



Central Bank of Egypt

Monetary Policy Report

III / 2019

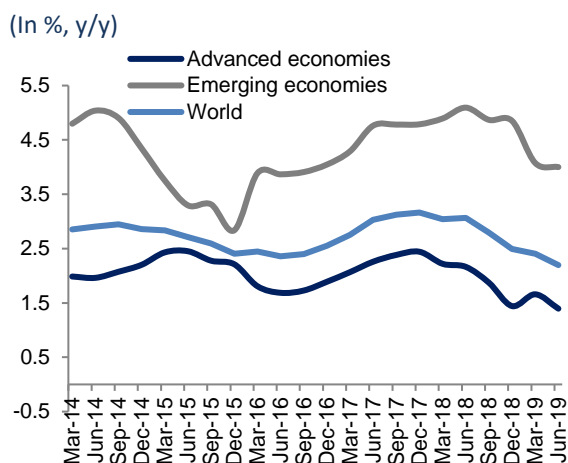
Disclaimer

The cut-off date for the data included in this report is October 30, 2019. Some of the data presented are preliminary or subject to revisions. There has been new incoming data since the cut-off date, including but not limited to the release of the inflation statistics for October, November and December 2019. Furthermore, the Monetary Policy Committee decided to cut the Central Bank of Egypt's key policy rates by 100 bps in its meeting held on November 14th, 2019. These and all other incoming data will be incorporated in the following Monetary Policy Report.

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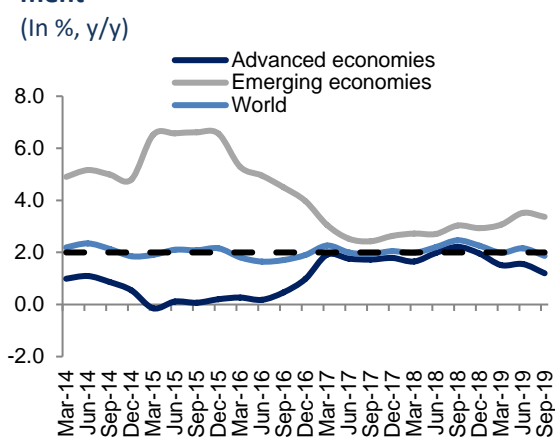
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Figure 1
Economic Growth of Egypt's External Environment^{1/}



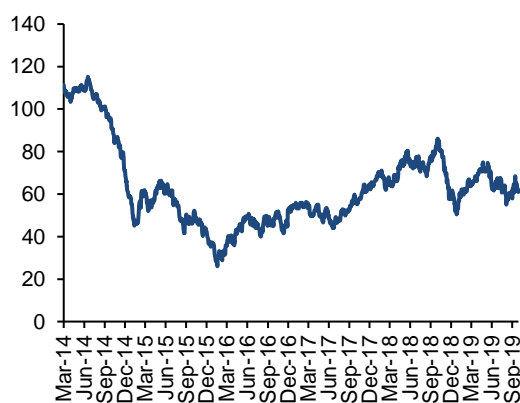
Source: Bloomberg & Central Bank of Egypt calculations.
 1/ The series is weighted using Egypt's trade volume in 2015/16.

Figure 2
Headline Inflation of Egypt's External Environment^{1/}



Source: Bloomberg & Central Bank of Egypt calculations.
 1/ The series is weighted using Egypt's trade volume in 2015/16.

Figure 3
Brent price
 (USD per barrel)



Source: US Energy Information Agency.

The Initial Conditions

a) Global economic and trade growth continued to slow down, international oil prices normalized following a temporary supply disruption in KSA, and capital continued to flow into emerging markets.

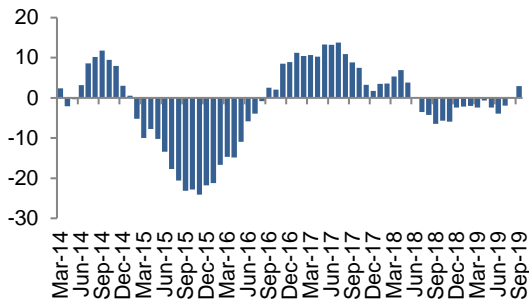
Economic growth of Egypt's external environment continued to soften in 2019 Q2 for the fourth consecutive quarter, declining to 2.2% from 2.4% in the previous quarter and from 3.2% in 2017 Q4, the highest pace since 2011. Economic growth in advanced economies continued to soften in 2019 Q2, after it inched up slightly in 2019 Q1, to register 1.4% in 2019 Q2, compared to 1.7% in the previous quarter. This was due to a broad-based weakness of economic growth in the Euro area, the United States, the United Kingdom and Japan in 2019 Q2, compared to the previous quarter. Meanwhile, economic growth in emerging economies roughly stabilized at 4.0% in 2019 Q2, after declining between 2018 Q3 and 2019 Q1. This was mainly due to lower growth in China and India, which offset higher growth in Russia and Brazil, compared to the previous quarter.

Headline inflation of Egypt's external environment continued to decline in 2019 Q3 to register an average of 1.9% in 2019 Q3, after it inched up slightly in 2019 Q2 to 2.2% following its decline between 2018 Q4 and 2019 Q1. Inflation in advanced economies declined to register an average of 1.2%, compared to 1.6% in the previous quarter. This was due to a broad-based deceleration of the inflation rate in the Euro Area, the United States, the United Kingdom and Japan in 2019 Q3, compared to the previous quarter. Meanwhile, inflation in emerging economies broadly stabilized for the second consecutive quarter, registering an average of 3.5% in 2019 Q3.

Annual global trade growth continued to slow down for the seventh consecutive quarter in 2019 Q2 to register -0.6%, compared to +0.5% in the previous quarter, marking the first contraction on annual terms since 2009 Q4, and down from a peak of 5.2% in 2017 Q3.

Figure 4
International Food Prices

(In %, y/y, using domestic CPI basket weights of core food items)



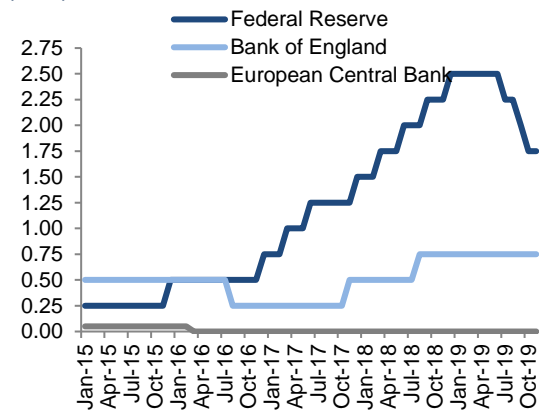
Source: Central Bank of Egypt calculations, World Bank and Food and Agriculture Organization of the United Nations.

Brent crude oil prices rose temporarily following the Saudi Arabian supply disruption in mid-September 2019, before normalizing slightly below the level witnessed prior to the supply disruption incident, registering an average of 58.9 USD/barrel during the first week of October 2019 compared to an average of 59.3 USD/barrel in 2019.

International food prices, using domestic CPI basket weights of core food items, accelerated on annual terms in September 2019, for the first time since May 2018. The acceleration was mainly due to high demand of red meat, specially from China following the outbreak of swine fever.

Figure 5
Advanced Economies Central Banks' Key Policy Rates

(In %)

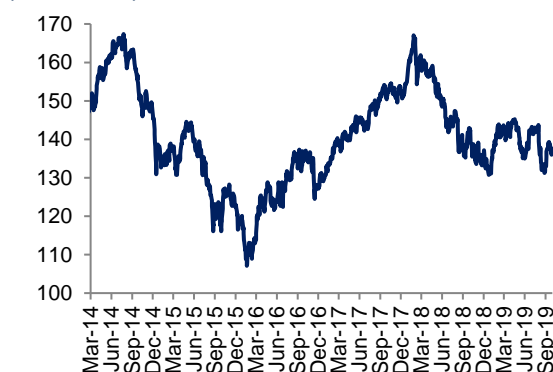


Source: Bloomberg and Central Bank of Egypt calculations.

The Federal Reserve cut its policy rate in October 2019 by 25 bps, thereby cutting rates by a cumulative 75 bps in 2019, after raising rates by a cumulative 225 bps between December 2015 and December 2018. Moreover, the European Central Bank cut its deposit facility rate in September 2019, for the first time since March 2016, while leaving its main refinancing operation rate unchanged and restarted its asset purchase program after it has ended in December 2018. On the other hand, the Bank of England kept its policy rate unchanged in September 2019, after raising it cumulatively by 50 bps since November 2017. Both the Federal Reserve and the Bank of England made no changes to their asset purchase program.

Figure 6
Emerging Markets Capital Flows Proxy

(Index level)

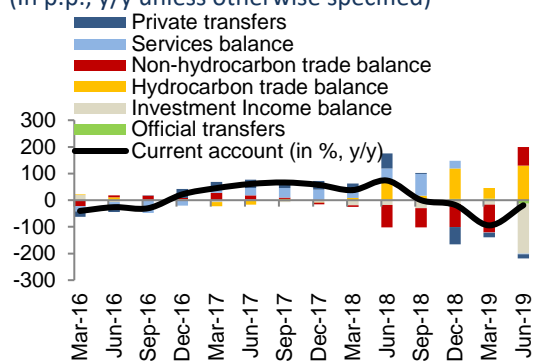


Source: Bloomberg.

Capital inflows into emerging markets resumed in September 2019 after a brief reversal in August 2019. The return of international capital to emerging markets in 2019, after eleven months of outflows between February 2018 and December 2018, continued to be affected by monetary policy directions in advanced economies. However, the direction of capital flows remains subject to the economic growth outlook as well as the prospects of further escalation of trade tensions.

Figure 7
Contribution to the Current Account

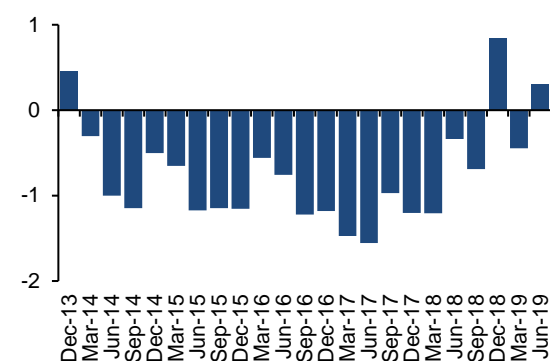
(In p.p., y/y unless otherwise specified)



Source: Central Bank of Egypt.

Figure 8
Hydrocarbon trade balance

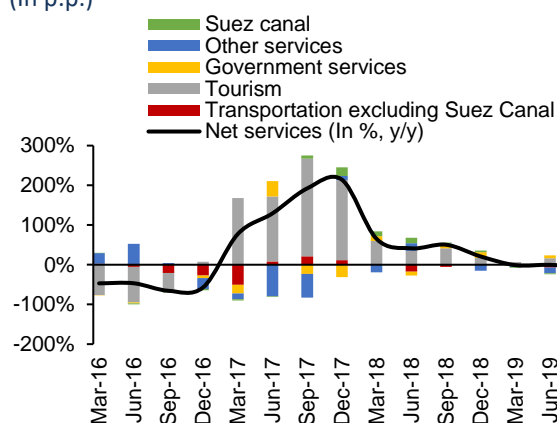
(In USD billion)



Source: Central Bank of Egypt.

Figure 9
Contribution to the net services

(In p.p.)



Source: Central Bank of Egypt.

b) The positive shift of investor sentiment regarding emerging markets continued to support Egypt's financial account surplus, while the current account deficit continued to widen for the third consecutive quarter, however, at a slower annual pace in 2019 Q2.

After improving on annual terms for seven consecutive quarters between 2016 Q4 and 2018 Q2, the current account deficit continued to widen in 2019 Q2 for the third consecutive quarter, however, at a slower annual pace compared to the previous quarter. The slower pace was mainly due to a more favorable contribution from the non-hydrocarbon trade deficit, the hydrocarbon trade surplus and remittances, which more than offset the less favorable contribution from net investment income deficit, while the contribution of services surplus stabilized.

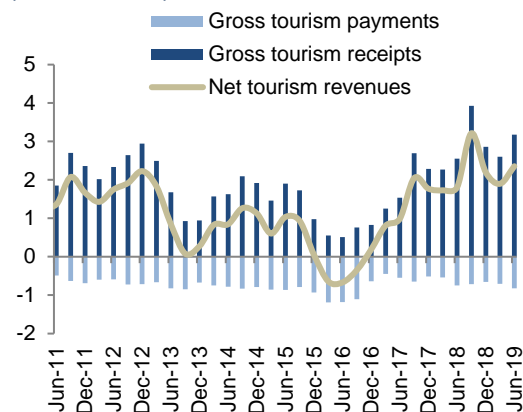
Meanwhile, the deficit of net exports of goods and services resumed its improvement in 2019 Q2 on annual terms, after widening in 2019 Q1 for the first time since 2016 Q4. This was mainly due to a more favorable contribution from the non-hydrocarbon trade deficit.

The non-hydrocarbon trade deficit improved on annual terms in 2019 Q2, for the first time since 2017 Q3. While exports contributed favorably, the deficit decline was mainly due to lower imports, particularly intermediate goods for the first time since 2017 Q2, following imposing tariffs on steel imports in April 2019.

The hydrocarbon sector continued to improve on annual terms for the sixth consecutive quarter in 2019 Q2, recording a surplus for the second time since 2013 Q4 due to lower imports as well as higher exports volumes and despite the decline of international oil prices on annual terms for the second consecutive quarter in 2019 Q2. The improvement in volumes was mainly due to net exports of natural gas, which turned into a surplus since 2018 Q4, while net imports of petroleum products continued to narrow since 2014 Q3, affected mainly by fiscal consolidation measures as well as the improvement of domestic refining activity, which in turn broadly supported the stability of net exports of crude oil.

Figure 10
Tourism Receipts and Payments

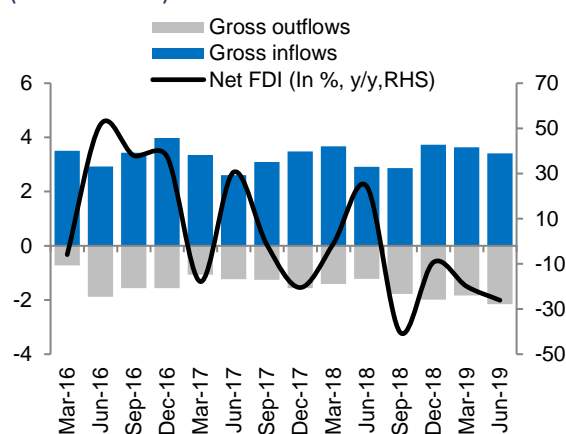
(In USD billion)



Source: Central Bank of Egypt.

Figure 11
Net Foreign Direct Investments

(In USD billion)



Source: Central Bank of Egypt.

The services surplus remained roughly stable in 2019 Q2 on annual terms, after improving for eight consecutive quarters since 2017 Q1, supported mainly by a more favorable contribution from tourism revenue and government services, which broadly offset a less favorable contribution from other services and the transportation balance.

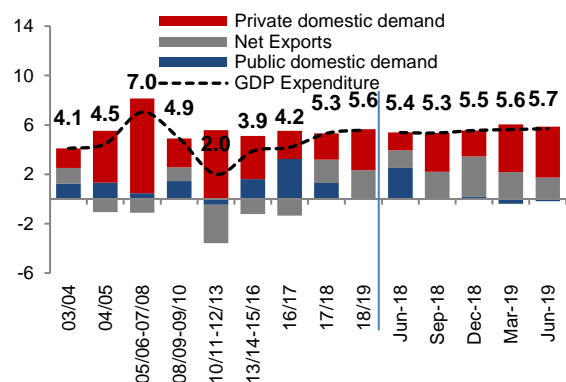
Remittances continued to decline on annual terms in 2019 Q2 for the third consecutive quarter, however, its annual pace of decline continued to improve for the second consecutive quarter.

The financial account surplus continued to narrow in 2019 Q2, after increasing in 2019 Q1. The positive shift of investor sentiment regarding emerging markets since the beginning of 2019 supported the continuation of net portfolio investment inflows in 2019 Q2 for the second consecutive quarter, albeit at a slower pace compared to the previous quarter, as well as the successful Eurobond issuance in 2019 Q2, however, by a smaller magnitude compared to previous quarter. Contemporaneously, net foreign assets of commercial banks continued to improve in 2019 Q2 for the second consecutive quarter. On the other hand, net foreign direct investment continued to decline on annual terms for the fourth consecutive quarter in 2019 Q2 due to higher outflows, while inflows improved on annual terms to register the highest pace since 2016 Q4. Meanwhile, gross international reserves rose slightly in September 2019 to USD45.1 billion, after remaining broadly stable around USD44.9 billion between July 2019 and August 2019.

c) Real GDP growth recorded 5.7% in 2019 Q2, resulting in 5.6% for the fiscal year 2018/19, the highest since 2007/08, before it stabilized at 5.6% in 2019 Q3 according to preliminary figures. The unemployment rate continued to decline to record 7.5% in 2019 Q2, compared to 8.1% in the previous quarter.

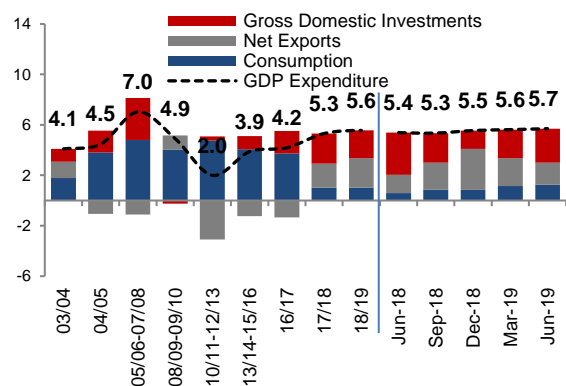
Real GDP growth recorded 5.7% in 2019 Q2, resulting in 5.6% for the fiscal year 2018/19, the highest since 2007/08, before it stabilized at 5.6% in 2019 Q3 according

Figure 12
Real GDP Growth at Market Prices
(In p.p., y/y)



Source: Ministry of Planning, Monitoring and Administrative Reform.

Figure 13
Real GDP Growth at Market Prices
(In p.p., y/y)



Source: Ministry of Planning, Monitoring and Administrative Reform.

to preliminary figures. Private domestic demand strengthened for the second consecutive quarter and has outpaced, since the beginning of 2019, net exports which was broadly the main driver of economic activity during the period between 2017 Q4 and 2018 Q4.¹ Meanwhile, public domestic demand continued its weakening trend after contributing strongly in 2016/17. Domestic demand was rather driven by investments than consumption. Net exports continued to be positive albeit weakening in 2019 H1. Meanwhile, the unemployment rate continued to drop to record 7.5% in 2019 Q2, compared to 8.1% in the previous quarter, owing to the increase in employment.

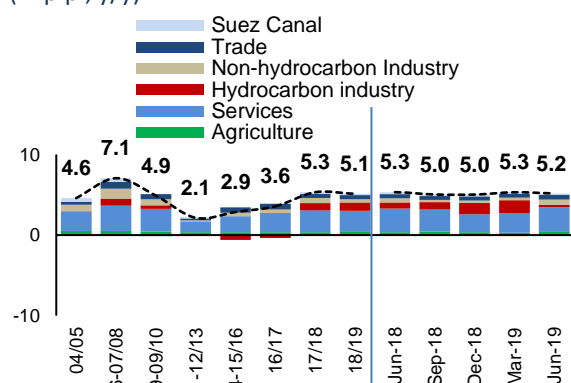
The contribution of net exports to GDP growth continued to be positive since 2017 Q4, albeit weakening in 2019 H1. The contraction of real imports has been increasing and driving the positive contribution of net exports since 2018 Q2. On the other hand, the contribution of real exports continued to weaken and contracted in 2019 Q2 for the second consecutive quarter after it was the main driver of the positive contribution of net exports between 2017 Q1 and 2018 Q1.

Private domestic demand has been increasing in the first half of 2019, led by private investments, which was mainly in gas extractions and electricity in 2018/19. Private consumption started showing signs of recovery in 2019 H1 after being subdued between 2017 Q4 and 2018 Q4. On the other hand, public domestic demand generally weakened since 2017 Q2 as public investment growth continued to slow down, registering an annual contraction since 2018 Q3. Previously, public domestic demand had peaked in 2016/17 on the back of investments in electricity, and was supported by national projects in 2017/18. Furthermore, public consumption growth relatively weakened in 2019 H1, after broadly recovering in 2018 H2 from a trough in 2017/18.

From the sectoral perspective, GDP growth stabilized at 5.2% in 2019 Q2, as the improvement in the private sector

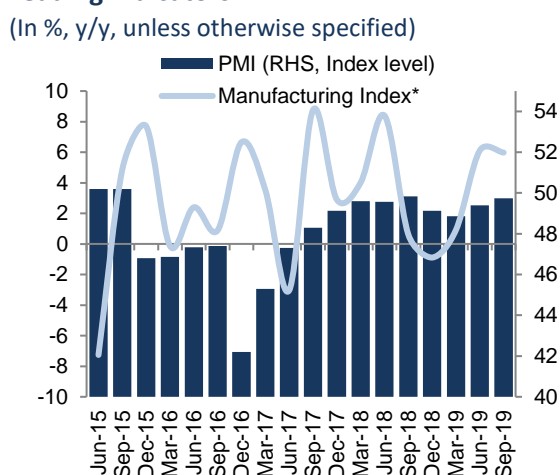
¹ Investments data for 2018/19 Q3 was revised.

Figure 14
Contribution to Real GDP Growth by Sector
(In p.p., y/y)



Source: Ministry of Planning, Monitoring and Administrative Reform.

Figure 15
Leading Indicators
(In %, y/y, unless otherwise specified)



Source: Bloomberg, CAPMAS.

*/ Q3 2019 data point for the manufacturing index only includes latest data published until August 2019.

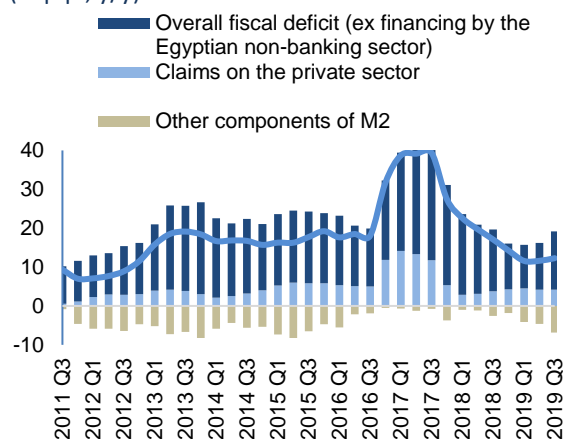
contribution broadly offset the drop in public sector contribution. Private sector output growth started to accelerate in 2019 Q2 to its highest level since 2017 Q2, as a result of broad-based improvement in most major sectors, led by non-petroleum manufacturing and construction, and to a lesser extent real estate, trade, tourism and transportation. This comes following a period of weakening for private sector output growth during the period between 2017 Q3 and 2018 Q4 mainly due to the above mentioned sectors, while communication continued to strengthen. The slowdown in public sector output in 2019 Q2 was mainly due to the slowdown in natural gas extractions, as well as the contraction of petroleum manufacturing and oil extractions, notwithstanding the continued recovery in general government. This comes after the increase in public sector contribution between 2017 Q3 and 2019 Q1, which was mainly due to natural gas extractions and to a lesser extent petroleum manufacturing and Suez Canal, and despite the weakness in general government.

Activity indicators in the non-hydrocarbon sector broadly stabilized in 2019 Q3. Growth of the manufacturing index stabilized on average in July and August 2019 after recovering in 2019 Q2. The PMI level strengthened in 2019 Q3 for the second consecutive quarter, after it had weakened in 2019 Q1 and 2018 Q4. Annual total car sales registered positive growth in September 2019 for the first time since January 2019, on the back of higher contribution from buses, while sales of passenger cars continued to decline for the 8th consecutive month. Meanwhile, Suez Canal net tonnage growth stabilized in 2019 Q3 after softening on average since 2017 Q4, in line with global trade developments.

In the hydrocarbon sector, natural gas production continued to grow on annual basis, yet at a softer pace on average during July-August 2019, compared to the average pace in 2019 Q2.

Figure 16
Contribution to M2 Growth

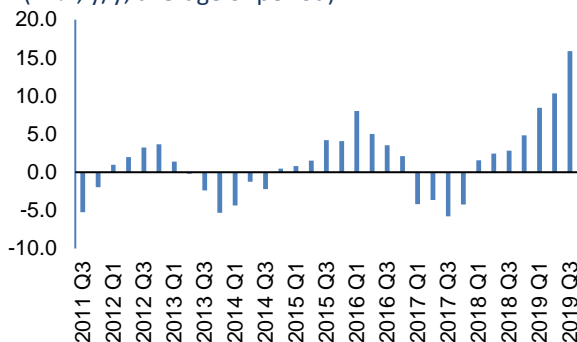
(In p.p., y/y)



Source: Central Bank of Egypt.

Figure 17
Inflation Adjusted L/C Claims on the Private Sector

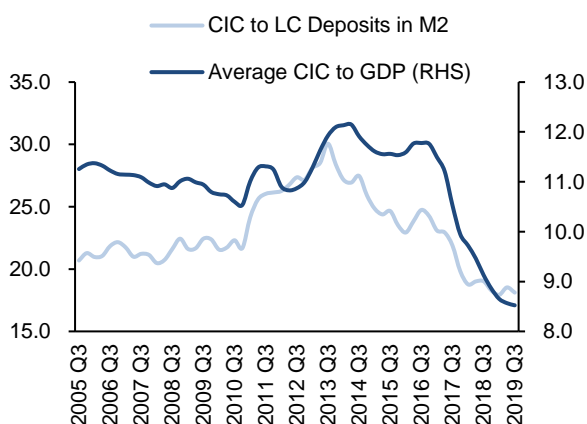
(In %, y/y, average of period)



Source: Central Bank of Egypt.

Figure 18
CIC Outside the Banking System^{1/}

(In %)



Source: Central Bank of Egypt.

^{1/} Average CIC to four quarters rolling sum of GDP.

d) Broad money growth slightly increased in 2019 Q3 after recording a six year-low in 2019 Q1, with the increase mainly driven by fiscal deficit contribution which has more than offset the continued decline in contribution of other counterpart assets of broad money.²

Annual M2 growth picked up slightly in 2019 Q3 to record 12.3%, after stabilizing in the previous quarter, and following a period of continued decline since the fading of the exchange rate revaluation effect to record 11.6% in 2019 Q1, the lowest since 2012 Q4. The increase in 2019 Q3 is estimated to have been mainly attributed to the increase in fiscal deficit contribution, which has more than offset the continued decline in contribution of other counterpart assets of broad money.

The increase in fiscal deficit contribution was mainly reflected in higher foreign holdings of T-bills and T-bonds, while external financing and bank financing broadly stabilized. Meanwhile, the biggest driver of the decrease in contribution of other counterpart assets of broad money was the increased negative contribution of non-budget public sector credit, specifically net claims on public economic authorities. This has more than offset the slightly easing negative contribution of net foreign assets not related to fiscal deficit financing, while the contribution of the private sector credit stabilized after declining slightly in the previous quarter.

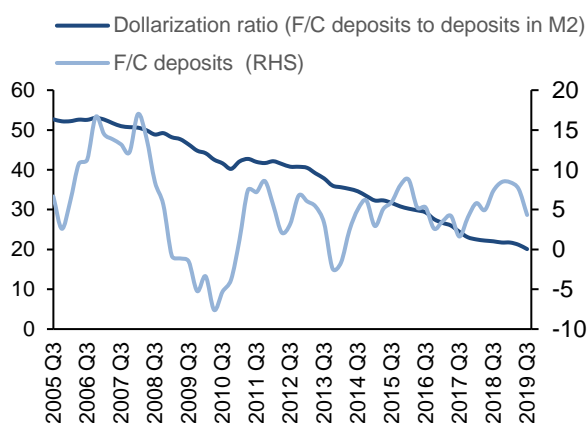
Nonetheless, inflation adjusted L/C claims on the private sector continued to witness annual increases since 2018 Q1, after recording annual contractions in 2017. The recovery was especially evident for claims on the private business sector, while claims on the household sector recovered by a relatively weaker magnitude.

Within the components of M2, CIC as a percent of L/C deposits in M2 broadly stabilized in 2019 Q3 for the third consecutive quarter, however hovering below its long term historical average, which continued to suggest relative lessening of currency holding behavior. Furthermore,

² Data for 2019 Q3 is measured as the average of July and August 2019.

Figure 19
Developments of F/C Deposits^{1/}

(In %, y/y, unless otherwise stated)

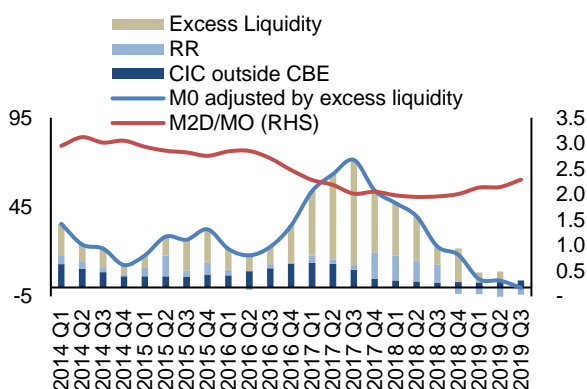


Source: Central Bank of Egypt.

1/ Dollarization ratio is calculated assuming constant exchange rate as of September 2019. While annual growth is calculated from F/C deposits in USD.

Figure 20
Contribution to Adjusted M0 and the Money Multiplier^{1/}

(In p.p., y/y unless otherwise stated)

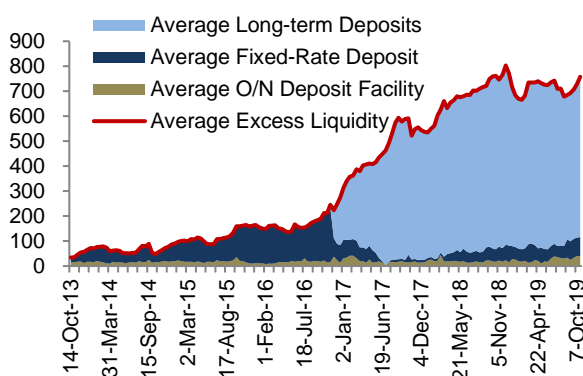


Source: Central Bank of Egypt.

1/ M0 adjusted by total excess liquidity.

Figure 21
Excess Liquidity^{1,2/}

(In EGP billion)



Source: Central Bank of Egypt.

1/ Excess liquidity is adjusted by O/N lending facility.

2/ As of October 21, 2019.

the dollarization ratio defined as F/C deposits to total deposits in M2 continued to decline in 2019 Q3, while the annual growth in F/C deposits in USD also dropped in 2019 Q3 for the second consecutive quarter following its continued increase since mid-2018.

Moreover, the structure of household deposits in L/C continued to be dominated by deposits more than three years since May 2018, following one and a half years of dominance by deposits less than three years amid the introduction of one and a half year saving certificates at a higher rate compared to longer term saving certificates. The reversal of the structure of household deposits is consistent with redemptions of these certificates since May 2018, given their cancellation by public banks in late April 2018.

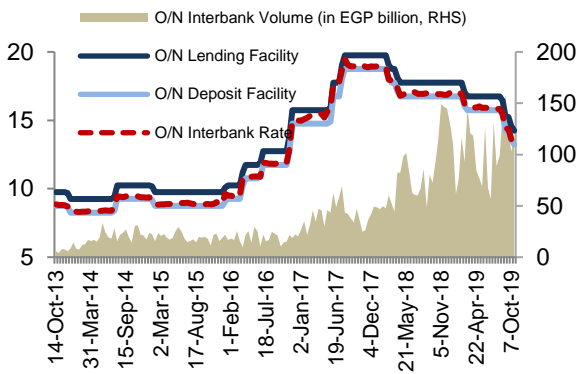
Annual growth of M0, adjusted by total excess liquidity, continued its decline for the two consecutive years to record a contraction in 2019 Q3 for the first time since 2012 Q1. This was mainly driven by CBE balance sheet operations that led to a contraction on average in excess liquidity growth during the same period. Meanwhile, the money multiplier, measured as the ratio between local currency components of broad money and M0 as defined above, started to increase in 2019 Q3, following its broad stability for seven consecutive quarters. The increase was mainly due to lower excess liquidity as a ratio to L/C deposits in M2.

e) Real monetary conditions remained tight.

Real monetary conditions remained tight, backed by receding inflationary pressures as well as previous policy rate increases, notwithstanding the cumulative 550 bps policy rate cuts in 2018 Q1, 2019 Q1 and 2019 Q3.

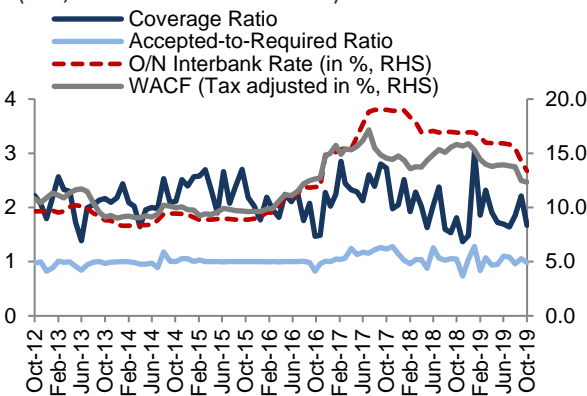
Excess liquidity level inched up in October 2019, after declining in 2019 Q3 to record an average of EGP749.5 billion (13.2% of GDP) during October 2019 compared to an average of EGP701.7 billion (12.7% of GDP) during 2019 Q3. Meanwhile, interbank activity remained relatively stable since April 2018, with interbank rates remaining below the policy rate by around 40 bps since July 2019 compared to

Figure 22
O/N Interbank and CBE Policy Rates^{1/}
(In %, unless otherwise stated)



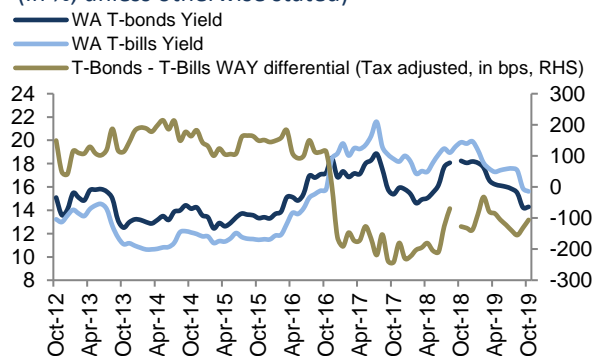
Source: Central Bank of Egypt.
1/ As of October 21, 2019.

Figure 23
Demand for, and Supply of the Treasury's L/C Marketable Securities^{1/}
(In x, unless otherwise stated)



Source: Central Bank of Egypt calculations.

Figure 24
Rates of the Treasury's L/C Marketable Securities
(In %, unless otherwise stated)



Source: Central Bank of Egypt calculations.

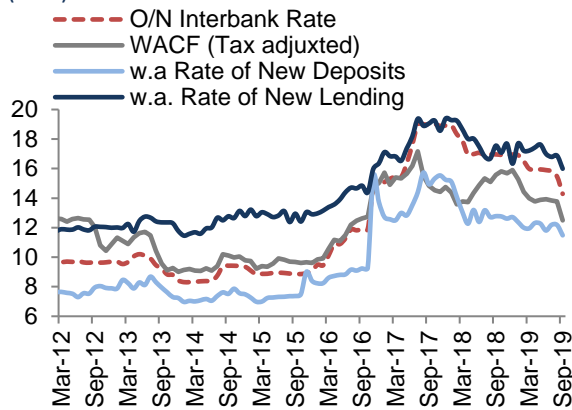
the long-term average of 30bps, supported by lower long-term absorption of excess liquidity which has more than offset the slight increase in the weighted average absorption tenors. Furthermore, interbank yield curve shifted downwards post the c.100% transmission of the cumulative 250 policy rate cuts on August 22, 2019 and September 26, 2019.

Yields for L/C government securities declined to record 12.3% (net of tax) in October 2019, the lowest since July 2016. This compares to 13.9% recorded on average during 2019 Q2, prior to the cumulative 250 bps policy rate cuts on August 22, 2019 and September 26, 2019. The 1.5p.p. decline in the weighted average yield reflected 0.6x the decline of the policy rate, which was due to the drop in demand reflected in lower coverage ratio that recorded 1.7x in October 2019 compared to 1.8x and 1.9x recorded during 2019 Q2 and Q3, respectively. Meanwhile, the inverted yield curve has been flattening since September 2019 after steepening in 2019 Q2, July and August 2019. The recent flattening was partly due to the drop in demand for long-term debt while that of T-bills remained relatively stable. Furthermore, the flattening was also supported by higher accepted-to-required ratio for T-bonds relative to that of T-bills.

Meanwhile, following the increase during most of 2018, yields on Egyptian Eurobonds have been broadly declining since the beginning of 2019, before stabilizing recently in line with the recent trend for emerging markets. Moreover, Egypt's CDS spreads remained relatively low compared to the majority of peers with similar sovereign credit rating. Furthermore, Egypt's credit rating was upgraded by Moody's and Fitch Ratings in April and March 2019, respectively, following the upgrade by S&P in May 2018. More recently, Moody's and Fitch Ratings reaffirmed their current credit rating for Egypt while maintaining a 'stable' outlook.

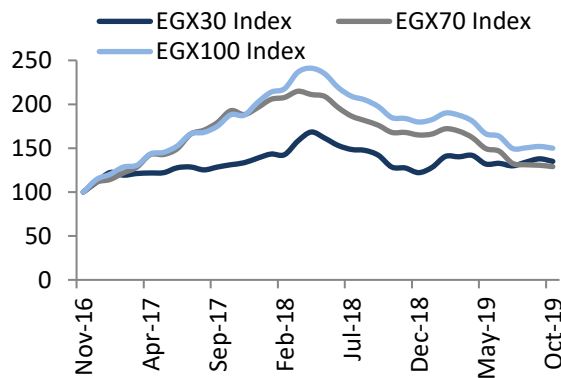
In the banking sector, data until September 2019 show partial transmission of the 150 bps policy rate cut on August 22, 2019 to rates of new deposits. New deposit rates declined to record an average of 11.5% in September

Figure 25
Select Market Interest Rates^{1/}
(In %)



Source: Central Bank of Egypt.
1/ Up to September 2019.

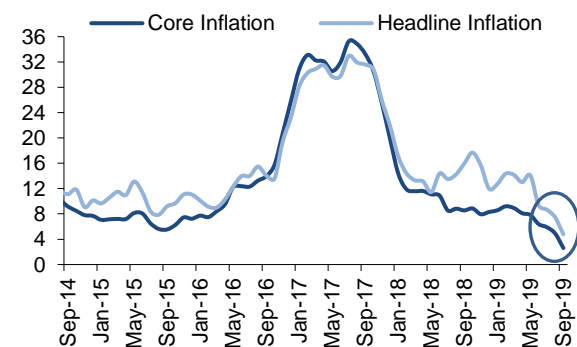
Figure 26
Stock Market Indices^{1/}
(Index, November 2016 = 100)



Source: Egyptian Stock Exchange and Central Bank of Egypt calculations.

1/ Equity performance calculated on EGP basis.

Figure 27
Headline and Core Inflation^{1/}
(In %, y/y, weights in parenthesis)



Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

1/ Core inflation is headline inflation excluding regulated and volatile food items.

2019, reflecting a transmission in the magnitude of 0.4x the policy rate cut. While rates of flexible deposits adjusted downwards, fixed-rate saving certificates more than or equal to three years remained broadly unchanged.

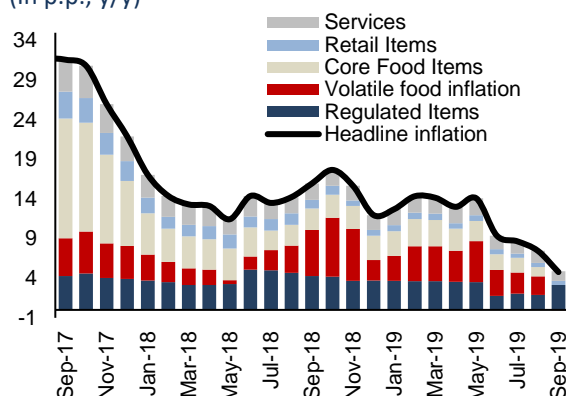
Meanwhile, rates of new loans declined to record an average of 16.0% in September 2019, reflecting a transmission in the magnitude of c.0.8x the policy rate cut on August 22, 2019. As a result, interest rate margins narrowed slightly to record 4.5p.p., slightly below the long-term average.

In equity markets, real prices partly recovered since the beginning of 2019, supported by the strong momentum witnessed in 2019 Q1 and the positive performance during August 2019 and September 2019 notwithstanding the loss of momentum during 2019 Q2, July and October 2019. Meanwhile, the EGX30 index in USD recovered by cumulative 21% since the beginning of the year, outpacing the MSCI emerging market index cumulative gain of 5%. This was supported by Egypt's nominal exchange rate appreciation against the USD. Furthermore, data up to 2019 Q3 show a continued recovery in real unit prices in the secondary real estate market after declining in 2019 Q1.

f) Annual headline and core inflation continued to decline to record the lowest figures since December 2012 and April 2006, respectively, supported by favorable base effects and further affected by the release of the 10th CPI series and its linking methodology with the 9th CPI series.

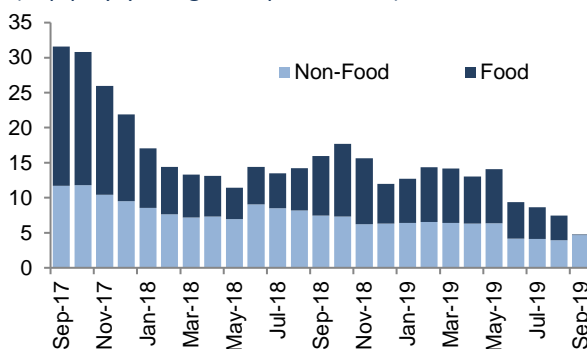
On October 10th, 2019 the Central Agency for Public Mobilization and Statistics (CAPMAS) released the 10th series of the consumer price index (CPI) with the publication of September 2019 CPI data, using 2018/19 as a base period and weights derived from the 2017/18 Household Income, Expenditure and Consumption Survey (HIECS). To link the 10th CPI series with the 9th CPI series, which used January 2010 as a base period and weights derived from the 2008/09 HIECS, CAPMAS rescaled the CPI indices until August 2019 to the new base period.

Figure 28
Contribution to Headline Inflation
(In p.p., y/y)



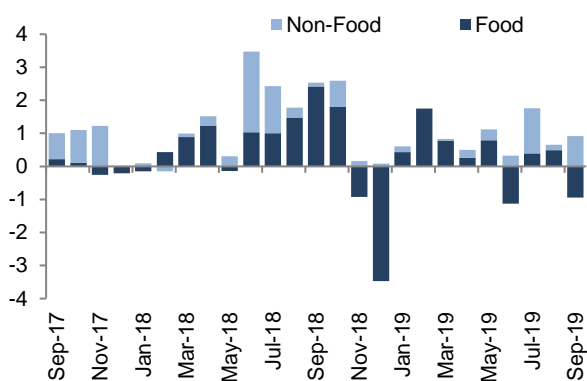
Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

Figure 29
Contribution to Headline Inflation
(In p.p., y/y, weights in parenthesis)



Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

Figure 30
Contribution to Headline Inflation
(In p.p., m/m, weights in parenthesis)



Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

Annual headline inflation continued to register a single digit for the fourth consecutive month and declined to 4.8% in September 2019 from 7.5% and 8.7% in August and July 2019, respectively, thereby recording the lowest rate since December 2012. Meanwhile, annual core inflation continued to register a single digit for the fifteenth consecutive month and declined to 2.6% in September 2019 from 4.9% and 5.9% in August and July 2019, respectively, thereby recording the lowest rate since April 2006. Hence, the spread between annual headline and core inflation continued to decline in September 2019 for the fourth consecutive month, recording its lowest level since May 2018.

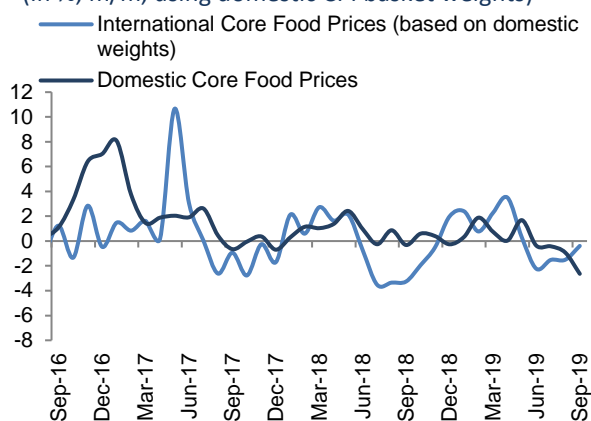
Contained inflationary pressures, as well as continued favorable base effects supported the decline of annual headline inflation, with the latter particularly evident in September 2019, as monthly inflation recorded negative 0.03% compared to positive 2.5% in September 2018. Favorable base effects during 2019 Q3 stemmed from weaker fiscal consolidation measures in 2019 compared to 2018 as fuel and electricity prices increased by 20.7% and 19.4% in 2019 compared to 42.7% and 26.9% in 2018, respectively, as well as the absence of fresh vegetables supply shock witnessed in September 2018. Furthermore, the decline in September 2019 was further affected by the release of the 10th CPI series as well as its linking methodology with the 9th CPI series.

The decline of annual headline inflation mainly reflected the continued decline of annual food inflation since June 2019 and significantly in September 2019 to record 0.3% compared to 6.9% in August 2019, the lowest rate on record, and driven by lower contribution of both core and volatile food items. Meanwhile, annual non-food inflation remained broadly stable to average 8.2% since June 2019 compared to an average of 13.1% between January and May 2019.

With respect to key monthly developments, inflation in 2019 Q3 reflected the impact of fiscal consolidation measures which affected regulated items, mainly electric-

Figure 31
International vs. Domestic Core Food Prices

(In %, m/m, using domestic CPI basket weights)



Source: Central Agency for Public Mobilization and Statistics, Central Bank of Egypt, World Bank and Food and Agriculture Organization of the United Nations.

ity and hydrocarbon products, their contained indirect effects on services, as well as the continued negative monthly inflation of core food items for the fourth consecutive month in September 2019, mainly due to lower prices of poultry, along with contained price increases of volatile food items.

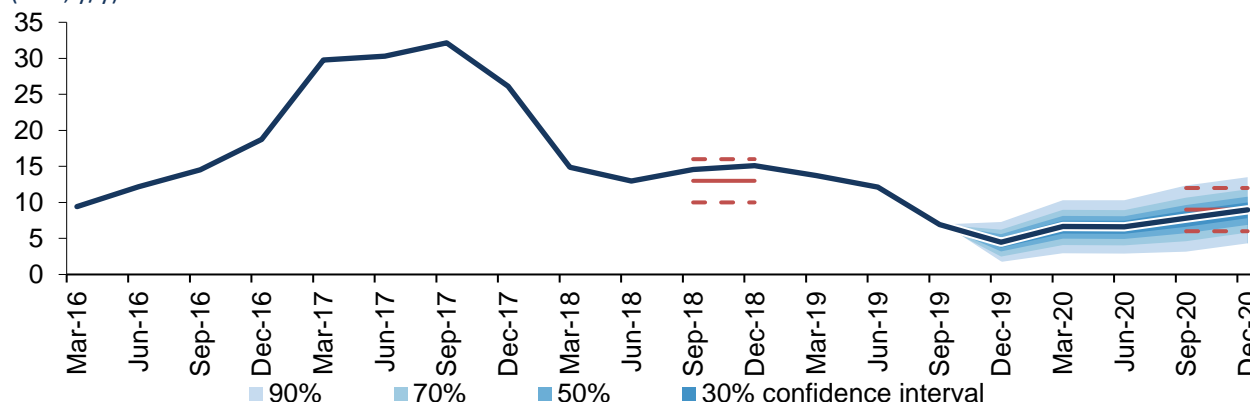
Average monthly core food inflation witnessed domestically since January 2019 was largely consistent with monthly international core food inflation, after diverging between August and December 2018 due to the slight increase in core food inflation domestically at the time of the domestic fiscal consolidation measures. In September 2019, negative international core food inflation was mainly driven by lower prices of fish and poultry which was partly offset by higher prices of red meat.

The Outlook

The MPC decided to cut policy rates by a cumulative 250 bps during its meetings in August, September 2019. The reduction in policy rates provide appropriate support to economic activity, while remaining consistent with achieving the inflation target of 9 percent (± 3 percentage points) in 2020 Q4 and price stability over the medium-term.

Figure 32
Inflation Forecast^{1/ 2/}

(In %, y/y)



Source: Central Bank of Egypt.

1/ The chart captures uncertainty regarding the inflation forecast with its most likely evolution, given the risks. The band around the center of the forecast shows the range of inflation outcomes that can occur with 30% probability, while the widening bands represent a gradually increasing probability of 50%, 70% and 90%.

2/ The higher inflation in the quarter of March 2020 is due to strong unfavorable base effects in the month of December 2019, in the case of absence of the supply shocks witnessed in 2018.

Real GDP growth is expected to continue benefiting from continued structural reforms. Meanwhile, the primary fiscal balance is targeted to maintain the surplus of 2.0% that was achieved in 2018/19 in subsequent years to reduce debt levels, while the overall fiscal deficit is targeted to continue declining to record 7.2% of GDP in 2019/20 and 6.2% of GDP in 2020/21, and to further decline thereafter.

Globally, the expansion of economic activity continued to weaken, financial conditions eased, and uncertainty regarding trade policies continued to weigh on the outlook. Meanwhile, the outlook for Brent crude oil price incorporated in the domestic inflation outlook remained unchanged compared to the previous Monetary Policy Reports, while spot prices remain subject to volatility due to potential supply-side factors that include geopolitical risks. On the other hand, international food price forecasts relevant to Egypt's consumption basket are expected to increase in 2020 and 2021.

As cost-recovery for most fuel products was reached, the pass-through of international oil prices to domestic inflation is based on the implementation of price indexation to underlying costs with quarterly adjustments. Furthermore, the impact of higher international oil prices on the fiscal budget is limited given the hedging contracts while at the same time favorable on Egypt's hydrocarbon trade balance with the latter registering a surplus in 2018/19 for the first time since

2012/13. In addition to international commodity price developments, risks surrounding the domestic inflation outlook from the global economy continue to include trade tensions and economic growth developments.

Appendix: Tables and Abbreviations

Table A1: CPI Contribution														
	Weights*	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Monthly Contributions to Headline CPI Inflation (in p.p.)														
Headline	100.0	2.5	2.6	-0.8	-3.4	0.6	1.7	0.8	0.5	1.1	-0.8	1.8	0.7	0.0
Regulated Items	21.4	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	1.1	0.1	1.3
Fresh Fruits & Vegetables	5.5	2.5	1.6	-1.1	-3.4	0.3	1.1	0.5	0.2	0.2	-1.0	0.5	0.8	0.1
Core CPI	73.1	0.0	0.6	0.3	0.0	0.3	0.6	0.3	0.2	0.8	0.2	0.1	-0.2	-1.4
Food Prices	24.5	-0.1	0.2	0.1	-0.1	0.1	0.7	0.3	0.0	0.6	-0.1	-0.1	-0.3	-1.3
of which														
<i>Poultry & Red Meat</i>	8.6	-0.2	0.1	-0.1	-0.3	0.0	0.5	0.1	-0.2	0.4	-0.2	-0.1	-0.3	-0.9
<i>Food excl. Poultry & Red Meat</i>	15.9	0.0	0.1	0.2	0.2	0.1	0.2	0.1	0.2	0.1	0.0	-0.1	0.0	-0.4
Retail Prices	14.3	0.0	0.1	0.1	0.0	0.0	-0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Services	34.3	0.0	0.4	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.3	0.2	0.1	-0.2
Annual Contributions to Headline CPI Inflation (in p.p.)														
Headline	100.0	16.0	17.7	15.7	12.0	12.7	14.4	14.2	13.0	14.1	9.4	8.7	7.5	4.8
Regulated Items	21.4	4.3	4.2	3.7	3.7	3.7	3.6	3.6	3.6	3.5	1.8	2.0	1.9	3.1
Fresh Fruits & Vegetables	5.5	5.8	7.4	6.5	2.6	3.2	4.4	4.4	3.9	5.2	3.2	2.7	2.3	-0.1
Core CPI	73.1	5.9	6.1	5.5	5.7	5.9	6.3	6.1	5.5	5.4	4.3	3.9	3.2	1.7
Food Prices	24.5	2.7	2.9	2.9	3.1	3.1	3.4	3.3	2.8	2.6	2.0	1.9	1.2	-0.1
of which														
<i>Poultry & Red Meat</i>	8.6	0.4	0.7	0.8	0.7	0.7	1.0	0.9	0.4	0.5	0.3	0.5	-0.1	-0.8
<i>Food excl. Poultry & Red Meat</i>	15.9	2.3	2.2	2.2	2.4	2.5	2.4	2.4	2.4	2.0	1.7	1.4	1.2	0.8
Retail Prices	14.3	1.1	1.1	0.7	0.7	0.8	0.8	0.8	0.7	0.7	0.7	0.5	0.5	0.5
Services	34.3	2.1	2.0	1.8	1.9	2.0	2.1	2.0	2.1	2.1	1.7	1.5	1.5	1.2

Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt calculations.

* Weights are based on 2017/2018 Household Income, Expenditure, and Consumption Survey (HIECS), starting from the release of September 2019 data.

Table A2: Egypt's Balance of Payments (USD billion)

Date	2016/17*	2017/18*	2018/19*	2017/18*				2018/19*			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Trade Balance	-37.3	-37.3	-38.0	-8.9	-9.8	-9.3	-9.3	-9.9	-9.4	-10.5	-8.3
Export proceeds	21.7	25.8	28.5	5.8	6.2	6.8	7.0	6.8	7.5	6.6	7.6
<i>Petroleum exports</i>	6.6	8.8	11.6	1.8	2.0	2.2	2.8	2.8	3.2	2.5	3.0
<i>Other exports</i>	15.1	17.1	16.9	4.1	4.2	4.6	4.3	4.0	4.3	4.1	4.5
Import payments**	59.0	63.1	66.5	14.7	16.1	16.0	16.3	16.7	16.8	17.1	15.9
<i>Petroleum imports</i>	12.0	12.5	11.5	2.8	3.2	3.4	3.1	3.5	2.4	2.9	2.7
<i>Other imports</i>	47.0	50.6	55.0	12.0	12.8	12.6	13.2	13.2	14.5	14.2	13.1
Services Balance	5.6	11.3	13.0	2.8	2.5	2.5	3.5	4.3	3.0	2.5	3.3
Receipts	15.4	21.7	24.4	5.7	5.1	5.0	5.9	6.9	5.9	5.3	6.3
Transportation	7.9	8.7	8.6	2.3	2.1	2.0	2.3	2.2	2.2	2.0	2.1
<i>Of which: Suez Canal dues</i>	4.9	5.7	5.7	1.4	1.4	1.4	1.5	1.4	1.5	1.3	1.5
Travel (tourism revenues)	4.4	9.8	12.6	2.7	2.3	2.3	2.6	3.9	2.9	2.6	3.2
Payments	9.8	10.4	11.4	2.8	2.6	2.5	2.4	2.7	2.9	2.8	3.0
Travel	2.3	2.3	2.5	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.7
Investment Income Balance	-4.6	-6.5	-8.3	-1.5	-1.5	-1.7	-1.8	-2.0	-1.8	-2.0	-2.5
Receipts	0.5	0.6	1.0	0.2	0.2	0.2	0.0	0.2	0.3	0.2	0.3
Payments	5.1	7.1	9.3	1.7	1.7	1.9	1.8	2.3	2.0	2.2	2.8
<i>Of which: Interest paid</i>	1.2	1.6	2.6	0.4	0.4	0.4	0.4	0.5	0.6	0.7	0.8
Current Transfers	21.8	26.3	25.1	5.8	7.1	6.5	6.9	5.9	6.0	6.2	6.9
Private (net),	21.7	26.1	24.8	5.8	7.1	6.4	6.8	5.9	5.9	6.1	6.9
Official (net)	0.1	0.2	0.4	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
Balance of Current Account	-14.4	-6.1	-8.2	-1.8	-1.8	-1.9	-0.6	-1.8	-2.1	-3.8	-0.6
Capital & Financial Account	31.0	22.0	8.5	6.2	4.2	8.6	3.0	1.6	0.2	6.0	0.8
Capital Account	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	31.1	22.1	8.7	6.3	4.2	8.7	3.0	1.6	0.3	6.0	0.8
Direct investment abroad	-0.2	-0.3	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Direct investment in Egypt (net)	7.9	7.7	5.9	1.8	1.9	2.3	1.7	1.1	1.7	1.8	1.3
Portfolio investment abroad	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1
Portfolio investment in Egypt (Net)#	16.0	12.1	4.2	7.5	0.5	6.9	-2.8	-3.2	-2.6	6.9	3.2
<i>Of which: Bonds</i>	5.5	5.3	5.1	0.0	-0.1	3.3	2.1	-0.1	-0.2	3.3	2.1
Other Investments (Net)	7.2	2.6	-1.0	-3.0	1.8	-0.4	4.2	3.9	1.3	-2.7	-3.5
Net Borrowing	9.7	10.3	6.3	0.7	3.9	2.4	3.3	1.1	0.0	3.8	1.3
Medium- and Long-Term Loans (net)	5.2	6.7	3.3	1.0	2.1	1.2	2.4	-0.5	0.8	2.2	0.8
Medium- and Long-Term Suppliers' Credit	2.8	1.1	0.8	0.2	0.2	0.1	0.6	0.3	0.3	-0.1	0.3
Short term Suppliers' Credit (net)	1.7	2.4	2.1	-0.6	1.6	1.0	0.3	1.3	-1.1	1.7	0.2
Other Assets	-12.1	-4.5	-8.9	-3.6	0.3	-1.9	0.7	1.9	-1.2	-8.0	-1.6
Other Liabilities	9.6	-3.1	1.6	0.0	-2.4	-0.9	0.2	0.9	2.4	1.5	-3.2
Net Errors & Omissions	-2.9	-3.1	-0.4	0.6	-1.9	-1.3	-0.5	0.5	-0.2	-0.8	0.1
Overall Balance	13.7	12.8	-0.1	5.1	0.5	5.4	1.8	0.3	-2.1	1.4	0.2
Change in CBE Reserve Assets (Increase -)	-13.7	-12.8	0.1	-5.1	-0.5	-5.4	-1.8	-0.3	2.1	-1.4	-0.2

* Provisional.

Table A3: GDP contribution									
	2015/16	2016/17	2017/18	2018/19	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
GDP (at Market Prices)	4.3	4.2	5.3	5.6	5.4	5.3	5.5	5.6	5.7
GDP (at Factor cost)	2.3	3.6	5.3	5.1	5.3	5	5	5.3	5.2
Public GDP (at Factor Cost)	0.4	0.4	1.5	1.7	1.5	1.4	1.9	2.2	1.2
PrivateGDP (at Factor Cost)	1.9	3.1	3.8	3.5	3.8	3.7	3.1	3.1	4
Agriculture, forestry, fishing and hunting	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.4
Industry	-0.6	0.1	1.5	1.4	1.3	1.2	1.7	1.9	1
Extractions	-0.7	-0.2	0.7	1	0.6	0.8	1.2	1.4	0.4
Oil	-0.1	-0.4	0	0	0	0.1	0.1	0	-0.2
Natural gas	-0.7	0.1	0.7	0.9	0.5	0.6	1.1	1.4	0.5
Other	0	0	0	0	0	0	0	0	0
Manufacturing	0.1	0.3	0.8	0.5	0.7	0.4	0.5	0.5	0.5
Petroleum	0.1	-0.1	0.2	0.1	0.1	0.1	0.2	0.2	-0.1
Non-Petroleum	0	0.4	0.6	0.4	0.5	0.3	0.3	0.3	0.6
Services	1.4	2.1	2.6	2.4	2.7	2.7	2.1	2.1	2.7
Construction	0.5	0.5	0.6	0.5	0.7	0.3	0.6	0.5	0.8
Real Estate Rental and Services	0.4	0.5	0.4	0.4	0.5	0.4	0.3	0.4	0.5
Transportation and Warehousing	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Finance	0.2	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Insurance 1/	0	0	0	0	0	0	0	0	0
Communication	0.3	0.4	0.3	0.4	0.2	0.4	0.4	0.3	0.4
Tourism	-0.7	0.1	0.7	0.5	0.7	1	0.4	0.3	0.4
Educational, Health Care, and Other Services	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Utilities 2/	0.1	0.1	0.1	0	0.1	0	0.1	0	0
Information	0	0	0	0	0	0	0	0	0
Trade	0.7	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.6
Suez Canal	0	0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
General Government	0.5	0.3	0.1	0.2	0.2	0.1	0.1	0.3	0.4

Source: Ministry of Planning, Follow-up and Administrative Reform.

1/ Includes Social Insurance.

2/ Includes Electricity, Water, and Sewage.

Table A4: Monetary Survey and Central Bank Balance sheet (end of period, in EGP billion)

	Jun-16	Jun-17	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Monetary Survey								
Net Foreign Assets	-87.4	61.1	309.5	216.9	127.5	242.1	300.1	356.7
Central Bank	-44.9	3.7	301.5	289.0	241.9	254.2	264.4	270.0
Commercial Banks	-42.5	57.4	8.0	-72.1	-114.5	-12.0	35.8	86.7
Net Domestic Assets	2181.9	2857.1	3144.8	3332.4	3501.2	3482.6	3563.5	3653.7
Net Claims on Government	1602.7	1808.9	1971.6	2125.2	2242.6	2175.6	2217.1	2424.6
Net Claims on Public Economic Authorities	52.2	170.7	245.9	256.1	266.0	234.7	210.9	176.6
Claims on Public Sector Companies	93.1	148.7	160.2	164.4	166.7	164.9	162.1	160.6
Claims on Private Sector	712.1	982.9	1082.6	1098.3	1140.9	1188.4	1217.1	1250.0
Net Other Items	-278.2	-254.1	-315.5	-311.6	-315.0	-281.0	-243.7	-358.1
Broad Money (M2)	2094.5	2918.2	3454.3	3549.3	3628.7	3724.7	3863.6	4010.4
Local Currency Component (M2D)	1770.7	2223.9	2737.4	2821.1	2885.1	2983.1	3149.0	3324.0
Currency Outside Banks	346.9	419.1	438.9	443.5	441.9	451.0	487.2	499.3
Local Currency Deposits	1423.8	1804.8	2298.5	2377.6	2443.2	2532.1	2661.8	2824.6
Foreign Currency Deposits	323.8	694.3	717.0	728.2	743.5	741.6	714.6	686.4
Central Bank Balance Sheet								
Net foreign assets	-44.9	3.7	301.5	289.0	241.9	254.2	264.4	270.0
Foreign assets	149.9	551.5	776.0	782.0	746.1	748.7	734.0	729.1
Foreign liabilities	-194.8	-547.8	-474.5	-493.0	-504.2	-494.6	-469.6	-459.1
Net domestic assets	522.9	573.9	414.8	415.8	369.0	435.0	419.7	442.0
Net claims on government	658.3	740.5	730.6	789.8	748.0	714.4	747.2	792.6
Net claims on public economic authorities	-38.9	-31.8	-15.1	-8.8	-4.8	-0.4	-1.1	-3.3
Claims on Banks	120.4	286.9	326.0	295.9	269.5	288.4	300.4	287.3
Bank's Deposits in Foreign Currency	-60.8	-129.7	-124.6	-126.0	-125.2	-124.1	-121.1	-117.0
Open Market Operations /1	-150.0	-467.9	-677.5	-735.8	-747.4	-718.2	-782.3	-729.7
Other items net	-6.1	176.0	175.4	200.7	228.9	274.8	276.6	211.9
Reserve money (M0)	478.1	577.6	716.3	704.8	611.0	689.2	684.0	711.9
Currency Outside Banks	346.9	419.1	438.9	443.5	441.9	451.0	487.2	499.3
Reserves of banks	131.2	158.5	277.5	261.2	169.0	238.2	196.8	212.6
Cash at vaults	21.6	33.0	43.7	37.7	35.3	35.1	48.9	41.1
Deposits in local currency	109.6	125.5	233.8	223.5	133.7	203.0	147.9	171.5

Source: Central Bank of Egypt.

1/ Deposit auctions and deposit facility.

Table A5: Market Developments

	2016		2017			2018			2019			Latest Vs. 2016 Q3, in bps ^{1/}
	Q3	Q2	Q4	Q2	Q3	Q4	Q1	Q2	Q3	Oct.		
Policy Rate												
Mid-Corridor Rate, %	12.25	16.16	19.25	17.25	17.25	17.25	16.75	16.25	15.58	13.75	150	
Interbank Market												
Interbank WAR, %	11.90	16.58	19.04	17.04	17.01	16.96	16.43	15.96	15.14	13.39	149	
Interbank O/N rate, %	11.86	16.62	18.95	16.99	16.95	16.91	16.39	15.93	15.12	13.36	150	
Interbank O/N average volume, EGP billion	2.1	5.4	3.9	9.1	7.7	13.3	10.8	9.8	13.0	11.9	9.8	
Interbank O/N share of total interbank volume, %	64.0	54.1	69.2	74.9	75.0	81.8	85.6	83.3	88.0	84.4	2037	
Banking Sector												
Deposit Rates, %	9.16	13.10	15.37	12.72	12.93	12.70	12.10	12.12	11.93	n/a	277	
Time, %	8.75	11.96	14.16	12.17	12.57	12.24	11.57	11.48	11.12	n/a	236	
Short-term Deposits (<1Y), %	8.72	11.88	14.22	12.18	12.47	12.25	11.60	11.49	11.09	n/a	237	
Other Deposits, %	9.52	13.59	12.95	11.94	13.29	11.89	10.42	10.87	11.48	n/a	196	
Saving, %	12.26	18.48	19.04	15.15	14.86	14.89	14.84	14.70	14.21	n/a	195	
< 3 years, %	11.43	19.86	19.95	16.07	13.17	13.26	12.38	12.51	12.28	n/a	85	
≥ 3 years, %	12.27	14.82	14.92	15.13	14.88	14.90	14.86	14.71	14.21	n/a	195	
Saving Accounts, %	7.95	9.94	10.17	10.19	9.19	9.14	8.90	10.00	8.53	n/a	58	
Lending Rates, %	14.74	17.28	19.11	17.88	17.01	16.95	17.36	17.36	16.50	n/a	176	
W.a. Business Lending Rates, %	14.64	17.36	19.13	17.86	16.76	16.53	17.05	17.05	16.00	n/a	135	
Short term business, %	14.59	17.44	19.19	17.74	17.22	17.38	17.36	17.13	15.86	n/a	127	
Long term business, %	14.71	17.22	18.98	18.03	15.75	14.77	16.17	16.82	16.23	n/a	152	
Retail, %	15.24	16.78	19.01	18.02	18.03	18.59	18.43	18.60	18.03	n/a	280	
Local Debt Market												
T-Bill yield 1Y, %	15.89	19.69	17.99	17.75	19.13	19.87	18.42	17.23	16.69	15.29	-60	
W.a T-bill yield, %	15.37	19.72	18.41	18.12	19.24	19.83	18.42	17.42	17.01	15.62	24	
W.a T-bond yield, %	16.89	17.85	15.68	15.65	17.88	18.17	17.46	16.11	15.19	14.29	-260	
WACF, % ^{2/}	12.43	15.71	14.56	14.37	15.33	15.81	14.68	13.87	13.40	12.35	-9	
Spreads^{2/}												
O/N interbank - Mid Corridor rate, %	-0.39	0.46	-0.30	-0.26	-0.30	-0.34	-0.36	-0.32	-0.46	-0.39	0	
W.a. Lending rate - Mid Corridor rate, %	2.49	1.12	-0.14	0.63	-0.24	-0.30	0.61	1.11	0.92	n/a	-157	
Mid Corridor - W. A Deposit Rate, %	3.09	3.06	3.88	4.53	4.32	4.55	4.65	4.13	3.65	n/a	56	
WACF - Mid Corridor rate, %	0.18	-0.45	-4.69	-2.88	-1.92	-1.44	-2.07	-2.38	-2.18	-1.40	-159	
W.a. Yield Curve, %	1.22	-1.50	-2.19	-1.97	-1.08	-1.33	-0.77	-1.05	-1.46	-1.06	-228	
W.a. Lending rate - WACF, %	2.21	1.65	4.56	3.49	1.43	0.72	2.37	3.18	2.60	n/a	39	
W.a. Lending rate - T-bill yield, %	2.35	1.59	4.40	3.36	1.37	0.66	2.31	3.11	2.39	n/a	4	
W.a. Lending rate - W.a. Deposit rate, %	5.58	4.18	3.74	5.15	4.08	4.25	5.26	5.24	4.57	n/a	-101	
Long term Business - Short term Business lending, %	0.12	-0.22	-0.21	0.29	-1.47	-2.61	-1.19	-0.31	0.37	n/a	25	

Source: Central Bank of Egypt.

1/All changes are in basis points with the exception of Interbank o/n volume, the changes are in EGP billion.

2/ Government securities' yields are adjusted for tax.

Abbreviations

bps	Basis points
CBE	Central Bank of Egypt
CIC	Currency in circulation outside the banking system
CPI	Consumer price index
EGP	Egypt Pound
F/C	Foreign currency
GDP	Gross domestic product
KSA	Kingdom of Saudi Arabia
L/C	Local currency
m/m	Month on month
M0	Reserve money
M2	Broad money
O/N	Overnight
p.p.	percentage points
USD	United States Dollars
w.a.	Weighted average
WACF	Weighted average cost of finance of the Treasury's L/C marketable securities
y/y	Year on year

