

Executive Summary

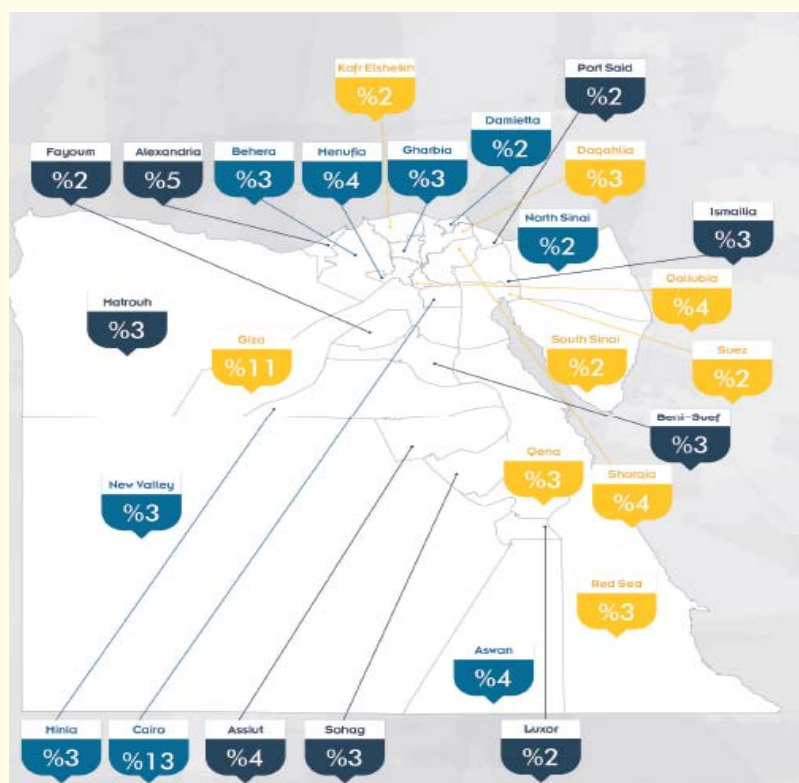
Main Highlights

Egypt's macroeconomic scene is getting back on track which is reflected by improvements in key economic indicators during the past three years of economic reforms. The Ministry of Finance has been implementing the Fiscal Policy plan within the whole government's reform program and accordingly, the ministry believes that a noticeable improvement must be accompanied by a transparent communication strategy to engage the public in the country's economic vision and the policy-making process.

In this regard, the Ministry of Finance issued the fifth Citizen's Budget Report for the fiscal year 2018/2019, while in the near future, a conference will be held in this occasion gathering private sector, academicians and civil society representatives. Moreover, the Ministry assures the importance of transparency and disclosure through establishing an independent Unit for Fiscal Transparency and Citizen Engagement within the Ministry's structure. This unit will not only enhance the flow of information and its comprehensiveness but it will also help in spreading fiscal and economic awareness all over Egypt. The unit will increase publishing timely reports and simplified flyers, conduct conferences with civil society, business organizations, media professionals and citizens at the local level as well as paying visits across governorates to build a communication network that enhances trust among all citizens.

Publishing the Citizen's Budget Report reflects the belief of the Ministry in the citizens' right to know the budget of the country in a simplified language. The purpose of this report is disclosing the general budget items approved by the State after being published in the official newspaper and to explain the fiscal policy, the stages of budget preparation, tax and non-tax policies and social programs. The Citizen's Budget Handbook is one of the most important reports on which the International Financial Transparency Assessment of Egypt is based, along with seven other financial documents issued by the Ministry. In the past years, efforts have led to raising Egypt's financial transparency index globally by 25 notches in 2017 to reach 41 points, up from 16 points, which is near the world average, after six years of decline. This result is announced every two years by the International Budget Partnership after analyzing budget data and published reports to measure the level of transparency of the government.

The Beneficiaries of State Budget 2018-2019 (Citizen Budget 2018/2019)



Recent promising indicators

- **PMI increased to register 50.5** in August 2018, compared to a five-year low of 41.7 in July 2013. 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\$ 44.5 billion during September 2018** (covering 8.5 months of imports), compared to US\$ 44.4 billion last month (covering 8.4 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 almost stabilized to record 1.9 percent of GDP** during the period July-Sep 2018/2019, compared to the same number 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 75.4 billion (increasing notably by 37.3 percent (LE 20.5 billion) in light of increased receipts from VAT on imported goods and domestic goods. **Income tax receipts** reached LE 35.8 billion. **Taxes on Domestic Salaries** reached LE 10.6 billion to increase by 31.9 percent (LE 2.6 billion).

Meanwhile, **collected Tax Receipts from Suez Canal increased by more than double** (by LE 5.2 billion) to reach LE 9.6 billion, and receipts from **Other Companies** have increased **by 52.6 percent** (LE 3.4 billion) to reach LE 10.6 billion. **On the expenditure side, GASC subsidies increased** by 16.8 percent (LE 1.7 billion) to record LE 11.5 billion, budget contributions in pensions rose by 60.4 percent (LE 4.7 billion) to reach LE 12.5 billion. Moreover, **Investment Spending rose** by 84.7 percent (LE 12.6 billion) to record LE 27.4 billion during the period of study.

- Regarding **Monetary Developments**, **M2** annual growth increased slowly to **17.9 percent** in July 2018 (LE 3466 billion), compared to 18.5 percent in last month, and compared to 38.7 percent during July 2017, according to recent data released by the CBE. This can be explained due to the increase in the annual growth **of Net domestic assets (NDA) to record** 13.7 percent at end of July 2018 (LE 3183.9 billion), compared to 10.2 percent last month (LE 3147.5 billion). Also, there's a decrease in annual growth trend in **Net Foreign Assets (NFA)** that records 102.1 percent (LE 282.2 billion) at end of July 2018, compared to 407 percent (LE 309.5 billion) last month.
- **Headline Urban Inflation** increased to record 16.0 percent in September 2018, compared to 14.2 percent during previous month, and compared to 31.6 percent in September 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", "Clothing& Footwear", "Transportation", and "Restaurants& Hotels"**.
- **During its Monetary Policy Committee** meeting held on November 15Th, 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 5.4 percent** during Q3-FY17/18, compared to 4.4 percent during the same period last fiscal year. **Net Exports performance has the largest contribution** to growth of 2.1 PPT, compared to 0.2 PPT during Q3-FY16/17. Meanwhile, **public and private consumption have contributed to growth by** a total contribution of 1.4 PPT, compared to 3.2 PPT during Q3-FY16/17. **Investments contributed positively** to growth by 1.9 PPT, compared to a lower contribution of 1.0 PPT during Q3-FY16/17. Furthermore, **total Production Index rose by 4.7 percent on annual basis** recording an average of 125.8 points during Q3-FY17/18, compared to 120.1 points during Q3-FY16/17, **driven mainly by Tourism Sub-Index that hiked by 47.4 percent** on annual basis recording an average of 100 points during Q3-FY17/18, compared to 67.8 points during Q3-FY16/17, **and Suez Canal Sub-Index that picked-up by 13.1 percent** on annual basis recording an average of 131.4 points during Q3-FY17/18, compared to 116.1 points during Q3-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\$ 33.4 billion end of June 2018, compared to US\$ 25.9 billion at end of June 2017. Meanwhile, **Monetary Authorities debt decreased** to US\$ 26.6 billion at the end of June 2018, compared to US\$ 30.3 billion 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 5.4 percent** during Q3-FY17/18, compared to 4.4 percent during the same period last fiscal year. **Net Exports performance has the largest contribution** to growth of 2.1 PPT, compared to 0.2 PPT during Q3-FY16/17. Meanwhile, **public and private consumption have contributed to growth by** a total contribution of 1.4 PPT, compared to 3.2 PPT during Q3-FY16/17. **Investments**

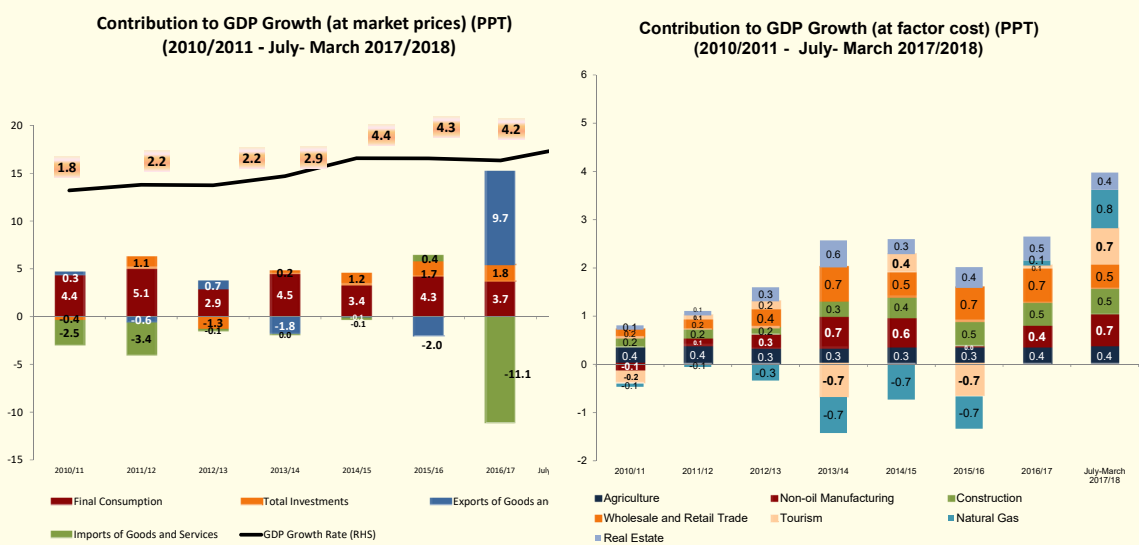
contributed positively to growth by 1.9 PPT, compared to a lower contribution of 1.0 PPT during Q3-FY16/17.

Furthermore, **total Production Index rose by 4.7 percent on annual basis** recording an average of 125.8 points during Q3-FY17/18, compared to 120.1 points during Q3-FY16/17, **driven mainly by Tourism Sub-Index that hiked by 47.4 percent** on annual basis recording an average of 100 points during Q3-FY17/18, compared to 67.8 points during Q3-FY16/17, **and Suez Canal Sub-Index that picked-up by 13.1 percent** on annual basis recording an average of 131.4 points during Q3-FY17/18, compared to 116.1 points during Q3-FY16/17.

Meanwhile, **GDP grew by 5.3 percent** during 9M-FY17/18, compared to 3.9 percent during the same period last fiscal year. **Public and Private Consumption** contributed to economic growth during 9M-FY17/18 by 1.4 PPT, compared to 4.1 PPT during 9M-FY16/17. **Investments contributed positively** to growth by 2.1 PPT, compared to a lower contribution of 2.0 PPT during 9M-FY16/17. Moreover, **Net Exports contributed positively** to growth by 1.8 PPT, compared to a negative contribution of 2.1 PPT during 9M-FY16/17.

On the Demand Side, Private consumption grew by 1.4 percent in 9M-FY17/18, compared to 4.5 percent during the same period last fiscal year (contributing to growth by 1.2 PPT, compared to 3.8 PPT), while **Public Consumption grew by 2.2 percent** in the period of study, compared to 2.4 percent (contributing to growth by 0.2 PPT, compared to 0.3 PPT). In the meantime, recent data shows that **Investments grew by 13.5 percent** during 9M-FY17/18, compared to 13.6 percent during the same period last fiscal year (contributing to growth by 2.1 PPT, compared to 2.0 PPT).

Furthermore, **Net Exports** boosted growth with a positive contribution of 1.8 PPT, compared to a negative contribution of 2.1 PPT during 9M-FY16/17. This improvement came in light of **growth in Exports to reach 45.9 percent** during 9M-FY17/18 (contributing to growth by 6.4 PPT during 9M-FY17/18, compared to 7.8 PPT during the same period last fiscal year). While **Imports increased by 16.9 percent** in the period of study, compared to 47 percent during same period last fiscal year (contributing negatively to growth by 4.6 PPT, compared to a negative contribution of 10 PPT during the same period last fiscal year).



On the Supply Side, seven key sectors led growth, on top of which was **Tourism** which recorded growth rate of 36 percent during 9M-FY17/18 (contributing positively to growth by 0.7 PPT, compared to a negative contribution of 0.1 PPT during the same period last fiscal year). In addition, **Non-Petroleum Manufacturing Sector** which recorded a 5 percent real growth rate

during 9M-FY17/18 (contributing positively to growth by 0.7 PPT, compared to 0.6 PPT during the same period last fiscal year). Moreover, **the Agriculture Sector** recorded a real growth rate of 3.0 percent (stabilizing at 0.4 PPT contribution to growth during 9M-FY17/18). Meanwhile, **the Construction Sector** witnessed a growth rate of 9.6 percent in 9M-FY17/18 (contributing by around 0.5 PPT to GDP, compared to 0.4 PPT during 9M-FY16/17). Additionally, **the Wholesale and Retail Sector** witnessed a growth of 3.6 percent (contributing positively to growth by 0.5 PPT, compared to 0.6 PPT during the same period last fiscal year) and **the Real Estate** recorded a 3.5 percent real growth rate in 9M-FY17/18 (stabilizing at 0.4 PPT contribution to growth during 9M-FY17/18). It is also worthy to note that **the Natural Gas Sector** expanded to record a 20.8 percent real growth rate during 9M-FY17/18 (contributing positively to GDP growth by 0.8 PPT, compared to 0.2 PPT during 9M-FY16/17).

Taken together, the above-mentioned key sectors represented around 62.0 percent of total real GDP during 9M-FY17/18.

Fiscal Sector Performance during July- Sep 2018/2019;

Latest indicators for the period July-Sep 2018/2019 show an improvement in fiscal indicators. **Budget Deficit stabilized at 1.9 percent of GDP** (LE 102.4 billion), compared to the same percent during the same period last year recording (LE 85.3 billion). This could be explained in light of the **increase in Revenues** by 35.3 percent during the period of study, exceeding the growth in expenditure recording 28.9 percent.

July-Sep 17/18 Budget Deficit LE 85.3 billion (1.9 percent of GDP)	July- Sep 18/19 Budget Deficit LE 102.4 billion (1.9 percent of GDP)*
Revenues LE 128.9 billion (2.9 percent of GDP)	Revenues LE 174.5 billion (3.3 percent of GDP)
Expenditure LE 214.1 billion (4.8 percent of GDP)	Expenditure LE 276.0 billion (5.3 percent of GDP)

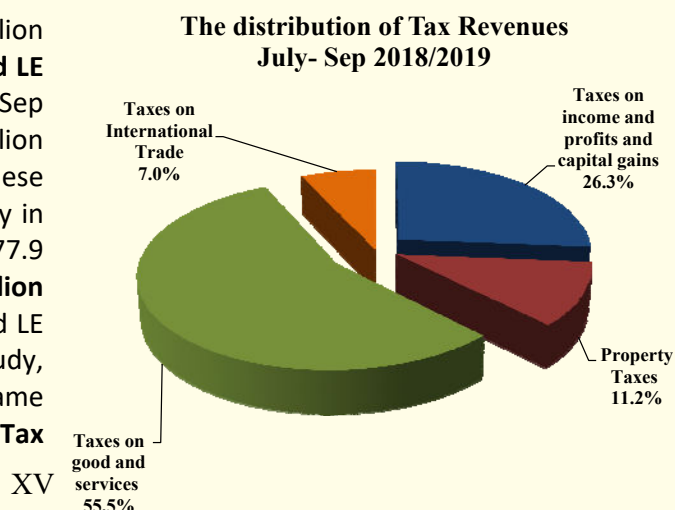
Source: Ministry of Finance, Macro Fiscal Policy Unit

* 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 45.5 billion (35.3 percent growth increase) **to record LE 174.5 billion** during the period July-Sep 2018/2019, compared to LE 128.9 billion same period last fiscal year. These developments could be explained mainly in light of the **increase in Tax Revenues** (77.9 percent of total revenues) **by LE 38.7 billion** (39.8 percent growth increase) to record LE 135.8 billion during the period of study, compared to LE 97.2 billion during the same period last fiscal year. Moreover, **Non-Tax**



Revenues (22.1 percent of total revenues) has increased by LE 6.8 billion (21.5 percent growth) to record LE 38.6 billion during July-Sep 18/19, compared to LE 31.8 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 34.4 percent during the period of study, mainly driven by the **increase in Non-sovereign Income Taxes and Sales Taxes Receipts** by 38.6 percent and 32.6 percent, respectively.

On the Tax Revenues Side

Taxes on goods and services (43.2 percent of total revenues), Tax receipts from Income taxes (20.5 percent of total revenues), property taxes (8.7 percent of total revenues), and International Trade (5.4 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 13.0 billion (57.3 percent growth) to reach LE 35.8 billion (0.7 percent of GDP).

Taxes on income, capital gains and profits receipts represent 26.3 percent of total tax revenues.

Mainly on the back of:

- Increase in receipts from taxes on domestic salaries by LE 2.6 billion (31.9 percent) to reach LE 10.6 billion, compared to LE 8.0 billion during the same period last fiscal year.
- Increase in receipts from taxes on Suez Canal by more than double by LE 5.2 billion to reach LE 9.6 billion, compared to LE 4.4 billion during the same period last fiscal year.
- Increase in receipts from taxes on other companies by LE 3.7 billion (52.6 percent) to reach LE 10.6 billion, compared to LE 6.9 billion during the same period last fiscal year.

Taxes on Good and Services increased by LE 20.5 billion (37.3 percent growth) to reach LE 75.4 billion (1.4 percent of GDP)

- Taxes on goods and services receipts represent 55.5 percent of total tax revenues.

Mainly as a result of higher receipts from:

- General sales tax on goods increasing by 25.0 percent to record LE 35.1 billion, compared to LE 28.1 billion during the same period last fiscal year.
- The increase in general sales tax on services by 33.4 percent to record LE 7.9 billion, compared to LE 5.9 billion during the same period last fiscal year.
- The increase in domestic commodities (Table 1) by 45.7 percent to record LE 22.9 billion, compared to LE 15.8 billion during the same period last fiscal year.
- The increase in stamp tax receipts by LE 0.3 billion to record almost LE 2.7 billion, compared to LE 2.4 billion during the same period last fiscal year.

Property Taxes increased by LE 4.8 billion (45.7 percent growth) to reach LE 15.2 billion (0.3 percent of GDP).

- Property Taxes receipts represent 11.2 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 29.4 percent to reach LE 11.9 billion during the period of study, compared to LE 9.2 billion during the same period last fiscal year.

International Trade taxes increased by LE 2.9 billion (45.0 percent growth), to reach LE 9.5 billion (0.2 percent of GDP)

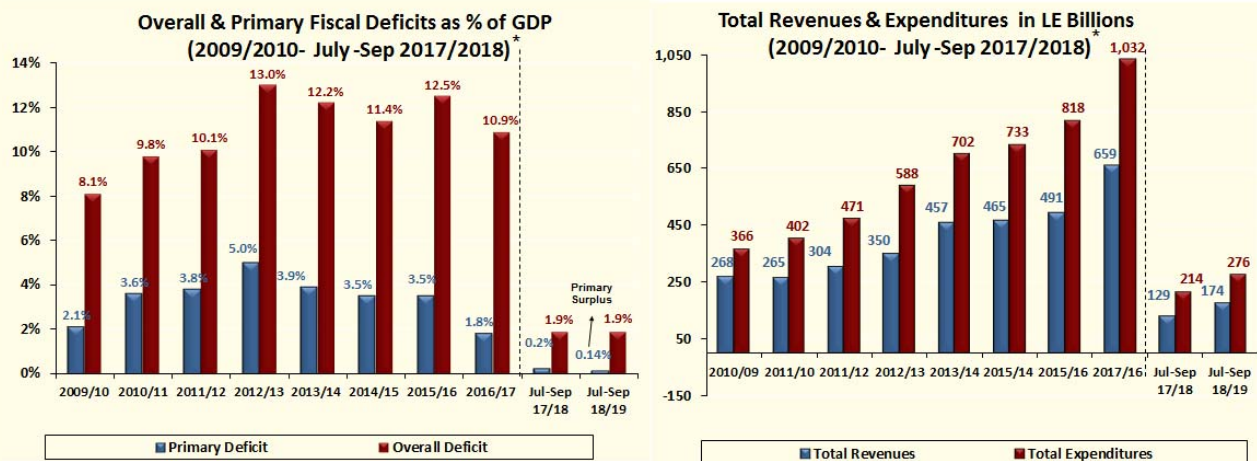
- International Trade tax receipts represent 7.0 percent of the total tax revenues.

- In light of the increase in receipts from customs taxes by 47.8 percent to post LE 9.1 billion during period of study, compared to LE 6.1 billion during same period last fiscal year.

On the Non-Tax Revenues Side

Proceeds from Other Non-Tax Revenues increased to record LE 38.4 billion during July-Sep 2018/2019, compared to LE 31.8 billion during the same period of last year.

- ✓ **Proceeds from Sales of Goods and Services** increased by more than double to reach LE 12.1 billion (to increase by LE 6.6 billion), compared to LE 5.5 billion during the same period last year .
- ✓ **Miscellaneous Revenues** increased by LE 4.6 billion to record LE 14.1 billion during the period of study, compared to LE 9.5 billion recorded during July-Sep 17/18.
- ✓ Meanwhile **Property income** receipts recorded LE 11.5 billion, compared to LE 16.7 billion recorded during July-Sep 16/17. This came in light of the decrease of dividends collected from Suez Canal is affected by the global economy by LE 1.6 billion (-19.5 percent growth) to record LE 6.6 billion during the period of study, compared to LE 8.2 billion during the same period last year. Meanwhile, dividends received from economic authorities increased to reach LE 2.0 billion during the period of study, compared to LE 0.7 billion during the same period of last year, compared to LE 1.3 billion during the same period of last year.
- ✓ **Grants recoded** to LE 270 million during July-Sep 2018/2019, compared to LE 18 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 28.9 percent** to post LE 276 billion (5.3 percent of GDP) during the period July- Sep 18/19, compared to LE 214 billion (4.8 percent of GDP) during the same period of last year.

- **Wages and Compensation of Employees rose by 13.0 percent** to record LE 68.0 billion (1.3 percent of GDP) during the period of study (on the top of which the increase in permanent salaries to reach LE 19.4 billion, and the increase of rewards to reach LE 23.3 billion, and specific allowances have stabilized at LE 5.9 billion).
- **Purchase of Goods and Services increased by LE 5.8 billion (85.7 percent growth)** to reach LE 12.6 billion (0.2 percent of GDP) (on the top of which the increase in spending on Raw materials to record LE 4.4 billion, and Maintenance to reach LE 1.9 billion).
- **Interest Payments rose by 44.3 percent growth** to reach LE 109.5 billion (2.1 percent of GDP), compared to LE 75.9 billion during the same period last year.
- **Subsidies, Grants and Social Benefits rose by LE 7.0 billion (0.8 percent of GDP), (19.4 percent growth)** to record LE 43.3 billion, compared to LE 36.3 billion during the same period last year.
 - ✓ **Spending on Subsidies increased by 14 percent (LE 2.7 billion) to record LE 22.2 billion** during the period of study, compared to LE 19.5 billion during the same period of last year, this came in light of; GASC spending grew by LE 1.7 billion (16.8 percent growth) reaching LE 11.5 billion during the period of study, compared to LE 9.8 billion during July- Sep 17/18, and EGPC spending increased to reach LE 4.0 billion during the period of study, which counterparted the decline in Electricity subsidies by LE 3.4 billion to reach LE 4.0 billion, compared to LE 7.4 billion during the same period of last year.
 - ✓ **Spending on Social Benefits rose by LE 3.4 billion (22.2 percent growth)** to reach LE 18.8 billion during the period of study, compared to LE 15.3 billion during the same period of last year, this came in light of; spending on budget contributions in pensions grew by LE 4.7 billion (60.4 percent growth) reaching LE 12.5 billion during the period of study, compared to LE 7.8 billion during July- Sep 17/18, and the decline in Voluntary Transfers (Service expenditures for non employees) by LE 1.3 billion to record LE 1.4 billion during the period of study, compared to LE

2.7 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 12.6 billion (0.5 percent of GDP),** growing by 84.7 percent growth to reach LE 27.4 billion (in light of increased spending on fixed assets to record LE 26.2 billion).
- **Other Expenditures recorded LE 15.1 billion (0.3 percent of GDP),** declining by -24.8 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)

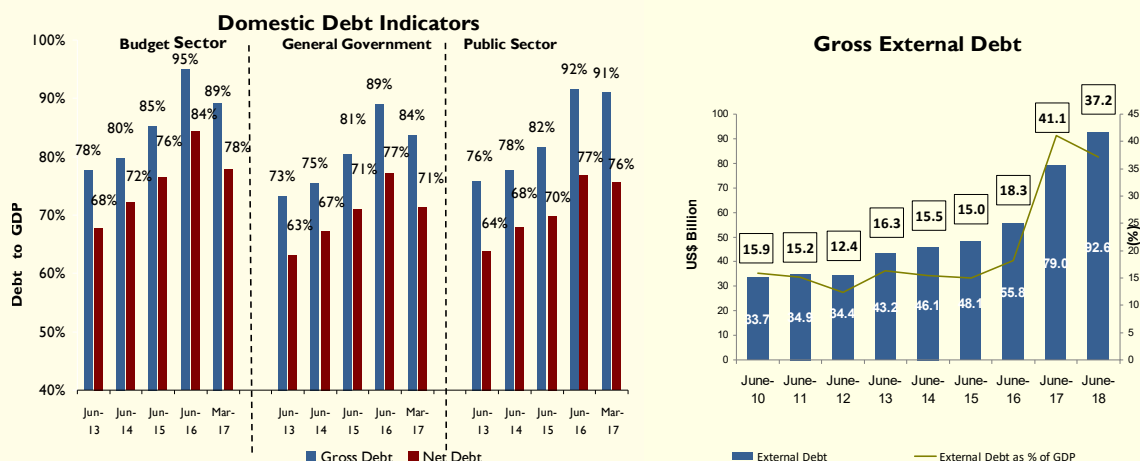
- **Domestic Budget Sector Debt increased to LE 3097,6 billion (89.3 percent of GDP)** by end of March 2017, compared to LE 2573 billion (95 percent of GDP) by end of June 2016.

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 increased at a slower pace to record **17.9 percent** in July 2018 (LE 3466 billion), compared to 18.5 percent in last month, and compared to 38.7 percent during July 2017, according to recent data released by the CBE. This can be explained due to the increase in the annual growth of **Net domestic assets (NDA)** to record 13.7 percent at end of July 2018 (LE 3183.9 billion), compared to 10.2 percent last month (LE 3147.5 billion).

In July 2018, **Net Claims on Government & GASC** annual growth increased to 16.4 percent (LE 2267 billion), compared to 12 percent during the previous month.

Moreover, there's an increase in the annual growth of **Government Securities** (to the banking system) to record 8.7 percent (LE 2308.5 billion) at end of July 2018, compared to 5.2 percent last month. Also, **Credit Facilities** annual growth increased significantly to 41.9 percent (LE 140.9 billion) at end of July 2018, compared to 30.8 percent during last month. Meanwhile, **Government Deposits** annual growth decreased to -5.7 percent (LE 423.8 billion) at end of July 2018, compared to -4.6 percent during last month.

Furthermore, annual growth of **Claims on Public Business Sector** increased to record **9 percent (LE 161.7 billion)** at end of July 2018, compared to 7.7 percent last month.

Annual growth in **Credit to the Private Sector** increased to 10.6 percent (LE 1077 billion) at end of July 2018, compared to 10.1 percent (LE 1082.6 billion) last month. This could be attributed to the increase witnessed in annual growth of **Claims on Private Business Sector** to record 8.6 percent (LE 794 billion) during the month of study, compared to 7.6 percent (LE 801.4 billion) last month. Moreover, annual growth of **Claims on Household Sector** decreased to record 16.8 percent (LE 283.1 billion) at end of July 2018, compared to 18 percent (LE 281.2 billion) last month.

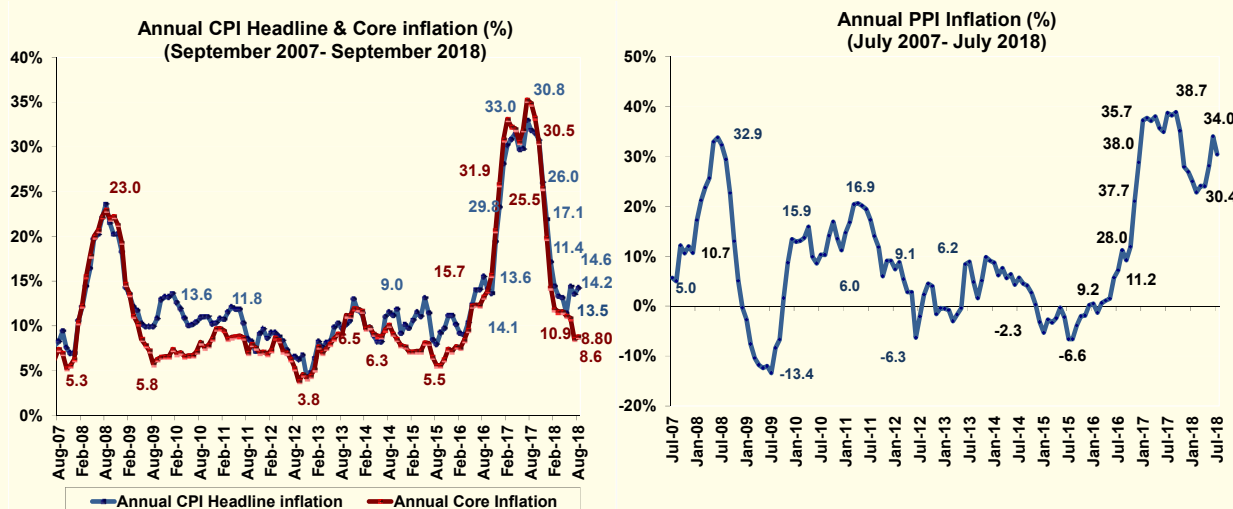
On the other hand, there's a decrease in annual growth trend in **Net Foreign Assets (NFA)** that records 102.1 percent (LE 282.2 billion) at end of July 2018, compared to 407 percent (LE 309.5 billion) last month. This is credited primarily to the significant decrease in **CBE net foreign reserves'** annual growth to record 218.8 percent at end of July 2018 (LE 303.4 billion), compared to 8070.5 percent last month. In addition, the annual growth of **Banks' net foreign reserves'** decreased to record -147.7 percent at end of July 2018, compared to -86 percent last month.

From the liabilities side, **Money annual growth slightly increased** to 16.6 percent (LE 814.4 billion) at end of July 2018, compared to 16.4 percent last month. This could be attributed to the **acceleration in Currency in Circulation's** annual growth of 6.6 percent at end of July 2018, compared to 5.4 percent last month. Also, there's a **slowdown in Demand Deposits in Local Currency's annual growth to 31 percent** (LE 376.3 billion) at end of July 2018, compared to 32.4 percent last month.

Quasi Money annual growth decreased to 18.3 percent (LE 2651.7 billion) at end of July 2018, compared to 19.1 percent last month. This is reflected on the increase in **Foreign Currency Demand, Time & Savings annual growth** to record 5.9 percent (LE 724.9 billion) at end of July 2018, compared to 3.3 percent last month. Meanwhile, annual growth of **Local Currency Time and Savings Deposits** decreased to 23.7 percent (LE 1926.8 billion) at end of July 2018, compared to 26.4 percent last month.

Total Deposits annual growth rate– excluding deposits at the CBE – decreased to 17.3 percent (LE 3569.5 billion) at the end of June 2018, compared to 18.9 percent at end of May 2018. Out of total deposits, 85 percent belonged to the non-government sector. Moreover, annual growth rate in **Total Lending** by the banking sector (excluding CBE) decreased to 14.2 percent (LE 1629.7 billion) at end of June 2018, compared to 15 percent at end of May 2018. Nevertheless, the **Loans-to-deposits Ratio stayed stable at 45.7 percent** at end of June 2018. (Data for July 2018 is not yet available).

- **Headline Urban Inflation** increased to record 16.0 percent in September 2018, compared to 14.2 percent during previous month, and compared to 31.6 percent in September 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 16.5 percent during September 2018, compared to 11.6 percent during last month, **"Alcoholic Beverages& tobacco"** to record 22.0 percent, compared to 21.9 percent, **"Clothing& Footwear"** to record 14.9 percent, compared to 14.6 percent, **"Transportation"** to record 38.7 percent, compared to 38.1 percent, and **"Restaurants& Hotels"** to record 9.4 percent during September 2018, compared to 8.8 percent.
- **Average Annual Headline Inflation recorded 14.6 percent** during July- September 18/19, compared to 32.2 percent during the same period of last year.



- **Monthly Inflation increased to record 2.5 percent** during September 2018, compared to 1.8 percent during last month, and compared to 1.0 percent during September 2017. This came in light of the increase in main groups on the top of which; **"Food& Beverages"** to record 4.8 percent, compared to 2.9 percent during last month, **"Clothing& Footwear"** to record 0.3 percent, compared to -0.8 percent during last month, **"Transportation"** recorded 0.4 percent, compared to 0.3 percent during last month, **"Recreation and culture"** group has recorded 0.4 percent, compared to 0.1 percent during last month. This overweighted the slower pace of increase of **"Alcoholic beverages& tobacco"** to record 0.1 percent, compared to 0.7 percent during last month, **"Housing, Water, Electricity and Fuel"** recorded 0.2 percent, compared to 1.6 percent, **"Restaurants and Hotels"** has recorded 0.5 percent, compared to 0.9 percent, and **"Furnishings& household equipment"** has declined by -0.3 percent, compared to 0.7 percent.
- **Annual Core Inflation¹** increased at a slower pace to record 8.6 percent during September 2018, compared to 8.8 percent during the last month, and compared to 33.3 percent during September 2017. Meanwhile, **monthly core inflation** has declined to -0.1 percent during September 2018, compared to 0.6 percent during August 2018.
- **During its Monetary Policy Committee meeting held on November 15th, 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 decreased by 8.83 percent m-o-m** during September 2018 to reach LE 804 billion, compared to LE 881.7 billion in the previous month. The EGX-30 Index decreased by 8.7 percent during September 2018 to reach 14,616 points, compared to closing at 16,009.4 points by the end of August 2018. Meanwhile, the EGX-70 decreased by 4.68 percent, closing at 712.4 points compared to 747.38 points in the previous month.
- **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:

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'.

- **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.
- 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.