

The Global Blessing Windfall

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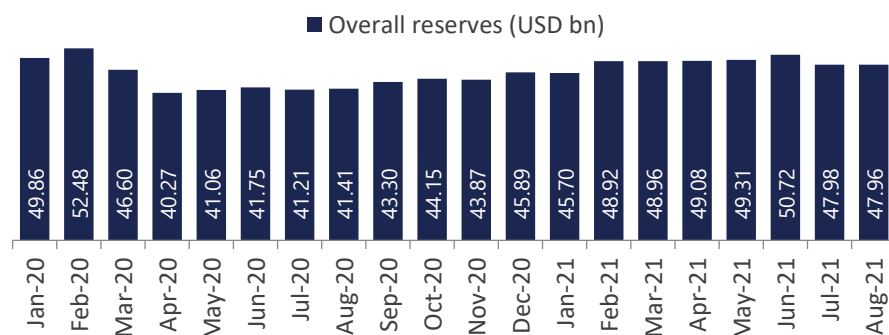
As we expected, the new SDR allocation reflected in NIR and widened Egypt's policy space needed to alleviate external pressures: Egypt's Net Official Reserves (NIR) edged up by USD63mn, standing at USD40.67bn by end of August (+6% y/y), despite the notable decline in the stock of foreign currency, thanks to USD2.8bn of SDR new allocation received from the IMF. Foreign currency in NIR fell by USD2.55bn (-7% m/m) to USD33.59bn, the lowest level since September 2020, while the holdings of SDR increased by USD2.26bn to stand at USD2.46bn by end of August. This means that the monetary authority has moved significantly through the space provided by the newly-allocated SDRs to boost its reserve buffers and to finance external obligations that may include debt repayment or forward transactions.

Despite the slight improvement in NIR, overall reserves dropped slightly as non-official reserves fell: Overall reserves (NIR + non-official reserves) fell again in August, albeit slightly by USD27mn to USD47.96mn due to a USD90mn fall in non-official reserves which stand now at USD7.3bn. We note that non-official reserves had declined notably by USD2.76bn in July 2021.

Re-adjusting the composition of international reserves comes at a cost: The country can use its newly-allocated SDRs unconditionally, but there is also a cost for exchanging SDRs for usable foreign currencies. If the authority chooses to keep its holdings lower than its allocation, there will be a net interest payment. However, the magnitude of such cost will depend on the yield earned on the alternative use of these SDRs. Thus, the current level of SDR might change, but the overall level of NIR will likely remain stable, given the continuous improvement in FX inflows as tourism rebounds and capital inflows remain robust.

Still, global headwinds pose risks: The rebound in tourism is still under the threats of new Delta variant of COVID-19, and the rally in global commodity prices is driving the imports bill higher. In addition, the country's debt service is set to accelerate significantly in 2021 and afterwards. Thus, we do not expect a significant increase in reserves which will likely remain stable around their current level through the end of 2021.

Chart 1: Despite the windfall, overall reserves were slightly lower in August



Source: CBE, Prime Research.

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