

Minister of Finance & Market Participants Ring the Bell Launching 4 Sub-Indices for Government's Bonds

Minister of Finance, Dr. Mohamed Maait and his deputy, Mr. Ahmed Kouchok, representatives of the Central Bank of Egypt, in presence of Dr. Mohamed Farid, Executive Chairman of the Egyptian Exchange (EGX), Mr. Ahmed El-Sheikh, Vice Chairman of EGX, and a number of EGX leaders, celebrated the official inauguration of four Sub-indicators tracking the performance of Egyptian treasury bonds on EGX.

This came after EGX's Indicators Committee approval of the methodology of the sub-indices complementing its efforts in developing indicators. This is to enhance the diversity of investment products to meet the needs of all investors and is in line with the best international practices.

The indicators include the most traded bonds, while the market value of the security determines the weight of each issue within the index. The index takes into account both the return resulting from the change in bond prices, and the return resulting from the coupons due, which reflects the total return for the performance of the government bonds that make up the index.

This step is integrated with the comprehensive vision of EGX to develop and raise the efficiency of the bond market, to enhance liquidity, activate trading and help create an active secondary market that allows the government represented by the Ministry of Finance to access financing at a competitive cost.

Dr. Mohamed Maait, Minister of Finance, said that the ambitious program implemented by EGX to develop the treasury bonds market is integrated with the Ministry of Finance efforts to prolong the term of debt instruments, expected to reach 3,7 years by the end of the current fiscal year instead of 1.3 years. It is expected that the new indices will contribute to raising the efficiency of the Treasury Bond pricing process and enhancing its circulation.

He continued that the government is eager to complete and activate the program to expand the base of ownership of state-owned companies through the stock market, revealing that there will be other actions taken in this area before the end of the current fiscal year.

Dr. Mohamed Farid, Executive Chairman of EGX, said that the development of new indicators, whether the general index or sub-indices, aims to raise the efficiency of the process of tracking and measuring the overall performance of government bonds, and thus enhance the vision and attractiveness of the market in a way that boosts liquidity and diversification.

He continued, "The development of indices is in line with the proposals of market participants, stressing the importance of a reference indicator for treasury bonds, which would contribute to the promotion of their documents. Bond indicators enable the development of new financial products in the event of their desire, as it is a valid tool for financial institutions to target investment traded funds.

The story of developing the Treasury Bond Index

1. What is the treasury bond trading system?

EGX board have issued a decree no. 123 on 7 February 2019, for developing a comprehensive trading system for the Treasury Bonds listed on EGX. The system was developed by EGX's technical team. EGX launched the Treasury Bonds trading system in December 2020.

The new developed trading system includes four mechanisms. First, **Request for Quotation-RFQ**, such mechanism allows primary dealers to request for quotation by submitting ask order and/or bid order with specified volume through the system. Second, **Quotation Screen**, which is a pricing mechanism that allows any primary dealer to submit, ask order and/or bid order. Third, **Trade Reporting** that provide a reporting venue of bilateral trades between the Primary dealers. Finally, **Continuous Trading** mechanism which allows for a full anonymous order book "not currently applied".

2- When was the implementation of the new system?

EGX launched the new treasury bonds trading system for the first time in its history in December 2020, and implemented it in 2021.

3- What is the main index that tracks the performance of the Treasury Bonds?

EGX officially launched the Treasury Bond Index on 3rd of August 2021 followed by the launching of 4 sub-indices on 22nd of February 2022. Bond indices will provide investors with a reliable tool to measure and track the performance of the Egyptian Bond Markets.

4- What is the criteria and the rebalance dates of EGX Treasury bond indices?

Bonds Type: Only Treasury Bonds are eligible for inclusion in the index.

Currency: Treasury bonds that are issued in domestic currency are eligible for inclusion in the index.

Coupon Type: The Fixed rate coupon bonds are eligible for inclusion in the market.

Maturity: The maturity date must be greater than one month from the rebalancing date.

Issue Size: To be included in the index, the notional outstanding of each bond must have a minimum amount of EGP 2.5 bn.

Pricing: Bonds not priced by the primary dealers are ineligible for index inclusion. The pricing method depends on the prices of executed transactions.

EGX will periodically review the constituents for inclusion or removal from the index to ensure representativeness.

5- What are the advantages of EGX Treasury bond indices?

Global standardization: The calculation process for EGX Treasury Bond Index is consistent with international market best practices.

Market coverage: EGX continually monitors new issuance to screen eligible securities for potential inclusion in the Index.

Data integrity: Independent and transparent pricing is a key difference of EGX's index family. EGX provides credible, transparent prices through its Government Fixed Income trading system "GFIT".

Regulatory Compliance: The index is in line with the requirements of the market participants, especially mutual fund managers who have the desire to have a benchmark index to measure the performance of the funds that rely on bonds fall into the same market.

Replicability: EGX Treasury Bond Index is a practical index capable of replication in a real-world portfolio.

Transparency: All criteria for index construction are publicly available, including the eligibility criteria, the rebalancing frequency and all data required for the computation of index returns and statistics.

6- What are the sub-indices tracking the bonds market performance?

The Bond indices consist of a composite index and 4 sub-indices based on the maturities of the bonds.

- EGX Treasury Bond index
- EGX Treasury Bond 1-3 year index
- EGX Treasury Bond 3-5 year index
- EGX Treasury Bond 5-7 year index
- EGX Treasury Bond 7+ year index

7- How does the government benefit from developing the bond market? What are the goals of the new system?

- Enhance the market liquidity and activate trading on treasury bonds.
- Support Ministry of Finance & Central Bank of Egypt's efforts by offering guidelines for the interest rate.
- Constructing a more reliable yield curve.
- Enhance level of disclosure and transparency between market participants.
- Ensuring efficiency of the disclosed information to market participants.
- Allowing for developing new investment products.
- Increasing awareness among market participants.

8- What is the market value of the treasury bonds at the end of year 2021?

The market value of the Treasury Bonds have increased to reach EGP 2.4 trillion at the end of 2021 comparable to EGP 1.6 trillion at the end of year 2020.

9- What about the traded value of the bonds 2021 end?

The traded value of the treasury bonds have increased to be EGP 544 billion at the end of 2021 comparable to EGP 378 bn at the end of 2020, and EGP 183 bn at 2019.