**Central Bank of Egypt**

# Annual Report

# 2005/2006

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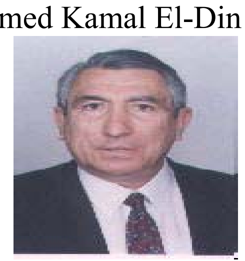

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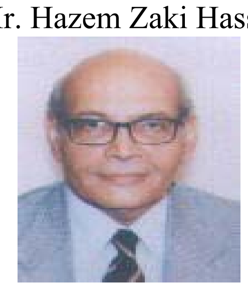
Mrs. Mona Zulficar

Mr. Mohamed Saleh Younes



Dr. Mahmoud Abd El Fadeel Hussein

## Preface

During FY 2005/2006, world economic performance slightly improved, registering a growth rate of 3.7% (against 3.1% in FY 2004/2005). This improvement was supported by strong industrial output and high corporate earnings, especially during the first half of the reporting year, as well as vigorous fixed investment spending in the advanced economies as a whole during July/March of the same year. The USA economy along with China and India's continued to play a key role in stimulating the global economic growth. The improvement in the world economic performance was accompanied by a decline in unemployment in most of the major industrial economies, and a rise in the main indices of equity prices on many stock exchanges.

The global economy improved despite the continuous prevailing trade and fiscal imbalances. The US current account deficit remained on the rise, and inflation in both the advanced and emerging economies accelerated (mainly because of the significant hikes in world oil prices that hit a record 70 US$/barrel or more during the last quarter of the reporting year).

Out of their keenness to hold back the rise in inflation, central banks in many major industrial countries continued to adopt tightening monetary policies during FY 2005/2006. The US Federal Reserve raised its discount rate a number of times, bringing it to 6.25% at end of June 2006. The European Central Bank raised the repo rate to 2.75%, and the Bank of Canada raised the discount rate to 4.50%. In Japan, the Bank of Japan decided to end its quantitative policy of monetary expansion, in preparation for adopting a less accommodative monetary policy. In the same vein, many emerging countries, such as Turkey, South Korea, India and South Africa raised their interest rates. By contrast, the Bank of England reduced the repo rate to 4.5% to spur economic growth.

**On the level of domestic economy**, real GDP growth rate at factor cost markedly increased from 4.6% during FY 2004/2005 to 6.9% during FY 2005/2006. The main contributors to this rise were the sectors of manufacturing; agriculture, irrigation & fishing; extractions; wholesale & retail trade; and financial intermediaries & supporting services.

Total implemented investments reached some LE 115.7 billion during the reporting year, up by 19.9% as compared with the previous fiscal year. The private sector continued to play a principal role in the development process. As such, its investments rose by 44% during the year, to reach LE 70.7 billion or 61.1% of total implemented investments. Moreover, the output of the private sector mounted to 6.2%, hence, it continued to share with 66.7% in GDP.

The expansion in the investment spending during the reporting year created more job opportunities. The number of employees exceeded 600 thousands, with a 3.4% rise above the previous year's level. In addition, unemployment fell to 10%, against 10.3%.

**As for the banking sector**, the Central Bank of Egypt continued to implement its comprehensive plan for reform and upgrading the sector and the CBE. This included developing a framework for implementing and activating the monetary policy; achieving stability in the forex market; setting a plan for reforming, supporting and conducting supervision over banks; developing the payments system; and automating all CBE departments and branches.

**Turning to the monetary policy**, the CBE works on realizing price stability as the overriding objective of its monetary policy. The framework relies on the use of overnight interest rates on interbank transactions as an operational target for this policy. This represents the CBE main policy instruments, providing the outer bounds of a corridor, within which the ceiling is the overnight interest rate on lending from the Bank and the floor is the overnight deposit interest rate at the Bank. This system has been applied as of 5 June 2005, as the Monetary Policy Committee (MPC) set in its meeting the overnight deposit and lending rates at 9.5% and 12.5%, respectively. Moreover, the MPC reduced during the year the overnight deposit and lending rates a number of times to reach 8.0% and 10.0%, in order at end of June 2006, then raised them to 8.5% and 10.5%, respectively (in its meeting on 2 November 2006). It also narrowed the corridor to 2.0% (against 3.0% applied at the beginning of the system application). The CBE lending and discount rate was reduced by 1.0% to 9.0%, by virtue of the MPC's decision on 22 Jan. 2006.

As a result, the overnight interest rates on interbank transactions decreased, with their weighted average reaching 8.2% in June 2006 (against 9.7% in June 2005). Moreover, the interest rates on one year- or- less loans declined to 12.5% at end of June 2006 (against 13.3% at end of June 2005). The new framework recently adopted for monetary policy implementation, including the interest rate corridor, succeeded in checking the sharp fluctuations in the interbank interest rates.

As for the indirect monetary policy instruments, the CBE continued during the year to absorb the excess liquidity in the banking sector through open market operations. The CBE began issuing a new instrument namely, certificates of deposits (CDs) with maturities spanning up to one year, and CBE notes with maturities of over one to two years. The CBE sells these two instruments to banks through outright sales. The balance of open market operations reached some LE 93.7 billion at end of June 2006, against LE 72.4 billion at end of June 2005.

The monetary policy adopted by the CBE during the reporting year has resulted in some positive outcomes. For instance, the annual growth rate of domestic liquidity (M2) declined from 13.6% at end of June 2005 to 13.5% at end of June 2006, to match with the real GDP growth rate (6.9%), and the CPI annual inflation rate (7.2%). Moreover, the preference for saving in Egyptian pound continued as inflation rate remained at an acceptable level. This was clearly shown by the fact that LE time and saving deposits continued to account for the bulk of the increase in broad money (M2) during the reporting year.

**As for the forex market**, the CBE was keen to activate and enhance the market, so as to ensure that all market transactions are conducted through legitimate channels. Accordingly, the LE value rose vis-à-vis the US dollar. As announced by the CBE, the US dollar sell rate declined to LE 5.7679 on 29 June 2006 from LE 5.7944 on 30 June 2005, i.e., a 0.46% pickup in the LE value. The weighted average of the US dollar exchange rate in the interbank market also fell to LE 5.7579 on 29/6/2006 from LE 6.2137 at the launch of the market on 23/12/2004, denoting a 7.92% rise in the LE value.

**As far as international reserves are concerned**, the CBE adopted a new investment policy for managing these reserves. The objective of this policy was to shift from the traditional investment pattern to modern investment techniques, based on prudential investment determinants and standards. Accordingly, NIR at the CBE rose by US$ 3.6 billion or 18.8% during the reporting year, to post US$ 22.9 billion at end of June 2006, and continued their rise at the time of preparing this report, to register US$ 24.9 billion at end of Nov. 2006.

**Moving to the CBE's plan for reforming the banking sector** that aims at creating new banking entities capable of internal and external competition, the Bank pressed ahead with the implementation of its four pillars plan. As for **the first pillar**, namely consolidation and privatization of the banking sector, a number of mergers and acquisitions took place in the banking sector during the reporting year. The last of these processes was the merger of the Islamic International Bank for Investment and Development, the Nile Bank, the United Bank of Egypt into the United Bank that had been established with a 99.9% CBE stake in its issued and paid-up capital. Accordingly, the number of banks declined to 43 at end of June 2006 (against 57 at the launch of the banking sector reform plan in Sept. 2004). Such operations will continue as it is planned to bring the number of banks to 37 by the end of 2007.

Concerning the privatization of the Bank of Alexandria (BOA), it was announced on 17 Oct. 2006 - at the time of preparing this report - that Italy's Sanpaolo IMI won the bidding for an 80% stake in BOA, following a public auction among four Arab and European financial institutions that submitted final financial offers to purchase the Bank. The total value of the Bank, according to Sanpaolo offer, amounted to US$ 2.0 billion, and the value of the deal (80% of the Bank's shares) US$ 1.6 billion.

Concerning **the second pillar** dealing with restructuring and risk management of the State-owned banks, the three public banks- after selling the BOA - are subjected to a full audit review according to international accounting standards by international audit firms, with a focus on evaluating asset quality and the identification of the provisioning gap. Moreover, a fund for developing the banking sector was established to provide the finance needed to attract professional leadership and highly qualified banking cadres at public banks.

As regards **the third pillar**, namely addressing the problem of non-performing loans, the CBE helps banks make collective settlements with major problem customers through the use of moral suasion. The Non Performing Loans (NPL) Management Unit at the CBE follows up the workout units at banks which made a number of settlements that led to collections in line with the devised plan. Moreover, a final agreement was reached with the Ministry of Investment regarding the value of irregular debt (LE 26 billion) owed by public business enterprises to the four State-owned banks. Of this amount, LE 6.9 billion were repaid in cash to the BOA, and the remainder is currently being settled.

As for **the fourth pillar** concerning upgrading the Banking Supervision Sector at the CBE, the Sector is currently being reformed through a program aiming at raising the efficiency of the Sector in line with the best international practises; and the concept of risk-based supervision. The CBE also seeks the assistance of professional leaderships who are acquainted with modern technology in managing the Sector, and upgrading the information management systems. Against this background, a protocol was signed with the European Central Bank and four European central banks to provide a two-year technical assistance program, starting Dec. 2005.

Regarding **banking supervision**, the CBE keeps on exerting efforts to develop its supervisory role, to cope with the rapid international developments in the banking industry. The CBE applies the concept of risk-based supervision to assess banks' ability to identify, measure, monitor, and control risks, and examines the adequacy of procedures and internal control systems applied at banks. In order to early detect any irregularities and to help banks rectify them, the CBE conducts an on site examination on a regular and timely basis. During the reporting year, the examination covered 16 banks.

Turning to the banking sector activity, the CBE's financial position reached LE 357.0 billion at end of June 2006, against LE 391.5 billion at end of June 2005. The aggregate financial position of banks (excluding the CBE) mounted by LE 56.4 billion or 8.0% during the reporting year, to stand at LE 761.6 billion at end of June 2006. Deposits at banks grew by LE 49.2 billion or 9.5% during the year, to register LE 568.8 billion or 74.7% of the aggregate financial position of banks at end of June 2006. In addition, lending and discount balances at banks rose by LE 15.8 billion or 5.1%, to reach LE 324.0 billion or 42.5% of the aggregate financial position at end of June 2006.

Within the framework of improving **the payment systems and information technology**, the CBE established the National Payments Council, and cooperated with some international institutions to identify the best ways for implementing a national payment system. In addition, a new legal framework for the National Payment System is currently being developed. Moreover, the CBE has designed and implemented the infrastructure for connecting banks. The banks' network is characterized by a high degree of security, speed and efficiency. In addition, a disaster recovery system is currently being established at the Bank's new location in Alexandria to run all the systems of the Bank in case of failure.

As for the consolidated fiscal operations of the general government (budget sector, NIB and SIFs), the actual preliminary data of these operations during FY 2005/2006 indicate that total revenues reached some LE 174.6 billion, total expenditures LE 220.2 billion, cash deficit LE 45.6 billion and net acquisition of financial assets LE 7.7 billion. Accordingly, the overall deficit posted around LE 53.3 billion or 8.6% of GDP.

A follow-up of the fiscal operations of the budget sector (the administrative system, local administration and service authorities) revealed that total revenues reached some LE 149.5 billion, total expenditures LE 204.5

billion, cash deficit LE 55.0 billion and net acquisition of financial assets - LE 6.0 billion. Accordingly, the overall deficit registered some LE 49.0 billion or 7.9% of GDP. This deficit and the repayment of various domestic obligations (LE 6.5 billion) were financed through domestic banking and non-banking sources in the amount of LE 51.8 billion, as well as privatization proceeds (LE 0.1 billion) and foreign sources (LE 3.6 billion). As for domestic sources, non-banking sources contributed 67.6%, and banking finance 26.7% of financing the budget deficit (plus the said repayments).

As a result of the above mentioned operations, total domestic public debt augmented by LE 82.7 billion during the year, to stand at LE 593.5 billion at end of June 2006. Of this amount, the share of the government debt was LE 387.7 billion, representing 62.8% of GDP.

Regarding **the external sector**, BOP performance resulted in an overall surplus of US$ 3.3 billion, or 3.0% of GDP, during the reporting year (against US$ 4.5 billion during the previous FY).

BOP current account achieved a surplus of US$ 1.8 billion, or 1.6% of GDP, during FY 2005/2006, as a reflection of the increase in both services surplus and net unrequited transfers. The capital and financial account achieved a net inflow of US$ 3.5 billion against US$ 3.4 billion, mainly due to the pick up of FDI in Egypt to record a net inflow of US$ 6.1 billion (against US$ 3.9 billion).

During the statement year, the external debt rose by US$ 0.6 billion. Accordingly, its outstanding balance (public and private), expressed in US dollar, reached some US$ 29.6 billion (of which the public debt accounted for US$ 28.2 billion) at end of June 2006. Such a rise was an outcome of a net disbursement of loans and facilities of US$ 0.4 billion on the one hand, and the exchange rate effects (appreciation of most currencies of borrowing vis-à-vis the US dollar) of US$ 0.2 billion on the other hand.

External debt service rose by US$ 0.3 billion to US$ 3.0 billion during FY 2005/2006. Such an increase was ascribed to a rise in principal repayments by US$ 0.3 billion to US$ 2.4 billion, and paid interest by US$ 12.9 million to US$ 0.6 billion. Despite the rise in debt service, its ratio to current receipts declined to 7.3% (from 7.9% during the previous FY), due to a 20.8% growth in transfers and exports of goods & services during FY 2005/2006.

The **Stock Exchange** displayed an uneven performance during FY 2005/2006. Transactions were brisk at the beginning of the FY till the second week of Feb. 2006, but since then, their performance was adversely influenced by a number of factors. First, the activity of the Gulf exchanges slowed down, as many Gulf investors sold stakes in the Exchange to cover their financial positions that mainly depended on banking loans. Second, the Stock Exchange was exposed to a number of selling pressures for collecting profit gains. As a result, the CMA index declined by 3.77% to 1696.93 points and (CASE 30) by 1.16% to 4772.78 points at end of June 2006 as compared with the end of June 2005. The market capital of shares traded on the Exchange reached LE 377.1 billion at end of June 2006, constituting 61.0% of GDP in FY 2005/2006.

In the field of **combating money laundering**, the Money Laundering Combating Unit continued during the reporting year to receive reports of suspicious transactions and to undertake the necessary actions in this regard. The Unit also helped some Arab countries to join the EGMONT group. Egypt was chosen to chair The Middle East & North Africa Financial Action Task Force (MENAFATF) for combating money laundering, and hosted its third annual meeting in March 2006.

Such developments in the Egyptian economy during FY 2005/2006 led to stable outlooks for Egypt as shown by Fitch Ratings (May 2006). Fitch affirmed Egypt's foreign currency issuer default rating (IDR) at BB+, local currency long-term IDR at BBB, and short-term IDR at B and BB+. Moreover, Moody's and S & P ratings, issued during the time of preparing this report, emphasized the stable outlooks for the Egyptian economy.

In conclusion, I would like to express my thanks and appreciation to all the staff of the CBE for their diligent efforts, which have enabled the Bank to effectively fulfill its designated role within the framework of development and modernization. I would also like to extend my gratitude to all sectors and entities for the information they have provided for this report. Finally, may Allah bestow upon our country more progress and welfare.

**Governor**

**Dr. Farouk El-Okdah**

## Contents of the Annual Report

**Chapter 1: World Economic Developments**

# Chapter 1
# World Economic Developments

During FY 2005/2006, world economic growth slightly improved to 3.7% against 3.1% in FY 2004/2005. This improvement was supported by higher industrial output and corporate earnings, especially during the first half of the reporting year. Another contributing factor was that the strong fixed investment spending continued unabated in the advanced economies as a whole during July/March of the same year. The USA economy along with China and India's continued to play a key role in stimulating the global economic growth. In the USA, the economic growth rate rose to 3.6% and in China to over 11.0%. As for the Indian economy, it remained above 8.0%. The buoyant global economy was also helped by strong economic growth of the UK and the euro area as a whole, underpinned by robust growth in the area's largest economies (Germany, France and Italy). The higher growth of some emerging economies in Central and Eastern Europe and Asia (Korea and Singapore) was also behind the improvement. The world economic performance could have been stronger but for the decline in the growth rates of Japan, Canada and some Latin American countries.

The better performance of the world economy was accompanied by a marked rise in the main indices of equity prices in many of the world exchanges. Accordingly, the Standard & Poor's Global 1200 index (denominated in US dollar) went up by 15.4% during the year under review, against 8.8% during the year of comparison. The said index also increased at the level of the regions of Asia and South America and at the level of the American and European companies.

Global financial and trade imbalances remained a main controversial economic issue on the international arena during FY 2005/2006. A major example of these imbalances is that the US current account deficit continued to widen, while China, Japan and oil exporting countries run substantial surpluses of international reserves. The rise in the public debt/GDP ratio in a number of developed countries, the wide divergences of growth rates in these countries; and the steady increase in the household sector's debt of many countries were other important imbalances. Moreover, the global economic performance was adversely influenced by the dramatic increase in world oil prices, which surged to a record above US$ 70 a barrel during the last quarter of the year, affecting as such consumer demand and investment spending.

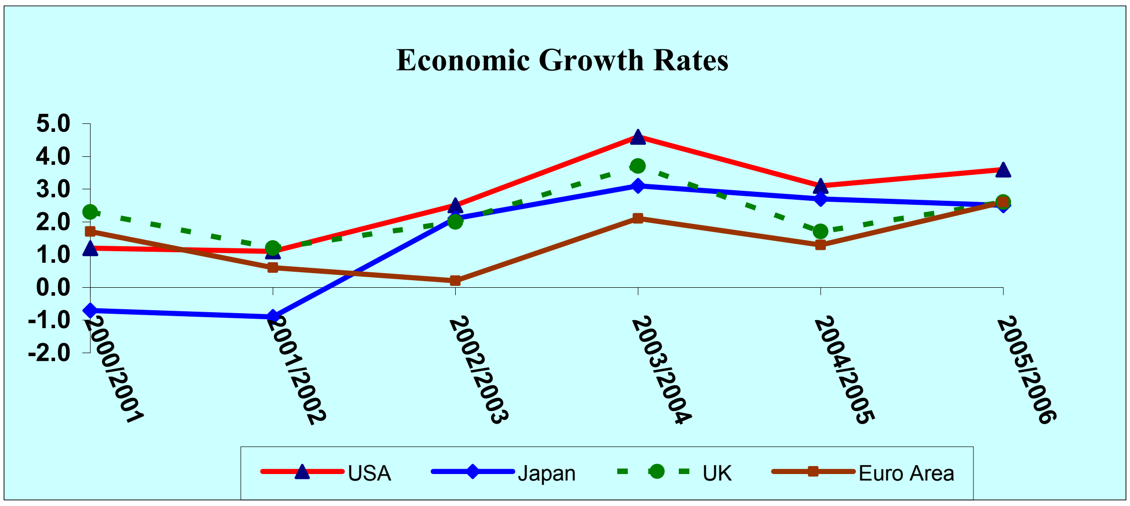
During FY 2005/2006, some of the emerging economies increasingly tended to conclude agreements that facilitate their intra- trade and investment on the one hand, and their trade and investments with some developed countries on the other. This was a main effect of the continuous disputes between developed and developing countries over main issues in the field of trade liberalization within the framework of WTO multilateral negotiations. This led to suspending the Doha negotiations till the beginning of the year following the year covered by the report.

### 1/1- Economic Growth

As for economic growth rates in major industrial countries, growth in the USA rose to 3.6% during FY 2005/2006, against 3.1% during the previous year. The rise was mainly due to a number of factors. First, the American companies tended to build up their inventories, following the increase of their earnings and the rise in industrial output. Second, investment spending of these companies remained at high levels during July 2005/March 2006. Finally, the investments made in oil prospecting picked up during the last quarter of the year. The improvement in the US economy could have been stronger but for the continuous high ratio of both the US current account and fiscal deficits to GDP. Added to this was the fall in consumer spending, affected by high energy prices.

Growth rate in the euro area almost doubled to reach 2.6% during FY 2005/2006, against 1.3% during FY 2004/2005. The rise was mainly pronounced in the major economies of the area (Germany, France and Italy). The tangible improvement in the euro area was ascribed to stronger domestic demand. This was a main result of a pick-up in fixed investment spending by 4.6%, against 2.7%, private consumption by 1.7%, against 1.4%, and vigorous industrial output.

In the UK, economic growth mounted to 2.6%, against 1.7%, mainly because of strong private consumption and investment spending on fixed assets. Added to this was the increase in government spending during the second half of 2005/2006.




Source: Global Economic & Policy Research, World Financial Markets, JP Morgan Sept., 2006

In Japan, economic growth slackened to 2.5% during the year under review, against 2.7% during the year of comparison. This was due to the weak private consumption during July 2005/March 2006, associated with unfavorable weather conditions during the said period. Added to this was the decline in net exports of goods and services, owing to the rise in the costs of imports (under high world oil prices). However, the slowdown was offset by the pick-up in investment spending on fixed assets and the rise in industrial output.

In Canada, economic growth slightly declined to 2.9%, against 3.0%. This was mainly attributed to a fall in private consumption. Combined with this was the steep decline in industrial output, affected by soft competitiveness of the Canadian exports due to the Canadian dollar appreciation vis-à-vis the US dollar. Yet, the decline in economic growth was mitigated by strong investment spending on fixed assets.

### 1/2- Unemployment and Inflation Rates

Thanks to the improvement in the performance of the world economy, unemployment retreated in most of the major industrial countries in June 2006, as compared with June 2005. This was mainly because many companies in these countries increased their number of employees to maintain production levels, which were negatively affected by the decline in worker's productivity. In addition, some of these countries provided investment incentives and made some legislative reforms of their labor laws to render them more flexible. As such, unemployment in the USA abated from 5.0% to 4.6%, in Canada from 6.8% to 6.1%, and in the euro area from 8.6% to 7.8%. Concurrently, unemployment in Japan remained unchanged at the level of June 2005 (4.2%). In contrast, it rose in the UK from 4.8% to 5.5%.

**Annual Rates of Unemployment and Inflation**

(%)

| | Unemployment | | Inflation | |
|---|---|---|---|---|
| | The Year Ending June | | | |
| | 2005 | 2006 | 2005 | 2006 |
| USA | 5.0 | 4.6 | 2.5 | 4.3 |
| Canada | 6.8 | 6.1 | 1.7 | 2.5 |
| Japan | 4.2 | 4.2 | -0.5 | 1.0 |
| Germany | 11.9 | 10.9 | 1.8 | 2.0 |
| France | 10.0 | 9.0 | 1.7 | 1.9 |
| Italy | N.a. | N.a. | 1.8 | 2.3 |
| UK | 4.8 | 5.5 | 2.0 | 2.5 |
| Euro area | 8.6 | 7.8 | 2.1 | 2.5 |

Source: The Economist, various issues

Concerning inflation, the rise in world oil prices led to an increase in inflation rates, despite the tightened monetary policies adopted by central banks in most of the industrial countries. In the USA, inflation accelerated from 2.5% during FY 2004/2005 to 4.3% during FY 2005/2006, in the euro area from 2.1% to 2.5%, in Canada from 1.7% to 2.5%, and in the UK from 2.0% to 2.5%. In Japan, inflation posted 1.0% during the reporting year, against a negative 0.5%.

### 1/3- Primary Commodity Prices

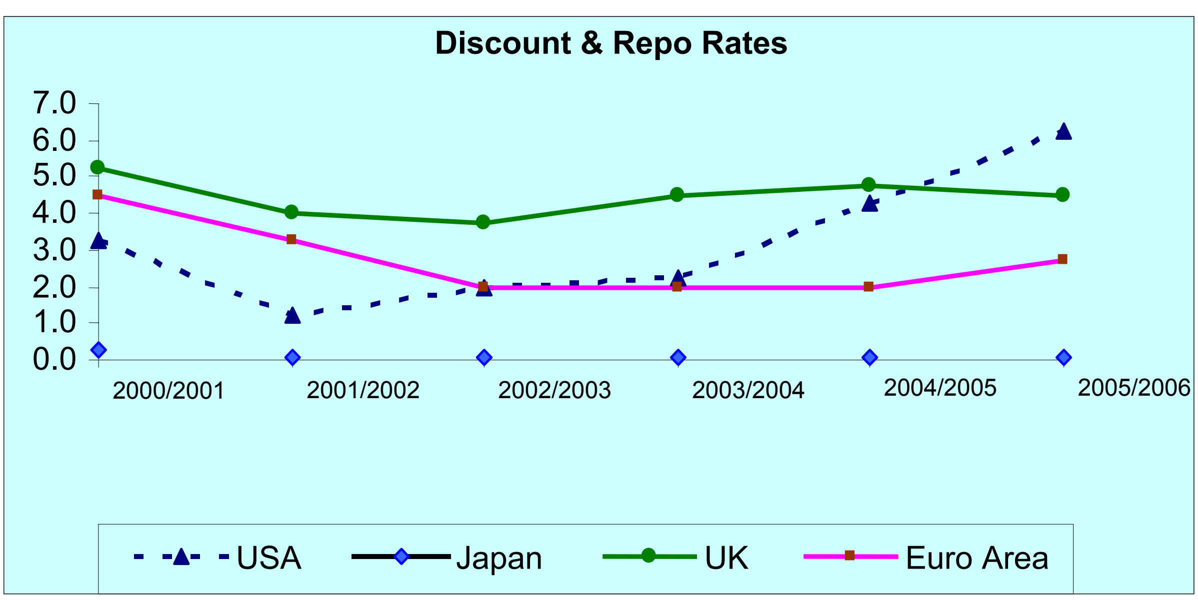
The general price index of primary commodities (2000 = 100) went up by 26.6% during FY 2005/2006. The significant rise was ascribed to an increase in the price index of metals by 59.5%, energy by 25.7%, foodstuffs by 10.5% and agricultural raw materials by 9.1%. By contrast, the price index of beverages rolled back by 5.1%. The sharp increase in metal prices was pronounced in the unprecedented hike in the prices of zinc by 151.2%, copper by 104.7% and gold by 38.4%. This was an outcome of the vigorous demand thereon, especially on part of China and India, because of the remarkable growth in their industrial output. Added to this were the weak investments in the mining sector, given the fact that such sector still needs massive volumes of investments.

As for energy prices, oil prices remained on the rise. As such, the prices of gasoline climbed by 40.6% and crude oil by 26.7%. The rise was mainly ascribed to stronger demand on oil, along with limited refining capacities and unstable security conditions in some major oil producing countries( such as Iraq and Nigeria), and the political tensions in other countries, especially Iran (because of its nuclear dispute).

The increase in foodstuff prices was mainly attributed to the surge in wheat prices by 37.5%, maize by 12.3% and rice by 6.5%. However, the prices of meat declined by 7.2%. The rise in the prices of agricultural raw materials was mainly due to a step-up in the prices of wood (17.4%), cotton (4.6%) and palm oil (4.5%). By contrast, prices of beverages decreased, as an outcome of the fall in coffee prices (13.3%) and the rise in the prices of tea (12%) and cocoa (4.3%).

## 1/4- Discount Rates

Out of their keenness to stem the rise in inflation, central banks in many major industrial countries have adopted tightening monetary policies during FY 2005/2006. The USA Federal Reserve raised the discount rate by ¼ % for eight successive times, bringing it to 6.25% at end of June 2006. In addition, the European Central Bank raised the repo rate for three times during the year, by ¼% each, to reach 2.75%. The Bank of Canada also raised the discount rate for seven times, bringing it to 4.50%. In Japan, the Bank of Japan ended its policy of quantitative monetary expansion applicable since 2001, in preparation for adopting a less accommodative policy, mainly through raising the interest rates. The increase of interest rates did not only occur in the advanced economies but extended to several emerging countries. As such, central banks in many emerging countries such as Turkey, South Korea, India and South Africa raised their interest rates. In contrast, the Bank of England reduced the repo rate by ¼%, to reach 4.5% at end of June 2006, so as to spur domestic demand and, accordingly, enhance the economic growth.



## 1/5- Exchange Rates

Developments in exchange rates during FY 2005/2006 reveal a decline in the US dollar exchange rate vis-à-vis most major currencies. Most of the decline was seen in the first and last quarters of the said year. As such, the US dollar depreciated against the euro by 4.9% during the year, to post 0.7866 a dollar at end of June 2006; the pound sterling by 2.2% to 0.5451; and the Canadian dollar by 9.0% to 1.1150. However, the US dollar rose against the Japanese yen by 4.1% to 114.95 per dollar. The US dollar declined versus most major currencies, mainly because some central banks tended to raise the share of the euro in their international reserves. In addition, the IMF highlighted the importance of depreciating the US dollar to limit the prevailing imbalances in the world economy.

## 1/6- International Reserves

International non-gold reserves amounted to SDR 3128.0 billion at end of June 2006, recording a rise of SDR 349.5 billion or 12.6% during the reporting year. The rise was an outcome of a surge in the reserves of developing countries by SDR 369.4 billion, and a decline in those of industrial countries by SDR 19.9 billion. Around 54.4% of the rise in the developing countries' reserves was contributed by Asian countries (excluding Japan), especially China, India, Indonesia, Korea and Singapore, along with a pick up in their trade surpluses. It is noteworthy that China became the world's largest holder of reserves (above SDR 637.8 billion), thereby outpacing Japan (SDR 574.4 billion). Moreover, increases were seen in the international reserves of Eastern and Central Europe, Africa, Middle East and Latin America.

The reserves of industrial countries contracted, mainly because of their decline in the euro area, the UK and the USA.

## 1/7- International Economic Blocs

The FY 2005/2006 witnessed the gathering of several regional and international economic blocs. In Scotland, the **G8 leaders** held their meeting during 6-8 July 2005, where they decided to boost their official development assistance to heavily indebted poor countries (HIPC) in the amount of US$ 50 billion by 2010, and specifically to Africa by US$ 25 billion for the purpose of mitigating poverty. They also pledged to provide substantial extra resources to the countries which have strong national development plans and are committed to good governance, democracy and transparency. Moreover, the G8 leaders decided to cancel a debt of US$ 40 billion due on 18 HIPC (14 in Africa) to the World Bank, IMF and African Development Bank. They also agreed to grant US$ 3 billion to the Palestinian Authority to support the infrastructure development.

In their meeting held on 21 April 2006, the **G7** finance ministers and central bank governors pledged to address the prevailing imbalances in the global economy, resist protectionism and promote liberalization of trade and investment. Moreover, they underscored the need to modernize international financial institutions, including the IMF. They also welcomed the decision by the IMF, World Bank and African Development Bank to implement 100 percent debt cancellation for qualifying countries.

The $29^{th}$ ordinary meeting of the Assembly of Governors of **the Association of African Central Banks (AACB**) was held on 29 July 2005 in Accra, Ghana. In this meeting, member central banks were urged to regularly provide their contributions to the Association. It was also recommended that progress reports on the implementation of the African Monetary Cooperation Programme (AMCP) should be prepared. Moreover, Governors agreed to set up an African working group of payment system experts, and assigned the AACB bureau to study the methods and conditions necessary for establishing such a group.

**The Council of Governors of Arab Central Banks and Monetary Agencies** held its $29^{th}$ annual meeting on 5 Sept. 2005 in Beirut, Lebanon. The Council discussed the issues proposed for the Joint Arab Speech Statement of 2005; focused on international cooperation issues; and urged the IMF to promote the international financial stability. Governors also called for exerting efforts to meet the growing world demand on crude oil and to increase its supply; and for increasing the participation of developing countries in the decision making process in international financial organizations.

The annual meetings of the monetary cooperation of the **COMESA Committee of Central Bank Governors** were held in Burundi on 19/11/2005. In order to accelerate the implementation of the Monetary Cooperation Programme, the governors decided to form three subcommittees: the Monetary and Exchange Rate Policies Sub-committee; the Sub-committee on Financial Sector Stability and the Subcommittee on Mobilization of Financial Resources. The governors agreed, in the context of designing the future governance structure of the COMESA Clearing House, on establishing a board of directors, comprising five members. The members of the said board are the heads of departments responsible for the payment systems in member central banks. The Work Programme and annual budgets of the COMESA Clearing House are to be approved by the board of directors within a three-year transitional period before the Clearing House becomes fully operational and self-funded. Moreover, the board of directors will guide the Regional Payments and Settlement System (REPSS) through its progress to the operational stage.

In their meeting held in Vienna, on 8 March 2006, the **OPEC** ministers decided to maintain the current output ceiling at 28.0 million barrels a day. The decision reflects the OPEC's desire to maintain stability of the international oil market.

The WTO member countries (149 in number) approved the final ministerial declaration of the meeting held in Hong Kong during 13-18 December 2005. The following is a summary of the main results that the meeting came up with:

- The ministers agreed on the progressive elimination of export subsidies for agricultural commodities, so that all forms of export subsidies are to be completely eliminated by 2013. Likewise, all forms of export subsidies for cotton are to be eliminated by developed countries by end of 2006. They also agreed that developed countries should give duty-and-quota-free access for cotton exports from West Africa and other least-developed countries (LDCs), once the agreement on the liberalization of trade in agriculture commodities becomes effective.
- The ministers decided that developed countries should give duty- and-quota-free access for 97% of the products of 32 least-developed countries.
- As for services, the ministers agreed that the WTO member countries should submit their revised offers on the liberalization of services trade in no later than July 2006.
- The ministers affirmed their commitment to the completion of the Doha negotiations by the end of 2006.

On their summit meeting in Brussels on December 15-16, 2005, **the EU leaders** reached an agreement on the 2007-2013 EU-budget, representing 1% of the EU GNI or 862.4 billion euros (US$ 1.3 trillion). Moreover, agreement was also reached that a comprehensive revision of the EU-budget in 2009 will result in cutting the agricultural subsidies provided by the EU to European farmers under the EU joint agricultural policy. The development assistance provided by the EU to the ten new Eastern European member states was estimated at 158 billion euros. The EU decided to allow these countries more flexibility in spending this assistance. Moreover, during 23-24 March 2006, the EU leaders held their summit meeting in Brussels to discuss several economic issues. The following is a brief of the communiqué issued during the summit:

- Stemming the slowdown in the European economic growth through implementing the necessary structural reforms, achieving more fiscal discipline and increasing competitiveness.
- Inviting the European Council and the European Parliament and Commission to take the necessary measures to establish the European Globalisation Adjustment Fund as soon as possible, to provide additional support for workers made redundant as a result of major structural changes in world trade patterns and to assist them with their re-training and job search efforts.

- Urging member states to secure energy for the European continent by setting a common energy policy for Europe to secure energy supply, promote competitiveness of European economies in the field of energy; and complete the opening of the internal market for electricity and gas for all consumers in the EU countries by mid-2007. Moreover, they adopted an action plan on energy efficiency, bearing in mind the EU energy saving potential of 20% by 2020.

The annual meeting of the **World Economic Forum** was held in Davos, Switzerland, during 25-29 Jan. 2006 under the theme “The Creative Imperative”. The main issues discussed during the Forum are summarized as follows:

- The importance of adopting collective approaches by governments and institutions to face economic and social challenges, with a focus on utilizing human resources and their creativities.
- The necessity of international cooperation to combat global poverty. In this context, the United Nations offered an ambitious plan to curb poverty, epidemics and armed conflicts in the world, relying on full cooperation of the world community. Moreover, a global plan to stop tuberculosis was launched at a cost of US$ 56 billion to save 14 million lives over the next decade. Also, scenarios were set to fight the global spread of bird flu.
- Securing energy sources by making use of natural reserves in the North Pole as a complementary source of energy stock in the Middle East, especially as the North Pole is close to Europe and the USA. However, this raised the problem of property rights, where eight countries claimed their stakes in the region, besides the issue of natural resource depletion and its impact on environment.

- The importance of enhancing trade negotiations within the World Trade Organization after its meeting in Hong Kong in Dec. 2005.

The World Economic Forum on the Middle East (Davos) was held in Sharm Elsheikh on 20-22 May 2006 under the theme" The Promise of a new Generation". The Forum tackled several political and economic issues, with an emphasis on the importance of enhancing trade relations among countries. Moreover, the Forum called for achieving more integration in the global economy to create 90 million jobs over the next 20 years. This can be realized through activating the participation of the business sector; enhancing partnership between the public and private sectors; and making use of the liquidity available with the countries of the region due to higher oil prices.

## Chapter 2: Central Bank of Egypt

# Chapter 2
# Central Bank of Egypt

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

CBE financial position amounted to LE 357.0 billion at end of June 2006, against LE 391.5 billion at end of June 2005. This denotes a decline of LE 34.5 billion or 8.8% during FY 2005/2006, compared with a rise of LE 58.3 billion or 17.5% in the preceding FY.

The decline on the assets side during the year under review was an outcome of the retreat in domestic assets, outpacing the increase in foreign assets. Domestic assets went down by LE 55.5 billion or 19.6%, to reach LE 227.5 billion or 63.7% of the aggregate financial position at end of June 2006. On the other hand, foreign assets moved up by the equivalent of LE 21 billion or 19.3%, to reach LE 129.5 billion or 36.3% of the aggregate financial position at end of June 2006.

The decrease in domestic assets was mainly ascribed to a decline in claims on the government by LE 50.8 billion, associated with a drop in government securities and other domestic assets by LE 41.3 billion and LE 9.4 billion, respectively. The drop in other domestic assets was mainly derived from a decrease of LE 4.7 billion in the account of "amounts paid to the Ministry of Finance from the Ministry's share in the CBE profit surplus", and of LE 2.8 billion worth in the account of forex transactions outcome, managed by the CBE on behalf of the government. However, the drop in other domestic assets was somewhat offset by the increase in claims on banks in Egypt by LE 4.7 billion.

**CBE: Assets Analysis**

(LE mn)

| End of June | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| **Total Assets** | **281910** | **333254** | **391529** | **356976** |
| **Foreign Assets** | **86212** | **88111** | **108520** | **129469** |
| **Domestic Assets** | **195698** | **245143** | **283009** | **227507** |
| Claims on the government, of which: | 131689 | 175579 | 218450 | 167685 |
| -Government securities | 116512 | 163629 | 206034 | 164761 |
| Claims on the NIB | - | - | - | 10 |
| Claims on banks in Egypt | 10649 | 10184 | 11835 | 16537 |
| Other domestic assets | 53360 | 59380 | 52724 | 43275 |

On the liabilities side, the decrease was attributed mainly to a retreat of LE 31.1 billion or 9.8% in domestic liabilities, to post LE 287.5 billion or 80.5% of total liabilities at end of June 2006.

The decline in domestic liabilities was a result of two factors: First, government claims fell by LE 44.4 billion or 45.6%, which was, in turn, ascribed to a retreat in LE government deposits with the Central Bank by LE 44.9 billion. Second, other domestic liabilities declined by LE 2.8 billion. Such a decline was offset by a rise of LE 11.5 billion in banknote issue and of LE 4.7 billion in banks' claims.

**CBE: Liabilities Analysis**

(LE mn)

| End of June | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| **Total Liabilities** | **281910** | **333254** | **391529** | **356976** |
| **Foreign Liabilities** | **75268** | **79840** | **72863** | **69455** |
| **Domestic Liabilities** | **206642** | **253414** | **318666** | **287521** |
| Banknote issue | 52219 | 59703 | 67527 | 79017 |
| Government claims | 54284 | 75869 | 97519 | 53079 |
| NIB claims | 5478 | 487 | 819 | 496 |
| Banks' claims | 84915 | 107572 | 144411 | 149088 |
| Equities & net profits for the year | 1790 | 2325 | 2513 | 3006 |
| Provisions | 235 | 307 | 302 | 50 |
| Other domestic liabilities | 7721 | 7151 | 5575 | 2785 |

Moreover, the CBE's foreign liabilities rolled back during the year under review by the equivalent of LE 3.4 billion or 4.7%, reaching the equivalent of LE 69.5 billion and representing 19.5% of the CBE's aggregate financial position at end of June 2006.

### 2/2- Banknote Issue

Banknote issue (including subsidiary coins) mounted by LE 11.5 billion or 17.0% during the reporting year, to reach LE 79.3 billion at end of June 2006. This rise was chiefly attributed to the increase in foreign assets with the CBE.

**Banknote Issue***

(LE mn)

| End of June | Balance of Banknote Issue | Change During FY | |
|---|---|---|---|
| | | Value | % |
| 2002 | 45633 | 4625 | 11.3 |
| 2003 | 52432 | 6799 | 14.9 |
| 2004 | 59922 | 7490 | 14.3 |
| 2005 | 67753 | 7831 | 13.1 |
| 2006 | 79253 | 11500 | 17.0 |

* Including subsidiary coins issued by the Ministry of Finance

As for the components of the issue cover, the value of gold increased by LE 1.9 billion worth, to reach LE 6.4 billion, as a result of its revaluation on June 30, 2006. The value of government bonds in the cover also mounted by LE 9.6 billion, reaching LE 72.6 billion. Accordingly, the relative structure of the cover at end of June 2006 was as follows: 91.9% as government bonds and 8.1% as gold.

The increase in banknote issue led to a rise of LE 11.4 billion or 16.9% in the currency in circulation outside the CBE, to reach LE 78.6 billion at end of June 2006.

The following Table shows a noticeable increase in the circulation of the LE 100 note against a decline in the circulation of the other denominations. Meanwhile, the circulation of pt 25 and 50 denominations remained unchanged. This indicates a rise in the value of transactions due to higher prices. Accordingly, the average value per note climbed to LE 22.0 at end of June 2006 (against LE 19.6 at end of June 2005), up by 12.2% during the year under review.

**Currency in Circulation outside the CBE***

(LE mn)

| Denominations | June 2005 Value | June 2005 Relative Importance | June 2006 Value | June 2006 Relative Importance | Change During FY 2004/2005 | Change During FY 2005/2006 |
|---|---|---|---|---|---|---|
| **Total** | **67236** | **100.0** | **78604** | **100.0** | **13.2** | **16.9** |
| **Banknote in Circulation** | **67010** | **99.7** | **78368** | **99.7** | **13.2** | **16.9** |
| PT 25 | 118 | 0.2 | 135 | 0.2 | 0.9 | 14.4 |
| PT 50 | 217 | 0.3 | 239 | 0.3 | 8.0 | 10.1 |
| LE 1 | 512 | 0.8 | 540 | 0.7 | 0.4 | 5.5 |
| LE 5 | 1251 | 1.9 | 1095 | 1.4 | 4.2 | (12.5) |
| LE 10 | 4999 | 7.4 | 4215 | 5.3 | (7.8) | (15.7) |
| LE 20 | 10246 | 15.2 | 9128 | 11.6 | (6.2) | (10.9) |
| LE 50 | 24348 | 36.2 | 27737 | 35.3 | 8.3 | 13.9 |
| LE 100 | 25319 | 37.7 | 35279 | 44.9 | 38.2 | 19.3 |
| **Subsidiary Coins** | **226** | **0.3** | **236** | **0.3** | **3.2** | **4.4** |

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

## 2/3- Monetary Policy

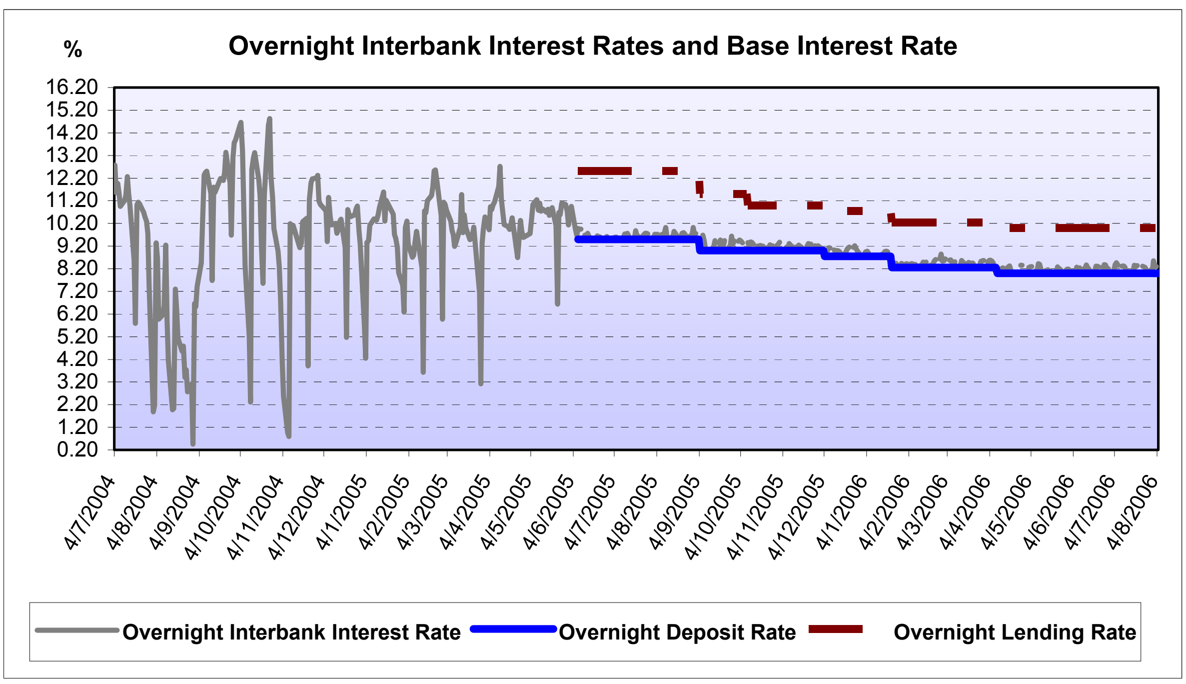
In virtue of Article 5 of the Law of the Central Bank, the Banking Sector and Money No. 88 for 2003, the CBE works on realizing price stability as the overriding objective of its monetary policy. This framework relies on the use of the overnight interest rate on interbank transactions as an operational target of this policy. This represents the CBE's main policy instruments, providing the outer bounds of a corridor, within which the ceiling is the overnight interest rate on lending from the CBE and the floor is the overnight deposit interest rate at the Bank. This system has been applied as of June 5, 2005, as the Monetary Policy Committee (MPC), affiliate to the CBE Board of Directors, set in its meeting the overnight deposit and lending rates at 9.5% and 12.5%, respectively.

During the year under review, the MPC cut the overnight deposit and lending rates a number of times. It also narrowed the corridor to 2.0% from 3.0% which was set at the beginning of the system's application. Hence, the overnight deposit and lending rates reached 8.0% and 10.0%, in order, at end of June 2006*. In its meeting held on 22 January 2006, the Committee reduced the CBE lending and discount rate by 1.0% to 9.0%. As a result, the overnight interest rate on interbank transactions declined, with its weighted average

* In its meeting dated Nov. 2, 2006, the MPC set the overnight deposit and lending rates at 8.5% and 10.5%, respectively.

reaching 8.2% in June 2006 (against 9.7% in June 2005). Moreover, the interest rate on one-year-or-less loans decreased to 12.5% at end of June 2006 (against 13.3% at end of June 2005).

The adoption of a new framework for monetary policy implementation (including the interest rate corridor) checked the sharp fluctuations in interbank interest rates. The graph below illustrates the interest rates before applying the system (July 2004 – May 2005) compared with the post-application period (June 2005 – August 2006).




Concerning the indirect monetary policy instruments, the CBE continued to absorb the excess liquidity in the banking system through open-market operations. In addition, the CBE began issuing new instruments namely certificates of deposits (CDs) with maturities spanning up to one year and CBE notes with maturities of over one to two years. The CBE sells these two instruments to banks through outright sales.

The balance of open market operations reached about LE 93.7 billion at end of June 2006, of which, LE 37.3 billion were outright sales and LE 56.4 billion deposit-acceptance operations. In comparison, this balance stood at LE 72.4 billion at end of June 2005, of which, LE 1.9 billion were outright sales, LE 35.0 billion deposit-acceptance operations and LE 35.5 billion reverse repos.

The following are the main positive outcomes of the monetary policy adopted during the reporting year:

- The annual growth rate of domestic liquidity (M2) retreated to 13.5% at end of June 2006, against 13.6% at end of June 2005. This rate of growth matched that of real GDP (6.9%) and the annual CPI-based inflation (7.2%).

- The preference for saving in local currency continued, with inflation remaining at an acceptable level. This is clearly shown by the fact that LE time and saving deposits remained the main contributor to the growth in broad money (M2) during the year. However, foreign currency time and saving deposits shifted from a negative to a positive contribution. This is illustrated in the following Table:

**Growth Rate of Domestic Liquidity (M2) by Component**

(%)

| | **June 2005** | **Sept. 2005** | **Dec. 2005** | **March 2006** | **June 2006** |
|---|---|---|---|---|---|
| Time and saving deposits in local currency | 11.4 | 10.8 | 9.2 | 7.0 | 6.3 |
| Time and saving deposits in foreign currencies | (1.0) | (1.3) | (1.6) | 0.5 | 3.1 |
| Others | 3.2 | 4.7 | 3.9 | 4.1 | 4.1 |
| **Broad money (M2)** | **13.6** | **14.2** | **11.5** | **11.6** | **13.5** |

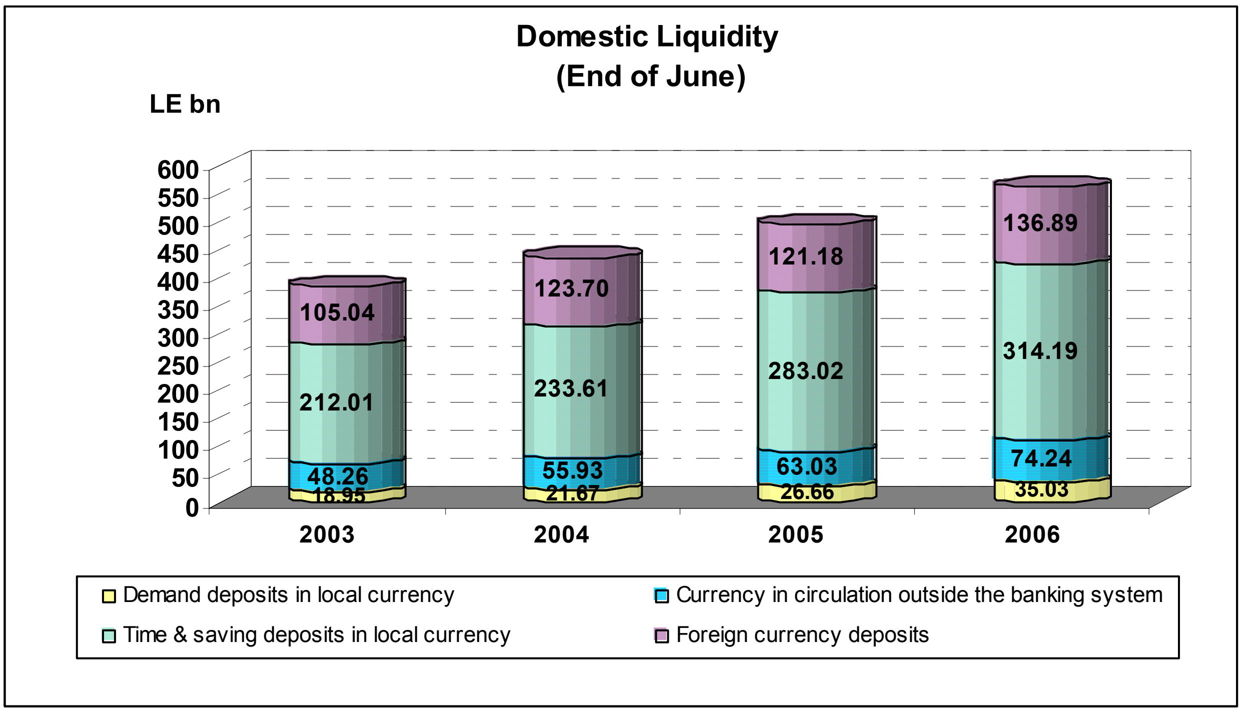
- The LE exchange rate continued to improve vis-à-vis the US dollar in the inter-bank market, leading to a rise in net international reserves with the CBE. This will be addressed in detail later in the Report.

## 2/4-Domestic Liquidity and Counterpart Assets

Domestic liquidity increased by LE 66.5 billion, with a growth rate of 13.5% during FY 2005/2006 (against LE 59.0 billion and 13.6% during the previous FY), to reach LE 560.4 billion at end of June 2006.

The increase in domestic liquidity was mainly attributed to the growth of LE 39.6 billion or 12.8% in local currency deposits at banks; and the rise of LE 15.7 billion worth or 13.0% in foreign currency deposits.

As to the components of domestic liquidity, money supply stepped up by LE 19.6 billion or 21.8% during the year under review (against LE 12.1 billion and 15.6% in the previous FY), to reach LE 109.3 billion or 19.5% of total domestic liquidity at end of June 2006. This step-up was due to an increase in money in circulation outside the banking system by LE 11.2 billion or 17.8% during the year (against LE 7.1 billion and 12.7%), to reach LE 74.2 billion at end of June 2006. In addition, there was a rise in demand deposits in local currency by LE 8.4 billion or 31.4% during the year under review (against LE 5.0 billion and 23.0% in the previous FY), to reach LE 35.0 billion at end of June 2006.




The second component, i.e., quasi-money (time and saving deposits in local currency and demand and time and saving deposits in foreign currencies) increased by LE 46.9 billion, denoting a growth rate of 11.6% during the year (against a rise by the same amount and a growth rate of 13.1% during the preceding FY), to reach LE 451.1 billion or 80.5% of total domestic liquidity at end of June 2006. The said increase was a result of a pickup in both time and saving deposits in local currency and foreign currency deposits.

Time and saving deposits in local currency climbed by LE 31.2 billion or 11.0% during the year (against LE 49.4 billion and 21.2% in the previous FY), to reach LE 314.2 billion, thereby accounting for 69.7% of quasi-money and 56.1% of total domestic liquidity at end of June 2006.

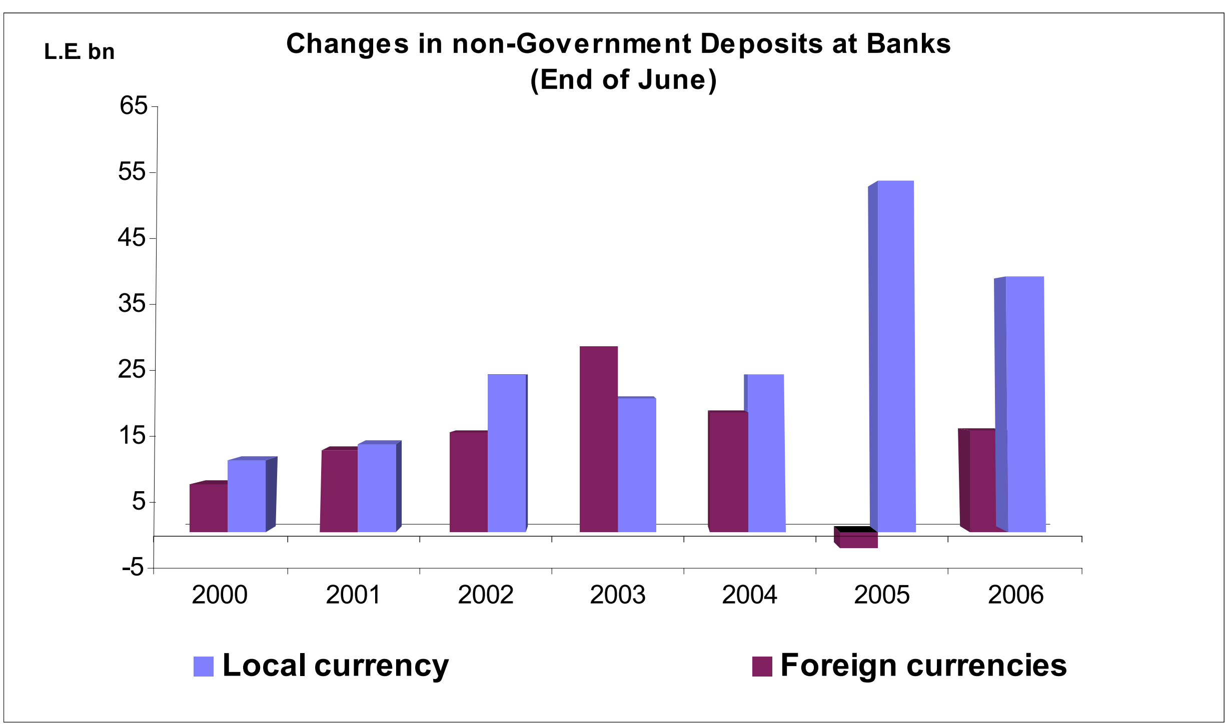
Foreign currency deposits augmented by the equivalent of LE 15.7 billion or 13.0% during the year under review (against a decline of LE 2.5 billion worth or 2.0% during the previous FY), to stand at the equivalent of LE 136.9 billion at end of June 2006.

**Domestic Liquidity Structure and Counterpart Assets**

(LE mn)

| End of June | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|
| | Value | Relative Importance % | Value | Relative Importance % | Value | Relative Importance % |
| **Domestic Liquidity** | **434911** | **100.0** | **493884** | **100.0** | **560356** | **100.0** |
| **Money Supply** | **77606** | **17.9** | **89685** | **18.2** | **109274** | **19.5** |
| - Currency in circulation outside the banking system | 55933 | 12.9 | 63029 | 12.8 | 74239 | 13.2 |
| - Local currency demand deposits* | 21673 | 5.0 | 26656 | 5.4 | 35035 | 6.3 |
| **Quasi-Money** | **357305** | **82.1** | **404199** | **81.8** | **451082** | **80.5** |
| - Time and saving deposits in local currency | 233610 | 53.7 | 283020 | 57.3 | 314188 | 56.1 |
| - Foreign currency deposits* | 123695 | 28.4 | 121179 | 24.5 | 136894 | 24.4 |

- Less cheques and purchased drafts



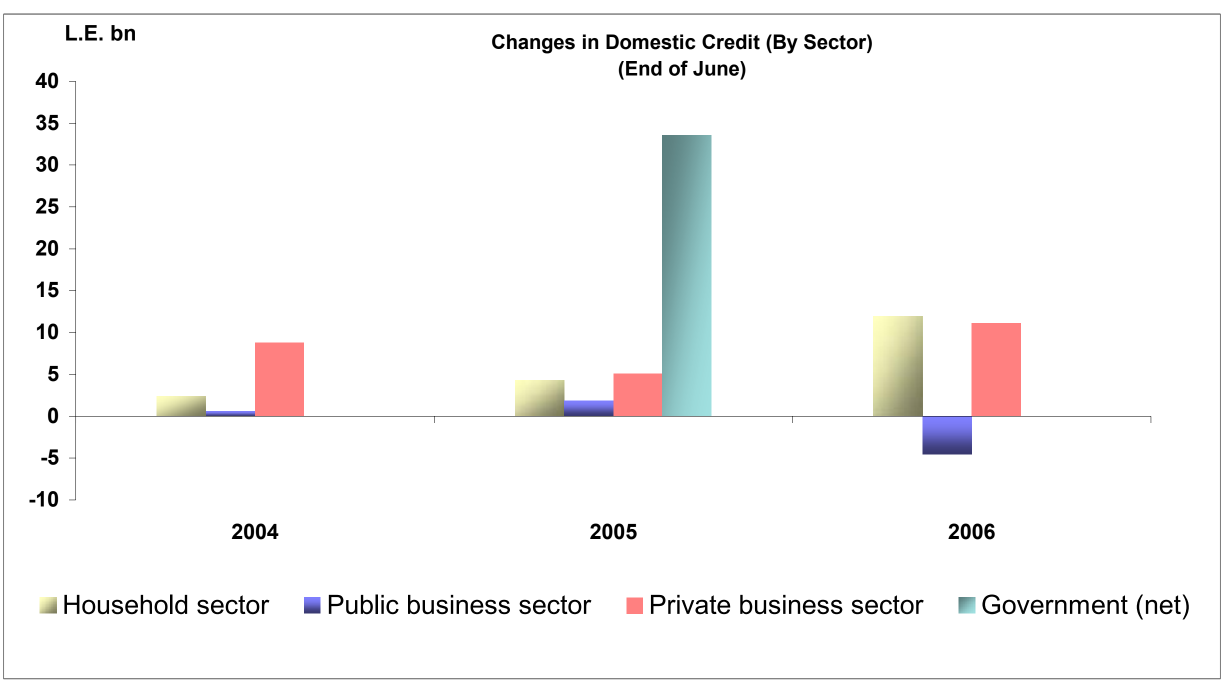
As for the counterpart assets of domestic liquidity, increases were seen in domestic credit, net foreign assets and the negative balance of net balancing items.

Domestic credit extended by banks to all sectors expanded by LE 42.8 billion or 9.2% during FY 2005/2006 (against LE 44.7 billion and 10.6% during the previous FY), to reach LE 509.5 billion at end of June 2006.

The private sector (private business and household) accounted for 53.9% of the increase in credit during the year, receiving LE 23.0 billion, against LE 9.4 billion in the previous FY. As such, the private sector's debt registered LE 292.5 billion, representing 57.4% of the total credit at end of June 2006.

Net credit to the government sector rose by only LE 24.2 billion (against LE 33.5 billion in the previous FY), bringing its net debt up to LE 184.1 billion or 36.1% of the total credit at end of June 2006.

Credit to the public business sector retreated by LE 4.5 billion or 12.1% (against a rise of LE 1.8 billion or 5.1% during the previous FY), bringing its balance to LE 32.9 billion at end of June 2006.



Net foreign assets at the banking system mounted by the equivalent of LE 52.5 billion or 64.8% during the year (against the equivalent of LE 35.7 billion and 78.8% during the previous FY), to stand at LE 133.4 billion worth at end of June 2006.

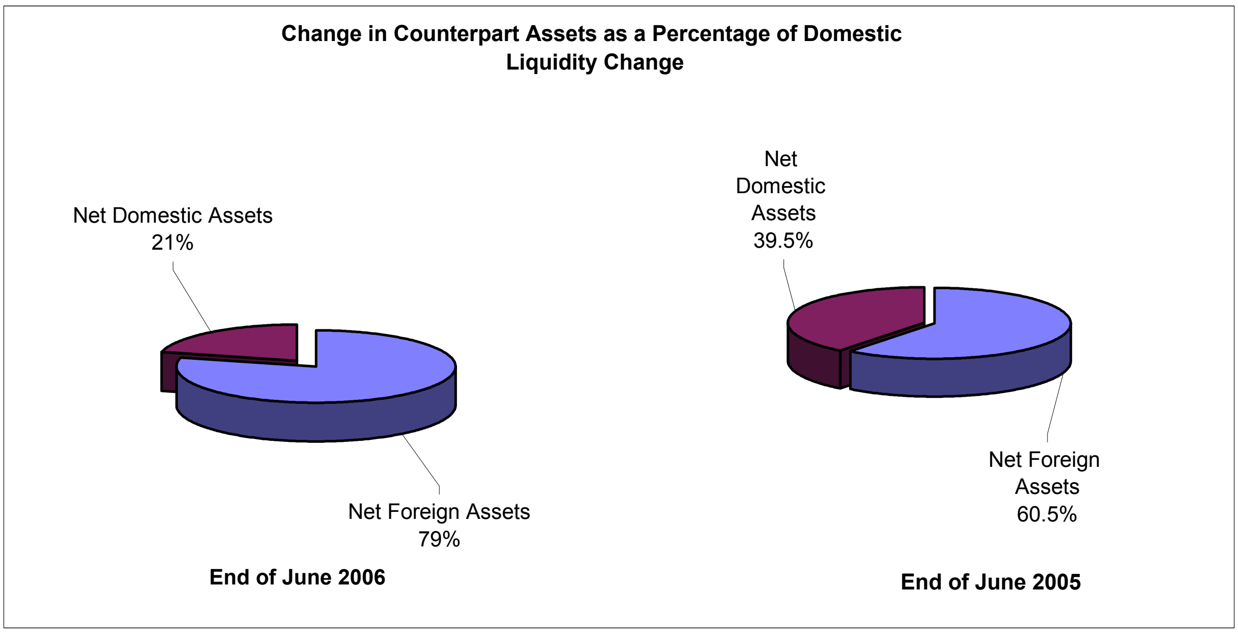
The rise in net foreign assets during the year was an outcome of the pickup in net foreign assets with banks by LE 28.5 billion worth, owing to a step up in their foreign assets by the equivalent of LE 23.9 billion and a decline in their foreign liabilities by the equivalent of LE 4.6 billion. Moreover, CBE net foreign assets increased by the equivalent of LE 24.0 billion, due to a rise of LE 20.7 billion worth in its foreign assets and a drop of LE 3.3 billion worth in its foreign liabilities.

## Counterpart Assets of Domestic Liquidity

(LE mn)

| End of June | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|
| | Value | Relative Importance % | Value | Relative Importance % | Value | Relative Importance % |
| **Counterpart Assets of Domestic Liquidity** | **434911** | **100.0** | **493884** | **100.0** | **560356** | **100.0** |
| **Net Foreign Assets** | **45241** | **10.4** | **80913** | **16.4** | **133385** | **23.8** |
| -With the CBE | 9858 | 2.3 | 37294 | 7.6 | 61301 | 10.9 |
| -With other banks | 35383 | 8.1 | 43619 | 8.8 | 72084 | 12.9 |
| **Domestic Credit** | **422040** | **97.0** | **466771** | **94.5** | **509532** | **90.9** |
| Government (net) | 126343 | 29.0 | 159889 | 32.4 | 184131 | 32.8 |
| Public business sector | 35588 | 8.2 | 37421 | 7.6 | 32888 | 5.9 |
| Private business sector | 223096 | 51.3 | 228195 | 46.2 | 239338 | 42.7 |
| Household sector | 37013 | 8.5 | 41266 | 8.3 | 53175 | 9.5 |
| **Other Items (Net)** | **-32370** | **-7.4** | **-53800** | **-10.9** | **-82561** | **-14.7** |

Net balancing items exercised a contractional effect on domestic liquidity, with its negative balance rising by LE 28.8 billion, against LE 21.4 billion during the previous FY. The rise during the year under review was attributed to an increase in the credit balance of net debit and credit positions among banks by LE 13.1 billion, capital accounts by LE 8 billion and net unclassified assets and liabilities by LE 7.7 billion.




## 2/5- Supervision over Banks

In its ongoing efforts to develop its supervisory performance, to cope with the latest international developments in the banking industry, the CBE works on deepening and developing the concept of risk- based supervision, in order to assess banks' ability to identify, measure, control and manage current and future risks. The CBE also examines the adequacy of procedures and internal control systems applicable at banks to determine, measure and control the IT- related risks.

In pursuit of its supervisory role, and out of its keenness to early detect any irregularities and take the necessary measures that help banks rectify them, the CBE performs an on-site examination on a regular and timely basis. During FY 2005/2006, examinations covered 16 banks.

To effect the provisions of Article 133 of Law No. 88 for 2003, of the Central Bank, the Banking Sector and Money, many settlement cases are studied, and their settlement reports are notarized. In addition, the CBE cooperates with any investigation entities that need banking expertise and know-how assistance to decide on the relevant technical banking issues. In addition, the CBE studies customers' complaints to verify them.

Within the framework of implementing the provisions of Law No. 88 for 2003 amended by Law No. 93 for 2005, the CBE's Board of Directors approved in its session dated 6th of January 2006 the rules regulating the work of credit bureaus, exchange of information, and the CBE relevant supervisory system.

Moreover, the CBE's Board approved in its session on February 7, 2006 Decision No. 305 regarding the maximum limits of a bank's investments with a single customer and the connected parties, and Decision No. 306 concerning the maximum limits of a bank's investments with its related parties as well as their connected parties.

## 2/6- Banking Reform

The CBE's plan for reforming the banking system was approved by the President of the Republic in September 2004. This reform plan leans on four pillars: (1) privatization and consolidation of the banking sector, (2) financial and managerial restructuring of the State-owned banks, (3) solution of the problem of non-performing loans and (4) upgrading of the Supervision Sector at the CBE. The plan is currently under implementation. Hereunder is a progress summary of this plan, covering the period up to the end of FY 2005/2006 and afterwards till the time of printing this Report.

### 2/6/1 Privatization and Consolidation Plan

#### A- Issue of the Regulations Governing the Merger Process

- The CBE's Board of Directors issued the regulations for applying Article 79 of Law No. 88 for the year 2003 of the Central Bank, the Banking Sector and Money, regarding dealing with banks that are exposed to problems affecting their financial positions.
- The CBE's Board issued a decision for applying Article 41 of Law No. 88 for the year 2003, regarding the regulations of voluntary merger.

#### B- Mergers and Acquisitions

After the lapse of the grace period (in mid-July 2005) given by the Central Bank to banks to adjust their statuses through raising their capital to LE 500 million (according to Law No.88 for 2003), a number of mergers and acquisitions took place in the banking sector during FY

2005/2006. The last of these mergers was as follows: the Islamic International Bank for Investment and Development, the Nile Bank and the United Bank of Egypt were merged into the United Bank that had been established with a 99.9% CBE share of its issued and paid-up capital. Accordingly, the number of banks dropped to 43 at end of June 2006, against 57 at the launch of the Banking System Reform Plan in September 2004. The merger and acquisition operations will continue, as it is planned to bring the number of banks to 37 by end of 2007.

## C- Privatization of the Bank of Alexandria

At the time of printing this Report, it was announced on October 17, 2006 that Italy's San Paolo IMI won the bidding for an 80% stake of the Bank of Alexandria, following a public auction among four Arab and European financial institutions that had submitted final financial offers to purchase the Bank. The total value of the Bank according to San Paolo offer reached US$ 2.0 billion. The value of the deal (80% of the Bank's shares) reached US$ 1.6 billion.

In this respect, the following procedures were followed:

- A number of accounting firms (partners with international bureaus) and international legal advisors were chosen to assess the financial, technical and legal status of the Bank and prepare the financial statements of the Bank for the last four fiscal years ending 2006, in accordance with international accounting standards.
- The City Group was chosen as a financial advisor for the selling process to evaluate the Bank and prepare the underwriting documents. City Group was one of eight institutions that applied for this purpose.
- The government announced on February 28, 2006 its intention to sell the Bank of Alexandria. The Ministry of Investment was chosen as a coordinator of the selling process. The privatization plan was set as follows: 75% - 80% of the Bank's total shares are offered to an anchor investor, 5% to the Bank's staff and the remaining 15% - 20% will be offered via an initial public offering on the CASE, following the sale of the majority stake to the anchor investor.
- The sale of the Bank of Alexandria was announced in local and international journals on March 30, 2006, where anchor investors were invited to apply for purchasing the Bank. The announcement included the conditions that should be met by the anchor investor.

- Due diligence requirements were met and the Data Room was equipped.
- The Ministry of Investment received thirteen initial bids from local, regional and foreign financial institutions. The CBE has granted six financial institutions an approval for conducting due diligence for the Bank. Only four of these institutions submitted financial offers, and an auction was held for them as already mentioned.
- After the financial advisor finished the evaluation process, the results of evaluation were submitted to a specialized technical committee, formed by a decision of the Minister of Investment. This Committee is headed by a State Council Advisor and combines representatives from the Ministry of Investment, the Ministry of Finance, the CBE and the Administrative Control Authority. The Committee approved the evaluation price offered by the government advisor for the selling process as a basis for selling the Bank and for judging the financial offers presented by prospective investors.

**D- Divestiture of Public Stakes in Joint-Venture Banks**

- Under the plan of divesting the shareholdings of the State-owned banks in joint-venture banks, shareholdings of 13, out of 17 banks, were sold. This included selling the stakes of State-owned banks in the five largest joint-venture banks. As such, the stake of Banque du Caire Barclays was sold to the British Barclays Bank and that of the National Bank of Egypt in the National Societe Generale Bank to the French Societe Generale. Likewise, the stake of Banque du Caire and the Industrial Development Bank in Misr America Bank was sold to the Arab African Bank and that of the Bank of Alexandria in the Egyptian Commercial Bank to the Greek Piraeus Bank.
- The stake of the National Bank of Egypt in Suez Canal Bank was sold to the Arab International Bank. The stake of Banque Misr in Misr International Bank was purchased by the National Societe Generale Bank and the stake of Banque Misr in Misr Romanian Bank was sold to Bank of Lebanon and El Mahgar (Blom).
- The stake of the Bank of Alexandria in the Egyptian American Bank was sold to Credit Agricole Group (Calyon). The stake of the National Bank of Egypt in the Commercial International Bank was purchased by the Ripplewood-led consortium. Moreover, the stake of the Bank of Alexandria in Delta Bank was sold to current shareholders in Delta Bank, and the stake of Banque du Caire in Cairo Far East Bank was sold to Bank Audi.

- The stakes of Banque du Caire and the National Investment Bank in Alexandria Commercial and Maritime Bank were sold to the Union National Bank of Emirates.

Divestiture of the State-owned holdings in the remaining four joint-venture banks is expected to be finalized by Mid-2007.

### 2/6/2- Restructuring and Risk Management in State- owned Banks

- Since the beginning of 2005, State-owned banks have implemented a comprehensive plan according to a specified timetable. The plan was devised by the Restructuring Unit at the CBE to develop all departments and the technological systems, and establish new departments as well. The Unit follows up the implementation of the plan on a periodical basis.
- The four State-owned banks are currently subjected to a full audit review, in accordance with international accounting standards, by international audit firms, with a focus on evaluating asset quality and identifying the provisioning gap. The Bank of Alexandria's audit was completed. In addition, the final audit reports of other banks (the National Bank of Egypt, Banque Misr and Banque du Caire) were received and are currently being revised by the CBE.
- The plan of merging Banque du Caire into Banque Misr is currently being implemented. The plan shall be carried out over two stages:
  - First Stage: The legal and financial merger, which is expected to be complete during 2006.
  - Second Stage: Creating a new banking entity that meets international banking standards through the restructuring plan by the end of 2008. In this respect, an international advisor (Lloyds TSB International Advisory Services) was chosen for supervising the implementation of this stage.
- A fund for banking sector reform was fully established, pursuant to the Law of the Central Bank, the Banking Sector and Money, to provide the finance needed for attracting professional leaderships and highly qualified banking cadres for public sector banks.

### 2/6/3- Developments in the Non-Performing Loans (NPL) Unit at Banks

- Pursuant to the CBE's decision No. 2119 dated 28 September 2004, an "NPL Management Unit" was established at the CBE. Public and private sector banks were also instructed to establish similar units. The NPL

Management Unit at the CBE took the necessary measures to ensure the activation of these units at banks.

- The Unit followed up non-performing loan units at banks that conducted a number of settlements during the period starting 1/1/2004 to 30/6/2006. These settlements led to collections that are in line with the plan devised in this regard.
- A final agreement was reached with the Ministry of Investment regarding the amount of irregular debts (LE 26 billion) owed by public business enterprises to the four State-owned banks. An amount of LE 6.9 billion- representing non-performing loans owed to the Bank of Alexandria- was repaid in cash in January 2006. The remaining LE 19.1 billion owed to the National Bank of Egypt, Banque Misr and Banque du Caire are currently being settled under the supervision of the Prime Minister.

### 2/6/4- Supervision Sector at the CBE

- For improving the Egyptian banking sector, the Supervision Sector is currently being reformed. Against this background, a protocol was signed with the European Central Bank (ECB) and four central banks in Europe (Banque de France, Bank of Greece, Banca d'Italia and Deutsche Bundesbank) to provide a two-year technical assistance program, starting in December 2005. This program is made up of two stages:
  - First stage: analyzing the techniques currently adopted by the Supervision Sector and identifying how far they comply with international standards. Accordingly, a plan is being devised to raise the efficiency of the Sector, in accordance with the aforementioned goals. This stage was finalized and the recommendations were approved at end of March 2006.
  - Second stage: this stage depends on developing and applying the regulatory means, besides organizing comprehensive training programs for the new staff to enable them to use the modern regulatory methods.

- Within the recommendations of raising the efficiency of the Sector and ensuring the application of the latest standards, six projects were laid out to develop the main departments of the Supervision Sector. Each project will be conducted by a team headed by two officials: one from the CBE and the other from the European side, to benefit from the best international practices. Clear goals and specified dates were set to realize the objectives of the six projects until the end of the program.

- Since May 1, 2006, Banca d'Italia, Bank of Greece and Deutsche Bundesbank have conducted eleven educational missions regarding the above-mentioned six projects. Five groups of the staff working in the different projects of banks were sent to the said banks within the framework of raising the efficiency of banking cadres.

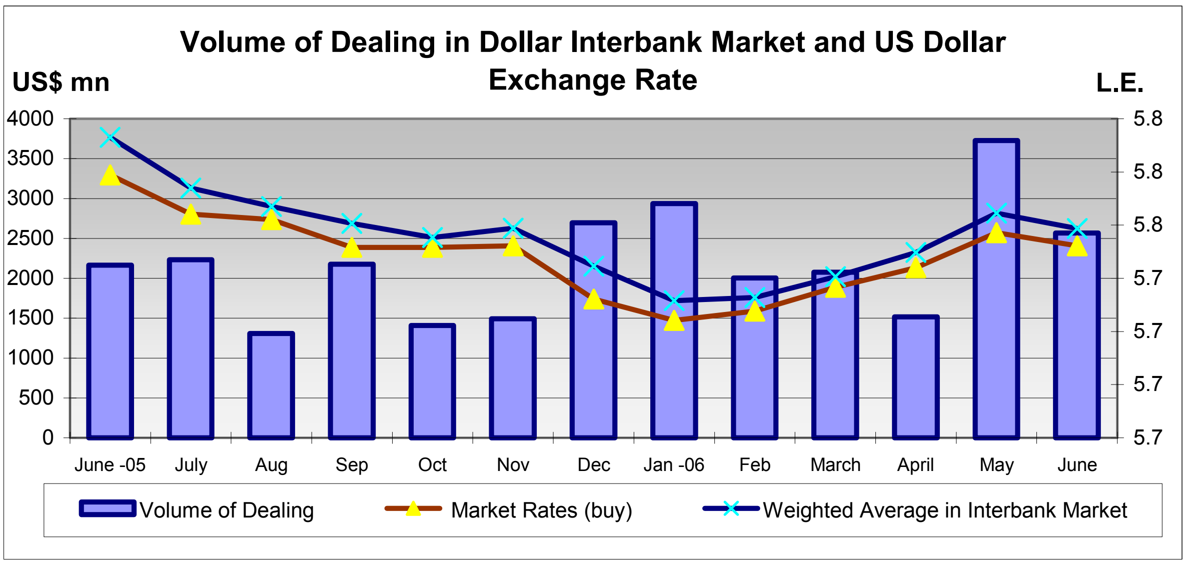
## 2/7- Management of the Forex Market and International Reserves

### 2/7/1- The Forex and Dollar Interbank Markets

Since FY 2004/2005, the Central Bank has been keen to activate and enhance the liberalization of the Forex market to ensure that all market transactions are done through legitimate avenues. Within this context, the CBE launched (online) as of 23/12/2004 the dollar inter-bank mechanism. Under this mechanism, sales and purchases of the Egyptian pound vis-à-vis the US dollar took place among banks. Moreover, the CBE followed a more flexible policy in dealing with foreign exchange dealer companies, as it stopped taking closing actions against some of these companies. It also intensified cooperation and coordination with the banking sector to clear pending applications for opening credits at banks and to provide a significant part of foreign currency demand required for the purposes of tourism (including religious tourism), medical treatment and education abroad.

The monetary policy adopted by the Central Bank encouraged individuals to change their preference for saving in foreign currency to the Egyptian pound. Such measures and policies resulted in a shift in the dealers' expectations of US dollar trends. This led, in turn, to a rise in foreign exchange supply, a matter that enabled banks to meet their customers' needs; and hence helped eliminate the foreign exchange parallel market.

Consequently, the LE exchange rate vis-à-vis the US dollar improved, with the US dollar sell rate announced by the CBE decreasing from LE 5.7944 on 30/6/2005 to LE 5.7679 on 29/6/2006, i.e., the value of the Egyptian pound increased by 0.46%. Moreover, the weighted average of the US dollar exchange rate in the interbank market fell from LE 6.2137 at the launch of the inter-bank mechanism on 23/12/2004 to LE 5.7579 on 29/6/2006, denoting a 7.92% rise in the value of the Egyptian pound.




A follow up of the volume of transactions since the activation of the inter-bank market on 23/12/2004 until the end of June 2006 shows that total transactions reached US$ 35.7 billion. Of this amount, sales by public sector banks accounted for 23.42% and their purchases 6.81%. As for private sector banks, their sales represented 76.58% and their purchases 93.19%.

Dealings in the forex market during FY 2005/2006 reveal that the surplus realized during the year increased by US$ 0.1 billion over the level of the previous FY, to reach US$ 5.0 billion. This increase was due to a rise in resources by US$ 11.2 billion to US$ 29.7 billion and a step up in utilizations by US$ 11.1 billion to US$ 24.7 billion. The surplus resulted from the dealings of the Central Bank, public sector banks and foreign exchange dealer companies.

**Resources and Utilizations of the Forex Market**

(US$ mn)

| During FY | 2004/2005 | 2005/2006 |
|---|---|---|
| **Surplus/Deficit (-)** | **4950** | **5048** |
| Banking system | 4536 | 4883 |
| Foreign exchange dealer companies | 414 | 165 |
| **Resources** | **18578** | **29727** |
| Banking system | 17215 | 26852 |
| Foreign exchange dealer companies | 1363 | 2875 |
| **Utilizations** | **13628** | **24679** |
| Banking system | 12679 | 21969 |
| Foreign exchange dealer companies | 949 | 2710 |

## 2/7/2- International Reserves

Net international reserves reached US$ 22.9 billion at end of June 2006, against US$ 19.3 billion at end of June 2005, with an increase of US$ 3.6 billion or 18.8% during FY 2005/2006. At end of November 2006, this balance further increased to US$ 24.9 billion (at the time of preparing this Report).

**Net International Reserves**

(US$ mn)

| End of June | 2005 | | 2006 | | Change during FY 2005/2006 | |
|---|---|---|---|---|---|---|
| | Value | % | Value | % | Value | Rate (%) |
| **Total International Reserves (A)** | **19322** | **100.0** | **22953** | **100.0** | **3631** | **18.8** |
| Gold | 779 | 4.1 | 1119 | 4.9 | 340 | 43.6 |
| Banks and correspondents | 14979 | 77.5 | 12858 | 56.0 | (2121) | (14.2) |
| Securities | 3211 | 16.6 | 8704 | 37.9 | 5493 | 171.1 |
| Others | 353 | 1.8 | 272 | 1.2 | (81) | (22.9) |
| **Short-Term Liabilities(B)** | **20** | **0.1** | **22** | **0.1** | **2** | **10.0** |
| **Net International Reserves(A-B)** | **19302** | **99.9** | **22931** | **99.9** | **3629** | **18.8** |

The CBE pursued a new investment policy aiming at:

1. Moving from the traditional investment pattern (deposits) to modern investment techniques chosen according to prudential investment standards,
2. Diversifying investment in reserves, to be in other currencies besides the US dollar, according to a number of strategic factors like the relative importance of the currencies constituting the external debt and the currencies of Egypt's main trading partners, along with other factors;
3. Distributing the reserves on several portfolios with varying maturities, goals and parameters, with respect to striking a balance between risk and return, according to a certain performance criteria.

Within the framework of improving the foreign reserve management according to the new strategy, the CBE efforts covered different areas, in cooperation with an international investment advisor. In addition, the latest automated systems of reserve management were used. Moreover, the Bank prepared the infrastructure of risk management by adopting international risk measurement systems, in collaboration with the World Bank and international institutions. The Bank also sought the assistance of international investment managers in managing part of the reserves and an international institution for holding securities.

The Bank was keen to cooperate with the World Bank in the field of staff training and infrastructure development.

## 2/8- Domestic and External Public Debt

### 2/8/1- Domestic Public Debt

Domestic public debt, covering debts of the government, public economic authorities and the National Investment Bank, totaled LE 593.5 billion or 96.1% of GDP at end of June 2006. The government's debt represented 65.3% of the total, public economic authorities' 8.0% and net debt of the NIB 26.7%. The ratio of domestic public debt to GDP (96.1%) is noticeably high relative to the euro area's (averaging 61.7% in 2005), or compared with several developed and emerging economies. However, this ratio is expected to decline over the coming years, especially under the tax and customs reforms recently undertaken by the government to reduce the overall budget deficit/GDP ratio to below its current level (8%).

### 2/8/1/1- Domestic Debt of the Government

It consists of the outstanding balance of government bills and bonds, its net account balances at the banking system and its debt to the National Investment Bank. All in all, domestic debt of the government totaled LE 387.7 billion at end of June 2006, with an increase of LE 38.5 billion or 11.0% during FY 2005/2006.

The increase during the year under review was an outcome of the LE 9.1 billion rise in treasury bonds and bills and the LE 30.6 billion decline in the government net credit position at the banking system on the one hand, and the LE 1.2 billion decrease in the government borrowing from the NIB, on the other.

**Domestic Debt of Government**

(LE bn)

| Balances at End of June | 2005 | | 2006 | | Change + (-) |
|---|---|---|---|---|---|
| | Value | % | Value | % | |
| **Domestic Debt of Government** | **349.2** | **100.0** | **387.7** | **100.0** | **38.5** |
| **- Balances of Bonds and Bills** | **340.9** | **97.6** | **350.0** | **90.3** | **9.1** |
| . Notes and bonds* | 216.0 | 61.8 | 246.9 | 63.7 | 30.9 |
| Of which: tradable on stock exchanges | 32.2 | 9.2 | 63.2 | 16.3 | 31.0 |
| . Treasury bills | 124.9 | 35.8 | 103.1 | 26.6 | (21.8) |
| **-Government Borrowing from NIB** | **143.8** | **41.2** | **142.6** | **36.8** | **(1.2)** |
| **-Net Govern. Balances at the Banking System** | **-135.5** | **-38.8** | **-104.9** | **-27.1** | **30.6** |
| . Credit Facilities | 17.9 | 5.1 | 5.1 | 1.3 | (12.8) |
| . Deposits | -153.4 | -43.9 | -110.0 | -28.4 | 43.4 |
| - Domestic Government Debt/GDP (%) | 64.8 | | 62.8 | | |

Source: Ministry of Finance, CBE and NIB

Ratios are in terms of LE million

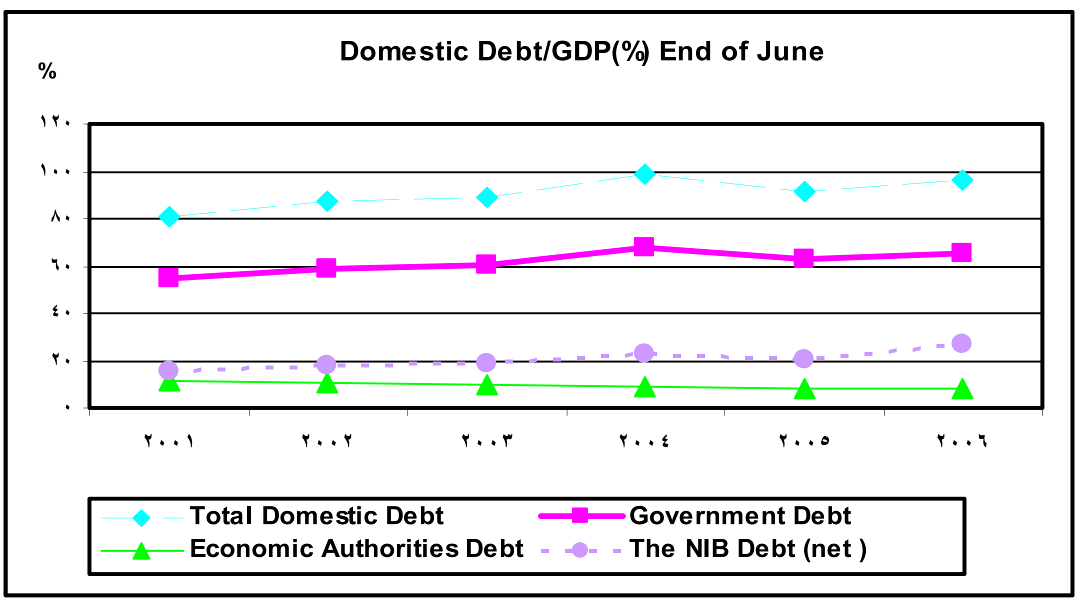
* Including treasury bonds, housing bonds, foreign currency bonds with public commercial banks, the 5% ratio retained from the profits of companies subject to Law No. 97 for 1983 for the purchase of government bonds, and holdings of resident financial institutions in Egypt (the banking system and the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

Hereunder are the factors that led to the LE 9.1 billion increase in the balances of bonds and bills:

- The rise in the outstanding balance of bonds by LE 30.9 billion as an outcome of the following developments:

- Issuing treasury bonds under the primary dealers system in an amount of LE 33.0 billion during the year, with the balance of these bonds reaching LE 58.0 billion at end of June 2006.
- Issuing other bonds at a value of LE 3.1 billion, including a treasury bond issue of LE 3.0 billion representing revaluation differences of principal repayments (of rescheduled loans ) to abroad till 30/6/2004.
- Redeeming treasury bonds issued in FY 1985/1986 in the amount of LE 3.2 billion, including LE 1.7 billion worth for financing the cash deficit. In addition, four tranches of the Egyptian treasury bonds fell due in an amount of LE 2.0 billion.

It is noteworthy that the CBE's Board of Directors has consented to the Ministry of Finance's request for the renewal of treasury bonds ( issued to finance the budget, cash and the GASC deficits) with a value of LE 8.6 billion, a maturity of three years and an annual interest rate of 6%.




- The decrease in TBs outstanding balance by LE 21.8 billion to LE 103.1 billion at end of June 2006, as a direct result of a decline in the 364-day bills by LE 28.8 billion. This was an outcome of the amortization of LE 24.2 billion worth of the bills issued under the primary dealers system and LE 4.6 billion worth of those issued for the CBE to serve the monetary policy purposes.

### 2/8/1/2- Debt of Public Economic Authorities

It represents their debt to NIB and their net credit position at the banking system. During the year under review, the total debt of these authorities slightly increased by LE 0.2 billion, to reach LE 47.4 billion or 7.7% of GDP at end of June 2006. The increase was attributed to a decline in the net credit position of these authorities at the banking system by LE 8.3 billion (due to a fall in their deposits therewith by the same value) on the one hand, and in their borrowings from the NIB by LE 8.1 billion, on the other.

### 2/8/1/3- Debt of National Investment Bank (NIB)

This debt represents the NIB's resources from the social insurance funds, the post office saving account, the proceeds of investment certificates and US dollar development bonds, less the debt owed by the government and public economic authorities, as well as the NIB credit balance at the banking system.

NIB's resources (net) augmented by LE 34.7 billion during the year under review, to reach LE 351.2 billion at end of June 2006. This mainly resulted from 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 22.4 billion. (See the following table):

**NIB Resources and Uses**

(LE bn)

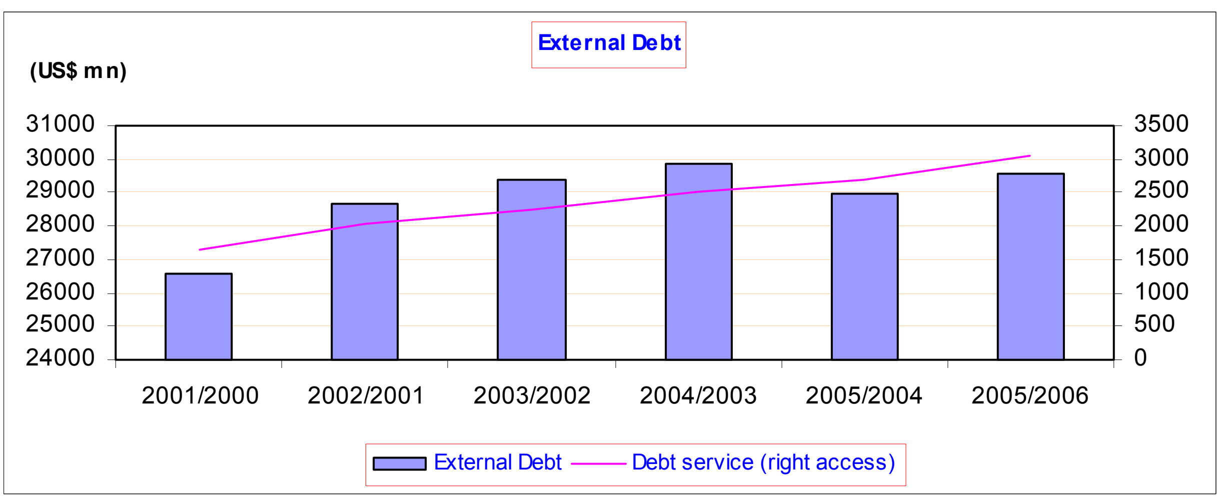
| Balances at End of June | 2005 | | 2006 | | Change + (-) |
|---|---|---|---|---|---|
| | Value | % | Value | % | |
| **Resources** | **316.5** | **100.0** | **351.2** | **100.0** | **34.7** |
| .Social Insurance Fund for Civil Servants | 122.9 | 38.8 | 135.7 | 38.7 | 12.8 |
| .Social Insurance Fund for Business Sectors' Employees (Public & Private) | 96.1 | 30.4 | 105.7 | 30.1 | 9.6 |
| .Investment certificates proceeds | 58.5 | 18.5 | 64.1 | 18.3 | 5.6 |
| .Cumulative returns on investment certificates (category A) | 6.9 | 2.2 | 7.1 | 2.0 | 0.2 |
| .Proceeds from US dollar development bonds | 1.4 | 0.4 | 0.8 | 0.2 | (0.6) |
| .Post Office saving accounts | 33.9 | 10.7 | 39.1 | 11.1 | 5.2 |
| .NIB account balances (net) at the banking system | -4.9 | -1.5 | -3.8 | -1.1 | 1.1 |
| .Others | 1.7 | 0.5 | 2.5 | 0.7 | 0.8 |
| **Uses** | **316.5** | **100.0** | **351.2** | **100.0** | **34.7** |
| . Government | 143.8 | 45.4 | 142.6 | 40.6 | (1.2) |
| . Public economic authorities | 58.3 | 18.4 | 50.2 | 14.3 | (8.1) |
| . Others | 114.4 | 36.2 | 158.4 | 45.1 | 44.0 |
| **Debt of the NIB (net)/GDP (%)** | **21.3** | | **25.6** | | |

Source: Ibid

Of it total resources (LE 34.7 billion during the year), the NIB used LE 44.0 billion (representing the net debt of the Bank) in financing the activities of holding companies and their affiliate units and in the concessional lending of different projects. Meanwhile, the debt owed by the government to the NIB declined by LE 1.2 billon and so did that of public economic authorities by LE 8.1 billion.

## 2/8/2- External Debt

Total external debt (public and private) with all maturities, denominated in US dollar, increased by US$ 0.6 billion, to reach US$ 29.6 billion at end of June 2006. This was an outcome of two factors. First, there was a net disbursement of US$ 0.4 billion of loans and facilities, resulting from disbursements of US$ 3.1 billion worth and repayments of only US$ 2.7 billion. Second, there was a rise in most currencies of borrowing vis-à-vis the US dollar by US$ 0.2 billion at end of June 2006.




During FY 2005/2006, the debt service totaled US$ 3.0 billion, up by US$ 0.3 billion relative to the previous FY. This was a result of an increase in both principal repayments by US$ 0.3 billion, to reach US$ 2.4 billion and in interest payments by US$ 12.9 million to US$ 0.6 billion.

At end of June 2006, the external debt of the public sector reached some US$ 28.2 billion or 95.2% of the total external debt, with the medium- and long-term debts amounting to US$ 28.0 billion or 94.5% of the total.

**Hereunder is the distribution of external debt by:**

1- Maturity
2- Debtor
3- Main creditor countries and entities
4- Main currencies

## 1- External Debt by Maturity:

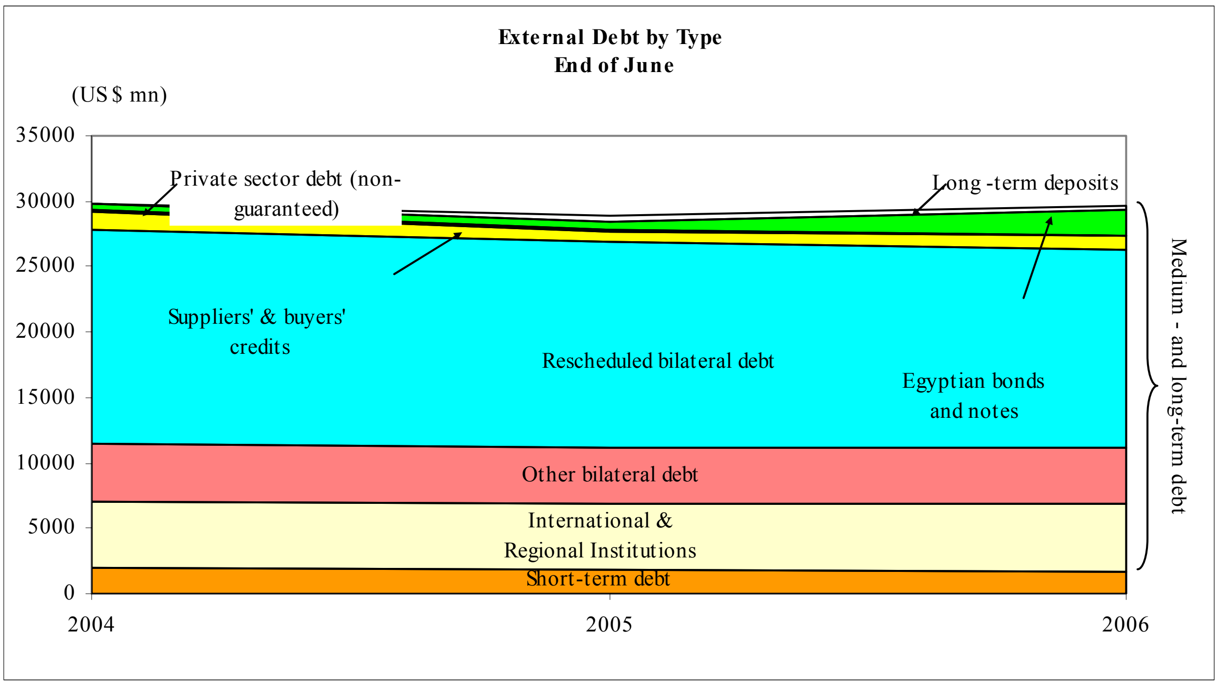
A breakdown of external debt by maturity indicates that medium- and long-term debt registered US$ 28.0 billion at end of June 2006. Of this amount, US$ 19.8 billion (66.9% of the total) were owed to Paris Club member countries in the form of bilateral loans (rescheduled and non-rescheduled) and suppliers' and buyers' credit. Debt due to countries other than Paris Club members amounted to US$ 0.7 billion. Debts due to international and regional organizations reached about US$ 5.2 billion at end of June 2006 (92.6% of which was owed by the public sector). The balance of Egyptian bonds and notes (holdings of non-residents) recorded US$ 1.9 billion, representing 6.3% of the total external debt (of which, government securities (guaranteed) accounted for US$ 1.3 billion and dollar-denominated sovereign bonds for US$ 0.6 billion).

The balance of short-term debt posted US$ 1.6 billion, 55.4% of which was owed by the private sector.

### External Debt by Maturity

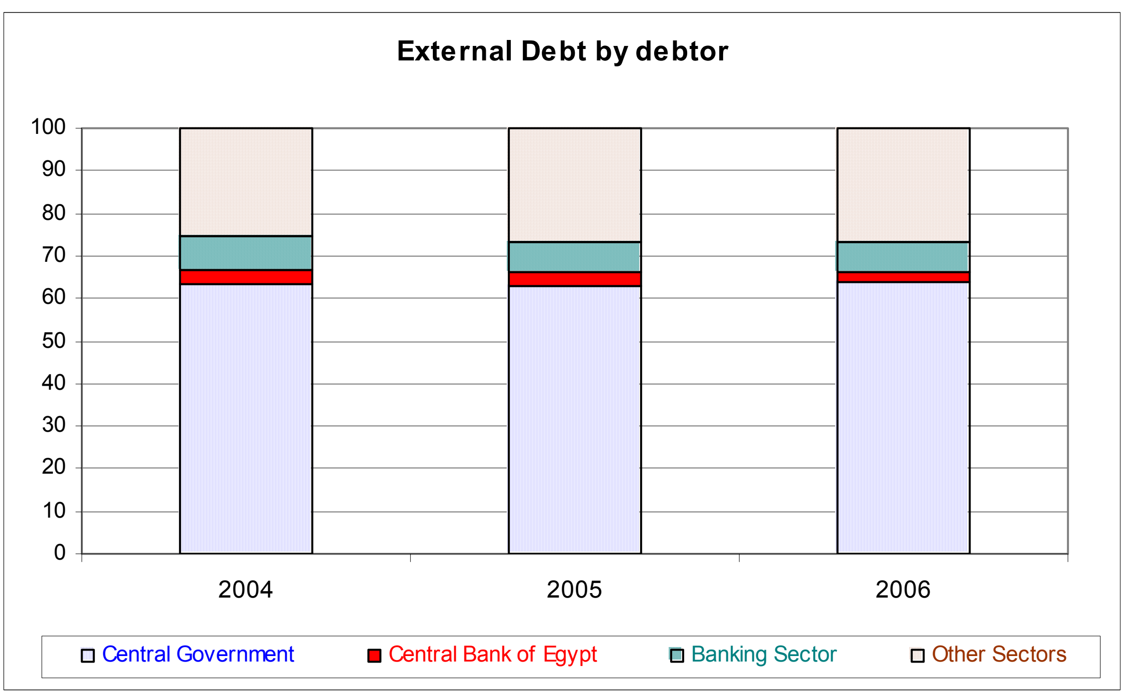
(US$ mn)

| Balances at End of | June 2005 Value | June 2005 Relative Importance | June 2006 Value | June 2006 Relative Importance | Change (-) |
|---|---|---|---|---|---|
| **Total External Debt** | **28948.8** | **100.0** | **29592.6** | **100.0** | **643.8** |
| 1- Medium- and long-term debts | 27094.0 | 93.6 | 27959.6 | 94.5 | 865.6 |
| - Rescheduled bilateral loans: | 15734.1 | 54.4 | 15229.0 | 51.5 | (505.1) |
| • Concessional | 7836.4 | 27.1 | 7610.6 | 25.7 | (225.8) |
| • Non-concessional | 7897.7 | 27.3 | 7618.4 | 25.8 | (279.3) |
| - Other bilateral loans | 4291.3 | 14.8 | 4295.5 | 14.5 | 4.2 |
| • Paris Club countries | 3529.9 | 12.2 | 3590.4 | 12.1 | 60.5 |
| • Other countries | 761.4 | 2.6 | 705.1 | 2.4 | (56.3) |
| - International and regional organizations | 5058.2 | 17.5 | 5205.0 | 17.6 | 146.8 |
| - Suppliers' and buyers' credit | 781.6 | 2.7 | 979.5 | 3.3 | 197.9 |
| - Egyptian bonds and notes | 613.6 | 2.1 | 1861.9 | 6.3 | 1248.3 |
| - Long-term deposits | 500.0 | 1.7 | 300.0 | 1.0 | (200.0) |
| - Debt of private sector (non-guaranteed) | 115.2 | 0.4 | 88.7 | 0.3 | (26.5) |
| 2- Short-term debts | 1854.8 | 6.4 | 1633.0 | 5.5 | (221.8) |
| - Deposits | 819.3 | 2.8 | 633.1 | 2.1 | (186.2) |
| - Facilities | 1035.5 | 3.6 | 999.9 | 3.4 | (35.6) |




## 2- External Debt by Debtor:

A distribution of external debt by debtor at end of June 2006 indicates that the debt owed by the central government increased by US$ 0.6 billion to US$ 18.9 billion, thus continuing to represent the bulk (63.8%) of the total external debt. Nevertheless, these developments did not affect the composition of the external debt by debtor (See the following chart):



## 3- External Debt by Creditor:

A distribution of the external debt by creditor indicates that 40.6% of the total debt was due to EU countries [mainly France (15.7%) and Germany (11.2%)]. The USA accounted for 14.6%, Japan for 12.1%, and the Arab countries for 3.7%. The debt due to international and regional organizations represented 17.6%, of which 5.4% was due to the European Investment Bank.

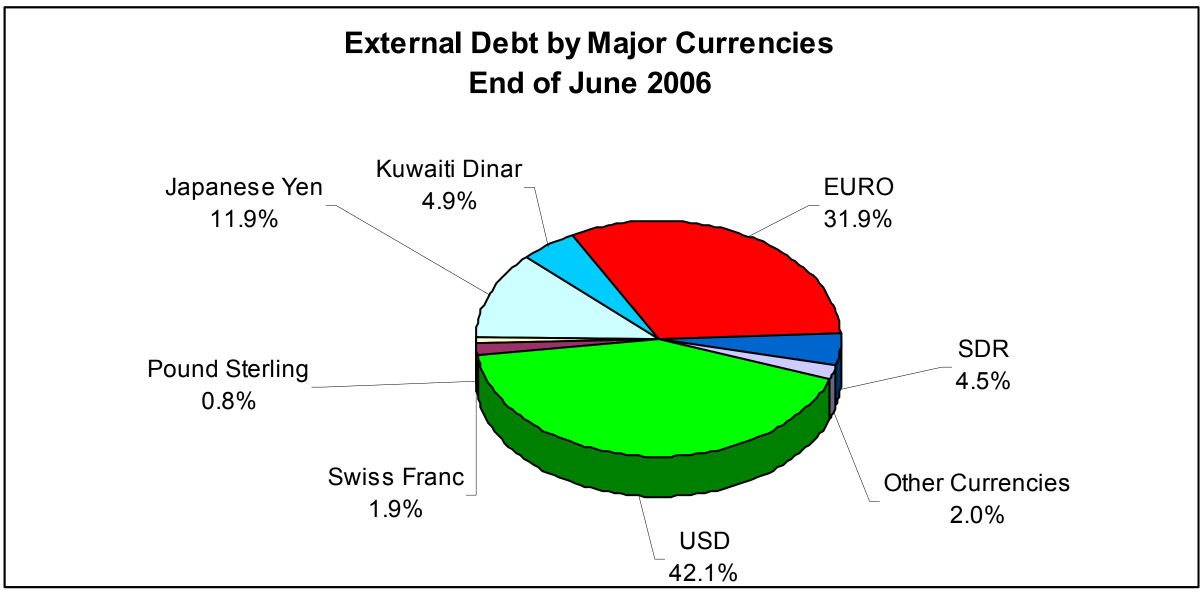
**External Debt by Main Creditor Countries and Entities**

(US$ mn)

| At End of | June 2005 | | June 2006 | |
|---|---|---|---|---|
| | Value | Relative Importance | Value | Relative Importance |
| **Total External Debt** | **28948.8** | **100.0** | **29592.6** | **100.0** |
| USA | 4581.4 | 15.8 | 4318.6 | 14.6 |
| Japan | 4064.3 | 14.0 | 3587.9 | 12.1 |
| **Total EU Countries** | **11266.0** | **39.0** | **12017.6** | **40.6** |
| France | 4763.3 | 16.5 | 4635.3 | 15.7 |
| Germany | 3355.5 | 11.6 | 3323.5 | 11.2 |
| Italy | 802.7 | 2.8 | 761.0 | 2.6 |
| Spain | 824.0 | 2.8 | 831.8 | 2.8 |
| UK | 574.7 | 2.0 | 1417.6 | 4.8 |
| Austria | 551.0 | 1.9 | 538.5 | 1.8 |
| Other | 394.8 | 1.4 | 509.9 | 1.7 |
| **Total Arab Countries** | **1400.1** | **4.8** | **1097.5** | **3.7** |
| Saudi Arabia | 249.3 | 0.9 | 187.0 | 0.7 |
| UAE | 149.6 | 0.5 | 96.0 | 0.3 |
| Kuwait | 469.4 | 1.6 | 535.5 | 1.8 |
| Bahrain | 146.8 | 0.5 | 8.6 | 0.0 |
| Other | 385.0 | 1.3 | 207.4 | 0.9 |
| **Total International and Regional Organizations** | **5058.2** | **17.5** | **5205.0** | **17.6** |
| IDA | 1375.1 | 4.8 | 1340.0 | 4.5 |
| Arab Fund for Economic and Social Development | 996.3 | 3.4 | 961.8 | 3.2 |
| European Investment Bank | 1103.7 | 3.8 | 1591.0 | 5.4 |
| World Bank | 397.2 | 1.4 | 353.9 | 1.2 |
| AMF | 326.1 | 1.1 | 364.4 | 1.2 |
| African Development Fund and Bank | 521.1 | 1.8 | 434.5 | 1.5 |
| Islamic Development Bank (Jeddah) | 236.4 | 0.8 | 53.0 | 0.2 |
| Other Institutions | 102.3 | 0.4 | 106.4 | 0.4 |
| **Egyptian Bonds and Notes** | **613.6** | **2.1** | **1861.9** | **6.3** |
| **Other Countries** | **1965.2** | **6.8** | **1504.1** | **5.1** |

**4- External Debt by Main Currency:**

A breakdown of the external debt by main currency (US$- Japanese yen-euro) displays that the US$ accounted for the bulk of total external debt (42.1%), due to the existence of outstanding obligations in the US dollar to creditors other than the USA. The euro followed with 31.9%, the Japanese yen with 11.9%, and the Kuwaiti dinar with 4.9%.




**- New Commitments on Loans and Facilities**

New commitments on loans and facilities reached US$ 1.9 billion during FY 2005/2006. Most of these commitments (US$ 1.5 billion or 75.8% of the total) were loans and facilities from international and regional organizations (mainly from the Arab Fund for Economic and Social Development, the European Investment Bank, the Islamic Development Bank and the International Bank For Reconstruction and Development). Moreover, commitments on medium-and long- term suppliers' and buyers' credit reached US$ 0.5 billion or 24.2% of the total.

**- Main Indicators of External Debt**

The outstanding external debt as a percentage of GDP (current prices) reached 27.6% at end of June 2006, against 31.1% in the previous FY. This percentage, which recorded a fall in the reporting year, is below its counterparts in the emerging markets as a whole (28.8% in 2005), according to the IMF's Global Financial Stability Report, April 2006. Moreover, the ratio of short-term debt to total debt was 5.5% (against 6.4% in FY 2004/2005) and to NIR was 7.1% (against 9.6%).

In spite of the increase in the debt service, its ratio to current receipts, including official and private transfers, decreased to 7.3% (from 7.9% in the previous FY). This was attributed to a 20.8% growth in transfers and exports of goods & services during the reporting year. The ratio of debt service/exports of goods and services represented 8.5% (against 9.4% in the year of comparison).

### Main Indicators of External Debt

(%)

| | FYs | | |
|---|---|---|---|
| | **2003/2004** | **2004/2005** | **2005/2006** |
| Debt balance/GDP | 38.1 | 31.1 | 27.6 |
| Debt balance / exports of goods and services | 127.5 | 100.3 | 82.4 |
| Debt service/ exports of goods and services | 10.8 | 9.4 | 8.5 |
| Debt service / current receipts and transfers | 9.2 | 7.9 | 7.3 |
| Interest payments/ exports of goods and services | 2.6 | 2.0 | 1.6 |
| Interest payments/ current receipts and transfers | 2.2 | 1.7 | 1.4 |
| Short-term debt/ total external debt | 6.6 | 6.4 | 5.5 |
| Short-term debt/ net international reserves | 13.3 | 9.6 | 7.1 |
| External debt per capita (US dollar) | 423.4 | 402.6 | 404.3 |

The following table shows a decrease in the ratio of debt service/ exports of goods and services in Egypt, in comparison with its level in the developing countries combined.

### Debt Service/Exports of Goods and Services in Egypt Compared with the Group of Developing Countries

(%)

| Calender Years | 2004 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | **Interest** | **Principal Repayments** | **Total** | **Interest** | **Principal Repayments** | **Total** |
| Developing countries | 4.6 | 10.8 | 15.4 | 4.4 | 10.4 | 14.8 |
| Africa | 3.4 | 8.1 | 11.5 | 3.0 | 8.2 | 11.2 |
| Asia (developing countries) | 2.4 | 5.6 | 8.0 | 2.3 | 4.7 | 7.0 |
| Middle East | 1.2 | 5.4 | 6.6 | 1.3 | 5.7 | 7.0 |
| Egypt* | 2.2 | 7.5 | 9.7 | 1.7 | 7.9 | 9.6 |

Source: IMF's World Economic Outlook – April 2006 (statistical appendix)

* According to BOP data during the two calendar years 2004 and 2005.

## 2/9- Payment Systems and Information Technology (IT)

During FY 2005/2006, the payment system and IT sector at the CBE witnessed several reforms that aimed to minimize financial risks and enhance the reliability and expediency of payment systems. The main achievements in this respect are as follows:

- The National Council for Payments was set up to raise awareness of the concept of payment systems, promote new payment instruments and participate in both the decision-making of payment system issues and the recommendations ensuring the efficient performance of the National Payments System. In order to achieve these objectives, while seeking the optimum methods to implement this system, in accordance with the standards set by international institutions, efforts have been exerted to acquire the required assistance and know-how through the cooperation with the IMF, World Bank and the European Commission.
- Establishment of an adequate legal framework for the National Payments System is currently on track, to be consistent with the recommendations of all the international financial and regulatory institutions. It is planned that this framework will be finalized by the end of the coming year. In addition, consultations are being made with foreign institutions to prepare the regulations governing oversight over the National Payments System in order to reduce payment risks.
- Necessary measures were taken for applying the RTGS system (large-value payments) which facilitates settlements among the banking sector units and lowers the credit risks involved, besides helping banks to manage liquidity. The required finance was provided for this purpose, and the Tender Dossier has been prepared -in coordination with the European group- to be offered to international companies in preparation for receiving and studying the bids. Implementation and operation of this system are expected to be finished during the third quarter of 2007.
- Under the deferred settlement systems (mainly related to retail payments), settlements are now made through the automated clearing house (ACH) in Cairo. The ACH began operation officially as of June 2002. Its development project was completed in March 2006 with a view to expediting the settlement of transactions. As a result, the duration of settlement shortened from D+5 to D+1, and in outlying areas to D+2.
- Ensuring the survivability of the clearing system, on which retail transactions in Egypt are based, a disaster recovery clearing house was established in Alexandria to serve as a substitute in case of an emergency in the ACH in Cairo.

- In an attempt to limit the use of cash in individual transactions, the CBE, in collaboration with Egyptian banks and some service companies, have taken a set of measures to activate the direct debit service. This payment instrument has been put in place by the clearing house, and enabled billing and transfer and settlement of salaries by banks through a book entry system, needless of cash transfer between the different units.
- A new project was adopted to accelerate the transactions related to government payments or receipts, represented in finance and settlement cheques. This project is about to be finished in the fourth quarter of 2006, a step to be favorably reflected on the management of government funds.
- Updating of all the payment system-related applications and systems, including the stock exchange system, the core accounting system and interbank transactions, is about to be finished, to be consistent with the application of the RTGS system.
- Steps are currently being taken, in collaboration with the Society for Worldwide Interbank Financial Telecommunications (SWIFT), to replace deferred settlement (figure T) by the RTGS (Y and V) in the execution of settlements under the SWIFT or Fin-Copy systems, to keep abreast with the new payment system.
- The design and implementation of the infrastructure and the link with banks were accomplished by the CBE. The" link" network is marked with a high degree of security, speed and efficiency and is considered an integral part of the banking and payment systems. Moreover, a Data Center has been initially set up and equipped. The Center has enormous capabilities enabling it to absorb the new developed applications at the CBE. Some of these applications, such as the bank credit pooling system, have already been operated through this Center. In addition, the CBE is setting up a “Disaster Recovery Center” for all the systems operated by the Central Bank at its new location in Alexandria.
- An advanced system was developed to secure the confidentiality of information in the banking sector units, and the initial procedures for the execution of this system are being taken.
- The FOREX Statistics Chamber System was established. This System is responsible for monitoring the selling, buying and transfer of foreign exchange and producing immediate reports and statistics useful to decision-makers.
- The Sungard System is currently under way. This System assists in the efficient management of cash reserves by identifying best investment opportunities.

- A Call Center Support is being established to assist in solving the banking and technological problems within the CBE and the relevant banks.
- The CBE's website is undergoing innovation, to be able to render new services through the internet.
- A study has been conducted on promoting the efficiency of the CBE's branches and improving the information technology-related services at the Bank's new branches in Tanta and Assiut.
- A new human resources management system (HRMS) has already proceeded, and is expected to be finished during the first quarter of 2007. This system aims at upgrading the efficiency of the Bank staff, as well as ensuring an objective evaluation of their performance.

### 2/9/1- SWIFT Local Services and Clearing Houses Activity

Data of Fin-Copy system under the SWIFT, indicate an increase in the number of transfers effected in Egyptian pound to 404.8 thousand, with a total value LE 1658.8 billion during FY 2005/2006 (against 326.3 thousand and LE 1246.0 billion during the previous FY).

**SWIFT Local Services in Local Currency**

| During FYs | Number of Executed Transfers (unit) | Value of Executed Transfers (LE mn) | Change during the Period | |
|---|---|---|---|---|
| | | | Number | Value |
| 2002/2003 | 216934 | 998205 | (159724) | 1406 |
| 2003/2004 | 258501 | 970617 | 41567 | (27588) |
| 2004/2005 | 326341 | 1246023 | 67840 | 275406 |
| 2005/2006 | 404776 | 1658794 | 78435 | 412771 |

As for interbank transactions in US$ according to the (Fin-Copy) system (applied as of September 2004), the executed transfers amounted to 11.0 thousand, with a value of US$ 39.8 billion during FY 2005/2006, against 10.6 thousand and a value of US$ 11.9 billion during the previous FY.

Concerning the statistics of the ACH at the CBE, through which interbank cheques are settled, a decrease was noticed in the number and value of the exchanged cheques during FY 2005/2006.

**CBE Clearing Houses Activity***

| During FYs | Number of Cheques (000s) | Value of Cheques (LE mn) | Change in | |
|---|---|---|---|---|
| | | | Number | Value |
| 2002/2003 | 10025 | 244581 | 26.6 | (9.6) |
| 2003/2004 | 9591 | 248224 | (4.3) | 1.5 |
| 2004/2005 | 9322 | 262425 | (2.8) | 5.7 |
| 2005/2006 | 9508 | 288713 | 2.0 | 10.0 |

* As of 1/1/2006, the manual clearing houses in Alexandria and Port Said were abolished and all their activities were transferred to the Automated Clearing House in Cairo.

The number of exchanged cheques amounted to 9.5 million, with a total value of LE 288.7 billion during the year under review, against 9.3 million cheques and LE 262.4 billion during the previous FY. As a result, the average value per cheque increased to LE 30.4 thousand, against LE 28.2 thousand.

## 2/10- Human Resources Development

During the FY 2005/2006, the CBE was keen to continue its efforts to develop the human resources in the banking system, by creating and qualifying new cadres of banking leaders capable of responding to the international banking developments. To this end, the CBE introduced a number of qualifying and training programs, applied either by the CBE or by other local or foreign entities.

### 2/10/1- CBE Programs

The number of trainees attending the banking staff programs provided by the CBE reached about 9818 trainees. The Banking Institute programs (8355 trainees) varied from specialized to computer and English language programs, and some preparatory training courses for promotion candidates. They included as well some training programs attended by 1068 trainees and organized by entities other than the CBE (National Planning Institute, CAPMAS, Arab Management Association and other training entities), beside the British Council and American University.

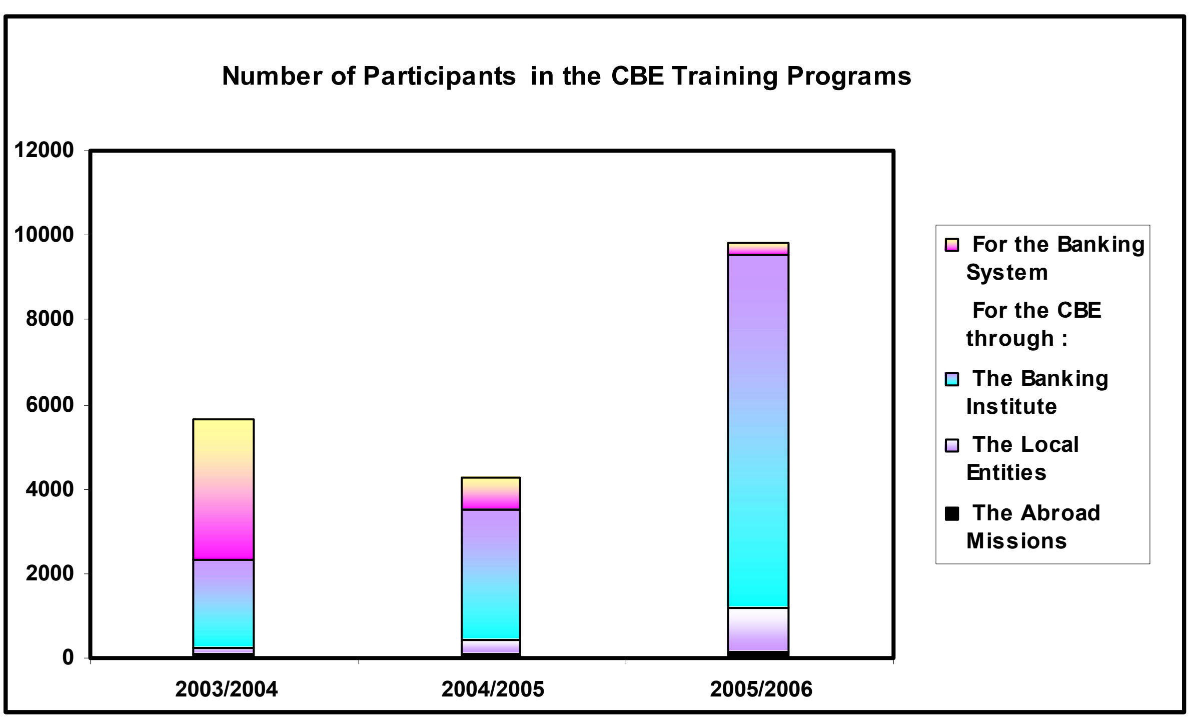
## Number of Participants in the Training Programs

| FYs | 2004/2005 | 2005/2006 |
|---|---|---|
| **Programs for the Banking Sector Staff through:** | **764** | **280** |
| • training courses for promotion candidates ( all job ranks) | 124 | - |
| • Training programs in specialized banking business (governorates) | 640 | 280 |
| **-Programs for the CBE Staff, in:** | **3516** | **9818** |
| • The Banking Institute | 3112* | 8355** |
| • Other training entities -The British Council – American University | 292 | 1068 |
| • Missions abroad | 112 | 129 |
| • Computer lab. (Mohandessen) | - | 266 |
| **- Programs for Trainees from Abroad** | **33** | **33** |
| **Total** | **4313** | **10131** |

* Of which trainees in the courses for promotion candidates numbered 620
** Of which trainees in the courses for promotion candidates numbered 360

Furthermore, the CBE dispatched 129 trainees to participate in training courses, organized by international and regional institutions.

280 trainees attended the banking business courses organized by the CBE for the staff of its branches in the governorates that lack training centers.



## 2/10/2- Activity of the Banking Institute

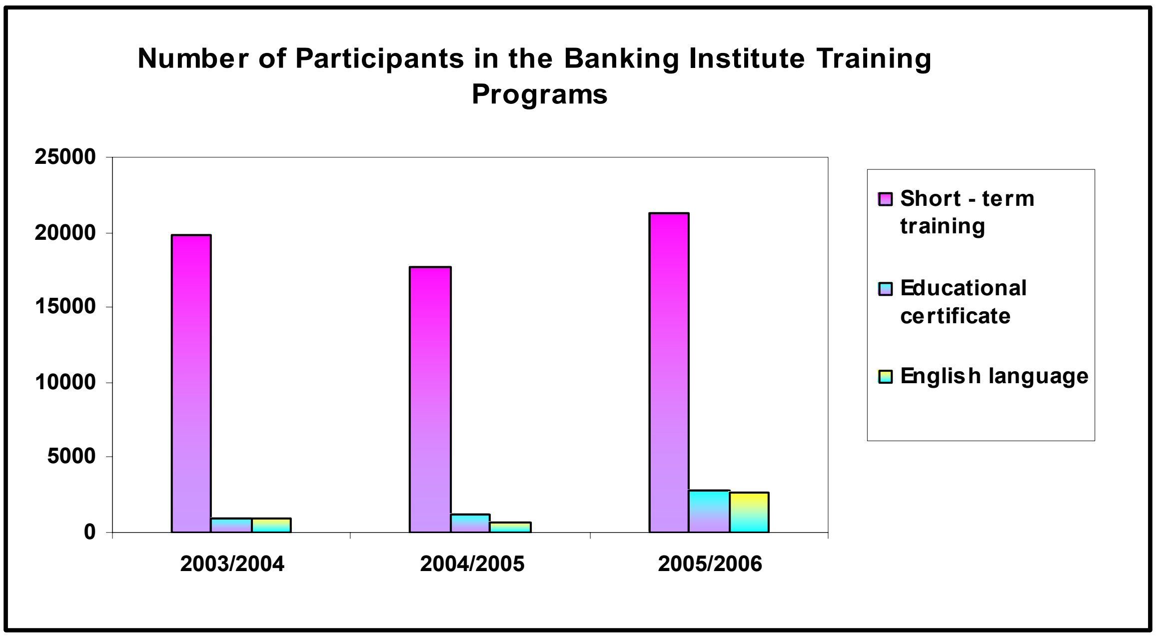
In pursuit of developing the skills and capabilities of the staff of the banking system, the Banking Institute continued during FY 2005/2006 to organize short-term training programs, educational & specialized certificates and English language programs. The Banking Institute also held an increased number of symposiums and conferences to discuss contemporary banking issues. The number of training programs held by the Institute during the year under review reached 1130, attended by 28328 trainees, spending 24318 training hours.

**Number of Participants in the Banking Institute Programs**

| FYs | 2004/2005 | 2005/2006 |
|---|---|---|
| Short-term training | 17685 | 21273 |
| Educational and specialized certificates | 1199 | 2778 |
| English language | 703 | 2645 |
| Symposiums and conferences | - | 1632 |
| **Total** | **19587** | **28328** |

Accounting for the largest share of the Institute's agenda, short-term training programs registered 21273 trainees or 75.1% of the total number of participants in the Institute. These programs covered banking, financial, economic, marketing, legal, administrative development, senior management and computer topics, along with special programs organized in cooperation with international and regional entities, as well as the contractual programs provided upon the request of banks and institutions.

Moreover, the Institute -in collaboration with the Industrial Modernization Center (IMC)- organized training courses for financial managers of institutions and companies, on how to facilitate negotiations with banks. These courses attracted participants from numerous ministries, institutions and companies.




In the field of preparing banking cadres for leadership posts, the Institute organized during the year the Eleventh Round of the Banking Leadership Program, with 22 participants. This is a two-pronged program, introducing training both in Egypt and abroad at European banks.

Moreover, to develop the language and research skills of the banking sector staff, the Institute continued to provide English language courses, attended by 2645 participants, spending 1810 training hours.

Moreover, the Institute held a number of conferences and symposiums attended by 1632 participants. It continued also to issue its two series of publications. The first one "Link" covers all the discussions that take place in the seminars arranged by the Institute in both Arabic and English languages. The other series, entitled Financial Infos, tackles exchange rates and their effect on the monetary policy, financial programming, retail banking, credit bureaus and bank governance, in an endeavor to discuss the recent problems and obstacles facing the banking sector, as well as remedial and preventive measures. This series is published in cooperation with a number of local institutions of high efficiency, international expertise, senior officials at the CBE, the banks operating in Egypt and some international institutions.

The Institute continued also to provide the summer training program, after its development, in order to support theoretical training with practical training at banks, to qualify university students and fresh graduates for work at banks. The number of participants in this program reached 404 from Cairo, Assiut and Alexandria, spending 100 training hours.

In addition, the Institute's library was furnished with a large number of books and specialized periodicals in the areas of finance, banking, and human resources management (both in Arabic and English). Furthermore, it introduced the Smart Library System (SLS), whereby the data of the library are made available on the internet. Moreover, daily and periodical bulletins are prepared and sent to the library's subscribers (whether banks or individuals).

## Chapter 3: Banking Developments

3/1 - Financial Position
3/2 - Deposits
3/3 - Lending Activity
3/4 - Cash Flows
3/5 - Performance Indicators

# Chapter 3
# Banking Developments

## 3/1 - Financial Position

During FY 2005/2006, banks' aggregate financial position increased by LE 56.4 billion or 8.0%, against LE 71.7 billion and 11.3% during the previous FY, reaching LE 761.6 billion at end of June 2006.

**Aggregate Financial Position of Banks**

(LE mn)

| End of June | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| Cash | 4453 | 5557 | 5412 | 6594 | 6813 |
| Securities and investments | 87726 | 111337 | 137431 | 172177 | 193965 |
| Balances at banks abroad | 20002 | 29798 | 43290 | 51204 | 72554 |
| Balances at the CBE | 57575 | 84642 | 94882 | 109773 | 109597 |
| Balances at local banks | 25669 | 26232 | 21408 | 15213 | 12098 |
| Loan and discount balances | 266100 | 284722 | 296199 | 308195 | 324041 |
| Other assets | 33939 | 35650 | 34814 | 41990 | 42494 |
| **Assets = Liabilities** | **495464** | **577938** | **633436** | **705146** | **761562** |
| Capital | 12531 | 18155 | 20346 | 22949 | 27112 |
| Reserves | 11238 | 11805 | 11454 | 12419 | 13418 |
| Provisions | 35869 | 40099 | 44584 | 49541 | 54950 |
| Long-term bonds and loans | 14057 | 14866 | 15012 | 14255 | 17526 |
| Obligations to banks abroad | 11830 | 16248 | 10332 | 12262 | 8770 |
| Obligations to the CBE | 11277 | 10301 | 9579 | 8011 | 10379 |
| Obligations to local banks | 23817 | 25277 | 20354 | 14660 | 11109 |
| Deposits | 340868 | 403144 | 461697 | 519649 | 568841 |
| Other liabilities | 33977 | 38043 | 40078 | 51400 | 49457 |

On the side of liabilities, the increase was due to the growth in deposits by LE 49.2 billion, provisions by LE 5.4 billion and equities by LE 5.2 billion. This was attributed to the actions taken by most banks to increase their capital and adjust their statuses, to comply with the minimum requirements for the issued and paid-up capital, according to Law No. 88 for 2003. In the meantime, obligations to banks in Egypt and abroad decreased.

### The Relative Structure and Changes in Liabilities

( LE mn)

| End of June | Relative Importance | | Change During | | | |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2004/2005 | | 2005/2006 | |
| | % | % | Value | % | Value | % |
| Capital | 3.3 | 3.6 | 2603 | 12.8 | 4163 | 18.1 |
| Reserves | 1.8 | 1.8 | 965 | 8.4 | 999 | 8.0 |
| Provisions | 7.0 | 7.2 | 4957 | 11.1 | 5409 | 10.9 |
| Long-term bonds and loans | 2.0 | 2.3 | (757) | (5.0) | 3271 | 22.9 |
| Obligations to banks abroad | 1.7 | 1.1 | 1930 | 18.7 | (3492) | (28.5) |
| Obligations to banks in Egypt | 3.2 | 2.8 | (7262) | 24.3 | (1183) | (5.2) |
| Total deposits | 73.7 | 74.7 | 57952 | 12.6 | 49192 | 9.5 |
| Other liabilities | 7.3 | 6.5 | 11322 | 28.2 | (1943) | (3.8) |
| **Total liabilities** | **100.0** | **100.0** | **71710** | **11.3** | **56416** | **8.0** |

On the assets side, the increase was mainly attributed to the rises in banks’ investments in securities and treasury bills by LE 21.8 billion, balances with banks abroad by LE 21.3 billion worth and lending and discount balances by LE 15.8 billion.

The rise in banks' investments in securities and treasury bills was an outcome of the pickup in their investments in CBE notes by LE 21.5 billion, in government bonds by LE 16.6 billion, in corporate equities by LE 5.6 billion and in foreign securities by the equivalent of LE 1.9 billion. However, banks’ investments in treasury bills retreated by LE 21.8 billion and in non-government bonds by LE 2.0 billion.

Thus, the structure of banks' portfolio at end of June 2006 consisted of 36.7% treasury bills, 30.9% government bonds, 12.2% corporate equities, 11.1% CBE notes, 6.2% foreign securities and 2.9% non-government bonds.

Transactions of banks in Egypt with their correspondents abroad showed a remarkable increase during FY 2005/2006, as their net credit balances abroad moved up by the equivalent of LE 24.8 billion. This was due to a pick-up in their balances with banks abroad by the equivalent of LE 21.3 billion on the one hand and a decrease in their obligations to these banks by the equivalent of LE 3.5 billion, on the other. Consequently, their transactions abroad (net) posted LE 63.8 billion worth at end of June 2006, against LE 38.9 billion worth at end of June 2005.

**The Relative Structure and Changes in Assets**

(LE mn)

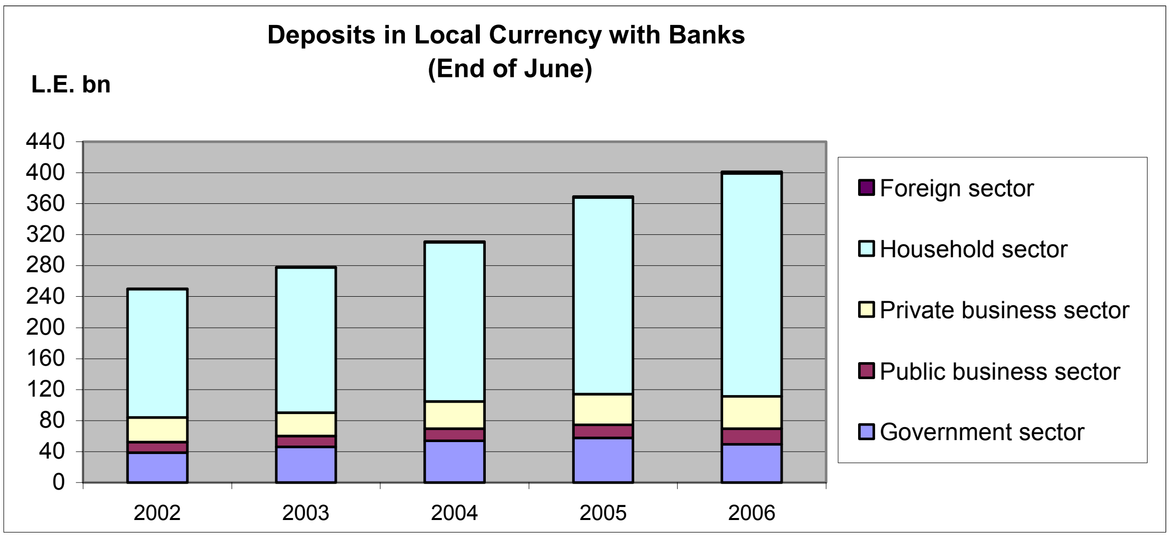
| End of June | Relative Importance | | Change During FY | | | |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2004/2005 | | 2005/2006 | |
| | % | % | Value | % | Value | % |
| Cash | 0.9 | 0.9 | 1182 | 21.8 | 219 | 3.3 |
| Securities and investments | 24.4 | 25.5 | 34746 | 25.3 | 21788 | 12.7 |
| Balances at banks abroad | 7.3 | 9.5 | 7914 | 18.3 | 21350 | 41.7 |
| Balances at banks in Egypt | 17.7 | 16.0 | 8696 | 7.5 | (3291) | (2.6) |
| Lending and discount balances | 43.7 | 42.5 | 11996 | 4.0 | 15846 | 5.1 |
| Other assets | 6.0 | 5.6 | 7176 | 20.6 | 504 | 1.2 |
| **Total Assets** | **100.0** | **100.0** | **71710** | **11.3** | **56416** | **8.0** |

## 3/2- Deposits

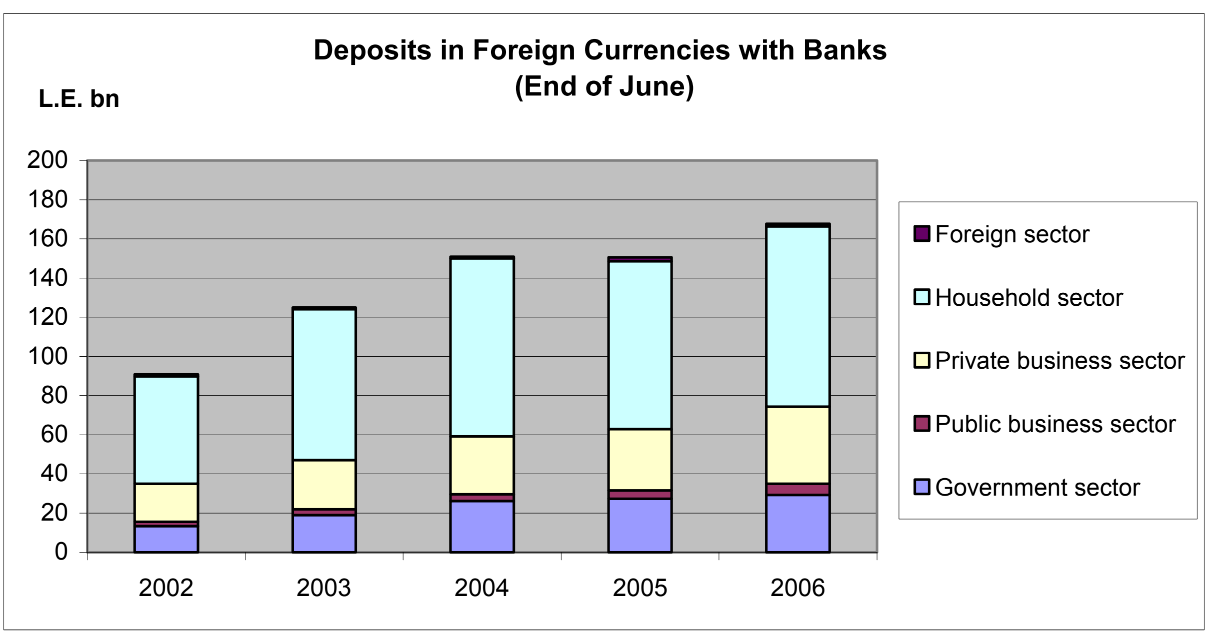
Deposits at banks scaled up by LE 49.2 billion or 9.5% during FY 2005/2006, against LE 58.0 billion and 12.6% during the previous FY, to reach LE 568.8 billion, accounting for 74.7% of banks' aggregate financial position at end of June 2006.

The balances of LE deposits amounted to LE 401.1 billion at end of June 2006, up by LE 32.1 billion or 8.7%, against an increase of LE 58.2 billion and 18.7% during the previous FY. The balances of foreign currency deposits (expressed in LE) recorded LE 167.7 billion, up by LE 17.1 billion or 11.4%, against a decrease of about LE 0.3 billion or 0.2% in the previous FY. The growth in foreign currency deposits was ascribed to the increase in their domestic interest rates (especially deposits in US dollar). This came as a consequence of the raises made by the Federal Reserve of short-term interest rates, for eight successive times (by 0.25% each) during the year under review, as a precaution against fuel price-related inflation rises.

As for LE deposits, the increase was mainly caused by the rise in the household deposits by LE 34.1 billion or 13.4%, reaching LE 288.0 billion or 71.8% of total LE deposits at end of June 2006.




Turning to foreign currency deposits, the private sector (private business and household sectors) contributed 83.5% of the total increase in these deposits during the year under review. Specifically, the deposits of the private business sector augmented by LE 7.9 billion worth or 25.3% and the household sector's by LE 6.4 billion worth or 7.4%.



**Deposits at Banks by Sector**

(LE mn)

| End of June | Local Currency | | | Foreign Currencies | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| **Total** | **310870** | **369067** | **401143** | **150827** | **150582** | **167698** |
| Government sector | 54120 | 57649 | 49422 | 26187 | 27252 | 29290 |
| Public business sector | 15414 | 16727 | 20399 | 3432 | 4195 | 5668 |
| Private business sector | 35219 | 39668 | 41444 | 29550 | 31337 | 39263 |
| Household sector | 205375 | 253865 | 287973 | 90899 | 85813 | 92174 |
| External Sector | 742 | 1158 | 1905 | 759 | 1985 | 1303 |

## 3/3- Lending Activity

Banks' lending and discount balances increased by LE 15.8 billion or 5.1% during FY 2005/2006, against LE 12.0 billion and 4.0 % during the previous FY, to reach LE 324.0 billion or 42.5% of the aggregate financial position of banks and 57.0% of total deposits at end of June 2006.

The distribution of loan balances by currency showed a rise of LE 5.8 billion or 2.5% in local currency loans (compared with LE 5.0 billion and 2.2% during the preceding FY), reaching LE 238.9 billion or 73.7% of total loans at end of June 2006. Moreover, loans offered in foreign currencies augmented by the equivalent of LE 10.0 billion or 13.4% (against the equivalent of LE 7.0 billion and 10.3%), to reach LE 85.1 billion worth at end of June 2006.

The pickup in the LE loans was a main result of the increase in the household sector's loans by LE 10.8 billion, or 27.5%. A large part of this increase went to the financing of retail activities and of summer agricultural crops. In contrast, loans to the private sector declined by LE 1.7 billion, and to the public business sector by LE 3.9 billion, mainly because of the repayment of some debts due on public business sector companies.

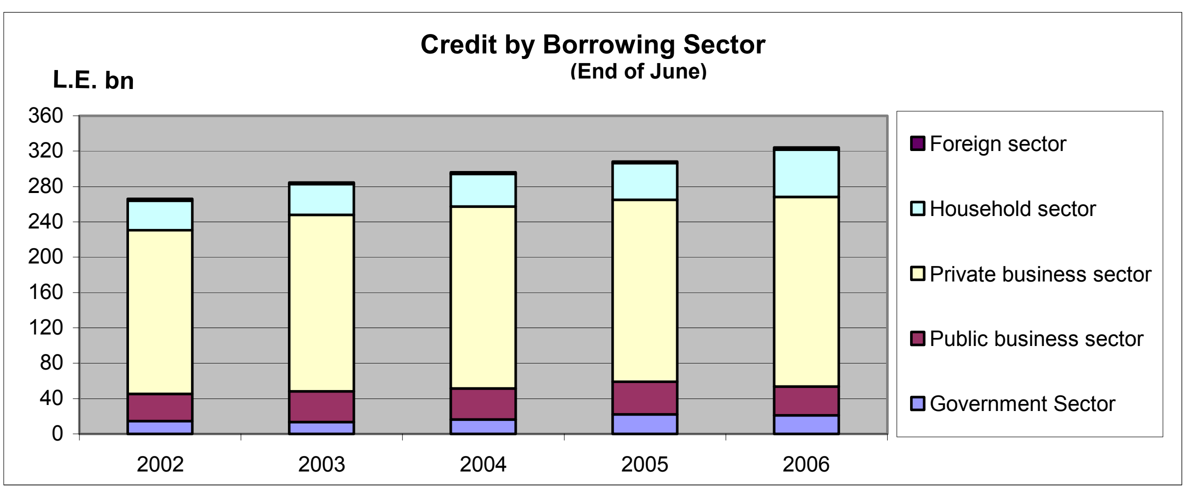
However, the structure of LE loans still indicates that the private business sector accounted for the bulk of these loans, with a ratio of 63.0% of the total at end of June 2006, followed by the household sector (21%), then the public business sector (11.0%), the government sector (4.7%) and the external sector (0.3%).

## Credit by Sector

(LE mn)

| End of June | Local Currency | | | Foreign Currencies | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| **Total** | **228159** | **233141** | **238926** | **68040** | **75054** | **85115** |
| Government sector | 9963 | 10938 | 11285 | 6240 | 11080 | 9712 |
| Public business sector | 27690 | 30164 | 26269 | 7740 | 7078 | 6373 |
| Private business sector | 154162 | 152193 | 150491 | 51668 | 53502 | 64184 |
| Household sector | 35955 | 39354 | 50158 | 1059 | 1913 | 3017 |
| External sector | 389 | 492 | 723 | 1333 | 1481 | 1829 |

The increase in foreign currency loans was mainly attributed to the rise in the debt of the private business sector by the equivalent of LE 10.7 billion or 20.0%, to reach the equivalent of LE 64.2 billion, thereby accounting for 75.4% and 38.2% of total foreign currency loans and deposits, respectively, at end of June 2006. Likewise, those offered to the household sector went up by the equivalent of LE 1.1 billion or 57.7% during the year under review, to reach LE 3.0 billion worth at end of June 2006.



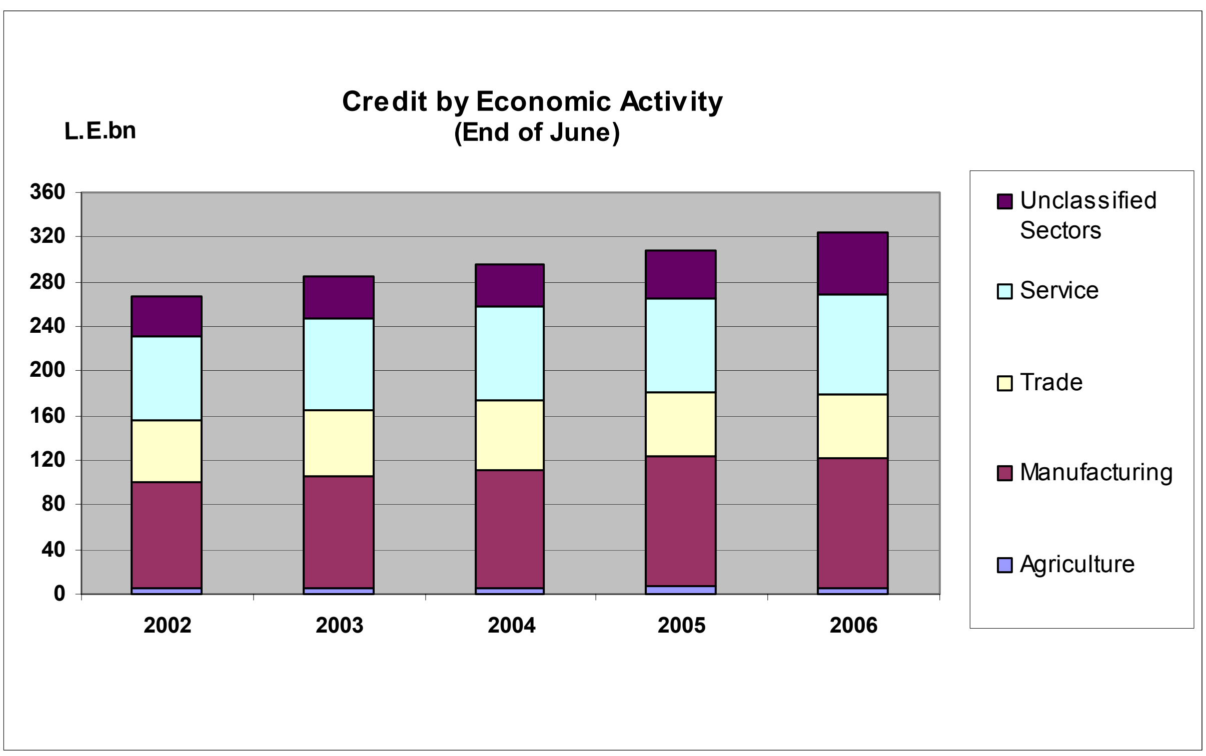

A relative breakdown of the LE loan balances by economic activity shows that the manufacturing sector received 32.5% of the total, bringing its debts up to LE 77.7 billion at end of June 2006, followed by the services sector (25.8%) with a debt of LE 61.7 billion, the trade sector (18.3%) and the agriculture sector (2.1%). Debts of the unclassified sectors represented 21.3% of total LE loans at end of June 2006.

As for foreign currency loans, the manufacturing sector got 45.3% of the total, running up a debt equivalent to LE 38.5 billion at end of June 2006, followed by the services sector (31.7%), raising its debt to LE 27.0 billion worth, then came trade (16.4%) and agriculture (0.9%). Debts of the unclassified sectors represented 5.7% of total foreign currency loans at end of June 2006.

## Credit by Economic Activity

(LE mn)

| End of June | Local Currency | | | Foreign Currencies | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| **Total** | **228159** | **233141** | **238926** | **68040** | **75054** | **85115** |
| Agriculture | 5015 | 5822 | 4902 | 550 | 619 | 829 |
| Manufacturing | 77722 | 81844 | 77734 | 28569 | 34957 | 38517 |
| Trade | 48479 | 45648 | 43564 | 12552 | 11893 | 13930 |
| Services | 60505 | 59870 | 61679 | 23941 | 24188 | 26983 |
| Unclassified sectors | 36438 | 39957 | 51047 | 2428 | 3397 | 4856 |




At end of June 2006, loans and advances (excluding discounts) offered by banks registered LE 323.0 billion, with an increase of LE 16.4 billion or 5.3% during the reporting year. This rise was due to the increase in loans with maturities of less than one year (mostly in foreign currencies) by LE 51.7 billion, and the drop in the loans of more than one year (mainly in local currency) by LE 35.3 billion.

## 3/4- Cash Flows

The statement of banks' cash flows showed a surplus of about LE 26.8 billion in domestic transactions during FY 2005/2006, as their resources reached some LE 66.6 billion and their uses LE 39.8 billion. In contrast, banks' external transactions unfolded a deficit equivalent to the aforementioned surplus.

Regarding domestic transactions, the rise in resources stemmed mainly from the increase of LE 49.2 billion in deposits, and of LE 5.2 billion in capital accounts (equities). The rise in uses reflected the increase in portfolio investments by LE 19.9 billion, in lending and discount balances by LE 15.8 billion and in obligations to banks in Egypt by LE 3.6 billion.

As for external transactions, they were wholly represented in the increase in uses. As such, balances at banks abroad went up by the equivalent of LE 21.4 billion and portfolio investment by LE 1.9 billion, whereas repayments of obligations to banks abroad reached the equivalent of LE 3.5 billion.

## Banks' Cash Flows Statement*

(LE mn)

| During | 2004/2005 | 2005/2006 |
|---|---|---|
| **First: Domestic Transactions** | | |
| **1- Total Resources:** | **83996** | **66574** |
| **a- From the Increase in Obligations (Liabilities)** | **77800** | **63459** |
| Deposits | 57952 | 49192 |
| Obligations to the CBE | - | 2368 |
| Capital accounts (equities) | 3568 | 5162 |
| Loans and bonds | - | 3272 |
| Other obligations | 16280 | 3465 |
| **b- From the Decrease in Assets** | **6196** | **3115** |
| Balances at local banks | 6196 | 3115 |
| Other assets | - | - |
| **2- Total Uses:** | **78021** | **39814** |
| **a- In Reducing Obligations** | **8019** | **3551** |
| Obligations to the CBE | 1568 | 0 |
| Obligations to banks in Egypt | 5694 | 3551 |
| Loans and bonds | 757 | 0 |
| **b- In Increasing Assets** | **70002** | **36263** |
| Cash and balances at the CBE | 16073 | 43 |
| Portfolio investment | 34756 | 19870 |
| Lending and discount | 11996 | 15846 |
| Other assets | 7177 | 504 |
| **Surplus (+) or Deficit (-)** | **5975** | **26760** |
| **Second: External Transactions** | | |
| **1- Total Resources:** | **1939** | **0** |
| **a- From the Increase in Obligations** | **1929** | **0** |
| Obligations to banks abroad | 1929 | 0 |
| **b- From the Decrease in Assets** | **10** | **0** |
| Portfolio investment | 10 | 0 |
| **2- Total Uses:** | **7914** | **26760** |
| **a- In Reducing Obligations** | **0** | **3492** |
| Obligations to banks abroad | 0 | 3492 |
| **b- In Increasing Assets** | **7914** | **23268** |
| Portfolio investment | - | 1918 |
| Balances at banks abroad | 7914 | 21350 |
| **Surplus (+) or Deficit (-)** | **-5975** | **-26760** |

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

## 3/5 - Performance Indicators

The CBE evaluates the soundness of banks performance through its follow-up of a set of internationally recognized indicators, which measure a bank's capital adequacy and asset quality -particularly, the assets used in lending activities- and bank profitability. In addition, indicators cover banks' compliance with the liquidity and reserve ratios established by the CBE in its capacity as the regulatory authority.

Hereinafter are the results realized by banks in each area, according to their financial position at end of June 2006.

### 3/5/1- Capital Adequacy Standard

According to this standard, banks registered at the CBE – except foreign banks' branches - are obliged to maintain a ratio established by the CBE between the capital (core and supplementary) on the one hand, and risk weighted assets and contingent liabilities at any given date, on the other hand. The ratio set by the CBE should be no less than 10%. At least half of that standard should include the components of the core capital, consisting of the paid-up capital, reserves and the retained profits. As for the supplementary capital, it is composed of the general risk provision for loans and regular contingent liabilities. This is in addition to the supplementary loans of more than five-year maturity, provided that 20% of the value of these loans is amortized in each year of the last five years of their maturities. Moreover, supplementary capital includes 45% of the increase in the fair value over the book value of the financial investments that are available for sale, held until maturity and used in subsidiary and common-interest companies.

Contingent liabilities and assets, with risk weights ranging between 0% and 100%, are calculated on a weighting system set by the CBE according to the degree of risk. Meeting that standard reflects a bank's ability to face any potential risks.

A follow up of banks' compliance with that standard showed the following results:

- For banks combined, the ratio reached 14.9% (against 10.0% as a minimum established ratio). Core capital represents the major part in this standard, as it accounts for about 10.6%, while supplementary capital accounts for 4.3%.
- Of 38 banks (excluding the branches of foreign banks), the number of banks whose capital adequacy standard ranges between 10% - 15% reached 8, and that of banks accounting for over 15% were 25, and that of banks posting less than 10% were five.

### 3/5/2- Assets Quality

According to Article (84) of the Law of the Central Bank, Banking Sector and Money, No. 88 for the year 2003, the Governor may issue a decision disapproving the distribution of profits to the shareholders and to those entitled to a share in the profits. This decision is issued if it is found that there is a decrease in provisions. In this regard, auditors' reports on some banks for FY 2005 revealed a drop in their provisions. For these reasons, some of those banks did not distribute profits to strengthen their provisions, so their income statements denoted a balance. Other banks used their profits partly to augment their reserve balances, and partly to distribute some among their staff and the board members, while retaining the remainder for the next FY.

### 3/5/3- Profitability

The level of profits realized by a bank reflects its ability to strengthen its capital (equities) and to distribute dividends among its shareholders. The follow up of the levels of banks' profits reveals the following:

**A. <u>Banks Whose Financial Year Ends June 30 (Mostly Public Sector Banks)</u>**

- Banks' net profits amounted to some LE 714 million for the FY ending June 30, 2005, compared with LE 696 million for the previous FY.
- Banks' net profits/average equities was 3.9% for the FY ending June 30, 2005, against 4.1% for the preceding FY. The net profits/average assets was 0.2% (the same ratio of the previous FY).

**B. <u>Banks Whose Financial Year Ends 31 December</u>**

- Banks' net profits amounted to LE 3714 million for the year ending December 31, 2005, against LE 2686 million for the previous FY.
- The ratio of banks' net profits/average equities was 22.1% for the FY ending December 31, 2005, compared with 17.9% for the previous FY. Banks' net profits/average assets reached 1.5%, against 1.1%.

### 3/5/4- Liquidity Ratio

During June 2006, unexceptionally, all banks maintained the minimum requirement ratios of liquidity in local currency (20%) and foreign currencies (25%). As such, the ratios of the average liquidity in local currency and foreign currencies were 38.0% and 51.0%, respectively.

### 3/5/5- Reserve Requirement Ratio

For banks combined, reserve ratio scored 14.1% during the period ending July 3, 2006, against 14% as an established minimum, under the Decision No. 1910 of the CBE's Board of Directors, issued in its session on 20/9/2001.

## 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

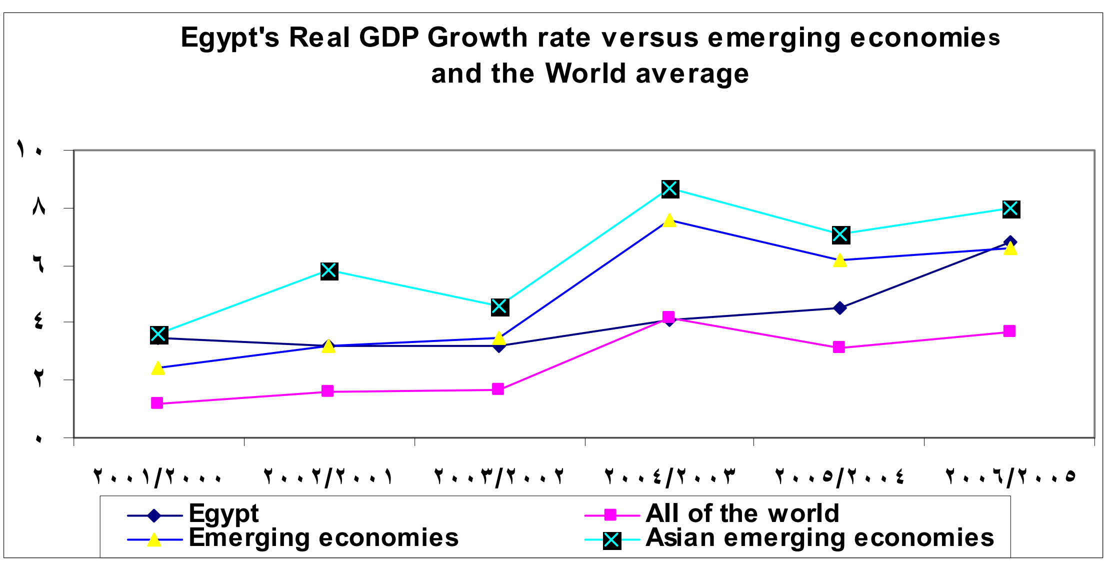
4/6- Insurance Sector

# Chapter 4
# Domestic Economic Developments

## 4/1- Economic Growth

According to the Ministry of State for Economic Development, real GDP growth rate at factor cost increased from 4.6% during FY 2004/2005 to 6.9% in FY 2005/2006, to reach some LE 426.1 billion. Likewise, real GDP at market price rose to LE 454.3 billion, up by 6.8% during the reporting year, compared with 4.5% in the preceding FY.

It is worthy to note that Egypt's real GDP growth rate noticeably outpaced, during the past few years, the average growth rate at the world level, and was almost equal to that of the emerging economies as a whole. However, it is still less than the average growth rate of the Asian emerging economies.




### 4/1/1- GDP by Sector

A follow- up of the performance of the Development Plan for FY 2005/2006 reveals that the productive sectors accounted for about 50.2% of GDP. Atop these sectors came the manufacturing with 18.9%; agriculture, irrigation and fishing with 15.6%; and extractions with 8.8%.

The services sectors contributed 49.8% of GDP. The wholesale and retail trade sector accounted for 11.5%, the general government for 9.3%, and the financial intermediaries and supporting services for 5.7%.

### Relative Importance of the Sectors to GDP

(Value at prices of base year 2001/2002)

| | 2004/2005 | | 2005/2006 | |
|---|---|---|---|---|
| | Value (LE bn) | Relative Importance | Value (LE bn) | Relative Importance |
| **Productive Sectors, of which:** | **197.6** | **49.6** | **213.7** | **50.2** |
| Agriculture, irrigation & fishing | 64.1 | 16.1 | 66.2 | 15.6 |
| Extractions (oil, gas and others) | 31.1 | 7.8 | 37.6 | 8.8 |
| Manufacturing (oil refining and others) | 76.2 | 19.1 | 80.6 | 18.9 |
| Construction & building | 17.3 | 4.4 | 19.7 | 4.6 |
| Electricity | 7.2 | 1.8 | 7.8 | 1.9 |
| Water | 1.7 | 0.4 | 1.8 | 0.4 |
| **Services Sectors, of which:** | **200.9** | **50.4** | **212.4** | **49.8** |
| Transportation & storage | 19.8 | 5.0 | 21.3 | 5.0 |
| Communications | 8.6 | 2.1 | 9.5 | 2.2 |
| Suez Canal | 13.0 | 3.3 | 14.3 | 3.3 |
| Wholesale & retail trade | 46.1 | 11.6 | 49.1 | 11.5 |
| Financial intermediaries & supporting services | 23.2 | 5.8 | 24.4 | 5.7 |
| Insurance & social solidarity | 10.1 | 2.5 | 10.6 | 2.5 |
| Restaurants & hotels | 13.6 | 3.4 | 14.2 | 3.3 |
| Real estate activities | 15.0 | 3.8 | 15.6 | 3.7 |
| General government | 38.2 | 9.6 | 39.5 | 9.3 |
| Education, health & personal services | 13.3 | 3.3 | 13.9 | 3.3 |

Source: Ministry of State for Economic Development

At the sectoral level, the productive sectors noticeably grew as a whole, reaching 8.2% during the year under review, against 3.6% during the year of comparison. On top of these sectors came extractions (20.8%), construction and building (14.0%). The services sectors grew as a whole by 5.7%, compared with 5.6%. The highest growth rates were recorded by the sectors of communications 10.3%, the Suez Canal 9.4%, and transportation and storage 7.5%.

**Real Growth Rates of Productive and Services Sectors**

(%)

| | 2004/2005 | 2005/2006 |
|---|---|---|
| **Productive Sectors, of which:** | **3.6** | **8.2** |
| Agriculture, irrigation and fishing | 3.3 | 3.2 |
| Extractions (oil, gas and others) | 0.6 | 20.8 |
| Manufacturing (oil refining and others) | 4.4 | 5.8 |
| Construction & building | 5.0 | 14.0 |
| **Services Sectors, of which:** | **5.6** | **5.7** |
| Transportation & storage | 6.0 | 7.5 |
| Communications | 9.4 | 10.3 |
| Suez Canal | 16.0 | 9.4 |
| Wholesale & retail trade | 3.1 | 6.5 |
| Financial intermediaries & supporting services | 4.1 | 5.3 |
| General government | 3.0 | 3.4 |
| Education, health and personal services | 3.5 | 4.9 |

Source: Ministry of State for Economic Development

The private sector continued to play a major role in the development process, as its growth rate increased to 6.2% during FY 2005/2006, against 4.7% in the previous FY. The private sector also continued to contribute more than 66.7% of GDP. The large part of this contribution came from the sectors of agriculture, irrigation and fishing; manufacturing; and wholesale and retail trade.

**Shares of Public and Private Sectors in GDP**

(%)

| | 2004/2005 | | 2005/2006 | |
|---|---|---|---|---|
| | Public | Private | Public | Private |
| **GDP** | **32.8** | **67.2** | **33.3** | **66.7** |
| **Productive Sectors, of which:** | **11.7** | **37.9** | **12.5** | **37.7** |
| Agriculture, irrigation and fishing | 0.0 | 16.1 | 0.0 | 15.5 |
| Extractions (oil, gas and others) | 6.6 | 1.2 | 7.5 | 1.4 |
| Manufacturing (oil refining and others) | 2.5 | 16.6 | 2.4 | 16.5 |
| Construction & building | 0.5 | 3.8 | 0.6 | 4.1 |
| **Services Sectors, of which:** | **21.1** | **29.3** | **20.8** | **29.0** |
| Transportation and storage | 1.0 | 3.9 | 1.0 | 4.0 |
| Wholesale and retail trade | 0.5 | 11.1 | 0.5 | 11.0 |
| Financial intermediaries & supporting activities | 3.8 | 2.0 | 3.7 | 2.0 |
| General government | 9.6 | 0.0 | 9.3 | 0.0 |
| **GDP Growth Rate** | **4.4** | **4.7** | **8.5** | **6.2** |

Source: Ministry of State for Economic Development

### 4/1/2- GDP by Expenditure

The increase in GDP real growth rate during FY 2005/2006 was driven by a stronger domestic demand and higher exports. Private consumption grew by 6.4% against 4.8%, accounting for 71.7% of GDP. This growth was associated with a significant increase in the credit to the household sector, mainly as finance of retail activities. Moreover, gross capital formation grew by 13.3% against 10.3%. The private sector accounted for the bulk of these investments; thanks to the headway made by the government in creating an adequate investment climate, especially through tax and customs reforms and the streamlining of procedures. Furthermore, the growth rate of the exports of goods and services increased to 21.3%; nonetheless, it was still lagging behind that of the imports of goods and services (21.8%). This in turn led to widening the gap of domestic resources.

## GDP by Expenditure

(Value at prices of base year 2001/2002)

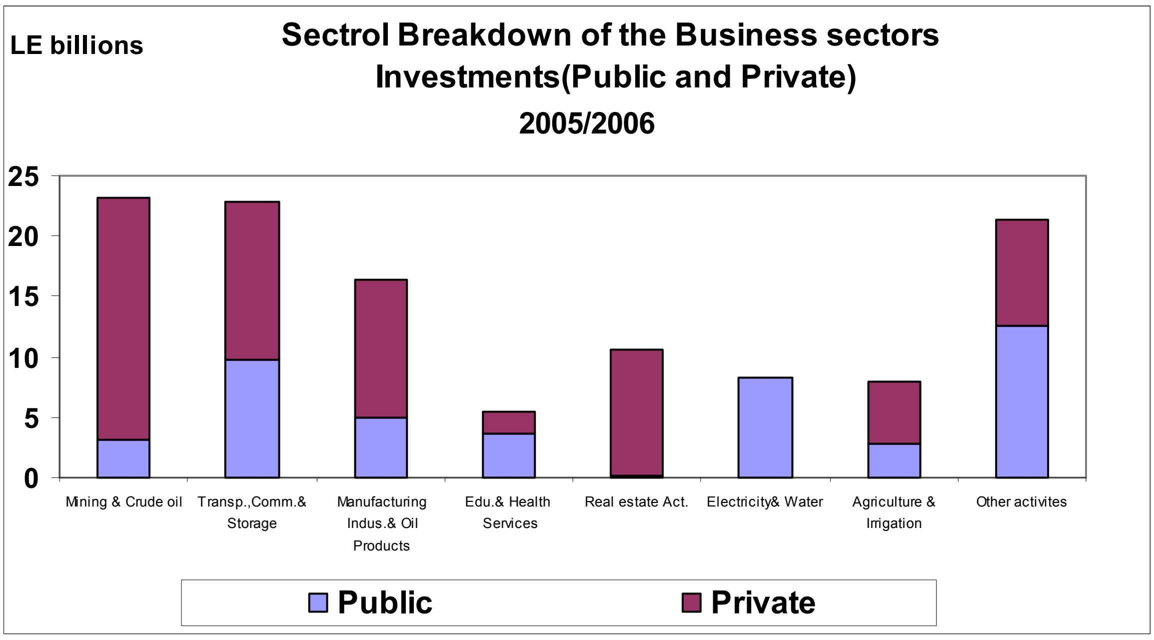
| | Value (LE bn) | | Structure (%) | | Growth Rate (%) | |
|---|---|---|---|---|---|---|
| | 2004/2005 | 2005/2006 | 2004/2005 | 2005/2006 | 2004/2005 | 2005/2006 |
| **1- Final Consumption** | **357.5** | **378.8** | **84.1** | **83.4** | **4.5** | **6.0** |
| -Public | 51.4 | 53.0 | 12.1 | 11.7 | 2.8 | 3.1 |
| -Private | 306.1 | 325.8 | 72.0 | 71.7 | 4.8 | 6.4 |
| **2- Gross Capital Formation** | **75.0** | **85.0** | **17.6** | **18.7** | **10.3** | **13.3** |
| -Investments | 74.7 | 85.0 | 17.5 | 18.7 | 14.2 | 13.8 |
| -Inventory change | 0.3 | 0.0 | 0.1 | 0.0 | -88.5 | -100.0 |
| **3- Gross Domestic Expenditure (1+2)** | **432.5** | **463.8** | **101.7** | **102.1** | **5.5** | **7.2** |
| 4- Exports of goods and services | 119.0 | 144.3 | 28.0 | 31.8 | 20.2 | 21.3 |
| 5- Imports of goods and services | 126.3 | 153.8 | 29.7 | 33.9 | 23.8 | 21.8 |
| **6- Domestic Resource Gap (4-5)** | **(7.3)** | **(9.5)** | **(1.7)** | **(2.1)** | **(143.3)** | **(30.1)** |
| **7- GDP at Market Price (3+6)** | **425.2** | **454.3** | **100.0** | **100.0** | **4.5** | **6.8** |
| **8- Gross Domestic Saving (7-1)** | **67.7** | **75.5** | **15.9** | **16.6** | **4.2** | **11.5** |

Source: Ministry of State for Economic Development.

### 4/1/3- Implemented Investments

Total implemented investments rose by 19.9% during FY 2005/2006, to reach about LE 115.7 billion, compared to the preceding FY. The private business sector accounted for the bulk of total investments, as its investments went up by 44.0%, reaching LE 70.7 billion or 61.1% of the total.

A breakdown of total implemented investments by economic sector during FY 2005/2006 reveals that the share of the extractions sector was 19.9% of the total; transportation, communications and storage 19.7%; manufacturing and petroleum products 14.2%; and real estate activities 9.1%.




## 4/1/4- Labor Force and Unemployment

A follow up of the economic performance shows that the labor force reached 21.8 million persons in mid FY 2005/2006, representing 30.6% of the total population, against 21.2 million persons or 2.8% in the previous FY.

The expansion in investment expenditure during the year under review resulted in more job opportunities. As a result, the labor force grew by more than 600 thousand persons, or 3.4%, to reach 19.65 million persons. Consequently, unemployment declined to 10.0% in FY 2005/2006, against 10.3% in the preceding FY.

## 4/2 -Inflation

According to the CPI (urban) published by the CAPMAS, the annual inflation rate accelerated, posting 7.2% during FY 2005/2006, well above the figure of the preceding year (4.7%). This rise, which came about mainly in the last quarter of the year under review, was chiefly ascribed to the increases in the CPI groups, except for the group of restaurants and hotels whose price index remained unchanged. The main CPI component groups which recorded higher growth rates according to their relative importance, were as follows:

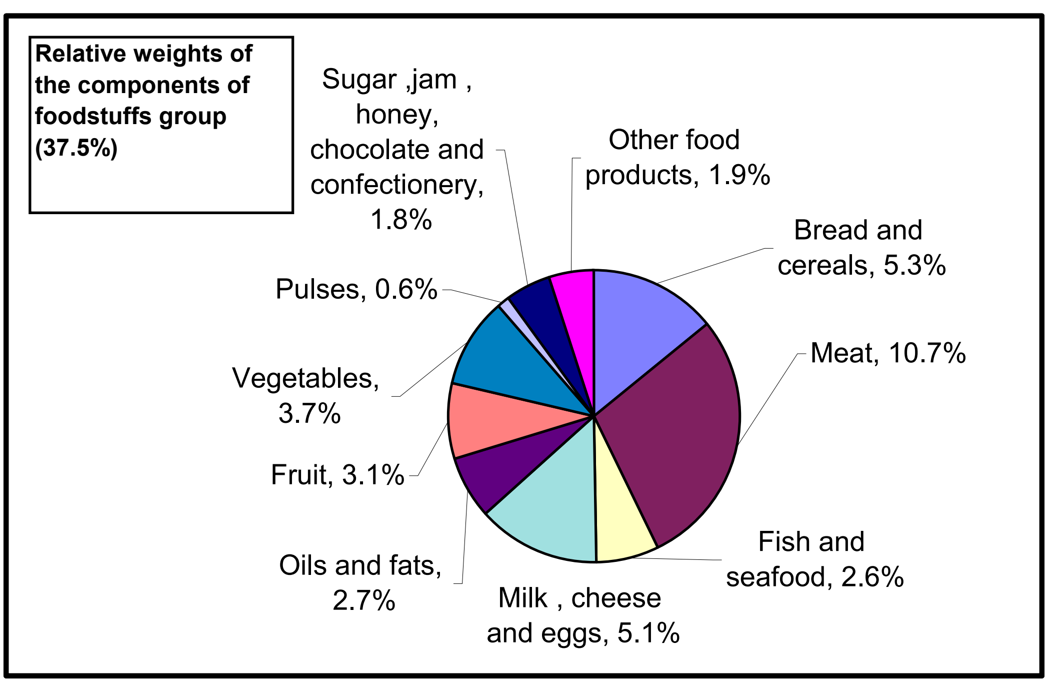
1- The group of foodstuffs and non-alcoholic beverages (representing 38.9% of CPI) rose by 11.6% against 4.1%, mainly due to the following price increases:
   a) vegetables by 31.3%, against a decline of 0.5%, as a result of higher prices of tomatoes by 56.1%, against 2.5% ( for seasonality ); of

potatoes by 44.8%, against a fall of 2.1% (due to higher exports); and of onions by 40.6%, against a decline of 20.9% (for seasonality),

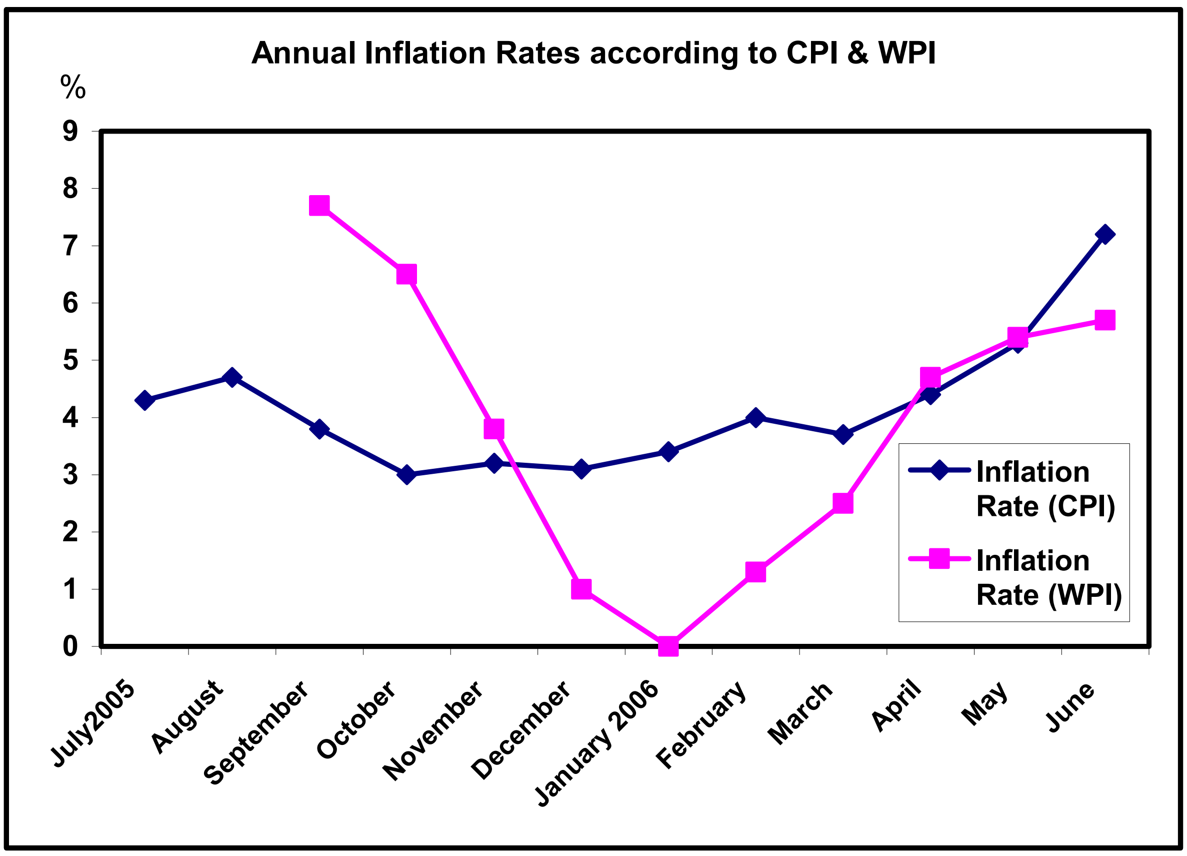
b) milk, cheese and eggs by 17.3%, against 6.9% because of price hikes of eggs by 80.6%, against a fall of 1.5% (due to lower supply under the impact of Avian flu), and

c) meat by 14.6%, against 4.7%, due to higher prices of poultry by 17.4%, against a decline of 0.3% (under lower supply due to Avian flu); and fresh red meat by 13.3%, against 7.1% (influenced by higher prices of poultry).

2- Culture and recreation increased by 7.3%, against zero because of the rise in the prices of newspapers, books and stationery by 17.4% against zero, and audio-visual, photographic and information processing equipment by 3.2%, against zero.
3- Miscellaneous goods and services rose by 2.7%, against 1.1%, due to higher prices of unclassified personal effects by 8.7%, against 3.6%.
4- Furnishings, household equipment and routine went up by 4.2%, against 0.5%, due to the rise in the prices of household appliances by 17.3% against 0.1%, household utensils by 4.3%, against zero, and furniture, furnishing, carpets and other floor coverings and repairs by 4.2%, against zero.
5- Tobacco increased by 7.4%, against zero, following the pickup in the prices of cigarettes and tobacco by 7.4%, against zero.



Likewise, inflation -according to the WPI released by the CAPMAS - increased to 5.7% in FY 2005/2006, mainly in the second half, against 5.1% in the year of comparison. It is worthy to note that a new series of WPI was released as of September 2005, taking the mathematical average of the 12 months of FY 99/2000 as a new base. This made it difficult to compare the price indices of the main groups. Rather, the weights were driven using the average of (1999/2000 and 2000/2001) for the gross values of industrial and agricultural production.




Inflation, according to the CPI of Egypt's main trade partners, ranged between 0.04% and 1.59%, with a weighted average - for comparison purposes - of 3.05% during FY 2005/2006, against 2.02% a year earlier. This average was calculated on the basis of the relative weights of Egypt's merchandise exports, and imports to and from those partners during 2004/2005 and 2005/2006, with the exclusion of crude oil exports and commodity grants. (See the table below)

**Inflation in Egypt's Main Foreign Trade Partners**

| | Relative Weight of Foreign Trade | Inflation Rates % | |
|---|---|---|---|
| | | 2004/2005 | 2005/2006 |
| USA | 0.370 | 0.92 | 1.59 |
| Euro area | 0.406 | 0.85 | 1.02 |
| UK | 0.112 | 0.22 | 0.28 |
| Switzerland | 0.076 | 0.05 | 0.12 |
| Japan | 0.036 | -0.02 | 0.04 |
| **Total** | **1.000** | | |
| **Weighted Average** | | **2.02** | **3.05** |

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

Egypt's fiscal policy continued during FY 2005/2006 to rationalize the government expenditure; probe the best methods for subsidy targeting and rationalization; this is in addition to the pilot application of the smart rationing cards system to control rationing; and the preparation of a database covering all subsidy-eligible households.

During the reporting year, some amendments were made to the State Budget Law. These included fundamental amendments to the classification of budget lines, in consistency with the IMF's Government Finance Statistics (GFS) Manual for 2001. This aims at enhancing the accuracy and transparency of the budget, in accordance with international concepts. In addition, the Executive Regulations of the Customs Law, the Law of Income Tax and the Import and Export Law were issued, with the aim of supporting the efforts exerted by the government to streamline procedures and facilitate transactions with the external world. Moreover, it was decided to establish the Egyptian Tax Authority which includes income and sales taxes in order to upgrade the efficiency of tax performance.

According to the actual preliminary figures published by the Ministry of Finance, a follow-up of the execution of the consolidated fiscal operations of the general government during FY 2005/2006, compared with the estimates of the same year and the actual figures of the previous FY, shows the following:

### 4/3/1- Budget Sector
**(Administration system, local administration and service authorities)**

Total revenues of the budget sector reached some LE 149.5 billion in FY 2005/2006, with a rise of 34.9% above the level of the previous FY, and of 14.9% above the estimate for the whole year.

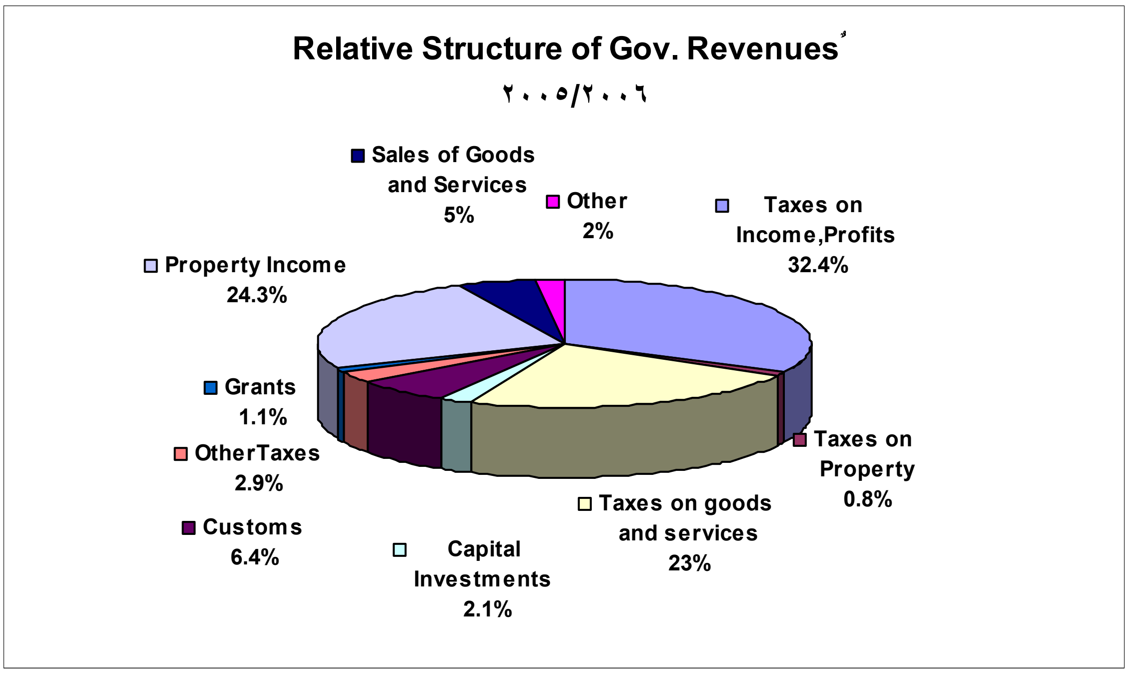
Tax revenues contributed 65.6% of total revenues, as they reached about LE 98.0 billion, up by 29.4% compared with the preceding FY, and by 20.1% above the estimates. The bulk of this increase (about 76%) was in the revenues from taxes on income and profits, which rose by some 53.6% compared with the previous FY and by 39.2% above the estimates, thus posting around LE 48.5 billion, or half of the total tax revenues. Of this amount, about LE 23.5 billion were tax receipts collected from the EGPC, LE 9.6 billion from taxes on individual incomes, LE 7.3 billion from the Suez Canal Authority and LE 8.1 billion from some other units and the CBE.

It is worthy to note that taxes collected from the EGPC noticeably rose by some LE 19.5 billion during the year under review, as a main result of higher profits of the EGPC, triggered by the rise in the world oil prices. Likewise, taxes on individual incomes went up from LE 9.3 billion during FY 2004/2005 to LE 9.6 billion in FY 2005/2006. This reflected the positive role played by the new Tax Law in maximizing tax revenues, particularly so because the said law aims at enhancing confidence between taxpayers and the Tax Authority.

Receipts of taxes on goods and services contributed some LE 34.5 billion or 35.1% of total tax revenues, up by 9.6% over the preceding FY, and 6.5% above the estimates. Receipts of taxes on customs accounted for nearly LE 9.6 billion, with a rise of 23.5% compared with the previous FY, and 4.9% over the estimates for the whole year. This was accomplished in the context of the recent customs reforms.

Revenues collected from property income amounted to LE 36.4 billion or 24.3% of total tax revenues, up by 104.9% compared with the preceding FY. These revenues came mainly from the receipts collected from the EGPC, with a higher share of 53.4%, and the receipts from the Suez Canal Authority, with 28.8%. The remainder was contributed by some public economic authorities, companies and some other units.

Inflows of grants reached about LE 1.6 billion during FY 2005/2006, showing a decline of 44.5% compared with the previous FY, with an execution ratio of 55.4% of the estimate.




Total expenditures amounted to LE 204.5 billion during FY 2005/2006, with a rise of 26.5% compared with the previous FY and 8.9% over the estimates for the whole year. As such, salaries, wages and compensations of employees posted some LE 45.9 billion or 22.5% of total expenditures, with a rise of 10.5% compared with the preceding FY, because they included all the periodical raises and incentives, as well as the special allowance decided during that year.

Subsidies amounted to some LE 54.3 billion or 26.6% of total expenditures, with a rise of LE 40.6 billion compared with the previous FY. As such, subsidies of oil products reached about 76.9% of the total in order to alleviate the burden of the increasing prices of these products and to lessen their spillover effects on other goods. "Subsidies of the GASC" –which the government is keen on providing to the low-income earners – posted nearly LE 9.4 billion or 17.3% of the total. In addition, expenditures on social benefits provided by the government reached some LE 12.4 billion or 6.1% of total expenditures, with a decline of 12.0% below their level of the preceding FY. On the other hand, grants went up by LE 0.2 billion, to reach LE 2.0 billion.

Domestic and foreign interest on public debt registered about LE 36.8 billion or 18.0% of total expenditures. Defense outlays posted some LE 15.9 billion or 7.8% and purchases of goods and services about LE 13.7 billion or 6.7% of total expenditures, with a rise of 9.0% compared with the previous FY.

Expenditure on the investments of the State organs – outlined in the Economic and Social Development Plan – recorded some LE 19.7 billion or 9.6% of total expenditures.

Relative Structure of Government Expenditures

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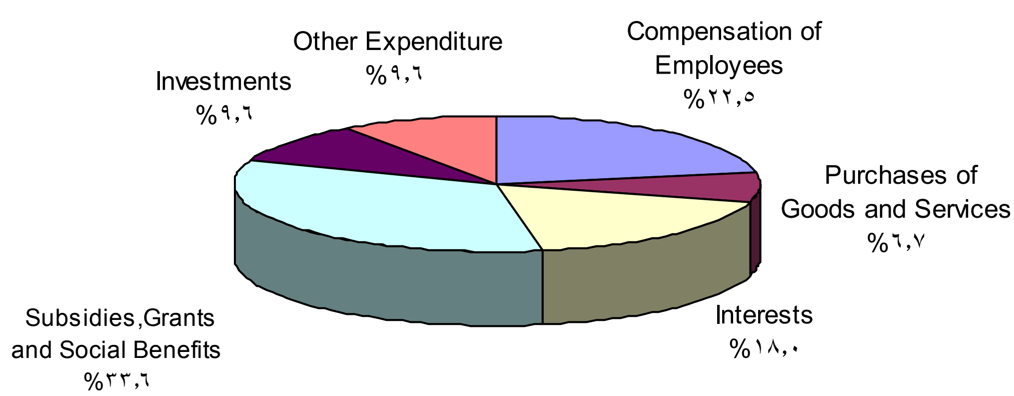
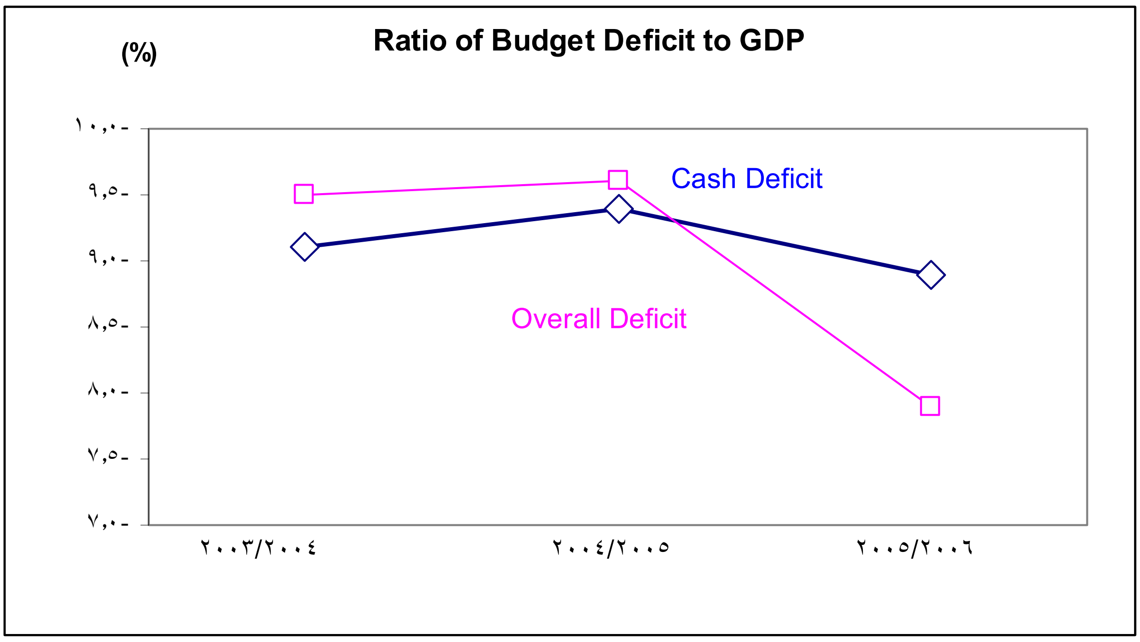


## Summary of Fiscal Operations of the Budget Sector

(LE mn)

| Revenues | 2004/2005 Actual | 2005/2006 Preliminary Actual | Execution Ratio | Expenditures | 2004/2005 Actual | 2005/2006 Preliminary Actual | Execution Ratio |
|---|---|---|---|---|---|---|---|
| **Total Revenues** | **110864** | **149521** | **114.9** | **Total Expenditures** | **161611** | **204464** | **108.9** |
| Tax revenues | 75759 | 98030 | 120.1 | Salaries and wages and compensations of employees | 41546 | 45918 | 100.2 |
| Taxes on income & profits | 31571 | 48487 | 139.2 | Purchases of goods and services | 12613 | 13746 | 104.6 |
| Taxes on property | 1034 | 1214 | 120.9 | Interest | 32780 | 36761 | 86.3 |
| Taxes on goods & services | 31430 | 34450 | 106.5 | Subsidies, grants and social benefits | 29705 | 68752 | 136.0 |
| Customs | 7744 | 9562 | 104.9 | Subsidy | 13765 | 54317 | 153.6 |
| Other | 3980 | 4317 | 100.8 | Grants | 1846 | 2022 | 110.3 |
| Grants | 2853 | 1584 | 55.4 | Social benefits | 14092 | 12395 | 100.6 |
| Other revenues | 32252 | 49907 | 109.2 | Lump sum and other | 2 | 18 | 1.8 |
| Property income | 17758 | 36389 | 96.0 | Other expenditures | 21692 | 19600 | 107.2 |
| Sales of goods & services | 7197 | 7451 | 146.2 | Defense | 14592 | 15869 | 102.5 |
| Financing investment | 3146 | 3077 | 314.6 | Other | 7100 | 3731 | 133.3 |
| Other | 4151 | 2990 | 175.1 | Purchases of non-financial assets (investments) | 23275 | 19687 | 113.2 |

The above-mentioned operations on both sides of expenditure and revenues during FY 2005/2006 unfolded a cash deficit on the budget sector, reaching some LE 55.0 billion or 95.3% of the total cash deficit estimated for the whole year. Net acquisition of financial assets recorded a negative of about LE 6.0 billion, as such bringing the overall deficit to some LE 49.0 billion or 7.9% of GDP during the year under review, reflecting a decline when compared with the previous FY (9.6%).




Financing the aforementioned deficit, as well as miscellaneous local repayments of LE 6.5 billion were provided by banking and non-banking domestic sources in the amount of LE 51.8 billion, along with the privatization proceeds (LE 0.1 billion) and external sources (LE 3.6 billion). As regards domestic sources, most of the finance for the deficit (in addition to repayments) was covered by non-banking resources (about 67.6%). These resources amounted to LE 37.5 billion, including LE 21.3 billion from the NIB and social insurance funds (SIFs). Moreover, banking borrowing financed nearly 26.7% of the deficit.

### 4/3/2- Budget Sector and NIB

Adding the fiscal operations of the NIB to the budget sector in FY 2005/2006, the cash deficit declined to some LE 48.5 billion. Adding net acquisition of financial assets (almost LE 5.4 billion), the overall deficit amounted to some LE 53.9 billion.

### 4/3/3- Budget Sector, NIB and SIFs

Adding the fiscal operations of the SIFs to the budget sector and NIB during FY 2005/2006, salaries and wages and compensations of employees rose by about LE 0.5 billion, and social benefits by some LE 17.2 billion, while interest payments on public debt dropped by about LE 0.7 billion. Moreover, some other miscellaneous revenues went up by about LE 17.4 billion, and property income by some LE 2.5 billion. Consequently, total revenues increased by nearly LE 20.0 billion during FY 2005/2006, to reach LE 174.6 billion, with a rise of 31.1% above the preceding FY. Likewise, total expenditures scaled up by about LE 17.1 billion or 28.9% over the previous FY, reaching LE 220.2 billion.

**Summary of Consolidated Fiscal Operations of General Government**

(LE mn)

| | 2004/2005 (Actual) | 2005/2006 (Preliminary Actual) |
|---|---|---|
| Total revenues | 133130 | 174596 |
| Total expenditures | 170890 | 220217 |
| Cash Deficit | 37760 | 45621 |
| Net Acquisition of financial assets | 10171 | 7676 |
| Overall Fiscal Balance Finance | 47931 | 53297 |
| Financing Sources | 47931 | 53297 |
| Domestic Financing | 65102 | 62911 |
| Banking | 29462 | 25977 |
| Non-banking | 28104 | 37510 |
| Net Credit and Debit Liabilities | 7536 | -576 |
| Foreign borrowing | -4243 | 3641 |
| Arrears | -2477 | -1326 |
| Other | 4166 | -7182 |
| Financing Effects for Eliminations | 0 | 1 |
| Exchange Rate Revaluation | -3935 | -268 |
| Net Privatization Proceeds | 1012 | 126 |
| Discrepancy | -11694 | -4606 |

Against this background, the cash deficit of the consolidated fiscal operations of the general government amounted to some LE 45.6 billion during FY 2005/2006. Adding the net acquisition of financial assets (LE 7.7 billion), the overall deficit posted about LE 53.3 billion.

The aforementioned deficit and miscellaneous local repayments (LE 13.3 billion) were financed by banking and non-banking domestic sources (LE 62.9 billion), privatization proceeds (LE 0.1 billion) and external sources (LE 3.6 billion).

## 4/4- Balance of Payments and External Trade

The BOP realized an overall surplus of US$ 3.3 billion or 3.0% of GDP during the FY 2005/2006, against US$ 4.5 billion during the previous FY. This in turn resulted in an equivalent increase in the foreign currency reserve assets at the CBE. This surplus was a sum-up of the following developments. First, the current account resulted in a surplus of US$ 1.8 billion, as an outcome of the surplus on the services balance and net unrequited transfers on one hand, and the trade balance deficit, on the other. Second, the capital and financial transactions achieved a net inflow of US$ 3.5 billion during the year under review, against US$ 3.4 billion during the year of comparison.

The trade deficit reached US$ 12.0 billion, as a reflection of the following factors. On the one hand, merchandise imports rose to US$ 30.4 billion, 53.6% of which were investment and intermediate goods (with their positive impact on investment and growth prospects). On the other hand, merchandise exports increased to US$ 18.4 billion, as an outcome of a surge of 92.9% in oil exports (due to the marked pickup in the exports of liquefied and natural gas), and a fall of 3.5% in non-oil export proceeds . Against this background, the ratio of trade deficit to GDP improved to 11.2%, against 11.6% during the previous FY.

The services balance revealed a surplus of US$ 8.2 billion, or 7.6% of GDP. This was a dual effect of the rise of 16.0% in invisible receipts that reached US$ 17.4 billion, and of 28.7% in invisible payments that reached US$ 9.2 billion.

Net unrequited transfers increased by 2.2%, to post US$ 5.6 billion or 5.2% of GDP. This was attributed to the fact that private transfers rose by 13.8%, to reach US$ 5.0 billion, on the one hand, and official transfers dropped by 45.9%, to only US$ 0.6 billion, on the other.

The net inflows of US$ 3.5 billion realized in the capital and financial account were attributable to the following developments in the components of this account. First, net foreign investment inflows (FDI and portfolio) substantially rose to US$ 8.9 billion, of which US$ 6.1 billion were net FDI and US$ 2.8 billion were net portfolio investments (against US$ 4.7 billion during the previous FY (including FDI of US$ 3.9 billion). Second, net outflow of other assets and liabilities rose to some US$ 5.9 billion (against US$ 2.9 billion during the year of comparison)- this figure represents the change in banks' foreign assets and liabilities, CBE non-reserve foreign assets and the counterpart of some items of the current account. Third, medium- and long-term loans and facilities exhibited a net repayment of US$ 1.0 billion, against US$ 1.3 billion.

## Balance of Payments

(US$ mn)

| | FY | |
|---|---|---|
| | 2004/2005 | 2005/2006* |
| **Current Account** | **2910.6** | **1751.9** |
| **Current Account (Excluding Transfers)** | **-2517.2** | **-3795.2** |
| **Trade Balance** | **-10359.4** | **-11985.9** |
| Exports** | 13833.4 | 18455.1 |
| Oil exports | 5299.0 | 10222.4 |
| Other exports | 8534.4 | 8232.7 |
| Imports** | -24192.8 | -30441.0 |
| Oil imports | -3975.3 | -5359.2 |
| Other imports | -20217.5 | -25081.8 |
| **Services Balance** | **7842.2** | **8190.7** |
| **Receipts, of which:** | **15029.6** | **17437.9** |
| Transportation, of which: | 4259.6 | 4947.1 |
| Suez Canal dues | (3306.8) | (3558.8) |
| Travel | 6429.8 | 7234.6 |
| Investment income | 910.6 | 2001.8 |
| **Payments, of which:** | **-7187.4** | **-9247.2** |
| Transportation | -902.4 | -1214.9 |
| Investment income | -1164.4 | -1471.1 |
| **Transfers** | **5427.8** | **5547.1** |
| Private (net) | 4371.7 | 4975.4 |
| Official (net) | 1056.1 | 571.7 |
| **Capital and Financial Transactions** | **3377.7** | **3511.3** |
| **Capital Transactions** | **0.0** | **-37.6** |
| **Financial Transactions** | **3377.7** | **3548.9** |
| Direct investment in Egypt (net)*** | 3901.8 | 6111.4 |
| Direct investment abroad | -39.0 | -145.3 |
| Portfolio investment in Egypt (net) | 831.1 | 2764.0+ |
| Portfolio investment abroad | 540.6 | -729.1 |
| Other investments (net) | -1856.8 | -4452.1 |
| **Errors and Omissions (Net)** | **-1810.6** | **-2009.8** |
| **Overall Balance** | **4477.7** | **3253.4** |
| **Change in Reserve Assets, Increase (-)++** | **-4477.7** | **-3253.4** |

* Preliminary figures

** Including the exports and imports of free zones

*** Including FDI in the oil sector and the proceeds of selling local enterprises to foreign investors (10% or more of the capital of the enterprise)

+ Including foreigners' subscriptions for Egyptian bonds and notes

++ The increase in balances takes a negative sign, as it represents an outflow on the debit side and vice versa.

### 4/4/1- Trade Balance

During FY 2005/2006, external trade significantly grew by 28.6% above the level of the previous FY. This was an outcome of the rise in merchandise export proceeds by 33.4% and the pickup in merchandise import payments by 25.8%. Consequently, the index of economic openness, i.e., the ratio of external trade to GDP, registered 45.5%.

The noticeably sharp rise of 92.9% in oil exports, reaching US$ 10.2 billion or 55.4% of total exports, was mainly behind the pickup in export earnings. In fact, the significant leap in natural gas exports (particularly liquefied gas) - from US$ 285.1 million in FY 2004/2005 to US$ 2.8 billion in the reporting year- was the main propeller to the growth in oil exports. This leap reflected the priority given by the State to develop the oil industries, through attracting more foreign investments, drawing up agreements for prospecting and exploration with international petroleum companies and granting them concessions to operate in Egypt, beside opening new export markets. As such, liquefied gas was exported to some European countries, the USA and a number of Asian countries, particularly following the full operation of most gas liquefaction projects in Edku and Damietta and after adequately equipping the ports serving such purposes. In addition, the rise of international oil prices led to an increase of 65.9% in the value of crude oil exports, to score US$ 3.2 billion.

Import payments rose by 25.8% to US$ 30.4 billion. This was attributed to the increase in the imports of all merchandise groups. Intermediate and investment goods represented 53.6% of total imports, to meet requirements of investment expansions, necessary to spur the economic growth.

| **Main Economic Indicators (%)** | **FY** | |
|---|---|---|
| | **2004/2005** | **2005/2006** |
| External trade /GDP | 42.5 | 45.5 |
| Merchandise exports/GDP | 15.5 | 17.2 |
| Merchandise imports/GDP | 27.0 | 28.4 |
| Trade balance/GDP | (11.6) | (11.2) |
| Merchandise exports/Merchandise imports | 57.2 | 60.6 |
| Oil exports/Merchandise exports | 38.3 | 55.4 |

Against this backdrop, trade deficit widened by 15.7% to US$ 12.0 billion or 11.2% of GDP during FY 2005/2006. The ratio of merchandise export proceeds/merchandise import payments improved from 57.2% to 60.6%. This improvement stemmed mainly from the sharp increase in oil export proceeds; whereas non-oil exports retreated, thereby negatively affecting their contribution ratio to total export earnings. This stressed the need for intensifying efforts to promote non-oil exports, by enhancing their quality and competitiveness in international markets, as a prerequisite for spurring growth rates and achieving the desired economic diversification.

### 4/4/1/1- Merchandise Distribution of Exports

Merchandise export proceeds rose by US$ 4.6 billion during FY 2005/2006, posting US$ 18.4 billion, or 17.2% of GDP. The public sector accounted for 46.9% of these proceeds, followed by the private sector with 43.1%.

Such a sizable growth in export proceeds was attributed to the noticeable surge in oil export earnings (92.9%). Crude oil exports rose by 65.9%, reaching US$ 3.2 billion due to the increase in their exported quantities by 21.2% and in export prices from US$ 31.4/barrel to US$ 43.0/barrel. Moreover, export proceeds of oil products rose by 41.5%, reaching US$ 3.2 billion, due to the increase in the price per ton from US$ 371.9 to US$ 480.1, and in exported quantities by 9.6%. Added to this was the rise in bunker and jet fuel by 22.3%, to reach US$ 981.0 million. Finally, exports of natural gas reached US$ 2.8 billion during the year, achieving a sharp rise as mentioned earlier.

As for non-oil export proceeds, they retreated by 3.5% to US$ 8.2 billion, owing to a decrease of 3.3% in finished export proceeds that reached only US$ 5.2 billion. The decline was mainly pronounced in the exports of cars, tractors and bicycles; iron and steel products; pharmaceuticals; aluminum articles; cotton textiles and ceramic products. On the other hand, there was an increase in the export proceeds of ready-made clothes; glass and articles thereof; electric machines and appliances, recorders and TV sets; paper and cement.

Semi-finished export proceeds rose by 53.1% to US$ 1.2 billion, owing on the one hand to the increase in some merchandise exports, mainly cast iron and articles thereof, aluminum (not alloyed), organic and inorganic chemicals and tanned leather. On the other hand, the exports of other commodities decreased, including animal and vegetable fats, greases and oils and products thereof; cotton yarn and essential oils and resins.

**Merchandise Distribution of Exports**
**By Degree of Processing**

(US$ mn)

| FY | 2004/2005 | | 2005/2006 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| **Total** | **13833.4** | **100.0** | **18455.1** | **100.0** |
| 1- Fuel, mineral oils and products | 5478.0 | 39.6 | 10429.5 | 56.5 |
| 2- Raw materials | 731.4 | 5.3 | 668.5 | 3.6 |
| 3- Semi-finished goods | 776.3 | 5.6 | 1188.4 | 6.5 |
| 4- Finished goods | 5347.7 | 38.7 | 5171.8 | 28.0 |
| 5- Miscellaneous items, unclassified | 1500.0 | 10.8 | 996.9 | 5.4 |

### 4/4/1/2- Merchandise Distribution of Imports

Merchandise import payments rose by US$ 6.2 billion to US$ 30.4 billion, or 28.4% of GDP. This rise was attributed to an increase in the imports of all groups, particularly investment and intermediate goods and raw materials. The rise in these groups combined represented 87.3% of the total increase in imports.

Imports of investment goods rose by 61.2% to US$ 7.9 billion, representing 25.9% of total imports. Of this figure, the private sector imported 51.2% and the public sector 48.6%. The rise was essentially in the imports of parts, accessories and spare parts of cars; optical appliances; motors, generators, transformers and parts thereof; computers and electric appliances for telephones and telegraph. There was a decline in the imports of rolling stock, locomotives, and railway equipment; and pumps, fans & parts thereof.

Intermediate goods scaled up by 23.7% to US$ 8.4 billion, representing 27.7% of total imports. The private sector imported 72.8% of these goods, followed by the public sector with a share of 26.9%. The rise in imports was chiefly in iron and steel products (50.6%), followed by wood and articles thereof, cement, copper and articles thereof and rubber and its products. On the other hand, there was a decline in the imports of fertilizers; animal and vegetable fats, greases and oils and products; synthetic fibers; plastics and articles thereof and raw sugar.

In addition, imports of raw materials increased by US$ 849.0 million or 19.6%, to reach US$ 5.2 billion. This rise was mainly in crude oil (73.5%), followed by iron ore and cotton, whereas the imports of wheat, maize, oil seeds and oleaginous fruits and tobacco decreased.

Imports of consumer goods also climbed to US$ 3.5 billion or 11.6% of total imports, with a rise of US$ 329.0 million or 10.3%. The private sector accounted for the majority of the imports of this group (99.1%).

The imports of non-durable goods rose by 18.5%, recording US$ 2.5 billion, owing to the rise in the imports of pharmaceuticals, meat, cotton textiles and ready-made clothes. Meanwhile, the imports of the residues of foodstuff industries, tea and soap and washing preparations dropped.

The imports of durable goods fell by 6.5%, posting US$ 983.6 million. The most important of these goods were: passenger cars; household electric appliances; and household refrigerators and freezers.

Imports of fuel, mineral oils and products climbed by 6.1%, recording US$ 2.6 billion or 8.5% of total imports. The private sector accounted for the bulk of 62.9% of these imports. Of this group, oil products were the main imports (96.8%), posting as such US$ 2.5 billion, whereas the imports of all types of coal declined by 44.4%.

**Merchandise Distribution of Imports by Degree of Use**

(US$ mn)

| FY | 2004/2005 | | 2005/2006 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| **Total** | **24192.8** | **100.0** | **30441.0** | **100.0** |
| 1- Fuel, mineral oils and products | 2448.4 | 10.1 | 2598.5 | 8.5 |
| 2- Raw materials | 4326.9 | 17.9 | 5175.9 | 17.0 |
| 3- Intermediate goods | 6803.1 | 28.1 | 8415.6 | 27.7 |
| 4- Investment goods | 4894.5 | 20.2 | 7887.6 | 25.9 |
| 5- Consumer goods | 3201.9 | 13.3 | 3530.9 | 11.6 |
| A. Durables | 1052.5 | 4.4 | 983.6 | 3.2 |
| B. Non-durables | 2149.4 | 8.9 | 2547.3 | 8.4 |
| 6- Miscellaneous items, unclassified | 2518.0 | 10.4 | 2832.5 | 9.3 |

### 4/4/1/3- Geographical Distribution of Merchandise Transactions

According to the geographical distribution of export proceeds, the EU countries ranked first as a market for Egyptian exports, receiving US$ 6.9 billion or 37.6% of total export proceeds. The main EU importers were Italy, Spain, France, the UK, the Netherlands and Germany. The basic exports thereto were crude oil and products thereof, iron and steel products and cast iron. The USA came second with a share of US$ 5.6 billion or 30.6% of the total. The most important exports thereto were crude oil and products thereof, ready-made clothes and cement.

Arab countries came next with US$ 2.1 billion or 11.5%. At the top of this group came the UAE, followed by Saudi Arabia, Jordan, Lebanon and Tunisia. Their main imports were crude oil and products thereof, iron and steel products and rice. The Asian countries' imports were in the amount of US$ 2.1 billion or 11.3%. India came at the lead, followed by South Korea, Hong Kong, Japan and Singapore. Egypt's main exports to Asian countries, in addition to crude oil and products thereof, were glass and its products and ready-made clothes.

The share of other European countries, headed by Switzerland and Turkey, was US$ 964.5 million or 5.2%. They chiefly imported oil products, organic and inorganic chemicals and cast iron. On the other hand, the share of the African countries reached US$ 251.3 million or 1.4% of the total. In the forefront of this group came Kenya, Nigeria, Ethiopia and Côte d'Ivoire and their main imports were crude oil and products thereof, the extracts of essential oils and resins and the iron and steel products. The exports to the Russian Federation and the CIS totaled only US$ 68.7 million and were basically crude oil and products thereof, citrus fruits and rice.

**Relative Importance of the Geographical Distribution of Merchandise Exports**

(US$ mn)

| FY | 2004/2005 | | 2005/2006 | |
|---|---|---|---|---|
| | Value | % | Value | % |
| **Grand Total** | **13833.4** | **100.0** | **18455.1** | **100.0** |
| EU | 5144.1 | 37.2 | 6948.0 | 37.6 |
| Other European Countries | 752.9 | 5.4 | 964.5 | 5.2 |
| Russian Federation & CIS | 57.6 | 0.4 | 68.7 | 0.4 |
| USA | 4625.1 | 33.4 | 5644.3 | 30.6 |
| Arab Countries | 1557.7 | 11.3 | 2125.2 | 11.5 |
| Asian Countries | 1379.7 | 10.0 | 2094.0 | 11.3 |
| African Countries | 182.4 | 1.3 | 251.3 | 1.4 |
| Australia | 11.7 | 0.1 | 16.9 | 0.1 |
| Other Countries & Regions | 122.2 | 0.9 | 342.2 | 1.9 |

The EU countries continued to be the major exporter of commodities to Egypt, as imports therefrom represented US$ 11.3 billion or 37.1% of total import payments. The UK topped this group, followed by Germany, France, Italy and the Netherlands. They chiefly exported crude oil and products thereof, iron and steel products and pharmaceuticals. The imports from the USA accounted for US$ 5.7 billion, or 18.8% of total exports. The main imports therefrom were crude oil and products thereof, maize and wheat.

The Asian countries ranked third, accounting for US$ 4.4 billion or 14.6%. China came on top, followed by Japan, South Korea, India and Malaysia. The main Egyptian imports therefrom were parts, accessories and spare parts of cars; passenger cars; and synthetic fibers. The group of the Arab countries came next, with a share of US$ 2.7 billion or 9.0% of total imports, chiefly from the United Arab Emirates, Saudi Arabia, Algeria, Kuwait and Bahrain. Their main exports to Egypt were crude oil and products thereof, plastics and articles thereof and parts and accessories of cars. The share of other European countries, led by Switzerland and Turkey, was US$ 2.3 billion or 7.7% of the total. Their main exports to Egypt were iron and steel articles; animal and vegetable fats, greases and oils; and car parts and accessories.

Meanwhile, imports from the Russian Federation and the CIS recorded only US$ 744.8 million, or 2.4% of the total. The main imports therefrom were iron and steel products, wheat and wood & articles thereof.

**Relative Importance of the Geographical Distribution of Merchandise Imports**

(US$ mn)

| FY | 2004/2005 Value | 2004/2005 % | 2005/2006 Value | 2005/2006 % |
|---|---|---|---|---|
| **Grand Total** | **24192.8** | **100.0** | **30441.0** | **100.0** |
| EU | 7849.0 | 32.4 | 11289.4 | 37.1 |
| Other European Countries | 1972.7 | 8.2 | 2340.1 | 7.7 |
| Russian Federation & CIS | 548.2 | 2.3 | 744.8 | 2.4 |
| USA | 5220.2 | 21.6 | 5737.1 | 18.8 |
| Arab Countries | 2133.6 | 8.8 | 2735.7 | 9.0 |
| Asian Countries | 3603.6 | 14.9 | 4444.8 | 14.6 |
| African Countries | 148.0 | 0.6 | 176.5 | 0.6 |
| Australia | 127.2 | 0.5 | 277.1 | 0.9 |
| Other Countries & Regions | 2590.3 | 10.7 | 2695.5 | 8.9 |

## 2/4/4- Balance of Services and Transfers

Services surplus reached US$ 8.2 billion, or 7.6% of GDP, during FY 2005/2006, compared with US$ 7.8 billion or 8.8% of GDP during the previous FY. This was attributed to the increase in services receipts by 16.0%, to reach US$ 17.4 billion and in services payments by 28.7%, to reach US$ 9.2 billion.

**Balance of Services**

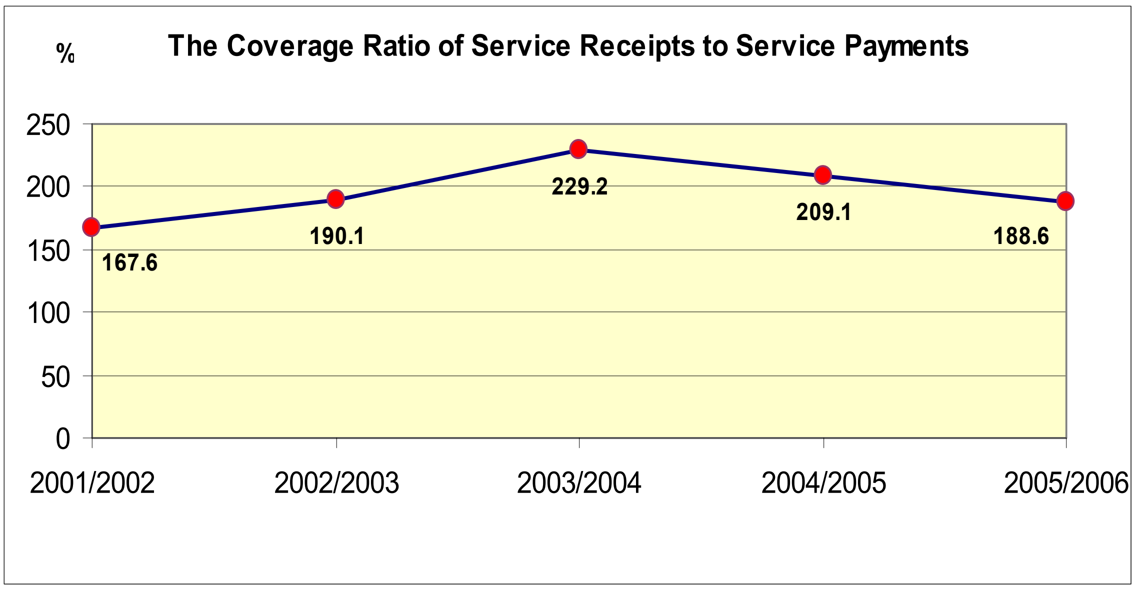
(US$ mn)

| | FY 2004/2005 | FY 2005/2006* | Change (-) |
|---|---|---|---|
| **Services Balance** | **7842.2** | **8190.7** | **348.5** |
| **Receipts** | **15029.6** | **17437.9** | **2408.3** |
| Transportation | 4259.6 | 4947.1 | 687.5 |
| Travel (tourism revenues) | 6429.8 | 7234.6 | 804.8 |
| Investment income | 910.6 | 2001.8 | 1091.2 |
| Government receipts | 157.2 | 358.2 | 201.0 |
| Other receipts | 3272.4 | 2896.2 | (376.2) |
| **Payments** | **7187.4** | **9247.2** | **2059.8** |
| Transportation | 902.4 | 1214.9 | 312.5 |
| Travel | 1438.3 | 1619.6 | 181.3 |
| Investment income | 1164.4 | 1471.1 | 306.7 |
| Government payments | 656.6 | 1319.9 | 663.3 |
| Other payments | 3025.7 | 3621.7 | 596.0 |

* Provisional

The increase in services receipts reflected the rise in some constituent items. Travel receipts (tourism revenues) rose by 12.5%, to reach US$ 7.2 billion, representing 6.7% of GDP or the equivalent of 41.5% of total services receipts. This denotes that tourism revenues have a large role to play in generating the services balance surplus; a matter that highlights the need for stepping up efforts, at home and abroad, to promote tourism. The rise in tourism revenues was an outcome of the increase in the average tourist spending per night (from US$ 75 during FY 2004/2005 to US$ 85 during the year under review) and the decrease in the number of tourist nights (from 85.7 million nights to 85.1 million). Transportation receipts rose by 16.1%, basically owing to an increase of 7.6% in the receipts of Suez Canal that reached US$ 3.6 billion, representing 3.3% of GDP or 20.4% of total services receipts. The surge in Suez Canal receipts was brought about by the increase in the number of transiting ships and their net tonnage, in addition to the 3% rise in transit tolls as from March 2006. Investment income noticeably augmented to US$ 2.0 billion because of the increase in interest payments on deposits abroad, particularly those received by the banking system; in the light of the increase in banks' assets with correspondents abroad and the higher international interest rates. Added to this was the rise in the receipts of direct investment income. Moreover, government receipts scaled up, amounting to US$ 0.4 billion as a result of the increase in the expenses of foreign embassies in Egypt and international institutions resident in Egypt. By contrast, other receipts showed a decrease of 11.5%, essentially because of the decline in the receipts of communication services, insurance services and the invisible receipts of the oil sector.

All the components of services payments contributed to the rise of 28.7% in services payments. Transportation payments increased by 34.6%, posting US$ 1.2 billion, chiefly because of the rise in the services payments of SUMED pipeline and the external transfers of foreign aviation and navigation companies and Egyptian navigation companies. Likewise, government expenditures doubled to US$ 1.3 billion and investment income payments rose by 26.3%, due to the increase in the profit transfers of foreign oil companies working in Egypt; and of portfolio investment income. Moreover, travel payments recorded an increase of 12.6%, due to higher payments of travel companies and hotels and larger expenditure on travel and medical treatment abroad. Other payments increased by 19.7%, due to increases in the external transfers of Egyptian and foreign oil companies working in Egypt, the commissions of securities brokerage and payments for insurance services. It is noteworthy that the coverage ratio of the services surplus to the trade deficit declined from 75.7% during 2004/2005 to 68.3% during the year under review.

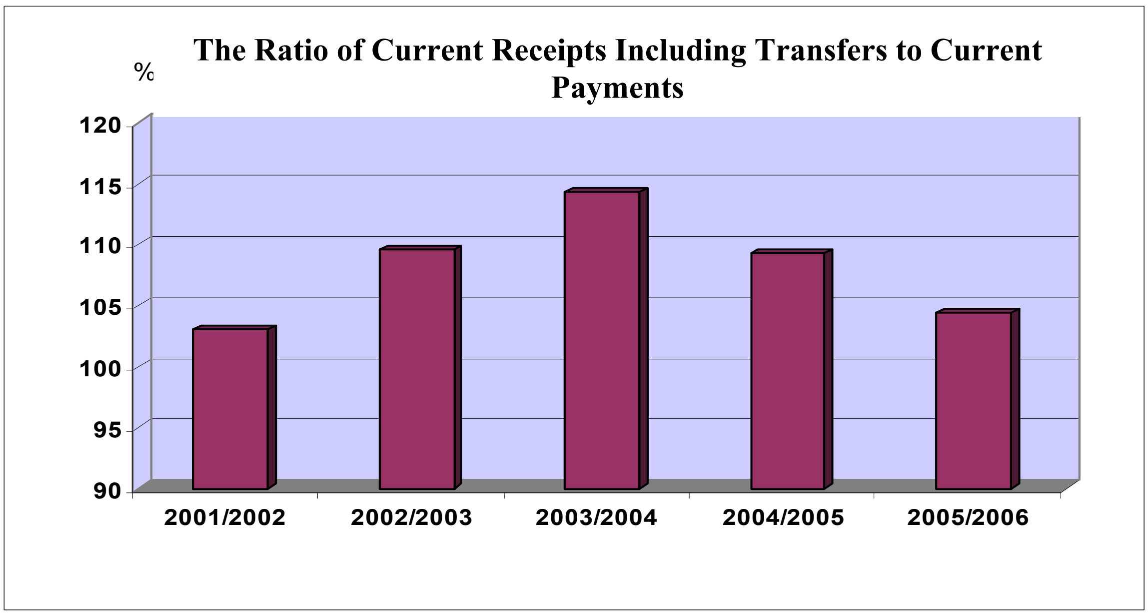



As for net unrequited transfers, they went up by 2.2% to US$ 5.6 billion, representing 13.4% of current receipts or 5.2% of GDP. This reflected the rise in private transfers by 13.8%, owing to the increase in workers' remittances by 16.3%, while official transfers fell by 45.9%, to register as low as US$ 0.6 billion.

**Unrequited Transfers**

(US$ mn)

| | FY | | |
|---|---|---|---|
| | **2004/2005** | **2005/2006** | **Change (-)** |
| **Total** | **5427.8** | **5547.1** | **119.3** |
| **1- Official Transfers (Net)** | **1056.1** | **571.7** | **-484.4** |
| - Inward cash grants | 436.2 | 190.2 | -246.0 |
| - Other inward grants | 653.4 | 409.6 | -243.8 |
| - Outward grants | -33.5 | -28.1 | 5.4 |
| **2- Private Transfers (Net)** | **4371.7** | **4975.4** | **603.7** |
| - Workers' remittances | 4329.5 | 5034.2 | 704.7 |
| - Other transfers | 61.3 | 48.1 | -13.2 |
| - Foreigners' transfers abroad | -19.1 | -106.9 | -87.8 |




## 4/4/3- Capital and Financial Account

Capital and financial account revealed a net inflow of US$ 3.5 billion during FY 2005/2006, compared with US$ 3.4 billion during the previous FY. This was an outcome of a number of influencing factors, the most important of which were the following:

- Foreign investment (direct* and portfolio**) realized total inflow of US$ 24.4 billion and total outflow of US$ 15.5 billion during the reporting year (against US$ 8.2 billion and US$ 3.5 billion, respectively, during the previous FY). This resulted in an increase in the two types of net foreign investment in Egypt, achieving a net inflow of US$ 8.9 billion. Of this amount, net FDI accounted for US$ 6.1 billion, representing 5.7% of GDP, including net investments of US$ 1.8 billion in the oil sector and US$ 0.9 billion as the proceeds of selling some local companies to foreign investors (against a net inflow of US$ 4.7 billion, including net FDI in Egypt in the amount of US$ 3.9 billion, representing 4.4% of GDP).

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* Representing total flows of FDI to Egypt (less capital repatriation) and foreign investors' equity participation in any local enterprise that is equal to or more than 10% of the capital of the enterprise

** Representing foreigners' net portfolio transactions (according to the CMA statement, excluding foreign investors' equity participation in any local enterprise that is equal to or more than 10% of the capital of the enterprise. It includes data on the transactions on Egyptian bonds and notes

Net portfolio investment in Egypt included net purchases of banks and insurance companies in Egypt of dollar-denominated sovereign bonds, in the amount of US$ 1.7 million during the year under review, against net sales of US$ 25.9 million during the year of comparison. It also included foreigners' subscriptions on the Egyptian Stock Exchange (net), which revealed net purchases of US$ 73.8 million, against US$ 805.2 million. It is to be noted that portfolio investment included also foreigners' purchases of Egyptian bonds and notes at a value of US$ 2.7 billion during the statement year.

- Net outflow of other assets and liabilities amounted to US$ 5.9 billion during the year under review (against US$ 2.9 billion), reflecting the change in banks' foreign assets and liabilities, the CBE non-reserve foreign assets and the counterpart of some items of the current account.

- As for medium- and long-term loans and facilities, they revealed net repayments of US$ 1.0 billion during FY 2005/2006 (against US$ 1.3 billion during the previous FY). This was attributed to the increase in total repayments to post US$ 2.4 billion (against US$ 2.1 billion) and the increase in total disbursements to record US$ 1.4 billion (against US$ 0.8 billion).

**Capital and Financial Account**

(US$ mn)

| | FY | |
|---|---|---|
| | **2004/2005** | **2005/2006*** |
| **Capital and Financial Account** | **3377.7** | **3511.3** |
| **Capital Account** | **0.0** | **-37.6** |
| **Financial Account** | **3377.7** | **3548.9** |
| **Direct Investment Abroad** | **-39.0** | **-145.3** |
| **Direct Investment in Egypt (Net)** | **3901.8** | **6111.4** |
| **Portfolio Investment Abroad** | **540.6** | **-729.1** |
| **Portfolio Investment in Egypt (Net), of which:** | **831.1** | **2764.0** |
| Bonds** | 25.9 | 2690.2 |
| **Other Investments (Net)** | **-1856.8** | **-4452.1** |
| **- Disbursements** | **3124.3** | **3875.5** |
| Medium- and long-term loans | 727.9 | 795.6 |
| International and regional institutions | 617.2 | 606.8 |
| Bilateral loans | 110.7 | 188.8 |
| Medium- & long-term suppliers' and buyers' credit | 86.2 | 625.4 |
| Short-term suppliers' and buyers' credit (net) | 2310.2 | 2454.5 |
| **- Repayments** | **-2123.7** | **-2449.7** |
| - Medium- and long-term loans | -1511.7 | -1723.1 |
| International institutions | -654.5 | -849.5 |
| Bilateral loans | -857.2 | -873.6 |
| - Medium- & long-term suppliers' & buyers' credit | -612.0 | -726.6 |
| **Other Assets** | **-3180.0** | **-5102.8** |
| CBE | 23.0 | 3.3 |
| Banks | -2171.6 | -4197.7 |
| Others | -1031.4 | -908.4 |
| **Other Liabilities** | **322.6** | **-775.1** |
| CBE | 0.0 | 2.2 |
| Banks | 322.6 | -777.3 |

* Provisional

** US dollar-denominated sovereign bonds, issued pursuant to Law no. 147 of 2001, and floated on 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 one billion American dollars and a cost of 8.75%, along with foreigners' purchases of Egyptian bonds and notes in the amount of US$ 2.8 billion.

## 4/5-Stock Exchange

During FY 2005/2006, strenuous efforts continued to improve the legislative, regulatory and institutional environment for Egypt's stock market. Being positively affected, the stock market recorded such an excellent performance that it was rated among the top 10 performers of the emerging financial markets, according to Standard & Poor's and Morgan Stanley's indices for 2005.

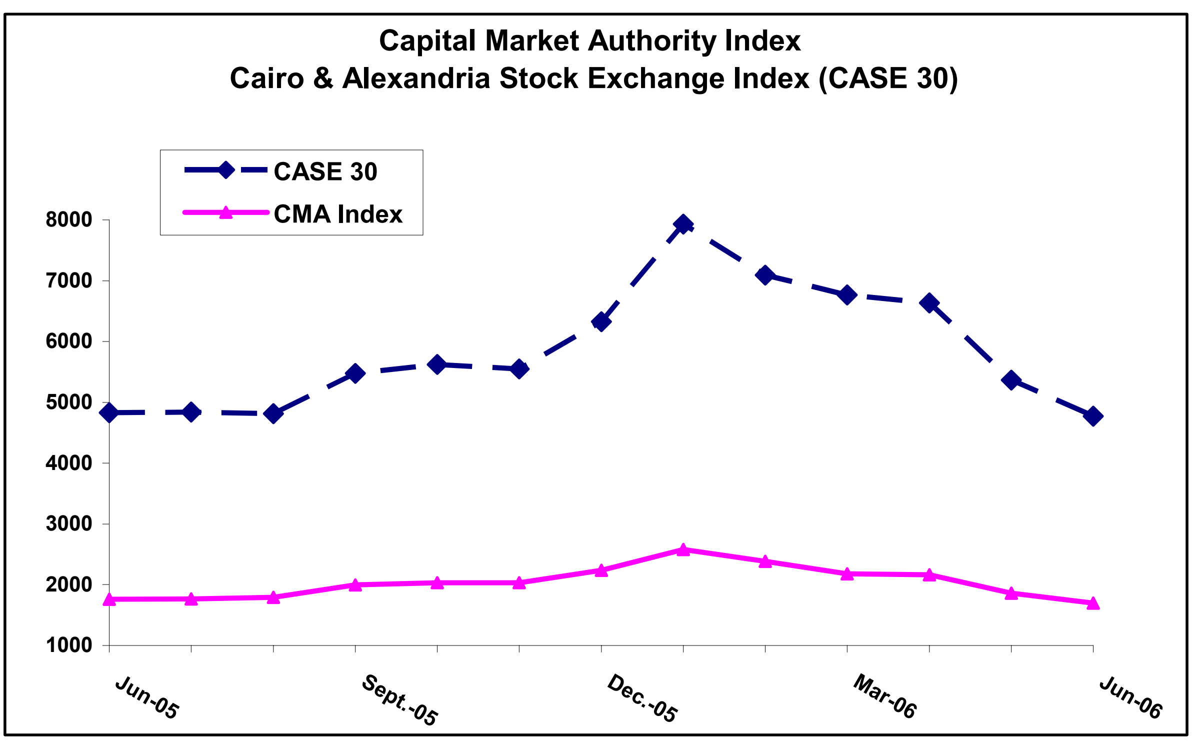
Regarding the legislative side, Chapter Eleven was added to the Executive Regulations of the Capital Market Law, to protect the interests and rights of investors and companies operating on the Stock Exchange. This Chapter included the rules prohibiting price manipulation and insider trading for the companies working in the field of securities whether in the primary (issue) or secondary (dealing) markets. Moreover, the Executive Regulations of the Central Securities Depository and Registry Law were amended to include new activities under the custodians, including securitization, margin trading and short selling. In the meantime, the Board of Directors of the Investor Protection Fund (IPF) was established; the IPF is an insurance fund protecting market participants against non-commercial risks arising from the misconduct of securities companies. Moreover, during the year under review, the Executive Regulations of the Capital Market Law were amended to regulate trading on special status exchanges. Another step forward was the issue of the Code of Ethics and Conduct for the staff of securities companies. A Ministerial Decree was issued to amend Chapter Ten of the Executive Regulations of the Capital Market Law that regulates securitization; so as to remove obstacles to the issuance of securitization bonds.

As for the implementation side during the year under review, new mechanisms and financial instruments were introduced, including the same-day trading and e-trading (online trading). The first securitization bonds were issued during the reporting FY, and the shares of a number of companies were offered for sale on the Stock Exchange under the privatization program, within a range of 10% - 100% of a company's stock. To attract more investments to the Stock Exchange, CASE 30-derived securities, denominated in US dollar and euro, were issued by the Stock Exchange in cooperation with the ABN AMRO, Deutsche Bank AG and Goldman Sachs, to be traded on international exchanges. CASE, and Misr for Clearing, Settlement and Central Depository (MCSD) have signed an agreement with Abu Dhabi Securities Market, allowing dual listing and trading of the securities listed in both markets in accordance with their relevant trading systems. On the other hand, the Capital Market Authority in Egypt (CMA) and Securities & Commodities Authority in UAE have signed a Memorandum of Understanding (MOU) with the aim of protecting investors' rights and enhancing the efficiency of stock markets.

CASE signed an agreement with Dow Jones to create the Dow Jones CASE Egypt Titans 20 Index, which tracks the 20 blue chips of the Egyptian Stock market in terms of free-float market capitalization, sales and net income. The design of this index, launched as of mid-April 2006, allowed it to cover the various investment tools, thereby availing investors of a greater opportunity for participation in the Egyptian market.

Furthermore, CASE and the leading Swedish IT company OMX, signed an initial agreement to establish a capital market IT company, headquartered in Cairo, and covering the Middle East and North Africa.

During FY 2005/2006, the Stock Exchange performance has been widely uneven. Transactions were brisk throughout the period from the beginning of the FY to the second week of February 2006. Thereafter, the performance of the Stock Exchange has weakened, influenced by the underperformance of the Gulf Stock markets, as the massive losses incurred by Gulf investors induced them to withdraw sizeable funds from their portfolios on CASE to cover their financial positions (based mainly on bank loans). Add to this, CASE was under selling pressures because of profit-taking operations, which led to a decline in all trading indices at end of June 2006 as compared with the end of June 2005. CMA Index reached 1696.93 points at end of June 2006, with a decline of 3.77%, and CASE 30 recorded 4772.78 points, with a drop of 1.16%.



As for the primary market, the CMA approved new issues, during the year under review, with the value of LE 43.8 billion, including shares of LE 8.1 billion for new corporations and shares of LE 35.8 billion for capital increases. The number of the listed companies on the Exchange decreased from 770 at end of June 2005 to 656 at end of June 2006. This was attributed to the delisting of the companies that had failed to meet the listing requirements. The nominal value of the capital of listed companies reached LE 109.2 billion and their market value LE 377.1 billion at end of June 2006, representing 61.0% of GDP during FY 2005/2006.

**Companies Listing**

| End of June | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| **No. of Listed Companies (Unit)** | **1123** | **803** | **770** | **656** |
| - On official schedules | 152 | 129 | 132 | 141 |
| - On unofficial schedules | 971 | 528 | 612 | 503 |
| - On the temporary schedule | - | 146 | 26 | 12 |
| **No. of Listed Shares (mn)** | **5933** | **6252** | **6985** | **10457** |
| - On official schedules | 2689 | 3661 | 4236 | 7881 |
| - On unofficial schedules | 3244 | 2383 | 2646 | 2560 |
| - On the temporary schedule | - | 208 | 103 | 16 |
| **Shares , nominal Value (LE mn)** | **99029** | **96527** | **108209** | **109165** |
| **Shares, market Value (LE mn)** | **150214** | **172865** | **337059** | **377070** |
| **CMA Index** | **712.2** | **900.6** | **1763.4** | **1696.9** |
| **CASE 30** | **775.9** | **1440.9** | **4828.7** | **4772.8** |

During FY 2005/2006, the CMA approved eight new mutual funds; bringing their total number to 30, with 27 open-end funds and 3 close-end funds. The nominal value of their certificates reached LE 6.6 billion and their market value LE 10.5 billion at end of June 2006.

Although overall trading on the Stock Exchange slackened in the second half of FY 2005/2006, their indicators denoted unprecedented boom throughout the year. Thus, the number of transactions more than doubled, amounting to 5.9 million, the number of dealt-in securities rose to 7024 million and the value of traded securities more than tripled, reaching LE 254.6 billion.

The bulk of trading on the Stock Exchange (95.4%) was in shares, against 91.1% during the previous FY. On the other hand, dealing in bonds was as low as 4.6% of trading, against 8.9%.

### Securities Trading

| During FYs | 2002/2003 | 2003/2004 | 2004/2005 | 2005/2006 |
|---|---|---|---|---|
| **No. of Transactions (000s)** | **890** | **1501** | **2436** | **5904** |
| A. Listed shares, bonds and mutual fund certificates | 863 | 1467 | 2272 | 5696 |
| B. Unlisted shares, bonds and mutual fund certificates | 27 | 34 | 164 | 208 |
| **No. of Traded Securities (mn)** | **1076** | **2112** | **3251** | **7024** |
| A. Listed shares, bonds and mutual fund certificate | 840 | 1680 | 2392 | 5834 |
| B. Unlisted shares, bonds and mutual fund certificates | 237 | 432 | 859 | 1190 |
| **Value of Trading (LE mn)** | **29548** | **32422** | **83715** | **254609** |
| A. Listed shares, bonds and mutual fund certificates | 23383 | 27543 | 75728 | 241305 |
| B. Unlisted shares, bonds and mutual fund certificates | 6165 | 4879 | 7987 | 13304 |

Foreigners' activity on the Stock Exchange was markedly strong during the reporting year (in the local currency and US dollar). Their total transactions rose by 226% in value terms, reaching the equivalent of LE 147.1 billion, against LE 45.1 billion worth during the previous FY. Transactions unfolded net purchases of LE 3.2 billion worth, against LE 7.0 billion worth during the period of comparison.

Foreigners' transactions in local currency recorded net purchases of LE 4.7 billion, against LE 4.9 billion. On the other hand, their transactions in the US dollar unfolded net sales of US$ 263.7 million, against net purchases of US$ 352.6 million during the previous FY.

### Foreigners' Transactions on the Stock Exchange

| During FYs | 2004/2005 | | 2005/2006 | |
|---|---|---|---|---|
| | LE | US$ | LE | US$ |
| **Net No. of Transactions (Unit)** | **45312** | **1839** | **25166** | **-17326** |
| Purchases | 288082 | 4687 | 638554 | 16986 |
| Sales | 242770 | 2848 | 613388 | 34312 |
| **Net Volume of Securities (mn)** | **94** | **20** | **139** | **-24** |
| Purchases | 465 | 49 | 1232 | 67 |
| Sales | 371 | 29 | 1093 | 91 |
| **Net Value of Securities (mn)** | **4944.9** | **352.6** | **4754.7** | **-263.7** |
| Purchases | 22297.5 | 648.6 | 73384.7 | 305.2 |
| Sales | 17352.6 | 296.0 | 68630.0 | 568.9 |

Source: CMA (Information Centre)

## 4/6- Insurance Sector

During FY 2004/2005, the investments of the insurance sector* rose by LE 26.2 billion or 11.6%, reaching LE 252.4 billion at end of June 2005.

The National Authority for Social Insurance contributed the bulk (LE 221.0 billion or 87.6%) of the total investments of the insurance sector at end of June 2005. Investments of insurance companies and funds reached LE 31.4 billion or 12.4%. It is noteworthy that the National Authority for Social Insurance increased their investments by LE 22.4 billion or 10.1% during FY 2005/2006, recording LE 243.4 billion at end of June 2006.

**Investments of the Insurance Sector**

(LE bn)

| End of June | 2004 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Insurance Companies and Funds | National Authority for Social Insurance | Total | Insurance Companies and Funds | National Authority for Social Insurance | Total |
| **Grand Total** | **28.1** | **198.2** | **226.3** | **31.4** | **221.0** | **252.4** |
| Real estates | 0.8 | - | 0.8 | 0.7 | - | 0.7 |
| Securities | 17.3 | 2.0 | 19.3 | 20.2 | 2.0 | 22.2 |
| Deposits at NIB | - | 196.2 | 196.2 | - | 219.0 | 219.0 |
| Loans | 0.3 | - | 0.3 | 0.4 | - | 0.4 |
| Fixed deposits at banks | 9.7 | - | 9.7 | 10.0 | - | 10.0 |
| Others | - | - | - | 0.1 | - | 0.1 |

A breakdown of the insurance sector's investments showed that LE 219.0 billion or 86.8% of total investments were in the form of deposits by the National Authority for Social Insurance at NIB. On the other hand, investments in securities reached LE 22.2 billion, mostly owned by insurance companies and funds.

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

# Annex

Statistical Section

# Statistical Section

## (1/1) CBE : Financial Position

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Foreign Assets** | **51059** | **53349** | **61643** | **86212** | **88111** | **108520** | **129469** |
| Balances with correspondents abroad | 36295 | 36829 | 43529 | 64299 | 65266 | 85788 | 72763 |
| Foreign securities and bills | 10870 | 10628 | 14061 | 16424 | 16908 | 16404 | 48069 |
| Gold and other foreign balances | 3894 | 5892 | 4053 | 5489 | 5937 | 6328 | 8637 |
| **Domestic Assets** | **94942** | **120255** | **147064** | **195698** | **245143** | **283009** | **227507** |
| Claims on government of which: | 77697 | 94545 | 113231 | 131689 | 175579 | 218450 | 167685 |
| Government securities | 33158 | 79734 | 98484 | 116512 | 163629 | 206034 | 164761 |
| Claims on National Investment bank | - | - | 130 | - | - | - | 10 |
| Claims on Banks in Egypt | 11879 | 12513 | 11314 | 10649 | 10184 | 11835 | 16537 |
| Other domestic Assets | 5366 | 13197 | 22389 | 53360 | 59380 | 52724 | 43275 |
| **ASSETS = LIABILITIES** | **146001** | **173604** | **208707** | **281910** | **333254** | **391529** | **356976** |
| **Foreign Liabilities** | **38164** | **41328** | **53047** | **75268** | **79840** | **72863** | **69455** |
| **Domestic Labilities** | **107837** | **132276** | **155660** | **206642** | **253414** | **318666** | **287521** |
| Note Issued | 37748 | 40809 | 45427 | 52219 | 59703 | 67527 | 79017 |
| Claims to Government | 24497 | 28659 | 41504 | 54284 | 75869 | 97519 | 53079 |
| Claims to National Investment bank | 2737 | 1032 | 150 | 5478 | 487 | 819 | 496 |
| Claims to Banks in Egypt | 36713 | 49626 | 56685 | 84915 | 107572 | 144411 | 149088 |
| Equities & net profits of the year | 4912 | 5149 | 5500 | 1790 | 2325 | 2513 | 3006 |
| Provisions | 299 | 108 | 22 | 235 | 307 | 302 | 50 |
| Other domestic Liabilities | 931 | 6893 | 6372 | 7721 | 7151 | 5575 | 2785 |

**Source : Central Bank of Egypt.**

## (1/2) Banknote Issued By Denomination

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Total** | **37939** | **41008** | **45633** | **52432** | **59922** | **67753** | **79253** |
| **Currency By Denomination** | **37748** | **40809** | **45427** | **52219** | **59703** | **67527** | **79017** |
| PT 25 | 101 | 115 | 128 | 136 | 118 | 120 | 136 |
| PT 50 | 252 | 216 | 225 | 235 | 203 | 220 | 241 |
| LE 1 | 453 | 405 | 427 | 455 | 515 | 517 | 545 |
| LE 5 | 1066 | 1187 | 1047 | 1119 | 1226 | 1279 | 1121 |
| LE 10 | 5501 | 5656 | 5745 | 5728 | 5490 | 5074 | 4274 |
| LE 20 | 11899 | 11589 | 12005 | 12110 | 11010 | 10329 | 9226 |
| LE 50 | 11821 | 13409 | 15035 | 19381 | 22686 | 24517 | 27959 |
| LE 100 | 6655 | 8232 | 10815 | 13055 | 18455 | 25471 | 35515 |
| **Subsidiary Coins*** | **191** | **199** | **206** | **213** | **219** | **226** | **236** |

**Source : Central Bank of Egypt.**

*** Issued by the Ministry of Finance.**

## (1/3) Clearing Houses Activity *

| During FY | 1999/2000 | 2000/2001 | 2001/2002 | 2002/2003 | 2003/2004 | 2004/2005 | 2005/2006 |
|---|---|---|---|---|---|---|---|
| **First : Cairo Branch** | | | | | | | |
| Number of cheques (thousands) | 7087 | 6881 | 6737 | 9250 | 8856 | 8618 | |
| Value of cheques (LEmn) | 289111 | 249613 | 232323 | 215703 | 215091 | 231943 | |
| **Second : Alexandria Branch** | | | | | | | |
| Number of cheques (thousands) | 1287 | 1182 | 1037 | 663 | 626 | 593 | |
| Value of cheques (LEmn) | 45061 | 39156 | 35208 | 26383 | 30652 | 27874 | |
| **Third : Port - Said Branch** | | | | | | | |
| Number of cheques (thousands) | 181 | 165 | 144 | 112 | 109 | 110 | |
| Value of cheques (LEmn) | 3911 | 3399 | 3012 | 2495 | 2481 | 2606 | |
| **Fourth : All Branches** | | | | | | | |
| Number of cheques (thousands) | 8555 | 8228 | 7918 | 10025 | 9591 | 9321 | 9508 |
| Value of cheques (LEmn) | 338083 | 292168 | 270543 | 244581 | 248224 | 262423 | 288715 |

**Source : Central Bank of Egypt.**

* As of 1/ 1/2006, the manual clearing houses of Alexandria and Port-Said were cancelled ,and all their activities were transferred to Cairo Automated Clearing House.

## (2/1) Banking Survey : Domestic Liquidity and Counterpart Assets

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **First : Domestic Liquidity** | **255272** | **284873** | **328728** | **384262** | **434911** | **493884** | **560356** |
| **a - Money Supply** | **49738** | **53448** | **59805** | **67212** | **77606** | **89685** | **109274** |
| Currency in circulation outside the banking system | 35042 | 38161 | 42299 | 48258 | 55933 | 63029 | 74239 |
| Demand deposits in local currency | 14696 | 15287 | 17506 | 18954 | 21673 | 26656 | 35035 |
| **b - Quasi-Money** | **205534** | **231425** | **268923** | **317050** | **357305** | **404199** | **451082** |
| Time & saving deposits in local currency | 157602 | 170681 | 192718 | 212010 | 233610 | 283020 | 314188 |
| Demand and time & saving deposits in foreign currencies | 47932 | 60744 | 76205 | 105040 | 123695 | 121179 | 136894 |
| **Second : Counterpart Assets** | | | | | | | |
| Net foreign assets | 23393 | 18957 | 17285 | 25429 | 45241 | 80913 | 133385 |
| Domestic credit | 286639 | 321870 | 360090 | 387446 | 422040 | 466771 | 509532 |
| Other items (net) | -54760 | -55954 | -48647 | -28613 | -32370 | -53800 | -82561 |

**Source : Central Bank of Egypt.**

## (2/2) Banking Survey : Deposits in Local Currency

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Total Deposits in local Currency** | **172298** | **185968** | **210224** | **230964** | **255283** | **309676** | **349223** |
| **Demand Deposits** | **14696** | **15287** | **17506** | **18954** | **21673** | **26656** | **35035** |
| Public business sector * | 2506 | 2556 | 2813 | 2937 | 2857 | 3027 | 4934 |
| Private business sector | 5714 | 6033 | 7385 | 7989 | 9235 | 12228 | 15863 |
| Household sector | 7285 | 7610 | 8255 | 8674 | 10306 | 11985 | 14831 |
| Minus: Purchased cheques & drafts | 809 | 912 | 947 | 646 | 725 | 584 | 593 |
| **Time and Saving Deposits** | **157602** | **170681** | **192718** | **212010** | **233610** | **283020** | **314188** |
| Public business sector * | 10305 | 10258 | 11116 | 10990 | 12557 | 13700 | 15465 |
| Private business sector | 25262 | 23047 | 24209 | 22099 | 25984 | 27439 | 25580 |
| Household sector | 122035 | 137376 | 157393 | 178921 | 195069 | 241881 | 273143 |

**Source : Central Bank of Egypt.**

*** Including all public sector companies subject or not to law No 203 for 1991.**

## (2/3) Banking Survey : Deposits in Foreign Currencies

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Total Deposits in Foreign Currencies** | **47932** | **60744** | **76205** | **105040** | **123695** | **121179** | **136894** |
| **Demand Deposits** | **5070** | **6742** | **8267** | **12159** | **16280** | **18140** | **18533** |
| Public business sector * | 250 | 236 | 311 | 475 | 878 | 1249 | 935 |
| Private business sector | 2421 | 3936 | 4155 | 6123 | 8891 | 10234 | 10417 |
| Household sector | 2528 | 2753 | 3992 | 5689 | 6697 | 6823 | 7392 |
| Minus: Purchased cheques & drafts | 129 | 183 | 191 | 128 | 186 | 166 | 211 |
| **Time and Saving Deposits** | **42862** | **54002** | **67938** | **92881** | **107415** | **103039** | **118361** |
| Public business sector * | 2263 | 2344 | 1883 | 2403 | 2554 | 2946 | 4734 |
| Private business sector | 11282 | 13629 | 15272 | 19056 | 20659 | 21103 | 28845 |
| Household sector | 29317 | 38029 | 50783 | 71422 | 84202 | 78990 | 84782 |

**Source : Central Bank of Egypt.**

*** Including all public sector companies subject or not to law No 203 for 1991.**

## (2/4) Banking Survey : Foreign Assets and Liabilities

**( LE mn )**

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Net Foreign Assets** | **23393** | **18957** | **17285** | **25429** | **45241** | **80913** | **133385** |
| **Foreign Assets With** | **77010** | **78630** | **90125** | **126068** | **145297** | **174328** | **218982** |
| Central Bank of Egypt | 51063 | 53599 | 61894 | 86287 | 88313 | 108737 | 129477 |
| Banks | 25947 | 25031 | 28231 | 39781 | 56984 | 65591 | 89505 |
| **Foreign Liabilities With** | **53617** | **59673** | **72840** | **100639** | **100056** | **93415** | **85597** |
| Central Bank of Egypt | 37439 | 40596 | 52078 | 73944 | 78455 | 71443 | 68176 |
| Banks | 16178 | 19077 | 20762 | 26695 | 21601 | 21972 | 17421 |

**Source : Central Bank of Egypt.**

## (2/5) Banking Survey : Domestic Credit and Other Items (Net)

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **First : Domestic Credit** | **286639** | **321870** | **360090** | **387446** | **422040** | **466771** | **509532** |
| Net claims on the government (A+B-C) | 63060 | 83323 | 95423 | 103518 | 126343 | 159889 | 184131 |
| A-Securities | 73646 | 129676 | 162675 | 203845 | 258178 | 311375 | 295974 |
| B-Credit facilities | 57597 | 31340 | 33580 | 33493 | 33075 | 41364 | 28044 |
| C-Government deposits | 68183 | 77693 | 100832 | 133820 | 164910 | 192850 | 139887 |
| Claims on public business sector * | 32383 | 29185 | 31143 | 34986 | 35588 | 37420 | 32888 |
| Claims on private business sector | 162173 | 178597 | 200230 | 214308 | 223096 | 228195 | 239338 |
| Claims on household sector | 29023 | 30765 | 33294 | 34634 | 37013 | 41267 | 53175 |
| **Second : Other Items (Net)** | **-54760** | **-55954** | **-48647** | **-28613** | **-32370** | **-53800** | **-82561** |
| Capital accounts of which : | -56414 | -62530 | -68579 | -76905 | -83821 | -94179 | -102139 |
| Capital and reserves | -25902 | -27343 | -29205 | -31750 | -34125 | -37881 | -43043 |
| Provisions | -27854 | -31584 | -36165 | -40334 | -44891 | -49843 | -55000 |
| Net unclassified assets and liabilities | 1654 | 6576 | 19932 | 48292 | 51451 | 40379 | 19578 |

**Source : Central Bank of Egypt.**

*** Including all public sector companies subject or not to law No 203 for 1991.**

## (2/6) Total Savings Vessels

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Total Saving Vessels** | **255211** | **289118** | **335651** | **395068** | **445887** | **498190** | **560229** |
| **Savings with the Banking System** | **205534** | **231425** | **268923** | **317050** | **357305** | **404199** | **451082** |
| Time & saving deposits in local currency | 157602 | 170681 | 192718 | 212010 | 233610 | 283020 | 314188 |
| Demand and time & saving deposits in foreign currencies | 47932 | 60744 | 76205 | 105040 | 123695 | 121179 | 136894 |
| **Net Sales of Investment Certificates** | **39007** | **43966** | **49008** | **55218** | **60178** | **58485** | **63697** |
| **Post Office Saving Deposits** | **10670** | **13727** | **17720** | **22800** | **28404** | **35506** | **45450** |

**Source : Central Bank of Egypt.**

## (3 / 1 ) Domestic Debt of Government & Economic Authorities Debt

(LE mn)

| Balances at End of June | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| **Domestic Debt of Government** | **194810** | **221224** | **252185** | **292721** | **349169** | **387719** |
| **- Bonds & Bills** | **133545** | **165907** | **208592** | **272074** | **340898** | **349957** |
| - Treasury bonds of which : | 91830 | 113091 | 137192 | 171809 | 200284 | 231125 |
| Bonds in local currency with public sector banks | - | - | 4000 | 4000 | 4000 | 4000 |
| Euro sovereign bonds offered abroad * | - | 2511 | 4612 | 5647 | 5122 | 5109 |
| - Treasurey notes to compensate the actuarial deficit in social insurance funds | 3029 | 2000 | 2000 | 2000 | 2000 | 2000 |
| - Housing bonds | 139 | 136 | 132 | 128 | 124 | 122 |
| - Treasury bills | 29334 | 40007 | 55318 | 83774 | 124907 | 103144 |
| - Foreign currency bonds at commercial public sector banks | 8047 | 9406 | 12610 | 12938 | 12070 | 12014 |
| - The equivalent of the retained 5% of companies profit to purchase government bonds | 1166 | 1267 | 1340 | 1425 | 1513 | 1552 |
| **- Net Government Balances with the Banking System** | **-39861** | **-58469** | **-80346** | **-113678** | **-135480** | **-104860** |
| **- Government Borrowing from NIB** | **101126** | **113786** | **123939** | **134325** | **143751** | **142622** |
| **The Economic Authorities Debt** | **41654** | **41141** | **39195** | **40064** | **47176** | **47387** |
| - Net balances of economic authorities with the banking system | -3313 | -5983 | -10899 | -13707 | -11089 | -2809 |
| - Borrowing of economic authorities from NIB | 44967 | 47124 | 50094 | 53771 | 58265 | 50196 |

**Source: The Ministry of Finance, Central Bank of Egypt & National Investment Bank.**

*** Holdings of financial institutions resident in Egypt (The Banking System and the Insurance Sector).**

# (3/2 ) National Investment Bank
## (Resources & Uses)

(LE mn)

| Balances at End of June | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|
| **Resources:** | **200406** | **228345** | **253272** | **290157** | **316476** | **351205** |
| . Social Insurance Fund for Gov. Employees | 72487 | 83779 | 95886 | 108991 | 122913 | 135735 |
| . Social Insurance Fund for Pub. & Priv. Sector Employees | 63853 | 70879 | 78947 | 87166 | 96093 | 105703 |
| . Proceeds of Investment Certificates | 43966 | 49008 | 55218 | 60178 | 58485 | 64038 |
| . Accumulated returns on Investment Certificates (category A) | 7097 | 7417 | 6560 | 6737 | 6852 | 7028 |
| . Proceeds of US dollar Development Bonds | 1138 | 1303 | 1736 | 1738 | 1418 | 824 |
| . Post Office savings | 13305 | 17109 | 22300 | 27776 | 33902 | 39097 |
| . The NIB Balances with the Banking System ( Net ) | -3179 | -2800 | -9082 | -4393 | -4917 | -3757 |
| . Other * | 1739 | 1650 | 1707 | 1964 | 1730 | 2537 |
| **Uses:** | **200406** | **228345** | **253272** | **290157** | **316476** | **351205** |
| . Government | 101126 | 113786 | 123939 | 134325 | 143751 | 142622 |
| . Economic Authorities | 44967 | 47124 | 50094 | 53771 | 58265 | 50196 |
| . Holding Companies. Affiliates , Concessionary Loans & Other. | 54313 | 67435 | 79239 | 102061 | 114460 | 158387 |

**Source: The Ministry of Finance, Central Bank of Egypt & National Investment Bank.**

*** Including deposits of the Private Insurance Funds ,saving certificates loans & deposits of various authorities.**

## (3/3) External Debt

(US$ mn)

| End of June | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 + |
|---|---|---|---|---|---|---|
| **Total External Debt *** | **26560** | **28661** | **29395** | **29872** | **28949** | **29593** |
| Rescheduled bilateral debt ** | 14779 | 15337 | 16192 | 16385 | 15734 | 15229 |
| ODA | 7345 | 7456 | 7900 | 8053 | 7836 | 7611 |
| Non-ODA | 7434 | 7881 | 8292 | 8332 | 7898 | 7618 |
| Other bilateral debt | 3894 | 4057 | 4350 | 4433 | 4291 | 4295 |
| Paris Club countries | 3353 | 3405 | 3320 | 3264 | 3530 | 3590 |
| Other countries | 541 | 652 | 1030 | 1169 | 761 | 705 |
| International & regional institutions | 4311 | 4698 | 4904 | 5081 | 5058 | 5205 |
| Suppliers' & buyers' credits | 896 | 924 | 1133 | 1333 | 782 | 980 |
| Egyptian bonds & notes | 0 | 953 | 735 | 588 | 614 | 1862 |
| Arab International Bank's deposit *** | 0 | 0 | 0 | 0 | 500 | 300 |
| Private sector debt (non-guaranteed) | 473 | 542 | 217 | 85 | 115 | 89 |
| Short-term debt | 2207 | 2150 | 1864 | 1967 | 1855 | 1633 |
| Deposits | 1311 | 1338 | 1305 | 1267 | 819 | 633 |
| Other short-term facilities | 896 | 812 | 559 | 700 | 1036 | 1000 |

**Source: Central Bank of Egypt.**

**+ Provisional**

*** The difference from World Bank Data is in short-term debt .**

**** According to the agreement signed with Paris Club countries on May 25, 1991.**

***** As of December 2004, the deposit of the Arab International Bank was transferred from short-term debt to long-term deposits.**

## ( 3/4 ) Distribution of External Debt by Main Currencies

(US$ mn)

| End of June | 2005 | | 2006 * | | Change |
|---|---|---|---|---|---|
| | Value | % | Value | % | (-) |
| **Total** | 28948.8 | 100.0 | 29592.6 | 100.0 | 643.8 |
| US dollar ** | 11678.8 | 40.3 | 12456.6 | 42.1 | 777.8 |
| Canadian dollar | 154.0 | 0.5 | 164.0 | 0.6 | 10.0 |
| Australian dollar | 142.0 | 0.5 | 129.0 | 0.4 | (13.0) |
| Swiss franc | 561.0 | 1.9 | 550.0 | 1.9 | (11.0) |
| Sterling pound | 254.0 | 0.9 | 247.0 | 0.8 | (7.0) |
| Japanese yen | 3842.0 | 13.3 | 3531.0 | 11.9 | (311.0) |
| Danish krone | 139.0 | 0.5 | 144.0 | 0.5 | 5.0 |
| Norwegian krone | 28.0 | 0.1 | 28.0 | 0.1 | 0.0 |
| Swedish krona | 38.0 | 0.1 | 37.0 | 0.1 | (1.0) |
| Kuwaiti dinar | 1424.0 | 4.9 | 1450.0 | 4.9 | 26.0 |
| Saudi riyal | 38.0 | 0.1 | 37.0 | 0.1 | (1.0) |
| UAE dirham | 48.0 | 0.2 | 45.0 | 0.2 | (3.0) |
| Euro | 9276.0 | 32.1 | 9427.0 | 31.9 | 151.0 |
| SDRs | 1326.0 | 4.6 | 1347.0 | 4.5 | 21.0 |

Source: Loans & External Debt Department- CBE.

* Provisional.

** Including other liabilities.

## (4/1 ) Central Bank of Egypt Training Programs

| | 2003/2004 | 2004/2005 | 2005/2006 |
|---|---|---|---|
| **For The Banking System Employees, Through** | | | |
| - Qualifying Courses | 664 | 124 | - |
| - Specialized Banking Courses (Cairo) | 1537 | - | - |
| - Specialized Banking Courses ( in the governorates ) | 397 | 640 | 280 |
| - Foreign Languages Teaching Programs | 576 | - | - |
| - Banking Certificate Program (Cairo & Alex.) | 154 | - | - |
| **For The CBE Employees Through :** | | | |
| • The Banking Institute ( Special Programs, Computer, English language, Future Banking Leaders Program) | 2076 | 3112* | 8355** |
| • The Local Entities (The Institute of National Planning, The Central Agency for Moblization and Statistics,Business Administration Association ,The British Council, The American University) | 148 | 292 | 1068 |
| •The External Missions ( Regional & International institutions) | 77 | 112 | 129 |
| •Computer Laboratory in Mohandessn | - | - | 266 |
| **•Foreign delegates for training in the CBE various departments** | **33** | **33** | **33** |
| **Total** | **5662** | **4313** | **10131** |

**Source: Central Bank of Egypt.**
*** out of which are 620 trainers in the qualifing courses.**

**** out of which are 360 trainers in the qualifing courses.**

## (4/1 ) Central Bank of Egypt Training Programs

| | 2003/2004 | 2004/2005 | 2005/2006 |
|---|---|---|---|
| **For The Banking System Employees, Through** | | | |
| - Qualifying Courses | 664 | 124 | - |
| - Specialized Banking Courses (Cairo) | 1537 | - | - |
| - Specialized Banking Courses ( in the governorates ) | 397 | 640 | 280 |
| - Foreign Languages Teaching Programs | 576 | - | - |
| - Banking Certificate Program (Cairo & Alex.) | 154 | - | - |
| **For The CBE Employees, Through :** | | | |
| • The Banking Institute ( Special Programs, Computer, English Language, Future Banking Leaders Program) | 2076 | 3112* | 8355** |
| • The Local Entities (The Institute of National Planning, The Central Agency for Public Mobilization and Statistics, Business Administration Association ,The British Council, The American University) | 148 | 292 | 1068 |
| •The External Missions ( Regional & International Institutions) | 77 | 112 | 129 |
| •Computer Laboratory in Mohandessin | - | - | 266 |
| **•Foreign delegates for training in the CBE various departments** | **33** | **33** | **33** |
| **Total** | **5662** | **4313** | **10131** |

**Source: Central Bank of Egypt.**

*** out of which are 620 trainers in the qualifying courses.**

**** out of which are 360 trainers in the qualifying courses.**

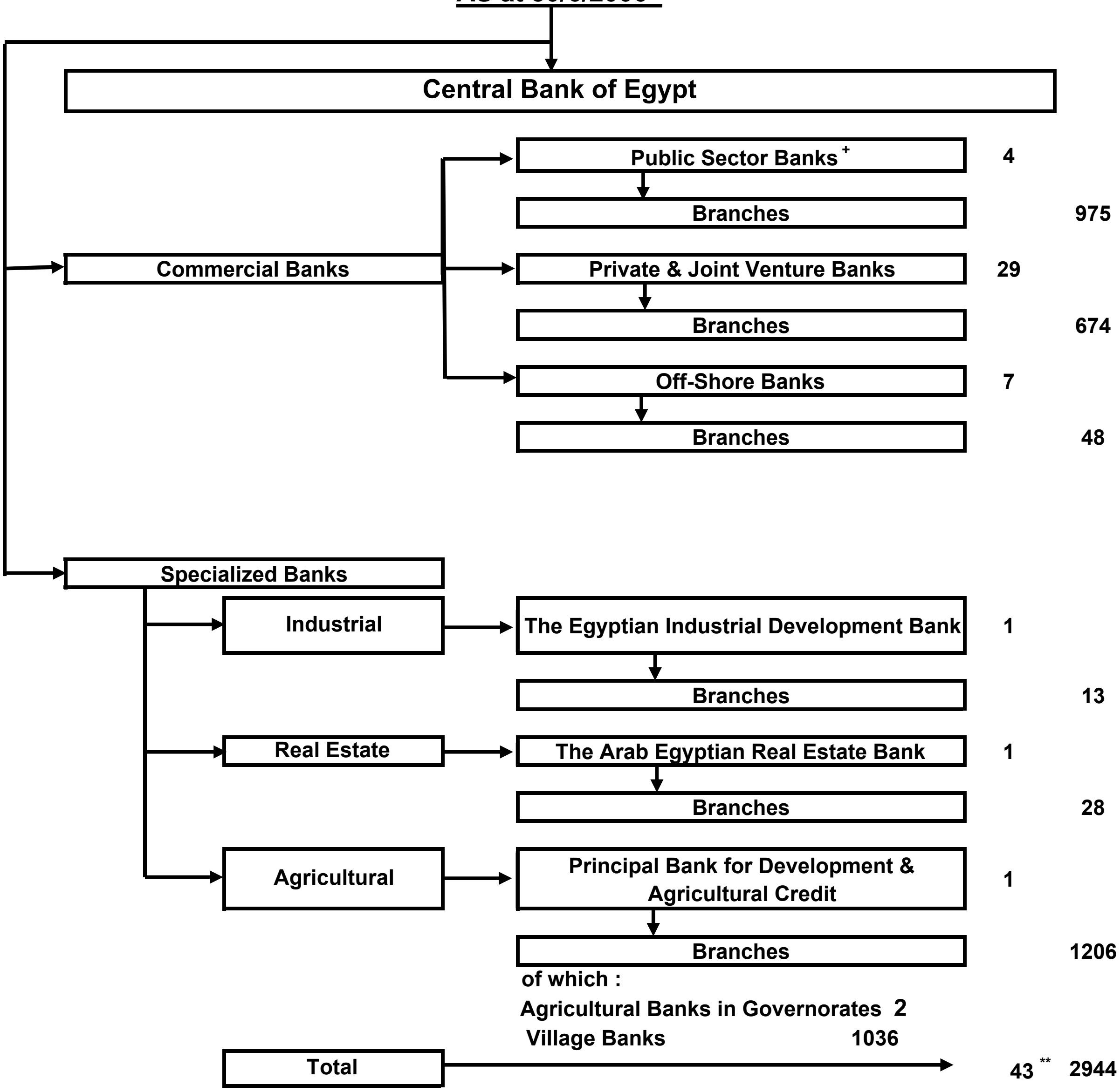
# (4/2) Banking Institute Activities

| During FY | 2003/2004 | | 2004/2005 | | 2005/2006 | |
|---|---|---|---|---|---|---|
| | Number | | Number | | Number | |
| | Progams | Participants | Progams | Participants | Progams | Participants |
| **First: Short-Term Training** | **843** | **19869** | **843** | **17685** | **938** | **21273** |
| **- Banking Programs** | **438** | **10921** | **415** | **9648** | **434** | **8013** |
| . Financing & Credit | 117 | 2747 | 100 | 2204 | 96 | 2052 |
| . Banking Marketing | 45 | 1186 | 44 | 1047 | 19 | 286 |
| . Banking Operations | 122 | 3149 | 157 | 3890 | 177 | 3230 |
| . Treasury & Investment | 20 | 418 | 16 | 320 | 23 | 390 |
| . Accountancy and Audit | 15 | 356 | 22 | 544 | 25 | 482 |
| . Economic Programs | 4 | 89 | 9 | 191 | 6 | 99 |
| . Legal Aspects | 47 | 1308 | 33 | 720 | 44 | 695 |
| . Management Programs | 68 | 1668 | 34 | 732 | 44 | 779 |
| **- Contractual Special Programs*** | **175** | **4878** | **234** | **4744** | **280** | **9692** |
| **- Senior Management Programs** | **0** | **0** | **0** | **0** | **8** | **182** |
| **- Computer Programs** | **230** | **4070** | **194** | **3293** | **216** | **3386** |
| **Second: Educational & Specialized Certificate** | **23** | **869** | **55** | **1199** | **106** | **2778** |
| **Third: English Language** | **57** | **895** | **41** | **703** | **50** | **2645** |
| **Fourth : Forums and Conferences** | **2** | **71** | **0** | **0** | **36** | **1632** |
| **Total** | **925** | **21704** | **939** | **19587** | **1130** | **28328** |

**Source: Banking Institute, Cairo.**

*** including free studies.**

## (4/3) Structure of the Egyptian Banking System
## AS at 30/6/2006 *




* Egyptian banks abroad are not included, also two banks established under private laws and are not registered with the CBE : the Arab International Bank, and Nasser Social Bank .

** Compared with 52 banks at end of June 2005.The decline in the number of banks is attributed to the mergers and acquisitions made by the banking system according to the reform plan implemented by the CBE .

\+ The Bank of Alexandria was sold while this report was under preparation .

## (4/4) Representation Offices Registered with the CBE

## (on June 30, 2006)

| Name | Registration Date | Address |
|---|---|---|
| Al-Raghi Banking & Investment Corp. | 10/20/1993 | 19 Adly St.,2nd Floor , Apart. 59, Cairo |
| Bank of New York | 10/27/1993 | 9 Abd El- Moneim Riad St., Dokki, Giza |
| Societe Generale | 2/6/1994 | 2 Abd El –Kader Hamza St., Cairo Center Building, 5th Floor, Garden City, Cairo |
| Commerz Bank AG | 5/31/1994 | 153 Mohamed Farid St.,(Banque Misr Tower) , 22nd Floor, Cairo |
| Monte dei Paschi di Siena S.P.A | 7/5/1994 | Nile Hilton Building (Commercial Center), Tahrir Square, 2nd Floor, Room No.24, Cairo |
| Union De Banques Arabes et Francaises (UBAF) | 8/15/1994 | 4 Behlar Passage, Kasr El-Nil St., Cairo |
| Dresdner Bank AG | 8/23/1994 | 21& 23 Giza St., El-Nil Tower, Floor No.12, Giza |
| State Bank of India | 10/3/1994 | 15 Kamel El-Shinnawy St., Garden City, Cairo |
| Deutsche Bank AG | 11/10/1994 | 23 Kasr El-Nil St.,Cairo, P.O.B. 2306, 5, El Zohour St., El Mohandeseen. |
| Banca Intesa Banca SPA | 3/13/1995 | 1097 Corniche El-Nil St., Cairo |
| Credit Agricole Indosuez | 7/17/1995 | 42 Al Batal Ahmed Abdel Aziz St., Mohandeseen |
| Arab Islamic Bank | 12/11/1995 | 21& 23 Giza St., Nile Tower, Giza |
| JP Morgan Chase Bank | 8/5/1996 | 3 Ahmed Nessim St., Giza |
| Bank of Tokyo Mitsubishi Ltd | 3/4/1997 | Nile Hilton, Commercial Center ( No.247), Cairo |
| Union Bank of Switzerland (UBS AG) | 10/22/1997 | 1191 Corniche El-Nil St., World Trade Center, 13th Floor, Cairo |
| Credit Suisse | 3/16/1998 | 7B Ibn Shamar St., Giza |
| Wachovia Bank National Association | 5/6/1998 | 9 El-Gomhoria El-Motahida Square, Dokki, Giza |
| ING Bank N.V. | 7/12/1999 | 9 Hode El-Laban St.,Garden City, Cairo |
| Credit Industriel et Commercial, CIC | 7/22/1999 | 28 Sherif St., Cairo |
| B.H.F Bank AG | 8/2/1999 | 8 El-Sadd El-Aley St.,Dokki , 12311,Giza |
| ABN Amro Bank N.V. | 11/17/1999 | 31 Gezirat El-Arab St., Mohandeseen, Giza |
| Natexis Banque | 3/22/2000 | 50 Abd El –Khalek Sarwat St., Cairo |
| Den Norske Bank | 5/27/2001 | 19 El-Gabalaya St., Zamalek, Cairo |
| Bank of Valleta PLC | 7/10/2003 | 106 Mohei El-Deen Aboul-Ezz St., Dokki, Giza |
| Sumitomo Mitsui Banking | 1/19/2004 | 3 Ibn Kassir Corniche El-Nil St., 14th Floor, Flat 6, Giza |
| Bank Hofmann AG | 4/22/2004 | 3 & 5 Mosadak – Nahda tower El Dokki |
| American Express Bank limited | 9/12/2005 | Star Capital 2, Shekha Fatma St.,Office No. 21-22 |

**Source : Central Bank of Egypt .**

## (5/1) Banks : Aggregate Financial Position

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | 3431 | 3485 | 4453 | 5557 | 5412 | 6594 | 6813 |
| Securities & investments in TBs* of which: | 60818 | 71142 | 87726 | 111337 | 137431 | 172177 | 193965 |
| CBE notes | - | - | - | - | - | - | 21563 |
| Balances with banks in Egypt | 49400 | 67047 | 83244 | 110874 | 116290 | 124986 | 121695 |
| Balances with banks abroad | 17776 | 16252 | 20002 | 29798 | 43290 | 51204 | 72554 |
| Loans and discount balances | 226776 | 241470 | 266100 | 284722 | 296199 | 308195 | 324041 |
| Other assets | 24137 | 28966 | 33939 | 35650 | 34814 | 41990 | 42494 |
| **Assets = Liabilities** | **382338** | **428362** | **495464** | **577938** | **633436** | **705146** | **761562** |
| **Liabilities** | | | | | | | |
| Capital | 11764 | 12038 | 12531 | 18155 | 20346 | 22949 | 27112 |
| Reserves | 9226 | 10156 | 11238 | 11805 | 11454 | 12419 | 13418 |
| Provisions | 27554 | 31200 | 35869 | 40099 | 44584 | 49541 | 54950 |
| Long-term loans & bonds | 10579 | 11922 | 14057 | 14866 | 15012 | 14255 | 17526 |
| Obligations to banks in Egypt | 24210 | 28158 | 35094 | 35578 | 29933 | 22671 | 21488 |
| Obligations to banks abroad | 9970 | 11486 | 11830 | 16248 | 10332 | 12262 | 8770 |
| Total deposits | 260429 | 291225 | 340868 | 403144 | 461697 | 519649 | 568841 |
| Other liabilities | 28606 | 32177 | 33977 | 38043 | 40078 | 51400 | 49457 |

**Source : Central Bank of Egypt.**

* **Including TBs reverse repos which were replaced with the CBE notes as of August 2005.**

## (5/2) Banks : Deposits By Maturity

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Total Deposits** | **260429** | **291225** | **340868** | **403144** | **461697** | **519649** | **568841** |
| Demand deposits | 24541 | 26678 | 30913 | 37233 | 46742 | 51557 | 62431 |
| Time & Saving deposits | 217705 | 244858 | 286953 | 342535 | 389482 | 445132 | 479805 |
| Blocked or retained deposits | 18183 | 19689 | 23002 | 23376 | 25473 | 22960 | 26605 |
| **In Local Currency Deposits** | **199619** | **218238** | **250106** | **278179** | **310870** | **369067** | **401143** |
| Demand deposits | 18131 | 18354 | 21063 | 22929 | 27168 | 31606 | 41793 |
| Time & Saving deposits | 168389 | 186545 | 213385 | 242058 | 269505 | 324664 | 345953 |
| Blocked or retained deposits | 13099 | 13339 | 15658 | 13192 | 14197 | 12797 | 13397 |
| **In Foreign Currencies Deposits** | **60810** | **72987** | **90762** | **124965** | **150827** | **150582** | **167698** |
| Demand deposits | 6410 | 8324 | 9850 | 14304 | 19574 | 19951 | 20638 |
| Time & Saving deposits | 49316 | 58313 | 73568 | 100477 | 119977 | 120468 | 133852 |
| Blocked or retained deposits | 5084 | 6350 | 7344 | 10184 | 11276 | 10163 | 13208 |

**Source : Central Bank of Egypt.**

## (5/3) Banks : Deposits By Sector

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Total Deposits** | **260429** | **291225** | **340868** | **403144** | **461697** | **519649** | **568841** |
| **Local Currency Deposits** | **199619** | **218238** | **250106** | **278179** | **310870** | **369067** | **401143** |
| Government sector | 26201 | 31064 | 38578 | 46071 | 54120 | 57649 | 49422 |
| Public business sector * | 12811 | 12814 | 13930 | 13929 | 15414 | 16727 | 20399 |
| Private business sector | 30976 | 29079 | 31594 | 30087 | 35219 | 39668 | 41444 |
| Household sector | 129320 | 144986 | 165648 | 187594 | 205375 | 253865 | 287973 |
| Foreign sector ** | 311 | 295 | 356 | 498 | 742 | 1158 | 1905 |
| **Foreign Currencies Deposits** | **60810** | **72987** | **90762** | **124965** | **150827** | **150582** | **167698** |
| Government sector | 11898 | 10943 | 13328 | 18977 | 26187 | 27252 | 29290 |
| Public business sector * | 2514 | 2580 | 2194 | 2878 | 3432 | 4195 | 5668 |
| Private business sector | 13703 | 17565 | 19426 | 25179 | 29550 | 31337 | 39263 |
| Household sector | 31844 | 40782 | 54775 | 77111 | 90899 | 85813 | 92174 |
| Foreign sector ** | 851 | 1117 | 1039 | 820 | 759 | 1985 | 1303 |

**Source : Central Bank of Egypt.**

*** Including all public sector companies subject or not to Law No. 203 for 1991.**

**** Including counterpart deposits of US aid.**

# (5/4) Banks : Lending and Discount Balances by Sector

( LE mn )

| End of June | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| **Total** | **226776** | **241470** | **266100** | **284722** | **296199** | **308195** | **324041** |
| **In Local Currency** | **180673** | **193981** | **213008** | **218696** | **228159** | **233141** | **238926** |
| Government sector | 9153 | 9521 | 9901 | 9049 | 9963 | 10938 | 11285 |
| Public business sector * | 27727 | 24742 | 25831 | 26835 | 27690 | 30164 | 26269 |
| Private business sector | 115171 | 128618 | 144446 | 149118 | 154162 | 152193 | 150491 |
| Household sector | 27708 | 29777 | 32225 | 33285 | 35955 | 39354 | 50158 |
| Foreign sector | 914 | 1323 | 605 | 409 | 389 | 492 | 723 |
| **In Foreign Currencies** | **46103** | **47489** | **53092** | **66026** | **68040** | **75054** | **85115** |
| Government sector | 3256 | 3853 | 4661 | 4248 | 6240 | 11080 | 9712 |
| Public business sector * | 4384 | 4198 | 5060 | 8051 | 7740 | 7078 | 6373 |
| Private business sector | 35296 | 36388 | 40670 | 50827 | 51668 | 53502 | 64184 |
| Household sector | 1315 | 988 | 1070 | 1350 | 1059 | 1913 | 3017 |
| Foreign sector | 1852 | 2062 | 1631 | 1550 | 1333 | 1481 | 1829 |

**Source : Central Bank of Egypt.**

*** Including all public sector companies subject or not to law No 203 for 1991.**

## ( 6 / 1 ) GDP at Factor Cost by Economic Sector

### At 2001/2002 Prices

( LE mn)

| Sectors | 2004/2005 | | | 2005/2006 | | | Growth Rate % 2005/2006 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Public | Private | Total | Public | Private | Total | Public | Private | Total |
| **GDP** | **130653.4** | **267874.6** | **398528.0** | **141779.5** | **284370.4** | **426149.9** | **8.5** | **6.2** | **6.9** |
| **Agriculture, Irrigation & Fishing** | **49.0** | **64039.0** | **64088.0** | **50.7** | **66119.3** | **66170.0** | **3.5** | **3.2** | **3.2** |
| **Mining** | **26435.0** | **4663.0** | **31098.0** | **31800.7** | **5770.3** | **37571.0** | **20.3** | **23.7** | **20.8** |
| Oil | 14630.0 | 2129.0 | 16759.0 | 14225.0 | 2174.0 | 16399.0 | -2.8 | 2.1 | -2.1 |
| Gas | 11465.0 | 2079.0 | 13544.0 | 17219.0 | 3119.0 | 20338.0 | 50.2 | 50.0 | 50.2 |
| Others | 340.0 | 455.0 | 795.0 | 356.7 | 477.3 | 834.0 | 4.9 | 4.9 | 4.9 |
| **Manufacturing Industries** | **9905.0** | **66315.5** | **76220.5** | **10382.9** | **70258.0** | **80640.9** | **4.8** | **5.9** | **5.8** |
| Oil refining | 1788.0 | 1148.0 | 2936.0 | 1787.0 | 1214.0 | 3001.0 | -0.1 | 5.7 | 2.2 |
| Others | 8117.0 | 65167.5 | 73284.5 | 8595.9 | 69044.0 | 77639.9 | 5.9 | 5.9 | 5.9 |
| **Electricity** | **6155.5** | **1054.0** | **7209.5** | **6727.9** | **1112.0** | **7839.9** | **9.3** | **5.5** | **8.7** |
| **Water** | **1745.1** | **0.0** | **1745.1** | **1849.8** | **0.0** | **1849.8** | **6.0** | **-** | **6.0** |
| **Construction & Building** | **2107.0** | **15158.0** | **17265.0** | **2368.3** | **17318.9** | **19687.2** | **12.4** | **14.3** | **14.0** |
| **Transportation & Storage** | **4159.0** | **15687.0** | **19846.0** | **4425.2** | **16910.6** | **21335.8** | **6.4** | **7.8** | **7.5** |
| **Communications** | **422.0** | **8176.0** | **8598.0** | **465.5** | **9022.0** | **9487.5** | **10.3** | **10.3** | **10.3** |
| **Suez Canal** | **13030.8** | **0.0** | **13030.8** | **14262.0** | **0.0** | **14262.0** | **9.4** | **-** | **9.4** |
| **Wholesale & Retail Trade** | **1954.0** | **44141.0** | **46095.0** | **2041.9** | **47054.3** | **49096.2** | **4.5** | **6.6** | **6.5** |
| **Financial Intermediation & Subsidiary Activities** | **15041.8** | **8126.8** | **23168.6** | **15846.6** | **8549.4** | **24396.0** | **5.4** | **5.2** | **5.3** |
| **Insurance & Social Insurance** | **9844.8** | **206.7** | **10051.5** | **10361.0** | **218.0** | **10579.0** | **5.2** | **5.5** | **5.2** |
| **Restaurants & Hotels** | **166.7** | **13413.3** | **13580.0** | **173.9** | **13996.0** | **14169.9** | **4.3** | **4.3** | **4.3** |
| **Real Estate Activities** | **614.0** | **14395.4** | **15009.4** | **636.4** | **14941.0** | **15577.4** | **3.6** | **3.8** | **3.8** |
| Real Property | 258.2 | 7613.4 | 7871.6 | 267.5 | 7898.0 | 8165.5 | 3.6 | 3.7 | 3.7 |
| Business Services | 355.8 | 6782.0 | 7137.8 | 368.9 | 7043.0 | 7411.9 | 3.7 | 3.8 | 3.8 |
| **General Government** | **38227.6** | **0.0** | **38227.6** | **39546.0** | **0.0** | **39546.0** | **3.4** | **-** | **3.4** |
| **Education, Health & Personal Services** | **796.1** | **12498.9** | **13295.0** | **840.7** | **13100.6** | **13941.3** | **5.6** | **4.8** | **4.9** |
| Education | 0.0 | 2884.0 | 2884.0 | 0.0 | 3013.8 | 3013.8 | 0.0 | 4.5 | 4.5 |
| Health | 796.1 | 4560.0 | 5356.1 | 840.7 | 4756.1 | 5596.8 | 5.6 | 4.3 | 4.5 |
| Others | 0.0 | 5054.9 | 5054.9 | 0.0 | 5330.7 | 5330.7 | 0.0 | 5.5 | 5.5 |

**Source : Ministry of State for Economic Development.**

## (6/2) GDP by Expenditure

### At 2001/2002 Prices

| | Value at LE bn | | Structure% | | Growth Rate % | |
|---|---|---|---|---|---|---|
| | 2004/2005 | 2005/2006 | 2004/2005 | 2005/2006 | 2004/2005 | 2005/2006 |
| **1- Final Consumption** | **357.5** | **378.8** | **84.1** | **83.4** | **4.5** | **6.0** |
| Public consumption | 51.4 | 53.0 | 12.1 | 11.7 | 2.8 | 3.1 |
| Private consumption | 306.1 | 325.8 | 72.0 | 71.7 | 4.8 | 6.4 |
| **2- Gross Capital Formation** | **75.0** | **85.0** | **17.6** | **18.7** | **10.3** | **13.3** |
| Investments | 74.7 | 85.0 | 17.5 | 18.7 | 14.2 | 13.8 |
| Change in stock | 0.3 | 0.0 | 0.1 | 0.0 | (88.5) | (100.0) |
| **3- Gross Domestic Expenditure (1+2)** | **432.5** | **463.8** | **101.7** | **102.1** | **5.5** | **7.2** |
| **4- Commodity and services exports** | **119.0** | **144.3** | **28.0** | **31.8** | **20.2** | **21.3** |
| **5- Commodity and services imports** | **126.3** | **153.8** | **29.7** | **33.9** | **23.8** | **21.8** |
| **6- Domestic Resources Gap (4-5)** | **(7.3)** | **(9.5)** | **(1.7)** | **(2.1)** | **143.3** | **30.1** |
| **7- GDP at Market Prices (3+6)** | **425.2** | **454.3** | **100.0** | **100.0** | **4.5** | **6.8** |
| **8- Gross Domestic Saving (7-1)** | **67.7** | **75.5** | **15.9** | **16.6** | **4.2** | **11.5** |

Source :Ministry of State for Economic Development.

## (6/3) Consumer Price Index (Urban Population ) (1999/2000=100)

| End of | Relative Weights | June 2004 | June 2005 | June 2006 | Inflation Rate (%) July / June 2004/2005 | Inflation Rate (%) July / June 2005/2006 |
|---|---|---|---|---|---|---|
| **All Items** | **100.0** | **129.0** | **135.0** | **144.8** | **4.7** | **7.2** |
| Food and Non-Alcoholic Beverages | 38.9 | 144.8 | 150.7 | 168.2 | 4.1 | 11.6 |
| Tobacco | 2.8 | 136.1 | 136.1 | 146.2 | 0.0 | 7.4 |
| Clothing & Footwear | 10.4 | 124.4 | 130.8 | 131.9 | 5.1 | 0.8 |
| Housing , Water, Electricity & Fuels | 11.7 | 106.8 | 112.4 | 114.9 | 5.2 | 2.2 |
| Furnishings, HH Equipment & Routine Maintenance of the House | 4.9 | 131.8 | 132.5 | 138.0 | 0.5 | 4.2 |
| Health | 4.6 | 115.4 | 120.3 | 125.0 | 4.2 | 3.9 |
| Transport | 5.6 | 118.9 | 125.5 | 127.0 | 5.5 | 1.2 |
| Communications | 2.0 | 124.0 | 180.7 | 216.6 | 45.7 | 19.9 |
| Recreation & Culture | 5.9 | 119.5 | 119.5 | 128.2 | 0.0 | 7.3 |
| Education | 5.7 | 110.5 | 119.5 | 125.0 | 8.1 | 4.6 |
| Hotels , Cafes & Restaurants | 2.5 | 126.7 | 130.1 | 130.1 | 2.7 | 0.0 |
| Miscellaneous Goods & Services | 5.0 | 119.8 | 121.1 | 124.3 | 1.1 | 2.7 |

Source: Central Agency for Public Mobilization and Statistics ( Monthly Bulletin of Consumer Price Index ) .

## (6/4) Wholesale Price Index (1999/2000=100)*

| | Relative Weights | June 2005 | June 2006 | Inflation Rate (%) July/June 2005/2006 |
|---|---|---|---|---|
| **All Items** | **100.0** | **167.5** | **177.1** | **5.7** |
| Farm Products | 34.4 | .. | 207.2 | .. |
| Foodstuffs | 18.2 | .. | 172.5 | .. |
| Beverages & Tobacco | 2.7 | .. | 169.0 | .. |
| Yarn &Textiles | 3.9 | .. | 173.2 | .. |
| Wearing Apparel | 1.4 | .. | 124.5 | .. |
| Leather & Footwear | 0.2 | .. | 174.9 | .. |
| Wood & its products | 1.5 | .. | 167.1 | .. |
| Paper & Printing | 1.7 | .. | 154.3 | .. |
| Chemicals & their products | 7.4 | .. | 126.4 | .. |
| Fuel & Related Products | 10.5 | .. | 125.1 | .. |
| Rubber & Plastic Products | 0.6 | .. | 142.7 | .. |
| Non-metallic Mineral Products | 3.5 | .. | 132.3 | .. |
| Metals | 5.2 | .. | 248.2 | .. |
| Metallic Products, Machinery & Equipment | 5.4 | .. | 164.2 | .. |
| Transportation Equipment | 2.8 | .. | 175.4 | .. |
| Other Manufacturing Products | 0.6 | .. | 205.7 | .. |

**Source : Central Agency for Puplic Mobilization and Statistics (Monthly Bulletin of Wholesale Price Index issued every two months).**

*** A new series was developed by taking the average of the fiscal year 1999/2000 as a base period. The averages of two years (1999/2000 and 2000/2001) for agricultural and industrial production values were taken as weights for this series, in order to avoid big and sudden changes which may occur in the production of some commodities in case of selecting one year.This series has been released as of September 2005.**

**.. Not available**

## (7/1) Summary of Consolidated Fiscal Operations of General Government

### ( The Budget Sector , NIB & SIFs )

( LE mn )

| During | 2002/2003 | | | 2003/2004 | | |
|---|---|---|---|---|---|---|
| | The Budget Sector | The Budget Sector& NIB | The Budget Sector,NIB & SIFs | The Budget Sector | The Budget Sector& NIB | The Budget Sector,NIB & SIFs |
| **Total Revenues** | **89347** | **93057** | **109236** | **102045** | **106554** | **124129** |
| Tax Revenues | 55707 | 55708 | 55708 | 67147 | 67148 | 67148 |
| Grants | 3290 | 3290 | 3290 | 5058 | 5058 | 5058 |
| Property Income | 13353 | 16955 | 18247 | 14547 | 18354 | 19975 |
| Sales of Goods and Services | 7790 | 7790 | 7790 | 9451 | 9451 | 9451 |
| Financing Investment | 2139 | 2139 | 2139 | 2601 | 2601 | 2601 |
| Others | 7068 | 7175 | 22062 | 3241 | 3942 | 19896 |
| **Total Expenditures** | **127320** | **125419** | **134387** | **145988** | **143242** | **153368** |
| Compensation of Employees | 33816 | 33840 | 34150 | 37266 | 37294 | 37631 |
| Purchase of Goods and Services | 8548 | 8552 | 8610 | 9342 | 9346 | 9411 |
| Interests | 25848 | 23853 | 23723 | 30700 | 27899 | 27513 |
| Subsidies, Grants and Social Beneifts | 20567 | 20566 | 29273 | 24787 | 24787 | 34879 |
| Other Expenditures | 18290 | 18354 | 18355 | 21042 | 21065 | 21067 |
| Purchase of Non-Financial Assets (Investments) | 20251 | 20254 | 20276 | 22851 | 22851 | 22867 |
| Cash Deficit | 37973 | 32362 | 25151 | 43943 | 36688 | 29239 |
| Net Acquisitions of Financial Assets | 5671 | 12462 | 12524 | 2036 | 10575 | 10817 |
| Overall Fiscal Balance | 43644 | 44824 | 37675 | 45979 | 47263 | 40056 |

Source : The Ministry of Finance.

# (7/1) Summary of Consolidated Fiscal Operations of General Government ( Contd.)

## ( The Budget Sector , NIB & SIFs )

( LE mn )

| During | 2002/2003 | | | 2003/2004 | | |
|---|---|---|---|---|---|---|
| | The Budget Sector | The Budget Sector& NIB | The Budget Sector,NIB & SIFs | The Budget Sector | The Budget Sector& NIB | The Budget Sector,NIB & SIFs |
| **Financing Sources** | **43644** | **44824** | **37675** | **45979** | **47263** | **40056** |
| **Domestic Financing** | **25913** | **24250** | **18300** | **43693** | **43109** | **37394** |
| **Banking Financing** | **19293** | **13012** | **11026** | **21002** | **25633** | **23422** |
| Cetral Bank | 5132 | -305 | -305 | 23506 | 28488 | 28488 |
| Other Banks | 14161 | 13317 | 11331 | -2504 | -2855 | -5066 |
| **Non-Banking Financing** | **16649** | **21267** | **17303** | **24332** | **19117** | **15613** |
| **NIB** | **15282** | **4982** | **4982** | **24274** | **4797** | **4797** |
| SIFs | 24 | 24 | 0 | -142 | -142 | 0 |
| Other | 1343 | 1343 | 1343 | 200 | 200 | 200 |
| NIB Borrowing | 0 | 14918 | 10978 | 0 | 14262 | 10616 |
| **Net Credit and Debt Liabilities** | **-10029** | **-10029** | **-10029** | **-1641** | **-1641** | **-1641** |
| **Foreign Borrowing** | **5580** | **5580** | **5580** | **503** | **503** | **503** |
| **Arrears** | **-3103** | **-3103** | **-3103** | **-2734** | **-2734** | **-2734** |
| **Other** | **3660** | **6505** | **5306** | **2209** | **3808** | **2591** |
| **Financing Effects for Elimination** | **0** | **0** | **-1** | **0** | **269** | **-8** |
| **Exchange Rate Revaluation** | **12740** | **12740** | **12740** | **1486** | **1486** | **1486** |
| **Net Privatization Proceeds** | **39** | **39** | **39** | **17** | **17** | **17** |
| **Difference between Treasurey Bills Face Value & Present Value** | **-817** | **-817** | **-817** | **-266** | **-266** | **-266** |
| **Discrepancy** | **-368** | **-370** | **-369** | **1071** | **1071** | **1073** |
| **Cash Deficit (Surplus) as a percentage of G.D.P** | **9.1%** | **7.7%** | **6.0%** | **9.1%** | **7.5%** | **6.0%** |
| **Overall Fiscal Balance as a percentage of G.D.P** | **10.5%** | **10.7%** | **9.0%** | **9.5%** | **9.7%** | **8.3%** |
| **Revenues as a percentage of G.D.P** | **21.4%** | **22.3%** | **26.2%** | **21.0%** | **22.0%** | **25.6%** |
| **Expenditures as a percentage of G.D.P** | **30.5%** | **30.0%** | **32.2%** | **30.1%** | **29.5%** | **31.6%** |

**Source : The Ministry of Finance.**

# (7/2) Summary of Consolidated Fiscal Operations of General Government

## ( The Budget Sector , NIB & SIFs )

( LE mn )

| During | 2004/2005 | | | 2005/2006 (Prel.Actual ) | | |
|---|---|---|---|---|---|---|
| | The Budget Sector | The Budget Sector& NIB | The Budget Sector,NIB & SIFs | The Budget Sector | The Budget Sector& NIB | The Budget Sector,NIB & SIFs |
| **Total Revenues** | **110864** | **114778** | **133130** | **149521** | **154627** | **174596** |
| Tax Revenues | 75759 | 75760 | 75760 | 98030 | 98030 | 98030 |
| Grants | 2853 | 2853 | 2853 | 1584 | 1584 | 1584 |
| Property Income | 17758 | 21165 | 23376 | 36389 | 40345 | 42881 |
| Sales of Goods and Services | 7197 | 7197 | 7197 | 7451 | 7451 | 7451 |
| Financing Investment | 3146 | 3146 | 3146 | 3077 | 3077 | 3077 |
| Others | 4151 | 4657 | 20798 | 2990 | 4140 | 21573 |
| **Total Expenditures** | **161611** | **159630** | **170890** | **204464** | **203135** | **220217** |
| Compensation of Employees | 41546 | 41581 | 42013 | 45918 | 45957 | 46458 |
| Purchase of Goods and Services | 12613 | 12615 | 12709 | 13746 | 13753 | 13812 |
| Interests | 32780 | 30730 | 29898 | 36761 | 35270 | 34599 |
| Subsidies, Grants and Social Beneifts | 29705 | 29705 | 41223 | 68752 | 68752 | 85911 |
| Other Expenditures | 21692 | 21723 | 21749 | 19600 | 19715 | 19718 |
| Purchase of Non-Financial Assets (Investments) | 23275 | 23276 | 23298 | 19687 | 19688 | 19719 |
| Cash Deficit | 50747 | 44852 | 37760 | 54943 | 48508 | 45621 |
| Net Acquisitions of Financial Assets | 896 | 8260 | 10171 | -5974 | 5414 | 7676 |
| Overall Fiscal Balance | 51643 | 53112 | 47931 | 48969 | 53922 | 53297 |

Source : The Ministry of Finance.

## (7/2) Summary of Consolidated Fiscal Operations of General Government ( Contd.)

### ( The Budget Sector , NIB & SIFs )

( LE mn )

| During | 2004/2005 | | | 2005/2006 (Prel.Actual ) | | |
|---|---|---|---|---|---|---|
| | The Budget Sector | The Budget Sector& NIB | The Budget Sector,NIB & SIFs | The Budget Sector | The Budget Sector& NIB | The Budget Sector,NIB & SIFs |
| **Financing Sources** | **51643** | **53112** | **47931** | **48969** | **53922** | **53297** |
| **Domestic Financing** | **71105** | **71602** | **65102** | **51740** | **62306** | **62911** |
| **Banking Financing** | **31395** | **30928** | **29462** | **14802** | **15962** | **25977** |
| Cetral Bank | 24764 | 24434 | 24434 | -11463 | -11140 | -11140 |
| Other Banks | 6631 | 6494 | 5028 | 26265 | 27102 | 37117 |
| **Non-Banking Financing** | **32174** | **33138** | **28104** | **37514** | **46920** | **37510** |
| NIB | 13433 | 7121 | 7121 | 12447 | 14605 | 14605 |
| SIFs | 1985 | 1985 | 0 | 8910 | 8910 | 0 |
| Other | 16756 | 16756 | 16756 | 16157 | 16157 | 16157 |
| NIB Borrowing | 0 | 7276 | 4227 | 0 | 7248 | 6748 |
| **Net Credit and Debt Liabilities** | **7536** | **7536** | **7536** | **-576** | **-576** | **-576** |
| **Foreign Borrowing** | **-4243** | **-4243** | **-4243** | **3641** | **3641** | **3641** |
| **Arrears** | **-2477** | **-2477** | **-2477** | **-1326** | **-1326** | **-1326** |
| **Other** | **1876** | **2209** | **4166** | **-338** | **-5951** | **-7182** |
| **Financing Effects for Elimination** | **0** | **638** | **0** | **0** | **0** | **1** |
| **Exchange Rate Revaluation** | **-3935** | **-3935** | **-3935** | **-268** | **-268** | **-268** |
| **Net Privatization Proceeds** | **1012** | **1012** | **1012** | **126** | **126** | **126** |
| **Difference between Treasurey Bills Face Value & Present Value** | **-3084** | **-3084** | **-3084** | **-709** | **-709** | **-709** |
| **Discrepancy** | **-8611** | **-8610** | **-8610** | **-3897** | **-3897** | **-3897** |
| **Cash Deficit (Surplus ) as a percentage of G.D.P** | **9.4%** | **8.3%** | **7.0%** | **8.9%** | **7.9%** | **7.4%** |
| **Overall Fiscal Balance as a percentage of G.D.P** | **9.6%** | **9.9%** | **8.9%** | **7.9%** | **8.7%** | **8.6%** |
| **Revenues as a percentage of G.D.P** | **20.6%** | **21.3%** | **24.7%** | **24.2%** | **25.0%** | **28.3%** |
| **Expenditures as a percentage of G.D.P** | **30.0%** | **29.6%** | **31.7%** | **33.1%** | **32.9%** | **35.7%** |

**Source : The Ministry of Finance.**

## (8/1) Balance of Payments

(LEmn)

| | 2004/2005 | | 2005/2006* | | Change |
|---|---|---|---|---|---|
| | Value | % | Value | % | (-) |
| **Balance of Current Account** | **17556.2** | | **10116.4** | | **(7439.8)** |
| **Balance of Current Account (Excluding Transfers)** | **(15035.0)** | | **(21836.2)** | | **(6801.2)** |
| **Receipts** | **173363.8** | **100.0** | **206491.3** | **100.0** | **33127.5** |
| Export proceeds ** | 83016.2 | 47.9 | 106160.8 | 51.4 | 23144.6 |
| Transportation, of which | 25605.2 | 14.8 | 28463.2 | 13.8 | 2858.0 |
| Suez Canal Dues | (19884.9) | (11.5) | (20475.0) | (9.9) | 590.1 |
| Travel | 38805.0 | 22.3 | 41631.1 | 20.1 | 2826.1 |
| Investment income | 5433.2 | 3.2 | 11515.0 | 5.6 | 6081.8 |
| Government services | 942.6 | 0.5 | 2061.4 | 1.0 | 1118.8 |
| Other receipts | 19561.6 | 11.3 | 16659.8 | 8.1 | (2901.8) |
| **Payments** | **188398.8** | **100.0** | **228327.5** | **100.0** | **39928.7** |
| Import payments** | 145285.0 | 77.1 | 175149.7 | 76.7 | 29864.7 |
| Transportation | 5427.2 | 2.9 | 6989.9 | 3.1 | 1562.7 |
| Travel | 8619.7 | 4.6 | 9318.4 | 4.1 | 698.7 |
| Investment income, of which | 6999.8 | 3.7 | 8467.6 | 3.7 | 1467.8 |
| Interest paid | (3517.6) | (1.9) | (3305.2) | (1.4) | (212.4) |
| Government expenditures | 3905.3 | 2.1 | 7567.4 | 3.3 | 3662.1 |
| Other payments | 18161.8 | 9.6 | 20834.5 | 9.1 | 2672.7 |
| **Transfers** | **32591.2** | **100.0** | **31952.6** | **100.0** | **(638.6)** |
| Private (net) | 26162.3 | 80.3 | 28624.9 | 89.6 | 2462.6 |
| Official (net) | 6428.9 | 19.7 | 3327.7 | 10.4 | (3101.2) |

*** Preliminary figures .**

**** Including the exports & imports of free zones.**

## (8/1) Balance of Payments (Contd.)

(LEmn)

| | 2004/2005 | 2005/2006* |
|---|---|---|
| | Value | Value |
| **Capital & Financial Account** | **19527.2** | **-20045.2** |
| **Capital Account** | **0.0** | **-216.3** |
| **Financial Account** | **19527.2** | **-19828.9** |
| **Direct Investment Abroad** | **-231.3** | **-835.9** |
| **Direct Investment in Egypt ( net)** ** | **23453.1** | **35169.0** |
| **Portfolio Investments Abroad** | **3251.2** | **-4186.7** |
| **Portfolio Investments in Egypt ( net) , of which:** | **4890.3** | **15938.9** |
| Bonds | 148.4 | 15518.8 |
| **Other Investments** | **-11836.1** | **-65914.2** |
| **Net Borrowing** | **6135.3** | **8208.3** |
| **Medium- and Long-Term Loans** | **-4662.0** | **-5332.3** |
| Drawings | 4440.6 | 4579.0 |
| Repayments | -9102.6 | -9911.3 |
| **Medium-Term Suppliers' and Buyers' Credits** | **-3083.4** | **-580.5** |
| Drawings | 529.4 | 3597.8 |
| Repayments | -3612.8 | -4178.3 |
| **Short-Term Suppliers' and Buyers' Credits (net)** | **13880.7** | **14121.1** |
| **Other Assets** | **-19802.4** | **-29362.2** |
| CBE | 125.4 | 17.6 |
| Banks | -13376.8 | -24141.0 |
| Other | -6551.0 | -5238.8 |
| **Other Liabilities** | **1831.0** | **-44760.3** |
| CBE | 0.0 | 12.7 |
| Banks | 1831.0 | -44773.0 |
| **Net Errors & Omissions** | **-10339.1** | **28659.1** |
| **Overall Balance** | **26744.3** | **18730.3** |
| **Change in CBE Reserve Assets, Increase (-)** | **-26744.3** | **-18730.3** |

**Source: CBE**

*** Preliminary figures.**

**** Includes foreign direct investment in the petroleum sector and receipts from selling some local companies to foreign investors.**

## (8/2) Balance of Payments

(US$mn)

| | 2004 /2005 | | 2005/2006* | | Change |
|---|---|---|---|---|---|
| | Value | % | Value | % | (-) |
| **Balance of Current Account** | **2910.6** | | **1751.9** | | **(1158.7)** |
| **Balance of Current Account (Excluding Transfers)** | **(2517.2)** | | **(3795.2)** | | **(1278.0)** |
| **Receipts** | **28863.0** | **100.0** | **35893.0** | **100.0** | **7030.0** |
| Export proceeds** | 13833.4 | 47.9 | 18455.1 | 51.4 | 4621.7 |
| Transportation, of which | 4259.6 | 14.8 | 4947.1 | 13.8 | 687.5 |
| Suez Canal Dues | (3306.8) | (11.5) | (3558.8) | (9.9) | 252.0 |
| Travel | 6429.8 | 22.3 | 7234.6 | 20.1 | 804.8 |
| Investment income | 910.6 | 3.2 | 2001.8 | 5.6 | 1091.2 |
| Government services | 157.2 | 0.5 | 358.2 | 1.0 | 201.0 |
| Other receipts | 3272.4 | 11.3 | 2896.2 | 8.1 | (376.2) |
| **Payments** | **31380.2** | **100.0** | **39688.2** | **100.0** | **8308.0** |
| Import payments** | 24192.8 | 77.1 | 30441.0 | 76.7 | 6248.2 |
| Transportation | 902.4 | 2.9 | 1214.9 | 3.1 | 312.5 |
| Travel | 1438.3 | 4.6 | 1619.6 | 4.1 | 181.3 |
| Investment income, of which | 1164.4 | 3.7 | 1471.1 | 3.7 | 306.7 |
| Interest paid | (583.7) | (1.9) | (586.5) | (1.5) | 2.8 |
| Government expenditures | 656.6 | 2.1 | 1319.9 | 3.3 | 663.3 |
| Other payments | 3025.7 | 9.6 | 3621.7 | 9.1 | 596.0 |
| **Transfers** | **5427.8** | **100.0** | **5547.1** | **100.0** | **119.3** |
| Private (net) | 4371.7 | 80.5 | 4975.4 | 89.7 | 603.7 |
| Official (net) | 1056.1 | 19.5 | 571.7 | 10.3 | (484.4) |

*** Preliminary figures.**

**** Including the exports & imports of free zones.**

## (8/2) Balance of Payments (Contd.)

(US$mn)

| | 2004/2005 | 2005/2006* |
|---|---|---|
| | Value | Value |
| **Capital & Financial Account** | **3377.7** | **3511.3** |
| **Capital Account** | **0.0** | **-37.6** |
| **Financial Account** | **3377.7** | **3548.9** |
| **Direct Investment Abroad** | **-39.0** | **-145.3** |
| **Direct Investment in Egypt ( net) **** | **3901.8** | **6111.4** |
| **Portfolio Investments Abroad** | **540.6** | **-729.1** |
| **Portfolio Investments in Egypt ( net), of which:** | **831.1** | **2764.0** |
| Bonds | 25.9 | 2690.2 |
| **Other Investments** | **-1856.8** | **-4452.1** |
| **Net Borrowing** | **1000.6** | **1425.8** |
| **Medium - and Long-Term Loans** | **-783.8** | **-927.5** |
| Drawings | 727.9 | 795.6 |
| Repayments | -1511.7 | -1723.1 |
| **Medium-Term Suppliers' and Buyers' Credits** | **-525.8** | **-101.2** |
| Drawings | 86.2 | 625.4 |
| Repayments | -612.0 | -726.6 |
| **Short-Term Suppliers' and Buyers' Credits (net)** | **2310.2** | **2454.5** |
| **Other Assets** | **-3180.0** | **-5102.8** |
| CBE | 23.0 | 3.3 |
| Banks | -2171.6 | -4197.7 |
| Other | -1031.4 | -908.4 |
| **Other Liabilities** | **322.6** | **-775.1** |
| CBE | 0.0 | 2.2 |
| Banks | 322.6 | -777.3 |
| **Net Errors & Omissions** | **-1810.6** | **-2009.8** |
| **Overall Balance** | **4477.7** | **3253.4** |
| **Change in CBE Reserve Assets, Increase (-)** | **-4477.7** | **-3253.4** |

**Source: CBE**

*** Preliminary figures.**

**** Includes foreign direct investment in petroleum sector and receipts from selling some local companies to foreign investors.**

## (8/3) Average Exchange Rates

### ( In piasters per foreign currency unit )

| End of | June 2005 | | June 2006 | |
|---|---|---|---|---|
| **First: Interbank Rates of US$** | | | | |
| Minimum | 578.00 | | 575.76 | |
| Maximum | 578.34 | | 575.80 | |
| Weighted average | 578.24 | | 575.79 | |
| **Second: Market Rates** | **Buy** | **Sell** | **Buy** | **Sell** |
| US Dollar | 577.89 | 580.53 | 575.23 | 577.20 |
| Euro | 696.53 | 700.06 | 720.53 | 723.06 |
| Pound Sterling | 1036.39 | 1041.18 | 1041.97 | 1045.66 |
| Swiss Franc | 449.72 | 451.84 | 460.33 | 462.06 |
| 100 Japanese Yen | 522.03 | 524.56 | 493.76 | 495.67 |
| Saudi Riyal | 154.08 | 154.79 | 153.37 | 153.91 |
| Kuwaiti Dinar | 1978.33 | 1988.05 | 1988.97 | 1996.48 |
| UAE Dirham | 157.33 | 158.08 | 156.61 | 157.16 |

**Source : CBE**

**The interbank rates started at 23/12/2004.**

## (9/1) Transactions in Shares on the Stock Exchange

| During FY | 2004/2005 | | | 2005/2006 | | |
|---|---|---|---|---|---|---|
| | Number of Transactions in unit | Amount (Thousands) | M.Value (mn) | Number of Transactions in unit | Amount (Thousands) | M.Value (mn) |
| **In Egyptian Pounds** | **2407566** | **3093015** | **67230** | **5708728** | **6587149** | **227953** |
| Floor Transactions | 2244002 | 2310460 | 61543 | 5501188 | 5517762 | 218496 |
| Over the Counter Trade | 163564 | 782555 | 5687 | 207540 | 1069387 | 9457 |
| **In Foreign Currencies (US$)** | **27952** | **150940** | **1526** | **194666** | **424502** | **2580** |
| Floor Transactions | 27663 | 74512 | 1157 | 194192 | 303483 | 1979 |
| Over the Counter Trade | 289 | 76428 | 369 | 474 | 121019 | 601 |

**Source : Monthly Report of the Capital Market Authority.**

## (9/2) Transactions in Bonds on the Stock Exchange

| During FY | 2004/2005 | | | 2005/2006 | | |
|---|---|---|---|---|---|---|
| | Number of Transactions in unit | Amount (Thousands) | M.Value (mn) | Number of Transactions in unit | Amount (Thousands) | M.Value (mn) |
| **In Egyptian Pounds** | **594** | **7161869** | **7458862** | **635** | **12197050** | **11347982** |
| Floor Transactions | 594 | 7161869 | 7458862 | 635 | 12197050 | 11347982 |
| Over the Counter Trade | - | - | - | - | - | - |
| **In Foreign Currencies (US$)** | **1** | **1** | **-** | **42** | **99504** | **73506** |
| Floor Transactions | 1 | 1 | - | 3 | 66700 | 6870 |
| Over the Counter Trade | - | - | - | 39 | 32804 | 66636 |

**Source : Monthly Report of the Capital Market Authority.**

## (9/3) Investments of the Insurance Sector

( LE mn )

| End of June | 2004 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | Local Insurance & Reinsurance Companies | National Authorities for Social Insurance | Provident Insurance Funds* | Total | Local Insurance & Reinsurance Companies | National Authorities for Social Insurance | Provident Insurance Funds* | Total |
| **Grand Total** | **15554** | **198157** | **12537** | **226248** | **16813** | **221006** | **14597** | **252416** |
| **First : Real Estates and Land** | **586** | **0** | **175** | **761** | **627** | **0** | **118** | **745** |
| **Second : Securities** | **8641** | **2000** | **8647** | **19288** | **9995** | **2000** | **10223** | **22218** |
| Government bonds | 3951 | 2000 | 8256 | 14207 | 4923 | 2000 | 9843 | 16766 |
| Securities with variable returns | 1317 | 0 | 375 | 1692 | 1696 | 0 | 365 | 2061 |
| Other securities | 3373 | 0 | 16 | 3389 | 3376 | 0 | 15 | 3391 |
| **Third : Deposits with National Investment Bank** | **0** | **196157** | **0** | **196157** | **0** | **219006** | **0** | **219006** |
| **Fourth : Loans** | **197** | **0** | **141** | **338** | **215** | **0** | **142** | **357** |
| To the government | 0 | 0 | - | - | 0 | 0 | 0 | 0 |
| Guaranteed by life insurance, mortgages and other guarantees | 197 | 0 | 141 | 338 | 215 | 0 | 142 | 357 |
| **Fifth : Deposits with Banks** | **6130** | **0** | **3547** | **9677** | **5976** | **0** | **4042** | **10018** |
| Deposits in banks | 4393 | 0 | 3547 | 7940 | 3885 | 0 | 4042 | 7927 |
| Saving certificates | 1737 | 0 | 0 | 1737 | 2091 | 0 | 0 | 2091 |
| **Sixth : Other Investments** | **0** | **0** | **27** | **27** | **0** | **0** | **72** | **72** |

Source: Yearbook of the Egyptian Authority for Insurance Control, CBE's Government Accounts Department; and the Ministry of Finance.
* Include the Government Insurance Fund for Insurance on Cashiers.

## 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.