PRIME

For Stormy Days, Eyes on the Ball

Mona Bedeir
Chief Economist
T +202 3300 5722
mbedeir@egy.primegroup.org

Shelters continue to be built for the stormy days: Egypt's official net international reserves (NIR) inched up again by USD60mn at the end of November, standing at USD40.91bn (+4.3% y/y, +0.1% m/m). The slight improvement was attributed to: 1) a USD222mn (+1% m/m) increase in the stock of foreign currency, standing now at USD34bn vs. USD33.8bn by the end of October; and 2) a pick-up in gold prices in November that led to a slight appreciation in the stock of gold (+USD5mn). Meanwhile, it seems that the improvement in the stock of foreign currency came at the expense of the stock of SDRs, which declined by USD167mn by end of November. After its significant increase in October (by USD2.1bn), non-official reserves remained almost flat, falling only USD9.8mn to end the month at USD11.49bn—the highest level in more than three years.

Despite the gradual accumulation of external buffers, underlying risks still weigh on the health of the external sector outlook: Despite the country's external buffers gradually improving over the course of 2021, their dynamics continue to raise some concerns because:

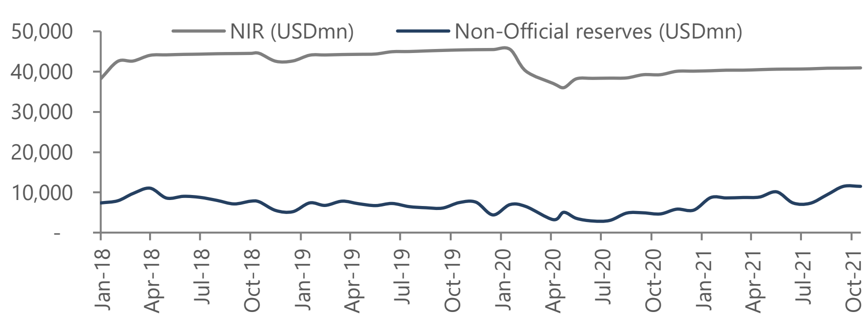
1) **Foreign assets at commercial banks have not recovered yet from COVID-19 crisis** as NFAs were still in a lability position of USD4.9bn by end of October, due to 4% m/m fall in foreign assets and a 1% m/m increase in foreign labilities. The slower recovery in foreign assets in the face of growing labilities indicates that pressures on foreign assets in the banking sector are still growing despite the ongoing recovery in the tourism sector and strong remittances.

2) **Foreign assets at the CBE are relatively stable, but let's not forget that a significant part of them were generated from the IMF funding support in addition to the recent USD3bn inflows from KSA new deposits at the CBE.** Despite that support, NFAs at the CBE are below pre-COVID-19 level, standing at USD12.3bn by end of October 2021 vs. USD16.8bn by end of February 2020—just before the last bout of capital outflows hit the country.

3) **Additional USD3bn in financing packages from UAE banks have been secured, but financing needs are growing with the state budget and CAD still under increasing pressures.** In addition to the upward pressures on the cost of external borrowing as the country's CDS remained on an upward trajectory since mid-2021, global monetary conditions are heading towards more tightening.

These risks could eventually translate into more pressures on the local currency, prompting the CBE to most likely tighten its policy in 2022.

Figure 1: External buffers stabilized, despite the pressures



Source: CBE, Prime Research.

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Prime Securities

Shawkat El Maraghy
Managing Director
T +202 3300 5622
SElmaraghy@egy.primegroup.org

Sales

Mohamed Ezzat
Head of Sales & Branches
T +202 3300 5784
MEzzat@egy.primegroup.org

Emad El Safoury
Manager
T +202 3300 5624
EElsafoury@egy.primegroup.org

Mohamed Ashmawy
Head of Institutional Sales
T +202 3300 5612
MAshmawy@egy.primegroup.org

Shawkat Raslan
Heliopolis Branch Manager
T +202 3300 8130
SRaslan@egy.primegroup.org

Amr Alaa CFTe
Team Head –Institutional Desk
T +202 3300 5609
AAlaa@egy.primegroup.org

Nashwa Abuelatta
Alexandria Branch Manager
T +202 3300 5173
NAbuelatta@egy.primegroup.org

Mohamed El Metwaly
Manager
T +202 3300 5610
MElmetwaly@egy.primegroup.org

Research

Amr Hussein Elalfy CFA
Head of Research
T +202 3300 5724
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, 7th Fl.
Mohandessin, Giza, Egypt
T +202 3300 5700 / 770 / 650 / 649
F +202 3760 7543

Branches

Heliopolis
7 Elhegaz 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

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