PRIME

FX Assets Well Placed to Mitigate Potential Risks

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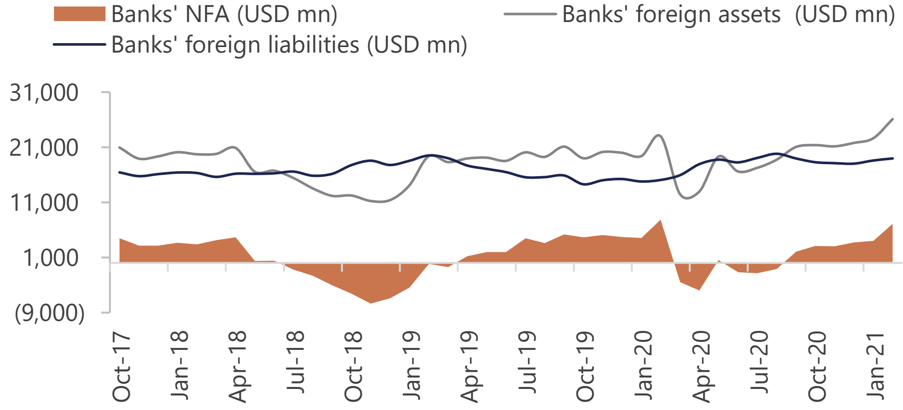
Headline NIR inched up, while non-official reserves declined slightly: Egypt's NIR grew slightly by USD136mn to USD40.3bn by the end of March 2021. Meanwhile, non-official reserves fell marginally by USD95mn to stand at USD8.6bn. The overall level of reserves is closer to restore its lost ground as it is only 6.7% off its pre-COVID-19 level of USD52bn, reaching almost USD49bn and covering nine months of merchandise imports. The process of rebuilding the FX buffers was due to the country's ability to secure access to the overseas funding at favorable terms, including the recent issuance of USD3.75bn Eurobond in February. This came despite the persistence of pandemic-related headwinds, which increases the vulnerability of the country's external position given the large trade deficit, pressures on expat remittance flows, and downbeat predictions for tourism revenues and FDI inflows.

Foreign assets at commercial banks surpass their pre-COVID-19 levels: The most-recently available data indicate that foreign assets at commercial banks have restored all their pandemic-driven losses and further exceeded their pre-COVID-19 level to stand at USD26.1bn by end of February 2021 vs. USD23bn a year before. The fast pace of acceleration in FX assets at commercial banks drove the overall net foreign assets (NFAs) to surge to USD7.1bn by end of February, slightly lower than their pre-pandemic level of USD7.9bn. Foreign assets accumulation at commercial banks was driven by large-scale capital inflows into the local debt market, which drove foreign holdings of local debt to stand at USD28.5bn, the highest level on record.

Buffers are well placed to mitigate the risk of tightening global financial conditions and a surge in global commodity prices: The recent surge in U.S. yields, if sustained, would likely affect global capital inflows to emerging markets (EMs). Yet, we note that the dynamics will vary for each country. Despite Egypt's vulnerability to such shock, the current stock of external buffers should grant the country enough space to maneuver. Furthermore, the CBE will likely keep its benchmark rate on hold if disruption to capital inflows persists.

Chart 1: FX assets restored their lost ground



Source: CBE., Prime Research.

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