Central Bank of Egypt

Press Release
Balance of Payments Performance
in the First Half of FY 2017/2018

In the first half of FY 2017/2018, Egypt's transactions with the external world witnessed a significant improvement in the current account; with a sharp contraction of 64.0% (US$ 6.0 billion) in its deficit, posting US$ 3.4 billion (against US$ 9.4 billion in the same period a year earlier). In parallel, the capital and financial account recorded a net inflow of US$ 10.4 billion (against US$ 18.7 billion). The following is a review of the main developments that affected the BOP performance in July/Dec. 2017/2018:

First: The Current Account

1- **The services balance and net current transfers are the key drivers of the improvement in the current account.**

- ✓ **Services surplus surged,** recording US$ 5.3 billion (against US$ 1.8 billion), driven mainly by the surplus of US$ 3.8 billion in the travel balance (against a deficit of US$ 157.4 million), and the rise in Suez Canal receipts by 10.1%**,** to stand at US$ 2.8 billion (against US$ 2.5 billion).

- ✓ **Net unrequited current transfers scaled up** by 29.5% to US$ 13.1 billion (versus US$ 10.1 billion), due mainly to the increase in workers' remittances by US$ 3.0 billion, led by remittances from Kuwait, Saudi Arabia and United Arab Emirates.

2- **The increase in merchandise exports supports the decline in the trade deficit.**

- ✓ **The trade deficit narrowed** by 1.4% to US$ 18.7 billion (from US$ 19.0 billion), due to the rise in merchandise exports at a pace higher than that of merchandise imports, as illustrated below:

- **Merchandise exports** grew by 15.4% to US$ 12.1 billion (from US$ 10.4 billion), thanks to the rise in both oil exports by 29.9% to US$ 3.8 billion (from US$ 2.9 billion), and non-oil exports by 9.7% to US$ 8.2 billion (from US$ 7.5 billion). The increase in non-oil exports was mainly led by the exports of finished goods, namely, electrical appliances, phosphate fertilizers, glass, textiles, carpets, and pharmaceuticals.

- **Merchandise imports** rose by 4.5% to US$ 30.8 billion (from US$ 29.5 billion), owing to the increase in both oil imports by US$ 648.4 million to US$ 6.0 billion; and non-oil imports by US$ 691.7 million to US$ 24.8 billion, mainly, imports of intermediate goods required for production. In the meantime, imports of consumer goods declined.

Second: Main Components of the Capital and Financial Account

- Total inflows of **FDI in Egypt** recorded US$ 6.6 billion, while total outflows recorded US$ 2.8 billion. Accordingly, **net FDI in Egypt** registered US$ 3.8 billion (inflows), as a direct result of the net inflow of US$ 2.1 billion for oil sector investments.
- **Portfolio investment in Egypt** accelerated, registering a net inflow of US$ 8.0 billion (against US$ 212.9 million). This was largely ascribed to the rise in foreigners' investments in the Egyptian Treasury bills, recording net purchases of US$ 8.1 billion (against US$ 686.7 million).
- **Net external borrowing** of medium-and long-term loans and facilities retreated, registering as such a net disbursement of US$ 3.5 billion (versus US$ 5.0 billion).
- **Net change in the liabilities of the CBE to the external world** decreased, posting a net external repayment of US$ 3.1 billion in the reporting period (against a net disbursement of US$ 8.1 billion).

The foregoing developments resulted in an overall BOP surplus of US$ 5.6 billion in the reporting period (compared with US$ 7.0 billion in the respective period a year earlier).

* Numbers expressed in US$ billion have been rounded.

Special Focus

Current Account

H1 (FY17/18): July 17-December 17

Egypt's current account deficit contracted by 64% year-on-year during the first half of FY2017/2018 compared to the same period last year due to the ongoing rebound in net travel receipts and workers' remittances.

According to preliminary estimates, Egypt's current account deficit declined sharply to USD3.4 billion during the first half of FY2017/2018, versus USD9.4 billion reported during the same period last year.

It is important to note that the steep compression in the current account deficit during the first half of the current fiscal year was driven by significant improvement in main sources of gross national income. According to preliminary estimates reported by the Ministry of Planning, Follow-up and Administrative Reform, real GDP growth rates accelerated to 5.2% in the first quarter and to 5.3% in the second quarter of FY2017/2018, which pushed the real GDP growth rate to an estimated 5.0% in 2017, the highest full-year growth rate recorded since 2010.

The contraction of the current account deficit by USD 6.0 billion was primarily driven by a remarkable rebound in three major sources of gross national income, particularly 1) tourism receipts, 2) worker remittances, and 3) net merchandise exports as detailed below:

1. **The surge in net travel receipts on a year-on-year basis has been the key driver of the compression in the current account deficit**. During the first half of the current fiscal year, net travel receipts increased to USD3.8 billion, versus net travel payments of USD-157.4 million. Accordingly, the net change stood at roughly USD4.0 billion on a year-on-year basis.
2. **The steady increase in net current transfers, particularly in the form of remittances transferred by Egyptians working abroad, ranked as the second most important driver of the current account deficit compression**. On a year-on-year basis, net current remittances increased by roughly USD3.0 billion to reach USD13.1 billion during the first half of FY2017/2018, versus USD10.1 billion during the same period last year.
3. **The decline in net merchandise imports augmented the positive impact of net tourism receipts and net current transfers**. Net merchandise imports contracted by USD268.5 million on a year-on-year basis, due to the relatively higher rate of growth in merchandise exports versus merchandise imports. Most importantly, non-oil merchandise exports grew by 9.7% year-on-year (+USD732.3 million) from USD7.5 billion during the first half of FY2016/2017 to USD8.2 during the first half of the current fiscal year. The increase in non-oil merchandise exports was mainly driven by exports of finished products, including household electrical appliances, phosphate fertilizers, glass, textiles, carpets, and pharmaceutical products.

Finally, the increase in profits repatriated by foreign companies operating in Egypt largely explains the widening in the deficit of other subaccounts.

Change in the Current Account Balance - First Half of FY2017/2018 versus the First Half of FY2016/2017

	July/December		
USD million	**FY2016/17**	**FY2017/18**	**Change**
Current Account Balance	**-9,414.3**	**-3,389.6**	**+6,024.7**
Core Drivers of the Change in the Current Account Balance over the Period, Sorted in Order of Importance			
1- Net Travel Receipts	-157.4	3,818.0	+3,975.4
2- Net Workers' Remittances	10,108.1	13,087.8	+2,979.7
3- Net Merchandise Exports	-19,016.3	-18,747.8	+268.5
4- Other Items in the Services Balance, Net	1,915.6	1,492.0	-423.6
5- Net Investment Income	-2,264.3	-3,039.6	-775.3
Total	**-9,414.3**	**-3,389.6**	**+6,024.7**

Balance of Payments

(US.$m.)

	July/Dec. 2016*	July/Dec. 2017*
Trade Balance	**-19016.3**	**-18747.8**
Exports	10446.5	12055.1
Petroleum	*2935.3*	*3811.6*
Other Exports	*7511.2*	*8243.5*
Imports	-29462.8	-30802.9
Petroleum	*-5336.2*	*-5984.6*
Other Imports	*-24126.6*	*-24818.3*
Services Balance (net)	**1758.2**	**5310.0**
Receipts	**6611.2**	**10746.4**
Transportation	3666.4	4355.0
of which: Suez Canal dues	*2514.6*	*2768.5*
Travel	1584.0	4979.2
Government Receipts	123.4	269.7
Other	1237.4	1142.5
Payments	**4853.0**	**5436.4**
Transportation	597.3	733.9
Travel	1741.4	1161.2
Government Expenditures	374.8	989.1
Other	2139.5	2552.2
Income Balance (net)	**-2264.3**	**-3039.6**
Income receipts	176.0	412.7
Income payments	2440.3	3452.3
of which: Interest Paid	*565.3*	*817.3*
Transfers	**10108.1**	**13087.8**
Private Transfers (net)	10035.2	13019.5
of which: Worker Remittances	*10110.9*	*13072.5*
Official Transfers (net)	72.9	68.3
Current Account Balance	**-9414.3**	**-3389.6**

Balance of Payments (cont.)

(US.$m.)

	July/Dec. 2016*	July/Dec. 2017*
Capital & Financial Account	**18717.5**	**10427.5**
Capital Account	**-39.0**	**-81.3**
Financial Account	**18756.5**	**10508.8**
Direct Investment Abroad	**-108.0**	**-131.9**
Direct Investment In Egypt (net)	**4287.0**	**3762.9**
Portfolio Investment Abroad(net)	**134.7**	**24.6**
Portfolio Investment in Egypt (net)	**212.9**	**8019.2**
of which: Bonds	*-805.5*	*-103.1*
Other Investment (net)	**14229.9**	**-1166.0**
Net Borrowing	7083.4	4546.8
M&L Term Loans (net)	3846.6	3058.8
Drawings	*5266.8*	*4166.5*
Repayments	*-1420.2*	*-1107.7*
MT Suppliers Credit (net)	1193.9	410.6
Drawings	*1248.4*	*508.7*
Repayments	*-54.5*	*-98.1*
ST Suppliers Credit (net)	2042.9	1077.4
Other Assets	-2373.3	-3272.5
Central Bank	*-2001.9*	*-26.9*
Banks	*17.5*	*-625.6*
Other	*-388.9*	*-2620.0*
Other Liabilities	9519.8	-2440.3
Central Bank	*8057.5*	*-3112.9*
Banks	*1462.3*	*672.6*
Net Errors & Omissions	**-2284.4**	**-1445.3**
Overall Balance	**7018.8**	**5592.6**
Change in CBE's reserve assets (increase = -)	**-7018.8**	**-5592.6**

* **Preliminary.**