Balance of Payments Performance
In July/March of FY 2019/2020

Despite the uncertainty in the global economy at large which resulted from the spread of the Covid-19 pandemic, the improvement in Egypt's current account deficit continued for the third consecutive quarter. The improvement was particularly pronounced in the January/March period of 2020, as the deficit declined by 39.2% to approximately US$ 2.8 billion (from US$ 4.5 billion during the same period in the previous fiscal year). Thus, the cumulative period July/March of the fiscal year 2019/2020 recorded a marked improvement of 25.2% to reach US$ 7.3 billion (compared to about US$ 9.8 billion a year earlier). Such performance is mainly due to the improvement in the non-oil trade balance deficit and the increase in current transfers, particularly worker's remittances from abroad. These improvements are all results of the economic reforms which commenced in 2016 and have continued to drive the improvement in macroeconomic indicators.

Due to the nature of the capital markets, the impact of the current crisis has triggered portfolio outflows globally, which were particularly felt in emerging markets. Egypt's Capital& financial account of the balance of payments was clearly affected during the period January/March 2019/2020. It recorded a net outflow, amounting to approximately US$ 1.1 billion. However, the cumulative period July/March 2019/2020 recorded a net inflow of about US$ 4.1 billion, benefiting from the inflows achieved during the first half of the current fiscal year.

As a result of the of economic reform program, and its success in achieving a continued and remarkable improvement in the current account deficit, in addition to rebuilding official foreign exchange reserves at the CBE to reach historically high levels that exceed internationally accepted criteria of sufficiency, the country was able to absorb the unfavorable shock of the pandemic on the balance of payments, represented by an overall deficit that reached about US$ 5.1 billion dollars during the mentioned period, after it had achieved an overall surplus during the period July/December of the same fiscal year which stood at US$ 410.9 million.

The following is a review of the main developments witnessed in July/March 2019/2020 (relative to the corresponding period a year earlier), with a highlight on the key developments that took place in January/March 2020:

First: Current Account

The current account deficit improved in July/March 2019/2020 (relative to the corresponding period of the previous year), driven mainly by the decline in non-oil trade deficit and the rise in unrequited current transfers, as illustrated below:

✓ **Non-oil trade deficit fell** by US$ 2.2 billion to US$ 27.3 billion (from US$ 29.5 billion), as an outcome of:

- The increase in non-oil merchandise exports by US$ 1.2 billion to US$ 13.6 billion (from US$ 12.4 billion). Exports that registered increases were mainly gold; radio and TV transmitters and receivers; drugs, vaccines, serums and pharmaceuticals; and organic and inorganic compounds.

  It is noteworthy that in **January/March 2020**, non-oil merchandise exports mounted by US$ 286.9 million to US$ 4.4 billion (from US$ 4.1 billion in the corresponding period a year earlier).

- The retreat in non-oil merchandise imports by US$ 939.6 million to US$ 40.9 billion (from US$ 41.9 billion). Imports that registered decreases were principally cast iron, all kinds of coal, spare parts and accessories of cars and tractors, spare parts and accessories of electrical appliances for household use, and drugs.

  In **January/March 2020**, non-oil merchandise imports shrank by 3.2%, to stand at US$ 13.7 billion (compared with US$ 14.2 billion in the preceding corresponding period).

- ✓ **Unrequited current transfers surged** by US$ 3.3 billion to US$ 21.5 billion (from US$ 18.2 billion) supported primarily by the 18.3% rise in workers' remittances.

  In **January March 2020**, despite global conditions, workers' remittances increased by US$ 1.7 billion to US$ 7.9 billion (from US$ 6.2 billion in the preceding corresponding period).

- ✓ **Oil trade balance booked a deficit** of US$ 773.3 million (against a deficit of US$ 294.3 million) due to:

  - The decline in oil exports by US$ 1.2 billion to US$ 7.3 billion (from US$ 8.5 billion), on the back of the drop in the exports of crude oil & oil products, and natural gas; and

  - The decline in oil imports by US$ 707.2 million to US$ 8.1 billion (from US$ 8.8 billion), as an outcome of the contraction in the imports of oil products, the cessation of importation of natural gas (starting from Q2 of FY 2018/2019), and the rise in crude oil imports.

    In **January/March of 2020, the oil trade deficit narrowed by US$ 405.1 million to US$ 40.0 million (from US$ 445.1 million), benefiting from the slump in world oil prices.** The contraction of the deficit was an outcome of:

    - the decline in oil exports by 8.9% to US$ 2.3 billion (from US$ 2.5 billion in the preceding corresponding period) on the back of the fall in world oil prices by 18.8% to US$ 49.1 a barrel (from US$ 60.5 a barrel) and the drop in the quantities exported of crude oil and natural gas, even though exports of oil products increased; and

    - the decline in oil imports by 21.3% to US$ 2.3 billion (from US$ 2.9 billion in the preceding corresponding period), triggered by the fall in world oil prices, despite the rise in the quantities imported.

- ✓ **Services surplus shrank by** 13.7% to US$ 8.4 billion (from US$ 9.8 billion), as a result of the following developments:
  - Travel surplus decreased by US$ 590.9 million to US$ 6.7 billion (from US$ 7.3 billion), as travel payments increased faster than travel receipts. In figures, travel receipts (tourism revenues) increased by US$ 162.8 million to US$ 9.6 billion, while travel payments increased by US$ 753.7 million to US$ 2.8 billion.

    However, the contraction in the travel balance became more accentuated in **January/March 2020**, registering a decline of US$ 435.5 million to US$ 1.5 billion (from US$ 1.9 billion), due partly to the drop in tourism revenues by 11.4% to US$ 2.3 billion (from US$ 2.6 billion) and partly to the increase in travel payments by 19.7% to US$ 841.0 million (from US$ 702.4 million).
  - Suez Canal receipts rose by US$ 188.2 million to US$ 4.5 billion (from US$ 4.3 billion).

    The **January/March period of 2020** witnessed an increase in Suez Canal receipts by US$ 84.4 million to US$ 1.4 billion (from US$ 1.3 billion in the previous corresponding period).
  - Transportation surplus (excl. Suez Canal) tumbled by US$ 660.7 million to US$ 251.2 million (from US$ 911.9 million).
  - The deficit on government services and other services increased by US$ 275.6 million to US$ 3.0 billion (from US$ 2.7 billion).
- ✓ **Investment income deficit widened** by US$ 1.2 billion to US$ 9.2 billion (from US$ 8.0 billion), mainly on the back of the US$ 1.1 billion rise in investment income payments, to post US$ 9.9 billion (against US$ 8.7 billion).

Second: Capital and Financial Account

The capital and financial account recorded a net inflow of US$ 4.1 billion in July/March, 2019/2020 (against US$ 9.6 billion in the same period a

year earlier). Due to the outbreak of the COVID-19 pandemic and its effect on international financial markets, the decline in net inflow was accentuated in January/March 2020, where capital and financial account registered a net outflow of US$ 1.1 billion (compared with a net inflow of US$ 6.5 billion in the corresponding period a year earlier). The following is a highlight of the main developments in this context:

- ✓ **Portfolio investment in Egypt reversed** to net outflows of US$ 7.9 billion in July/March 2019/2020 (from net inflows of US$ 1.1 billion), impacted by portfolio capital outflows . The impact was particularly felt in **the January/March period of 2020,** in the wake of the pandemic, where portfolio investment in Egypt recorded net outflows of US$ 8.2 billion (versus net inflows of US$ 6.9 billion in the preceding corresponding period).
- ✓ **Total inflows of FDI in Egypt increased** by US$ 277.6 million to US$ 12.7 billion (from US$ 12.5 billion), while total outflows increased by US$ 872.6 million to US$ 6.8 billion (from US$ 5.9 billion). **This resulted in a contraction of US$ 595.0 million in net FDI in Egypt**, registering a net inflow of US$ 5.9 billion (against US$ 6.5 billion). The contraction is due basically to the drop of US$ 58.5% in net FDI in Egypt in **January/March of 2020,** to register a net inflow of US$ 970.5 million (compared with US$ 2.3 billion in the corresponding period) amid heightened uncertainty unleashed by the pandemic, which dramatically impacted foreign investors’ plans and FDI flows worldwide.

- ✓ **Net disbursements of medium- and long-term loans and facilities declined** by US$ 1.0 billion, to record net disbursements of US$ 2.0 billion (against US$ 3.0 billion).

Balance of Payments

(US $mn)

	July/March 2018/19*	July/March 2019/20*
Trade Balance	**-29746.9**	**-28058.5**
Exports	20912.0	20953.6
Petroleum	*8513.1*	*7326.9*
Other Exports	*12398.9*	*13626.7*
Imports	-50658.9	-49012.1
Petroleum	*-8807.4*	*-8100.2*
Other Imports	*-41851.5*	*-40911.9*
Services Balance (net)	**9761.4**	**8422.4**
Receipts	**18155.9**	**18550.0**
Transportation	6461.3	6296.1
of which: Suez Canal dues	*4273.0*	*4461.2*
Travel	9391.6	9554.4
Government Receipts	420.0	565.0
Other	1883.0	2134.5
Payments	**8394.5**	**10127.6**
Transportation	1276.4	1583.7
Travel	2078.9	2832.6
Government Expenditures	566.2	618.8
Other	4473.0	5092.5
Income Balance (net)	**-8006.7**	**-9178.7**
Income receipts	720.1	682.9
Income payments	8726.8	9861.6
of which: Interest Paid	*1787.5*	*2376.9*
Transfers	**18186.0**	**21475.9**
Private Transfers (net)	17885.7	21306.8
of which: Worker Remittances	*18211.4*	*21545.5*
Official Transfers (net)	300.3	169.1
Current Account Balance	**-9806.2**	**-7338.9**

Balance of Payments (cont.)

(US $mn)

	July/March 2018/19*	July/March 2019/20*
Capital & Financial Account	**9636.5**	**4090.6**
Capital Account	**-97.4**	**-185.9**
Financial Account	**9733.9**	**4276.5**
Direct Investment Abroad	**-288.4**	**-294.9**
Direct Investment In Egypt (net)	**6524.0**	**5929.0**
Portfolio Investment Abroad(net)	**-11.3**	**28.1**
Portfolio Investment in Egypt (net)	**1051.8**	**-7944.1**
of which: Bonds	*3043.9*	*852.4*
Other Investment (net)	**2457.8**	**6558.4**
Net Borrowing	4914.7	1476.4
M&L Term Loans (net)	2563.1	2529.2
Drawings	*4412.9*	*4206.4*
Repayments	*-1849.8*	*-1677.2*
MT Suppliers Credit (net)	481.4	-490.0
Drawings	*730.4*	*15.3*
Repayments	*-249.0*	*-505.3*
ST Suppliers Credit (net)	1870.2	-562.8
Other Assets	-7246.9	5737.1
Central Bank	*-24.4*	*-186.1*
Banks	*-1717.0*	*8312.2*
Other	*-5505.5*	*-2389.0*
Other Liabilities	4790.0	-655.1
Central Bank	*2018.8*	*-219.1*
Banks	*2771.2*	*-436.0*
Net Errors & Omissions	**-181.5**	**-1865.8**
Overall Balance	**-351.2**	**-5114.1**
Change in CBE's reserve assets (increase = -)	**351.2**	**5114.1**

* **Preliminary.**