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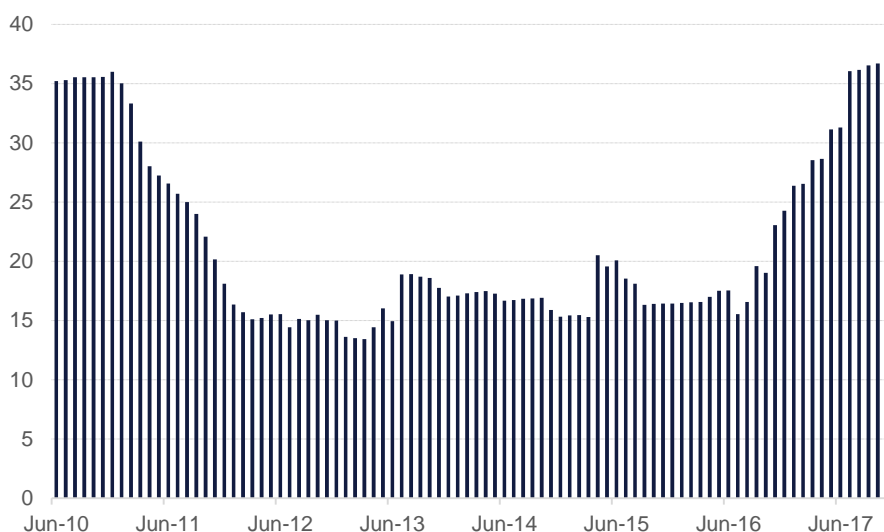
Egypt: Reserves rise in November

Egypt's foreign reserves climbed to USD 36.72bn at the end of November, according to the Central Bank of Egypt (CBE), a slight gain on the USD 36.70bn recorded the previous month. While the pace of growth in reserves has slowed, this marks the 13th consecutive monthly gain since the removal of the Egyptian pound's dollar peg in November 2016. Egypt's reserves dropped off sharply in 2011 owing to political unrest and a resultant sharp fall in tourist numbers and investment, but have risen sharply once more over the past 12 months as economic reforms have been implemented. Although Egypt has debt obligations upcoming, expected payments from World Bank and IMF programmes should keep reserves steady in coming months. We expect that the strong reserve position will alleviate concerns over further currency weakness and encourage greater inflows of fixed investment into Egypt, crucial in order to foster sustainable growth.

The increased reserves and improving liquidity conditions in Egypt gave the CBE the confidence to remove its last remaining capital controls at the close of November, lifting limits on access to FX for companies importing non-essential goods. This latest easing of restrictions followed the removal of a USD 100,000 cap on FX transfers in June, and is in keeping with the guidelines laid out by the IMF as part of its programme.

However, the CBE has yet to remove another source of contention for the IMF, which is its repatriation fund. The repatriation mechanism, which provides a convertibility guarantee to portfolio investors, has been an important source of reassurance over the past 12 months, and has contributed to the huge uptick in foreign ownership of Egyptian treasury bills over the period – from USD 0.5bn in November 2016 to USD 16.5bn at the close of September. The IMF has called for the scrapping of the mechanism, labelling it as another form of FX intervention.

Egypt net international reserves, USDbn



Source: CBE, Bloomberg

Although the CBE has yet to scrap the mechanism, initial steps in this direction have been taken this week. On December 3rd, an entrance fee of 1.0% was applied to fresh portfolio investments which come into Egypt via the repatriation mechanism, presumably as a prelude to its eventual removal. While many investors will be prepared to pay the increased charge for using the mechanism, increasing numbers will choose to go without the guarantee. As greater FX volumes enter directly into the banking sector, rather than being held in the repatriation fund, a modest appreciation in the pound is likely, as is greater volatility going forward as the currency becomes truly free-floated.

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