

HC Expects the Central Bank of Egypt to Keep Interest Rates Unchanged at Its Upcoming Meeting

In light of the latest developments in Egypt's macroeconomic landscape and ongoing geopolitical risks, HC Securities & Investment's Research Department expects the Central Bank of Egypt's (CBE) Monetary Policy Committee (MPC) to maintain its key overnight deposit and lending rates at their current levels at its upcoming meeting.

Heba Mounir, Macro Analyst at HC Securities & Investment, commented:

"Global economic and political instability continues to weigh on the Egyptian economy and has begun to put pressure on the improvement in some of Egypt's external indicators. On the positive side, Egypt's banking sector net foreign assets and net international reserves reached record highs of USD 31.2 billion at the end of August and USD 57.3 billion at the end of September, respectively.

On the other hand, global and geopolitical uncertainty has affected several indicators. Egypt's five-year Credit Default Swap (CDS) spreads rose to 343 basis points, compared to a year-to-date low of 262 basis points on August 28. Meanwhile, the Egyptian pound depreciated by approximately 14% against the US dollar year-to-date and around 5% since the beginning of the month, surpassing its previous peak of EGP 54.73 per US dollar recorded on April 7, reflecting the flexibility of the exchange rate.

Although we believe the current depreciation trend is temporary, it may persist through the end of the year due to the combined impact of several domestic and external factors. Externally, geopolitical instability is increasing pressure from foreign outflows, amid Egypt's higher import bill for energy products and wheat, in addition to external debt obligations and payments due to foreign oil companies operating in Egypt. Domestically, foreign currency liquidity is expected to face pressure in the fourth quarter of 2026 due to foreign companies repatriating profits at year-end, alongside the potential increase in imports of certain food commodities ahead of Ramadan.

Regarding domestic inflation, the government committee responsible for fuel pricing decided to keep gasoline and diesel prices unchanged until the end of December 2026, which should help contain inflationary pressures. Accordingly, we expect average inflation to reach approximately 13% in the fourth quarter of 2026, down from our previous forecast of 14.5%. For 2027, we have revised our average inflation forecast upward to 11.5%, from 10.9% previously, reflecting continued risks of inflationary pressures stemming from global instability.

Regarding the attractiveness of Egypt's debt market, the latest auction of 364-day Treasury bills, offering a yield of 25.91%, implies a positive real interest rate of 10.5%, based on our revised 2027 average inflation forecast of 11.5%, after accounting for a 15% tax applicable to European and American investors. This indicates that Egypt's debt market remains attractive.

Accordingly, given the continued attractiveness of Egypt's debt market and ongoing geopolitical risks, we expect the CBE's Monetary Policy Committee to maintain its overnight deposit and lending rates at their current levels at its upcoming meeting."

It is worth noting that the CBE's Monetary Policy Committee decided at its September 24 meeting to keep the overnight deposit and lending rates unchanged at 19.0% and 20.0%, respectively, for the fifth consecutive meeting, following a 100-basis-point cut in February. This brought cumulative rate cuts to 825

basis points since 2025, compared with a total increase of 1,900 basis points since the beginning of the monetary tightening cycle in 2022.

According to data from the Central Agency for Public Mobilization and Statistics (CAPMAS), Egypt's annual urban inflation rate eased to 13.9% in September, compared to 14.5% in August, while monthly prices increased by 1.3%, compared to 0.1% in August.

Globally, the US Federal Reserve raised its target interest rate range by 25 basis points on September 16 to 3.75%–4.00%, bringing cumulative net rate cuts to 150 basis points since September 2024, following a 525-basis-point increase since the start of monetary tightening in 2022. On September 10, the European Central Bank raised its key interest rates on the deposit facility, main refinancing operations, and marginal lending facility by 25 basis points to 2.50%, 2.65%, and 2.90%, respectively. This followed cumulative net rate cuts of 150 basis points since the easing cycle began in June 2024, after a total increase of 450 basis points since the start of monetary tightening in 2022.

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The company offers a comprehensive range of services, including financial advisory, asset management, securities trading, research, custody, and electronic trading, through its presence in Egypt and the United Arab Emirates, including its office at the Dubai International Financial Centre (DIFC).

HC's investment banking division has an established track record of advising leading companies in Egypt and the Middle East and North Africa across mergers and acquisitions, capital markets, and financing advisory, with transactions totaling more than USD 6.6 billion. HC's asset management division manages seven bank investment funds, in addition to portfolios for institutions and sovereign wealth funds, with total assets reaching EGP 4 billion. HC Brokerage in Securities and Bonds is ranked among Egypt's leading brokerage firms and offers a wide range of services, including research and electronic trading for institutional and individual clients.

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