



بنك الإمارات دبي الوطني
Emirates NBD

Egypt Update

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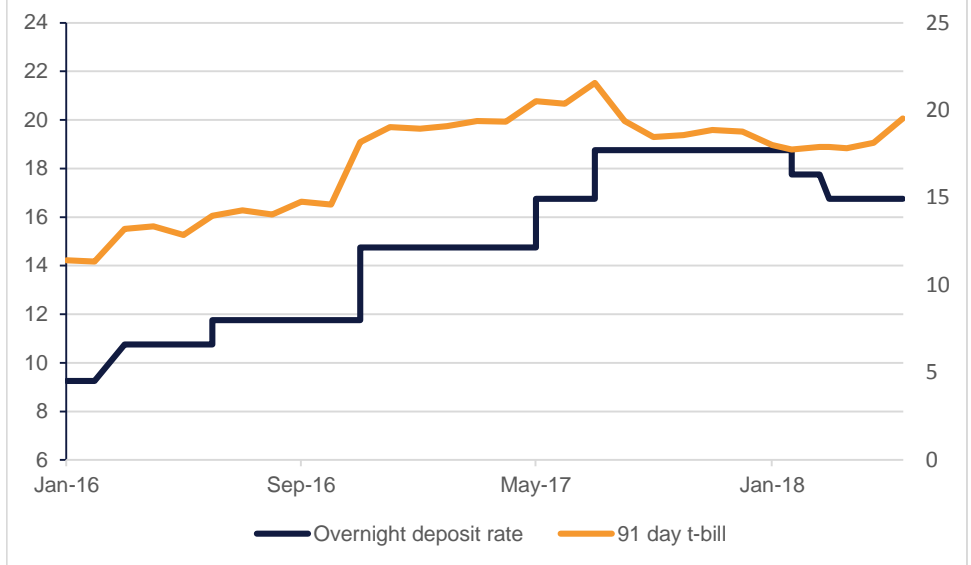
Daniel Richards
MENA Economist
+971 4 609 3032
danielricha@emiratesnbd.com

Egypt Update

MPC holds rates

As was widely expected, the Central Bank of Egypt kept its benchmark interest rates unchanged at its meeting on June 28, namely 16.75% for the overnight deposit rate and 17.75% for the overnight lending rate. This was the second consecutive meeting at which the bank held rates static after two 100 bps cuts earlier in the year. The CBE had been forced to hike by a cumulative 700 points after it devalued its currency at the end of November 2016, which led to a peak of 33.0% inflation mid-2017. With the devaluation in the base, and inflation falling, the bank had room to begin normalising policy earlier in 2018. However, the cutting process has been put on hold as a number of key factors have led the bank to adopt a more cautious approach to monetary loosening.

Egyptian interest rates



Source: Bloomberg, Emirates NBD Research

First, inflationary pressures are set to pick up over the next several months as a raft of subsidy cuts have come into effect with the start of the new fiscal year. Petrol prices have increased by as much as 50%, cooking gas by 60%, and electricity by 21% for households and 42% for factories. Further, as an oil importer, Egypt is being challenged by the strong rise in oil prices over the course of the year, in common with a lot of other EMs. While inflation fell to just 11.4% last month, the lowest level since April 2016, it is widely expected to pick up again hereafter on the back of these factors – though given that the hikes were signalled, and price growth is being driven primarily by supply side issues, this will not be back to the levels seen last year. As such, a hike is not expected, and the bank's target range of 13.0% ± 3 in Q4 2018 remains realistic.

Maintaining the backing of the IMF will also likely have been a consideration for the MPC, given its strong support for high rates previously. In a positive sign, on June 29 the fund approved the latest USD 2bn tranche of Egypt's USD 12bn support programme, which will take the total funding dispersed to USD 8bn. The IMF said that 'Egypt has begun to reap the benefits of its ambitious and politically difficult economic reform programme.'

Other factors which will have likely contributed to the MPC's decision to hold rates include the need to maintain the portfolio inflows the country has enjoyed since the removal of the pound's peg to the dollar, especially in light of tightening global monetary conditions, which the bank highlighted in its communiqué. Nevertheless, we maintain the view that the rate-cutting cycle will be resumed later in the year, projecting two further cuts of 100 bps each in 2018.

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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
 12th Floor
 Baniyas Road, Deira
 P.O.Box 777
 Dubai

Jonathan Morris
 General Manager Wholesale Banking
 JonathanM@emiratesnbd.com

Aazar Ali Khwaja
 Senior Executive Vice President
 Global Markets & Treasury
 +971 4 609 3000
 aazark@emiratesnbd.com

Tim Fox
 Head of Research &
 Chief Economist
 +9714 230 7800
 timothyf@emiratesnbd.com

Research

Khatija Haque
 Head of MENA Research
 +9714 230 7803
 khatijah@emiratesnbd.com

Anita Yadav
 Head of Fixed Income Research
 +9714 230 7630
 anitay@emiratesnbd.com

Shady Shafer Elborno
 Head of Macro Strategy
 +9714 2012300
 shadyb@emiratesnbd.com

Athanasios Tsetsonis
 Sector Economist
 +9714 230 7629
 athanasios@emiratesnbd.com

Edward Bell
 Commodity Analyst
 +9714 230 7701
 edwardpb@emiratesnbd.com

Daniel Richards
 MENA Economist
 +9714 609 3032
 danielricha@emiratesnbd.com

Aditya Pugalia
 Financial Markets Research
 +9714 609 3027
 adityap@emiratesnbd.com

Mohammed Altajir
 FX Analytics and Product Development
 +9714 609 3005
 mohammedtaj@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
 Tariq Chaudhary
 +971 4 230 7777
 tariqmc@emiratesnbd.com

Saudi Arabia Sales
 Numair Attiyah
 +966 11 282 5656
 numaira@emiratesnbd.com

Singapore Sales
 Supriyakumar Sakhalkar
 +65 65785 627
 supriyakumars@emiratesnbd.com

London Sales
 +44 (0) 20 7838 2241
 vallancel@emiratesnbd.com

Egypt
 Gary Boon
 +20 22 726 5040
 garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
 CEO- Emirates NBD Capital
 AhmedAQ@emiratesnbd.com

Hitesh Asarpota
 Head of Debt Capital Markets.
 +971 50 4529515
 asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
 +9714 230 7805
 patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
 +9714 609 4113
 ibrahims@emiratesnbd.com

Claire Andrea
 +9714 609 4143
 clairea@emiratesnbd.com