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المركز المصري للدراسات الاقتصادية
The Egyptian Center for Economic Studies

Views On News

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Reuters: Foreign investors cautious about buying Egyptian T-bills

Reuters indicated that some foreign investors are becoming cautious about buying local Egyptian Treasury bills due to concerns over emerging markets and the sustainability of high returns in Egypt.

In this light, the Central Bank of Egypt refers to the success of its unconventional policy in dealing with the Corona virus pandemic, which is raising interest rates on local deposits, reducing domestic lending rates, and leaving the currency almost unchanged against the US dollar.

[Link to the News Story]

Our Views

- The past four years witnessed great demand from foreign investors in government debt instruments, including treasury bills and bonds; taking advantage of the high interest rates on Egyptian bills, which reached about 18% in the three years following the liberalization of the exchange rate in November 2016, and the deterioration of the value of the pound against the US dollar. Although interest rates on Treasury bills have been reduced since 2020 to a rate ranging between 10-13% according to the terms of the bills,[1] it is still high, especially considering the stabilization of the pound's price over the past three years while not reducing it to reflect the difference in the inflation rate with trading partners. Therefore, foreign investors were not negatively affected when they recovered the value of their investments.
- This situation led to the emergence of Egypt as one of the largest countries attracting investors to Treasury bills in the world, which led to inflation of the net investment of the portfolio to reach $18.7 billion by the end of the fiscal year 2020/2021, five times the value of net foreign direct investment. It also led to inflation of the size of domestic and external public debt to reach EGP 5094.2 billion, representing 87.5% of GDP at the end of June 2020, an increase of 6% from its value in June 2019[2].

[1] Ministry of Finance. 2022. Monthly Financial Report, December 2021, January 2022 issue.

[2] IBID.

- The continuation of financing the deficit through the issuance of bonds and Treasury bills in local or foreign currency or dollar bonds is unsustainable and risky, especially since foreign investors' appetite for Egyptian debt instruments has been linked to lower interest rates in the more stable markets, a situation that is starting to change now, as the rise in uncertainty about global recovery and global inflationary waves led many of the most stable markets to raise interest rates, thus recouping their investments with expectations of their decline in developing countries, including Egypt.

In light of the foregoing, it is important for economic policy makers to pay attention to the danger of continuing this practice, especially in light of what was recently indicated by several reports from international institutions such as Fitch, Namura and Reuters, which question Egypt’s ability to meet its inflated financing needs in light of an exaggerated local currency, or the decline of net foreign assets of the banking system to less than half of its value, reaching EGP 114 billion in October 2021, compared to EGP 300 billion in June 2018 and June 2019, and about EGP 251.6 billion in June 2021. It began to deteriorate because of the decline in net foreign assets of the Central Bank reaching about EGP 192.7 billion in October 2021, and the net assets of Egyptian banks shifting into an increasing deficit of EGP 78.5 billion in the same month.[3]

Finally, we need government efforts over the coming period to focus on radical reforms to address the challenges facing the production sectors and remove obstacles facing the

[3] Egyptian Central Bank. 2022. Monthly Statistical Bulletin, Issue 297, December 2021, January 2022 issue.

local and foreign private sector, to motivate it to inject investments into the Egyptian economy.

Worthy of Note:

- One of the most important reasons for the decline in net foreign assets in Egyptian banks is the rise in global inflation to unprecedented levels during the past forty years.
- The Egyptian Center for Economic Studies publishes a quarterly assessment of developments in the business community and its constraints through the Business Barometer.

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