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The Story Behind Egypt's First Monthly Decline in Broad Money



Why the Interest in the decline of Broad Money?

Money supply (M2), or broad money, is one of the most widely used indicators for assessing liquidity conditions in an economy. It measures the amount of money available to households and businesses for spending, investment, and saving by combining currency circulating outside the banking system with bank deposits. In Egypt, broad money comprises currency in circulation outside banks, local currency deposits, and foreign currency deposits after they are converted into Egyptian pounds.

As a comprehensive measure of liquidity, **broad money is typically assessed alongside other key macroeconomic indicators—particularly inflation, credit growth, and interest rates—to evaluate overall monetary conditions and the health of the economy.** Changes in liquidity influence the availability of credit, financing conditions, aggregate demand, and ultimately inflation, making broad money an important indicator for understanding the transmission of monetary policy.

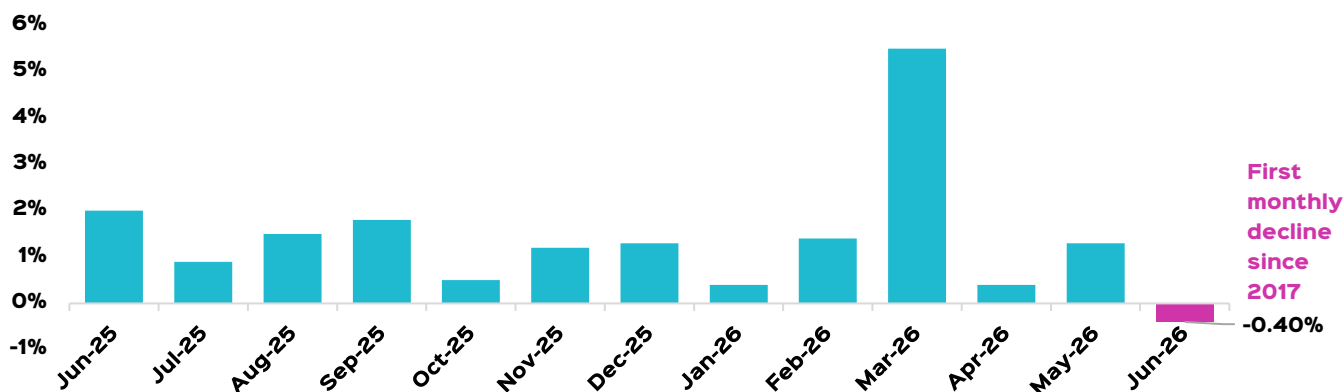
Under normal economic conditions, broad money tends to increase over time as economic activity expands, deposits accumulate, and credit grows. This trend is typically even stronger in relatively high-inflation economies such as Egypt, making a monthly contraction in broad money an unusual development. Accordingly, the Central Bank of Egypt's in June 2026 that broad money had recorded its first monthly decline in nearly nine years immediately drew attention and raised questions about whether the decline reflected a genuine tightening in domestic liquidity conditions or was driven by other factors.

Against this backdrop, this Economic Lens examines the factors behind the June 2026 decline in Egypt's broad money (M2) and discusses what these developments imply for interpreting liquidity conditions and assessing monetary policy.

What is happening?

The Central Bank of Egypt's monetary statistics showed that **broad money (M2) declined by 0.4% in June 2026**, marking the first monthly contraction in nearly nine years. Because M2 has recorded uninterrupted monthly growth since 2017, the decline immediately attracted attention and was widely interpreted as evidence that liquidity conditions in the economy had begun to tighten.

Figure 1: Monthly Change in Broad Money (M2), %



Source: Prepared by ECES based on Central Bank of Egypt data.

At first glance, the decline appears to be caused by the Central Bank's restrictive monetary policy. Following a prolonged period of elevated inflation, the Central Bank maintains tight monetary conditions to absorb excess liquidity and reduce inflationary pressures. Against this backdrop, many analysts interpret the decline in M2 as an indication that monetary tightening is beginning to take effect and could eventually support lower inflation and pave the way for future interest-rate cuts.

However, a closer examination of the underlying data suggests that the headline figure reflects more than one development. While broad money declined overall, **local currency deposits continued to increase, foreign currency deposits also rose in U.S. dollar terms, while currency circulating outside the banking system declined**. At the same time, the appreciation of the Egyptian pound reduced the Egyptian-pound value of foreign currency deposits included in M2, lowering the reported aggregate even though the underlying stock of foreign currency deposits continued to grow.

The June decline should therefore be viewed as the result of two simultaneous forces rather than a single development.

The first reflects **genuine monetary tightening**, as indicated by the decline in currency circulating outside the banking system. Lower cash holdings outside banks are consistent with tighter domestic liquidity conditions and suggest that part of the decline was associated with the Central Bank's restrictive monetary stance.

The second reflects a **valuation effect** arising from exchange-rate movements. Because foreign currency deposits are converted into Egyptian pounds when calculating M2, the appreciation of the

pound automatically reduced their reported value, even though the actual amount of foreign currency deposited in banks continued to increase.

The decomposition of M2 confirms the relative importance of each factor.

Table 1: Decomposition of the June 2026 Change in Broad Money (M2)

Component	EGP bn	Contribution to m/m growth (pp)
Local currency deposits (+1.8%, 10,168 → 10,347)	+179	+1.17
FX deposits – volume (USD 65.45bn → 66.24bn)	+41	+0.27
FX deposits – revaluation (EGP 52.33 → 49.28/USD)	-202	-1.32
Currency outside banks (1,737 → 1,649)	-88	-0.57
Total	-70	-0.46
Reported change in M2 (15,330 → 15,260)	-70	-0.46

Source: Prepared by ECES based on Central Bank of Egypt data.

Local currency deposits increased by approximately **EGP 179 billion**, contributing positively to money growth, while foreign currency deposits expanded by around **USD 0.8 billion**, adding further support to liquidity. These developments would normally have resulted in another monthly increase in M2.

However, the appreciation of the Egyptian pound reduced the Egyptian-pound value of foreign currency deposits by around **EGP 202 billion**, subtracting the single largest contribution from monthly growth. At the same time, currency circulating outside the banking system declined by approximately **EGP 88 billion**, reflecting an actual tightening in one component of liquidity.

Taken together, these developments show that the June contraction reflects both valuation effects and underlying liquidity developments, with the exchange-rate revaluation accounting for the larger share of the decline.

The June episode is not unprecedented in terms of the impact of exchange-rate movements on Egypt's monetary aggregates.

Similar valuation effects occurred following the major exchange-rate adjustments in 2016, 2022, and 2024, when changes in the exchange rate mechanically altered the Egyptian-pound value of foreign currency deposits included in M2. However, those episodes attracted relatively limited attention because the valuation effect worked in the opposite direction, **boosting measured money growth rather than reducing it**.

The June 2026 episode is different because the appreciation of the pound caused the valuation effect to push M2 lower, making the accounting impact visible in the headline money supply data. The continuation of the decline could have serious implications for consumption, investment, and overall economic activity.

What do these numbers mean?

Most importantly, the decline in broad money should not be dismissed as **purely an accounting phenomenon**. The fall in currency circulating outside the banking system indicates that domestic liquidity also became tighter during the month, although exchange-rate revaluation explains most of the reduction in M2. The June outcome therefore reflects a combination of valuation effects and genuine monetary developments rather than either factor alone.

More broadly, the June episode highlights a new structural feature of Egypt's monetary aggregates. Foreign currency deposits now constitute a larger and more significant share of broad money (M2). As a result, the drop in M2 implies that exchange-rate changes can materially influence measured liquidity even when the underlying stock of deposits continues to grow. As a result, movements in M2 may at times reflect valuation effects as much as changes in domestic monetary conditions. This makes it essential to distinguish between accounting-driven fluctuations and genuine shifts in liquidity when assessing monetary conditions and the effectiveness of monetary policy.

What Are the Policy Implications?

From a policy perspective, this distinction is particularly important. A moderation in liquidity growth can help contain inflationary pressures by slowing domestic demand and credit expansion. **However, if policymakers interpreted the June decline solely as evidence that liquidity had tightened sufficiently, they could underestimate the extent to which the decline simply reflected exchange-rate valuation.** Conversely, ignoring the reduction in currency outside banks would overlook evidence that restrictive monetary policy is affecting domestic liquidity conditions.

For this reason, the Central Bank of Egypt does not rely on broad money alone when assessing monetary conditions. Instead, **it follows an inflation-targeting framework that considers a broad range of indicators**—including inflation dynamics, exchange-rate developments, domestic demand, credit conditions, and external risks—before adjusting interest rates.

Going forward, the decline in M2 warrants close monitoring. Since Foreign currency deposits account for a larger share of broad money, measured liquidity has become increasingly sensitive to exchange-rate movements. Because Foreign currency deposits are largely outside the direct control of domestic monetary policy, fluctuations in the exchange-rate can exert a disproportionate impact on M2. Ensuring that this growing sensitivity is carefully monitored is therefore essential to prevent exchange-rate-driven valuation effects from obscuring underlying liquidity conditions and complicating the assessment of monetary policy.

The continuation of the decline in liquidity could have harmful effects on the economy.