

World Economic Situation and Prospects

Weekly Highlights

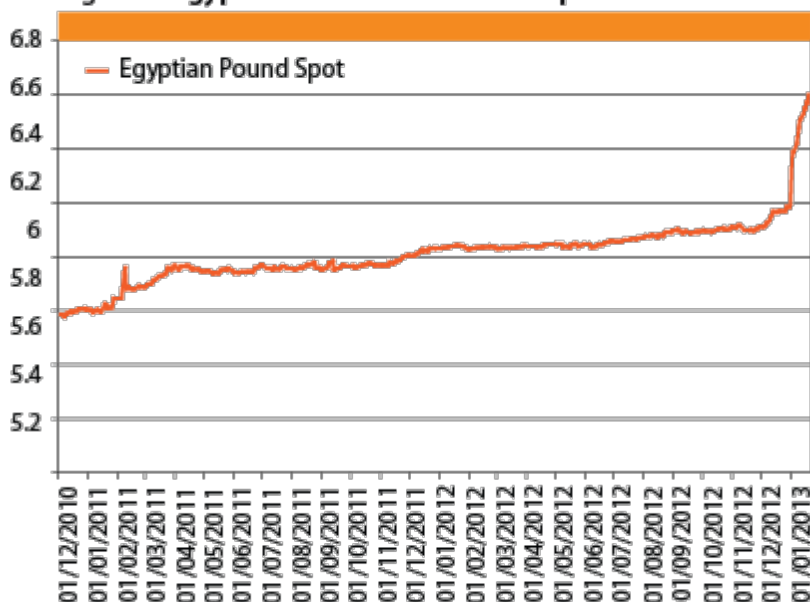
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Looming currency crisis in Egypt

In the wake of a complex transition period following the Arab Spring, Egypt is facing macroeconomic challenges on both the domestic and international fronts. In the past few weeks, the Egyptian pound has fallen from 6.16 per US dollar to a multi-year low of 6.63 (see figure 1).

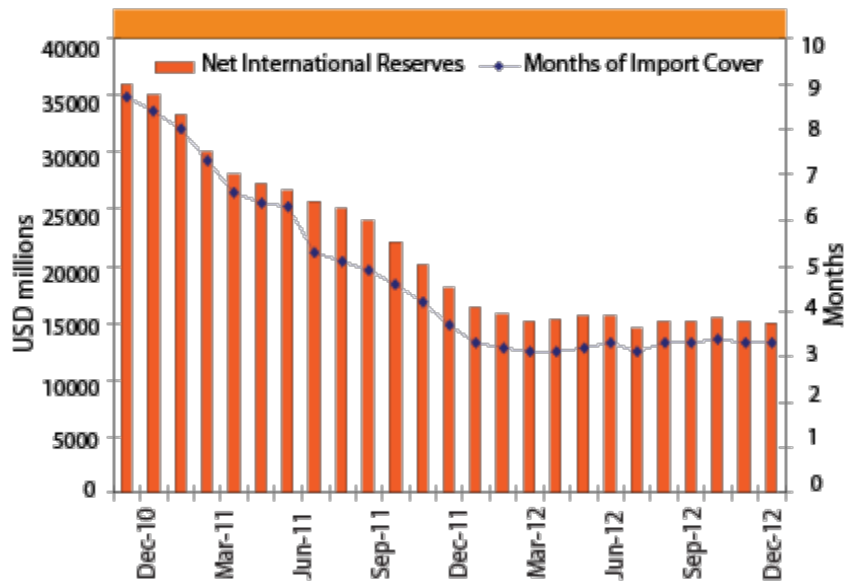
Figure 1: Egyptian Pound to US Dollar Spot Rate



Source: JP Morgan.

While headline inflation has remained relatively modest for the moment, imported food price inflation could rise markedly and have significant impacts on the poor. Foreign reserves have dropped significantly since the start of the Arab Spring in 2011 partly owing to capital flight — and have not recovered, as the central bank spent a large portion defending the currency over the course of 2012. Reserves have fallen from \$36 billion in December 2010 to \$15 billion, about the crucial level of 3 months of import cover (see figure 2). Reserves would be even lower without a series of loans and grants from neighbouring countries, such as \$2.5 billion from Qatar and \$500 million from Turkey. Political unrest has also delayed a loan from the IMF for \$4.8 billion, which could provide an important buffer. The delay is partly owing to a rollback of plans to cut subsidies in order to bring the deficit, which is projected at 11 per cent of GDP in the current fiscal year, back under control.

Figure 2: Changes in Foreign Reserves and Import Cover



Source: Central Bank of Egypt.