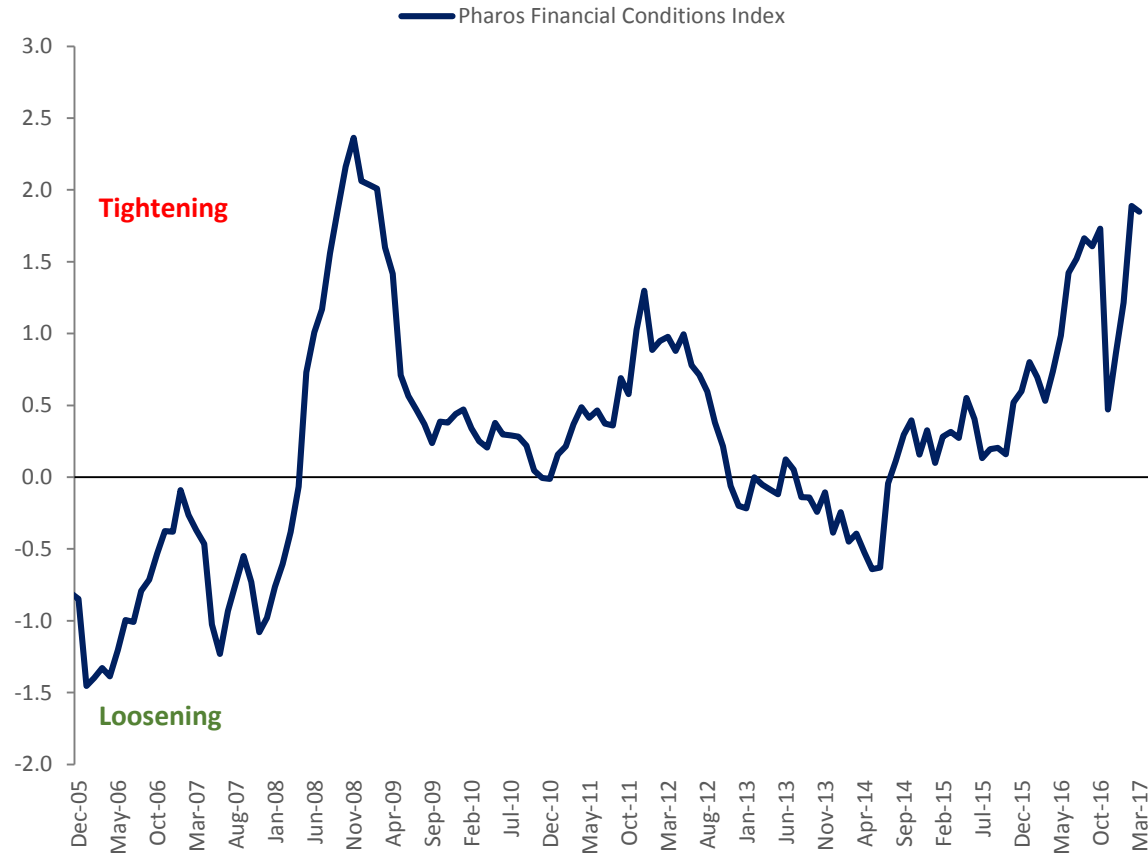
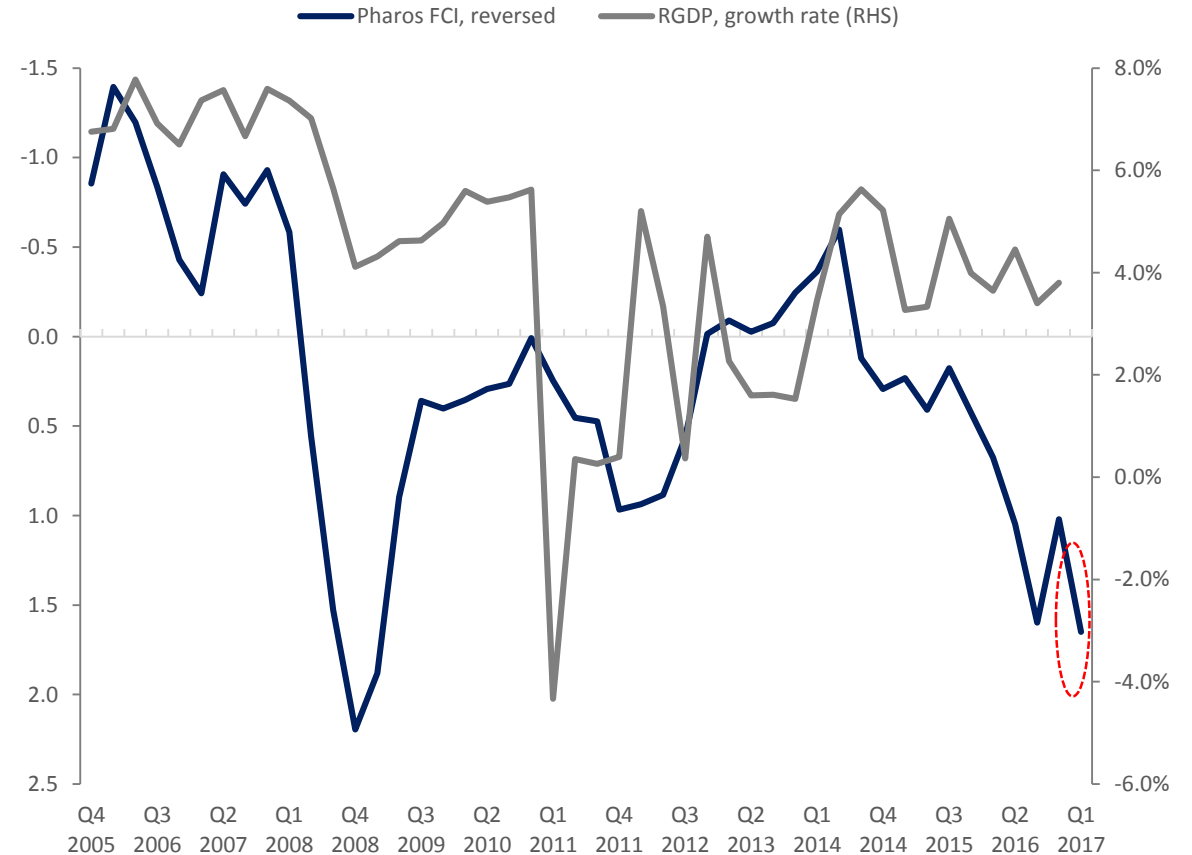


Tight financial conditions, in addition to the inflation outlook, supported the CBE's Monetary Policy Committee's decision to hold interest rates unchanged in March 2017



Source: Central Bank of Egypt, Egyptian Stock exchange, JP Morgan CPI-broad based REER index, Pharos research

As an indicator of the economic activity, the FCI revealed that the real GDP growth cooled off in 3Q FY2016/17. This was no surprise given the decline in sales volume across various sectors, in addition to the short-term uncertainty following the implementation of the economic reform measures in 1H FY2016/17

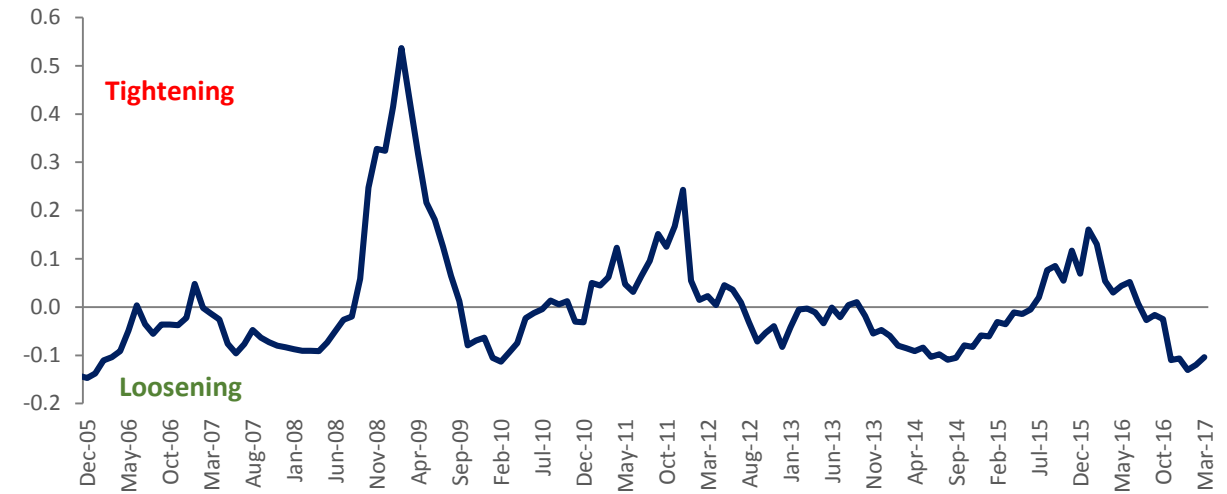


Source: Ministry of Planning, Pharos research

The broad money supply annual growth was affected by the foreign component revaluation as the Egyptian pound depreciated by c.13% MoM in March. Meanwhile, the **real M2 annual growth** stabilized in March as the sub-index stood firmly in tightening territory



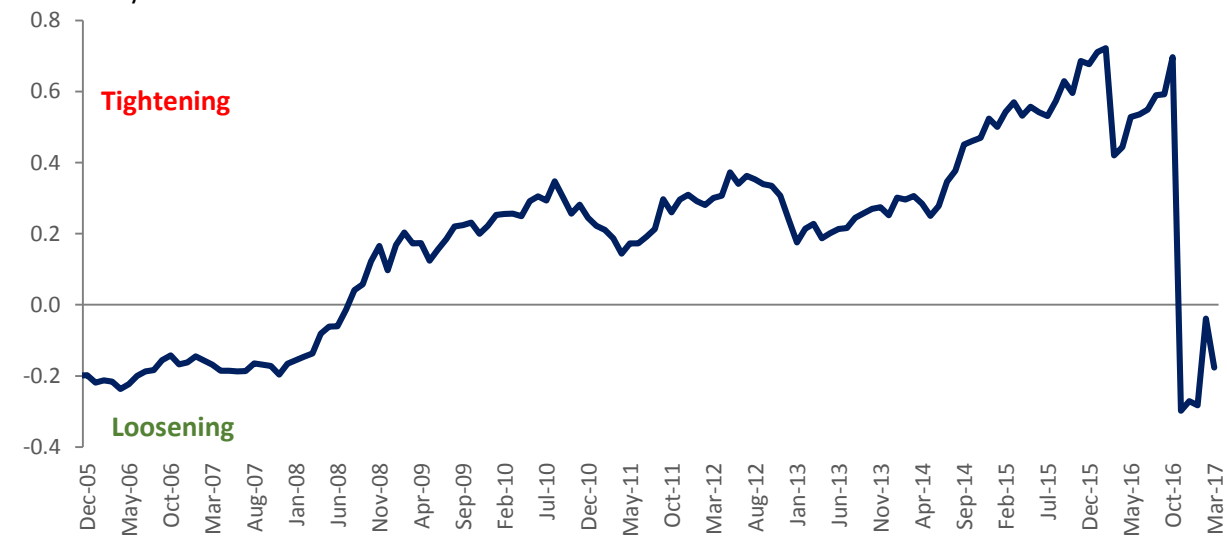
Foreign investors' buying activity supported the Egyptian stock exchange upward move in March. The **EGX30 Index** rose 9.8% MoM in March, which in return led to an increase in the liquidity in the system



Short-term interest rates continued to rise from an average of 18.7% in February to an average of 19.3% in March. Moreover, the **slope of the yield curve** dipped further into negative territory in March, reflecting tighter monetary conditions



The Egyptian pound **real effective exchange rate** depreciated by 10% in March as the USD strengthened to around EGP18. In terms of liquidity, a REER depreciation makes domestic assets more attractive for foreign investors, hence, capital inflows would increase the liquidity in the economy



Pharos Financial Conditions Index (FCI) provides our clients with a quantitative tool to assess the stance of the Egyptian macroeconomic policy through tracking key financial market indicators. The Pharos FCI is also a useful leading indicator of the economic activity in Egypt which is more efficient, in our view, than other sentiment indices (e.g. Purchasing Managers' Index).

Our monthly FCI includes four sub-indices, which are weighted relative to each variable volatility, and normalized by subtracting the mean and dividing by the standard deviation for each sub-index.

What do we track?

1. Real broad money supply (% YoY) as a measure of domestic liquidity
2. The EGX30 Index (%YoY)
3. Short term interest rates: CBE overnight lending nominal interest rate and 1-year treasury bill nominal yield
4. Real effective exchange rate (REER).

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