Balance of Payments Performance
In FY 2019/2020

As a continuation of the success of the economic reform policies of Egypt and the proactive actions taken by the CBE to mitigate the negative economic effects of COVID-19 pandemic, the Egyptian economy was able to contain the impact of the global financial shock triggered by the crisis. The current account deficit remained broadly stable throughout FY 2019/2020, with the first half of the fiscal year posting an improvement and the second half bearing the weight of the COVID-19 pandemic. The current account deficit stood at US$ 11.2 billion, posting a slight widening from FY 2018/2019 current account deficit of US$ 10.9 billion. Despite this modest increase in the deficit, the current account outperformed all expectations. This outperformance in the current account can be attributed to the improvement in non-oil trade balance and the pickup in unrequited current transfers; these factors helped alleviate the effect on the current account.

With regards to the capital account, Egypt's capital and financial account achieved a net inflow of US$ 5.4 billion which came in spite of the heavy blow that capital movements suffered worldwide. This positive inflow helped mitigate the overall BOP deficit, which closed the fiscal year at US$ 8.6 billion. Additionally, the build-up of CBE official reserves by levels which outpaced international standards partly helped contain the BOP deficit.

The following is a review of the main developments in the BOP performance in FY 2019/2020 (compared with the previous FY) and the second half of FY 2019/2020 (Jan./June 2020), which witnessed the COVID-19 outbreak:

1. Developments in BOP Performance in FY 2019/2020

First: Current Account

The current account ran a deficit of US$ 11.2 billion (compared to US$ 10.9 billion in FY 2018/2019, US$ 6.0 billion in FY 2017/2018 and US$ 14.4 billion in FY 2016/2017), primarily due to the retreat in the services surplus and the increase in investment income deficit (which represents the difference between the investment income earned and paid from and to the external world on portfolio investment, direct investments, bank deposits and foreign debt). Yet, the noticeable improvement in the non-oil trade deficit and the rise in unrequited current transfers helped mitigate the increase of the current account deficit. The following is an analysis of these items:

- ✓ **The services surplus declined** by 31.2% to US$ 9.0 billion (from US$ 13.0 billion), mainly on the back of the contraction in travel receipts (tourism revenues) by US$ 2.7 billion to US$ 9.9 billion.
- ✓ **The oil trade balance booked a deficit** of US$ 421.0 million (compared with a surplus of US$ 8.1 million), triggered by the declines in:
    - Oil exports by US$ 3.1 billion to US$ 8.5 billion (from US$ 11.6 billion), brought about by the decrease in exports of crude oil & oil products, and natural gas; and
    - Oil imports by US$ 2.6 billion to US$ 8.9 billion (from US$ 11.5 billion), on account of the contraction in the imports of oil products impacted by the decrease in imported quantities by 38.0% and the fall in world oil prices, in addition to the cessation of natural gas imports (as of 2018/2019 Q2). In contrast, crude oil imports increased.
- ✓ **Investment income deficit went up** by US$ 344.4 million to US$ 11.4 billion (from US$ 11.0 billion); as income paid outpaced income earned, registering as such US$ 12.3 billion (against US$ 12.0 billion), on account of:
    - The rise in portfolio investment dividends' payments by US$ 547.4 million to US$ 1.8 billion;

- The rise in external debt interests' payments by US$ 373.6 million to US$ 2.9 billion; and
- The decline in direct investment earnings' payments by US$ 648.6 million to US$ 7.5 billion, on the back of the drop in the profits of foreign oil firms operating in Egypt, which were adversely impacted by the plunge in world oil prices. However, retained earnings increased.

Meanwhile, investment income receipts shrank by US$ 72.0 million to US$ 942.1 million, due to the decrease in interest payments on Egyptians' deposits abroad, and profit transfers of branches of Egyptian companies from abroad.

✓ **Non-oil trade deficit narrowed** by US$ 2.0 billion to US$ 36.0 billion (from US$ 38.0 billion), under the following developments:

- The pickup in non-oil merchandise exports by US$ 1.0 billion to US$ 17.9 billion (from US$ 16.9 billion), spurred largely by the rise in gold exports; and
- The retreat in non-oil merchandise imports by US$ 1.0 billion to US$ 53.9 billion (from US$ 55.0 billion).

✓ **Unrequited current transfers moved up** by US$ 2.6 billion to US$ 27.7 billion (from US$ 25.1 billion) supported primarily by the 10.4% rise in workers' remittances.

Second: Capital and Financial Account

Net inflows of the capital and financial account fell almost by half, to register US$ 5.4 billion in FY 2019/2020, (compared to US$ 10.9 billion in the previous financial year), as a result of the following main developments:

✓ **Total inflows of FDI in Egypt** decreased by 3.4% to US$ 15.8 billion (from US$ 16.4 billion), while total outflows edged up by 2.8% to US$ 8.4 billion (from US$ 8.2 billion). **This resulted in a contraction of 9.5% in net inflows of FDI in Egypt**, to post US$ 7.5 billion (against US$ 8.2 billion), as an outcome of:

- The contraction of 68.2% in net investments in the oil sector, to reach as low as US$ 1.1 billion;

- The decline of US$ 383.4 million in net investments in the non-oil sectors, to post US$ 1.1 billion, on the back of the decline of US$ 280.9 million to US$ 295.4 million in greenfield investments projects, and of US$ 159.4 million to US$ 666.2 million in real estate investment in Egypt. Meanwhile, proceeds from sale of companies and production assets to non-residents picked up by US$ 56.9 million to US$ 143.7 million; and

- The increase in retained earnings, to record US$ 4.0 billion and in credit balances surplus, to post US$ 1.2 billion.

- ✓ **Portfolio investment in Egypt shifted** to net outflows of US$ 7.3 billion (from net inflows of US$ 4.2 billion in the previous FY), impacted by the departure of investments of non-residents in light of the shock of Covid-19 pandemic that hit international financial markets, particularly the emerging markets.

- ✓ **Net disbursements of medium- and long-term loans and facilities** increased by US$ 2.4 billion, to record about US$ 6.6 billion (against US$ 4.2 billion).

2. Developments in BOP Performance in the second half of 2019/2020 which witnessed the repercussions of Covid-19 pandemic

BOP transactions during this period resulted in an overall deficit of US$ 9.0 billion (compared with an overall surplus of US$ 1.7 billion in the corresponding period a year earlier). The deficit reflects the following developments:

- ✓ The **services surplus** fell almost by half to stand at US$ 2.7 billion (against US$ 5.8 billion), due to the steep decline in travel receipts by 54.9%, to register US$ 2.6 billion (against US$ 5.8 billion).

- ✓ **Net FDI in Egypt** shrank by 38.4% to just US$ 2.5 billion (from US$ 4.1 billion).

- ✓ **Portfolio investment in Egypt** reversed to net outflows of US$ 7.6 billion (from the net inflows of US$ 10.1 billion). The decline was pronounced in the period that followed the outbreak of the pandemic **(January/March 2020)** which resulted in net outflows of US$ 8.2 billion (versus net inflows of US$ 6.9 billion). However, **the period of April/June 2020** registered net inflows of US$ 636.8 million, with the return of foreign investors to the Egyptian market.

<u>The following is a highlight of some of the positive factors that helped mitigate the overall BOP deficit during this period:</u>

- ✓ The increase in **workers' remittances** by 7.5% to US$ 14.1 billion (from US$ 13.1 billion in the corresponding period);
- ✓ The contraction in **non-oil trade balance** by US$ 566.8 million to US$ 18.1 billion, on the back of the decline in non-oil merchandise imports by y-o-y rate of 2.0% to US$ 26.8 billion, while non-oil merchandise exports rose by y-o-y rate of 0.2% to US$ 8.7 billion;
- ✓ The positive turnaround in the **oil trade balance** (from a deficit of US$ 142.7 million in the corresponding period) to a surplus of US$ 312.3 million, benefiting from the slump in world oil prices. Oil exports shrank by 38.1% to US$ 3.4 billion and oil imports by 45.1% to US$ 3.1 billion;

  Notwithstanding the noticeable improvement in the oil trade balance, payments and profits transferred to foreign petroleum firms under oil and gas concessions registered outflows of US$ 4.3 billion (representing exploration cost recovery, and profit payments);
- ✓ The slight improvement in the investment income balance deficit by US$ 226.7 million to US$ 5.6 billion (from US$ 5.8 billion).

Balance of Payments

(US$ m.)

	2018/19*	2019/20*
Trade Balance	**-38034.4**	**-36465.1**
Exports	28495.0	26376.0
Petroleum	*11557.0*	*8479.9*
Other Exports	*16938.0*	*17896.1*
Imports	-66529.4	-62841.1
Petroleum	*-11548.9*	*-8900.9*
Other Imports	*-54980.5*	*-53940.2*
Services Balance (net)	**13036.5**	**8972.5**
Receipts	**24423.6**	**21288.9**
Transportation	8600.3	7881.1
of which: Suez Canal dues	*5730.7*	*5805.7*
Travel	12570.6	9859.4
Government Receipts	718.8	758.5
Other	2533.9	2789.9
Payments	**11387.1**	**12316.4**
Transportation	1792.4	2050.1
Travel	2902.9	3213.0
Government Expenditures	692.4	975.8
Other	5999.4	6077.5
Income Balance (net)	**-11009.6**	**-11354.0**
Income receipts	1014.1	942.1
Income payments	12023.7	12296.1
of which: Interest Paid	*2574.1*	*2947.7*
Transfers	**25113.6**	**27679.9**
Private Transfers (net)	24763.1	27461.8
of which: Worker Remittances	*25150.8*	*27758.0*
Official Transfers (net)	350.5	218.1
Current Account Balance	**-10893.9**	**-11166.7**

Balance of Payments (cont.)

(US$ m.)

	2018/19*	2019/20*
Capital & Financial Account	**10856.9**	**5374.6**
Capital Account	**-129.2**	**-248.5**
Financial Account	**10986.1**	**5623.1**
Direct Investment Abroad	**-374.0**	**-351.2**
Direct Investment In Egypt (net)	**8236.3**	**7453.0**
Portfolio Investment Abroad(net)	**-96.4**	**-818.1**
Portfolio Investment in Egypt (net)	**4230.1**	**-7307.3**
of which: Bonds	*5094.2*	*4594.9*
Other Investment (net)	**-1009.9**	**6646.7**
Net Borrowing	6253.4	4137.8
M&L Term Loans (net)	3333.7	7216.8
Drawings	*5525.2*	*9253.1*
Repayments	*-2191.5*	*-2036.3*
MT Suppliers Credit (net)	828.8	-644.9
Drawings	*1160.8*	*34.3*
Repayments	*-332.0*	*-679.2*
ST Suppliers Credit (net)	2090.9	-2434.1
Other Assets	-8881.6	303.4
Central Bank	*-23.4*	*-231.7*
Banks	*-1764.7*	*4306.4*
Other	*-7093.5*	*-3771.3*
Other Liabilities	1618.3	2205.5
Central Bank	*1537.8*	*-141.0*
Banks	*80.5*	*2346.5*
Net Errors & Omissions	**-65.5**	**-2795.1**
Overall Balance	**-102.5**	**-8587.2**
Change in CBE's reserve assets (increase = -)	**102.5**	**8587.2**

* **Preliminary.**