



Central Bank of Egypt

Monetary Policy Report

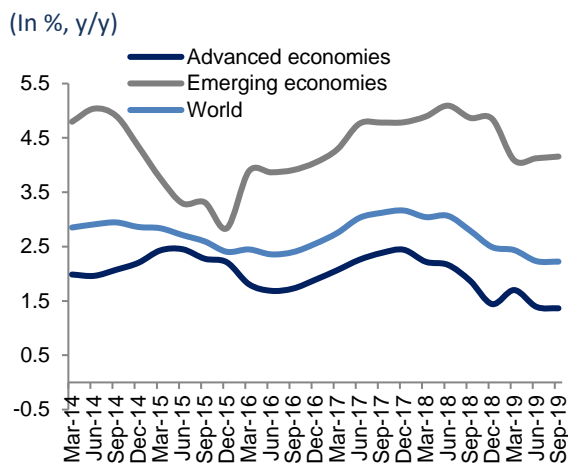
IV / 2019

The cut-off date for the data included in this report is February 20, 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 February 2020. Furthermore, the Monetary Policy Committee decided in an unscheduled meeting held on March 16, 2020 to cut the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate, and the rate of the main operation by 300 basis points to 9.25 percent, 10.25 percent, and 9.75 percent, respectively, and the discount rate was also cut by 300 basis points to 9.75 percent. This followed the CBE's decision to maintain its key policy rates unchanged in its meeting held on 20 February 2020. These and all other incoming data will be incorporated in the following Monetary Policy Report.

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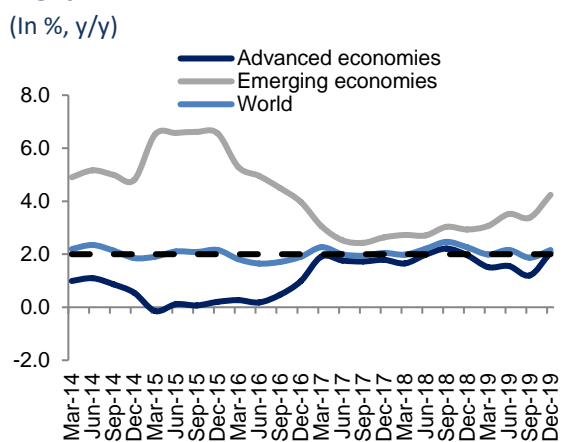
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Figure 1
Economic Growth of Egypt's External Environment^{1/}



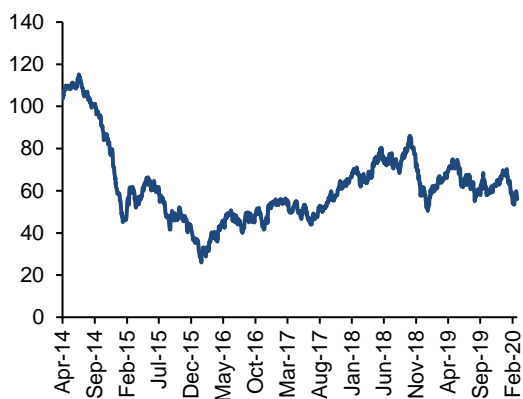
Source: Bloomberg & Central Bank of Egypt calculations.
1/ The series is weighted using Egypt's trade volume in 2015/16.

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 growth stabilized, trade growth continued to slowdown, international oil prices declined, and capital flows into emerging markets reversed following the recent coronavirus outbreak.

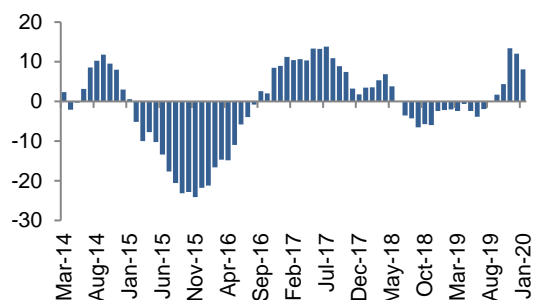
Economic growth of Egypt's external environment stabilized at 2.2% in 2019 Q3, after softening for four consecutive quarters between 2018 Q3 and 2019 Q2. Economic growth in advanced economies roughly stabilized at 1.4% in 2019 Q3, after softening in 2019 Q2. This was mainly due to a stable economic growth in the Euro area, while higher economic growth in Japan roughly offset lower economic growth in the United States and the United Kingdom in 2019 Q3, compared to the previous quarter. Meanwhile, economic growth in emerging economies continued to roughly stabilize at 4.2% in 2019 Q3, for the second consecutive quarter, after softening between 2018 Q3 and 2019 Q1. This was mainly due to lower economic growth in China and India, which continued to offset higher growth in Russia and Brazil in 2019 Q3, compared to the previous quarter.

Annual headline inflation of Egypt's external environment inched up to register an average of 2.2% in 2019 Q4, compared to an average of 1.9% in 2019 Q3. Inflation in advanced economies increased to register an average of 2.1% in 2019 Q4, compared to 1.2% in the previous quarter. This was due to the acceleration of the inflation rate in the Euro Area, the United States and Japan, which more than offset the deceleration of the inflation rate in the United Kingdom in 2019 Q4, compared to the previous quarter. Meanwhile, inflation in emerging economies increased to register an average of 4.2% in 2019 Q4, compared to 3.4% in the previous quarter. 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 2019 Q4, compared to the previous quarter.

Annual global trade growth continued to slowdown in 2019 Q4, for more than two consecutive years, to register -0.8%, compared to -0.9% in the previous quarter, marking

Figure 4
International Food Prices

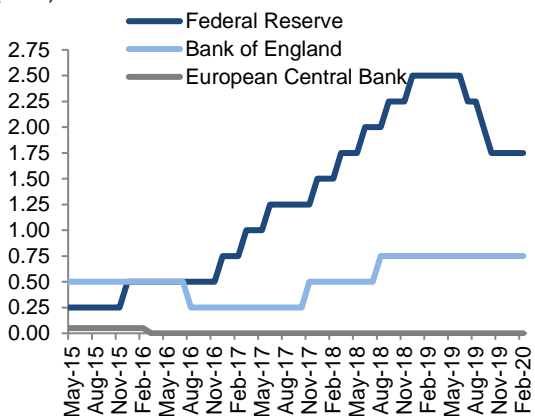
(In %, y/y, using domestic CPI basket weights of core food items)



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

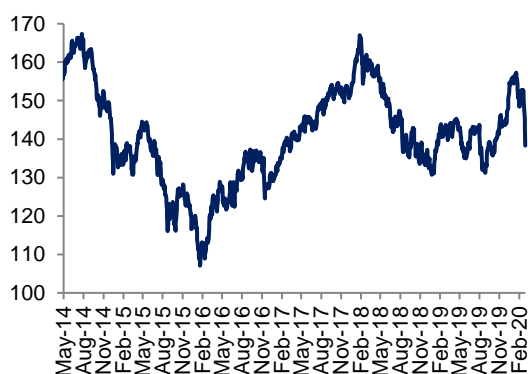
(In %)



Source: Bloomberg and Central Bank of Egypt calculations.

Figure 6
Emerging Markets Capital Flows Proxy

(Index level)



Source: Bloomberg.

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

Between November 2019 and mid-January 2020, Brent crude oil prices rose to register an average of 65.6 USD/barrel, compared to an average of 61.7 USD/barrel in 2019 Q3, mainly affected by regional geopolitical tensions in addition to the agreement by major producers to extend output cuts until March 2020 adding an extra output cut of 500 thousand barrels per day. More recently, however, Brent crude oil prices declined to an average of 58.2 USD/barrel between mid-January and February 2020 due to lower demand that was mainly affected by the coronavirus outbreak.

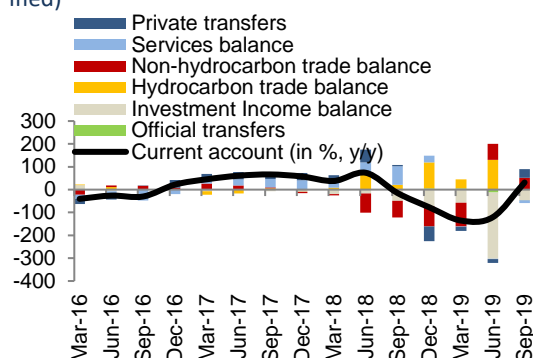
International food prices, using domestic CPI basket weights of core food items, accelerated on annual terms in November 2019 to reach the highest level since July 2017, before easing gradually in December 2019 and January 2020. The deceleration was mainly affected by lower demand of red meat, specially from China.

The Federal Reserve kept interest rate unchanged in January 2020, after cutting it by 25 bps in October 2019 for the third consecutive time in 2019. Moreover, the European Central Bank kept interest rates unchanged in January 2020, after cutting its deposit facility rate in September 2019 for the first time since March 2016. Furthermore, the Bank of England also kept interest rate unchanged in January 2020, after raising it by 25 bps in August 2018 for the second time since November 2017. The three central banks made no changes to their asset purchase programs since the previous monetary policy report. Meanwhile, the three central banks expressed readiness to take appropriate measures in order to address the impact of the coronavirus outbreak.

Capital flows into emerging markets reversed between mid-January 2020 and February 2020, for the first time since August 2019. This was mainly due to increased risk aversion towards emerging markets as a result of concerns regarding the disruptions to economic activity following the coronavirus outbreak.

Figure 7
Contribution to the Current Account

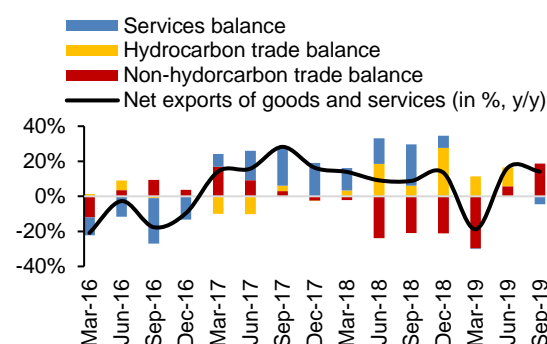
(In p.p., +ve= improvement, y/y unless otherwise specified)



Source: Central Bank of Egypt.

Figure 8
Contribution to the net exports of goods and service

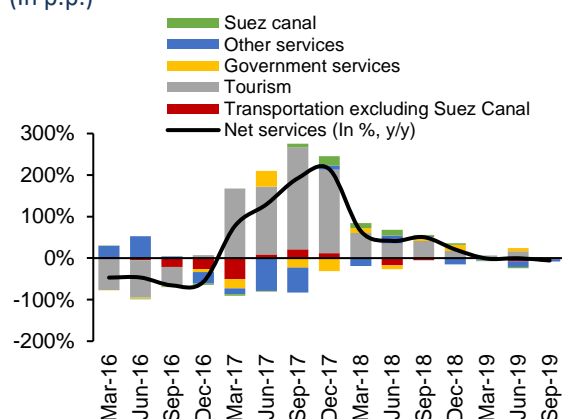
(In p.p., +ve= improvement, y/y unless otherwise specified)



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 improved on annual terms in 2019 Q3, for the first time since 2018 Q2, while the financial account surplus continued to narrow for the third consecutive quarter.

The current account deficit improved on annual terms in 2019 Q3, after widening on annual terms for four consecutive quarters between 2018 Q3 and 2019 Q2, mainly due to the favorable contribution from the non-hydrocarbon trade deficit and remittances, which more than offset the unfavorable contribution from net investment income deficit and net services surplus, while the contribution of the hydrocarbon trade deficit stabilized.

The deficit of net exports of goods and services continued to improve on annual terms in 2019 Q3 for the second consecutive quarter, after widening in 2019 Q1 for the first time since 2016 Q4. This was mainly due to the favorable contribution from the non-hydrocarbon trade deficit.

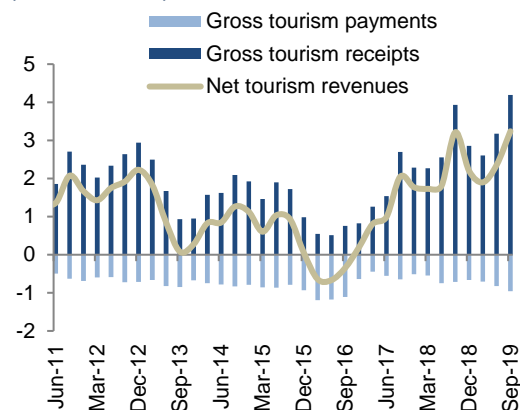
The non-hydrocarbon trade deficit continued to improve on annual terms in 2019 Q3, for the second consecutive quarter. This was mainly due to a broad-based improvement of exports for the second consecutive quarter (especially evident in gold exports) as well as imports mainly due to lower intermediate goods (largely steel imports).

The hydrocarbon trade balance remained roughly stable on annual terms, recording a deficit in 2019 Q3, after recording a surplus in 2019 Q2 and 2018 Q4 for the first time since 2013 Q4.

The net services surplus declined on annual terms in 2019 Q3, for the first time since 2016 Q4, mainly due to the unfavorable contribution from other services and transportation excluding Suez Canal receipts, which more than offset the favorable contribution from Suez Canal receipts, while net travel receipts contribution roughly stabilized. On the other hand, remittances increased on annual terms in 2019 Q3, for the first time since 2018 Q3.

Figure 10
Tourism Receipts and Payments

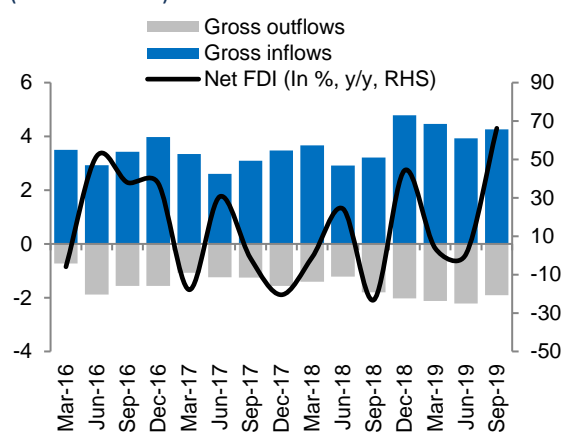
(In USD billion)



Source: Central Bank of Egypt.

Figure 11
Net Foreign Direct Investments*

(In USD billion)

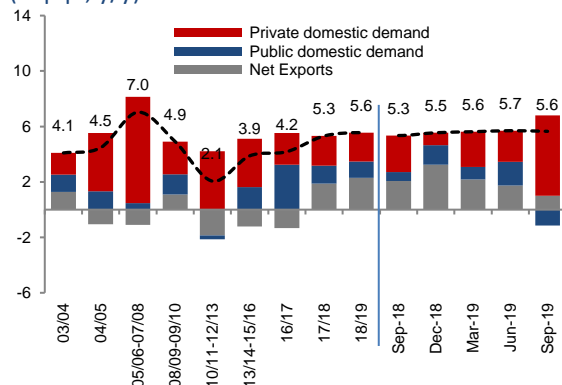


Source: Central Bank of Egypt.

*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 continued to narrow in 2019 Q3, for the third consecutive quarter. The brief reversal of capital flows into emerging markets in August 2019 was also evident in net portfolio outflows from Egypt in 2019 Q3, the first time since 2018 Q4. On the other hand, net foreign direct investment inflows resumed its improvement on annual terms in 2019 Q3 for the third time since 2018 Q4, after roughly stabilizing in 2019 Q2. This was supported by higher net inflows to newly issued capital or capital increases as well as to the petroleum sector, while purchases of real estate and purchases of companies and assets declined. Meanwhile, gross international reserves remained broadly stable for the third consecutive month at USD45.5 billion in February 2020.

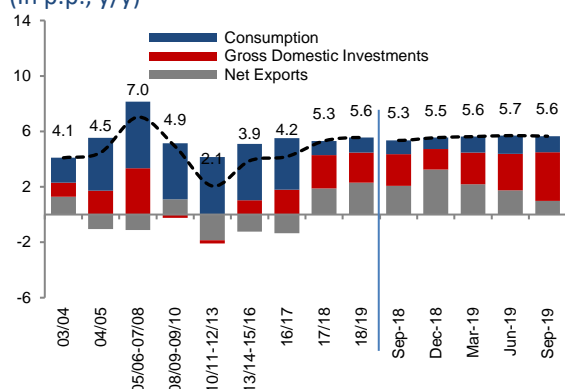
c) Real GDP growth stabilized at 5.6% in 2019 Q3, after recording 5.6% for the fiscal year 2018/19, the highest since 2007/08. The unemployment rate recorded 8.0% in 2019 Q4 compared to 7.8% and 7.5% in 2019 Q3 and Q2, respectively.

Real GDP growth stabilized at 5.6% in 2019 Q3 after recording 5.7% in 2019 Q2 and 5.6% for the fiscal year 2018/19, the highest since 2007/08. Private domestic demand contribution accelerated in 2019 Q3, having outpaced net exports since the beginning of 2019, which was broadly the main driver of economic activity during the period between 2017 Q4 and 2018 Q4.¹ Meanwhile, public domestic demand contributed negatively in 2019 Q3, while the contribution of real net exports continued to weaken for the third consecutive quarter in 2019 Q3, offsetting the pickup in domestic demand. Investments continued to accelerate in 2019 Q3 for the third consecutive quarter, while the contribution of consumption stabilized for the second consecutive quarter after broadly recovering since 2018 Q2.

The contribution of net exports to GDP growth continued to be positive since 2017 Q4, albeit weakening in 2019 Q3 for the third consecutive quarter. The contraction of real imports has been ongoing and driving the positive contribution of net exports since 2018 Q2. On the other hand,

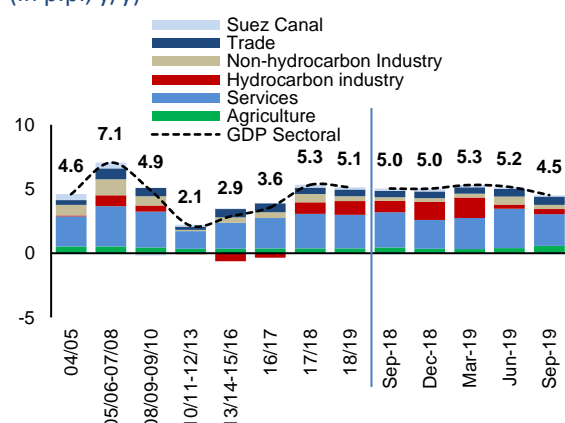
¹ Investments data for 2018/19 was revised by the Ministry of Planning and Economic Development.

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.

real exports contracted in 2019 Q3 for the third consecutive quarter after it was the main driver of net exports between 2017 Q1 and 2018 Q1.

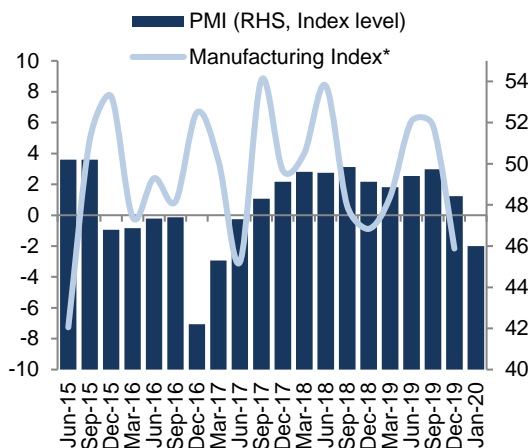
Private domestic demand contribution has been broadly accelerating since the beginning of 2019, and particularly in 2019 Q3. Private investments led the pickup in private domestic demand, and were concentrated in real estate in 2019 Q3, after being concentrated in electricity and gas extractions in 2018/19. Meanwhile, private consumption growth was contained in 2019 Q3, after being on a short-lived path to recovery in 2019 H1. On the other hand, public domestic demand contributed negatively in 2019 Q3 on the back of lower public investments, which contracted as a result of lower investments in extractions, while public consumption growth picked up in 2019 Q3, after relatively weakening in 2019 H1.

From the sectoral perspective, real GDP growth decelerated in 2019 Q3 to its slowest pace since 2017 Q1, on the back of a drop in the contribution of private sector output after a marked increase in 2019 Q2, while the contribution of public sector stabilized after decreasing in the previous quarter. The decline in private sector contribution came on the back lower contribution from construction, non-petroleum manufacturing and tourism, while the contribution of agriculture increased and most other sectors broadly stabilized. Meanwhile, public sector contribution stabilized as the drop in contribution from natural gas output was broadly offset by the improvement in petroleum manufacturing. The recent developments came after the increase of public sector contribution (mainly due to natural gas extractions) between 2017 Q3 and 2018 Q4, while the contribution of private sector output declined during the same period.

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. 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 con-

Figure 15
Leading Indicators

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

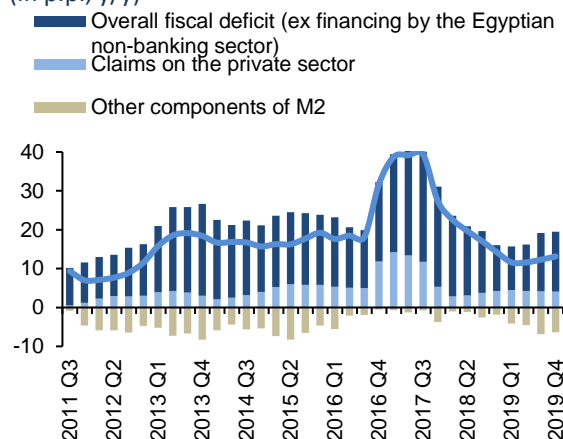


Source: Bloomberg, CAPMAS.

*/ Q4 2019 data point for the manufacturing index only includes latest data published until November 2019.

Figure 16
Contribution to M2 Growth

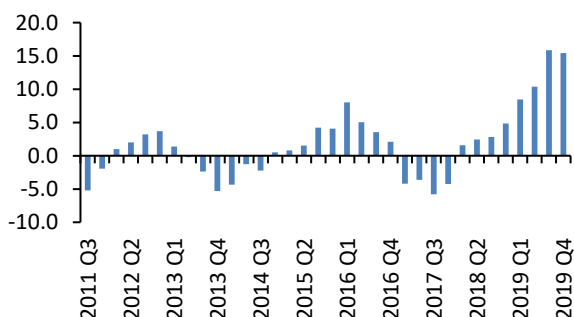
(In p.p., y/y)



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.

tinued 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.

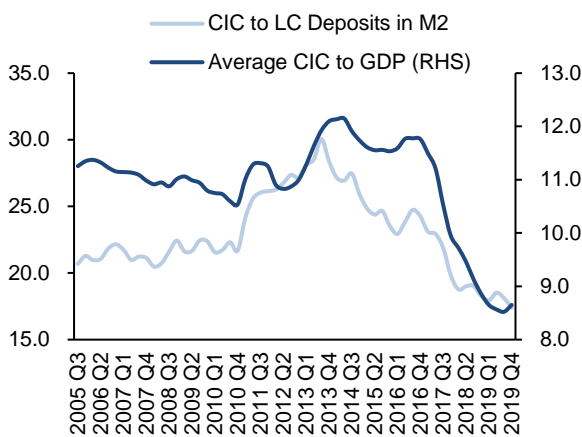
Moreover, activity indicators for the non-hydrocarbon sector broadly weakened in 2019 Q4. The manufacturing index contracted on average in October and November 2019 for the first time since 2018 Q4. Meanwhile, the PMI declined in 2019 Q4 and further in January 2020 to its lowest level since 2017 Q1. Moreover, passenger car sales continued to contract in December 2019 for the 11th consecutive month, while sales of buses and trucks recorded positive growth for the fourth consecutive month. Furthermore, Suez Canal net tonnage growth broadly stabilized in 2019 Q4, after being on a weakening trend since 2017 Q4 in line with global trade developments. In the hydrocarbon sector, the pace of natural gas production growth continued to decelerate on average in October-November 2019 to its slowest pace since 2016 Q3.

d) Broad money growth continued to increase in 2019 Q4, for the second consecutive quarter, mainly driven by fiscal deficit contribution which has more than offset the continued decline in contribution of other counterpart assets of broad money.

Annual growth of broad money (M2) continued to pick up for the second consecutive quarter to record 13.1% in 2019 Q4, 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 2019 Q4 was mainly driven by the increase in fiscal deficit contribution, which has more than offset the continued decline in contribution of other counterpart assets of broad money.

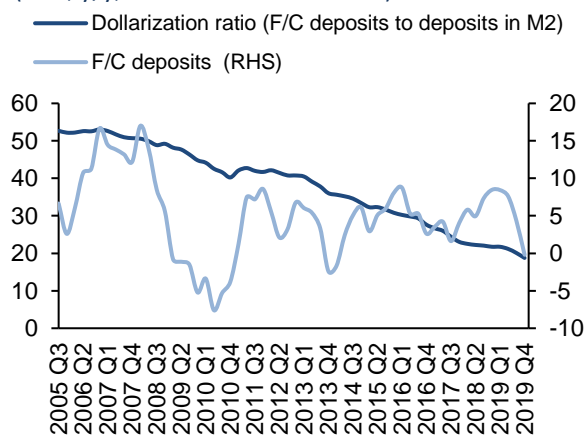
The increase in fiscal deficit contribution in 2019 Q4 was mainly reflected in higher foreign holdings of T-bills and T-bonds, while external financing remained broadly stable and bank financing eased slightly. Meanwhile, the biggest

Figure 18
CIC Outside the Banking System^{1/}
(In %)



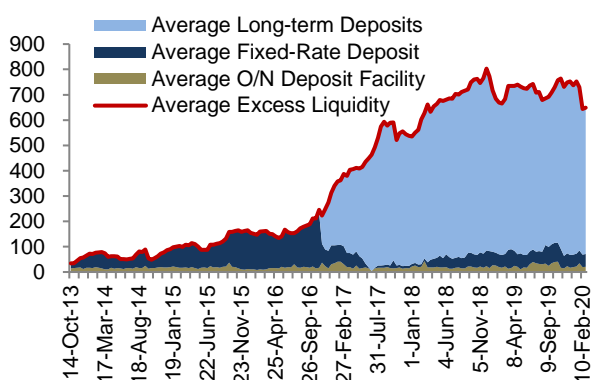
Source: Central Bank of Egypt.
1/ Average CIC to four quarters rolling sum of GDP.

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 February 24, 2020.

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 slight easing of negative contribution of net foreign assets not related to fiscal deficit financing, while the contribution of the private sector credit broadly stabilized.

Furthermore, inflation adjusted L/C claims on the private sector stabilized in 2019 Q4 after witnessing annual increases between 2018 Q1 and 2019 Q3, which followed annual contractions in 2017. Since 2019 Q3, the recovery of the claims on the household sector, has outpaced the recovery of the claims on the private business sector.

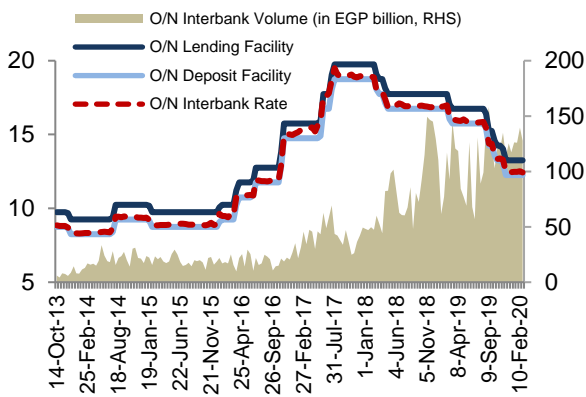
Within the components of M2, CIC as a percent of L/C deposits in M2 declined slightly in 2019 Q4 after stabilizing for three consecutive quarters, hovering below its long-term historical average, which continued to suggest relative lessening of currency holding behavior. Furthermore, the dollarization ratio defined as F/C deposits to total deposits in M2 continued to decline in 2019 Q4, while the annual growth in F/C deposits in USD contracted in 2019 Q4, for the first time since 2014 Q\.

e) Real monetary conditions remained tight.

Real monetary conditions remained tight notwithstanding the cumulative 650 bps policy rate cuts in 2018 Q1, 2019 Q1, 2019 Q3 and 2019 Q4.

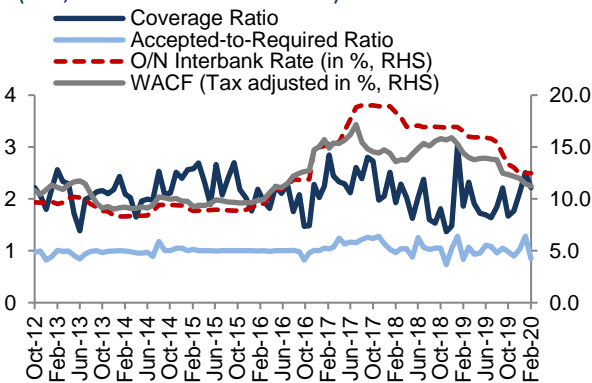
Excess liquidity level declined in January 2020 and February 2020, after increasing in 2019 Q4 to record an average of EGP646.6 billion (11% of GDP) during February 2020 compared to an average of EGP746 billion (13.1% of GDP) recorded during 2019 Q4. The decline was mainly driven by the decline in net claims on the government due to the CBE. Meanwhile, interbank rates remained below the policy rate by around 30 bps since November 2019 compared to around 40 bps recorded on average between July 2019 and October 2019, supported by higher long-term absorption of excess liquidity and the slight increase in the

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



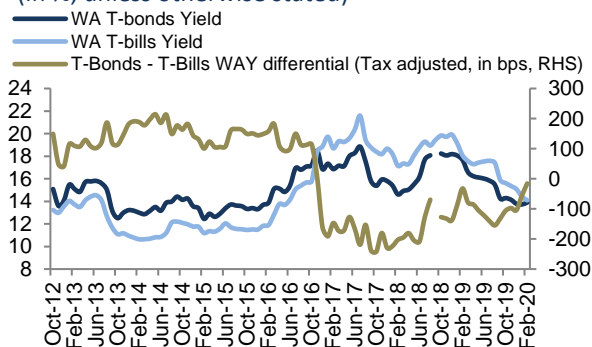
Source: Central Bank of Egypt.
1/ As of February 24, 2020.

Figure 22
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 23
Rates of the Treasury's L/C Marketable Securities
(In %, unless otherwise stated)



Source: Central Bank of Egypt calculations.

weighted average absorption tenors. Furthermore, inter-bank yield curve shifted downwards post the c.100% transmission of the cumulative 350 policy rate cuts on August 22, 2019, September 26, 2019 and November 14, 2019.²

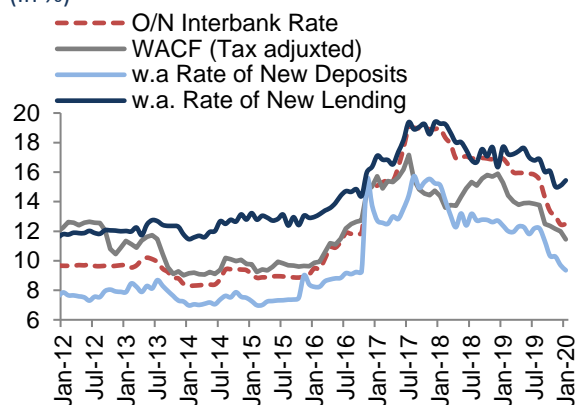
Yields for L/C government securities declined to record 11.2% (net of tax) in February 2020, the lowest since May 2016. This compares to 13.9% recorded on average during 2019 Q2, prior to the cumulative 350 bps policy rate cuts on August 22, 2019, September 26, 2019 and November 14, 2019. The 2.6p.p. decline in the weighted average yield was due to the drop in the accepted-to-required ratio, which was partially offset by the drop in demand, leading to a transmission of 0.8x the decline in policy rates by 350 bps. The accepted-to-required ratio recorded 0.9x in February 2020 compared to 1.3x recorded in January 2020. Meanwhile, the drop in demand was reflected in lower coverage ratio that recorded 2.2x in February 2020 compared to 2.5x recorded in January 2020, affected by emerging market sentiment. Furthermore, the inverted yield curve has been flattening since September 2019 after steepening in 2019 Q2, July and August 2019. The recent flattening was due to the drop in demand for long-term debt while demand for T-bills rose.

Meanwhile, following the increase during most of 2018, yields on Egyptian Eurobonds have been broadly declining since the beginning of 2019, before picking up in mid-February 2020 in line with the recent unfavorable sentiment on 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 January 2020 reflected partial transmission of the cumulative 350 bps policy rate

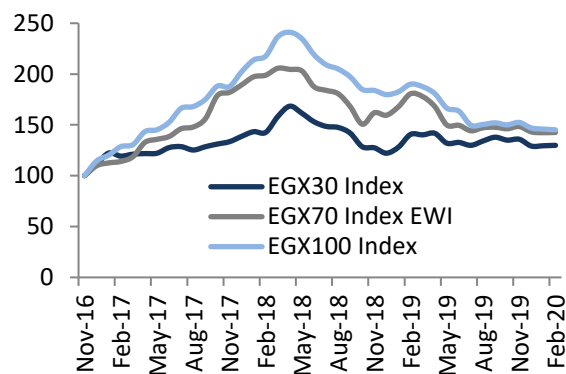
² As percent of four quarters rolling sum GDP.

Figure 24
Select Market Interest Rates^{1/}
(In %)



Source: Central Bank of Egypt.
1/ Up to January 2020.

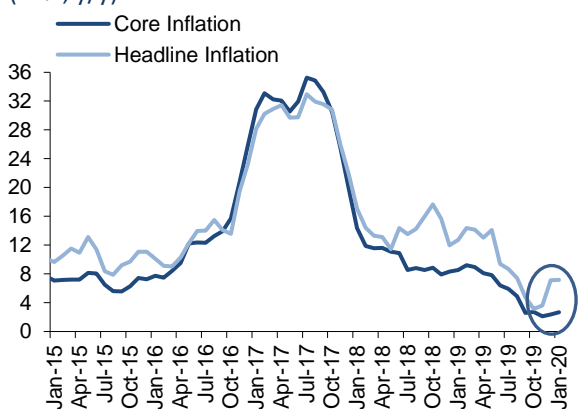
Figure 25
Stock Market Indices^{1/}
(Index, November 2016 = 100)



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

1/ Equity performance calculated on EGP basis.

Figure 26
Headline and Core Inflation^{1/}
(In %, y/y)



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.

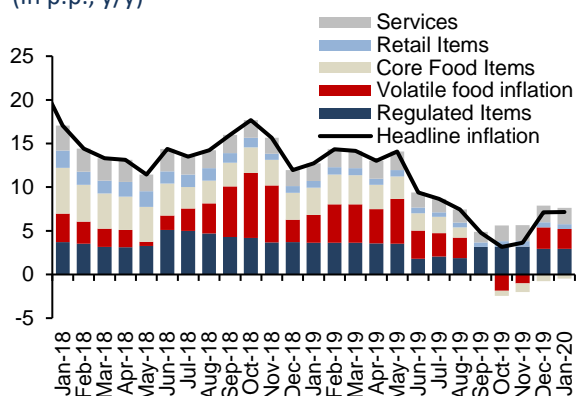
cuts in 2019 H2 to rates of new deposits. New deposit rates declined to record an average of 9.5% during December 2019 and January 2020, reflecting a transmission in the magnitude of 0.7x the policy rate cuts. Meanwhile, rates of new loans declined to record an average of 15.2% during December 2019 and January 2020, reflecting a transmission in the magnitude of 0.6x the cumulative 350bps policy rate cuts. As a result, interest rate margins widened slightly to record 5.7p.p., compared to 5.2p.p. recorded in 2019 Q2.

In equity markets, real prices have been recently affected by the unfavorable sentiment towards global stock markets. Meanwhile, the EGX30 index in USD recovered by cumulative 21% since the beginning of 2019, outpacing the MSCI emerging market index cumulative gain of 12%. This was supported by Egypt's nominal exchange rate appreciation against the USD. 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) Annual headline inflation increased, after recording its lowest rate in almost 14 years, in line with the expectations of the Central Bank of Egypt as it reflected the strong unfavorable base effect stemming from the reversal of transitory shock to prices of fresh vegetables in the previous year.

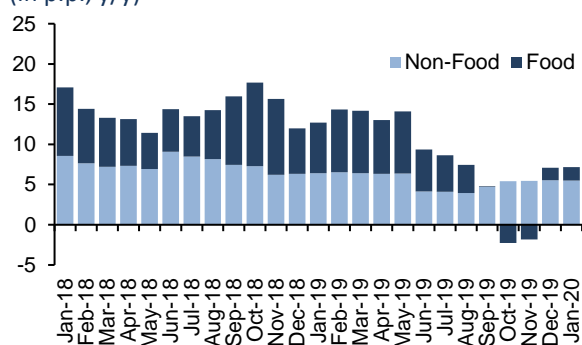
Annual headline inflation broadly stabilized at 7.2% in January 2020 compared to 7.1% in December 2019, after increasing from 3.6% and 3.1% in November and October 2019, respectively. The annual rate increase came in line with the expectations of the Central Bank of Egypt as it reflected the strong unfavorable base effect stemming from the reversal of transitory shock to prices of fresh vegetables in the previous year. This was especially evident in December 2019 where monthly headline inflation recorded negative 0.2% in December 2019 compared to negative 3.4% in December 2018. This comes after favorable base effects as well as the release of the 10th CPI series by CAPMAS and its linking methodology with the 9th CPI series had supported the decline of annual rate for five consecutive months to record the lowest rate in almost 14 years in October 2019.

Figure 27
Contribution to Headline Inflation
(In p.p., y/y)



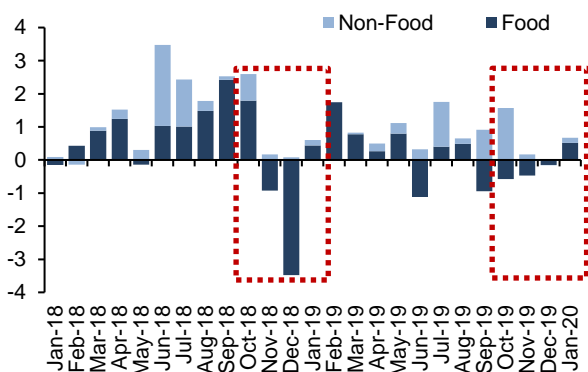
Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

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.

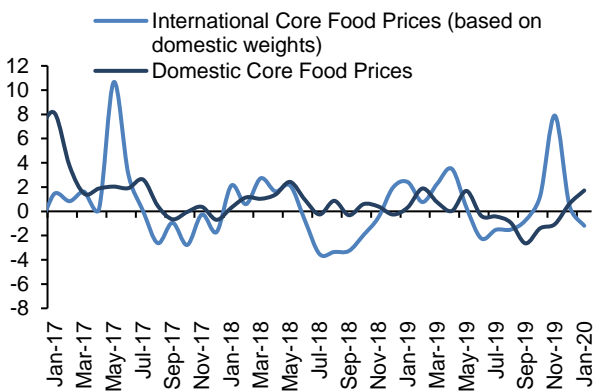
Annual core inflation increased for two consecutive months to record 2.7% and 2.4% in January 2020 and December 2019, respectively, given higher prices of poultry. This comes after a broad-based decline in core food prices had supported the decline in November 2019 to record 2.1%, while higher education and education-related prices led the slight increase in October 2019 to record 2.7% compared to 2.6% in September 2019.

Annual food inflation increased for the third consecutive month in January 2020 to record 2.6% from 1.8% in December 2019 after recording negative 4.6% and negative 4.8% in November and October 2019, respectively. This is mainly due to lower negative contribution of core food items to annual food inflation in January 2020 and higher positive contribution of volatile food items to annual food inflation in December 2019. In addition, regulated food items recorded negative annual contribution for the first time on record in December 2019. This comes after annual food inflation had declined consecutively in the period between June 2019 and October 2019, supported by the containment of inflationary pressures, favorable base effects 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 remained broadly stable, except for October 2019 mainly due to higher education and education-related prices, to average 8.3% since June 2019 compared to an average of 13.1% between January and May 2019.

With respect to key monthly developments, monthly headline inflation was affected by seasonally higher prices of education and education-related items which was reflected in regulated, services and retail items inflation in October 2019 as well as seasonally higher prices of clothing and footwear in November 2019. Meanwhile, lower prices of volatile food were reflected in October and November 2019 before stabilizing in December 2019 and increasing in January 2020.

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.

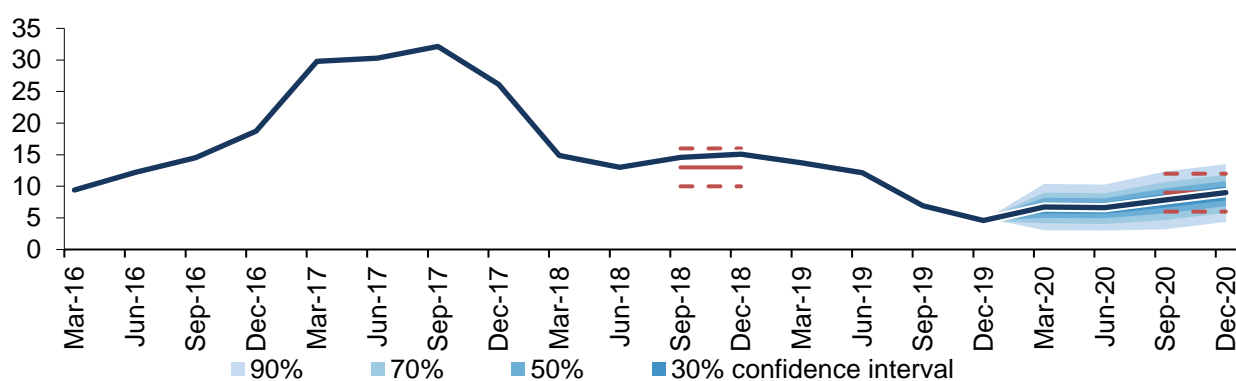
Moreover, monthly headline inflation in December 2019 was mainly driven by lower prices of regulated food items by the government, specifically rationed vegetable oils, sugar and rice prices, which more than offset higher prices of poultry and private hospitals. Poultry prices continued to increase for the second month in January 2020, which reflected a stronger magnitude of its seasonality after recording consecutive price declines between June 2019 and November 2019. In addition, January 2020 monthly inflation reflected also an inch-up of services prices, mainly due to higher rental values.

In addition, monthly domestic core food inflation on average was broadly consistent with monthly international core food inflation on average since January 2019, except for October 2019, November 2019 and January 2020. This was mainly due to divergence in red meat price developments.

The Outlook

The MPC decided to hold policy rates in January and February 2020, before it decided to move preemptively, in light of recent developments, by cutting the overnight deposit rate, overnight lending rate, and the rate of the main operation by 300 basis points to 9.25 percent, 10.25 percent, and 9.75 percent, respectively, and the discount rate was also cut by 300 basis points to 9.75 percent. These decisions provide appropriate support to domestic economic activity given the current challenging external environment, while the inflation outlook remains consistent with achieving the inflation target of 9 percent (± 3 percentage points) in 2020 Q4.

Figure 31
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.

While global and domestic economic disruptions resulting from the novel COVID-19 will weigh on the outlook of real GDP growth, the recently implemented monetary and fiscal policies as well as structural reforms will help support the recovery of economic activity.

The outlook for Brent crude oil price incorporated in the domestic inflation outlook declined compared to the previous Monetary Policy Report affected by the combined impact of lower demand and higher supply globally, with the latter especially evident following the lack of agreement between OPEC and Non-OPEC member countries on additional supply cuts. In addition, international food price forecasts relevant to Egypt's consumption basket are expected to increase in 2020, albeit with lower magnitude compared to previous report, and to decline in 2021.

Risks surrounding the domestic inflation outlook from the global economy include the impact of disruptions to global economic activity, which could weigh on the global economic outlook, at least in the near term, following the recent coronavirus outbreak. While Brent crude oil spot prices remain subject to volatility due to potential supply-side factors that include geopolitical risks, risks surrounding the outlook are tilted to the downside. Domestically, 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 capped by ± 10 percentage points per adjustment.

Appendix: Tables and Abbreviations

Table A1: CPI Contribution*														
	Weights**	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Monthly Contributions to Headline CPI Inflation (in p.p.)														
Headline	100.0	0.6	1.7	0.8	0.5	1.1	-0.8	1.8	0.7	0.0	1.0	-0.3	-0.2	0.7
Regulated Items	21.4	0.0	0.0	0.0	0.0	0.1	0.0	1.1	0.1	1.3	0.5	0.0	-0.3	0.0
Fresh Fruits & Vegetables	5.5	0.3	1.1	0.5	0.2	0.2	-1.0	0.5	0.8	0.1	-0.2	-0.2	0.0	0.1
Core CPI	73.1	0.3	0.6	0.3	0.2	0.8	0.2	0.1	-0.2	-1.4	0.8	-0.1	0.2	0.5
Food Prices	24.5	0.1	0.7	0.3	0.0	0.6	-0.1	-0.1	-0.3	-1.3	-0.3	-0.2	0.1	0.4
of which														
<i>Poultry & Red Meat</i>	8.6	0.0	0.5	0.1	-0.2	0.4	-0.2	-0.1	-0.3	-0.9	-0.2	-0.2	0.2	0.3
<i>Food excl. Poultry & Red Meat</i>	15.9	0.1	0.2	0.1	0.2	0.1	0.0	-0.1	0.0	-0.4	-0.2	-0.1	0.0	0.0
Retail Prices	14.3	0.0	-0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.2	0.1	0.0	0.0
Services	34.3	0.1	0.1	0.0	0.1	0.1	0.3	0.2	0.1	-0.2	0.9	0.1	0.0	0.1
Annual Contributions to Headline CPI Inflation (in p.p.)														
Headline	100	12.7	14.4	14.2	13.0	14.1	9.4	8.7	7.5	4.8	3.1	3.6	7.1	7.2
Regulated Items	21.4	3.7	3.6	3.6	3.6	3.5	1.8	2.0	1.9	3.1	3.2	3.2	2.9	3.0
Fresh Fruits & Vegetables	5.5	3.2	4.4	4.4	3.9	5.2	3.2	2.7	2.3	-0.1	-1.9	-1.0	2.5	2.3
Core CPI	73.1	5.9	6.3	6.1	5.5	5.4	4.3	3.9	3.2	1.7	1.8	1.5	1.7	1.9
Food Prices	24.5	3.1	3.4	3.3	2.8	2.6	2.0	1.9	1.2	-0.1	-0.6	-1.0	-0.8	-0.5
of which														
<i>Poultry & Red Meat</i>	8.6	0.7	1.0	0.9	0.4	0.5	0.3	0.5	-0.1	-0.8	-1.1	-1.2	-0.8	-0.4
<i>Food excl. Poultry & Red Meat</i>	15.9	2.5	2.4	2.4	2.4	2.0	1.7	1.4	1.2	0.8	0.5	0.2	0.0	0.0
Retail Prices	14.3	0.8	0.8	0.8	0.7	0.7	0.7	0.5	0.5	0.5	0.6	0.6	0.6	0.5
Services	34.3	2.0	2.1	2.0	2.1	2.1	1.7	1.5	1.5	1.2	1.8	1.8	1.9	1.9

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	2016/17*	2017/18*	2018/19*	2018/19*				2019/20*
				Q1	Q2	Q3	Q4	Q1
Trade Balance	-37.3	-37.3	-38.0	-9.8	-9.4	-10.5	-8.3	-8.8
Export proceeds	21.7	25.8	28.5	6.8	7.5	6.6	7.6	7.1
<i>Petroleum exports</i>	6.6	8.8	11.6	2.8	3.2	2.5	3.0	2.4
<i>Other exports</i>	15.1	17.1	16.9	4.0	4.3	4.1	4.5	4.7
Import payments**	59.0	63.1	66.4	16.6	16.8	17.1	15.9	15.9
<i>Petroleum imports</i>	12.0	12.5	11.5	3.4	2.4	2.9	2.7	3.0
<i>Other imports</i>	47.0	50.6	55.0	13.2	14.5	14.2	13.1	12.9
Services Balance	5.6	11.3	13.0	4.3	3.0	2.5	3.3	4.0
Receipts	15.4	21.7	24.4	6.9	5.9	5.3	6.3	7.4
Transportation	7.9	8.7	8.6	2.2	2.2	2.0	2.1	2.3
<i>Of which: Suez Canal dues</i>	4.9	5.7	5.7	1.4	1.5	1.3	1.5	1.5
Travel (tourism revenues)	4.4	9.8	12.6	3.9	2.9	2.6	3.2	4.2
Payments	9.8	10.4	11.4	2.7	2.9	2.8	3.0	3.4
Travel	2.3	2.3	2.5	0.6	0.7	0.6	0.7	0.8
Investment Income Balance	-4.6	-6.5	-11.0	-2.4	-2.8	-2.8	-3.0	-3.3
Receipts	0.5	0.6	1.0	0.2	0.3	0.2	0.3	0.3
Payments	5.1	7.1	12.0	2.6	3.1	3.0	3.3	3.6
<i>Of which: Interest paid</i>	1.2	1.6	2.6	0.5	0.6	0.7	0.8	0.8
Current Transfers	21.8	26.3	25.1	5.9	6.0	6.2	6.9	6.7
Private (net),	21.7	26.1	24.8	5.9	5.9	6.1	6.9	6.6
Official (net)	0.1	0.2	0.4	0.0	0.1	0.1	0.1	0.1
Balance of Current Account	-14.4	-6.1	-10.8	-2.0	-3.2	-4.5	-1.1	-1.4
Capital & Financial Account	31.0	22.0	10.8	1.8	1.3	6.5	1.2	0.7
Capital Account	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
Financial Account	31.1	22.1	10.9	1.8	1.3	6.5	1.3	0.7
Direct investment abroad	-0.2	-0.3	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1
Direct investment in Egypt (net)***	7.9	7.7	8.2	1.4	2.8	2.3	1.7	2.4
Portfolio investment abroad	0.2	0.0	-0.1	-0.1	0.0	0.0	-0.1	0.1
Portfolio investment in Egypt (Net)#	16.0	12.1	4.2	-3.2	-2.6	6.9	3.2	-2.0
<i>Of which: Bonds</i>	5.5	5.3	5.1	-0.1	-0.2	3.3	2.1	-0.3
Other Investments (Net)	7.2	2.6	-1.1	3.8	1.3	-2.7	-3.5	0.3
Net Borrowing	9.7	10.3	6.2	1.0	0.0	3.8	1.3	3.0
Medium- and Long-Term Loans (net)	5.2	6.7	3.3	-0.5	0.8	2.2	0.8	2.3
Medium- and Long-Term Suppliers' Credit	2.8	1.1	0.8	0.3	0.3	-0.1	0.3	-0.2
Short term Suppliers' Credit (net)	1.7	2.4	2.0	1.2	-1.1	1.7	0.2	0.8
Other Assets	-12.1	-4.5	-8.9	1.9	-1.2	-8.0	-1.6	-2.0
Other Liabilities	9.6	-3.1	1.6	0.9	2.4	1.5	-3.2	-0.7
Net Errors & Omissions	-2.9	-3.1	-0.1	0.5	-0.2	-0.5	0.1	1.0
Overall Balance	13.7	12.8	-0.1	0.3	-2.1	1.4	0.2	0.2
Change in CBE Reserve Assets (Increase -)	-13.7	-12.8	0.1	-0.3	2.1	-1.4	-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.

Including net transactions on Egyptian TBs, as well as Egyptian government bonds issued for the Saudi Fund for Development in the

amount of US\$ 500 million in FY 2011/2012, Q4. It also includes foreigners' net transactions on medium- term dollar bonds issued by

the Egyptian government in the amount of US\$ 2.5 billion in the fourth quarter of 2012/2013, and of US\$ 1.0 billion in the first quarter of

2013/2014, in addition to dollar bonds issued in the amount of US\$ 1350.0 million in the fourth quarter of 2014/2015.

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

Table A3: GDP contribution									
	2015/16	2016/17	2017/18	2018/19	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
GDP (at Market Prices)	4.3	4.2	5.3	5.6	5.3	5.5	5.6	5.7	5.6
GDP (at Factor cost)	2.3	3.6	5.3	5.1	5.0	5.0	5.3	5.2	4.5
Public GDP (at Factor Cost)	0.4	0.4	1.5	1.7	1.4	1.9	2.2	1.2	1.2
Private GDP (at Factor Cost)	1.9	3.1	3.8	3.5	3.7	3.1	3.1	4.0	3.3
Agriculture, forestry, fishing and hunting	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.6
Industry	-0.6	0.1	1.5	1.4	1.2	1.7	1.9	1.0	0.7
Extractions	-0.7	-0.2	0.7	1.0	0.8	1.2	1.4	0.4	0.2
Oil	-0.1	-0.4	0.0	0.0	0.1	0.1	0.0	-0.2	-0.1
Natural gas	-0.7	0.1	0.7	0.9	0.6	1.1	1.4	0.5	0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	0.1	0.3	0.8	0.5	0.4	0.5	0.5	0.5	0.5
Petroleum	0.1	-0.1	0.2	0.1	0.1	0.2	0.2	-0.1	0.2
Non-Petroleum	0.0	0.4	0.6	0.4	0.3	0.3	0.3	0.6	0.3
Services	1.4	2.1	2.6	2.4	2.7	2.1	2.1	2.7	2.1
Construction	0.5	0.5	0.6	0.5	0.3	0.6	0.5	0.8	0.4
Real Estate Rental and Services	0.4	0.5	0.4	0.4	0.4	0.3	0.4	0.5	0.5
Transportation and Warehousing	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2
Finance	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.2
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	0.4	0.3	0.4	0.4
Tourism	-0.7	0.1	0.7	0.5	1.0	0.4	0.3	0.4	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	0.0	0.1	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	0.5	0.6	0.6
Suez Canal	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.1
General Government	0.5	0.3	0.1	0.2	0.1	0.1	0.3	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 (end of period, in EGP billion)

	Jun-16	Jun-17	Jun-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Monetary Survey								
Net Foreign Assets	-87.4	61.1	309.5	127.5	242.1	300.1	356.7	347.8
Central Bank	-44.9	3.7	301.5	241.9	254.2	264.4	270.0	270.6
Commercial Banks	-42.5	57.4	8.0	-114.5	-12.0	35.8	86.7	77.19
Net Domestic Assets	2181.9	2857.1	3144.8	3501.2	3482.6	3563.5	3653.7	3783.1
Net Claims on Government	1602.7	1808.9	1971.6	2242.6	2175.6	2217.1	2424.6	2473.0
Net Claims on Public Economic Authorities	52.2	170.7	245.9	266.0	234.7	210.9	176.6	183.5
Claims on Public Sector Companies	93.1	148.7	160.2	166.7	164.9	162.1	160.6	161.8
Claims on Private Sector	712.1	982.9	1082.6	1140.9	1188.4	1217.1	1250.0	1287.7
Net Other Items	-278.2	-254.1	-315.5	-315.0	-281.0	-243.7	-358.1	-343.2
Broad Money (M2)	2094.5	2918.2	3454.3	3628.7	3724.7	3863.6	4010.4	4110.5
Local Currency Component (M2D)	1770.7	2223.9	2737.4	2885.1	2983.1	3149.0	3324.0	3455.4
Currency Outside Banks	346.9	419.1	438.9	441.9	451.0	487.2	499.3	507.1
Local Currency Deposits	1423.8	1804.8	2298.5	2443.2	2532.1	2661.8	2824.6	2948.3
Foreign Currency Deposits	323.8	694.3	717.0	743.5	741.6	714.6	686.4	655.1
Central Bank Balance Sheet								
Net foreign assets	-44.9	3.7	301.5	241.9	254.2	264.4	270.0	270.6
Foreign assets	149.9	551.5	776.0	746.1	748.7	734.0	729.1	723.08
Foreign liabilities	-194.8	-547.8	-474.5	-504.2	-494.6	-469.6	-459.1	-452.45
Net domestic assets	522.9	573.9	414.8	369.0	435.0	419.7	442.0	448.6
Net claims on government	658.3	740.5	730.6	748.0	714.4	747.2	792.6	761.2
Net claims on public economic authorities	-38.9	-31.8	-15.1	-4.8	-0.4	-1.1	-3.3	-4.4
Claims on Banks	120.4	286.9	326.0	269.5	288.4	300.4	287.3	307.0
Bank's Deposits in Foreign Currency	-60.8	-129.7	-124.6	-125.2	-124.1	-121.1	-117.0	-119.6
Open Market Operations /1	-150.0	-467.9	-677.5	-747.4	-718.2	-782.3	-729.7	-743.5
Other items net	-6.1	176.0	175.4	228.9	274.8	276.6	211.9	247.6
Reserve money (M0)	478.1	577.6	716.3	611.0	689.2	684.0	711.9	719.2
Currency Outside Banks	346.9	419.1	438.9	441.9	451.0	487.2	499.3	507.1
Reserves of banks	131.2	158.5	277.5	169.0	238.2	196.8	212.6	212.0
Cash at vaults	21.6	33.0	43.7	35.3	35.1	48.9	41.1	36.5
Deposits in local currency	109.6	125.5	233.8	133.7	203.0	147.9	171.5	175.5

Source: Central Bank of Egypt.

1/ Deposit auctions and deposit facility.

Table A5: Market Developments

	2016		2017			2018		2019		2020	Latest Vs. 2016 Q3, in bps ^{1/}
	Q3	Q2	Q4	Q2	Q3	Q4	Q2	Q3	Q4	Feb.	
Policy Rate											
Mid-Corridor Rate, %	12.25	16.16	19.25	17.25	17.25	17.25	16.25	15.58	13.24	12.75	50
Interbank Market											
Interbank WAR, %	11.90	16.58	19.04	17.04	17.01	16.96	15.96	15.14	12.96	12.52	62
Interbank O/N rate, %	11.86	16.62	18.95	16.99	16.95	16.91	15.93	15.12	12.93	12.47	61
Interbank O/N average volume, EGP billion	2.1	5.4	3.9	9.1	7.7	13.3	9.8	13.0	12.5	13.7	11.5
Interbank O/N share of total interbank volume, %	64.0	54.1	69.2	74.9	75.0	81.8	83.3	88.0	79.5	76.6	1254
Banking Sector											
Deposit Rates, %	9.16	13.10	15.37	12.72	12.93	12.70	12.12	11.86	10.09	n/a	93
Time, %	8.75	11.96	14.16	12.17	12.57	12.24	11.48	11.12	9.48	n/a	73
Short-term Deposits (<1Y), %	8.72	11.88	14.22	12.18	12.47	12.25	11.49	11.09	9.54	n/a	81
Other Deposits, %	9.52	13.59	12.95	11.94	13.29	11.89	10.87	11.48	8.23	n/a	-128
Saving, %	12.26	18.48	19.04	15.15	14.86	14.89	14.70	14.21	12.91	n/a	65
< 3 years, %	11.43	19.86	19.95	16.07	13.17	13.26	12.51	12.28	11.71	n/a	28
≥ 3 years, %	12.27	14.82	14.92	15.13	14.88	14.90	14.71	14.21	12.92	n/a	65
Saving Accounts, %	7.95	9.94	10.17	10.19	9.19	9.14	10.00	8.58	8.02	n/a	6
Lending Rates, %	14.74	17.28	19.11	17.88	17.01	16.95	17.36	16.50	15.41	n/a	67
W.a. Business Lending Rates, %	14.64	17.36	19.13	17.86	16.76	16.53	17.05	16.01	14.89	n/a	24
Short term business, %	14.59	17.44	19.19	17.74	17.22	17.38	17.13	15.88	14.42	n/a	-17
Long term business, %	14.71	17.22	18.98	18.03	15.75	14.77	16.82	16.23	15.56	n/a	85
Retail, %	15.24	16.78	19.01	18.02	18.03	18.59	18.60	18.03	17.39	n/a	215
Local Debt Market											
T-Bill yield 1Y, %	15.89	19.69	17.99	17.75	19.13	19.87	17.23	16.69	14.99	14.01	-180
W.a T-bill yield, %	15.37	19.72	18.41	18.12	19.24	19.83	17.42	17.01	15.34	14.09	-134
W.a T-bond yield, %	16.89	17.85	15.68	15.65	17.88	18.17	16.11	15.19	14.11	13.90	-264
WACF, % ^{2/}	12.43	15.71	14.56	14.37	15.33	15.81	13.9	13.4	12.16	11.24	-125
Spreads^{2/}											
O/N interbank - Mid Corridor rate, %	-0.39	0.46	-0.30	-0.26	-0.30	-0.34	-0.32	-0.46	-0.31	-0.27	12
W.a. Lending rate - Mid Corridor rate, %	2.49	1.12	-0.14	0.63	-0.24	-0.30	1.11	0.92	2.17	n/a	-32
Mid Corridor - W. A Deposit Rate, %	3.09	3.06	3.88	4.53	4.32	4.55	4.13	3.72	3.15	n/a	6
WACF - Mid Corridor rate, %	0.18	-0.45	-4.69	-2.88	-1.92	-1.44	-2.38	-2.18	-1.08	-1.29	-153
W.a. Yield Curve, %	1.22	-1.50	-2.19	-1.97	-1.08	-1.33	-1.05	-1.46	-0.98	-0.56	-145
W.a. Lending rate - WACF, %	2.21	1.65	4.56	3.49	1.43	0.72	3.18	2.61	2.72	n/a	57
W.a. Lending rate - T-bill yield, %	2.35	1.59	4.40	3.36	1.37	0.66	3.11	2.40	2.61	n/a	31
W.a. Lending rate - W.a. Deposit rate, %	5.58	4.18	3.74	5.15	4.08	4.25	5.24	4.64	5.32	n/a	-26
Long term Business - Short term Business lending, %	0.12	-0.22	-0.21	0.29	-1.47	-2.61	-0.31	0.35	1.14	n/a	102

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

