

# [The central bank of egypt (cube) analysis](https://assignbuster.com/the-central-bank-of-egypt-cube-analysis/)

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The Central Bank of Egypt (CUBE) has continued to manage a gradual depreciation of the Egyptian pound since foreign currency inflows slowed down after the revolution. As the exchange rate (ESP. per IIS$) slowly declined to ESP. 6. 04 at the end of March 2012, and ESP. 6. 13 at the beginning of December 2012, compared ESP. by March 2012; the annual inflation rate reached 9 percent compared to 7. 1 percent n October 2011, as pointed out by the CUBE, the higher price level was mainly due to anticipated rise in internationalfoodprices, local supply bottlenecks, and distortions in the distribution channels.

In the light of this poor economic performance and Egypt financial conditions after the revolution, the Egyptian government faces a lot of challenges to meet the continuing demands of Egyptians specially law income groups for higher wages, and moresocial Justice. The budget deficit continues to be a thorn in the government's side and a top priority. Thefinanceministry opined that an 745 43-751 increase in public sector salaries and a fall in tax revenues due to deteriorating economic activity during the 18 months of political upheaval contributed to the budget deficit.

The ministry's reports showed that the current budget deficit was about 8%of GAP, which the government intends to bring down by 1% in the next two years. Meanwhile, the government is seeking to cut its expenditure on fuel subsidies. The government is considering cuts to gasoline subsidies and the introduction of a coupon or a smart card system so that the subsidies reach only the poor. Spending in excess of revenue requires the state to arrow from either domestic or foreign sources. Until recently, the government has been borrowing from the domestic market.

Domestic debt in 2011 registered an increase of 19. 6 percent over 2010 in absolute figures and 1. 7 percent relative to GAP (USAF, 2011: 3), borrowing from the domestic market at a higher rate combined with other numerous restrictions, will tighten liquidity and hinder investment. During the summer of 2011, the military turned down loans from international financial institutions such as the International Monetary Fund (MIFF) and the World Bank, citing discomfort over external borrowing.

The World Bank has pledged up to $1 billion in each of the next two years if the government meets certain economic reform conditions, the Bank also may provide $2. 5 billion in loans for development projects, Egypt was also negotiating a loan deal worth $4. 8 billion with the MIFF and seeking additional funding of $1 billion from the World Bank and the African Development Bank (Sharp, 2012: 11). The report said that United States is looking to forgive debt worth $1 billion; Meanwhile Qatar, Turkey, Saudi Arabia, and the European Union have together pledged billions of dollars in budget support.

The 68 countries also have promised loans through development banks and have said after their latest meeting that they are willing to provide $billion for Egypt and through 2013(Sharp, 2012: 12). Despite all of these offers of aid from countries and international organizations, Egypt did not get but a few of them, in December 2012, the MIFF declined in giving the loan to the Egyptian government because of floundering political administration , and the government decided to reconciliations for taking the loan from the fund to support the government budget deficit.

The government ill try to begin the consultations by showing that it is recently finalizing an economic reform program, which would soon be open for public discussion. In the light of this difficult period which the country is going through, and the lack of economic effective in increasing economic growth and overcome the challenges faced by it. 4. Data Description and Model Specification This study uses annual data for analyzing the impact of foreign aid on economic growth.

The study will use the real per capita gross domestic product as a measure of economic growth and Net Official Development Assistance as a measure of foreign id for the period 1970-2010. Data has been collected from the World Bank Data Base. 4. 1 . Model Specification To analyze the relationship between economic growth and foreign growth in Egypt , the study will include two other variables the gross capital formation, and the trade openness , as a great proportion of the literature which focuses on estimating the macro economic benefits of aid has been used them in their econometric models.