The election in June 2012, of president Mohammed Morsi, and departure of the military from the political scene in Egypt has offered a new opportunity of strengthening the countries institutions. Risks to growth nevertheless remain as the country is yet to enact a new constitutional order and elect a civilian parliament that will guide policy decisions going forward. There is hope however that economic growth will trend towards pre-revolution levels of over 5% in the medium-term once the political situation has stabilized, and security is fully restored.
Economic Growth

Egypt’s real growth domestic product (GDP) at 2006/2007 (July-June) constant market prices picked up to 5.2% during the quarter ending 31 March 2012, bringing real GDP for the fiscal year 2011/12 to 2.2% (Chart 1). This outcome, close to the 2.3% growth achieved during the previous fiscal year, provides evidence of resilience in economic activity. This is crucial given that the real GDP for the first half of 2011/12 fiscal year was only 0.3%. This stronger performance that is an improvement over the 1.8% growth in 2010/11 is due to favorable base effects falls short of the annual historical average GDP of 6.5% over the period 2005 to 2010. In the short-run, we expect supportive favorable base effects to continue, and political uncertainties to recede, leading to a rebound of economic activity to about 3% (the government predicts 4%) in 2012/2013. In the medium term, however, the country is targeting an annual average growth of 7.5% driven by Egyptian and foreign private investments.

On the expenditure side, private consumption at current prices remained supportive of the Egypt’s economic growth, and rose to 79% of GDP during the fiscal year ended June 2012 compared to an average of 73.7% of GDP over the period 2005 to 2011 (Chart 2). However, over the same period, exports and investments were subdued, and — as a percentage of GDP at current prices —, declined to 19% and 17% from averages of 26.9% and 19.6%, respectively. Buoyed by strong private consumption, but constrained investments and exports that contracted, and government spending that rose marginally — 12% of GDP during over the 2011/12 fiscal year compared to a historical average of 11.4% over the 2005 to 2011 fiscal years —, GDP growth (at current prices) rose to Egyptian pound (EGP) 1,542.3 billion (bn) during the fiscal year 2011/12, against EGP 1,371 bn over the previous fiscal year.

![Chart 1: Egypt’s GDP Growth (Annual data, % change, July-June)](chart1)

Source: AfDB based on Ministry of Finance, Egypt and AfDB data sources.
At 2006/2007 constant prices, GDP increased from EGP 894 bn in 2010/11 to EGP 913.8 bn during the fiscal year, 2011/2012. Chart 3 shows that growth rates in major sectors of the economy have not recovered to pre-revolution levels, and thus with the exception of agriculture, their contribution to value added over the recent years has been sub-optimal. Indeed, of the leading sectors, agricultural sector remained relatively resilient, growing by at 2.9% during the 2011/12 fiscal year primarily because of the support the sector receives from the government. Other sectors that were supportive to growth include construction and communications that recorded annual growth rates of 3.3% and 5.2%, respectively.

Source: AfDB based on data by the Central Bank of Egypt.
Egypt’s Total Production Index that incorporates 60% of the economic output climbed slightly to 176.8% in July 2012, compared to 172.1% in July 2011, far lower than the 202.9%, that was achieved in January 2011 before the revolution. Manufacturing and tourism sectors that had achieved robust growth rates of 5.1%, and 12%, respectively in 2009/10 fiscal year, were the hardest hit by the adverse effects of the political uncertainties in over the past year and pulled the index downwards as shown in Chart 4. Over 20% of Egypt’s current accounts receipts in 2009/10 were generated from close to 14 million tourists who visited the country that fiscal year (Chart 5). After the revolution visitor numbers have slumped to around 11 million over the past year leading to slowing down of foreign receipts. Indeed, tourism revenues fell by US$ 1.2 bn in 2011/12 as a result of a decline in average spending by tourists from US$ 85 per night in 2010/11 to US$ 72.2, US$ 69.6, and US$ 74.4, over the periods July–September, October–March, and April–June of the 2011/12 fiscal year. These negative results are reflected in the tourism index that fell from 511.7% in January 2011 to 302.3% in July 2012, with a brief spike to 409% in January 2012 following the conclusion of Egypt’s first transparent parliamentary elections to the People’s Assembly that was later dissolved after a ruling by the High Constitutional Court. The construction sector that recorded growth of 13.2% in 2009/10 fiscal year was also adversely affected, but has recently shown signs of recovery. This is demonstrated by the construction index that rose to 266.1% in July 2012 up from 156.8 % the previous month, an increase by 69.7 %.
Employment and Unemployment

Egypt’s private sector, which accounts for 73% of employment, and contributes close to 63% of GDP, has contracted in recent months thus slowing down its potential to create jobs. The contraction of the tourism sector, in particular, resulted in formal and informal job losses, in a sector that in normal times accounts for about 12% of the Egyptian labor force. The Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS) data show that unemployment rate rose to 12.6% for the second quarter of 2012 (calendar year) up from 11.8% during the comparable quarter the previous year. This is far higher than the average unemployment rate in Egypt of 9.9% over the decade ending 2009/10 (Chart 6). The higher unemployment rate comes against a backdrop of deteriorating economic circumstances over the past year that saw Egypt’s unemployment rate climb from 8.9% in the fourth quarter of 2010 to 11.9% for the third quarter of 2011. It also comes when Egypt’s labor force participation rate —% of total population aged 15-64 years— climbed higher than the long term average of 31% (based data from 2000 to 2011) to reach 33% in 2011 or as high as 49% based on the International Labor Organization’s data.

Source: AfDB based on data by the Central Bank of Egypt.
CAPMAS’ data also show that about 3.4 million Egyptians were unemployed during the second quarter of 2012. And over the same period, the unemployment rate among the youth was: 25.3% for those aged between 25 and 29 years old; 41.4% among those aged between 20 to 24 years old; and 77.5% among the 15 and 29 years old. Data also show that the youth with higher education attainment are the most adversely affected by joblessness given that only two out of ten could find jobs. The unemployment rate among women was 24.1% during the second quarter of 2012 more than double that for men that stood at 9.2%. On a positive note, Egypt’s agricultural sector continues to be the major employer by absorbing about a third of the labor force that is estimated at 26 million, of whom 22% are women.

**Monetary Sector**

The Central Bank of Egypt (CBE) has continued to manage a gradual depreciation of the Egyptian pound, since foreign currency inflows slowed down after the revolution (Chart 7). The pace of EGP depreciation picked up in October 2011, as political uncertainties deepened to reach EGP 6.05 (EGP per US$) at the end of June 2012, and 6.09 on 27 September 2012, compared EGP 5.97 a year ago, and an average for 2003 to 2011 of EGP 5.75. As the exchange rate slowly depreciated Net International Reserves (NIRs), that the CBE has been selling to counter capital outflows dropped from US$ 26.6 bn (6.3 months of imports) by end-June 2011, to US$ 15.5 bn (3.2 months of imports), and US$14.4 bn (2.9 months of imports), by end June and July 2012, respectively. The NIRs have then fluctuated, rising to US$ 15.1 bn by end-August 2012, and US$ 15 bn by end of September 2012. The slight increase in August 2012 was driven by a partial disbursement of US$ 500 million of a US$2 bn loan from Qatar, and proceeds of Euro 513 million Treasury-bills (T-bills) auction by the Central Bank for which foreign investors took up only 20%. Lacking strong support from foreign direct investment and tourism inflows, the EGP is expected to continue experiencing major devaluation pressures unless deals such as the International Monetary Fund (IMF)’s US$ 4.8 bn loan, U.S. Government’s US$ 1 bn debt relief, and direct deposits from Saudi Arabia and Qatar, are concluded by the end of this year.

Source: AfDB based on data by the Central Bank of Egypt.

![Chart 6 Unemployment and Labor Force Participation](image)
A speedier depreciation of the Egyptian pound is not an option that the authorities would like to put forward in their menu of policy interventions as this could exacerbate imported inflation leading to higher food prices. So far, the year-on-year (y/y) headline inflation rate (as measured by the urban consumer price index, CPI) decelerated in June 2012 to 7.26% from 11.8% recorded in June 2011, while core inflation, y/y, dropped to 7.04% from 8.94% over the same period, because of supportive base effects from previous year (Chart 8). In July 2012, both the headline CPI, and the core inflation, further declined to 6.39%, and 6.34%, respectively. In August 2012, while the core inflation rate continued to decelerate to 5.34%, the CPI inflation rate increased slightly to 6.47%. Egypt’s Producer Price Index (PPI), that measure inflation at the wholesale level declined sharply y/y to reach -3.7% in June 2012 compared to 19.4% in June 2011, because of the larger value in base last year.

Source: AfDB based on data by the Central Bank of Egypt.
During its Monetary Policy Committee meeting of October 18, 2012, the Central Bank of Egypt (CBE), decided to continue to hold interest rates stable at their November 2011 level, in delicate tradeoff between need to revitalize growth by lowering interest rates, and curtailing inflationary pressures. CBE raised interest rates in November 2011 for the first time in more than two years, in its efforts to ease inflationary pressures, and defend the domestic currency. As a result, the discount rate—the instrument CBE uses to operationalize its stated monetary policy goal of maintaining price stability—rose from 8.5% to 9.5%. The CBE also raised the overnight deposit and lending rates to 9.25% and 10.25%, from 8.25% and 9.75%, respectively. The 7-day repurchase agreements rate (Repos) that was introduced in March 2011 to manage liquidity in the market on government treasury bills was also adjusted upwards from 9.25% to 9.75%.

As summarized in Chart 9, the interest rate adjustments led to the 3 months T-Bills rate to spike to 14.3% in November 2011 from 11.2% in March 2011, but other interest rates did not change much. For example, the one-to-three end of month average deposit rates increased only slightly from 6.6% in March 2011 to 7.1% in November 2011, and 7.6% in June 2012. Further, the one-year-or-less average corporate loan rate increased from 10.7% in March 2011 to 11.9% in June 2012. As of June 2012, yields for the one-year T-bills, were about 14.8%, and are continuing to rise, reaching 15.8% over the period July-August 2012/13. This is despite the monetary accommodative measures that CBE has been putting in place, and that have increased the liquidity in the banking system by reducing the reserve requirement ratio. It would appear that the impact of such measures by CBE is not wholly effective, as evidenced by the rising yields.
Against a backdrop of favorable inflationary conditions and constrained real economic activity, the Central Bank of Egypt (CBE) expanded the M2 monetary aggregate by 8.4% to EGP 1,094.4 bn by end-June 2012, from a base of EGP 1,009.4 bn, a year earlier. This growth was lower than the historical growth of money supply of 9% over the 2008 to 2011 period. Detailed data as of May 2012 show that the overall money supply grew by 7% y/y to EGP 1,067.6 bn, mainly driven by growth in money (M1) —M0 plus local currency demand deposits— that rose by 8.4% to reach EGP 264.6 bn, from EGP 244 bn a year earlier. Further, Quasi Money —which includes time and savings deposits in both local and foreign currencies, increased by 7% to EGP 803 bn in May 2012, from EGP 750.4 bn in May 2011. Finally, over the same period, the monetary base, that is reserve money (M0) —currency in circulation and the banking sector deposits held at the CBE— expanded at a slower rate of 6.1% y/y to EGP 262.2 bn in May 2012 from EGP 247.1 bn in May 2011.

**Financial Sector**

Conditions in the financial markets remained uncertain over the past year mainly because of weak investor confidence in the speed of recovery of economic activity. In this context, the CBE’s monetary policy remained broadly accommodative. To ease credit conditions in the market and provide additional permanent liquidity into the banking system, the CBE lowered the reserve requirement on local currency deposits to 12% from 14% on 20 March 2012, and on 22 May 2012, reduced such requirements by a further 200 basis points to 10%, effective 26 June 2012. In May 2012, deposits in the banking system (including public sector deposits) reached EGP 1011.2 bn, compared to EGP 951.7 bn in May 2011,
an increase of 6.2%, y/y. During the same period, credit facilities in the banking system rose by 6.7% y/y, from EGP 470.9 bn in May 2011, to EGP 502.3 bn in May 2012. Although this growth was driven by credit to the private sector that by May 2012 expanded by 9.1%, y/y, credit to the public sector actually declined by 19.1% y/y. During the fiscal years 2006 to 2010, credit to the private sector, and the public sector, averaged 92%, and 8%, respectively, over the total credit facilities, respectively. By end-March 2012, the loan to deposits ratio stood at 49.4%, and nonperforming loans as a percentage of total loans ratio was 10.7%.

Stock market performance, which had worsened after the revolution, is yet to fully recover to the end-June 2010 value of EGP 410.1 bn (Chart 10). The Egyptian Exchange (EGX) 30 benchmark index, had shown signs of recovery in March 2012 when it rose by an average of 4% compared to the February 2012 performance, because of investors pricing in CBE’s monetary policy accommodation. However, as shown in Chart 10 such recovery was short lived and by end-May 2012, the EGX’s market capitalization had fallen by 22% to EGP 336.8 bn. EGX 30 index has sustained a downward performance of 34% since January 2011 to close at 4,709 points by end-June 2012. Recently the EGX30 index has risen to 5853 points by end-September 2012, a far lower performance compared to the 6634 points recorded by end-September 2010.

Chart 10 The Egyptian Exchange (EGX) Benchmark Index (EGX30) - Daily Close Values

Source: AfDB based on data by Egyptian Exchange.

1 The revised budget for the fiscal year 2011/12 shows a fiscal deficit of EGP 120 bn.
Public Finances

Official data show that the Budget sector’s fiscal deficit for the fiscal year 2011/12 is estimated at EGP 170.1 bn (11.1% of GDP), up by 26.5% from EGP 134.5 bn (9.8% of GDP) in 2010/11. Furthermore, as shown in Chart 11, the 2012/13 budget envisions a decrease in budget deficit by 20.7% to EGP 135 bn (7.6% of GDP), as the government contemplates restraining subsidies (Chart 12). Revenues increased by 12.6% to EGP 298.6 bn in 2011/12, y/y, while expenditures increased at a faster pace of 16.8% to reach EGP 469.4 bn over the same period. Looking ahead, revenues and expenditures are budgeted to increase in 2012/13 fiscal year by 31.8% to EGP 393.5 bn, and by 13.7% to EGP 534 bn, respectively. Mobilization of funds to finance the gap between the 2012/12 budgeted revenues and expenditures, remains a major preoccupation of the Egyptian authorities.

After contracting by about 1.1% in fiscal year 2010/11, the rebound of the budget sector revenues in 2011/12, was mainly driven by increases in tax revenues by 8.2%, y/y to EGP 207.3 bn. The government gets most taxes from income and profits (45%), and consumption (40%), which during the 2011/12 fiscal year, amounted to EGP 91.2 bn and EGP 84.5 bn, respectively. State owned enterprises, led by the Egyptian General Petroleum Corporation (EGPC) pays most of the taxes on income and profits (EGPC paid 37% of the total or EGP 34.1 bn in 2011/12) while individuals, in 2011/12, paid 24% of the total, or EGP 21.7 bn. Non-tax revenues rose by 34% (EGP 23.3 bn) to EGP 91.3 bn in 2011/12, mainly because of an exceptional payment by CBE of EGP 15 bn in 2011/12 compared to only 0.5 bn in 2010/11. Further, in 2011/12 grants by foreign governments increased substantially to EGP 9.8 bn from only EGP 1.7 bn in 2010/11.
Government sector investment spending has been contracting since 2009/10 by 29% from EGP 48.4 bn (4% of GDP) to EGP 34.3 bn (2% of GDP) in 2011/12 as the government has been spending more on recurrent expenditure at the expense on capital projects. About 75% of Egyptian government spending is for public debt (21%), wages and salaries (25%), and subsidies (29%), (Chart 12). During the fiscal year 2011/12, salaries and wages and interest payments on public debt both increased by about 29% to EGP 122.7 bn, and EGP 104.4 bn, respectively, while subsidies rose by 23% to EGP 136.8 bn. Although the food subsidies (paid to the General Authority for Supply Commodities, GASC) decreased by 2% to EGP 32.2 bn in 2011/12, the energy subsidies (paid to EGPC) increased by 41% to reach EGP 95.5 bn. During the fiscal year 2012/13, the government has budgeted cuts in subsidies for petroleum products by 27% (EGP 25.5 bn), and other subsidies by 17% (EGP 5.6 bn), mainly targeting agricultural crops (EGP 2 bn) and low cost housing (EGP 0.8 bn) to bringing down the budget deficit.

**External Sector**

At the end of the 2011/12 fiscal year, Egypt’s deficit on current account, and Capital & Financial accounts stood at US$ 7.9 bn, and US$ 1.4 bn, compared to US$ 6.1 bn, and US$ 9.8 bn at the end of the previous fiscal year, respectively. Driven by a worsening Capital & Financial accounts, Egypt’s overall balance of payment (BOP) has been deteriorating sharply over the past three fiscal years, plunging to a deficit of US$ 11.3 bn in 2011/12, from a surplus of US$ 33.6 bn in 2009/10 (Chart 13). During the 2011/12 fiscal year alone, the BOP deficit widened by US$ 15.2 bn (16%) from US$ 9.8 bn in 2010/11, leading to a huge drop in foreign reserves. Nevertheless an increase in workers’ remittances and other private transfers rose to US$ 17.8 bn in 2011/12 compared to US$ 12.4 bn.
the previous year to mitigate the worsening BOP position.

The Capital & Financial Account recorded an outflow of portfolio investment of US$ 5 bn in 2011/12, compared to US$ 2.6 bn during the fiscal year 2010/11 as investors were faced with higher uncertainties. In 2011/12 foreigners sold off US$ 4 bn worth of Egyptian Treasury-Bills (TBs), and reduced their purchases of Egyptian stocks in the financial market by US$ 1.1 bn. In 2010/11, foreigners’ net sales of Egypt’s TBs amounted to US$ 3.1 bn while their net purchases of stocks on the Egyptian Exchange (EGX), was US$ 316.7 million.

During 2007/08–2009/10, foreign direct investment (FDI) as a percentage of GDP averaged 5.2%. However, in 2010/11 and 2011/12, FDI as a percentage of GDP, dropped to 0.9%, and 0.8%, respectively. In 2011/12, FDI in the oil sector declined by US$ 1.8 bn, compared to a decrease of only US$ 191.3 million in 2010/11. On a positive note, greenfield investments, drove FDI inflows to Egypt over the past two fiscal years by US$ 2.2 bn in 2010/11, and US$ 2.1 bn in 2011/12. Egypt also benefited from privatization proceeds of US$ 1.7 bn in 2011/12 compared to US$ 19.2 million the previous year. Over time, FDI inflows from the United States (USA) and the Arab countries have declined from US$ 6.5 bn (36% of total FDI) and US$ 3.2 bn (18% of total FDI) in 2007/08 to US$ 0.6 bn (5% of total FDI) and US$ 1.2 bn (10% of total FDI) in 2011/12, respectively. Conversely, FDI inflows from the European Union (EU) have progressively increased from US$ 5.4 bn (31% of total FDI) in 2007/08 to US$ 9.5 bn (81% of total FDI) in 2011/12. Between 2010/11 and 2011/12 FDI inflows from the US declined by US$ 1.2 bn while inflows from the EU and the Arab countries rose by US$ 3.4 bn, and US$ 0.1, respectively.

Egypt deficit on the current account widened y/y by 30% to US$ 7.9 bn by the end of the 2011/12 fiscal year. Indeed, Egypt’s current account balance started deteriorating from a surplus of US$ 0.9 bn in 2007/08 to an average balance of US$ 4.9 bn over the next three fiscal years (Chart 11).

A reduction in services surplus and the widening of the trade deficit, caused the deterioration in the current account balance. The services surplus weakened to US$ 5.4 bn in 2011/2012 from US$ 7.9 bn in 2011/12. This change was caused by a fall tourism revenues to US$ 9.4 bn in 2011/12 from US$ 10.6 bn in 2010/2011, as mitigated by an increase in Suez Canal receipts from US$ 5.1 bn in 2011/10 to US$ 5.2 bn in 2011/12.

A spike in imports by 8.5% from US$ 54.1 bn in 2010/2011 to US$ 58.7 bn in 2011/12 when exports remained flat at US$ 27 bn caused the trade deficit to worsen from US$ 27.1 bn in 2010/11 to US$ 31.7 bn in 2011/12. The EU is Egypt’s major trading partner with exports and imports of US$ 11 bn, and US$ 19.3 bn, respectively, in 2011/12. Indeed, between 2007/2008 and 2010/2011 the EU accounted for an average of 36% of both exports and imports merchandise trade transactions. Over the same period, other major trading partners with Egypt included the Arab world (exports and imports, 20%), Asia (exports: 18%; imports: 23%), and the USA (exports: 13%; imports: 9%), while trade with African Countries (excluding Arab ones) comprised only 2% of exports, and 1% of imports.

Fuels, minerals, oils, and products sector remains Egypt’s key exports drivers, accounting for 52.5% of exports, followed by manufactured finished goods (38.2%). The top three Egypt’s imports are: intermediate goods (28.8%); consumer non-durable goods (23.7%); and investment goods (18.4%). A major consumer non-durable goods import by Egypt is wheat. According to the Food and Agriculture Organization (FAO), Egypt is the world’s largest importer of wheat. During the 2011/12 fiscal year Egypt imported an estimated 11.5 million tonnes of wheat for the food subsidy system, a level higher than the 10 million tonnes average imports over the previous two fiscal years. The Islamic Development Bank in July 2012 approved a US$ 1 bn financing package to Egypt to meet the wheat and fuel imports bills.
Domestic Resource Mobilization

Egypt’s domestic resources gap—net exports and savings minus investments—widened from a deficit of EGP 56.5 bn (32% of GDP) in 2010/11 to EGP 118 bn (84% of GDP) in 2011/12. This was partly because of declining economic growth, and increased final consumption and gross capital formation. Gross capital formation rose to EGP 258.1 bn (17% of GDP) in 2011/12 from EGP 234.5 bn (17% of GDP) in 2010/11, a growth rate of 10%, y/y. At the same time, growth in exports of goods and services remained relatively flat this fiscal year, while imports have been increasing. Finally, gross domestic savings fell from EGP 178 bn (13% of GDP) in 2010/11 to EGP 140.1 bn (9% of GDP) in 2011/12, representing a contraction of 21% in 2011/12.

Public Debt

Historically, from 2005 until 2012, Egypt’s gross domestic debt per capita, and external debt per capita, averaged US$ 2,127, and US$ 409, respectively. On a per capita basis, total public debt is slightly less than the 2010/11 GNI per capita of US$ 2,600. As shown in Charts 14 and 15, Egypt’s gross domestic debt per capita, and domestic debt to GDP ratio, has been rising over time, while similar indicators for its total external debt have been declining, except for a brief spike during the 2007/08 fiscal year. As such, from a macroeconomic perspective, it is important for Egypt to tackle the escalating domestic debt that is threatening to crowd out access to credit by the private sector, and in particular, underserved micro, small and medium enterprise. Furthermore, the high domestic debt ratio is slowing down progress towards achieving the Government’s target for public debt ratio of less than 60% of GDP by fiscal year 2014/15. Foreign debt levels however remain manageable.
Chart 14 Egypt's Domestic Debt Per Capita and Debt/GDP Ratio

Source: AfDB Based on Data by the Central Bank of Egypt.

Chart 15 Egypt's External Debt Per Capita and Debt/GDP Ratio

Source: AfDB Based on Data by the Central Bank of Egypt.
By end-June 2012, external debt was US$ 34.4 bn (13.5% of GDP), compared to US$ 34.9 bn (15.2% of GDP) by end-June 2011 (Chart 16). Data of end-March 2012 shows that about 76% of external debts (11.8% of GDP) are owed by the central government. Of these, 8.4% were of a short term nature by the end-June 2012. The debt service to exports and debt service to current receipts ratios were 6.1%, and 4.4%, by the end of June 2012, compared to a 2005-2012 historical average of 6.6%, and 5.5%, respectively.

Source: AfDB Based on Data by the Central Bank of Egypt.
However, gross domestic debt has been trending upwards since the global financial crisis in 2008 (Chart 17). By the end of June 2012, domestic public debt rose by 19% to EGP 1,243.7 bn (80.6% of GDP) compared to EGP 1,044.9 bn (76.2% of GDP) at the end of June 2011. Of the total public debt by end-June 2012, the government debt comprises 80%, public economic authorities’ debt, 5%, and debt of the National Investment Bank (NIB), 15%. Treasury bills and bonds stock reached EGP 917 bn (87% of gross domestic debt) by end-June 2012, an increase of 18%, y/y.

Chart 17 Domestic Debt

Source: AfDB based on data by the Central Bank of Egypt, and Ministry of Finance.
Recently, domestic debt burden has been rising steadily, with rising government securities’ interest and principal repayments (Charts 17). Total interest payments as a percentage of the government sector expenditures reached 24.1% over the July-May 2011/12 period, from 21.2% during the fiscal year ending 2010/11. Total interest payments and principal payments on government debt, respectively, rose from EGP 85.1 bn and EGP 32.2 bn, in 2010/11 to EGP 95.5 bn and EGP 35.7 bn over the period July-May 2011/12. As a result, the total government debt service amounted to EGP 131.1 bn during the period July-May 2011/12, compared to 117.2 bn for fiscal period 2010/11.

As was shown in Chart 9, yields on government Treasury bills (T-bills) have been rising over the past year, and edged closer to 16% over the period July-August 2012/13. As average yields EGP T-Bills continue to escalate, the government’s borrowing costs have mounted thus widening the fiscal deficits. To mitigate the increased costs of borrowing, and enhance foreign reserves, the government in August launched one year Euro T-bills auctions. The August auction saw the major banks buying 513 million Euros of T-bills at an average yield of 3.245%, against government’s expectations of 400 million euros. An important conclusion therefore is that domestic public debt poses significant interest rate and budgetary risks; therefore a priority for the government is to take measures to re-profile its short-term domestic debt to longer-term foreign currency debt.
Egypt Development Indicators

Land area 997,739 sq km, of which only 5% is inhabited and cultivated

Population Major Towns (July 2007)
Greater Cairo: 18,440,076
Alexandria: 4,123,869
Port Said: 570,603
Suez: 512,135

Population (million) 87.1 (2011)
Population inside the country 82.3 (2012)
Annual growth rate 2.3
Labor force, 15 years and above, as % of population in Egypt 33 (2011)
Unemployment / labor force (%) 12.6 (2nd quarter 2012)
Youth unemployment, 25-29 years, as % of total unemployment 24.4 (1st quarter 2012)
Literacy rate, adult total (% of people ages 15 and above) 66.4 (2006)
Poverty headcount ratio at $1.25 a day (PPP) (% of population) 1.69 (2008)
Poverty headcount ratio at national poverty line (% of population) 22 (2008)
Mortality rate, under-5 (per 1,000 live births) 21.8 (2010)
Improved water source (% of population with access) 99 (2010)

Egypt Economic Indicators

<table>
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<tr>
<th>Real GDP growth (annual % change)</th>
<th>2007/08a</th>
<th>2008/09a</th>
<th>2009/10a</th>
<th>2010/11a</th>
<th>2011/12e</th>
<th>2012/13f</th>
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<td>Primary fiscal deficit 1.2</td>
<td>1.8</td>
<td>2.1</td>
<td>3.6</td>
<td>4.0</td>
<td>0.1</td>
<td></td>
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<tr>
<td>Overall fiscal deficit 6.8</td>
<td>6.9</td>
<td>8.1</td>
<td>9.8</td>
<td>8.6</td>
<td>7.6</td>
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</tr>
<tr>
<td>Domestic savings (as % of GDP) 16.8</td>
<td>12.6</td>
<td>14.3</td>
<td>13.2</td>
<td>14.8</td>
<td>15.8</td>
<td></td>
</tr>
<tr>
<td>Domestic investments (as % of GDP) 22.4</td>
<td>19.2</td>
<td>19.5</td>
<td>17.1</td>
<td>17.4</td>
<td>17.8</td>
<td></td>
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<tr>
<td>Gross domestic public debt (as % of GDP) 73.5</td>
<td>72.5</td>
<td>73.6</td>
<td>76.2</td>
<td>80.6</td>
<td>77.6</td>
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<tr>
<td>364 Day T-bills rate (Average) 7.8</td>
<td>12.1</td>
<td>10.5</td>
<td>11.5</td>
<td>14.8</td>
<td>--</td>
<td></td>
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<tr>
<td>Gross external debt (as % of GDP) 20.1</td>
<td>16.9</td>
<td>15.9</td>
<td>15.2</td>
<td>13.0</td>
<td>9.6</td>
<td></td>
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<tr>
<td>External debt service (% of exports) 4.6</td>
<td>6.2</td>
<td>5.5</td>
<td>5.7</td>
<td>8.8</td>
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<tr>
<td>Net international reserves (US$ billion) 35.0</td>
<td>31.3</td>
<td>35.2</td>
<td>26.6</td>
<td>15.6</td>
<td>18.2</td>
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<tr>
<td>As months of commodity imports 7.9</td>
<td>7.5</td>
<td>8.6</td>
<td>6.3</td>
<td>3.2</td>
<td>4.3</td>
<td></td>
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<tr>
<td>Balance of payments (as % of GDP) 3.3</td>
<td>-1.8</td>
<td>1.5</td>
<td>-4.1</td>
<td>-4.3</td>
<td>-4.0</td>
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<tr>
<td>Current account balance (as % of GDP) 0.5</td>
<td>-2.3</td>
<td>-2.0</td>
<td>-2.0</td>
<td>-2.6</td>
<td>-2.1</td>
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<tr>
<td>Trade balance (as % of GDP) -14.4</td>
<td>-13.3</td>
<td>-11.5</td>
<td>-10.1</td>
<td>-10.0</td>
<td>-10.0</td>
<td></td>
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<tr>
<td>Exports of goods and services (as % of GDP) 33.0</td>
<td>25.0</td>
<td>21.3</td>
<td>20.6</td>
<td>20.0</td>
<td>22.0</td>
<td></td>
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<tr>
<td>Imports of goods and services (as % of GDP) 38.6</td>
<td>31.6</td>
<td>26.6</td>
<td>24.5</td>
<td>24.0</td>
<td>26.0</td>
<td></td>
</tr>
<tr>
<td>FDI in Egypt (net) (as % of GDP) 8.1</td>
<td>4.3</td>
<td>3.1</td>
<td>0.9</td>
<td>0.0</td>
<td>2.0</td>
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</tr>
</tbody>
</table>

Source: Central Bank of Egypt, Ministry of Finance, International Monetary Fund, World Development Indicators, and AfDB Staff Estimates.
Notes: a Actual. e Estimate. f Forecast.
About the African Development Bank (AfDB)

The African Development Bank (AfDB) is Africa’s premier development finance institution established in 1964 to mobilize resources for the economic and social development of its 53 regional member countries. The Bank’s membership includes 24 non-regional member countries bringing the total number of member countries to 77.

The Bank has been financing development activities in its regional member countries through its three windows of financing: the African Development Bank (ADB) window, the African Development Fund (ADF) window and the Nigerian Trust Fund (NTF) window. In the first quarter of 2012 alone, the AfDB Group approved 60 loans and grants amounting to USD 5.52 billion.

About Egypt

Egypt is one of the AfDB’s most important regional member countries. In addition to being one of its founding members in 1964, Egypt is one of its top shareholders.

For More Background on AfDB Operations

For more information about the African Development Bank, and its operations in Egypt, visit the Bank’s website at: http://www.afdb.org/en/countries/north-africa/egypt/

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