



External Buffers Are Still Restoring Grounds

Mona Bedeir

Senior Economist

T +202 3300 5722

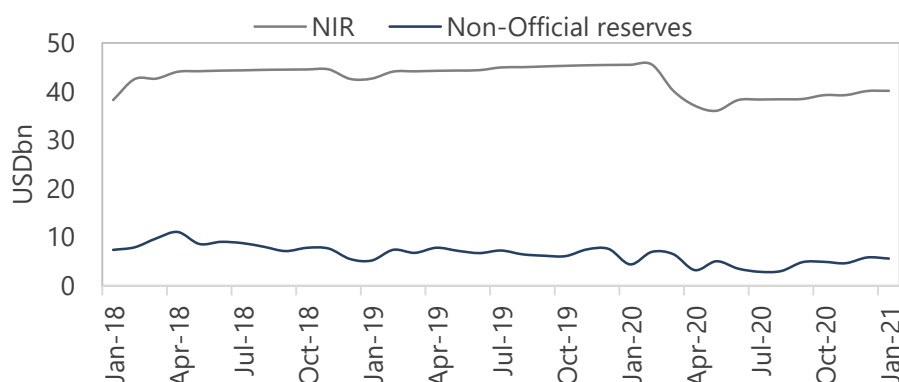
mbedeir@egy.primegroup.org

Headline net international reserves (NIR) kept curving up, but overall reading edged down. Egypt's NIR grew USD38mn to USD40.1bn by the end of January 2021. However, non-official reserves fell USD232mn, after a USD1.2bn increase in December. Thus, overall reserves (NIR + non-official reserves) technically declined by USD194mn to USD45.7bn, covering 8.7 months of merchandise imports. The stock of foreign currencies remained flat, while that of gold in official reserves dropped by 2% m/m.

Foreign assets at commercial banks neared pre-pandemic levels. The latest data indicate that foreign assets at commercial banks increased by USD626mn m/m to USD21.8bn by the end of December 2020. This compares to USD23bn by the end of February 2020, right before the pandemic-induced sell-off wave that hit the country. Net foreign assets (NFAs) also restored some of their lost ground since mid of 2020, reaching USD3.7bn by the end of December 2020. Yet, NFAs are still well below the pre-pandemic level of USD7.9bn due to elevated foreign liability which ended 2020 at USD18bn, up from USD15bn by the end of February 2020. Meanwhile, banks' external debt rose by 28% y/y in Q1 FY21. Egypt's commercial banks were granted several loans and funding packages from international institutions, including EBRD and EIB, to face up to COVID-19 consequences.

External buffers shield against persisting external headwinds given the plunge in tourism revenues and widening CAD. Robust external buffers, compared to 2015 when the country faced foreign liquidity shortages, helped Egypt overcome the worst of the virus risk-off mode. However, the crisis was not over yet and recent balance of payments (BoP) figures are still pointing to growing external woes. Thus, we still expect the country to tap the international bond market this year and the CBE to cap its (cumulative) rate cut(s) at 150 bps. The country is also expecting to receive USD1.6bn, the final tranche of the USD5.2bn IMF's SBA credit facility.

Chart 1: Overall reserve reading drops as the fall in non-official reserves outweighed the uptick in official account.



Source: CBE.



Prime Securities

Shawkat El Maraghy

Managing Director

T +202 3300 5622

SElmaraghy@egy.primegroup.org

Sales

Mohamed Ezzat

Head of Sales & Branches

T +202 3300 5784

MEzzat@egy.primegroup.org

Mohamed Ashmawy

Head of Institutional Sales

T +202 3300 5612

MAshmawy@egy.primegroup.org

Amr Alaa CFE

Team Head –Institutional Desk

T +202 3300 5609

AAlaa@egy.primegroup.org

Mohamed El Metwaly

Manager

T +202 3300 5610

MElmetwaly@egy.primegroup.org

Emad El Safoury

Manager

T +202 3300 5624

EElsafoury@egy.primegroup.org

Shawkat Raslan

Heliopolis Branch Manager

T +202 3300 5110

SRaslan@egy.primegroup.org

Mohamed El Henawy

Nasr City Branch Manager

T +202 3300 5166

MElhenawy@egy.primegroup.org

Nashwa Abuelatta

Alexandria Branch Manager

T +202 3300 5173

NAbuelatta@egy.primegroup.org

Research

Amr Hussein Elalfy CFA

Head of Research

T +202 3300 5724

AElalfy@egy.primegroup.org

Head Office

Prime Securities S.A.E.

Regulated by FRA License No. 179.
Member of the Egyptian Exchange.

2 Wadi Elnil St., Liberty Tower, 7th Fl.
Mohandessin, Giza, Egypt

T +202 3300 5700 / 770 / 650 / 649

F +202 3760 7543

Branches

Heliopolis

7 Elhegag Square
Heliopolis, Cairo, Egypt

T +202 2777 0600

F +202 2777 0604

Nasr City

9 Elbatrawy St.
Nasr City, Cairo, Egypt

T +202 3300 8160

F +202 3305 4622

Alexandria

7 Albert Al Awal St.
Smouha, Alexandria, Egypt

T +202 3300 8170

F +202 3305 4622

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