Executive Summary

Main Highlights

The Egyptian Economy is witnessing a new era of economic development. A proposed comprehensive and ambitious agenda of structural reforms to unlock Egypt's growth potential has been prepared for the next four years presented by "Egypt's Economic Development Plan 2018/2019- 2021/2022", and "the State Budget for fiscal year 2018/2019", and which are currently being discussed by the parliament. In a previous step, the Ministry of Finance has issued the Pre-Budget Statement for the third consecutive year. The Pre-Budget Statement presents the crucial assumptions upon which the new budget was built, the most important social programs and policies as well as the future budget projections in the medium term. This serious step is among many efforts exerted by the ministry of finance to achieve budget transparency, and which has helped to improve Egypt's score in the IBP Budget Transparency Index.

Among the top government's priorities during the coming period are achieving sustainability of economic growth and the fair distribution of its outcomes among all parties. Since the beginning of the economic reform program in 2016, the government's structural has helped restore confidence in the Egyptian economy, and to achieve remarkable breakthroughs in macroeconomic indicators and improved Egypt's ranking in international indices (see International Reports and Promising Indicators parts).

In this context, and in light of recent economic achievements, the new State Budget of FY 2018/2019 is increasing the economic growth rate to 5.8 percent compared to 5.2 percent, the estimate for FY 2017/2018 and reducing the unemployment rate to less than 11 percent. Additionally, state budget FY18/19 focuses on dampening budget deficit to sustainable levels, achieving primary surplus, improving the standard of living of Egyptians, reducing inflation and reinforce social protection programs.

Main Fiscal Policy Objectives FY18/19

International Reports praising the Egyptian economic performance:

- Egypt ranked 42 out of 80 countries worldwide in the classification of the best countries in the world, according to the "US News and World" report. The ranking depended mainly on economic improvement rather than social and political criteria. Egypt has ranked the 7th worldwide in the economic growth index, and the 56th in the Entrepreneurship leadership. The report is conducted based on a survey that included a sample of 21,000 people to measure concerned characteristics in 80 countries around the world.

- Egypt was ranked the second as the best investment country in Africa by the "Global Investment Index" of 2018, compared to the third last year. Morocco ranked first, followed by Egypt, while Algeria came in the third place, followed by Botswana and Côte d'Ivoire. Egypt is Africa's second-largest economy and third largest in terms of population, according to the index. The report pointed out that Egypt has achieved many improvements in other factors such as liquidity, external debt and current account, and the relative risk for foreign investments.

- Egypt, represented by the General Authority for Investment and Free Zones (GAFI), won the position of the Regional Director for the Middle East and North Africa in the World Association of Investment Promotion Agencies (WAIPA). The Egyptian Investment Authority won this position through winning the majority of votes among other six authorities like the Sharjah Investment and Development Authority, the Direct Investment Promotion Authority of Kuwait, the Palestinian Investment Promotion Agency, the Investment Development Authority of Lebanon and the Investment Promotion Agency in Tunisia. This is the first time that Egypt has been in this position after 12 years of absence since 2006. During the 8th session of the annual investment forum in 2018, the General Authority for Investment and Free Zones (GAFI) won the award of the best investment authority that succeeded in attracting the best investment projects in the Middle East and North Africa in 2017.

- Egypt succeeded in being part of the "Africa Continent Free Trade Area Agreement". This agreement aims at creating a free market between 54 African countries from Cape Town in southern Africa to Cairo in the far north of the continent. The agreement includes the elimination of customs taxes and non-tariff barriers for any African trade movement, as well as establishing a market for all goods and services within the continent and an African Customs Union to implement the unified customs tariff for the African imports from abroad, thus increasing the volume of trade between Egypt and African.

Recent promising indicators are as follows:

Ø PMI increased to register 49.2 in March 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 51.4, New Orders Index increased to 50 and Output Index increased to 49.3, in addition to the increase in Stocks of Purchases Index to reach 48.1 and the reduction in Input Cost Index due to the decrease in energy and employment indices.

Ø Microfinance balances increased to reach LE 8.5 billion by the end of the first quarter of 2018, an increase of 71 percent over the same period last year. The number of beneficiaries increased to more than 2.4 million, with a notable growth rate of 26 percent, compared to the same period of last year.

- The Balance of Payments (BOP) ran an overall surplus of US$ 5.6 billion (2.4 percent of GDP) during the period July-December 2017/2018, compared to US$ 7 billion (1.8 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$ 18.7 billion (-8.1 percent of GDP) during the period July-December 2017/2018, compared to a deficit of US$ 19 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$ 5.3 billion (2.3 percent of GDP) during the period of study, compared to US$ 1.8 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 to register US$ 3.8 billion during the period July-December 2017/2018, compared to US$ 4.3 billion during the same period last year.

- Total remittances of Egyptians working abroad increased during the period July 2017 - February 2018 by $3.4 billion to register a new record level of about $17.3 billion, which is an increase of 24.1 percent, compared to about $13.9 billion during the corresponding period last year. Accordingly, S&P expects the high and strong increase of remittances of workers abroad to continue after the abolition of restrictions on capital movement; and this will strengthen the foreign reserves in the medium term.

- Net International Reserves (NIR) increased to a record-high US$ 42.6 billion during March 2018 (covering 8.3 months of imports), compared to US$ 28.5 billion at end of March 2017 (covering 5.8 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).

- During its Monetary Policy Committee meeting held on May 17th, 2018, CBE decided to keep the overnight deposit rate, and overnight lending rates and the rate of CBE's main operation unchanged at 16.75 percent, 17.75 percent and 17.25 percent, respectively. Also, the discount rate was kept at 17.25 percent.

- On the Fiscal front, budget deficit declined to 5.1 percent of GDP during the period July-January 2017/2018, compared to 5.6 percent during the same period last year as revenues increased at a faster pace than expenditure in light of on-going fiscal consolidation reforms for the last two years. On the Revenues Side, there is a clear increase in Tax Receipts: General Sales Tax on Goods recorded LE 156.7 billion (increasing notably by LE 58.7 billion in light of increased receipts from VAT on imported goods and domestic goods that reached LE 81.8 billion). Taxes on Domestic Salaries reached LE 22.0 billion. Meanwhile, collected Tax Receipts from Suez Canal increased to LE 14.6 billion, and increased receipts from Other Companies to reach LE 26.4 billion. On the expenditure side, GASC subsidies increased by 59.9 percent to record LE 28.3 billion, budget contributions in pensions rose by 11 percent to reach LE 31.2 billion, and spending on Takaful and Karama programs (including social insurance pensions) have increased by 77 percent to reach LE 10.7 billion. Moreover, Investment Spending rose by 26.5 percent to record around LE 42 billion during the period of study.

- GDP grew in Q2 of fiscal year 2017-2018 to 5.3 percent compared to 3.8 percent during the same period last year. As for Q1 FY17/18, GDP grew by 5.2% compared to 3.4% during Q1 FY16/17. While, it increased 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 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.

- Headline Urban Inflation reveals faded Inflationary pressures but still recording high levels, and which is set to decline for the sixth month in a row, recording 14.4 percent in February 2018, compared to 17.1 percent during last month (to decline by 2.7 basis points), and compared to 30.2 percent during February 2017. 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", "Furnishing and Household Equipment", "Transport, and "Clothes& Footwear".

- Regarding Monetary Developments, M2 annual growth decreased to 20.9 percent in December 2017 (LE 3202 billion) compared to 39 percent at end of December 2016. This is attributed to the sharp decrease in the annual growth of Net domestic assets (NDA) to record 5 percent at end of December 2017 (LE 2988.5 billion), compared to 48 percent end of December 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 4.1 percent (LE 2126.1 billion) at end of December 2017, compared to 38.1 percent at end of December 2016. On the other hand, there's positive annual growth trend in Net Foreign Assets of the Banking System (NFA) that lasts for eight consecutive months to record 208.8 percent (LE 214 billion) at end of December 2017, compared to -1043.9 percent (LE -196.8 billion) at end of December 2016.

- Unemployment Rate fell to 10.6 percent in the first quarter of 2018 compared to 11.3 percent a year ago. The workforce during Q1 of year 2018 reached 29.2 million labor, with an increase of 0.1 percent compared to the same period of last year.

- 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.

- 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$ 27.3 million end of September 2017, compared to US$ 25.9 billion at end of June 2017. Meanwhile, Monetary Authorities debt decreased to US$ 29.9 million at the end of September 2017, compared to US$ 30.3 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.

- Suez Canal revenues recorded $435.8 million at the end of February 2018, which is an increase of 16 percent compared to February 2017 ($375.3 million). In February 2018, transit traffic in the Suez Canal reached 1319 vessels, which is an increase of 2.6 percent compared to the same period last year, which registered 1286 vessels. Suez Canal shipping statistics also confirmed that transshipments recorded 83.4 million tons (an increase of 10.9 percent) compared to 75.3 million tons in February 2017.

- Egypt's exports to the biggest 5 countries increased by 12.7 percent in 2017 according to reports prepared by the Central Agency for Public Mobilization and Statistics (CAPMAS). Egypt's exports to Italy rose by 70.1 percent, to Turkey by 45.6 percent and to America by 19.7 percent compared to year 2016. From the imports side, Egypt's imports from China increased by 15.2 percent, from Saudi Arabia by 195.2 percent and from Russia by 61.1 percent and from America by 25.4 percent compared to 2016. Whereas, Egypt's imports from Germany declined by 38.6 percent during the same period.

- Egyptian exports to the EU markets increased by 24 percent in 2017 to reach 7.5 billion euros compared to 6.3 billion euros during the same period in 2016. Egyptian imports from the EU decreased by 3 percent, which contributed to the decrease in the trade deficit between Egypt and the European Union by 16 percent in the first 11 months of last year, reaching 10.7 billion euros, compared with 12.8 billion euros during the same period 2016.

- The Ministry of Finance announced a new program for Initial Public Offerings. The program offers governmental shares to 23 companies in the initial stage. Out of the 23 companies, 14 companies will be registered for the first time in the Egyptian stock exchange market. And the Egyptian government will increase the state-owned shares of the other companies through increasing their capital. Meanwhile, the offered shares range between 15 and 30 percent of the company's capital unless the share of public capital is less than that. The program is expected to be implemented over a period of 24 to 30 months in order to expand the ownership base as well as the capital of the Egyptian stock exchange and increase the value and quantity of daily transactions. The total value of the offered shares is expected to reach LE 80 billion and the market value of the listed companies will reach LE 430 billion.

- The Egyptian government has issued "Aman Certificate" providing life insurance for the seasonal employment. In March 2018, four banks introduced insurance "Aman" certificates to provide life insurance for temporary, irregular, and seasonal workers and farmers. It is also extended to include all Egyptians from the age of 18 to 59 years. The value of the certificate is 500 pounds each, and a maximum of five certificates per person. The certificate provides an attractive yield of up to 16 percent. The certificate also includes compensations in case of the death of its holder of an amount up to 10,000 pounds, and a maximum of 50,000 pounds for the holder of five certificates.

Major Economic Sectors in Details…

Real Sector:

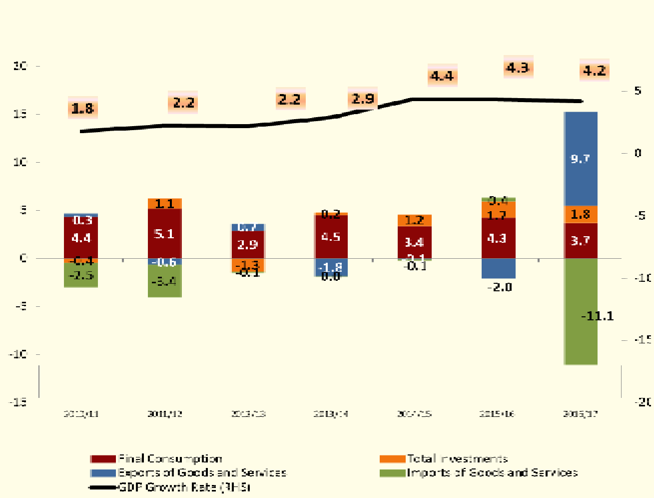
According to the latest detailed data by the Ministry of Planning, GDP grew by 4.2 percent during FY16/17, compared to 4.3 percent during last fiscal year. Both Public and Private Consumption continued to boost economic activity during FY16/17 with a total contribution of 3.7 PPT, compared to 4.3 PPT 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.

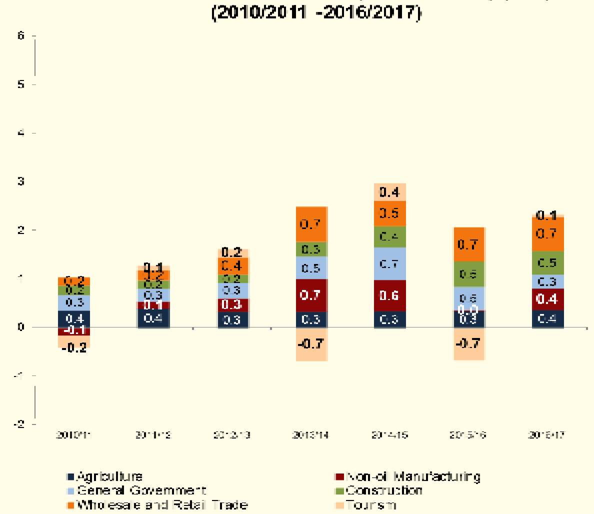
On the Demand Side, both Public and Private Consumption were key growth drivers during FY16/17. Private consumption grew by 4.2 percent y-o-y, compared to 4.6 percent during last fiscal year (contributing to growth by 3.4 PPT, compared to 3.8 PPT), while Public Consumption grew by 2.5 percent in the 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.

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



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



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- January 2017/2018;

Latest indicators for the period July-January 2017/2018 show an improvement in fiscal indicators. There's a decline in the Budget Deficit reaching 5.1 percent of GDP (LE 218.1 billion), compared to 5.6 percent of GDP (LE 195.8 billion) during the same period last year. This could be explained in light of the increase in Revenues Growth Rate recording 29.5 percent during the period of study, exceeding the growth in expenditure recording 22.8 percent.

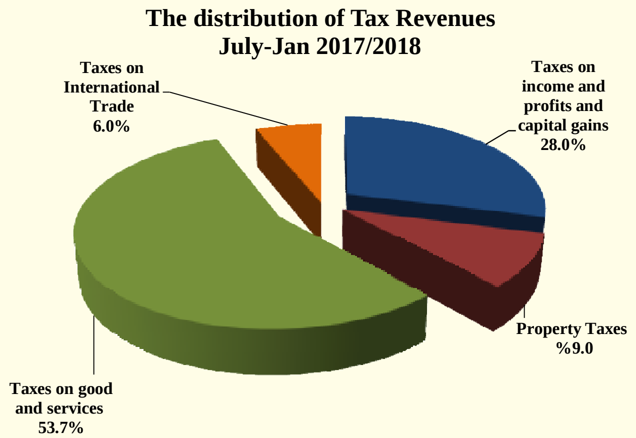
July-January 16/17 Budget Deficit LE 195.8 billion (5.6 percent of GDP)	July- January 17/18 Budget Deficit LE 218.1 billion (5.1 percent of GDP)*
Revenues LE 273.2 billion (7.9 percent of GDP)	Revenues LE 353.7 billion (8.3 percent of GDP)
Expenditure LE 464.4 billion (13.4 percent of GDP)	Expenditure LE 570.2 billion (13.3 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



Total Revenues increased by LE 80.5 billion (29.5 percent growth increase) to record LE 353.7 billion during the period July-January 2017/2018, compared to LE 273.2 billion same period last fiscal year. These developments could be explained mainly in light of the increase in Tax Revenues (82.5 percent of total revenues) by LE 93.2 billion (46.9 percent growth increase) to record LE 291.9 billion during the period of study, compared to LE 198.7 billion during the same period last fiscal year. Meanwhile, Non-Tax Revenues (17.5 percent of total revenues) has slightly declined by LE -12.7 billion (-17 percent growth decrease) to record LE 61.9 billion during July-January 17/18, compared to LE 74.6 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 50.6 percent during the period of study, mainly driven by the increase in Non-sovereign Income Taxes and Sales Taxes Receipts by 31.8 percent and 62.8 percent, respectively.

On the Tax Revenues Side

Tax receipts from Income taxes (23.1 percent of total revenues), taxes on goods and services (44.3 percent of total revenues), property taxes (7.4 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 18.5 billion (29.3 percent growth) to reach LE 81.8 billion (1.9 percent of GDP).
Taxes on income, capital gains and profits receipts represent 28

Mainly on the back of:
- Increase in receipts from taxes on domestic salaries by LE 5.1 billion (30.2 percent) to reach LE 22.0 billion, compared to LE 17 billion during the same period last fiscal year.
- Increase in receipts from taxes on Suez Canal by LE 3.8 billion (35.2 percent) to reach LE 14.6 billion, compared to LE 10.8 billion during the same period last fiscal year.
- Increase in receipts from taxes on other companies by LE 6.6 billion (33.7 percent) to reach LE 26.4 billion, compared to LE 19.7 billion during the same period last fiscal year.

Taxes on Good and Services increased by LE 58.7 billion (60 percent growth) to reach LE 156.7 billion (3.7 percent of GDP)
- Taxes on goods and services receipts represent 53.7 percent of total tax revenues.

Mainly as a result of higher receipts from:
- General sales tax on goods increasing by 51.5 percent to record LE 71.5 billion, compared to LE 47.2 billion during the same period last fiscal year.
- The increase in general sales tax on services by 90.5 percent to record LE 16.4 billion, compared to LE 8.6 billion during the same period last fiscal year.
- The increase in domestic commodities (Table 1) by 71.6 percent to record LE 52.5 billion, compared to LE 30.6 billion during the same period last fiscal year.
- The increase in stamp tax receipts by 26.7 percent to record almost LE 7.2 billion, compared to LE 5.7 billion during the same period last fiscal year.

International Trade taxes increased by LE 3.6 billion (25.4 percent growth), to reach LE 17.6 billion (0.4 percent of GDP)
- **International Trade tax receipts represent 6.0 percent of the total tax revenues.**

- In light of the increase in receipts from customs taxes by 24.6 percent to post LE 16.6 billion during period of study, compared to LE 13.3 billion during same period last fiscal year.

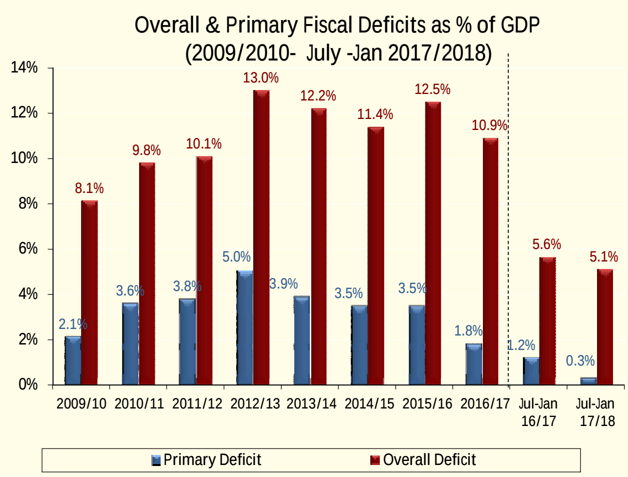
Property Taxes increased by LE 6.9 billion (36 percent growth) to reach LE 26.2 billion (0.6 percent of GDP).
- **Property Taxes receipts represent 9 percent of the total tax revenues.**

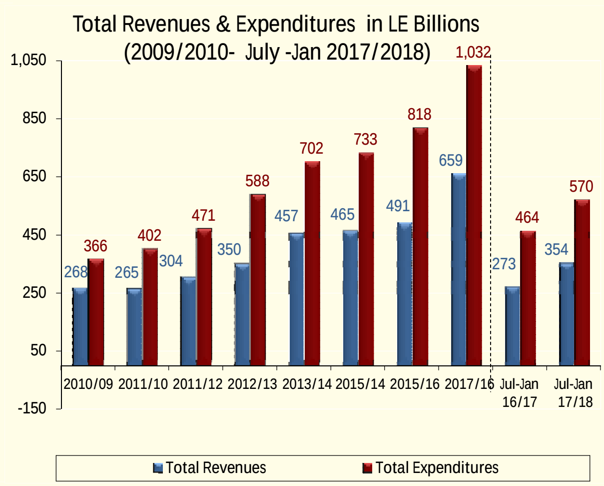
Mainly as a result of the increase in receipts from tax on T-bills and bonds payable interest by 39.2 percent to reach LE 22.5 billion during the period of study, compared to LE 16.2 billion during the same period last fiscal year.

On the Non-Tax Revenues Side

Proceeds from Other Non-Tax Revenues declined to LE 61.6 billion during July-January 2017/2018, compared to LE 74.6 billion during the same period of last year in light of delayed collected dividends.

- Property income receipts recorded LE 28.5 billion, compared to LE 50.3 billion recorded during July-January 16/17. Meanwhile, dividends collected from Suez Canal declined by LE 2.0 billion (-14.4 percent growth) to record LE 12.2 billion during the period of study, compared to LE 14.3 billion during the same period last year. Also, dividends collected from CBE[3] declined to reach LE 5.3 billion and dividends received from economic authorities reached LE 3.6 billion during the period of study.
- Meanwhile, Miscellaneous Revenues increased by LE 8.3 billion (101.5 percent growth) to record 16.4 billion during the period of study, compared to LE 8.1 billion recorded during July-January 16/17.
- Proceeds from Sales of Goods and Services increased by LE 2.3 billion (16.1 percent growth) to record LE 16.2 billion, compared to LE 14 billion during the same period last year .
- Grants declined to LE 274 million during July-January 2017/2018, compared to LE 424 million during the same period of last year (in light of the decline of grants from foreign governments by LE 45 million compared to the same period last year).





Source: Ministry of Finance

§ *On the Expenditures Side:*

A key focus of the Ministry of Finance's fiscal reforms is the reprioritization of Public Expenditure in favour of lower-income groups to achieve the best social yield through investment in human capital and better distribution of services and infrastructure, with measures designed to improve basic well-being and to widen social safety nets. Total Expenditures recorded an increase of 22.8 percent to post LE 570.2 billion (13.3 percent of GDP) during the period July- January 17/18, compared to the same period of last year.

- Wages and Compensation of Employees rose by 4.8 percent to record LE 103.4 billion (2.4 percent of GDP) during the period of study (in light of the increase in permanent salaries to reach LE 36.8 billion, and the increase of specific allowances to reach LE 2.8 billion).

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.

- Purchase of Goods and Services increased by LE 3.1 billion (16.5 percent growth) to reach LE 21.9 billion (0.5 percent of GDP) (in light of the increase in spending on Water and Lighting to reach LE 2.0 billion, and Raw materials to record LE 5.7 billion).
- Interest Payments rose by 32.8 percent growth to reach LE 204.7 billion (4.8 percent of GDP), compared to LE 154.2 billion during the same period last year.
- Subsidies, Grants and Social Benefits rose by LE 29.4 billion (3.1 percent of GDP), (29 percent growth) to record LE 131 billion, compared to LE 101.6 billion during the same period last year.
  - ü Spending on Subsidies rose by LE 19.3 billion (31.7 percent growth) to reach LE 80.2 billion during the period of study, compared to LE 60.9 billion during the same period of last year, this came in light of; GASC spending grew by LE 10.6 billion (59.9 percent growth) reaching LE 28.3 billion during the period of study, compared to LE 17.7 billion during July- January 16/17, and subsidies to EGPC has recorded LE 28.7 billion, compared to no petroleum subsidies recorded the same period of last year.
  - ü Spending on Social Benefits rose by LE 9.1 billion (24.3 percent growth) to reach LE 46.8 billion during the period of study, compared to LE 37.7 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 4.7 billion (77 percent growth) reaching LE 10.7 billion during the period of study, compared to LE 6 billion during July-January 16/17, and budget contribution in pensions grew by LE 3.1 billion (10.9 percent growth) reaching LE 31.2 billion during the period of study, compared to LE 28.1 billion during July- January 16/17.
- Purchases of Non-financial Assets (investments) rose by LE 8.8 billion (1.0 percent of GDP), growing by 26.5 percent growth to reach LE 41.9 billion (in light of increased spending on fixed assets to record LE 38.6 billion).
- Other Expenditures increased by 16.7 percent to record LE 40.1 billion (0.9 percent of GDP) when compared to the same period last fiscal year.

Ø Fiscal Sector Performance during FY16/17

<u>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</u>. 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 28.1 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.

- <u>Increase in receipts from Taxes on Goods and Services</u> 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.

- <u>Increase in receipts from Property Taxes</u> 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.

- <u>Increase in receipts from taxes on International trade</u> 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.

o <u>*Non- Tax Revenues*</u>

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, <u>mainly driven by the following</u>:

- The increase in <u>Property income</u> 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.

- <u>Other expenditure</u> 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.
- <u>Purchases of non-financial assets (investments)</u> 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$ 80.8 billion (33.2 percent of GDP) at end of September 2017, compared to US$ 79 billion at end of June 2017.

- Meanwhile, Government External Debt increased to US$ 36.3 billion (14.9 percent of GDP) as of end of September 2017, compared to US$ 34.9 billion (18.1 percent of the GDP) at end of June 2017.

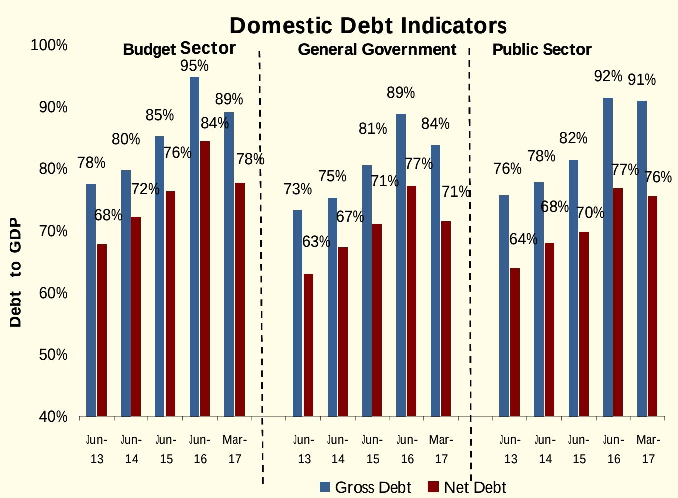
It's noteworthy that during 2017 a total amount of US$ 30 billion was repaid, as per Central Bank of Egypt, distributed on due bonds, foreign debt of international banks such as African Export-Import Bank, deposits and loans from many countries of which KSA, Libya and Turkey, in addition to obligations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

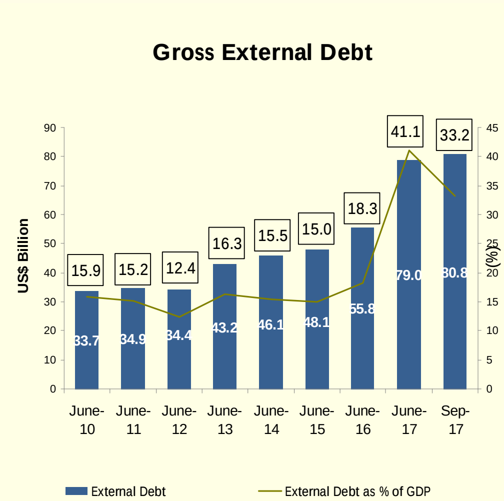
The previous period has witnessed many changes in the external debt structure:

- 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.





Ø *Monetary Perspective:*

M2 annual growth decreased to 20.9 percent in December 2017 (LE 3202 billion), compared to 39 percent at end of December 2016. This is attributed to the sharp decrease in the annual growth of Net domestic assets (NDA) to record 5 percent at end of December 2017 (LE 2988.5 billion), compared to 48 percent end of December 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 4.1 percent (LE 2126.1 billion) at end of December 2017, compared to 38.1 percent at end of December 2016 in light of the bold fiscal consolidation reforms adopted by the Ministry of Finance. Moreover, there's a significant slowdown in the annual growth of Government Securities (to the banking system) to record

3.4 percent (LE 2284.5 billion) at end of December 2017, compared to 72 percent at end of December 2016.

Also, Credit Facilities annual growth increased to 10.5 percent (LE 89 billion) at end of December 2017, compared to -82 percent at end of December 2016. While, Government Deposits annual growth decreased to 11.3 percent (LE 455.6 billion) at end of December 2017, compared to 60.5 percent at end of December 2016.

Furthermore, annual growth of Claims on Public Business Sector decreased significantly to 22.2 percent (LE 155.2 billion) at end of December 2017, compared to 65 percent at end of December 2016.

Annual growth in Credit to the Private Sector decreased to 6.9 percent (LE 998 billion) at end of December 2017, compared to 43.4 percent (LE 933.7 billion) at end of December 2016. This could be attributed to the decrease witnessed in annual growth of Claims on Private Businesses Sector to record LE 5 percent (LE 738.4 billion) during the month of study, compared to 54 percent (LE 702 billion) at end of December 2016. Moreover, annual growth of Claims on Household Sector decreased to record 12 percent (LE 259.6 billion) at end of December 2017, compared to 19 percent (LE 231.6 billion) at end of December 2016.

On the other hand, there's a positive annual growth trend in Net Foreign Assets of the Banking System (NFA) that lasts for eight consecutive months to record 208.8 percent (LE 214 billion) at end of December 2017, compared to -1043.9 percent (LE -196.8 billion) at end of December 2016. This is credited primarily to the increase in the annual growth of Banks' net foreign reserves' to 149 percent at end of December 2017, compared to negative growth of -3152.1 percent at end of December 2016. In addition, CBE net foreign reserves' annual growth increased exponentially to 295.3 percent at end of December 2017 (LE 157 billion), compared to -491.2 percent at end of December 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.

From the liabilities side, Money annual growth decreased to 17.9 percent (LE 737.5 billion) at end of December 2017, compared to 20.2 percent at end of December 2016. This could be attributed to the deceleration in Currency in Circulation's annual growth - in light of CBE's contractionary monetary policy - of 6.9 percent at end of December 2017, compared to 25 percent at end of December 2016, which could not be offset by the upsurge in Demand Deposits in Local Currency's annual growth to 35 percent (LE 329.7 billion) at end of December 2017, compared to 13.3 percent at end of December 2016.

Quasi Money annual growth decreased to 21.9 percent (LE 2465 billion) at end of December 2017, compared to 46.1 percent at end of December 2016. This is mainly due to the beginning of stability in the impact of the higher exchange rate after its liberalization in November 2016 as well as the latest raise in interest rates by CBE of 200 bps in July 2017. This stability is reflected in the decrease in Foreign Currency Demand, Time & Savings to record 3.4 percent annual growth (LE 679 billion) at end of December 2017, compared to 137.4 percent at end of December 2016. Meanwhile, annual growth of Local Currency Time and Savings Deposits increased to 30.7 percent (LE 1786 billion) at end of December 2017, compared to 23.3 percent at end of December 2016.

Total Deposits annual growth rate– excluding deposits at the CBE – decreased to 20.6 percent (LE 3273 billion) at the end of November 2017, compared to 44.3 percent at end of November 2016. Out of total deposits, 83.9 percent belonged to the non-government sector. (Data for December 2017 is not yet available).

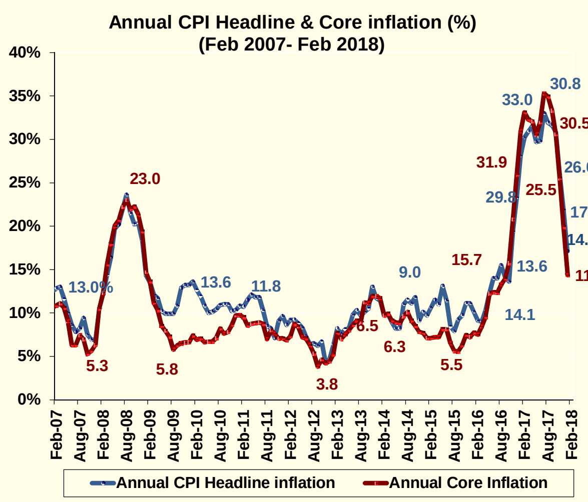
Moreover, annual growth rate in Total Lending by the banking sector (excluding CBE) decreased to 11.3 percent (LE 1441 billion) at end of November 2017, compared to 65.1 percent at end of October 2016. (Data for December 2017 is not yet available).

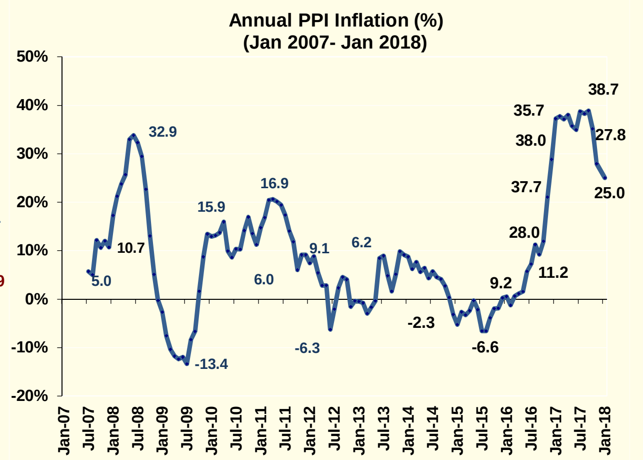
To that end, the Loans-to-deposits Ratio slightly decreased to 44 percent at end of November 2017, compared to 47.7 percent at end of November 2016. (Data for December 2017 is not yet available).

- Net International Reserves (NIR) increased to a record-high US$ 42.6 billion during March 2018 (covering 8.3 months of imports), compared to US$ 28.5 billion at end of March 2017 (covering 5.8 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 sixth month in a row, recording 14.4 percent in February 2018, compared to 17.1 percent during last month (to decline by 2.7 basis points), and compared to 30.2 percent during February 2017. 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 13.2 percent during February 2018, compared to 16.9 percent during last month, "Furnishing and Household Equipment" to record 11 percent, compared to 13.5 percent during last month, "Transport" to record 13.1 percent compared to 16.4 percent, “Clothes& Footwear” to record 21.7 percent compared to 26.3 percent.

- Average Annual Headline Inflation increased during the period July- February 17/18 to record 25.8 percent, compared to 19.8 percent during the same period last year.





- Monthly Inflation has slightly increased to 0.3 percent during February 2018, compared to -0.1 percent during last month. This came in light of the slightly increase in annual inflation rate of "Food and Beverages" group to record 0.9 percent during February 2018, compared to -0.3

percent during last month (this came in light of the increase in "Bread & cereals" by 3.3 percent, "Meat" by 1.2 percent, "Fish& seafood" by 1.9 percent) despite the decline in annual inflation rates of " Vegetables" to record -2.0 percent. This has counter parted the decline in annual inflation rates of "Clothing& footwear" to record -3.7 percent (in light of the decrease of "Clothes" by -4.8 percent, "Garments" by -5.4 percent compared to stable prices during the last month), and "Furniture& equipments" by -0.1 percent during the month of study (in light of the decrease of "Household Equipments" by -1.6 percent, compared to stable prices during the last month. Meanwhile, other main groups remained stable during the month of study.

- Annual Core Inflation[7] declined to record 11.9 percent during February 2018, compared to 14.4 percent during the last month, and compared to 33.1 percent in February 2017. As for average annual Core inflation, it increased during the period July-February 2017/2018 to record 25.7 percent, compared to 20.7 percent during the same period last year. Meanwhile, monthly core inflation has recorded 0.4 percent during February 2018, compared to 0.2 percent during last month.

- During its Monetary Policy Committee meeting held on May 17th, 2018, CBE decided to keep the overnight deposit rate, and overnight lending rates and the rate of CBE's main operation unchanged at 16.75 percent, 17.75 percent and 17.25 percent, respectively. Also, the discount rate was kept at 17.25 percent.

- Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on April 17th, 2018 worth LE 55 billion with 8-day maturity at a fixed annual interest rate of 17.25 percent.

- The Egyptian Exchange market capitalization increased by 3.9 percent m-o-m during February 2018 to reach LE 892.3 billion, compared to LE 858.5 billion in the previous month. The EGX-30 Index increased by 2.9 percent during February 2018 to reach 15472.7 points, compared to closing at 15042.4 points by the end of January 2018. Meanwhile, the EGX-70 decreased by 0.3 percent, closing at 860.7 points compared to 862.9 points in the previous month.

- *On the External Sector side:*

  BOP ran an overall surplus of US$ 5.6 billion (2.4 percent of GDP), during the period July-December 2017/2018, compared to a higher surplus of US$ 7 billion (1.8 percent of GDP) in the corresponding period last fiscal year. This increase is mainly due to the result of the improvement of the current account as the deficit was clearly pushed down by 64 percent as a result of the continuous recovery of the main national income sources, especially on the tourism side and workers' remittances. The improvement in the current account exceeded the decrease in the capital and financial accounts. On a more detailed level, these developments occurred as a result of the following:

  - Current account recorded a deficit of US$ 3.4 billion (-1.5 percent of GDP) during the period July-December 2017/2018, however, this is considered a very huge improvement compared to a much higher deficit of US$ 9.4 billion (-2.4 percent of GDP) in the period of comparison, before the exchange rate liberalization. This is explained by the increase in the services balance surplus and transfers, in addition to the slight improvement of the trade balance. This amelioration came in light of the following:

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'.

– Trade balance deficit has declined to record US$ 18.7 billion (-8.1 percent of GDP) during the period July-December 2017/2018, compared to a deficit of US$ 19 billion (-4.8 percent of GDP) during the same period last fiscal year. This was mainly driven by the increase in merchandise exports by 15.4 percent, to register US$ 12.1 billion compared to US$ 10.4 billion in the period of comparison, which covered the slight increase in merchandise imports by 4.5 percent to reach US$ 30.8 billion compared to US$ 29.5 in the period of comparison. This is mostly due to the increase in non-petroleum exports by 9.7 percent to record US$ 8.2 billion during the study period, compared to US$ 7.5 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$ 3.8 billion in the period of study, compared to US$ 2.9 billion in the period of comparison.

– The services balance surplus escalated to record US$ 5.3 billion (2.3 percent of GDP) during the period July-December 2017/2018, compared to a lower surplus of US$ 1.8 billion (0.4 percent of GDP) in the period of comparison. This mainly came in light of the increase witnessed in Suez Canal receipts to record US$ 2.8 billion, compared to US$ 2.5 billion in the corresponding period of the last fiscal year, in addition to the increase in travel receipts (tourism revenues) that reached US$ 5 billion in the period of study, compared to US$ 1.6 billion in period of comparison. Whereas, travel payments experienced a decrease to record US$ 1.2 billion, compared to US$ 1.7 billion.

§ Net Official Transfers expanded to register US$ 13.1 billion during the period July-December 2017/2018, compared to US$ 10.1 billion in the corresponding period of last fiscal year, mainly due to the increase in workers' remittances by US$ 3.0 billion to record US$ 13.1 billion compared to US$ 10.1 billion in the period of comparison; reflecting the effect of exchange rate liberalization.

§ Meanwhile, the Capital and Financial Account decreased to register US$ 10.4 billion (4.5 percent of GDP) during the period July-December 2017/2018, compared to higher net inflow of US$ 18.7 billion (4.8 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$ 3.8 billion (1.6 percent of GDP) during the period July-December 2017/2018, compared to US$ 4.3 billion (1.1 percent of GDP) in the corresponding period of last fiscal year, driven mainly by the rise in the net inflow of US$ 2.1 billion for oil sector investments during the period of study.

– Portfolio investment in Egypt recorded an increased net inflow of US$ 8 billion (3.5 percent of GDP) during the period July-December 2017/2018, compared to US$ 0.2 billion (-0.1 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$ 8.1 billion during period of study, compared to US$ 0.7 billion during the period of comparison.

– Other investments decreased to register net outflows of US$ 1.2 billion (-0.5 percent of GDP) during the period July-December 2017/2018, compared to net inflows of US$ 14.2 billion (3.6 percent of GDP) in the corresponding period of the last fiscal year.

- Net change in the liabilities of the CBE to the external world decreased, posting a net external repayment of US$ 3.1 billion during the period July-December 2017/2018, compared to US$ 8.1 billion in the corresponding period of the last fiscal year.

§ Net errors and omissions recorded a net outflow of US$ 1.4 billion (-0.6 percent of GDP) during the period July-December 2017/2018, compared to an outflow of US$ 2.3 billion (-0.6 percent of GDP) in the corresponding period of the last fiscal year.

Ø 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.