Executive Summary

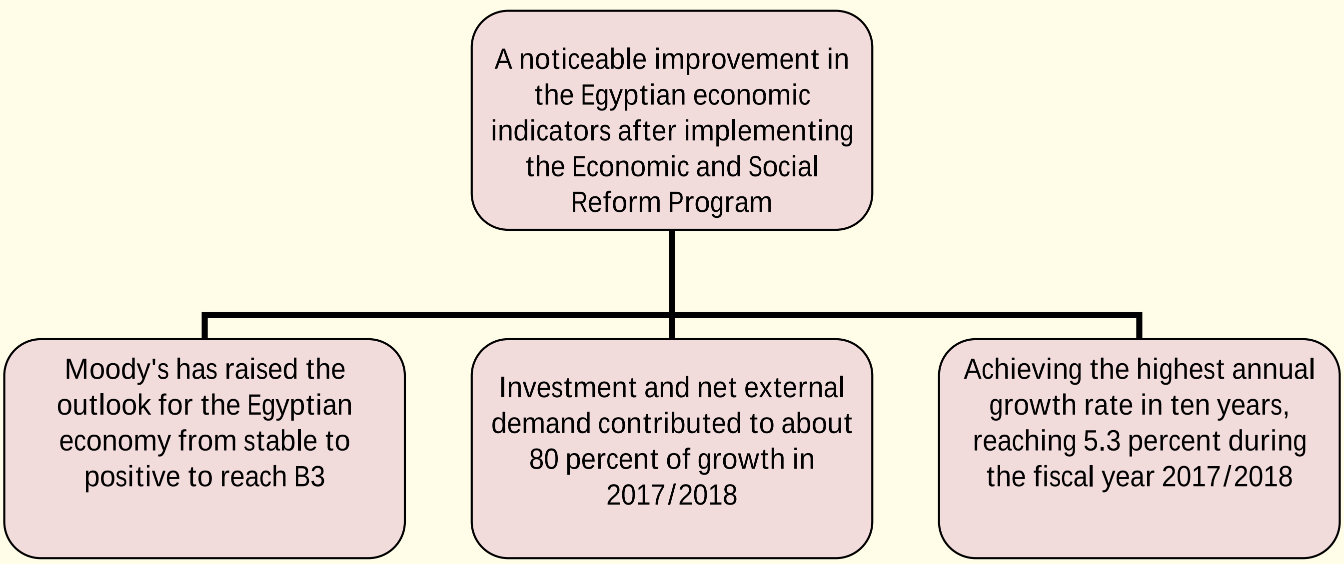
Main Highlights

The macroeconomic scene witnessed a noticeable improvement given the adoption of economic reforms by the Egyptian government which was reflected on the Egyptian economic indicators on so many levels. This has made it possible for the Egyptian economy to attract many international stakeholders and increase their confidence in the economy. One of the noticeable improvements is investment and net external demand contributing to about 80 percent of the remarkable growth that reached its highest peak of 5.3 percent in FY 2018/2019 in the past decade.

It's also worthy to mention that the 2018/2019 budget is one of the promising signals of the economic reform success, as a primary surplus is expected to be generated for the second year in a row, which has been an unforeseen event for 15 years. This event highlights nothing but the effective management of state funds that made revenues cover expenditures (excluding public debt interest payments).

This progress was clearly highlighted by Moody's announcement about raising the outlook for the Egyptian economy from stable to positive while maintaining the credit rating in both foreign and domestic currencies at B3, which is the best credit rating achieved by the Egyptian economy in five years. According to Moody's International, the Egyptian government's efficient implementation of the reform has provided financial stability in the economy offsetting the risks of debt financing.

Furthermore, a number of multinational companies are encouraged to invest in the renewable energy sector in light of the bold subsidy reform plan, especially of fuel. Accompanied by the opening of "Benban" Solar Energy Complex costing $2.8 billion and the "Gabal El-Zeit" Wind Power Station costing $670 million. As a result, by 2025 and before the UN 2030 SDGs, Egypt can move towards securing 42 percent of its energy needs through renewable resources. Undeniably, this can be a fact after the discovery of the "Zohr Field" of natural gas whose production increased to reach 1.6 billion cubic feet per day compared to 1.1 billion cubic feet in May 2018, in addition to raising the production to about 2.7 billion cubic feet per day by the middle of 2019.



Recent promising indicators

- PMI increased to register 50.5 in August 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 51.1, New Orders Index increased to 50.8 and Output Index increased to 50, in addition to the increase in Stocks of Purchases Index to reach 47.4 and the reduction in raw material prices.
- Net International Reserves (NIR) increased to a record-high US$ 44.4 billion during August 2018 (covering 8.4 months of imports), compared to US$ 36.1 billion at end of August 2017 (covering 7.3 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 1.6 percent of GDP during the period July-August 2018/2019, compared to 1.7 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 45.8 billion (increasing notably by 42.5 percent (LE 13.6 billion) in light of increased receipts from VAT on imported goods and domestic goods. Income tax receipts reached LE 22.3 billion. Taxes on Domestic Salaries reached LE 7.1 billion to increase by 32.5 percent (LE 1.7 billion). Meanwhile, collected Tax Receipts from Suez Canal increased by more that three folds (by LE 4.8 billion) to reach LE 6.7 billion, and increased receipts from Other Companies by 39.1 percent (LE 1.5 billion) to reach LE 5.2 billion. On the expenditure side, GASC subsidies increased by 48.0 percent (LE 3.0 billion) to record LE 9.3 billion, budget contributions in pensions rose by 87.9 percent (LE 4.2 billion) to reach LE 9 billion. Moreover, Investment Spending rose by 13.5 percent to record around LE 9.7 billion during the period of study.
- Regarding Monetary Developments, M2 annual growth decreased to 18.5 percent in June 2018 (LE 3457 billion), compared to 19.4 percent in last month, and compared to 39.3 percent at end of June 2017, according to recent data released by the CBE. This is attributed to the sharp decrease in the annual growth of Net domestic assets (NDA) to record 10.2 percent at end of June 2018 (LE 3147.5 billion), compared to 30.9 percent end of June 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 12 percent (LE 2217.6 billion) at end of June 2018, compared to 19.6 percent at end of June 2017. On the other hand, there's a positive annual growth trend in Net Foreign Assets (NFA) that records 407 percent (LE 309.5 billion) at end of June 2018, compared to 169.9 percent (LE 61.1 billion) at end of June 2017.
- Headline Urban Inflation increased to record 14.2 percent in August 2018, compared to 13.5 percent during previous month, and compared to 31.9 percent in August 2017. Factors contributing to this 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 & Beverages", "Alcoholic beverages& tobacco", "Furnishings& household equipment", "Health", and "Transportation".
- During its Monetary Policy Committee meeting held on September 27Th, 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$ 12.79 billion (5.1 percent of GDP), during the FY 2017/2018, compared to a surplus of US$ 13.72 billion (5.8 percent of GDP) in the FY 2016/2017. This decrease is mainly due to the result of the decrease in the capital and financial account by 29 percent to record US$ 22 billion in FY 2017/2018, compared to US$ 31 billion during the last fiscal year, this is due to the decline in Portfolio Investment in Egypt to reach US$ 12.1 billion (4.8 percent of GDP) during the FY 2017/2018, compared to US$ 16 billion (6.8 percent of GDP) during the last fiscal year, as well as the decline in FDI to record US$ 7.7 billion (3.1 percent of GDP) during the FY 2017/2018, compared to US$ 7.9 billion (3.4 percent of GDP) in the last fiscal year. The decline in the capital and financial account exceeded the increase in current account which recorded US$ -6 billion in the FY 2017/2018, compared to US$ -14.4 billion in the last FY 2016/2017. This is attributed to the increase in the services balance surplus to record US$ 11.1 billion (4.4 percent of GDP) during the FY 2017/2018, compared to a lower surplus of US$ 5.6 billion (2.4 percent of GDP) in the period of comparison, coupled by an increase in workers' remittances by US$ 4.6 billion to record US$ 26.4 billion compared to US$ 21.8 billion in the period of comparison. Which covered the stability in trade balance deficit that remained at US$ 37.3 billion (-14.85 percent of GDP) during the FY 2017/2018, compared to the same value last fiscal year.

- According to the latest published figures, total number of Tourist Arrivals increased by 48.5 percent to reach 9.8 million tourists during the FY 2017/2018, compared to 6.6 million tourists during last fiscal year. Moreover, Tourist Nights increased to reach 102.6 million nights during FY 2017/2018 increasing by 101.6 percent, compared to 50.9 million nights during last year.

- Total remittances of Egyptians working abroad increased during the period FY17/18 by $4.6 billion to register a new record level of about $26.4 billion, which is an increase of 21.0 percent, compared to about $21.8 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 12.0 percent a year ago. Meanwhile, the number of employed has reached 23 million labor during the same period, compared to 25.7 million.

- 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.

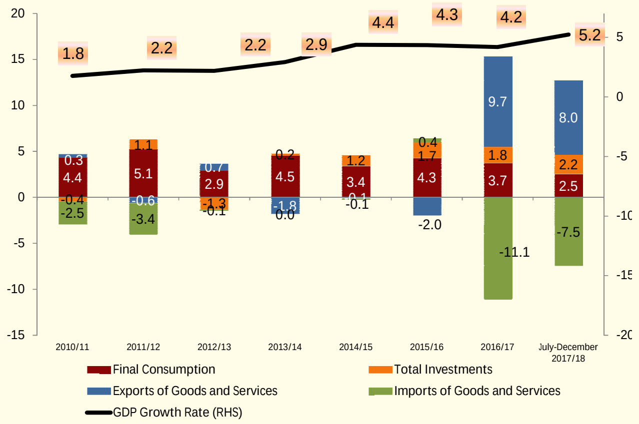
Furthermore, total Production Index rose by 9.2 percent on annual basis recording an average of 137.7 points during Q2-FY17/18, compared to a positive growth rate of 0.1 percent during Q2-FY16/17, driven mainly by Tourism Sub-Index that hiked by 78.9 percent on annual basis recording an average of 101.4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

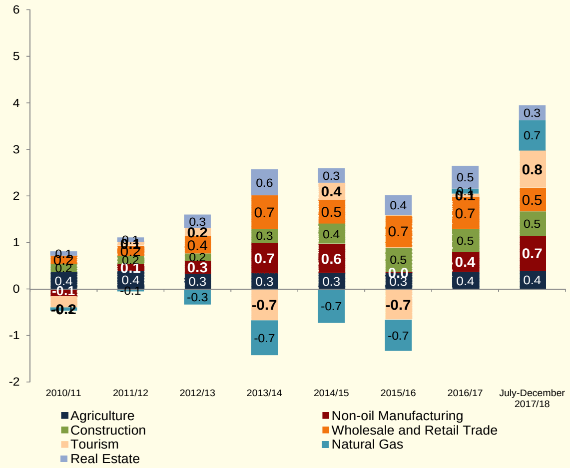
On the Demand Side, both Public and Private Consumption were key growth drivers during H1-FY17/18. Private consumption grew by 2.6 percent in H1-FY17/18, compared to 5 percent during the same period last fiscal year (contributing to growth by 2.3 PPT, compared to 4.2 PPT), while Public Consumption grew 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- August 2018/2019;

Latest indicators for the period July-August 2018/2019 show an improvement in fiscal indicators. There's a decline in the Budget Deficit reaching 1.6 percent of GDP (LE 83.9 billion), compared to 1.7 percent of GDP (LE 74.6 billion) during the same period last year. This could be explained in light of the increase in Revenues Growth Rate recording 34.9 percent during the period of study, exceeding the growth in expenditure recording 23.7 percent.

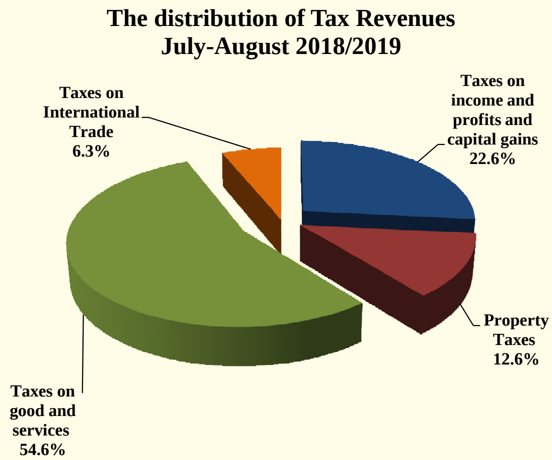
July-August 17/18 Budget Deficit LE 74.6 billion (1.7 percent of GDP)	July- August 18/19 Budget Deficit LE 83.9 billion (1.6 percent of GDP)*
Revenues LE 74.5 billion (1.7 percent of GDP)	Revenues LE 100.6 billion (1.9 percent of GDP)
Expenditure LE 148.9 billion (3.4 percent of GDP)	Expenditure LE 184.2 billion (3.5 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

* GDP estimate for FY17/18 has been revised recently to reach LE 4440.6 billion instead of 4286.5 billion. Meanwhile GDP projections for FY18/19 are estimated to reach LE 5250.9 billion as per the Ministry of Finance Calculations.

Detailed explanations are as follows:

On the Revenues Side



Total Revenues increased by LE 26 billion (34.9 percent growth increase) to record LE 100.6 billion during the period July-August 2018/2019, compared to LE 74.5 billion same period last fiscal year. These developments could be explained mainly in light of the increase in Tax Revenues (83.4 percent of total revenues) by LE 27.9 billion (50.0 percent growth increase) to record LE 83.9 billion during the period of study, compared to LE 55.9 billion during the same period last fiscal year. Meanwhile, Non-Tax Revenues (16.6 percent of total revenues) has declined by LE 1.9 billion (-10 percent growth) to record LE 16.7 billion during July-August 18/19, compared to LE 18.6 billion during the same period last fiscal year.

Tax Revenues Receipts from Non-sovereign Authorities, which are directly correlated to economic activity, witnessed an increase by 40.7 percent during the period of study, mainly driven by the increase in Non-sovereign Income Taxes and Sales Taxes Receipts by 34.0 percent and 57.4 percent, respectively.

On the Tax Revenues Side

Taxes on goods and services (45.5 percent of total revenues),Tax receipts from Income taxes (22.1 percent of total revenues), property taxes (10.5 percent of total revenues), and International Trade (5.3 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 9.0 billion (67.8 percent growth) to reach LE 22.3 billion (0.4 percent of GDP).
Taxes on income, capital gains and profits receipts represent 26.6 percent of total tax revenues.

Mainly on the back of:
- Increase in receipts from taxes on domestic salaries by LE 1.7 billion (32.5 percent) to reach LE 7.1 billion, compared to LE 5.4 billion during the same period last fiscal year.
- Increase in receipts from taxes on Suez Canal by more than three folds by LE 4.8 billion to reach LE 6.7 billion, compared to LE 1.9 billion during the same period last fiscal year.
- Increase in receipts from taxes on other companies by LE 1.5 billion (39.1 percent) to reach LE 5.2 billion, compared to LE 3.8 billion during the same period last fiscal year.

Taxes on Good and Services increased by LE 13.6 billion (42.5 percent growth) to reach LE 45.8 billion (0.9 percent of GDP)
- Taxes on goods and services receipts represent 54.6 percent of total tax revenues.

Mainly as a result of higher receipts from:
- General sales tax on goods increasing by 20.0 percent to record LE 20.4 billion, compared to LE 17.0 billion during the same period last fiscal year.
- The increase in general sales tax on services by 41.3 percent to record LE 5.2 billion, compared to LE 3.7 billion during the same period last fiscal year.
- The increase in domestic commodities (Table 1) by 86.1 percent to record LE 15.5 billion, compared to LE 8.3 billion during the same period last fiscal year.
- The increase in stamp tax receipts by 22.1 percent to record almost LE 2.3 billion, compared to LE 1.9 billion during the same period last fiscal year.

Property Taxes increased by LE 4.6 billion (76.3 percent growth) to reach LE 10.5 billion (0.2 percent of GDP).
- **Property Taxes receipts represent 12.6 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 67.8 percent to reach LE 8.5 billion during the period of study, compared to LE 5.1 billion during the same period last fiscal year.

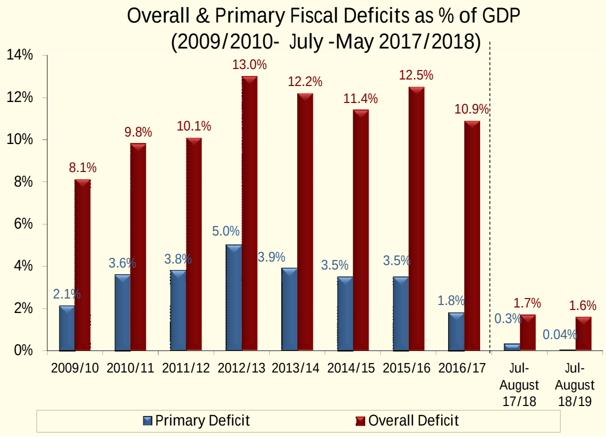
International Trade taxes increased by LE 0.7 billion (15.4 percent growth), to reach LE 5.3 billion (0.1 percent of GDP)
- **International Trade tax receipts represent 6.3 percent of the total tax revenues.**

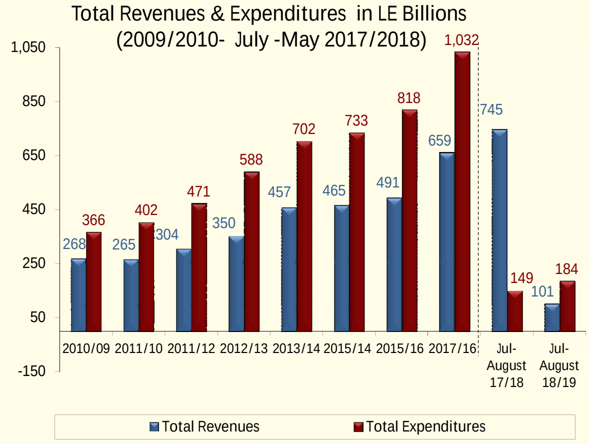
- In light of the increase in receipts from customs taxes by 16.6 percent to post LE 5.0 billion during period of study, compared to LE 4.3 billion during same period last fiscal year.

On the Non-Tax Revenues Side

Proceeds from Other Non-Tax Revenues recorded LE 16.5 billion during July-August 2018/2019, compared to LE 18.6 billion during the same period of last year.

- Property income receipts recorded LE 6.2 billion, compared to LE 7.6 billion recorded during July-Aug 16/17. Meanwhile, dividends collected from Suez Canal is affected by the global economy so it declined by LE 2.7 billion (-41.5 percent growth) to record LE 3.8 billion during the period of study, compared to LE 6.5 billion during the same period last year. Meanwhile, dividends received from economic authorities increased to reach LE 1.4 billion during the period of study, compared to LE 0.8 billion during the same period of last year.
- Proceeds from Sales of Goods and Services increased by more than double to reach LE 6.7 billion (to increase by LE 3.7 billion), compared to LE 3.0 billion during the same period last year .
- Meanwhile, Miscellaneous Revenues increased recorded LE 3.3 billion, declining by LE 4.5 billion during the period of study, compared to LE 7.8 billion recorded during July-August 17/18.
- Grants recoded to LE 248 million during July-August 2018/2019, compared to LE 12 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 23.7 percent to post LE 184.2 billion (3.5 percent of GDP) during the period July- August 18/19, compared to LE 148.9 billion during the same period of last year.

- Wages and Compensation of Employees rose by 24.8 percent to record LE 46.7 billion (0.9 percent of GDP) during the period of study (in light of the increase in permanent salaries to reach LE 12.6 billion, and the increase of rewards to reach LE 17.2 billion, and the increase of specific allowances to reach LE 3.9 billion).

- Purchase of Goods and Services increased by LE 2.1 billion (56.5 percent growth) to reach LE 5.8 billion (0.1 percent of GDP) (in light of the increase in spending on Maintenance to reach LE 1.1 billion, and Raw materials to record LE 1.5 billion).

- Interest Payments rose by 44.9 percent growth to reach LE 85.8 billion (1.6 percent of GDP), compared to LE 59.2 billion during the same period last year.

- Subsidies, Grants and Social Benefits rose by LE 3.3 billion (0.5 percent of GDP), (14.0 percent growth) to record LE 27.1 billion, compared to LE 23.8 billion during the same period last year.

    - ü Spending on Subsidies stabilized at LE 13.3 billion during the period of study, compared to LE 13.2 billion during the same period of last year, this came in light of; GASC spending grew by LE 3 billion (48 percent growth) reaching LE 9.3 billion during the period of study, compared to LE 6.3 billion during July- August 17/18, and which counterparted the decline in Electricity subsidies by LE 2.7 billion to reach LE 2.7 billion, compared to LE 5.4 billion during the same period of last year.

    - ü Spending on Social Benefits rose by LE 3.2 billion (33.5 percent growth) to reach LE 12.8 billion during the period of study, compared to LE 9.6 billion during the same period of last year, this came in light of; spending on budget contributions in pensions grew by LE 4.2 billion (88.2 percent growth) reaching LE 9.0 billion during the period of study, compared to LE 4.8 billion during July- August 17/18, and the decline in Voluntary Transfers (Service expenditures for non employees) by LE 1.7 billion to record LE 0.5 billion during the period of study, compared to LE 2.2 billion during the same period last year, in light of the exceptional increase in spending on health treatments for Virus C Program incurred during the same period of last year.

- Purchases of Non-financial Assets (investments) rose by LE 1.1 billion (0.2 percent of GDP), growing by 13.5 percent growth to reach LE 9.7 billion (in light of increased spending on fixed assets to record LE 9.2 billion).
- Other Expenditures recorded LE 9.2 billion (0.2 percent of GDP), declining by -43.7 percent 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)

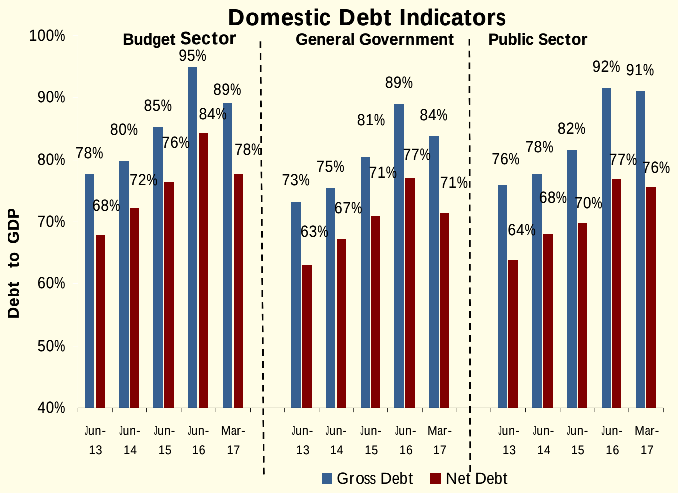
- Domestic Budget Sector Debt increased to LE 3097,6 billion (89.3 percent of GDP) by end of March 2017, compared to LE 2573 billion (95 percent of GDP) by end of June 2016.

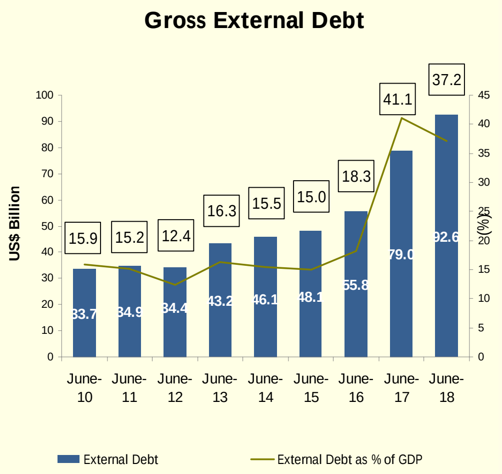
  The rise in Domestic Budget Sector Debt during the period of study was mainly due to financing the budget deficit, in addition to the impact of settling of some cross-debt issues among budget sector entities (particularly those of the SIF and EGPC). It is worthy to note that these settlements are expected to eventually enhance their financial performance.

- External Debt Stock (Government and Non-government Debt) increased to US$ 92.6 billion (37.2 percent of GDP) at end of June 2018, compared to US$ 79 billion at end of June 2017.
- Meanwhile, Government External Debt increased to US$ 47.6 billion (19.1 percent of GDP) as of end of June 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:

Regarding Monetary Developments, M2 annual growth decreased to 18.5 percent in June 2018 (LE 3457 billion), compared to 19.4 percent in last month, and compared to 39.3 percent at end of June 2017, according to recent data released by the CBE. This is attributed to the sharp decrease in the annual growth of Net domestic assets (NDA) to record 10.2 percent at end of June 2018 (LE 3147.5 billion), compared to 30.9 percent end of June 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 12 percent (LE 2217.6 billion) at end of June 2018, compared to 19.6 percent at end of June 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 5.2 percent (LE 2266.3 billion) at end of June 2018, compared to 33.5 percent at end of June 2017.

Also, Credit Facilities annual growth increased to 30.8 percent (LE 131.7 billion) at end of June 2018, compared to -65.4 percent at end of June 2017. While, Government Deposits annual growth decreased to -4.6 percent (LE 426.4 billion) at end of June 2018, compared to 47.7 percent at end of June 2017.

Furthermore, annual growth of Claims on Public Business Sector decreased significantly to 7.7 percent (LE 160.2 billion) at end of June 2018, compared to 59.8 percent at end of June 2017.

Annual growth in Credit to the Private Sector decreased to 10.1 percent (LE 1082.6 billion) at end of June 2018, compared to 38 percent (LE 982.9 billion) at end of June 2017. This could be attributed to the decrease witnessed in annual growth of Claims on Private Business Sector to record LE 7.6 percent (LE 801.4 billion) during the month of study, compared to 47.7 percent (LE 744.6 billion) at end of June 2017. Moreover, annual growth of Claims on Household Sector decreased to record 18 percent (LE 281.2 billion) at end of June 2018, compared to 14.7 percent (LE 238.3 billion) at end of June 2017.

On the other hand, there's a positive annual growth trend in Net Foreign Assets (NFA) that records 407 percent (LE 309.5 billion) at end of June 2018, compared to 169.9 percent (LE 61.1 billion) at end of June 2017. This is credited primarily to the decrease in the annual growth of Banks' net foreign reserves' to -86 percent at end of June 2018, compared to 234.9 percent at end of June 2017. In addition, CBE net foreign reserves' annual growth increased exponentially to 8070.5 percent at end of June 2018 (LE 301.5 billion), compared to 108.2 percent at end of June 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 16.4 percent (LE 823.3 billion) at end of June 2018, compared to 23.5 percent at end of June 2017. This could be attributed to the deceleration in Currency in Circulation's annual growth - in light of CBE's contractionary monetary policy - of 5.4 percent at end of June 2018, compared to 20.8 percent at end of June 2017, which could not be offset by the upsurge in Demand Deposits in Local Currency's annual growth to 32.4 percent (LE 381.7 billion) at end of June 2018, compared to 27.6 percent at end of June 2017.

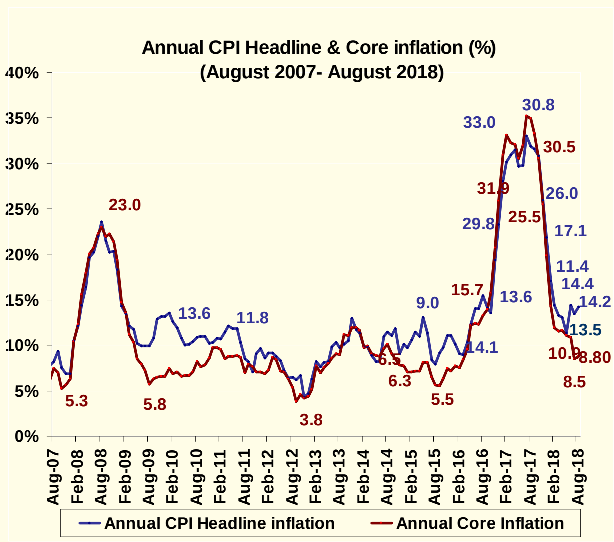
Quasi Money annual growth decreased to 19.1 percent (LE 2633.7 billion) at end of June 2018, compared to 45.3 percent at end of June 2017. This is mainly due to the beginning of stability in the impact of the higher exchange rate after its liberalization in November 2016 as well as the latest raise in interest rates by CBE of 200 bps in July 2017. On a detailed level, Foreign Currency Demand, Time & Savings annual growth decreased to record 3.3 percent (LE 717 billion) at end of June 2018, compared to 114.4 percent at end of June 2017. Meanwhile, annual growth of Local Currency Time and Savings Deposits increased to 26.4 percent (LE 1916.8 billion) at end of June 2018, compared to 26.6 percent at end of June 2017.

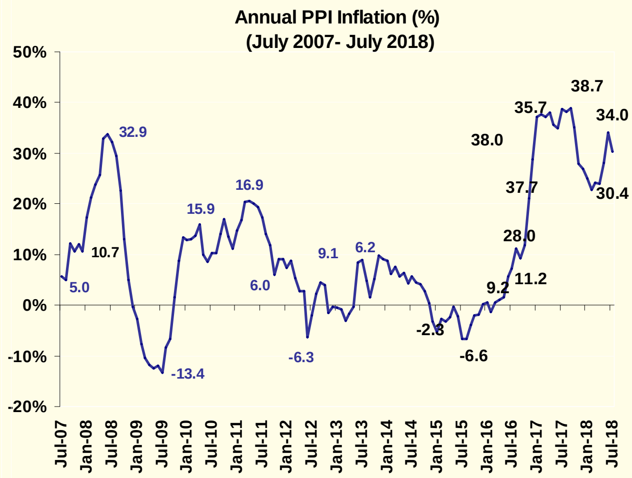
Total Deposits annual growth rate– excluding deposits at the CBE – decreased to 18.9 percent (LE 3536.3 billion) at the end of May 2018, compared to 43 percent at end of May 2017. Out of total deposits, 84.4 percent belonged to the non-government sector. Moreover, annual growth rate in Total Lending by the banking sector (excluding CBE) decreased to 15 percent (LE 1616.1 billion) at end of May 2018, compared to 51.8 percent at end of May 2017. To that end, the Loans-to-deposits Ratio slightly decreased to 45.7 percent at end of May 2018, compared to 47.3 percent at end of May 2017. (Data for June 2018 is not yet available).

- Net International Reserves (NIR) increased to a record-high US$ 44.4 billion during August 2018 (covering 8.4 months of imports), compared to US$ 36.1 billion at end of August 2017 (covering 7.3 months of imports), and compared to a lowest level of US$ 13.4 billion at end of March 2013 (covering 3.5 months of imports).

- Headline Urban Inflation increased to record 14.2 percent in August 2018, compared to 13.5 percent during previous month, and compared to 31.9 percent in August 2017. Factors contributing to this 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 11.6 percent during August 2018, compared to 9.6 percent during last month, "Alcoholic Beverages& tobacco" to record 21.9 percent, compared to 21.0 percent, "Furnishings& household equipment” to record 15.8 percent, compared to 15.0 percent, "Health " to record 4.0 percent, compared to 3.8 percent, and "Transportation " to record 38.1 percent during August 2018.

- Average Annual Headline Inflation recorded 13.9 percent during July- August 18/19, compared to 32.5 percent during the same period of last year.





- Monthly Inflation increased at a slower pace to 1.8 percent during August 2018, compared to 2.4 percent during last month, and compared to 2.4 percent the average recorded during the period November 2016 to September 2017 (inflationary pressure period). This came in light of the decrease in some sub items on the top of which; "Clothing and footwear" to record -0.8 percent, compared to 1.5 percent during last month, "Housing, Water, Electricity and Fuel" to record 1.6 percent, compared to 5.2 percent during last month, "Furnishings& household equipment" recoded 0.7 percent, compared to 2.2 percent during last month, "Recreation and culture" group has recorded 0.1 percent, compared to 3.4 percent during last month, and "Restaurants and Hotels" group has recorded 0.9 percent, compared to 4.1 percent during last month. This overweighted the increase of **"**Meat**"** by 1.7 percent, compared to -1.9 percent during last month, **"**Fruit**"** by 7.1 percent, compared to 4.1 percent, **"**Milk& Egg**"** by 1.6 percent, compared to 0.6 percent ,and **"**Electricity and Fuel**"** by 4.4 percent.

- Annual Core Inflation[1] increased to record 8.8 percent during August 2018, compared to 8.5 percent during the last month, and compared to 34.9 percent during August 2017. Meanwhile, monthly core inflation has stabilized at 0.58 percent during August 2018.

- During its Monetary Policy Committee meeting held on September 27th, 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 October 16th, 2018 worth LE 50 billion with 7-day maturity at a fixed annual interest rate of 17.25 percent.

- The Egyptian Exchange market capitalization increased by 0.9 percent m-o-m during August 2018 to reach LE 881.7 billion, compared to LE 873.6 billion in the previous month. The EGX-30 Index increased by 2.8 percent during August 2018 to reach 16,009.4 points, compared to closing at 15,580.2 points by the end of July 2018. Meanwhile, the EGX-70 increased by 0.4 percent, closing at 747.4 points compared to 744.5 points in the previous month.

1/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'.

Ø *On the External Sector side:*

BOP ran an overall surplus of US$ 12.79 billion (5.1 percent of GDP), during the FY 2017/2018, compared to a surplus of US$ 13.72 billion (5.8 percent of GDP) in the FY 2016/2017. This decrease is mainly due to the result of the decrease in the capital and financial account by 29 percent as a result of the decline in Portfolio Investment abroad and in Egypt. The decline in the capital and financial account exceeded the increase in current account which recorded US$ -6 billion in the FY 2017/2018, compared to US$ -14.4 billion in the last FY 2016/2017. On a more detailed level, these developments occurred as a result of the following:

§ Current account recorded a deficit of US$ 6 billion (-2.4 percent of GDP) during the FY 2017/2018, however, this is considered a very huge improvement compared to a much higher deficit of US$ 14.4 billion (-6.1 percent of GDP) in the period of comparison. This is explained by the increase in the services balance surplus and transfers, which exceeded the slight decline in the trade balance. This amelioration came in light of the following:

- Trade balance deficit remained stable to record US$ 37.3 billion (-14.85 percent of GDP) during the FY 2017/2018, compared to the same value last fiscal year. This was mainly driven by the increase in merchandise exports by 19 percent (US$ 4.1 billion), to register US$ 25.8 billion compared to US$ 21.7 billion in the period of comparison, which offset the similar increase in merchandise imports by 6.9 percent (US$ 4.1 billion) to reach US$ 63.1 billion compared to US$ 59 in the period of comparison. This is mostly due to the increase in non-petroleum exports by 12.7 percent to record US$ 17.1 billion during the study period, compared to US$ 15.1 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$ 8.8 billion in the period of study, compared to US$ 6.6 billion in the period of comparison due to the increase in international world prices of oil.
- The services balance surplus escalated to record US$ 11.1 billion (4.4 percent of GDP) during the FY 2017/2018, compared to a lower surplus of US$ 5.6 billion (2.4 percent of GDP) in the period of comparison. This mainly came in light of the increase witnessed in Suez Canal receipts to record US$ 5.7 billion, compared to US$ 4.9 billion during the last fiscal year, in addition to the increase in travel receipts (tourism revenues) that reached US$ 9.8 billion in the period of study, compared to US$ 4.4 billion in period of comparison. Whereas, travel payments experienced a decrease to record US$ 2.5 billion, compared to US$ 2.7 billion.

§ Net Transfers expanded to register US$ 26.5 billion during the FY 2017/2018, compared to US$ 21.8 billion during last fiscal year, mainly due to the increase in workers' remittances by US$ 4.6 billion to record US$ 26.4 billion compared to US$ 21.8 billion in the period of comparison; reflecting the effect of exchange rate liberalization.

§ Meanwhile, the Capital and Financial Account decreased to register US$ 22 billion (8.8 percent of GDP) during the FY 2017/2018, compared to higher net inflow of US$ 31 billion (13.2 percent of GDP) in the last fiscal year. This is due to the following:

- Net foreign direct investment in Egypt (FDI) decreased to reach US$ 7.7 billion (3.1 percent of GDP) during the FY 2017/2018, compared to US$ 7.9 billion (3.4 percent of GDP) in the last fiscal year. This is mainly due to the net investment of US$ 4.5 billion in the oil sector.

- Portfolio investment in Egypt decreased to record US$ 12.1 billion (4.8 percent of GDP) during the FY 2017/2018, compared to US$ 16 billion (6.8 percent of GDP) during the last fiscal year. This was ascribed to the decrease in foreigners' investments in Egyptian treasury bills, recording net purchases of US$ 6.5 billion during period of study, compared to US$ 10 billion during the period of comparison, and to the bonds offered abroad by the Egyptian government, in the amount of US$ 5.3 billion during the FY 2017/2018.
- Other investments decreased to register US$ 2.6 billion (1.1 percent of GDP) during the FY 2017/2018, compared to net inflows of US$ 7.2 billion (3.1 percent of GDP) in the last fiscal year.
- Net change in the liabilities of the CBE to the external world decreased, posting a net external repayment of US$ 3.9 billion during the FY 2017/2018, compared to US$ 8.1 billion in the last fiscal year.

§ Net errors and omissions recorded a net outflow of US$ 3.2 billion (-1.3 percent of GDP) during the FY 2017/2018, compared to an outflow of US$ 2.9 billion (-1.2 percent of GDP) during the last fiscal year.

Ø According to the latest published figures, total number of Tourist Arrivals increased by 48.5 percent to reach 9.8 million tourists during the FY 2017/2018, compared to 6.6 million tourists during last fiscal year. Moreover, Tourist Nights increased to reach 102.6 million nights during FY 2017/2018 increasing by 101.6 percent, compared to 50.9 million nights during last year.