Executive Summary

Main Highlights...

The government has deployed an integrated vision to restore confidence in the Egyptian economy, through implementing a number of structural reforms in order to achieve financial stability, boost growth, attract investments and improve the standards of living. In the same context, Egypt Economic Development Conference, a platform for communicating Egypt's vision and potential investment opportunities has been under preparation for several months and is scheduled to take place in March 2015 in Sharm El Sheikh. The conference is a major step towards efforts of attracting more investments, as the government underscores the implemented reforms and its comprehensive development plan.

Fiscal and structural reforms implemented throughout the beginning of this year have significantly contributed towards restoring confidence in the Egyptian economy. This has had a positive impact on a number of economic indicators. Latest developments include:

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, have witnessed a decrease of about 890 basis points, at the beginning of July 2013 to currently less than 285 point. 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 51.4 points during December 2014, boosted by improved private sector activity of non-oil companies (output and new orders picked-up at higher rates and companies' purchasing volumes witnessed an increase). Furthermore, **Total Production Index** rose by 9.1 percent on monthly basis recording 177.1 points during November 2014, compared to 162.4 points in October 2014.

The latest fiscal performance developments during H1-FY14/15 point to a **budget deficit** increase reaching about 5.7 percent of GDP (LE 132 billion), compared to a deficit of 4.5 percent (LE 89.4 billion) during July-December 2013/2014. However, it is worthy to note that during H1-FY13/14 Egypt received exceptional cash and in-kind grants. **If these exceptional inflows were to be excluded, the budget deficit would have improved by 0.3 percentage points during the period of study, if compared to the corresponding period of the previous year.**

Through enhanced economic activity and efforts in targeting efficient tax collection, tax revenue performance has improved, to record an increase of 9.9 percent higher than the same period of the previous year. 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 287.4 billion (12.4 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.

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.

During December 2014, **Net International Reserves (NIR)** declined by US$ 0.6 billion to record US$ 15.3 billion, compared to US$ 15.9 billion in November 2014. The witnessed decrease in December 2014 was mainly due to a decrease in foreign currencies, which dropped by US$ 509 million.

As for the **monetary developments, M2 annual growth** almost stabilized reaching 15.6 percent y-o-y (LE 1572.9 billion), compared to 15.7 percent during the last month, while it eased if compared to 18.5 percent at end of November 2013.

Meanwhile, **Headline Urban inflation** rose during December 2014 recording 10.1 percent, compared to 9.1 percent last month, while it declined if compared to 11.7 percent during December 2013. Factors contributing to inflationary pressures include; higher food prices (the largest weight in CPI), as well as an unfavorable base effect. "Food and Beverage" group recorded 8.4 percent during December 2014, compared to 7.1 percent during last month. Meanwhile, amongst other main groups that contributed to the annual inflation increase during the month of study, “Housing, Water, Electricity, Gas, and Other Fuels”, “Clothing and Footwear”, “Recreation and Culture”, “Restaurant and Hotels”, and “Miscellaneous Goods and Services”.

During its **Monetary Policy Committee** meeting held on January 15, 2015, CBE decided to cut the **overnight deposit rate** and **overnight lending rates**, and the CBE's **main operation** by 50 basis points to 8.75 percent, 9.75 percent, and 9.25 percent, respectively. The **discount rate** was also cut by 50 basis points to 9.25 percent. Moreover, in an attempt to absorb excess liquidity and to protect the domestic currency, the CBE held **deposit auctions** on January 27, 2015 worth LE 80 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.

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.

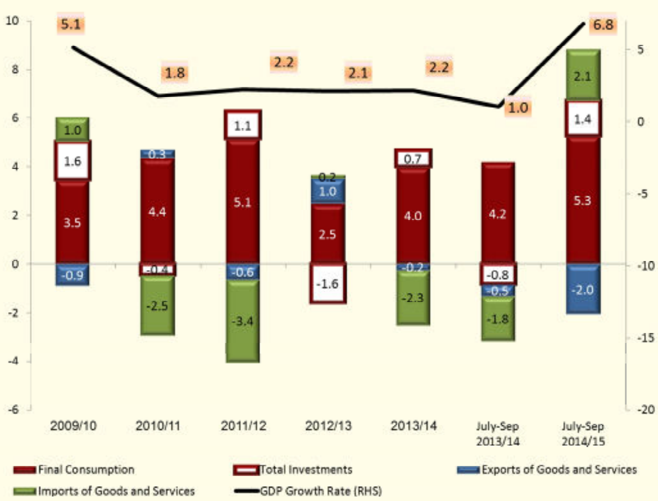
On the supply side, six key sectors led y-o-y growth, on top of which was the **non-oil manufacturing sector** recording a 29.2 percent growth rate, (contributing with the highest contribution of 4.1 percentage points to growth compared to 0.2 PPT during Q1-FY13/14). It is worthy to highlight that, amongst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

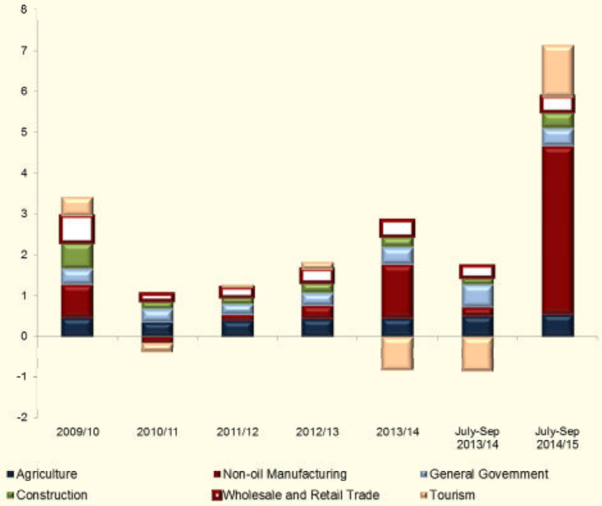
Moreover, **agricultural sector** witnessed growth of 3 percent (stabilizing at a contribution of 0.5 PPT), while **construction sector** have recorded a real growth rate of 9.9 percent (contributing by 0.4 PPT during the period of study, compared to 0.2 PPT during the same period last year). Meanwhile **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.

Contribution to GDP Growth (at market prices) (PPT)
(2009/2010 - July - September 2014/2015)



Contribution to GDP Growth (at factor cost) (PPT)
(2009/2010 - July - September 2014/2015)



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.

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-December 2014/2015…

The latest fiscal performance developments during H1-FY14/15 point to a **budget deficit** increase reaching about 5.7 percent of GDP (LE 132 billion), compared to a deficit of 4.5 percent (LE 89.4 billion) during July-December 2013/2014. However, it is worthy to note that during H1-FY13/14 Egypt received exceptional cash and in-kind grants. **If these exceptional inflows were to be excluded, the budget deficit would have improved by 0.3 percentage points during the period of study, if compared to the corresponding period of the previous year.**

Through enhanced economic activity and efforts in targeting efficient tax collection, tax revenue performance has improved, to record an increase of 9.9 percent higher than the same period last year. 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 287.4 billion (12.4 percent of GDP) during the period of study.

July- December 13/14 Budget Deficit LE 89.4 billion (4.5 percent of GDP)	**July- December 14/15 Budget Deficit** LE 132 billion (5.7 percent of GDP)
Revenues LE 175.4 billion (8.8 percent of GDP)	**Revenues** LE 163.6 billion (7 percent of GDP)
Expenditure LE 262 billion (13.1 percent of GDP)	**Expenditure** LE 287.4 billion (12.4 percent of GDP)

Source: Ministry of Finance, Macro Fiscal Policy Unit

Tax Revenues rose while Non-Tax Revenues decelerated during the period of study

On the revenue side,

Total revenues recorded LE 163.6 billion (7 percent of GDP) during July- December 2014/2015, declining by around LE 11.9 billion compared to same period last year despite of the increase in tax revenues by 9.9 percent to record LE 114 billion. The recorded decline is principally due to the -30.9 percent decrease in non-tax revenues to record LE 49.5 billion, could be explained mainly due to the decline in grants during the period July-December 2014/2015 if compared to the exceptional grants received during the period of comparison July-December 2013/2014.

The increase in tax revenues is mainly due to:

Taxes on good and services increased by LE 14 billion (33.8 percent growth) to reach LE 55.3 billion (2.4 percent of GDP).

Mainly as a result of:
- The increase in general sales tax on goods by 25.3 percent to record LE 25 billion.
- The increase in Excises on Domestic Commodities (Table 1) by 62 percent to record LE 18.4 billion (in light of increased sales tax on petroleum products by 218 percent to reach LE 5.4 billion and tobacco by 35 percent to reach LE 12.4 billion)
- The increase in general sales tax on services by 28 percent to record LE 5.4 billion.
- The increase in Stamp tax by 4.5 percent to record LE 3 billion.

Taxes on International Trade increased by LE 2 billion (26.9 percent growth) to reach LE 9.6 billion (0.4 percent of GDP).

In light of an increase in taxes on valued customs by 26.8 percent y-o-y to LE 9.2 billion.

Property Taxes increased by LE 0.3 billion (3.4 percent growth) to reach LE 9.8 billion (0.4 percent of GDP).

Mainly as a result of:
- The increase in Taxes and Fees on Cars by 45.2 percent to record LE 1.4 billion, counterparting the slight decline in Tax on T-bills and bonds' payable interest by 2.9 percent to reach 7.8 billion during the period of study.

On the other hand, **Taxes on Income, Capital Gains and Profits** declined by LE 5.9 billion (-13 percent growth) to reach LE 39.3 billion (1.7 percent of GDP), mainly due to:

- The decline in taxes on corporate profits by LE 8.5 billion (-26.1 percent growth), as no petroleum settlements occurred during the period of study, compared to LE 15.3 billion recorded during July-December 2013/2014.

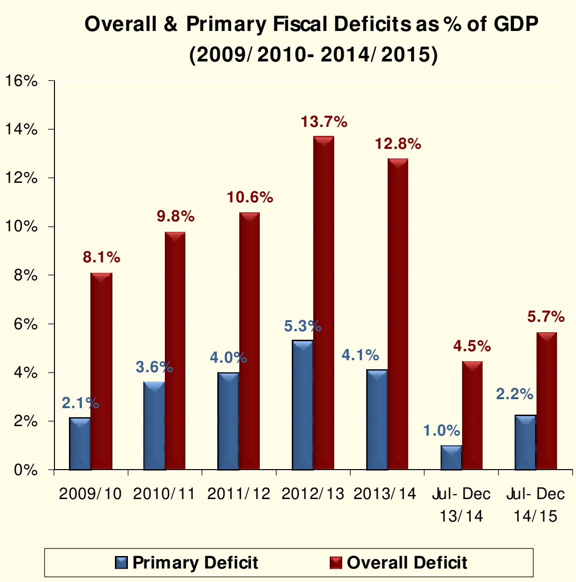
However, **tax receipts from corporate profits** increased for the rest of the items during the period of study (including receipts from sovereign authorities) as follows:

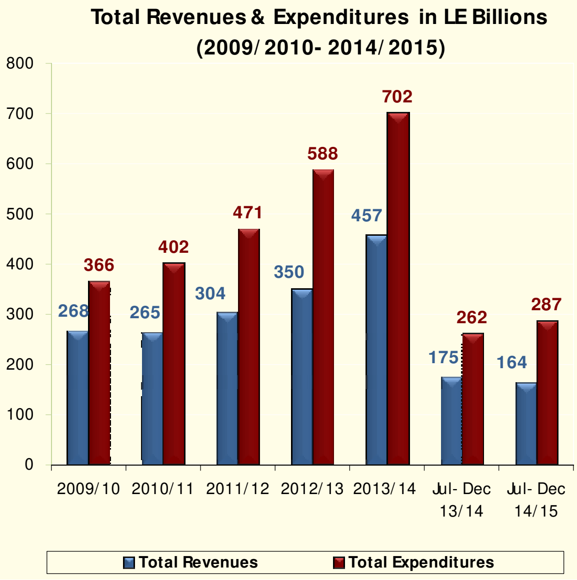
- Increase in receipts from Other Companies by LE 3.9 billion (39.2 percent) to record LE 13.8 billion.
- Increase in receipts from Suez Canal by LE 1.5 billion (31.9 percent) to reach LE 6.2 billion.
- Increase in receipts from taxes on CBE by LE 1.5 billion (57.5 percent) to reach LE 4 billion.
- Increase in taxes on industrial & commercial profits by LE 1 billion (49.5 percent) to reach LE 3 billion.
- Increase in taxes on domestic salaries by LE 1.4 billion (15.7 percent) to reach LE 10.3 billion.

The reduction in non tax revenues could be explained mainly due to the decline in grants during the period July-Dec 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 7.8 billion during July-December 2014/2015, compared to about LE 36.8 billion during the same period last year, 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 LE 29.7 billion increase in grants allocated to finance the first stimulus package related to the presidential decree no. 105, 2013.
- Revenues from special accounts and funds decreased by LE 3 billion (-32.7 percent) to reach LE 6.2 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 1.8 billion to reach LE 9 billion,
  - § Increase in dividends collected from economic authorities by more than two folds to reach LE 1.2 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 (85 percent or almost two folds) to record LE 6.7 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 287.4 billion (12.4 percent of GDP) during July-December 2014/2015, increasing by around LE 25.4 billion (9.7 percent growth) compared to same period last year, mainly due to:

§ The increase in **wages and compensation** of employees by LE 17.3 billion (21.5 percent) to LE 97.3 billion (4.2 percent of GDP), mainly due to:

- The increase in rewards by LE 4 billion (10.8 percent growth) to record LE 40.7 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 7.3 billion to reach LE 12.6 billion during the period of study, mainly due to; minimum wage allowances of around LE 3.5 billion, and teachers allowances around LE 3.1 billion, and special allowances of around LE 0.7 billion.
- The increase in Specific allowances by around LE 1 billion (10.3 percent growth) to reach LE 10.7 billion during the period of study.
- The increase in In-Kind Benefit allowances by around LE 0.3 billion (30.4 percent growth) to reach LE 1.4 billion during the period of study.

§ The increase in **Purchases of Goods and Services** by LE 1.8 billion (18.3 percent growth) to reach LE 11.4 billion (0.5 percent of GDP) due to:

- Increased spending on goods by LE 1.2 billion (29.3 percent growth) to reach LE 5.2 billion during the period of study, mainly due to; increased spending on raw materials.
- Increased spending on services by LE 0.4 billion (8.7 percent growth) to reach LE 5.5 billion during the period of study, mainly due to increased spending on maintenance, and transportation.

§ The increase in **interest payments** by LE 10.4 billion (14.9 percent growth) to reach LE 80 billion (3.4 percent of GDP), mainly due to:

- The increase in domestic interest (other government units) by LE 8.7 billion (14.8 percent growth) to reach LE 67.7 billion during the period of study, mainly due to; the increase in interest on treasury bills by around LE 8.3 billion, and the increased interest on CBE Bills by LE 0.3 billion.
- Meanwhile foreign interest rose slightly by LE 0.3 billion (10.7 percent growth) to reach LE 2.6 billion during the period of study.

§ The rise in **other expenditures** by LE 4.7 billion (26 percent growth) to reach LE 22.6 billion (1 percent of GDP) mainly due to:

- Increase spending on contingency reserves by LE 4.4 billion (27.2 percent growth) to reach LE 20.7 billion during the period of study.

§ The increase in **purchases of non-financial assets (investments)** by LE 2 billion (0.7 percent of GDP) (13.9 percent growth) to reach LE 16.7 billion, mainly due to:

- Increased spending on direct investments by LE 1.4 billion (10.4 percent growth) to reach around LE 14.8 billion during the period of study.

§ Meanwhile, **subsidies, grants and social benefits** recorded LE 59.5 billion (2.6 percent of GDP) during the period of study compared to LE 70.2 billion during same period last year, this can be explained in light of the following:-

- The decline in Spending on subsidies reaching around LE 33 billion during the period of study compared to LE 48 billion as no petroleum settlements occurred during the period of study. However, GASC subsidies rose by LE 3.6 billion (32.3 percent growth) to reach LE 14.6 billion during the period of study.
- Meanwhile, Social Benefits rose by 4 billion (17.3 percent growth) to reach LE 23 billion during July-December 2014/2015, mainly due to:
  - Increased contributions to the pension funds by LE 2.3 billion (13.7 percent growth) to reach LE 19.4 billion during the period of study.
  - Increased social insurance pensions by LE 1 billion (41.4 percent growth) to reach LE 3.3 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).

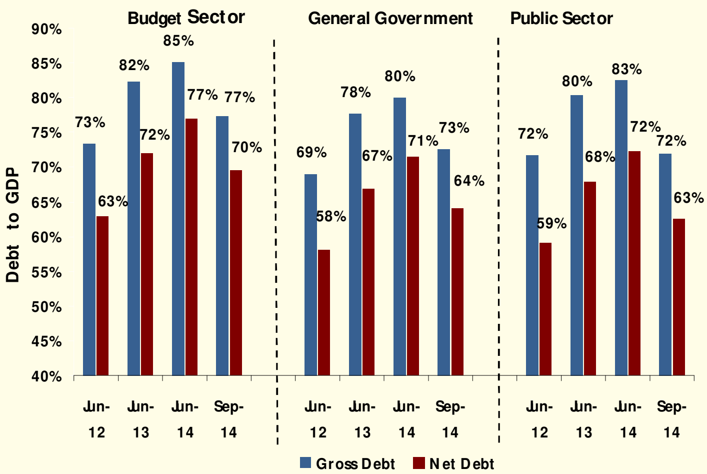
Public Debt:

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

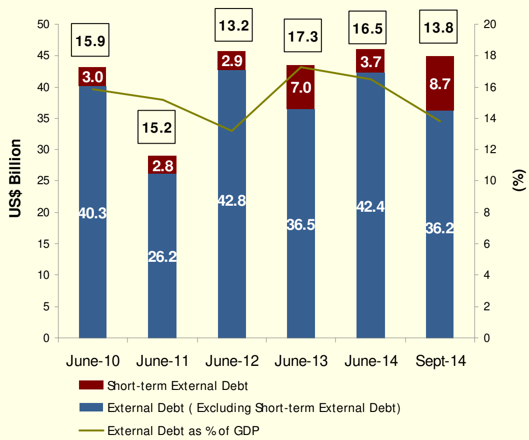
Domestic budget sector debt recorded LE 1795.8 billion (77.4 percent of GDP) by end of September 2014, compared to LE 1518.7 billion (76 percent of GDP) by end of September 2013.

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.

Domestic Debt Indicators



Gross External Debt



Source: Ministry of Finance

External debt stock[1] **(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. 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).

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.

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

Monetary Perspective:

M2 annual growth rate almost stabilized during November 2014

According to recent data released by the CBE, **M2 annual growth** almost stabilized during November 2014 to record 15.6 percent (Y-o-Y) reaching LE 1572.9 billion, compared to 15.7 percent during the last month, while it eased if compared to 18.5 percent at end of November 2013. These developments could be explained – from the liabilities side – in light of the growth witnessed in **money** annual growth reaching 17.5 percent (LE 434.1 billion), compared to 16.9 percent at end of October 2014, as currency in circulation annual growth rose at end of November 2014 to record 8.3 percent (LE 275.2 billion), compared to 7.5 percent in October 2014. The growth witnessed in money was counterparted by the slight slowdown in **quasi money** annual growth recording 15 percent (LE 1138.8 billion), compared to 15.3 percent in the previous month, as local currency time and saving deposits eased during the month of study to reach 16 percent, compared to 16.4 percent in the previous month.

From the assets side – **net domestic assets (NDA) of the banking system** annual growth remained unchanged during the month of study recording 18.2 percent (LE 1470.6 billion), compared to 18.1 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 12.2 percent (LE 102.3 billion) at the end of November 2014, compared to a lesser decline of 8.5 percent during the previous month.

Net claims on the government and GASC annual growth increased to reach 21.8 percent (LE 1091.1 billion), compared to 20.1 percent during the previous month. Moreover, annual growth in **credit to the private sector** inched up to reach 10.7 percent (1.6 percent annual real growth) at end of November 2014 to LE 552 billion, compared to 10.6 percent last month. This growth comes on the back of the slight increase witnessed in private business sector annual growth reaching 7.7 percent, compared to 7.3 percent in October 2014, which overcame the deceleration witnessed in claims on household sector annual growth to 19.2 percent, compared to 20.1 percent in the previous month.

On the other hand, **claims on public business sector** annual growth eased to 26.8 percent in November 2014 (LE 55.7 billion), compared 28 percent in October 2014. It is important to highlight that claims on public business sector annual growth recorded its highest level ever in October 2014, as a result of the LE 10 billion (US$ 1.5 billion) loan provided to Egyptian General Petroleum Company (EGPC) through a banking coalition led by The National Bank of Egypt to pay arrears owed to foreign energy companies.

Deposits and loans detailed data for November 2014 is not yet available. **Total deposits** annual growth – excluding deposits at the CBE – increased to reach 20.5 percent y-o-y (LE 1496 billion) at the end of October 2014, compared to 19.1 percent at end of September 2014. Out of total deposits, 86.4 percent belonged to the non-government sector. Moreover, **annual growth rate in total lending by banking sector** (excluding CBE) picked up during the year ending October 2014 recording 12 percent (LE 615.7 billion), compared to 9.4 percent at end of September 2014, reflecting the renewed confidence in the economy. To that end, **loans-to-deposits** ratios inched up at end of October 2014 registering 41.2 percent, compared to 41 percent at end of September 2014.

NIR declined by US$ 0.6 billion during December 2014

Net International Reserves (NIR) declined by US$ 0.6 billion during December 2014, to record US$ 15.3 billion, compared to US$ 15.9 billion in November 2014. It is Important to highlight that US$ 3.2 billion were reimbursed to Qatar (US$ 3 billion as accrued deposits and bonds worth US$ 0.2 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, which is likely to have an impact on restoring confidence in the economy and encouraging domestic and foreign investments. It is noteworthy to mention that the CBE has paid US$ 0.7 billion in debt installments to Paris Club at the beginning of January 2015.

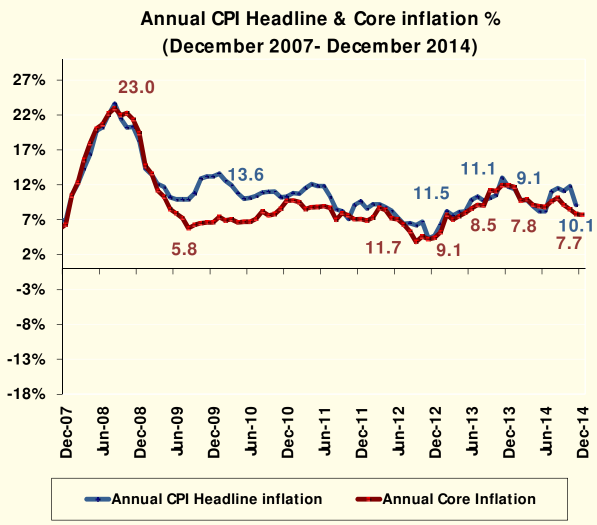
CPI annual Urban Inflation almost stabilized during the period July- December 2014/2015 recording 10.8 percent, compared to 10.9 percent during the same period last year.

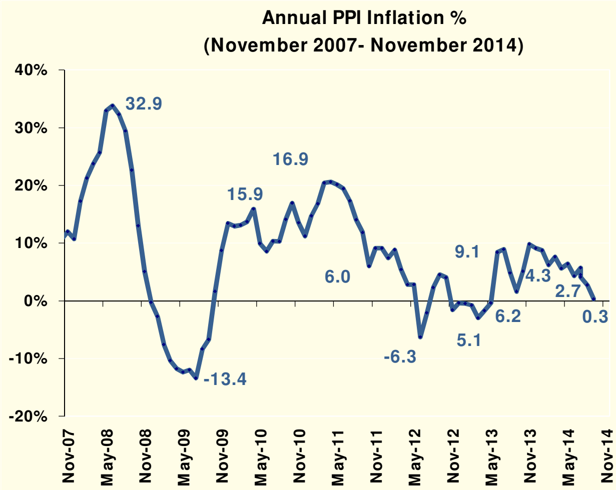
CPI almost stabilized during Jul-Dec 2014/2015 compared to same period last year

It is worth to note that, In December 2014, annual inflation rose to record 10.1 percent, compared to 9.1 percent during November 2014, while it declined if compared to 11.7 percent during December 2013. Factors contributing to inflationary pressures include; higher food prices (the largest weight in CPI), as well as an unfavorable base effect. "Food and Beverage" group recorded 8.4 percent during December 2014, compared to 7.1 percent during last month, in light of the increase in annual inflation rate of sub-items among the "Food and Beverage" group, on top of which "Vegetables" (to record 14 percent compared to 5.5 percent last month), "Meat" (to record 10.3 percent compared to 9.8 percent), "Fish" (to record 8.2 percent compared to 8 percent).

On a more detailed level, amongst other main groups that contributed to the annual inflation increase during the month of study, "Housing, Water, Electricity, Gas, and Other Fuels" annual inflation rose by 4.6 percent compared to 2.5 percent last month (due to the hike in prices of Electricity, Gas, and Fuel by 17.3 percent compared to 5.3 percent last month), "Clothing and Footwear" annual inflation rose by 2.5 percent compared to 1.9 percent (due to the increase in prices of clothes, and cleaning and repair of clothes), "Recreation and Culture" annual inflation rose by 11.8 percent compared to 11.2 percent (due to the increase in prices of Newspapers, Books, and Stationary), "Restaurant and Hotels" annual inflation rose by 15.2 percent compared to 14.8 percent (due to the increase in prices of catering services), and finally "Miscellaneous Goods and Services" annual inflation increased merely by 5.6 percent compared to 5.1 percent (more specifically personal care despite the decline in gold prices).

On the other hand**, monthly urban inflation** decelerated for the second month in a row yet at slower pace to record -0.1 percent compared to -1.5 percent during last month.





Annual core inflation merely declined to reach 7.7 percent during December 2014, compared to 7.8 percent during November 2014 and 11.9 percent in December 2013 (the lowest since

April 2013). Meanwhile, monthly core inflation rose to record 0.3 percent during December 2014, compared to -0.2 percent during the previous month. The monthly inflation could be explained in light of the increase in "food items" contributing by around 0.23 percentage points, while "Consumer goods" contributed by 0.07 percentage points to the monthly core inflation.

During its **Monetary Policy Committee** meeting held on January 15, 2015, CBE decided to cut the **overnight deposit** rate and **overnight lending rates**, and the **CBE's main operation** by 50 basis points to 8.75 percent, 9.75 percent, and 9.25 percent, respectively. The discount rate was also cut by 50 basis points to 9.25 percent. The committee justified that decision in light of the reassessment of risks surrounding the inflation outlook and domestic GDP. Despite improvements in GDP growth in Q1 FY 14/15, inflation has stabilized and upside risks from imported inflation continued to be contained on the back of lower fuel and food prices. Hence, MPC judged to cut Key CBE rates.

Moreover, in an attempt to **absorb excess liquidity** and to protect the domestic currency, the CBE held deposit auctions on January 27, 2015 worth LE 80 billion with 7-day maturity at a fixed annual interest rate of 9.25 percent.

EGX-30 Index increased by 916 points during January 2015, reaching 9843 points compared to 8927 by the end of December 2014. Moreover, market capitalization increased by about 5.2 percent m-o-m during the month of study to reach LE 527 billion (22.7 percent of GDP) compared to LE 500 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**.

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.

According to the latest published figures, **total number of tourists** arrivals decreased during the month of November 2014, reaching 898 thousand tourists, compared to almost 1 million tourist arrivals in the previous month. On the other hand, tourist nights increased during the month of study to reach almost 10.3 million compared to 9.8 million nights during the month of October 2014.