

## Recovery of FX revenues is a long-term goal, but the economy is still well armed

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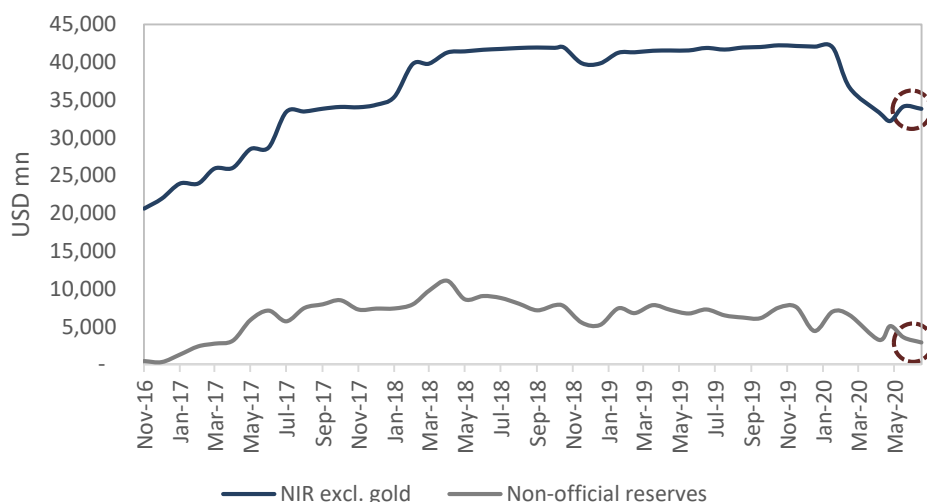
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**Outweighed by fragile non-official reserves, slightly stronger official net international reserves (NIR) could not lift the overall figure.** Egypt's NIR edged up by a meagre USD113mn by end of July 2020, while non-official reserves fell for the second consecutive month, losing USD657mn. This means the country's overall reserves declined USD543mn by end of July 2020, signaling unrelenting pressures on NIR although foreigners' appetite for the local debt market reworked up. **Nonetheless, at USD41.2bn, the current foreign reserves (official and non-official) stand at a solid level, covering 7.8 months of merchandise imports.**

**Gold bolstered headline figures, but foreign currencies balance fell again in July following the liquidity support from the IMF in June.** Driven by a historic rally of gold prices, gold reserves grew by USD429mn, but foreign currencies balance fell USD322mn in July following the receipt of more than USD1.7bn in June under the IMF's 1-year SBA. **These pressures on the foreign currencies were expected, given that nearly 50% of the country's FX revenues are still battered by the economic fallout of the pandemic outbreak.** The resumption of international flights in July, in addition to the relaxation of other health precautionary measures - except for social distancing - should give the tourism sector another boost, yet the risk of the second wave is still material.

**NFA at banks is in net liability position again in June, despite a rebound in capital inflows.** According to the latest data released by the Central Bank of Egypt (CBE), commercial banks' foreign assets decreased by USD2.7bn in June following the USD6.3bn injected into the banking sector in May by the CBE from the proceeds of the USD5bn Eurobond issuance.

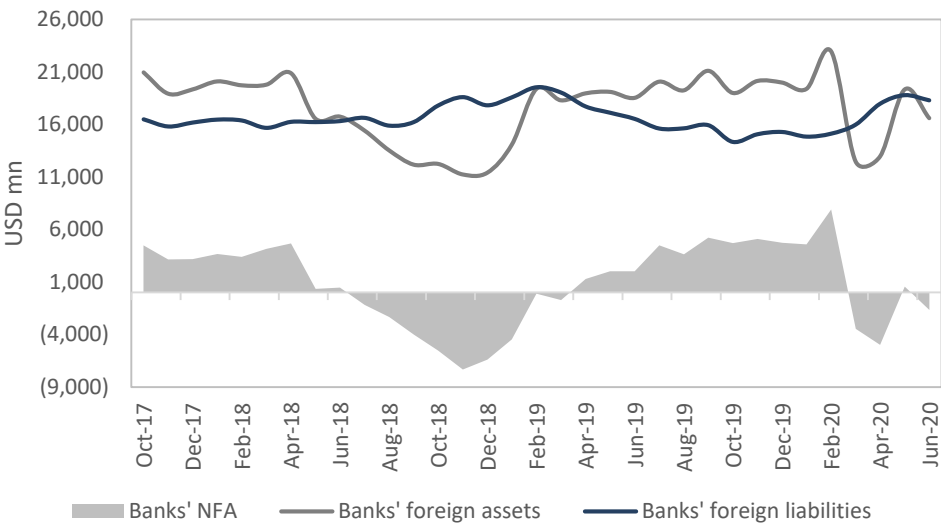
**Chart 1: NIR edged up slightly in July but slid if we exclude gold**



Source: CBE.

The banks’ foreign liability also declined in June, but not enough to weather the fall in NFA, which retreated to a net liability position of USD1.8bn by end of June. Yet, foreign inflows to the local debt market started to rebound since mid-June, and it has been reported that the country received USD400mn in June and USD3bn in the first two weeks of July. Thus, we expect the banks’ NFA to gain support in July.

Chart 2: Long and bumpy ride for commercial banks’ NFA



Source: CBE.

**Helped by capital inflows, the EGP outlook is stable, but underlying pressures are tangible.** Foreign inflows into local debt should ease the pressures on EGP, yet the loss in tourism revenues and remittances is hard to shrug off. **Thus, we still expect the EGP to depreciate between 2-3% in 2020 from its current level. Meanwhile, we expect the CBE to keep its policy rates steady and solid external buffers to maintain the confidence in the domestic economy.**

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