

**EXECUTIVE
BOARD
MEETING**

EBS/21/51
Supplement 2

June 18, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Arab Republic of Egypt—Staff Report for the 2021 Article IV Consultation and Second Review Under the Stand-By Arrangement—Supplementary Information**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Wednesday, June 23, 2021**

Publication: Yes*

Questions: Ms. Allard, MCD (ext. 38054)
Mr. Rayner, MCD (ext. 38524)
Ms. Tambunlertchai, MCD (ext. 34033)

***The Secretary's Department has been notified by the authorities that their explicit consent is required prior to the publication of Board documents. At the time of circulation of this paper to the Board, the authorities have indicated that they consent to the Fund's publication of this paper.**



ARAB REPUBLIC OF EGYPT

June 18, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT—SUPPLEMENTARY INFORMATION

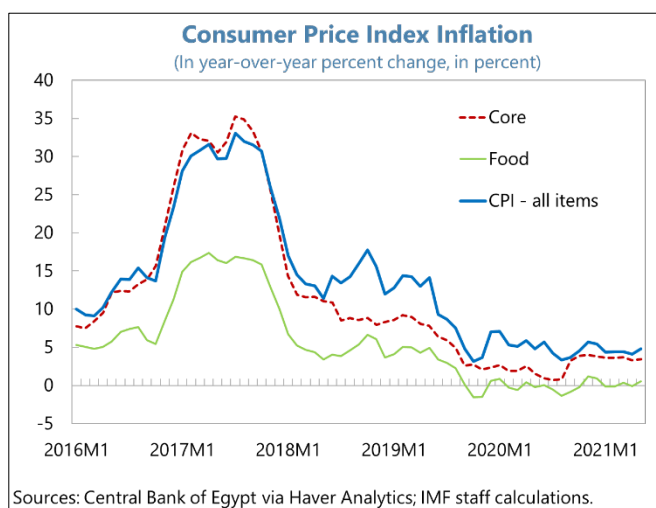
Prepared By

Middle East and Central Asia Department

This staff statement provides an update on developments since the issuance of the staff report (EBS/21/51) on June 7. This supplementary information does not alter staff's appraisal.

1. Consumer prices in May grew by 4.8 percent (y/y), up from April's outturn of 4.1 percent, bringing it closer but still below the CBE's medium-term target range. In line with staff's

projection, the acceleration in inflation was driven by base effects reflecting the early impact of the outbreak of COVID-19, including on food prices. In particular, prices of volatile food items such as fruits and vegetables, which had previously contributed negatively to headline inflation, rose by 6.9 percent (y/y) in May. Annual core inflation, which has been below 4 percent since December, inched up slightly to 3.4 percent from 3.3 percent in the prior month.



2. On Thursday June 17, 2021 the Monetary Policy Committee (MPC) decided to keep rates on hold on signs of economic recovery and rising inflation. Citing global and domestic economic recovery (particularly in private consumption), continued accommodative financial conditions, and rising international prices in food and commodities, the MPC stated that keeping policy rates unchanged remains consistent with achieving the CBE's inflation target of 7 percent (± 2 percentage points)

on average in 2022 Q4. The MPC noted that it closely monitors economic developments and will utilize all available tools as necessary to support economic recovery and carry out the CBE's price stability mandate.

3. Egypt was among the thirteen countries included in the new FTSE Russell Frontier Emerging Markets Government Bond Index launched on June 8, 2021. The index is the first to track frontier markets' local currency bonds, a sign of growing investor appetite for this asset class. As of early June, the index was valued at \$415 billion. Eighty Egyptian bonds are represented in the index, accounting for the maximum 10 percent weight allowed for each country. Other countries included in the new index are Bangladesh, Costa Rica, Dominican Republic, Ghana, Kenya, Nigeria, Pakistan, Serbia, Sri Lanka, Ukraine, and Vietnam.