Executive Summary

Main Highlights

After their third review of the Egyptian economic reform program, the IMF confirmed that Egypt is on the right track especially with the successful fiscal control policies. The IMF added that the macroeconomic indicators have distinctly improved, on top of which the acceleration of economic growth rates and the reduction of unemployment rates, as well as pushing down inflation rates and shrinking levels of deficit in the external account and public finance. Also, a sustainable fuel subsidy reform will eventually provide more resources for social programs that support low-income citizens. As IMF's third review is finalized, about US $2.02 billion will be given to Egypt, bringing the total available balance to US $8.06 billion out of the full loan of US $12 billion (Equivalent to 68 billion SDR). Egyptian economic growth rate will increase in the short term, IMF predicts, driven by tourism recovery and increased natural gas production, while the current account deficit is expected to remain below 3 percent of GDP and the public debt will significantly decline by 2023.

IMF's Third Performance Review Outlook for the Egyptian Economy

- The increase of economic growth rates to reach 5.5 percent in 2018/2019 compared to 4.4 percent in 2014/2015
- The reduction of unemployment rate to reach 9.7 percent in 2018/2019 compared to 12.9 in 2014/2015
- Sustaining the downward path of annual inflation rate to reach 13.1 percent by the end of 2018/2019 compared to 29.8 percent in the end of 2016/2017
- The decline of toal debt to reach 86.2 percent of GDP in 2018/2019, compared to 103 percent in 2016/2017
- The increase of revenues and grants to reach 18.6 percent of GDP in 2018/2019, compared to 18.1 percent in 2015/2016
- The reduction in expenditure to reach 26.7 percent of GDP in 2018/2019, compared to 30.7 percent in 2015/2016
- The increase of credit to private sector by 18.2 percent in 2018/2019, compared to 16.7 percent in 2014/2015
- The decline of energy subsidies to reach 2.1 percent of GDP in 2018/2019, compared to 4 percent in 2014/2015
- The increase in foreign reserves to reach 44 billion dollars in April 2018, compared to 23.1 billion dollars in November 2016
- The increase of exports to record 16.5 percent in 2018/2019, compared to a negative growth of -14.7 percent in 2014/2015
- The decline of current account deficit to reach -2.6 percent of GDP in 2018/2019, compared to -6.0 percent in 2015/2016
- The increase of foreign direct investment to reach 9.5 billion dollars in 2018/2019, compared to 6.2 billion dollars in 2014/2015

The Ministry of Finance is keen to complete the process of fiscal and institutional reform to maximize the state's budget revenues and to transform into a digital economy. The Ministry of Finance has already taken some steps in this regard through encouraging taxpayers to submit their documents electronically, which contributes to more control of public revenues and reviewing tax returns. Undoubtedly, this approach is to the advantage of national economy as it's considered one of the ways towards improving Egypt's ranking in Doing Business index issued by international institutions concerned with measuring the competitiveness of countries and their ability to attract foreign investment. In addition, it will reduce the frequency of taxpayers going to tax authorities to less than the global average, while at the same time, tax officers will have the opportunity to focus more on carrying out their basic tasks in examining tax files, especially the ones with large values, to reduce tax evasion.

Recent promising indicators are as follows:

- PMI increased to register 49.4 in June 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 49.5, New Orders Index increased to 49.8 and Output Index increased to 48.2, in addition to the increase in Stocks of Purchases Index to reach 46.4 and the reduction in Input Cost Index due to the decrease in energy and employment indices.
- Net International Reserves (NIR) increased to a record-high US$ 44.3 billion during June 2018 (covering 7 months of imports), compared to US$ 31.3 billion at end of June 2017 (covering 5.5 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).
- On the Fiscal front, budget deficit declined to 7.9 percent of GDP during the period July-May 2017/2018, compared to 9.3 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 259 billion (increasing notably by 52.2 percent (LE 89 billion) in light of increased receipts from VAT on imported goods and domestic goods. Income tax receipts reached LE 168.3 billion. Taxes on Domestic Salaries reached LE 36.4 billion. Meanwhile, collected Tax Receipts from Suez Canal increased by 40.8 percent (LE 8.2 billion) to LE 28.2 billion, and increased receipts from Other Companies by 34.5 percent (LE 15.2 billion) to reach LE 59 billion. On the expenditure side, GASC subsidies increased by 58.8 percent (LE 25.5 billion) to record LE 69 billion, budget contributions in pensions rose by 16.1 percent (LE 6.7 billion) to reach LE 48.6 billion, and spending on Takaful and Karama programs (including social insurance pensions) have increased by 51.4 percent to reach LE 16 billion. Moreover, Investment Spending rose by 23 percent to record around LE 75.3 billion during the period of study.
- Regarding Monetary Developments, M2 annual growth decreased to 21.4 percent in April 2018 (LE 3379.5 billion), compared to 38.8 percent at end of April 2017. This is attributed to the sharp decrease in the annual growth of Net domestic assets (NDA) to record 7.8 percent at end of April 2018 (LE 3010.4 billion), compared to 34.1 percent end of April 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 3.8 percent (LE 2071.6 billion) at end of April 2018, compared to 25.8 percent at end of April 2017. On the other hand, there's a positive annual growth trend in Net Foreign Assets of the Banking System (NFA) that records 4925.2 percent (LE 369 billion) at end of April 2018, compared to 89.9 percent (LE -7.6 billion) at end of April 2017.

- Headline Urban Inflation increased to 14.4 percent in June 2018, compared to 11.4 percent during last month, and compared to 29.8 percent during June 2017. Factors contributing to inflationary pressures include the increase in annual inflation growth rates among most groups during the month of study compared to last month. On the top of which comes "Food & Beverages ", "Housing, Water, Electricity and Fuel", “Transport”, "Alcoholic Beverages & Tobacco".

- During its Monetary Policy Committee meeting held on August 16th, 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. In addition, the discount rate was kept at 17.25 percent.

- The Balance of Payments (BOP) ran an overall surplus of US$ 10.97 billion (4.5 percent of GDP) during the period July-March 2017/2018, compared to US$ 10.98 billion (4.3 percent of GDP) during the same period last year. This is mainly attributed to hike in Services Balance to record US$ 7.8 billion (3.2 percent of GDP) during the period of study, compared to US$ 3.3 billion (1.3 percent of GDP) during the same period last year, driven by the increase witnessed in travel receipts (tourism revenues) by 155.2 percent, in addition to the increase in Net Official Transfers to register US$ 19.5 billion (8.1 percent of GDP) during the period July-March 2017/2018, compared to US$ 15.8 billion (6.2 percent of GDP) in the corresponding period of last fiscal year. The rise in transfers was primary due to increased workers’ remittances by 23.2 percent. This was compounded with a slightly shrinking in Current Account deficit to US$ 28.0 billion (-11.5 percent of GDP) during the period July-March 2017/2018, compared to a deficit of US$ 28.3 billion (-11.1 percent of GDP) during the same period last year (reflecting increased in exports which overweighed the decline in imports). On the other hand, the Capital and Financial Account witnessed a decreased net inflow to register US$ 19.0 billion during the period July-March 2017/2018, compared to US$ 27.1 billion during the same period last year, affected by the decline in Net change in the CBE's liabilities to the external world by 143.3 percent. Meanwhile, Portfolio investment in Egypt accelerated by 91.3 percent compared to the period of comparison.

- 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.

- 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 9.9 percent in the Second quarter of 2018 compared to 12 percent a year ago. Meanwhile, the workforce has reached 29.0 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$ 31.6 million end of March 2018, compared to US$ 25.9 billion at end of June 2017. Meanwhile, Monetary Authorities debt decreased to US$ 27.3 million at the end of March 2018, 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.

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.

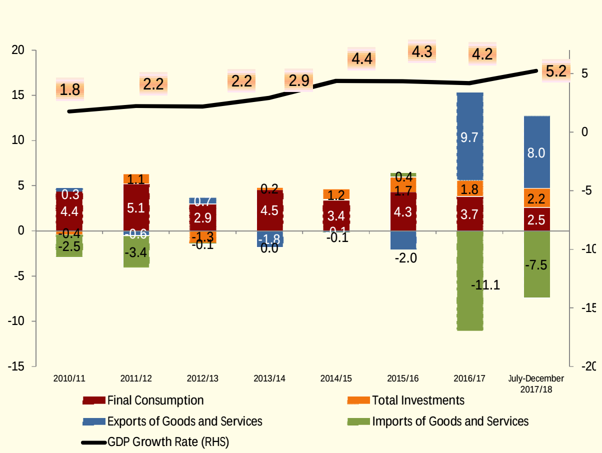
Furthermore, total Production Index rose by 9.2 percent on annual basis recording an average of 137.7 points during Q2-FY17/18, compared to a positive growth rate of 0.1 percent during Q2-FY16/17, driven mainly by Tourism Sub-Index that hiked by 78.9 percent on annual basis recording an average of 101.4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

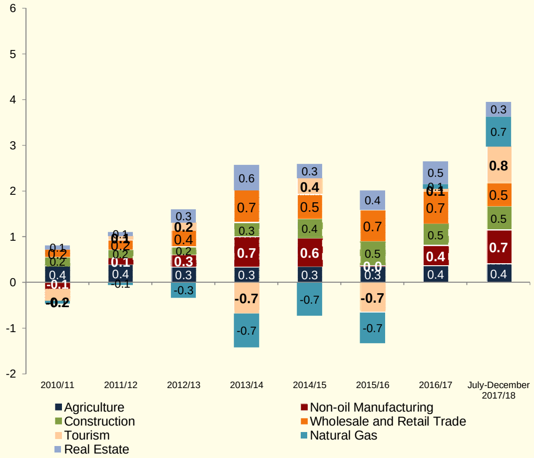
On the Demand Side, both Public and Private Consumption were key growth drivers during H1-FY17/18. Private consumption grew by 2.6 percent in H1-FY17/18, compared to 5 percent during the same period last fiscal year (contributing to growth by 2.3 PPT, compared to 4.2 PPT), while Public Consumption grew 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- May 2017/2018;

Latest indicators for the period July-May 2017/2018 show an improvement in fiscal indicators. There's a decline in the Budget Deficit reaching 7.9 percent of GDP (LE 337.6 billion), compared to 9.3 percent of GDP (LE 323.7 billion) during the same period last year. This could be explained in light of the increase in Revenues Growth Rate recording 35.7 percent during the period of study, exceeding the growth in expenditure recording 23.5 percent.

July-May 16/17 Budget Deficit LE 323.7 billion (9.3 percent of GDP)	July- May 17/18 Budget Deficit LE 337.6 billion (7.9 percent of GDP)*
Revenues LE 471 billion (13.6 percent of GDP)	Revenues LE 639 billion (14.9 percent of GDP)
Expenditure LE 787.1 billion (22.7 percent of GDP)	Expenditure LE 971.9 billion (22.7 percent of GDP)

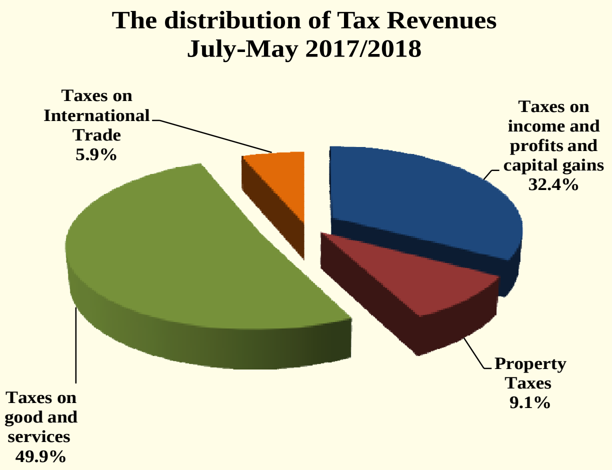
Source: Ministry of Finance, Macro Fiscal Policy Unit

* GDP estimate for FY16/17 has been revised recently to reach LE 3470 billion instead of 3478 billion. Meanwhile GDP projections for FY17/18 are estimated to reach LE 4286.5 billion as per the Ministry of Finance Calculations.

Detailed explanations are as follows:

<u>On the Revenues Side</u>

Total Revenues increased by LE 168 billion (35.7 percent growth increase) to record LE 639 billion during the period July-May 2017/2018, compared to LE 471 billion same period last fiscal year. These developments could be explained mainly in light of the increase in Tax Revenues (81.3 percent of total revenues) by LE 161.5 billion (45.1 percent growth increase) to record LE 519.5 billion during the period of study, compared to LE 358 billion during the same period last fiscal year. Moreover, Non-Tax Revenues (18.7 percent of total revenues) has increased by LE 6.6 billion (5.9 percent growth decrease) to record LE 119.6 billion during July-May 17/18, compared to LE 112.9 billion during the same period last fiscal year.



Tax Revenues Receipts from Non-sovereign Authorities, which are directly correlated to economic activity, witnessed an increase by 42.2 percent during the period of study, mainly driven by the increase in Non-sovereign Income Taxes and Sales Taxes Receipts by 31.6 percent and 48.4 percent, respectively.

<u>On the Tax Revenues Side</u>

Taxes on goods and services (40.6 percent of total revenues),Tax receipts from Income taxes (26.3 percent of total revenues), property taxes (7.4 percent of total revenues), and

International Trade (4.8 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 45.8 billion (37.3 percent growth) to reach LE 168.3 billion (3.9 percent of GDP).
Taxes on income, capital gains and profits receipts represent 32.4 percent of total tax revenues.

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 7.8 billion (27.5 percent) to reach LE 36.4 billion, compared to LE 28.6 billion during the same period last fiscal year.
- Increase in receipts from taxes on Suez Canal by LE 8.2 billion (40.8 percent) to reach LE 28.2 billion, compared to LE 20.0 billion during the same period last fiscal year.
- Increase in receipts from taxes on other companies by LE 15.2 billion (34.5 percent) to reach LE 59.1 billion, compared to LE 43.9 billion during the same period last fiscal year.

Taxes on Good and Services increased by LE 88.9 billion (52.2 percent growth) to reach LE 259.2 billion (6.0 percent of GDP)
- Taxes on goods and services receipts represent 49.9 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 37.9 percent to record LE 116.6 billion, compared to LE 84.6 billion during the same period last fiscal year.
- The increase in general sales tax on services by 65.0 percent to record LE 26.3 billion, compared to LE 15.9 billion during the same period last fiscal year.
- The increase in domestic commodities (Table 1) by 78.3 percent to record LE 88.7 billion, compared to LE 49.8 billion during the same period last fiscal year.
- The increase in stamp tax receipts by 29.5 percent to record almost LE 12.0 billion, compared to LE 9.3 billion during the same period last fiscal year.

Property Taxes increased by LE 20.7 billion (77.6 percent growth) to reach LE 47.4 billion (1.1 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 84.9 percent to reach LE 39.8 billion during the period of study, compared to LE 21.5 billion during the same period last fiscal year.

International Trade taxes increased by LE 6.5 billion (27.2 percent growth), to reach LE 30.4 billion (0.7 percent of GDP)
- **International Trade tax receipts represent 5.9 percent of the total tax revenues.**

- In light of the increase in receipts from customs taxes by 27.4 percent to post LE 28.9 billion during period of study, compared to LE 22.7 billion during same period last fiscal year.

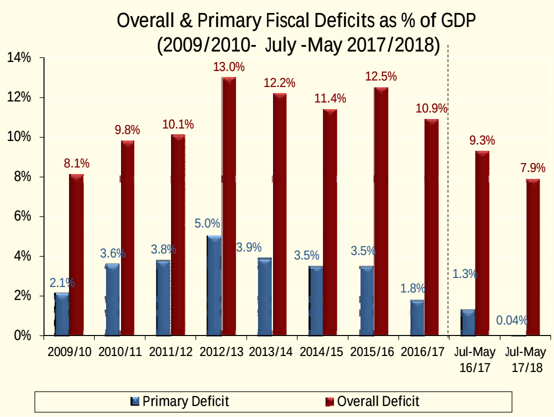
On the Non-Tax Revenues Side

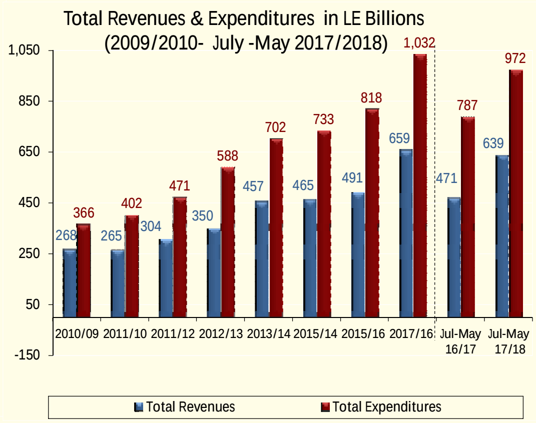
Proceeds from Other Non-Tax Revenues declined to LE 118.8 billion during July-May 2017/2018, compared to LE 112.4 billion during the same period of last year in light of delayed collected dividends.

- Property income receipts recorded LE 48.8 billion, compared to LE 69.9 billion recorded during July-March 16/17. Meanwhile, dividends collected from Suez Canal is affected by the global economy so it declined by LE -7.1 billion (-26.9 percent growth) to record LE 19.2 billion during the period of study, compared to LE 26.2 billion during the same period last year. Also, dividends collected from CBE[1] declined to reach LE 5.2 billion. Meanwhile, dividends received from economic authorities increased by 5.2 percent reached LE 8.2 billion during the period of study.
- Proceeds from Sales of Goods and Services increased by LE 5.2 billion (21.2 percent growth) to record LE 29.6 billion, compared to LE 24.4 billion during the same period last year .
- Meanwhile, Miscellaneous Revenues increased by LE 23.6 billion (150.8 percent growth) to record 39.3 billion during the period of study, compared to LE 15.7 billion recorded during July-May 16/17.

[1] 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 799 million during July-May 2017/2018, compared to LE 614 million during the same period of 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 23.5 percent to post LE 971.9 billion (22.7 percent of GDP) during the period July- May 17/18, compared to LE 787.1 billion during the same period of last year.

- Wages and Compensation of Employees rose by 11.5 percent to record LE 211.8 billion (4.9 percent of GDP) during the period of study (in light of the increase in permanent salaries to reach LE 60 billion, and the increase of rewards to reach LE 69.7 billion, and the increase of specific allowances to reach LE 23.1 billion, and the increase of In-kind allowances to reach LE 4.7 billion).

- Purchase of Goods and Services increased by LE 7.7 billion (25.8 percent growth) to reach LE 37.6 billion (0.9 percent of GDP) (in light of the increase in spending on Water and Lighting to reach LE 3.7 billion, and Raw materials to record LE 9.7 billion).

- Interest Payments rose by 22.5 percent growth to reach LE 339.4 billion (7.9 percent of GDP), compared to LE 277 billion during the same period last year.

- Subsidies, Grants and Social Benefits rose by LE 69.1 billion (5.8 percent of GDP), (38.5 percent growth) to record LE 248.8 billion, compared to LE 179.7 billion during the same period last year.

ü Spending on Subsidies rose by LE 53 billion (44.7 percent growth) to reach LE 170.4 billion during the period of study, compared to LE 117.8 billion during the same period of last year, this came in light of; GASC spending grew by LE 25.6 billion (58.8 percent growth) reaching LE 69 billion during the period of study, compared to LE 43.5 billion during July- May 16/17, and subsidies to EGPC has recorded LE 64.1 billion, compared to LE 38.8 billion during the same period of last year.

ü Spending on Social Benefits rose by LE 14.3 billion (24.9 percent growth) to reach LE 71.7 billion during the period of study, compared to LE 57.4 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 5.5 billion (51.4 percent growth) reaching LE 16.0 billion during the period of study, compared to LE 10.7 billion during July-May 16/17, and budget contribution in pensions grew by LE 6.8 billion (16.1 percent growth) reaching LE 48.6 billion during the period of study, compared to LE 41.8 billion during July- May 16/17.

- Purchases of Non-financial Assets (investments) rose by LE 14.1 billion (1.8 percent of GDP), growing by 23 percent growth to reach LE 75.3 billion (in light of increased spending on fixed assets to record LE 68.7 billion).
- Other Expenditures increased by 19.3 percent to record LE 59 billion (1.4 percent of GDP) when compared to the same period last fiscal year.

Public Debt:

Total Government Debt (Domestic and External) increased to LE 3676 billion (105.9 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$ 88.2 billion (36.2 percent of GDP) at end of March 2018, compared to US$ 79 billion at end of June 2017.

- Meanwhile, Government External Debt increased to US$ 43.7 billion (17.9 percent of GDP) as of end of March 2018, compared to US$ 34.9 billion (18.1 percent of the GDP) at end of June 2017.

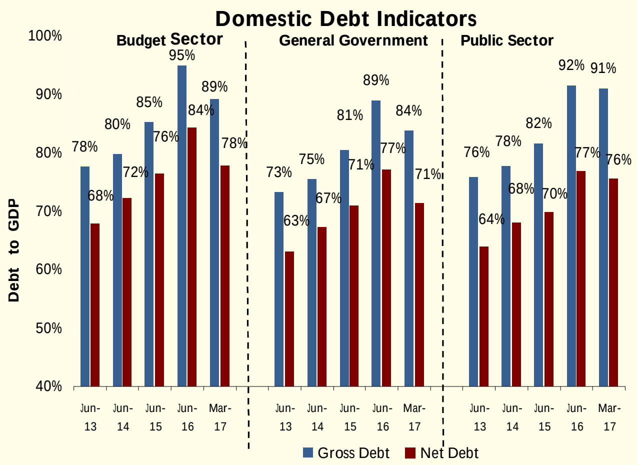
- It's noteworthy that during 2017 a total amount of US$ 30 billion was repaid, as per Central Bank of Egypt, distributed on due bonds, foreign debt of international banks such as African Export-Import Bank, deposits and loans from many countries of which KSA, Libya and Turkey, in addition to obligations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

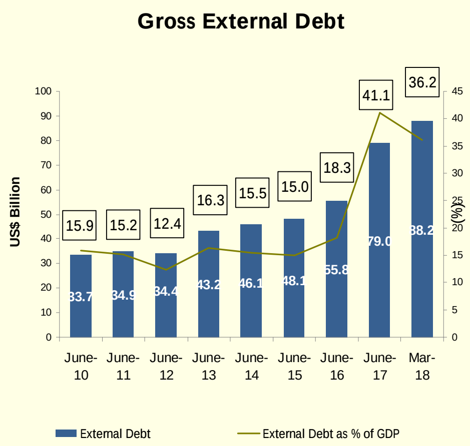
The previous period has witnessed many changes in the external debt structure:

- 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.





Monetary Perspective:

- M2 annual growth decreased to 21.4 percent in April 2018 (LE 3379.5 billion), compared to 38.8 percent at end of April 2017. This is attributed to the sharp decrease in the annual growth of Net domestic assets (NDA) to record 7.8 percent at end of April 2018 (LE 3010.4 billion), compared to 34.1 percent end of April 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 3.8 percent (LE 2071.6 billion) at end of April 2018, compared to 25.8 percent at end of April 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 2.6 percent (LE 2246.2 billion) at end of April 2018, compared to 36.9 percent at end of April 2017.

- Also, Credit Facilities annual growth increased to 28.6 percent (LE 132.1 billion) at end of April 2018, compared to -58.4 percent at end of April 2017. While, Government Deposits annual growth decreased to 27.4 percent (LE 537.4 billion) at end of April 2018, compared to 58 percent at end of April 2017.

- Furthermore, annual growth of Claims on Public Business Sector decreased significantly to 7.8 percent (LE 160 billion) at end of April 2018, compared to 72.6 percent at end of April 2017.

- Annual growth in Credit to the Private Sector decreased to 8.2 percent (LE 1050.3 billion) at end of April 2018, compared to 39.6 percent (LE 970.6 billion) at end of April 2017. This could be attributed to the decrease witnessed in annual growth of Claims on Private Business Sector to record LE 4.8 percent (LE 769.7 billion) during the month of study, compared to 49.5 percent (LE 734 billion) at end of April 2017. Moreover, annual growth of Claims on Household Sector decreased to record 18.8 percent (LE 280.6 billion) at end of April 2018, compared to 15.9 percent (LE 236.1 billion) at end of April 2017.

- On the other hand, there's a positive annual growth trend in Net Foreign Assets of the Banking System (NFA) that records 4925.2 percent (LE 369 billion) at end of April 2018, compared to 89.9 percent (LE -7.6 billion) at end of April 2017. This is credited primarily to the increase in the annual growth of Banks' net foreign reserves' to 469.7 percent at end of April 2018, compared to 42.4 percent at end of April 2017. In addition, CBE net foreign reserves' annual growth increased exponentially to 1851.4 percent at end of April 2018

(LE 286.5 billion), compared to 140.1 percent at end of April 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.

- Ø *From the liabilities side*, Money annual growth decreased to 19.4 percent (LE 781.2 billion) at end of April 2018, compared to 21.1 percent at end of April 2017. This could be attributed to the deceleration in Currency in Circulation's annual growth - in light of CBE's contractionary monetary policy - of 8.3 percent at end of April 2018, compared to 20.3 percent at end of April 2017, which could not be offset by the upsurge in Demand Deposits in Local Currency's annual growth to 35.6 percent (LE 361.5 billion) at end of April 2018, compared to 22.3 percent at end of April 2017.

- Ø Quasi Money annual growth decreased to 22 percent (LE 2598.2 billion) at end of April 2018, compared to 45.3 percent at end of April 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 Deposits to record 2.5 percent annual growth (LE 697.6 billion) at end of April 2018, compared to 114.6 percent at end of April 2017. Meanwhile, annual growth of Local Currency Time and Savings Deposits increased to 31.1 percent (LE 1900.6 billion) at end of April 2018, compared to 26.1 percent at end of April 2017.

- Ø Total Deposits annual growth rate– excluding deposits at the CBE – decreased to 21.5 percent (LE 3485 billion) at the end of March 2018, compared to 43 percent at end of March 2017. Out of total deposits, 84.5 percent belonged to the non-government sector. (Data for April 2018 is not yet available).

- Ø Moreover, annual growth rate in Total Lending by the banking sector (excluding CBE) decreased to 15.3 percent (LE 1549.6 billion) at end of March 2017, compared to 57.6 percent at end of March 2016. (Data for April 2018 is not yet available).

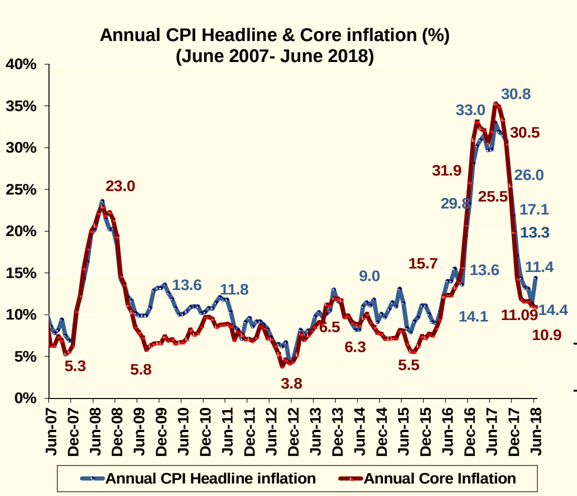
- Ø To that end, the Loans-to-deposits Ratio slightly decreased to 44.5 percent at end of March 2018, compared to 46.8 percent at end of March 2017. (Data for April 2018 is not yet available).

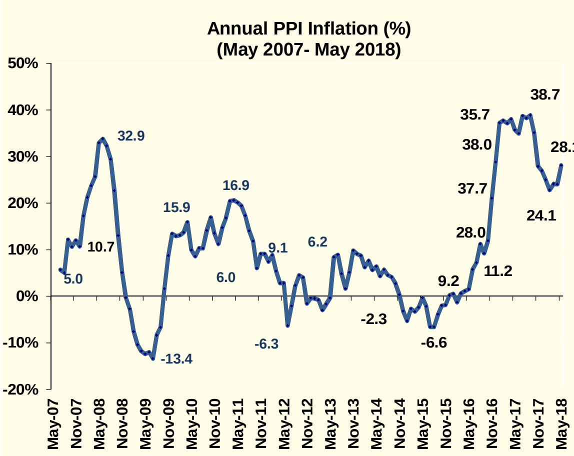
Ø Net International Reserves (NIR) increased to a record-high US$ 44.3 billion during June 2018 (covering 7 months of imports), compared to US$ 31.3 billion at end of June 2017 (covering 5.5 months of imports), and compared to a lowest level of US$ 13.4 billion at end of March 2013 (covering 3.5 months of imports).

Ø Headline Urban Inflation increased recording 14.4 percent in June 2018, compared to 11.4 percent during previous month, and compared to 29.8 percent in June 2017. Factors contributing to inflationary pressures include the increase in annual inflation among some main 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 10.1 percent during June 2018, compared to 8.6 percent during last month, especially the increase in "Bread and Cereals" prices to record 20.2 percent during the month of study, compared to 18.5 percent during last month, "Fish and Seafood" to reach 5.6 percent, compared to 2.1 percent, "Vegetables" to record 12.7 percent, compared to 2.9 percent. This has counterparted the decline in annual inflation rates of "Milk, Cheese, and Eggs" to record 13.5 percent, compared to 19.8 percent, "Sugar" to record 5.6 percent, compared to 6.5 percent last month.

The second main groups affecting the increase in annual inflation rates comes "Housing, Water, Electricity and Fuel ", which recorded 18.4 percent during June 2018, compared to 10.6 percent during last month, "Transport" to record 55.1 percent, compared to 15.5 percent, "Alcoholic Beverages & Tobacco" to record 21.2 percent, compared to 21.0 percent, and "Hotels & Restaurants" to record 12.9 percent, compared to 11.2 percent. This has offset the decline in annual inflation rate of "Clothing & Footwear" to record 14.9 percent, compared to 27.7 percent, "Recreation & Culture" to record 7.2 percent, compared to 10.5 percent.

- Average Annual Headline Inflation recorded 21.6 percent during FY 17/18, compared to 23.3 percent during last year.





- Monthly Inflation increased notably to 3.5 percent during June 2018, compared to 0.2 percent during last month. This came in light of the increase in monthly inflation rate of "Food and Beverages" group to record 2.0 percent during June 2018, compared to -0.3 percent during last month (this came in light of the increase in “Vegetables” by 4.9 percent, compared to -7.9 percent “Fish and Seafood” by 2.4 percent, compared to -1.2 percent, "Fruits" by 3.5 percent, compared to -0.4 percent, "Milk, Cheese and eggs" by 1.2 percent, compared to 0.7 percent. This comes despite of the decline in some sub items among "Food and Beverages" group including; "Bread & Cereals" to record 2.7 percent, compared to 8.7 percent last month, "Fat & Oil" to record -0.4 percent, compared to 1.2 percent, "Sugar" to record -0.2 percent compared to 0.3 percent.

  Meanwhile, other main groups have contributed to the increase in monthly inflation rate during the month of study including; "Transport " to record 34.2 percent, compared to 1.7 percent, "Clothing & Footwear " to record 0.9 percent, compared to 0.3 percent, "Housing, Water, Electricity and Fuel " to record 7.0 percent, compared to stable prices during last month, "Furniture & Equipments" to record 0.9 percent compared to 04. percent, "Hotels and Restaurants" to record 2.1 percent compared to 04. percent.

- Annual Core Inflation[2] slowed to record 10.89 percent during June 2018, compared to 11.09 percent during the last month, and compared to 31.9 percent during June 2017. Meanwhile, monthly core inflation has recorded 1.6 percent during June 2018, compared to 1.5 percent during last month.

- During its Monetary Policy Committee meeting held on August 16 th, 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 September 12th, 2018 worth LE 55 billion with 6-day maturity at a fixed annual interest rate of 17.25 percent.

- The Egyptian Exchange market capitalization decreased by 2.1 percent m-o-m during June 2018 to reach LE 910.8 billion, compared to LE 930.4 billion in the previous month. The EGX-30 Index decreased by 0.4 percent during June 2018 to reach 16348.6 points, compared to closing at 16414.5 points by the end of May 2018. Meanwhile, the EGX-70 decreased by 4.5 percent, closing at 804.6 points compared to 842.7 points in the previous month.

- *On the External Sector side:*

  BOP ran an overall surplus of US$ 10.97 billion (4.5 percent of GDP), during the period July-March 2017/2018, compared to a surplus of US$ 10.98 billion (4.3 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 57.5 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$ 5.3 billion (-2.2 percent of GDP) during the period July-March 2017/2018, however, this is considered a very huge improvement compared to a much higher deficit of US$ 12.5 billion (-4.9 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$ 28.0 billion (-11.5 percent of GDP) during the period July-March 2017/2018, compared to a deficit of US$ 28.4 billion (-11.1 percent of GDP) during the same period last fiscal year. This was mainly driven by the increase in merchandise exports by 17.6 percent, to register US$ 18.8 billion compared to US$ 16.0 billion in the period of comparison, which covered the slight increase in merchandise imports by 5.5 percent to reach US$ 46.8 billion compared to US$ 44.4 in the period of comparison. This is mostly due to the increase in non-petroleum exports by 12.9 percent to record US$ 12.8 billion during the study period, compared to US$ 11.3 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

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2/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'.

the exchange rate liberalization, due to the rise of US$ 1.1 billion in exports of finished goods. Moreover, petroleum exports receipts registered US$ 6.0 billion in the period of study, compared to US$ 4.7 billion in the period of comparison.

– The services balance surplus escalated to record US$ 7.8 billion (3.2 percent of GDP) during the period July-March 2017/2018, compared to a lower surplus of US$ 3.3 billion (1.3 percent of GDP) in the period of comparison. This mainly came in light of the increase witnessed in Suez Canal receipts to record US$ 4.2 billion, compared to US$ 3.7 billion in the corresponding period of the last fiscal year, in addition to the increase in travel receipts (tourism revenues) that reached US$ 7.3 billion in the period of study, compared to US$ 2.8 billion in period of comparison. Whereas, travel payments experienced a decrease to record US$ 1.7 billion, compared to US$ 2.2 billion.

§ Net Official Transfers expanded to register US$ 19.5 billion during the period July-March 2017/2018, compared to US$ 15.9 billion in the corresponding period of last fiscal year, mainly due to the increase in workers' remittances by US$ 3.6 billion to record US$ 19.5 billion compared to US$ 15.8 billion in the period of comparison; reflecting the effect of exchange rate liberalization.

§ Meanwhile, the Capital and Financial Account decreased to register US$ 19 billion (7.8 percent of GDP) during the period July-March 2017/2018, compared to higher net inflow of US$ 27.1 billion (10.6 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$ 6 billion (2.5 percent of GDP) during the period July-March 2017/2018, compared to US$ 6.6 billion (2.6 percent of GDP) in the corresponding period of last fiscal year, driven mainly by the rise in the net inflow of US$ 3.4 billion for oil sector investments during the period of study.

– Portfolio investment in Egypt recorded an increased net inflow of US$ 14.9 billion (6.1 percent of GDP) during the period July-March 2017/2018, compared to US$ 7.8 billion (3.1 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$ 11.5 billion during period of study, compared to US$ 4.3 billion during the period of comparison, and to the bonds offered abroad by the Egyptian government, in the amount of US$ 3.3 billion during the period January-March 2017/2018.

– Other investments decreased to register net outflows of US$ 1.6 billion (-0.6 percent of GDP) during the period July-March 2017/2018, compared to net inflows of US$ 12.8 billion (5.0 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$ 3.3 billion during the period July-March 2017/2018, compared to US$ 7.7 billion in the corresponding period of the last fiscal year.

§ Net errors and omissions recorded a net outflow of US$ 2.8 billion (-1.1 percent of GDP) during the period July-March 2017/2018, compared to an outflow of US$ 3.6 billion (-1.4 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.