

Stability Prevailed

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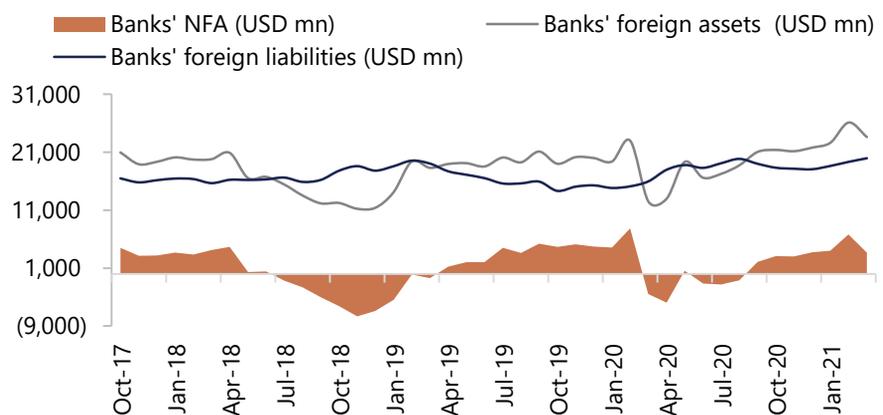
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Both official and non-official accounts of reserves remained stable in April: April's NIR was USD40.3bn, virtually on a par with March 2021. Meanwhile, the non-official reserves grew slightly by USD109mn to stand at USD8.73bn. The overall level of reserves is getting closer to its pre-COVID-19 level standing at USD49.1bn and covering nine months of merchandise imports. This came at a time where external pressures are still gaining momentum due to the persistence of pandemic-related headwinds. The country's external position is still vulnerable given the downbeat predictions for tourism revenues and FDI inflows.

Foreign assets at commercial banks fell in March but were still above the pre-COVID-19 level: According to the recently available data, foreign assets at commercial banks dropped by the end of March by USD2.5bn to stand at USD23.6bn compared to USD26.1bn by the end of February 2021. Yet, the level of foreign assets at commercial banks is still slightly above its pre-COVID-19 level, thanks to a capital inflow in the local debt market, which is standing at USD28.5bn by the end of February, the highest level on record.

Keeping the external buffers intact is crucial for the country's external position: Egypt's external position is a source of vulnerability. The current account deficit is likely to grow to 4.2% of GDP in FY21, due mainly to the fall in tourism revenues and the ongoing surge in global commodity prices. Global financial distress and muted demand will continue to affect global investment inflows to the country. Meanwhile, trends in foreign capital inflows could be less favorable to Egypt and emerging economies, given the rise seen in U.S. long-term yields. However, the expected slowing in the CBE easing cycle, the limited currency risk, and the current stock of external buffers should help protect the attractiveness of sovereign debt instruments in the short run.

Chart 1: Despite the decline in March, foreign assets are still above pre-COVID-19 level



Source: CBE.

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