Executive Summary

Main Highlights…

The "Egypt Economic Development Conference" held in March 2015, strongly confirmed the confident return of Egypt on the global investments map. The Conference also emphasized Egypt's significance as a regional power in the Middle East and Africa while affirming the government's ability to achieve a better future for the Egyptian people. The overwhelming international attendance underscored a renewed confidence in the Egyptian economy, solidified by the announcement of several mega-projects aimed at achieving economic stability and driving growth. On the top of these projects the Suez Canal Zone project, the establishment and development of power plants with 6.6 megawatts of total capacity, the logistics center in Damietta, the city of commerce and shopping in the Gulf of Suez, in addition to various projects in the transport, railway and sea port areas. In addition to the aforementioned investment opportunities, a number of Gulf countries announced financial aid investments, affirming their intention to support the Egyptian economy during this exceptional period of economic development.

Moreover, in the context of completing the implementation of the economic reforms in a timely manner, a number of draft laws have been issued aiming at attracting investments. Such laws include, but are not limited to the Unified Investment Law and income tax reforms to achieve greater transparency and tax justice. In addition, the Ministry of Finance issued its first Pre-Budget Statement for the state general budget of fiscal year 2015/2016, stressing the importance of transparency, community participation and the involvement of citizens' in the decision-making process. The Pre-Budget Statement was published as a brief document, including a detailed description of the main features of the financial and economic policies incorporated into the draft law of the next fiscal year's budget. The document was presented for a thorough societal dialogue by human rights organizations, political parties, NGOs and the private sector, leading to an informed public opinion and a cooperative participation in drafting the state budget.

The fiscal and structural reforms implemented by the government since the beginning of the current fiscal year resulted in a positive impact on a number of economic indicators. The following are the latest developments:

- Based on the latest preliminary figures recently announced by the Ministry of Planning, GDP is shown to have accelerated, reaching about 5.6 percent during the first half of fiscal year 2014/2015, compared to 1.2 percent during the same period of the previous year. It is worthy to highlight that detailed data are still under preparation and will be published once officially announced by the Ministry of Planning. Concerning Q1-FY14/15 performance, GDP has witnessed a rapid and significant pick-up registering growth of 6.8 percent compared to 1 percent during Q1-FY13/14, further underscoring the capacity of the economy to respond favorably when political and policy conditions stabilize and provide the basis for an economic take-off. The recorded growth was driven mainly by the performance of public and household consumption, investments and exports of goods and services. This portrays the government's aims to create a productive, efficient and ultimately more dynamic economy and to ensure that future growth is high, sustainable and inclusive.

- The latest fiscal performance developments during the period July-February 2014/2015 point to a budget deficit increase by around 1.8 percentage points reaching 8 percent of GDP (LE 186 billion), compared to a deficit of 6.2 as percent of GDP (LE 123.6 billion) during the same period last year. It is noteworthy to mention that due to exceptional and mandatory expenses, total expenditures picked up during the period of study, exceeding the impact of increased tax revenue proceeds, demonstrating a commitment to controlling expenditures within the context of reprioritization and achieving greater efficiency and equity. Some of the expenditure obligations included, the implementation of social reform programs such as; minimum wages, physicians cadre, increased GASC and electricity subsidies, increased social solidarity pensions and efforts to increase public investments to develop and modernize infrastructure.

  On the other hand, tax revenues increased compared to the same period of the previous year due to the increase in taxes on goods and services, taxes on international trade, and increased property taxes proceeds (as a result of the improved performance of economic activity and efforts towards raising tax collection efficiency). Despite the increase in tax revenues, non-tax revenues declined during the period of study, prohibiting the increase in total revenues if compared to same period last year. However, it is worthy to note that during July-February 2013/2014 Egypt received exceptional cash and in-kind grants to address the structural imbalances following the political strikes during January 25, 2011 revolution. If these exceptional inflows were to be excluded, the budget deficit would have decreased by 0.4 percentage points during the period of study.

- Moreover, total government debt (domestic and external) reached LE 2071.7 billion (89.3 percent of GDP) at end of December 2014, compared to LE 1746.3 billion (87.4 percent of GDP) at end of September 2013.

- Net International Reserves (NIR) almost stabilized during February 2015 to record US$ 15.45 billion, compared to US$ 15.43 billion in January 2015.

- As for the monetary developments, M2 annual growth increased during January 2015 reaching 16.4 percent y-o-y (LE 1627.6 billion), compared to 15.8 percent during the last month, while it slightly eased if compared to 16.7 percent at end of January 2014, as annual growth for both demand deposits, and time and savings deposits in foreign currency increased during the month of study.

- Meanwhile, Headline Urban inflation rose during February 2015 recording 10.6 percent, compared to 9.7 percent last month, and compared to the 9.8 percent recorded in February 2014. Factors contributing to higher inflationary pressures include; the rise in annual inflation rate of some main groups such as; “Food and Beverage" (mainly the rise in vegetables and meat prices), “Alcoholic Beverages and Tobacco” (mainly the rise in Cigarette prices), “Housing, Water, Electricity, Gas and Other Fuels” (mainly the rise in Butagas Cylinders, Electricity and Gas prices). Meanwhile, the depreciation of the Egyptian Pound against US dollar (by 4.2 percent on annual basis, and by 1.5 percent on monthly basis) has added to the inflationary pressures appearing during the month of study.

- During its Monetary Policy Committee meeting held on February 26th, 2015, 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 March 31, 2015 worth LE 95 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

- The Balance of Payments (BOP) showed an overall deficit of US$ 1.0 billion (-0.3 percent of GDP) during H1-FY14/15, compared to an overall surplus of US$ 2.0 billion (0.7 percent of GDP) during the same period last year. This was mainly due to a current account deficit of US$ 4.3 billion (-1.3 percent of GDP), compared to a deficit of US$ 0.9 billion (-0.3 percent of GDP) during the same period last year, while the capital and financial account witnessed net inflows of US$ 0.9 billion (0.3 percent of GDP) during the period of study, compared to net inflows of US$ 3.2 billion (1.1 percent of GDP) during H1-FY13/14. Meanwhile, net errors and omissions recorded an inflow of US$ 2.4 billion (0.7 percent of GDP) during July – December 2014/2015, compared to an outflow of US$ 0.4 billion (-0.1 percent of GDP) during H1-FY13/14.

  By excluding exceptional financing received from Gulf Countries – amounting to US$ 2.4 billion (US$ 1.4 billion in-kind grants and US$ 1 billion cash grant) during H1-FY14/15, compared to US$ 10.7 billion (US$ 6 billion deposits, US$ 1 billion cash grant and US$ 3.7 billion in-kind grants) during the same period last year – the BOP performance would have been improved by 61 percent to reach an overall deficit of US$ 3.4 billion during the period of study, compared to US$ 8.7 billion during the H1-FY113/14. This comes despite the reimbursement of US$ 3.2 billion to Qatar (US$ 0.5 billion as accrued deposits and bonds worth US$ 2.7 billion) during October and November 2014. Moreover, Egyptian General Petroleum Company (EGPC) has returned US$ 3 billion in arrears owed to foreign energy companies during July – December 2014/2015.

- It is noteworthy to highlight that credit default swap (CDS) for five years witnessed an increase to reach almost 332.3 points currently, down from 890 basis points at the beginning of July 2013. This directly affects risk perception of international investors toward the Egyptian economy, thus having a positive influence on their decision. Furthermore, Total Production Index rose by 9.9 percent on monthly basis recording 182.8 points during January 2015, compared to 166.4 points in December 2014. However, on annual basis the index has witnessed a 5.3 percent decrease if compared to 193 points recorded during January 2014.

Fiscal Sector:

- The latest fiscal performance developments during the period July-February 2014/2015 point to a budget deficit increase by around 1.8 percentage points reaching 8 percent of GDP (LE 186 billion), compared to a deficit of 6.2 as percent of GDP (LE 123.6 billion) during the same period last year. It is noteworthy to mention that due to exceptional and mandatory expenses, total expenditures picked up during the period of study, exceeding the impact of increased tax revenue proceeds, demonstrating a commitment to controlling expenditures within the context of reprioritization and achieving greater efficiency and equity. Some of the expenditure obligations included, the implementation of social reform programs such as; minimum wages, physicians cadre, increased GASC and electricity subsidies, increased social solidarity pensions and efforts to increase public investments to develop and modernize infrastructure.

  On the other hand, tax revenues increased compared to the same period of the previous year due to the increase in taxes on goods and services, taxes on international trade, and increased property taxes proceeds (as a result of the improved performance of economic activity and efforts towards raising tax collection efficiency). Despite the increase in tax revenues, non-tax revenues declined during the period of study, prohibiting the increase in total revenues if compared to same period last year. However, it is worthy to note that during July-February 2013/2014 Egypt received exceptional cash and in-kind grants to address the structural imbalances following the political strikes during January 25, 2011 revolution. If these exceptional inflows were to be excluded, the budget deficit would have decreased by 0.4 percentage points during the period of study.

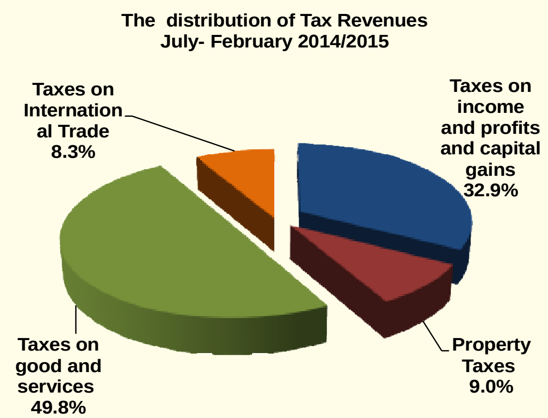
July- February 13/14 Budget Deficit LE 123.6 billion (6.2 percent of GDP)	July- February 14/15 Budget Deficit LE 186 billion (8 percent of GDP)
Revenues LE 254.2 billion (12.7 percent of GDP)	Revenues LE 208.1 billion (9 percent of GDP)
Expenditure LE 373.3 billion (16.7 percent of GDP)	Expenditure LE 385.2 billion (16.6 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

Non-Tax Revenues decelerated while Tax revenues increased during the period of study

On the revenue side,

Total revenues decreased by 18.2 percent to record LE 208 billion (9 percent of GDP) during July- February 2014/2015. The recorded decline in total revenues during the period of study is principally due to the 44.7 percent decrease in non-tax revenues to record LE 58.3 billion (mainly due to the decline in grants during the period July-February 2014/2015 if compared to the exceptional grants received during the period of comparison July-February 2013/2014).



Meanwhile, tax revenues increased by 0.7 percent only to record LE 149.8 billion during the period of study. Yet, it is worthy to note that tax revenues is expected to increase during Q4-FY-14/15 coinciding with the tax collection season. Tax revenue has improved during the period of study, due to the implementation of fiscal and structural reforms by the government since the beginning of the current fiscal year. More specifically, the increase in taxes on goods and services, taxes on international trade, and property taxes, reflecting the improvement in economic activity and the efforts done to raise the efficiency of tax collections, and which outweighted the decrease in taxes on income, capital gains and profits.

This has been reflected by the increase in tax receipts from sovereign authorities, specifically, Other Companies and Suez Canal. In addition, CBE tax receipts have increased in light of the repayment of last year's tax arrears. Meanwhile, taxes on goods and services revenues increased significantly, on the back of improved tourism sector performance during the period of study. Also, taxes on international trade have improved, reflecting the increased efforts of the Egyptian Customs Authority in controlling Egypt's ports. Finally, Real Estate Tax Authority efforts to raise tax collections efficiencies has contributed to the increase in property tax receipts during the period of study. Detailed data are as follows:

Taxes on Good and Services increased by LE 18 billion (32.6 percent growth) to reach LE 74.5 billion (3.2 percent of GDP).

- **Taxes on goods and services receipts represent 49.8 percent of total tax revenues.**

Mainly as a result of higher receipts from:

- The increase in general sales tax on goods by 27.5 percent to record LE 33.7 billion.
- The increase in Excises on Domestic Commodities (Table 1) by 51.8 percent to record LE 24 billion (in light of increased sales tax on petroleum products by 196.5 percent to reach LE 7.6 billion and tobacco by 23.3 percent to reach LE 15.6 billion)
- The increase in general sales tax on services by 30 percent to record LE 7.5 billion in light of the improved performance of the tourism sector, specifically, hotels, and restaurants and the improvement of international and domestic telecommunications services.

Taxes on International Trade increased by LE 1.4 billion (12.6 percent growth) to reach LE 12.5 billion (0.5 percent of GDP).

- **Taxes on International Trade receipts represent 8.3 percent of total tax revenues.**

In light of an increase in taxes on valued customs by 11.9 percent y-o-y to LE 11.9 billion reflecting the efforts of the Egyptian Customs Authority to control Egypt ports since the beginning of the current fiscal year 2014/2015.

Property Taxes increased by LE 0.9 billion (6.8 percent growth) to reach LE 13.5 billion (0.6 percent of GDP).

- **Property Taxes receipts represent 9 percent of the total tax revenues.**

Mainly as a result of the increase in Tax on T-bills and bonds' payable interest by 1.9 percent to reach 10.7 billion during the period of study and the increase of Taxes and Fees on Cars receipts by 30 percent to record LE 1.8 billion.

On the other hand, receipts from Taxes on Income, Capital Gains and Profits (which represents 32.9 percent of total tax revenues) declined by LE 19.4 billion (28.2 percent growth) to reach LE 49.3 billion (2.1 percent of GDP), mainly due to:

- The decline in tax receipts from corporate profits by LE 23.1 billion (45 percent growth) to record LE 28.2 billion, as no petroleum settlements occurred during the period of study, compared to LE 30.6 billion petroleum settlements recorded during July-February 2013/2014. However, tax receipts from corporate profits for the rest of the items (except for EGPC) increased during the period of study (including receipts from sovereign authorities) as follows:

- Increase in receipts from Other Companies by LE 5.5 billion (50.2 percent) to record LE 16.4 billion.

  It should be noted that taxes on other companies' profits represents dues from previous fiscal year, and it is expected that those figures will increase during the month of April 2015 which represents the period of submission of the companies tax returns.

- Increase in receipts from Suez Canal by LE 0.6 billion (8.5 percent) to reach LE 7.7 billion.

- Increase in tax receipts from CBE by LE 1.5 billion (57.5 percent) to reach LE 4 billion.

  It is noteworthy to mention that, tax receipts from CBE and Suez Canal are expected to increase during the remaining period of the current fiscal year, which would have a positive impact on the overall fiscal deficit.

- Increase in tax receipts on industrial & commercial profits by LE 1.4 billion (47.9 percent) to reach LE 4.3 billion.

- Increase in tax receipts on domestic salaries by LE 2.1 billion (17.4 percent) to reach LE 14.2 billion in light of the significant increase in total wages and salaries bill.

- Increase in taxes on stamp duty on salaries by LE 0.2 billion (9.1 percent) to reach LE 2.3 billion in light of the increase in the wage bill by 21.5 percent.

- It is worthy to note that taxes on non-commercial professions recorded only 262 L.E million during the period of study, which is a considerably low amount if compared to the actual profits they achieve. Hence, the Tax authority is focusing in the coming period on enhancing tax collections through the implementation of new system that links the registered non-commercial professions in Egypt's syndicates' to the tax information portal, for the aim of avoiding tax evasions and achieving fairness in the tax system.

- It should be highlighted that tax revenue performance is expected to be influenced during the coming period by the delay in the implementation of a set of regulations, such as mining and quarrying law, value-added tax law, and the fourth mobile phone license.

The reduction in non tax revenues could be explained mainly due to the decline in grants during the period July-February 2014/2015

On the non-tax revenues side, the decline could be explained in light of the following:

- The decrease in grants to record LE 7.9 billion during July-February 2014/2015 if compared to exceptional grants received during the same period last year recording almost LE 51.4 billion, due to the exceptional grants received during the period of comparison last year. It is noteworthy that the exceptional grants received last year were US$ 1 billion grant from the United Arab of Emirates, in addition to LE 20.3 billion (out of LE 29.7 billion allocated to finance the first stimulus package related to the presidential decree no. 105, 2013).

- Revenues from special accounts and funds decreased by LE 2.8 billion (24.5 percent) to reach LE 8.7 billion during the period of study.

- Dividends from the Petroleum Authority decreased as no petroleum settlements occurred during the period of study.

- On the other hand, non-tax revenues from sovereign authorities rose during the period as follows:

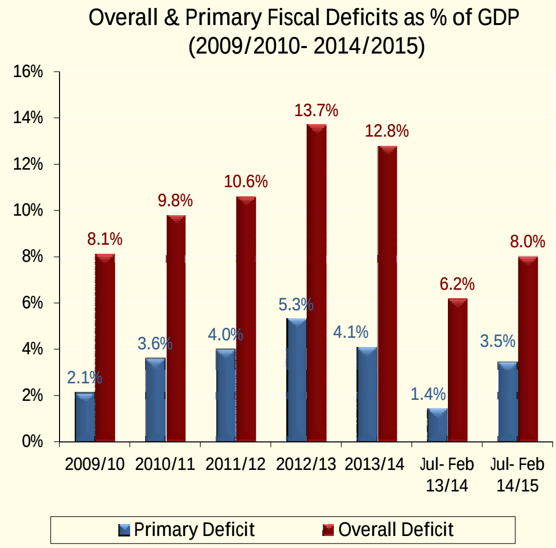
  § Increase in dividends collected from Central Bank by LE 7.1 billion to reach LE 13.4 billion (In light of collecting overdue payments from CBE that belonged to last year),

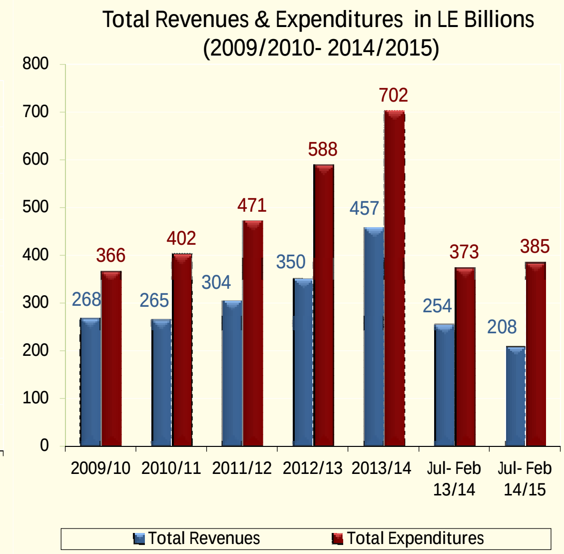
  § Increase in dividends collected from Suez Canal by LE 1.1 billion to reach LE 11.2 billion,

  § Increase in dividends collected from economic authorities by more than two folds to reach LE 1.6 billion,

  § Increase in dividends collected from public enterprises by more than three folds to reach LE 0.8 billion during the study period.

- Meanwhile, Miscellaneous Revenues rose by 55.1 percent to record LE 8.3 billion (0.4 percent of GDP), mainly due to the increase in both current and capital miscellaneous revenues during the period of study.





Source: Ministry of Finance

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

On the Expenditures Side:

In continuation to the fiscal and structural reform program, the government is entitled to implement a set of reform measures during the coming period, including; rationalizing energy subsidies, controlling the wage bill, implementing cash transfer programs, and increasing spending on health and education according to the new constitutional requirements.

The latest fiscal data points to an increase in total expenditures by around LE 11.8 billion compared to same period last year to record LE 385.2 billion (16.6 percent of GDP) during July-February 2014/2015, this was mainly due to:

§ The increase in wages and compensation of employees by LE 17 billion (15.7 percent) to LE 125.2 billion (5.4 percent of GDP), mainly due to:

- The increase in rewards by LE 3.7 billion (7.9 percent growth) to record LE 51.5 billion during the period of study, mainly due to the increase in teacher's special cadre allowances.
- The increase in spending on cash benefits by LE 7.8 billion to reach LE 16.4 billion during the period of study, mainly due to; minimum wage allowances of around LE 3.8 billion, and teachers allowances around LE 3.4 billion, and special allowances of around LE 0.6 billion.
- The increase in Specific allowances by around LE 1.1 billion to reach LE 14.3 billion during the period of study.
- The increase in In-Kind Benefit allowances by around LE 0.2 billion (14.9 percent growth) to reach LE 1.6 billion during the period of study.

§ The increase in Purchases of Goods and Services by LE 2.1 billion (15 percent growth) to reach LE 16.2 billion (0.7 percent of GDP) due to:

- Increased spending on goods by LE 1.1 billion (17.9 percent growth) to reach LE 7.3 billion during the period of study, mainly due to; increased spending on raw materials.

- Increased spending on services by LE 0.8 billion (11.7 percent growth) to reach LE 7.7 billion during the period of study, mainly due to increased spending on maintenance, and transportation.

§ The increase in interest payments by LE 10.5 billion (11 percent growth) to reach LE 105.9 billion (4.6 percent of GDP), mainly due to:

- The increase in domestic interest (other government units) by LE 10.5 billion (13.1 percent growth) to reach LE 90.1 billion during the period of study, mainly due to; the increase in interest on treasury bills by around LE 3.6 billion, and the increased interest on CBE Bills by LE 0.3 billion.
- However, foreign debt interest declined slightly by 0.5 percent, to reach LE 3.4 billion during the period of study.

§ The rise in other expenditures by LE 6.3 billion (26.7 percent growth) to reach LE 30 billion (1.3 percent of GDP) mainly due to:

- Increase spending on contingency reserves by LE 6.3 billion (29.9 percent growth) to reach LE 27.5 billion during the period of study.

§ The increase in purchases of non-financial assets (investments) by LE 7 billion (1.3 percent of GDP) (31.3 percent growth) to reach LE 29.5 billion, mainly due to:

- Increased spending on direct investments by LE 6.4 billion (31.6 percent growth) to reach around LE 26.7 billion during the period of study.

§ Meanwhile, subsidies, grants and social benefits recorded LE 78.2 billion (3.4 percent of GDP) during the period of study compared to LE 109.4 billion during same period last year, this can be explained in light of the following:-

- The decline in Spending on subsidies reaching around LE 43.3 billion during the period of study compared to LE 80.6 billion as no petroleum settlements occurred during the period of study.
- However, General Authority for Supply Commodities subsidies rose by LE 3.6 billion (25.2 percent growth) to reach LE 17.8 billion during the period of study.
- Electricity subsidies rose by LE 9.9 billion (almost doubled) to reach LE 18.7 billion during the period of study.
- Meanwhile, Social Benefits rose by 4.3 billion (16.7 percent growth) to reach LE 29.8 billion during July-February 2014/2015, mainly due to:
    - Increased contributions to the pension funds by LE 3 billion (13.7 percent growth) to reach LE 25 billion during the period of study.
    - Increased social insurance pensions by LE 1.1 billion (34.3 percent growth) to reach LE 4.4 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.

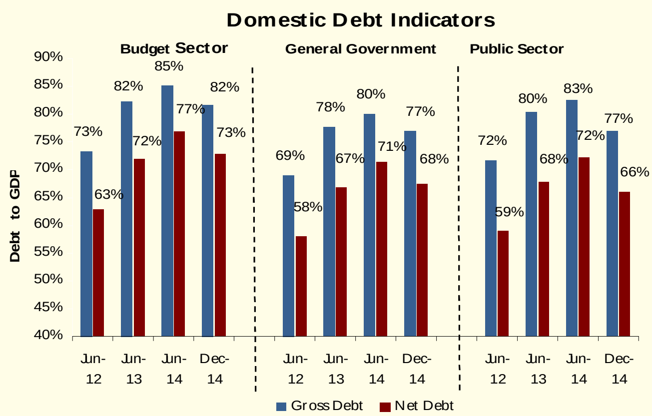
The second pillar envisages expenditure side reforms, that focuses on re-prioritizing public spending in favor of protecting the poor, particularly the neediest segments of the population. Meanwhile, some of the savings derived from the new revenue enhancement and subsidy cuts will be deployed to increase 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.

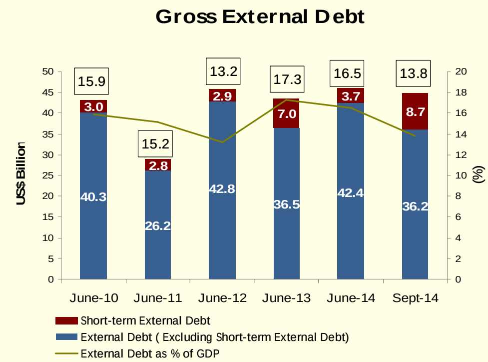
Public Debt:

- Domestic budget sector debt recorded LE 1895.2 billion (81.7 percent of GDP) by end of December 2014, compared to LE 1543.6 billion (77.3 percent of GDP) by end of December 2013.

Although value of total government debt increased, its ratio to GDP witnessed slight improvement …

It is worth mentioning that the total government debt (domestic and external) reached LE 2071.7 billion (89.3 percent of GDP) at end of December 2014, compared to LE 1746.3 billion (87.4 percent of GDP) at end of September 2013.





Source: Ministry of Finance

External debt stock (government and non-government debt) recorded US$ 41.5 billion at end of December 2014 compared to US$ 45.7 billion at end of December 2013, this can be explained in light of the decrease witnessed in the government external debt during the first half in FY-14/15. External debt as percent of GDP recorded 12.8 percent by the end of December 2014, which is relatively low if compared to the average of peer countries (Middle East and North Africa countries recorded an average of 27 percent of GDP during the year 2013).

Meanwhile, government external debt annual growth decreased by 5.2 percent to reach US$ 27.9 billion (62.1 percent of total external debt) as of end of September 2014, compared to US$ 29.4 billion (62.5 percent of total external debt) at end of September 2013. This decrease can be attributed to a US$ 582 million decline in book value due to the depreciation of other currencies of external debt relative to US$ exchange rate, in addition to US$ 115 million short term reimbursement.

Moreover, short-term debt to total external debt ratio increased from 8.5 percent at end of September 2013 to 8.7 percent at end of September 2014. This increase indicates minimal reliance by the government on short-term debt.

Monetary Perspective:

M2 annual growth increased during January 2015 to reach 16.4 percent

- According to recent data released by the CBE, M2 annual growth increased at end of January 2015 to record 16.4 percent (y-o-y) reaching LE 1627.6 billion, compared to 15.8 percent during the last month, while it slightly eased if compared to 16.7 percent at end of January 2014. These developments could be explained – from the liabilities side – in light of the growth witnessed in quasi money annual growth recording 15.6 percent (LE 1180.4 billion), compared to 14.5 percent in the previous month, as foreign currency demand deposits annual growth increased from 6.1 percent in December 2014 to 19.4 percent during the month of study. Additionally, time and savings deposits in foreign currency annual growth increased to 9.2 percent, compared to 7.4 percent in the previous month. The growth in quasi money overcame the slight slowdown witnessed in money annual growth reaching 18.6 percent (LE 447.2 billion), compared to 19.3 percent at end of December 2014, as currency in circulation annual growth eased at end of January 2015 to record 9.5 percent (LE 279.6 billion), compared to 10.4 percent in December 2014.

From the assets side – net domestic assets (NDA) of the banking system annual growth increased during the month of study to record 21.7 percent (LE 1552.2 billion), compared to 19.8 percent during the previous month. On the other hand, net foreign assets (NFA) of the banking system has continued to shrink on annual basis, recording a contraction of 38.5 percent (LE 75.4 billion) at the end of January 2015, compared to a lesser decline of 28.3 percent during the previous month.

Net claims on the government and GASC annual growth increased to 23.7 percent (LE 1150 billion) during January 2015, compared to 22.1 percent in the previous month. Moreover, annual growth in credit to the private sector increased to reach 13.8 percent (4.1 percent annual real growth) at end of January 2015 to LE 568.8 billion, compared to 11.9 percent last month. This growth comes on the back of the increase witnessed in household and private business sector annual growth reaching 18.8 percent and 11.9 percent respectively, compared to 18.3 percent and 9.5 percent in December 2014, respectively. Additionally, claims on public business sector annual growth rose to 36 percent in January 2015 (LE 59 billion), compared 34.1 percent in December 2014.

Deposits and loans detailed data for January 2015 is not yet available. Total deposits annual growth – excluding deposits at the CBE – eased to reach 18.5 percent y-o-y (LE 1559.8 billion) at the end of December 2014, compared to 20.7 percent at end of November 2014. Out of total deposits, 85.9 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by banking sector (excluding CBE) increased during the year ending December 2014 recording 14.3 percent (LE 629.2 billion), compared to 12.4 percent at end of November 2014, reflecting the renewed confidence in the economy. To that end, loans-to-deposits ratios eased at end of December 2014 registering 40.3 percent, compared to 40.6 percent at end of the previous month.

NIR almost stabilized during February 2015 to record US$ 15.45 billion

- Net International Reserves (NIR) almost stabilized during February 2015 to record US$ 15.45 billion, compared to US$ 15.43 billion in January 2015.

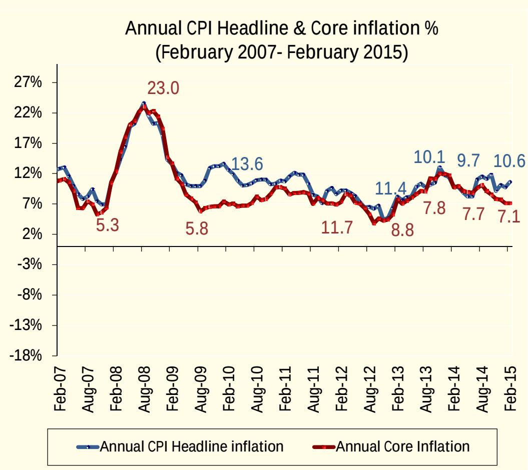
CPI almost declined during Jul-Feb 2014/2015 compared to same period last

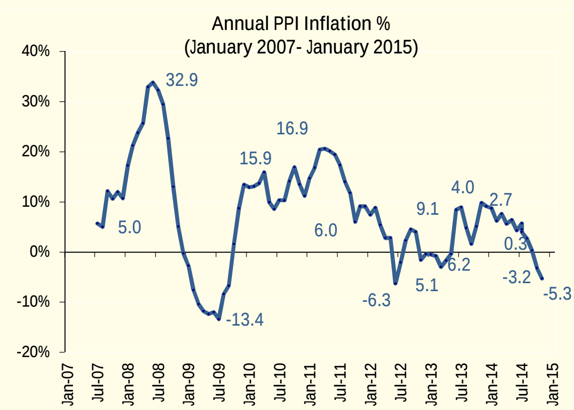
- CPI annual Urban Inflation rose during February 2015 recording 10.6 percent, compared to 9.7 percent last month, and compared to the 9.8 percent recorded in February 2014. As a result, the average annual inflation decelerated during the period July-February 2014/2015 to record 10.6 percent, compared to 10.8 percent during the same period last year. Factors contributing to higher inflationary pressures include; the rise in annual inflation rate of main groups, in addition to the depreciation of the Egyptian Pound against US dollar (by 4.2 percent on annual basis, and by 1.5 percent on monthly basis) .

  On a more detailed level, annual inflation rate of “Food and Beverage" (the largest weight in CPI), rose to record 8 percent during February 2015, compared to 5.8 percent during last month, this comes on the back of the increase in annual inflation rate of sub-items, on top of which “Vegetables” (to record 14.5 percent compared to 6.8 percent), “Meat” (to record 11 percent compared to 8.6 percent), “Fruits” (to record 8.5 percent compared to 7.5 percent), “Sugar” (to record 4.4 percent compared to 2.4 percent).

  Meanwhile, amongst other main groups which contributed to the rise in annual inflation during the month of study was: “Alcoholic Beverages and Tobacco” which recorded an annual inflation of 33.7 percent compared to 29.9 percent last month, and compared to 8.2 percent during February 2014 (due to the increase in tobacco prices by 33.8 percent), “Housing, Water, Electricity, Gas and Other Fuels” which recorded an annual inflation of 10.3 percent compared to 9.3 percent last month, and compared to 1.5 percent during February 2014 (due to the increase in Electricity, Gas and Other Fuels prices by 53.4 percent), “Clothing and Footwear” which recorded an annual inflation of 7.5 percent compared to 2.5 percent last month, and compared to 0.2 percent during February 2014 (due to the increase in Garments prices by 9.4 percent), “Restaurant and Hotels” which recorded an annual inflation of 15.9 percent compared to 15.1 percent last month, and compared to 7 percent during February 2014.

  On the other hand, monthly urban inflation rose to record 1.9 percent during February 2015 compared to 1 percent achieved in both last month and February 2014.





- Annual core inflation rose slightly to reach 7.15 percent during February 2015, compared to 7.06 percent during last month, while it declined compared to 9.7 percent in February 2014 (the lowest since April 2013). Meanwhile, monthly core inflation rose to record 1.1 percent during February 2015, compared to 0.5 percent during the previous month, and compared to 1 percent recorded during February 2014. The monthly inflation could be explained in light of the increase in “food items” contributing by 0.97 percentage points to the monthly core inflation.

Meanwhile "retail prices" and "other services" contributed by the remainder 0.13 percentage points.

- During its Monetary Policy Committee meeting held on February 26th, 2015, CBE decided to keep the overnight deposit rate and overnight lending rates, unchanged at 8.75 percent and 9.75 percent respectively, and to keep the CBE's main operation unchanged at 9.25 percent. The discount rate was also kept unchanged at 9.25 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 March 31, 2015 worth LE 95 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

- The Egyptian Exchange indices declined throughout March 2015, despite positive results from the economic conference recently held in Sharm El Sheikh. Market capitalization decreased by 1 percent m-o-m during the month of study to reach LE 506.2 billion (21.8 percent of GDP), compared to LE 511 billion during the previous month. Moreover, EGX-30 Index decreased by 199 points during March 2015, reaching 9134.8 points, compared to 9334.8 points by the end of February 2015. In addition, the EGX70 also dropped as much as 7.2 percent, closing at 517.6 points, compared to closing the previous month at 558 points.

On the External Sector side:

- BOP showed an overall deficit of US$ 1.0 billion (-0.3 percent of GDP) during H1-FY14/15, compared to an overall surplus of US$ 2.0 billion (0.7 percent of GDP) during the same period last year.

  By excluding exceptional financing received from Gulf Countries – amounting to US$ 2.4 billion (US$ 1.4 billion in-kind grants and US$ 1 billion cash grant) during H1-FY14/15, compared to US$ 10.7 billion (US$ 6 billion deposits, US$ 1 billion cash grant and US$ 3.7 billion in-kind grants) during the same period last year – the BOP performance would have been improved by 61 percent to reach an overall deficit of US$ 3.4 billion during the period of study, compared to US$ 8.7 billion during the H1-FY113/14. This comes despite the reimbursement of US$ 3.2 billion to Qatar (US$ 0.5 billion as accrued deposits and bonds worth US$ 2.7 billion) during October and November 2014. Moreover, Egyptian General Petroleum Company (EGPC) has returned US$ 3 billion in arrears owed to foreign energy companies during July – December 2014/2015.

  On a more detailed level, the deficit recorded in the BOP occurred as a result of several factors, on top of which:

  - Current account recorded a deficit of US$ 4.3 billion (-1.3 percent of GDP), compared to a lower deficit of US$ 0.9 billion (-0.3 percent of GDP) during the same period last year. This came as a result of the deceleration witnessed in the trade balance and transfers, which outweighed the improvement in the services balance, as follows:

    - Trade balance has recorded a deficit of US$ 20.2 billion (-6.2 percent of GDP), compared to a deficit of US$ 15.1 billion (-5.2 percent of GDP) during the same period last year, mainly due to the increase witnessed in merchandise imports by

14.7 percent to record US$ 32.4 billion compared to US$ 28.3 billion in the comparison period.

- However, services balance has recorded a surplus of US$ 3.9 billion (1.2 percent of GDP) during the period of study, compared to a deficit of US$ 0.5 billion (-0.2 percent of GDP) during H1-FY13/14, mainly backed by the more-than-double picking up in tourism receipts to reach US$ 4 billion during July – December 2014/2015, (compared to US$ 1.9 billion in H1-FY13/14), in addition to the significant increase witnessed in government receipts to reach US$ 1.1 billion during the period of study, compared to US$ 0.2 billion in H1-FY13/14.

- Net official transfers recorded US$ 2.6 billion (0.8 percent of GDP) (of which US$ 1.4 billion in-kind grants in the form of petroleum shipments and US$ 1 cash grant from Kuwait) compared to US$ 6.2 billion (2.2 percent of GDP) during July-December 2013/2014, this cannot be considered as a deceleration since the period in comparison H1-FY13/14 reflected exceptional inflows (of which, US$ 1 billion cash grant from UAE and US$ 3.8 billion in-kind grants in the form of petroleum shipments).

§ Meanwhile, the capital and financial account witnessed net inflows of US$ 0.9 billion (0.3 percent of GDP) during the period of study, compared to net inflows of US$ 3.2 billion (1.1 percent of GDP) during H1-FY13/14, mainly due to the following:

- Net foreign direct investments in Egypt increased to reach US$ 2.7 billion (0.8 percent of GDP), compared to US$ 2.1 billion (0.7 percent of GDP) in the comparison period driven mainly by the rise in the net inflow for oil sector investments to reach US$ 1.2 billion up from US$ 1.0 billion during H1-FY13/14. Net inflow for greenfield investments have also witnessed an increase to reach US$ 1.4 billion during H1-FY14/15 up from US$ 1.1 billion during the same period last year.

- Portfolio investment in Egypt has recorded a net outflow of US$ 2.1 billion (-0.6 percent of GDP) compared to a net inflow of US$ 1.2 billion (0.4 percent of GDP) during H1-FY14/15, in light of the repayment of a US$ 2.5 billion Qatari bond.

- The decrease witnessed in the CBE liabilities to the external world registering a net outflow of US$ 0.5 billion (-0.2 percent of GDP), compared to inflows of US$ 1.9 billion (0.7 percent of GDP) during the same period last year. This comes in light of the repayment of a Qatari deposit.

§ Net errors and omissions recorded a net inflow of US$ 2.4 billion (0.7 percent of GDP) during July – December 2014/2015, compared to a net outflow of US$ 0.4 billion (-0.1 percent of GDP) during H1-FY13/14.

Real Sector:

Six key sectors led growth during Q1-FY14/15…

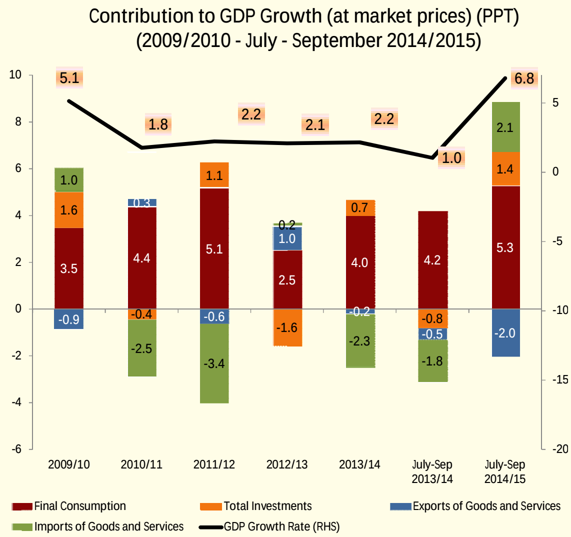
Ø Based on the latest preliminary figures recently announced by the Ministry of Planning, GDP is shown to have accelerated, reaching about 5.6 percent during the first half of fiscal year 2014/2015, compared to 1.2 percent during the same period of the previous year. It is worthy to highlight that detailed data are still under preparation and will be published once officially announced by the Ministry of Planning. Concerning Q1-FY14/15 performance, GDP has witnessed a rapid and significant pick-up registering growth of 6.8 percent compared to 1 percent during Q1-FY13/14, further underscoring the capacity of the economy to respond favorably when political and policy conditions stabilize and provide the basis for an economic take-off. The recorded growth was driven mainly by the performance of public and household consumption, investments and exports of goods and services. This portrays the government's aims to create a productive, efficient and ultimately more dynamic economy and to ensure that future growth is high, sustainable and inclusive.

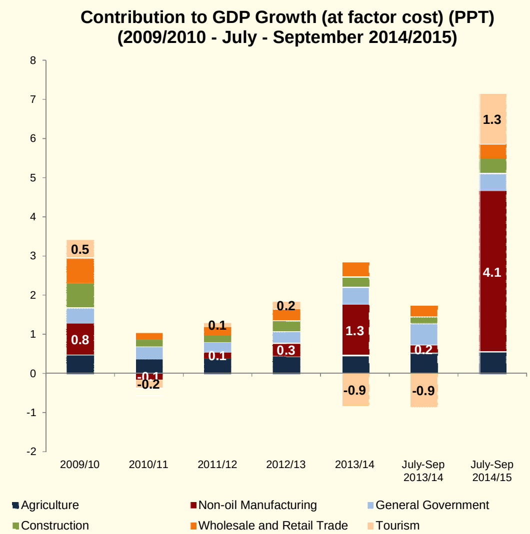
On the supply side, six key sectors led y-o-y growth, on top of which was the non-oil manufacturing sector recording a 29.2 percent growth rate, (contributing with the highest contribution of 4.1 percentage points to growth compared to 0.2 PPT during Q1-FY13/14). It is worthy to highlight that, amongst manufacturing activities that witnessed an increase during September 2014 include; manufacturing of motor vehicles and trailers, publishing, printing and reproduction of recorded media, manufacturing of Radio, television and communication equipment and food products and beverage. Meanwhile, manufacturing index – sub index under total production index – hiked to reach 175.9 points during September 2014, compared to 145.9 points during September 2013, recording y-o-y growth of 20.6 percent.

Moreover, the tourism sector hiked to record a 59.1 percent real growth rate (contributing to growth by 1.3 PPT, compared to a contribution of -0.9 PPT during Q1-FY13/14). It is noteworthy that, tourism performance reflects returning stability and strengthening confidence, raising tourism index – sub index under total production index – up to 234.3 points during September 2014, compared to 49.6 points during September 2013 growing almost by 5 folds during the period of study.

Moreover, agricultural sector witnessed growth of 3 percent (stabilizing at a contribution of 0.5 PPT), while construction sector have recorded a real growth rate of 9.9 percent (contributing by 0.4 PPT during the period of study, compared to 0.2 PPT during the same period last year). Meanwhile general government sector have recorded a real growth rate of 4.5 percent (contributing by 0.4 PPT to growth compared to 0.5 PPT during Q1-FY13/14) and wholesale and retail trade have recorded a real growth rate of 3.2 percent (contributing by 0.4 PPT to growth compared to 0.3 PPT during the same period last year). Together, these above-mentioned 6 key sectors represented around 62 percent of total real GDP during the period of study.

Meanwhile, natural gas extraction continued to subdue growth during Q1-FY14/15 declining by 14.7 percent, contributing negatively to growth by -1.2 PPT.





On the demand side, both public and private consumption continued to boost economic activity during Q1-FY14/15. Private consumption grew by 4.9 percent y-o-y, compared to a growth rate of 4.2 percent during Q1-FY13/14, while public consumption grew at 8.8 percent in the period of study, compared to 5.9 percent during Q1-FY13/14. It is also worthy to note that both public and private consumption led to a total contribution of 5.3 PPT to GDP growth during Q1-FY14/15, compared to 4.2 PPT during the same period last year.

In the meantime, recent data reflects positive signs of change, showing that investments have increased by 14 percent compared to a negative growth level of 7.3 percent during Q1-FY13/14, contributing positively to growth by 1.4 PPT compared to -0.8 PPT to growth during Q1-FY13/14.

As for the distribution of total investments by economic agents (in nominal terms), public investments (government + economic authorities + public business sector) accounted for 24 percent of total investments in Egypt during the period of study, while the private sector accounted for 76 percent in the same period, noting that nearly 58 percent of government investments were directed towards social services sectors.

Meanwhile, net exports posted a positive contribution of 0.1 PPT during Q1-FY14/15, compared to a negative contribution of 2.3 PPT during Q1-FY13/14. Exports increased by 15 percent with a positive contribution of 2.1 PPT to real GDP growth, compared to a negative contribution of 1.8 PPT during the same period last year, while imports increased by 8.8 percent in the period of study, contributing negatively by 2 PPT, compared to a negative contribution of 0.5 PPT during Q1-FY-13/14.

- According to the latest published figures, total number of tourists arrivals decreased during the month of February 2015, reaching 640.2 thousand tourists, compared to almost 677.5 thousand tourist arrivals in the previous month. Tourist nights also decreased during the month of study to reach almost 5.6 million nights, compared to 6.8 million nights during January 2015.