



Central Bank of Egypt

Monetary Policy Report
I / 2020

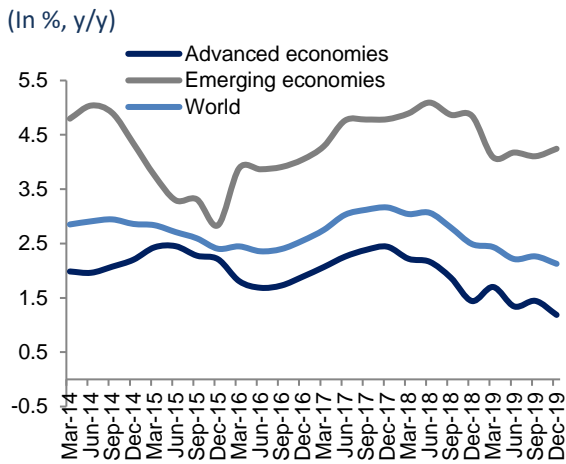
Disclaimer

The cut-off date for the data included in this report is April 30, 2020. 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 April 2020. Furthermore, the Monetary Policy Committee decided in its meeting held on May 14th, 2020 to keep its key policy rates unchanged. These and all other incoming data will be incorporated in the following Monetary Policy Report.

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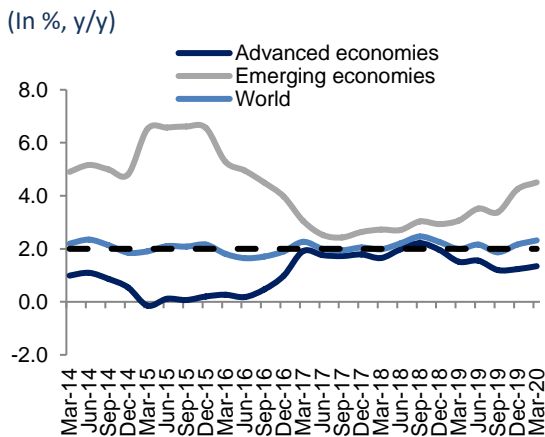
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Figure 1
Economic Growth of Egypt's External Environment^{1/}



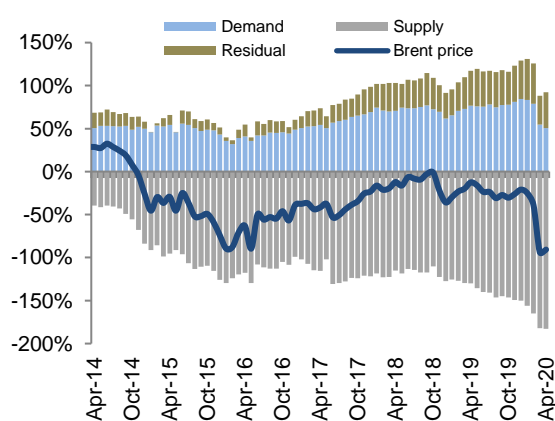
Source: Bloomberg & Central Bank of Egypt calculations.
1/ The series is weighted using Egypt's trade volume in 2015/16.

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
Contribution to Brent price change
(ln %, January 2010 = 100, monthly average)



Source: Federal Reserve Bank of New York.

The Initial Conditions

a) Global economic growth softened, trade growth continued to slowdown, international oil prices dropped, and capital flows into emerging markets witnessed a sharp reversal following the COVID-19 global outbreak.

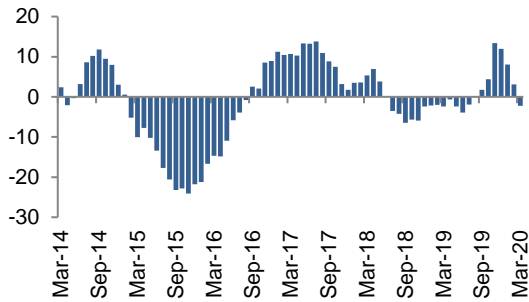
Economic growth of Egypt's external environment softened slightly to 2.1% in 2019 Q4 from 2.3% in 2019 Q3, after softening for four consecutive quarters between 2018 Q3 and 2019 Q2, as economic growth in advanced economies softened marginally to 1.2% in 2019 Q4 from 1.4% in 2019 Q3. This was mainly due to a slightly weaker economic growth in the Euro area, the United Kingdom and Japan, which more than offset slightly stronger growth in the United States in 2019 Q4, compared to the previous quarter. Meanwhile, economic growth in emerging economies continued to roughly stabilize at 4.2% in 2019 Q4, for the fourth consecutive quarter. This was mainly due to weaker economic growth in India, which continued to offset stronger growth in Russia and Brazil as economic growth in China stabilized in 2019 Q4, compared to the previous quarter.

Annual headline inflation of Egypt's external environment broadly stabilized at an average of 2.3% in 2020 Q1, after inching up in 2019 Q4 from an average of 1.9% in 2019 Q3. Inflation in advanced economies continued to broadly stabilize in 2020 Q1, for the second consecutive quarter. This was mainly due to the stabilization of the inflation rate in the Euro Area and the United States in 2020 Q1, compared to the previous quarter. Meanwhile, inflation in emerging economies continued to increase marginally, for the second consecutive quarter, to register an average of 4.5% in 2020 Q1, compared to an average of 4.2% in 2019 Q4. This was due to the acceleration of the inflation rate in China, India and Brazil, which more than offset the deceleration of the inflation rate in Russia in 2020 Q1, compared to the previous quarter.

Annual global trade growth continued to slowdown in January 2020 and February 2020 registering the fastest drop pace since 2009 Q3 at -2.5%, compared to -0.7% in 2019

Figure 4
International Food Prices

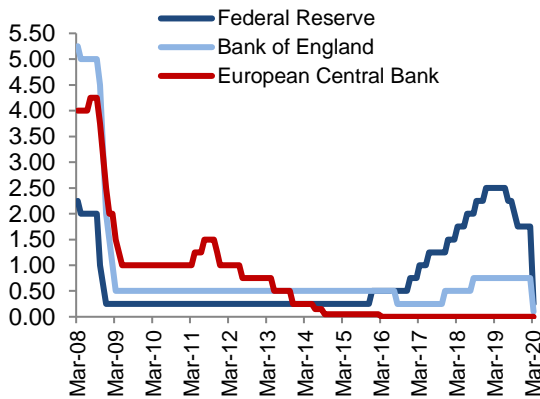
(In %, y/y, using domestic CPI basket weights of core food items)



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

Figure 5
Advanced Economies Central Banks' Key Policy Rates

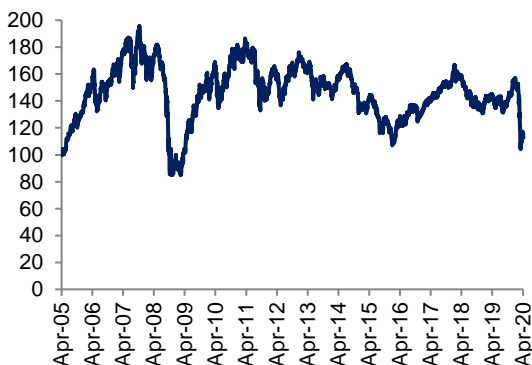
(In %)



Source: Bloomberg and Central Bank of Egypt calculations.

Figure 6
Emerging Markets Capital Flows Proxy

(Index level)



Source: Bloomberg.

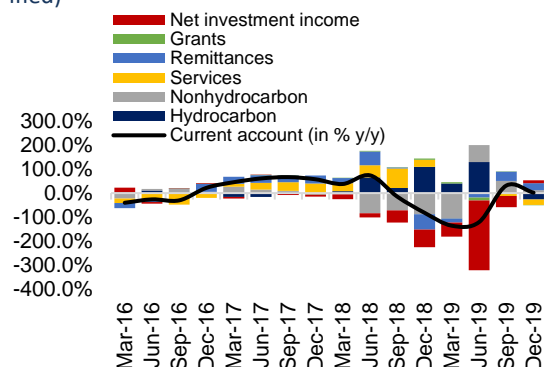
Q4, marking the fourth contraction on annual terms since 2009 Q4, and down from a peak of 5.2% in 2017 Q3.

Brent crude oil prices continued to decline since January 2019 to register an average of 18.4 USD/barrel in April 2020, compared to an average of 50.4 USD/barrel in 2020 Q1 and an average of 63.2 USD/barrel in 2019 Q4. This sharp decline was due to lower demand, affected by the COVID-19 global outbreak as well as the associated containment measures, in addition to higher supply despite the additional supply cuts agreement between OPEC and Non-OPEC member countries. Meanwhile, international food prices, using domestic CPI basket weights of core food items, declined on annual terms in March 2020, for the first time since July 2019. This was mainly due to lower prices of red meat as well as dairy products affected by lower demand.

The Federal Reserve cut its policy rates by 150 basis points in March 2020, bringing it down to the levels that prevailed following the Global Financial Crisis in 2009. Moreover, the Bank of England cut its policy rate by 65 basis points in March 2020, bringing it down to nearly zero percent, while the European Central Bank kept its main refinancing operations rate unchanged at zero percent in March 2020, after cutting its deposit facility rate to -0.5% in September 2019 for the first time since March 2016. Furthermore, the three central banks expanded their asset purchase programs significantly, among other tools, in order to offset the tightening of financial conditions following the COVID-19 global outbreak as well as the associated containment measures.

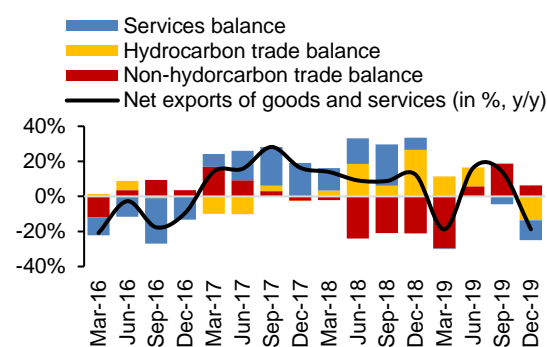
In March 2020, capital flows into emerging markets witnessed the sharpest reversal since 2008, which continued in April 2020 for the third consecutive month, albeit at a slower pace. This was mainly due to increased risk aversion towards emerging markets following the COVID-19 global outbreak as well as the associated containment measures.

Figure 7
Contribution to the Current Account
(In p.p., +ve= improvement, y/y unless otherwise specified)



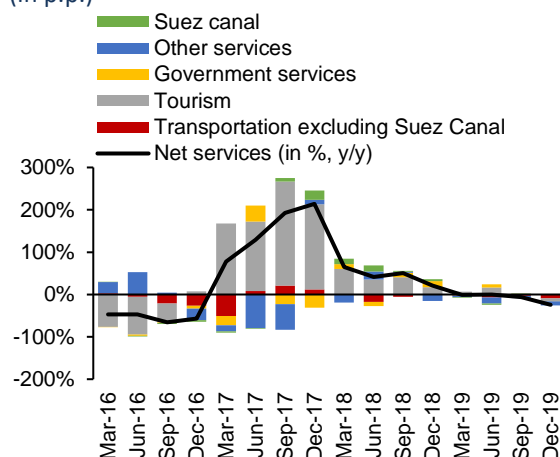
Source: Central Bank of Egypt.

Figure 8
Contribution to the net exports of goods and service
(In p.p., +ve= improvement, y/y unless otherwise specified)



Source: Central Bank of Egypt.

Figure 9
Contribution to the net services
(In p.p.)



Source: Central Bank of Egypt.

b) The current account deficit broadly stabilized on annual terms in 2019 Q4, while the financial account surplus improved in 2019 Q4.

The current account deficit broadly stabilized on annual terms in 2019 Q4, after narrowing in 2019 Q3 for the first time since 2018 Q2. This was mainly due to the favorable contribution from remittances, the non-hydrocarbon trade deficit and net investment income deficit, which offset the unfavorable contribution from the hydrocarbon trade deficit and net services surplus.

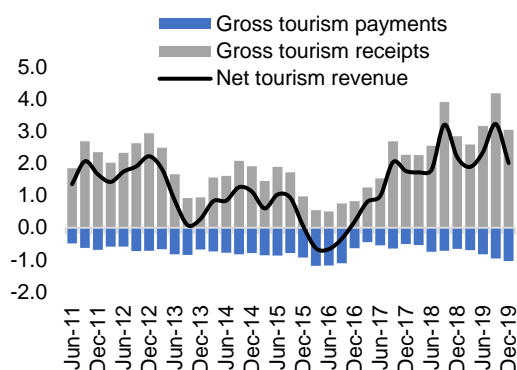
The deficit of net exports of goods and services widened on annual terms in 2019 Q4 for the first time since 2019 Q1. This was mainly due to the unfavorable contribution from both imports and exports of goods as well as services in 2019 Q4, specifically regarding the hydrocarbon trade deficit and net services surplus.

The non-hydrocarbon trade deficit continued to improve on annual terms in 2019 Q4, for the third consecutive quarter, albeit at a slower pace compared with the previous quarter. This was mainly due to a broad-based improvement of exports as well as imports for the third consecutive quarter.

The hydrocarbon trade balance turned into a slight deficit in 2019 Q4, compared with a surplus in 2018 Q4. This was mainly due lower exports on annual terms in 2019 Q4, for the second consecutive quarter, as well as higher imports on annual terms in 2019 Q4, for the first time since 2018 Q3.

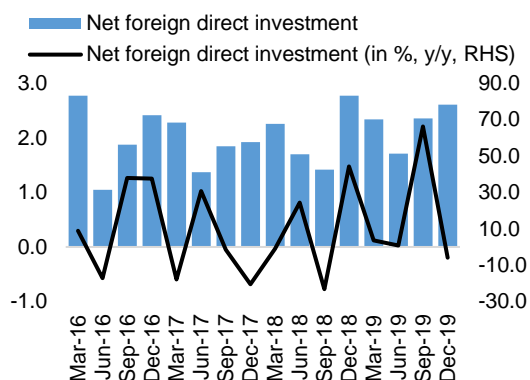
The net services surplus continued to decline on annual terms in 2019 Q4, for the second consecutive quarter, mainly due to the unfavorable contribution from other services, transportation excluding Suez Canal receipts and net travel receipts which more than offset the favorable contribution from Suez Canal receipts. On the other hand, remittances continued to increase on annual terms in 2019 Q4, for the second consecutive quarter.

Figure 10
Tourism Receipts and Payments
(In USD billion)



Source: Central Bank of Egypt.

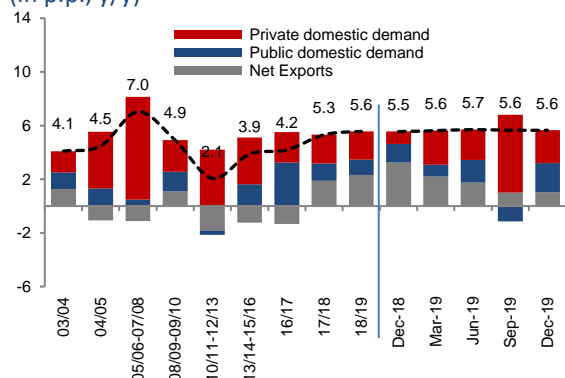
Figure 11
Net Foreign Direct Investments*
(In USD billion)



Source: Central Bank of Egypt.

*Updated data in accordance with a new methodology for compiling FDI and its earnings to include all undistributed realized earnings, pursuant to Prime Minister Decree No. 2732 of 2019. In the former data compilation method, data were restricted to reinvested earnings, this modification was applied starting from Q1 2018/2019.

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



Source: Ministry of Planning and Economic Development.

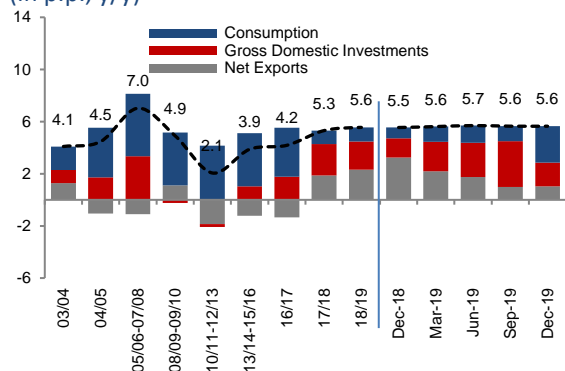
Meanwhile, the financial account surplus improved in 2019 Q4, for the first time since 2019 Q1. This was mainly supported by portfolio flows, which recorded a net inflow in 2019 Q4, compared with a net outflow in the previous quarter. Furthermore, this was also supported by the USD 2 billion worth of Eurobonds issued by the Ministry of Finance in November 2019. On the other hand, net foreign direct investment declined on annual terms in 2019 Q4, for the first time since 2018 Q3.

Moreover, following the COVID-19 global outbreak and the associated sharp portfolio flows reversal from emerging markets, including the Egyptian market, the CBE decided to utilize USD 5.4 billion from its net international reserve balances during March 2020 to partially cover foreign portfolio investment outflows through the CBE's FX repatriation mechanism and accommodate for the domestic market's foreign currency needs to import strategic goods, as well as for the repayment of external debt service obligations. Accordingly, net International reserves declined to register USD 40.1 billion in March 2020.

c) Real GDP growth continued to stabilize at 5.6% in 2019 Q4 and H2, which is the same level of fiscal year 2018/19 and the highest since 2007/08. The unemployment rate recorded 8.0% in 2019 Q4 compared to 7.8% and 7.5% in 2019 Q3 and Q2, respectively.

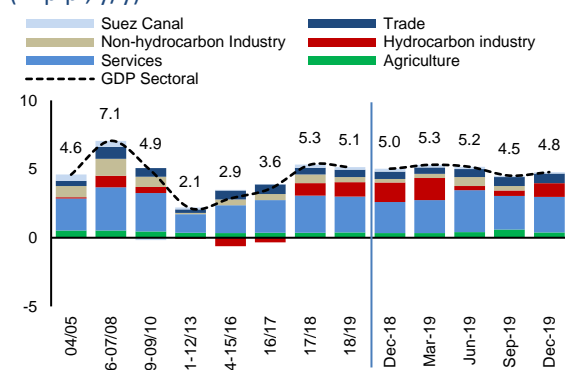
Real GDP growth continued to stabilize at 5.6% in 2019 Q4 and H2, which is the same level of fiscal year 2018/19 and the highest since 2007/08. Private domestic demand continued to be the main driver of activity in 2019 Q4 contributing by 2.4 ppt., despite moderating from 2019 Q3, due to the slowdown in private investments which more than offset the pickup in private consumption. Public domestic demand strongly rebounded contributing by 2.2 ppt., after contracting in 2019 Q3, mainly driven by a rebound in public investments and to a lesser extent an increase in public consumption. Meanwhile the positive contribution of net exports stabilized at 1.0 ppt after being on a declining trend since 2018 Q4.

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



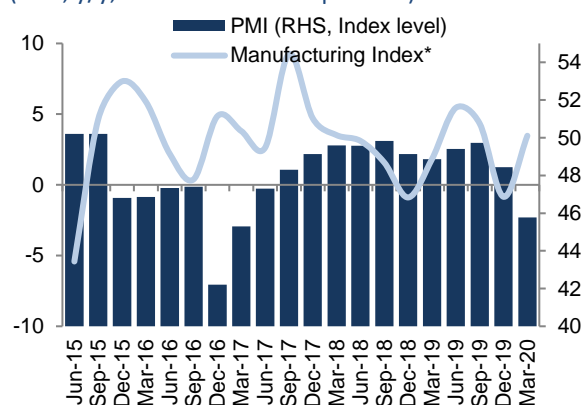
Source: Ministry of Planning and Economic Development.

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



Source: Ministry of Planning and Economic Development.

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



Source: Bloomberg, CAPMAS.

*/ Q1 2020 data point for the manufacturing index only includes latest data published until January 2020.

Real growth in gross domestic investments slowed down in 2019 Q4 to 10.4%, after being on an accelerating trend since 2019 Q1, as the pickup in public investments was not enough to offset the slowdown in private investments. Most major sectors contributed to the broad-based slowdown in private investments real growth to record 2.8%¹, including real estate, trade and non-petroleum manufacturing. Meanwhile, public investments picked up in 2019 Q4 to record real growth of 19.7%, after contracting in the previous quarter. The pick up was supported by investments in national projects.

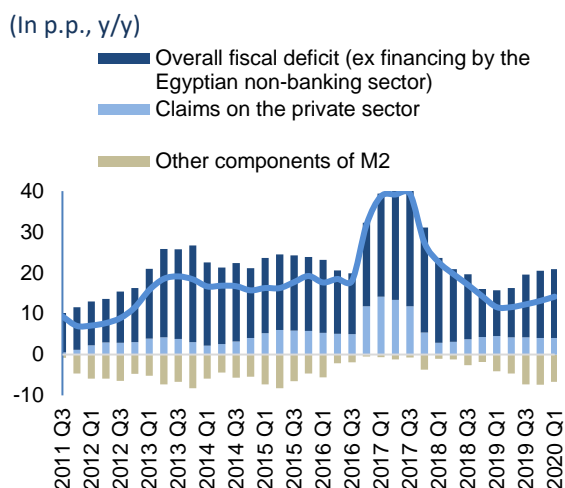
The contribution of net exports stabilized in 2019 Q4 as the contraction of both real imports and exports intensified and broadly offset each other. The contraction of real imports reached 14% and has been ongoing and driving the positive contribution of net exports since 2018 Q2. On the other hand, real exports contracted by 14.1% in 2019 Q4, contracting for the fourth consecutive quarter after it was the main driver of net exports between 2017 Q1 and 2018 Q1.

From the sectoral perspective, real GDP growth strengthened in 2019 Q4 to 4.8%, after slowing down in 2019 Q3 to 4.5%, its slowest pace since 2017 Q1. The strengthening in GDP growth was driven by a pickup in public sector output, which more than offset the decline in private sector output. Public sector output increased after stabilizing in the previous quarter, primarily due to a higher contribution from petroleum manufacturing while most other sectors broadly stabilized. On the other hand, private sector output weakened for the second consecutive quarter on the back of lower contribution from non-petroleum manufacturing and agriculture, while the contribution of construction increased.

Regarding the labor market, the unemployment rate recorded 8.0% in 2019 Q4 compared to 7.8% and 7.5% in 2019 Q3 and Q2, respectively.

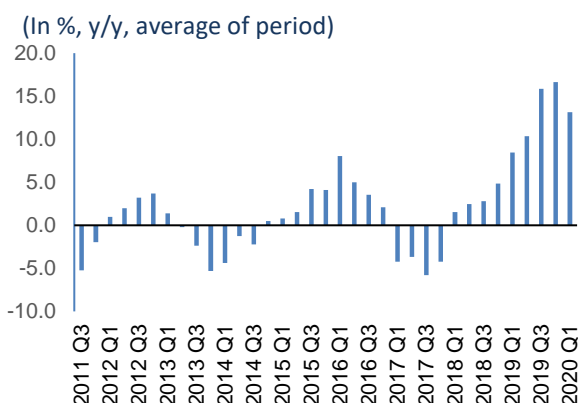
¹ Real growth of both private and public investments is estimated by deflating the nominal figures using the deflator of gross domestic investments, of which both are components.

Figure 16
Contribution to M2 Growth



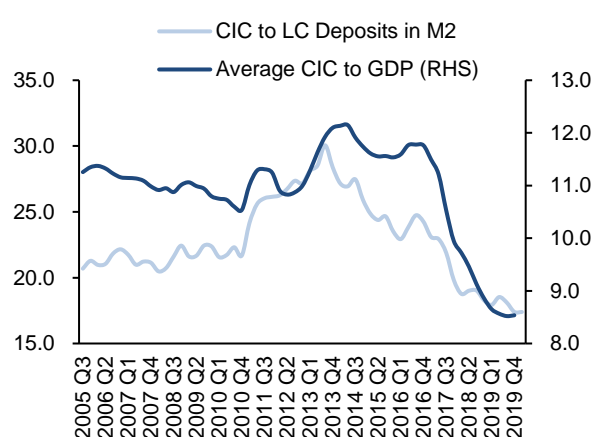
Source: Central Bank of Egypt.

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



Source: Central Bank of Egypt.

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



Source: Central Bank of Egypt.

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

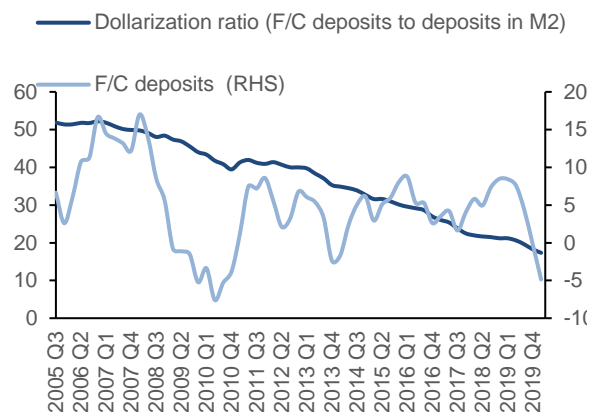
This is mainly on the back of the continued recovery of labor force participation for the third consecutive quarter, following its sustained decline since the beginning of 2017. Meanwhile, employment continued to recover on a quarterly basis for the fourth consecutive quarter, to record job creation on annual basis for the first time since 2018 Q3.

Activity indicators for the non-hydrocarbon sector broadly strengthened during the period January-February 2020, before the global outbreak of the COVID-19 pandemic. The manufacturing index expanded in January 2020, after it had contracted during 2019 Q4. Passenger car sales rebounded strongly in January and February 2020, after contracting for 11 consecutive months since February 2019. Sales of buses and trucks also continued to grow strongly in January and February. Furthermore, Suez Canal net tonnage growth accelerated on average during January-February 2020. Meanwhile, the PMI weakened on average during January-February 2020 before plunging further in March 2020. As for the hydrocarbon sector, natural gas production contracted in January 2020, after a sustained deceleration in its expansion since 2019 Q1.

d) Broad money growth continued to increase in 2020 Q1 for the third consecutive quarter, with the increase in 2020 Q1 driven by both higher fiscal deficit contribution in addition to easing negative contribution of other counterpart assets of broad money.

Annual growth of broad money (M2) continued to pick up for the third consecutive quarter to record 14.2% in 2020 Q1, after stabilizing in 2019 Q2, 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 2020 Q1 was driven by the increase in fiscal deficit contribution for the third consecutive quarter, in addition to the easing negative contribution of other counterpart assets of broad money, following its deterioration in 2019.

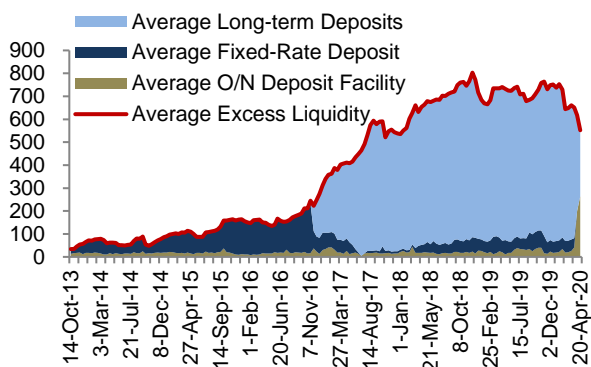
Figure 19
Developments of F/C Deposits^{1/}
(In %, y/y, unless otherwise stated)



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.

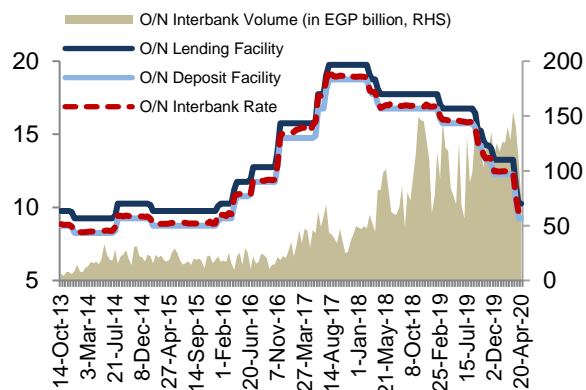
Figure 20
Excess Liquidity^{1,2/}
(In EGP billion)



Source: Central Bank of Egypt.

1/ Excess liquidity is adjusted by O/N lending facility.
2/ As of April 20,2020.

Figure 21
O/N Interbank and CBE Policy Rates^{1/}
(In %, unless otherwise stated)



Source: Central Bank of Egypt.

1/ As of April 20,2020.

The increase in fiscal deficit contribution in 2020 Q1 was mainly reflected in higher contribution of domestic bank financing. This has more than offset both the decline in contribution of foreign non-bank financing, which is consistent with the increased risk aversion towards emerging markets following the COVID-19 outbreak, as well as the estimated decline in external financing contribution. Meanwhile, the easing negative contribution of other counterpart assets of broad money was driven mainly by the easing contribution of net claims on public economic authorities, while other counterpart assets including the contribution of claims on the private sector broadly stabilized.

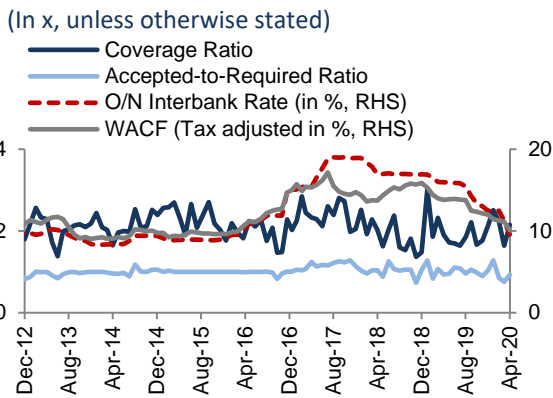
Furthermore, inflation adjusted L/C claims on the private sector declined in 2020 Q1 after stabilizing in the previous quarter and following a period of increase up to 2019 Q3. None the less, there is increased momentum on a monthly basis between January and March 2020, supported by the CBE initiatives announced in late 2019 and the beginning of 2020.

Within the components of M2, CIC as a percent of L/C deposits in M2 stabilized in 2020 Q1 compared to the previous quarter, despite some positive momentum that was witnessed in March 2020, that in turn coincided with the COVID-19 outbreak and the resulting containment measures by the Egyptian government. However, CIC indicators continue to hover at levels below the historical long term average.

Meanwhile, following the policy rate cut of 300 bps in mid March 2020 during an unscheduled MPC meeting, public banks introduced one year maturity saving certificates with rates that were higher than longer term certificates of 3 year maturities or higher. Furthermore, the dollarization ratio defined as F/C deposits to total deposits in M2 continued to decline in 2020 Q1, while F/C deposits in USD continued to contract on annual basis since November 2019.

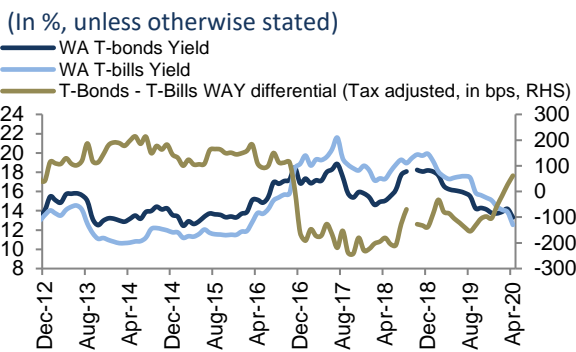
e) Tight Real monetary conditions eased.

Figure 22
Demand for, and Supply of the Treasury's L/C Marketable Securities^{1/}



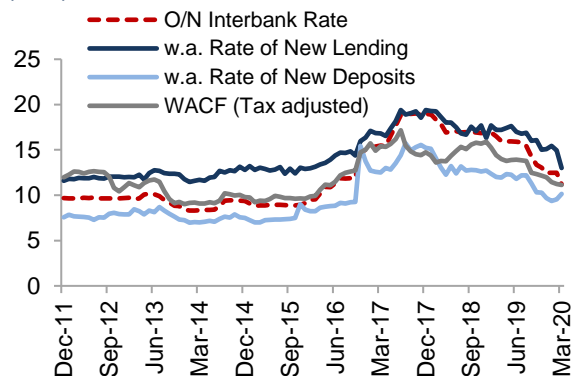
Source: Central Bank of Egypt calculations.

Figure 23
Rates of the Treasury's L/C Marketable Securities



Source: Central Bank of Egypt calculations.

Figure 24
Select Market Interest Rates^{1/}



Source: Central Bank of Egypt.

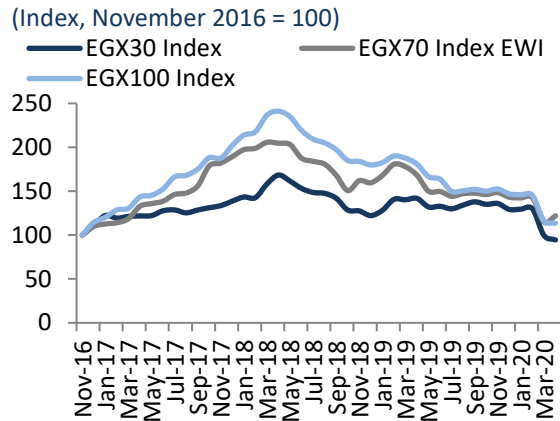
^{1/} Up to March 2020.

The recent 300 bps policy rate cut during an unscheduled MPC meeting on March 16, 2020 supported the easing of tight real monetary conditions.

Excess liquidity levels have been declining since January 2020 to record an average of EGP552 billion during April 2020 compared to an average of EGP746.1 recorded during 2019 Q4. Consequently, the drop in excess liquidity have led to an increase in interbank activity and the narrowing of the spread between the O/N interbank rate and the mid-corridor rate, compared to its long-term average of around negative 30bps. Meanwhile, interbank rates have declined by 0.9x the 300bps policy rate cut in March 2020, supported by the suspension of all the open market operations' auctions, which was more than enough to offset the impact of the drop in excess liquidity.

Yields for L/C government securities declined to record 10.1% (net of tax) on average in April 2020, the lowest since March 2016. This compares to 11.6% recorded on average during December 2019, January 2020 and February 2020, prior to the 300bps policy rate cut on March 16, 2020. The 1.5p.p. decline in the weighted average yield was supported by the increase in demand, which was supported by the CBE's suspension of all open market operations' auctions, which was more than enough to offset the drop in foreign demand, affected by the unfavorable sentiment on emerging markets amid the COVID-19 outbreak. The increase in demand, was reflected in a coverage ratio of 2.1x recorded in April 2020 compared to 1.6x recorded in March 2020. Furthermore, the accepted-to-required ratio remained relatively stable, recording 0.9x in April 2020 compared to 0.8x recorded in March 2020. Meanwhile, the yield curve slope has steepened in April 2020, after reverting to an upward-sloping curve in March 2020 for the first time since December 2016. The shift from an inverted yield curve to an upward slopping yield curve was due to the higher demand for T-bills vis-à-vis T-bonds, which was more than enough to offset the relatively higher accepted-to-required ratio for T-bills vis-à-vis T-bonds.

Figure 25
Stock Market Indices^{1,2/}



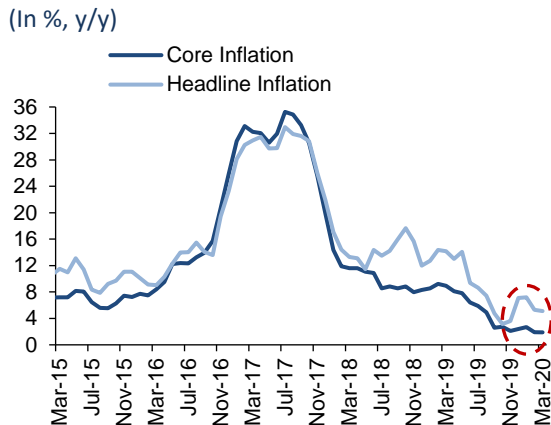
Source: Egyptian Stock Exchange and Central Bank of Egypt calculations.

1/ Equity performance calculated on EGP basis.

2/ As of April 30, 2020.

Meanwhile, following the decline since the beginning of 2019, yields on Egyptian Eurobonds have risen during March 2020 in line with the recent unfavorable sentiment on emerging markets due to the COVID-19 outbreak, before slightly declining in April 2020. Moreover, Egypt's CDS spreads remained relatively low compared to the majority of peers with similar sovereign credit rating despite the recent increase. Furthermore, S&P has reaffirmed their current credit rating for Egypt while maintaining a 'stable' outlook in April 2020. It is noteworthy to highlight that 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.

Figure 26
Headline and Core Inflation^{1/}

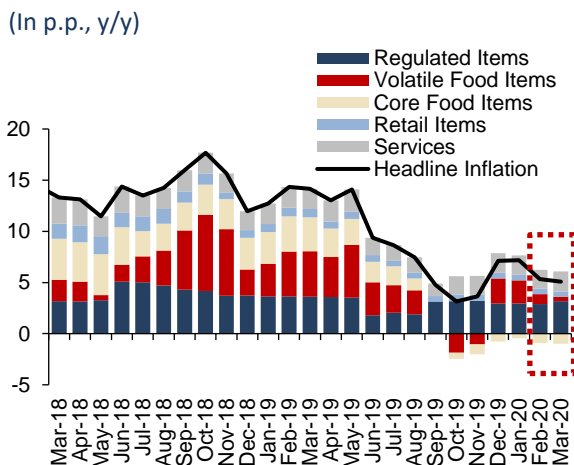


Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

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

In the banking sector, data until March 2020 reflected partial transmission of the 300bps policy rate cut on March 16, 2020. New deposit rates inched up to record 10.2% in March 2020, compared to an average of 9.5% recorded during December 2019, January 2020 and February 2020. The increase in new deposit rates was due to the re-introduction of the one-year saving certificates at 15% by public banks. Meanwhile, rates of new loans declined to record 13% in March 2020, compared to an average of 15.2% during December 2019, January 2020 and February 2020, reflecting a transmission in the magnitude of 0.7x the 300 bps policy rate cut in March 2020.

Figure 27
Contribution to Headline Inflation

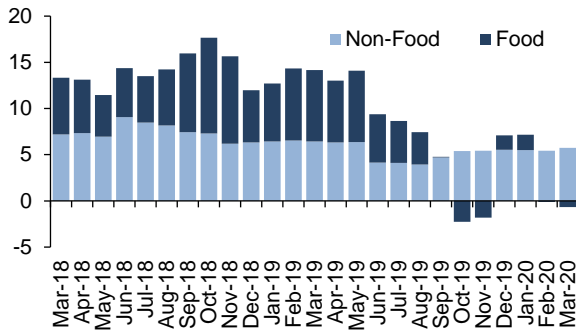


Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

In equity markets, real prices have been recently affected by the unfavorable sentiment towards global stock markets due to the outbreak of the COVID-19. Meanwhile, the EGX30 index in USD declined significantly between end of February 2020 and the third week of March 2020, before broadly stabilizing in April 2020. Since the beginning of the 2020 the EGX30 index in USD declined by cumulative of 24%, while the MSCI emerging market index, declined by cumulative of 18%. Furthermore, data up to 2019 Q4 show a continued recovery in real unit prices in the secondary real estate market after declining in 2019 Q1.

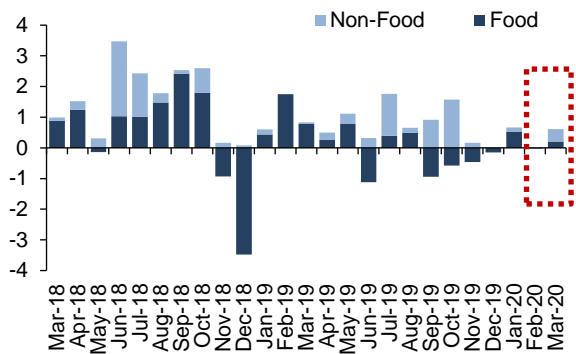
f) Muted inflationary pressures and favorable base effects supported the decline of annual headline inflation. At the same time, annual core inflation stabilized recently at its lowest rate on record.

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



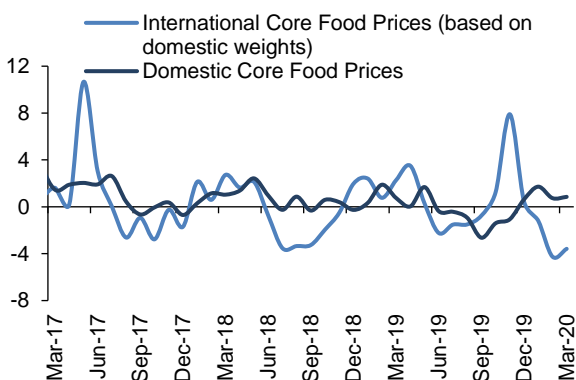
Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

Figure 29
Contribution to Headline Inflation
(In p.p., m/m)



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

Figure 30
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.

Annual headline inflation declined to record 5.1% and 5.3% in March 2020 and February 2020 from 7.2% in January 2020, respectively. This was mainly due to a combination of muted underlying inflationary pressures as well as a favorable base effect which was particularly evident in February 2020 inflation. Monthly headline inflation recorded zero in February 2020 compared to 1.7% in February 2019, with the latter partially reflecting higher prices of potatoes against its seasonal pattern. Besides, monthly headline inflation recorded 0.6% in March 2020 which came lower than 0.8% recorded in March 2019, despite being affected by higher prices of regulated items in 2020.

Supported by the containment of underlying inflationary pressures, annual core inflation declined to its lowest rate on record at 1.9% in February 2020 and March 2020 from 2.7% in January 2020, respectively. In specific, monthly core inflation recorded 0.2% in February 2020 compared to 1.0% in February 2019, mainly due to lower contribution of core food items while it remained broadly stable at 0.4% in March 2020 compared to 0.5% in March 2019.

The decline in annual headline inflation was driven by negative annual food contribution in February and March 2020 which overcame higher annual nonfood contribution in March 2020. Annual food inflation declined to record negative 0.9% and negative 1.7% in February and March 2020, respectively; this comes after increasing for three consecutive months to record 2.6% in January 2020. The decline was driven by lower annual contribution of volatile food items as well as core food items but with a lesser extent. In specific, the decline was a result of lower prices of fresh vegetables prices which came against their seasonal patterns for two consecutive months and was supported further by a strong favorable base effect stemming mainly from high prices of potatoes in February 2019. In the meantime, annual inflation of fresh fruits remained broadly stable.

Meanwhile, annual core food inflation continued to record negative annual inflation for the sixth consecutive month, supported mainly by contained monthly core food inflation as it came below its historical average in the same period recently and was also further affected by the release of the 10th CPI series starting from September 2019 inflation data as well as its linking methodology with the 9th CPI series.

On the other hand, annual non-food inflation increased to 8.7% in March 2020 from 8.2% in February 2020. It reflected higher prices of tobacco in March 2020 due to higher taxes announced by the government as well as mainly higher prices of internet services among other services. Meanwhile, annual retail inflation remained broadly stable during 2020 Q1 to record an average of 5.7% which is lower than an average of 7.1% recorded during 2019 Q1.

With respect to key monthly developments, monthly headline inflation was mainly driven by the monthly contribution of non-food items in March 2020, reflecting higher taxes on tobacco announced by government, higher prices of internet services, restaurants and cafes as well as outpatient services, while the contribution of food items reflected higher prices of red meat and poultry. Higher prices of poultry continued to contribute to monthly headline inflation for the fourth consecutive month. Meanwhile, prices of fresh vegetables declined in February and March 2020 against their seasonal pattern, while prices of fresh fruits stabilized in February 2020 before increasing in March 2020 on a monthly basis. Seasonally lower prices of clothing were also reflected in February 2020.

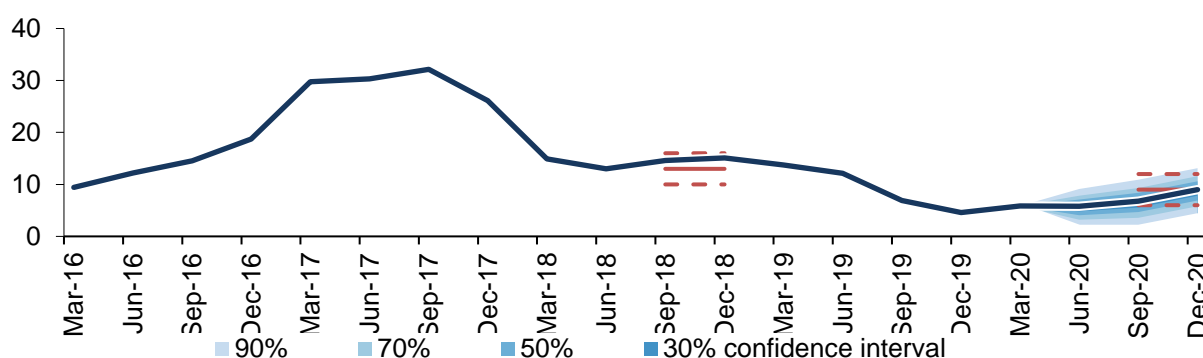
Meanwhile, development of monthly domestic core food inflation diverged from monthly international core food inflation since January 2020. While international core food prices declined which is largely attributed to demand contractions resulting from COVID-19 pandemic, domestically prices of core food increased on monthly basis but with magnitudes that were below its historical average in the same period.

The Outlook

The MPC decided to hold policy rates in its meetings held on April 2nd, 2020 and May 14th, 2020, after it decided to move preemptively by cutting key policy rates by 300 basis points in an unscheduled meeting held on 16th of March 2020 to support economic activity especially businesses and households in light of the recent global developments of COVID-19 pandemic. This is consistent with achieving the inflation target of 9 percent (± 3 percentage points) in 2020 Q4 and price stability over the medium term.

Figure 31
Inflation Forecast^{1/}

(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%.

Global and domestic economic activity in 2020 is expected to be negatively affected by the outbreak of the COVID-19 pandemic and its containment measures. The severity and persistence of the shock will depend on the prevalence and intensity of the outbreak among other factors. Structural and stabilization measures are expected to ease the impact of the disruption on the most vulnerable and help support the recovery once the outbreak is contained.

In addition, international food price forecasts relevant to Egypt's consumption basket are expected to decline in 2020 more strongly compared to the previous monetary policy report before increasing slightly in 2021. Furthermore, Brent crude oil prices incorporated in the domestic inflation outlook are expected to remain subdued driven mainly by low global demand due to lockdown measures imposed in many countries, even after OPEC and non-OPEC member countries forged an agreement to cut daily production by 9.7 million barrels. Domestically, as cost-recovery for most fuel products was reached, the pass-through of international oil prices to domestic inflation is based on the decisions of Egypt's Fuel Automatic Pricing Committee which is responsible on the implementation of price indexation to underlying costs with quarterly adjustments capped by ± 10 percentage points per adjustment. In April 2020, domestic prices for some fuel products were reduced with a magnitude that allows for the savings to be utilized in supporting higher costs expected from facing the outbreak, as per the announcement by Egypt's Fuel Automatic Pricing Committee².

² In early May 2020, Egypt's parliament approved a draft law that included a fixed stamp duty on some petroleum products that will be paid for by the savings that were incurred by the Egyptian General Petroleum Company, without an additional increase in the final consumer price.

Appendix: Tables and Abbreviations

Table A1: CPI Contribution*

	Weights**	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Monthly Contributions to Headline CPI Inflation (in p.p.)														
Headline	100.0	0.8	0.5	1.1	-0.8	1.8	0.7	0.0	1.0	-0.3	-0.2	0.7	0.0	0.6
Regulated Items	21.4	0.0	0.0	0.1	0.0	1.1	0.1	1.3	0.5	0.0	-0.3	0.0	0.0	0.3
Fresh Fruits & Vegetables	5.5	0.5	0.2	0.2	-1.0	0.5	0.8	0.1	-0.2	-0.2	0.0	0.1	-0.2	0.0
Core CPI	73.1	0.3	0.2	0.8	0.2	0.1	-0.2	-1.4	0.8	-0.1	0.2	0.5	0.2	0.3
Food Prices	24.5	0.3	0.0	0.6	-0.1	-0.1	-0.3	-1.3	-0.3	-0.2	0.1	0.4	0.2	0.2
of which														
<i>Poultry & Red Meat</i>	8.6	0.1	-0.2	0.4	-0.2	-0.1	-0.3	-0.9	-0.2	-0.2	0.2	0.3	0.1	0.2
<i>Food excl. Poultry & Red Meat</i>	15.9	0.1	0.2	0.1	0.0	-0.1	0.0	-0.4	-0.2	-0.1	0.0	0.0	0.0	0.0
Retail Prices	14.3	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.2	0.1	0.0	0.0	-0.1	0.0
Services	34.3	0.0	0.1	0.1	0.3	0.2	0.1	-0.2	0.9	0.1	0.0	0.1	0.1	0.1
Annual Contributions to Headline CPI Inflation (in p.p.)														
Headline	100	14.2	13.0	14.1	9.4	8.7	7.5	4.8	3.1	3.6	7.1	7.2	5.3	5.1
Regulated Items	21.4	3.6	3.6	3.5	1.8	2.0	1.9	3.1	3.2	3.2	2.9	3.0	2.9	3.2
Fresh Fruits & Vegetables	5.5	4.4	3.9	5.2	3.2	2.7	2.3	-0.1	-1.9	-1.0	2.5	2.3	1.0	0.4
Core CPI	73.1	6.1	5.5	5.4	4.3	3.9	3.2	1.7	1.8	1.5	1.7	1.9	1.5	1.5
Food Prices	24.5	3.3	2.8	2.6	2.0	1.9	1.2	-0.1	-0.6	-1.0	-0.8	-0.5	-0.9	-1.0
of which														
<i>Poultry & Red Meat</i>	8.6	0.9	0.4	0.5	0.3	0.5	-0.1	-0.8	-1.1	-1.2	-0.8	-0.4	-0.7	-0.7
<i>Food excl. Poultry & Red Meat</i>	15.9	2.4	2.4	2.0	1.7	1.4	1.2	0.8	0.5	0.2	0.0	0.0	-0.2	-0.3
Retail Prices	14.3	0.8	0.7	0.7	0.7	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.5
Services	34.3	2.0	2.1	2.1	1.7	1.5	1.5	1.2	1.8	1.8	1.9	1.9	1.9	2.0

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

*Any Discrepancy is due to rounding numbers.

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

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

Date	2017/18*	2018/19*	2018/19*				2019/20*	
			Q1	Q2	Q3	Q4	Q1	Q2
Trade Balance	-37.3	-38.0	-9.8	-9.4	-10.5	-8.3	-8.8	-9.9
Export proceeds	25.8	28.5	6.8	7.5	6.6	7.6	7.1	7.1
<i>Petroleum exports</i>	8.8	11.5	2.8	3.2	2.5	3	2.4	2.6
<i>Other exports</i>	17.1	16.9	4	4.3	4.1	4.5	4.7	4.5
Import payments**	63.1	66.5	16.6	16.9	17.1	15.9	15.9	17.1
<i>Petroleum imports</i>	12.5	11.4	3.4	2.4	2.9	2.7	3	2.7
<i>Other imports</i>	50.6	55.0	13.2	14.5	14.2	13.1	12.9	14.3
Services Balance	11.3	13.1	4.3	3	2.5	3.3	4	2.2
Receipts	21.7	24.4	6.9	5.9	5.3	6.3	7.4	6
Transportation	8.7	8.5	2.2	2.2	2	2.1	2.3	2.1
<i>Of which: Suez Canal dues</i>	5.7	5.7	1.4	1.5	1.3	1.5	1.5	1.5
Travel (tourism revenues)	9.8	12.6	3.9	2.9	2.6	3.2	4.2	3.1
Payments	10.4	11.4	2.7	2.9	2.8	3	3.4	3.8
Travel	2.3	2.6	0.6	0.7	0.6	0.7	0.8	1
Investment Income Balance	-6.5	-11.0	-2.4	-2.8	-2.8	-3	-3.3	-2.5
Receipts	0.6	1.0	0.2	0.3	0.2	0.3	0.3	0.2
Payments	7.1	12.0	2.6	3.1	3	3.3	3.6	2.7
<i>Of which: Interest paid</i>	1.6	2.6	0.5	0.6	0.7	0.8	0.8	0.8
Current Transfers	26.3	25.0	5.9	6	6.2	6.9	6.7	6.9
Private (net),	26.1	24.8	5.9	5.9	6.1	6.9	6.6	6.9
Official (net)	0.2	0.3	0	0.1	0.1	0.1	0.1	0.1
Balance of Current Account	-6.1	-10.8	-2	-3.2	-4.5	-1.1	-1.4	-3.2
Capital & Financial Account	22	10.8	1.8	1.3	6.5	1.2	0.7	4.6
Capital Account	-0.2	0.0	0	0	0	0	0	-0.1
Financial Account	22.1	11.0	1.8	1.4	6.5	1.3	0.7	4.6
Direct investment abroad	-0.3	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Direct investment in Egypt (net)***	7.7	8.2	1.4	2.8	2.3	1.7	2.4	2.6
Portfolio investment abroad	0	-0.2	-0.1	0	0	-0.1	0.1	0
Portfolio investment in Egypt (Net)	12.1	4.3	-3.2	-2.6	6.9	3.2	-2	2.3
<i>Of which: Bonds</i>	5.3	5.1	-0.1	-0.2	3.3	2.1	-0.3	1.8
Other Investments (Net)	2.6	-1.1	3.8	1.3	-2.7	-3.5	0.3	-0.1
Net Borrowing	10.3	6.2	1	0.1	3.8	1.3	3	-0.4
Medium- and Long-Term Loans (net)	6.7	3.3	-0.5	0.8	2.2	0.8	2.3	0.1
Medium- and Long-Term Suppliers' Credit	1.1	0.8	0.3	0.3	-0.1	0.3	-0.2	-0.1
Short term Suppliers' Credit (net)	2.4	2.1	1.2	-1	1.7	0.2	0.8	-0.4
Other Assets	-4.5	-8.9	1.9	-1.2	-8	-1.6	-2	1
Other Liabilities	-3.1	1.6	0.9	2.4	1.5	-3.2	-0.7	-0.7
Net Errors & Omissions	-3.1	-0.1	0.5	-0.2	-0.5	0.1	1	-1.2
Overall Balance	12.8	-0.2	0.3	-2.1	1.4	0.2	0.2	0.2
Change in CBE Reserve Assets (Increase -)	-12.8	0.2	-0.3	2.1	-1.4	-0.2	-0.2	-0.2

* Provisional.

** Including exports and imports of free zones.

***Updated data in accordance with a new methodology for compiling FDI and its earnings to include all undistributed realized earnings, pursuant to Prime Minister Decree No. 2732 of 2019. In the former data compilation method, data were restricted to reinvested earnings, this modification was applied starting from Q1 2018/2019.

(1) The data were adjusted according to the latest update.

Table A3: GDP contribution									
	2015/16	2016/17	2017/18	2018/19	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
GDP (at Market Prices)	4.3	4.2	5.3	5.6	5.5	5.6	5.7	5.6	5.6
GDP (at Factor cost)	2.3	3.6	5.3	5.1	5.0	5.3	5.2	4.5	4.8
Public GDP (at Factor Cost)	0.4	0.4	1.5	1.7	1.9	2.2	1.2	1.2	1.8
Private GDP (at Factor Cost)	1.9	3.1	3.8	3.5	3.1	3.1	4.0	3.3	3.0
Agriculture, forestry, fishing and hunting	0.3	0.4	0.4	0.4	0.3	0.3	0.4	0.6	0.4
Industry	-0.6	0.1	1.5	1.4	1.7	1.9	1.0	0.7	1.0
Extractions	-0.7	-0.2	0.7	1.0	1.2	1.4	0.4	0.2	0.1
Oil	-0.1	-0.4	0.0	0.0	0.1	0.0	-0.2	-0.1	-0.2
Natural gas	-0.7	0.1	0.7	0.9	1.1	1.4	0.5	0.2	0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Manufacturing	0.1	0.3	0.8	0.5	0.5	0.5	0.5	0.5	0.9
Petroleum	0.1	-0.1	0.2	0.1	0.2	0.2	-0.1	0.2	0.9
Non-Petroleum	0.0	0.4	0.6	0.4	0.3	0.3	0.6	0.3	0.0
Services	1.4	2.1	2.6	2.4	2.1	2.1	2.7	2.1	2.2
Construction	0.5	0.5	0.6	0.5	0.6	0.5	0.8	0.4	0.6
Real Estate Rental and Services	0.4	0.5	0.4	0.4	0.3	0.4	0.5	0.5	0.4
Transportation and Warehousing	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Finance	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.1
Insurance 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Communication	0.3	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.4
Tourism	-0.7	0.1	0.7	0.5	0.4	0.3	0.4	0.1	0.1
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	0.1	0.0	0.0	0.0	0.0
Information	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.7	0.7	0.5	0.5	0.5	0.5	0.6	0.6	0.7
Suez Canal	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.1	0.1
General Government	0.5	0.3	0.1	0.2	0.1	0.3	0.4	0.4	0.4

Source: Ministry of Planning and Economic Development.

1/ Includes Social Insurance.

2/ Includes Electricity, Water, and Sewage.

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

	Jun-17	Jun-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Monetary Survey								
Net Foreign Assets	61.1	309.5	127.5	242.1	300.1	356.7	347.8	128.6
Central Bank	3.7	301.5	241.9	254.2	264.4	270.0	270.6	183.3
Commerical Banks	57.4	8	-114.5	-12.0	35.8	86.7	76.1	-54.7
Net Domestic Assets	2857.1	3144.8	3501.2	3482.6	3563.5	3653.7	3762.7	4148.1
Net Claims on Government	1808.9	1971.6	2242.6	2175.6	2217.1	2424.6	2473.0	2737.5
Net Claims on Public Economic Authorities	170.7	245.9	266	234.7	210.9	176.6	183.5	180.0
Claims on Public Sector Companies	148.7	160.2	166.7	164.9	162.1	160.6	161.8	157.4
Claims on Private Sector	982.9	1082.6	1140.9	1188.4	1217.1	1250.0	1287.7	1352.5
Net Other Items	-254.1	-315.5	-315	-281.0	-243.7	-358.1	-343.2	-279.3
Broad Money (M2)	2918.2	3454.3	3628.7	3724.7	3863.6	4010.4	4110.5	4276.7
Domestic Currency Component (M2D)	2223.9	2737.4	2885.1	2983.1	3149.0	3324.0	3455.4	3637.6
Currency Outside Banks	419.1	438.9	441.9	451.0	487.2	499.3	507.1	548.0
Domestic Currency Deposits	1804.8	2298.5	2443.2	2532.1	2661.8	2824.6	2948.3	3089.6
Foreign Currency Deposits	694.3	717	743.5	741.6	714.6	686.4	655.1	639.1
Central Bank Balance sheet								
Net foreign assets	3.7	301.5	241.9	254.2	264.4	270.0	270.6	183.3
Foreign assets	551.5	776.0	746.1	748.7	734.0	729.1	723.1	622.4
Foreign liabilities	-547.8	-474.5	-504.2	-494.6	-469.6	-459.1	-452.4	-439.1
Net domestic assets	573.9	414.8	369.0	435.0	419.7	442.0	448.6	583.4
Net claims on government	740.5	730.6	748.0	714.4	747.2	792.6	761.2	739.4
Net claims on public economic authorities	-31.8	-15.1	-4.8	-0.4	-1.1	-3.3	-4.1	-2.3
Claims on Banks	286.9	326.0	269.5	288.4	300.4	287.3	307.0	288.1
Bank's Deposits in Foreign Currency	-129.7	-124.6	-125.2	-124.1	-121.1	-117.0	-119.6	-108.1
Open Market Operations /1	-467.9	-677.5	-747.4	-718.2	-782.3	-729.7	-743.5	-621.9
Other items net	176.0	175.4	228.9	274.8	276.6	211.9	247.6	288.2
Reserve money /2	577.6	716.3	611.0	689.2	684.0	711.9	719.2	766.7
Currency Outside Banks	419.1	438.9	441.9	451.0	487.2	499.3	507.1	548.0
Reserves of banks	158.5	277.5	169.0	238.2	196.8	212.6	212.1	218.7
Cash at vaults	33.0	43.7	35.3	35.1	48.9	41.1	36.5	34.4
Deposits in local currency	125.5	233.8	133.7	203.0	147.9	171.5	175.5	184.3

Source: Central Bank of Egypt

1/ Deposite auctions and deposite facility.

2/ Reserve money at end of June 2015 was affected by cancellation of deposit renewals at CBE due to unexpected announcement of national holiday on June 30,2015.

Table A5: Market Developments

	2016		2017			2018		2019		2020		Latest Vs. 2016 Q3, in bps ^{1/}
	Q3	Q2	Q4	Q2	Q3	Q4	Q2	Q4	Q1	Apr.		
Policy Rate												
Mid-Corridor Rate, %	12.25	16.16	19.25	17.25	17.25	17.25	16.25	13.24	12.75	9.75		-250
Interbank Market												
Interbank WAR, %	11.90	16.58	19.04	17.04	17.01	16.96	15.96	12.96	11.99	9.74		-216
Interbank O/N rate, %	11.86	16.62	18.95	16.99	16.95	16.91	15.93	12.93	11.99	9.59		-227
Interbank O/N average volume, EGP billion	2.1	5.4	3.9	9.1	7.7	13.3	9.8	12.5	14.0	10.9		11.3
Interbank O/N share of total interbank volume, %	64.0	54.1	69.2	74.9	75.0	81.8	83.3	79.5	72.7	51.60		-1243
Banking Sector												
Deposit Rates, %	9.16	13.10	15.37	12.72	12.93	12.70	12.12	10.09	9.70	n/a		54
Time, %	8.75	11.96	14.16	12.17	12.57	12.24	11.48	9.48	8.95	n/a		20
Short-term Deposits (<1Y), %	8.72	11.88	14.22	12.18	12.47	12.25	11.49	9.54	9.00	n/a		27
Other Deposits, %	9.52	13.59	12.95	11.94	13.29	11.89	10.87	8.23	8.01	n/a		-151
Saving, %	12.26	18.48	19.04	15.15	14.86	14.89	14.70	12.91	12.46	n/a		20
< 3 years, %	11.43	19.86	19.95	16.07	13.17	13.26	12.51	11.71	14.71	n/a		329
≥ 3 years, %	12.27	14.82	14.92	15.13	14.88	14.90	14.71	12.92	11.63	n/a		-64
Saving Accounts, %	7.95	9.94	10.17	10.19	9.19	9.14	10.00	8.02	7.96	n/a		1
Lending Rates, %	14.74	17.28	19.11	17.88	17.01	16.95	17.36	15.41	14.23	n/a		-51
W.a. Business Lending Rates, %	14.64	17.36	19.13	17.86	16.76	16.53	17.05	14.89	13.66	n/a		-98
Short term business, %	14.59	17.44	19.19	17.74	17.22	17.38	17.13	14.42	13.15	n/a		-143
Long term business, %	14.71	17.22	18.98	18.03	15.75	14.77	16.82	15.56	14.60	n/a		-11
Retail, %	15.24	16.78	19.01	18.02	18.03	18.59	18.60	17.39	16.63	n/a		139
Local Debt Market												
T-Bill yield 1Y, %	15.89	19.69	17.99	17.75	19.13	19.87	17.23	14.99	14.07	12.50		75
W.a T-bill yield, %	15.37	19.72	18.41	18.12	19.24	19.83	17.42	15.34	14.16	12.54		113
W.a T-bond yield, %	16.89	17.85	15.68	15.65	17.88	18.17	16.11	14.11	13.90	13.30		129
WACF, % ^{2/}	12.43	15.71	14.56	14.37	15.33	15.81	13.87	12.16	11.30	10.09		94
Spreads^{2/}												
O/N interbank - Mid Corridor rate, %	-0.39	0.46	-0.30	-0.26	-0.30	-0.34	-0.32	-0.31	-0.76	-0.16		23
W.a. Lending rate - Mid Corridor rate, %	2.49	1.12	-0.14	0.63	-0.24	-0.30	1.11	2.17	1.48	n/a		-101
Mid Corridor - W. A Deposit Rate, %	3.09	3.06	3.88	4.53	4.32	4.55	4.13	3.15	3.05	n/a		-4
WACF - Mid Corridor rate, %	0.18	-0.45	-4.69	-2.88	-1.92	-1.44	-2.38	-1.08	-1.45	0.34		344
W.a. Yield Curve, %	1.22	-1.50	-2.19	-1.97	-1.08	-1.33	-1.05	-0.98	-0.20	0.62		13
W.a. Lending rate - WACF, %	2.21	1.65	4.56	3.49	1.43	0.72	3.18	2.72	2.37	n/a		-312
W.a. Lending rate - T-bill yield, %	2.35	1.59	4.40	3.36	1.37	0.66	3.11	2.61	2.33	n/a		-319
W.a. Lending rate - W.a. Deposit rate, %	5.58	4.18	3.74	5.15	4.08	4.25	5.24	5.32	4.52	n/a		-106
Long term Business - Short term Business lending, %	0.12	-0.22	-0.21	0.29	-1.47	-2.61	-0.31	1.14	1.44	n/a		133

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
COVID-19	Corona Virus Disease 2019
CPI	Consumer price index
EGP	Egypt Pound
F/C	Foreign currency
GDP	Gross domestic product
L/C	Local currency
m/m	Month on month
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

