

Press Release
Foreign Exchange Market Liberalization
November 3, 2016

In its mandate, the Central Bank of Egypt (CBE) takes all necessary measures in order to safeguard the Egyptian economy by ensuring monetary and financial stability. Accordingly, citizen centric measures are put in place to uphold price stability over the medium term while supporting economic development, fostering job growth, reinforcing the banking sector, and shoring up confidence in the local economy.

As part of the comprehensive home grown reform program, backed by the support of the international community, aimed to address the current macroeconomic and structural imbalances that weigh on the Egyptian economy, the CBE hereby announces its decision to move, with immediate effect, to a liberalized exchange rate regime in order to quell any distortions in the domestic foreign currency market. This move will allow market demand and supply dynamics to work effectively in order to create an environment of reliable and sustainable provision of foreign currency.

To this end, the following measures have been enacted:

- The CBE has announced a nonbinding foreign exchange rate which is to serve as soft guidance to jumpstart the market. The new regime will improve Egypt's competitiveness and allow for the deepening of foreign currency liquidity while streamlining activity into the formal channels. Such activity will allow for the steady accumulation of foreign currency reserves through channels which include but are not limited to the increase of private transfers, trade competitiveness, and foreign investments.
- The priority imports list has been abolished.
- Banks will be allowed to operate until 9PM every day, including Friday and Saturday, for foreign exchange transactions and transfers only.
- The CBE will continue to monitor market activity and hold multiple price auctions when deemed necessary. The purpose of these auctions will be to support the process of market price formation in the early days of adjustment.

Pursuant to the above, banks and other market participants are at liberty to quote and trade at any exchange rate. Bid and ask exchange rates will be determined by forces of demand and supply. The CBE will use the prevailing market rate for any transactions it undertakes.

During the initial period of price discovery, the forces of supply and demand will come into play, gain traction, contest, and ultimately converge to an equilibrium. While this period will yield some expected volatility in the short term, a liberalized exchange rate regime is the optimal and sustainable path for the Egyptian economy. Foreign exchange shortages that hinder economic activity will be eliminated, rendering Egypt more competitive. This will ultimately ignite demand

for various Egyptian asset classes by foreign investors and contribute to Egypt's quest of rebuilding the foreign currency reserves.

The new exchange rate regime is a part of a broader package of reforms that will ensure macroeconomic stability through fiscal consolidation which will be achieved by decreasing the budget deficit and general government debt, enacting subsidy reforms, and decreasing government spending. In order to support and ensure the viability of the program while upholding CBE's mandates, the CBE has taken the following actions:

- The CBE key policy rates have been raised by 300 basis points, effective immediately.
- Deposit auctions with longer maturities with market determined rates will be introduced.

Additionally, the CBE has agreed with the Ministry of Finance to gradually phase out the monetary financing of the budget deficit over the coming months. This objective is consistent with the government's commitment to prudent fiscal policies which will contribute to decreasing the budget deficit and public debt.

Ensuring price stability over the medium term remains the main objective of the CBE. For this purpose, the CBE will closely monitor the amount of reserve money in the system and continue to rely on indirect monetary policy tools.

The CBE is committed to ensuring the transparency and efficiency of the local market. The CBE will continue to monitor all economic developments and will stand ready to mobilize all tools in order to ensure price stability. Together with the fiscal agent and the fiscal reforms already embarked upon, the CBE is steadfastly committed to unleashing the vast potential of the Egyptian economy, an economy that has weathered many challenges and endured much uncertainty, an economy that will ultimately come out stronger and will persevere.