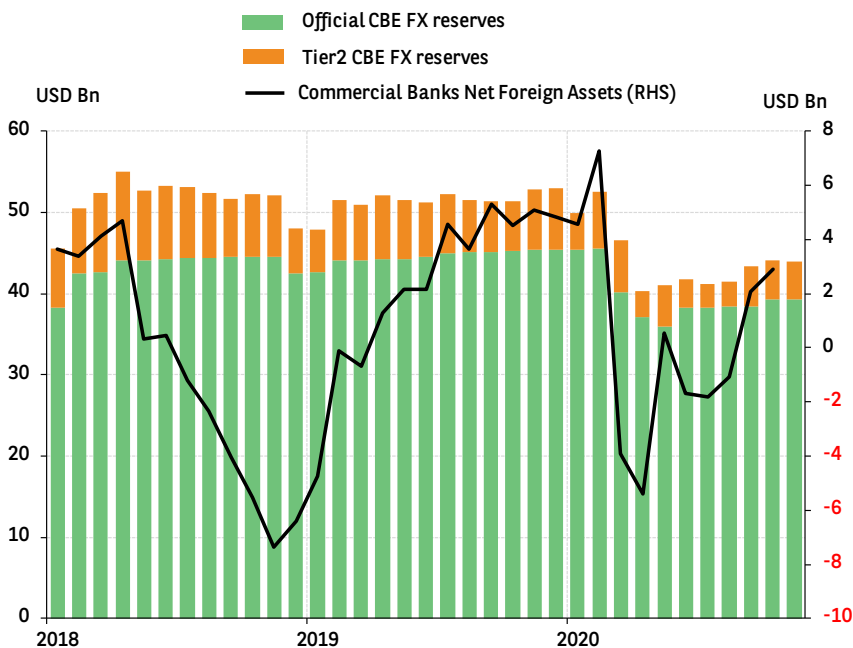


16 December 2020

EGYPT: FOREIGN CURRENCY LIQUIDITY RESTORED

Pascal Devaux



Source: Central Bank of Egypt, BNP Paribas

In first-half 2020, a massive sell-off of treasury bills by non-resident investors (-USD12 bn starting in March 2020), combined with a decline in tourism revenues, albeit to a lesser extent, triggered a drop-off in the central bank's foreign reserves. In May, foreign reserves declined by USD 9 bn to USD 36 bn. At the same time, the net external position of commercial banks swung from a surplus of USD 7.2 bn to a deficit of USD 5.4 bn. At the end of May, foreign currency liquidity in the banking system was still at an acceptable level, since official reserves still accounted for 5.8 months of imports of goods and services. Yet, the negative outlook for the tourism sector (about 16% of current account income) and uncertainty over future remittances by expat workers (more than a third of current account income) created a risk for Egypt's external accounts. This vulnerability was accentuated by the limited flexibility of the Egyptian pound, which depreciated only a mild 1.6% between March and May 2020.

A USD 5 bn Eurobond issue coupled with about USD 8 bn in IMF financial support helped reduce uncertainty over the country's foreign currency liquidity. Portfolio flows rose to more than USD 13 bn in August, while the net external position of commercial banks swung back into positive territory to USD 2.9 bn in October 2020. The central bank's foreign reserves rose to USD 39.2 bn in November, the equivalent of 6.3 months of imports of goods and services.

In the short term, prospects are relatively favourable. The IMF will continue to disburse funds, and the risk/return ratio on Egyptian government debt is still attractive for foreign investors, especially considering the improvement in public finances.

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