EGYPT ECONOMIC REPORT

A MOMENT OF DOMESTIC ECONOMIC OPPORTUNITY AMIDST A CHALLENGING REGIONAL ENVIRONMENT

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- Egyptian economy beginning to recover after four years of slow activity

Ambitious policies implemented so far, along with a relative return of confidence, are starting to produce a turnaround in Egypt's economic activity and investment. On the back of a 6.8% growth in the third quarter of 2014, triggered by manufacturing, construction and the Suez Canal, the IMF is projecting growth will reach 3.8% in FY 2014/2015, almost double its pace registered since the first revolution in 2011. While the economy is still operating way below potential output, it is closing part of its cyclical output gap with its real output growth now exceeding its population growth at large.

- Deficit in the balance of payments on the back of rising imports

Egypt's external accounts registered an overall deceleration in 2014, as stagnating exports coupled with increasing imports led to a widening of the trade deficit. This has overweighed the registered improvement in tourism and official transfers revenues, causing a deficit in the balance of payments after the significant surplus of the previous year. As a matter of fact, Egypt's overall balance of payments moved from a surplus of US$ 4.5 billion in 9M 2013 to a deficit of US$ 111 million in 9M 2014.

- Public finances set to benefit from fiscal consolidation and lower oil prices

The restoration of relative local political stability accompanied by a relatively improved investment climate, and the launch of initiatives towards fiscal consolidation along with current lower oil prices, are set to leave a positive impact on Egypt's public finances. Egypt's spending on fuel subsidies in FY 2015 could be 35% lower than budgeted if oil prices remain at current levels. The budget for fiscal year 2014/2015 targets a deficit of 10% of GDP. It incorporates subsidy cuts that were implemented in July 2014, gas price increases to households by over 200%, as well as tax measures on dividends and capital gains, implementation of a new property tax, income taxes at the higher income brackets, and excises on tobacco and alcohol, which together yield 2.5% of GDP.

- Accommodative monetary policy amidst lower core inflation

Egypt's monetary conditions witnessed so far in fiscal year 2015 a mild depreciation in local currency against the US Dollar after remaining relatively stable in FY 2014, a drop in average core inflation, which is more indicative of future inflation trends than headline inflation, a contraction in gross official reserves after the repayment of Qatar's deposit, and a shift from a tight monetary policy to an accommodative one, given the relatively reduced inflation risks amidst dwindling oil prices. Core CPI fell from 10.2% on average in FY 2014 to 8.3% on average during the first seven months of FY 2015, prompting the CBE to cut policy rates in January 2015. The broader money supply (M2) expanded by 10.2% in US$ terms during the first eleven months of 2014, to reach US$ 219.9 billion at end-November 2014 following a lower growth of 8.8% in 2013.

- Healthy banking activity growth on the back of improving financial soundness

Measured by the total assets of banks operating in the country, sector activity jumped by 17.6% in local currency terms (14.3% in US Dollar terms) over the first 11 months of 2014 to reach the equivalent of US$ 276.9 billion at end-November. In parallel, total credit facilities grew by 12.4% in local currency terms over the same period (+9.2% in US Dollar terms). While lending growth picked up lately, asset quality metrics continued to ameliorate. The non-performing loans to total loans ratio reached a post-revolution low of 9.1% at end-June 2014 as per the latest available Central Bank statistics. Not less importantly, profitability of banks operating in Egypt got a boost from higher lending activity and relatively high yielding government securities, coupled with lower provisions.

- Significant capital market gains amidst improved investor sentiment

Egyptian capital markets extended their upward trajectory over the year 2014, mainly supported by the stabilized local political and security conditions, the launch of government initiatives towards fiscal consolidation and the potential external financial assistance through the upcoming international summit. The bourse main benchmark index (EGX 30) rose significantly by 31.6% in 2014 to close at 8,926.58 at year-end. Amidst improved investor sentiment, the total volume of traded securities almost doubled year-on-year, moving from 29,190 million shares in 2013 to a record high level of 57,230 million shares in 2014. As to the cost of insuring debt, Egypt's five-year CDS spreads shrank significantly by 323 bps over the year 2014, outlining an improvement in market perception of country risks at large.

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It is a moment of opportunity for Egypt as stated by the International Monetary Fund. The economy has begun to recover after four years of slow activity. Ambitious policies implemented so far, along with a relative return of confidence, are starting to produce a turnaround in economic activity and investment. On the back of a 6.8% growth in the third quarter of 2014, triggered by manufacturing, construction and the Suez Canal, the IMF is projecting growth will reach 3.8% in FY 2014/2015, almost double its pace registered since the first revolution in 2011. While the economy is still operating way below potential output, it is closing part of its cyclical output gap with its real output growth now exceeding its population growth at large.

Improved confidence on the political and economic course underpinned by a "Road Map" with well-defined landmarks, combined with the large financial support from the GCC countries, has shored up investor sentiment. The equity market continues its rally, bond spreads have narrowed, and capital inflows have started to recover. Consumer confidence in Q3 of 2014 increased by four points to an index of 85. Tourist arrivals increased by about 30% in Q3 of the past year as compared to the same period of the previous year. There are also signs that foreign investors are returning to the Egyptian market as indicated by the positive net purchases of Egyptian equities in recent months, with the stock market index surging by 32% in 2014. In parallel, five-year CDS spreads contracted by 323 bps from year-end 2013 to reach 282 bps, the lowest level since the first revolution in beginning 2011.

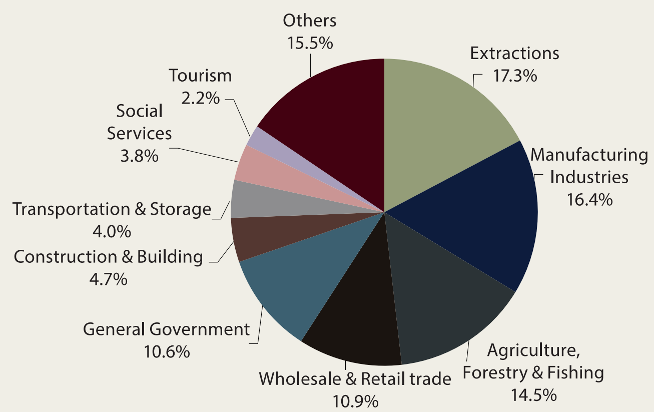
At the fiscal level, the Egyptian authorities have begun to take the action needed to achieve their objectives. They have begun bold subsidy and tax reforms, are pursuing a disciplined monetary policy, expanding social policies, and have initiated wide-ranging regulatory and administrative reform efforts to improve the business environment and boost investment. The new government has introduced several measures to enhance tax and non-tax revenues and has reduced fuel subsidies. Fiscal consolidation in the current fiscal year is designed so as to minimize the adverse impact on growth by accelerating spending on education, health, and infrastructure and creating room for private sector development. The measures already taken by authorities demonstrate their commitment to reform, with measures yielding about 2.5% of GDP having already been approved, curbing the budget deficit ratio from 14% to 11% in FY 2014/2015. At the monetary level, the year 2014 did not witness pressure on the gross FX reserves, which barely moved from US$ 17.1 billion in December 2013 to US$ 15.4 billion in December 2014, representing 8.2% of LE Money Supply.

At the banking sector level, the banking system has been resilient amidst a tough operating environment. The Central Bank has appropriately reinforced the supervisory framework by strengthening regulations, further developing on-site and off-site supervision, and advancing implementation of Basel II and III. While

GROSS DOMESTIC PRODUCT

Sources: IMF, Bank Audi's Group Research Department

GDP BREAKDOWN BY ECONOMIC ACTIVITY (FY 2014)



Sources: Central Bank of Egypt, Bank Audi's Group Research Department

capital adequacy ratios remain comfortable (at circa 13%), rates of return on assets and on equity have trended upwards (to 1% and 14.5% respectively). Non-performing loans have been gradually declining as a share of total loans (from 19% in 2007 to 9% today), provisioning ratios have been increasing in parallel (from 75% in 2007 to 98% today) and liquidity remains comfortable (a low loan-to-deposit ratio of 41%). Banks remain well funded because of their strong deposit base, which is continuing to increase by a double digit rate annually, supported by remittances from Egyptians working abroad.

In details, banking activity was indeed favourable in 2014. Banks operating in Egypt posted an activity growth of 17.6% in local currency terms between end-2013 and end-November 2014 (14.3% in US$ terms). Deposits and loans were up by 15.8% and 12.4% (12.5% and 9.2% in US$ terms), respectively. Deposits in foreign currency increased by 6.5% during the first 11 months of 2014 compared to a growth of 18.6% in local currency deposits over the same period, contracting deposit dollarization from 23.8% in December 2013 to 21.9% in November 2014 which mirrors the relaxed activity on the foreign exchange market. The aggregated net profits of eleven listed banks of the sector rose by 15.1% in US$ terms during the first nine months of 2014, suggesting a reinforcement of banking sector profitability at large.

The detailed developments in the real sector, external sector, public sector and financial sector follow next, while the concluding remarks are meant to address the main challenges facing the near term outlook.

1. ECONOMIC CONDITIONS

1.1. REAL SECTOR

1.1.1. Agriculture

A stable growth in the sector for the second year

During the FY 2014, the agricultural sector, one of the main economic sectors in Egypt, maintained its 14.5% share in the country's GDP. Growing at a rate of 3.0% in the aforementioned year, the sector seems to continue a similar trend in FY 2015 whose first quarter reported an equivalent real growth rate. Furthermore, the contribution of the agriculture sector to real growth remained constant at 0.4% in both FY 2013 and FY 2014. The contribution of agriculture, forestry, and fishing sector to the GDP at factor cost using current prices, totaled US$ 39.7 billion in FY 2014, up by 13.7% from US$ 34.9 billion in FY 2013.

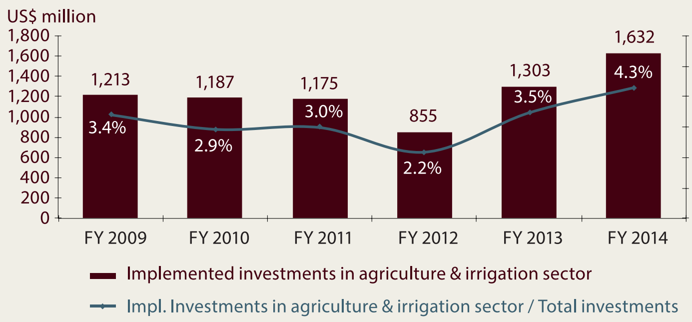
Egypt's implemented investments in the agriculture and irrigation sectors rose by 25.2% from US$ 1.3 billion in FY 2013 to US$ 1.6 billion in FY 2014 (an increase of 90.8% between FY 2012 and FY 2014). The growing trend took over the share of implemented investments in agriculture and irrigation in total investments as well. The latter registered 2.2%, 3.5% and 4.3% in FY 2012, 2013, and 2014 respectively.

It is worth noting that Egypt's cereal harvest stood at 21.4 million tons in 2014, maintaining the same level of the previous year, while dropping slightly below the average of the past five years. In details, wheat production is estimated to keep a stable level from the previous year, dropping below its five-year average. Maize production rose slightly above its 2013 level, however was still below the five-year average as well.

Furthermore, Egypt, the world's largest wheat importer, is expected to have enough wheat until mid-May 2015, noting the purchase of at least 3.085 million tons of wheat on the international market since the beginning of the current fiscal year. The country's top wheat markets in the aforementioned period were: Russia, Romania, France, Ukraine, and the United States. On a side note, the country imported 5.46 million tons of wheat over the course of the FY 2014 and added up to 3.7 million tons of local wheat.

Aiming to cut down on wheat spending, the authorities launched a new subsidized bread program. This entices selling bakers the flour at a non-subsidized price and encouraging consumers to substitute their bread ration by a wider range of subsidized commodities through a smart-card system. The limit the

IMPLEMENTED INVESTMENTS IN AGRICULTURE & IRRIGATION SECTOR



Sources: Central Bank of Egypt, Bank Audi's Group Research Department

program imposes on consumers allows wheat consumption to decrease as well, hence giving a chance for the gap between the production and consumption of wheat to decrease.

Supporting the agricultural sector, the Ministry of Agriculture prepared a project that aims to irrigate five million acres and reclaim one million acres supporting the national project for land reclamation. Implementing a field irrigation project would increase Egypt's cultivated land by 7% to 10%. The project aims to provide about 10 billion cubic meters of water yearly to be used in the cultivation of at least 300,000 acres of new land. The rationing of water usage is important in agriculture along with other sectors to serve the national land reclamation project.

1.1.2. Industry

Manufacturing industries back on track while extractive industries remain on a downward path

Egypt's manufacturing industries and the extracted ones witnessed contrasting trends throughout FY 2013 and FY 2014. Despite both remaining under the influence of a difficult environment, the manufacturing industries witnessed an improvement from the levels reported in FY 2013. However, extractive industries remained on a downward path and continued seeing difficulties.

In fact, the industries of extractions' growth fell by 5.5% in FY 2014, relative to a 2.7% contraction in FY 2013. Extractive industries consist of petroleum industries, gas industries, and other extractions. The former expanded by 1.0% in FY 2014 against a 1.2% contraction in the previous year, whereas gas industries saw a contraction of 11.0% in FY 2014 compared to a 4.0% contraction in the previous year. As for other extractions, its growth increased from 2.3% in the previous year to 2.8% in FY 2014.

Moving on to the manufacturing industries, the latter registered notable improvements from the previous year, with the sub-sector's growth accelerating to 8.3% in FY 2014 from 2.3% in FY 2013. This reflects the resumption of production in plants that had been previously forced to cut back operations for reasons of poor security or lack of liquidity and demand. Manufacturing industries are broken down into petroleum industries and other manufacturing industries. The growth of petroleum industries was marginally negative at 0.6% in FY 2014, compared to a growth of 2.7% in the previous fiscal year. On the other hand, other manufacturing industries reported an expansion of 9.0% in FY 2014, relative to a 2.2% rise in the previous fiscal year.

As for implemented investments, those declined in Egyptian crude oil and natural gas projects in FY 2014 compared to the previous year, while rising in other manufacturing projects. To be more specific, implemented investments in crude oil projects are estimated to have contracted by 90.5% in FY 2014, relative to a more than two-fold expansion in FY 2013. Moreover, implemented investments in natural gas fell by 28.6% in FY 2014, equivalent to the growth level attained in FY 2013. Investments in other manufacturing saw more than a two-fold increase in FY 2014, against an expansion of 39.2% in the previous fiscal year.

In fact, one of the Egyptian government's main goals from early 2014 has been to boost investment, as the latter would improve the overall business environment and would see long-delayed projects get under way. The government's efforts were paid off through the announcement of a series of high profile mega projects. The most high profile project has been the New Suez Canal Project, under which an additional 72 km of canal would be built to allow two-way travel along the canal and boosting the number of ships that can pass through at any one time. Moreover, Egypt's Al Nouran sugar production facility, a LE 2.5 billion (US$ 357 million) project, would begin operations in the last quarter of 2016. Along the same wavelength, Switzerland-based Nestlé would invest about LE 1 billion (US$ 137.9 million) in Egypt in the next few years.

In conclusion, Egypt's industrial sector was supported by a strengthened manufacturing sub-sector in the past fiscal year. Although the largest contributor to GDP remained private consumption in the aforementioned period, the sectoral breakdown showed particularly strong performances by the manufacturing industry, and the latter would further improve in the upcoming year due to better security and higher liquidity and demand, as per the EIU.

1.1.3. Construction

Construction and building sector almost maintaining steady performance

The country's construction and building activity continued to remain under the influence of the country's overall unstable conditions throughout FY 2014. Nevertheless, the sector attained a 5.6% growth in FY 2014, after an expansion of 5.9% in FY 2013.

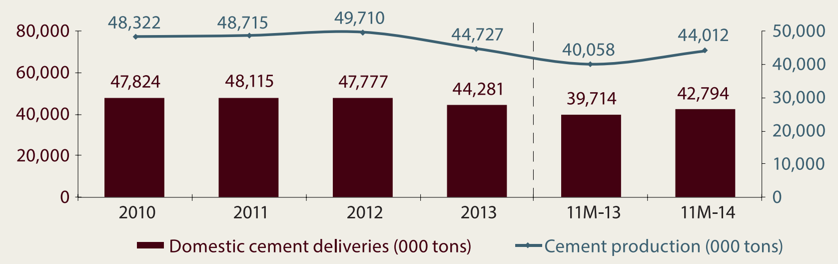
It is worth noting that the latter witnessed in parallel an increase in cement production and deliveries. The latter rose to 42.8 million tons during the first 11 months of 2014, up by 7.8% from the corresponding period of 2013.

The value of investments in construction and building contracted by 19.1% in local currency terms in FY 2014, following an expansion of approximately 93% in FY 2013, as per Central Bank data. Consequently, the share of the construction and building sector's investment out of total investment fell from 1.4% in FY 2013 to 1.0% in FY 2014. The value of implemented investments in the sector fell to US$ 379.4 million in FY 2014 from US$ 509.4 million in the previous year, with such a trend coming mostly on account of weaker appetite from the private sector.

In fact, the share of the private sector's investment out of total investment in the construction and building sector reached 70.0% in FY 2014, down from 73.3% in FY 2013. The private sector's implemented investments also dropped by 23.4% in FY 2014 from the previous fiscal year, according to Central Bank data.

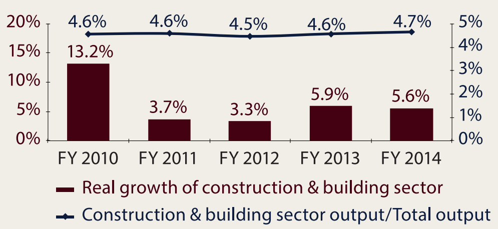
On a positive note, the Egyptian government's efforts to boost investment in 2014 were noticeable by announcing a number of high profile projects. These form an essential component of the government's overall economic stimulus package. They included efforts to boost tourism through developing the North

CEMENT PRODUCTION AND DELIVERIES



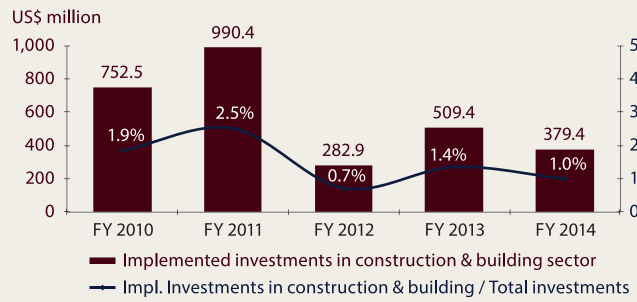
Sources: Central Bank of Egypt, Bank Audi's Group Research Department

CONSTRUCTION & BUILDING SECTOR OUTPUT



Sources: Central Bank of Egypt, Bank Audi's Group Research Department

IMPLEMENTED INVESTMENTS IN CONSTRUCTION & BUILDING



Sources: Central Bank of Egypt, Bank Audi's Group Research Department

West Coast. They comprised plans to create an airport city in Cairo and expand the metro with a third line. The Egyptian government also announced the Golden Triangle Project initiative, which seeks to create an economic and industrial hub in Upper Egypt. Additionally, a road building program with an overall goal of constructing 3,200 km of new roads would be implemented. Last but not least, the country's Ministry of Communications and Information Technology would tender five projects to construct technology parks across the country at an estimated cost of LE 20 billion (US$ 2.8 billion).

More importantly, construction activity in connection with the Suez Canal expansion and development of the surrounding areas for logistics and transportation would be a central supporting factor for economic growth and employment creation over the next few years.

To conclude, Egypt's construction sector is playing a major role in supporting overall economic growth. It would further contribute to the latter looking ahead on the back of continued government support and an improved security situation at large.

1.1.4. Tourism

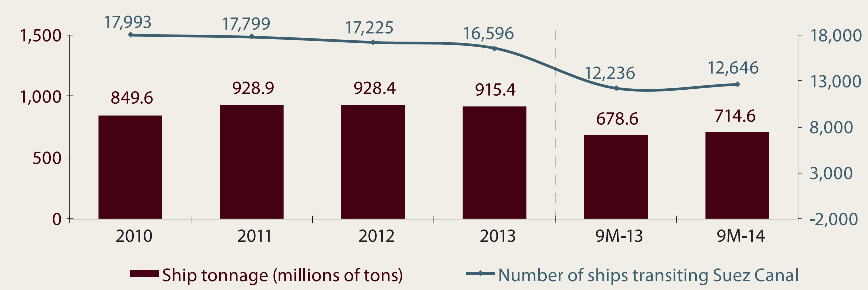
Long-awaited rebound in sight

After political instability took its toll on Egypt's tourism sector since early 2011, the year 2014 was marked by renewed confidence and revived activity starting the middle of the year. As a matter of fact, after being repressed by travel warnings issued in the aftermath of some terrorist attacks, the tourism sector has been rejuvenated following the lifting of some of the above mentioned warnings last July.

On the overall, figures on the number of tourists show that 9.1 million tourists visited Egypt during the first 11 months of 2014, compared to 8.8 million tourists in the same period of 2013. This is equivalent to a yearly growth of 3.6%. It is yet worth mentioning that Egypt used to receive an average of 15 million tourists annually in the years preceding the events of 2011.

Figures on the sector for the fiscal year 2013/2014 are actually in line with the above mentioned tourists' numbers. In details, the tourism sector registered a deceleration of 26.8% in the FY 2013/2014 ending last June, as this figure includes the depressed numbers reported in the second half of 2013, while it doesn't account for the rebound registered starting July 2014. This slowdown follows a growth of 6.6% reported in the previous fiscal year 2012/2013. Accordingly, the contribution of the tourism sector to GDP has dropped from 3.1% in FY 2012/2013 to 2.2% in FY 2013/2014. On the other hand, as mentioned previously, data published for the period spanning from July till September 2014 hint for a revived activity in the current fiscal year with positive growth reported at the level of 59.1%. The contribution of the tourism sector to GDP increased to 3.1% in the first quarter of FY 2014/2015, against 2.1% in the same period of the previous year.

EVOLUTION OF SUEZ CANAL ACTIVITY



Sources: Central Bank of Egypt, Bank Audi's Group Research Department

The average stay per tourist reached 9.9 days in 11M 2014, compared to 10.2 days in 11M 2013. At the same time, numbers by Ernst & Young show the hospitality sector in Cairo as less active than other Middle Eastern counterparts, with the occupancy rates in four and five star hotels in the city at 35% in 2014, albeit going up from a low base of 26% registered in 2013. On a positive note, both the average room rate and the room yield within Cairo reported double-digit growth in 2014, at 15% and 53%, respectively. Lodging within the Egyptian capital's luxury hotels remained, however, the most affordable among Middle Eastern cities.

1.2. EXTERNAL SECTOR

Balance of payments falls into deficit

Egypt's external accounts registered an overall deceleration during the first nine months of 2014. According to the latest statistics of the Central Bank, stagnating exports coupled with increasing imports led to a widening of the trade deficit. This has overweighed the registered improvement in tourism and official transfers revenues, causing a deficit in the balance of payments after the significant surplus of the previous year.

In details, exports remained almost constant, dropping by a slight 0.8% over the first nine months of 2014 to reach US$ 19.4 billion. This comes amidst a relative gain in competitiveness as the local currency actually depreciated between 9M 2013 and 9M 2014. Petroleum exports, mostly consisting of crude oil, went down by 7.7% in US$ terms year-on-year. However, its share of total exports remained constant at 45%.

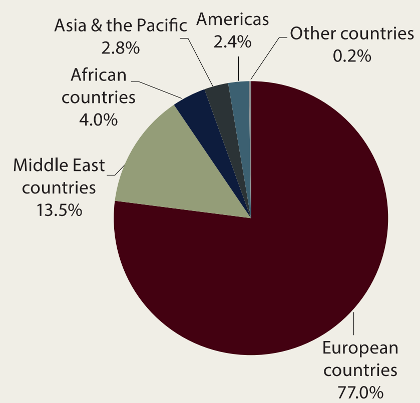
On the other hand, other exports increased by 5.8% over the covered period, driven by higher exports of potatoes, citrus fruits, medical plants, citrus and vanilla, cotton yarn, organic and inorganic chemicals, carpets and clothes; while those of cotton, medical plants, carbon, and unalloyed aluminum reported a decrease. A look at the exports distribution by geography shows that the increase in value is mainly attributed to greater exports to the European Union in the first place, and Arab countries in the second place.

Imports increased by 15.7% year-on-year to reach US$ 47.8 billion in the first nine months of 2014, within the context of stronger growth in private consumption. Petroleum imports rose by 20.7% over the covered period and imports of other items, accounting for about 81% of the total, increased by 14.6% year-on-year.

EVOLUTION OF TOURISM ACTIVITY

Sources: Central Bank of Egypt, Bank Audi's Group Research Department

TOURISTS BREAKDOWN BY REGION (11M-14)



Sources: Central Bank of Egypt, Bank Audi's Group Research Department

In the latter category, imports of raw materials, intermediate, investment and consumer goods all contributed to higher purchases from abroad. The increase in imports is mainly attributed to greater merchandise originating from Arab countries, followed by Asian non-Arab countries, and by EU countries.

As a result, the export-to-import coverage ratio went down, moving from 47.4% in 9M 2013 to 40.7% in 9M 2014. Similarly, the trade deficit expanded by 30.5% in the covered period of 2014, moving from US$ 21.7 billion in 9M 2013 to US$ 28.3 billion in 9M 2014 and thus adding some pressure on the current account balance.

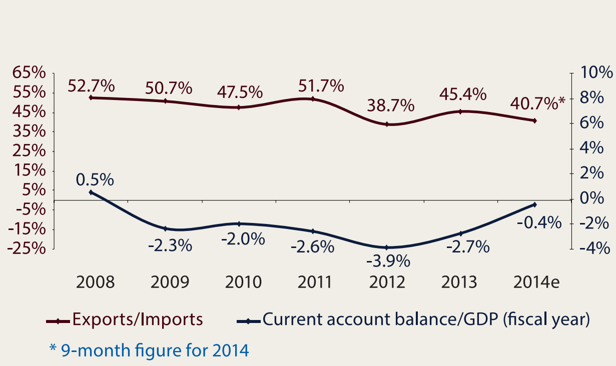
In contrast, the services balance surplus expanded by 90% to reach US$ 3.6 billion. This is mostly due to higher receipts, particularly during the third quarter. More specifically, tourism revenues more than doubled during the aforesaid period due the easing of foreign-issued travel warnings and the corresponding revived tourism activity.

Another factor affecting Egypt's external accounts proved to be the transfers' balance, which posted a higher surplus of US$ 21.9 billion (+23%) during the first nine months of 2014. While the remittances from Egyptian workers abroad to their homeland improved by 10% (equivalent to an additional US$ 1.3 billion), and though remaining a major contributor to inflows, official transfers emerged as the main contributor to the improved transfers' balance over the covered period. They moved from US$ 4.5 billion in the first nine months of 2013 to a high of US$ 7.2 billion in the corresponding period of 2014.

As the widening of both the transfers and services balance surpluses was overweighed by an even bigger expansion of trade deficit, Egypt's current account deficit increased considerably by 46% to reach US$ 2.9 billion in the first nine months of 2014.

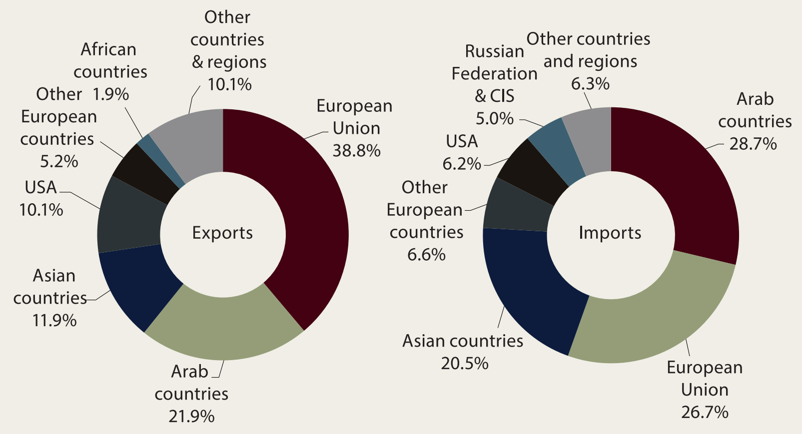
Along the same lines, the capital and financial account surplus shrank by 72% to reach US$ 2.5 billion in 9M2014. This was notably due to lower portfolio investments in Egypt, most particularly in the form of bonds in the second and third quarters of 2014. However, net FDI in Egypt rose by 33% year-on-year to US$ 3.8 billion in 9M2014 on account of bigger inflows of FDI during the third quarter of 2014. All in all, Egypt's overall balance of payments moved from a surplus of US$ 4.5 billion in 9M 2013 to a deficit of US$ 110.7 million in 9M 2014, after registering a deficit in the second quarter of 2014.

FOREIGN SECTOR INDICATORS



Sources: Central Bank of Egypt, IMF, Bank Audi's Group Research Department

BREAKDOWN OF EXPORTS AND IMPORTS BY REGION (9M 2014)



Sources: Central Bank of Egypt, Bank Audi's Group Research Department

1.3. PUBLIC SECTOR

Public finances set to benefit from fiscal consolidation and lower oil prices

Egypt's fiscal accounts saw further expansions in domestic and external debts in FY 2014, yet at a slower pace relative to the previous fiscal year. The overall budget deficit fell from a historical high level of 13.7% of GDP in FY 2013 to 12.8% of GDP in FY 2014, given widening budget revenues that were mainly supported by the influx of Gulf aid, and is expected to fall further in FY 2015 given the government initiatives toward fiscal consolidation in addition to lower oil prices.

The gross domestic debt rose by 18.9% in local currency terms in FY 2014 following a 23.4% expansion in FY 2013, to reach the equivalent of US$ 254 billion at end-June 2014. This was mainly triggered by a 16.5% growth in the balances of bonds and bills, within the context of sovereign debt sale aiming at funding the country's widening fiscal deficit. Within this context, the total domestic debt to GDP went up from 87.1% in FY 2013 to 90.9% in FY 2014, as per the CBE. In the first quarter of FY 2015, gross domestic debt grew by 1.2% in local currency terms to reach the equivalent of US$ 257.0 billion at end-September 2014.

In parallel, total external debt increased by 6.6% in FY 2014 after expanding significantly by 25.7% in FY 2013, to reach US$ 46.1 billion at end-June 2014. This was mainly driven by a significant growth in long-term deposits from US$ 3 billion at end-June 2013 to US$ 9 billion at end-June 2014, after Saudi Arabia, Kuwait and the UAE deposited a total of US$ 6 billion at the CBE in July 2013 in the aftermath of the country's second revolution. In parallel, the total external debt fell from 17.3% of GDP at end-June 2013 to 16.4% at end-June 2014. In the first quarter of FY 2015, Egypt's external debt went down by 2.6% to reach US$ 44.9 billion at end-September 2014.

As to public finances, total budget revenues grew significantly by 30.4% in local currency terms in FY 2014 to reach the equivalent of US$ 65.5 billion. This was mainly driven by a large increase in grants in FY 2014, with the latter moving from the equivalent of US$ 0.8 billion at end-June 2013 to the equivalent of US$ 13.7 billion at end-June 2014, due to the influx of aid from oil-rich GCC States after the interim government took over in July 2013. Total budget expenditures increased by 19.3% in local currency terms to hit the equivalent of US$ 100.6 billion during FY 2014. This resulted into a mild expansion in the overall budget deficit in local currency terms of 6.6% in FY 2014 to reach the equivalent of US$ 36.6 billion. As such, the overall budget deficit accounted for 12.8% of GDP in FY 2014, down from 13.7% of GDP in FY 2013.

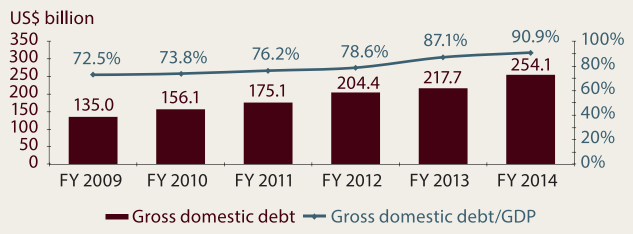
In the aim of increasing government revenues and reducing fiscal deficit, the Egyptian government has embarked into several economic reforms at the beginning of FY 2015. The authorities have begun in July 2014 implementing fuel subsidy reforms, raising prices by 40%–80%, and have introduced new taxes targeted at the more affluent sections of the population. The government intends to continue raising fuel and electricity prices over the next 4–5 years, yet the phasing out of the subsidies could be achieved sooner given the current oil prices. Also, the Egyptian government plans to replace the current sales tax

SELECTED PUBLIC FINANCE INDICATORS

US$ billion	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Total budget revenues	51.2	48.5	45.6	50.5	54.4	65.5
Total budget revenues/GDP	27.1%	22.2%	19.3%	19.7%	20.0%	22.9%
Total budget expenditures	63.7	66.2	69.1	78.4	91.4	100.6
Total budget expenditures/GDP	33.7%	30.3%	29.3%	30.5%	33.5%	35.1%
Overall budget deficit	13.0	17.7	23.1	27.7	37.2	36.6
Overall budget deficit/GDP	6.9%	8.1%	9.8%	10.8%	13.7%	12.8%

Sources: Central Bank of Egypt, Bank Audi's Group Research Department

GOVERNMENT INDEBTEDNESS



Sources: Central Bank of Egypt, Bank Audi's Group Research Department

with a fully fledged VAT in the spring of 2015, which would contribute to widening the tax base. Egypt targets to bring down the fiscal deficit to 8%-8.5% of GDP and budget sector debt to 80%–85% of GDP within the next five years, while at the same time increasing significantly spending on health, education, and scientific research as mandated by the new constitution.

The restoration of relative local political stability accompanied by a relatively improved investment climate, and the launch of initiatives towards fiscal consolidation along with current lower oil prices, are set to leave a positive impact on Egypt's public finances. Egypt's spending on fuel subsidies in FY 2015 could be 35% lower than budgeted if oil prices remain at current levels, as per government officials. The budget for fiscal year 2014/2015 targets a deficit of 10% of GDP. It incorporates subsidy cuts that were implemented in July 2014, gas price increases to households by over 200%, as well as tax measures on dividends and capital gains, implementation of a new property tax, income taxes at the higher income brackets, and excises on tobacco and alcohol, which together yield 2.5% of GDP, as per the IMF. In brief, fiscal adjustments in Egypt would help bringing the budget deficit and public debt under control and preserving growth and inclusiveness.

1.4. FINANCIAL SECTOR

1.4.1. Monetary Situation

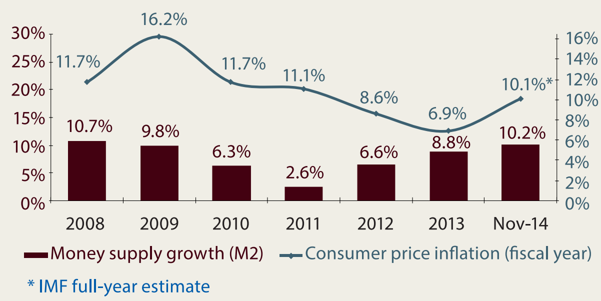
Accommodative policy amidst dwindling oil prices and lower core inflation

Egypt's monetary conditions witnessed so far a mild depreciation in local currency against the US Dollar in fiscal year 2015 after remaining relatively stable in FY 2014, a drop in average core inflation, which is more indicative of future inflation trends than headline inflation, a contraction in gross official reserves after the repayment of Qatar's deposit, and a shift from a tight monetary policy to an accommodative one, given the relatively reduced inflation risks amidst dwindling oil prices.

In details, given the relatively improved local political situation and business climate in FY 2014, the influx of Gulf aid since Egypt's second revolution, the renewed confidence in the local economy, and the return of capital inflows, particularly in the form of foreign direct investment, the Egyptian Pound remained broadly unchanged in FY 2014, moving from LE/US$ 7.02 at end-June 2013 to LE/US$ 7.15 at end-June 2014 (less than 2% depreciation). Yet, it depreciated further in FY 2015 to reach LE/US$ 7.63 at the time of writing this report, within the context of a black market for foreign currencies.

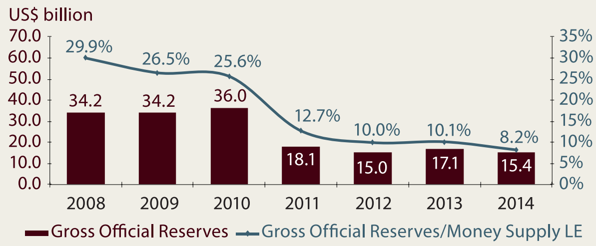
Following a 150 bps reduction in key interest rates in FY 2014, Egypt's monetary authorities have taken two actions during the first seven months of FY 2015. First, the CBE has raised policy rates by 100 bps in July 2014 to anchor inflation in the wake of the government's decision to increase the prices of a number of subsidized energy products, and indicated its intention to pursue a tight monetary policy as needed to achieve their inflation targets. However, amidst dwindling oil prices and eased yearly core inflation (which excludes the impact of temporary price shocks on inflation) for the fourth consecutive month since end-

BROAD MONEY AND INFLATION



Sources: Central Bank of Egypt, IMF, Bank Audi's Group Research Department

EXCHANGE MARKET INDICATORS



Sources: Central Bank of Egypt, Bank Audi's Group Research Department

August 2014, the CBE cut its key interest rates by 50 bps in January 2015, citing contained upside risks from imported inflation on the back of lower oil prices and the consequent revision of international food price forecasts. As a result of these two actions, the CBE's overnight deposit rate moved up from 8.25% at end-June 2014 to 8.75% at end-January 2015. Also, the Central Bank's lending rate was raised from 9.25% at end-June 2014 to 9.75% at end-January 2015. The discount rate was also lifted from 8.75% at end-June 2014 to 9.25% at end-January 2015.

In parallel, the extended rise in food and beverages prices and the sustained double-digit growth in public expenditures in FY 2014 resulted into inflationary pressures. In fact, the Consumer Price Index for urban areas which include Cairo, Alexandria, urban Lower Egypt, urban Upper Egypt, Canal cities and frontier governorates rose by 10.1% on average in FY 2014 and picked up to 10.6% on average during the first seven months of FY 2015, according to the Central Bank of Egypt, due to fuel and tobacco price hikes implemented in July 2014 and increases in school tuition fees, though the interest rate action by the CBE during the aforementioned month helped somehow contain second-round effects. However, core CPI, which excludes the impact of temporary price shocks on inflation that could result from weather conditions, supply disruptions or infrequent resetting of prices by the government, giving better implications about future inflation trends, fell from 10.2% on average in FY 2014 to 8.3% on average during the first seven months of FY 2015, prompting the CBE to cut policy rates in January 2015.

The Central Bank of Egypt's gross official reserves declined by 8.1% during the first half of FY 2015, mainly due to the repayment of a US$ 2.5 billion deposit to Qatar, to reach US$ 15.4 billion at end-December 2014. This followed a significant expansion in the CBE's gross official reserves in FY 2014 given the influx of Gulf aid in the form of deposits at the CBE and grants. Within this context, the Central Bank's gross official reserves covered 8.2% of local currency money supply at end-December 2014, as per the latest figures provided by the CBE, slightly down from 8.4% of local currency money supply at end-June 2014, and down from 9.8% at end-June 2013. In parallel, the Central Bank's gross official reserves covered 2.5 months of imports at end-December 2014, noting that the authorities aim to increase reserves to the equivalent of 3 months of imports by the end of FY 2015 and 3½ months of imports within the next five years, although continued external financing will be needed to achieve these goals, as per the IMF.

The broader money supply (M2) expanded by 10.2% in US$ terms during the first eleven months of 2014, the equivalent of US$ 20.3 billion, moving up from US$ 199.6 billion at end-2013 to US$ 219.9 billion at end-November 2014. This followed a lower growth of 8.8% in 2013. Money supply in its narrow sense (M1) widened by 13.0% during the first eleven months of 2014, following a higher growth of 18.6% in 2013, to hit US$ 60.7 billion at end-November 2014.

Looking forward, a continuous improvement in the economic and political conditions along with lower inflation rates, would allow Egypt's monetary authorities to pursue an accommodative monetary policy. Also, lower fiscal deficits would support the targeted reduction in inflation to 7% over the medium term. Accordingly, the CBE's monetary policy is set to seek to balance concerns over inflation and the need to support growth and finance the fiscal deficit.

1.4.2. Banking Activity

Strong banking activity growth in a recovering economy

Egypt's banking sector has witnessed a strong activity growth throughout the year 2014, amidst a recovering economic activity leading to higher deposits and rather renewed appetite for lending, and after coming through the volatility bouts post-uprisings in a reasonably good shape. Measured by the total assets of banks operating in the country, sector activity jumped by 17.6% in local currency terms (14.3% in US Dollar terms) over the first 11 months of 2014 to reach the equivalent of US$ 276.9 billion at end-November, as per the latest Central Bank of Egypt statistics.

Total sector deposits, a major activity driver for banks in Egypt ensuring most of their funding needs, was responsible for the bulk of the aforementioned growth last year. Total deposits actually rose by 15.8% in local currency terms (12.5% in US Dollar terms), moving from US$ 189.2 billion at end-December 2013 to US$ 213.0 billion at end-November 2014. The US$ 23.7 billion increase in funds parked at banks operating in the country proved almost twice higher than that registered in the previous year's corresponding period, clearly highlighting the pick up in economic activity in Egypt and the ensuing improved confidence after a couple of years of turmoil episodes.

Banks are comfortably funded with deposits accounting for around 77% of total balance sheets and mostly accounted for by core retail deposits which are more than enough to finance commercial lending facilities. The deposit base is also supported by remittances from Egyptians working abroad. It is also worth recalling that banks do not rely on sometimes volatile wholesale funding markets, with bonds and long-term loans not accounting for more than 1.5% of total balance sheets. Government deposits were responsible for 21% of the total deposit increase in last year's first 11 months, leaving the bulk of growth to the private sector, and thus reflecting the pick up in economic activity.

The growth in deposits was attributed to additional local currency deposits to the extent of 90% (mostly the household sector), leaving the remaining 10% to foreign currency deposits, which in any case do not account for more than 22% of the total deposit stock of banks in the country. Within this context, the deposit dollarization ratio further declined, moving down by around 2 percentage points to the aforementioned level. Furthermore, the sector regulator lately placed a cap on the amount of dollars that can be deposited at banks (US$ 10,000 per day or a total of US$ 50,000 per month) to discourage the use of the black market by depriving those who intend to swap their dollars outside official channels of a place to park their funds.

The additional liquidity at hand for banks was partly channelled unto lending to the economy. As a matter of fact, total credit facilities grew by 12.4% in local currency terms over the first 11 months of 2014 (+9.2% in US Dollar terms). The US$ 7.3 billion increase over the covered period marks a pick up in lending activity after a weaker momentum in the turmoil period related to both the economic downturn and the banks' financing of the State deficits through subscriptions in government securities, and mirrors the relative improvement in domestic conditions and investor confidence in the country.

These new loans were widely earmarked for the private sector component of the domestic economy, and most particularly the industrial and household sectors which saw the largest increases over the first 11 months of 2014. From a currency angle, new credit facilities were mostly granted in local currency which accounted for about 72% of the total growth in credit facilities, leaving less than a third to those in foreign currencies.

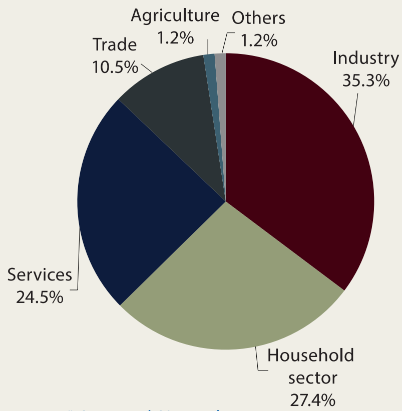
It is worth noting that the Central Bank of Egypt lately extended its tourism sector support plan for

BANKING SECTOR INDICATORS

US$ million	2008	2009	2010	2011	2012	2013	Nov-14
Banking Activity							
Assets	189,987	209,953	221,047	216,740	226,556	242,209	276,900
Deposits	140,991	156,634	164,053	163,948	171,486	189,242	212,961
Credit Facilities	77,983	78,862	78,928	81,148	81,248	79,134	86,437
Capital + Reserves	9,987	11,585	13,794	13,530	15,834	16,296	16,990
Growth rates							
Assets	2.7%	10.5%	5.3%	-1.9%	4.5%	6.9%	14.3%
Deposits	9.6%	11.1%	4.7%	-0.1%	4.6%	10.4%	12.5%
Credit Facilities	12.7%	1.1%	0.1%	2.8%	0.1%	-2.6%	9.2%
Capital + Reserves	20.7%	16.0%	19.1%	-1.9%	17.0%	2.9%	4.3%

Sources: Central Bank of Egypt, Bank Audi's Group Research Department

BANK CREDIT FACILITIES BY ECONOMIC ACTIVITY*



* As at end-November 2014

Sources: Central Bank of Egypt, Bank Audi's Group Research Department

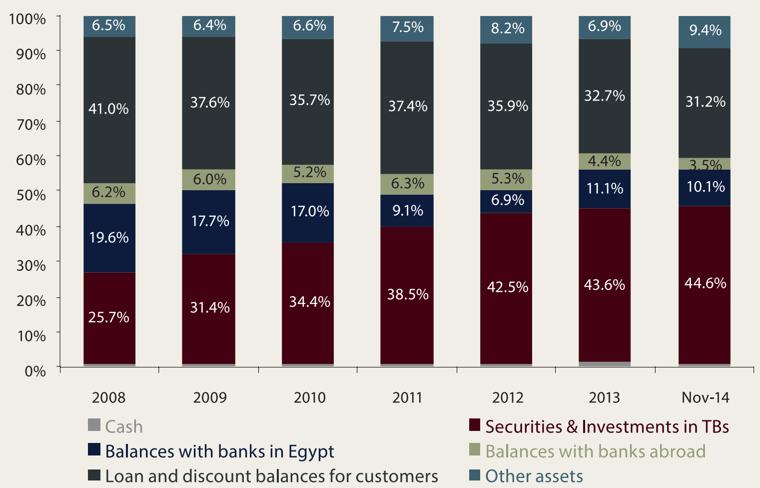
another six months until the end of FY 2015 (instead of December 2014), and enlarged its initiative to encourage long-term realty lending to low and middle income households by increasing its maximum lending limit to LE 500,000 from LE 400,000. Also, the government announced its commitment to entice local and foreign investment through public-private partnerships, which could also favor lending activity growth in the country.

This comes as banks have been heavily investing in domestic government securities to help the government in bridging its growing budget gaps. The total securities portfolio held by banks surged by 20.3% in local currency terms (+17.0% in US Dollar terms), the bulk of which (93% of the total stock) is accounted for by government securities, with the latter mostly denominated in local currency. Banks' exposure to the government accounted for nearly 45% of total assets at end-November 2014, and reached 6x equity, close to its last year's level, and their continuously rising holdings of domestic government debt instruments actually reflect the growing ties between their solvency and that of the sovereign. Mitigating factors to this growing exposure however are the banks' stable funding base through customer deposits and the predominance of local currency denominated lending.

On another note, the surge in investments in domestic government securities somewhat constrains liquidity in the sector, but financial flexibility is adequate. With regards to the former measure, banks' core liquidity, defined as readily available liquid assets (cash and balances with banks in Egypt and abroad) reached around a fifth of total deposits at end-November 2014, slightly declining relative to the end of 2013 as deposit growth exceeded the rise in core liquidity. The ratio remains much lower than that at end-2010, i.e. prior to the popular uprisings in Egypt, when it exceeded the 30% threshold. With regards to the latter measure, as deposits continued to rise at a faster pace than credit facilities, Egyptian banks' loan-to-deposit ratio edged down from 41.8% at end-December 2013 to 40.6% at end-November 2014.

While lending growth picked up lately, asset quality metrics continued to ameliorate. The non-performing loans to total loans ratio reached a post-revolution low of 9.1% at end-June 2014 as per the latest available Central Bank statistics, though remaining higher than regional and global averages. Low credit penetration in the private sector stifled non-performing loan formation after the 2011 revolution, while the IMF said that forbearance measures benefiting the hard-hit tourism sector did not have a significant impact given the small share of such loans. The Fund added that high credit concentration in banks' loan portfolios could represent a risk, although prudential regulations limit the size of exposures and banks are seeking to diversify their lending. In parallel, provisioning coverage strengthened further and remains comfortable at 98.0% of NPLs as at end-June 2014.

BANKING SECTOR ASSET COMPOSITION



Sources: Central Bank of Egypt, Bank Audi's Group Research Department

Stress tests regularly conducted by the sector regulator suggest that plausible losses could be absorbed by banks' profit and capital buffers. As a matter of fact, the sector is well capitalized and the capital base to risk weighted assets ratio is quite adequate at 13.0% at end-June 2014, the bulk of which consists of Tier 1 capital (10.9% of risk-weighted assets).

Last but not least, profitability of banks operating in Egypt got a boost from higher lending activity and relatively high yielding government securities, coupled with lower provisions. In the absence of recent consolidated sector statistics, we resorted to the aggregation of results of 11 listed banks, which give sufficient indication on sector-wide trends. These show a 15% yearly jump in first nine months net profits last year, bearing witness to the overall positive year Egyptian banks have had in 2014.

1.4.3. Equity and Bond Markets

Strong rises in equity and bond prices in 2014 amidst improved investor sentiment

Egyptian capital markets extended their upward trajectory over the year 2014, mainly supported by the stabilized local political and security conditions, the launch of government initiatives towards fiscal consolidation, the debut of mega infrastructural projects, and the potential external financial assistance through the upcoming international summit.

The Egyptian Exchange benefited from improved investor sentiment following the election of a new President in May 2014, the relative improvement in civil order, the announcement of large infrastructure projects to stimulate growth, and the focus on limiting the country's fiscal deficit through the implementation of several economic reforms, including subsidy reforms and tax increases. Also, news that MSCI has kept Egypt in its "emerging markets index" in June 2014, and that the Central Bank of Egypt has raised LE 64 billion in just eight days in September 2014 through the issuance of investment certificates in order to finance the expansion of the Suez Canal, contributed to spurring demand for Egyptian equities.

Given a relative return of confidence, the fall in oil prices towards the end of the year that is set to leave a positive impact on the subsidy bill and the Egyptian economy at large, and with all investors' eyes focusing on the upcoming international conference that is scheduled to be held mid-March 2015, the Egyptian Exchange enjoyed a favorable activity and posted significant price gains in 2014. In details, the bourse main benchmark index (EGX 30) rose significantly by 31.6% in 2014 to close at 8,926.58 at year-end. The breakdown of the index by sector shows that the healthcare and pharmaceuticals sector surged by 74%, followed by the real estate sector (+61%), the personal and household products sector (+58%), the banking sector (+48%), the financial services sector excluding banks (+44%), the construction and material sector (+25%), and the industrial goods, services and automobiles sector (+1%), while the food and beverage sector posted price drops of 11%, followed by the basic resources sector (-10%), the chemicals sector (-9%), the telecommunications sector (-3%), and the travel and leisure sector (-2%).

It is worth mentioning that the Egyptian Exchange outperformed regional equity markets over the year 2014. This is reflected by a 26.3% increase in the S&P Egypt BMI USD index versus a 1.4% decline in the S&P Pan Arab Composite index, as oil-exporting GCC countries were adversely affected by the sharp decline in oil prices towards the end of the year.

The significant rise in equity prices over the year 2014 was coupled by an increase in the number of listed companies on the Egyptian Exchange to 214 at end-2014. Accordingly, the market capitalization rose by 14% year-on-year in foreign currency terms, moving up from US$ 61.4 billion at end-2013 to US$ 69.9 billion at end-2014. The ratio of market capitalization to GDP increased from 22.6% at end-2013 to 24.6% at end-2014, noting that the Egyptian bourse's contribution in the economy remained relatively low in comparison with the higher market capitalization to GDP registered in the MENA region (around 53%).

Amidst improved investor sentiment, the total volume of traded securities almost doubled year-on-year, moving from 29,190 million shares in 2013 to a record high level of 57,230 million shares in 2014. The total number of transactions surged by 53.0%, moving from 4.8 million transactions in 2013 to 7.3 million transactions in 2014. Within this context, it is worth highlighting that the number of the newly registered non-Egyptian investors in the bourse in 2014 increased by circa 25% relative to the previous year, and foreign investors were net buyers for the first time since 2011. Higher equity prices coupled with increased number of traded shares led to a significant rise in the total trading value of 74.3%, with the latter surging from US$ 23.6 billion in 2013 to US$ 41.0 billion in 2014, its highest level since 2010. Within this context, the turnover ratio, measured by total trading value to market capitalization, increased from 38.4% in 2013 to 58.7% in 2014.

In parallel, Egyptian debt papers attracted a decent bid over the year 2014, mainly driven by improved investor sentiment in the aftermath of May 2014's Presidential elections, the implementation of economic reforms, and the call for an international conference that is expected to provide further funding to the Egyptian economy and is likely to centre on supporting infrastructure and industrialization programs. These factors triggered a healthy activity and extended price increases on the Egyptian fixed income market despite a decline in net international reserves during the year 2014. Under these circumstances, Egyptian debt papers registered price gains and contractions in Z-spreads. In details, Egypt'20 closed up by 10.25 pts in 2014, recording a 175 bps contraction in Z-spreads. Egypt'40 posted price rises of 19.25 pts, registering an 82 bps contraction in Z-spreads. Amongst financials, National Bank of Egypt'15 was up by 1.38 pt, registering a 205 bps contraction in Z-spread. As to the cost of insuring debt, Egypt's five-year CDS spreads shrank significantly by 323 bps over the year 2014 to close at 282 bps at end-2014, following an expansion of 95 bps in 2013. Under these favorable conditions, the Egyptian government announced in January 2015 plans to tap the global markets through the issuance of US$ 1.5 billion worth of international bonds in April 2015 and to return regularly to international capital markets in coming years, noting that Egypt has last issued international bonds in 2010.

As to rating changes, international credit rating agencies took several actions in 2014. In fact, Fitch upgraded in December 2014 Egypt's long-term foreign and local currency Issuer Default Ratings to "B" from "B-" with "Stable" outlook. Fitch also upgraded the issue ratings on Egypt's senior unsecured foreign and local currency bonds to "B" from "B-". The Country Ceiling has been upgraded to "B" from "B-" and the short-term foreign currency IDR affirmed at "B". The upgrade of Egypt's IDRs reflects the government's policy course designed to tackle some of the serious structural weaknesses that have emerged or intensified in recent years, which include fuel subsidy cuts and tax hikes. The IDRs were also upgraded because of the consolidation, stronger growth and lower commodity prices that would pull down the country's fiscal deficit. The "Stable" outlook reflects Fitch's assessment that upside and downside risks to the rating are currently balanced.

Standard & Poor's affirmed in November 2014 its "B-/B" long-term and short-term foreign and local currency sovereign credit ratings on the Arab Republic of Egypt with "Stable" outlook. The affirmation reflects the rating agency's view that Egypt's political landscape began to stabilize following a fairly smooth electoral process and a subsequent improvement in the security situation, alongside the implementation of a series of economic reform measures. In addition, S&P expects that official donors would continue to provide the Egyptian government with sufficient foreign funds to manage the country's short-term fiscal and external financing needs. The "Stable" outlook balances S&P's expectation that Egypt would remain

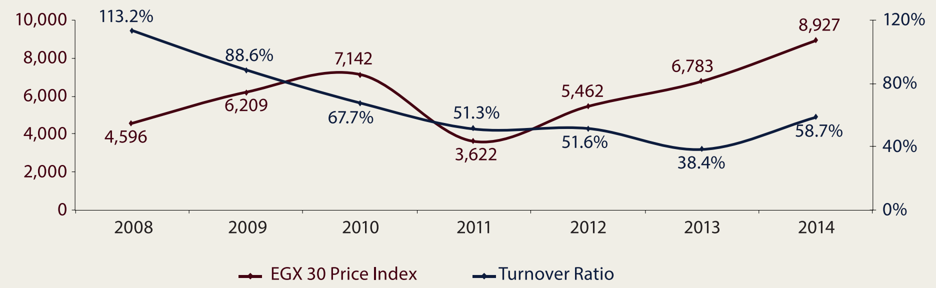
CAPITAL MARKETS INDICATORS

	2008	2009	2010	2011	2012	2013	2014
Market capitalization (US$ billion)	86.1	91.1	84.1	48.6	59.0	61.4	69.9
Total value traded (US$ million)	97,427	80,712	56,978	24,938	30,473	23,555	41,044
Non-Arab foreign participation as % of total value traded	19.5%	12.7%	16.5%	23.6%	14.9%	14.3%	9.7%
Total volume of traded securities (million)	25,556	36,602	33,414	18,491	34,261	29,190	57,230
Total number of transactions (000s)	13,456	14,628	10,201	5,590	6,234	4,790	7,328
No. of listed companies	373	306	213	213	213	212	214
No. of traded companies	322	289	211	204	204	204	206
% Change in price index (EGX 30)	-56.4%	35.1%	13.8%	-49.3%	50.8%	24.2%	31.6%
P/E ratio (times)	9.9	12.1	14.7	10.5	12.4	15.2	20.2
Dividend yield	8.8%	7.0%	7.1%	10.4%	8.6%	6.5%	9.3%

Sources: Egypt Stock Exchange, Bank Audi's Group Research Department politically "stable" and that its economic growth prospects would improve, against its high fiscal deficits and significant financing pressures.

Finally, Moody's changed Egypt's outlook from "Negative" to "Stable" in October 2014 and affirmed its government bond rating at "Caa1". Key drivers for the outlook change are the stabilized political and security situation, the launch of government initiatives toward fiscal consolidation, signs of a growth recovery and an improvement in macroeconomic stability and strong support from external donors. Also, on the backdrop of sharp falls in oil prices, Moody's said in February 2015 that the lower oil price environment would provide some degree of support to Egypt's sovereign credit profile, and would likely lead to a slight improvement in the country's balance of payments and in the government's fiscal accounts.

STOCK MARKET PERFORMANCE



Sources: Egypt Stock Exchange, Bank Audi's Group Research Department

2. CONCLUDING REMARKS

In conclusion, while a more secure political order since the election of President El-Sisi in May 2014 has shored up investor sentiment, leading to a pickup in economic activity in recent months, the modest recovery remains fragile. Improved security and ambitious structural reforms are needed to put the economy on a high and sustainable growth path to create much-needed jobs in the private sector and reduce the elevated unemployment rate which currently revolves around its high of 13.4%. Stimulating growth further and reducing unemployment actually depend on ambitious structural reforms to reduce supply bottlenecks, and on providing adequate incentives to expand investment and allocate resources more efficiently.

Egypt needs now to rebalance growth with a new major investment push, most likely with a recovery in tourism as private transfers from Arab Gulf countries are likely to be adversely impacted by falling oil prices. In the case where private remittances would start to fall back, this means that private consumption growth could come under pressure. In parallel, official transfers from the Arab Gulf countries are likely to remain robust over the year ahead as there are mainly governed by regional political concerns.

The government seems to be quite aware that it cannot drive all the required investment itself, which prompts it to move ahead with plans to hold a major investment and development conference, scheduled for March 2015. The government plans to build on such a conference in order to consolidate commitments of financial support not only from the Arab Gulf but also from the wider international community, attempting to boost foreign direct investment in the coming years, while being open to consider a whole range of financing approaches.

There are needs for Egypt to improve further its business environment. According to the Global Competitiveness Report, Egypt ranked 118th out of 144 countries and well behind most middle-income emerging countries. As per the report, Egypt has low rankings in basic requirements mainly reflecting the relatively poor macroeconomic environment and still lags behind in efficiency rankings within the context of weak financial market development and persisting labor market inefficiencies. Along the same wavelength, Egypt underperforms in most areas necessary to run a business as suggested by its ranking in the 112th position out of 189 countries in the World Bank's Ease of Doing business report for 2015.

If we were to assess the strengths and weaknesses of Egypt's economic outlook, we would mention the following. At the level of the strengths rise essentially the relatively well diversified economy, the external donor support, the residual strength in the external payments position and the somehow resilient financial industry with significant buffers. At the level of weaknesses, we would mention the weak public finance conditions, the lack of institutional efficiency, the high unemployment and elevated inflation, the post-revolution deterioration in the balance of payments in addition to the spillover effects of widening regional uncertainties.

Having said that and as gradual economic reforms, supported by further GCC aid and a gradual economic recovery is expected, we believe opportunities outpace threats at the horizon. Economic growth could pick up gradually, on the back of rising aggregate domestic spending, driven by greater political stability, increased confidence in economic policy and government-led investment projects. In parallel, consolidation, stronger growth and lower commodity prices should pull down the fiscal deficit, although public finance imbalances are likely to remain significant in years ahead.

Finally, Egypt remains vulnerable to a deterioration of the security situation and domestic policy reversals which can affect investor confidence. As clearly outlined in the last IMF Article IV report recently released, for the reform effort to succeed, it will need to be pursued steadfastly with reform objectives being translating into coherent and consistently implemented laws. While the measures taken by authorities demonstrate their commitment to reform, the potential risks at the horizon suggest the need to build financial and policy buffers. As such, boosting international reserves and putting in place contingency plans for the budget would be useful to address unforeseen shocks and boost investor confidence at large.

DISCLAIMER

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