount of US$ 0.5 billion were received from the African Development Bank as a first tranche from a loan of US$ 1 billion.

- Headline Urban Inflation rose significantly to record 14 percent during June 2016 (the highest since 2009), and compared to 12.3 percent during May 2016, and compared to 11.4 percent during June 2015. Factors contributing to inflationary pressures include: the base effect and the increase of the CPI index during May 2015 (the annual Inflation rose by 5.4 percentage point during May 2015 compared to April 2015). In addition, the increase in annual inflation of "Food and Beverages" group (the highest weight in CPI) has contributed to the increase in annual inflation rate during the month of study to record 17.6, compared to 14.3 percent during the previous month, and compared to 10.9 percent during June 2015.

  Meanwhile, other main groups have contributed to the increase in annual inflation rate during the month of study, on the top of which; "Furnishing and House Equipment's" to record 13.4 percent compared to 12.2 percent last month, "Clothing and Footwear" rose by 10.2 percent compared to 7 percent, "Recreation and Culture" to record 13.4 percent compared to 13.1 percent, "Miscellaneous Goods and Services" have increased by 8.6 percent, compared to 8 percent. Meanwhile, other main groups continued to record high inflation rates, on the top of which; "Health" (includes medicine) to record 31.5 percent, "Restaurant and Hotels" recording 21.3 percent.

  As for average annual Headline inflation, it decelerated during the FY15/16 to record 10.2 percent, compared to 11 percent during the previous fiscal year. This deceleration could be explained mainly in light of the faded base effect due to the introduction of reform measures during July 2014 such as the increase of oil, electricity, and Tobacco prices





Monthly inflation decelerated reaching 0.8 percent during June 2016 (the lowest since January 2016 and which has reached 0.1 percent), and compared to 3 percent during May 2016, but it increased compared to -0.7 percent during June 2015. This could be explained in light of the decrease in "Food and Beverages" group to record 1.1 percent during June 2016, compared to 3.8 percent last month, but it increased if compared to -1.7 percent during June 2015.

Annual core inflation[1] increased to reach 12.37 percent during June 2016, compared to 12.23 percent during the last month, and compared to 8.07 percent during June 2015. Meanwhile, monthly core inflation has decreased to record 0.74 percent during June 2016 (the lowest since January 2016), compared to 3.2 percent during last month. This could be explained in light of the increase in "Food Prices" contributing by 0.40 percentage points to the monthly core inflation, and the increase in "Retail items", "Other Services", and "Paid Services" prices contributing by 0.34 percentage points to the monthly core inflation.

1/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'.

- During its Monetary Policy Committee meeting held on July 28th, 2016, CBE decided to keep the overnight deposit rate, overnight lending rates, and the rate of CBE's main operation unchanged at 11.75 percent, 12.75 percent, and 12.25 percent, respectively. The discount rate was also kept unchanged at 12.25 percent.

- Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on June 7th, 2016 worth LE 140 billion with 7-day maturity at a fixed annual interest rate of 11.25 percent.

- The Egyptian Exchange market capitalization increased by 8.2 percent m-o-m during July 2016 to reach LE 415.8 billion, compared to LE 384.4 billion in the previous month. Meanwhile, the EGX-30 Index also increased by 14.6 percent during July 2016 to reach 8002.1 points, compared to closing at 6891.7 points by the end of June 2016. The EGX-70 also increased by 2.5 percent, closing at 362.3 points at the end of July 2016, compared to 353.4 points in the previous month.

- *On the External Sector side:*

BOP showed an overall deficit of US$ 3.6 billion (1.0 percent of GDP) during the period July-March 2015/2016, compared to a lower overall deficit of US$ 1 billion (0.3 percent of GDP) during the same period last fiscal year. 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$ 14.5 billion (4.1 percent of GDP) during the period July-March 2015/2016, compared to a lower deficit of US$ 8.3 billion (2.5 percent of GDP) during the period July-March 2014/2015. 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 slightly decreased to record US$ 29.3 billion (8.3 percent of GDP) during the period July-March 2015/2016, compared to a deficit of US$ 29.5 billion during the same period last fiscal year, due to several factors on top of which the decline in world prices of oil and other staple commodities, which affects Egyptian imports and exports. These developments could be explained in light of the decrease witnessed in merchandise imports by 8.4 percent to record US$ 42.7 billion in the period July-March 2015/2016, compared to US$ 46.6 billion in the period July-March 2014/2015. This was accompanied by a 21.6 percent decrease in merchandise exports to record US$ 13.4 billion, compared to US$ 17.1 billion in the comparison period. It is worthy to mention that the decrease witnessed in merchandise exports was mainly driven by the drop in oil export proceeds (crude oil and products) by almost US$ 2.7 billion, as a consequence of the fall in global crude oil prices by around 51.4 percent, 43.4 percent and 36.7 percent during Q1-FY15/16, Q2-FY15/16 and Q3-FY15/16 respectively, despite the increase in quantities exported of crude oil during the period of study[2].
  - The services balance has recorded a surplus of US$ 2.4 billion (0.7 percent of GDP) during the period of study, compared to a higher surplus of around US$ 4.3 billion (1.3 percent of GDP) during the period July-March 2014/2015. This came in light of the decline in current receipts by 24.1 percent to record US$ 12.8 billion during the period July-March 2015/2016, compared to US$ 16.8 billion in the period July-March

[2] It is worthy to highlight that exports of crude oil represent 64.4 percent of total oil exports and 22 percent of total merchandise exports during the period of study.

2014/2015. This was mainly due to the decrease witnessed in tourism receipts to reach US$ 3.3 billion during the period July-March 2015/2016, compared to US$ 5.5 billion in the same period last fiscal year, as the number of tourist nights decreased by 38.6 percent to record 45.1 million nights during the period of study in comparison to 73.4 million nights in the period July-March 2014/2015.

– Net official transfers recorded US$ 0.06 billion during the period of study, compared to US$ 2.6 billion during the period July-March 2014/2015- of which US$ 1.4 billion in-kind grants in the form of petroleum shipments from Kingdom of Saudi Arabia and a cash grant of US$ 1 billion received from Kuwait. Therefore, this cannot be considered as a deceleration since the comparison period reflected exceptional inflows.

§ Meanwhile, the capital and financial account witnessed net inflows of US$ 13.9 billion (3.9 percent of GDP) during the period of study, compared to lower net inflows of US$ 6.6 billion (2 percent of GDP) during July-March 2014/2015, mainly due to the following:

– Net foreign direct investments in Egypt increased to reach US$ 5.8 billion (1.65 percent of GDP) in July-March 2015/2016, compared to US$ 5.1 billion (1.53 percent of GDP) in the comparison period, driven mainly by the rise in the net inflows for greenfield investments to reach US$ 3.7 billion in July-March 2015/2016, up from US$ 2.8 billion during the same period last year, and the net flow of $1.5 billion for oil sector investments.

– Portfolio investment in Egypt recorded net outflows of US$ 1.5 billion (0.4 percent of GDP) in July-March 2015/2016, compared to net outflows of US$ 2.1 billion (0.6percent of GDP) during the period of comparison, in light of the repayment of US$ 1.25 billion USD matured notes in September 2015, which were issued in 2005.

– Other investments registered net inflows of US$ 9.7 billion (2.7 percent of GDP) during the period of study, compared to net inflows of US$ 3.9 billion (1.2 percent of GDP) during the same period last fiscal year. This came on the back of the increase witnessed in short-term suppliers' credit to reach US$ 4.8 billion during the period of study, compared to US$ 3 billion during the period of comparison. This reflects the confidence in the Egyptian economy given its ability to commit to its external obligations. In addition, CBE other assets and liabilities have recorded net inflows of US$ 4.8 billion in during the period of study, compared to US$ 1.3 billion during the period of comparison.

§ Net errors and omissions recorded a net outflow of US$ 3.1 billion (0.9 percent of GDP) during July-March 2015/2016, compared to an inflow of US$ 0.7 billion (0.2 percent of GDP) during the period of comparison.

Ø According to the latest published figures, the total number of tourist arrivals decreased during April 2016 to reach 0.43 million tourists, compared to 0.44 million tourists in the previous month. Additionally, tourist nights decreased to reach 2.4 million nights during the month of study, compared to 2.5 million nights during March 2016.