PHAROS

Balance of Payments 3QFY2016/17

The Fundamental BoP Indicator Improves Significantly

For the First Time Since 2010

June 15, 2017

Tourism revenues, FDI and FPI alongside narrower trade deficit are the key highlights in 3QFY2016/17

The merchandise trade deficit narrowed slightly from USD9.9 billion in 3Q FY2015/16 to USD9.2 billion in 3Q FY2016/7

The non-oil trade deficit narrowed by 16.1% YoY, mainly due to a 19.9% jump in the non-petroleum exports as the non-petroleum imports went down 6.9% YoY in 3Q FY2016/17. On the other hand, the recovery of international oil prices since 3Q FY2015/16 helped triple the petroleum trade deficit from USD0.56 billion 3Q FY2015/16 to USD1.4 billion in 3Q FY2016/17.

The services surplus rose to USD2 billion in 3Q FY2016/17 as the impact of the exchange rate liberalization unfolded

Tourism revenues rose significantly from USD0.6 billion in 3Q FY2015/16 to USD1.3 billion in FY2016/17. Remarkably, travel payments continued to decline from USD1.2 billion in 3Q FY2015/16 to USD0.4 billion in 3Q FY2016/17. Meanwhile, Suez Canal receipts remained nearly flat at USD1.2 billion in 3Q FY2016/17.

The current account deficit continued to decline from USD5.6 billion in 3Q FY2015/16 to USD3.5 billion in 3Q FY2016/17

We note that remittances of Egyptians working abroad stabilized at USD4.6 billion in 3Q FY2016/17, similar to 2Q FY2016/17, which implies that the funds continued to fly back through the formal channels.

A further improvement in FPI inflows supported the financial account in 3Q FY2016/17

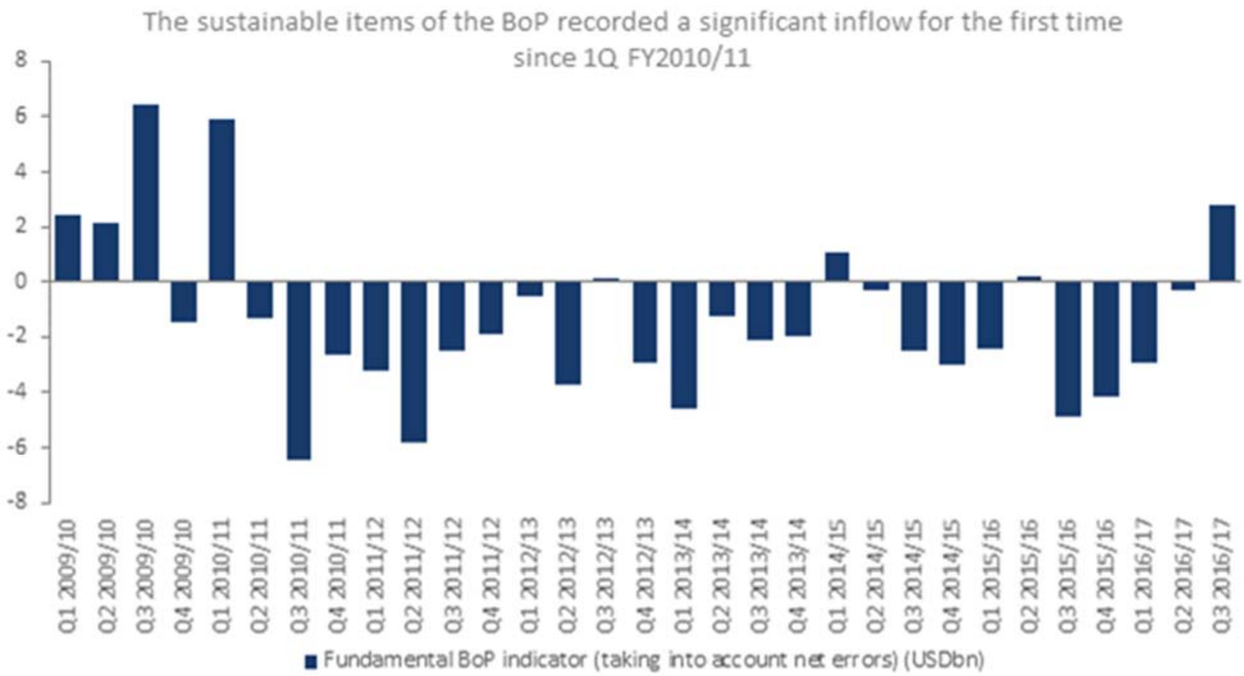
The cumulative net direct investments went up 12.3% YoY from USD5.8 billion in Jul/Mar FY2015/16 to USD6.6 billion in Jul/Mar FY2016/17. Moreover, the cumulative net portfolio investment rose sharply from an outflow of USD1.5 in Jul/Mar FY2015/16 to an inflow of USD3.8 billion in Jul/Mar FY2016/17 (excluding January's USD4 billion Eurobond issuance). Meanwhile, the net borrowing continued to contribute positively to the BoP inflows, recording an inflow of USD1.2 billion in 3Q FY2016/17 versus USD1.4 billion in 3Q FY2015/16.

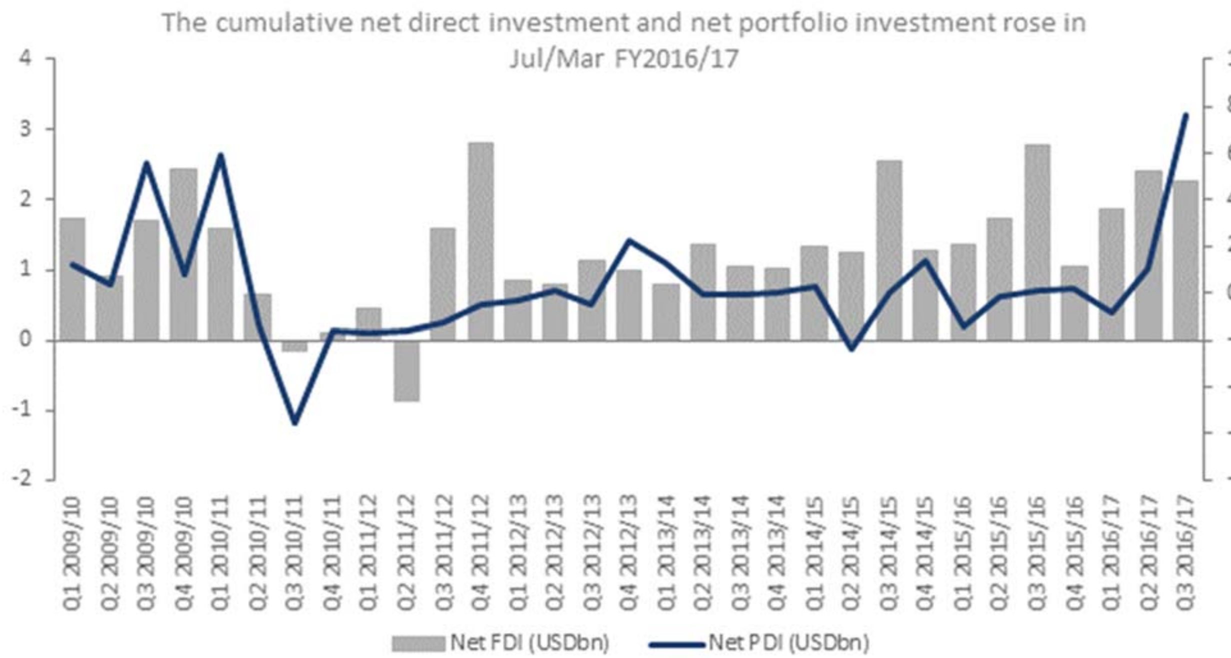
The overall balance of payments recorded a net inflow of USD4 billion in 3Q FY2016/17, versus an outflow of USD0.2 billion in 2Q FY2015/16

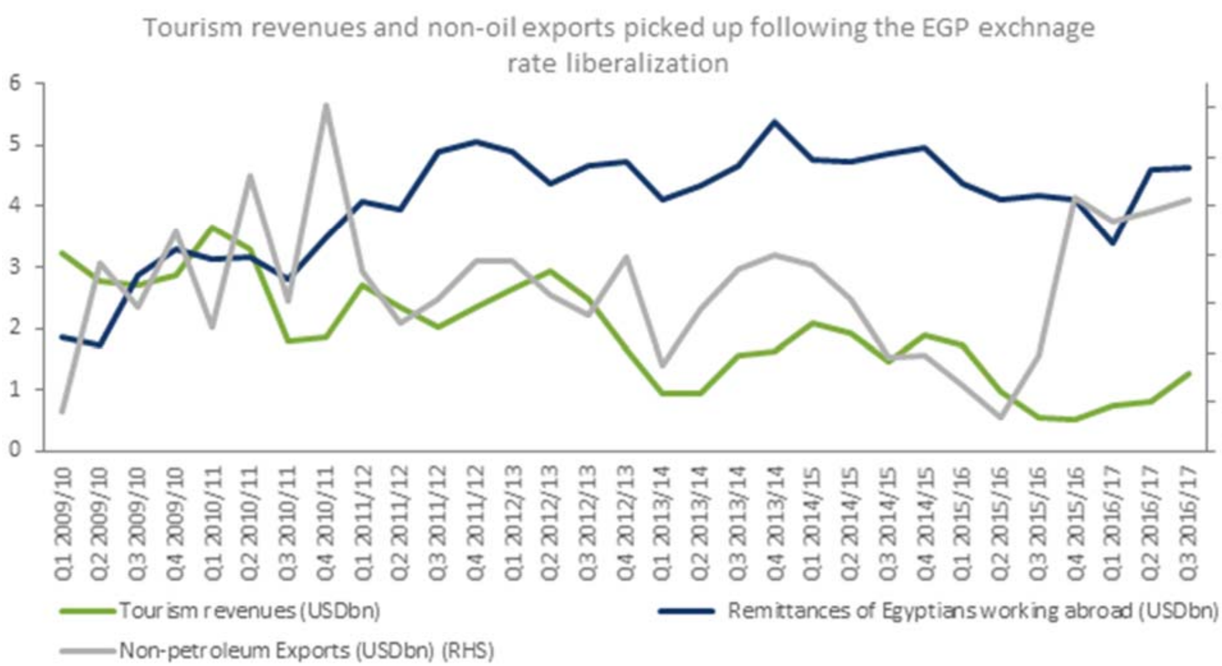
More importantly, the fundamental BoP indicator, which captures the more sustainable items of the BoP and taking account of the net errors and omissions, recorded a significant inflow (USD2.8 billion in 3Q FY2016/17) for the first time since 1Q FY2010/11.

On the impact of the Fed's interest rate hike, we believe that the EGP exchange rate is supported by three lines of defense against sharp volatility in the short run

First, we reiterate that the well-communicated Fed monetary policy implies that any interest rate hike would be smoothly accommodated. Second, the aforementioned Egyptian BoP dynamics prove that the economy is witnessing less external pressure. Finally, the CBE's reported sterilized intervention to offset an unsustainable real exchange rate appreciation that may occur due to the foreign inflows in the EGP-denominated treasuries would minimize the short run exchange rate volatility. Real exchange rate appreciation induced by hot money would be short-lived and harmful for the economy's competitiveness.







Source: Central Bank of Egypt, Pharos research

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