

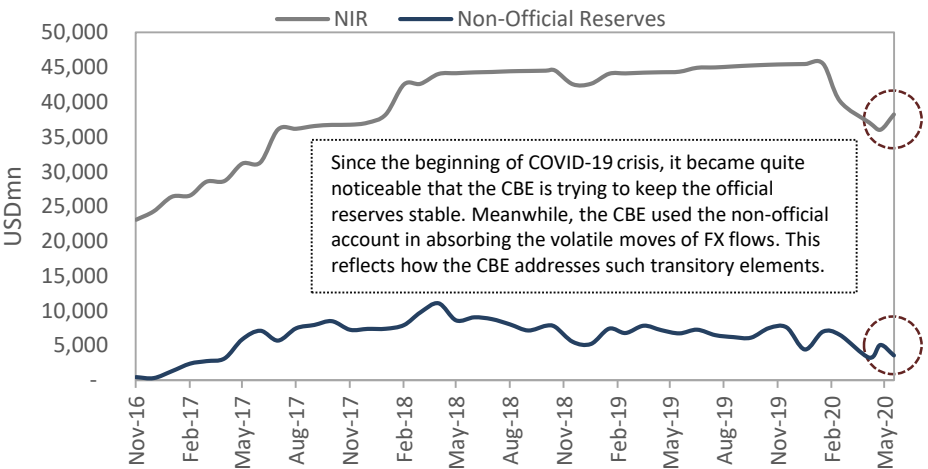
Propped up by FX inflows, CBE amasses more reserves, turns NFA to net asset position

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NIR gains a boost for first time in three months while non-official reserves face a surprising downturn: Egypt’s net international reserves (NIR) grew by USD2.2bn by end of June 2020, recovering some of the USD9.5bn lost in the space of three months (March-May) on the back of massive capital outflows induced by COVID-19 and the CBE’s tendency to use its buffer to ease the pressure on the EGP. The unexpected USD1.5bn fall in non-official reserves should mean that **the country’s foreign (official and non-official) reserves increased by c.USD693mn by end of June 2020 to currently stand at USD41.8bn, covering c.8 months of merchandise imports. The country received USD2bn out of USD5.2bn from the IMF’s 1-year SBA in June and is expected to receive the rest over two reviews, at USD1.6bn each.**

CBE closes the foreign liability gap at commercial banks backed by surging FX liquidity. We had anticipated that the USD5bn Eurobonds issuance in May 2020 might be reflected in June reading of reserves, but it wasn’t. In fact, the commercial banks’ NFA data in May showed that the CBE opted to channel the proceeds of the Eurobond issuance to the banking sector. According to the CBE’s data, commercial banks’ foreign assets jumped in May by USD6.3bn to USD19.3bn, the highest level since the pandemic shock. Commercial banks suffered the most from financing the capital outflows triggered by the virus, losing USD10bn of their foreign assets. Banks’ NFA turned to net liability position of USD5bn by end of April compared to a net asset position of USD7.9bn by end of February 2020. By end of May, the CBE managed to close this gap, leaving banks’ NFA at a net asset position of USD560mn.

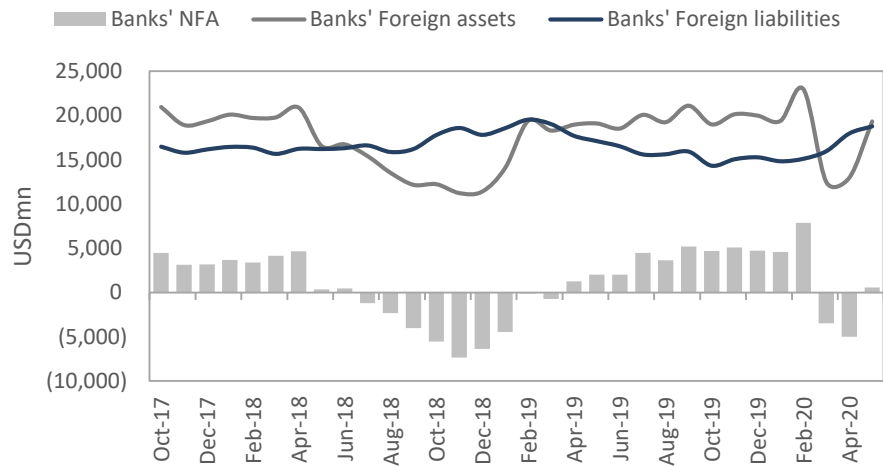
Chart 1: Non-official reserves – A tool to stabilize the official account



Source: CBE.

EGP suffers the least pressure since March 2020, thanks to rebounding capital inflows to EMs and economic resilience. The foreign inflows into the local debt market recovered some of its lost ground as the country received USD440mn this week, signaling that the worst has passed for EGP. **The rebound in carry trade inflows and the USD10bn foreign inflows recently received by the country should alleviate the pressures on FX rates on the short run, at the time where main FX revenues are still facing a bumpy road to recovery.** The CBE, meanwhile, will keep its external buffers at solid levels to maintain the confidence in the domestic economy and to neutralize concerns over the impact of the external shocks on EGP and external balance.

Chart 2: Banks' NFA at a net asset position for first time since February 2020



Source: CBE.

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