Executive Summary

Main Highlights

A set of bold structural economic reforms have been implemented since the undertaking of the comprehensive program in 2016 with the aim of getting Egypt on the right path towards restoring macroeconomic stability and boosting confidence in the Egyptian economy. This comes in consistency with the primary goal of achieving sustainable development and better standards of living for the current and future generations. Those reforms have helped improve Egypt's international ranking in many leading indicators according to reports issued by many international institutions.

The Government's comprehensive economic reform program focuses on the following pillars:

The Equation of Success		
(1) **Comprehesive Reform** Facing the challenges radically and integrally	**(2)** **Gradual Reform** With a focus on priorities	**(3)** **Fair Reform** Distribute the fruits of economic growth in a fairly manner among population

In the same context, lately, Standard & Poor's credit rating (S&P) has raised the sovereign rating of the Egyptian economy from "B-" to "B", for the first time since 2013, while maintaining a stable outlook. S&P attributed this positive development to the recovery in economic, driven by the positive contribution of investments and net exports, instead of consumption being known as the main catalyst for growth in previous years. Furthermore, S&P has also praised the fiscal consolidation reforms carried out by the Egyptian government, including; the rationalization of energy subsidies, the implementation of value added tax (VAT), and the civil service law for public employees. Finally, it was highlighted that a main issue to the positive rating was the decline in external sector pressures, and the increase in Egypt's exports competitiveness as a direct result of the exchange rate liberalization (For more details, please refer to the international reports section below).

In a continued effort, the Ministry of finance has built the assumptions for FY 2018/2019 State Budget, expecting an increase in economic growth, and which targets 5.8 percent (up from 5.2 percent last fiscal year), and an unemployment rate to be below 11 percent. Along with, reducing the overall budget deficit to 8.4 percent of GDP (from 10.9 percent last fiscal year), and achieving a primary surplus of 2 percent of GDP. A main focus in FY 2018/2019 state budget would be ensuring an effective distribution of economic growth fruits among Egyptian Citizen, raising the efficiency of public services, limiting price increases, improving social protection, and which would directly contribute to improving the well-being of Egyptian citizens.

International Reports praising the Egyptian economic performance:

- For the first time since 2013, S&P Global Ratings raised its long-term foreign and local currency sovereign credit ratings on Egypt to "B" from "B-" with a stable outlook. S&P referred to Three main reasons behind this improvement as follows:

  - Flourishing economic activity. The report praised the increase in economic growth, and declining unemployment rates in Egypt. Additionally, it highlighted that economic structure has been balanced, due to the positive contribution of investments and net exports to drive economic growth, in a new trend after consumption was known to be the main catalyst for growth in recent years. S&P rose Egypt's economic growth estimates for the next four years (2018-2021) to 5.4 percent, up from 4.4 percent, driven by the improvements in economic indicators achieved during the first half of the current fiscal year. On the Top of which comes the improvements in Natural gas, tourism, manufacturing, and construction sectors (most notably the increase in infrastructure spending on roads, and mega projects such as the new Administrative Capital, and the new Suez Canal).

  - S&P praised fiscal consolidation measures adopted by the Egyptian government during the previous period namely energy subsidy rationalization, Value Added Tax implementation and issuing the Civil Service Law for public employees. The company highlighted that those measures has helped the government to achieve fiscal consolidation despite of the challenges faced the Egyptian economy at that time represented by highly depreciated exchange rate, increased interest rates, and high cost of debt. And it was added that in order to achieve fiscal sustainability during the coming period the government has to focus on reducing debt, and debt service levels, through rationalizing energy subsidies, improving tax collection and administration, and boosting economic activity and to achieve further high growth rates.

  - Declining pressures on the External sector. S&P emphasized that Exchange rate liberalization has helped improve Egypt's trade competitiveness. Meanwhile, tourism sector has been on an upward trend, with expectations to further increase due to increased Russian tourists. S&P also referred to an expected increase in domestic natural gas production from Zohr field, and which would contribute to a reduction in gas imports. Moreover, it was highlighted that total remittances has been noticed to increase notably during the period July 2017 - February 2018 by $3.4 billion (24.1 percent growth) to register a new record level of about $17.3 billion. And it was expected that further improvements would be seen during the coming period in light of the abolition of restrictions on capital movements; thereby, strengthening foreign reserves in the medium term.

- In its latest report on the Middle East and North Africa (MENA) 2018, the World Bank raised its forecast for the growth of the Egyptian economy to 5 percent in the current fiscal year compared to 4.9 percent, especially that economic growth recorded 5.2 percent in the first half of the fiscal year 2017/2018 compared to 3.7 percent in the previous year, in light of the ongoing reforms implemented by the Egyptian government within its Economic Reform Program. The World Bank expects the economic growth rate to gradually increase to reach 5.8 percent by the beginning of the fiscal year 2019/2020, driven by increase in private consumption and investment, as well as a gradual improvement in exports, tourism, and gas sectors. The World Bank also recognized the projects that the Egyptian Government is undertaking and the bold steps taken in this regard, on top of which the project of the solar power station in Benban in Aswan, in which Mega Agency participated. The report pointed out that the agency is proud of the cooperation with the government in these projects, especially in the field of energy as it stimulates job creation and diversification of energy resources in Egypt. Egypt's progress toward market economy and attracting more foreign investment by creating an appropriate business environment was also highlighted in the report.

- The International Monetary Fund (IMF) in the latest edition of the "Regional Economic Outlook: Middle East, North Africa, Afghanistan and Pakistan" highlighted the improvement in growth prospects of Egypt, where the increased confidence continues to boost consumption and private investment, in addition to the increase in exports and tourism. The IMF also confirmed its forecast for Egypt's GDP to rise to 5.2 percent in fiscal year 2018, compared to 4.2 percent last year, and this growth is expected to accelerate in 2019 to record 5.5 percent, supported by the expected increase in natural gas production.

- The European Bank for Reconstruction and Development (EBRD) raised its forecast for Egypt's economic growth in the current fiscal year to 5.3 percent, which is an increase of 0.8 percent, compared to its previous year forecast of 4.5 percent. The Bank expects growth in the next fiscal year, which starts in early July, to rapidly increase to 5.5 percent supported by investors' confidence, tourism recovery, increased direct investment, improved competitiveness, export promotion, and the beginning of gas production from Zohr field, in addition to improvements in investment environment as a result of implementing balanced macroeconomic policies.

- Stock Exchange of Egypt and Saudi Arabia became best options for Middle East equity investors, according to a Bloomberg report. The Egyptian index EGX30 has risen more than 18 percent since the beginning of the year, supported by the Egyptian economic reforms and government plans acclaimed by investors.

- According to Country Economy indices, the Egyptian Stock Exchange was placed the first among Arab countries, the second in Africa and the fifth worldwide from the beginning of 2018 until the second week of May 2018.

- According to the latest article by Renaissance Capital, in 2019, Egypt is expected to attract small and medium-sized factories from central Europe and Romania. This is supported by improved education, wage levels, electricity supply and infrastructure needed to develop the industrial sector and increase its contribution to exceed 20 percent of GDP. The article also explained that keeping the currency at low levels or at fair value, adhering to current financial plans, improving the business environment and focusing on the long-term needs of the education and investment sectors are considered key requirements for Egypt to increase its GDP growth rate from 5-6 percent to 6-8 percent over the next decade.

- The CNBC news network posted on its website that Egypt's economy is showing true signs of stability, as it recovers from previous crises, and this marks the beginning of reaping the benefits of the exchange rate liberalization decision in 2016, which helped in overcoming the rise in inflation in the past period. Investors are still enthusiastic about

Egypt's recovery since the implementation of the economic reform program, especially after successfully signing a $12 billion financing agreement with the International Monetary Fund (IMF), as well as another $3 billion from the Islamic Development Bank. Investors are reconsidering the potential of the Egyptian economy, while providing high returns is expected. CNBC also expects an increase in foreign direct investment despite fears of rising global interest rates.

Recent promising indicators are as follows:

- PMI increased to register 50.1 in April 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 51.9, New Orders Index increased to 51 and Output Index increased to 50, in addition to the increase in Stocks of Purchases Index to reach 49.4 and the reduction in Input Cost Index due to the decrease in energy and employment indices.
- In light of the President's directives to give high priority to supporting and economically empowering young people, the Central Bank has financed 62,000 projects that worth about LE 70 billion and allocated LE 200 billion at low interest rates to small and medium-sized enterprises.
- Net International Reserves (NIR) increased to a record-high US$ 42.6 billion during March 2018 (covering 7.3 months of imports[1]), compared to US$ 28.5 billion at end of March 2017 (covering 5.1 months of imports[1]), and compared to a lowest level of US$ 13.4 billion at end of March 2013 (covering 3.5 months of imports).
- On the Fiscal front, budget deficit declined to 6.0 percent of GDP during the period July-February 2017/2018, compared to 6.5 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 181.3 billion (increasing notably by LE 68.4 billion in light of increased receipts from VAT on imported goods and domestic goods. Income tax receipts reached LE 105.8 billion. Taxes on Domestic Salaries reached LE 25.4 billion. Meanwhile, collected Tax Receipts from Suez Canal increased to LE 16.1 billion, and increased receipts from Other Companies to reach LE 30.6 billion. On the expenditure side, GASC subsidies increased by 72.4 percent to record LE 33.8 billion, budget contributions in pensions rose by 13.7 percent to reach LE 36.0 billion, and spending on Takaful and Karama programs (including social insurance pensions) have increased by 62.3 percent to reach LE 12.1 billion. Moreover, Investment Spending rose by 24.2 percent to record around LE 47.8 billion during the period of study.
- Regarding Monetary Developments, M2 annual growth decreased to 20.5 percent in January 2018 (LE 3254 billion), compared to 41.5 percent at end of January 2017. This is attributed to the sharp decrease in the annual growth of Net domestic assets (NDA) to record 6.6 percent at end of January 2018 (LE 3010.6 billion), compared to 45.8 percent end of January 2017. 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 3 percent (LE 2126.6 billion) at end of January 2018, compared to 38.7 percent at end of January 2017. On the other hand, there's positive annual growth trend in Net Foreign Assets of the Banking System (NFA) that lasts for eleven consecutive

[1] The ratio of net international reserves to months of imports was calculated using data issued by the General Organization for Import and Export Control.

months to record 298.6 percent (LE 243.6 billion) at end of January 2018, compared to -348.2 percent (LE -122.7 billion) at end of January 2017.

- Headline Urban Inflation reveals faded Inflationary pressures recording 13.3 percent in March 2018, which is considered the lowest inflation rate since May 2016, compared to 14.4 percent during last month, and compared to 30.9 percent during March 2017. Factors contributing to the decline in 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", and "Miscellaneous Goods and Services".

- 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 16.75percent, 17.75 percent and 17.25 percent, respectively. Also, the discount rate was kept at 17.25 percent.

- 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.

- Egypt's revenues from the tourism sector jumped by 83.3 percent to record about 2.2 billion dollars in the first quarter of the year. Moreover, the number of tourists coming to the country increased by 37.1 percent to post about 2.383 million tourists, where the number of touristic nights reached 23.8 million nights in the first quarter.

- According to the General Authority for Suez Canal Economic Zone, cargoes and transshipments of vessels crossing the canal recorded 62 vessels in May 2018 with a total tonnage of 4.3 million tons.

- The market capitalization of the Egyptian Stock Exchange (EGX) recorded a historical and unprecedented level of more than LE 1 trillion for the last session of the week ending in April 2018, which confirms that the government's economic reforms are on the right track towards achieving stability.

- 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.

- GDP grew by 5.3 percent during Q2-FY17/18, compared to 3.9 percent during the same period last fiscal year. Net Exports performance was the highlight contributing positively to growth by 0.9 PPT, compared to a negative contribution of 6.2 PPT during Q2-FY16/17. Meanwhile, public and private consumption have contributed to growth by a total contribution of 2.9 PPT, compared to 7.1 PPT during Q2-FY16/17. Investments contributed positively to growth by 1.5 PPT, compared to a higher contribution of 3.0 PPT during Q2-FY16/17. Furthermore, total Production Index rose by 9.2 percent on annual basis recording an average of 137.7 points during Q2-FY17/18, compared to a positive growth rate of 0.1 percent during Q2-FY16/17, driven mainly by Tourism Sub-Index that hiked by 78.9 percent on annual basis recording an average of 101.4 points during Q2-FY17/18, compared to negative growth rate of 21.5 percent during Q2-FY16/17, and Natural Gas Sub-Index that picked-up by 19.9 percent on annual basis recording an average of 182.4 points during Q2-FY17/18, compared to a growth rate of 6.9 percent during Q2-FY16/17.

- Unemployment Rate fell to 10.6 percent in the first quarter of 2018 compared to 12 percent a year ago. Meanwhile, the workforce has reached 29.2 million labor during the same period.

- 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$ 29.8 million end of December 2017, compared to US$ 25.9 billion at end of June 2017. Meanwhile, Monetary Authorities debt decreased to US$ 27.4 million at the end of December 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.

- 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.

- Egypt's exports to the top 10 biggest countries increased by 3 percent during July-March FY17/18 to reach US$8 billion compared to the same period last year. Egypt's exports to Turkey rose by 26 percent to record US$1.3 billion, to United States by 13 percent to register US$ 912 million, to Italy by 16 percent reaching US$ 687 million and to Spain by 23 percent to record US$ 491 million compared to the same period last year. Meanwhile, Egypt exports to the EU markets increased by 9 percent during July-March FY17/18 to reach 3.7 billion euros compared to the same period last year. It's noteworthy that Egypt's exports to Spain and Italy accounts for 62 percent of Egypt's total exports to EU.

- Egypt's exports of fully manufactured goods increased by 3 percent during July-March FY17/18 to reach US$9.4 billion compared to the same period last year. Moreover, Egypt's exports of cotton rose by 50 percent to record US$ 103 million, whereas fuel exports increased by 90 percent to record US$ 76 million during the period of study compared to the same period last fiscal year. Furthermore, Egypt's exports of industrial equipment (raw materials used for manufacturing) increased by 1 percent to record US$ 9 billion, whereas Egypt's exports of consumer goods (durable and non-durable goods) rose by 8 percent to reach US$ 3 billion during the period of study compared to the same period last fiscal year.

- In light of the new discovery of gas production fields in the Mediterranean and the exceptional success in the oil sector, the Cabinet of Egypt signed a Memorandum on the "Strategic Partnership between Egypt and the European Union in the Energy Sector during the period 2018-2022". This memorandum covers supporting the development of the oil and gas sector, continuing support the electricity sector reforms, improving renewable energy sector through joint projects, as well as additional support for energy efficiency strategies, policies and measures across various sectors, and promoting the cooperation between technology, science and industry sector with the energy sector. Accordingly, EU views Egypt as the main gateway to benefit from these discoveries and developments, due to the availability of the required infrastructure of the liquefaction plants, ports and gas lines networks in addition to the strategic location.

- The Italian energy company "ENI" announced the launching of the second natural gas production unit in Zohr field in the Mediterranean, which will increase the production capacity of the field to about 800 million cubic feet of natural gas per day. The second unit will operate at 400 million cubic feet of gas per day. The company plans to keep this exceptional performance until reaching 1.2 billion cubic feet per day during May 2018, 2 billion feet by the end of 2018 and a production ceiling of 2.7 billion cubic feet per day in 2019.

- 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 5.3 percent during Q2-FY17/18, compared to 3.9 percent during the same period last fiscal year. Net Exports performance was the highlight contributing positively to growth by 0.9 PPT, compared to a negative contribution of 6.2 PPT during Q2-FY16/17. Meanwhile, public and private consumption have contributed to growth by a total contribution of 2.9 PPT, compared to 7.1 PPT during Q2-FY16/17. Investments contributed positively to growth by 1.5 PPT, compared to a higher contribution of 3.0 PPT during Q2-FY16/17.

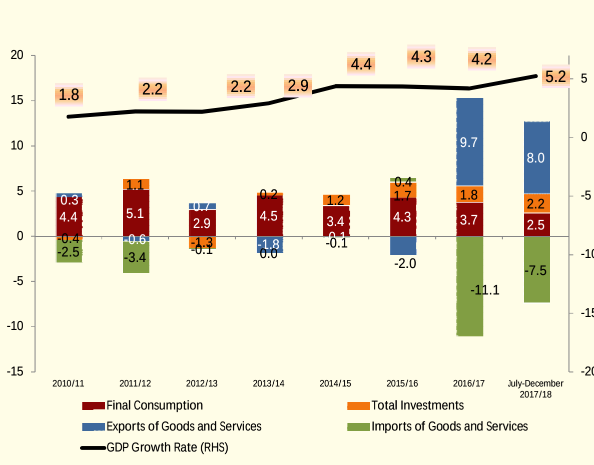
Furthermore, total Production Index rose by 9.2 percent on annual basis recording an average of 137.7 points during Q2-FY17/18, compared to a positive growth rate of 0.1 percent during Q2-FY16/17, driven mainly by Tourism Sub-Index that hiked by 78.9 percent on annual basis recording an average of 101.4 points during Q2-FY17/18, compared to negative growth rate of 21.5 percent during Q2-FY16/17, and Natural Gas Sub-Index that picked-up by 19.9 percent on annual basis recording an average of 182.4 points during Q2-FY17/18, compared to a growth rate of 6.9 percent during Q2-FY16/17.

Meanwhile, GDP grew by 5.2 percent during H1-FY17/18, compared to 3.7 percent during the same period last fiscal year. Both Public and Private Consumption continued to boost economic activity during H1-FY17/18 with a total contribution of 2.5 PPT, compared to 4.5 PPT during H1-FY16/17. Investments contributed positively to growth by 2.2 PPT, compared to a lower contribution of 2.4 PPT during H1-FY16/17. Moreover, Net Exports contributed positively to growth by 0.6 PPT, compared to a negative contribution of 3.2 PPT during H1-FY16/17.

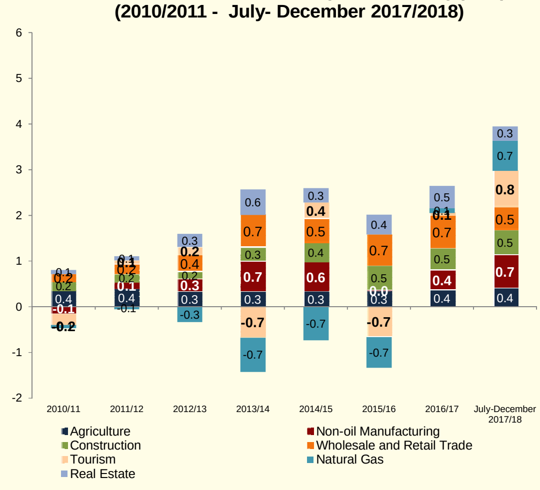
On the Demand Side, both Public and Private Consumption were key growth drivers during H1-FY17/18. Private consumption grew by 2.6 percent in H1-FY17/18, compared to 5 percent during the same period last fiscal year (contributing to growth by 2.3 PPT, compared to 4.2 PPT), while Public Consumption grew by 2.6 percent in the period of study, compared to 2.2 percent (contributing to growth by 0.3 PPT, compared to 0.2 PPT). In the meantime, recent data shows that Investments increased by 15.1 percent during H1-FY17/18, compared to 19.0 percent during the same period last fiscal year (contributing to growth by 2.2 PPT, compared to 2.4 PPT).

Furthermore, Net Exports boosted growth with a positive impact of 0.6 PPT, compared to a negative contribution of 2.3 PPT during H1-FY16/17. This development came in light of increase in Exports by 65.8 percent during H1-FY17/18, compared to 36.9 percent during the same period last year (with a positive contribution of 8 PPT to real GDP growth, compared to a much lower positive contribution of 4.1 PPT during H1-FY16/17). While Imports increased by 32.5 percent in the period of study, contributing negatively by 7.5 PPT, compared to a negative contribution of 7.3 PPT during the same period last fiscal year.

Contribution to GDP Growth (at market prices) (PPT)
(2010/2011 - July- December 2017/2018)



Contribution to GDP Growth (at factor cost) (PPT)
(2010/2011 - July- December 2017/2018)



On the Supply Side, seven key sectors led y-o-y growth, on top of which was Tourism which recorded growth rate of 44.5 percent during H1-FY17/18 (contributing positively to growth by 0.8 PPT, compared to a negative contribution of 0.6 PPT during the same period last fiscal year). In addition, Non-Petroleum Manufacturing Sector which recorded a 5.6 percent real growth rate during H1-FY17/18 (stabilizing at a contribution of 0.7 PPT). Moreover, the Whole Sale and

Retail Sector recorded a real growth rate of 3.3 percent (contributing 0.5 PPT during H1-FY17/18, compared to 0.7 PPT during the same period last fiscal year). Meanwhile, the Construction Sector witnessed a growth rate of 9.9 percent in H1-FY17/18 (contributing by around 0.5 PPT to GDP, compared to 0.4 PPT during H1-FY16/17). Additionally, the Agriculture Sector witnessed a growth of 3.1 percent (stabilizing at a contribution of 0.4 PPT) and the Real Estate Sector recorded a 3.2 percent real growth rate in H1-FY17/18 (contributing 0.3 PPT to real growth in H1-FY17/18, compared to 0.4 PPT during the same period last fiscal year). It is also worthy to note that the Natural Gas Sector expanded to record a 20.2 percent real growth rate during H1-FY17/18 (contributing positively to GDP growth by 0.7 PPT, compared to 0.1 PPT during H1-FY16/17).

Taken together, the above-mentioned key sectors represented around 62.3 percent of total real GDP during H1-FY17/18.

Fiscal Sector Performance during July- February 2017/2018;

Latest indicators for the period July-February 2017/2018 show an improvement in fiscal indicators. There's a decline in the Budget Deficit reaching 6.0 percent of GDP (LE 258.9 billion), compared to 6.5 percent of GDP (LE 226.6 billion) during the same period last year. This could be explained in light of the increase in Revenues Growth Rate recording 38.7 percent during the period of study, exceeding the growth in expenditure recording 29.2 percent.

July-February 16/17 Budget Deficit LE 226.6 billion (6.5 percent of GDP)	July- February 17/18 Budget Deficit LE 258.9 billion (6.0 percent of GDP)*
Revenues LE 310.5 billion (8.9 percent of GDP)	Revenues LE 430.7billion (10.0 percent of GDP)
Expenditure LE 532.5 billion (15.3 percent of GDP)	Expenditure LE 687.9 billion (16.0 percent of GDP)

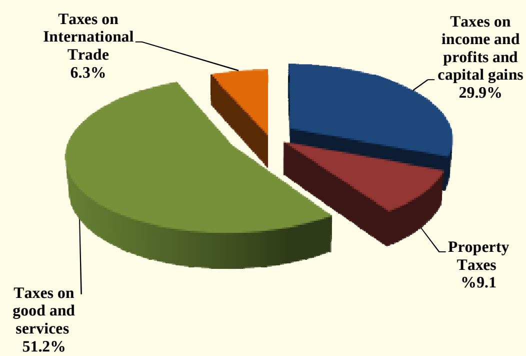
Source: Ministry of Finance, Macro Fiscal Policy Unit

* 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-Feb 2017/2018



Total Revenues increased by LE 120.2 billion (38.7 percent growth increase) to record LE 430.7 billion during the period July-February 2017/2018, compared to LE 310.5 billion same period last fiscal year. These developments could be explained mainly in light of the increase in Tax Revenues (82.2 percent of total revenues) by LE 127.9 billion (56.5 percent growth increase) to record LE 354.1 billion during the period of study, compared to LE 226.3 billion during the same period last fiscal year. Meanwhile, Non-Tax Revenues (17.8 percent of total revenues) has slightly declined by LE -7.7 billion (-9.1 percent growth decrease) to record LE 76.5 billion during July-February 17/18, compared to LE 84.2 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 50.1 percent during the period of study, mainly driven by the increase in Non-sovereign Income Taxes and Sales Taxes Receipts by 35.3 percent and 59.5 percent, respectively.

On the Tax Revenues Side

Tax receipts from Income taxes (24.6 percent of total revenues), taxes on goods and services (42.13 percent of total revenues), property taxes (7.5 percent of total revenues), and International Trade (5.1 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 34.7 billion (48.8 percent growth) to reach LE 105.8 billion (2.5 percent of GDP).
Taxes on income, capital gains and profits receipts represent 29.9 percent of total tax revenues.

Mainly on the back of:
- Increase in receipts from taxes on domestic salaries by LE 5.7 billion (29.1 percent) to reach LE 25.4 billion, compared to LE 19.7 billion during the same period last fiscal year.
- Increase in receipts from taxes on Suez Canal by LE 3.3 billion (25.8 percent) to reach LE 16.1 billion, compared to LE 12.8 billion during the same period last fiscal year.
- Increase in receipts from taxes on other companies by LE 9.1 billion (42.4 percent) to reach LE 30.6 billion, compared to LE 21.4 billion during the same period last fiscal year.

Taxes on Good and Services increased by LE 68.4 billion (60.6 percent growth) to reach LE 181.3 billion (4.2 percent of GDP)
- Taxes on goods and services receipts represent 51.2 percent of total tax revenues.

Mainly as a result of higher receipts from:
- General sales tax on goods increasing by 42.3 percent to record LE 82.8 billion, compared to LE 58.2 billion during the same period last fiscal year.
- The increase in general sales tax on services by 78.4 percent to record LE 18.9 billion, compared to LE 10.6 billion during the same period last fiscal year.
- The increase in domestic commodities (Table 1) by 97.6 percent to record LE 60.8 billion, compared to LE 30.8 billion during the same period last fiscal year.
- The increase in stamp tax receipts by 25.1 percent to record almost LE 8.0 billion, compared to LE 6.4 billion during the same period last fiscal year.

International Trade taxes increased by LE 5.9 billion (36.5 percent growth), to reach LE 22.1 billion (0.5 percent of GDP)

- **International Trade tax receipts represent 6.3 percent of the total tax revenues.**

- In light of the increase in receipts from customs taxes by 36.9 percent to post LE 21.0 billion during period of study, compared to LE 15.4 billion during same period last fiscal year.

Property Taxes increased by LE 10.4 billion (47.6 percent growth) to reach LE 32.4 billion (0.8 percent of GDP).

- **Property Taxes receipts represent 9.1 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 51.1 percent to reach LE 27.5 billion during the period of study, compared to LE 18.2 billion during the same period last fiscal year.

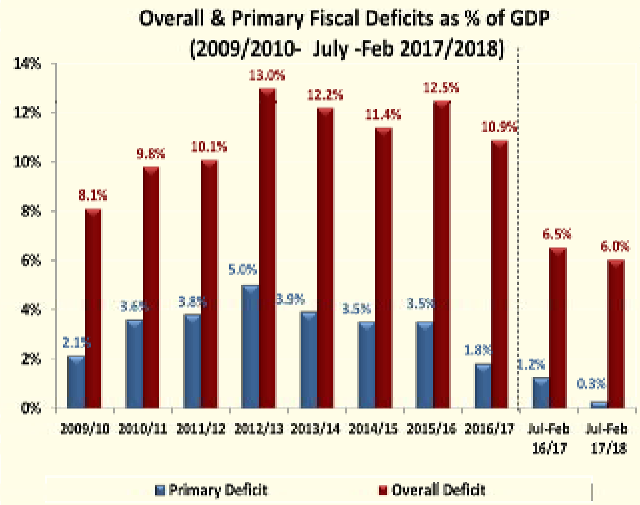
On the Non-Tax Revenues Side

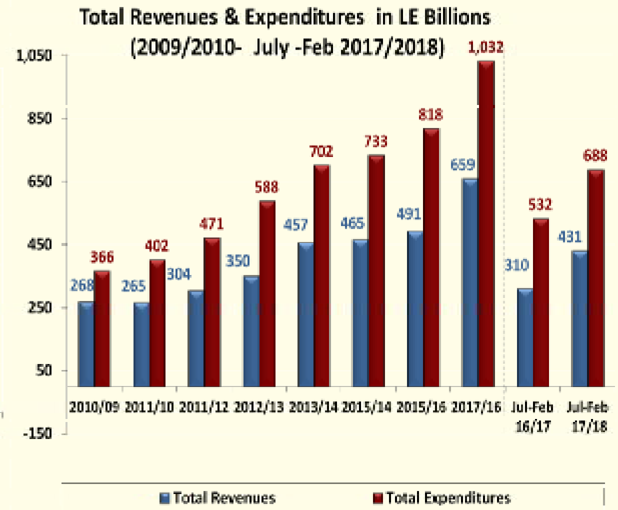
Proceeds from Other Non-Tax Revenues declined to LE 76.2 billion during July-February 2017/2018, compared to LE 83.7 billion during the same period of last year in light of delayed collected dividends.

- Property income receipts recorded LE 36.4 billion, compared to LE 55.2 billion recorded during July-February 16/17. Meanwhile, dividends collected from Suez Canal declined by LE -3.6 billion (-21.3 percent growth) to record LE 13.2 billion during the period of study, compared to LE 16.8 billion during the same period last year. Also, dividends collected from CBE[2] declined to reach LE 5.2 billion and dividends received from economic authorities reached LE 4.1 billion during the period of study.
- Meanwhile, Miscellaneous Revenues increased by LE 9.3 billion (95.8 percent growth) to record 19.1 billion during the period of study, compared to LE 9.7 billion recorded during July-February 16/17.
- Proceeds from Sales of Goods and Services increased by LE 3.3 billion (19.9 percent growth) to record LE 20.1 billion, compared to LE 16.8 billion during the same period last year .

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

ü Grants declined to LE 319 million during July-February 2017/2018, compared to LE 476 million during the same period of last year (in light of the decline of grants from foreign governments by LE 94 million compared to the same period last year).





Source: Ministry of Finance

§ *<u>On the Expenditures Side:</u>*

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 29.2 percent to post LE 687.9 billion (16.0 percent of GDP) during the period July- February 17/18, compared to the same period of last year.

- Wages and Compensation of Employees rose by 10.4 percent to record LE 151.3 billion (3.5 percent of GDP) during the period of study (in light of the increase in permanent salaries to reach LE 42.7 billion, and the increase of rewards to reach LE 49.3 billion, and the increase of specific allowances to reach LE 16 billion, and the increase of In-kind allowances to reach LE 3.3 billion).
- Purchase of Goods and Services increased by LE 4.0 billion (18.7 percent growth) to reach LE 25.3 billion (0.6 percent of GDP) (in light of the increase in spending on Water and Lighting to reach LE 2.3 billion, and Raw materials to record LE 6.4 billion).
- Interest Payments rose by 34.5 percent growth to reach LE 247 billion (5.8 percent of GDP), compared to LE 183.6 billion during the same period last year.
- Subsidies, Grants and Social Benefits rose by LE 56.8 billion (4.0 percent of GDP), (50.1 percent growth) to record LE 170.2 billion, compared to LE 113.4 billion during the same period last year.

ü Spending on Subsidies rose by LE 44.7 billion (66.3 percent growth) to reach LE 112.2 billion during the period of study, compared to LE 67.5 billion during the same period of last year, this came in light of; GASC spending grew by LE 14.2 billion (72.4 percent growth) reaching LE 33.8 billion during the period of study, compared to LE19.6 billion during July- February 16/17, and subsidies to EGPC has recorded LE 51.1 billion, compared to LE 17.5 billion during the same period of last year.

ü Spending on Social Benefits rose by LE 10.8 billion (25.4 percent growth) to reach LE 53.5 billion during the period of study, compared to LE 42.7 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 4.6 billion (62.3 percent growth) reaching LE 12.1 billion during the period of study, compared to LE 7.5 billion during July-February 16/17, and budget contribution in pensions grew by LE 4.3 billion (13.8 percent growth) reaching LE 36.0 billion during the period of study, compared to LE 31.6 billion during July- February 16/17.

- Purchases of Non-financial Assets (investments) rose by LE 9.3 billion (1.1 percent of GDP), growing by 24.2 percent growth to reach LE 47.8 billion (in light of increased spending on fixed assets to record LE 43.7 billion).
- Other Expenditures increased by 19.9 percent to record LE 46.2 billion (1.1 percent of GDP) when compared to the same period last fiscal year.

ØFiscal 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 28.1 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.

- 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.

o *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$ 82.9 billion (34.2 percent of GDP) at end of December 2017, compared to US$ 79 billion at end of June 2017.

- Meanwhile, Government External Debt increased to US$ 38.7 billion (16.0 percent of GDP) as of end of December 2017, compared to US$ 34.9 billion (18.1 percent of the GDP) at end of June 2017.

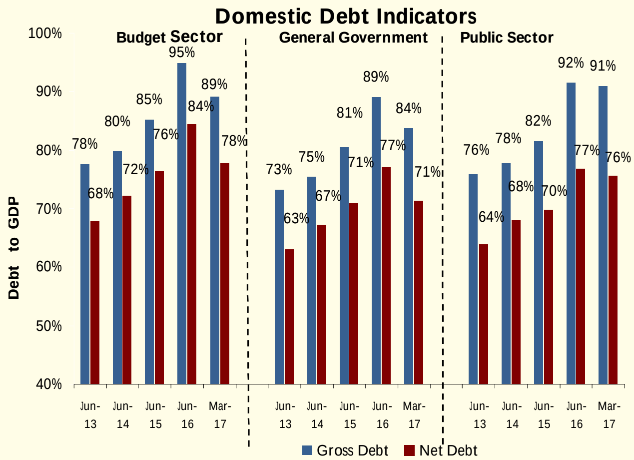
It’s noteworthy that during 2017 a total amount of US$ 30 billion was repaid, as per Central Bank of Egypt, distributed on due bonds, foreign debt of international banks such as African Export-Import Bank, deposits and loans from many countries of which KSA, Libya and Turkey, in addition to obligations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

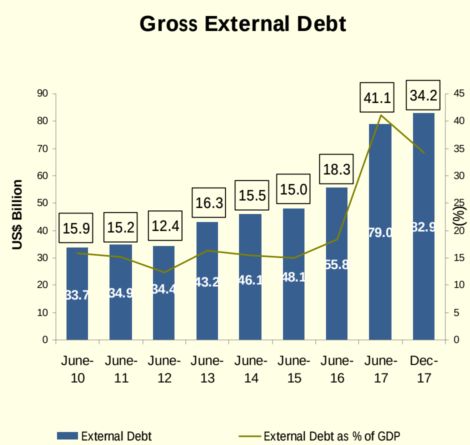
The previous period has witnessed many changes in the external debt structure:

- 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 20.5 percent in January 2018 (LE 3254 billion), compared to 41.5 percent at end of January 2017. This is attributed to the sharp decrease in the annual growth of Net domestic assets (NDA) to record 6.6 percent at end of January 2018 (LE 3010.6 billion), compared to 45.8 percent end of January 2017. 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 3 percent (LE 2126.6 billion) at end of January 2018, compared to 38.7 percent at end of January 2017 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 1.8 percent (LE 2259.4 billion) at end of January 2018, compared to 71.3 percent at end of January 2017.

Also, Credit Facilities annual growth increased to 1.8 percent (LE 97 billion) at end of January 2018, compared to -79.3 percent at end of January 2017. While, Government Deposits annual growth decreased to 11.6 percent (LE 440 billion) at end of January 2018, compared to 52 percent at end of January 2017.

Furthermore, annual growth of Claims on Public Business Sector decreased significantly to 1.9 percent (LE 155.7 billion) at end of January 2018, compared to 97.3 percent at end of January 2017.

Annual growth in Credit to the Private Sector decreased to 5.3 percent (LE 1008.5 billion) at end of January 2018, compared to 46 percent (LE 957.6 billion) at end of January 2017. This could be attributed to the decrease witnessed in annual growth of Claims on Private Business Sector to record LE 2.7 percent (LE 743.6 billion) during the month of study, compared to

57.7 percent (LE 724 billion) at end of January 2017. Moreover, annual growth of Claims on Household Sector decreased to record 13.4 percent (LE 265 billion) at end of January 2018, compared to 18.7 percent (LE 233.6 billion) at end of January 2017.

On the other hand, there's a positive annual growth trend in Net Foreign Assets of the Banking System (NFA) that lasts for eleven consecutive months to record 298.6 percent (LE 243.6 billion) at end of January 2018, compared to -348.2 percent (LE -122.7 billion) at end of January 2017. This is credited primarily to the increase in the annual growth of Banks' net foreign reserves' to 175.6 percent at end of January 2018, compared to negative growth of 505 percent at end of January 2017. In addition, CBE net foreign reserves' annual growth increased exponentially to 583.8 percent at end of January 2018 (LE 178.9 billion), compared to -180 percent at end of January 2017. 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 19.7 percent (LE 745.2 billion) at end of January 2018, compared to 20.2 percent at end of January 2017. This could be attributed to the deceleration in Currency in Circulation's annual growth - in light of CBE's contractionary monetary policy - of 7.9 percent at end of January 2018, compared to 23.8 percent at end of January 2017, which could not be offset by the upsurge in Demand Deposits in Local Currency's annual growth to 38.1 percent (LE 336.6 billion) at end of January 2018, compared to 14.9 percent at end of January 2017.

Quasi Money annual growth decreased to 20.7 percent (LE 2509 billion) at end of January 2018, compared to 49.4 percent at end of January 2017. 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 -1 percent annual growth (LE 691.2 billion) at end of January 2018, compared to 151 percent at end of January 2017. Meanwhile, annual growth of Local Currency Time and Savings Deposits increased to 31.5 percent (LE 1817.8 billion) at end of January 2018, compared to 24.1 percent at end of January 2017.

Total Deposits annual growth rate– excluding deposits at the CBE – decreased to 20.6 percent (LE 3329 billion) at the end of December 2017, compared to 44.2 percent at end of December 2016. Out of total deposits, 84.5 percent belonged to the non-government sector. (Data for January 2018 is not yet available).

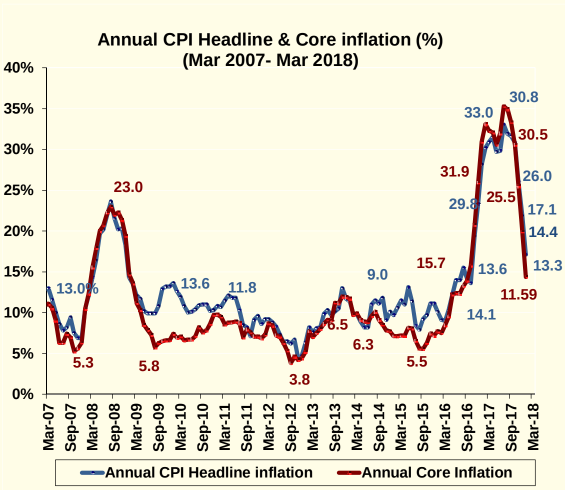
Moreover, annual growth rate in Total Lending by the banking sector (excluding CBE) decreased to 12.5 percent (LE 1463 billion) at end of December 2017, compared to 64.3 percent at end of December 2016. (Data for January 2018 is not yet available).

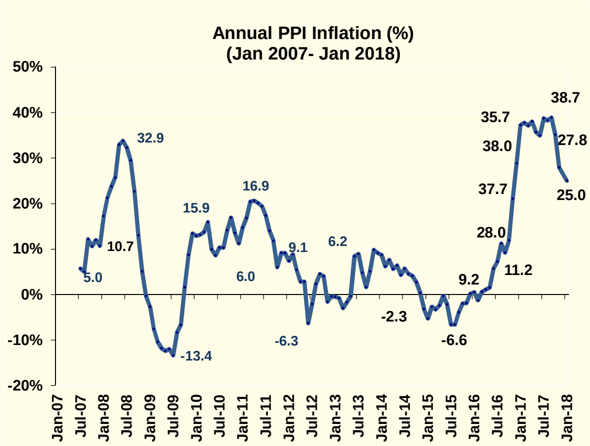
To that end, the Loans-to-deposits Ratio slightly decreased to 44 percent at end of December 2017, compared to 47.1 percent at end of December 2016. (Data for January 2018 is not yet available).

- Net International Reserves (NIR) increased to a record-high US$ 42.6 billion during March 2018 (covering 7.3 months of imports), compared to US$ 28.5 billion at end of March 2017 (covering 5.1 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).

- Headline Urban Inflation reveals faded Inflationary pressures recording 13.3 percent in March 2018, which is considered the lowest inflation rate since May 2016, compared to 30.9 percent during March 2017. Factors contributing to the decline in 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 11.8 percent during March 2018, compared to 13.2 percent during last month, especially due to the slowdown of "Meat" prices to record 8.2 percent compared to 9.8 percent, "Fish and Seafood" to reach 12.3 percent, compared to 18 percent, "Fruits" to record 19.3 percent compared to 25.3 percent, "Vegetables" to record 14.2 percent, compared to 17.3 percent, and "Mineral Water" to record 5.8 percent compared to 20.4 percent. The second main group affecting the slowdown of inflation is "Miscellaneous Goods and Services", which recorded 16.5 percent, compared to 17.7 percent during last month, mainly due to the decrease in prices of "Gold" to record 5.7 percent compared to 8.6 percent. The other groups have stable inflation rates during the month of study.

- Average Annual Headline Inflation increased during the period July- March 17/18 to record 24.4 percent, compared to 21 percent during the same period last year.





- Monthly Inflation has slightly increased to 1 percent during March 2018, compared to 0.3 percent during last month. This came in light of the slightly increase in monthly inflation rate of "Food and Beverages" group to record 1.8 percent during March 2018, compared to 0.9 percent during last month (this came in light of the increase in “Vegetables” by 3.9 percent, “Meat” by 1.6 percent, “Fish and Seafood” by 5.1 percent and "Fruits" by 1.7 percent). Furthermore, there is an increase in monthly inflation rate of "Transportation" group to record 0.2 percent (due to increase in prices of "Purchase of Vehicles" and "Transportation Services" by 1 percent and 0.1 percent, respectively). "Recreation and Culture" group has also experienced an increase in prices to reach 3.4 percent during month of study as a result of the increase in prices of "Trips" by 5 percent compared to an unchanged rate last month. The rest of the groups show stable inflation rates during the month of study.

- Annual Core Inflation[3] declined to record 11.59 percent during March 2018, compared to 11.88 percent during the last month, and compared to 32.3 percent in March 2017. As for average annual Core inflation, it increased during the period July-March 2017/2018 to record 24.1 percent, compared to 22 percent during the same period last year. Meanwhile, monthly core inflation has recorded 0.7 percent during March 2018, compared to 0.4 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 9.2 percent m-o-m during March 2018 to reach LE 974.2 billion, compared to LE 892.3 billion in the previous month. The EGX-30 Index increased by 12.8 percent during March 2018 to reach 17450.2 points, compared to closing at 15472.7 points by the end of February 2018. Meanwhile, the EGX-70 increased by 1.2 percent, closing at 871.0 points compared to 860.7 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:

  - 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-

3/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'.

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.

- 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.