Executive Summary

Main Highlights…

The government of Egypt is committed to pursuing policies aimed at achieving inclusive and sustainably high rates of growth, that can address the needs of Egyptian citizens while improving their living standards and quality of life. Moreover, the government's economic program is gaining increasing support especially from various international organizations and rating agencies among which Moody's that upgraded the credit rating of Egypt in April 2015 to the point B3 while keeping the outlook at a "stable". This was equally reflected in the improvement of Egypt's overall assessment by other international rating agencies, including " Fitch" and" Standard & Poor's ", in addition to the positive impact of the IMF Article IV Consultation report. Furthermore, officials have praised how the Egyptian economy is back on track and how structural and financial reforms applied by the government since the beginning of the current fiscal year began to show tangible results.

On a different note, latest financial indicators related to tax returns submissions for the current fiscal year point out a marked improvement in the number of submitted tax returns and growing tax revenues. Indicators also reveal a significant increase in the number of subscribers compared to previous years and the widespread phenomenon of voluntary commitment by subscribers to pay the public treasury dues, before the end of the current season. To this extent, the fiscal and structural reforms implemented by the government since the beginning of the current fiscal year have had a positive impact on a number of economic indicators. The following are the latest developments:

- Based on the recent preliminary figures released by the Ministry of Planning, GDP has 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. The aforementioned growth witnessed in economic activity on the supply side (GDP by sector) came in light of the continued progress in the manufacturing sector and the restoration of tourism activities performance after a period of contraction that continued starting Q4-FY12/13 till Q4-FY13/14. It is worthy to note that this pick-up in growth came despite the continuous weak performance of the natural gas extraction sector. In the meantime, on the demand side (GDP by expenditure), the positive contribution of investments has exceeded the effect of the decrease in net exports resulting in the achieved above-mentioned growth rate.

- The latest fiscal performance developments during the period July-March 2014/2015 point to a budget deficit reaching 9.4 percent of GDP (LE 218.3 billion), increasing by around 2 percentage points, compared to a deficit of 7.3 as percent of GDP (LE 145 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 revenue proceeds. The increase in tax revenues were driven by the increase in proceeds from taxes on income (more specifically the petroleum settlements that occurred during the period of study), taxes on goods and services, taxes on international trade, and property taxes proceeds (as a result of the improved performance of economic activity and efforts towards raising tax collection efficiency). While, non-tax revenues declined if compared to the same period last year, which offsets the increase in total revenues during the period of study. However, it is worthy to note that during July-March 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 0.1 percentage points during the period of study.

On the other hand, demonstrating a commitment to reprioritize public expenditure in favour of lower-income groups to achieve the best social yield, including the implementation of social reform programs such as; minimum wages, physicians cadre, increased GASC and electricity subsidies despite price adjustments at the beginning of the fiscal year, increased social solidarity pensions parallel to renovating new programs to widen the beneficiaries scheme and the social safety net, in addition to efforts to increase public investments to develop and modernize infrastructure, housing and transportation and on health and education sectors. The above-mentioned developments resulted in a higher magnitude of increase in the expenditures vis-à-vis revenues during the period of study.

- Moreover, total government debt (domestic and external) reached LE 2074.3 billion (89.4 percent of GDP) at end of December 2014, compared to LE 1746.3 billion (87.4 percent of GDP) at end of December 2013.

- Net International Reserves (NIR) declined during March 2015 to record US$ 15.29 billion, compared to US$ 15.45 billion in February 2015.

- As for the monetary developments, M2 annual growth eased at end of February 2015 to record 15.5 percent (y-o-y) reaching LE 1637.4 billion, compared to 16.4 percent during the last month and compared to 17 percent at end of February 2014, as annual growth for time and saving deposits in local and foreign currencies decelerated during the month of study.

- Meanwhile, Headline Urban inflation rose for the second month in a row to record 11.5 percent during March 2015, compared to 10.6 percent last month, and 9.8 percent recorded in March 2014. Factors contributing to higher inflationary pressures include; the rise in annual inflation rate of some of main groups, including; "Food and Beverage" (the largest weight in CPI) more specifically Vegetables, Milk, and Oil and Fats, "Housing, Water, Electricity, Gas and Other Fuels" more specifically Butagas Cylinders prices, and Electricity and Gas prices, and "Restaurant and Hotels" due to the increase in accommodation and catering services.

- During its Monetary Policy Committee meeting held on April 23rd, 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 April 21, 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 a decrease to reach almost 332.27 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. In addition the purchasing managers' index (PMI) has achieved its highest rate since the preceding three months, recording 50 points during April 2015, compared to 49.6 during March 2015, boosted by a pick-up in output of private sector non-oil companies ending a three-month period of decline. Furthermore, Total Production Index rose by 1 percent on monthly basis recording 184.7 points during February 2015, compared to 182.8 points in January 2015. Meanwhile, it increased by 4.9 percent on annual basis if compared to 176 points recorded during February 2014.

Fiscal Sector:

- The latest fiscal performance developments during the period July-March 2014/2015 point to a budget deficit reaching 9.4 percent of GDP (LE 218.3 billion), increasing by around 2 percentage points, compared to a deficit of 7.3 as percent of GDP (LE 145 billion) during the same period last year. However, it is worthy to note that during July-March 2013/2014 Egypt received exceptional cash and in-kind grants to address the structural imbalances following the political strikes during January 25, 2011 revolution (including US$ 3 billion grants from the United Arab of Emirates and Saudi Arabia, 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). If these exceptional inflows were to be excluded, the budget deficit would have decreased by 0.1 percentage points during the period of study.

Meanwhile tax receipts increased by almost LE 35 billion to record LE 204.9 billion during the period of study, compared to LE 168.9 billion during the same period last year; coinciding with the tax collection season, and driven by tax reforms adopted since the beginning of the current fiscal year. Taxes on income has particularly increased by 11.6 percent to LE 84 billion during the period of study, compared to LE 75.3 billion during the same period last year (especially with petroleum settlements taking place during the period of study). Taxes on goods and services also increased by around 34.8 percent to record LE 86.4 billion during the period of study compared to LE 64.1 billion. Moreover, taxes on international trade has grown by 32.2 percent to LE 16.4 billion during the period of study, compared to LE 12.4 billion (in light of the improved performance of economic activity and the efforts made in to raise collection efficiency). However, total revenues have almost stabilized during the period of study (slightly declining by LE 0.6 billion) if compared to the same period last year due to the receipt of exceptional cash and in-kind grants during the same period last year.

On the other hand, demonstrating a commitment to reprioritize public expenditure in favour of lower-income groups to achieve the best social yield, including the implementation of social reform programs such as; minimum wages, physicians cadre, increased GASC and electricity subsidies despite price adjustments at the beginning of the fiscal year, increased social solidarity pensions parallel to renovating new programs to widen the beneficiaries scheme and the social safety net, in addition to efforts to increase public investments to develop and modernize infrastructure, housing and transportation and on health and education sectors. The above-mentioned developments resulted in a higher magnitude of increase in the expenditures vis-à-vis revenues during the period of study.

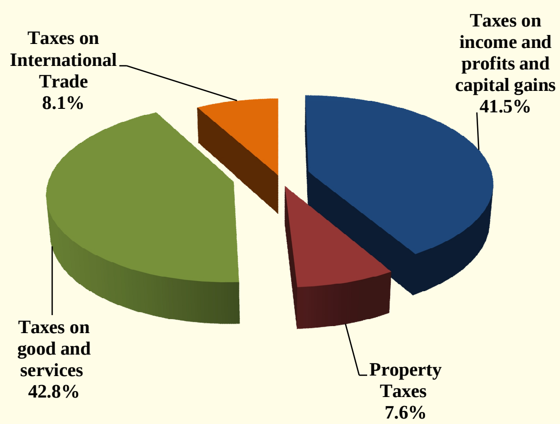
July- March 13/14 Budget Deficit LE 145 billion (7.3 percent of GDP)	July- March 14/15 Budget Deficit LE 218.3 billion (9.4 percent of GDP)
Revenues LE 282.7 billion (14.2 percent of GDP)	Revenues LE 282 billion (12.2 percent of GDP)
Expenditure LE 423 billion (21.2 percent of GDP)	Expenditure LE 490.6 billion (21.1 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

On the revenue side,

Total revenues have almost stabilized during the period of study (declining slightly by LE 0.6 billion) to record LE 282.1 billion during July-March 2014/2015 compared to LE 282.7 billion during the same period last year. This developments could be explained mainly in light of the increase in tax revenues by 21.3 percent to record LE 204.9 billion during the period of study coinciding with the tax collection season, and which has counterparted the decline in non-tax revenues by 32 percent to record LE 77.2 billion during July-March 2014/2015, driven by the decline in grants during the period of study if compared to the exceptional grants received during the period of comparison July-March 2013/2014.

The distribution of Tax Revenues July- March 2014/2015



The improvement in tax revenues coincides with the tax collection season, and was driven by tax reforms adopted since the beginning of the current fiscal year. 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, and the petroleum settlement that occurred during the period of study. 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.

On a different note, latest financial indicators related to tax returns submissions for the current fiscal year point to a marked improvement in the number of submitted tax returns and growing tax revenues. Indicators also reveal a significant increase in the number of subscribers compared to previous years and the widespread phenomenon of voluntary commitment by subscribers to pay the public treasury dues, before the end of the current season. Detailed data are as follows:

Taxes on Income, Capital Gains and Profits increased by LE 8.7 billion (11.6 percent growth) to reach LE 84 billion (3.6 percent of GDP).

- **Taxes on income, capital gains and profits receipts represent 41 percent of total tax revenues.**

Mainly on the back of:

- Increase in receipts from Other Companies (excluding Sovereign authorities, such as EGPC,CBE, SCA) by LE 4.2 billion (35 percent) to record LE 16.3 billion.
- Increase in receipts from taxes on CBE by LE 1 billion (31.6 percent) to reach LE 4 billion.
- Increase in receipts from Suez Canal by LE 1 billion (11.5 percent) to reach LE 9.7 billion.
- Increase in taxes on industrial & commercial profits by LE 1.8 billion (48 percent) to reach LE 5.7 billion.
- Increase in taxes on domestic salaries by LE 2.2 billion (15.4 percent) to reach LE 16.3 billion in light of the significant increase in wages and salaries.

Taxes on Good and Services increased by LE 22.3 billion (34.8 percent growth) to reach LE 86.4 billion (3.7 percent of GDP).

- **Taxes on goods and services receipts represent 42.2 percent of total tax revenues.**

Mainly as a result of higher receipts from:

- The increase in general sales tax on goods by 27.8 percent to record LE 39 billion.
- The increase in Excises on Domestic Commodities (Table 1) by 59.4 percent to record LE 28 billion (in light of increased sales tax on petroleum products by 208.5 percent to reach LE 8.5 billion and tobacco by 31.4 percent to reach LE 18.6 billion)
- The increase in general sales tax on services by 27.5 percent to record LE 8.4 billion in light of the improved performance of the tourism sector, specifically, hotels, and restaurants and the improvement of international and domestic telecommunications services.
- The increase in stamp tax (excludes stamp tax on salaries) by 5.9 percent to record LE 5 billion in light of the increase in stamp tax on electricity and gas consumption, transport, and miscellaneous stamp taxes.

Taxes on International Trade increased by LE 4 billion (32.2 percent growth) to reach LE 16.4 billion (0.7 percent of GDP).

- **Taxes on International Trade receipts represent 8 percent of total tax revenues.**

In light of an increase in taxes on valued customs by 32.5 percent y-o-y to LE 15.7 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 1.4 billion (9.7 percent growth) to reach LE 15.3 billion (0.7 percent of GDP).

- **Property Taxes receipts represent 7.5 percent of the total tax revenues.**

Mainly as a result of the increase in Tax on T-bills and bonds' payable interest by 5.7 percent to reach 12.2 billion during the period of study and the increase of Taxes and Fees on Cars receipts by 28.6 percent to record LE 2 billion.

On the other hand, receipts from Other Taxes (which represents 1.3 percent of total tax revenues) declined by LE 0.5 billion (14.3 percent growth) to reach LE 2.7 billion (0.1 percent of GDP), mainly due to:

The reduction in non tax revenues could be explained mainly due to the decline in grants during the period July-March 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-March 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$ 3 billion grant from the United Arab of Emirates and Saudi Arabia, 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 2.6 billion (20.1 percent) to reach LE 10.3 billion during the period of study.

- On the other hand, property income receipts rose during the period of study (more specifically non-tax revenues from sovereign authorities) as follows:

  § Increase in dividends collected from Central Bank by LE 4.1 billion to reach LE 13.4 billion (In light of collecting overdue payments from CBE that belonged to last year),

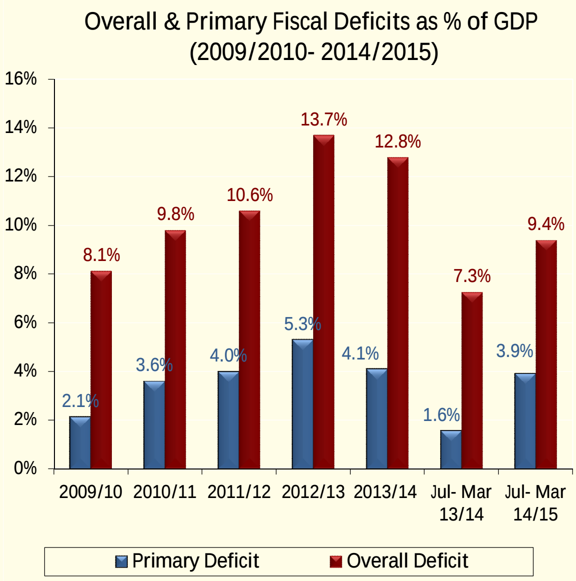
  § Increase in dividends collected from Suez Canal by LE 1.6 billion to reach LE 14 billion,

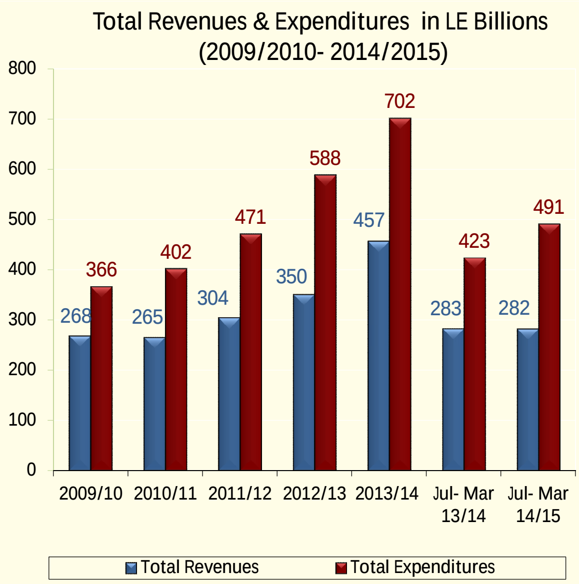
  § Increase in dividends collected from economic authorities by more than two folds to reach LE 1.9 billion,

  § Increase in dividends collected from public enterprises by more than three folds to reach LE 0.9 billion during the study period.

  § Increase in royalties on petroleum by 70.4 percent to reach LE 2 billion during the study period.

- Meanwhile, Miscellaneous Revenues rose by 49.7 percent to record LE 9.5 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:

The government adopts fiscal reforms that target reprioritization of public expenditure in favour of lower-income groups to achieve the best social yield through investment in human capital and infrastructure aiming at improving basic services for citizens and widening social safety nets.

The latest fiscal data shows total expenditure has reached LE 490.6 billion (16 percent of GDP) during July-March 2014/2015, this was mainly due to:

§ The increase in wages and compensation of employees by 17.6 percent to LE 143.3 billion (6.2 percent of GDP).

§ The increase in Purchases of Goods and Services by LE 2.7 billion (16.6 percent growth) to reach LE 18.8 billion (0.8 percent of GDP).

§ The increase in interest payments by LE 13.3 billion (11.7 percent growth) to reach LE 127.1 billion (5.5 percent of GDP).

§ The increase in subsidies, grants and social benefits by LE 15.2 billion (12.8 percent growth) to reach 133.4 (5.7 percent of GDP) during the period of study compared to LE 118.2 billion during same period last year, this can be explained in light of the following:-

- The increase in Spending on subsidies reaching around LE 94.8 billion during the period of study compared to LE 85.2 billion and which comes in light of the following:
  - General Authority for Supply Commodities subsidies rose by LE 5 billion (30.8 percent growth) to reach LE 21.4 billion during the period of study.
  - Electricity subsidies rose by LE 10.6 billion (almost doubled) to reach LE 20.6 billion during the period of study.
- Meanwhile, Social Benefits rose by 4.8 billion (16.8 percent growth) to reach LE 33.3 billion during July-March 2014/2015, mainly due to:
  - Increased contributions to the pension funds by LE 3.3 billion (13.7 percent growth) to reach LE 27.7 billion during the period of study.
  - Increased social insurance pensions by LE 1.3 billion (35.4 percent growth) to reach LE 5 billion during the period of study.

§ The increase in purchases of non-financial assets (investments) by LE 7.4 billion (1.5 percent of GDP) (27.6 percent growth) to reach LE 34 billion.

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.

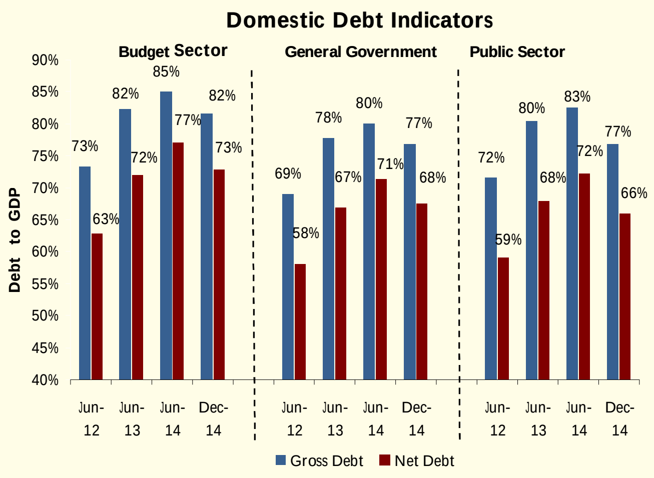
The second pillar envisages expenditure side reforms, that focuses on re-prioritizing public spending in favor of protecting the poor, particularly the neediest segments of the population. Meanwhile, some of the savings derived from the new revenue enhancement and subsidy cuts will be deployed to increase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

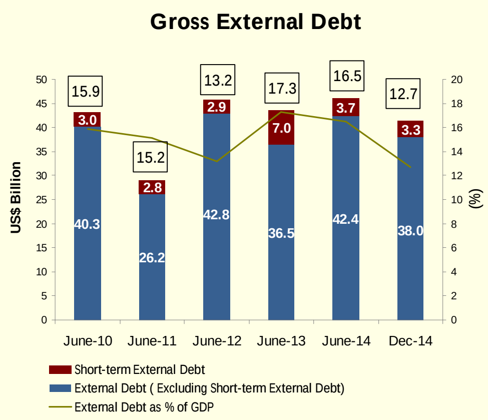
Public Debt:

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

Ø 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.

It is worth mentioning that the total government debt (domestic and external) reached LE 2074.3 billion (89.4 percent of GDP) at end of December 2014, compared to LE 1746.3 billion (87.4 percent of GDP) at end of December 2013.





Source: Ministry of Finance

External debt stock (government and non-government debt) recorded US$ 41.3 billion at end of December 2014 compared to US$ 45.8 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 12.7 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).

Outstanding external debt has witnessed a decrease at end of December 2014 by US$ 4.7 billion compared to end of June 2014, of which about US$ 2.7 billion decline due to the repayment of Qatari bonds, in addition to about US$ 0.5 billion due to the repayment of a Qatari deposit, also about US$ 0.6 billion decrease because of repayment to Paris Club, as well as US$ 0.6 billion decrease in book value due to the depreciation of other currencies of external debt relative to US dollar, in addition to US$ 0.1 billion short term reimbursement.

Meanwhile, government external debt annual growth decreased by 14.8 percent to reach US$ 25.1 billion (60.7 percent of total external debt) as of end of December 2014, compared to US$ 29.4 billion (64.3 percent of total external debt) at end of December 2013.

Moreover, short-term debt to total external debt ratio decreased from 16.3 percent at end of December 2013 to 8.0 percent at end of December 2014. This increase indicates minimal reliance by the government on short-term debt.

Monetary Perspective:

M2 annual growth eased during February 2015 to reach 15.5 percent

- According to recent data released by the CBE, M2 annual growth eased at end of February 2015 to record 15.5 percent (y-o-y) reaching LE 1637.4 billion, compared to 16.4 percent during the last month and compared to 17 percent at end of February 2014. These developments could be explained – from the liabilities side – in light of the slow down witnessed in quasi money annual growth recording 14.2 percent (LE 1186.6 billion), compared to 15.6 percent in the previous month, as time and saving deposits in local and foreign currencies annual growth decelerated to 15.8 percent and 4.1 percent, respectively, during the month of study, compared to 16.6 percent and 19.4 percent in the previous month. The slowdown in quasi money overcame the increase witnessed in money annual growth reaching 19.2 percent (LE 450.8 billion), compared to 18.6 percent at end of January 2015, as demand deposits in local currency increased at end of February 2015 to record 39.7 percent (LE 172.2 billion), compared to 37.4 percent in the previous month.

From the assets side – net domestic assets (NDA) of the banking system annual growth eased during the month of study to record 21.4 percent (LE 1567 billion), compared to 21.7 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 44.5 percent (LE 70.4 billion) at the end of February 2015, compared to a lesser decline of 38.5 percent during the previous month.

Net claims on the government and GASC annual growth increased to 24.2 percent (LE 1163.6 billion) during February 2015, compared to 23.6 percent in the previous month. Moreover, annual growth in credit to the private sector increased to reach 14.2 percent (3.6 percent annual real growth) at end of February 2015 to LE 576.3 billion, compared to 13.8 percent last month. This growth comes on the back of the increase witnessed in private business sector annual growth reaching 12.6 percent, compared to 11.9 percent in January 2015. On the other hand, claims on public business sector annual growth eased slightly to 35.3 percent in February 2015 (LE 58.9 billion), compared 36 percent in January 2015.

Deposits and loans detailed data for February 2015 is not yet available. Total deposits annual growth – excluding deposits at the CBE – increased to reach 20.3 percent y-o-y (LE 1593.6 billion) at the end of January 2015, compared to 18.5 percent at end of December 2014. Out of total deposits, 85.5 percent belonged to the non-government sector. Moreover, annual growth rate in total lending by banking sector (excluding CBE) increased during the year ending January 2015 recording 17 percent (LE 646.3 billion), compared to 14.3 percent at end of December 2014. To that end, loans-to-deposits ratios increased at end of January 2015 registering 40.6 percent, compared to 40.3 percent at end of the previous month.

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

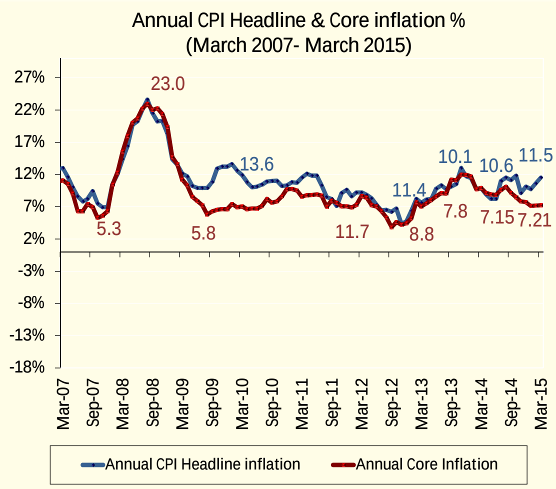
- Net International Reserves (NIR) declined during March 2015 to record US$ 15.29 billion, compared to US$ 15.45 billion in February 2015.

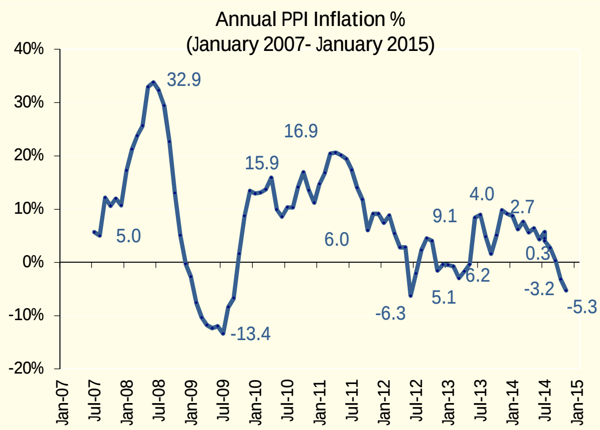
CPI stabilized during Jul-Mar 2014/2015 compared to same period last

- CPI annual Urban Inflation rose for the second month in a row to record 11.5 percent during March 2015, compared to 10.6 percent last month, and 9.8 percent recorded in March 2014. As a result, the average annual inflation stabilized at 10.7 percent during the period July-March 2014/2015 compared to the same period last year. Factors contributing to higher inflationary pressures include; the rise in annual inflation rate of some of main groups, including; “Food and Beverage" (the largest weight in CPI) more specifically Vegetables, Milk, and Oil and Fats, “Housing, Water, Electricity, Gas and Other Fuels” more specifically Butagas Cylinders prices, and Electricity and Gas prices, and “Restaurant and Hotels” due to the increase in accommodation and catering services.

On a more detailed level, annual inflation rate of “Food and Beverage" (the largest weight in CPI), rose to record 9.2 percent during March 2015, compared to 8 percent during last month, while it decreased if compared to 15.6 percent recorded during March 2014. This comes on the back of the increase in annual inflation rate of sub-items, on top of which “Bread and Cereals” (to record 3.4 percent compared to 1.6 percent), “Vegetables” (to record 19.8 percent compared to 14.5 percent), “Milk, Cheese, Eggs” (to record 7.2 percent compared to 5.8 percent, “Oil and Fats” (to record 2.5 percent compared to 0.4 percent), “Other Food Products” (to record 7.5 percent compared to 6.7 percent).

Meanwhile, amongst other main groups which contributed to the rise in annual inflation during the month of study was: "Housing, Water, Electricity, Gas and Other Fuels" which recorded an annual inflation of 13.4 percent compared to 10.3 percent last month, and compared to 1.5 percent during March 2014 (due to the increase in Butagas Cylinders prices, and the increase in prices of Electricity and Gas by 71 percent and the increase in prices of Water Supply by 13.9 percent), "Restaurant and Hotels" which recorded an annual inflation of 16.2 percent compared to 15.9 percent last month, and compared to 7 percent during March 2014, mainly due to the increase in accommodation services prices by 67.2 percent and catering services by 15.9 percent, in light of the increase in tourist nights (more specifically Sharm Elsheikh) inching up by 100 percent during the month of study, compared to 50 percent recorded during the same month last year accompanying "Egypt Economic Conference" during March 2015.





On the other hand, monthly inflation rose in a slower pace to reach 1.5 percent during March 2015, compared to 1.9 percent during last month, while it increased significantly if compared to 0.7 percent compared to March 2014.

Annual core inflation rose slightly to reach 7.21 percent during March 2015, compared to 7.15 percent during last month, while it declined compared to 9.9 percent in March 2014. However, monthly core inflation decelerated to record 0.8 percent during March 2015, compared to 1.1 percent during the previous month, while it increased slightly if compared to 0.7 percent recorded during March 2014. The monthly inflation could be explained in light of the increase in "food items" contributing by 0.73 percentage points to the monthly core inflation. Meanwhile "other services" contributed by the remainder 0.03 percentage points.

- During its Monetary Policy Committee meeting held on April 23rd, 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 April 21, 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 April 2015, as market capitalization decreased by 2.6 percent m-o-m during the month of study to reach LE 493 billion (21.2 percent of GDP), compared to LE 506.2 billion during the previous month. Moreover, EGX-30 Index decreased by 496.5 points during April 2015, reaching 8638.3 points, compared to 9134.8 points by the end of March 2015. In addition, the EGX70 also dropped as much as 8.8 percent, closing at 472 points, compared to closing the previous month at 517.6 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 recent preliminary figures released by the Ministry of Planning, GDP has 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. The aforementioned growth witnessed in economic activity on the supply side (GDP by sector) came in light of the continued progress in the manufacturing sector and the restoration of tourism activities performance after a period of contraction that continued starting Q4-FY12/13 till Q4-FY13/14. It is worthy to note that this pick-up in growth came despite the continuous weak performance of the natural gas extraction sector. In the meantime, on the demand side (GDP by expenditure), the positive contribution of investments has exceeded the effect of the decrease in net exports resulting in the achieved above-mentioned growth rate.

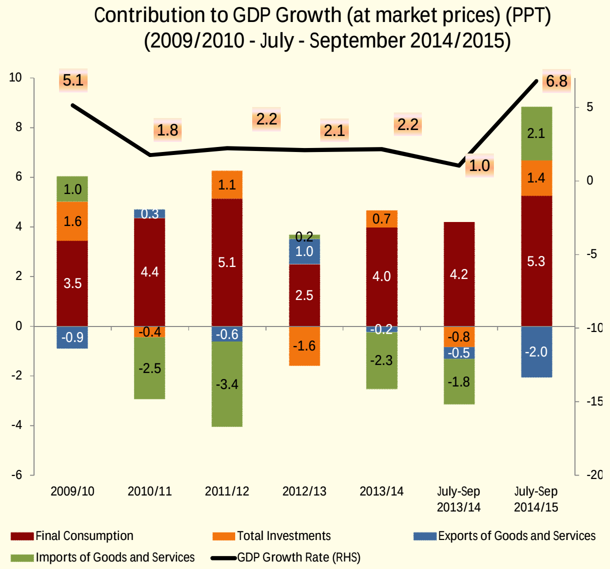
It is worthy to highlight that detailed data for Q2-FY14/15 are still under preparation and will be published once officially announced by the Ministry of Planning. Concerning Q1-FY14/15 performance, GDP has witnessed a rapid and significant pick-up registering growth of 6.8 percent compared to 1 percent 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.

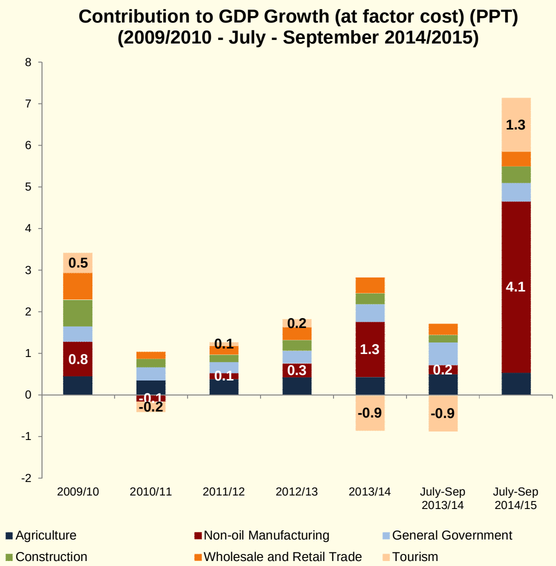
On the supply side, six key sectors led y-o-y growth, on top of which was the non-oil manufacturing sector recording a 29.2 percent growth rate, (contributing with the highest contribution of 4.1 percentage points to growth compared to 0.2 PPT during Q1-FY13/14). It is worthy to highlight that, amongst 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.