Executive Summary

Main Highlights…

Throughout the period from 11th of November up till the 25th, the International Monetary Fund conducted the Article IV consultation mission to assess the economic situation in Egypt. The mission emphasized in its concluding statement that discussions with the Egyptian authorities were positive, where the IMF appraised the reforms measures deployed by the government during the previous period. The mission acknowledged that the government has put in place a program which allows for increased growth, financial stability, and economic inclusivity, essentially improving the quality of public services. The mission also noted that the challenges facing the Egyptian economy require the continued implementation of reforms in order to achieve the desired goals. The mission is expected to issue its final report after presenting it to the Board early next year.

Moreover, based on the latest preliminary figures recently issued by the Ministry of Planning, GDP is shown to have accelerated, reaching about 6.8 percent during the first quarter of fiscal year 2014/2015, compared to the same period of the previous year. Among Factors that stimulated growth were; a marked improvement in the manufacturing industry sector index (non-oil), and enhanced construction sector performance. However, it is noteworthy to mention that the base effect[1] also contributed to GDP growth.

In the same context, various reports and indicators were recently published emphasizing economic recovery, of which; the report published by Institute of International Finance on November the 6th, 2014 on Egypt, associating the improved economic performance to the stability in security, the revitalization of investments and to the initiation of the Suez Canal expansion project. In addition, the non-oil private sector improvement drove the PMI upwards, achieving above 51 points (readings above 50 points signals improvement in business conditions) in August, September and October 2014, respectively. On the other hand, in context of the government's efforts to support and encourage investment, the government has recently issued a law to regulate micro-financing services in particularly private funding from non-bank entities.

- According to FY 2013/2014 actual budget[2] outcomes, the overall budget deficit recoded LE 255.4 billion (12.8 percent of GDP), compared to LE 239.7 billion (13.7 percent of GDP). Meanwhile, Budget deficit came at 3.6 percent of GDP reaching LE 84.5 billion during the period July-October 2014/2015, compared to 3.7 percent (LE 74.6 billion) during the same period a year earlier. This was mainly due to the increase in revenues as percent of GDP recording 4.3 percent, compared to 4.1 percent during the same period last year. Meanwhile, expenditures rose slightly to 7.9 percent of GDP during the period of study compared to 7.8 percent during the same period last year.
- Moreover, total government debt (domestic and external) reached LE 1907.6 billion (95.5 percent of GDP) at end of June 2014, compared to LE 1644 billion (93.8 percent of GDP) at end of June 2013.

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1 The base effect is considered one of the main contributors to the notable increase in GDP growth rate during Q1 of FY 14/15 compared to the same period last year, given that the period of comparison followed the 30th of June revolution associated with events, which negatively affected the economy.

2 Includes central administration, municipalities, and services authorities (education, health, etc).

- Latest GDP figures signal increased growth registering 3.7 percent y-o-y growth during the fourth quarter of FY13/14, compared to 2.5 percent during the previous quarter and 1 and 1.4 percent during Q1- FY13/14 and Q2- FY13/14 respectively, resulting in an annual growth rate of 2.2 percent for the full fiscal year. Both public and private consumption continued to boost economic activity during the Q4-FY13/14. And for the second time in a row since Q4- FY11/12, investments have contributed positively to growth, while net exports constrained growth with its negative impact.

- Furthermore, Total Production Index continued to rise recording a 1.9 percent m-o-m growth rate reaching 178.4 points during September 2014, compared to 175 points in August 2014. On annual basis the index witnessed a 30.4 percent growth rate compared to 136.8 points in September 2013. In addition, Manufacturing Index has recorded a m-o-m growth rate of 4.9 percent to reach 175.9 points during September 2014, compared to 167.7 points in August 2014. Meanwhile, the index witnessed an annual growth of 20.6 percent compared to 145.9 points in September 2013. The y-o-y growth achieved in the manufacturing index can be mainly attributed to the 9 percent increase in its highest-weight component; food products and beverages and the 112.7 percent growth achieved in manufacturing of radio, television and communication equipment and apparatus.

- BOP showed a significant improvement during FY13/14 recording an overall surplus of US$ 1.5 billion, compared to an overall surplus of only US$ 0.2 billion during the previous fiscal year. This could be explained in light of the notable decrease in current account deficit, recording a deficit of US$ 2.4 billion, compared to a deficit of US$ 6.4 billion during the previous fiscal year. This notable decrease can be explained through the pick-up in transfers associated with the receipt of Gulf countries grants, recording US$ 30.4 billion during FY13/14, compared to US$ 19.3 billion a year earlier, in light of the increase in net official transfers (commodity and cash) to reach US$ 11.9 billion, compared to US$ 0.8 billion in FY12/13. This improvement was counterparted by a decrease in net inflows of the capital and financial account to record US$ 4.9 billion, compared to net inflows of US$ 9.8 billion during FY12/13.

- During October 2014, Net International Reserves (NIR) merely increased by US$ 0.03 billion to record US$ 16.90 billion, compared to US$ 16.87 billion in September 2014 – almost stabilizing for the fourth month in a row.

- As for the monetary developments, M2 annual growth increased at slower pace during September 2014 to record 15.6 percent (Y-o-Y) reaching LE 1543.7 billion, compared to 17.1 percent at the end of August 2014, and compared to 18.7 percent recorded at end of September 2013. This comes on the back of the slow-down witnessed in quasi money growth, as local currency time and saving deposits contracted on monthly basis by 1.7 percent, in light of partial withdrawal of domestic deposits to reinvest in Suez Canal investment certificates.

- Meanwhile, Headline Urban inflation increased during October 2014 recording 11.8 percent (the highest rate since June 2011), compared to 11.1 percent during last month. The rise in annual inflation was mainly fueled by the sharp increase in annual inflation rate of "Education" group (due to the increase in school fees, especially private schools, and government experimental schools), and the rise in "Water and related services to housing" group (Due to higher prices of water). Meanwhile, the indirect (Second Round) effect from the recently implemented government's fiscal consolidation program had led to an increase in the annual inflation of some groups on the top of which comes the "Transport" group. Additionally, the high annual inflation for "Vegetables" and "Fruits" among "Food and Beverages" group has also contributed in the rise of the overall inflation. On the other hand, monthly inflation rose to 1.7 percent during October 201 compared to 1.2 percent during last month.

During its Monetary Policy Committee meeting held on November 27th, 2014, CBE decided to keep the overnight deposit rate and overnight lending rates, and the CBE's main operation and the discount rate unchanged at its current levels. Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on November 25th, 2014 worth LE 55 billion with 6-day maturity at a fixed annual interest rate of 9.75 percent.

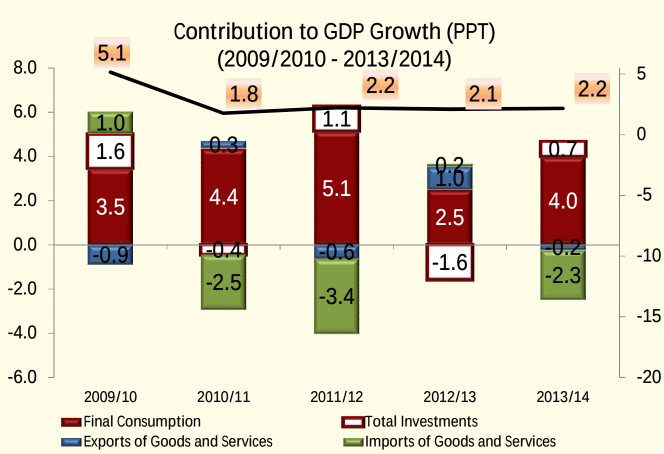
Real Sector :

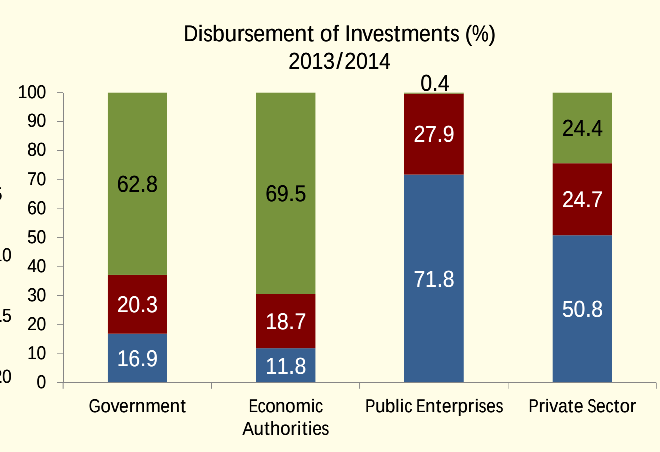
Five key sectors led growth during FY13/14...

- Recent GDP quarterly data published point to a hike in GDP y-o-y growth to record 3.7 percent during Q4-FY13/14 (compared to a 1.5 percent y-o-y growth during Q4-FY12/13), resulting in an annual growth rate of 2.2 percent for the full fiscal year, driven mainly by the performance of both public and household consumption and investments. This suggests the prompt revitalization of the Egyptian economy, in anticipation of achieving the desired outcome of higher sustainable growth.

- On the supply side, key sectors driving growth during FY13/14 were the non-oil manufacturing sector recording a 9 percent growth rate, and the construction sector with real growth rate of 5.6 percent (contributing with the highest contribution of 1.3 percentage points to growth and by 0.3 PPT respectively, compared to a contribution of 0.3 PPT for both sectors last year). General government and agricultural sector, witnessed growth of 4.1 and 3 percent respectively (both contributing by 0.4 PPT, compared to 0.3 and 0.4 PPT, respectively a year earlier), while wholesale and retail trade real growth came at 3.4 percent during FY13/14 (0.4 PPT compared to 0.3 PPT a year earlier). Together, these above-mentioned 5 key sectors represented around 57 percent of total real GDP in the year of study.

Meanwhile, tourism and natural gas extraction sectors continued to subdue growth during FY13/14. Tourism has been severely hit due to several unfortunate events, falling by 26.8 percent y-o-y during FY13/14. However – on quarterly basis – the contraction in tourism sector has decelerated since tourism has declined by 18 percent (contributing to growth by -0.5 PPT) compared to a higher decline of 28.2 percent (contributing to growth by -1 PPT) during Q3-FY13/14. Moreover, tourism index – sub index under total production index – has preserved the upward trend it started to witness since Q3-FY13/14 recording an average of 255.2 during H2-FY13/14 compared to an average of 135.5 points during H1-FY13/14 growing by 88.3 percent, which draws attention to an expected improvement in tourism performance in the upcoming few months. Meanwhile natural gas extraction fell by 11 percent in the same year. Both contributing negatively to growth by -0.9 and -1 PPT respectively.





- On the demand side, both public and private consumption continued to boost economic activity during FY13/14. Private consumption grew by 4.1 percent y-o-y, after having grown by 3.2 percent y-o-y in 9M-FY13/14, implying that Q4-FY13/14 real growth came at an accelerated rate of 7 percent. While, public consumption grew at 5.8 percent in the year of study, compared to 6.1 percent during 9M-FY13/14, after growing by 5.1 percent in Q4-FY13/14. It is also worthy to note that both public and private consumption led to a total contribution of 5.9 PPT to GDP growth during Q4-FY13/14, compared to -0.3 PPT a year earlier.

  In the meantime, recent data reflects positive signs of change, showing that investments have increased by 4.6 percent compared to a negative growth level of 9.6 percent during last year, contributing positively to growth, for the first time since FY11/12, by 0.7 PPT to growth during FY13/14 compared to -1.6 PPT to growth during FY12/13. Furthermore, on quarterly basis, investments contribution during Q4-FY13/14 amounted to 3.3 PPT compared to -3 PPT during Q4-FY12/13 (recording a y-o-y growth rate of 19.6 percent compared to a negative growth rate of 15 percent during Q4-FY12/13), and these have been the highest contribution and growth rate recorded since Q3-FY11/12.

  As for the distribution of total investments by economic agents (in nominal terms), public investments (government + economic authorities + public business sector) accounted for 37.8 percent of total investments in Egypt during the year of study – noting that nearly 62.8 percent of government investments were directed towards social services sectors – while the private sector accounted for 62.2 percent during FY13/14.

  Meanwhile, net exports posted a negative contribution of 2.5 PPT during FY13/14, compared to a positive contribution of 1.2 PPT during FY12/13. Exports decreased by 12.6 percent with a negative contribution of 2.3 PPT to real GDP growth, compared to a positive contribution of 1 PPT last year. While imports increased by 0.9 percent in the year of study, contributing negatively by 0.2 PPT, compared to a positive contribution of 0.2 PPT during FY-12/13.

  It is worthy to highlight that, the Purchasing Manager Index (PMI) has reached in September 2014 a ten-month high of 52.4 points, implying an improvement in operating conditions at Egyptian non-oil private sector companies. Furthermore, Total Production Index continued to rise recording a 1.9 percent m-o-m growth rate reaching 178.4 points during September 2014, compared to 175 points in August 2014. On annual basis the index witnessed a 30.4 percent growth rate compared to 136.8 points in September 2013. In addition, Manufacturing Index has recorded a m-o-m growth rate of 4.9 percent to reach 175.9 points during September 2014, compared to 167.7 points in August 2014. Meanwhile, the index witnessed an annual growth of 20.6 percent compared to 145.9 points in September 2013. The y-o-y growth achieved in the manufacturing index can be mainly attributed to the 9 percent increase in its highest-weight component; food products and beverages and the 112.7 percent growth achieved in manufacturing of radio, television and communication equipment and apparatus.

Fiscal Sector:

- According to FY 2013/2014 actual budget outcomes, the *overall budget deficit recoded LE 255.4 billion (12.8 percent of GDP), compared to LE 239.7 billion (13.7 percent of GDP).*

- Actual budget figures for FY13/14 reflect positive practices on the expenditure side represented by the significant rationalization of public spending compared to FY13/14 revised budget figures. On the other hand, as expected, revenues were negatively affected by low levels of economic activity resulting from the political transition and the postponement in implementing many of the reform measures embedded in the budget; on top of which is the Value Added Tax (VAT). This led to a below-potential performance of the tax on goods and services in addition to the delay of some sovereign tax collection.

- In spite of the decrease in the budget deficit as a percent of GDP compared to the previous year, the overall budget deficit recorded in FY13/14 was still high even with the extraordinary grants received from the Gulf countries with the purpose of helping and supporting the country economically, and financially during the period of transition. Total cash and in-kind grants had reached US$ 10.6 billion during FY13/14, equivalent to LE 74 billion. This includes around LE 53 billion in-kind grants in the form of petroleum products received from some Gulf states, around LE 21 billion cash grants, as well as around LE 20 billion deposits at CBE at the beginning of the nineties has been used to finance a number of social programs and the additional government investments.

- *On the Revenues Side,* total revenues increased by 30.4 percent during the year of study, registering almost LE 456.8 billion (22.9 percent of GDP). The recorded increase is principally due to the 98 percent increase in non-tax revenues to record LE 196.5 Billion (in light of extraordinary grants received during the year), in addition to the increase of tax revenues by 3.6 percent to record LE 260.3 Billion during 2013/2014.

  Tax Revenues increased mainly due to:

  - Income Tax increased by 2.7 percent to LE 120.9 billion compared to LE 117.8 billion during FY 2012/2013, due to:
    - The increase in taxes on domestic salaries by 14.3 percent reaching LE 19.3 billion during 2013/2014, compared to LE 16.9 billion during 2012/2013.
    - The increase in receipts from Suez Canal by 17.8 percent reaching LE 14.3 billion during 2013/2014, compared to LE 12.2 billion during 2012/2013.
    - The increase in taxes on industrial and commercial profits by 38.2 percent reaching LE 8.4 billion during 2013/2014, compared to LE 6 billion during 2012/2013.
  - Property Taxes increased by 14 percent to LE 18.8 billion compared to LE 16.5 billion during FY 2012/2013, mainly due to:
    - The increase in proceeds from tax on T-bills and bonds payable interest by 15.9 percent to almost LE 15.3 billion compared to LE 13.2 billion during FY 2012/2013.
  - Other Taxes increased by 53.5 percent to LE 11.1 billion compared to LE 7.2 billion during FY 2012/2013.
  - Taxes on International trade increased by 5.4 percent to LE 17.7 billion compared to LE 16.8 billion during FY 2012/2013.

  Non- Tax Revenues increased by 98 percent during FY 2013/2014, due to:

  - The increase in Grants to record LE 96 billion during the year of study compared to LE 5.2 billion during 2012/2013. This includes; LE 21 billion (US$ 3 billion) cash grants received from the UAE and Saudi Arabia, and around LE 53 billion in-kind grant in the form of petroleum products received from some Gulf states, as well as around LE 20 billion, part of the deposit at CBE obtained from the Gulf States in the early nineties according to Presidential Decree-Law No. 105 of 2013.

- The increase in <u>Proceeds from Sales of Goods and Services</u> by 25.4 percent recording LE 28.5 billion during the year of study compared to LE 22.7 billion during 2012/2013 due to:
  - The increase in current revenue from special accounts and funds by 28.6 percent reaching LE 24.4 billion during 2013/2014, compared to LE 19 billion during 2012/2013.

<u>On the Expenditures Side,</u> total expenditures increased during FY 2013/2014 by 19.3 percent, recording LE 701.5 billion (35 percent of GDP) compared to LE 588.2 billion during last year, mainly due to:

- <u>Compensation of Employees</u> have increased by 25 percent recording almost LE 178.6 billion during FY 2013/2014 compared to LE 143 billion during last FY year, due to:
  - An increase in rewards and employees incentives by 22.8 percent up to LE 75.3 billion.
  - Increase in Permanent Staff (basic pay) by 10.3 percent up to LE 26.5 billion
  - The increase in Specific Allowances by 28 percent up to LE 22.2 billion.
  - The increase in Cash Benefit/ Allowance by 51.8 percent up to LE 17.7 billion.
- Moreover, <u>Interest payments</u> have increased by 17.8 percent recording almost LE 173.2 billion during FY 2013/2014 compared to LE 147 billion during last FY year, which can be explained mainly in light of :
  - The increase in interest on treasury Bills by 29.8 percent up to LE 15 billion during FY 2013/2014,
  - In addition to the increase in interest on treasury bonds by LE 0.4 percent up to LE 14.5 billion during the year of study.
- Meanwhile, <u>Subsidies, grants and social benefits</u> have increased by 16 percent to LE 228.6 billion compared to almost LE 197 billion during last FY year, due to:
  - The increase in petroleum subsidies by 5.1 percent to LE 126.2 billion,
  - The increase in GASC subsidies by 9 percent to LE 35.5 billion.
- On the other hand, both of Other expenditure, and Purchases of non-financial assets (investments) increased by 17.4 percent and 33.8 percent to LE 41.2 billion, and LE 52.9 billion during FY 2013/2014 compared to LE 35.0 billion and LE 39.5 billion respectively during last year.

Budget Deficit almost stabilized during July-October 2014/2015...

Ø Meanwhile, according to latest budget figures for the period July-October 2014/2015, budget deficit almost stabilized to 3.6 percent reaching LE 84.5 billion, compared to 3.7 percent (LE 74.6 billion) during the same period a year earlier. This was mainly due to a higher increase in revenues as percent of GDP (recording 4.3 percent, compared to 4.1 percent during the same period last year). Meanwhile, expenditures rose slightly to 7.9 percent of GDP during the period of study compared to 7.8 percent during the same period last year.

July- October 13/14 Budget Deficit LE 74.6 billion (3.7 percent of GDP)	July- October 14/15 Budget Deficit LE 84.5 billion (3.6 percent of GDP)
Revenues LE 81.9 billion (4.1 percent of GDP)	Revenues LE 100.9 billion (4.3 percent of GDP)
Expenditure LE 154.9 billion (7.8 percent of GDP)	Expenditure LE 183.7 billion (7.9 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

On the revenue side,

Tax Revenues and Non-Tax Revenues increased during the period of study.

Total revenues recorded LE 100.9 billion (4.3 percent of GDP) during July- October 2014/2015, increasing notably by around LE 19.0 billion (23.2 percent growth) compared to same period last year. The recorded increase is principally due to the 26.8 percent increase in tax revenues to record LE 71.4 billion, in addition to the increase of non-tax revenues by 15.4 percent to record LE 29.5 billion.

Taxes on Income, Capital Gains and Profits increased by LE 7.2 billion (38 percent growth) to reach LE 26.0 billion (1.1 percent of GDP).

Mainly on the back of:
- Increase in receipts from taxes on CBE by 57.5 percent to reach LE 4 billion.
- Increase in receipts from Suez Canal by 56.5 percent to reach LE 3.6 billion.
- Increase in receipts from Other Companies by 40.9 percent to record LE 8.7 billion.
- Increase in taxes on domestic salaries by 16.4 percent to reach LE 6.6 billion.
- Increase in taxes on industrial & commercial profits by 75.2 percent to reach LE 1.9 billion.

Taxes on good and services increased by LE 6.8 billion (25.9 percent growth) to reach LE 32.8 billion (1.4 percent of GDP).

Mainly as a result of:
- The increase in general sales tax on goods by 22.3 percent to record LE 15.5 billion.
- The increase in general sales tax on services by 20.8 percent to record LE 3.4 billion.
- The increase in Excises on Domestic Commodities (Table 1) by 40.8 percent to record LE 9.9 billion.
- The increase in Stamp tax by 7.5 percent to record LE 2.0 billion.

Taxes on International Trade increased by LE 1.9 billion (46.1 percent growth) to reach LE 6.0 billion (0.3 percent of GDP).

In light of an increase in taxes on valued customs by 46.9 percent y-o-y to LE 5.8 billion.

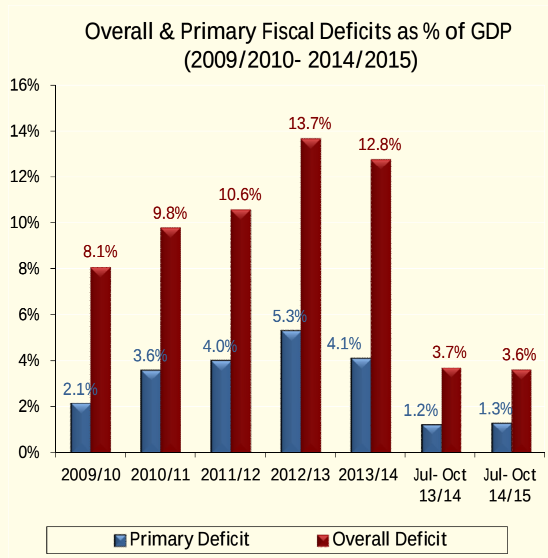
Non tax revenues hiked mainly due to an increase in receipts from Sovereign Authorities

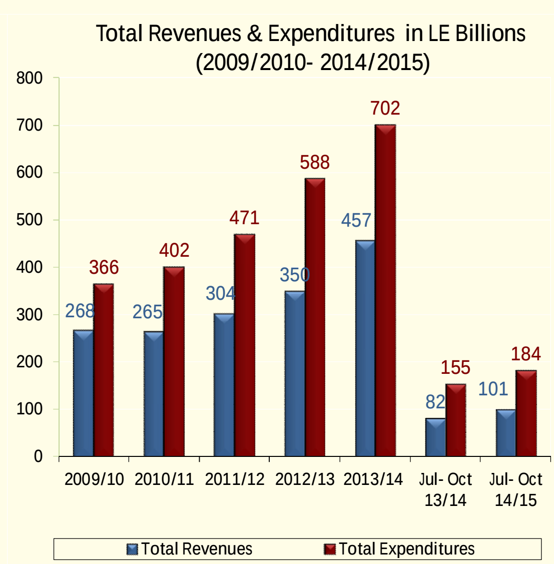
Meanwhile, the significant increase in non-tax revenues could be explained in light of the following:

- Increase in dividends collected from Central Bank by LE 10 billion to reach LE 13.4 billion (In light of collecting overdue payments from CBE that belonged to last year), Increase in dividends collected from Suez Canal by LE 1.6 billion to reach LE 5.9 during the study period .

- Increase in Miscellaneous Revenues by LE 0.5 billion (29.3 percent) to record LE 2.3 billion (0.1 percent of GDP), mainly due to the increase in both current and capital miscellaneous revenues during the period of study.

- It is worth mentioning that grants decreased to record LE 151 million during the study period, compared to about LE 7 billion during July-October 2013/2014, mainly due to exceptional grants of around US$ 1 billion received from UAE during the period of comparison in July- October 2013/2014.





Source: Ministry of Finance

The rise in Expenditures is mainly due to the rise in Wages, Investments and Social Benefits

On the Expenditures Side:

Total expenditures recorded LE 183.7 billion (7.9 percent of GDP) during July-October 2014/2015, increasing by around LE 28.9 billion (18.6 percent growth) compared to same period last year, mainly due to:

§ The increase in wages and compensation of employees by LE 9.3 billion (16.2 percent) to LE 66.4 billion (2.9 percent of GDP), mainly due to:

- The increase in rewards by LE 1.9 billion (7 percent growth) to record LE 29.0 billion during the period of study, mainly due to; teacher's special cadre allowances of around LE 1.7 billion.
- The increase in spending on cash benefits by LE 4.8 billion to reach LE 8.3 billion during the period of study, mainly due to; minimum wage allowances of around LE 2.3 billion, and teachers allowances around LE 2 billion, and monthly grants of around LE 0.4 billion .
- The increase in spending on permanent jobs by LE 0.5 billion (5.4 percent growth) to reach the 8.9 billion during the period of study.
- The increase in Specific allowances by LE 0.6 billion (8.9 percent growth) to reach LE 7.0 billion during the period of study..

§ The increase in Purchases of Goods and Services by LE 0.9 billion (15.9 percent growth) to reach LE 6.2 billion (0.3 percent of GDP) due to:

- Increased spending on goods by LE 0.5 billion (24.4 percent growth) to reach LE 2.6 billion during the period of study, mainly due to; increased spending on raw materials.
- Increased spending on services by LE 0.4 billion (12.7 percent growth) to reach LE 3.3 billion during the period of study, mainly due to increased spending on maintenance, and transportation.

§ The increase in interest payments by LE 4.7 billion (9.4 percent growth) to reach LE 55.0 billion (2.4 percent of GDP), mainly due to:

- The increase in domestic interest (other government units) by LE 3.2 billion (7.5 percent growth) to reach LE 46.4 billion during the period of study, mainly due to; the increase in interest on treasury bills by around LE 2.5 billion, and the increased interest on CBE Bills by LE 0.3 billion.
- Meanwhile foreign interests rose slightly by LE 0.1 billion (7.3 percent growth) to reach LE 1.8 billion during the period of study.

§ The increase in subsidies, grants and social benefits by LE 7.7 billion (30.8 percent growth) to reach LE 32.7 billion (1.4 percent of GDP) in light of the following:-

- Increased spending on subsidies by LE 1.6 billion (12.9 percent growth) to reach LE 13.9 billion during the period of study, including the following:
    - o The increase in GASC subsidies by LE 4.3 billion to reach LE 9.5 billion pounds during the period of study.

- However, no petroleum settlements occurred during the period of study.

- Social Benefits increased by 5.0 billion (45 percent growth) to reach LE 16.3 billion during July-October 2014/2015, mainly due to:
  - Increased contributions to the pension funds by LE 4 billion (42.2 percent growth) to reach LE 13.8 billion during the period of study.
  - Increased social insurance pensions by LE 0.9 billion (69.3 percent growth) to reach LE 2.2 billion during the period of study

§ The rise in other expenditures by LE 3.3 billion (29.5 percent growth) to reach LE 14.5 billion (0.6 percent of GDP) mainly due to:

- Increase spending on contingency reserves by LE 3 billion (29.1 percent growth) to reach LE 13.6 billion during the period of study.

§ The increase in purchases of non-financial assets (investments) by LE 3 billion (0.4 percent of GDP) (51.4 percent growth) to reach LE 8.9 billion, mainly due to:

- Increased spending on direct investments by LE 2.7 billion (50.8 percent growth) to reach around LE 7.8 billion during the period of study.

Going forward, the government's strategy to lower budget deficit, and achieve social justice in FY14/15 budget, consists of two pillars: First, on the revenue side, the government is working towards restructuring the tax system to allow for a fair distribution of the tax burden. In addition, the government is also pursuing other strategies which include countering tax evasion, widening the tax base through a set of amendments for the income tax law, and transferring into the value added tax.

The second pillar envisages expenditure side reforms, that focuses on re-prioritizing public spending in favor of protecting the poor, particularly the neediest segments of the population. Meanwhile, some of the savings derived from the new revenue enhancement and subsidy cuts will be deployed to increase spending on health, education and R&D. Furthermore, additional spending will be allocated to fund important social programs, such as, pension programs, health insurance, improving the slum areas, providing citizens with basic commodities.

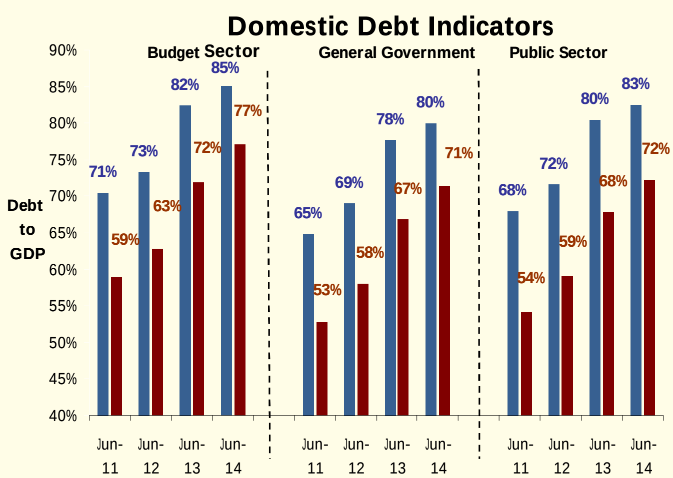
Meanwhile, according to the new budget for the FY14/15, government revenues are estimated to reach LE 549 Billion compared to LE 569 billion, which is the revised budget for the fiscal year 2013/2014. While government expenditures are estimated to reach LE 789 billion. To that end, the budget deficit is estimated to record LE 240 billion, which represents 10 percent of GDP, compared to 14 percent of GDP in case no reform measures were incurred, while total government debt (domestic and external) will reach a sum of LE 2.2 trillion at the end of FY14/15 (about 91.5 percent of GDP, decreasing from 93.8 percent of GDP for FY12/13).

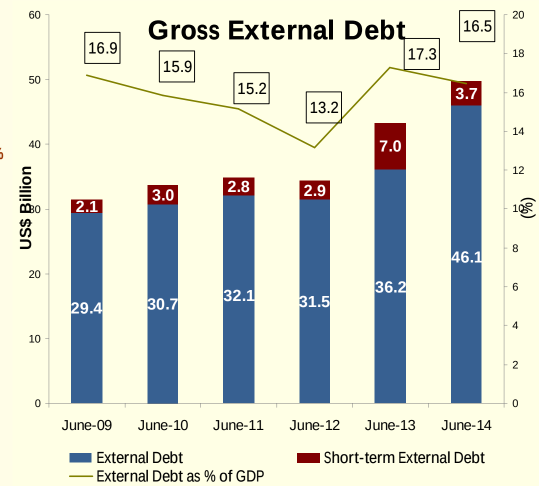
Public Debt:

Increase in Domestic Debt…

- Domestic budget sector debt recorded LE 1699.9 billion (85 percent of GDP) by end of June 2014, compared to LE 1444.4 billion (82.4 percent of GDP) by end of June 2013.

- It is worth mentioning that the total government debt (domestic and external) reached LE 1907.5 billion (95.5 percent of GDP) at end of June 2014, compared to LE 1644 billion (94 percent of GDP) at end of June 2013.





Source: Ministry of Finance

External debt stock[3] (government and non-government debt) recorded US$ 46.1 billion at end of June 2014 compared to US$ 43.2 billion at end of June 2013 (most of the increase represented aid from the Gulf Countries with concessional and preferential terms). External debt as percent of GDP recorded 16.5 percent by the end of June 2014, which is relatively low if compared to the average of peer countries (Middle East and North Africa countries recorded an average of 25.5 percent of GDP during the year 2013).

Moreover, short-term debt to total external debt ratio decreased from 16.3 percent at end of June 2013 to 7.9 percent at end of June 2014. This could be explained mainly for redeeming Qatari short-term deposit worth US$ 2 billion by end of December 2013, in addition to another matured deposits worth US$ 1 billion, and the payment of around US$ 0.7 billion to the creditor countries under the Paris Club Agreement.

Monetary Perspective:

M2 annual growth rate decelerated during September 2014

- According to recent data released by the CBE, M2 annual growth increased at slower pace during September 2014 to record 15.6 percent (Y-o-Y) reaching LE 1543.7 billion, compared to

3 The notable increase in non-government external debt during FY 2013/2014 can be explained in light of a net increase of nearly US$ 4 billion in external debt on the monetary authorities compared to FY 2012/2013. The mentioned increase in monetary authorities' debt could be explained as a result of net change of deposits inflows and redemption of other deposits. The breakdown of inflows is as follows: US$ 2 billion from UAE, US$ 2 billion from Saudi Arabia and US$ 3 billion from Kuwait. Meanwhile, Egypt has returned a total of US$ 3 billion deposits(US$ 2 billion was cancelled and US$ 1 billion was matured).

17.1 percent at end of August 2014, and compared to 18.7 percent recorded at end of September 2013. These developments could be explained – from the liabilities side – in light of the slight deceleration witnessed in money annual growth rate registering 17.1 percent (LE 428.2 billion), compared to 17.3 percent recorded during the last month. This is mainly due to the slowing down in local currency demand deposits annual growth recording 35.4 percent (LE 147 billion) at end of September 2014, compared to 39.3 percent in August 2014. Moreover, quasi money annual growth eased to 15.1 percent (LE 1115.5 billion) during the month of study, compared to 17.1 percent during the previous month, as local currency time and saving deposits annual growth decelerated during September 2014 to record 16.3 percent, compared to 20.1 percent in the previous month. The deceleration witnessed in local currency demand deposits and local currency time and saving deposits annual growth comes in light of partial withdrawal of domestic deposits to reinvest in Suez Canal investment certificates.

Ø From the assets side – net domestic assets (NDA) of the banking system eased during September 2014 reaching 17.8 percent (LE 1425.9 billion), compared to 20.3 percent recorded at end of August 2014. On the other hand, net foreign assets (NFA) of the banking system has continued to shrink on annual basis, recording a contraction of 5.4 percent (LE 117.8 billion) during the year ending September 2014, compared to a higher decline of 11.2 percent during the previous month.

Net claims on the government and GASC annual growth slowed down significantly during the month of study reaching 22.7 percent (LE 1048.6 billion), compared to 30.3 percent in August 2014, as the government sold Suez Canal investment certificates to the public (individuals and companies), which partially decreased its borrowing needs. On the other hand, claims on private sector and claims on public business sector annual growth increased during September 2014 to reach 10.3 percent (LE 547.3 billion) and 6.2 percent (LE 46 billion), respectively, compared to 7.7 percent and 4 percent in August 2014. The growth witnessed in claims on private sector comes on the back of the increase in both credit to private business sector and household sector' annual growth reaching 6.8 percent and 20 percent during the month of study, respectively, compared to 5 percent and 15.7 percent in August 2014.

Deposits and loans detailed data for September 2014 is not yet available. Total deposits annual growth – excluding deposits at the CBE – increased to reach 21.5 percent y-o-y (LE 1479.2 billion) at the end of August 2014, compared to 17.5 percent in August 2013. Out of total deposits, 87 percent belonged to the non-government sector. On the other hand, annual growth rate in total lending by banking sector (excluding CBE) increased at slower pace during the year ending August 2014 recording 6.8 percent (LE 588 billion), compared to 8.9 percent recorded at end of August 2013. To that end, loans-to-deposits ratios declined at end of August 2014 registering 39.8 percent, compared to 45.2 percent in August 2013.

NIR maintained stable during October 2014

Ø Net International Reserves (NIR), almost stabilized during October 2014 recording US$ 16.90 billion, compared to US$ 16.87 billion in September 2014, as it merely increased by US$ 0.03 billion. It is worthy to mention that NIR has recorded a positive growth for the fourth month in a row, after a continuous decrease since July 2013.

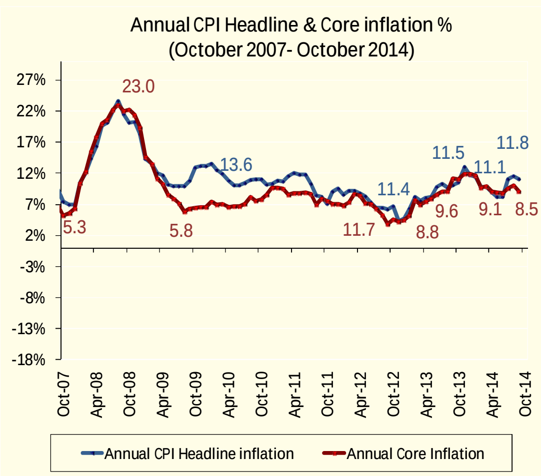
CPI rose during October 2014 (the highest rate since June 2011)

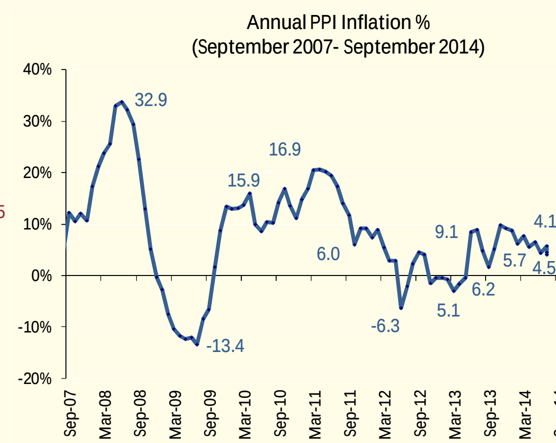
Ø CPI annual Urban Inflation increased significantly during the period July- October 2014/2015 recording 11.4 percent, compared to 10.2 percent during the same period last year. The rise in inflation was mainly fueled by the government's fiscal consolidation program impact represented in the upward adjustment of the prices of several commodities, in addition to other seasonal factors.

Meanwhile, annual inflation increased during October 2014 recording 11.8 percent (the highest rate since June 2011), compared to 11.1 percent during September 2014. This increase comes on the back of the sharp increase in annual inflation rate of "Education" group (due to the increase in school fees, especially private schools, and government experimental schools), and the rise in "Water and related services to housing" group (due to higher prices of water). Meanwhile, the indirect (Second Round) effect from the recently implemented government's fiscal consolidation program had led to an increase in the annual inflation of some groups on the top of which comes the "Transport" group.

On a more detailed level, although annual inflation rate of "Food and Beverage" group (largest weight in CPI) increased at slower pace, reaching 11.5 percent during October 2014, compared to 11.8 percent during last month). Yet, some sub-items with high weights among the group had contributed to the increase of the general annual inflation rate, on top of which "Vegetables" to record 23.5 percent, and "Fruit" to record 13.1 percent during the month of study (those two sub-items constitutes around 21.1 percent of the group total weight).

- On the other hand, monthly inflation increased to 1.7 percent during October 2014 compared to 1.2 percent in the previous month and 1.1 percent during October 2013.





- Annual core inflation decreased to reach 8.5 percent during October 2014, compared to 9.1 percent during September 2014 and 11.1 percent in October 2013. On the other hand, monthly core inflation declined to record 0.5 percent during October 2014, compared to 0.8 percent during September 2014. The monthly inflation could be explained in light of the increase in "paid services", and "other services" contributing by 0.88 percentage points to the monthly core inflation, in addition to the slight increase in "retail prices". Meanwhile, this increase was partially offset by the decline in the prices of "food items" contributing by around 0.39 percentage points to the monthly core inflation rate.

- During its Monetary Policy Committee meeting held on November 27th, 2014, CBE decided to keep the overnight deposit rate and overnight lending rates, unchanged at 9.25 percent and 10.25 percent respectively, and to keep the CBE's main operation unchanged at 9.75 percent. The discount rate was also kept unchanged at 9.75 percent. The committee justified that decision in light of balancing risks to the inflation outlook, and the economic growth.

- Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held deposit auctions on November 25th, 2014 worth LE 55 billion with 6-day maturity at a fixed annual interest rate of 9.75 percent.

- EGX-30 Index decreased by 695.8 points during October 2014, reaching 9115.6 points compared to 9811.4 during September 2014. Furthermore, market capitalization declined by 4 percent m-o-m during the month of study to reach LE 504.2 billion (21 percent of GDP) compared to LE 526.2 billion during the previous month. It is important to highlight that the downturn witnessed in the indices of EGX comes in light of the terrorist attack in Sinai and the decline witnessed in global stock markets.

On the External Sector side:

- BOP showed a significant improvement during the FY13/14 recording an overall surplus of US$ 1.5 billion (0.5 percent of GDP), compared to an overall surplus of US$ 0.2 billion (0.1 percent of GDP) during FY12/13, and compared to an average deficit of US$ 4.2 billion over the last 5 years. The recorded surplus can be explained in light of the notable decrease in the current account deficit, recording US$ 2.4 billion (0.8 percent of GDP) compared to a deficit of US$ 6.4 billion (2.4 percent of GDP) last year. This was mainly driven by the noticeable increase in net unrequited transfers to record US$ 30.4 billion, compared to US$ 19.3 billion during the previous fiscal year, backed up by the increase in net official transfers (commodity and cash), recording US$ 11.9 billion compared to US$ 0.8 billion. However, the capital and financial account witnessed net inflows of US$ 4.9 billion (1.7 percent of GDP), compared to net inflows of US$ 9.8 billion (3.6 percent of GDP) during FY12/13, while net errors and omissions recorded an outflow of US$ 1.1 billion, compared to an outflow of US$ 3.1 billion during the previous fiscal year.
  - On a more detailed level, the decrease witnessed in the current account balance deficit can be attributed to:
    - The significant increase in net official transfers during FY13/14 recording US$ 11.9 billion in light of grants received from Arab countries, of which US$ 1 billion from the United Arab Emirates, US$2 billion from the Kingdom of Saudi Arabia, US$ 7.6 billion in-kind grants from Gulf countries in the form of petroleum shipments, compared to US$ 0.8 billion last year.

    However, this decrease could have been larger if it had not been for the following:

    - The increase in trade deficit by 9.8 percent to reach US$ 33.7 billion during FY13/14, compared to US$ 30.7 billion during FY12/13. This was mainly due to the increase in imports payments by 3.7 percent and the decrease in exports proceeds by 3.2 percent, and was accompanied by the following:
      - Decrease in exports to imports coverage ratio to reach 43.7 percent during the FY13/14, compared to 46.8 percent during last year.
      - Rise in NIR imports coverage ratio to record 3.3 months of imports during FY 13/14 compared to 3.1 months of imports during FY12/13.
  - On the other hand, services balance decreased significantly by 80.6 percent to record a surplus of US$ 1 billion compared to a surplus of US$ 5 billion during the previous fiscal year. This deterioration was driven mainly by an annual decrease of 48 percent and 15.3 percent in tourism receipts and other receipts, respectively.
  - Meanwhile, the surplus recorded in the capital and financial account a result of the following developments:
    - The increase in net foreign direct investments in Egypt by 9.8 percent, recording a net inflow of US$ 4.1 billion (1.44 percent of GDP) during FY13/14, compared to US$ 3.8 billion (1.38 percent of GDP) last year.

- Portfolio investments in Egypt recorded a net inflow of US$ 1.2 billion (0.4 percent of GDP) during FY13/14, compared to a net inflow of US$ 1.5 billion (0.5 percent of GDP) during FY12/13, due to the decline of foreigners' net investments in bonds to only US$ 0.9 billion (down from US$ 2.3 billion). Meanwhile, foreigners' net investments on the Egyptian Stock Exchange (EGX) have reversed from net sales of US$ 0.8 billion to net purchases of US$ 0.4 billion.
- The decrease in liabilities of the CBE, recording a net inflow of US$ 1.9 billion compared to a net inflow of US$ 6.5 billion during last year, as CBE reimbursed part of the deposits that have been placed by some Arab countries (of which US$ 1 billion to Qatar).

Ø According to the latest published figures, total number of tourists arrivals decreased during the month of September 2014, reaching 884 thousand tourists compared to 997 thousand tourists in the previous month. Meanwhile, tourists nights declined during the month of study to reach almost 8.8 million nights compared to 10.7 million nights during the month of August 2014. The decrease witnessed in September 2014 can be attributed to the decline in number of tourists arriving from Arab countries associated with the beginning of the academic year in the Gulf countries.