



بنك الإمارات دبي الوطني  
Emirates NBD

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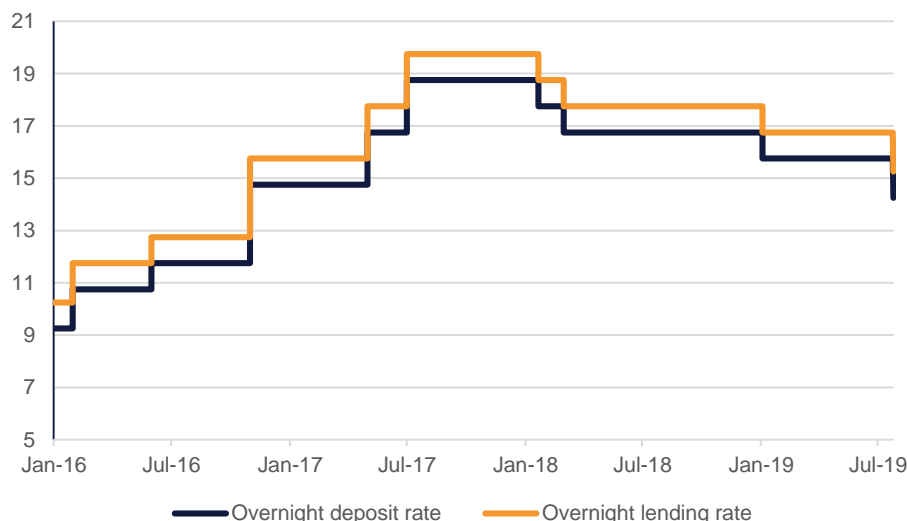
# Central Bank of Egypt cuts rates

The Central Bank of Egypt (CBE) cut its benchmark interest rates by 150 basis points (bps) at its August 22 meeting, taking advantage of rapid disinflation. This took the overnight deposit rate to 14.25%, the lowest level since the 300bps hike enacted in November 2016 as Egypt first embarked on its IMF-sponsored reform programme and devalued the pound. With global monetary policy turning decidedly more bearish and domestic inflation curbed, we see scope for further rate cuts still over the three meetings remaining this year, with potential for as much as 200bps. Easing monetary policy should help boost non-oil private sector activity, which has to date lagged in terms of the growth recovery.

Despite the introduction of new subsidy cuts at the start of the new fiscal year, most notably the fuel indexation mechanism, y/y CPI headline and core inflation in Egypt slowed to just 8.7% and 5.9% respectively in July, the lowest level since August 2015. The CBE attributed this slowdown to base effects, given that the new fiscal consolidation measures implemented this year were somewhat weaker compared to those of summer 2018. The gains by the Egyptian pound, which has strengthened from EGP 17.90/USD at the start of the year to EGP 16.62 presently, have also contributed to slowing price growth. We believe that these exchange rate gains have now played out, especially as rate-cutting begins in earnest, and project a year-end level of EGP 16.75/USD. Nevertheless, the CBE's inflation target of  $9.0\% \pm 3$  is entirely consistent with further cuts, especially in such a dovish global monetary policy environment.

One factor that has likely influenced the CBE's thinking since Egypt began its reform programme has been maintaining its portfolio inflows, as Egypt has become one of the world's most attractive carry trades. While the EM rout in H2 2018 did not leave Egypt unscathed, prompting a significant outflow, foreign ownership of t-bills was up 23.7% in dollar terms in May as compared to January. At USD 16.2bn, it is significantly higher than the negligible USD 0.1bn in October 2016. The dovish turn in monetary policy globally this year, alongside the boost to real rates from the slower inflation, has given Egypt far more room to cut rates without jeopardising these inflows. The US has already begun cutting again – and a further two cuts of 25bps each appears the most likely scenario through the remainder of the year – and a host of emerging markets have also recently lowered their benchmark rates. With real rates at Egypt still at 5.55% after this latest cut, this environment gives the CBE room to implement further cuts this year.

### Egypt benchmark rates cut



Source: Emirates NBD Research, Bloomberg

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