Executive Summary

Main Highlights…

The government has adopted a balanced and comprehensive reform program within a well-defined timeframe that will strengthen Egypt's position with regards to the global economy, while putting the country back on the international investment map. The program was initiated through the prompt implementation of structural and financial reforms during the beginning of the current fiscal year. Succeeding the implementation of the reforms, international rating agencies were invited to monitor the extent of improvement in economic performance indicators, ultimately raising Egypt's credit rating. Thereafter, the IMF conducted it's Article IV consultations, reassuring the world of the government's sound and sensible policy directives and the improved performance of the economy. Furthermore, the IMF's report was published in February 2015, followed by the "Egypt Economic Development Conference", which is scheduled to take place by mid-March 2015 in Sharm El Sheikh. In this context, the government is taking a significant step towards attracting new investments. Additionally, and after a five year absence, the government is planning to issue international bonds during the last quarter of the current fiscal year.

After a four year hiatus, the IMF Article IV consultations report was optimistic and balanced as it discussed the economy's strengths, challenges and prospects. The report emphasized the IMF's confidence in that the economic reform program, designed and implemented by the Egyptian government will meet the challenges facing the economy. Moreover, the report highlighted the fact that the reforms contributed to restoring confidence in the Egyptian economy, forecasted increased economic growth rates in the medium term and asserted that that the impending fiscal policies are able to cut the budget deficit to a 8-8.5 percent, reducing public debt to 80-85 percent of total GDP by FY18/19. The report also stressed that the reform process implemented by the government is designed to preserve inclusive growth, achieve equitable energy subsides and allow for increased spending on health, education and scientific research, which comes in line with the constitutional mandates.

On a different note, the fiscal and structural reforms implemented by the government during the beginning of the current fiscal year had a positive impact on a number of economic indicators. As such, unemployment rate decreased to 12.9 percent during the fourth quarter of 2014, compared to 13.1 percent during the previous quarter, and 13.4 percent throughout the same period of the previous year. The following are the latest developments:-

- Recent GDP data published shows a rapid and significant pick-up in the first quarter of FY14/15 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.

- It is noteworthy to highlight that credit default swap (CDS) for five years witnessed a decrease to reach almost 300 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 6.4 percent on annual basis recording 165.5 points during December 2014, compared to 155.6 points in December 2013. However, on monthly basis the index has witnessed a 5.8 percent decrease if compared to 175.7 points recorded during November 2014.

- The latest fiscal performance developments during the period July-January 2014/2015 point to a budget deficit increase reaching about 6.9 percent of GDP (LE 159 billion), compared to a deficit of 6 percent (LE 119.6 billion) during July-January 2013/2014. However, it is worthy to note that during July-January 2013/2014 Egypt received exceptional cash and in-kind grants. If these exceptional inflows were to be excluded in addition to petroleum settlements that occurred during previous year, the budget deficit would have improved by 4 percentage points during the period of study.

  Through enhanced economic activity and targeting efficient tax collection, sales tax revenues performance have improved compared to last year, increasing by 32.7 percent (LE 64.8 billion), taxes on international trade increased by 11.4 percent (LE 11 billion) and property taxes increased by 4 percent (LE 11.5 billion). On the other hand, reforms on the expenditure side, such as social programs, minimum wage, physicians cadre, increased social solidarity pensions and efforts to increase public investments to develop and modernize infrastructure continue to drive expenditures up reaching LE 337 billion (14.5 percent of GDP) during the period of study.

- Moreover, total government debt (domestic and external) reached LE 1995.1 billion (86 percent of GDP) at end of September 2014, compared to LE 1721 billion (86.2 percent of GDP) at end of September 2013.

- Despite the repayment of US$ 0.7 billion in debt installments to Paris Club at the beginning of January 2015, Net International Reserves (NIR) slightly increased by US$ 0.1 billion to record US$ 15.4 billion, compared to US$ 15.3 billion in December 2014. This comes on the back of the increase witnessed in gold holdings value, as it rose by US$ 0.2 billion to reach US$ 2.7 billion, compared to US$ 2.5 billion in December 2014.

- As for the monetary developments, M2 annual growth increased during December 2014 reaching 15.8 percent y-o-y (LE 1606.5 billion), compared to 15.6 percent during the last month, while it eased if compared to 18.9 percent at end of December 2013, as annual growth for both demand deposits, and time and savings deposits in local currency increased during the month of study.

- Meanwhile, Headline Urban inflation declined during January 2015 recording 9.7 percent, compared to 10.1 percent last month, and compared to the 11.4 percent recorded in January 2014. Factors contributing to lower inflationary pressures include; fading unfavorable base effect from last month and declining annual inflation rates of some main groups such as; "Food and Beverage", "Communications" and "Restaurant and Hotels". This has countered the increase in annual inflation rates of other main groups, including; "Housing, Water, and Electricity" and "Miscellaneous Goods and Services".

- 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 February 24, 2015 worth LE 85 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

- It is noteworthy that the Central Bank has taken several auctions for US dollars since December 2014 to reduce the gap between the black market and the official rate. This comes accompanying plummeting global oil prices and eased inflation outlook.

- The Balance of Payments (BoP) showed an overall surplus of US$ 0.4 billion during Q1-FY14/15, compared to a higher overall surplus of US$ 3.7 billion during the same period last year. This was mainly due to a current account deficit of US$ 1.4 billion, compared to a surplus of US$ 0.6 billion during the same period last year, while the capital and financial account witnessed net inflows of US$ 0.8 billion during the period of study, compared to net inflows of US$ 4.6 billion during Q1-FY13/14. Meanwhile, net errors and omissions recorded an inflow of US$ 1 billion during July – September 2014/2015, compared to an outflow of US$ 1.5 billion during Q1-FY13/14.

Real Sector:

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

- Recent GDP data published shows a rapid and significant pick-up in the first quarter of FY14/15 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.

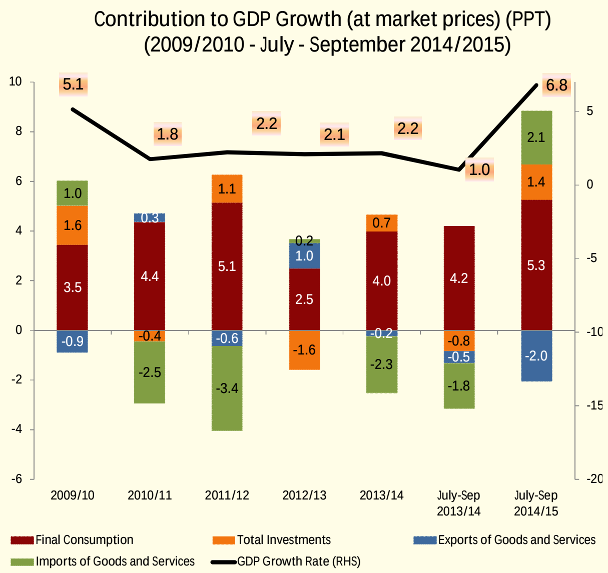
On the supply side, six key sectors led y-o-y growth, on top of which was the non-oil manufacturing sector recording a 29.2 percent growth rate, (contributing with the highest contribution of 4.1 percentage points to growth compared to 0.2 PPT during Q1-FY13/14). It is worthy to highlight that, amongst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

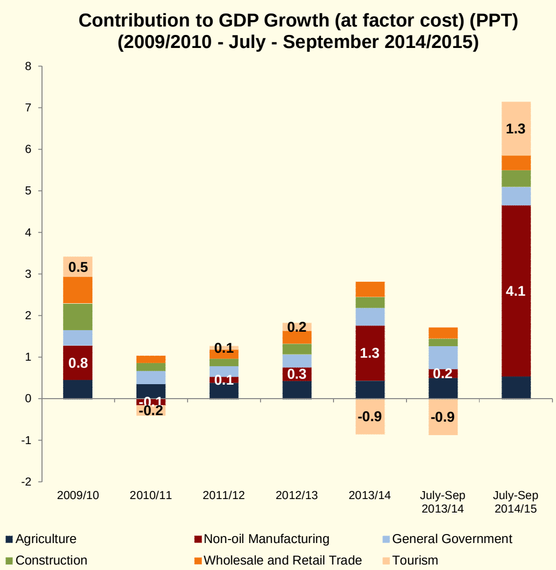
Moreover, the tourism sector hiked to record a 59.1 percent real growth rate (contributing to growth by 1.3 PPT, compared to a contribution of -0.9 PPT during Q1-FY13/14). It is noteworthy that, tourism performance reflects returning stability and strengthening confidence, raising tourism index – sub 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.

Fiscal Sector:

Budget Deficit increased during July-January 2014/2015...

- The latest fiscal performance developments during the period July-January 2014/2015 point to a budget deficit increase reaching about 6.9 percent of GDP (LE 159 billion), compared to a deficit of 6 percent (LE 119.6 billion) during July-January 2013/2014. However, it is worthy to note that during July-January 2013/2014 Egypt received exceptional cash and in-kind grants. If these exceptional inflows were to be excluded, in addition to petroleum settlements that occurred during previous year, the budget deficit would have improved by 4 percentage points during the period of study.

Through enhanced economic activity and targeting efficient tax collection, sales tax revenues performance have improved compared to last year, increasing by 32.7 percent to record LE 64.8 billion during the period of study, taxes on international trade increased by 11.4 percent to record LE 11 billion, and property taxes increased by 4 percent to record LE 11.5 billion. On the other hand, reforms on the expenditure side, such as social programs, minimum wage, physicians cadre, increased social solidarity pensions and efforts to increase public investments to develop and modernize infrastructure continue to drive expenditures up reaching LE 337 billion (14.5 percent of GDP) during the period of study.

July- January 13/14 Budget Deficit LE 119.6 billion (6 percent of GDP)	July- January 14/15 Budget Deficit LE 159 billion (6.9 percent of GDP)
Revenues LE 217.9 billion (10.9 percent of GDP)	Revenues LE 186.7 billion (8 percent of GDP)
Expenditure LE 333.5 billion (16.7 percent of GDP)	Expenditure LE 337 billion (14.5 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

Non-Tax Revenues and Tax revenues decelerated during the period of study

On the revenue side,

Total revenues recorded LE 186.7 billion (8 percent of GDP) during July- January 2014/2015, declining by around LE 31.3 billion compared to same period last year. The recorded decline in total revenues during the period of study is principally due to the -34.8 percent decrease in non-tax revenues to record LE 54.9 billion (mainly due to the decline in grants during the period July-January 2014/2015 if compared to the exceptional grants received during the period of comparison July- January 2013/2014).

In addition, tax revenues declined by 14.3 percent to record LE 186.7 billion during the period of study in light of the decrease in taxes on corporate profits receipts by 46.5 percent as no petroleum settlements occurred during the period of study, if compared to same period last year. The abovementioned decline has out weighted the increase in sales tax revenues, taxes on international trade and property taxes . As follows:

Taxes on good and services increased by LE 16 billion (32.7 percent growth) to reach LE 64.8 billion (2.8 percent of GDP).

Mainly as a result of higher receipts from:

- The increase in general sales tax on goods by 28.8 percent to record LE 29.6 billion.
- The increase in Excises on Domestic Commodities (Table 1) by 52 percent to record LE 21 billion (in light of increased sales tax on petroleum products by 153.2 percent to reach LE 5.9 billion and tobacco by 31 percent to reach LE 14.3 billion)
- The increase in general sales tax on services by 25.9 percent to record LE 6.3 billion.

Taxes on International Trade increased by LE 1.1 billion (11.4 percent growth) to reach LE 11 billion (0.5 percent of GDP).

In light of an increase in taxes on valued customs by 10.7 percent y-o-y to LE 10.5 billion.

Property Taxes increased by LE 0.4 billion (4 percent growth) to reach LE 11.5 billion (0.5 percent of GDP).

Mainly as a result of the increase in Taxes and Fees on Cars receipts by 36.4 percent to record LE 1.6 billion, counterparting the decline in Tax on T-bills and bonds' payable interest by 1.4 percent to reach 9.2 billion during the period of study.

On the other hand, receipts from Taxes on Income, Capital Gains and Profits declined by LE 19.4 billion (30.4 percent growth) to reach LE 44.4 billion (1.9 percent of GDP), mainly due to:

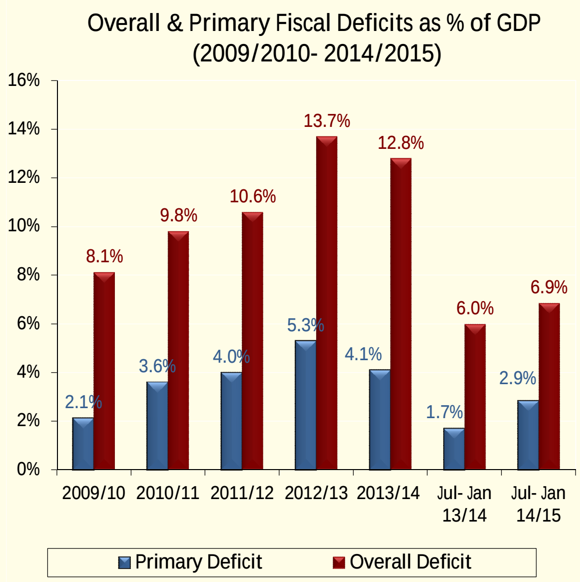
- The decline in tax receipts from corporate profits by LE 22.8 billion (46.5 percent growth) to LE 26.2 billion, as no petroleum settlements occurred during the period of study, compared to LE 30.6 billion petroleum settlements recorded during July-January 2013/2014. However, tax receipts from corporate profits for the rest of the items (except for EGPC) increased during the period of study (including receipts from sovereign authorities) as follows:

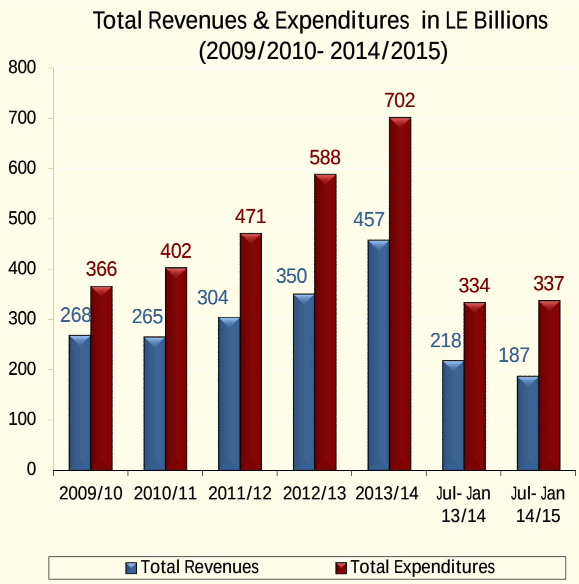
- Increase in receipts from Other Companies by LE 4.5 billion (45.1 percent) to record LE 14.5 billion.
- Increase in receipts from Suez Canal by LE 1.9 billion (32.8 percent) to reach LE 7.7 billion.
- Increase in tax receipts from CBE by LE 1.5 billion (57.5 percent) to reach LE 4 billion.
- Increase in tax receipts on industrial & commercial profits by LE 1.3 billion (59 percent) to reach LE 3.5 billion.
- Increase in tax receipts on domestic salaries by LE 1.7 billion (15.9 percent) to reach LE 12.3 billion.
- Increase in taxes on stamp duty on salaries by LE 0.4 billion (20.5 percent) to reach LE 2.1 billion in light of the state increasing wage bill by 21.5 percent.

The reduction in non tax revenues could be explained mainly due to the decline in grants during the period July-Jan 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-January 2014/2015 if compared to exceptional grants received during the same period last year recording almost LE 37.3 billion, which included US$ 1 billion grant from the United Arab of Emirates, in addition LE 29.7 billion increase in grants allocated to finance the first stimulus package as per the presidential decree no. 105, 2013.
- Revenues from special accounts and funds decreased by LE 3.1 billion (29.1 percent) to reach LE 7.5 billion 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 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 2.7 billion to reach LE 11.2 billion,
    - § Increase in dividends collected from economic authorities by more than two folds to reach LE 1.4 billion,
    - § Increase in dividends collected from public enterprises by more than three folds to reach LE 0.7 billion during the study period.
- Meanwhile, Miscellaneous Revenues rose by LE 3 billion (64.6 percent or almost two folds) to record LE 7.5 billion (0.3 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:

Total expenditures recorded LE 337 billion (14.5 percent of GDP) during July-January 2014/2015, increasing by around LE 3.6 billion only compared to same period last year, mainly due to:

§ The increase in wages and compensation of employees by LE 16.6 billion (17.4 percent) to LE 111.8 billion (4.8 percent of GDP), mainly due to:

- The increase in rewards by LE 3.6 billion (8.4 percent growth) to record LE 46.5 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 8.2 billion to reach LE 14.5 billion during the period of study, mainly due to; minimum wage allowances of around LE 4 billion, and teachers allowances around LE 3.6 billion, and special allowances of around LE 0.6 billion.
- The increase in Specific allowances by around LE 1 billion (more than two folds) to reach LE 12.6 billion during the period of study.
- The increase in In-Kind Benefit allowances by around LE 0.5 billion (12.1 percent growth) to reach LE 1.4 billion during the period of study.

§ The increase in Purchases of Goods and Services by LE 1.6 billion (13.7 percent growth) to reach LE 13.5 billion (0.6 percent of GDP) due to:

- Increased spending on goods by LE 1 billion (18 percent growth) to reach LE 6 billion during the period of study, mainly due to; increased spending on raw materials.
- Increased spending on services by LE 0.6 billion (10.8 percent growth) to reach LE 6.6 billion during the period of study, mainly due to increased spending on maintenance, and transportation.

§ The increase in interest payments by LE 7.4 billion (8.7 percent growth) to reach LE 92.9 billion (4 percent of GDP), mainly due to:

- The increase in domestic interest (other government units) by LE 7.4 billion (10.4 percent growth) to reach LE 78.5 billion during the period of study, mainly due to; the increase in interest on treasury bills by around LE 9 billion, and the increased interest on CBE Bills by LE 0.3 billion.
- However, foreign debt interest declined slightly by 0.3 percent, to reach LE 3.3 billion during the period of study.

§ The rise in other expenditures by LE 4.9 billion (22.9 percent growth) to reach LE 26.3 billion (1.1 percent of GDP) mainly due to:

- Increase spending on contingency reserves by LE 5 billion (26.2 percent growth) to reach LE 24 billion during the period of study.

§ The increase in purchases of non-financial assets (investments) by LE 6.2 billion (1.1 percent of GDP) (33.4 percent growth) to reach LE 25 billion, mainly due to:

- Increased spending on direct investments by LE 5.9 billion (34.8 percent growth) to reach around LE 22.7 billion during the period of study.

§ Meanwhile, subsidies, grants and social benefits recorded LE 67.8 billion (2.9 percent of GDP) during the period of study compared to LE 101 billion during same period last year, this can be explained in light of the following:-

- The decline in Spending on subsidies reaching around LE 36.6 billion during the period of study compared to LE 75.9 billion as no petroleum settlements occurred during the period of study.
- However, General Authority for Supply Commodities subsidies rose by LE 4.3 billion (37.1 percent growth) to reach LE 15.8 billion during the period of study.
- Electricity subsidies rose by LE 7.3 billion (almost doubled) to reach LE 15 billion during the period of study.
- Meanwhile, Social Benefits rose by 4.3 billion (19.3 percent growth) to reach LE 26.4 billion during July-January 2014/2015, mainly due to:
    - Increased contributions to the pension funds by LE 2.7 billion (13.7 percent growth) to reach LE 22 billion during the period of study.
    - Increased social insurance pensions by LE 1.5 billion (65 percent growth) to reach LE 3.9 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.

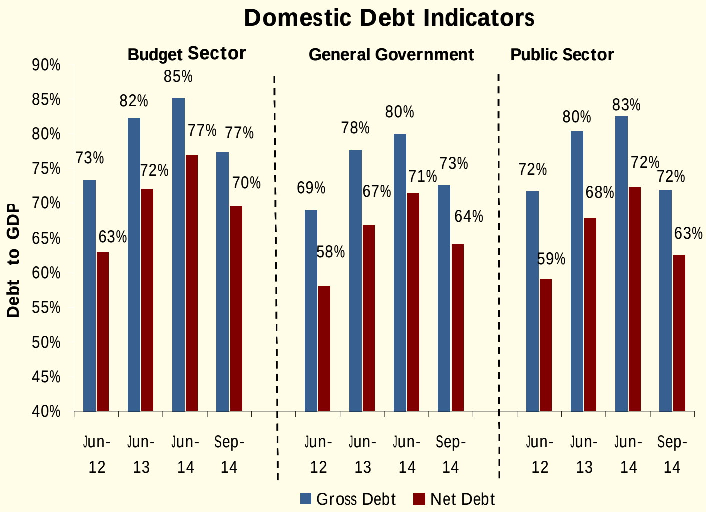
Meanwhile, according to the new budget for the FY14/15, government revenues are estimated to reach LE 549 Billion compared to LE 569 billion, which is the revised budget for the fiscal year 2013/2014. While government expenditures are estimated to reach LE 789 billion. To that end, the budget deficit 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 93.2 percent of GDP, decreasing from 95.5 percent of GDP for FY13/14).

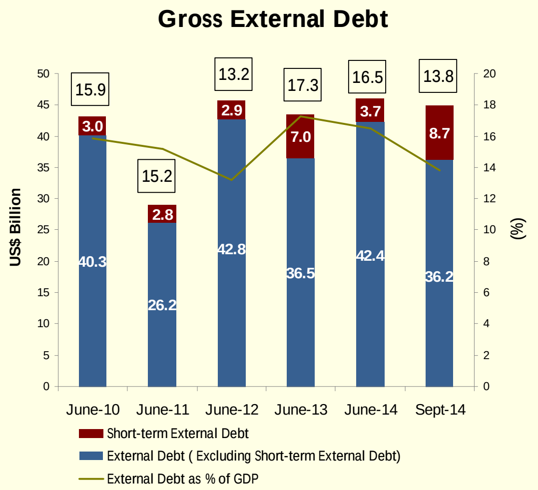
Public Debt:

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

- Domestic budget sector debt recorded LE 1795.8 billion (77.4 percent of GDP) by end of September 2014, compared to LE 1518.7 billion (76 percent of GDP) by end of September 2013.

It is worth mentioning that the total government debt (domestic and external) reached LE 1995.1 billion (86 percent of GDP) at end of September 2014, compared to LE 1721 billion (86.2 percent of GDP) at end of September 2013.





Source: Ministry of Finance

External debt stock (government and non-government debt) recorded US$ 44.9 billion at end of September 2014 compared to US$ 47 billion at end of September 2013, this can be explained in light of the decrease witnessed in the government external debt during the first quarter in FY-14/15. External debt as percent of GDP recorded 13.8 percent by the end of September 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 slowed down during H1-FY14/15

- During H1-FY14/15, the CBE adopted a tight monetary policy, in order to combat any potential second round inflationary effects, arising from subsidy reform. As a result, the first half of FY14/15 witnessed a slowdown in total liquidity (M2) growth which eased to an average of 16.2 percent y-o-y, compared to 18.8 percent in H1-FY13/14.

Meanwhile, on a more detailed level, M2 annual growth increased at end of December 2014 to record 15.8 percent (y-o-y) reaching LE 1606.5 billion, compared to 15.6 percent during the last month, while it decreased if compared to 18.9 percent at end of December 2013. These developments could be explained – from the liabilities side – in light of the growth witnessed in money annual growth reaching 19.3 percent (LE 445.7 billion), compared to 17.5 percent at end of November 2014, as currency in circulation annual growth rose at end of December 2014 to record 10.4 percent (LE 277.2 billion), compared to 8.3 percent in November 2014. The growth in money overcame the slight slowdown witnessed in quasi money annual growth recording 14.5 percent (LE 1160.8 billion), compared to 15 percent in the previous month, as foreign currency demand deposits annual growth decreased from 22.5 percent in November 2014 to 6.1 percent during the month of study, reflecting people's preference to liquidize deposits in foreign currency.

From the assets side – net domestic assets (NDA) of the banking system annual growth increased during the month of study to record 20 percent (LE 1524.3 billion), compared to 18.2 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 30 percent (LE 82.2 billion) at the end of December 2014, compared to a lesser decline of 12.2 percent during the previous month.

Net claims on the government and GASC annual growth increased to 22.2 percent (LE 1127.3 billion) during December 2014, compared to 21.7 percent in the previous month. Moreover, annual growth in credit to the private sector increased to reach 12.3 percent (2.2 percent annual real growth) at end of December 2014 to LE 556.4 billion, compared to 10.7 percent last month. This growth comes on the back of the increase witnessed in private business sector annual growth reaching 9.7 percent, compared to 7.7 percent in November 2014, while claims on household sector annual growth eased to reach 19.1 percent, compared to 19.2 percent in the previous month. Additionally, claims on public business sector annual growth rose to 34.1 percent in December 2014 (LE 58.6 billion), compared 27 percent in November 2014.

Deposits and loans detailed data for December 2014 is not yet available. Total deposits annual growth – excluding deposits at the CBE – inched up to reach 20.7 percent y-o-y (LE 1523.3 billion) at the end of November 2014, compared to 20.5 percent at end of October 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 November 2014 recording 12.4 percent (LE 618.3 billion), compared to 12 percent at end of October 2014, reflecting the renewed confidence in the economy. To that end, loans-to-deposits ratios eased at end of November 2014 registering 40.6 percent, compared to 41.2 percent at end of the previous month.

NIR increased at end of January 2015 to US$ 15.4 bn

- Despite the repayment of US$ 0.7 billion in debt installments to Paris Club at the beginning of January 2015, Net International Reserves (NIR) slightly increased by US$ 0.1 billion to record US$ 15.4 billion, compared to US$ 15.3 billion in December 2014. This comes on the back of the increase witnessed in gold holdings value, as it rose by US$ 0.2 billion to reach US$ 2.7 billion, compared to US$ 2.5 billion in December 2014.

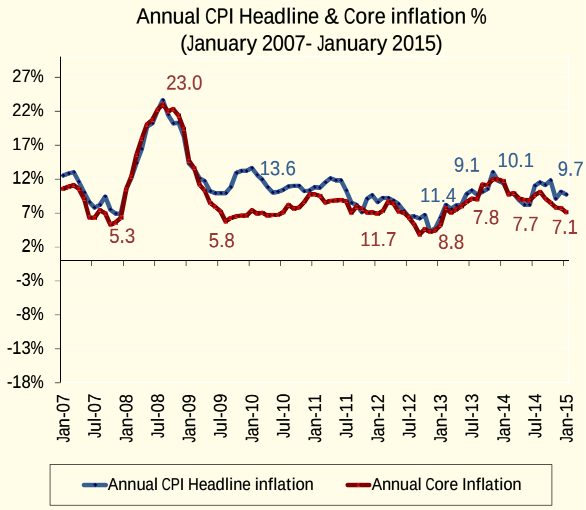
CPI almost declined during Jul-Jan 2014/2015 compared to same period last year

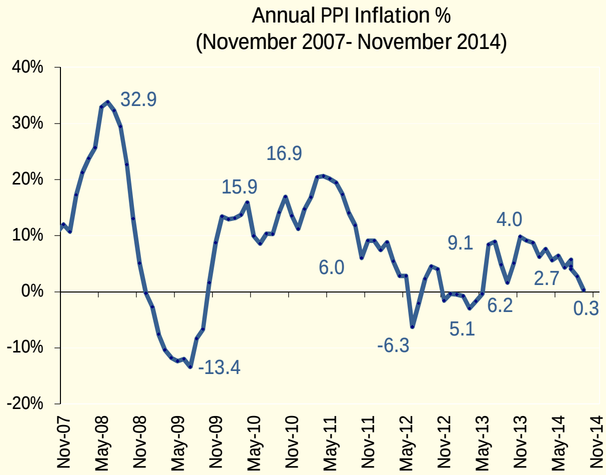
- CPI annual Urban Inflation declined during January 2015 recording 9.7 percent, compared to 10.1 percent last month, and compared to the 11.4 percent recorded in January 2014. As a result, the average annual inflation decelerated during the period July-January 2014/2015 to record 10.6 percent, compared to 11 percent during the same period last year. Factors contributing to lower inflationary pressures include; fading unfavorable base effect from last month and declining annual inflation rates of some main groups such as; "Food and Beverage", "Communications" and "Restaurant and Hotels". This has countered the increase in annual inflation rates of other main groups, including; "Housing, Water, and Electricity" and "Miscellaneous Goods and Services".

On a more detailed level, annual inflation rate of "Food and Beverage" (the largest weight in CPI), has grown at a slower pace to record 5.8 percent during January 2015, compared to 8.4 percent during last month, and compared to 18.6 percent recorded during January 2014. This comes on the back of the decline in annual inflation rate of sub-items among the "Food and Beverage" group, on top of which "Fruits" (to record 7.5 percent compared to 9.5 percent), "Fish" (to record 7.6 percent compared to 8.2 percent), "Sugar" (to record 2.4 percent compared to 4.1 percent).

Meanwhile, amongst other main groups which contributed to the decline in annual inflation during the month of study was: "Communication" which recorded an annual inflation of -0.2 percent compared to 1.6 percent last month, and compared to 0.8 percent during January 2014. It is noteworthy that the above mentioned decline outweighed the increase in annual inflation rates for other main groups, on the top of which; "Housing, Water, and Electricity" increasing by 9.3 percent compared to 4.6 percent (due to the increase in Electricity Gas and Other Fuels prices by 44.5 percent), "Recreation and Culture" increased by 17.1 percent compared to 11.8 percent (due to the increase in prices of organized trips by 25.9 percent), and "Miscellaneous Goods and Services" increased by 6.1 percent compared to 5.6 percent (more specifically the increase in personal care and personal effects).

On the other hand, monthly urban inflation rose to record 1 percent during January 2015 compared to a deceleration during the previous two consecutive months in a row to record -0.1 percent during December 2014, and -1.5 percent during November 2014.





- Annual core[1/] inflation declined to reach 7.1 percent during January 2015, compared to 7.7 percent during December 2014, and 11.7 percent in January 2014 (the lowest since April 2013). Meanwhile, monthly core inflation rose slightly to record 0.5 percent during January 2015, compared to 0.3 percent during last month, while it decreased compared to 1.1 percent recorded during January 2014. The slight increase in monthly inflation could be explained in light of the price increase in "food items" contributing by 0.44 percentage points to the monthly core inflation. Meanwhile, the increase in "retail prices" and "other services" contributed by around 0.08 percentage points to the monthly core inflation

- 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 February 28, 2015 worth LE 85 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

- EGX-30 Index decreased by 509 points during February 2015, reaching 9334 points, compared to 9843 points by the end of January 2015. Moreover, market capitalization decreased by 3 percent m-o-m during the month of study to reach LE 511.2 billion (22 percent of GDP), compared to LE 527 billion during the previous month.

On the External Sector side:

- BoP showed an overall surplus of US$ 0.4 billion during Q1-FY14/15, compared to a higher overall surplus of US$ 3.7 billion during the same period last year. This occurred as a result of several factors, on top of which:

  - Current account recorded a deficit of US$ 1.4 billion, compared to a surplus of US$ 0.6 billion during the same period last year. This came as a result of the deceleration witnessed in the trade balance and transfers, that outweighed the improvement in the services balance.

1/The Core Index excludes items with managed prices 'regulated items' (fuel, electricity, exported and imported tobacco), and items characterized by inherent price volatility specifically 'fruits and vegetables'.

Net official transfers recorded US$ 1.5 billion compared to US$ 4.3 billion during July-September 2013/2014, this cannot be considered as a deceleration since the period in comparison Q1-FY13/14 reflected exceptional inflows as Egypt received US$ 3 billion grants from Arab countries (US$ 1 billion from the United Arab Emirates and US$ 2 billion from the Kingdom of Saudi Arabia).

Additionally, trade balance has recorded a deficit of US$ 9.7 billion, compared to a deficit of US$ 7.5 billion, mainly due to the increase witnessed in merchandise imports by 17.9 percent to record US$ 16.2 billion compared to US$ 13.7 billion during Q1-FY13/14.

However, services balance has recorded a surplus of US$ 2 billion during the period of study, compared to a deficit of US$ 0.2 billion during Q1-FY13/14, mainly backed by the more-than-double picking up in tourism receipts to reach US$ 2.1 billion during July – September 2014/2015, (compared to US$ 0.9 billion in Q1-FY13/14), in addition to the significant increase witnessed in government receipts to reach US$ 583 million during the period of study, compared to US$ 74.5 million in Q1-FY13/14.

§ Meanwhile, the capital and financial account witnessed net inflows of US$ 0.8 billion during the period of study, compared to net inflows of US$ 4.6 billion during Q1-FY13/14, mainly due to the decrease witnessed in the CBE liabilities to the external world registering a net inflow of only US$ 0.001 billion (compared to US$ 3 billion during the same period last year), as no exceptional financing was received from abroad.

It is also worthy to highlight that net foreign direct investments in Egypt increased by more than the double to reach US$ 1.8 billion, compared to US$ 0.7 billion driven mainly by the rise in the net inflow for oil sector investments to reach US$ 0.9 up from US$ 0.4 billion during Q1-FY13/14. Net inflow for greenfield investments have also witnessed an increase to reach 0.7 billion during Q1-FY14/15 compared to 0.3 billion during the same period last year.

§ Net errors and omissions recorded an inflow of US$ 1 billion during July – September 2014/2015, compared to an outflow of US$ 1.5 billion during Q1-FY13/14.

Ø According to the latest published figures, total number of tourists arrivals decreased during the month of December 2014, reaching 781.6 thousand tourists, compared to almost 898 thousand tourist arrivals in the previous month. Tourist nights also decreased during the month of study to reach almost 7.1 million nights, compared to 10.3 million nights during November 2014.