FUNDAMENTALS

EGYPT MPC UPDATE
HOLD, THEN EASE

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IN BRIEF

- The Monetary Policy Committee (MPC) of the Central Bank of Egypt (CBE) left the key policy rates unchanged in its February 2025 meeting. The overnight deposit rate, overnight lending rate, and the rate of the main operation were maintained at 27.25%, 28.25% and 27.75%, respectively.
- The monetary policymakers gave a more optimistic growth outlook despite the balance of risks skewed towards the downside, largely from the knock-on effect of a fragile external environment. Given our constructive view on the Egyptian pound and a more favourable inflation dynamics in the near-term, we expect the CBE to start its easing cycle in its April 2025 MPC meeting.
- The January 2025 inflation rate steadied at 24.0% with non-food deceleration offsetting a slight increase in the food inflation. For February 2025, we expect inflation to come in at 12.1% y/y and to grow at a sequential pace of 0.8%.
- With the fifth IMF review initially targeted for mid-March 2025, this cements our out-of-consensus view for Board consideration of a combined fourth and fifth reviews for a cumulative USD 2.4bn disbursement under the Extended Fund Facility (EFF) arrangement in March 2025. We see similarities with Kenya's protracted seventh review that was ultimately combined with the scheduled eighth review

CBE holds as expected on fragile balance of risk

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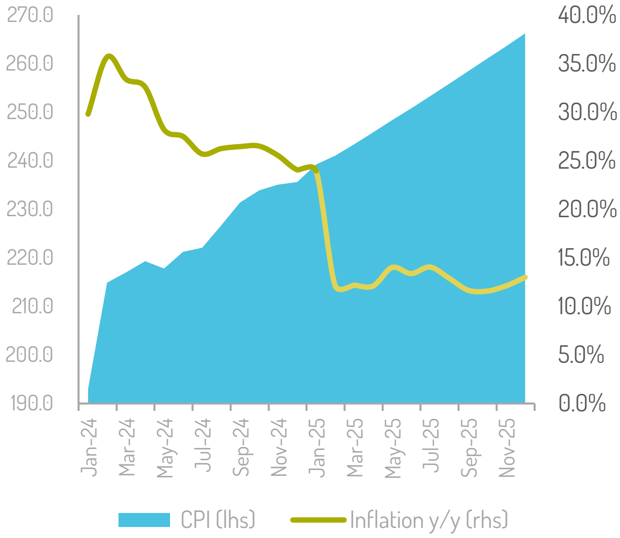
Negative surprise to February 2025 inflation on base effect

The January 2025 inflation rate steadied at 24.0% with non-food deceleration offsetting a slight increase in the food inflation. For February 2025, we expect inflation to come in at 12.1% y/y and to grow at a sequential pace of 0.8%. The upside surprise to food inflation in February 2024 delivered an 11.4% m/m upswing in the monthly print and the February 2025 reading will fade off that base effect. We project inflation at 13.0% at the end of the year and slightly outside the upper outer band in the monetary policy consultation clause. Although the monetary policy consultation clause (MPCC) was triggered in the context of the fourth review that awaits the Board approval, we see this risk diminishing by the sixth review and tees up the probability of favourable adjustment in the MPCC targets. As such, the CBE is likely to resume its explicit inflation target guidance of 5.0% ± 2.0%, on average, by 4Q2026 in its upcoming monetary policy press statements.

Stable FX anchored on financing flows

Net international reserves have held steady post the outsized flows in 1Q2024 - 2Q2024 and currently sit at USD 47.3bn and supporting the Egyptian Pound. Egypt has returned to the international market with commercial issuance to refinance the heavy external debt maturities in this fiscal year ending June 2025. The fiscal authorities raised USD 2.0bn syndicated loan in December 2024 following the successful maturity of USD 3.0bn syndicated facility in November 2024. Earlier this month, the Sovereign raised USD 2.0bn in dual-tranche debt at a fairly reasonable pricing compared to similar credit-rated Nigeria who tapped the international markets in December 2024. A more favourable external sector, improved FX liquidity and growing investor sentiment are likely to sustain the Egyptian Pound at current 50.0 – 51.0 levels against the US dollar.

CPI BASE EFFECT TO IMPROVE INFLATION OUTLOOK



SOURCE: CENTRAL AGENCY FOR PUBLIC MOBILIZATION AND STATISTICS, IC INSIGHTS

IMF disbursement; better late than never in a combined review

Following the IMF Staff Level Agreement (SLA) reached with the authorities in December 2024, there has been a marked delay in the Board approval. The IMF was vague on the timeline of the Executive Board meeting to approve the USD 1.2bn disbursement in a recent press briefing and probability of upscaling the IMF programme with Resilience and Sustainability Financing (RSF). However, there is a likelihood of recalibrating some of the fiscal targets against the backdrop of a strained macro environment. With the fifth review initially targeted for mid-March 2025, this cements our out-of-consensus view for Board review of a combined fourth and fifth reviews for a cumulative USD 2.4bn disbursement under the Extended Fund Facility (EFF) arrangement in March 2025. We see similarities with Kenya's protracted seventh review that was ultimately combined with the scheduled eighth review. We also see the scope of an RSF financing that has been telegraphed in the market and that will run for the remaining 18 months of the current programme. The delay in implementing some of the structural benchmarks in Egypt's IMF programme strengthens our view that a combined review is the most probable scenario by mid-March 2025.

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