# External Buffers Still Powering Ahead

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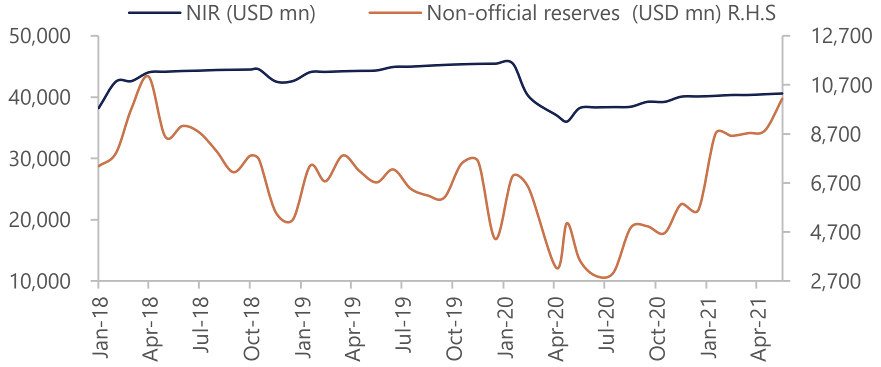
**Bolstered by receiving the IMF's SBA final tranche and capital inflows in T-bills, the overall stock of reserves grew at the fastest pace in three months.** The overall stock of reserves (official + non-official) continued their upward trajectory, recording USD50.7bn by the end of June 2021 (vs. USD41.8bn by the end of June 2020). The net official reserves were slightly up at USD40.6bn by the end of June vs. USD40.5bn by the end of May (+0.3% m/m, +6% y/y). Meanwhile, the growth in non-official reserves quickened in June, driving it to USD10bn—the highest level seen since April 2018. This surge in non-official reserves came at a time where the build-up of inflationary pressures across the markets and related consequences on global monetary conditions have clouded the outlook for capital inflows to EMs and put the focus on the response of policymakers.

**Unlike foreign reserves, foreign assets at commercial banks continued to fall for the third consecutive month in May.** Foreign assets at commercial banks (the country's first line of defense against capital outflow shocks) fell significantly in May by more than USD2bn after a slight fall by USD353mn in April. This fall in assets drove the stock of net foreign assets to fall from USD3.5bn to USD1.8bn in May. This pattern suggests that the country might have already faced some capital outflows in longer-term sovereign debt instruments, given that short-term assets are still attracting foreign investment. According to the most recent available data, foreign holdings of T-bills remained on an upward trajectory, standing at USD22bn (22.5% of total outstanding) by end of May.

**Capital outflows triggered by global monetary conditions and a shift in the Fed's monetary stance are not the only risk for the country's external balance.** The recently-published balance of payments figures showed that Egypt's current account deficit (CAD) more than doubled in Q3 FY21 compared to Q3 FY20. This was driven by the fast acceleration in trade deficit at a time where service surplus has not fully recovered. In addition, the country is mainly depending on capital inflows to finance its CAD, which makes it highly vulnerable to global monetary conditions. That said, the CBE's preemptive steps to rebuild its external buffers should alleviate the impact of such shocks.

**Chart 1: A notable acceleration in non-official reserves by the end of June 2021**




Source: CBE, Prime Research.

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