

Behind Egypt's Financial Crisis: Dollarization

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Abstract : This paper breaks down Egypt's financial crisis by constructing a customized financial stress index by including the vulnerable economic indicator "dollarization" as a vulnerable indicator in the credit and exchange sector. The Financial Stress Index for Egypt (FSIE) includes informative vulnerable indicators of the main financial sectors: the banking sector, the equities market, and the foreign exchange market. It is calculated on a monthly basis from 2010 to December 2022, so to report the two recent world's most devastating financial crises: Covid 19 crisis and Ukraine-Russia War, in addition to the local 2016 and 2022 financial crises. We proceed first by a graphical analysis then by empirical analysis in running under Vector Autoregression (VAR) Model, dynamic causality tests between foreign reserves, dollarization rate, and FSIE. The graphical analysis shows that unexpectedly, Egypt's economy seems to be immune to internal economic/political instabilities, however it is highly exposed to the foreign and exchange market. Empirical analysis confirms the graphical observations and proves that dollarization, or more precisely debt in foreign currency seems to be the main trigger of Egypt's current financial crisis.

Keywords : egypt, financial crisis, financial stress index, dollarization, VAR model, causality tests

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