



On the Path to Further Recovery

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Headline NIR registered its highest monthly increase in 2020 in

December at times of continued recovery of capital inflows: Egypt's NIR grew by 2% m/m to USD40bn by the end of December 2020. The non-official reserves also increased by USD1.18bn, the fastest monthly rate since September 2020. Thus, the overall reserves (NIR + non-official reserves) accelerated by USD2bn, to ends the year at USD45.89bn, covering 8.7 months of merchandise imports. The stock of both foreign currencies and gold in official reserves grew in December by 1% and 8% m/m, respectively.

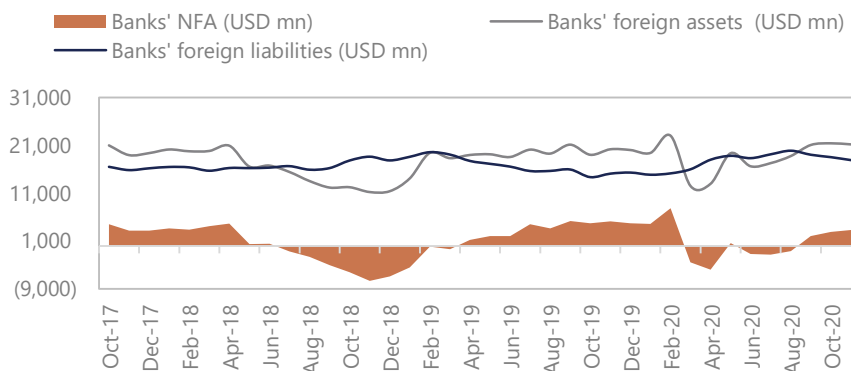
External buffers gain support from capital inflows and receding

imports demand: Egypt's FX liquidity is still restoring its lost ground, thanks to robust foreign appetite in the local debt market. Capital inflows into local debt have climbed to USD24bn in November, and we expect it to exceed USD25bn by end of December. Moreover, the country received the second tranche of the USD5.2bn standby arrangement (SBA) from the IMF, with USD1.6bn paid out by the end of December. Meanwhile, the country's trade deficit remains on a downward path, according to the most recently available data by CAPMAS. However, Egypt's external position and its foreign liquidity should remain under the pressures of: **(1)** the expected fall in remittances that we expect to be more material in 2021, **(2)** the long journey for the tourism sector to recover given renewed global lockdown and travel ban measures, and **(3)** the heavy debt repayment schedule in 2021 onwards.

Net foreign assets at commercial banks are still on the path of robust

recovery: Net foreign assets (NFAs) at commercial banks increased by USD396mn by the end of November 2020 to stand at USD3.3bn compared to USD4.7bn by the end of 2019. This came mainly as a result of the fall in foreign liability that reached USD17.9bn (down from USD18.5bn in October). Foreign assets remained almost flat compared to October at USD21.2bn. We still expect foreign assets to accelerate further to their pre-pandemic level of USD23bn by end of 2020 or early 2021, thanks to strong foreign capital inflows in the local debt market.

Chart 1: Despite the surge in assets, NFAs are still significantly below pre-COVID-19 level due to elevated liabilities



Source: CBE.



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