The Central Bank of Egypt’s Repatriation Mechanism Termination

On November 3, 2016, the homegrown economic reform program was initiated with the liberalization of the foreign exchange regime as one of its core pillars. Two years from that date, this regime has led to the successful elimination of all foreign exchange shortages that previously disrupted economic activity, thereby significantly improving Egypt’s external balances. Distortions in the domestic foreign currency market were eliminated, and the forces of supply and demand drove, and continue to drive, the process of price discovery in the foreign exchange market.

Foreign currency resources have reached USD 111 Billion since November 3rd 2016 , Egypt's current account deficit decreased from USD 19.8 Billion (5.9% of GDP) for fiscal year 2015/2016 to USD 5.9 Billion (2.4% of GDP) for fiscal year 2017/2018. Furthermore, Egypt's Balance of Payments achieved an overall surplus of USD 12.8 Billion (5.1% of GDP) for fiscal year 2017/2018 compared to a deficit of USD 2.8 Billion (0.8% of GDP) for fiscal year 2015/2016. Going forward, Egypt's Current account deficit is projected to decrease to around 1%-2% of GDP for fiscal year 2018/2019.

The Foreign Exchange repatriation mechanism was heavily utilized by foreign investors at the initiation of the liberalization in order to guarantee liquidity. However, as the gains of the homegrown reform program became clearly demonstrated and the foreign exchange resources granted by the real economy flourished, Egypt's external balances and various economic indicators have gained considerable strength since November 2016. Egypt's risk profile improved and its financial stability regained strength. As a result, confidence increased as was reflected in the elevated interbank market volume.

In light of the above, the Central Bank of Egypt has decided to **terminate the Repatriation Mechanism as of December 4th 2018, close of business day, for any fresh foreign currency portfolio investments wishing to enter the local currency Egyptian T-Bills, T-Bonds market and the stocks listed on the Egyptian Stock Exchange**. This will not apply to balances held inside the mechanism before the aforementioned date. Investors that initially entered through the repatriation mechanism before December 4th 2018, close of business day, may exit through the repatriation mechanism at any time. Fresh foreign currency portfolio investments, from this point forward, should be channeled through the interbank market.

Repatriation Mechanism Pricing at Exit

Upon **exit** of the foreign investor through the repatriation mechanism, the process will remain unchanged:

- The foreign investor will instruct their custodian to repatriate the foreign currency equivalent of their local currency total proceeds through the CBE repatriation mechanism.
- The custodian will verify the foreign investor originally accessed the Egyptian capital market through the repatriation mechanism, and will validate that the amount requested to be repatriated correctly represents the total proceeds of the foreign investors’ designated transactions.

- The CBE will sell to the custodian the requested amount in USD at the 2 PM CBE Offer Rate + 0.5%. The CBE offer rate is available on Reuters page CBEW1 or Bloomberg page CBEG.
- The custodian will sell the USD amount to the foreign investor at the 2 PM CBE Offer Rate + 0.5% back to back at the same rate the CBE used to sell to the custodian.
- The custodian is required to proceed with the foreign investors' instructions to transfer the funds abroad value spot.