Central Bank of Egypt

Annual Report

2003/2004

Central Bank of Egypt

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Preface

After a slowdown that started in 2001, the performance of the global economy improved during 2003/2004. This improvement was associated with a flourishing world trade, clearly manifested from July 2003 to March 2004. Before that, the period of April-June of the said FY had witnessed a relative weakness in the world economy, as a main outcome of hikes in oil prices.

This improvement in the global economic performance was supported by the higher economic growth rate in the United States, and the recovery of the Japanese economy, albeit not having fully escaped its persistent deflationary pressures. Added to this, the Chinese economy posted a remarkable growth rate, accompanied by a significant volume of imports, especially of primary commodities. Thus, China, alongside the USA, has played the role of the main engine of the global economy. Likewise, the economy of the euro area as a whole displayed a tangible improvement. In addition, the rise in prices of the primary commodities helped improve BOP positions of the Latin American countries and support their economies.

Moreover, prices of corporate shares rose considerably, while the risk premium of their bonds fell in many developed and emerging stock markets. This was mainly attributed to the increase in corporate earnings and investments, especially in light of low interest rates.

In support of a sustainable economic recovery, the USA Federal Reserve continued to keep the discount rate at a low level during FY 2003/2004, in spite of a rise in the last month of the said year. Likewise, the Bank of Canada reduced its discount rate during the same period. The euro repo rate, however, remained unchanged. Meanwhile, the Bank of England raised its repo rate to stall the inflationary pressures accompanying the continued improvement in the British economy. On the other hand, the US dollar continued to fall against most of the main currencies, as a chief outcome of the persistent current account deficit in the USA, as well as the expected rise in the USA fiscal deficit as a percentage of GDP in 2004.

During the year under review, net private capital inflows significantly rose in the emerging economies, especially, in China, India, South Korea and Brazil. This was mainly due to the improved macroeconomic aggregates and better investment opportunities in many of these economies.

As for the achievement of the financial stability worldwide, the Governors of the G-10 central banks approved the new standards for banks' capital adequacy known as "Basel II Capital Accords" on 26 June 2004. Such standards aim to ensure a high degree of capital adequacy in the face of any potential risks in their investments. It is worth noting that these standards are to be implemented over two stages, the first as of the end of 2006, and the second a year after the implementation of the first.

Furthermore, the economic developments which have taken place during FY 2003/2004 clearly reflect the intensified move towards globalization, as well as the keenness of many economic blocs to strengthen their cooperation. For instance, the EU decided in May 2004 to expand its membership, accepting as such 10 new member countries from central and east Europe (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia). Accordingly, the number of the EU members rose from 15 to 25 countries.

Several economic blocs held their meetings during the year to face future challenges. In the OPEC meetings, the oil ministers decided to change their output ceiling, to maintain stability in the oil market. In October 2003, ASEAN heads of state approved the implementation of a long-term plan to achieve an economic, social and cultural integration via the establishment of a common market among the member countries. As for the Meetings of the COMESA in November 2003, member ministers agreed on conducting a study for the establishment of COMESA Common Investment Area (CCIA) to render it more investment attractive. In January 2004, the leaders of the Two Americas discussed a number of issues related to the economic and social development. As for the meeting of the EU and Canada held in March 2004, members pledged to bolster the global economy through ensuring the success of the current round of the multilateral trade negotiations, fighting poverty and helping other countries to achieve the Millennium Development Goals.

At the local level, the domestic economy has headed towards improvement during FY 2003/2004. GDP real growth rate at factor cost outpaced the projected rate during the year, reaching 4.4% against 3.1% during the previous FY. Moreover, productive sectors achieved 50.6% of GDP and services sectors achieved the remainder. It is worth mentioning that the fiscal and monetary policies undertaken during this year have contributed to this better performance. These policies helped increase investments in both government and private sectors. They also helped achieve a relative stability in the foreign exchange market and improve the BOP current account surplus (services and goods).

The private sector continued to play its role in development. It contributed 65.9% of GDP as a whole, 74.0% of the output in the productive sectors, and 57.7% of the output in the services sectors.

As for the GDP by expenditure, the decline in the share of the final consumption and gross capital formation in GDP narrowed the domestic resources gap to only 1.5% of GDP against 2.4% in the previous FY. Domestic saving as a percentage of GDP rose to 15.7% against 14.5%, achieving a growth rate of 12.3% and exceeding thereby that of real GDP at market price, which totaled 4.1% against 3.1% during the previous FY.

As labour force increased by 2.6%, the number of employees rose to 18.7 million, or 2.7%. This development resulted in a slight decline in unemployment to reach 9.87% against 9.90% a FY earlier.

As for the monetary policy in FY 2003/2004, it aimed to maintain price stability as its final target through the achievement of an appropriate inflation rate. The attainment of such a target is through attuning money supply to its demand, taking into consideration the targeted real growth rate to GDP. Accordingly, the CBE continued to use its monetary policy tools to achieve the required economic growth. In this respect, the reserve requirement ratio remained at 14% and the CBE lending and discount rate remained at 10%.

Open market operations conducted by the CBE aimed at absorbing the excess liquidity in banks. In addition to the deposits acceptance mechanism, a new mechanism was developed; namely the reverse repos and outright sales of TBs, which are conducted between the CBE and banks according to market mechanisms. TBs of LE 20.0 billion were issued in favor of the CBE to be used in such operations. In this context, outright sales reached LE 5.5 billion and reverse repos LE 14.2 billion. The outstanding balance of interest-bearing deposits at the CBE posted LE 10.9 billion at the end of June 2004.

Against this background, domestic liquidity rose by 13.2% during FY 2003/2004, against 16.9% during the year of comparison. With the exclusion of the revaluation effects during the year of review, the growth rate of domestic liquidity increases to 12.3% against 9.4%.

It is worth mentioning that during this year the CAPMAS issued a new series of consumer prices indexes that reflect the actual developments in price level. As such, the inflation rate reached 11.1% during the period from August to June of FY 2003/2004 against 4.0% (on the basis of the previous series) during the previous FY as a whole.

A follow up of the implementation of the consolidated fiscal operations of the general government (the state budget, NIB & GASC, and SIF's) indicates that total revenues, including grants, totaled LE 129.2 billion during FY 2003/2004. On the other hand, total expenditures, including net lending, reached LE 140.3 billion. This resulted in an overall fiscal deficit of around LE 11.1 billion or 2.4% of GDP.

Regarding fiscal operations of the state budget (the administrative system, local administration and service authorities), during FY 2003/2004, total revenues, including grants, amounted to LE 98.6 billion and total expenditures, including net lending, LE 125.6 billion. Consequently, the overall fiscal deficit reached about LE 27.0 billion or 5.9% of GDP.

Concerning the domestic public debt, the balance of government debt amounted to LE 292.7 billion at the end of June 2004, with a rise of LE 40.5 billion during FY 2003/2004. Likewise, the debt of the public economic authorities rose by LE 0.9 billion to LE 40.1 billion at the end of June 2004. In addition, indebtedness of the National Investment Bank mounted by LE 22.8 billion, to reach LE 102.1 billion (net basis) at the end of June 2004.

An analysis of the rise in domestic liquidity during the year under review indicates that the currency in circulation outside the banking system increased by LE 7.7 billion, or 15.9%, reaching LE 55.9 billion. Likewise, total deposits (excluding the government's) stepped up by LE 43.0 billion or 12.8%, to reach LE 379.0 billion at the end of June 2004.

The structure of the deposits shows a rise in LE demand deposits by LE 2.7 billion or 14.3%, reaching LE 21.7 billion at the end of June 2004. Likewise, LE time and saving deposits grew by LE 21.6 billion or 10.2%, to reach LE 233.6 billion. Moreover, foreign currency deposits rose by LE 18.7 billion worth or 17.8%, to reach LE 123.7 billion worth.

The counterpart assets of domestic liquidity rose, as an outcome of the increase in net foreign assets and credit granted by the banking system to all domestic sectors. Meanwhile, a step up occurred in the negative balance of net balancing items.

The financial position of the CBE went up by LE 52.3 billion or 18.5% during the year under review, against LE 73.2 billion and 35.1% during the previous FY, reaching LE 334.2 billion at the end of June 2004. The rise on the assets side reflects a growth in domestic assets by LE 50.3 billion and in foreign assets by the equivalent of LE 2.0 billion. On the liabilities side, the rise is basically attributable to a LE 47.7 billion increase in domestic liabilities, with foreign liabilities increasing only by the equivalent of LE 4.6 billion.

With respect to banks' developments (excluding the CBE), banks' net financial position stepped up by LE 55.5 billion or 9.6%, to reach LE 633.4 billion at the end of June 2004. Banks managed to attract more deposits in the amount of LE 58.6 billion or 14.5%, which represents 72.9% of total liabilities at the end of June 2004. On the other hand, credit facilities granted by banks rolled up by LE 11.5 billion or 4.0%, to reach LE 296.2 billion or 46.8% of total assets of banks and 64.2% of total deposits at the end of June 2004.

It is worth noting that most increases in total credit facilities granted by banks during the year under review concentrated in those granted to the private business sector. As such, debts of this sector to banks rose by LE 5.8 billion, reaching LE 205.8 billion or 69.5% of total balances of credit facilities at the end of June 2004.

During the year under review, foreign exchange market witnessed relative stability in LE exchange rate versus the US dollar. Consequently, the weighted average rate of US dollar, according to the CBE's Forex Statistics Chamber, reached pt 620.23 a dollar (buy) at the end of June 2004, against pt 603.23 a dollar at the end of June 2003, down by 2.7% in the LE value during the year.

Developments in the balance of payments during FY 2003/2004 denoted a continuous improvement in the performance of the current account, achieving a surplus of US$ 3.7 billion against US$ 1.9 billion during the past FY. This was mainly attributed to the better performance in service balance and net unrequited transfers. Accordingly, services achieved a surplus of US$ 2.4 billion, to reach US$ 7.3 billion against US$ 4.9 billion, while net unrequited transfers augmented by US$ 324.8 million, to reach US$ 3.9 billion. The trade deficit, on the other hand, widened by 13.7%, to reach US$ 7.5 billion against US$ 6.6 billion the previous year. Concurrently, capital and financial transactions showed a step up in net outflows, to reach US$ 6.2 billion against US$ 2.7 billion during the previous FY.

Such BOP developments unfolded an overall deficit of US$ 158.3 million during the year under review, against an overall surplus of US$ 546.0 million in the preceding FY.

Egypt's external debt increased slightly by US$ 0.2 billion, bringing its outstanding balance to US$ 28.9 billion at the end of June 2004. This was mainly attributed to the effect of appreciation of most currencies of borrowing against the US dollar during FY 2003/2004 and the rise in the balance of short-term debt. This rise was, however, mitigated by the retreat in the balance of dollar-denominated sovereign bonds, as financial resident institutions purchased a part of these bonds at the value of US$ 0.1 billion from the secondary market. The net repayment of US$ 1.5 billion for medium- and long-term loans and facilities (disbursements less principal repayments) also helped limit the rise in external debt.

External debt service stepped up by US$ 0.3 billion to about US$ 2.5 billion during FY 2003/2004. This was owed to higher principal repayments by US$ 0.3 billion to US$ 1.9 billion on the one hand, and to lower interest payments by US$ 25.6 million to reach some US$ 0.6 billion. As such, the debt service fell to 9.2% of current receipts, including official and private transfers, against 10.1% during the previous FY. Debt service/export proceeds of goods and services improved to reach 10.8% against 12.1%.

There was also a noticeable activity in the stock market, particularly for shares. As such, the volume of share transactions represented 95.0% of total dealings, against 68.9% during the previous FY. On the other hand, bond transactions represented only 5.0% of the total against 31.1% during the preceding year.

Follow up of CASE 30 (the index that includes the top 30 companies in terms of liquidity and activity), indicated an uptrend, reaching 1440.9 points at the end of June 2004 against 775.9 points at the end of June 2003, or a rise of 85.7% during the year.

Foreign investors' transactions on the Stock Exchange unfolded a net sale of LE 540.2 million in local currency transactions. As for US dollar transactions, they revealed net purchases of US$ 12.6 million.

As for the insurance sector, the National Authority for Social Insurance invested what is worth LE 198.2 billion or 87.6% of the sector's total investments at the end of June 2004.

During the year, several efforts continued to remove Egypt from the FATF non-cooperative country list, and to ensure banks' compliance with the related supervisory regulations and measures in the anti-money laundering field. An inspection plan was devised to inspect banks and their branches throughout all the governorates to ensure the soundness of banks' work procedures and the ability to detect any suspicious transaction. Moreover, banks were urged to classify their customers according to risk level; to update identification data of customers, and to intensify their efforts in training their employees in the field of combating money laundering.

To propagate the CBE's supervisory role with its diligence to detect any potential crises that may face banks at an early stage, and to take the necessary measures to address banks' problems, the CBE conducts an on site inspection at regular intervals. During the year under review, the CBE on site inspections have covered 23 banks.

The CBE has always been keen on developing the skills and experience of the human resources in the banking system, so as to cope with the latest technologies and innovations in this field. To this end, the CBE has given high priority to the development and modernization of its training courses, whether arranged by the Bank or the affiliate Banking Institute.

Through its specialized, qualifying and foreign language courses for banking system staff, the CBE has organized 111 training courses, with 3328 participants, denoting a rise of 8.2% as compared with the corresponding year. The CBE has also sent some of its staff to training courses abroad in some international, regional, and local institutions. Likewise, the CBE has organized training courses for 33 employees of Arab central banks, so as to have their training in specific sectors and departments of the Bank.

As for the Banking Institute, it continued to organize its regular programs, with its short-term training courses accounting for 92% of all courses. The Institute, during the year of the report, updated its programs and presented new training courses. In this respect, it has reclassified its programs to address the needs of individual banking sector. Moreover, the Banking Institute continued its efforts to improve foreign language abilities of the banking staff, thus, it has organized a new program for English language study. The new program consists of 6 levels; each level is 72 training hours.

The Institute has also introduced new certificates in the educational field, in cooperation with some internal and external institutions. It has also continued to pay attention to the preparation of the next generation of bank staff through its 'Banks Future Leaders' programs.

In light of the tasks and responsibilities added to the CBE Board of Directors in virtue of The Law of Central Bank, Banking Sector and Money, No. 88 for 2003, a number of specialized committees have been established, with a view to easing the Board's work. Comprised of members of the CBE Board of Directors, these committees are responsible for studying general policies and guidelines of the issues that the Governor refers thereto. These committees include the following: the Monetary Policy Committee, which discusses the targets and reports of the monetary policy prepared by the Monetary Policy Unit and the proposals necessary for implementing such policy; and the Auditing Committee, which studies reports related to the supervision on the CBE departments and financial statements. There is also another committee for the Banking Development. It is responsible for studying the development of the banking system via bank mergers and the restructuring of public sector banks and finding appropriate solutions for non-performing loans. The fourth committee is the Investment Committee, which proposes the investment policy and implementation follow-up. A task force for reviewing the Executive Regulations of the Law of the Central Bank, the Banking Sector and Money, No. 88 for 2003, was formed. Another task force was formed to develop inter-bank market; and study and establish an inter-bank foreign currency market in Egypt.

It is worth noting that while this report was still in the process of being printed, the system of inter-bank foreign currency market came into effect. This system has contributed to the tangible improvement in the value of the Egyptian pound against the US dollar, as the Forex market achieved a growing surplus of foreign currencies. We hope for this improvement to continue, to reflect a more positive performance both at the external level and at the level of the national economy as a whole.

In conclusion, I would like to thank all the staff of the CBE for their diligent efforts, which has enabled the Bank to effectively fulfill its designated role in a modernized and developed context. I would like to extend my appreciation to all sectors and entities for the information they have provided for this report, as well as for the other publications of the CBE. Finally, may Allah preserve our country and bestow upon it more progress and welfare.

Governor

Farouk El-Okda

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Chapter 1
World Economic Developments

Overcoming its slowdown in 2001, the global economic performance improved during FY 2003/2004 from only 2.0% during 2002/2003 to 4.5%. This improvement, which was associated with a world trade boom, has exceeded in terms of annual growth rate its counterpart in the nineties. Such an improvement has been mostly pronounced during July 2003-March 2004, as the world economy displayed in April-June of the same FY a slight slowdown due to the sharp rise in oil prices.

The improvement in the global economic performance has been supported by the higher economic growth rate in the United States, and the recovery of the Japanese economy that has not yet escaped in full its persistent deflationary pressures. Added to this, the Chinese economy has posted a remarkable growth rate, accompanied by a significant volume of imports, especially of primary commodities. Thus, China, along with the USA, has played the role of the main engine of the global economy. Likewise, the economy of the euro area as a whole has displayed a tangible improvement. At the same time, the rise in primary commodity prices has helped better BOP positions of the Latin American countries and support the economy of that region as a whole, to record a growth rate of 5.2% during 2003/2004, against 0.6% during 2002/2003.

Many factors contributed to the improvement in the global economic performance that has been extended to many developed and emerging economies. These include strong consumer demand in many countries, and higher investment growth rate, given the low global interest rates, the ease of political tensions in many regions of the world, as well as the rise in exports of some countries.

Furthermore, the economic developments taken place during FY 2003/2004 clearly reflected the intensified move towards globalization, as well as the keenness of many economic blocs to strengthen their cooperation. For instance, the EU decided in May 2004 to expand its membership, accepting, as such, 10 new member countries from central and east Europe (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia). Accordingly, the number of the EU members rose from 15 to 25 countries. Likewise, the USA and Central American countries (Salvador, Honduras, Nicaragua and Guatemala) reached an agreement concerning establishing a free trade area. The purpose of such an agreement was to increase the American investments in this region on the one hand, and to push up the exports of Central American countries to the United States. The USA and Morocco have declared on 2nd March 2004 the resumption of their negotiations concerning their free trade area.

As for the achievement of the financial stability worldwide, central bank governors of G-10 approved the new standards for banks' capital adequacy known as "Basel II Capital Accords" on 26th June 2004. Such standards aim to ensure a high degree of capital adequacy in banks in face of any potential risks in their investments, a matter that will enforce the efficiency and stability of the international financial system. It is worth noting that these standards shall be applied over two stages, the first begins by the end of 2006, and the second a year after the implementation of the first. Being the responsibility of the national regulatory authority in each country, the first stage deals with the bases to be used in determining the level of capital adequacy in banks. As for the second stage, it deals with large banks ' use of their own systems and models for risk management, and consequently, the estimation of their capital adequacy.

1/1- Economic Growth

As for the economic growth rates in major industrial countries, US growth rate rose to 4.7% during FY 2003/2004, from 2.5% during FY 2002/2003. The pickup in the US economic growth was mostly pronounced during the period of July 2003 – March 2004. This rise in growth rate was associated with the increase in private consumption (two thirds of US GDP), as it reached 14.5% during July 2003 – March 2004, against 6.8% during the preceding corresponding period. The increase in private consumption was partially due to the tax cuts approved by the Congress early 2003, which led to a rise in disposable income. The improvement in American economy was also attributed to higher labor productivity and the bigger profits of American companies, thanks to the tax cuts and exemptions. Accordingly, these companies were encouraged to increase their investments. As such, the gross fixed investment grew to 33.6% during July 2003 – March 2004 against a growth rate of only 3.8% during the period July 2002 – March 2003. On the other hand, April – June 2004 witnessed some slight slowdown in the American economic performance, as a main outcome of the rise in oil prices and the decline in private consumption. Added to this were the negative effects of the aggravated deficit on US federal budget and BOP current account. US fiscal deficit continued its sharp increase and is expected to reach over 4.5% of GDP by the end of 2004. Concurrently, the deficit on US BOP current account continued to increase to exceed 5.1% of GDP. It is worth mentioning that the aggravated increase in US fiscal deficit and BOP current account deficit was one of the main keys behind the decline in US exchange rate against other major currencies.

In Canada, the economic growth rose from 1.6% during FY 2002/2003 to 3.0% during FY 2003/2004. This uptrend was mainly attributed to the increase in exports of goods and services by 8.5% during FY 2003/2004 and by 21.6% during April – June 2004 alone, against a growth rate of only 6.1% during January – March 2004. On the other hand, the contribution of domestic demand to pushing up the economic growth rate declined, as the growth rate of private consumption decreased to only 1.3% during April – June 2004 against 6.4% during January – March of the same year. Likewise, the growth rate of private fixed investment declined to 4.1% during April – June 2004 against 4.8% during January – March 2004. Meanwhile, the growth rate in government spending declined to only 0.9% against 3.4% during the period of January – March 2004.

During the year under review, economic growth rate rose in the euro area as a whole, from 0.2% during FY 2002/2003 to 2.0% in the year of the report, the highest in this area for the last three years. Such an improvement in the economic performance of the euro area as a whole was basically associated with the increase in both the German and French economies, the major economies of this area. Exports of this area were the main propeller of its economic growth. Net exports of goods and services contributed by 1.0% during the first half of 2004 to the rise of the real GDP of the euro area, compared to only 0.2% during the second half of 2003. In contrast, the domestic demand has not effectively contributed to pushing up economic growth in the euro area as a whole. This came as a main result of the lower fixed investment rate in the area, as it switched from + 1.8% during the second half of 2003 to – 0.3% during the first half of 2004. The fall in fixed investment was partially due to the steep contraction of investments in the construction sector in Germany. As for domestic demand, its fall was ascribed to the inelasticity of labor markets as they failed to create more jobs in the area.

Economic Growth Rates

(%)

	2002/2003	**2003/2004**
USA	2.5	4.7
Canada	1.6	3.0
Japan	2.1	4.4
Germany	-0.2	2.0
France	0.0	2.8
Italy	0.3	1.1
UK	2.0	3.7
Euro area	5.2	2.0

Source: The Economist, various issues.

Economic growth in the UK rose from 2.0% during FY 2002-2003 to 3.7% during the year under review. This increase was mainly attributed to the remarkable improvement in performance of services sector, as compared with the manufacturing sector. Added to this was the increase of both domestic and external demand on British products. Private consumption kept rising, from 2.5% during 2003 to 3.0% and 3.2% during the first and second quarters of 2004, respectively (calculated on annual basis). This came chiefly as a result of the increase in average per capita income and the elasticity of labor market. Likewise, gross fixed investments grew from 2.2% during 2003 to 5.7% and 6.3% during the first and second quarters of 2004 in order (calculated on annual basis). Likewise, exports of goods and services increased by 3.2% during the second quarter of 2004 (calculated on annual basis), after their retreat of 1.3% during the first quarter of the same year (calculated on annual basis).

In Japan, economic growth rate rose from 2.1% during FY 2002/2003 to 4.4% during FY 2003/2004. This increase was mainly due to the continuous rise in the Japanese exports during the previous two years. This is in addition to the increase in private consumption by 11.1% during July 2003 – March 2004 against only 2.0% during July 2002 – March 2003, and the improvement of the productivity of the manufacturing sector during April – June 2004. Yet, it is worthy to mention that despite the improvement in the Japanese economic performance, it still suffers from some deflationary pressures.

1/2- Unemployment and Inflation Rates

Along with the move of the global economy on the course of recovery, unemployment fell in many major industrial countries during June 2004 as compared with June 2003. In the USA, unemployment declined from 6.4% to 5.6%, in Canada from 7.7% to 7.3%, in the UK from 5.0% to 4.7% and in Japan from 5.3% to 4.6%. On the other hand, unemployment rate rose in the euro area as a whole from 8.9% to 9.0%. This rise was ascribed mainly to labor market inelasticity in this area, in spite of its high economic growth rate.

Annual Rates of Unemployment and Inflation

(%)

	Unemployment		Inflation	
	The Year Ending in June			
	2003	2004	2003	2004
USA	6.4	5.6	2.1	3.3
Canada	7.7	7.3	2.6	2.5
Japan	5.3	4.6	-0.4	0.0
Germany	10.6	9.9	1.0	2.4
France	9.5	10.5	2.0	1.8
Italy	8.8		2.6	2.4
UK	5.0	4.7 (May)	2.9	1.6
Euro area	8.9	9.0	2.0	3.3

Source: The Economist, various issues.

The inflation rates stepped up in many major industrial countries, basically because of the rocketing rise in oil prices during April – June 2004. In the USA, inflation increased from 2.1% during FY 2002/2003 to 3.3% during FY 2003/2004, and in the euro area from 2.0% to 3.3%. As for Japan, the inflation rate recorded zero against a negative 0.4%. On the other hand, inflation declined in Canada from 2.6% to 2.5% and in the UK from 2.9% to 1.6%.

1/3- Primary Commodity Prices

The price index of primary commodities (2000 = 100) went up by 21.0% during FY 2003/2004. This pickup was ascribed to the rise of the price index of metals by 37.1%; foodstuffs by 17.7%; agricultural raw materials by 8.3% and beverages by 6.5%.

The increase in the prices of metals was mostly in those of tin (97.8%), lead (84.8%), copper (59.5%), oil (27.4%) and gold (10.1%). The rise in metal prices was mainly attributed to the growing global demand, including oil, especially by China with its remarkably strong economy. Added to this was the continuous depreciation of the US dollar against most major currencies; the fall in US oil reserve and the mounting tension in the Middle East lately. Likewise, gold prices increased due to higher demand as it is considered a safe investment, especially after the depreciation of the US dollar.

As for foodstuff prices, they stepped up as a main outcome of the price increase in meat (25.7%), soybeans (22.9), rice (20.0%), and wheat (17.8%). The surge in agricultural raw materials was particularly seen in the prices of rubber (26.2%) and cotton (10.5%). Finally, the rise in beverage prices was mostly in coffee (21.0%), whereas the prices of cocoa and tea fell by 11.0% and 5.3%, respectively.

1/4- Discount Rates

In support of a sustainable economic recovery, the USA Federal Reserve continued to keep the discount rate at a low level during FY 2003/2004, in spite of its rise in the last month of the said year from 2% at end of June 2003 to 2.25% at end of June 2004. Such a rise aims to keep the monetary policy active in maintaining the price stability, without any negative impact on the American economic growth rate. This was particularly true given the fact that the consecutive reductions in US dollar interest rate during the previous years are still helping improve the American economic performance. Likewise, the Bank of Canada reduced the discount rate five times during the said year to reach

2.25% at the end of June 2004 against 3.5% at the June 2003. Such measures aimed to improve the Canadian economic performance via promoting local and external demand on Canadian exports, particularly through reducing the high value of the Canadian dollar against the US dollar. On the other hand, the euro repo rate remained unchanged at 2.0% during the year. Meanwhile, the Bank of England raised its repo rate three times during the mentioned year, to reach 4.5% at the end of June 2004 against 3.75% at the end of June 2003. Such a rise aimed to stall any inflationary pressures that may accompany the continuous improvement in the British economic performance.

Discount Rate

(% Annually)

At End of	**2003**		**2004**
	June	**December**	**June**
USA	2.00	2.00	2.25
Canada	3.00	3.00	2.25
Japan	0.10	0.10	0.10
UK+	3.75	3.75	4.50
Euro area+	2.00	2.00	2.00

Source: Reuters & IFS, various issues.
\+ The repo rate.

1/5- Exchange Rates

Developments in the exchange rates during the year under review revealed a continuing depreciation of the US dollar against most of the key currencies. It declined against the euro from 0.8575 per US$ at the end of June 2003, to 0.8227 at the end of June 2004, against the pound sterling from £ 0.6022 to £ 0.5520, against the Japanese yen from ¥ 118.26 to ¥108.38 and against the Canadian dollar from 1.3523 per US$ to 1.3404. This depreciation of the US dollar was mainly attributable to the constant increase in the US current account deficit. In addition, the US investment income transferred from abroad to the United States covers only 18% of its total finance requirements, and the savings of the household sector were insufficient during this period. Moreover, the US budget deficit /GDP was expected to rise in 2004. This would increase the risks of investment in the US treasury bonds, and hence many investors would prefer to invest their funds in domestic markets.

Exchange Rates of Key Currencies vis-à-vis US Dollar
(Units of a Currency per US$)

At End of	2003 June	2003 Dec.	2004 June	Change (%) July 2003/ June 2004
Canadian dollar	1.3523	1.3128	1.3404	(0.9)
Pound sterling	0.6022	0.5712	0.5520	(8.3)
Japanese yen	118.26	107.94	108.38	(8.4)
Euro	0.8575	0.8138	0.8227	(4.1)
SDR	0.6815	0.7067	0.6820	0.1

Source: IFS, various issues.

1/6- Developments in International Financial Markets

During the year under review, the most important developments in the financial markets were the remarkable increase in corporate equity prices, and the decline in the risk premium on bonds in most of major stock markets of advanced and emerging economies. The improvement in the performance of financial markets was driven by the move of the global economy towards recovery, and the rise in corporate earnings and investments, particularly in light of falling interest rates. As such, Standard & Poor's (Global 1200) (denominated in US dollar) rose by 20.6 % at end of June 2004, as compared with end of June 2003. Also, Standard & Poor's (USA 500) went up by 15.7 %. In addition, Standard & Poor's (European 350) (denominated in US dollar) and Topix increased by 26.9% and 40.1%, respectively, within the above-mentioned period. Furthermore, the ratio of increase in CAC (40) (in local currency), and DAX reached 4.5 % for each. FTSE 100 (in local currency) rose by 8.6 %. However, the performance of financial markets during April/June 2004 was negatively affected by higher oil prices, which may lead to a retreat in the margin of corporate profits. As such, the return on the world Morgan Stanley index (MSCI World) fell form 2.7% during January/March 2004 to 1.0% during April/June of the same year.

As for the international financial flows, net capital flows of emerging economies hiked- according to estimates of the Bank for International Settlements (BIS)- from US$ 66.0 billion in 2002 to US$ 171.0 billion in 2003. Of these flows, 44.4% were FDI flows, 17.0% were foreign investments on the stock exchange (equities and bonds), and 38.6% were flows in the form of loans granted by commercial banks and private financial institutions. A large part of these flows was concentrated in China, India, South Korea and Brazil. The noticeable surge in these net flows was essentially ascribed to improved main macroeconomic aggregates in many of these economies, and higher level of liquidity in the international financial markets. This is in addition to the low interest rates in the major industrial countries that pushed investors to look for better investment opportunities in the emerging economies which would yield lucrative profits, notwithstanding the implied higher degree of risk.

Regarding the financial derivatives, total value of their trading amounted to US$ 702.6 trillion during July 2003/March 2004, with a rise of US$ 142.5 trillion or 25.4 % in the above-mentioned period, compared with July 2002/March 2003. During the first quarter of 2004 alone, the value of trading in these derivatives rose by US$ 64.4 trillion or 31.0 %, the highest record since the first quarter of 2001. Most of the increase was concentrated in futures and interest-rate options that were used to hedge against interest rate uncertainties, and uncertain future trends of the monetary policies adopted by major central banks.

1/7- World Trade

According to WTO statistics, the real growth rate in the value of world commodity trade remarkably rose from 2.5 % in 2002 to 4.5 % in 2003. The surge in the value of world trade was supported by the improved performance of the US economy, and that of the Asian countries' economies, as well as economies in transition. There was also a stronger demand, on part of North America, Asia and countries in transition, on other countries' products. This contributed considerably to a rise in the world trade growth rate. As such, the real growth rate in the value of commodity trade of the Asian countries and countries in transition, more than doubled the real growth rate in the world commodity trade.

World commodity exports augmented by 16 % in 2003, against a growth rate of 4.0 % in 2002, to reach US$ 7.3 trillion, of which 43.2 % came from West Europe alone, followed by Asia (26.1%), then North America (13.7%), Latin America (5.2 %), the economies in transition (5.5 %), the Middle East (4.0%) and Africa (2.3 %).

As for world exports of services, their value recorded a growth rate of 12 % in 2003, against 6% in 2002, reaching US$ 1.8 trillion. Of this amount, West Europe contributed 50.8 %, followed by Asia 19.6 %, then North America 18.3%, the economies in transition 4.1%, Latin America 3.4%, Africa 2.0 % and the Middle East 1.8 %.

The United States is the main exporter of services worldwide, with a share of 16 % in total global services. The UK came next with 7.3 %, Germany with 6.3 %, France with 5.6 %, Spain with 4.3 % and Japan with 4.0 %.

1/8- International Reserves

International non-gold reserves increased by 18.4 % in FY 2003/2004, to reach some SDR 2349.6 billion at the end of June 2004, against SDR 1984.7 billion at the end of June 2003. Around 60% of the increase was accounted for by the rise in reserves in developing countries to reach SDR 1441.5 billion at the end of June 2004. The bulk of this increase (78.8%) was concentrated in Asia. This was a result of the intervention of the central banks in many of the Asian countries in forex markets for purchasing US dollars to stall the appreciation of their currencies. Consequently, a remarkable surge has been evidenced in the international reserves of these countries.

International reserves of the industrial countries rose by SDR 145.4 billion, or 19.1% in FY 2003/2004. Japan accounted for the bulk of the increase (43.8%) during the said FY. This was due to the fact that the Bank of Japan has heavily intervened in the forex market to check the appreciation of the yen against the dollar, and in turn reinforce the competitiveness of the Japanese exports. On the level of the euro area as a whole, international reserves fell by SDR 24.0 billion, or 14.3 % in FY 2003/2004.

International Reserves Minus Gold

(SDR bn)

At End of	2003		2004	Change (%)
	June	Dec.	June	July 2003/ June 2004
The world	**1984.7**	**2124.8**	**2349.6**	**18.4**
Industrial countries, of which:	**762.7**	**810.5**	**908.1**	**19.1**
USA	50.4	50.4	48.8	-3.2
Canada	26.1	24.4	24.1	-7.7
Germany	36.7	34.1	34.2	-6.8
France	21.0	20.3	20.0	-4.8
Italy	23.7	20.4	21.6	-8.9
Japan	383.4	446.4	551.2	43.8
UK	27.2	28.2	28.4	4.4
Euro area	**167.6**	**149.9**	**143.6**	**-14.3**
Developing countries	**1222.0**	**1314.3**	**1441.5**	**18.0**
Africa	58.8	61.0	68.6	16.7
Asia	771.2	851.3	944.1	22.4
Europe	158.2	169.9	185.3	17.1
Middle East	103.5	100.4	103.9	0.4
Latin America & Caribbean	130.3	131.7	139.6	7.1
Oil exporting countries	**118.6**	**118.4**	**126.9**	**7.0**
Non-oil countries	**1103.4**	**1195.9**	**1314.6**	**19.1**

Source: IFS, August 2004.

1/9- International Economic Blocs

On 31st July, 2003, the OPEC Oil Ministers held a meeting in Vienna, Austria. The OPEC members agreed on keeping the total output ceiling unchanged at 25.4 million b/d. This came in light of lower oil Iraqi exports that stood at 1 million b/d, still below their pre-war level (2.8 million b/d). On 10th February, 2004, in its meeting in Algeria, the OPEC decided to reduce its production ceiling to only 23.5 million b/d as of April 1, 2004. This cut aimed to maintain oil prices at a high level, particularly under expected lower oil demand by North America and Europe during the second quarter of 2004 by the end of winter. However, in light of the market circumstances, the OPEC decided in its extraordinary meeting on June 3, 2004 in Beirut- with the participation of a number of oil ministers from non-OPEC members- to increase its production ceiling (excluding Iraq) by some 2 million b/d, to reach 25.5 million b/d, as of July 1, 2004. The OPEC also decided to pump additional 500 thousand b/d, as of August 1, 2004, to address the continuing increases in oil prices. Such high oil prices were a combination of two main factors: higher oil demand by the USA and China, and uncertainties over future weak oil supply, given the ongoing political tensions in many areas all over the world.

Trade ministers of the WTO member countries held their Fifth Ministerial Conference in Cancun, Mexico on 10-14 September, 2003. The Conference failed to achieve any progress in the issues related to world trade facilitation and farm subsidies. The Conference also failed to add more transparency to the government procurement of goods and services, and the international rules governing foreign investment and competition. The failure was mainly attributed on the one hand to the fact that rich countries insist not to accept any compromises concerning the issue of farm subsidies. On the other hand, the developing countries refused the requests of the EU and Japan to set unified international rules for foreign investment and competition with which all WTO members must comply. Nepal and Cambodia were approved to join the WTO, bringing the number of its members up to 148.

In September 13, 2003, the Board of Governors of Central Banks and Arab Monetary Institutions held its 27th Annual Meeting in Doha, Qatar. The Board approved the Bank Supervision Committee’s recommendations submitted in two papers on “Sound Management of Financial Institutions” and “The Role of the Monetary Authorities in Combating Money Laundering”. The Board also approved the call made by the Arab Committee for Bank Supervision to study the best means for supporting the regulatory authorities in adjusting the conditions of the Arab countries’ banking sector according to the new requirements (Basel II). Moreover, the General Secretariat of the Governors' Board (AMF) was assigned to study the introduction of a technical assistance program to help members take the reforms necessary for developing their bond markets. This program is to be implemented in collaboration with international organizations such as the IMF, WB and BIS.

In early October 2003, the ASEAN held its summit in Bali, Indonesia. ASEAN leaders agreed to implement a long-term plan for economic, social, cultural, and security integration. To this purpose, a common market is to be established by 2010, by means of which all barriers to goods and services trade, investment flows, and skilled labor mobility are to be dismantled. It was also decided to establish a mechanism for conflict resolution; and complete the procedures for merger of 11 sectors, including auto manufacturing, electronics, timber, textiles, and tourism.

A number of agreements were signed during the meeting between the ASEAN and some of its neighboring countries. A Framework Agreement on Comprehensive Economic Cooperation between the ASEAN and India was drawn up, aiming to eliminate obstacles to the establishment of the ASEAN-India Regional Trade and Investment Area (RITG) by 2012.

On 20^{th} and 21^{st} October, 2003, the Annual Summit Meeting of the APEC leaders (from 21 member countries) was held in Bangkok, Thailand. The APEC leaders affirmed their commitment to eliminate terrorist groups, cease the spread of WMD and persuade North Korea to give up its ambitious nuclear program. They also called for the WTO to revive the world trade talks, which reached a deadlock in the September 2003 meetings in Cancun, Mexico, and to continue addressing the unresolved issues.

At end-October 2003, an international donors' conference on the reconstruction of Iraq was held in Madrid, Spain. Total financing approved by participants amounted to some US$ 33 billion over four years, i.e., till 2007. These donors included the USA, Japan, the EU, Saudi Arabia, Kuwait and the UAE. Moreover, the IMF and WB shall offer loans with a maximum limit of US$ 9 billion, of which US$ 5 billion shall be offered by the WB on condition that security conditions improve in Iraq.

The COMESA monetary and financial cooperation meetings were held on 10-18 November 2003. Ministers of finance reviewed the progress made with respect to the establishment of the COMESA Common Investment Area (CCIA), which is bound to enable a free movement of capital, labor, goods and services. They decided that the establishment of such an area should include a study of the appropriate framework for the liberalization of capital and current accounts in member countries in order to promote stability in COMESA and render it more attractive to investments. Admission of Kenya and the Sudan to the Task Force was also agreed upon. This Task Force was assigned to prepare a study on a COMESA exchange rate union and to reconsider the macroeconomic convergence criteria. Participants approved the organization of a technical workshop in February 2004 to study the COMESA customs union. The workshop shall comprise four experts from each member country. Ministers decided to postpone coordination regarding the value added tax (VAT) at least for the time being. However, they urged member countries to exchange experience in this concern. Participants also called upon the IMF and the World Bank to support capacity building in COMESA countries, especially in the field of FSAP. Moreover, they agreed upon the necessity of adopting Basel Core principles as the minimum standards to be observed by the COMESA countries. In addition, banking regulatory and supervisory bodies should enjoy sufficient autonomy. The Governors recommended that the COMESA Bankers Association should also be disbanded.

The 34- Nation Summit of the Americas was held in January 2004, Monterrey, Mexico. The meeting agreed on a number of issues regarding economic and social development in these countries. These issues included merging the informal sector into the country's formal economy, and the simplification of the procedures of establishing new enterprises. In addition, the meeting stressed the importance of increasing the finance provided by the Development Bank for Latin America to small enterprises. Also, the participants affirmed the growing importance of the remittances of Latin American citizens working in the USA to their countries as a main source of financing investment in these countries. In this respect, it was approved to half the fees paid to banks and financial institutions to implement such remittances. Moreover, it was agreed to intensify and strengthen cooperation to fight corruption in the public and private sectors, and enhance transparency.

During 27-28 February 2004, the 12th Meeting for the G-15 was held in Caracas, Venezuela. The communiqué included the following:

- Participants observed with concern the global economic situation and its negative impact on the efforts of developing economies towards sustained economic growth;

- They emphasized the importance of establishing a fair equitable, predictable, transparent and rule-based multilateral trading system to promote sustained economic growth and development of developing countries. They called also to improve the developing countries accessibility to advanced countries' markets, not only with respect to goods, particularly agricultural goods, but also to services.

- They emphasized the need for the fulfillment of the commitment of all members of the international community to the implementation of the Millennium Development Goals (MDGS), in particular the outcomes of major conferences held in Monterrey and Johannesburg.

- They welcomed the New Partnership for Africa's Development (NEPAD), and called on Africa's development partners and the African countries to further the objectives of NEPAD.

A separate declaration was issued by the G-15 leaders on "Energy and Development" during these meetings. In this regard, participants expressed their awareness of the importance of energy sector in the economic and social development of the Group of Fifteen member countries; and the potential contribution of this sector in improving quality of life of the group's population; Moreover, they affirmed their commitment to design, develop and implement programs and projects for cooperation and collaboration among member countries to enhance the energy sector development via encouraging public and private investments.

On 28th February, 2004, the AU convened its summit in Sirte, Libya. Politics was the main theme of the meeting, as heads of the African countries and governments agreed on the adoption of a policy for common security and defense. This policy will include the establishment of a Multinational African Defense Force for peace keeping and intervention in cases of any tensions or conflicts in one of the African countries. The EU Commission stated that the EU pledged to offer € 250 million (nearly US$ 312 million) to support the peace-keeping operations in Africa, and that it will continue to participate in establishing the bases required for development in conflict regions.

The EU - Canada summit was held on March 18, 2004, in Ottawa, Canada. During these meetings, it was confirmed that the two parties will continue to strengthening their cooperation and close ties. They also declared their commitment to achieving more freedom, democracy and welfare in the world, in collaboration with the USA and other partners. This is to establish clear international principles that authorize outside intervention -in extreme circumstances- in the territory of a sovereign country to avoid a humanitarian catastrophe. The participants also discussed the need to proceed quickly with plans to provide a greater access to medicines for developing countries, especially in the countries of Sub-Saharan Africa, suffering from AIDS/HIV or other epidemics (in accordance with the WTO Decision in August 2003). The leaders pledged to support the international efforts exerted to fight terrorism and to quickly reconstruct Afghanistan and Iraq; support the peace process in the Middle East; push up global growth via their keenness to render the current round of negotiations of multilateral trade successful , in addition to combat poverty; and assist countries to recognize the MDGS. The framework for the Trade and Investment Enhancement Agreement (TIEA) between the EU and Canada was approved. This agreement aims to further stimulate their bilateral commercial relationship by reducing barriers to trade and investment flows.

During 8-10 June 2004, the G-8 convened its Summit in Georgia, the USA. Politics was the main theme, and the focus was on the issues related to conditions in the Middle East. Not enough attention has been paid to the issues relating to world trade and debt. Therefore, no decision was reached on writing off all debts of the countries under HIPC Initiative, particularly debts owed to the multilateral international financial institutions. The Summit also agreed to extend this Initiative for two more years. It is to be noted that this Initiative is due to expire by the end of 2004.

Chapter 2: Central Bank of Egypt

Chapter 2
Central Bank of Egypt

2/1- Developments in the Financial Position of the CBE

During FY 2003/2004, the CBE financial position rose by some LE 52.3 billion or 18.5 %, against LE 73.2 billion or 35.1% in the preceding FY, to reach LE 334.2 billion at the end of June 2004.

The pick-up during the year under review was ascribed to the increase in both domestic and foreign assets. Domestic assets went up by LE 50.3 billion or 25.7%, to reach LE 246.0 billion or 73.6% of the aggregate financial position at the end of June 2004. This was due mainly to a rise in claims on the government by LE 44.7 billion, as a consequence of the pick-up in government securities and bills by LE 47.9 billion. This pick-up was a main result of an LE 20.0 billion issuance of treasury bonds to cover the monetary deficit of the government accounts with the CBE; an LE 13.6 billion issue of a non-interest-bearing treasury bond due to the amortization of a part of revaluation differences; and an LE 14.5 billion issue of treasury bills for the CBE to serve the purposes of monetary policy. Other domestic assets rose by LE 6.0 billion (mostly the outcome of foreign exchange transactions managed by the CBE on behalf of the government). Meanwhile, claims on banks in Egypt shrank by LE 0.5 billion.

CBE: Assets Analysis

(LE mn)

At End of June	2001	2002	2003	2004
Total Assets	**173604**	**208707**	**281910**	**334203**
Foreign Assets	**53349**	**61643**	**86212**	**88237**
Domestic Assets	**120255**	**147064**	**195698**	**245966**
Claims on the government of which:	94545	113231	131689	176392
-Government securities	79734	98484	116512	164441
Claims on the NIB	-	130	-	-
Claims on banks in Egypt	12513	11314	10649	10184
Other domestic assets	13197	22389	53360	59390

The CBE foreign assets stepped up by the equivalent of only LE 2.0 billion or 2.3%, to reach an equivalent of LE 88.2 billion or 26.4% of the aggregate financial position at the end of June 2004. The increase during the year under review came mainly from higher foreign bills and securities.

On the liabilities side, the increase therein was attributed mainly to an escalation in domestic liabilities by LE 47.7 billion or 23.1%, to stand at LE 254.4 billion or 76.1 % of total liabilities at the end of June 2004.

The higher domestic liabilities were a result of an increase in banks' claims by LE 22.7 billion or 26.7%. This was due, in turn, to a LE 13.3 billion selling of treasury bills to banks (repos), and the rise in interest-bearing deposits of local banks at the CBE (under the deposit acceptance mechanism) by LE 4.6 billion. Other relevant factors were the rise in non-interest-bearing deposits of local banks by LE 3.9 billion and the counterpart to the 10% ratio of banks' deposits in foreign currencies by the equivalent of LE 2.2 billion. Meanwhile, deposits and current accounts in foreign currencies retreated by LE 1.3 billion.

Government claims also increased by LE 21.3 billion or 39.3% (mostly because of a rise in government deposits in local currency with the CBE) to reach LE 75.6 billion at the end of June 2004.

Moreover, banknote issue rose by LE 7.5 billion, whereas NIB claims and other domestic liabilities fell by LE 5.0 billion and LE 4.9 billion, respectively.

As for equities and net profits of the year, they picked up by LE 6.0 billion. According to the Law No. 88 for 2003 of the Central Bank, the Banking Sector and Money, the CBE capital was augmented from LE 0.1 billion to LE 1.0 billion on July 15, 2003, using LE 0.9 billion of other reserves.

CBE: Liabilities Analysis

(LE mn)

At End of June	2001	2002	2003	2004
Total Liabilities	**173604**	**208707**	**281910**	**334203**
Foreign Liabilities	**41328**	**53047**	**75268**	**79840**
Domestic Liabilities	**132276**	**155660**	**206642**	**254363**
Banknote issue	40809	45427	52219	59703
Government claims	28659	41504	54284	75609
NIB claims	1032	150	5478	487
Banks' claims	49626	56685	84915	107572
Equities & net profits for the year	5149	5500	1790	7831
Provisions	108	22	235	307
Other domestic liabilities	6893	6372	7721	2854

The CBE foreign liabilities stepped up by the equivalent of LE 4.6 billion or 6.1% (mostly ascribed to revaluation of the balances of rescheduling accounts), reaching the equivalent of LE 79.8 billion, and accounting for 23.9% of the CBE's aggregate financial position at the end of June 2004.

2/2- Banknote Issue

Banknote issue (including subsidiary coins) mounted by LE 7.5 billion or 14.3% during FY 2003/2004, against LE 6.8 billion or 14.9%, to reach LE 59.9 billion at the end of June 2004.

Banknote Issue*

(LE mn)

At End of June	Balance of Banknote Issue	Change During FY	
		Value	%
2000	37939	2265	6.3
2001	41008	3069	8.1
2002	45633	4625	11.3
2003	52432	6799	14.9
2004	59922	7490	14.3

* Including subsidiary coins issued by the Ministry of Finance.

As for the components of the issue cover, the value of gold increased ,as a result of its revaluation, by LE 0.6 billion worth, to reach LE 4.4 billion at end of June 2004. Conversely, foreign government bonds decreased by the equivalent of LE 1.3 billion, reaching almost a zero balance. Against this fall, government securities increased by LE 8.2 billion to reach LE 55.3 billion. The cover structure at the end of June 2004 was as follows: government securities 92.6 % and gold 7.4%.

The increase in banknote issue led to a rise of LE 7.4 billion or 14.3% in the currency in circulation outside the CBE, to reach LE 59.4 billion at the end of June 2004.

The breakdown by denomination of currency in circulation outside the CBE showed a rise in the circulation of LE 50 note to 37.9% at the end of June 2004, against 37.1% at the end of June 2003; and LE 100 to 30.8% from 24.7%. Meanwhile, there was a decline in the circulation of LE 20 note to 18.4% from 23.2%; LE 10 to 9.1% from 10.9%; LE 5 to 2.0% from 2.1%; pt 50 to 0.3% from 0.4%; and pt 25 to 0.2% from 0.3%. On the other hand, the circulation of the LE 1 denomination remained unchanged at the previous level.

Accordingly, the average value per banknote increased to LE 17.7 at the end of June 2004, against LE 15.4 at the end of June 2003, denoting a rise of 14.9% during the year under review.

Currency in Circulation Outside the CBE*

(LE mn)

Denominations	June 2003		June 2004		Change During FY	
	Value	Relative Importance	Value	Relative Importance	2002/ 2003	2003/ 2004
Total	**51960**	**100.0**	**59415**	**100.0**	**14.5**	**14.3**
Subsidiary Coins	**213**	**0.4**	**219**	**0.4**	**3.4**	**2.8**
PT 25	135	0.3	117	0.2	7.1	(13.3)
PT 50	232	0.4	201	0.3	5.0	(13.4)
LE 1	448	0.9	510	0.9	6.2	13.8
LE 5	1098	2.1	1201	2.0	6.2	9.4
LE 10	5690	10.9	5424	9.1	(0.5)	(4.7)
LE 20	12049	23.2	10926	18.4	0.8	(9.3)
LE 50	19270	37.1	22490	37.9	29.0	16.7
LE 100	12825	24.7	18327	30.8	19.1	42.9

* Representing the difference between the banknote issue and the cash at the CBE.

2/3- Monetary Policy

The final target of the monetary policy adopted by the CBE in FY 2003/2004 has been to maintain price stability. To attain this target, money supply should be attuned with the demand, taking into account the projected real growth rate in the GDP.

The CBE has applied its monetary policy instruments for the management of liquidity. These instruments included the reserve requirement ratio; the CBE credit and discount rate; the open market operations (deposits acceptance, reverse repos of treasury bills and outright sale conducted between the CBE and banks).

During FY 2003/2004, the reserve requirement ratio held by banks at the CBE remained unchanged at 14%. The CBE lending and discount rate was also stable at 10%.

The open market operations conducted by the CBE aimed to absorb banks' excess liquidity. As such, LE deposits were blocked according to market mechanism, in the context of operations between the CBE and some banks. The outstanding balance of these deposits amounted to LE 10.9 billion at the end of June 2004.

Moreover, a new mechanism was introduced, that is, the reverse repos of treasury bills and outright sales conducted between the CBE and banks under market mechanism. In this context, the Ministry of Finance issued LE 20.0 billion treasury bills for the CBE to be used in such operations. Outright sales and reverse repos posted LE 5.5 billion and LE 14.2 billion, respectively, at the end of June 2004.

In the context of the above said monetary policy and its associated instruments, domestic liquidity grew, during FY 2003/2004, by 13.2% against 16.9% (or by 12.3% against 9.4% excluding the exchange rate changes), and reserve money by 32.8% against 21.0%.

In order to reach an inflation rate that really expresses prices in the domestic market, the CAPMAS issued a new series of consumer prices. In this series, the base year was updated to become (99/2000= 100), and the basket of goods and weights. According to the data available from this series, the inflation rate amounted to 11.1% during the period August/June of FY 2003/2004, compared with 4.0% in the previous FY as a whole.

As the CBE lending and discount rate remained unchanged at 10% during the FY, the average annual interest rates on three-month deposits at banks in local currency, fell to 7.68 % at the end of June 2004, against 8.46% at the end of June 2003. Likewise, the average interest rates on loans of one year or less decreased from 13.45 % to 13.27 %.

CBE Lending and Discount Rate and Banks' Interest Rates (Average)

(% Annually)

At End of June	2002	2003	2004
CBE lending and discount rate	11.00	10.00	10.00
Average Banks' Interest Rates on			
3-month deposits	9.42	8.46	7.68
Loans for 1 year or less	14.10	13.45	13.27

On the other hand, average interest rates on 91-day and 182-day TBs increased from 10.27 % and 10.23 %, respectively at the end of June 2003, to 11.28 % and 11.30 %, respectively, at the end of June 2004.

TB Interest Rates

(%)

At End of June	2002	2003	2004
91-day TBs	7.198	10.270	11.279
182-day TBs	7.651	10.228	11.300

Local currency deposits increased by LE 24.3 billion or 10.2%, outpacing the rise of LE 18.7 billion worth in foreign currency deposits. Local currency deposits accounted for 67.4% of total deposits at banks at the end of June 2004. This explains the continued preference for saving in local currency in light of higher interest rate thereon, compared with that on foreign currencies. It also reflects weak expectations of the rise in the US dollar vis-à-vis the Egyptian pound under stable foreign exchange markets.

The outstanding balance of treasury bills increased by LE 28.5 billion, to reach LE 83.8 billion at the end of June 2004, of which LE 73.2 billion were held by banks. The nominal value of treasury bonds remained unchanged at LE 13.0 billion. This was due to the LE 4.0 billion amortization of the 2003-treasury bonds during FY, and the issuance of three- year bonds at the same value, that will fall due in 2007.

Outstanding Balances of Treasury Bills and Bonds

(LE bn)

At End of June	2003	2004
TBs, of which	**55.3**	**83.8**
With banks	53.7	73.2
Treasury Bonds 2003, of which:	**4.0**	**-**
With banks	3.5	-
Treasury Bonds 2005, of which:	**1.5**	**1.5**
With banks	1.3	1.4
Treasury Bonds 2006, of which:	**0.5**	**0.5**
With banks	0.5	0.5
Treasury Bonds 2009, of which:	**4.0**	**4.0**
With banks	2.8	2.8
Treasury Bonds 2007, of which:	**3.0**	**7.0**
With banks	3.0	6.7

It is noteworthy that the primary dealers system in the primary market has become effective as of July 4, 2004. This will help increase the reliance on open market operations as an instrument of monetary policy, and promote dealing in the secondary market securities. In this context, the banking and financial standards required in the primary dealers in the primary markets for government securities were established. Accordingly, 13 banks meeting these standards were approved.

To enhance transparency in the management of monetary policy and its transactions with banks, the CBE announces the deposit-acceptance operations, the repos, the outright sales and their results on the CBE website and on Reuters.

It is worth mentioning that the Forex market restored its stability since the complete flotation of the exchange rate in January 2003, and the associated fall in the Egyptian pound exchange rate vis-à-vis the US dollar. Consequently, the exchange rate in the official market has moved closer to that in the unofficial market. According to the Forex Statistics Chamber, the LE exchange rate depreciated slightly against the US dollar by 2.7 % during FY 2003/2004. As such, the weighted average of the US dollar exchange rate in the market reached pt 620.23 per US$ at the end of June 2004, compared with pt 603.23 per US$ at the end of June 2003.

Under these circumstances, net international reserves at the CBE settled at US$ 14.8 billion at the end of June 2004, covering almost 10 months of commodity imports.

Being responsible for supervising the national payment system according to the provisions of Law No. 88 for 2003, the CBE has developed such a system through a comprehensive plan. This plan aims at automating the transactions of the CBE and all other banks; providing an electronic link between them; and making use of this in the field of developing the payment system to enhance the soundness and speed of banks' decision-making. Following the automation of the Cairo Clearing House, the automation of the Alexandria and Port Said Clearing Houses is planned to take place within the next few months. This is a preliminary step towards the accomplishment of RTGS- based payment system in the near future. In this context, a pilot project of this system was implemented through the participation of the four public sector banks, in addition to one of the other banks. To enhance a quick money transfer, a new service was introduced for local transfers through the SWIFT; that is, collecting sales taxes from the taxpayers' accounts at the different banks to the account of the Ministry of Finance at the CBE.

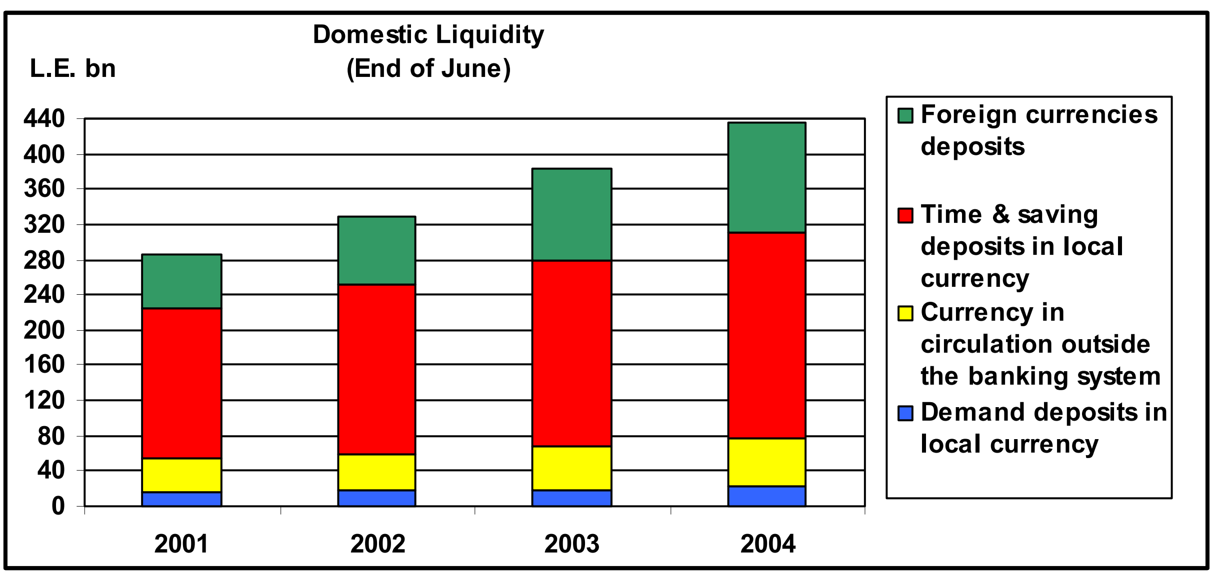
In the field of banknote issue, the CBE continued to implement its plan for enforcing the security elements in the banknotes against forgery. This is in addition to the expansion in replacing unfit banknotes with new ones.

2/4- Domestic Liquidity and Counterpart Assets

Domestic liquidity (M2) increased by LE 50.7 billion or 13.2% during FY 2003/2004 against LE 55.5 billion or 16.9% during the previous FY, to reach LE 434.9 billion at the end of June 2004. Excluding the effect of the changes in the LE exchange rate, the domestic liquidity growth rate declines to 12.3% during the year under review against 9.4% during the previous FY.

The rise in domestic liquidity during the year reflects the growth in money supply (M1) and quasi-money. Money supply increased by LE 10.4 billion or 15.5% against LE 7.4 billion or 12.4% during the previous FY, to reach LE 77.6 billion, constituting 17.9% of total domestic liquidity at the end of June 2004.

The rise in money supply stemmed from the growth in both money in circulation outside the banking system by LE 7.7 billion or 15.9%, and demand deposits in local currency by LE 2.7 billion or 14.3%, due to a rise in the deposits of the household and the private business sectors.



Quasi-money went up by LE 40.3 billion or 12.7% during the year against LE 48.1 billion or 17.9% to reach LE 357.3 billion or 82.1% of total domestic liquidity at the end of June 2004. This was a result of the growth in time and saving deposits in local currency by LE 21.6 billion or 10.2%, and in foreign currency deposits by LE 18.7 billion worth or 17.8%.

The rise in time and saving deposits in local currency was due to the increase in the deposits of the household sector by LE 16.1 billion, of the private business sector by LE 3.9 billion, and of the public business sector by LE 1.6 billion.

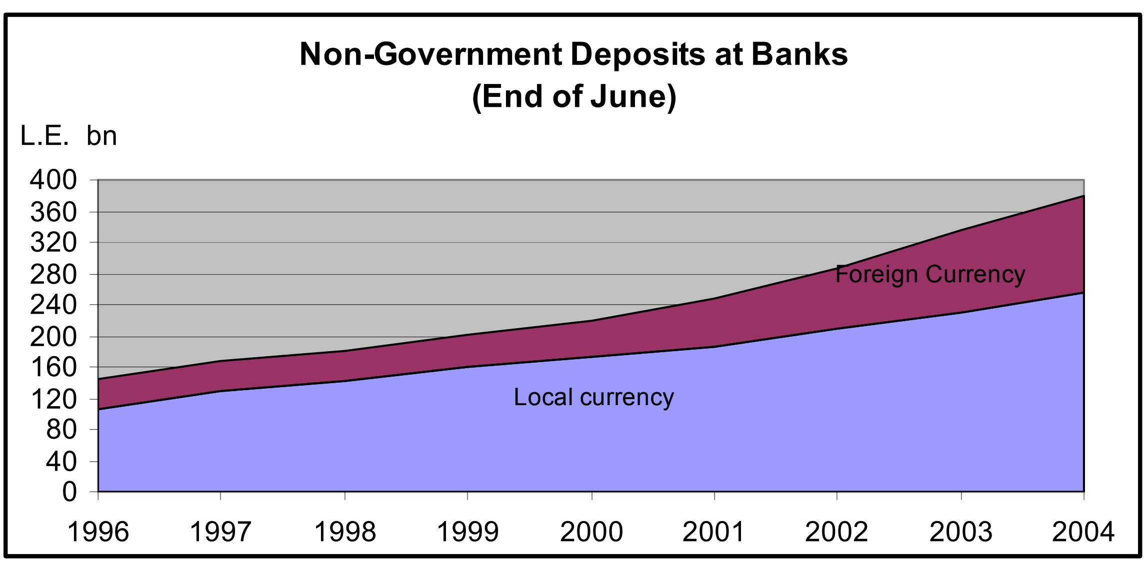
Domestic Liquidity Structure

(LE mn)

At End of June	2002		2003		2004	
	Value	%	Value	%	Value	%
Domestic Liquidity	**328728**	**100.0**	**384262**	**100.0**	**434911**	**100.0**
Money Supply	**59805**	**18.2**	**67212**	**17.5**	**77606**	**17.9**
Money in circulation outside the banking system	42299	12.9	48258	12.6	55933	12.9
LE demand deposits	17506	5.3	18954	4.9	21673	5.0
Quasi Money	**268923**	**81.8**	**317050**	**82.5**	**357305**	**82.1**
LE Time and Saving Deposits	**192718**	**58.6**	**212010**	**55.2**	**233610**	**53.7**
Foreign Currency Deposits	**76205**	**23.2**	**105040**	**27.3**	**123695**	**28.4**
- Demand	8267	2.5	12159	3.1	16280	3.7
- Time and saving	67938	20.7	92881	24.2	107415	24.7

The growth in foreign currency deposits was mainly concentrated in those of the household sector which mounted by LE 13.8 billion worth. In addition, there was a rise in the deposits of both the private business sector by LE 4.4 billion worth, and the public business sector by LE 0.5 billion worth.

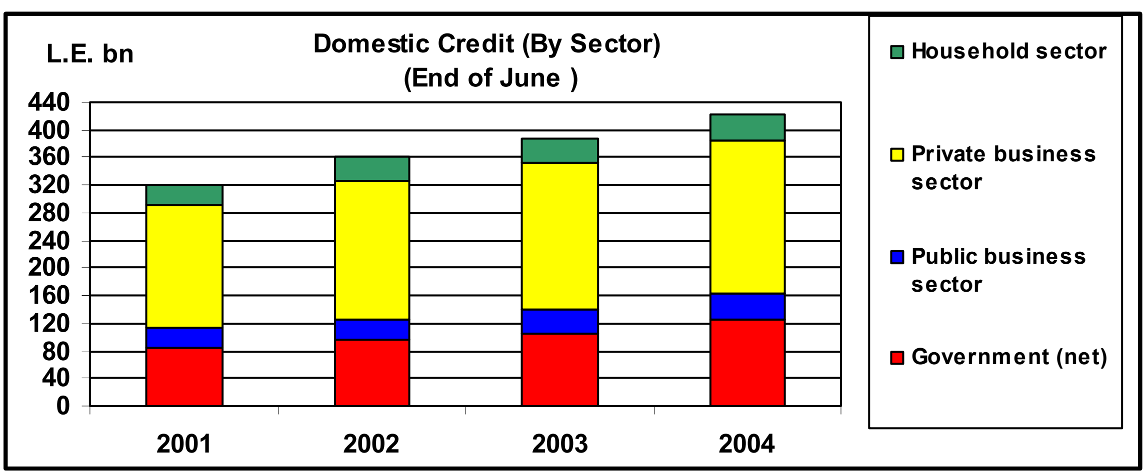
Deposits in local currency still accounted for the majority (67.4%) of total deposits. In the meantime, foreign currency deposits represented 32.6% of the total at the end of June 2004, reflecting the continuous preference to save in local currency due to the relative rise in its interest rate, and the relative stability in the exchange rate.



As for domestic liquidity counterpart assets, domestic credit and net foreign assets had an expansionary effect on domestic liquidity. However, other items (net) had a contractional effect thereon. Specifically, domestic credit rose by LE 34.6 billion or 8.9% against LE 27.4 billion or 7.6% to reach LE 422.0 billion at the end of June 2004.

The rise in domestic credit was due to the pick up of LE 22.8 billion or 22.0% in the credit granted to the government sector, bringing its indebtedness to the banking system to LE 126.3 billion at the end of June 2004. This resulted from the rise in the credit granted to the government by LE 53.9 billion on the one hand, and the increase in government deposits at the banking system by LE 31.1 billion on the other.

Credit granted to the private business sector climbed by LE 8.8 billion or 4.1%, bringing its indebtedness to banks to LE 223.1 billion at the end of June 2004. Moreover, credit granted to the household sector went up by LE 2.4 billion or 6.9%, raising its debt to banks to LE 37.0 billion. In the meantime, credit granted to the public business sector rose by only LE 0.6 billion or 1.7%, bringing its debt to LE 35.6 billion.



Net foreign assets at the banking system accelerated by the equivalent of LE 19.8 billion or 77.9% during the year under review against LE 8.1 billion worth or 47.1% during the previous FY, to reach the equivalent of LE 45.2 billion at the end of June 2004. This was ascribed to the rise in net foreign assets of banks by LE 22.3 billion worth, due to the increase in their foreign assets by LE 17.2 billion worth and the decline in their foreign liabilities by LE 5.1 billion worth. However, net foreign assets of the CBE declined by LE 2.5 billion worth, as an outcome of the increase in its foreign liabilities by LE 4.5 billion worth and a lesser increase in its foreign assets by LE 2.0 billion worth.

Counterpart Assets of Domestic Liquidity

(LE mn)

At End of June	2002		2003		2004	
	Value	%	Value	%	Value	%
Counterpart Assets	**328728**	**100.0**	**384262**	**100.0**	**434911**	**100.0**
Net Foreign Assets	**17285**	**5.3**	**25429**	**6.6**	**45241**	**10.4**
At the CBE	9816	3.0	12343	3.2	9858	2.3
At other banks	7469	2.3	13086	3.4	35383	8.1
Domestic Credit	**360090**	**109.5**	**387446**	**100.8**	**422040**	**97.0**
Government (net)	95423	29.0	103518	26.9	126343	29.0
Public business sector	31143	9.5	34986	9.1	35588	8.2
Private business sector	200230	60.9	214308	55.8	223096	51.3
Household sector	33294	10.1	34634	9.0	37013	8.5
Other Items (net)	**-48647**	**-14.8**	**-28613**	**-7.4**	**-32370**	**-7.4**

Other items (net) had a contractional effect on domestic liquidity, as its negative balance rose by LE 3.7 billion during the year under review against an expansionary effect of LE 20.0 billion during the previous FY.

2/5-Regulation and Supervision over Banks

Within the context of the Law No.88 for 2003 of the Central Bank, the Banking Sector and Money, promulgated on 15 June 2003, and put into force as of 15 July 2003, emphasis is placed on the necessity for banks to continue abiding by the regulations previously issued by the Central Bank that help provide an early warning of potential risks in a bank's financial position.

Out of its keenness to raise the efficiency of banks performance, the Central Bank has already taken a number of steps towards setting up an electronic system to transfer data, information, and financial statements from banks to the CBE on the one hand, and establishing a database for data processing and banking analyses that help the CBE's staff undertake their tasks effectively, on the other. Moreover, the networks connecting banks' branches with their headquarters, and the latter with the CBE were completed.

To enhance the level of banks creditworthiness and to raise their efficiency in the field of exchanging local and international information, the following measures and arrangements were adopted:

- Requiring banks to actually increase their capital through shareholders, whether individuals or institutions (public or private), and not through reserve transfers.

- Requiring banks to enhance the role of risk management over the coming stage. This underscores the importance of supporting the departments involved in risk management in banks, along with developing their technical and analytical methods.

- Attaching great importance to banks' internal control bases, and paying heed to develop their internal auditing systems and to provide them with proper methods both quantitatively and qualitatively.

- Organizing training programs for banks' staff to acquaint them with the new requirements of Basel-II, and encouraging them to attend international forums held in this regard.

In addition, the technical assistance offered to the CBE by some international entities (the World Bank, the European Group) is currently used to develop supervision over banks.

A database on the negative lists of credit card customers is currently under process. Moreover, vital steps for assessing the retail banking customers are taken to prepare the negative list of customers. A working paper, prepared by the CBE in this concern, was submitted to banks.

The CBE Board of Directors approved in its session, held on 10 Feb. 2004, the regulations of securities mortgage to guarantee the rights of banks as mortgage creditors, and to maintain the stability of the stock exchange. The Board of Directors agreed also on the standards used for checking the competence of the chairmen of banks' boards of directors, and the executive directors in charge of credit, investment, portfolio management, external transactions, including swaps, and internal inspection.

The Board of Directors also approved on 6 April 2004 the merging of the 6 development and agricultural credit banks in the governorates into two banks.

Within the context of the efforts made to remove Egypt from the FATF list of non- cooperative countries in the anti-money laundering field, and to ensure banks continuous adherence to the measures and regulations set for combating money laundering, a plan was devised for inspecting banks and their branches in different governorates to guarantee the safety of work procedures and find out any suspicious transactions. Banks were also obliged to classify their customers according to risk levels, update the data on customers' identification, and intensify the efforts of training bank staff on combating money laundering.

In pursuance of the CBE supervisory role, along with its keenness to detect any crises that may face banks on an early basis and, hence, undertake the necessary measures to help them address and adjust their positions, an on-site inspection is conducted regularly by the Bank. During the year under review, the CBE conducted on-site inspections on 23 banks.

In addition, the CBE continues to cooperate with the investigation entities seeking banking expertise to resolve banking technical issues tackled by such entities. In addition, the CBE investigates customers' and banks' complaints to verify them.

In light of the additional duties and responsibilities conferred on the CBE Board of Directors by the Law No.88 for 2003 of the Central Bank, the Banking Sector and Money, and with the aim of facilitating the Board's tasks, a number of specialized committees, comprising the Board's members, were formed during the year under review to study the policies and the relative issues submitted by the Governor. Among these committees is the Banking Development Committee that is responsible for developing the banking system via merging banks and restructuring public sector banks, and finding out proper solutions for the problem of non-performing loans. A task force was formed for developing interbank dealings. This task force is assigned to study and establish an interbank market for foreign currency dealings in Egypt.

As for following up banks' compliance with the regulatory standards issued by the CBE, data revealed that banks combined managed to maintain the reserve requirement ratio (14%) as the actual ratio reached 14.1% during the period 8-21 June 2004. Moreover, the actual liquidity ratio, during June 2004, averaged 31.9 % in local currency and 58.2% in foreign currencies compared with an established ratio of 20% for local currency and 25% for foreign currencies.

2/6- Net International Reserves

Net international reserves remained almost stable in June 2004 compared with June 2003, showing a slight decline of US$ 28.0 million during FY 2003/2004 to stand at US$ 14.8 billion at the end of June 2004, covering around 10 months of commodity imports.

In the context of the CBE's keenness to raise the efficiency of investment in international reserves, a committee for investments was formed from among members of the Board during the year under review, to propose investment policies and follow up their performance.

Net International Reserves

(US$ mn)

At End of June	2003		2004		Change
	Value	%	Value	%	
Total International Reserves (A)	**14845**	**100.0**	**14800**	**100.0**	**(0.3)**
Gold	631	4.2	717	4.9	13.6
Banks and correspondents	10848	73.1	10571	71.4	(2.6)
Securities	2905	19.6	3109	21.0	7.0
Others	461	3.1	403	2.7	(12.6)
Short Term Liabilities(B)	**36**	**0.2**	**19**	**0.1**	**(47.2)**
Net International Reserves(A-B)	**14809**	**99.8**	**14781**	**99.9**	**(0.2)**

2/7- Domestic and Foreign Public Debt

2/7/1- Domestic Public Debt

Domestic public debt consists of three main components. The first is the debt owed by the government, including the outstanding balance of the government bills and bonds, its net accounts at the banking system, and its debt to the National Investment Bank. The second represents the debt owed by the public economic authorities, namely the debt of these authorities to the NIB, and their net accounts at the banking system. The third component comprises the net debt of the NIB, which involves the resources received from the two Social Insurance Funds for Civil Servants and for Business Sectors Employees (Public and Private). It also embraces post office saving accounts, investment certificate proceeds, the cumulative returns on group (A) investment certificates, and dollar development bonds, less the debt balance of the government and public economic authorities with the NIB, as well as the Bank's credit position with the banking system.

2/7/1/1- Domestic Government Debt

Domestic government debt totaled LE 292.7 billion at the end of June 2004, up by LE 40.5 billion or 16.1% during FY 2003/2004 against a rise of LE 31.0 billion or 14.0% during the previous FY.

This increase during the year under review was a result of the pick up in the balance of treasury bonds and bills by LE 63.5 billion and the government debt to the NIB by LE 10.4 billion on the one hand, and the improvement in net credit position of government balances at the banking system by LE 33.4 billion, on the other.

Domestic Government Debt

(LE bn)

Balances at End of	2003		2004		Change + (-)
	Value	%	Value	%	
Domestic Government Debt	**252.2**	**100.0**	**292.7**	**100.0**	**40.5**
- Balances of bonds and bills	**208.6**	**82.7**	**272.1**	**92.9**	**63.5**
. Bills and bonds*	153.3	60.8	188.3	64.3	35.0
Of which: tradable on the stock exchanges	17.7	7.0	18.7	6.4	1.0
. Treasury bills	55.3	21.9	83.8	28.6	28.5
- Government Borrowing from the NIB	**123.9**	**49.2**	**134.3**	**45.9**	**10.4**
- Net Govern. Balances at the Banking System	**-80.3**	**-31.9**	**-113.7**	**-38.8**	**-33.4**
Credit facilities	19.4	7.7	15.8	5.4	-3.6
Deposits	-99.7	-39.6	-129.5	-44.2	-29.8

Source: Ministry of Finance, the CBE, and the NIB

Ratios are in terms of LE million.

* Including treasury bonds, housing bonds, foreign currency bonds with public sector commercial banks, the 5% ratio retained from the profits of companies subject to Law No. 97 for 1983 for the purchase of government bonds, and holdings of resident financial institutions (the banking system and the insurance sector) of sovereign bonds denominated in US dollar traded on world stock exchanges.

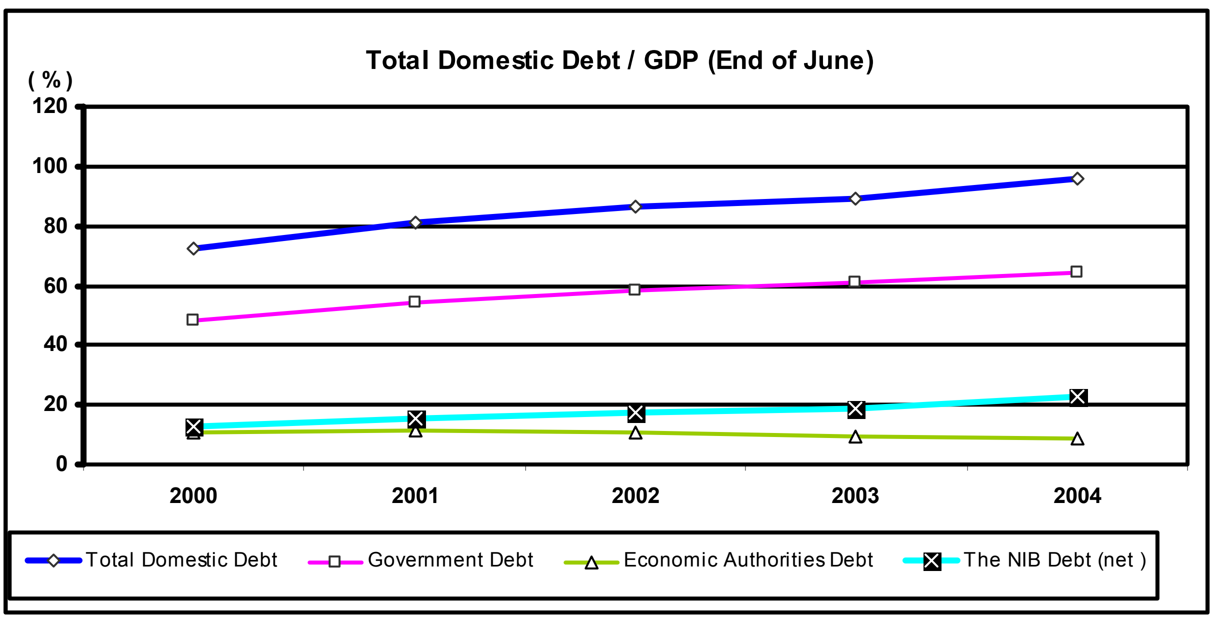
The main measures adopted during FY 2003/2004 concerning the management of domestic public debt are as follows:

- Issuing four treasury bonds at a value of LE 33.6 billion. Three of which, in an amount of LE 20.0 billion, with a 10 years maturity for each, and an interest rate of 7.5%, were allocated to cover the budgetary cash deficit for FY 2003/2004, pursuant to Paragraph (C) of Article (8) of Law no. 98 for 2003. The fourth bond amounting to LE 13.6 billion and bearing no interest is a value of part of the evaluation differences of foreign currency balances included in the CBE balance sheet.

– Issuing the seventh batch (the tenth issue) of the Egyptian treasury bonds 2007 on 1/1/2004, with a nominal value of LE 4.0 billion, an interest rate of 8%, and a three years maturity, following the redemption of the second batch of these bonds, at the same value, on 1/10/2003.

– An agreement was reached between the Ministry of Finance and the CBE on issuing treasury bills for the CBE, in an amount of LE 20 billion, in line with the monetary policy targets, divided equally between the 182 day TBs and 364 day TBs.

– Increasing the TBs outstanding balance by LE 28.5 billion during the year to reach LE 83.8 billion at the end of June 2004. Specifically, the balance of 182 day TBs rose by some LE 14.3 billion, 364 day TBs by around LE 12.0 billion, and 91 day TBs by some LE 2.2 billion.



2/7/1/2- Debt of Public Economic Authorities

Debt of public economic authorities increased during the year under review by LE 0.9 billion or 2.3% to LE 40.1 billion at the end of June 2004, compared with a decline of LE 1.9 billion or 4.6% during the previous FY. This resulted from the rise of LE 3.7 billion in the borrowings of these authorities from the NIB, and the improvement of LE 2.8 billion in their net credit position with the banking system, as an outcome of the growth of their deposits therewith by LE 6.0 billion, and the limited rise in their borrowings therefrom by only LE 3.2 billion.

Debt of Public Economic Authorities

(LE bn)

Balances at End of June	2003		2004		Change
	Value	%	Value	%	+ (-)
Total Debt	**39.2**	**100.0**	**40.1**	**100.0**	**0.9**
Net Balances at the Banking System	**-10.9**	**-27.8**	**-13.7**	**-34.2**	**-2.8**
Credit	14.1	35.9	17.3	34.2	3.2
Deposits	-25.0	-63.7	-31.0	-77.8	-6.0
Borrowings from the NIB	**50.1**	**127.8**	**53.8**	**134.2**	**3.7**

Source: Ibid.

2/7/1/3-National Investment Bank (NIB)

NIB's net resources amounted to LE 290.2 billion at the end of June 2004, with a rise of LE 36.9 billion or 14.6% during the year under review. This was attributed to the increase in the surpluses transferred to the NIB from the two Social Insurance Funds for Civil Servants and for Business Sectors Employees (Public and Private) by LE 21.3 billion, post office saving accounts by LE 5.5 billion, the proceeds of investment certificates and their cumulative returns by LE 5.1 billion, and from other domestic entities by LE 0.3 billion.

NIB Resources and Uses

(LE bn)

Balances at End of June	2003		2004		Change
	Value	%	Value	%	+ (-)
Resources	**253.3**	**100.0**	**290.2**	**100.0**	**36.9**
. Social Insurance Fund for Civil Servants.	95.9	37.8	109.0	37.6	13.1
. Social Insurance Funds for Public and Private Business Sectors Employees.	79.0	31.2	87.2	30.0	8.2
. Investment certificates proceeds.	55.2	21.8	60.2	20.7	5.0
. Cumulative returns on investment certificates. Group (A)	6.6	2.6	6.7	2.3	0.1
. Proceeds from US dollar development bonds.	1.7	0.7	1.7	0.6	-
. Post Office saving accounts.	22.3	8.8	27.8	9.6	5.5
. NIB account balances (net) at the banking system.	-9.1	-3.6	-4.4	-1.5	4.7
. Others.	1.7	0.7	2.0	0.7	0.3
Uses	**253.3**	**100.0**	**290.2**	**100.0**	**36.9**
. Government	123.9	48.9	134.3	46.3	10.4
. Public economic authorities	50.1	19.8	53.8	18.5	3.7
. Others	79.3	31.3	102.1	35.2	22.8

Source: Ibid.

The NIB's resources realized, during the year under review, totaled LE 36.9 billion. Of this amount, LE 10.4 billion was allocated to finance government investments, bringing the government debt balance with the NIB to LE 134.3 billion at the end of June 2004, and LE 3.7 billion to finance investments of public economic authorities, bringing their debt to LE 53.8 billion. The remainder (LE 22.8 billion) was used by the NIB to fund its different development activities, namely loans to holding companies and their affiliate units, concessional loans to a number of projects, as well as equity participation in various projects. As such, the NIB debt balance (net) reached LE 102.1 billion at the end of June 2004.

Accordingly, the NIB net credit position with the banking system rolled back by some LE 4.7 billion during the year under review, to reach LE 4.4 billion at the end of June 2004.

2/7/2- External Debt

The total outstanding external debt (public and private), denominated in US dollar, remained unchanged at the level of the previous FY, as it reached US$ 28.9 billion at the end of June 2004, with a slight increase of US$ 0.2 billion. This was ascribed to the appreciation of the exchange rates of most currencies of borrowing vis-à-vis the US dollar, and the rise in short-term loans by US$ 0.1 billion. Such a rise was, however, offset by the decline in the balance of dollar-denominated sovereign bonds because some resident financial institutions purchased US$ 0.1 billion of these bonds. Another contributing factor was the net repayment (disbursed loans and facilities less principal repayments) of US$ 1.5 billion, attributable to repayments of US$ 1.9 billion worth, and disbursements of only US$ 413.8 million.

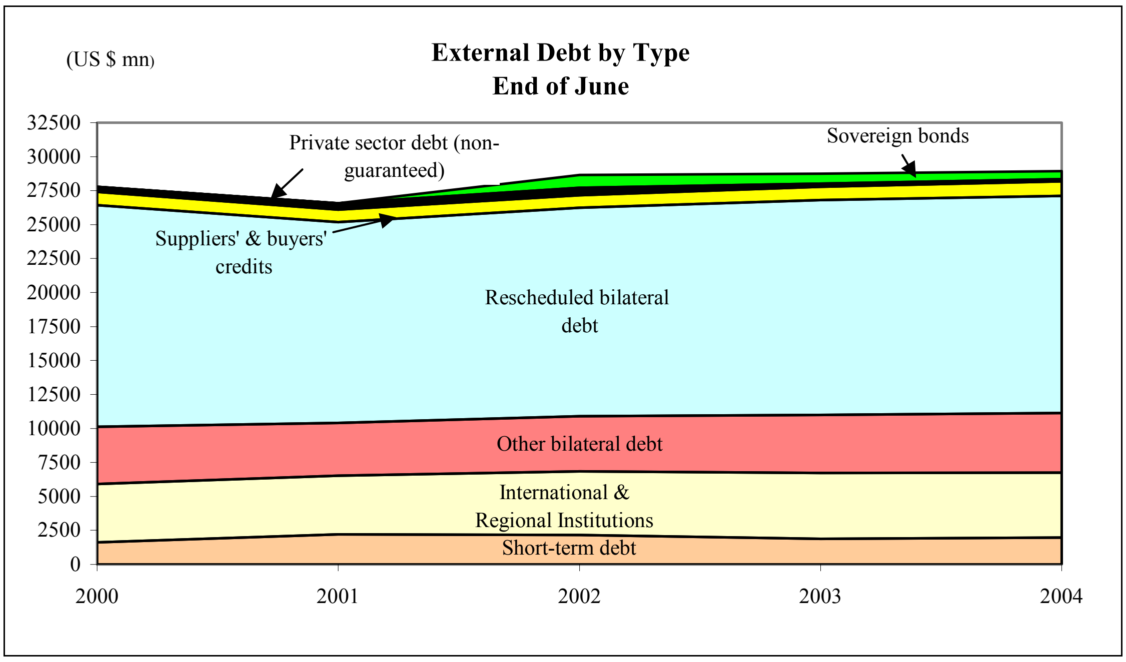
External Debt Components

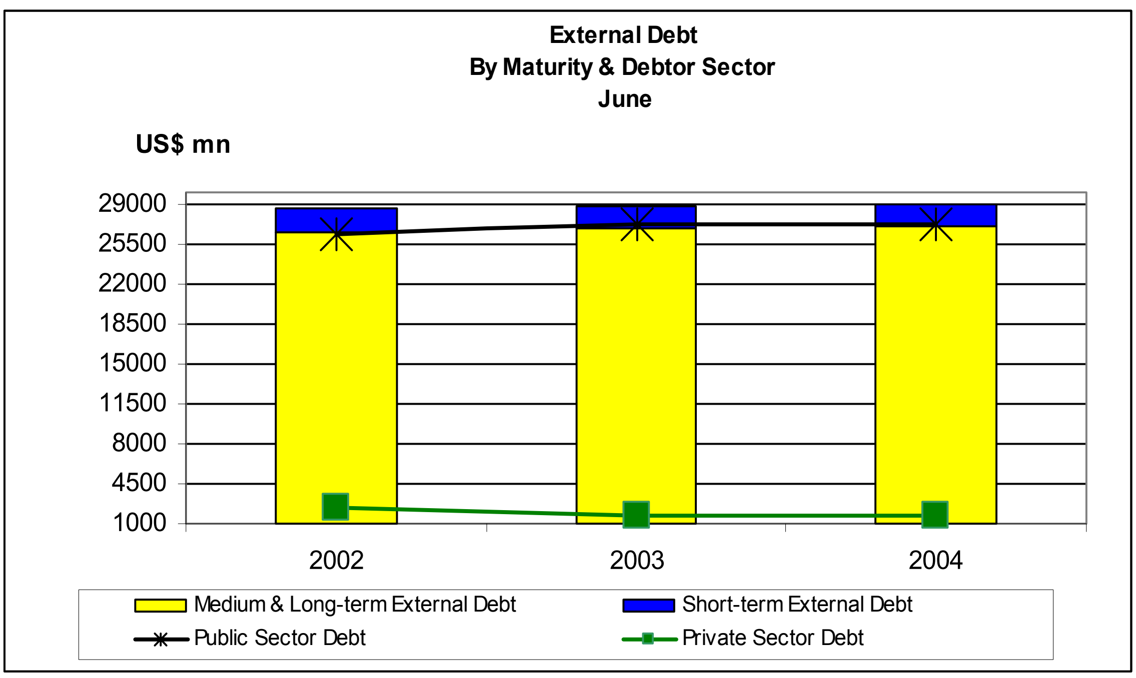
(US$ mn)

Balances at End of	June 2003		June 2004		Change
	Value	Relative Importance	Value	Relative Importance	+ (-)
Total External Debt	**28747.5**	**100.0**	**28937.8**	**100.0**	**190.3**
-Rescheduled bilateral loans	15804.1	55.0	15958.3	55.2	154.2
• Concessional	7512.6	26.1	7626.1	26.4	113.5
• Non-concessional	8291.5	28.9	8332.2	28.8	40.7
-Other bilateral loans	4270.1	14.8	4400.5	15.2	130.4
• Paris Club countries	3291.5	11.4	3364.9	11.6	73.4
• Other countries	978.6	3.4	1035.6	3.6	57.0
-International and regional institutions	4862.8	16.9	4781.1	16.5	(81.6)
-Suppliers' and buyers' credit	988.2	3.4	1084.8	3.8	96.6
-Sovereign bonds	735.4	2.6	578.7	2.0	(147.7)
-Short term loans	1864.5	6.5	1967.5	6.8	103.0
• Deposits	1305.1	4.5	1267.5	4.4	(37.6)
• Other facilities	559.4	2.0	700.0	2.4	140.6
- Private sector debt (non-guaranteed)	222.4	0.8	157.9	0.5	(64.5)

Breakdown of Egypt's external debt by creditor indicates that bilateral loans (rescheduled or non-rescheduled) due to Paris Club member countries reached some US$ 19.3 billion or 66.8% of the total. Debt due to countries other than Paris Club members reached US$ 1.0 billion or 3.6%. Suppliers' and buyers' credit accounted for US$ 1.1 billion, constituting 3.8%. Moreover, 58.9% of the total debt was due to four countries; namely France, the USA, Japan and Germany.

Indebtedness due to international and regional institutions amounted to US$ 4.8 billion at the end of June 2004, constituting 16.5% of the total, mostly owed by the public sector, with a share of 91.4%. The balance of short-term loans posted US$ 2.0 billion or 6.8% (52.4% was owed by the private sector). The balance of dollar-denominated sovereign bonds (holdings of non-resident institutions) reached some US$ 587.7 million against US$ 537.4 million at the end of June 2003, because some resident financial institutions purchased US$ 147.7 million of these bonds. The non-guaranteed debt of the private sector reached US$ 157.9 million or 0.5% of the total at the end of June 2004.





It is worth mentioning that the private sector's external debt totaled US$ 1.7 billion at the end of June 2004, as its ratio to the total external debt remained stable at 5.7% as compared with its balance at the end of June 2003.

Distribution of external debt by creditor countries and entities indicates that debt due to EU countries reached 39.4% of the total, followed by the USA (17.0%), Japan (13.1%), the Arab countries combined (5.3%), and the International Development Association (4.7%).

External Debt by Main Creditor

(US$ mn)

At the End of	June 2003	%	June 2004	%
Total External Debt	**28747.5**	**100.0**	**28937.8**	**100.0**
USA	5209.3	18.1	4915.6	17.0
Japan	3314.9	11.5	3778.4	13.1
EU, of which	**11097.4**	**38.6**	**11406.3**	**39.4**
France	4863.9	16.9	4945.3	17.1
Germany	3052.4	10.6	3372.7	11.7
Italy	938.8	3.3	872.4	3.0
Spain	849.3	3.0	823.5	2.8
UK	405.6	1.4	329.8	1.1
Austria	580.5	2.0	585.3	2.0
Arab Countries, of which	**1487.6**	**5.2**	**1521.5**	**5.3**
Saudi Arabia	311.8	1.1	181.7	0.6
UAE	143.9	0.5	175.7	0.6
Kuwait	365.1	1.3	433.5	1.5
International and Regional Institutions, of which	**4862.8**	**16.9**	**4781.1**	**16.5**
IDA	1352.9	4.7	1358.5	4.7
Arab Fund for Economic and Social Development	897.2	3.1	956.2	3.3
European Investment Bank	859.8	3.0	1015.4	3.5
World Bank	535.9	1.9	469.8	1.6
AMF	312.4	1.1	310.8	1.1
ADF & ADB	519.0	1.8	413.9	1.4
Islamic Development Bank (Jeddah)	280.4	1.0	153.8	0.5
Sovereign Bonds	**735.4**	**2.6**	**587.7**	**2.0**
Other Countries and Institutions	**2040.1**	**7.1**	**1947.2**	**6.7**

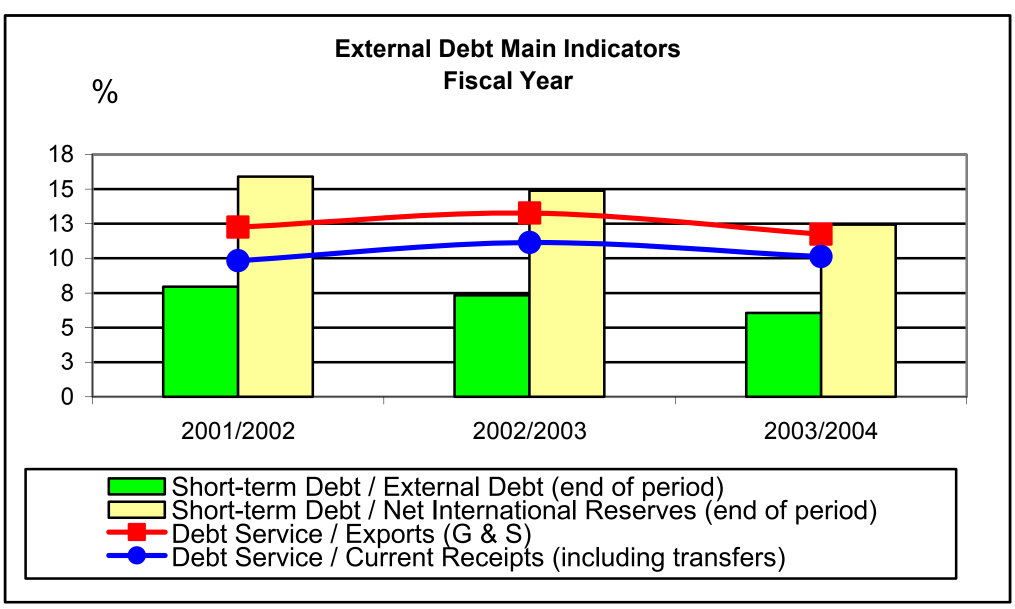
Distribution of the external debt by debtor at the end of June 2004 illustrates that banks debt increased by some US$ 381.9 million to US$ 2.5 billion, and central government debt by US$ 46.9 million to US$ 18.5 billion. Moreover, the debt owed by the CBE rose by US$ 7.4 million to US$ 1.0 billion. On the other hand, the debt owed by other sectors declined by US$ 245.9 million to US$ 7.0 billion. Nevertheless, these developments did not affect the external debt structure by debtor, as the government debt accounted for 63.9% of the total external debt, followed by the debt of the other sectors (24.2%), then banks (8.6%) and finally the Central Bank (3.3%).

External Debt by Debtor

(US$ mn)

At End of	June 2003	Relative Importance	June 2004	Relative Importance
Total External Debt	**28747.5**	**100.0**	**28937.8**	**100.0**
Medium- and long- term debt	**26883.0**	**93.5**	**26970.3**	**93.2**
Short-term debt	**1864.5**	**6.5**	**1967.5**	**6.8**
Central and local government	18443.5	64.2	18490.4	63.9
Medium- and long- term debt, of which:	18443.5	64.2	18490.4	63.9
Bonds and bills	735.4	2.6	587.7	2.0
Short- term debt	0.0	0.0	0.0	0.0
Monetary authority	962.4	3.4	969.8	3.3
Medium- and long- term debt	312.4	1.1	319.8	1.1
Short- term debt	650.0	2.3	650.0	2.2
Banks	2087.5	7.2	2469.4	8.6
Medium- and long- term debt	873.0	3.0	1151.9	4.0
Short-term debt	1214.5	4.2	1317.5	4.6
Other sectors	7254.1	25.2	7008.2	24.2
Medium- and long- term debt	7254.1	25.2	7008.2	24.2
Short- term debt	0.0	0.0	0.0	0.0

External debt service increased by US$ 268.3 million to reach around US$ 2.5 billion during FY 2003/2004 compared with US$ 2.3 billion during the previous FY. This resulted from a rise of US$ 293.9 million in principal repayments to reach US$ 1.9 billion, and a drop of US$ 25.6 million in interest payments to reach US$ 618.2 million. Accordingly, the debt service represented 9.2% of current receipts, including official and private transfers, during the year under review, against 10.1% during the previous FY. Moreover, the ratio of debt service/export proceeds of goods and services posted 10.8% against 12.1%.



At end of June 2004, the outstanding external debt as a percentage of GDP reached, at current prices, 37.8% against 41.5% during the previous FY. In addition, the ratio of the short-term external debt to total debt and to net international reserves recorded 6.8% and 13.3% against 6.5% and 12.6%, respectively.

Main Indicators of External Debt

(%)

	FY		
	2001/2002	2002/2003	2003/2004
Debt balance/GDP	33.7	41.5	37.8
Debt balance / exports of goods and services	171.2	154.2	123.5
Debt service/ exports of goods and services	12.2	12.1	10.8
Debt service/ current receipts and transfers	9.7	10.1	9.2
Interest payments/ exports of goods and services	3.9	3.5	2.6
Interest payments/ current receipts and transfers	3.1	2.9	2.3
Short-term debt/external debt	7.5	6.5	6.8
Short-term debt/net international reserves	15.2	12.6	13.3
Average external debt per capita (US dollar)	422.2	415.3	418.1

Accordingly, external debt per capita went up to reach US$ 418.1 at the end of June 2004, against US$ 415.3 at the end of June 2003. The following Table illustrates a decline in the ratio of external debt service payments in Egypt, compared with that of the developing countries combined.

Debt Service/Export Proceeds of Goods and Services in Egypt, Compared with the Group of Developing Countries

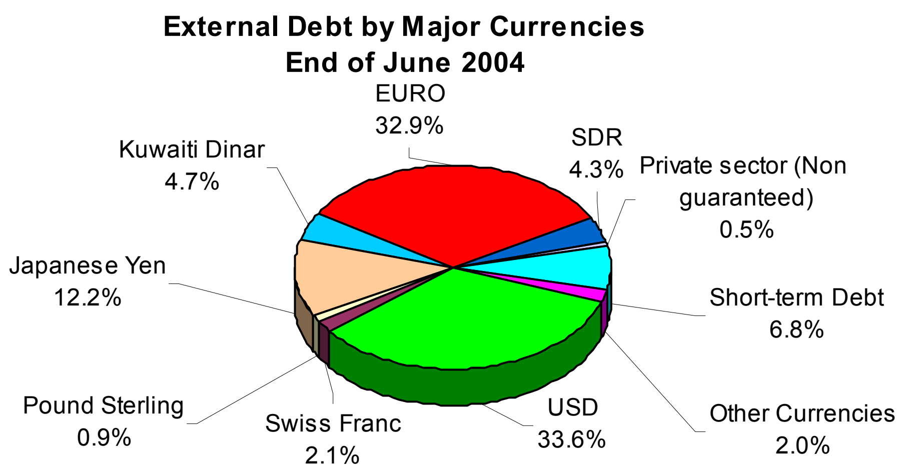
(%)

Calendar years	2002			2003		
	Interest	Principal	Total	Interest	Principal	Total
Developing countries	5.5	14.1	19.6	4.7	13.4	18.1
Africa	8.5	13.3	21.8	4.7	9.5	14.2
Asia(developing countries)	3.2	10.4	13.6	2.7	8.9	11.6
Middle East	1.9	5.3	7.2	1.7	6.3	8.0
Egypt*	3.5	6.1	9.6	3.1	8.6	11.7

Source: World outlook-April 2004-Statistical Section.

* According to BOP data in 2002 and 2003.

New commitments on loans and facilities reached US$ 1.0 billion during FY 2003/2004. International and regional institutions accounted for the bulk of commitments (US$ 0.8 billion) or 87.2% of the total, mostly extended by the Arab Fund for Economic and Social Development, the European Investment Bank, and the Islamic Development Bank. Moreover, commitments on medium- and long- term suppliers' and buyers' credit posted US$ 0.1 billion or 12.8% of the total.



- Dollar Share Includes International Arab Bank Deposit and sovereign Bonds.
- Private sector's medium & long-term debt (nonguaranteed) and short-term debt are not available in different

Distribution of external debt by main currencies (US$- Japanese yen-euro) indicates that the US$ accounted for the bulk of total external debt, with a relative importance of 33.6% because of outstanding obligations in the US dollar to creditors other than the USA. The euro followed with 32.9%, the Japanese yen with 12.2% and the Kuwaiti dinar with 4.7%.

External Debt by Main Currencies

(US$ mn)

	June 2003	%	June 2004	%
Total	**28747.5**	**100.0**	**28937.8**	**100.0**
US Dollar*	10488.1	36.5	9713.4	33.6
Canadian Dollar	147.4	0.5	145.0	0.5
Australian Dollar	137.3	0.5	136.0	0.5
Swiss Franc	589.4	2.1	600.0	2.1
Pound Sterling	240.6	0.8	263.0	0.9
Japanese Yen	3286.9	11.4	3540.0	12.2
Danish Krone	122.1	0.4	130.0	0.5
Norwegian Krone	28.0	0.1	28.0	0.1
Swedish Krona	44.4	0.2	43.0	0.1
Kuwaiti Dinar	1237.4	4.3	1356.0	4.7
Saudi Riyal	42.7	0.1	42.0	0.1
UAE Dirham	55.0	0.2	52.0	0.2
Euro	9035.5	31.4	9529.0	32.9
SDRs	1205.8	4.2	1235.0	4.3
Medium-and Long-Term Debt of the Private Sector (Non-Guaranteed)**	**222.4**	**0.8**	**157.9**	**0.5**
Total Short-Term Debt**	**1864.5**	**6.5**	**1967.5**	**6.8**

* Includes the Arab International Bank's deposit and sovereign bonds denominated in US dollar.

**Not available in different currencies.

2/8- Local SWIFT Service and Activity of Clearing Houses

Statistics of the SWIFT service, through which transfers and payment orders in LE among local banks are executed, indicate a rise in the number of transfers to 258.5 thousand, with a total value of LE 970.6 billion during FY 2003/2004, against 216.9 thousand and LE 998.2 billion in the previous FY.

Meanwhile, the statistics of the CBE clearing houses in Cairo, Alexandria and Port Said, through which interbank cheques are settled, show a decrease in the number of the cheques exchanged and an increase in their value during FY 2003/2004.

CBE Clearing Houses Activities

Years	Number of Cheques (000's)	Value of Cheques (in LE mn)	Change in	
			Number	Value
1998/99	8377	350246	3.4	8.1
1999/2000	8555	338083	2.1	(3.5)
2000/2001	8228	292168	(3.8)	(13.6)
2001/2002	7918	270543	(3.8)	(7.4)
2002/2003	10025	244581	26.6	(9.6)
2003/2004	9591	248224	(4.3)	1.5

The number of exchanged cheques reached 9.6 million, with a total value of LE 248.2 billion during the year under review against 10.0 million cheques and LE 244.6 billion during the previous FY. This resulted in an increase in the average value per cheque to LE 25.9 thousand against LE 24.4 thousand during the previous FY.

2/9- Human Resource Development

Within the requirements of coping with the modern and successive techniques applicable in international banks, the Central Bank of Egypt pays particular attention to develop the training programs it offers to support the human cadres in the banking sector to keep pace with such developments. This orientation is in line with the targets of the Economic and Social Development Plan for 2003/2004 in the field of human resource development on the national level. To this effect, a supreme council for the human resource development was formed presided by the Minister of Labor and Immigration to delineate the national policy and set a comprehensive national program for its development and optimal use. This is to be made in coordination with the relevant ministries and entities through an executive committee whose formation was decreed as well. This orientation shall extend to cover all governorates via forming local councils for human resource development headed by governors to devise the local policy of each governorate, in coordination with relevant ministries and entities within the framework of the national policy set by the Supreme Council.

2/9/1- CBE Programs

The number of trainees admitted to the programs provided by the CBE to the banking staff were 3328 during FY 2003/2004, through 111 courses specialized mainly in banking business.

The programs covered specialized fields of banking business (in Arabic and English); where 1537 trainees participated in 58 courses, in addition to the banking certificate programs held in Cairo and Alexandria with 154 participants attending three courses. Besides, the CBE organized foreign language programs in which 576 trainees participated via 17 courses.

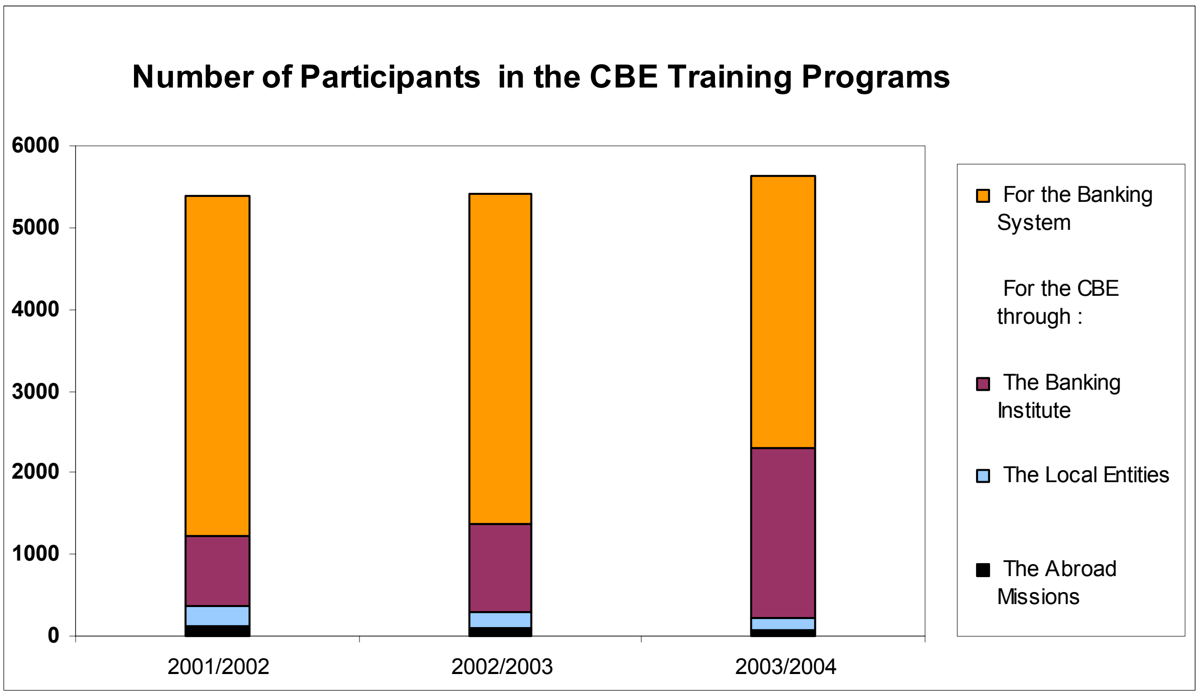
The CBE offered also 19 pre-promotion programs for all staff ranks attended by 664 trainees, as well as 14 courses for the banking staff in the governorates attended by 397 trainees.

CBE Training Programs

	2001/2002 Number		2002/2003 Number		2003/2004 Number	
	Courses	Particip-ants	Courses	Particip-ants	Courses	Particip-ants
-Programs for the Banking Sector Staff	**130**	**4054**	**100**	**3075**	**111**	**3328**
• Pre-promotion programs for all ranks	24	789	15	518	19	664
• Training programs on specialized fields of banking business	50	1438	54	1273	58	1537
• Certificate of Banking Studies (Cairo & Alexandria)	3	210	3	198	3	154
• Training programs on specialized fields of banking business (governorates)	11	771	9	517	14	397
• Foreign language programs	34	631	19	569	17	576
• Additional programs (unscheduled in the training plan)						
Tenders and auctions	3	68	-	-	-	-
Developing work systems in the administrative affairs	5	147	-	-	-	-
-Programs for the CBE Staff, through:		**1214**		**1367**		**2301**
• The Banking Institute		849		1083		2076
• Other training entities (British Council and French Cultural Centre)		249		190		148
• Missions abroad		116		94		77
- Trainees From Abroad (Sudan)	-	-	-	-	-	**33**
Total		**5268**		**4442**		**5662**

Along with the training courses offered by the CBE, 2076 of its employees enrolled in the training courses offered by the Banking Institute, supervised by the CBE; and other training centers too (the British Council, The French Cultural Centre and other) where 148 trainees participated. The CBE also sent 77 participants abroad to attend the training courses organized by regional and international institutions.

It is noteworthy that the CBE has organized a training program during the year to 33 participants from some Arab countries for training in the CBE various departments.



2/9/2- The Activity of the Banking Institute

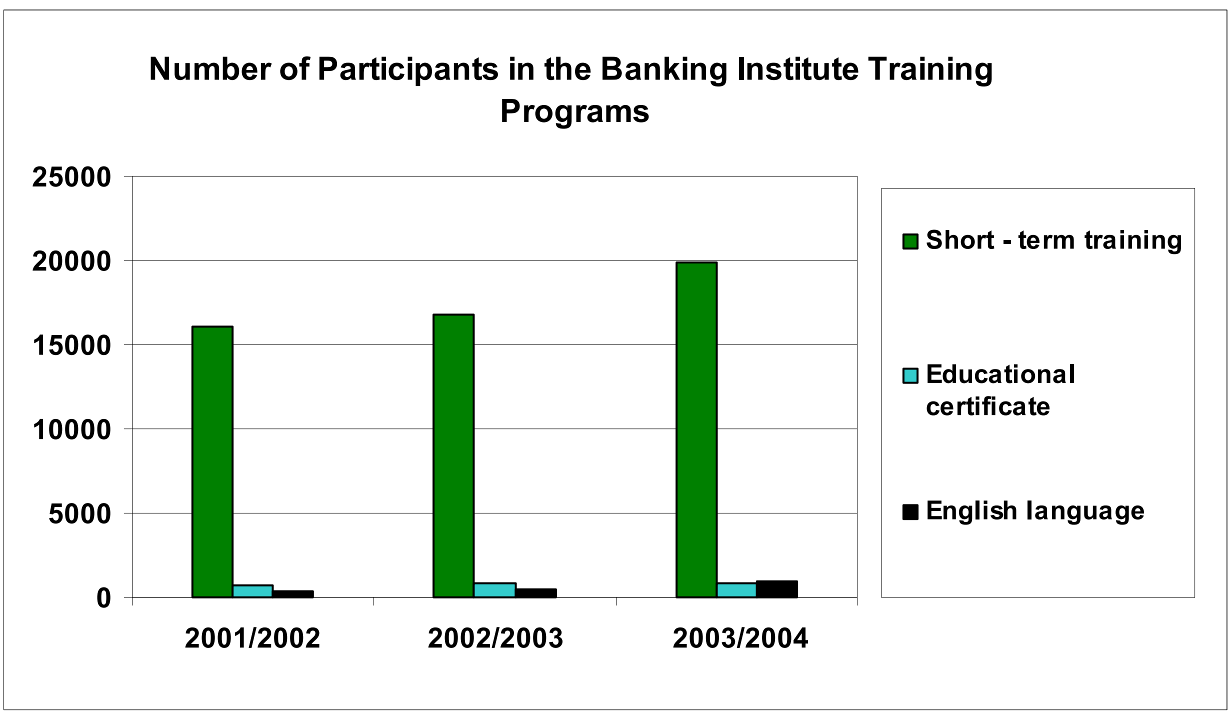
During FY 2003/2004, The Banking Institute has continued to organize training programs, with the objective of developing the professional skills and experiences of staff working in the banking, financial and monetary fields in Egypt, and some Arab and foreign countries. To cope with the modern training schemes, the Banking Institute re-categorized its training courses into training packages, where each comprises specialized programs tailored according to the special needs of the banking sector.

Number of Participants in the Banking Institute Programs

	2001/2002	2002/2003	2003/2004
Short-term training	16110	16785	19869
Educational certificate	743	812	869
English language	362	454	895
Free Studies	-	-	71
Total	**17215**	**18051**	**21704**

The number of participants in all courses and programs organized by the Banking Institute in its headquarters in Cairo and its branches in Cairo (Mohandessen branch), Alexandria and Port Said during FY 2003/2004 reached 21704, up by 20.2% compared with the previous year.

Short-term programs accounted for the largest share of the Institute’s agenda, as they covered direct and supervisory banking activities; programs on banking management of all types and levels; computer programs; contractual and special programs upon the request of banks and institutions; and programs organized for employees in financial bodies and companies. The number of participants in these programs reached 19869 trainees or 91.5% of total participants in the Institute's overall programs, recording an increase of 18.4% compared with the previous FY.



Among the most important events witnessed on the educational level was the initiation of the Banking Institute to some training courses, qualifying for a number of certificates in cooperation with some local and foreign entities. These courses covered the Certified Documentary Credit Specialist (CDCS) Program, in cooperation with the Institute of Financial Services in England, with 58 trainees from 23 banks; the Certified Bank Auditor (CBA) Program, in collaboration with the American Chamber of Commerce in Cairo, attended by 14 participants from 7 banks; and the Diploma in Human Resource Management, with 52 attending from 23 banks.

In the field of computer training, the Banking Institute initiated some training courses, qualifying for three approved certificates from Microsoft; namely, Microsoft Certified System Engineer (MCSE), and two certificates of Microsoft Certified Desktop Support Technician.

Meanwhile, the Banking Institute continued to organize a course to obtain a Diploma in Financial Services, Edinburgh, Scotland, with 635 participants/ subject.

In its endeavor to develop language proficiency for banking staff, the Institute has developed an English language program in May 2004; namely, English for International Communications, divided into six 72-hour levels. The Institute has also continued to organize some special programs for TOEFL qualification. The total number of participants in the English language programs reached 895 in the year of the report.

Furthermore, the Institute has organized 3 programs for the graduates of the faculties of Commerce and Economics, where 71 participants enrolled, about the basics of the banking business, English language and computer to prepare them to apply for banking jobs in the future.

The Banking Institute has continued to organize programs for preparing senior bankers, as it has organized the ninth Round in which 28 bankers from 15 banks participated in the year under review. The Institute has also sought the assistance of a group of the graduates of the Banking Leadership Program. The forum of Leadership Preparation was constituted as well to find a mechanism for communication between the Banking Institute and the program graduates to discuss the banking developments on the domestic arena and the bankers' needs to face them. The Institute has also organized two programs for the senior-post candidates at the Central Bank of Egypt and public commercial and specialized banks (under Law no. 5 for the year 1991) attended by 81 participants. This aimed to prepare a second cadre of youth leaders.

Out of the Institute's keenness to spread the knowledge of the most recent financial and banking concepts and developments, it released a series of Financial Infos. Four volumes have been issued till the year under review, namely, Basel II; the Exchange Rate Channel and its Role in Transmitting the Impact of the Monetary Policy; Financial Programming; and Retail Banking. Also, the Institute has continued to update and develop its website in Arabic and English to announce its training programs and plans. Also, the Institute's developed library has been granted an access to the Internet and provided with relevant technology.

Chapter 3 Banking Developments

Chapter 3
Banking Developments

3/1- Financial Position

The aggregate financial position of banks rose during FY 2003/2004, by LE 55.5 billion, or 9.6%, against an increase of LE 82.5 billion or 16.6% during the previous FY, to reach LE 633.4 billion at the end of June 2004.

Aggregate Financial Position of Banks

(LE mn)

End of June	2000	2001	2002	2003	2004
Cash	3431	3485	4453	5557	5412
Securities and investments	60818	71142	87726	111337	124099
TB Reverse repos	-	-	-	-	13332
Balances at banks abroad	17776	16252	20002	29798	43290
Balances at the CBE	35965	48743	57575	84642	94882
Balances at local banks	13435	18304	25669	26232	21408
Loan and discount balances	226776	241470	266100	284722	296199
Other assets	24137	28966	33939	35650	34814
Assets = Liabilities	**382338**	**428362**	**495464**	**577938**	**633436**
Capital	11764	12038	12531	18155	20346
Reserves	9226	10156	11238	11805	11454
Provisions	27554	31200	35869	40099	44584
Long-term loans and bonds	10579	11922	14057	14866	15012
Obligations to banks abroad	9970	11486	11830	16248	10332
Obligations to the CBE	11572	10638	11277	10301	9579
Obligations to local banks	12638	17520	23817	25277	20354
Deposits	260429	291225	340868	403144	461697
Other liabilities	28606	32177	33977	38043	40078

On the side of liabilities, the increase was mainly ascribed to a rise in deposits by LE 58.6 billion, provisions by LE 4.5 billion, other liabilities by LE 2.0 billion and equities by LE 1.8 billion. The rise was offset by the retreat in obligations to banks abroad by the equivalent of LE 5.9 billion, in obligations to local banks by LE 4.9 billion and in obligations to the CBE by LE 0.7 billion.

Relative Structure of Liabilities

(LE mn)

End of June	Relative Importance		Change During FY			
	2003	2004	2002/2003		2003/2004	
	%	%	Value	%	Value	%
Capital	3.1	3.2	5624	44.9	2191	12.1
Reserves	2.0	1.8	567	5.0	(351)	(3.0)
Provisions	6.9	7.1	4230	11.8	4485	11.2
Long-term loans and bonds	2.6	2.4	809	5.8	146	1.0
Obligations to banks in Egypt	6.2	4.7	485	1.4	(5646)	(15.9)
Obligations to banks abroad	2.8	1.6	4417	37.3	(5915)	(36.4)
Total deposits	69.8	72.9	62276	18.3	58553	14.5
Other liabilities	6.6	6.3	4066	12.0	2035	5.3
Total liabilities	**100.0**	**100.0**	**82474**	**16.6**	**55498**	**9.6**

As for the assets side, the increase reflected a rise in the following items: banks' investment in securities and TBs by LE 12.8 billion; balances at banks abroad by LE 13.5 billion; loan and discount balances by LE 11.5 billion and banks' balances at the CBE by LE 10.2 billion. However, balances at local banks decreased by LE 4.8 billion and other assets by LE 0.8 billion.

The rise in banks' investments in securities and treasury bills during the year resulted from the pickup in treasury bills by LE 5.0 billion; banks' investments in foreign securities by the worth of LE 3.9 billion; corporate equities by LE 2.6 billion; and government bonds in local currency by LE 1.4 billion. On the other hand, non-government bonds slackened by LE 0.1 billion.

Accordingly, the structure of banks' portfolio at the end of June 2004 indicates that the share of treasury bills was 47.3%, government bonds 28.3%, corporate equities 12.8%, foreign securities 8.1% and non-government bonds 3.5%.

Transactions of banks in Egypt with their correspondents abroad during 2003/2004 remarkably improved, as their net credit position moved up by LE 19.4 billion worth, as a result of the rise in their balances at banks abroad by the equivalent of LE 13.5 billion and the decline in their obligations towards them by LE 5.9 billion. Accordingly, their net account balance abroad has reached the equivalent of LE 33.0 billion at the end of June 2004, against LE 13.6 billion worth at the end of June 2003.

Relative Structure of Assets

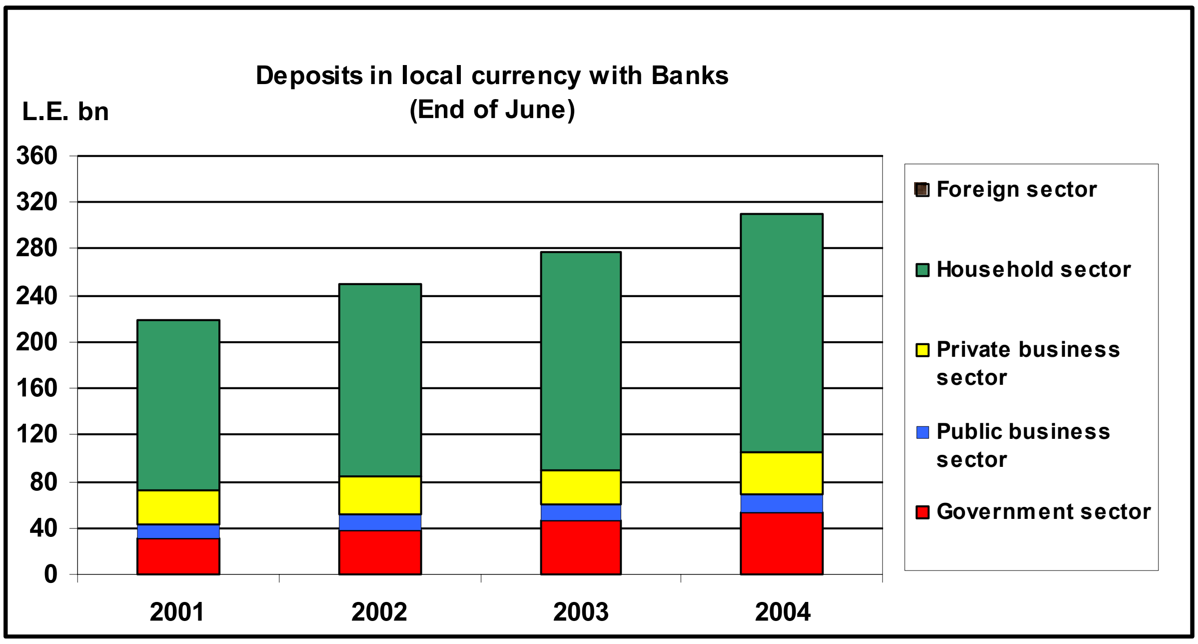
(LE mn)

End of June	Relative Importance		Change During FY			
	2003	2004	2002/2003		2003/2004	
	%	%	Value	%	Value	%
Cash	1.0	0.8	1104	24.8	(145)	(2.6)
Investment in securities	19.3	19.6	23611	26.9	12762	11.5
TB reverse repos	-	2.1	-	-	13332	∞
Balances at banks in Egypt	19.1	18.4	27630	33.2	5416	4.9
Balances at banks abroad	5.1	6.8	9796	49.0	13492	45.3
Loan and discount balances	49.3	46.8	18622	7.0	11477	4.0
Other assets	6.2	5.5	1711	5.0	(836)	(2.3)
Total Assets	**100.0**	**100.0**	**82474**	**16.6**	**55498**	**9.6**

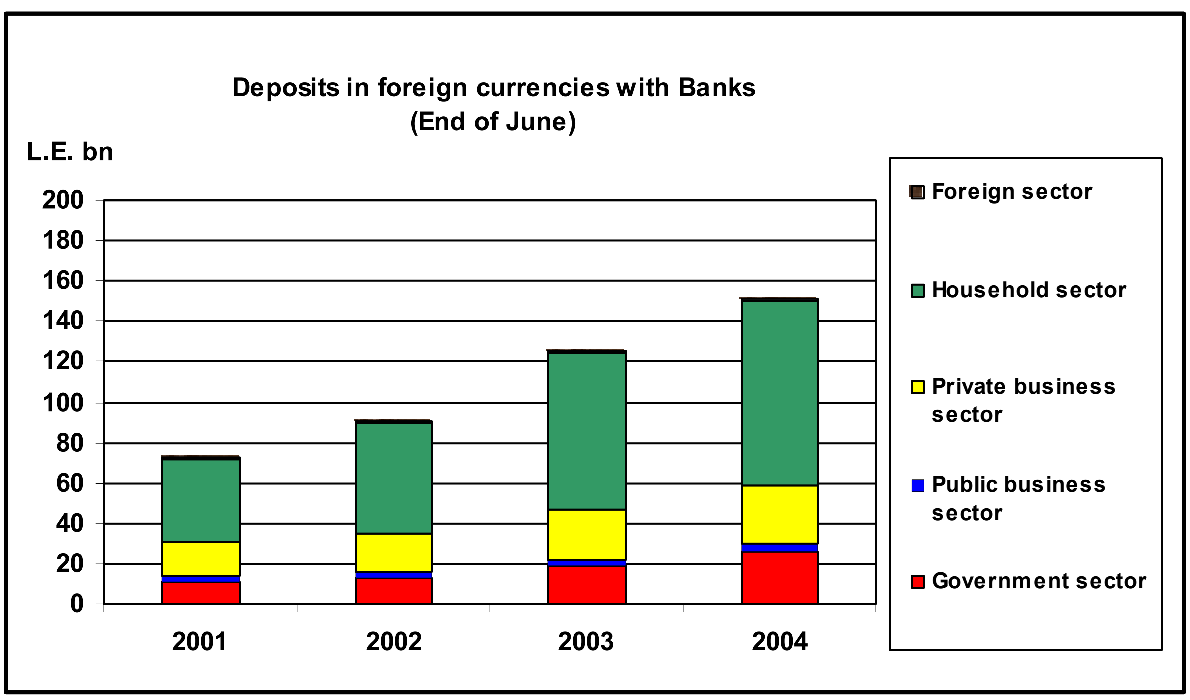
3/2- Deposits

Deposits at banks grew by LE 58.6 billion, or 14.5%, during FY 2003/2004, against LE 62.3 billion, or 18.3% during the previous FY, to reach LE 461.7 billion, or 72.9% of their aggregate financial position at the end of June 2004. Local currency deposits amounted to LE 310.9 billion, with an increase of LE 32.7 billion, or 11.8%, against LE 28.1 billion, or 11.2%. Foreign currency deposits reached the equivalent of LE 150.8 billion, with a rise of LE 25.9 billion, or 20.7%, during the year under review against an increase of LE 34.2 billion worth , or 37.7% during the previous FY.

Distribution of LE deposits during the year showed that the household sector contributed 54.4 % to the rise. The sector's deposits escalated by LE 17.8 billion, or 9.5 %, to reach LE 205.4 billion, or 66.1 % of total deposits in local currency at the end of June 2004. Deposits of the government sector also augmented by LE 8.1 billion, or 17.5 %; the private business sector by LE 5.1 billion or 17.1%; the public business sector by LE 1.5 billion or 10.7%. However, the rise in the foreign sector’s deposits was confined to LE 0.2 billion.



The household sector contributed more than half the rise in foreign currency deposits, as its deposits grew by the equivalent of LE 13.8 billion, or 17.9 %, to reach the equivalent of LE 90.9 billion, or 60.3 % of total foreign currency deposits at the end of June 2004. Deposits of the government sector went up by the equivalent of LE 7.2 billion, or 38.0 %; the private business sector by the equivalent of LE 4.4 billion, or 17.4 %; and the public business sector by the equivalent of LE 0.6 billion, or 19.3 %. Meanwhile, deposits of the foreign sector decreased by the equivalent of LE 0.1 billion.



Deposits at Banks by Sector

(LE mn)

End of June	Local Currency			Foreign Currencies		
	2002	2003	2004	2002	2003	2004
Total	**250106**	**278179**	**310870**	**90762**	**124965**	**150827**
Government sector	38578	46071	54120	13328	18977	26187
Public business sector	13930	13929	15414	2194	2878	3432
Private business sector	31594	30087	35219	19426	25179	29550
Household sector	165648	187594	205375	54775	77111	90899
Foreign sector	356	498	742	1039	820	759

3/3- Lending Activity

Banks' credit facilities increased by LE 11.5 billion or 4.0 % during FY 2003/2004, against LE 18.6 billion or 7.0 % during the previous FY, to reach LE 296.2 billion or 46.8% of the aggregate financial position of banks and 64.2% of total deposits at end of June 2004.

Distribution of credit facilities by currency revealed a rise of LE 9.5 billion, or 4.3% in local currency, compared with LE 5.7 billion or 2.7% during the previous FY, to reach LE 228.2 billion at the end of June 2004. Facilities offered in foreign currencies increased by only the equivalent of LE 2.0 billion, or 3.1% to reach the equivalent of LE 68.0 billion at the end of June 2004.

Breakdown of LE credit by debtor revealed that the private business sector accounted for more than half the rise in LE credit during the year, as it obtained LE 5.0 billion. An increase was seen in the loans granted to the household sector by LE 2.7 billion, and to the public business sector and the government sector by LE 0.9 billion for each. However, credit granted to the foreign sector retreated slightly.

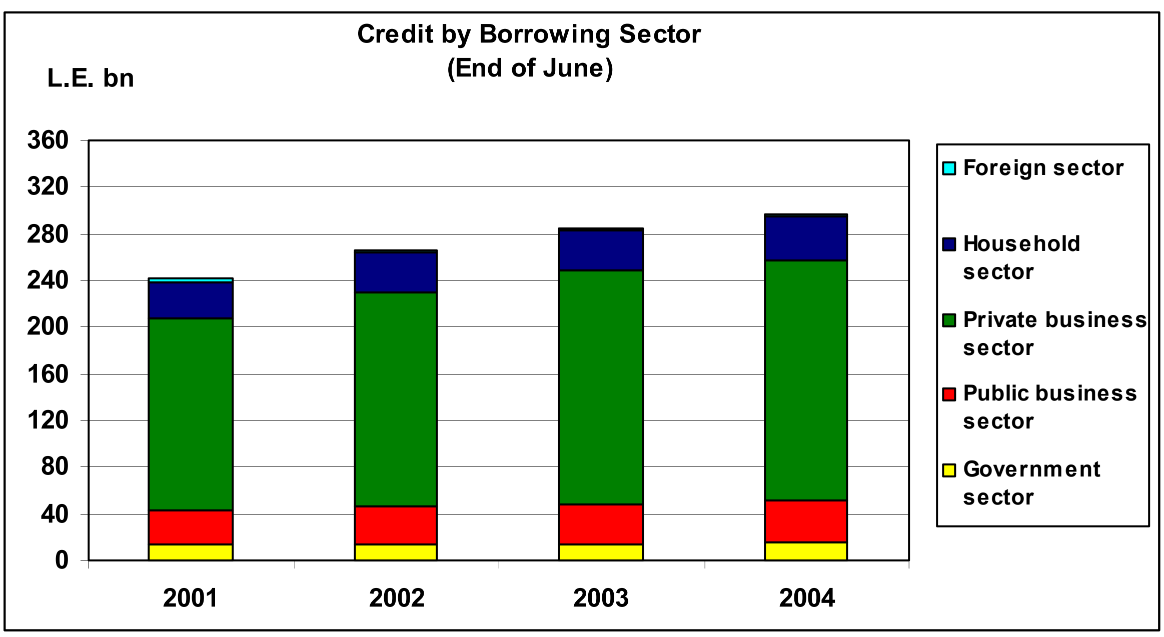
Against this background, it is clear that the private business sector accounted for 67.6% of total credit offered in local currency at the end of June 2004. The household sector followed with 15.7%, the public business sector with 12.1%, the government sector with 4.4%, and the foreign sector with 0.2% at the end of June 2004.

Concerning the foreign currency credit, the debt of most sectors retreated, with the exception of the government sector whose debts rose by the equivalent of LE 2.0 billion. Despite the fact that the debt of the private business sector rose by merely the equivalent of LE 0.8 billion during the year, the sector obtained 75.9% of total foreign-currency facilities at the end of June 2004. The public business sector followed, with 11.4% of total credit; then the government sector with 9.2%; the foreign sector with 2.0%; and finally the household sector with 1.5%.

Credit by Sector

(LE mn)

End of June	Local Currency			Foreign Currencies		
	2002	2003	2004	2002	2003	2004
Total	**213008**	**218696**	**228159**	**53092**	**66026**	**68040**
Government sector	9901	9049	9963	4661	4248	6240
Public business sector	25831	26835	27690	5060	8051	7740
Private business sector	144446	149118	154162	40670	50827	51668
Household sector	32225	33285	35955	1070	1350	1059
Foreign sector	605	409	389	1631	1550	1333



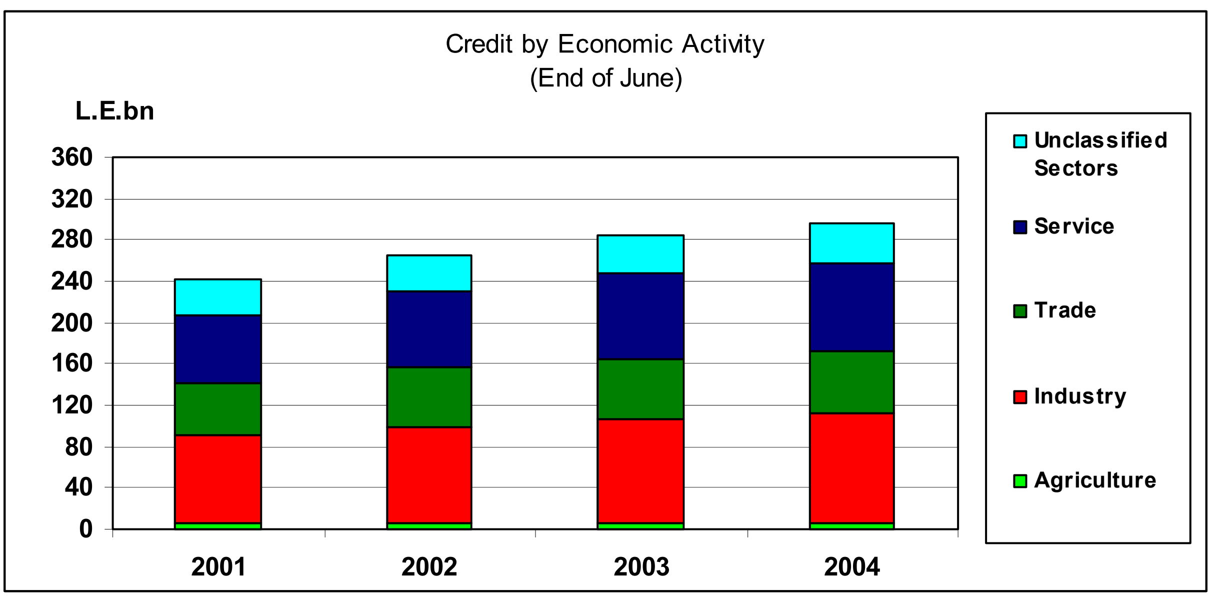
Breakdown of local currency credit by economic activity during the year showed that the share of the manufacturing sector edged up by LE 3.5 billion, bringing its indebtedness to LE 77.7 billion, or 34.1% of total local currency credit at the end of June 2004. The services sector obtained LE 2.0 billion, with its total debt reaching LE 60.5 billion, or 26.5%, and the trade sector LE 0.9 billion, with a total debt of LE 48.5 billion, or 21.2%. Credit to the agriculture sector was confined to LE 0.5 billion, bringing its debts to LE 5 billion, or 2.2%.

As regards the foreign currency credit, the manufacturing sector received the bulk of the rise, as its debt rose by the equivalent of LE 1.8 billion to post LE 28.6 billion or 42% of the total facilities at the end of June 2004. The debt of the trade sector climbed by the equivalent of LE 1.0 billion to reach LE 23.9 billion or 18.4% and of the agriculture sector by the equivalent of LE 0.1 billion to reach no more than LE 0.6 billion or 0.8%. However, credit granted to the services sector decreased by the equivalent of LE 0.4 billion to post LE 23.9 billion, constituting 35.2% at the end of June 2004.

Credit by Economic Activity

(LE mn)

End of June	Local Currency			Foreign Currencies		
	2002	2003	2004	2002	2003	2004
Total	**213008**	**218696**	**228159**	**53092**	**66026**	**68040**
Agriculture	5167	4521	5015	549	447	550
Manufacturing	73179	74269	77722	20562	26782	28569
Trade	47251	47530	48479	9175	11557	12552
Services	54325	58547	60505	20098	24341	23941
Unclassified sectors	33086	33829	36438	2708	2899	2428



Loans and advances granted by banks (excluding discount balances) reached LE 294.9 billion at the end of June 2004, recording a rise of LE 11.5 billion during the year. This was ascribed to a rise of LE 16.1 billion in the one-year-or-less loans (in LE or foreign currencies), to reach LE 186.5 billion, or 63.3% of the total at the end of June 2004. However, loans of more than one year declined by LE 4.6 billion, to post LE 108.4 billion, or 36.7% of the total.

3/4- Cash Flows

According to the statement of banks’ cash flows during FY 2003/2004, domestic transactions realized a surplus of LE 23.3 billion, as their resources reached LE 72.7 billion, and their uses LE 49.4 billion. However, this surplus was met by an equivalent deficit in banks' external transactions.

As for domestic transactions, the resources came from the rise in deposits at banks by LE 58.6 billion, in other obligations by LE 6.5 billion, and the decrease in balances at local banks by LE 4.8 billion. The domestic uses were an outcome of the decrease in obligations towards banks in Egypt by LE 4.9 billion and the increase of the portfolio investment by LE 22.2 billion, lending and discount balances by LE 11.5 billion and cash and balances at the CBE by LE 10.0 billion.

As for external transactions, they were confined to uses. Obligations to banks abroad dropped by the equivalent of LE 5.9 billion, while balances at banks abroad rose by the equivalent of LE 13.5 billion and portfolio investment by LE 3.9 billion.

Banks' Cash Flows Statement*

(LE mn)

During	2002/2003	2003/2004
First: Domestic Transactions		
1- Total Resources	**79032**	**72719**
a- From the Increase in Obligations (Liabilities)	**79032**	**67059**
Deposits	62276	58553
Obligations to the CBE	-	-
Obligations to banks in Egypt	1460	-
Capital accounts (equities)	6191	1840
Loans and bonds	809	146
Other obligations	8296	6520
b- From the Decrease in Assets	**-**	**5660**
Balances at local banks	-	4824
Other assets	-	836
2- Total Uses	**72103**	**49439**
a- In Reducing Obligations	**976**	**5646**
Obligations to the CBE	976	722
Obligations to banks in Egypt	-	4924
b- In Increasing Assets	**71127**	**43793**
Cash and balances at the CBE	28171	10095
Portfolio investment	22060	22221
Balances at local banks	563	-
Lending and discount	18622	11477
Other assets	1711	-
Surplus (+) or deficit (-) (1-2)	**6929**	**23280**
Second: External Transactions		**-**
1- Total Resources	**4418**	
a- From the Increase in Obligations	**4418**	**-**
Obligations to banks abroad	4418	-
b- From the Decrease in Assets	**-**	**-**
Balances at banks abroad	-	-
Portfolio investment	-	-
2- Total Uses	**11347**	**23280**
a- In Reducing Obligations	**-**	**5915**
Obligations to banks abroad	-	5915
b- In Increasing Assets	**11347**	**17365**
Portfolio investment	1551	3873
Balances at banks abroad	9796	13492
Surplus (+) or deficit (-) (1-2)	**-6929**	**-23280**

*The figures in this statement are confined to the change in the balance at end of the year from that at end of the preceding year.

3/5 - Performance Indicators

The Central Bank of Egypt assesses the soundness of banks' performance by tracking a set of internationally recognized indicators that measure a bank's capital adequacy and asset quality, especially the lending assets and bank profitability. They also gauge banks’ compliance with the liquidity and reserve requirement ratios established by the CBE in its capacity as the regulatory authority.

Hereinafter are the results of the performance of banks in each area according to the financial position at the end of June 2004.

3/5/1- Capital Adequacy Standard

According to this standard, banks registered with the CBE (42 banks) – excluding foreign branches– are obliged to abide by a ratio established by the CBE between capital (core and supplementary) on one hand, and risk-weighted assets and contingent liabilities at any given date, on the other hand. The minimum ratio set by the CBE is 10%. Half of that standard should be at least from the core capital that comprises the paid-up capital, reserves and retained profits. As for the supplementary capital, it is to be composed of the loan risk provision, regular contingent liabilities and supplementary loans of more than five years maturity. Twenty percent of the value of these loans is to be redeemed in each year of the last five years of the loans maturity. Also, the supplementary capital is to include 45% of the increase arising from the differences between the fair and the book values for the financial investments available for sale, and held to maturity, as well as investments in subsidiary and common-interest companies.

Assets and contingent liabilities are calculated on a risk-weighted basis, ranging between 0% and 100% according to a certain risk weighting system to be determined by the CBE. The bank's full compliance with this standard reflects its ability to confront any potential risks.

Follow up of banks' compliance with this standard showed:

- The ratio in all banks combined reached 11.2% (against 10.0% as a minimum established ratio), of which core capital accounted for 9.0% and supplementary capital for 2.2%.
- The number of banks whose capital adequacy ratio ranges from 10 % to 15% amounted to 17 banks. Banks accounting for a ratio above 15% were 15 in number, while the rest (10 banks) had a ratio of less than 10%.

3/5/2- Asset Quality

As earlier decided by the CBE, the profits of eight banks for the FY ending 2002 would not be accounted as profits, as their auditors' reports indicated a shortfall in their provisions. Accordingly, they were obliged to gear these profits towards enhancing the aforementioned provisions and urged to increase their capital to generate resources for investment in quality and yielding assets. Consequently, these banks will be able to realize surpluses to enhance their provisions adequately. In light of this fact, the CBE received financial statements from some banks for the financial year ending 2003, where their income statements were balanced. Furthermore, instructions were given to some banks to augment their reserve balances and increase their capital through the surplus of 2003.

3/5/3- Profitability

It reflects the size of bank profits and the bank's ability to augment its equities and distribute dividends on its shareholders. The follow up of banks profitability reveals the following:

A- Banks whose fiscal year ends June 30 (mainly public sector banks)

- Net profits for the FY ending June 30, 2003 amounted to LE 592 million, down from LE 852 million a year earlier.

- Banks' net profits /equities (average) represented 4.5% at the end of June 2003 against 7.2% at the end of the previous FY. Banks’ net profits/assets (average) constituted 0.2% against 0.3%.

B- Banks whose fiscal year ends Dec. 31

- Banks’ net profits for the FY ending Dec. 31, 2003 posted LE 2147 million against LE 1312 million in the preceding FY.
- Banks' net profits/equities (average) recorded 15.9% at the end of Dec. 2003 against 10.6 % at the end of Dec. 2002. In the meantime, their net profits/assets (average) reached 1.0% against 0.7%.

3/5/4- Liquidity

All banks combined maintained during June 2004 the minimum requirements of the liquidity ratios for local currency (20%) and for foreign currencies (25%). Within this context, the average liquidity ratio was 31.9% in local currency, and 58.2% in foreign currencies.

3/5/5- Reserve Requirement Ratio

All banks combined observed the minimum reserve requirement ratio (14%), as it reached 14.1% during the period ending 21 June 2004.

The following are the main financial indicators according to banks' financial positions as at end of June 2004:

(%)

Indicator	End of June 2003	End of June 2004
Liquid assets/customers' deposits	53.4	62.7
Foreign assets/foreign liabilities and equities	100.7	101.4
Customers' loans/customers' deposits	70.8	59.9
Claims on banks in Egypt/claims to banks in Egypt	101.5	120.7
Claims on banks abroad/claims to banks abroad	183.0	417.8
Claims on banks abroad/claims of banks abroad + customers’ deposits in foreign currencies	21.1	26.7
Contingent liabilities/total assets	13.4	16.1

Chapter 4 : Domestic Economic Developments

4/1- Economic Growth
4/2- Inflation
4/3- Consolidated Fiscal Operations of the General Government
4/4- Balance of Payments and Foreign Trade
4/5- Stock Exchange
4/6- Insurance Sector

Chapter 4
Domestic Economic Developments

4/1: Economic Growth

The improvement in the level of economic performance was associated with the implementation of fiscal and monetary policies aiming to increase government and private investment, and to achieve a relative stability in foreign exchange market. In this respect, new monetary policy instruments have been developed, and the BOP current account has shown some improvement. According to the Ministry of Planning, the GDP at factor cost and constant prices rose to about LE 380.8 billion, up by 4.3% in FY 2003/2004, against 3.0% in the previous FY.

The GDP at market price reached about LE 406.8 billion, with a growth rate of 4.1%, due to the rise in net indirect taxes by 2.0%.

GDP and Real Growth Rate

(at prices of base year 2001/2002)

	2002/2003	2003/2004
GDP at factor cost (LE bn)	365.2	380.8
Growth rate (%)	3.0	4.3
GDP at market price (LE bn)	390.7	406.8
Growth rate (%)	3.1	4.1

4/1/1: GDP by Sector

A follow-up of the FY 2003/2004 plan performance reveals that productive sectors accounted for 50.4% of GDP. The manufacturing sector was the principal contributor to GDP, with a share of 18.5%, followed by the agriculture, irrigation and fishing sector with 16.6%, and then petroleum sector with 8.1%.

The services sectors shared with 49.6% in GDP. Of these sectors were the wholesale and retail sector, accounting for 11.7%, the general government (9.8%), the transportation, communications and storage (6.8%), then the financial intermediation and support activities (5.8%).

Relative Importance of Sectors in GDP

(at prices of base year 2001/2002)

	2002/2003		2003/2004	
	Value (LE bn)	Relative Importance	Value (LE bn)	Relative Importance
Productive Sectors, of which:	**185.8**	**50.9**	**192.0**	**50.4**
Agriculture, irrigation and fishing	61.2	16.8	63.2	16.6
Mining and crude petroleum	30.2	8.3	30.9	8.1
Manufacturing	68.2	18.7	70.6	18.5
Construction and building	15.7	4.3	16.0	4.2
Service Sectors, of which:	**179.4**	**49.1**	**188.8**	**49.6**
Transportation, communications and storage	24.9	6.8	25.7	6.8
Wholesale and retail trade	43.0	11.8	44.7	11.7
Financial inter-mediation & support activities	21.6	5.9	22.3	5.8
General government	36.1	9.9	37.1	9.8

At the sectoral level, productive sectors activities recorded 3.3%. Electricity posted the highest rate of 7.1%, followed by water (5.7%). The remaining activities achieved growth rates ranging between 2.0% and 3.7%.

GDP of Productive Sectors and Real Growth Rates

(at prices of base year 2001/2002)

	2002/2003		2003/2004	
	Value (LE bn)	Growth Rate %	Value (LE bn)	Growth Rate %
Productive Sectors	**185.8**	**2.2**	**192.0**	**3.3**
Agriculture, irrigation and fishing	61.2	4.9	63.2	3.3
Mining and crude petroleum	30.2	2.9	30.9	2.3
Manufacturing and petroleum products	70.8	1.0	73.4	3.7
Electricity	6.3	6.3	6.8	7.1
Water	1.6	5.0	1.7	5.7
Construction and building	15.7	-5.2	16.0	2.0

Services sectors achieved a growth rate of 5.3%. Most of the increase in growth rates was in restaurants and hotels (38.4%), the Suez Canal (9.0%), and education, health, and social, cultural and recreation, and personal services (5.5%). The growth rates of the remaining activities of this group ranged between 2.6% and 4.0%.

GDP of Service Sectors and Real Growth Rates

(at prices of base year 2001/2002)

	2002/2003		2003/2004	
	Value (LE bn)	**Growth Rate %**	**Value (LE bn)**	**Growth Rate %**
Services Sectors	**179.4**	**3.9**	**188.8**	**5.3**
Transportation, communications and storage	24.9	4.9	25.7	3.2
Suez Canal	10.1	23.1	11.0	9.0
Wholesale and retail trade	43.0	0.0	44.7	4.0
Financial intermediation and support activities	21.6	2.3	22.2	3.0
Insurance and social security	9.4	3.0	9.7	2.6
Restaurants and hotels	7.7	18.8	10.6	38.4
Real estate activities	14.2	2.0	14.7	3.6
General government	36.1	2.4	37.1	2.8
Education, health, and social, cultural and recreation, and personal services	12.4	4.2	13.1	5.5

As the State continued its policy to rely on the private sector as a leader of development in the country, the estimated GDP growth rate of this sector reached 5.0% during the FY 2003/2004, outpacing that of the overall GDP. Thus, the private sector contributed 65.9% to GDP during this year, up from 65.4% in the previous FY.

Relative Importance of the Public and Private Sectors in GDP

(%)

	2002/2003		2003/2004	
	Public	Private	Public	Private
GDP	**34.6**	**65.4**	**34.1**	**65.9**
Productive Sectors, of which:	**26.5**	**73.5**	**26.0**	**74.0**
Agriculture, irrigation and fishing	0.4	99.6	0.4	99.6
Mining, crude petroleum and gas	85.5	14.5	85.0	15.0
Manufacturing	12.9	87.1	12.7	87.3
Construction and building	41.6	58.4	41.5	58.5
Services Sectors, of which:	**42.9**	**57.1**	**42.3**	**57.7**
Transportation, communications and storage	16.6	83.4	16.6	83.4
Wholesale and retail trade	4.1	95.9	4.1	95.9
Financial intermediation & support activities	65.7	34.3	66.1	33.9
Real estate activities	4.1	95.9	4.1	95.9
General government	100.0	0.0	100.0	0.0
GDP Growth Rate	**..**	**..**	**2.9**	**5.0**

.. Not available

At the sectoral level, activities of the private sector were concentrated in the productive sectors (56.6% of its GDP). On the other hand, the share of this sector in the services sectors represented 43.4% of its GDP during FY 2003/2004.

As a reflection of the rising contribution of the private sector to GDP in FY 2003/2004, its share in the activities of the productive sectors increased at the overall level to reach 74.0%. Its share was clearly pronounced in the agriculture, irrigation and fishing; the manufacturing; and the construction and building.

As for the activities of the services sectors, the private sector contributed 57.7% to their output on the overall level. Its contribution was concentrated in the sectors of wholesale and retail trade; real estate; and transportation, communications and storage.

4/1/2- GDP by Expenditure

The abovementioned policies which have been in place during the FY 2003/2004, contributed to the recovery of markets and the push-up of economic growth. Thus, the expected growth rate in GDP at market price reached 4.1% against 3.1% in the previous FY. Therefore, the final consumption (public and private) moved up by 2.7% to reach LE 343.0 billion. Of this figure, about LE 292.8 billion went to the private consumption, with a growth rate of 2.7%, and about LE 50.2 billion to the public consumption, with 3.1%.

Moreover, thanks to these policies, the gross capital formation realized a pick-up of 5.7% during FY 2003/2004 against a retreat of 4.3% in the previous FY. This rise was owing to a 6.6% increase in investments.

GDP by Expenditure

(at prices of base year 2001/2002)

	Value (LE bn)		Structure (%)		Growth Rate (%)	
	2002/2003	2003/2004	2002/2003	2003/2004	2002/2003	2003/2004
1- Final Consumption	**333.9**	**343.0**	**85.5**	**84.3**	**2.4**	**2.7**
-Public consumption	48.7	50.2	12.5	12.3	3.2	3.1
-Private consumption	285.2	292.8	73.0	72.0	2.2	2.7
2- Gross Capital Formation	**66.2**	**70.0**	**16.9**	**17.2**	**(4.3)**	**5.7**
-Investments	63.5	67.7	16.2	16.6	(5.9)	6.6
-Inventory change	2.7	2.3	0.7	0.6	58.8	(14.8)
3- Gross Domestic Expenditure (1+2)	**400.1**	**413.0**	**102.4**	**101.5**	**1.2**	**3.2**
4- Exports of goods and Services	77.6	95.8	19.9	23.5	11.8	23.5
5- Imports of goods and services	87.0	102.0	22.3	25.0	1.3	17.2
6- Domestic Resource Gap (4-5)	**(9.4)**	**(6.2)**	**(2.4)**	**(1.5)**	**(43.0)**	**(34.0)**
7- GDP at Market Price (3+6)	**390.7**	**406.8**	**100.0**	**100.0**	**3.1**	**4.1**
8- Gross domestic saving (7-1)	56.8	63.8	14.5	15.7	7.8	12.3

As GDP at market price grew by a rate higher than that of the domestic expenditure (final consumption and gross capital formation), domestic resources gap narrowed to 1.5% of GDP during FY 2003/04 from 2.4% during the previous FY. Domestic saving/GDP improved from 14.5% to 15.7% during the year.

4/1/3- Implemented Investments

The investments implemented (at current prices) during FY 2003/2004 totaled some LE 78.1 billion against LE 68.1 billion in the preceding FY, with a growth rate of 14.7% . Most of the rise in the growth rate was attributed to the increase in the prices of intermediate and final goods (locally produced, or imported) used in these investments.

According to the relative structure of investments by implementing entities, the public sector (general government, economic authorities, and the public business sector) implemented investments of LE 40.3 billion or 51.6% of total investments. The investments of this sector were concentrated in the activities of transportation, communications and storage (27.6% of total investments of this sector); electricity and water (19.9%); agriculture, irrigation and reclamation (8.5%); and education services (7.9%).

The private sector implemented investments of LE 37.8 billion or 48.4% of total investments, with a rise of 15.2% compared with the previous FY. These investments covered all economic activity sectors except the Suez Canal, and financial intermediation, insurance and social security. The bulk of the investments of the private sector went to mining, crude petroleum and natural gas (31.7% of total implemented investments); real estate activities (19.1%); and transportation, communications and storage (13.8%).

Total Implemented Investments

	2002/2003	2003/2004	2002/2003	2003/2004	2003/2004
	Value (LE bn)		Structure (%)		Growth Rate%
Total Investments	**68.1**	**78.1**	**100.0**	**100.0**	**14.7**
Public	35.3	40.3	51.8	51.6	14.2
Private	32.8	37.8	48.2	48.4	15.2

A follow-up of economic performance showed that the labor force reached 20.7 million persons in mid-FY 2003/2004, representing 30.2% of total population and with a rise of 2.6%. Moreover, the number of employees rose by 2.7% to reach 18.7 million persons. Thus, the growth in the number of employees exceeded the rise in labor force, a matter that caused a slight decline in unemployment to stand at 9.87% against 9.9% in the preceding year.

4/2 -Inflation

The CAPMAS issued a new series of CPI, as the base year was updated from 95/1996 to 99/2000 and the basket of goods and weights were changed on basis of results of income, expenditure and consumption survey of 99/2000. This step was taken with the aim of making inflation rates more indicative of the changes in the domestic market prices. According to this new series, inflation rate reached 11.1% during August/June of FY 2003/2004 against 4.0% in the whole FY 2002/2003.

Inflation rates in Egypt's main trade partners ranged between 1.1% and 3.5% per annum, with a weighted average - for comparison purposes - of 2.46% during the FY 2003/2004, against 1.89% in the previous FY. Such an average has been calculated on the basis of the relative weights of Egypt's exports and imports of goods with those partners. Crude oil exports and commodity grants were excluded in this regard.

Inflation in Egypt's Main Trade Partners

	Relative Weight of External Trade	Inflation Rates %	
		2002/2003	2003/2004
USA	0.440	2.1	3.3
Germany	0.119	1.0	1.7
Italy	0.081	2.7	2.4
UK	0.087	2.9	1.6
Switzerland	0.076	0.6	1.1
France	0.074	2.0	2.4
The Netherlands	0.041	2.0	1.4
Japan	0.031	-0.4	0.0
Spain	0.029	2.7	3.5
Belgium	0.022	1.6	2.3
Total	1.0		
Weighted Average		1.89	2.46

4/3- Consolidated Fiscal Operations of the General Government*

The fiscal policy has been committed to implement the general and principal goals upon which the estimates of the consolidated fiscal operations of the general government of the FY 2003/2004 were made. Moreover, this policy has been committed to cover any rise in expenditure that may emerge as a result of the government efforts to protect low-income brackets.

According to actual preliminary figures issued by the Ministry of Finance, a follow up of the implementation of the consolidated fiscal operations of the general government during FY 2003/2004 shows the following:

4/3/1- Budget Sector

(The administration system, local administration, and service authorities)

According to the data on the implementation of the fiscal operations of the State budget sector of the FY 2003/04, total collected revenues (including grants) reached LE 98.6 billion, with a rise of 1.5% over the estimated figure, and of LE 12.2 billion or 14.1% compared with the previous FY. This rise was attributed to the pick-up in current and capital revenues, and grants.

Current revenues (tax and non-tax) rose by about LE 11.1 billion to reach LE 92.6 billion or 97.2% of total collected revenues. Most of these revenues were tax revenues, which rose by some LE 7.3 billion or 12.7% compared with the previous FY. In this respect, the collected revenues of income taxes moved up by LE 1.6 billion or 17.0%, of taxes on profits about LE 2.1 billion or 15.3%, and of goods and services by about LE 3.0 billion or 13.1%. Moreover, revenues from customs increased by about LE 0.6 billion or 5.4%, and some other miscellaneous taxes slightly rose by LE 2 million.

Non-tax revenues escalated by some LE 3.8 billion or 16.0% compared with the previous FY. This rise was due to the LE 3.0 billion increase in profit surplus transfers. In details, transfers from the Suez Canal Authority and the CBE went up by about LE 3.1 billion and LE 0.9 billion, respectively. Meanwhile, transfers from public business sector companies retreated by some LE 0.3 billion and from some other entities by about LE 0.1 billion. No profit surplus transfers were made by the EGPC this year.

Meanwhile, collected fees and some other miscellaneous non-tax revenues increased by about LE 0.9 billion.

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* The concept of the general government comprises in its broader sense the budget sector, NIB, GASC, and SIFs.

Capital revenues, mainly own-finance investments, moved up by LE 0.6 billion or 27.4% above the figure of the preceding FY. This rise was attributed to the pick-up in some capital transfers, land and inventory sales.

Grants collected from abroad during this year increased by about LE 0.5 billion compared with the previous FY, thus, accounting for LE 3.4 billion, of which LE 1.7 billion were external capital grants and the remaining figure was external current grants.

Total expenditures, including net lending, accounted for LE 125.6 billion, exceeding the total estimate by 2.2%; and with a rise of LE 13.7 billion or 12.3% compared with the previous FY. This rise was due to the increase in current and capital expenditures, and in net lending as well.

Current expenditures reached some LE 107.0 billion, constituting 85.8% of total expenditure, up by LE 11.7 billion or 12.3% from the previous FY. Wages rose by about LE 4.4 billion, including the usual annual raises and the social raise (10% of the basic salary).

Other current expenditures increased by about LE 7.3 billion or 11.5% compared with the previous FY. This was due to a rise of about LE 3.8 billion or 14.4% in external and domestic interest payments, of about LE 1.4 billion or 20.3% in subsidies, of about LE 1.2 billion or 10.6% in defense outlays, and of about LE 0.8 billion or 8.2% in pensions. Also, expenditure on goods and services slightly increased by LE 4.7 million or 0.6%.

Capital expenditures, mainly the investments of the administration system, local administration and service authorities amounted to LE 17.7 billion, with a rise of LE 1.2 billion or 7.1% over the preceding FY.

Net lending reached about LE 0.9 billion, with a rise of LE 0.8 billion compared with the previous FY.

Summary of Fiscal Operations of the Budget Sector

(LE mn)

Revenues	2002/2003 Actual	2003/2004 Preliminary Actual	Expenditures	2002/2003 Actual	2003/2004 Preliminary Actual
Total Revenues	**83530**	**95245**	**Total Expenditures**	**111786**	**124695**
Current Revenues	**81449**	**92593**	**Current Expenditures**	**95226**	**106957**
Tax revenues	57486	64793	Wages & salaries	31549	35950
Income taxes	23189	26903	Defense outlays	11215	12400
Taxes on goods and services	22782	25757	Interest	26849	30706
Customs	11354	11970	Domestic	24498	27740
Other	161	163	External	2351	2966
Non-tax revenues	23963	27800	Other	25613	27901
Capital Revenues	**2081**	**2652**	**Capital Expenditures**	**16560**	**17738**
Grants	**2954**	**3412**	**Lending Less Repayment**	**127**	**944**
Total Revenues Including Grants	**86484**	**98657**	**Total Expenditures Including Net Lending**	**111913**	**125639**

Against this background, the overall deficit on the budget sector fiscal operations reached LE 27.0 billion, 4.7% above the estimates, accounting for 5.9% of GDP. Banking and non-banking local resources were used to cover this deficit. Through these resources, the overall deficit was fully financed, and some domestic and external obligations were repaid.

4/3/2- Budget Sector, and NIB & GASC

Adding the fiscal operations of the NIB and GASC to the budget sector in FY 2003/2004, total revenues, including grants, increased by some LE 15.5 billion or 14.1% compared with the preceding FY, to reach LE 114.1 billion because non-tax revenues posted the same amount of increase. Moreover, total expenditures, including net lending, edged up by some LE 23.2 billion or 11.6% compared with the previous FY, to reach LE 148.8 billion, as a result of a rise in domestic interest payments and some other current expenditures by about LE 16.7 billion, and in net lending by about LE 6.5 billion.

4/3/3- Budget Sector, NIB & GASC, and SIF's

Adding the fiscal operations of the SIF's to the aforementioned sectors, non-tax current revenues rose by about LE 15.1 billion, wages by about LE 0.3 billion, net lending by about LE 0.025 billion and some other current expenditures by about LE 10.1 billion. Meanwhile, domestic interest payments declined by about LE 19.0 billion.

As a result, total revenues (including grants) of consolidated fiscal operations of the general government mounted to LE 129.2 billion, with an implementation ratio of almost 100.0% of the total estimate, and 11.8% over the previous FY. As such, total revenues, including grants, represented 28.2% of GDP.

Total expenditures, including net lending, scaled down to some LE 140.3 billion or 0.3% over the total estimate, and 11.8% over the previous fiscal year. Accordingly, they accounted for 30.6% of GDP.

Summary of the Consolidated Fiscal Operations of the General Government

(LE mn)

	2002/03 (Actual)	2003/04 (Preliminary Actual)
Total revenues, including grants	115551	129194
Total expenditures, including net lending	125497	140264
Overall Deficit / Surplus	**-9946**	**-11070**
Financing	**9946**	**11070**
Net External Finance	**-4316**	**-4440**
Domestic Finance	**19159**	**19526**
Banking	21800	18325
Non-banking	-2641	1201
Unclassified	**-4897**	**-4016**

The overall deficit on the consolidated fiscal operations of the general government during FY 2003/2004 reached some LE 11.1 billion; 4.5% over the estimates, and 11.3% over the actual deficit of the previous FY. Accordingly, the deficit represented 2.4% of GDP.

Banking and non-banking domestic finance resources that were available during this year entirely financed the deficit, and repaid some local and external obligations.

4/4 - Balance of Payments and Foreign Trade

The BOP current account has continued its improvement for the third consecutive year, achieving a US$ 3.7 billion surplus in FY 2003/2004, against US$ 1.9 billion in the previous fiscal year. This was an outcome of the remarkable increase in the services surplus and net unrequited transfers on one hand, and the rise in the trade deficit on the other. The rise in the trade deficit was a result of the pick-up in commodity imports by US$ 3.2 billion or 21.3%, and in commodity exports by US$ 2.2 billion or 27.4%. The coverage ratio of commodity exports to commodity imports improved from 55.4% in FY 2002/2003 to 58.1% in FY 2003/2004 because commodity exports grew higher than commodity imports. The rise in commodity imports was due to the increase in non-oil imports by 23.2% and in oil imports by 11.1%. Meanwhile, the improvement in commodity exports came as a result of the growth in non-oil exports by 29.7% and in oil exports by 23.7%.

The surplus on the services balance realized a remarkable rise of 47.9%. Such a rise was an outcome of higher services receipts by 24.3%, to reach US$ 13.0 billion and a limited rise in services payments by 3.1%, to reach US$ 5.7 billion. On the receipts side, travel (tourism revenues) increased by 44.2% and transportation by 26.7%. Net unrequited transfers moved up by 9.0%, to reach US$ 3.9 billion, because of a pick-up in official and private transfers.

Capital and financial transactions with the foreign sector in FY 2003/2004 revealed a net outflow of US$ 6.2 billion, against some US$ 2.7 billion in the previous FY. This increase was mainly attributed to a noticeable rise in net outflows of other assets and liabilities (represented in the change in both foreign assets and liabilities of banks, non-reserve foreign assets of the CBE and the equivalent of some items listed in the current account), to reach US$ 6.7 billion against US$ 3.1 billion. In addition, foreign investment (FDI and portfolio) in Egypt registered total inflows of US$ 1447.9 million and total outflows of only US$ 1266.3 million during FY 2003/2004, against US$ 1358.7 million and US$ 1063.3 million, respectively during the previous FY. This revealed a fall in net foreign investment in Egypt, as it posted an inflow of US$ 181.6 million against US$ 295.4 million. This was due to an improvement in net portfolio investment in Egypt (including the value of dollar bond purchases in Egypt by banks and insurance companies). Portfolio investment achieved net outflows of US$ 225.6 million against US$ 405.2 million. Meanwhile, net FDI in Egypt retreated, registering net inflows of only US$ 407.2 million against US$ 700.6 million. As to mid- and long-term loans and facilities, they realized a net repayment of US$ 1.5 billion against US$ 0.9 billion.

Consequently, transactions with the foreign sector during FY 2003/2004 have revealed an overall BOP deficit of about US$ 158.3 million, against an overall surplus of US$ 546.0 million. This was reflected on foreign currency reserve assets with the CBE.

Balance of Payments

(US$ mn)

FY	2002/2003	2003/2004*
Current account	**1943.0**	**3729.1**
Current account(excl. transfers)	**-1666.3**	**-205.0**
Trade balance	**-6614.9**	**-7522.7**
Exports**	8205.4	10452.5
- Oil and products	3160.8	3910.3
- Non-oil exports	5044.6	6542.2
Imports**	-14820.3	-17975.2
- Oil imports	-2313.0	-2569.8
- Other imports	-12507.3	-15405.4
Services balance	**4948.6**	**7317.7**
- Receipts, of which:	10441.4	12981.0
Transportation, of which:	2964.8	3755.2
Suez Canal dues	(2236.2)	(2848.4)
Travel	3796.4	5475.1
Investment income	641.3	485.1
- Payments, of which:	-5492.8	-5663.3
Transportation	-392.5	-668.2
Investment income	-748.5	-699.8
Transfers	**3609.3**	**3934.1**
Private (net)	2945.7	3046.1
Official (net)	663.6	888.0
Capital and financial transactions	-2733.8	-6151.5
Foreign direct investment in Egypt (net)	700.6	407.2
Direct investment abroad	-30.0	-190.2
Foreigners ' portfolio investment in Egypt (net)	-405.2	-225.6
Portfolio investment abroad	-15.8	-67.2
Other investments (net)	-2983.4	6075.7
Balancing item ***	**1336.8**	**2264.1**
Overall balance	**546.0**	**-158.3**
Change in reserve assets, Increase (-) +	**-546.0**	**158.3**

* Preliminary figures.

** Include exports and imports of free zones.

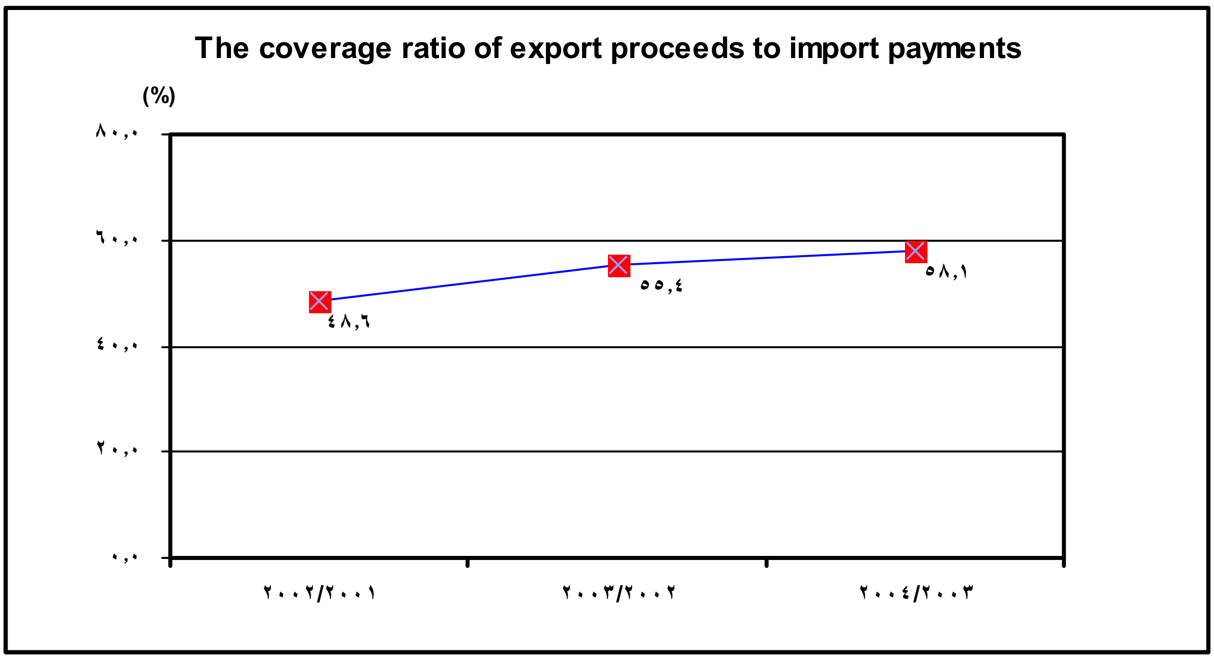
*** Represents a balancing item for any increase or decrease in the estimates of BOP items. It also stands for the difference between the overall balance (the overall surplus or deficit calculated on the basis that it equals the change in the CBE's total reserve foreign assets) and the total of current account and capital and financial account. It is called the error and omission item, according to IMF's Balance of Payments Manual.

\+ The increase in balances gets a negative sign because it represents an outflow, and vice versa.

4/4/1-Trade Balance

During FY 2003/2004, commodity export proceeds have revealed a marked increase of about US$ 2.2 billion or 27.4%, to reach US$ 10.5 billion. This was due to a surge in oil export proceeds by 23.7% to reach US$ 3.9 billion, and a hike in non-oil export proceeds by 29.7% to reach US$ 6.5 billion.

Import payments increased by US$ 3.2 billion or 21.3%, reaching US$ 18.0 billion. This was mainly ascribed to the increase in imports of all commodity groups.



Against this background, the trade deficit rose by 13.7%, to reach US$ 7.5 billion in FY 2003/2004 against US$ 6.6 billion in the previous FY.

4/4/1/1- Commodity Distribution of Exports

Commodity export proceeds scaled up during FY 2003/2004 by US$ 2.2 billion, owing to the growth of oil and non-oil export earnings. Hence, export earnings of crude oil and products moved up by US$ 749.5 million or 23.7% to reach US$ 3.9 billion, mainly because of a 26.6% surge in earnings of crude oil exports to reach US$ 1.4 billion, and of a 12.7% increase in oil products to reach US$ 1.7 billion. Bunker and jet fuel earnings rose by 39.1% to reach US$ 719.0 million. Natural gas exports amounted to US$ 57.0 million during FY 2003/2004, as the first amount of gas, at the value of US$ 3.4 million, was exported in July/September of this year.

The increase was attributed to a 19.5% rise in the exported quantities of crude oil, simultaneous with an increase in the exporting price of crude oil from US$ 23.9 to US$ 25.3 per barrel, and in oil products from US$ 226.1 to US$ 260.9 per ton. Exported quantities of oil products, however, contracted by 2.4%.

As to non-oil export proceeds, earnings of finished goods mounted by some US$ 954.5 million, or 31.6% to post US$ 4.0 billion. The pick-up was spurred by a rise in export proceeds of iron and steel products; cars, tractors, and bicycles; cotton textiles; pharmaceuticals; cement; carpets and floor coverings; fertilizers; and ready-made clothes. Exports of raw materials also went up by 64.7%, reaching US$ 473.3 million. Exports of semi-finished goods edged up by about US$ 105.9 million or 16.1%, to reach US$ 763.5 million. This was attributed to the increase in export proceeds of organic and inorganic chemicals; greases, fats, and animal oils and products; tanned leather; and molasses. Also, exports of raw cotton moved up to US$ 201.6 million, with a rise of US$ 2.4 million.

Commodity Distribution of Exports by Degree of Processing

(US$ mn)

FY	2002/2003		2003/2004	
	Value	%	Value	%
Total	**8205.4**	**100.0**	**10452.5**	**100.0**
1- Fuel, mineral oils and products	3195.2	38.9	4011.8	38.4
2- Cotton	199.2	2.4	201.6	1.9
3- Raw materials	287.3	3.5	473.3	4.5
4- Semi-finished goods	657.6	8.0	763.5	7.3
5- Finished goods	3017.3	36.8	3971.8	38.0
6-Miscellaneous items (unclassified)	848.8	10.4	1030.5	9.9

4/4/1/2- Commodity Distribution of Imports

Commodity import payments rose by US$ 3.2 billion, or 21.3% to reach US$ 18.0 billion, due to higher imports of all commodity groups.

Imports of intermediate goods increased by US$ 851.7 million or 19.4% to reach US$ 5.2 billion; as increases were seen in imports of organic and inorganic chemicals; greases, fats, animal and vegetable oils and products; iron and steel products; wood and its products; plastic and articles; and porcelain products. Conversely, imports of cement and raw sugar decreased.

Imports of fuel, mineral oils and their products mounted by US$ 533.4 million or 53.8%, to stand at US$ 1.5 billion. The rise was mainly in petroleum products and bunker fuel, which climbed by US$ 505.1 million to reach US$ 1.4 billion.

Likewise, raw material imports grew by US$ 475.9 million, or 17.7%, to about US$ 3.2 billion. The rise was mainly in imports of wheat, cotton, tobacco, maize, iron ore, seeds and oleaginous fruits, and sesame. Meanwhile, imports of crude oil declined.

Imports of consumer goods increased by US$ 338.1 million, or 13.0% to reach US$ 2.9 billion. This resulted from the surge in imports of non-durable goods by 13.3% to reach US$ 2.1 billion. The increase was manifest in remains of foodstuff industries, food preparations for animals, lentil, tea, ready-made clothes, cotton textiles, and milk and its products. In contrast, imports of pharmaceuticals, livestock, meat, fish, refined sugar and its products declined.

Imports of durable goods moved up by US$ 95.1 million to reach US$ 854.6 million, as a reflection of an increase in imports of electric motor- based appliances for household uses by US$ 131.4 million to reach US$ 221.0 million on the one hand, and a decrease in imports of passenger cars, television sets and parts, and household refrigerators and freezers, on the other.

Likewise, imports of investment goods grew by US$ 327.5 million, or 10.3%, to reach US$ 3.5 billion, owing to higher imports of pumps and fans and their parts; ginning and weaving appliances and machines and their parts; vehicles for passengers; computers; air-conditioning equipment; and cultivating machines. Meanwhile, there were decreases in the imports of electric appliances for telephone and telegraph; cars' accessories and spare parts; trains, carriages and railway equipment and their parts; engines, dynamos and electrical transformers; and lifts, bulldozers and parts thereof.

Commodity Distribution of Imports by Degree of Use

(US$ mn)

FY	2002/2003		2003/2004	
	Value	%	Value	%
Total	**14820.3**	**100.0**	**17975.2**	**100.0**
1- Fuel, mineral oils and their products	991.2	6.7	1524.6	8.5
2- Raw materials	2689.9	18.1	3165.8	17.6
3- Intermediate goods	4395.5	29.7	5247.2	29.2
4- Investment goods	3178.9	21.4	3506.4	19.5
5- Consumer goods:	2592.6	17.5	2930.7	16.3
a- Durable	759.5	5.1	854.6	4.8
b- Non-durable	1833.1	12.4	2076.1	11.5
6- Miscellaneous items (unclassified)	972.2	6.6	1600.5	8.9

4/4/1/3- Geographical Distribution of Commodity Transactions

The USA ranked first among the Egyptian export markets, with exports thereto reaching US$ 3.7 billion or 35.4% of total export earnings. EU countries came second, as exports thereto reached US$ 3.4 billion, or 32.8% of the total. In the forefront of these countries came Italy, followed by Germany, the UK, the Netherlands, France and Spain. The Arab countries accounted for US$ 1.3 billion or 12.2%. Jordan was on top, then Saudi Arabia, UAE, Kuwait, Morocco, Tunisia, Syria, Libya, the Sudan, and finally Algeria. Asian countries received exports of US$ 1.1 billion or 10.3% of the total, with India in the lead, then South Korea, Singapore, Hong Kong, then Japan, China and Malaysia. The share of the other European countries was US$ 618.8 million, or 5.9% of total export proceeds, headed by Switzerland, then Turkey, Cyprus and finally Romania. The African countries' share was limited to 2.1%, and the Russian Federation and CIS to 0.6 % only.

The Relative Importance of the Geographical Distribution of Commodity Transactions

(%)

FY	Export Proceeds		Import Payments	
	2002/2003	2003/2004	2002/2003	2003/2004
Total	100.0	100.0	100.0	100.0
EU countries	34.1	32.8	34.5	32.1
Other European countries	4.6	5.9	9.2	9.2
Russian Federation & CIS	0.4	0.6	1.9	1.2
USA	37.2	35.4	25.2	23.9
Arab countries	11.4	12.2	5.8	7.2
Asian countries	10.5	10.3	14.8	14.7
African countries	0.9	2.1	0.7	0.8
Other countries and regions	0.9	0.7	7.9	10.9

EU countries remained the major exporter to Egypt, with imports therefrom reaching US$ 5.8 billion or 32.1% of total import payments. Germany came first, followed by UK, France, Italy and the Netherlands. Imports from the USA reached US$ 4.3 billion or 23.9% of the total. Asian countries - ranking third – accounted for US$ 2.6 billion, or 14.7%, with China atop, followed by Japan, South Korea, Malaysia and India. The share of the other European countries was only US$ 1.6 billion; i.e., 9.2% of total imports. Switzerland ranked first, then Turkey, Romania, Cyprus and Bulgaria. Imports from the Arab countries reached US$ 1.3 billion, or 7.2%. Algeria headed the group, and UAE and Saudi Arabia followed. The Russian Federation and CIS accounted for 1.2% and African countries for 0.8 % of total imports.

4/4/2- Service Balance and Transfers

Surplus on services balance rose by 47.9% to reach US$ 7.3 billion during FY 2003/2004. This was an outcome of the increase in service receipts by 24.3% to reach US$ 13.0 billion, and in service payments by 3.1% to reach US$ 5.7 billion.

Services Balance

(US$ mn)

	FY 2002/2003	FY 2003/2004	Change (-)
Services Balance	**4948.6**	**7317.7**	**2369.1**
Receipts	**10441.4**	**12981.0**	**2539.6**
Transportation	2964.8	3755.2	790.4
Travel	3796.4	5475.1	1678.7
Investment income	641.3	485.1	(156.2)
Government receipts	252.8	179.4	(73.4)
Other receipts	2786.1	3086.2	300.1
Payments	**5492.8**	**5663.3**	**170.5**
Transportation	392.5	668.2	275.7
Travel	1372.4	1315.1	(57.3)
Investment income	748.5	699.8	(48.7)
Government payments	455.4	489.3	33.9
Other payments	2524.0	2490.9	(33.1)

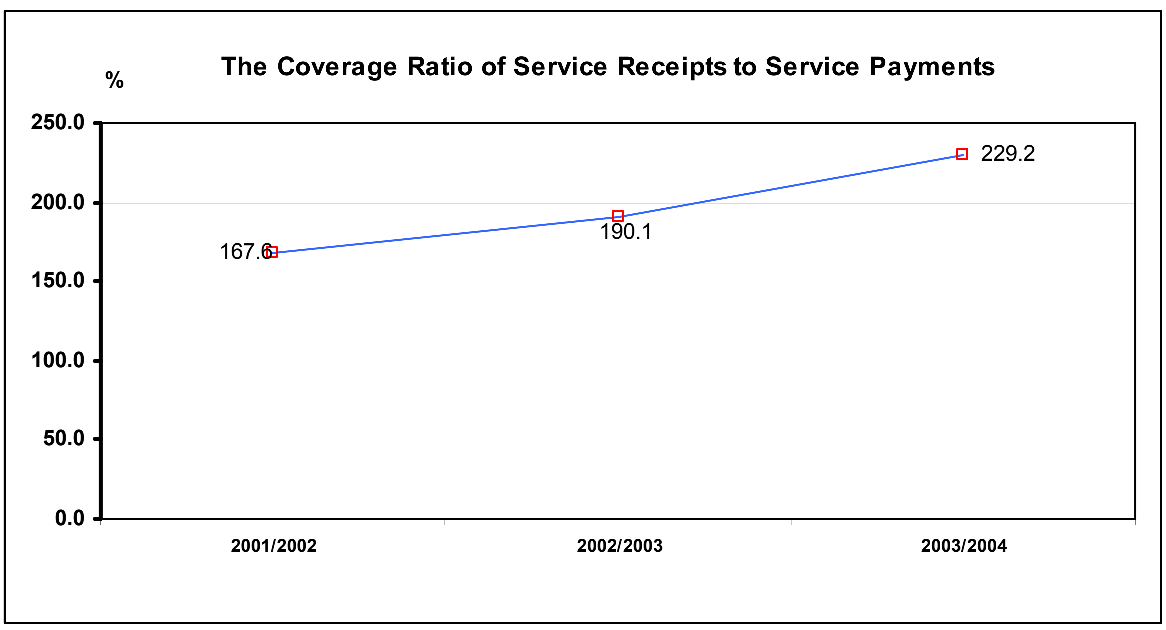
The service receipts showed an increase in all items, except for investment income and government receipts. Hence, travel receipts* (tourism revenues) rose by 44.2% to reach US$ 5.5 billion, against US$ 3.8 billion owing to the increase in the number of tourist nights to post 73 million during the year, exceeding thereby twofold the figure realized in the previous fiscal year, and offsetting by far the effect of the retreat in the average tourist spending per night from US$ 115.0 to US$ 75.0. Transportation receipts also went up by 26.7% to reach US$ 3.8 billion, basically due to a rise in the receipts from Suez Canal tolls by 27.4% to record US$ 2.8 billion, as a result of the increase in the number of transiting ships and in their net tonnage. The other receipts** also edged up by 10.8% to reach US$ 3.1 billion, owing to the increase of the invisible receipts of the petroleum sector, together with the services receipts of contracting and construction, communication, and culture and entertainment. Conversely, investment income dropped by 24.4% to reach only US$ 485.1 million, owing to the sharp decline in short-term interest rates in world markets. Government receipts decreased also by 29.0% to reach only US$ 179.4 million, following the drop in the expenses of foreign embassies in Egypt.

* Calculated on the basis of the number of tourist nights multiplied by the average spending per tourist a night.

** The main components of this item are the receipts of communication services, invisible receipts of the petroleum sector (Ministry of Petroleum, and private petroleum companies), the receipts of foreign companies, legal and consultation fees, and agencies' commissions and expanses.

Service payments increased slightly by 3.1% to reach US$ 5.7 billion, against US$ 5.5 billion. This was attributed mainly to the increase of transportation payments by 70.2%, reaching US$ 668.2 million, as a reflection of the rise in the amounts transferred abroad by foreign aviation and Egyptian navigation companies. Government payments also scaled up by 7.4%, reaching US$ 489.3 million. On the other hand, the other items of payments retreated, namely investment income payments declined by 6.5%, owing to lower interest payments on deposits of non-residents at Egyptian banks, and decelerated interest paid on loans and facilities as well as dividend transfers. Similarly, travel payments retreated by 4.2%, reflecting the drop in the expenses of travel and medical treatment abroad, and in external payments by tourism companies and hotels. Also, the item of other payments* retreated by 1.3%, mainly due to the drop of the amounts transferred abroad by foreign companies.

Against this backdrop, the coverage ratio of the services surplus to the trade deficit increased to 97.3% during the FY 2003/2004, from 74.8% during the previous fiscal year.



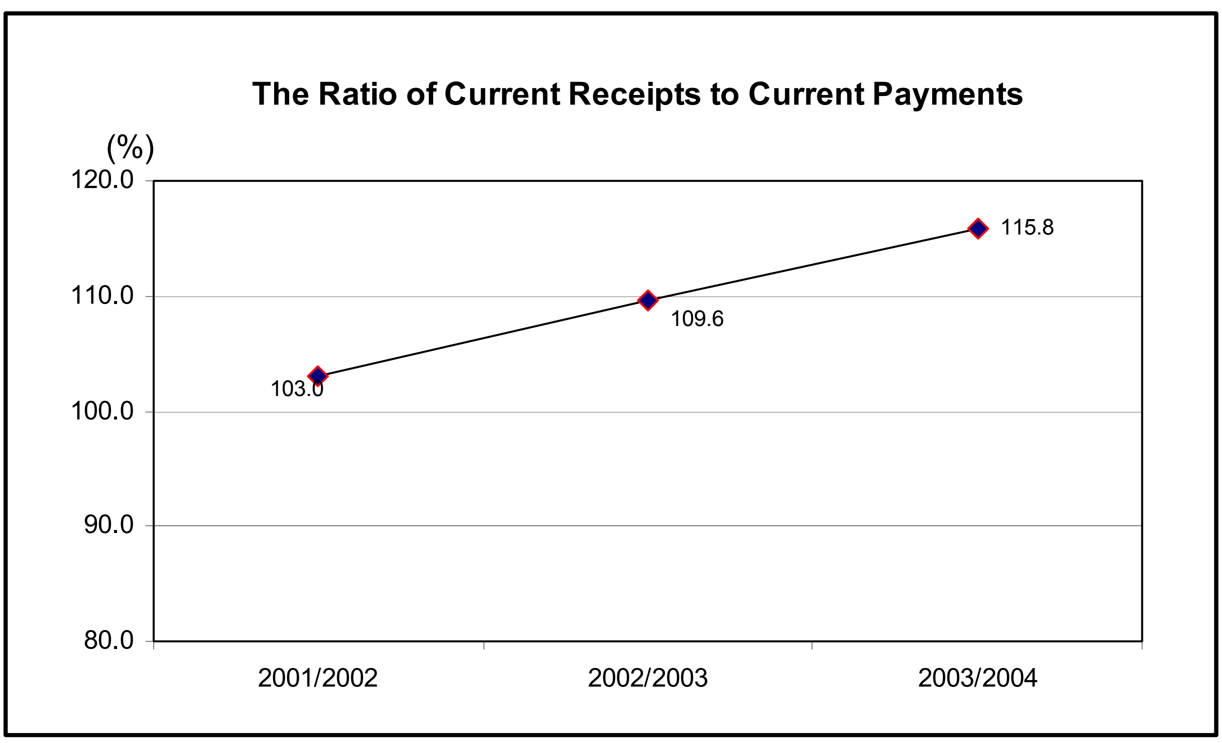
* Their main components are transfers abroad by Egyptian and foreign companies, the payments for contracting and construction, and communication services.

Unrequited transfers (net) rose by 9.0% to reach US$ 3.9 billion, with an increase of US$ 324.8 million, owing to the rise in net official transfers by 33.8%, because of the US$ 326.2 million cash grant given to Egypt by the USA, and the increase in net private transfers by 3.4%.

Unrequited Transfers

(US$ mn)

	FY		
	2002/2003	**2003/2004**	**Change (-)**
Total	**3609.3**	**3934.1**	**324.8**
1- Official transfers (net)	**663.6**	**888.0**	**224.4**
- Inward cash grants	158.3	352.8	194.5
- Other inward grants	532.2	560.8	28.6
- Outward grants	-26.9	-25.6	1.3
2- Private transfers (net)	**2945.7**	**3046.1**	**100.4**
- Workers' remittances	2962.6	2999.6	37.0
- Other transfers	56.3	71.5	15.2
- Foreigners' transfers abroad	-73.2	-25.0	48.2



4/4/3- Capital and Financial Transactions

Capital and financial transactions with the external sector in FY 2003/2004 unfolded net outflows of US$ 6.2 billion against some US$ 2.7 billion in the previous FY. This was spurred by a number of factors, chiefly the improvement in net foreign assets of the Central Bank and other banks as they transferred abroad US$ 2614.6 million to increase their foreign assets, and US$ 959.4 million to repay part of their foreign obligations. Despite the fact that this represents an outflow, it is considered a positive trend towards strengthening the positions of banks abroad. Other assets increased from US$ 2.5 billion in the previous year to US$ 3.1 billion in the year under review, as a main result of the increase in the differences of evaluating tourism revenues, despite the drop in the average tourist spending per night to US$ 75 only. On the other hand, foreign investment in Egypt (direct* and portfolio**) achieved a total inflow of US$ 1447.9 million, and a total outflow of only US$ 1266.3 million against US$ 1358.7 million and US$ 1063.3 million respectively. This resulted in a net inflow of US$ 181.6 million against US$ 295.4 million. Long and medium-term borrowing achieved a net repayment of US$ 1494.1 million against US$ 926.6 million.

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* Representing total flows of FDI in Egypt less capital repatriation, and foreign investors' equity participation in local enterprises by 10% or more of the capital of the enterprise.

** Representing foreigners' net portfolio (according to the CMA statements) less foreign investors' equity participations in local enterprises by 10% or more of the capital of any enterprise , and the data of dealing in dollar denominated sovereign bonds, according to the Fifth Edition of the IMF's Balance of Payments Manual.

Capital and Financial Transactions

(US$ mn)

	FY	
	2002/2003	2003/2004*
Capital and Financial Transactions	**-2733.8**	**-6151.5**
Direct Investment in Egypt (Net)	**700.6**	**407.2**
Direct Investment Abroad	**-30.0**	**-190.2**
Portfolio Investment in Egypt (Net), of which:	**-405.2**	**-225.6**
Bonds**	-218.2	-147.7
Portfolio Investment Abroad	**-15.8**	**-67.2**
Other Investments (Net)	**-2983.4**	**-6075.7**
- Disbursements	**1757.6**	**2496.3**
Medium-and long-term loans	644.9	267.7
International and regional institutions	498.6	214.0
Bilateral loans	164.3	53.7
Suppliers' and buyers' credit, medium-and long-term	42.5	146.1
Suppliers' and buyers' credit, short term (net)	1070.2	2082.5
- Repayments	**-1614.0**	**-1907.9**
Medium-and long-term loans	-1231.4	-1441.3
International institutions	-542.4	-657.8
Bilateral loans	-689.0	-783.5
Suppliers' and buyers' credit, medium-and long-term	-382.6	-466.6
- Other Assets	**-3067.7**	**-5704.7**
CBE	-32.0	-21.4
Banks	-493.4	-2593.2
Others	-2542.3	-3090.1
- Other Liabilities	**-59.3**	**-959.4**
CBE	3.7	-16.7
Banks	-63.0	-942.7

* Provisional

** They are US dollar denominated sovereign bonds, issued pursuant to Law No.147 of 2001, and floated on the international and local markets on 1/7/2001. They comprise 5 year bonds at a nominal value of US$ 500 million and a cost of 7.625%, and 10 year bonds at a nominal value of US$ 1 billion and a cost of 8.75%.

To conclude, the major factors that have influenced the performance of the capital and financial account can be summarized as follows:

- Foreign investment in Egypt (direct and portfolio) revealed a total inflow of US$ 1447.9 million, against US$ 1358.7 million, and a total outflow of only US$ 1266.3 million, against US$ 1063.3 million. This resulted in a net inflow of foreign investment (both types) amounting to US$ 181.6 million, against US$ 295.4 million. In figure terms, FDI in Egypt revealed a net inflow of US$ 407.2 million, against US$ 700.6 million. Meanwhile, the portfolio investment revealed a net outflow of US$ 225.6 million, against US$ 405.2 million.

  - It is noteworthy that foreigners' trading on the Egyptian Stock Exchange unfolded net purchases of US$ 77.9 million during FY 2003/2004, compared with US$ 187.0 million during the previous fiscal year. This was a result of purchases reaching US$ 1012.9 million, against US$ 466.8 million (after excluding the amount representing the proceeds of selling majority stakes in Egyptian companies, classified under FDI); and sales of only US$ 1090.8 million, against US$ 653.8 million.

  - Portfolio investment included US$ 147.7 million as purchases of dollar-denominated sovereign bonds by resident financial institutions (banks and insurance companies), against US$ 218.2 million. Although such purchases represented an outflow, yet they are considered at the same time a repayment of a part of Egypt's external obligations.

- As for medium- and long-term loans and facilities during the FY 2003/2004, they resulted in net repayments of US$ 1494.1 million, against US$ 926.6 million. This was an outcome of the rise in total repayments to US$ 1.9 billion, against US$ 1.6 billion, and the retreat of total disbursements to US$ 413.8 million against US$ 687.4 million.

- Foreign assets at the banking system notably improved by US$ 2614.6 million in FY 2003/2004, against US$ 525.4 million, reflecting a rise in foreign assets at banks by US$ 2593.2 million, against US$ 493.4 million, and in non-reserve assets at the CBE by US$ 21.4 million, against US$ 32.0 million.

- Other assets mounted by US$ 3.1 billion, against US$ 2.5 billion, as a chief outcome of the differences between tourism revenues calculated on the basis of the number of tourist nights and the average tourist spending, and those revenues shown in banks' statistics.

- Other liabilities fell by US$ 959.4 million, against US$ 59.3 million, chiefly due to the repayment of part of foreign obligations abroad owed by banks in an amount of US$ 942.7 million, against US$ 63.0 million, and of part of the claims on the CBE in an amount of US$ 16.7 million, against an increase of US$ 3.7 million in the previous fiscal year.

4/5- Stock Exchange

During FY 2003/2004, a number of decisions and measures were issued to complete the legislative structure of the capital market, to foster confidence in transactions and to secure the rights of investors on the Egyptian Exchange. Among these measures were the amendments introduced to the provisions of the Capital Market Law and its Executive Regulations, along with some relevant laws, namely the Depository and Central Filing Law, the Real Estate Financing Law, and the Law of Investment Incentives and Guarantees.

Developments in the structure of the Stock Exchange during FY 2003/2004, according to the statistics issued by the CMA, revealed that the number of companies operating in securities reached 291, of which 145 are engaged in brokerage activities, 123 in multifarious activities, 14 in mutual funds management; and the remaining 9 companies operate in other fields.

Regarding stock issues, the CMA approved new issues of LE 19.4 billion during the year, of which LE 4.4 billion were shares for corporate foundation, LE 15.0 billion for raising the capital of existing companies, and a new corporate bond amounting to LE 0.4 billion.

The number of companies listed on the Exchange schedules at the end of June 2004 reached 803, at a nominal capital of LE 96.5 billion, and a market capital of LE 172.9 billion, of which 129 companies were listed on the official schedules, 528 on the unofficial ones, and 146 on the transitional schedule.

Listing of Companies

End of June	2001	2002	2003	2004
No. of listed companies (unit)	**1072**	**1136**	**1123**	**803**
- Official	144	147	152	129
- Unofficial	928	989	971	528
- Transitional	-	-	-	146
No. of listed shares (mn)	**5146**	**5410**	**5933**	**6252**
- Official	1525	1533	2689	3661
- Unofficial	3621	3877	3244	2383
- Transitional	-	-	-	208
Nominal value of shares (LE mn)(1)	**76737**	**89127**	**99029**	**96527**
Market value of shares (LE mn)(2)	**110317**	**118673**	**150214**	**172865**
2/1	1.4	1.3	1.5	1.8
CMA index	602.6	627.4	712.2	900.6
CASE 30 index	-	472.1	775.9	1440.9

As for mutual funds, their number retreated to 21, (of which 19 are open and 2 are closed), following the redemption of the documents of one of the closed funds. The nominal value of their documents amounted to LE 3.8 billion, and the market value of their capital LE 4.6 billion at the end of June 2004.

A follow-up of the developments in the trading market during the year under review shows a remarkable improvement in the three indicators of overall dealing in terms of the number of transactions and the amount and value of dealt-in securities. Hence, the value of dealing increased by 9.7% to reach LE 32.4 billion, the number of transactions by 68.7% to reach 1.5 million, and the amount of dealt-in securities by 96.3% to reach 2112 million.

Trading Developments

During FY	2000/2001	2001/2002	2002/2003	2003/2004
No. of transactions (unit)	**1197**	**1030**	**890**	**1501**
a- shares, bonds, and mutual fund documents (listed)	1192	946	863	1467
b- shares, bonds, and mutual fund documents (unlisted)	5	84	27	34
No. of dealt-in securities (mn)	**1065**	**1094**	**1076**	**2112**
a- shares, bonds, and mutual fund documents (listed)	1002	978	840	1680
B- shares, bonds, and mutual fund documents (unlisted)	63	116	236	432
Value of transactions (LE mn)	**35124**	**35479**	**29548**	**32422**
a- shares, bonds, and mutual fund documents (listed)	25350	27886	23383	27543
b- shares, bonds, and mutual fund documents (unlisted)	9774	7593	6165	4879

The transactions conducted during the year were mainly on shares that represented 95.0% of the total dealing, against 68.9% during the previous fiscal year. Dealing in bonds retreated to represent only 5.0% of the total, against 31.1% during the previous fiscal year.

Foreigners' transactions (purchases and sales) on the Egyptian Stock Exchange, either in Egyptian pound or in US dollar, increased by 66.4% to reach LE13.0 billion during the year, against LE7.8 billion during the previous fiscal year. This resulted in net sales of LE0.5 billion worth, against net purchases of LE1.5 billion worth a year earlier.

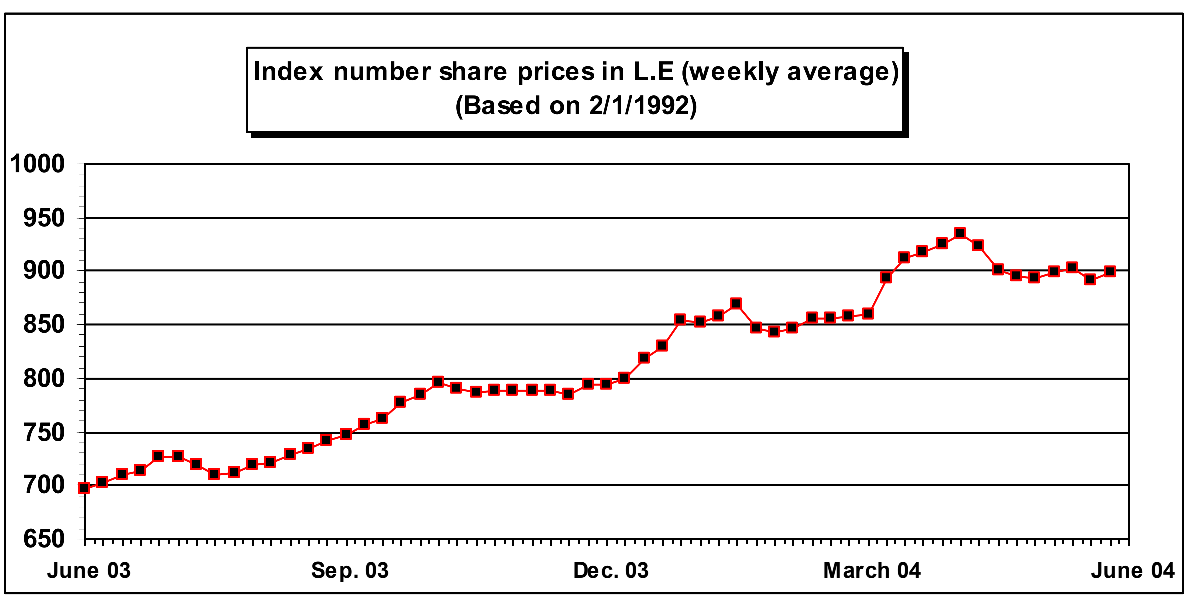
Transactions of Foreign Investors on the Exchange

Fiscal year	2002/2003		2003/2004	
	LE	US dollar	LE	US dollar
No. of transactions (unit)	**162773**	**6831**	**266616**	**5405**
- Purchases	90372	5472	138681	2525
- Sales	72401	1359	127935	2880
No. of dealt-in securities (mn)	**204**	**58**	**467**	**27**
- Purchases	106	32	209	14
- Sales	98	26	258	13
Value of dealt-in securities (mn)	**4549.4**	**671.0**	**12318.5**	**108.1**
- Purchases	2719.2	397.2	5890.0	60.5
- Sales	1830.2	273.8	6428.5	47.6

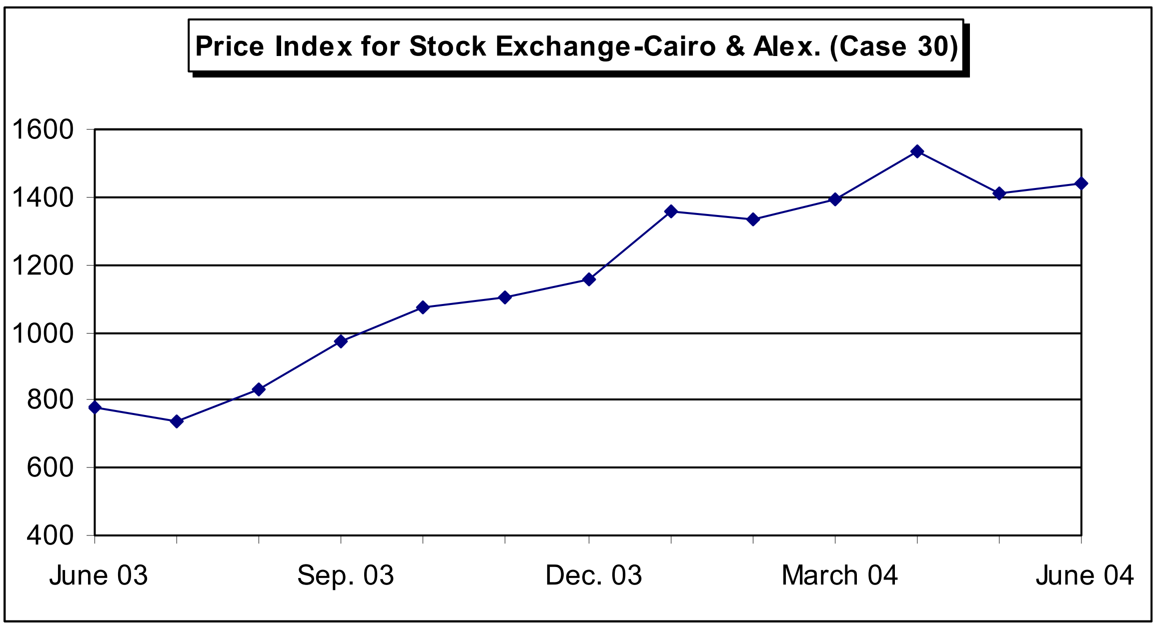
Source: CMA, Information Center.

Follow-up of foreigners' transactions during the year has shown their preference for selling in Egyptian pound. As such, LE transactions unfolded net sales of LE538.5 million, against net purchases of LE889.0 million in the previous FY. Meanwhile, US dollar transactions revealed net purchases of US$ 12.9 million, against net purchases of US$ 123.4 million in the previous FY.

As regards share price indices, CMA index moved up by 188.4 points or 26.5% during the year, to score 900.6 points at the end of June 2004.



The price index developed by the Egyptian Stock Exchange -CASE 30- registered a notable rise of 85.7% during the year 2003/2004, to reach 1440.9 points at the end of June 2004, against 775.9 points at the end of June 2003.



4/6- Insurance Sector

The value of investments of the insurance sector* stepped up to LE 202.5 billion at the end of June 2003, up by LE 22.2 billion, or 12.3% during FY 2002/2003, against LE 20.0 billion or 12.5% during the previous FY.

Investments of the National Authority for Social Insurance contributed the bulk of investments, reaching LE 176.8 billion, or 87.3% of the total at the end of June 2003. Such investments expanded during FY 2003/2004 by LE 21.3 billion or 12.1% to reach LE 198.2 billion at the end of June 2004.

* Comprises the National Authority for Social Insurance, insurance companies, and private insurance funds.

Investments of Insurance Sector

(LE bn)

End of June	2002			2003		
	Insurance companies & funds	National Authority for Social Insurance	total	Insurance companies & funds	National Authority for Social Insurance	total
Grand total	**23.6**	**156.7**	**180.3**	**25.7**	**176.8**	**202.5**
Deposits at the NIB	-	154.7	154.7	-	174.8	174.8
Loans	0.4	-	0.4	0.4	-	0.4
Securities	14.4	2.0	16.4	15.9	2.0	17.9
Cash deposits at banks	7.8	-	7.8	8.5	-	8.5
Lands and real estates	0.8	-	0.8	0.8	-	0.8
Other investments	0.2	-	0.2	0.1	-	0.1

Investments of the insurance sector at the end of June 2003 were concentrated in the deposits of the National Authority for Social Insurance at the NIB, amounting to LE 174.8 billion, and representing 86.3% of total investments of the insurance sector at the end of June 2003. Concurrently, the Authority's investments in government securities were limited to LE 2.0 billion, or 1.0% of the total at the end of June 2003.

Investments of insurance companies and funds reached LE 25.7 billion, or 12.7% of the total investments of the insurance sector at the end of June 2003. A breakdown of such investments shows the following: LE 15.9 billion or 7.8% of the total were in government securities; LE 8.5 billion or 4.2% in deposits at banks; only LE 0.8 billion or 0.4% in lands and real estates; LE 0.4 billion or 0.2% in loans; and merely LE 0.1 billion in other investments.

Annexes

A- Decisions regarding the Monetary Policy and Regulation of Banking Activity in FY 2003/2004.

B- Statistical Section.

Annex (A)
Decisions Regarding the Monetary Policy and Regulation of Banking Activity in FY 2003/2004

Firstly: The Monetary Policy Decisions

The rules regulating the operations of outright sales and reserve repos of treasury bills

As a step towards developing and diversifying the monetary policy tools, with the aim of activating open-market operations, the CBE introduced two new tools namely the outright sale and reserve repos of TBs. Hereunder are the rules governing these operations:

1- Announcing the Operations

The CBE announces on Reuters and its website the auctions of TB sales, specifying the following:

- The volume and date of operation.
- Kind of operation, whether outright or repos.
- Maturity of the Treasury bills to be sold, and their redemption dates.
- The duration of the operation in case of Reserve Repos.

2- Receiving Offers

Banks shall submit their offers no later than 11.00 am on the day of the transaction, to the CBE (General Department for Securities and Loans), 31, Kasr El-Nil St., in the form prepared for this purpose, stating the volume of the treasury bills they are willing to purchase and the desired interest rate.

3- Accepting Offers

Offers are accepted in the same way currently adopted in TB auctions and under the mechanism of deposit acceptance at the CBE. The submitted offers are to be arranged in an ascending order, according to the lowest interest rate, then moving up till the whole amount of offers are covered. Whenever there is more than one offer with the same interest rate, allocation shall be made according to the amounts offered.

4- Announcing the Result

After accepting offers, the result is announced on Reuters and the CBE website, specifying the value of submitted and accepted offers and the transaction's interest rate, (lowest- highest rate accepted - the weighted average rate of interest on the transaction).

5- Debiting and Crediting Banks' Accounts

On the date of the transaction, the CBE shall debit the accounts of banks with the selling value. In the case of Reverse Repos, the CBE on the date of maturity shall credit the accounts of banks with the value of transaction and the due interest payments.

These two tools were introduced on 4/5/2004.

Secondly: Decisions Concerning the Regulation of Banking Activity

Regulations of Licensing Banks to Practise the Activity of Deposit Banks

The CBE Board of Directors issued Decision No. 509 dated 10/2/2004, approving the requests of foreign banks and their branches to practise the activities of deposit banks for one renewable year, on condition that they abide by the following standards:

1- Banks should have a previous license to practise custodian activity and the license must be valid.

2- In case a bank possesses depository receipts as an underwriter, it should observe the following:
   - Abide by the standards set for balancing currency positions at the bank, and the concentration ratio of bank investments abroad.
   - Notify the CBE of every operation conducted to own part of the depository receipts and the amount it owns.
   - Submit to the CBE an acknowledgement of abiding by the limits set in articles 56/j and 60/3, and the provisions of Article 51 of the Law of the Central Bank, Banking Sector and Money concerning every operation made to own part of the depository receipts.

3- Banks should pay heed to the foreign currency burdens resulting from servicing GDRs through the foreign exchange market.

Crossing out the Registration of Merged Banks for Development and Agricultural Credit

The CBE issued Decision No. 512 dated Feb., 10, 2004, approving the crossing out of the registration of 11 merged banks for development and agricultural credit from the banking register, and modifying the name of merging banks pursuant to Article (41) of the Law of the Central Bank, the Banking Sector and Money No. 88 for 2003 and Article (4) of the said law.

Merging the Banks for Development and Agricultural Credit

The CBE Board of Directors issued Decision No. 906 dated April 6, 2004, approving the merging of six banks for development and agricultural credit into two, according to the final figures of banks' balance sheets reviewed by the Central Auditing Agency on 30th June 2004, as follows:

1- The Bank for Development and Agricultural Credit of Lower Egypt (at Tanta) including the banks of East, West, and Mid-Delta, in addition to Greater Cairo and Fayoum (Qualyoubia Sector).

2- The Bank for Development and Agricultural Credit of Upper Egypt (at Assyout) including the banks of South and North of Upper Egypt, in addition to Greater Cairo and Fayoum (excluding Qualyoubia Sector).

The appointment of the executive directors in charge of credit, investment, and portfolio management and external transactions, including swaps and internal inspection.

The CBE issued Decision No. 811, dated March 11, 2004, whereby banks, on appointing the executive directors in charge of credit, investment, portfolio management and external transactions, including swaps and internal inspection, are obliged to submit the list of their candidates to the Governor of the Central Bank of Egypt for consultation. The CBE Board of Directors shall be consulted also on the appointment of board chairmen, managing directors, and members of banks' boards of directors.

Annex (B)
Statistical Tables

Periodical Publications of the Central Bank of Egypt

Name of Publication	Language	Periodicity
1 -Monthly Statistical Bulletin	Arabic and English	Monthly
2 -Economic Review	Arabic and English	Quarterly
3 -Annual Report	Arabic and English	Every fiscal year
4 -External Position of the Egyptian Economy	English	Quarterly

Notes:

- All publications of the Central Bank of Egypt are available on the CBE's website : **www.cbe.org.eg**

    - To obtain a hard copy of any publication by mail, please write to the following address: Research, Development and Publishing Sector, the Central Bank of Egypt, 31 Kasr El Nil Street, Cairo, Egypt.