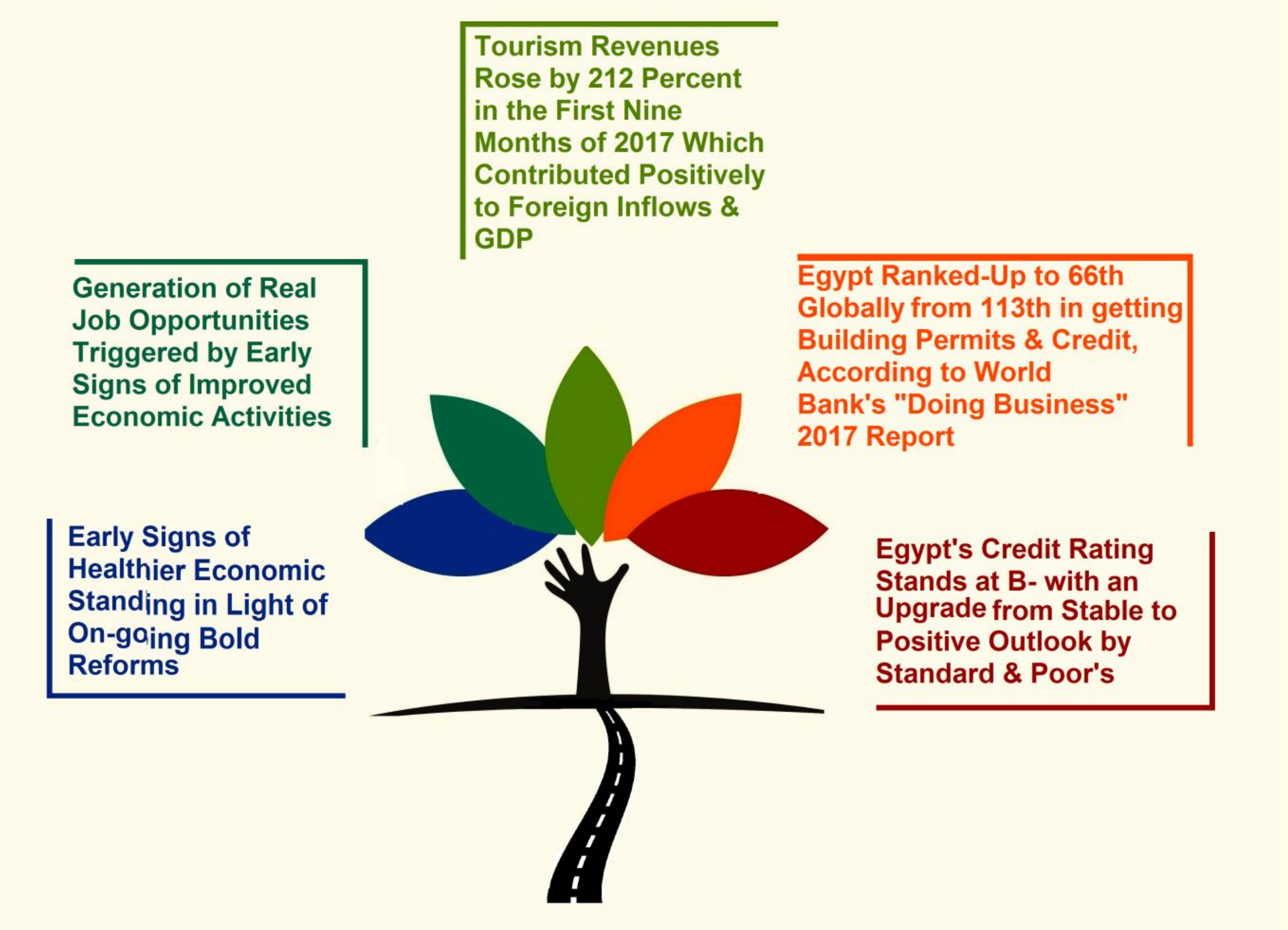
Executive Summary

Main Highlights



Egypt's Economy is developing steadily signifying **higher growth and healthier economic standing**. Materializing improvements are expected **to raise Citizens' Living Standards, boost Employment** and essentially **generate Real Job Opportunities**. This is powered by the on-going progress scored through implementing the **Comprehensive Economic Reform Program** since November 2016.

Accordingly, **periodic reviews and appraisals of the Egyptian economy** by prestigious independent international institutions confirm that **the Comprehensive Economic Reform Program** is **restoring confidence in the Egyptian economy.**

Recent promising indicators are as follows:

- **Egypt ranked-up to 66th globally from 113th in obtaining Construction Permits**, according to the World Bank's latest **"Doing Business" report**; **29 reforms were implemented**. This is coupled with an i**ncreased level of ease in starting a commercial activity**; **seven reforms were implemented**, **the cost and time of starting a business were cut to less than half** (14.5 days, 7.4 percent of per capita income instead of 39.5 days and 65.6 percent of per capita income 15 years ago). **The report ranked-up Egypt to 81st**

globally from 122nd in the **Protection of Minority Investors** and **the Promotion of Minority Shareholders' Rights** and their role in key corporate decisions.

- **Net International Reserves (NIR) increased to a record-high US$ 36.7 billion** at end of October 2017 (**covering 7.7 months of imports** in September 2017), compared to US$ 19 billion at end of October 2016 (covering 4.1 months of imports) , **recovering a five-year low** US$ 12.1 billion at end of June 2016.

- **GDP grew by 4.3 percent during** Q3-FY16/17, compared to 3.6 percent during the same period last fiscal year. **Private Consumption grew** by 3.2 percent, while **Public Consumption grew** by 2.9 percent. In the meantime, **Investments increased** by 5.7 percent during Q3-FY16/17. **Total Production Index** rose by 15.1 percent. In addition, **Net Exports started to contribute positively** to growth by 0.2 PPT. **On the supply side, the Whole Sale and Retail Sector** grew by 4.1 percent, **the Non-Petroleum Manufacturing Sector** grew by 3.1 percent, **the Construction Sector** grew by 7.9 percent, **the General Government Sector** grew by 1.0 percent, **the Agriculture Sector** grew by 2.7 percent, **the Telecommunications Sector** grew by 10.6 percent and **the Natural Gas Sector** grew by 11.7 percent.

- **Unemployment Rate fell to 11.9 percent** during Q3-2017, compared to 12.6 percent during same period last year and a four-year overwhelming high of 13.4 percent in Q4-FY12/13. The workforce during the Q3-2017 reached 29.5 million person, with an increase of 1 percent of the total workforce during Q2-2017.

- **Trade Deficit dropped by 8.4 percent** in FY16/17, compared to last fiscal year, on the back of a **16.2 percent increase in Non-Petroleum Exports** coupled with a **4.5 percent decline in non-petroleum imports.**

- **On the Fiscal Front, fiscal performance improved in light of on-going bold reforms and fiscal consolidation measures. Budget deficit declined to 2.0 percent of GDP** during the period July-September 2017/2018, compared to 2.2 percent during the same period last year as revenues increased at a faster pace than expenditure in light of on-going fiscal consolidation reforms. **On the Revenues Side,** there is a **sharp increase in Tax Receipts**: **General Sales Tax on Goods** recorded LE 55 billion (increasing notably by LE 23 billion in light of increased receipts from VAT on imported goods and domestic goods). **Income Taxes** recorded LE 22.7 billion, **Taxes on Domestic Salaries** reached LE 8.0 billion. Meanwhile, **collected Tax Receipts from Suez Canal increased** to LE 4.4 billion, and **collected dividends from Suez Canal** to reach LE 8.2 billion, and increased receipts from **Other Companies** to reach LE 7 billion. **On the expenditure side, GASC subsidies increased** by 92.2 percent to record LE 9.8 billion. Moreover, **Investment Spending rose** by 66.4 percent to record LE 15 billion during the period of study.

- **Egypt's Natural Gas Production increased substantially by 60 percent since the beginning of 2016.** Egypt is expected to **achieve self-sufficiency in natural gas in 2018** and **achieve surplus in conjunction with the start of the field of Zohr Later this month**, which has a reserve of 30 billion cubic meters of gas.

- Regarding **Monetary Developments**, **M2** annual growth spiked to **39.7 percent** in September 2017 (LE 3050 billion) - its highest growth since January 2017 - compared to 18 percent at end of September 2016. This is attributed to a **reversed 24-months long negative-annual-growth trend** in **Net Foreign Assets of the Banking System (NFA)** for the fifth consecutive month to record a **Seven-year-high positive annual growth** of 269 percent (LE 189 billion) at end of September 2017, compared to a negative -1165 percent (LE -111.8 billion) at end of September 2016. On the other hand, the annual growth **of Net domestic assets (NDA) Stabilized at** 24.7 percent at end of September 2017 (LE 2861 billion), compared to end of September 2016. Yet, it's noteworthy to mention the considerable deceleration in government borrowing reflected in a **slowdown in the annual growth of Net Claims on Government & GASC** to 13.7 percent (LE 2001.1 billion) at end of September 2017, compared to 27.1 percent at end of September 2016.

- **Headline Urban Inflation rose** at a slower pace for the third month in a row since the beginning of current fiscal year; recording **30.8 percent during October 2017**, compared to 31.6 percent during the previous month. **Factors contributing to inflationary pressures include the** slower pace of increase in annual inflation rates among most groups on the top of which; **"Bread ", "Meat", "Sugar", "Housing Tools", "Furnishing and Carpets"**. This has counterpartyed the increase in annual inflation of two main groups **"Education"** (more specifically Secondary education by 21.1 percent and higher education by 18.2 percent**),** and **"Telephone and Fax Services"** prices have increased by 11.2 percent.

- **CBE**, during its November Monetary Policy Committee meeting, decided to **keep the Overnight Deposit Rate, and Overnight Lending** rates and the rate of CBE's **main operation** at 18.75 percent, 19.75 percent and 19.25 percent, respectively. **The Discount Rate** was kept unchanged at 19.25 percent. **The Central Bank of Egypt** decided to raise the **Mandatory Reserve Ratio** on banks on 10th of October 2017, from 10 percent to 14 percent. This decision aimed at containing inflation and absorbing excess liquidity, which reached about 38.7 percent in July 2017.

- **Total Government Debt (domestic and external) increased** to **LE 3676 billion** (105.7 percent of GDP) at end of March 2017. (Data for end of June 2017 are under preparation and will be published once finalized) .This is driven mainly by **increased Domestic debt** since **Treasury Bills debt increased** to LE 1096 billion end of March 2017, compared to LE 816 billion end of June 2016. (Data for end of June 2017 are under preparation and will be published once finalized)

  Meanwhile, **government external debt increased** as **loans increased** to US$ 25.9 million end of June 2017, compared to US$ 20.9 billion at end of June 2016. In addition, **Monetary Authorities debt increased** to US$ 30.3 million at the end of June 2017, compared to US$ 22.2 million last fiscal year.

- **The Balance of Payments (BOP) ran an overall surplus** of US$ 13.7 billion (5.8 percent of GDP) during FY16/17, compared to a deficit of US$ 2.8 billion (-0.8 percent of GDP) in last fiscal year. This is mainly in light of the **shrinking Current Account** deficit since **Trade Balance deficit declined** to US$ 35.4 billion (-15.0 percent of GDP) in FY16/17, compared to a deficit of US$ 38.7 billion (-11.3 percent of GDP) last fiscal year. This was compounded with a **hike in the Services Balance** by 4.3 percent, to record US$ 6.8 billion (2.9 percent of GDP) during FY16/17, compared to US$ 6.5 billion (1.9 percent of GDP) in last fiscal year. On the other hand, the **Capital and Financial Account** witnessed an increased net inflow since **Net Foreign Direct Investments in Egypt increased** to reach US$ 7.9 billion (3.4 percent of GDP) during FY16/17, compared to US$ 6.9 billion (2.0 percent of GDP) in last fiscal year. In addition to a **Net Inflow in Portfolio Investment in Egypt** of US$ 16.0 billion (6.8 percent of GDP) during FY 16/17, compared to a net outflow of US$ 1.3 billion (-0.4 percent of GDP) during last fiscal year. Moreover, **Net Change in Liabilities of the CBE decreased** to post US$ 5.86 billion, compared to US$ 8.13 billion in last fiscal year.

- **On the Tourism Front, the total number of Tourist Arrivals increased by 56.8 percent to reach 3.2 million tourists** during the period from July to October 2017, compared to 2 million tourists during July-October 2016. Moreover, **Tourist Nights increased to reach 36.3 million nights** during July-October 2017 increasing by 191 percent, compared to 12.5 million nights during the same period last year.

- **PMI increased** to **register 47.4** in September 2017, compared to a five-year low of 41.8 in November 2016. This is in light of the substantial **increases in New Export Orders Index** to record 48.5, **New Orders Index increased** to 48 and **Output Index increased** to 46.5.

Major Economic Sectors in Details…

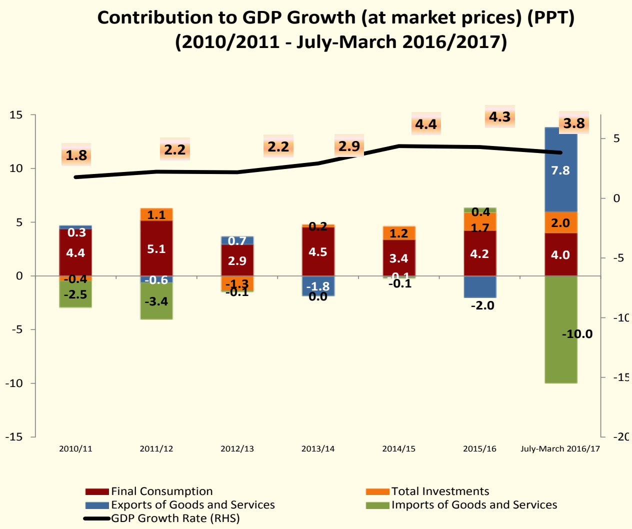
Real Sector:

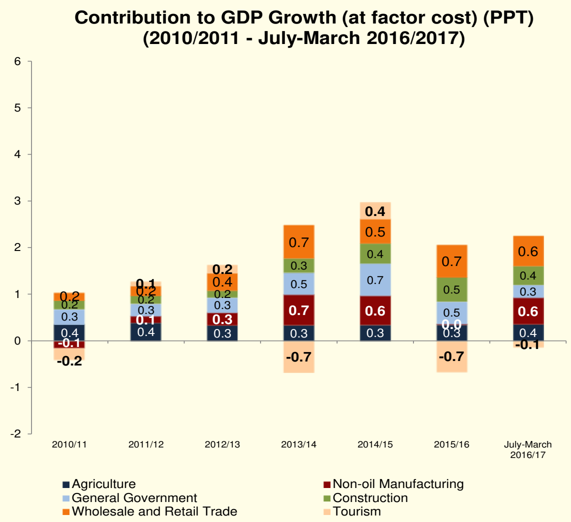
According to the latest detailed data by the Ministry of Planning, **GDP grew by 4.3 percent** during Q3-FY16/17, compared to 3.6 percent during the same period last fiscal year. **Both Public and Private Consumption continued to boost** economic activity during Q3-FY16/17 with a total contribution of 3.0 PPT, compared to 4.4 PPT during Q3-FY15/16. **Investments contributed positively** to growth by 1.0 PPT, compared to a lower contribution of 0.9 PPT during Q3-FY15/16. Moreover, **Net Exports contributed 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.

On the Demand Side, both Public and Private Consumption were 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 increased by 17 percent** during July-March 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-Petroleum 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 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).

➢ *Fiscal Sector Performance during July- September 2017/2018;*

Latest indicators for the period July-September 2017/2018 show a **decline in the Budget Deficit** reaching 2.0 percent of GDP (LE 85.3 billion), compared to 2.2 percent of GDP (LE 76.8 billion) during the same period last year. This could be explained in light of the **increase in Revenues**

Growth Rate recording 33.2 percent during the period of study compared to the same period of last year, exceeding the growth in expenditure recording 24.4 percent compared to the same period of last year.

July- September 16/17 Budget Deficit LE 76.8 billion (2.2 percent of GDP)	July- September 17/18 Budget Deficit LE 85.3 billion (2.0 percent of GDP)*
Revenues LE 96.8 billion (2.8 percent of GDP)	**Revenues** LE 129 billion (3.0 percent of GDP)
Expenditure LE 172.2 billion (5.0 percent of GDP)	**Expenditure** LE 214.1 billion (5.0 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

*** GDP estimate for FY16/17 has been revised recently to reach LE 3478 billion instead of 3407.7 billion. Meanwhile GDP projections for FY17/18 are estimated to reach LE 4286.5 billion as per the Ministry of Finance Calculations.**

Detailed explanations are as follows:

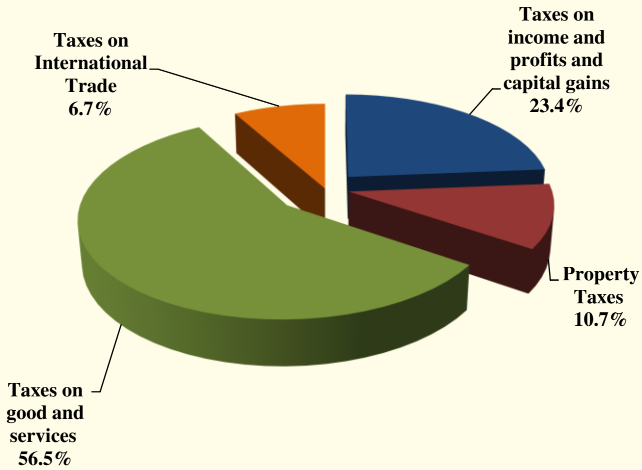
On the Revenues Side

Total Revenues increased by LE 32.2 billion (33.2 percent growth increase**) to record LE 129 billion** during the period July-September 2017/2018, compared to LE 96.8 billion same period last fiscal year. These developments could be explained mainly in light of the **increase in Tax Revenues** (75.3 percent of total revenues) **by LE 33 billion** (51.5 percent growth increase) to record LE 97.2 billion during the period of study, compared to LE 64 billion during the same period last fiscal year. Meanwhile, **Non-Tax Revenues** (24.7 percent of total revenues) has slightly declined by LE 0.9 billion (2.7- percent growth decrease) to record LE 31.8 billion during July-September 17/18, compared to LE 32.7 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 56.9 percent during the period of study, mainly driven by the **increase in Non-sovereign Income Taxes and Sales Taxes Receipts** by 32.8 percent and 76.8 percent, respectively.

On the Tax Revenues Side

Tax receipts from Income taxes (17.6 percent of total revenues), taxes on goods and services (42.6 percent of total revenues), property taxes (8.1 percent of total revenues), and International Trade (5.0 percent of total revenues) 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:

The distribution of Tax Revenues July- September 2017/2018



Taxes on Good and Services increased by LE 23 billion (71.9 percent growth) to reach LE 55 billion (1.3 percent of GDP)
- Taxes on goods and services receipts represent 56.5 percent of total tax revenues.

Mainly as a result of higher receipts from:
- General sales tax on goods increasing by 100 percent to record LE 28.1 billion, compared to LE 14.1 billion during the same period last fiscal year.
- The increase in general sales tax on services by 73.3 percent to record LE 6 billion, compared to LE 10.7 billion during the same period last fiscal year.
- The increase in domestic commodities (Table 1) by 47.1 percent to record LE 15.8 billion, compared to LE 10.7 billion during the same period last fiscal year.
- The increase in stamp tax receipts by 25.4 percent to record almost LE 2.4 billion, compared to LE2 2 billion during the same period last fiscal year.

Taxes on Income, Capital Gains and Profits increased by LE 2.7 billion (13.7 percent growth) to reach LE 22.7 billion (0.5 percent of GDP).
- **Taxes on income, capital gains and profits receipts represent 23.4 percent of total tax revenues.**

Mainly on the back of:
-Increase in receipts from taxes on domestic salaries by LE 2.0 billion (33.5 percent) to reach LE 8 billion, compared to LE 6 billion during the same period last fiscal year.
-Increase in receipts from taxes on Suez Canal by LE 2.1 billion (91.3 percent) to reach LE 4.4 billion, compared to LE 2.3 billion during the same period last fiscal year.
-Increase in receipts from taxes on other companies by LE 1.7 billion (32.6 percent) to reach LE 7.0 billion, compared to LE 5.3 billion during the same period last fiscal year.

Property Taxes increased by LE 2.5 billion (31.7 percent growth) to reach LE 10.4 billion (0.2 percent of GDP).
- **Property Taxes receipts represent 10.7 percent of the total tax revenues.**

Mainly as a result of the increase in tax on T-bills and bonds payable interest by 34.7 percent to reach LE 9.2 billion during the period of study, compared to LE 6.8 billion during the same period last fiscal year.

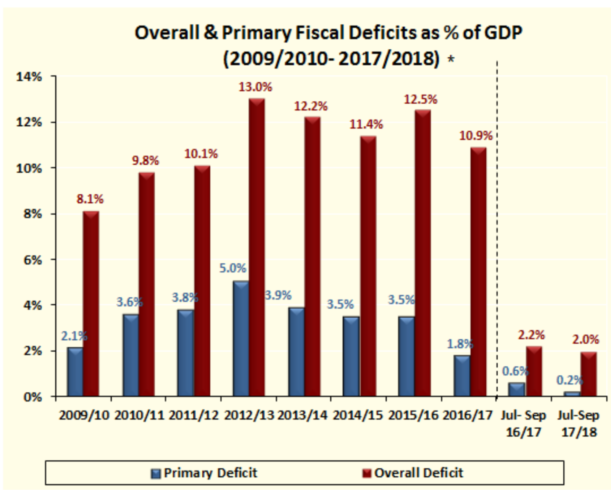
International Trade taxes increased by LE 2.3 billion (54.1 percent growth), to post LE 4.6 billion (0.2 percent of GDP)
- **International Trade tax receipts represent 6.7 percent of the total tax revenues.**

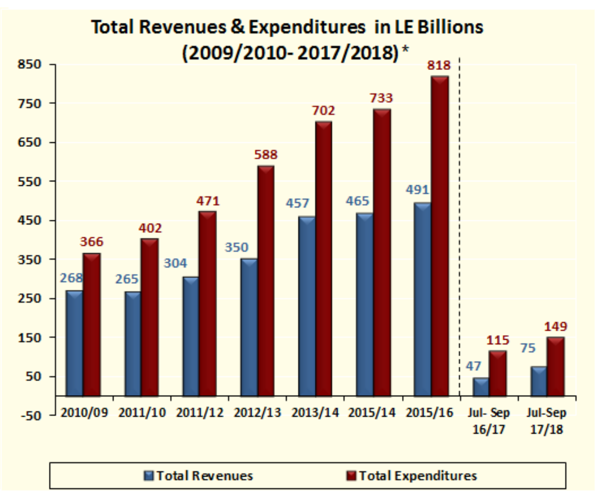
- In light of the increase in customs tax by 53.2 percent to post LE 6.1 billion during period of study, compared to LE 4 billion during same period last fiscal year.

On the Non-Tax Revenues Side

Proceeds from Other Non-Tax Revenues declined slightly to LE 31.8 billion during July-September 2017/2018, compared to LE 32.6 billion during the same period of last year **in light of delayed collected dividends.**

- ✓ **Property income** receipts recorded LE 16.7 billion, compared to LE 24.8 billion recorded during July-September 16/17. However, dividends collected from Suez Canal rose by almost LE 3.4 billion (72.6 percent growth) to record LE 8.2 billion during the period of study, compared to LE 4.8 billion during the same period last year. While, dividends collected from CBE[2] declined to reach LE 5.2 billion during the period of study.
- ✓ Meanwhile, **Miscellaneous Revenues increased** by LE 6.8 billion to record LE 9.5 billion during the period of study, compared to LE 2.7 billion recorded during July-September 16/17 (in light of the increase of other current revenues by LE 4.4 billion compared to the same period last year).
- ✓ **Proceeds from Sales of Goods and Services increased** by LE 1.1 billion (25.4 percent growth) to record LE 5.5 billion, compared to LE 4.4 billion during the same period last year (in light of the increase in receipts from special accounts and funds by 6.4 percent compared to the same period last year.
- ✓ **Grants declined** to LE 18 million during July-September 2017/2018, compared to LE 101 million during the same period of last year (in light of the decline of grants from foreign governments by LE 81 million compared to the same period last year).





Source: Ministry of Finance

2/ The decline in dividends collected from CBE is mainly due to the accommodative monetary policy adopted by the CBE to curb inflation since FY16/17, where the increase in interest rates has imposed burdens on CBE profits.

- ***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 measures designed to improve basic well-being and to widen social safety nets.

Total Expenditures recorded an increase of 24.4 percent to post LE 214.1 billion (5.0 percent of GDP) during the period July- September 17/18, compared to the same period of last year.

- **Wages and Compensation of Employees rose by 8.8 percent** to record LE 60.2 billion (1.4 percent of GDP) during the period of study (in light of the increase in permanent salaries to reach LE 15.9 billion, and the increase of in-kind allowances to reach LE 5.9 billion).
- **Purchase of Goods and Services increased by LE 1.1 billion** (20.2 percent growth) to reach LE 6.8 billion (0.2 percent of GDP) (in light of the increase in spending on periodicals and writing rights to reach LE 1.3 billion, and the increase in spending on Public transportations to reach LE 0.8 billion, and maintenance to record LE 1.0 billion).
- **Interest Payments rose by 32.7 percent** growth to reach LE 76 billion (1.8 percent of GDP), compared to LE 57.2 billion during the same period last year.
- **Subsidies, Grants and Social Benefits rose by LE 4.2 billion (0.8 percent of GDP),** (13.0 percent growth) to record LE 36.3 billion, compared to LE 32.0 billion during the same period last year.
  - ✓ **Spending on Subsidies rose by LE 4.4 billion (29.2 percent growth)** to reach LE 19.5 billion during the period of study, compared to LE 15.0 billion during the same period of last year, this came in light of; GASC spending grew by LE 4.7 billion (92.2 percent growth) reaching LE 9.8 billion during the period of study, compared to LE 5.1 billion during July- September 16/17.
  - ✓ **Social protection measures were scaled up to mitigate the impact of the recent inflation spike.** These include the expansion in amount and coverage of the cash transfer programs (Takaful and Karama), an increase in the allotment in food smartcards from EGP 15 in June 2015 to EGP 50 per person monthly in July 2017.
- **Purchases of Non-financial Assets (investments) rose by LE 6.0 billion (0.3 percent of GDP),** growing by 66.4 percent growth to reach LE 15.0 billion (in light of increased spending on fixed assets to record LE 5.6 billion).
- **Other Expenditures increased by 54.9 percent to record LE 20.1 billion (0.5 percent of GDP)** when compared to the same period last fiscal year.

Public Debt:

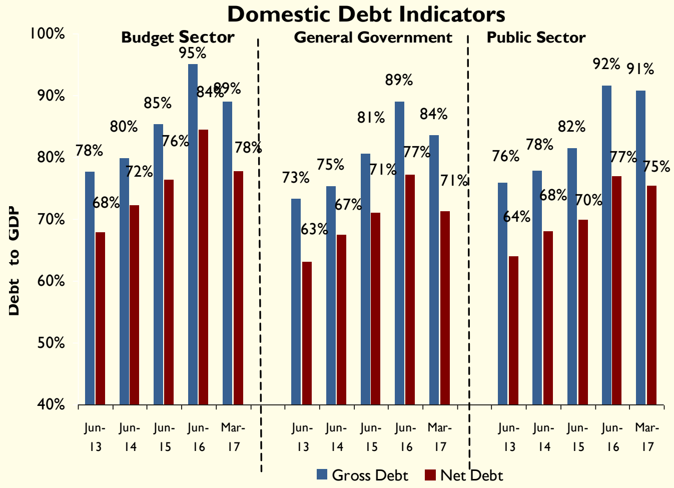
Total Government Debt (Domestic and External) increased to LE 3676 billion (105.7 percent of GDP) at end of March 2017, of which:
(Data for end of June 2017 are under preparation and will be published once finalized)

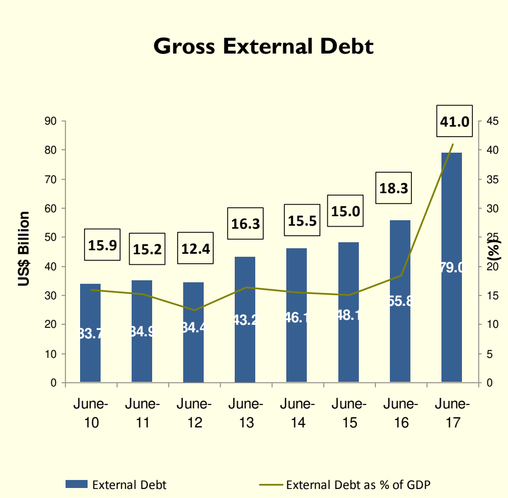
- **Domestic Budget Sector Debt increased to LE 3097,6 billion (89.1 percent of GDP**) by end of March 2017, compared to LE 2573 billion (95 percent of GDP) by end of June 2016.

  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 to eventually enhance their financial performance.

- **External Debt Stock (Government and Non-government Debt) increased to US$ 79 billion (41 percent of GDP)** at end of June 2017, compared to US$ 55.8 billion at end of June 2016.

- Meanwhile, **Government External Debt increased** to US$ 34.9 billion (18.1 percent of GDP) as of end of June 2017, compared to US$ 24.4 billion (8.0 percent of the GDP) at end of June 2016.





➢ *Monetary Perspective:*

M2 annual growth spiked to **39.7 percent** in September 2017 (LE 3050 billion) - its highest growth since January 2017 - compared to 18 percent at end of September 2016. This is attributed to a **reversed 24-months long negative-annual-growth trend** in **Net Foreign Assets of the Banking System (NFA)** for the fifth consecutive month to record a **Seven-year high positive annual growth** of 269 percent (LE 189 billion) at end of September 2017, compared to a negative -1165 percent (LE -111.8 billion) at end of September 2016. This turnaround is credited primarily to the **increase** in the annual growth of **Banks' net foreign reserves**' to 258.6 percent at end of September 2017, compared to -464 percent at end of September 2016. In addition, **CBE net foreign reserves'** annual growth **increased exponentially** to 279 percent at end of September 2017 (LE 102.3 billion), compared to -1173 percent at end of September 2016. This exceptional reverse can be explained in light of the **floatation of the Egyptian Pound in November 2016 which attracted investment inflows in T-bills and bonds as well as the CBE's decision to raise interest rates to stimulate foreign currency deposits.**

On the other hand, the annual growth **of Net domestic assets (NDA) Stabilized at** 24.7 percent at end of September 2017 (LE 2861 billion), compared to end of September 2016. Yet, it's noteworthy to mention the considerable deceleration in government borrowing reflected in a **slowdown in the annual growth of Net Claims on Government & GASC** to 13.7 percent (LE 2001.1 billion) at end of September 2017, compared to 27.1 percent at end of September 2016 in light of the bold fiscal consolidation reforms adopted by the Ministry of Finance.

There's a significant slowdown in the annual growth of **Government Securities** (to the banking system) to 29 percent (LE 2162 billion) at end of September 2017, compared to 37 percent at end of September 2016. Moreover, **Credit Facilities** annual growth **decreased** to -72 percent (LE 90 billion) at end of September 2017, compared to -25 percent at end of September 2016. While, **Government Deposits** annual growth **increased** to 47 percent (LE 437 billion) at end of September 2017, compared to 20 percent at end of September 2016.

Moreover, annual growth of **Claims on Public Business Sector increased markedly to 57.6 percent (LE 150 billion)** at end of September 2017, compared to 26.9 percent at end of September 2016.

Annual growth in **Credit to the Private Sector doubled to 34 percent (LE 977 billion)** at end of September 2017, compared to 15.6 percent at end of September 2016. This comes on the back of the **increase** witnessed in **Claims on Private Businesses Sector to post LE 727.7 billion** during the month of study, compared to LE 516 billion at end of September 2016. Moreover, **Claims on Household Sector increased to record LE 249 billion** at end of September 2017, compared to LE 213 billion at end of September 2016.

From the liabilities side, **Money annual growth increased** to **21.6 percent (LE 739 billion)** at end of September 2017, compared to 16.5 percent at end of September 2016. This could be attributed to the **upsurge in Demand Deposits in Local Currency's annual growth to 36 percent (LE 322 billion)** at end of September 2016, compared to 12.9 percent at end of September 2016 which offset the **deceleration** in **Currency in Circulation's** annual growth – **in light of CBE's contractionary monetary policy – to 12.4 percent** at end of September 2017, compared to 18.9 percent at end of September 2016.

Quasi Money annual growth increased to 46.7 percent (LE 2312 billion) at end of September 2017, compared to 18.6 percent at end of September 2016. This is mainly due to **the higher exchange rate after its liberalization in November 2016 as well as raising interest rates by CBE for three times since the floatation, the latest was by a staggering 200 bps in July 2017.** This is reflected in the **increase in Foreign Currency Demand Deposits annual growth to 89 percent (LE 141 billion)** at end of September 2017, compared to 4.9 percent at end of September 2016. In addition, annual growth of **Foreign Currency Time and Savings Deposits increased to a staggering 108 percent (LE 524 billion)** at end of September 2017, compared to 23.8 percent at end of September 2016. Furthermore, annual growth of **Local Currency Time and Savings Deposits increased to 31.8 percent (LE 1647 billion)** at end of September 2017, compared to 18.5 percent at end of September 2016.

Total Deposits annual growth – excluding deposits at the CBE – **increased to 43.8 percent (LE 3124 billion)** at the end of August 2017, compared to 20 percent at end of August 2016. Out of total deposits, 83 percent belonged to the non-government sector. (Data for September 2017 is not yet available).

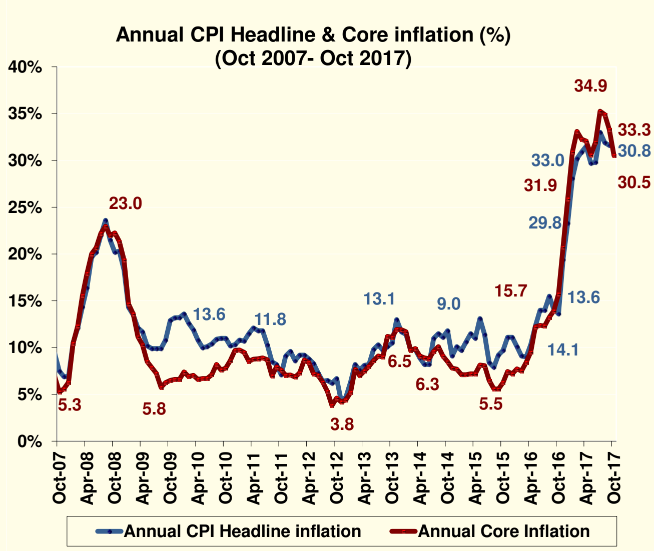
Moreover, **annual growth rate in Total Lending by the banking sector (excluding CBE) increased to 47.4 percent (LE 1410 billion)** at end of August 2017, compared to 29.8 percent at end of August 2016.

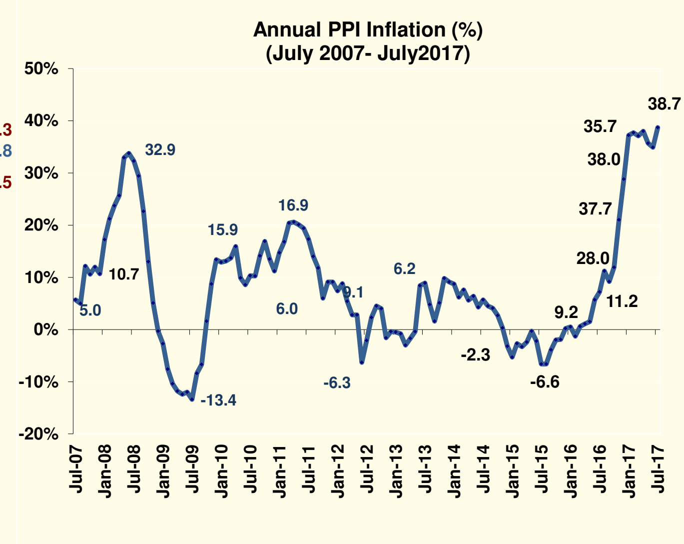
To that end, the **Loans-to-deposits Ratio increased** to 45.1 percent at end of August 2017, compared to 44 percent at end of August 2016. (Data for September 2017 is not yet available).

Net International Reserves (NIR) **increased to an all-time-high US$ 36.7 billion** at end of October 2017 (**covering 7.7 months** of imports in September 2017), compared to US$ 19 billion at end of October 2016 (covering 4.1 months of imports) , recovering a five-year low US$ 12.1 billion at end of June 2016.

Headline Urban Inflation **rose at a slower pace** for the third month in a row since the beginning of current fiscal year; **recording 30.8 percent during October 2017**, compared to 31.6 percent during the previous month, and it increased notably if compared to 13.6 percent during October 2016. **Factors contributing to inflationary pressures include;** the slower pace of increase in annual inflation rates of most groups if compared to last month. On the top of which comes; **"Food and Beverages"** group (the highest weight in CPI) to record 39.6 percent during October 2017, compared to 41.2 percent during last month, **"Furnishing and Household Equipment**" to record 31.9 percent, compared to 35.3 percent, **"Transport"** to record 35.4 percent, compared to 37.6 percent, **"Restaurant and Hotels"** to record 26.2 percent, compared to 28.1 percent, **"Recreation and Culture"** to record 41.6 percent, compared to 42.4 percent last month. This has counterpartyed the increase in annual inflation rates of two main groups; **"Education"** to record 19.6 percent during October 2017, compared to 12.3 percent last month (driven by the increase in secondary and higher education prices), and **"Communication"** group has also increased by 11 percent, compared to 3.7 percent (more specifically the increase in Telephone and Fax services prices).

- **Average Annual Headline Inflation increased** during the period July- October 17/18 to record 31.8 percent, compared to 14.3 percent during the same period last year.





- **Monthly Inflation has almost stabilized to 1.1 percent** during October 2017, compared to 1.0 percent during last month, and compared to higher rate of 4.8 percent during November 2016 (The month of Economic Reforms). This came in light of the **increase in annual inflation** rates of some sub-items among **"Food and Beverages"** group, on the top of which; "**Vegetables**" has increased by 1.5 percent, **"Milk, Cheese, and Eggs'** by 1.0 percent, **"Fish"** by 1.1 percent. However, **"Meat"** have declined by -1.3 percent, and **"Fruits"** have declined by -1.3 percent. Meanwhile, other groups have contributed to the increase in monthly inflation rate including **"Education"** increased by 19.6 percent, **"Telephone and Fax Services"** rose by 7.2 percent, and "**Books and Stationary"** has risen by 3.7 percent.

- **Annual Core Inflation**[5] recorded 30.5 percent during October 2017, compared to 33.3 percent during the last month, and compared to 15.7 percent in October 2016. As for **average annual Core inflation**, it increased during the period July- October 2017/2018 to record 33.5 percent, compared to 138. percent during the same period last year. Meanwhile, monthly core inflation has recorded 0.7 percent during October 2017, compared to 0.2 percent during last month.

- During its **Monetary Policy Committee** meeting held on November 16th, 2017, CBE decided to keep the **overnight deposit rate, and overnight lending rates** and the rate of CBE's **main**

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'.

operation at 18.75 percent, 19.75 percent and 19.25 percent, respectively. **The discount rate** was kept unchanged at 19.25 percent.

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

- **The Egyptian Exchange market capitalization increased by 4.9 percent** m-o-m during October 2017 to reach LE 784.9 billion, compared to LE 748.6 billion in the previous month. The EGX-30 Index increased by 3.3 percent during October 2017 to reach 14342.38 points, compared to closing at 13888.51 points by the end of September 2017. In addition, the EGX-70 increased by 1.1 percent, closing at 781.98 points compared to 773.53 points in the previous month.

- ***On the External Sector side:***

BOP **ran an overall surplus of US$ 13.7 billion (5.8 percent of GDP)**, (90 percent of this surplus was achieved following the November 2016 exchange rate floatation) during FY16/17, compared to a deficit of US$ 2.8 billion (-0.8 percent of GDP) in last fiscal year. These developments are mainly due to increased inflow in the capital and financial account, coupled with a decrease in the deficit of the current account. The surplus recorded in the BOP during FY17/18 occurred as a result of the following several developments:

- **Current account recorded a deficit of US$ 15.6 billion (-6.6 percent of GDP)** during FY16/17, compared to a higher deficit of US$ 19.8 billion (-5.8 percent of GDP) in Last fiscal year. This came in light of the following developments:

  - **Trade balance deficit has declined to record US$ 35.4 billion (-15.0 percent of GDP)** in FY16/17, compared to a deficit of US$ 38.7 billion (-11.3 percent of GDP) last fiscal year. This was mainly driven by the double-digit growth rate in non-petroleum exports by 16.2 percent to record US$ 15.1 billion during FY16/17, compared to US$ 13.0 billion last fiscal year. In addition, petroleum exports receipts registered US$ 6.5 billion in the period of study, compared to US$ 5.7 in the period of comparison. Concurrently, merchandise imports stepped down by 0.5 percent, to register US$ 57.1 billion compared to US$ 57.4 billion in last fiscal year.

  - **The services balance surplus picked up** by **4.3 percent, to record a surplus of US$ 6.8 billion (2.9 percent of GDP)** during FY16/17, compared to a lower surplus of around US$ 6.5 billion (1.9 percent of GDP) in last fiscal year. This came in light of the increase in current receipts by 7 percent to record US$ 16.6 billion during FY16/17, compared to US$ 16.1 billion last fiscal year, this is due to **the increase witnessed in travel receipts** (tourism revenues) by 16.2 percent to reach US$ 4.4 billion during FY16/17, compared to US$ 3.8 billion in last fiscal year, while Suez Canal dues decreased to US$ 49.4 billion, compared to US$ 51.2 in last fiscal year as a result of the fall in the value of SDR versus the US dollar by an average of 1.9%, notwithstanding the higher net tonnage of transiting vessels by 0.8%.

  - **Net Official Transfers inched up by 4.1 percent, to register US$ 17.5 billion** during FY16/17, compared to US$ 16.8 billion in last fiscal year, mainly due to the increase in net private transfers to record US$ 17.3 billion compared to US$ 16.7 billion in last fiscal year, supported by the increase in workers' remittances to US$ 17.5 billion, compared to US$ 17.1 billion in last fiscal year. It is worth noting that workers' remittances increased in Nov/June 16/17(the period following the floatation of the pound) by US$ 1.4 billion, to US$ 12.8 billion compared to US$ 11.4 billion in last fiscal year.

- Meanwhile, **the Capital and Financial Account registered an increased net inflow of US$ 29.0 billion (12.3 percent of GDP)** during FY16/17, compared to lower net inflow of US$ 21.2 billion (6.2 percent of GDP) in last fiscal year. This is due to the following developments:

– **Net foreign Direct Investments in Egypt (FDI) increased to reach US$ 7.9 billion (3.4 percent of GDP)** during FY16/17, compared to US$ 6.9 billion (2.0 percent of GDP) in last fiscal year, driven mainly by the rise in the net inflow for oil sector investments to post US$ 4.0 billion in FY16/17, compared to US$1.7 billion in last fiscal year .

– **Portfolio investment in Egypt recorded an increased net inflow of US$ 16.0 billion (6.8 percent of GDP)** during FY 16/17, compared to net outflow of US$ 1.3 billion (-0.4 percent of GDP) during last fiscal year. This was ascribed to the rise in foreigners' investments on the EGX, recording net purchases of US$ 497.3 billion. In addition, foreigners' investments in Egyptian treasury bills increased, to register net purchases of US$ 10.0 billion. Moreover, the Egyptian government floated bonds in international markets, in the period following the liberalization of the exchange rate, where foreigners' investments accounted for US$ 6.8 billion.

– **Other investments decreased to register net inflows of US$ 5.2 billion (-66.7 percent of GDP)** in FY16/17, compared to net inflows of US$ 15.6 billion (4.6 percent of GDP) in last fiscal year, where Other assets and liabilities achieved a net outflow of US$ 2.5 billion in FY16/17, compared to US$ 8.5 billion in last fiscal year. This came on the back of the rise in banks' foreign assets and foreign currency resources immediately after the liberalization of the exchange rate. As such, banks' foreign assets rose by US$ 9.5 billion, and their foreign liabilities by only US$ 1.4 billion. The exchange rate adjustment has helped in freeing up resources to pay part of the accumulated arrears to international oil companies, which currently stand at US$2.3 billion in end-June 2017 down from US$3.5 billion in end-2016.

- **Net change in liabilities of the CBE increased to post US$ 5.86 billion**, compared to US$ 8.13 billion in last fiscal year.

- **Net errors and omissions recorded an inflow of US$ 0.6 billion (0.1 percent of GDP)** in FY16/17, compared to an outflow of US$ 4.15 billion (-1.2 percent of GDP) in last fiscal year.

➢ According to the latest published figures, **the total number of Tourist Arrivals increased** by **56.8 percent to reach 3.2 million tourists** during the period from July-October 2017, compared to 2 million tourists during July-October 2016. Moreover, **Tourist Nights increased to reach 36.3 million nights** during July-October 2017 increasing by 191 percent, compared to 12.5 million nights during the same period last year.