



EGYPT: ECONOMIC DEVELOPMENT AND POLICIES CONFERENCE

November 7-9, 2024

Monetary and Exchange Rate Policies – Egypt's Version of the Mundell Trilemma

Ahmed Kamaly
Mona Esam Fayed
Hebatalla Atef Emam

To cite this presentation:

Kamaly, A., Fayed, M. E., & Emam, H. A. (2024, November). Monetary and Exchange Rate Policies: Egypt's Version of the Mundell Trilemma [PowerPoint slides].

Part VI: Macroeconomic Policy

24) Monetary and Exchange Rate Policies – Egypt's Version of the Mundell Trilemma

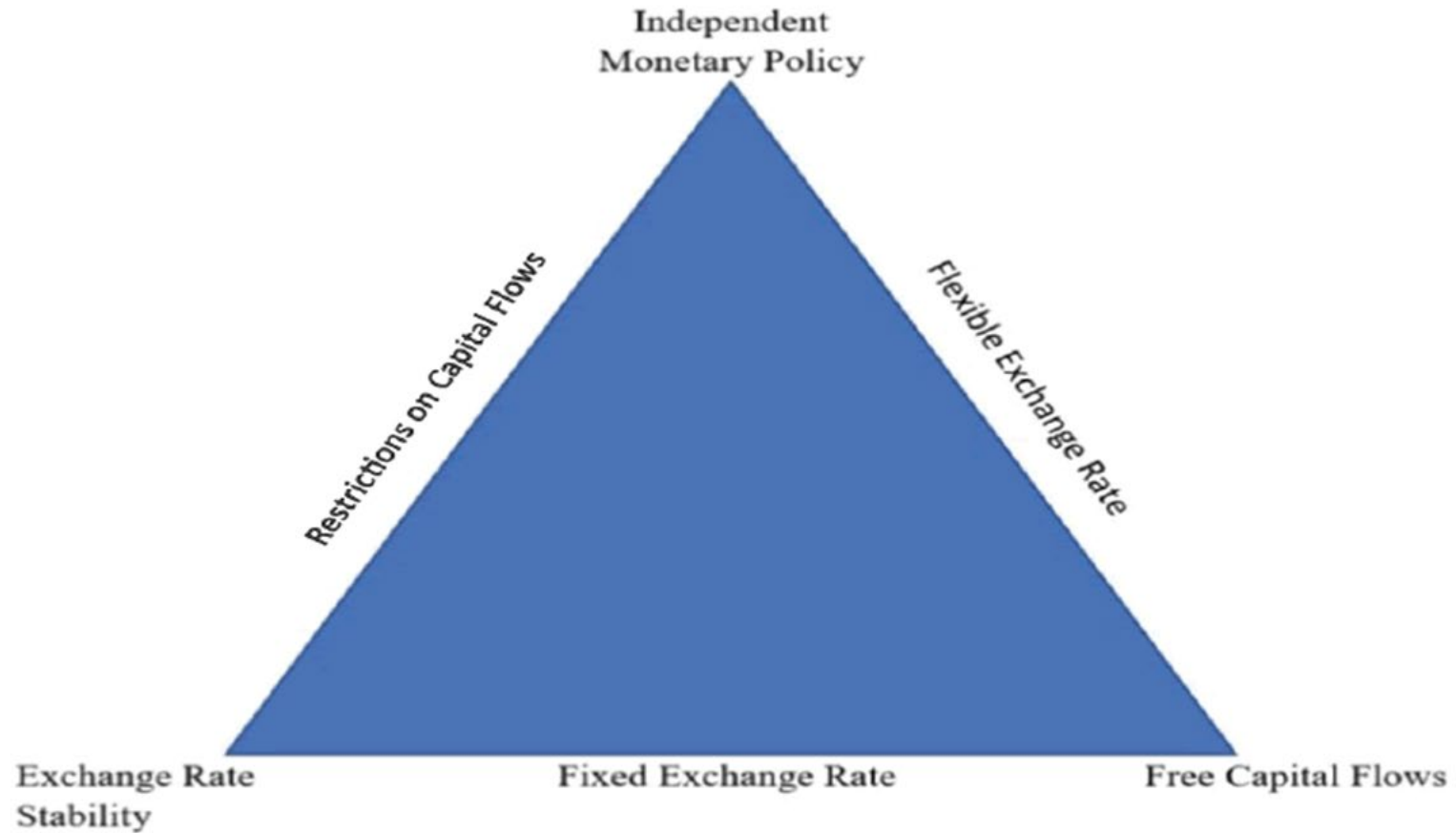
Ahmed Kamaly

Mona Esam Fayed

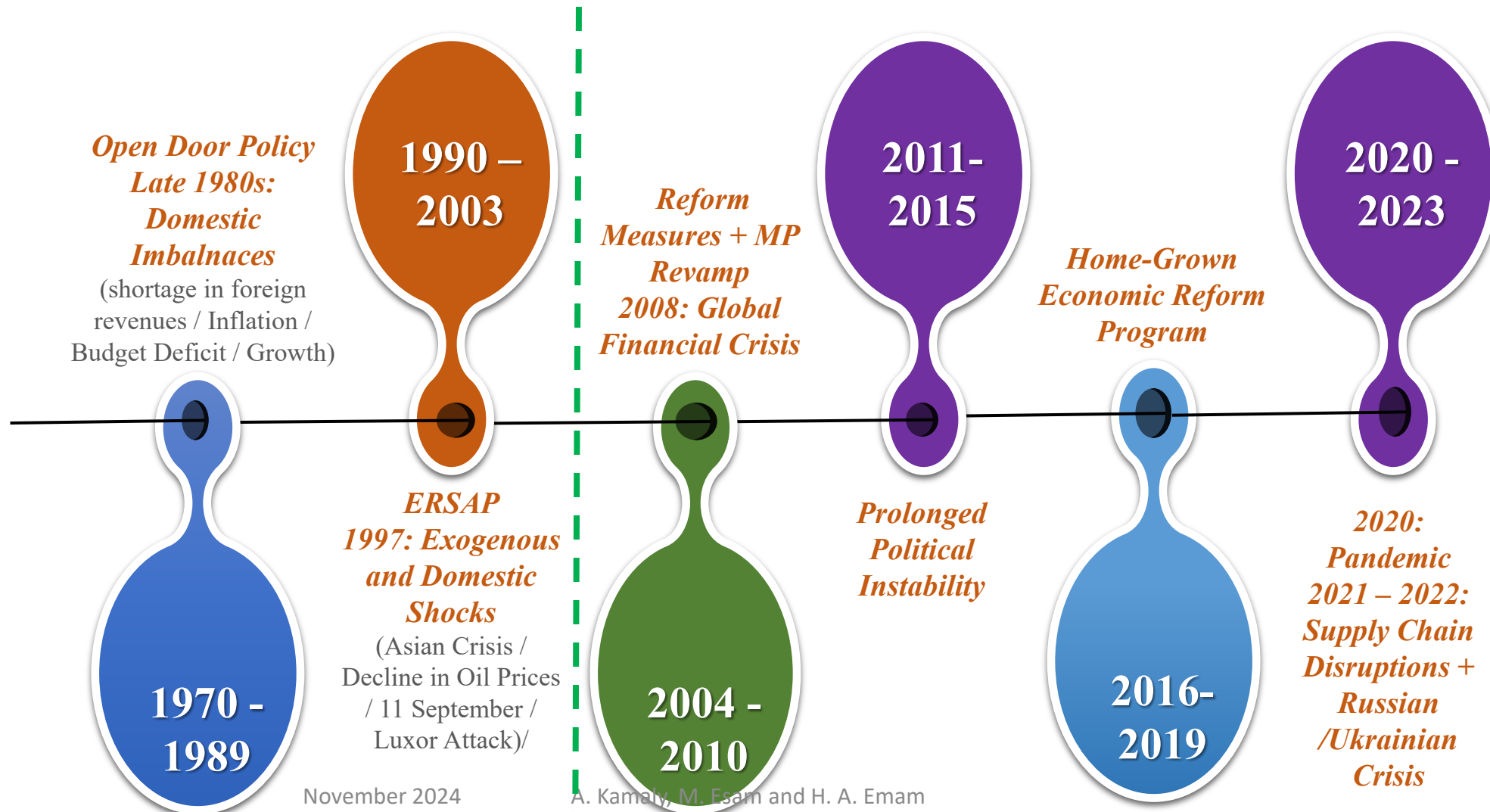
Hebatalla Atef Emam

November 2024

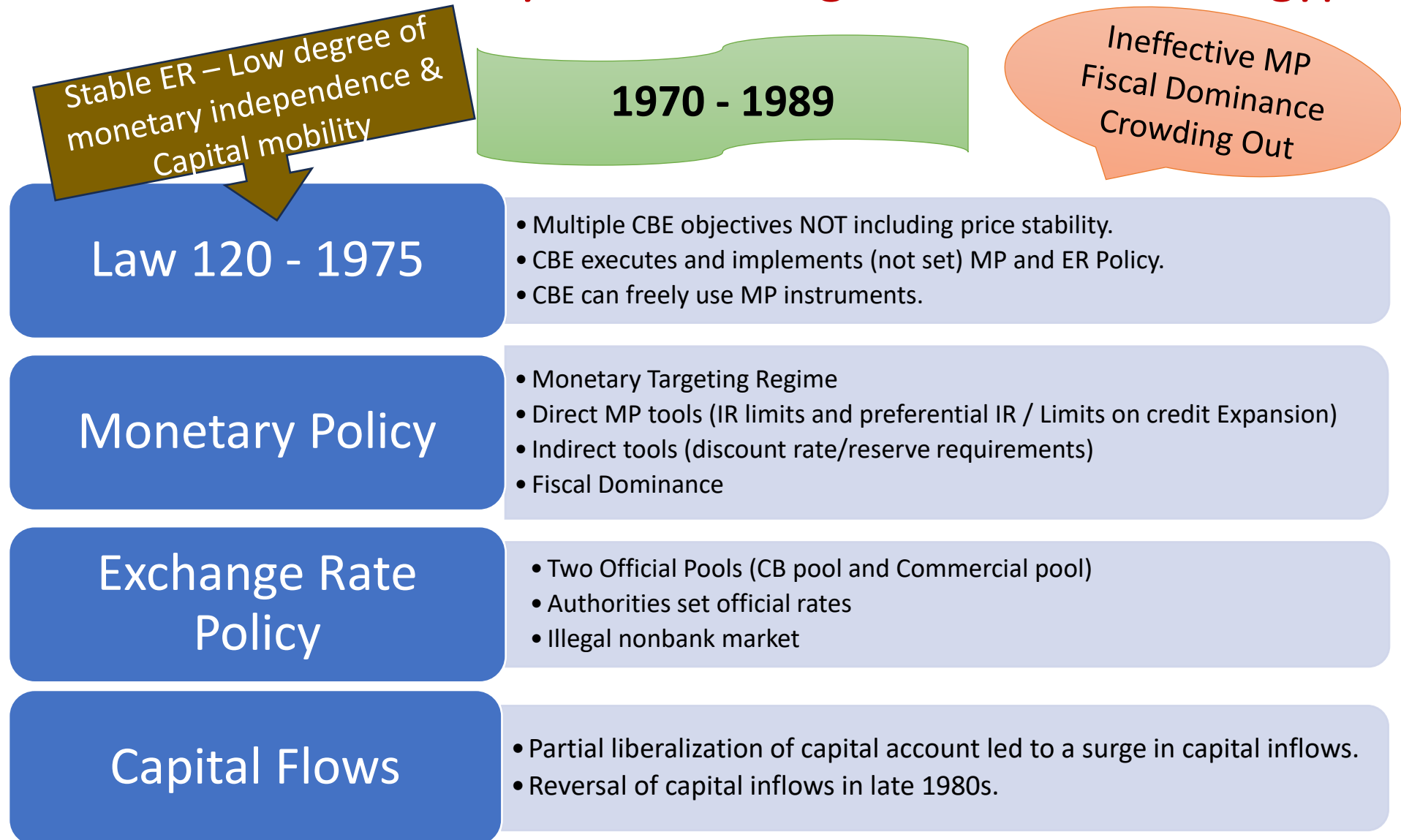
Mundell Trilemma (Impossible Trinity)



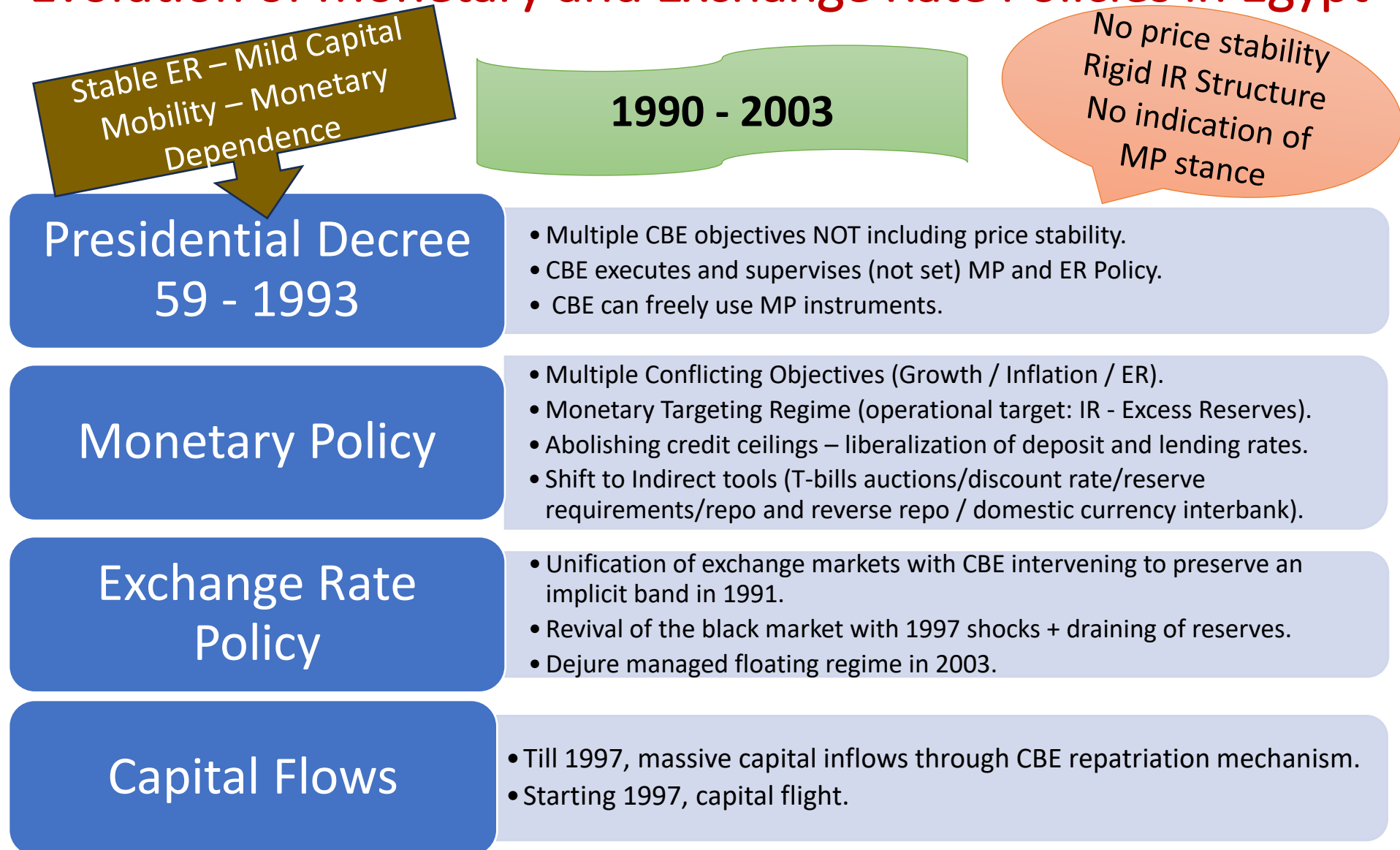
Evolution of Monetary and Exchange Rate Policies in Egypt



Evolution of Monetary and Exchange Rate Policies in Egypt



Evolution of Monetary and Exchange Rate Policies in Egypt



Evolution of Monetary and Exchange Rate Policies in Egypt

2004 - 2010

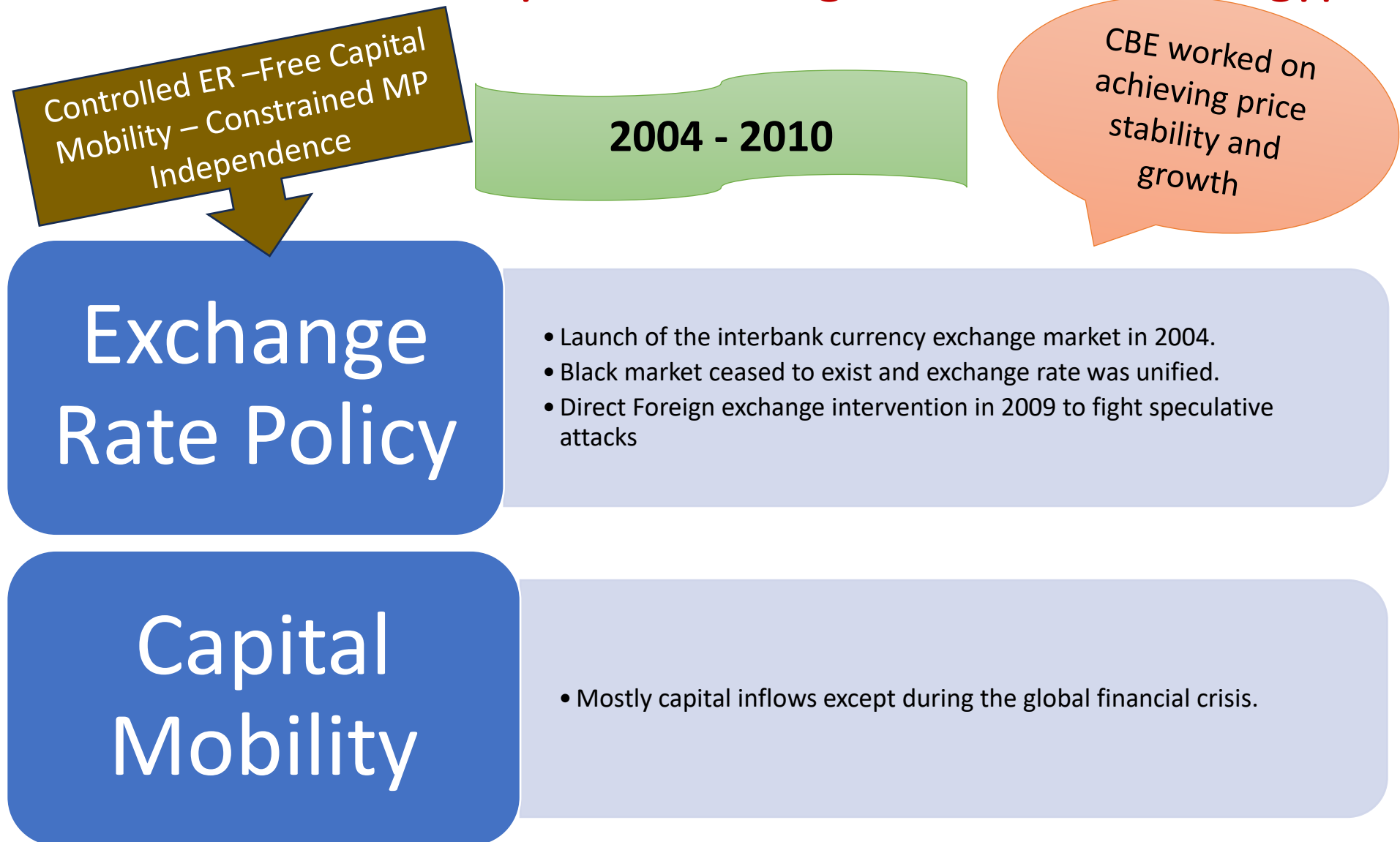
**Law 88 -
2003**

- Price stability and assuring the soundness of the banking system (non-conflicting objective).
- CBE sets and executes MP and can freely use MP instruments.
- CBE regulates, manages, and supervises the foreign exchange market.

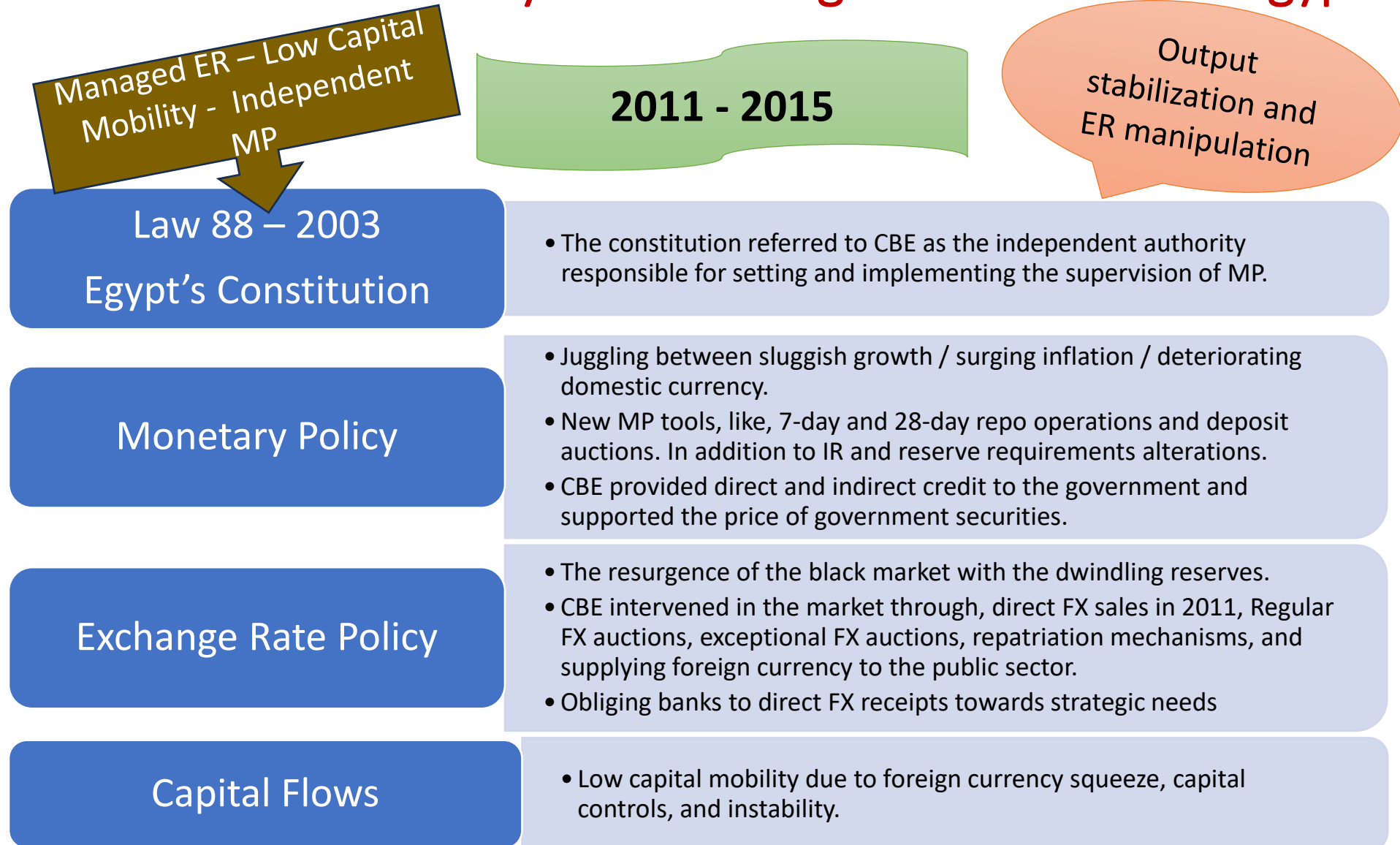
**Monetary
Policy**

- Complete revamping with the announcement of price stability objective.
- Intention to adopt IT in the medium term.
- Implicit nominal anchor.
- Price targets/launch of corridor system / new instruments like CBE CDs and Notes/launch of yield curve for T-bills.
- MPC undertakes policy rate decisions.
- Promotion of CBE transparency and research agenda.
- Launch of TSA in 2006 to control CBE financing to government and dampen fiscal dominance.
- In 2009, the CBE relied on interest rate cuts and open market operations to mitigate the crisis.

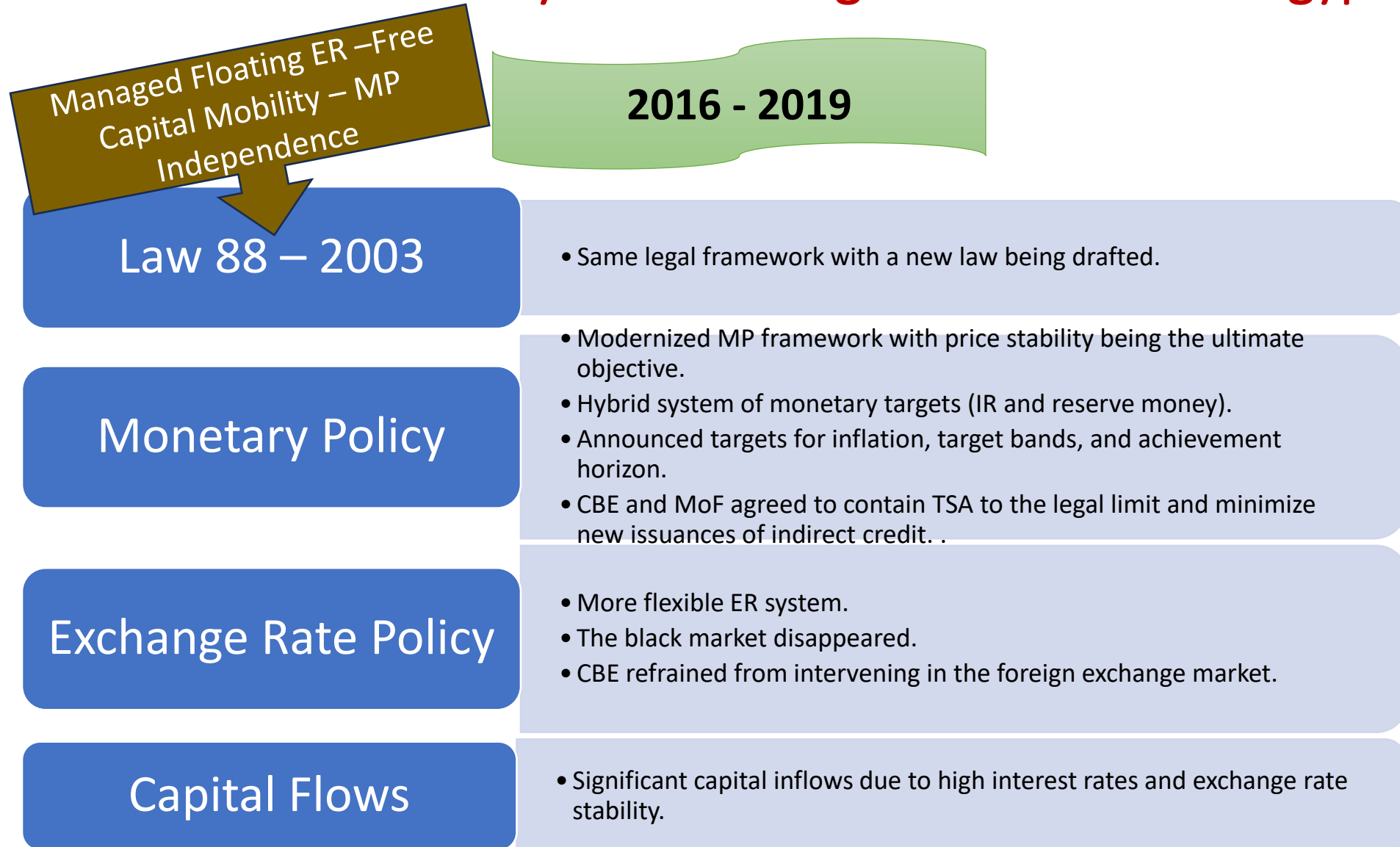
Evolution of Monetary and Exchange Rate Policies in Egypt



Evolution of Monetary and Exchange Rate Policies in Egypt



Evolution of Monetary and Exchange Rate Policies in Egypt



Evolution of Monetary and Exchange Rate Policies in Egypt

Juggling between controlling exchange rate, capital mobility and monetary independence

2020 - 2023

Law 194 – 2020

- Price stability and ensuring the soundness of the banking system (non-conflicting objective).
- CBE formulates and implements MP.
- CBE determines and implements FX policy.

Monetary Policy

- Price stability is the ultimate objective of MP.
- Both conventional and unconventional MP tools (policy rate cut/credit initiatives/measures to boost domestic liquidity / Equity support fund to support unjustified selling waves).
- Incentivize electronic banking activities.

Exchange Rate Policy

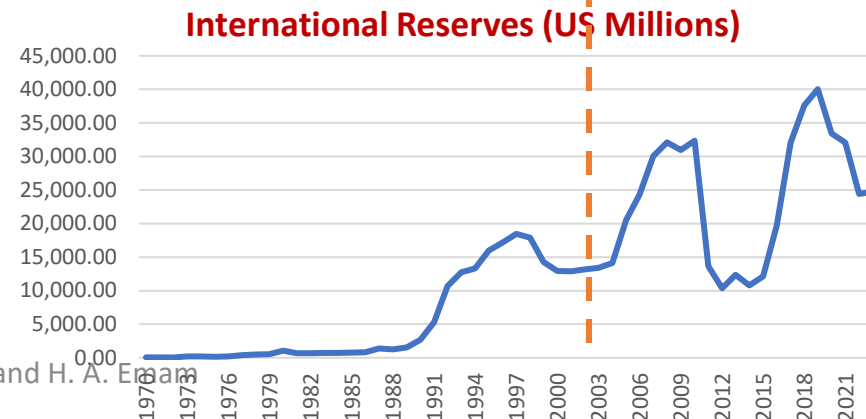
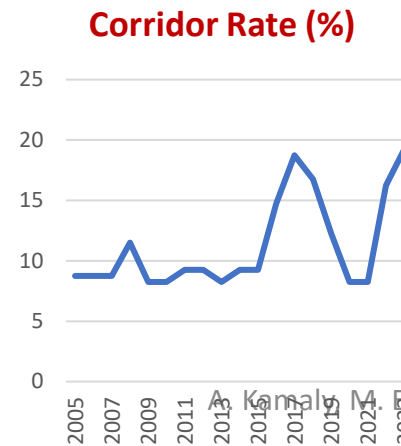
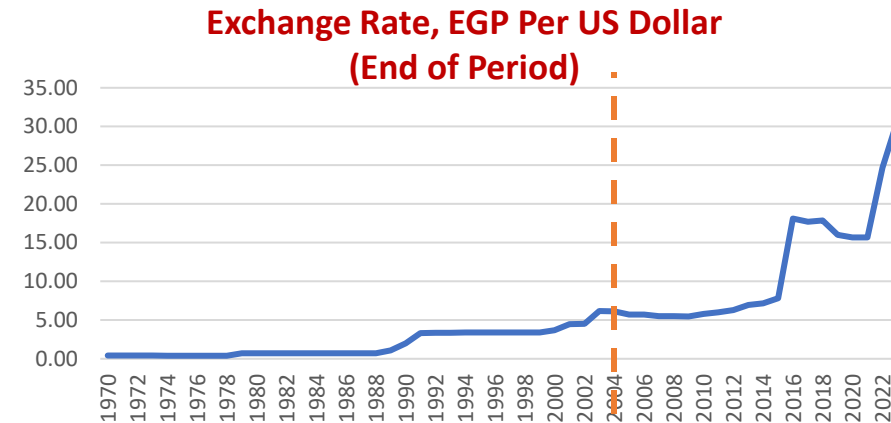
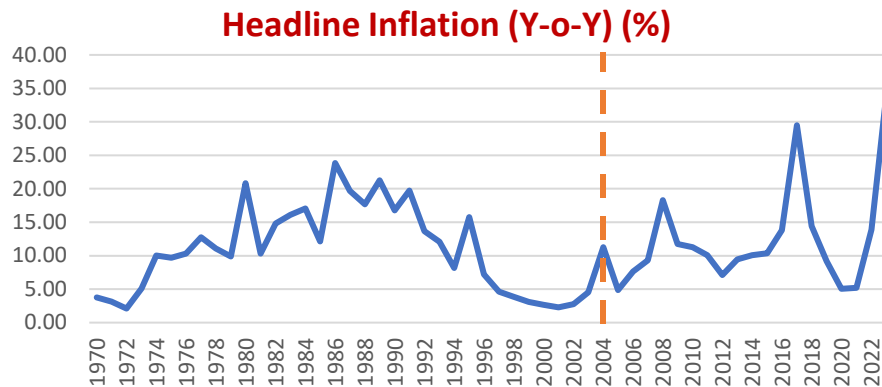
- In 2020, the CBE and GoE tapped the international market for financial assistant and issued Eurobonds.
- CBE intervened directly in the FX market in 2020.
- In 2021 - 2023, ER was devalued four times and the policy rate increased but those measures were delayed and not successful.
- Thus, the black market revived again.

Capital Flows

- Issuing measures of Capital Controls.

Conclusion and Policy Implications

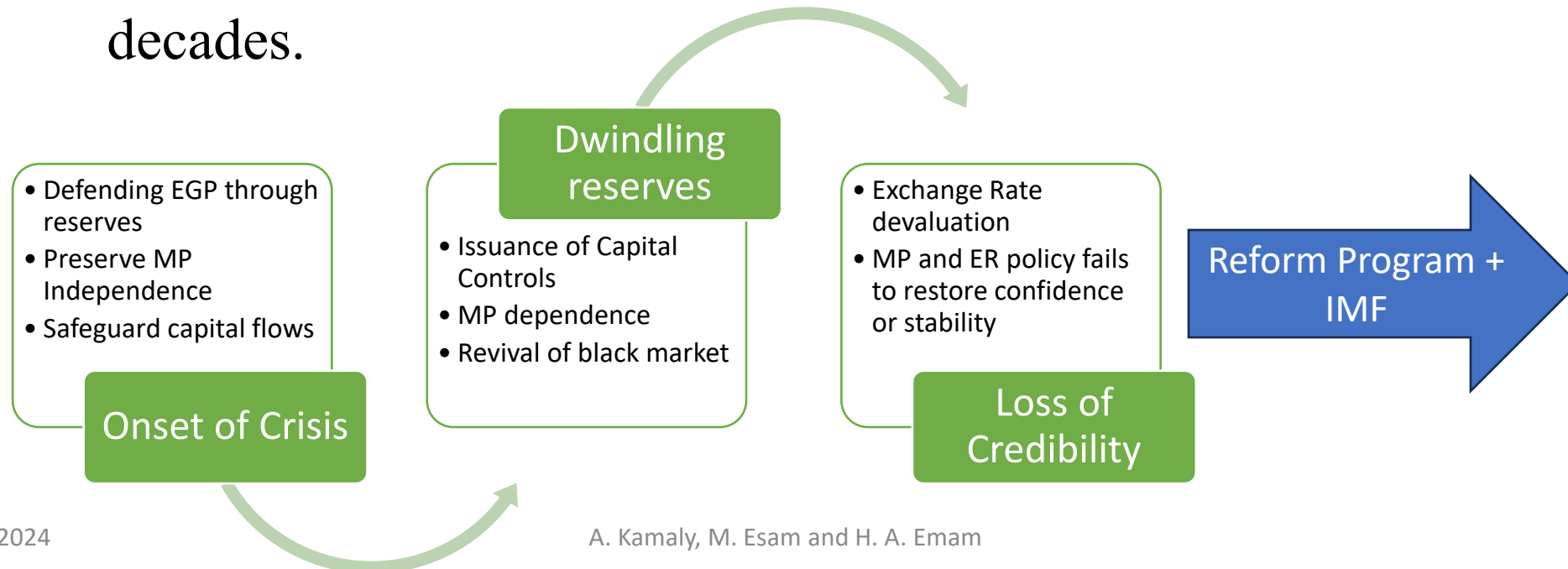
Since 2004, interlinkages between exchange rate, international reserves, and the conduct of monetary policy have strengthened.



Conclusion and Policy Implications

Exchange rate acted as a transmitter and amplifier of financial shocks.

Despite various reforms, economic policy in Egypt has been drafted with the same modalities across five decades.



Conclusion and Policy Implications

- Reorientation of the monetary and exchange rate policies towards more aligned priorities while considering the Mundell trilemma.
- The CBE needs to further adhere to the price stability objective and inflation targeting prerequisites in terms of transparency and credibility to better anchor inflation expectations and reduce the second-round effect of exchange rate volatility.

Conclusion and Policy Implications

- Any degree of **fiscal dominance** has to be avoided
- Promoting a **Crisis Early Warning System** to facilitate the adoption of more **proactive monetary and exchange rate policies**.

Thank You