Executive Summary

Main Highlights

The comprehensive reform program implemented by the Egyptian government since 2016 has had a significant impact on restoring confidence in the Egyptian economy and achieving remarkable improvement in the macroeconomic indicators.

Moreover, Egypt's ranking in many international indicators has improved, as underlined by many international rating institutions outlining the success achieved among different sectors in Egypt's economy (see below).

However, the measures taken during the previous phase of the reform program aimed to stabilize and improve the economic situation. Efforts during the coming period will be directed towards entrenching growth potential and implementing further structural measures in order to achieve a more equitable distribution of the growth benefits among all segments of society. The government is aware that the most important outcome of the economic reform program lies in the benefits it can bring to the citizens as well as the establishing of steady steps towards a better future to improve the Egyptians' living standards.

- **Egypt's annual GDP growth recorded 4.2 percent during FY 2016/2017 exceed the IMF forecast of 3.5 percent**
- **Improvement in the performance of the economy's main sectors, with expectations of accelerated growth in 2018**
- **Fitch Ratings upgraded the outlook for the Egyptian economy from "stable" to "positive" at grade B**
- **Market capitalization of the listed shares in the Egyptian Stock Exchange recorded $50 billion at end of December 2017, a year after liberalization**
- **The discovery of Zohr field will make Egypt the main road for the Eastern Mediterranean countries to export gas to Europe**
- **Egypt's ranking improved by 56 positions in the "Financial Services Index", 33 positions in "Business Environment Index" and 34 positions in the "Global Competitiveness Index"**

International Reports praising the Egyptian economic performance:

- **The International Monetary Fund (IMF):** In its latest report **(Article IV Consultation, Second Review)** issued last December, the IMF reveals that Egypt's GDP growth exceeded expectations. The GDP growth rate recorded 4.2 percent on annual basis, exceeding the IMF forecast of 3.5 percent. **The IMF affirmed that Egypt's economic reform program is on the right track** and that the continuity of the economic recovery has been driven by improving manufacturing, construction and real estate sectors as well as the development in investment of transport and communications, increased natural gas production and trade performance. **Egypt has succeeded in meeting the performance criteria within the second review of the reform program**, as the Central Bank of Egypt was able to reach the target level of foreign exchange reserves and net domestic assets at the end of the legal period of the review in June 2017. The IMF considered that the downward path of public debt is the cornerstone of the economic reform program during the following period.

- **Fitch Ratings** upgraded the outlook for the Egyptian economy to "positive". **Fitch announced that it has reviewed the outlook of the Egyptian economy from "stable" to "positive" while maintaining the credit rating of both foreign and domestic currencies at grade B.** This is the second positive review since the implementation of the Egyptian economic reform program in 2016 after Standard & Poor's revised the outlook for the Egyptian economy to "positive" in November 2017.

- **Egypt's ranking improved by 56 positions in the "Financial Services Index"** issued by the **World Economic Forum**. This improvement came in light of the measures taken by the Financial Control Authority during 2017 concerning the regulation, control and supervision of the markets, which contributed to **improving Egypt's ranking in many international indicators of investment and business**. **Egypt has also advanced 33 positions in the Business Environment Index in the field of minority protection from investors** following the amendments made by the Authority in the registration and delisting of securities on the Egyptian Stock Exchange. **Also, Egypt's ranking in the global competitiveness also improved by 34 positions, increased by 17 positions in the stock market financing index and 55 positions** in the money market credit query index.

- **Bloomberg: Egypt's shares record $50 billion a year after liberalization**. Bloomberg news agency reported that the market capital of restricted shares on the Egyptian stock exchange rose to $50 billion in late December for the first time since the central bank liberalized the exchange rate in November 2016. There has been a strong demand from foreign investors for the assets of the most populous Arab country, attracted by bold reforms during the last stage. **Bloomberg also predicted that the Egyptian stock exchange will continue its strong performance in 2018 with the support of the Egyptian government's structural reforms** in the economy, as well as the prospect of lower interest rates in the new year, which would increase the attractiveness of Egyptian shares.

- **Oxford Business Group** publishes its annual report on the performance of the Egyptian economy in 2017. **The Oxford Business Group published its annual report on the performance of the Egyptian economy in 2017, stating that the improvement of the performance of the main sectors of the economy, along with the control of financial management and the increase of capital flows are factors that helped to revive the economy last year, with expectations of accelerated growth in 2018**. According to the report, the growth of Telecommunications sector is on the top with the highest growth rate during the fiscal year 2016/2017, recording 12.5 percent. The construction sector came second with 9.5 percent, followed by the transport sector with 5.3 percent, agriculture by 3.2 percent, industry by 2.1 percent. As well as an increase in investment flows and foreign direct investment.

- **Financial Times: Egypt is the best way for Eastern Mediterranean countries to export gas to Europe.** The Financial Times states that not only does Egypt have the best infrastructure but it also experiences the rapid development of the Zohr field which makes it the most suitable country to export gas to Europe. The most effective and short-term approach to global markets is to build a network of short pipelines and take advantage of Egypt's natural gas liquefaction plants.
- **Egypt returns to international markets with issuing a $4 billion Eurobonds.** The Arab Republic of Egypt, represented by the Ministry of Finance, succeeded in issuing international bonds worth $4 billion on three tranches (5,10 and 30 years) with return rates of 5.58 percent for 5 years, 6.59 percent for 10 years and 7.95 percent For 30 years. In light of the demand that reached over $12 billion in the first hours of the announcement, despite the recent volatility in global financial markets, which led to higher yields on US Treasuries to reach the highest level in 4 years.

Recent promising indicators are as follows:

PMI increased to **register 49.9** in January 2018, 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 51.2, **New Orders Index increased** to 49.9 and **Output Index increased** to 52.0, in addition to the **increase** in **Stocks of Purchases Index** to reach 49.8 and the **reduction** in **Input Cost Index** due to the decrease in energy and employment indices.

Net International Reserves (NIR) increased to a record-high US$ 38.2 billion during January 2018 (covering 8.2 months of imports), compared to US$ 26.4 billion at end of January 2017 (covering 5.6 months of imports), and compared to a lowest level of US$ 13.4 billion at end of March 2016(covering 3.5 months of imports).

During its Monetary Policy Committee meeting held on February 15th, 2018, CBE decided to lower the overnight deposit rate, and overnight lending rates and the rate of CBE's main operation by 1 percent to reach 17.75 percent, 18.75 percent and 18.25 percent, respectively. Also, the discount rate decreased by 1 percent to reach 18.25 percent.

On the Fiscal front, fiscal performance improved in light of on-going bold reforms and fiscal consolidation measures. Budget deficit declined to 3.8 percent of GDP during the period July-November 2017/2018, compared to 4.2 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 107.8 billion (increasing notably by LE 51 billion in light of increased receipts from VAT on imported goods and domestic goods). **Income Taxes** recorded around LE 56.9 billion, **Taxes on Domestic Salaries** reached LE 14.0 billion. Meanwhile, **collected Tax Receipts from Suez Canal increased** to LE 10.6 billion, and **collected dividends from Suez Canal** to reach LE 12.2 billion, and increased receipts from **Other Companies** to reach LE 16.8 billion. **On the expenditure side, GASC subsidies increased** by 74 percent to record LE 20.7 billion, Electricity subsidies increased by 6.3

percent to reach LE 12.1 billion, budget contributions in pensions rose by 2.6 percent to reach LE 21.6 billion, and spending on Takaful and Karama programs (including social insurance pensions) have increased by 90.6 percent to reach LE 7.8 billion. Moreover, **Investment Spending rose** by 41.2 percent to record around LE 27.6 billion during the period of study.

It is noteworthy that final accounts of the state budget 2016/2017 is still under revision by the Parliament and will remain preliminary until being approved. **Actual budget figures for the FY16/17** reveals the overall budget deficit to record LE 379.6 billion (10.9 percent of GDP), compared to LE 339.5 billion (12.5 percent of GDP) in the prior fiscal year. This could be mainly explained in light of the increase in Revenues to exceed the growth in Expenditure (for the first time since 2010/2011) to record 34.1 percent for the first, and 26.2 percent growth for the later consequently, and which reflects the magnitude of the underlying structural fiscal adjustment that was achieved during the period of study.

On the Revenues Side, **there is a sharp increase in Tax Receipts by LE 109.7 billion (31.1 percent growth) to record LE 462.0 billion**; **Sales Tax on Goods and Services recorded LE 208.6 billion increasing notably by LE 68.1 billion** (in light of increased receipts from VAT on imported goods and domestic goods). **Income Taxes recorded around LE 166.9 billion** increasing by LE 22.2 billion (15.3 percent growth) in light of increased receipts from Taxes on Domestic Salaries to record LE 34.2 billion. Meanwhile, collected Tax Receipts from Suez Canal increased to LE 22.3 billion, and collected dividends from Suez Canal to reach LE 29.4 billion, and increased receipts from Other Companies to reach LE 47.3 billion. Meanwhile, Non Tax Revenues increased notably by LE 58.0 billion (41.7 percent growth) to reach LE 197.2 billion. This came mainly in light of increased Grants to reach LE 17.7 billion, and increased Other Tax Revenues to reach LE 179.5 billion (driven by the increase in property income receipts from Suez Canal, and Economic Authorities, and increased receipts from Sales of Goods and Services).

On the expenditure side, social spending remained as a key pillar in FY 2016/2017. This is evidently observed through **increased spending on GASC subsidies by 11.2 percent to reach LE 47.5 billion, Social security benefits rose dramatically by 47 percent to reach LE 13.0 billion** (in light of increased spending on Takaful and Karama and Social insurance pensions). In addition, **budget contributions to pensions have increase by 2.9 percent to reach LE 45.2 billion**. On the other side, **Investment Spending rose by 57.6 percent to reach around LE 109 billion** during the period of study and which reflects the government plan to increase infrastructure spending, and improving the public services provided to the Egyptian Citizens.

On the Tourism Front, total number of Tourist Arrivals increased by 54.3 percent to reach 4.7 million tourists during the period from July to December 2017, compared to 3.1 million tourists during July-December 2016. Moreover, **Tourist Nights increased to reach 52.1 million nights** during July-December 2017 increasing by 171.3 percent, compared to 19.2 million nights during the same period last year.

GDP grew by 4.2 percent during FY16/17, compared to 4.3 percent during last fiscal year. **Private Consumption grew** by 4.2 percent, while **Public Consumption grew** by 2.5 percent. **As for Q1 FY17/18, GDP grew by 5.2% compared to 3.4% during Q1 FY16/17**, driven by several sectors including tourism, natural gas, construction and manufacturing. In the meantime, **Investments increased** by 11.3 percent during FY16/17. **Total Production Index** rose by 15.1 percent. In addition, **Net Exports started to contribute negatively** to growth by 1.3 PPT. **On the supply side, the Whole Sale and Retail Sector** grew by 5.2 percent, **the Non-Petroleum Manufacturing Sector** grew by 3.7 percent, **the Construction Sector** grew by 9.5 percent, **the General Government Sector** grew by 3.0 percent, **the Agriculture Sector**

grew by 3.2 percent, **the Real Estate Sector** grew by 5.2 percent, **the Telecommunications Sector** grew by 12.5 percent, and **the Natural Gas Sector** by 2.1 percent.

The Balance of Payments (BOP) **ran an overall surplus** of US$ 5 billion (2.2 percent of GDP) during the period July-September 2017/2018, compared to US$ 1.9 billion (0.5 percent of GDP) during the same period last year. This is mainly in light of the **shrinking Current Account** deficit since **Trade Balance deficit declined** to US$ 8.9 billion (-3.9 percent of GDP) during the period July-September 2017/2018, compared to a deficit of US$ 9.4 billion (-2.4 percent of GDP) during the same period last year. This was compounded with a **hike in the Services Balance** to record US$ 2.8 billion (1.2 percent of GDP) during the period of study, compared to US$ 1.4 billion (0.4 percent of GDP) during the same period last year. On the other hand, the **Capital and Financial Account** witnessed a decreased net inflow of US$ 6.2 billion during the period July-September 2017/2018, compared to US$ 7.2 billion during the same period last year.

Headline Urban Inflation reveals faded Inflationary pressures but still recording high levels, and which is set to decline for the third month in a row, recording 21.9 percent in December 2017, compared to 26.0 percent during last month (to decline by 4.1 basis points), and compared to 23.3 percent during December 2016. **Factors contributing to inflationary pressures include** the slower pace of annual inflation growth rates among most groups during the month of study compared to last month.

Regarding **Monetary Developments**, **M2** annual growth spiked to **40.5 percent** in October 2017 (LE 3088 billion) - its highest growth since January 2017 - compared to 17.7 percent at end of October 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 sixth consecutive month to record a **Seven-year-high positive annual growth** of 255.2 percent (LE 189 billion) at end of October 2017 and 268.6 percent in last month, compared to a negative -1734.3 percent (LE -122 billion) at end of October 2016. On the other hand, the annual growth **of Net domestic assets (NDA) increased slightly to record** 24.9 percent at end of October 2017 (LE 2898.8 billion), compared to 24.7 percent end of October 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 13.9 percent (LE 2036 billion) at end of October 2017, compared to 27.4 percent at end of October 2016.

Unemployment Rate **fell to 11.9 percent** during Q3 of FY16/17, 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 Q3 of FY16/17 reached 25.9 million person, with an increase of 3.1 percent compared to the same period of last year.

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.**

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.

Total Government Debt **(domestic and external) increased** to **LE 3676 billion** (105.9 percent of GDP) at end of March 2017. 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.

It's noteworthy that **during 2017 a total amount of US$ 30 billion was repaid**, as per Central Bank of Egypt, distributed on due **bonds**, **foreign debt** of international banks such as African Export-Import Bank, **deposits and loans** from many countries of which KSA, Libya and Turkey, in addition to **obligations** to government entities such as EGPC and other **obligations** to Paris Club.

Major Economic Sectors in Details…

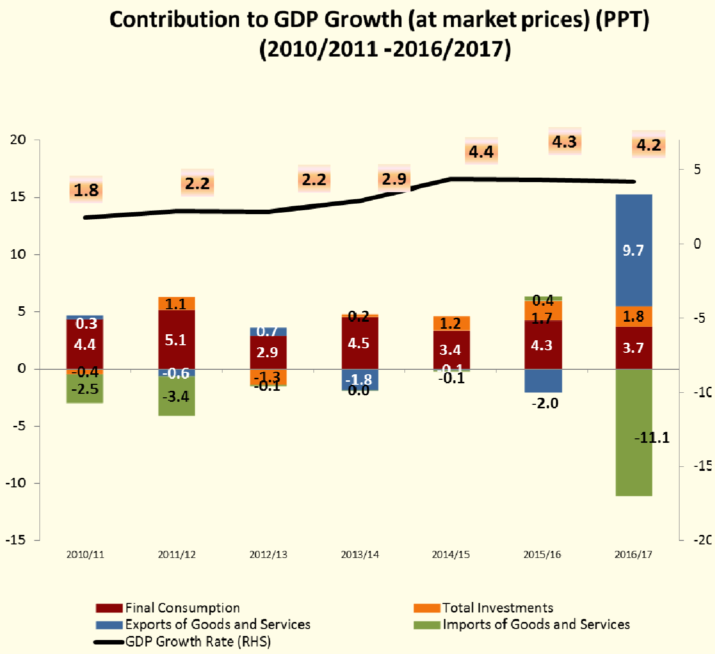
Real Sector:

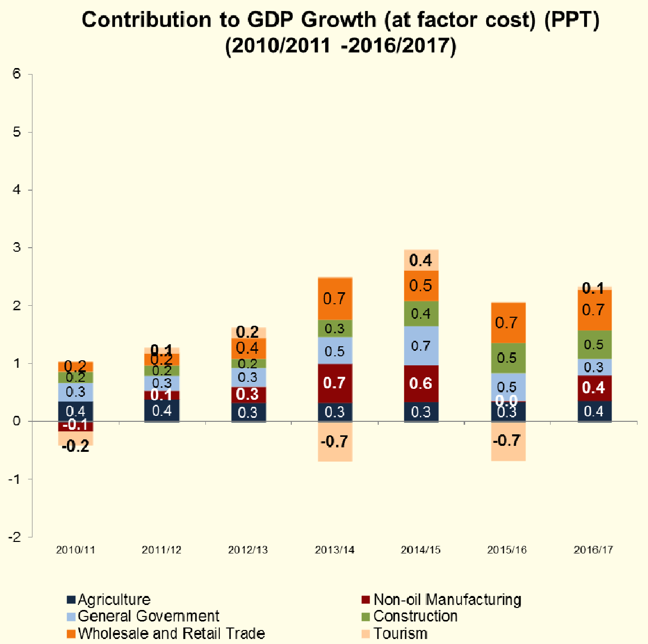
According to the latest detailed data by the Ministry of Planning, **GDP grew by 4.2 percent** during FY16/17, compared to 4.3 percent during last fiscal year. **Both Public and Private Consumption continued to boost** economic activity during FY16/17 with a total contribution of 3.7 PPT, compared to 4.3 PPT during FY15/16. **Investments contributed positively** to growth by 1.8 PPT, compared to a lower contribution of 1.7 PPT during FY15/16. Moreover, **Net Exports contributed negatively** to growth by 1.3 PPT, compared to a negative contribution of 1.6 PPT during FY15/16.

Furthermore, **total Production Index rose by 32.9 percent on annual basis** recording an average of 192.35 points during FY16/17, compared to negative growth rate of 17 percent during FY15/16, **driven mainly by Tourism Sub-Index that hiked by 112.32 percent** on annual basis recording an average of 189.77 points during FY16/17, compared to negative growth rate of 70 percent during FY15/16, **and Manufacturing Sub-Index that picked-up by 52.33 percent** on annual basis recording an average of 233.76 points during FY16/17, compared to a growth rate of 0.18 percent during FY15/16.

On the Demand Side, both Public and Private Consumption were key growth drivers during FY16/17. **Private consumption grew by 4.2 percent** y-o-y, compared to 4.6 percent during last fiscal year (contributing to growth by 3.4 PPT, compared to 3.8 PPT), while **Public Consumption grew by 2.5 percent** in the period of study, compared to 3.9 percent, during FY15/16 (contributing to growth by 0.3 PPT, compared to 0.5 PPT). In the meantime, recent data shows that **Investments increased by 11.3 percent** during FY16/17, compared to 11.2 percent during last fiscal year (contributing to growth by 1.8 PPT, compared to 1.7 PPT).

On the other hand, **Net Exports** constrained growth with a negative impact of 1.3 PPT, compared to a negative contribution of 1.6 PPT during FY15/16. This development came in light of a 86.0 percent **increase in Exports**, with a positive contribution of 9.7 PPT to real GDP growth, compared to a negative contribution of 2.0 PPT during FY15/16, while **Imports increased by 52.5 percent** in the period of study, contributing negatively by 11.1 PPT, compared to a positive contribution of 0.4 PPT during 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 5.2 percent real growth rate during FY16/17 (steadying at 0.7 PPT during the period of study, same as last fiscal year). Moreover, **the Non-Petroleum Manufacturing Sector** recorded a real growth rate of 3.7 percent (contributing 0.4 PPT during FY16/17, compared to 0.0 PPT during last fiscal year). Meanwhile, **the Construction Sector** witnessed a growth rate of 9.5 percent in FY16/17, contributing by around 0.5 PPT to GDP, same as last fiscal year, and **the General Government Sector** recorded a 3.0 percent real growth rate in FY16/17 (contributing 0.3 PPT during the period of study, compared to 0.5 PPT during the last fiscal year). Additionally, **the Agriculture Sector** witnessed a growth of 3.2 percent (contributing 0.4 PPT during FY16/17, compared to 0.3 PPT last fiscal year) and **the Real Estate Sector** recorded a 5.2 percent real growth rate in FY16/17 (contributing 0.5 PPT to real growth in FY16/17, compared to 0.4 PPT last fiscal year). Furthermore, **the Telecommunications Sector** expanded to record a 12.5 percent real growth rate during the period of study (contributing 0.4 PPT during FY16/17, compared to 0.3 PPT during last fiscal year). It is also worthy to note that **the Natural Gas Sector** expanded to record a 2.1 percent real growth rate during FY16/17 (contributing positively by 0.1 PPT during FY16/17 (For the first time since 2013), compared to -0.7 PPT during last fiscal year).

Taken together, the above-mentioned key sectors represented around 59.2 percent of total real GDP during FY16/17.

Meanwhile, tourism has contributed positively to growth during FY16/17 growing by 3.9 percent (contributing positively to growth by 0.1 PPT, compared to a negative contribution of 0.7 PPT during last fiscal year).

Fiscal Sector Performance during July- November 2017/2018;

Latest indicators for the period July-November 2017/2018 show a **decline in the Budget Deficit** reaching 3.8 percent of GDP (LE 163.6 billion), compared to 4.2 percent of GDP (LE 144.4 billion) during the same period last year. This could be explained in light of the **increase in Revenues Growth Rate** recording 44.9 percent during the period of study compared to the same period of last year, exceeding the growth in expenditure recording 32 percent compared to the same period of last year.

July-November 16/17 Budget Deficit LE 144.4 billion (4.2 percent of GDP)	July- November 17/18 Budget Deficit LE 163.6 billion (3.8 percent of GDP)*
Revenues LE 174.3 billion (5.0 percent of GDP)	**Revenues** LE 252.6 billion (5.9 percent of GDP)
Expenditure LE 314.4 billion (9.1 percent of GDP)	**Expenditure** LE 415 billion (9.7 percent of GDP)

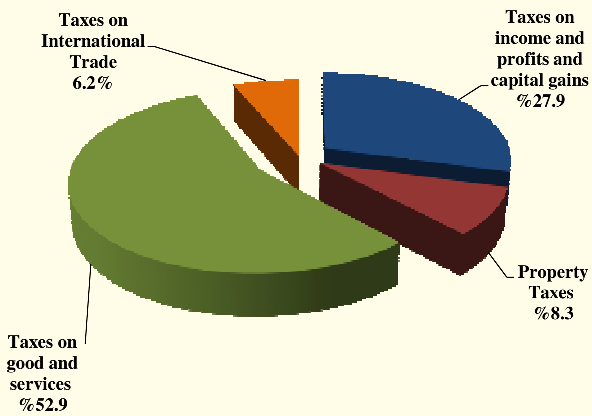
Source: Ministry of Finance, Macro Fiscal Policy Unit

*** GDP estimate for FY16/17 has been revised recently to reach LE 3470 billion instead of 3478 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

The distribution of Tax Revenues July-November 2017/2018



Total Revenues increased by LE 78.3 billion (44.9 percent growth increase) **to record LE 252.6 billion** during the period July-November 2017/2018, compared to LE 174.3 billion same period last fiscal year. These developments could be explained mainly in light of the **increase in Tax Revenues** (80.7 percent of total revenues) **by LE 81.5 billion** (66.6 percent growth increase) to record LE 203.9 billion during the period of study, compared to LE 122.4 billion during the same period last fiscal year. Meanwhile, **Non-Tax Revenues** (19.2 percent of total revenues) has slightly declined by LE -3.2 billion (-6.2 percent growth decrease) to record LE 48.7 billion during July- November 17/18, compared to LE 51.9 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 61.0 percent during the period of study, mainly driven by the **increase in Non-sovereign Income Taxes and Sales Taxes Receipts** by 29.6 percent and 84.4 percent, respectively.

On the Tax Revenues Side

Tax receipts from Income taxes (22.5 percent of total revenues), taxes on goods and services (42.7 percent of total revenues), property taxes (6.7 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:

Taxes on Income, Capital Gains and Profits increased by LE 18 billion (46.4 percent growth) to reach LE 56.9 billion (1.3 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 27.9 percent of total tax revenues.**

Mainly on the back of:

-Increase in receipts from taxes on domestic salaries by LE 3.0 billion (27.0 percent) to reach LE 14.0 billion, compared to LE 11.0 billion during the same period last fiscal year.

-Increase in receipts from taxes on Suez Canal by LE 4.8 billion (82.8 percent) to reach LE 10.6 billion, compared to LE 5.8 billion during the same period last fiscal year.

-Increase in receipts from taxes on other companies by LE 3.3 billion (24.5 percent) to reach LE 16.8 billion, compared to LE 13.5 billion during the same period last fiscal year.

Taxes on Good and Services increased by LE 50.9 billion (89.6 percent growth) to reach LE 107.8 billion (2.5 percent of GDP)

- Taxes on goods and services receipts represent 52.9 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 78.8 percent to record LE 50.8 billion, compared to LE 28.4 billion during the same period last fiscal year.
- The increase in general sales tax on services by 93.8 percent to record LE 11.2 billion, compared to LE 5.8 billion during the same period last fiscal year.
- The increase in domestic commodities (Table 1) by 129.2 percent to record LE 35.2 billion, compared to LE 15.4 billion during the same period last fiscal year.
- The increase in stamp tax receipts by 31 percent to record almost LE 4.9 billion, compared to LE 3.7 billion during the same period last fiscal year.

International Trade taxes increased by LE 4.5 billion (55 percent growth), to reach LE 12.7 billion (0.3 percent of GDP)
- **International Trade tax receipts represent 6.2 percent of the total tax revenues.**

- In light of the increase in receipts from customs taxes by 54.9 percent to post LE 12 billion during period of study, compared to LE 7.7 billion during same period last fiscal year.

Property Taxes increased by LE 2.6 billion (18.1 percent growth) to reach LE 16.9 billion (0.4 percent of GDP).
- **Property Taxes receipts represent 8.3 percent of the total tax revenues.**

Mainly as a result of the increase in receipts from tax on T-bills and bonds payable interest by 18.3 percent to reach LE 14.5 billion during the period of study, compared to LE 12.2 billion during the same period last fiscal year.

On the Non-Tax Revenues Side

Proceeds from Other Non-Tax Revenues declined to LE 48.7 billion during July-November 2017/2018, compared to LE 51.9 billion during the same period of last year **in light of delayed collected dividends.**

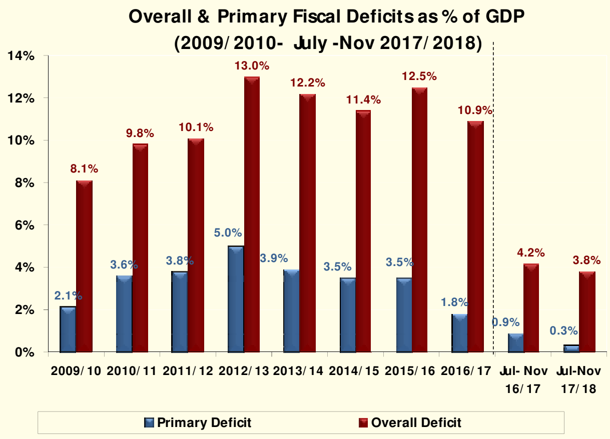
Property income receipts recorded LE 25.4 billion, compared to LE 36.2 billion recorded during July-November 16/17. However, dividends collected from Suez Canal rose by almost LE 4 billion (47.9 percent growth) to record LE 12.2 billion during the period of study, compared to LE 8.3 billion during the same period last year. While, dividends collected from CBE[3] declined to reach LE 5.2 billion during the period of study.

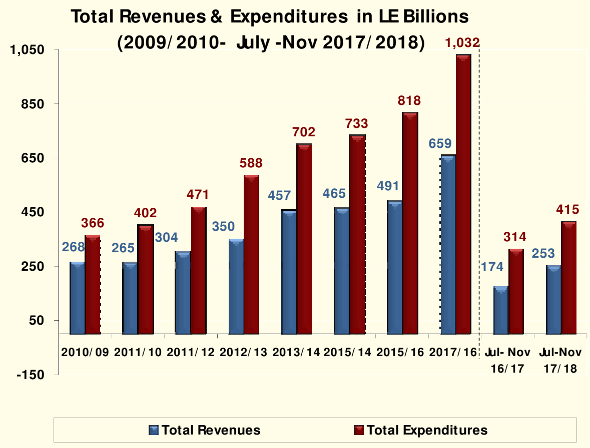
Meanwhile, **Miscellaneous Revenues increased** by LE 7.5 billion to record LE 12.3 billion during the period of study, compared to LE 4.8 billion recorded during July-November 16/17.

Proceeds from Sales of Goods and Services increased by LE 1.5 billion (16.4 percent growth) to record LE 10.6 billion, compared to LE 9.1 billion during the same period last year (in light of the increase in receipts from special accounts and funds by 4 percent compared to the same period last year.

Grants declined to LE 125 million during July-November 2017/2018, compared to LE 514 million during the same period of last year (in light of the decline of grants from foreign governments by LE 385 million compared to the same period last year).

3/ 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 have imposed burdens on CBE profits.





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 measures designed to improve basic well-being and to widen social safety nets. **Total Expenditures recorded an increase of 32 percent** to post LE 415 billion (9.7 percent of GDP) during the period July- November 17/18, compared to the same period of last year.

- **Wages and Compensation of Employees rose by 8.2 percent** to record LE 93.2 billion (2.2 percent of GDP) during the period of study (in light of the increase in permanent salaries to reach LE 26 billion, and the increase of specific allowances to reach LE 9.6 billion).
- **Purchase of Goods and Services increased by LE 1.1 billion** (9.2 percent growth) to reach LE 13.5 billion (0.3 percent of GDP) (in light of the increase in spending on water and lighting to reach LE 1.0 billion, and the increase in spending on Public transportations to reach LE 1.3 billion, and maintenance to record LE 2.1 billion).
- **Interest Payments rose by 32.6 percent** growth to reach LE 150.7 billion (3.5 percent of GDP), compared to LE 113.7 billion during the same period last year.
- **Subsidies, Grants and Social Benefits rose by LE 40.1 billion (2.3 percent of GDP),** (69.9 percent growth) to record LE 97.6 billion, compared to LE 57.4 billion during the same period last year.

Spending on Subsidies rose by LE 34.3 billion (124.5 percent growth) to reach LE 61.9 billion during the period of study, compared to LE 27.6 billion during the same period of last year, this came in light of; GASC spending grew by LE 8.8 billion (74 percent growth) reaching LE 20.7 billion during the period of study, compared to LE 11.9 billion during July- November 16/17, and Electricity subsidies grew by LE 0.7 billion (6.3 percent growth) reaching LE 12.1 billion during the period of study, compared to LE 11.4 billion during July- November 16/17.

Spending on Social Benefits rose by LE 5.0 billion (18.1 percent growth) to reach LE 32.8 billion during the period of study, compared to LE 27.8 billion during the same period of last year, this came in light of; spending on Takaful and Karama (including social insurance pensions) grew by LE 3.7 billion (90.6 percent growth) reaching LE 7.8 billion during the period of study, compared to LE 4.1 billion during July- November 16/17, and budget contribution in pensions grew by LE 0.6 billion (2.6 percent growth) reaching LE 21.6 billion during the period of study, compared to LE 21.0 billion during July- November 16/17.

- **Purchases of Non-financial Assets (investments) rose by LE 8.0 billion (0.6 percent of GDP),** growing by 41.2 percent growth to reach LE 27.6 billion (in light of increased spending on fixed assets to record LE 25.8 billion).
- **Other Expenditures increased by 28.7 percent to record LE 32.5 billion (0.8 percent of GDP)** when compared to the same period last fiscal year.

Fiscal Sector Performance during FY16/17

It is noteworthy that final accounts of the state budget 2016/2017 is still under revision by the Parliament and will remain preliminary until being approved. **According to FY16/17 actual budget outcomes,** the overall budget deficit recorded LE 379.6 billion (10.9 percent of GDP), compared to LE 339.5 billion (12.5 percent of GDP) in the prior fiscal year. This could be mainly explained in light of the increase in Revenues to exceed the growth in Expenditure (for the first time since 2010/2011) to record 34.1 percent for the first, and 26.2 percent growth for the later consequently, and which reflects 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 167.7 billion (34.1 percent growth) to record LE 659.2 billion during the period of study, compared to LE 491.5 billion during FY15/16. This came in light of the significant increase in tax revenues by LE 109.7 billion (31.1 percent growth and 8.0 percent of the same year budget). The notable increase in tax revenues is justified in terms of the structural and fiscal reforms adopted by the government during the previous year contributing to the improvement in most tax chapters, on the top of which; the increase in receipts from taxes on income by 15.3 percent (LE 22.2 billion), receipts from taxes on goods and services rose by 48.5 percent (LE 68.1 billion), receipts from taxes on international trade increased by 21.9 percent (LE 6.2 billion), receipts from property taxes rose by 30.5 percent (LE 8.6 billion). Moreover, Non-Tax Revenues increased by LE 58.0 billion (41.7 percent growth). This came on the back of the rise in grants to record LE 17.7 billion and the increase in Other Tax revenues by 32.3 percent (LE 43.9 billion) to reach LE 179.5 billion. This is mainly in light of the growing returns from property income especially dividends collected from Suez Canal and Economic Authorities, in addition to the increase in proceeds from Sales of Goods and Services.

On the expenditure side, tax revenues increases have helped contain the increase in expenditures. Total expenditures have increased by LE 214 billion (26.2 percent growth) to record LE 1031.9 billion, compared to LE 817.8 billion during FY 15/16. This led to a deficit which referred in the following table.

FY 15/16 Budget Deficit LE 339.5 billion (12.5 percent of GDP)	**FY 16/17 Budget Deficit** LE 379.6 billion (10.9 percent of GDP)
Revenues LE 491.5 billion (18.1 percent of GDP)	**Revenues** LE 659.2 billion (19.0 percent of GDP)
Expenditure LE 817.8 billion (30.2 percent of GDP)	**Expenditure** LE 1031.9 billion (29.7 percent of GDP)

Detailed explanations are as follows:

§ ***On the Revenues Side,*** Actual budget figures for FY16/17 pointed to an increase in total revenues by LE 167.7 billion (34.1 percent growth) registering LE 659.2 billion (19.0 percent of GDP). This could be explained in light of the increase in tax revenues by 31.1 percent to record LE 462.0 billion, in addition to the rise in non-tax revenues by 41.7 percent to record LE 197.2 billion during the period under study.

Tax Revenues **increased mainly due to**:

- **Increase in receipts from Tax on Income, Capital Gains and Profits** by LE 22.2 billion (15.3 percent growth) to reach LE 166.9 billion during FY 16/17, compared to LE 144.7 billion during FY15/16, mainly due to:
  - The increase in taxes on domestic salaries by LE 6.1 billion (21.7 percent growth) to reach LE 34.2 billion, compared to LE 28 billion during FY15/16.
  - The increase in receipts from Suez Canal by LE 7.4 billion (49.6 percent growth) to reach LE 22.3 billion, compared to LE 14.9 billion during FY15/16.
  - The increase in receipts from EGPC by LE 5.2 billion (13.8 percent growth) to reach LE 42.5 billion, compared to LE 37.3 billion during FY15/16.
  - The increase in receipts from other companies by LE 10.3 billion (28.0 percent growth) to reach LE 47.3 billion, compared to LE 36.9 billion during FY15/16.
- **Increase in receipts from Taxes on Goods and Services** by LE 68.1 billion (48.5 percent growth) to reach LE 208.6 billion during FY 16/17, compared to LE 140.5 billion during FY15/16, mainly driven by the following:
  - The increase in receipts from the general sales tax on goods by LE 36.9 billion (64.3 percent growth) to reach LE 94.4 billion during FY 16/17, compared to LE 57.5 billion during FY15/16.
  - The increase in receipts from the general sales tax on services by LE 4.0 billion (28.9 percent growth) to reach LE 18.0 billion during FY 16/17, compared to LE 14.0 billion during FY15/16 in light of improved performance services provided in hotels and tourist restaurants.

– The increase in receipts from Excises on Domestic Commodities (Table 1) by LE 22.4 billion (46.6 percent growth) to reach LE 70.5 billion during FY 16/17, compared to LE 48.0 billion during FY15/16 (in light of increased receipts from the sales tax on tobacco by 5.3 percent, and petroleum products by 151 percent).

– The increase in receipts from stamp tax (excludes stamp tax on salaries) by LE 1.3 billion (13.5 percent growth) to reach LE 11 billion during FY 16/17, compared to LE 9.7 billion during FY15/16.

- **Increase in receipts from Property Taxes** by LE 8.5 billion (30.5 percent growth) to reach LE 36.5 billion during FY 15/16, compared to LE 28 billion during FY15/16, mainly due to:

– The increase in receipts from the tax on T-bills and bonds payable interest by LE 7.8 billion (33.8 percent growth) to reach LE 30.9 billion during FY 16/17, compared to LE 23 billion during FY15/16.

- **Increase in receipts from taxes on International trade** by LE 6.2 billion (21.9 percent growth) to reach LE 34.3 billion during FY 16/17, compared to LE 28 billion during FY15/16, in light of efforts exerted by the customs authority in compacting smuggling, which has helped to improve customs proceeds.

- ***Non- Tax Revenues***

Grants increased by LE 14.1 billion to register LE 17.7 billion during FY 16/17, compared to LE 3.5 billion during FY 15/16.

On the other hand, other non-tax revenues have increased by LE 43.9 billion (32.3 percent growth) to reach LE 179.5 billion during FY16/17, compared to LE 135.6 billion during FY15/16, **mainly driven by the following**:

- The increase in **Property income** by LE 21.7 billion (31.2 percent growth) to reach LE 91.1 billion during FY 16/17, compared to LE 69.5 billion during FY15/16. This came in light of the following developments;

– The increase in dividends collected from Suez Canal by LE 14.6 billion (99.1 percent growth) to reach LE 29.4 billion during FY 16/17, compared to LE 14.8 billion during FY15/16.

– The increase in dividends collected from economic authorities by LE 3.2 billion (40.5 percent growth) to reach LE 11 billion during FY 16/17, compared to LE 7.8 billion during FY15/16.

- The increase in **Sales of Goods and Services** by LE 9 billion (31.0 percent growth) to reach LE 38.1 billion during FY 16/17, compared to LE 29 billion during FY15/16, mainly driven by;

– The increase in receipts from Special Accounts and Funds by LE 8.0 billion (35.2 percent growth) to reach LE 30.6 billion during FY 16/17, compared to LE 22.6 billion during FY15/16.

- Meanwhile, **miscellaneous revenues** rose by LE 11 billion (32.4 percent growth) to reach LE 45.4 billion during FY 16/17, compared to LE 34.3 billion during FY15/16, in light of the increase in other capital income by the same value as compared to the previous year.

§ ***On the Expenditures Side***,

Tax revenues increases have helped contain the increase in expenditures. Total expenditures have increased by LE 214 billion (26.2 percent growth) to record LE 1031.9 billion (29.7 percent of GDP), compared to LE 817.8 billion (30.2 percent of GDP) during FY 15/16, and which came mainly due to:

- **Wages and Compensations to Employees** increased by LE 11.8 billion (5.5 percent growth) to reach LE 225.5 billion during FY 16/17, compared to LE 213.7 billion during FY15/16, mainly due to the increase of some items on top of which:
  - An increase in Permanent Staff (basic pay) by LE 3.6 billion (6.8 percent growth) to reach LE 57 billion during FY 16/17, compared to LE 53.3 billion during FY15/16.
  - An increase in rewards by LE 1.3 billion (1.7 percent growth) to reach LE 75.6 billion during FY 16/17, compared to LE 74.3 billion during FY15/16.
  - An increase in Specific Allowances by LE 1.5 billion (5.8 percent growth) to reach LE 27.2 billion during FY 16/17, compared to LE 25.7 billion during FY15/16.
- **The increase in Purchases of Goods and Services** by LE 6.8 billion (19.0 percent growth) to reach LE 42.5 billion during FY 16/17, compared to LE 35.7 billion during FY15/16, mainly due to:
  - Increased spending on raw materials by LE 4.7 billion (60.3 percent growth) to reach LE 12.6 billion during FY 16/17, compared to LE 7.9 billion during FY15/16.
  - Increased spending on maintenance by LE 0.8 billion (17 percent growth) to reach LE 5.8 billion during FY 16/17, compared to LE 4.9 billion during FY15/16.
- Moreover, **interest payments** have increased by 29.9 percent growth to reach LE 316.6 billion during FY 16/17, compared to LE 243.6 billion during FY15/16.
- Meanwhile, **subsidies, grants and social benefits** have increased by LE 75.7 billion (37.7 percent growth) to reach LE 276.7 billion during FY 16/17, compared to LE 201 billion during FY15/16, this came in light of the following developments:
  - **Spending on Subsidies** increased by LE 63.8 billion (46.0 percent growth) to record LE 202.6 billion during FY16/17, compared to LE 138.7 billion during the previous fiscal year, mainly in light of:
    - The increase in GASC subsidies by LE 4.8 billion (11.2 percent growth) to register around LE 47.5 billion during FY16/17, compared to LE 42.7 billion during the previous fiscal year.
    - The increase in petroleum subsidies by LE 64 billion (125.3 percent growth) to record LE 115 billion, compared to LE 51 billion during the previous fiscal year. The notable increase in subsidies to EGPC is mainly due to the Exchange rate depreciation effects, which has increased EGPC cost burdens substituted through increasing the allocated subsidies to EGPC.
  - **Social benefits** increased by LE 10.3 billion (19.1 percent growth) to register around LE 64.2 billion, compared LE 54 billion during the previous fiscal year, which came in light of:
    - § The increase in expenditures on social security benefits by LE 4.2 billion (47 percent growth) to record around LE 13.0 billion, compared to LE 9.0 billion during the previous fiscal year (in light of the expansion in amount and coverage of the cash transfer program "Takaful and Karama" and social insurance pensions.

  - § The increase in contributions to the pension funds by LE 1.3 billion (2.9 percent growth) to reach LE 45.2 billion during FY 16/17, compared to LE 44 billion during FY15/16.

- **Other expenditure** rose by LE 7 billion (12.8 percent growth) to reach LE 61.5 billion during FY 16/17, compared to LE 54.6 billion during FY15/16.

- **Purchases of non-financial assets (investments)** increased by LE 39.9 billion (57.6 percent growth) to reach LE 109.1 billion during FY 16/17, compared to LE 69.3 billion during FY15/16, mainly due to the increase in infrastructure spending, more specifically spending on roads, transportation, buildings, hospitals and schools. To that extent, total spending on construction amounted to LE 34 billion during FY16/17, increasing by 16.4 percent compared to the previous year, and spending on Non-residential buildings amounted to LE 16.6 billion, increasing by 65.7 percent compared to the previous year. Spending on residential buildings reached four time higher than the previous year to record LE 21.8 billion. In addition to that, spending on machinery increased by 43.6 percent to register LE 10.4 billion during FY16/17.

Public Debt:

Total Government Debt (Domestic and External) increased to LE 3676 billion (105.9 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 (89.3 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 (41.1 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.

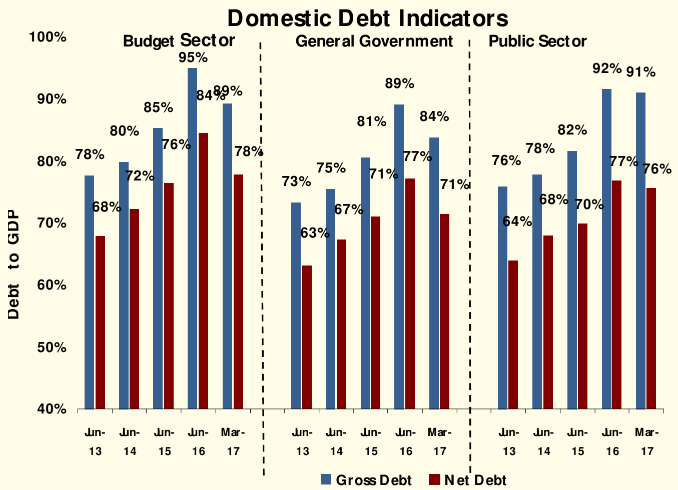
It's noteworthy that **during 2017 a total amount of US$ 30 billion was repaid**, as per Central Bank of Egypt, distributed on due **bonds**, **foreign debt** of international banks such as African Export-Import Bank, **deposits and loans** from many countries of which KSA, Libya and Turkey, in addition to **obligations** to government entities such as EGPC and other **obligations** to Paris Club.

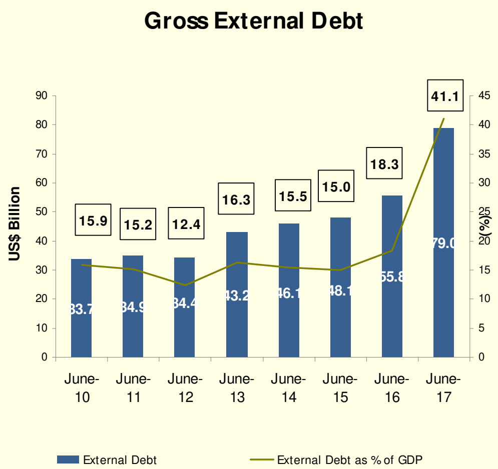
The previous period has witnessed many changes in the external debt structure:

- **First, government external debt** has decreased compensated by **Central Bank of Egypt's** increase, as CBE's external debt as percent of total external debt increased from 4 percent at end of June 2010 to 38 percent at end of June 2017.

- **Second, short-term debt as percent of total external debt** has increased from 9 percent at end of June 2010 to 16 percent at end of June 2017, however, **medium and long-term debt** decreased from 91 percent at end of June 2010 to 84 percent at end of June 2017.

- **Finally,** the proportional weight of USA, France, Japan and Germany has significantly increased, elevating dependency on Arab loans (especially Saudi Arabia, United Arab of Emirates and Kuwait) , which recorded **29.2** percent of total external debt **at end of March 2017,** compared to **4.7** percent at end of **June 2010**, as per Egyptian Centre for Economic Studies.





Monetary Perspective:

M2 annual growth spiked to **40.5 percent** in October 2017 (LE 3088 billion) - its highest growth since January 2017 - compared to 17.7 percent at end of October 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 sixth consecutive month to record a seven-year-high annual growth of 255.2 percent (LE 189.2 billion) at end of October 2017 and 268.6 percent in last month, compared to a negative -1734.3 percent (LE -122 billion) at end of October 2016. This turnaround is credited primarily to the **increase** in the annual growth of **Banks' net foreign reserves**' to 227 percent at end of October 2017, compared to negative growth of -645 percent at end of October 2016. In addition, **CBE net foreign reserves**' annual growth **increased exponentially** to 285 percent at end of October 2017 (LE 110 billion), compared to -1383 percent at end of October 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) increased slightly to record** 24.9 percent at end of October 2017 (LE 2898.8 billion), compared to 24.7 percent end of October 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 13.9 percent (LE 2036 billion) at end of October 2017, compared to 27.4 percent at end of October 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 30 percent (LE 2187.4 billion) at end of October 2017, compared to 36 percent at end of October 2016. Moreover, **Credit Facilities** annual growth **decreased** to -76 percent (LE 83.4 billion) at end of October 2017, compared to -20 percent at end of October

2016. While, **Government Deposits** annual growth **increased** to 38 percent (LE 426.5 billion) at end of October 2017, compared to 21 percent at end of October 2016.

Moreover, annual growth of **Claims on Public Business Sector increased markedly to 56.7 percent (LE 150.3 billion)** at end of October 2017, compared to 26.2 percent at end of October 2016.

Annual growth in **Credit to the Private Sector doubled to 34.1 percent (LE 987.2 billion)** at end of October 2017, compared to 15.3 percent (LE 736.3 billion) at end of October 2016. This comes on the back of the **increase** witnessed in **Claims on Private Businesses Sector to post LE 733.1 billion** during the month of study, compared to LE 520.3 billion at end of October 2016. Moreover, **Claims on Household Sector increased to record LE 254.1 billion** at end of October 2017, compared to LE 216 billion at end of October 2016.

<u>From the liabilities side</u>**,** **Money annual growth increased** slightly to **18.2 percent (LE 724.8 billion)** at end of October 2017, compared to 18.1 percent at end of October 2016. This could be attributed to the **upsurge in Demand Deposits in Local Currency's annual growth to 31.6 percent (LE 315.9 billion)** at end of October 2016, compared to 13.7 percent at end of October 2016 which offset the **deceleration** in **Currency in Circulation's** annual growth – **in light of CBE's contractionary monetary policy – to 9.5 percent** at end of October 2017, compared to 21.1 percent at end of October 2016.

Quasi Money annual growth increased to 49.1 percent (LE 2363 billion) at end of October 2017, compared to 17.5 percent at end of October 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, Time & Savings increased to record a staggering 104 percent annual growth (LE 665.4 billion)** at end of October 2017, compared to 17 percent at end of October 2016. Furthermore, annual growth of **Local Currency Time and Savings Deposits increased to 35 percent (LE 1697 billion)** at end of October 2017, compared to 17.8 percent at end of October 2016.

Total Deposits annual growth – excluding deposits at the CBE – **increased to 44.2 percent (LE 3176 billion)** at the end of September 2017, compared to 19.5 percent at end of September 2016. Out of total deposits, 83.5 percent belonged to the non-government sector. (Data for October 2017 is not yet available).

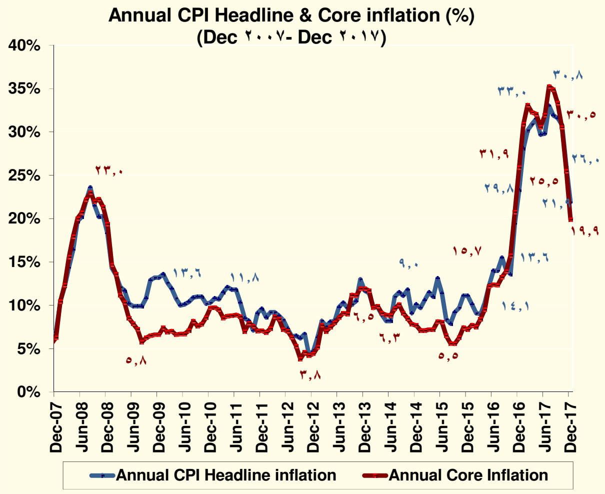
Moreover, **annual growth rate in Total Lending by the banking sector (excluding CBE) increased to 46.7 percent (LE 1423 billion)** at end of September 2017, compared to 25.7 percent at end of September 2016. (Data for October 2017 is not yet available).

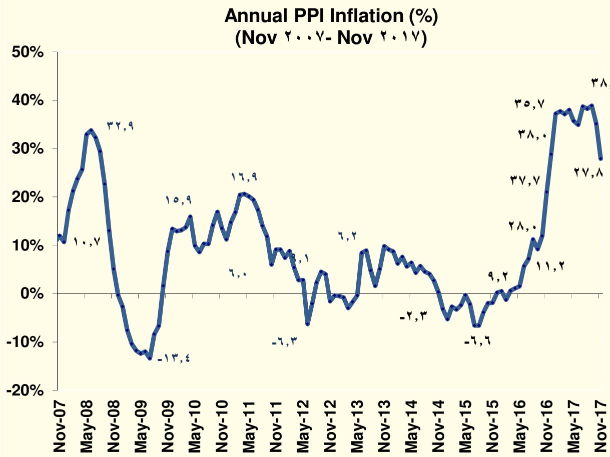
To that end, the **Loans-to-deposits Ratio increased** to 44.8 percent at end of September 2017, compared to 44.1 percent at end of September 2016. (Data for October 2017 is not yet available).

Net International Reserves (NIR) increased to a record-high US$ 38.2 billion at end of January 2018 (covering 8.2 months of imports), compared to US$ 26.4 billion at end of January 2017 (covering 5.6 months of imports) , and compared to a lowest level of US$ 13.4 billion at end of March 2013(covering 3.5 months of imports).

Headline Urban Inflation reveals faded Inflationary pressures but still recording high levels, and which is set to decline for the third month in a row, recording 21.9 percent in December 2017, compared to 26.0 percent during last month (to decline by 4.1 basis points), and compared to 23.3 percent during December 2016. **Factors contributing to inflationary pressures include** the slower pace of annual inflation growth rates among most groups during the month of study compared to last month. On the top of which comes; "**Food and Beverages**" group (the highest weight in CPI) to record 25.2 percent during December 2017, compared to 32.3 percent during last month, **"Health"** to record 9.7 percent, compared to 14.5 percent during last month, **"Transport"** to record 18.2 percent compared to 19.5 percent, "**Hotels and Restaurants**" to record 16.3 percent compared to 20.4 percent.

Average Annual Headline Inflation increased during the period July- December 17/18 to record 29.2 percent, compared to 16.7 percent during the same period last year.





Monthly Inflation has significantly declined to -0.2 percent (first time to record a negative value since December 2015) during December 2017, compared to 1.0 percent during last month, and compared to the highest rate of 4.8 percent during November 2016 (The month of Economic Reforms). This came in light of the **decline in annual inflation** rate of **"Food and Beverages"** group to record a negative value for the second month on a row of -0.4 percent during December 2017 (the first time a negative value since January 2016), compared to -0.5 percent during last month (this came in light of the decline in "**Vegetables**" by -0.5 percent, **"Meat'** by -1.6 percent and "**Fish and seafood**" by -1.1 percent). This has counterparted the increase in annual inflation rates of **"Fruits"** to record 2.6 percent, **"Oils and fats**" to record 0.5 percent. Meanwhile, other main groups remained stable during the month of study.

Annual Core Inflation[7] declined to record 19.9 percent during December 2017, compared to 25.5 percent during the last month, and compared to 31 percent in December 2016. As for **average annual Core inflation**, it increased during the period July- December 2017/2018 to record 29.9 percent, compared to 17 percent during the same period last year. Meanwhile, monthly core inflation has declined to record -0.37 percent during December 2017, compared to 1.31 percent during last month.

7/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 February 15th, 2018, **CBE decided to lower the overnight deposit rate, and overnight lending rates and the rate of CBE's main operation by 1 percent to reach 17.75 percent, 18.75 percent and 18.25 percent, respectively. Also, the discount rate decreased by 1 percent to reach 18.25 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 1.3 percent m-o-m during December 2017 to reach LE 824.9 billion, compared to LE 814.1 billion in the previous month. The EGX-30 Index increased by 3.0 percent during December 2017 to reach 15019.14 points, compared to closing at 14582.22 points by the end of November 2017. In addition, the EGX-70 increased by 4.1 percent, closing at 827.66 points compared to 795.43 points in the previous month.

On the External Sector side:

BOP ran an overall surplus of US$ 5 billion (2.2 percent of GDP), during the first quarter of the FY17/18, compared to a less surplus of US$ 1.9 billion (0.5 percent of GDP) in the corresponding period last fiscal year. This increase is mainly the result of the improvement of the current account as the deficit was clearly pushed down by 65.7 percent due to the significant increase in the services balance and the lower deficit of the trade balance. The improvement in the current account exceeded the decrease in the capital and financial accounts. On a more detailed level, the surplus recorded in the BOP during the period of study occurred as a result of the following several developments:

§ **Current account recorded a deficit of US$ 1.6 billion (-0.7 percent of GDP)** during the first quarter of the FY17/18, however, this is considered a very huge improvement compared to a much higher deficit of US$ 4.8 billion (-1.2 percent of GDP) in the period of comparison, before the exchange rate liberalization. This is explained by the increase in services balance and transfers in addition to the slight improvement of the trade balance. This amelioration came in light of the following:

- **Trade balance deficit has declined to record US$ 8.9 billion (-3.9 percent of GDP)** in the first quarter of the FY17/18, compared to a deficit of US$ 9.4 billion (-2.4 percent of GDP) during the same quarter last fiscal year. This was mainly driven by the growth rate in merchandise exports increased by 11 percent, to register US$ 5.8 billion compared to US$ 5.3 billion in the period of comparison, which covered the slight increase in merchandise imports by 0.7 percent to reach US$ 14.8 billion compared to US$ 14.7 in the period of comparison. This is mostly due to the increase in non-petroleum exports by 8.6 percent to record US$ 4.0 billion during the study period, compared to US$ 3.7 billion in the period of comparison, as a result of the improvement in the competitiveness of the Egyptian exports in the international market after the decision of the exchange rate liberalization. Moreover, petroleum exports receipts registered US$ 1.8 billion in the period of study, compared to US$ 1.5 in the period of comparison.

- **The services balance surplus** escalated to record US$ 2.8 billion (1.2 percent of GDP) during first quarter of the FY17/18, compared to a lower surplus of US$ 1.4 billion (0.4 percent of GDP) in the period of comparison. This came in light of the increase in current receipts by 50.8 percent to record US$ 5.7 billion during the period of study, compared to US$ 3.8 billion in the period of comparison, this is due to **the increase witnessed in Suez Canal** dues to record US$ 1.4 billion, compared to US$ 1.3 in the corresponding period of the last fiscal year as a result of the higher net tonnage of transiting vessels that grew by 5.2 percent, as well as the increase in the value of SDR versus the US dollar by 0.9 percent. Concurrently, there's **an increase in travel receipts** (tourism revenues) that reached US$ 2.7 billion in the period of study, compared to US$ 0.6 billion in period of comparison. Whereas, travel payments experienced a decrease to record US$ 0.6 billion, compared to US$ 1.1 billion which can be partially explained by the fall back of e-card payments abroad to post US$ 0.3 billion.

– **Net Official Transfers** expanded to register US$ 6.0 billion during the first quarter of the FY17/18, compared to US$ 4.4 billion in the corresponding period last fiscal year, mainly due to the increase in net private transfers by 37.4 percent, to record US$ 6.0 billion compared to US$ 4.3 billion in the period of comparison, supported by the increase in **workers' remittances** that reached US$ 1.6 billion; reflecting the effect of exchange rate liberalization. It's also worthy to note that the official current transfers reached US$ 43.1 million in the period of study, compared to US$ 33.8 million in the period of comparison.

§ Meanwhile, **the Capital and Financial Account** in the period of comparison during the first quarter of the FY17/18, compared to higher net inflow of US$ 7.2 billion (1.8 percent of GDP) in the corresponding period of the last fiscal year. This is due to the following:

– **Net foreign direct investment in Egypt (FDI)** decreased to reach US$ 1.6 billion (0.7 percent of GDP) during the first quarter of the FY17/18, compared to US$ 1.9 billion (0.5 percent of GDP) in the corresponding period last fiscal year, driven mainly by the rise in the net investment for oil sector by 84.2 percent.

– **Portfolio investment in Egypt** recorded an increased net inflow of US$ 7.5 billion (3.2 percent of GDP) during the first quarter of the FY 17/18, compared to net outflow of US$ 0.8 billion (-0.2 percent of GDP) during the corresponding period in the last fiscal year. This was ascribed to the rise in foreigners' investments in Egyptian treasury bills, recording net purchases of US$ 7.4 billion during period of study, compared to US$ 55 million during the period of comparison.

– **Other investments** decreased to register net outflows of US$ 2.7 billion (-1.2 percent of GDP) in the first quarter of the FY17/18, compared to net inflows of US$ 6.3 billion (1.6 percent of GDP) in the corresponding period of the last fiscal year, where Other assets and liabilities achieved a net outflow of US$ 3.6 billion in the period of study, compared to US$ 4.8 billion in the period of comparison. 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 to post US$ 2.1 billion, whereas their foreign liabilities posted only US$ 0.5 billion.

§ **Net errors and omissions** recorded an inflow of US$ 0.5 billion (0.2 percent of GDP) in the first quarter of the FY17/18, compared to an outflow of US$ 0.6 billion (-0.1 percent of GDP) in the corresponding period of the last fiscal year.

According to the latest published figures, total number of **Tourist Arrivals increased by 54.3 percent to reach 4.7 million tourists** during the period from July to December 2017, compared to 3.1 million tourists during July-December 2016. Moreover, **Tourist Nights increased to reach 52.1 million nights** during July-December 2017 increasing by 171.3 percent, compared to 19.2 million nights during the same period last year.