



Central Bank of Egypt

Monetary Policy Report

II / 2020

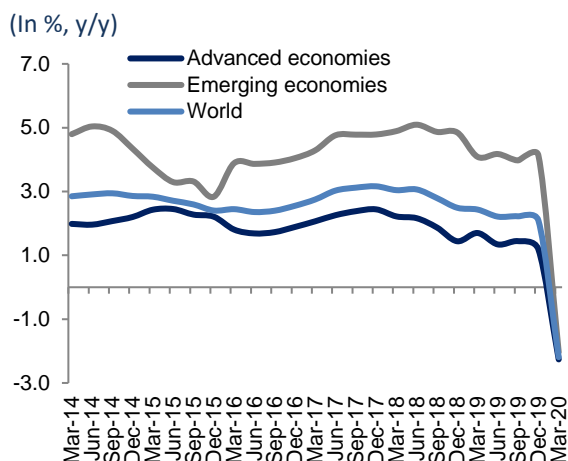
Disclaimer

The cut-off date for the data included in this report is August 13th, 2020. Some of the data presented are preliminary or subject to revisions. In addition, the MPC decided on May 14, June 25 and August 13, 2020 to keep the main policy rates unchanged. Whereas the Monetary Policy Committee decided, in its meeting on September 24, 2020 to cut the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate, and the rate of the main operation by 50 basis points to 8.75 percent, 9.75 percent, and 9.25 percent, respectively. The discount rate was also cut by 50 basis points to 9.25 percent. This data and all other economic developments will be included in the upcoming monetary policy report.

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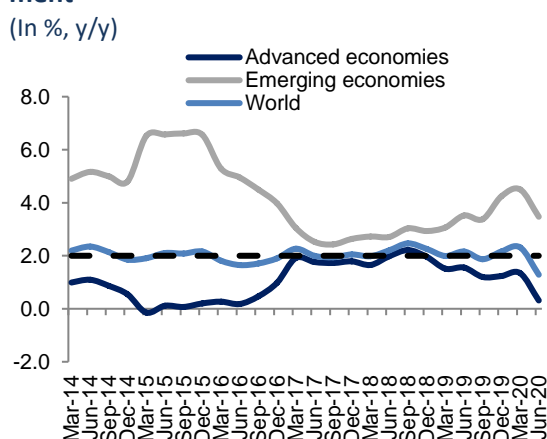
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Figure 1
Economic Growth of Egypt's External Environment^{1/}
(In %, y/y)



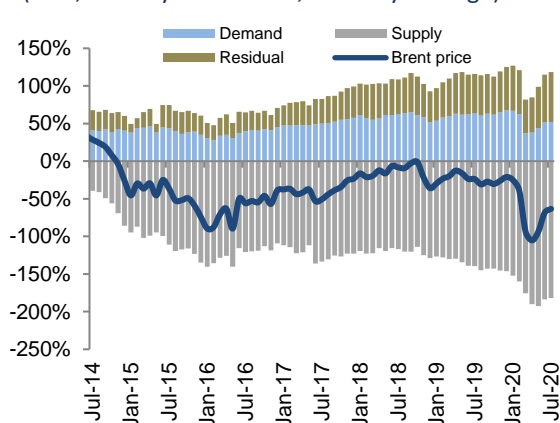
Source: Bloomberg & Central Bank of Egypt calculations.
^{1/} The series is weighted using Egypt's trade volume in 2015/16.

Figure 2
Headline Inflation of Egypt's External Environment^{1/}
(In %, y/y)



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
(In %, January 2010 = 100, monthly average)



Source: Federal Reserve Bank of New York.

Initial Conditions

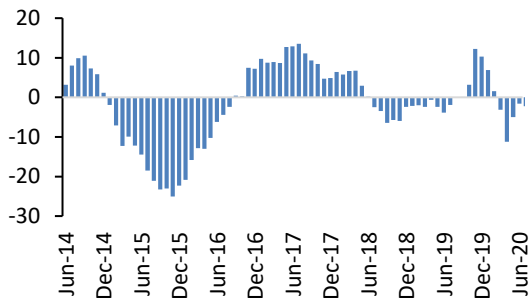
a) Globally, economic activity contracted, trade growth dropped, inflation decelerated, international oil prices recovered, and capital flows into emerging markets resumed after the sharp reversal following the COVID-19 global outbreak.

Economic activity of Egypt's external environment contracted at -2.2% in 2020 Q1, for the first time since 2009 Q3, affected mainly by the COVID-19 global outbreak as well as the associated containment measures, compared to +2.1% in 2019 Q4. In advanced economies, the contraction of economic activity registered -2.3% in 2020 Q1, compared to +1.2% in 2019 Q4, mainly driven by the contraction of economic activity in the Euro area, the United Kingdom and Japan in 2020 Q1. Meanwhile, the contraction of economic activity in emerging economies registered -2.0% in 2020 Q1, compared to +4.1% in 2019 Q4, mainly due to the sizable contraction of economic activity in China, which more than offset the favorable contribution of positive economic growth in India and Russia in the same period.

Annual headline inflation of Egypt's external environment nearly halved to register 1.3% in 2020 Q2, marking the lowest level since 2009 Q3, after broadly stabilizing at 2.3% in 2020 Q1 and 2019 Q4. Inflation in advanced economies declined significantly to register 0.3% in 2020 Q2, compared to 1.3% in 2020 Q1. This was mainly due to the significant decline of the inflation rate in the Euro Area, the United States and the United Kingdom in the same period, compared to the previous quarter. Meanwhile, inflation in emerging economies also declined to register 3.5% in 2020 Q2, compared to 4.5% in 2020 Q1. This was mainly due to the decline of the inflation rate in China and Brazil, which more than offset the acceleration of the inflation rate in Russia in the same period, compared to the previous quarter.

Figure 4
International Food Prices

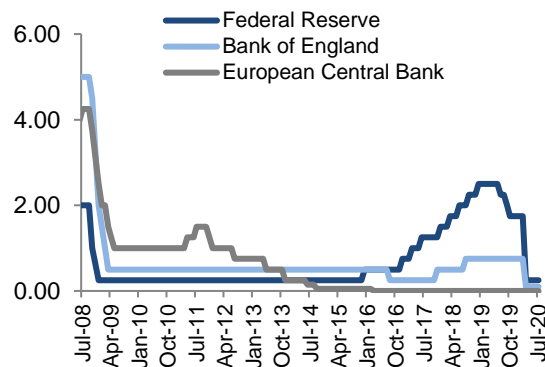
(In %, y/y, using domestic CPI basket weights of core food items)



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

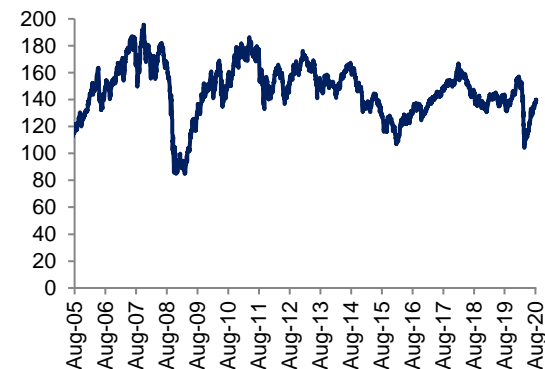
(In %)



Source: Bloomberg and Central Bank of Egypt calculations.

Figure 6
Emerging Markets Capital Flows Proxy

(Index level)



Source: Bloomberg.

Global trade growth registered -16.6% on average in April 2020 and May 2020, compared to -3.2% in 2020 Q1, marking the largest contraction on annual terms since 2009 Q2, and down from a peak of 5.2% in 2017 Q3.

After bottoming in April 2020, Brent crude oil prices continued to recover to register an average of 43.3 USD/barrel in July 2020, compared to an average of 29.9 USD/barrel and 50.4 USD/barrel in 2020 Q2 and 2020 Q1, respectively. This recovery was supported by a slight recovery from the demand side associated with the gradual ease of COVID-19 lockdown measures, in addition to slightly lower supply. Meanwhile, international food prices, using domestic CPI basket weights of core food items, continued to decline on annual terms since March 2020. This was mainly due to lower poultry prices as well as dairy products, which more than offset higher beef prices since March 2020.

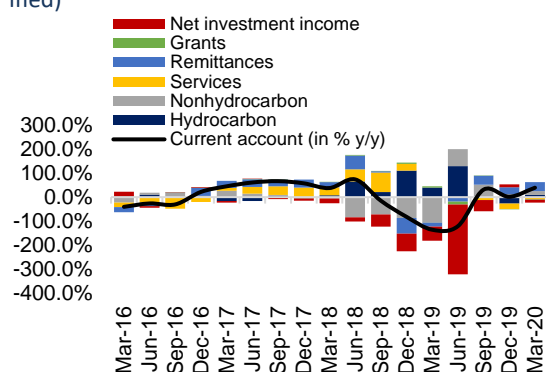
The Federal Reserve held its policy rates unchanged in July 2020, after cutting it by 150 basis points in March 2020, bringing it down to the levels that prevailed following the Global Financial Crisis in 2009. Moreover, the Bank of England held its policy rates unchanged in August 2020, after cutting it by 65 basis points in March 2020 to nearly zero percent, while the European Central Bank also kept its main refinancing operations rate unchanged at zero percent in July 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' balance sheets continued to expand via their asset purchase programs, as well as other tools, to help maintain favorable financial conditions following the COVID-19 global outbreak as well as the associated containment measures.

After witnessing the sharpest reversal since 2008 in March 2020, following the COVID-19 global outbreak as well as the associated containment measures, capital inflows into emerging markets resumed since May 2020. Such a resumption was mainly supported by the improvement of the global financial conditions, which was associated with the counter-cyclical economic policy measures despite the ongoing uncertainty.

Figure 7

Contribution to the Current Account

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



Source: Central Bank of Egypt.

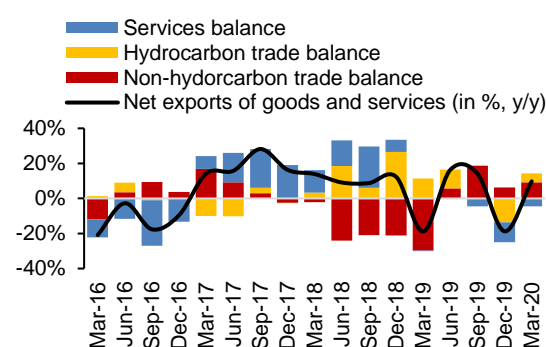
b) Egypt's current account deficit resumed its improvement on annual terms in 2020 Q1, while the financial account turned into a deficit in the same quarter reflecting mainly the sharp portfolio outflows from emerging markets including the Egyptian market following the COVID-19 global outbreak.

The current account deficit resumed its improvement on annual terms in 2020 Q1, after broadly stabilizing in 2019 Q4 and 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 the hydrocarbon trade deficit, which more than offset the unfavorable contribution from the net investment income deficit and net services surplus.

Figure 8

Contribution to net exports of goods and services

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



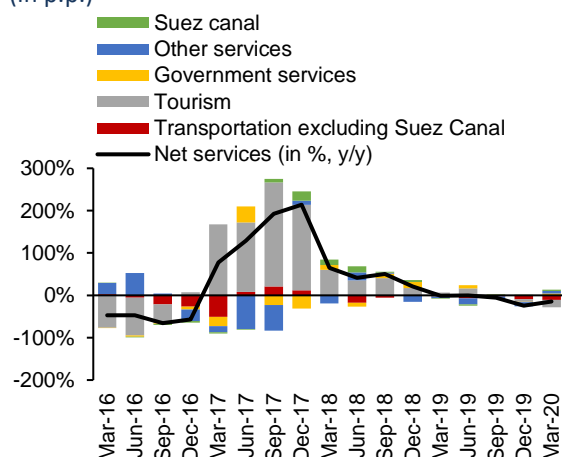
Source: Central Bank of Egypt.

The deficit of net exports of goods and services narrowed on annual terms in 2020 Q1, after widening in 2019 Q4 for the second time since 2016 Q4. The improvement in 2020 Q1 was mainly due to the favorable contribution from both the non-hydrocarbon and the hydrocarbon trade deficits, which more than offset the unfavorable contribution from the net services surplus in 2020 Q1.

Figure 9

Contribution to net services

(In p.p.)



Source: Central Bank of Egypt.

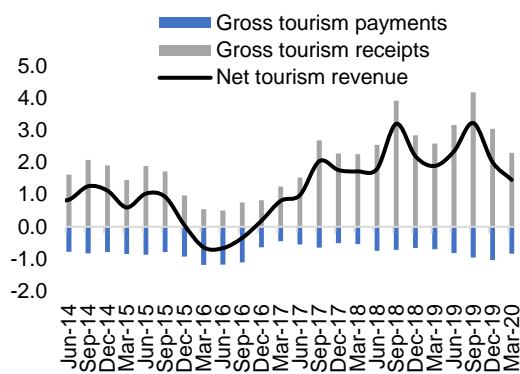
The non-hydrocarbon trade deficit continued to improve on annual terms in 2020 Q1, for the fourth consecutive quarter. This was mainly due to a broad-based annual improvement of both exports as well as imports.

While the hydrocarbon trade balance remained in a slight deficit in 2020 Q1 for the second consecutive quarter, it resumed its improvement on annual terms in 2020 Q1. This was mainly due lower imports on annual terms in the same period, which more than offset lower exports on annual terms, for the third consecutive quarter.

The net services surplus continued to decline on annual terms in 2020 Q1, for the third consecutive quarter, mainly due to the unfavorable contribution from net travel receipts as well as net transportation receipts excluding Suez

Figure 10
Tourism Receipts and Payments

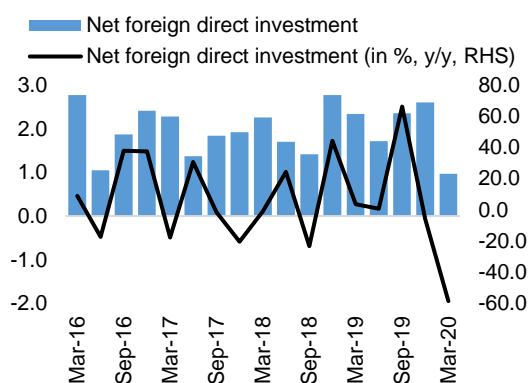
(In USD billion)



Source: Central Bank of Egypt.

Figure 11
Net Foreign Direct Investments*

(In USD billion)

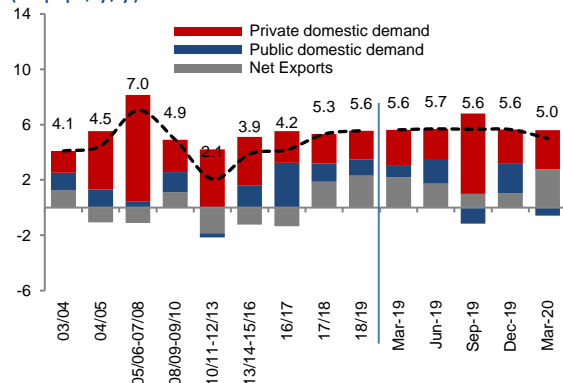


Source: Central Bank of Egypt.

*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.

Canal receipts, which more than offset the favorable contribution from other services receipts, government services receipts and Suez Canal receipts. On the other hand, remittances continued to increase on annual terms in 2020 Q1, for the third consecutive quarter.

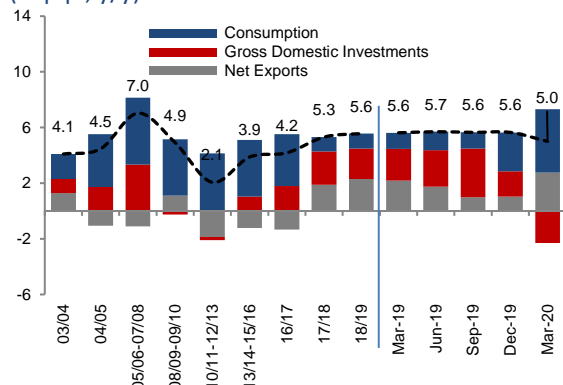
Meanwhile, the financial account turned into a deficit in 2020 Q1, for the first time since 2013 Q4. This was mainly due to net portfolio outflows in 2020 Q1 following the COVID-19 global outbreak and the associated sharp portfolio outflows from emerging markets including the Egyptian market. Meanwhile, net foreign direct investment continued to decline on annual terms in 2020 Q1, for the second consecutive quarter. On the other hand, net International reserves registered USD 38.3 billion in July 2020, compared to USD 36.0 billion in May 2020.

c) Real GDP growth decelerated to 5.0% in 2020 Q1, after stabilizing at 5.6% on average during 2019 H2 and fiscal year 2018/19, as economic activity began to reflect the impact of the COVID-19 outbreak. The unemployment rate recorded 9.2% in April 2020 up from 7.7% in 2020 Q1.

Real GDP growth decelerated to 5.0% in 2020 Q1, after it had stabilized at 5.6% on average during 2019 H2 and fiscal year 2018/19, which was the highest since 2007/08. Private domestic demand contribution increased in 2020 Q1, as the pickup in private consumption more than offset the weakness in private investments. Public domestic demand contracted in 2020 Q1, after briefly rebounding in 2019 Q4, on the back of weakening public consumption and contracting public investments. Meanwhile, the positive contribution of net exports increased to its highest level since 2018 Q4, after it had stabilized during the previous quarter.

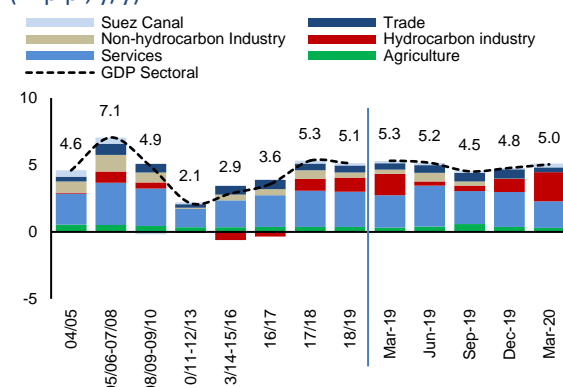
Real gross domestic investments contracted sharply in 2020 Q1, slowing down for the second consecutive quarter, after being on an accelerating trend since 2019 Q1. Both private and public investments contributed to the decline. Private investments were dragged down compared to the previous quarter mainly by the extractions sector,

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



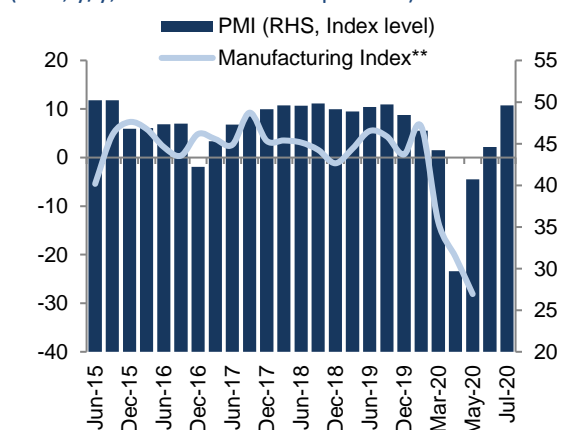
Source: Ministry of Planning and Economic Development.

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



Source: Ministry of Planning and Economic Development.

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



*/ Data shown in the chart is monthly starting from Mar-20.

**/ Subject to revisions.

Source: Bloomberg, CAPMAS.

and to a lesser extent, communications and information. Meanwhile, national projects contributed to the decline in public investments compared to the previous quarter, while investments in petroleum manufacturing provided support.

The contribution of net exports increased to its highest level since 2018 Q4 as the sustained and increased pace of contraction of real imports exceeded the sustained and increased pace of contraction of real exports. It is noteworthy to highlight that the contraction of real imports has been driving the positive contribution of net exports since 2018 Q2. On the other hand, real exports shrank for the fifth consecutive quarter after it was the main driver of net exports between 2017 Q1 and 2018 Q1.

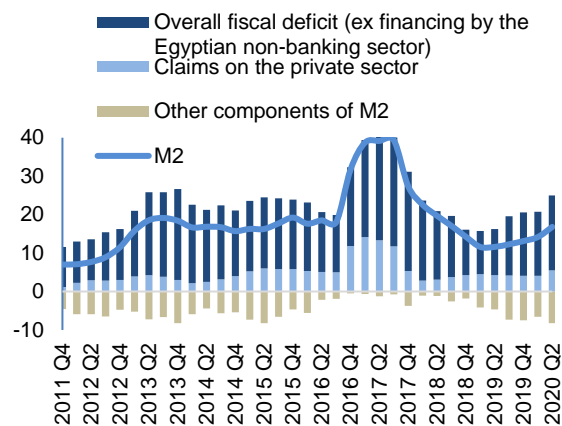
From the sectoral perspective, real GDP growth in 2020 Q1 strengthened for the second consecutive quarter to 5.0%, the highest since 2019 Q2. This comes after it had slowed down in 2019 Q3 to 4.5%, its slowest pace since 2017 Q1. The strengthening in GDP growth was driven by a pickup in public sector output, which more than offset the decline in private sector output. The contribution of public sector output increased for the second consecutive quarter, primarily due to a continuing increase in the contribution of petroleum manufacturing, despite a drop in natural gas output. On the other hand, the contribution of private sector output declined for the third consecutive quarter, to its lowest since 2016 Q3, mainly on the back of a slowdown in trade and tourism.

Regarding the labor market, the unemployment rate edged up to 9.2% in April 2020 after recording 7.7% in 2020 Q1.

Activity indicators for the non-hydrocarbon sector weakened between March and May 2020, reflecting the impact of the COVID-19 outbreak and the accompanying containment measures, before a number of indicators started showing signs of recovery in June and July 2020, in tandem with the easing of the containment measures. The manufacturing index contracted in March 2020 and further on average during the period April-May 2020. Annual growth

Figure 16
Contribution to M2 Growth

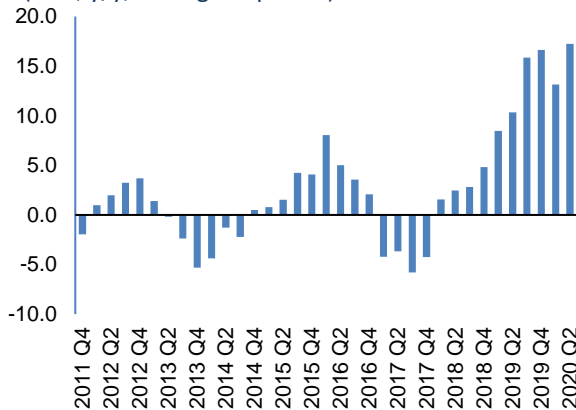
(In p.p., y/y)



Source: Central Bank of Egypt.

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

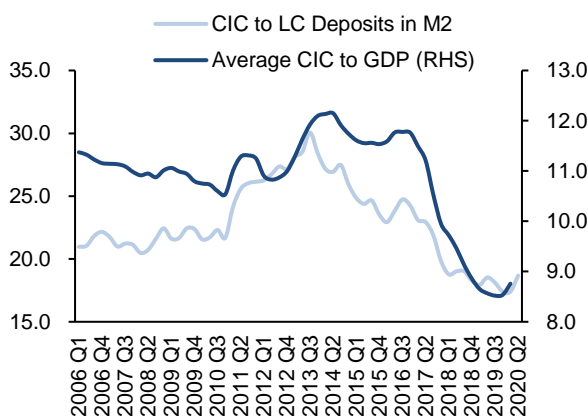
(In %, y/y, average of period)



Source: Central Bank of Egypt.

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

(In %)



Source: Central Bank of Egypt.

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

in car sales declined in March 2020 and contracted on average during the period April-May 2020, before partially recovering in June 2020. Suez Canal net tonnage growth slowed down in March 2020 and contracted on average during April-June 2020, reflecting the impact of the COVID-19 outbreak on global trade. Meanwhile, the PMI plunged in April 2020 to its lowest level on record, before gradually recovering since then and until July 2020. As for the hydrocarbon sector, the ongoing contraction in natural gas production since January 2020 intensified between March and May 2020.

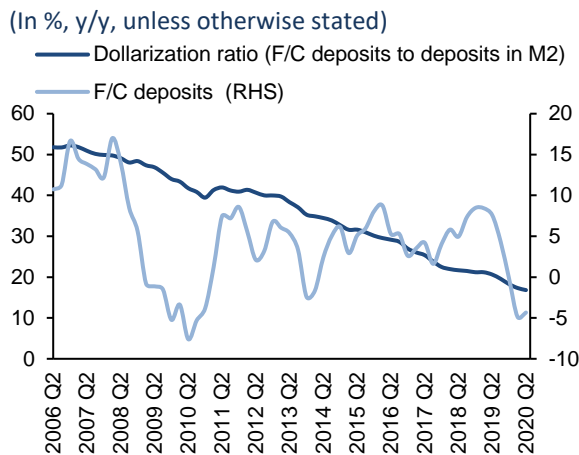
d) Broad money growth continued to increase in 2020 Q2 for the fourth consecutive quarter, with the increase in 2020 Q2 driven mainly by higher fiscal deficit contribution and private sector credit.

Annual growth of broad money (M2) continued to pick up for the fourth consecutive quarter to record 16.8% in 2020 Q2. The increase in 2020 Q2 was mainly driven by the increase in contribution of fiscal deficit financing sources within M2¹. The biggest driver of the fiscal deficit financing contribution was the increase in domestic bank financing which more than offset the decline in foreign non-bank financing, with the decline in the latter in line with net portfolio outflows following the COVID-19 pandemic and increased risk aversion towards emerging markets.

Furthermore, the contribution of claims on the private sector started to show signs of recovery in 2020 Q2, after being broadly stable since 2019 Q2. The growth started to pick up in March 2020, supported by the policy rate cut of 300 bps in mid March 2020 as well as the cut in interest rates of the CBE initiatives introduced in late 2019 and early 2020 to ease the expected adverse effects of the COVID-19 pandemic and the associated containment measures. Similarly, inflation adjusted growth of L/C claims on the private sector resumed its increasing trend in 2020 Q2, after a decline in growth in 2020 Q1 and following a period of increase up to 2019 Q4.

¹ The financing sources that enter M2 are domestic bank financing, domestic non-bank financing by foreigners and external financing.

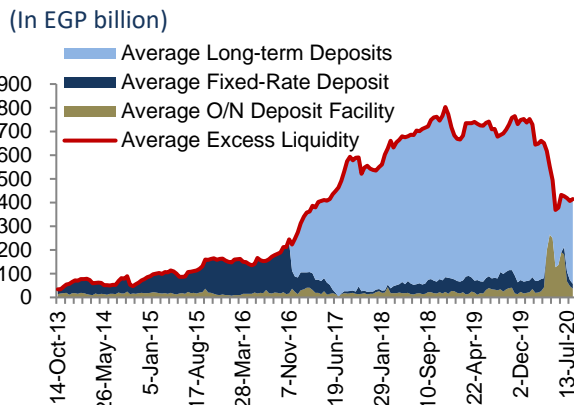
Figure 19
Developments of F/C Deposits^{1/}



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.

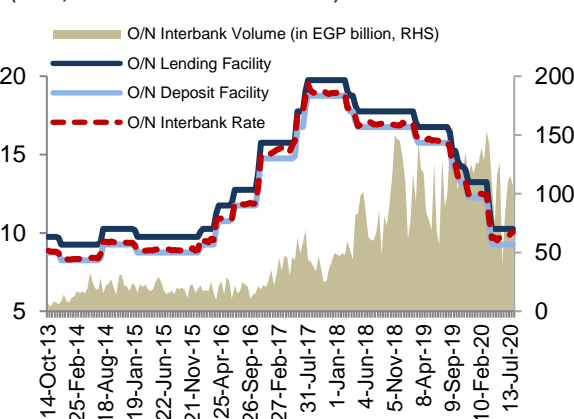
Figure 20
Excess Liquidity^{1,2/}



Source: Central Bank of Egypt.

1/ Excess liquidity is adjusted by O/N lending facility.
2/ As of August 10, 2020.

Figure 21
O/N Interbank and CBE Policy Rates^{1/}



Source: Central Bank of Egypt.

1/ As of July 27, 2020.

Meanwhile, the negative contribution of other counterpart assets of broad money, excluding claims on the private sector, widened, driven mainly by the negative contribution of banking sector net foreign assets that are not related to fiscal deficit financing.

Within the components of M2, CIC as a percent of L/C deposits in M2 increased in 2020 Q2 after a decline in the previous two quarters, in line with the COVID-19 outbreak and the containment measures by the Egyptian government. However, CIC indicators continue to hover at levels below the historical long term average.

Furthermore, the exchange rate adjusted-dollarization ratio defined as F/C deposits to total deposits in M2 continued to decline in 2020 Q2, while F/C deposits in USD continued to contract on annual basis since November 2019.

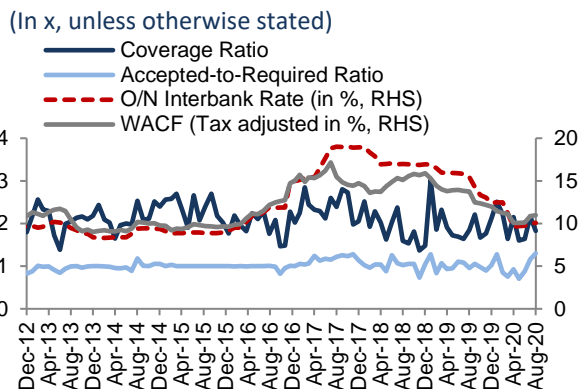
e) Real Monetary conditions eased.

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

Excess liquidity levels have been relatively stable since July 2020, to record an average of EGP414 billion during the maintenance period ending August 10, 2020 after broadly declining since January 2020. This is compared to an average of EGP746 recorded during 2019 Q4. Consequently, the interbank activity has remained relatively stable since July 2020 after broadly increasing as a result of the drop in excess liquidity since the beginning of the year. Meanwhile, the O/N interbank rate has been above the mid-corridor rate since July 2020, compared to its long-term average spread of around negative 30bps. This was supported by the resumption of all the open market operations' auctions since the second half of June 2020 after being temporarily suspended in March 2020. As of July 2020, interbank rates reflect a decline by c.0.9x the 300bps policy rate cut in March 2020.

Yields for L/C government securities increased in July 2020 after stabilizing in May and June 2020 to record an average

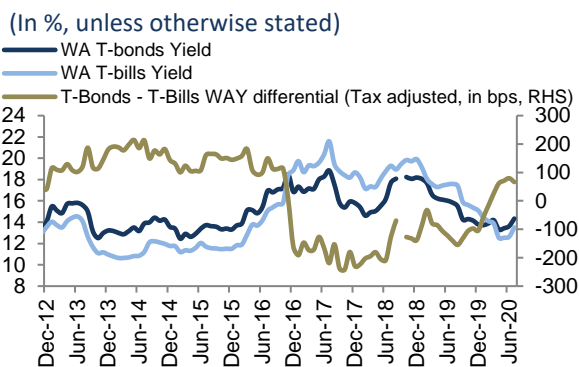
Figure 22
Demand for, and Supply of the Treasury's L/C Marketable Securities^{1/}



Source: Central Bank of Egypt calculations.

1/ As of August 13, 2020.

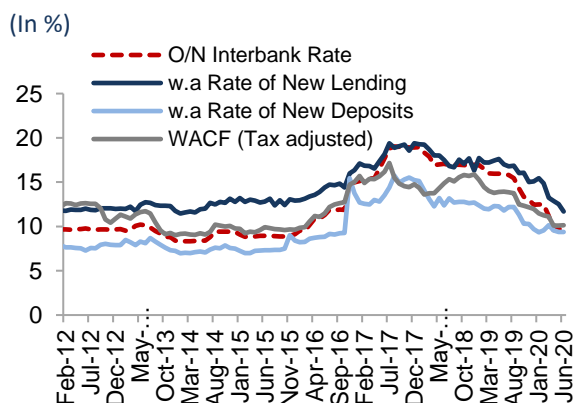
Figure 23
Rates of the Treasury's L/C Marketable Securities^{1/}



Source: Central Bank of Egypt calculations.

1/ As of August 13, 2020.

Figure 24
Select Market Interest Rates^{1/}



Source: Central Bank of Egypt.

1/ Up to March 2020.

of 11.0% (net of tax) during the first two auctions in August 2020. This compares to 10.1% (net of tax) recorded on average during 2020 Q2 and 11.6% (net of tax) recorded on average during December 2019, January 2020 and February 2020 prior to the 300bps policy rate cut on March 16, 2020. The 0.9p.p. increase in the weighted average yield was supported by the increase in the supply which was more than enough to offset the increase in demand. The increase in supply was reflected in a accepted-to-required ratio of 1.2x in July 2020 and the first two issuances in August 2020, compared to 0.8x recorded in 2020 Q2, while the increase in demand, was reflected in a coverage ratio of 2.1x recorded in July 2020 and the first two issuances in August 2020, compared to 1.8x recorded in 2020 Q2.

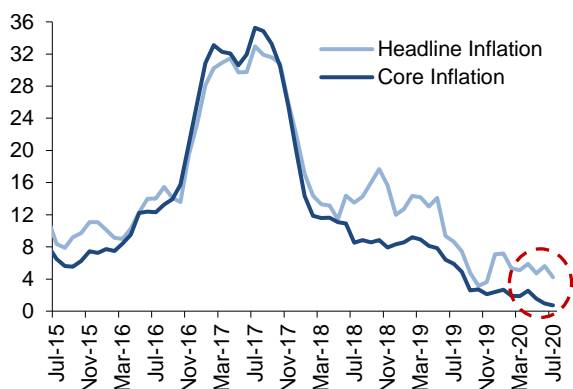
Meanwhile, yields on Egyptian Eurobonds have been broadly decining since May 2020, following the increase witnessed in March 2020 and April 2020 in line with the recent unfavorable sentiment on emerging markets due to the COVID-19 outbreak. Moreover, Egypt's CDS spreads remained relatively low compared to the majority of peers with similar sovereign credit rating despite the recent increase. Furthermore, Fitch Ratings and S&P have reaffirmed their current credit rating for Egypt while maintaining a 'stable' outlook in July 2020 and April 2020, respectively. 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.

In the banking sector, data until June 2020 reflected partial transmission of the 300bps policy rate cut in March 2020 to rates of new deposits. Indeed, new deposit rates remained relatively stable at 9.4% in June 2020, compared to an average of 9.5% recorded during December 2019, January 2020 and February 2020. The stability in new deposit rates was partially due to the reintroduction of the one-year saving certificates at 15% by public banks. Meanwhile, rates of new loans declined to record 11.7% in June 2020, compared to an average of 15.1% during December 2019, January 2020 and February 2020, reflecting a transmission in the magnitude of 1.1x the 300 bps policy rate cut in March 2020.

f) Annual inflation rates continued to be affected by muted inflationary pressures as well as base effects. Annual headline inflation continued to register below 6% since February 2020 and annual core inflation registered its lowest rates on record in July 2020.

Figure 25
Headline and Core Inflation^{1/}

(In %, y/y)



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

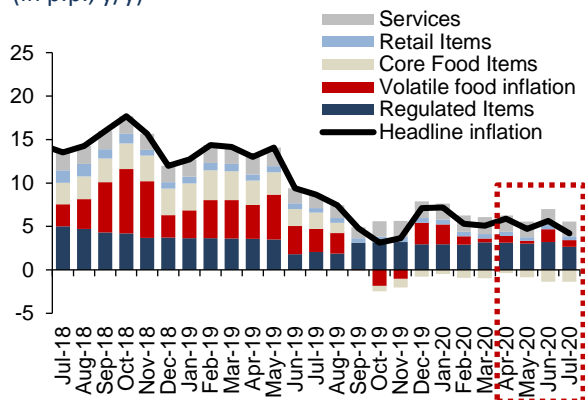
^{1/}Core inflation is headline inflation excluding regulated and volatile food items.

Annual headline urban inflation slowed to 4.2% in July 2020 from 5.6% in June 2020, after recording 4.7% and 5.9% in May and April 2020, respectively. Fluctuations of annual rates reflected a stronger seasonal factor due to Ramadan and the impact of the outbreak of COVID-19 in April 2020 as well as a combination of favorable and unfavorable base effects. This was supported by broad price stability as evident in monthly inflation rates since May 2020. The annual decline in July 2020 was driven by muted inflationary pressures and favorable base effects as monthly headline inflation recorded 0.4% in July 2020 compared to 1.8% in July 2019.

In addition, annual core inflation declined for the third consecutive month to record 0.7% in July 2020, the lowest rate on record, and down from 1.0% in June 2020, 1.5% and 2.5% in May and April 2020, respectively. The recent downward trend in annual core inflation rates provides additional confirmation regarding the muted inflationary pressures. In specific, monthly core inflation recorded negative 0.1% in July 2020 and negative 0.3% in June 2020, which is attributed to the negative contribution of core food items which more than offset positive contribution of non-food items in June and July 2020.

Figure 26
Contribution to Headline Inflation

(In p.p., y/y)

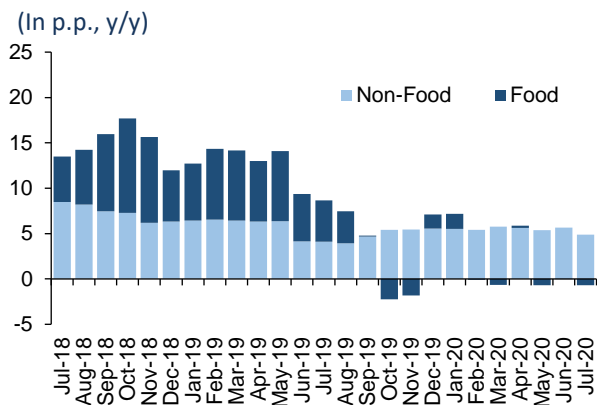


Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

The fluctuation of annual headline inflation was mainly driven by the variation of annual contribution of food items with annual contribution of nonfood items remaining broadly stable up until June 2020. In July 2020, the decline was driven by lower annual contribution of both food and non-food items, by broadly similar magnitudes.

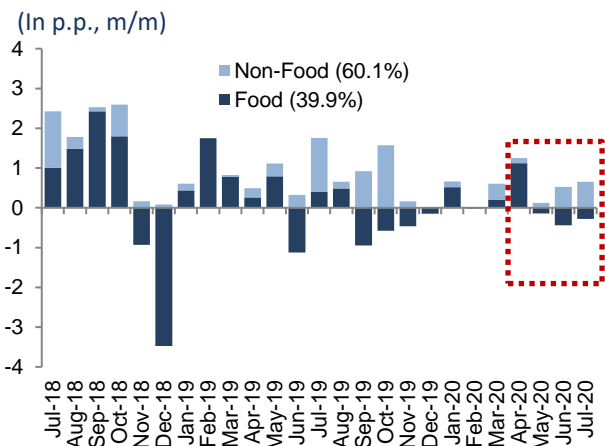
Annual food inflation continued to fluctuate between positive and negative rates since September 2019 with the release of the 10th CPI series. It declined to record negative 1.5% in July 2020 from positive 0.1% in June 2020, after recording negative 0.7% and positive 1.3% in May and

Figure 27
Contribution to Headline Inflation



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

Figure 28
Contribution to Headline Inflation



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

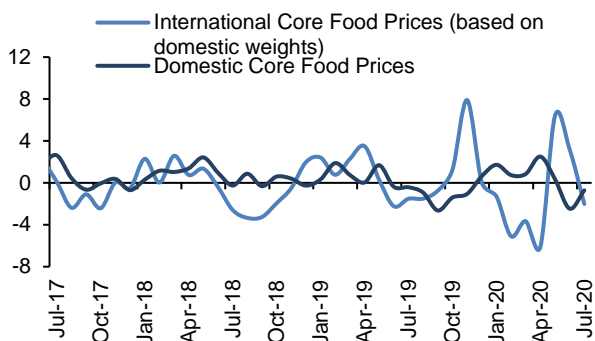
April 2020, respectively. The deflation in annual food prices in July 2020 was driven by lower prices of volatile food items, which came against their seasonal patterns, as well as lower prices of core food items but by a lesser extent. In contrast, annual food inflation increased in June 2020 driven by higher annual contribution of volatile food items, because of lower magnitude of price declines of fresh vegetables compared to the preceding year, which was partly offset by negative annual contribution of core food items. In the meantime, the decline of annual food inflation in May 2020 after increasing in April 2020 was driven by core and volatile food items with around equal magnitude. This was supported by favorable base effects stemming mainly from Ramadan and Eid-Al-Fitr falling in May in 2019 compared to between April and May in 2020.

In specific, annual core food inflation continued to record negative rates since October 2019, except for April 2020, as evident by muted monthly core food inflation rates. They were affected by the measures taken by the government to avoid any supply shortage, the lockdown measures related to COVID-19 outbreak, and was also further affected by the release of the 10th CPI series and its linking methodology to the 9th series.

In the meantime, annual non-food inflation recorded 6.1% in July 2020, after recording an average of 8.3% between June 2019 and June 2020. The decline in July 2020 was a result of the favorable base effect, that was reflected in the lower annual contributions of regulated, retail and services items which incorporated the direct and indirect impact of higher domestic fuel prices in 2019, and came despite of higher electricity prices in July 2020.

With respect to key monthly developments, monthly headline inflation continued to reflect the broadly muted inflationary pressures since February 2020, except in April 2020, which was affected by a stronger seasonal factor due to Ramadan as well as the impact of the outbreak of COVID-19. Following April 2020, food prices declined while non-food witnessed increases for three consecutive months. Non-food prices reflected higher prices of public hospitals and household cleaning products in May 2020;

Figure 29
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.

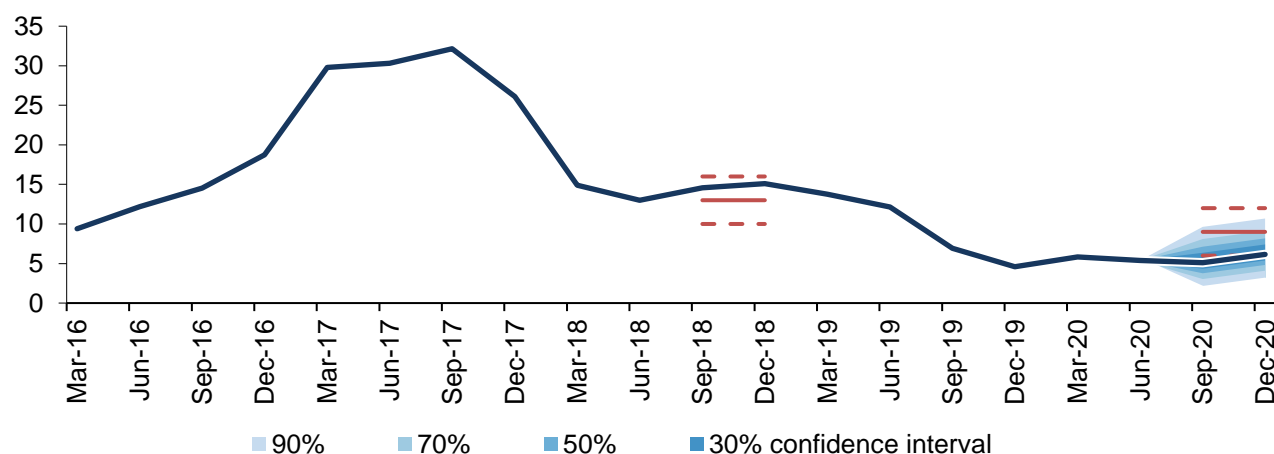
higher tobacco prices and services as well as seasonally higher prices of clothing in June 2020; higher electricity and tobacco prices as well as cafes' and restaurants in July 2020. Meanwhile, lower food prices were driven by lower prices of volatile and core food items with broadly similar magnitude in July 2020, after it was mainly driven by lower prices of core food items, mainly poultry, in June 2020 and lower prices of fresh vegetables in May 2020.

Monthly domestic core food inflation converged to the monthly international core food inflation in July 2020 after diverging since January 2020. International core food prices have been declining except in May and June 2020 which were largely attributed to demand contractions resulting from COVID-19 pandemic. Changes in international core food prices from April to July were mainly driven by the fluctuations in red meat and poultry prices.

The Outlook

The MPC decided to keep its main policy rates unchanged in its four scheduled meetings in April, May, June and August 2020, given the ongoing level of uncertainty and the current challenging external environment. This comes after the MPC 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 in light of the global and domestic developments emanating from the outbreak of COVID-19 pandemic. Whereas the Monetary Policy Committee decided, in its meeting on September 24, 2020 to cut the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate, and the rate of the main operation by 50 basis points to 8.75 percent, 9.75 percent, and 9.25 percent, respectively. The discount rate was also cut by 50 basis points to 9.25 percent. In the meantime, annual headline inflation is expected to hover around the lower band of the inflation target 9 percent (± 3 percentage points) on average during 2020 Q4.

Figure 30
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. This was reflected by real GDP growth for FY19/20 recording 3.5 percent, as preliminary data show, compared to 5.6 percent in the first half of the fiscal year. In addition, unemployment rate recorded 9.2 percent in April 2020 compared to 7.7 and 8.0 percent in 2020 Q1 and 2019 Q4, respectively. 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.

External risks to the domestic inflation outlook include the potential impact of disruptions to global economic activity following the COVID-19 outbreak. International food price forecasts relevant to Egypt's consumption basket are expected to remain stable in 2020 and to decline in 2021. In addition, the outlook for Brent crude oil price incorporated in the domestic inflation outlook

slightly increased compared to the previous published Monetary Policy Report. Nonetheless, Brent crude oil prices continue to be affected by weak global demand as a result of the COVID-19 containment measures.

Domestically, as cost-recovery for most fuel products has already been achieved, the pass-through of international oil prices to domestic inflation will be based on the quarterly review of the fuel prices as part of the price indexation mechanism, which caps the price adjustments to domestic fuel prices to ± 10 percentage points every quarter. In April 2020, Egypt's Fuel Automatic Pricing Committee decided to cut fuel prices by L.E. 0.25 per liter which 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; while in July 2020, the committee kept the announced fuel prices unchanged.

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**	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Monthly Contributions to Headline CPI Inflation (in p.p.)														
Headline	100.0	1.8	0.7	0.0	1.0	-0.3	-0.2	0.7	0.0	0.6	1.3	0.0	0.1	0.4
Regulated Items	21.4	1.1	0.1	1.3	0.5	0.0	-0.3	0.0	0.0	0.3	0.0	0.0	0.2	0.6
Fresh Fruits & Vegetables	5.5	0.5	0.8	0.1	-0.2	-0.2	0.0	0.1	-0.2	0.0	0.5	-0.2	0.1	-0.1
Core CPI	73.1	0.1	-0.2	-1.4	0.8	-0.1	0.2	0.5	0.2	0.3	0.7	0.2	-0.2	-0.1
Food Prices	24.5	-0.1	-0.3	-1.3	-0.3	-0.2	0.1	0.4	0.2	0.2	0.6	0.1	-0.6	-0.2
of which														
<i>Poultry & Red Meat</i>	8.6	-0.1	-0.3	-0.9	-0.2	-0.2	0.2	0.3	0.1	0.2	0.4	0.1	-0.5	-0.2
<i>Food excl. Poultry & Red Meat</i>	15.9	-0.1	0.0	-0.4	-0.2	-0.1	0.0	0.0	0.0	0.0	0.2	-0.1	-0.1	0.0
Retail Prices	14.3	0.0	0.0	0.0	0.2	0.1	0.0	0.0	-0.1	0.0	0.1	0.1	0.1	0.0
Services	34.3	0.2	0.1	-0.2	0.9	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.3	0.1
Annual Contributions to Headline CPI Inflation (in p.p.)														
Headline	100	8.7	7.5	4.8	3.1	3.6	7.1	7.2	5.3	5.1	5.9	4.7	5.6	4.2
Regulated Items	21.4	2.0	1.9	3.1	3.2	3.2	2.9	3.0	2.9	3.2	3.1	3.0	3.2	2.6
Fresh Fruits & Vegetables	5.5	2.7	2.3	-0.1	-1.9	-1.0	2.5	2.3	1.0	0.4	0.8	0.3	1.5	0.8
Core CPI	73.1	3.9	3.2	1.7	1.8	1.5	1.7	1.9	1.5	1.5	2.0	1.4	1.0	0.8
Food Prices	24.5	1.9	1.2	-0.1	-0.6	-1.0	-0.8	-0.5	-0.9	-1.0	-0.4	-0.9	-1.4	-1.4
of which														
<i>Poultry & Red Meat</i>	8.6	0.5	-0.1	-0.8	-1.1	-1.2	-0.8	-0.4	-0.7	-0.7	-0.1	-0.3	-0.7	-0.7
<i>Food excl. Poultry & Red Meat</i>	15.9	1.4	1.2	0.8	0.5	0.2	0.0	0.0	-0.2	-0.3	-0.3	-0.5	-0.7	-0.6
Retail Prices	14.3	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.5	0.4
Services	34.3	1.5	1.5	1.2	1.8	1.8	1.9	1.9	1.9	2.0	1.9	1.8	1.8	1.7

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

*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	Q3
Trade Balance	-37.3	-38.0	-9.8	-9.4	-10.5	-8.3	-8.8	-9.9	-9.4
Export proceeds	25.8	28.5	6.8	7.5	6.6	7.6	7.1	7.1	6.7
<i>Petroleum exports</i>	8.8	11.5	2.8	3.2	2.5	3.0	2.4	2.6	2.3
<i>Other exports</i>	17.1	17.0	4.0	4.3	4.1	4.5	4.7	4.5	4.4
Import payments**	63.1	66.5	16.6	16.9	17.1	15.9	15.9	17.1	16.1
<i>Petroleum imports</i>	12.5	11.5	3.4	2.4	2.9	2.7	3.0	2.7	2.3
<i>Other imports</i>	50.6	55.0	13.2	14.5	14.2	13.1	12.9	14.3	13.7
Services Balance	11.3	13.1	4.3	3.0	2.5	3.3	4.0	2.2	2.1
Receipts	21.7	24.4	6.9	5.9	5.3	6.3	7.4	6.0	5.1
Transportation	8.7	8.6	2.2	2.2	2.0	2.1	2.3	2.1	1.9
<i>Of which: Suez Canal dues</i>	5.7	5.7	1.4	1.5	1.3	1.5	1.5	1.5	1.4
Travel (tourism revenues)	9.8	12.5	3.9	2.9	2.6	3.2	4.2	3.1	2.3
Payments	10.4	11.4	2.7	2.9	2.8	3.0	3.4	3.8	2.9
Travel	2.3	2.8	0.6	0.7	0.7	0.8	1.0	1.0	0.8
Investment Income Balance	-6.5	-11.0	-2.4	-2.8	-2.8	-3.0	-3.3	-2.5	-3.4
Receipts	0.6	1.0	0.2	0.3	0.2	0.3	0.3	0.2	0.2
Payments	7.1	12.0	2.6	3.1	3.0	3.3	3.6	2.7	3.5
<i>Of which: Interest paid</i>	1.6	2.6	0.5	0.6	0.7	0.8	0.8	0.8	0.8
Current Transfers	26.3	25.1	5.9	6.0	6.2	6.9	6.7	6.9	7.8
Private (net)	26.1	24.8	5.9	5.9	6.1	6.9	6.6	6.9	7.8
Official (net)	0.2	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.0
Balance of Current Account	-6.1	-10.9	-2.0	-3.2	-4.5	-1.1	-1.4	-3.2	-2.8
Capital & Financial Account	22.0	10.9	1.8	1.3	6.5	1.2	0.7	4.6	-1.1
Capital Account	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
Financial Account	22.1	11.0	1.8	1.4	6.5	1.3	0.7	4.6	-1.1
Direct investment in Egypt (net)***	7.7	8.2	1.4	2.8	2.3	1.7	2.4	2.6	1.0
Portfolio investment in Egypt (net)	12.1	4.3	-3.2	-2.6	6.9	3.2	-2.0	2.3	-8.2
<i>Of which: Bonds</i>	5.3	5.1	-0.1	-0.2	3.3	2.1	-0.3	1.8	-0.7
Other Investments (net)	2.6	-1.0	3.8	1.3	-2.7	-3.5	0.3	-0.1	6.3
Net Borrowing	10.3	6.3	1.0	0.1	3.8	1.3	3.0	-0.4	-1.1
Medium- and Long-Term Loans (net)	6.7	3.3	-0.5	0.8	2.2	0.8	2.3	0.1	0.1
Medium- and Long-Term Suppliers' Credit (net)	1.1	0.8	0.3	0.3	-0.1	0.3	-0.2	-0.1	-0.2
Short term Suppliers' Credit (net)	2.4	2.1	1.2	-1.0	1.7	0.2	0.8	-0.4	-1.0
Other Assets	-4.5	-8.9	1.9	-1.2	-8.0	-1.6	-2.0	1.0	6.7
Other Liabilities	-3.1	1.6	0.9	2.4	1.5	-3.2	-0.7	-0.7	0.7
Net Errors & Omissions	-3.1	-0.1	0.5	-0.2	-0.5	0.1	1.0	-1.2	-1.6
Overall Balance	12.8	-0.1	0.3	-2.1	1.4	0.2	0.2	0.2	-5.5
Change in CBE Reserve Assets (Increase -)	-12.8	0.1	-0.3	2.1	-1.4	-0.2	-0.2	-0.2	5.5

* 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.

Table A3: GDP contribution									
	2015/16	2016/17	2017/18	2018/19	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
GDP (at Market Prices)	4.3	4.2	5.3	5.6	5.6	5.7	5.6	5.6	5.0
GDP (at Factor cost)	2.3	3.6	5.3	5.1	5.3	5.2	4.5	4.8	5.0
Public GDP (at Factor Cost)	0.4	0.4	1.5	1.7	2.2	1.2	1.2	1.8	3.1
Private GDP (at Factor Cost)	1.9	3.1	3.8	3.5	3.1	4.0	3.3	3.0	1.9
Agriculture, forestry, fishing and hunting	0.3	0.4	0.4	0.4	0.3	0.4	0.6	0.4	0.3
Industry	-0.6	0.1	1.5	1.4	1.9	1.0	0.7	1.0	2.1
Extractions	-0.7	-0.2	0.7	1.0	1.4	0.4	0.2	0.1	-0.5
Oil	-0.1	-0.4	0.0	0.0	0.0	-0.2	-0.1	-0.2	-0.1
Natural gas	-0.7	0.1	0.7	0.9	1.4	0.5	0.2	0.2	-0.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Manufacturing	0.1	0.3	0.8	0.5	0.5	0.5	0.5	0.9	2.7
Petroleum	0.1	-0.1	0.2	0.1	0.2	-0.1	0.2	0.9	2.7
Non-Petroleum	0.0	0.4	0.6	0.4	0.3	0.6	0.3	0.0	-0.1
Services	1.4	2.1	2.6	2.4	2.1	2.7	2.1	2.2	1.5
Construction	0.5	0.5	0.6	0.5	0.5	0.8	0.4	0.6	0.5
Real Estate Rental and Services	0.4	0.5	0.4	0.4	0.4	0.5	0.5	0.4	0.3
Transportation and Warehousing	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.1
Finance	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.1	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	0.3	0.4	0.4	0.4	0.4
Tourism	-0.7	0.1	0.7	0.5	0.3	0.4	0.1	0.1	-0.2
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	0.0	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	0.6	0.6	0.7	0.4
Suez Canal	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.1	0.3
General Government	0.5	0.3	0.1	0.2	0.3	0.4	0.4	0.4	0.5

Source: Ministry of Planning and Economic Development.

1/ Includes Social Insurance.

2/ Includes Electricity, Water, and Sewage.

Table A[€]: 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	Jun-20
Monetary Survey									
Net Foreign Assets	61.1	309.5	127.5	242.1	300.1	356.7	347.8	128.6	122.8
Central Bank	3.7	301.5	241.9	254.2	264.4	270.0	270.6	183.3	157.3
Commerical Banks	57.4	8	-114.5	-12.0	35.8	86.7	76.1	-54.7	-34.5
Net Domestic Assets	2857.1	3144.8	3501.2	3482.6	3563.5	3653.7	3762.7	4148.1	4416.0
Net Claims on Government	1808.9	1971.6	2242.6	2175.6	2217.1	2424.6	2473.0	2737.5	3020.9
Net Claims on Public Economic Authorities	170.7	245.9	266	234.7	210.9	176.6	183.5	180.0	212.6
Claims on Public Sector Companies	148.7	160.2	166.7	164.9	162.1	160.6	161.8	157.4	156.3
Claims on Private Sector	982.9	1082.6	1140.9	1188.4	1217.1	1250.0	1287.7	1352.5	1454.7
Net Other Items	-254.1	-315.5	-315	-281.0	-243.7	-358.1	-343.2	-279.3	-428.5
Broad Money (M2)	2918.2	3454.3	3628.7	3724.7	3863.6	4010.4	4110.5	4276.7	4538.8
Domestic Currency Component (M2D)	2223.9	2737.4	2885.1	2983.1	3149.0	3324.0	3455.4	3637.6	3872.2
Currency Outside Banks	419.1	438.9	441.9	451.0	487.2	499.3	507.1	548.0	602.7
Domestic Currency Deposits	1804.8	2298.5	2443.2	2532.1	2661.8	2824.6	2948.3	3089.6	3269.4
Foreign Currency Deposits	694.3	717	743.5	741.6	714.6	686.4	655.1	639.1	666.6
Central Bank Balance sheet									
Net foreign assets	3.7	301.5	241.9	254.2	264.4	270.0	270.6	183.3	157.3
Foreign assets	551.5	776.0	746.1	748.7	734.0	729.1	723.1	622.4	604.2
Foreign liabilities	-547.8	-474.5	-504.2	-494.6	-469.6	-459.1	-452.4	-439.1	-446.9
Net domestic assets	573.9	414.8	369.0	435.0	419.7	442.0	448.6	583.4	698.2
Net claims on government	740.5	730.6	748.0	714.4	747.2	792.6	761.2	739.4	812.7
Net claims on public economic authorities	-31.8	-15.1	-4.8	-0.4	-1.1	-3.3	-4.1	-2.3	-7.2
Claims on Banks	286.9	326.0	269.5	288.4	300.4	287.3	307.0	288.1	274.0
Bank's Deposits in Foreign Currency	-129.7	-124.6	-125.2	-124.1	-121.1	-117.0	-119.6	-108.1	-112.3
Open Market Operations /1	-467.9	-677.5	-747.4	-718.2	-782.3	-729.7	-743.5	-621.9	-424.0
Other items net	176.0	175.4	228.9	274.8	276.6	211.9	247.6	288.2	155.1
Reserve money	577.6	716.3	611.0	689.2	684.0	711.9	719.2	766.7	855.6
Currency Outside Banks	419.1	438.9	441.9	451.0	487.2	499.3	507.1	548.0	602.7
Reserves of banks	158.5	277.5	169.0	238.2	196.8	212.6	212.1	218.7	252.8
Cash at vaults	33.0	43.7	35.3	35.1	48.9	41.1	36.5	34.4	48.4
Deposits in local currency	125.5	233.8	133.7	203.0	147.9	171.5	175.5	184.3	204.4

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	Q4	Q2	Aug. ^{3/}	
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	9.45	n/a	29
Time, %	8.75	11.96	14.16	12.17	12.57	12.24	11.48	9.48	7.72	n/a	-103
Short-term Deposits (<1Y), %	8.72	11.88	14.22	12.18	12.47	12.25	11.49	9.54	7.72	n/a	-100
Other Deposits, %	9.52	13.59	12.95	11.94	13.29	11.89	10.87	8.23	7.78	n/a	-174
Saving, %	12.26	18.48	19.04	15.15	14.86	14.89	14.70	12.91	14.45	n/a	219
< 3 years, %	11.43	19.86	19.95	16.07	13.17	13.26	12.51	11.71	14.98	n/a	356
≥ 3 years, %	12.27	14.82	14.92	15.13	14.88	14.90	14.71	12.92	11.48	n/a	-79
Saving Accounts, %	7.95	9.94	10.17	10.19	9.19	9.14	10.00	8.02	7.26	n/a	-69
Lending Rates, %	14.74	17.28	19.11	17.88	17.01	16.95	17.36	15.41	12.34	n/a	-240
W.a. Business Lending Rates, %	14.64	17.36	19.13	17.86	16.76	16.53	17.05	14.89	11.74	n/a	-290
Short term business, %	14.59	17.44	19.19	17.74	17.22	17.38	17.13	14.42	11.01	n/a	-358
Long term business, %	14.71	17.22	18.98	18.03	15.75	14.77	16.82	15.56	12.81	n/a	-190
Retail, %	15.24	16.78	19.01	18.02	18.03	18.59	18.60	17.39	15.94	n/a	71
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.

3/ As of August 13, 2020.

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

