

## Further Enhancement

### Mona Bedeir

Chief Economist

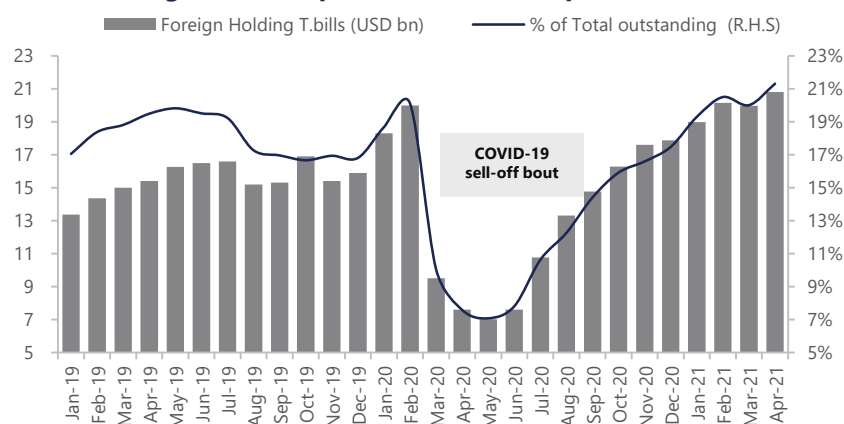
T +202 3300 5722

[mbedeir@egy.primegroup.org](mailto:mbedeir@egy.primegroup.org)

**Overall reserves are getting closer to pre-COVID levels.** May's net international reserves (NIR) were slightly up at USD40.5bn (+0.3% m/m, +12% y/y) on a similar increase in the stock of foreign currency. Non-official reserves also grew slightly to USD8.85bn in May (+1.3% m/m, +75% y/y). Thus, overall reserves continue to crawl back to pre-COVID-19 levels, ending May at USD49.3bn, 7% below the USD53bn just before the pandemic shock hit the economy. The current stock of foreign reserves now covers nine months of merchandise imports, which provides the country a powerful buffer against any external shocks or a shift in global risk appetite. This came at a time where external pressures started to ease further due to a gradual improvement in the tourism sector, lower trade deficit, and stability in capital inflows into the debt market.

**The economy is shielded, but vulnerability still clouds the long-term outlook.** Given its structural weaknesses, the current account deficit is likely to end this fiscal year higher, as the current rebound in the tourism sector remains fragile with the pandemic risk is still active. Recently, the UK moved Egypt to a "Red List" where travelers from Egypt will be required to quarantine for 10 days before entering the UK. On the other hand, the Russian travel ban is expected to be removed anytime next month. That drove us to believe that the sector will recover more strongly by early 2022 as the vaccination coverage expands enough to eliminate all travel obstacles. Meanwhile, FX inflows are still backed by (1) workers' remittances which grew by 10% y/y in 5M 2021 and (2) high real yield-driven inflows to the local debt market. Yet, workers' remittances are projected to cool off due to the GCC labor market policy, and the rise seen in U.S. long-term yields could be less favorable to Egypt and emerging economies. Moreover, the country's substantial debt payments will rise to some USD19bn in 2021, taking total external funding requirement to more than USD35bn (equivalent to 8.5% of GDP). In addition, debt service obligations will remain high in 2022 onwards, reflecting the increase in foreign borrowing since 2017 from the international bond market and repayment obligations to the IMF.

**Chart 1: Foreign ownership in T-bills exceeds pre-COVID levels**



Source: CBE, Prime Research.

## Prime Securities

### Shawkat El Maraghy

Managing Director

T +202 3300 5622

[SElmaraghy@egy.primegroup.org](mailto:SElmaraghy@egy.primegroup.org)

## Sales

### Mohamed Ezzat

Head of Sales & Branches

T +202 3300 5784

[MEzzat@egy.primegroup.org](mailto:MEzzat@egy.primegroup.org)

### Mohamed Ashmawy

Head of Institutional Sales

T +202 3300 5612

[MAshmawy@egy.primegroup.org](mailto:MAshmawy@egy.primegroup.org)

### Amr Alaa CFTe

Team Head –Institutional Desk

T +202 3300 5609

[AAlaa@egy.primegroup.org](mailto:AAlaa@egy.primegroup.org)

### Mohamed El Metwaly

Manager

T +202 3300 5610

[MElmetwaly@egy.primegroup.org](mailto:MElmetwaly@egy.primegroup.org)

### Emad El Safoury

Manager

T +202 3300 5624

[EElsafoury@egy.primegroup.org](mailto:EElsafoury@egy.primegroup.org)

### Shawkat Raslan

Heliopolis Branch Manager

T +202 3300 8130

[SRaslan@egy.primegroup.org](mailto:SRaslan@egy.primegroup.org)

### Nashwa Abuelatta

Alexandria Branch Manager

T +202 3300 5173

[NAbuelatta@egy.primegroup.org](mailto:NAbuelatta@egy.primegroup.org)

## Research

### Amr Hussein Elalfy CFA

Head of Research

T +202 3300 5724

[AElalfy@egy.primegroup.org](mailto: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, 7<sup>th</sup> Fl.  
Mohandessin, Giza, Egypt

T +202 3300 5700 / 770 / 650 / 649

F +202 3760 7543

## Branches

### Heliopolis

7 Elhegazi Square

Heliopolis, Cairo, Egypt

T +202 2777 0600

F +202 2777 0604

### Alexandria

7 Albert Al Awal St.

Smouha, Alexandria, Egypt

T +202 3300 8170

F +202 3305 4622

## Website

[www.primeholdingco.com](http://www.primeholdingco.com)

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