

Press Release

Balance of Payments Performance In the First Quarter of FY 2020/2021

Overall Balance

During July/Sept. 2020, Egypt's transactions with the external world demonstrated its resilience and ability to weather the shock caused by the COVID-19 pandemic. The overall BOP registered a slight deficit of US\$ 69.2 million, compared to a deficit of US\$ 3.5 billion in the preceding quarter (April/June 2020), and compared to a surplus of US\$ 227 million in the corresponding quarter (July/September 2019).

Current Account

The current account deficit witnessed an improvement of 27.2% compared to the preceding quarter (April/June 2020) to post US\$ 2.8 billion (against US\$ 3.8 billion). When compared to the corresponding quarter (July/Sept 2019), the current account deficit widened from just US\$ 1.4 billion, which is an expected temporary increase in the deficit due to the travel restrictions brought about by the pandemic, causing tourism sector to register US\$ 0.8 billion (compared to US\$ 4.2 billion from the preceding corresponding quarter).

Capital and Financial Account

Net inflows channeled into capital and financial account increased to US\$ 3.9 billion compared to US\$ 1.3 billion in April/June 2020, and US\$ 657.9 million in July/September 2019. This reflects the marked improvement in foreign portfolio investment in Egypt due to the easing in global financial conditions and the increased confidence of foreign investors in the Egyptian economy despite the continued global uncertainty caused by the COVID-19 pandemic.

The following is a review of the main developments in the BOP performance in Q1 of FY 2020/2021 (relative to the same quarter of FY 2019/2020).

First: Current Account

✓ The factors that triggered the widening of the current account deficit.

- **The services surplus dropped** by 78.3% to post US\$ 876.3 million (compared to US\$ 4.0 billion), mainly due to:
 - The decline in **tourism revenues** by 3.4 billion, to record only US\$ 801.0 million (against US\$ 4.2 billion).
 - The contraction in **transport receipts** by US\$ 524.5 million, to stand at US\$ 1.7 billion (against US\$ 2.3 billion), primarily on the back of the fall of US\$ 328.1 million in the receipts of aviation companies impacted by the Corona pandemic.
- **The non-oil trade deficit widened** by US\$ 526.0 million to post US\$ 8.7 billion (compared to US\$ 8.2 billion), due to higher imports of all non-oil merchandise groups (except for raw materials) by 4.1% to register US\$ 13.4 billion (compared to US\$ 12.9 billion).

✓ The positive factors that helped mitigate the aggravation of the current account deficit.

- **Workers' remittances increased** by 19.6% to post US\$ 8.0 billion (compared to US\$ 6.7 billion).
- **Oil trade balance reversed to a surplus** of US\$ 143.7 million (from a deficit of US\$ 606.2 million). This is because oil import payments declined almost by half, registering US\$ 1.5 billion, on the back of:
 - The decline in imports of all oil products by 52.8% due to the decrease in the quantities imported.
 - The decline in crude oil imports by 28.7% triggered by the slump in world oil prices, despite the rise in the quantities imported.
- **Investment income* deficit narrowed** by US\$ 261.2 million to record US\$ 3.1 billion (compared to US\$ 3.3 billion), primarily due

* It represents the difference between the income earned and paid from and to the external world on portfolio investment, direct investments, bank deposits and foreign debt.

to the fall in direct investment dividend payments by US\$ 362.3 million to post US\$ 1.9 billion, largely 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\$ 243.3 million to record only US\$ 57.5 million, due to the decrease in interest payments on Egyptians' deposits abroad, and profit repatriation of branches of Egyptian companies abroad.

Second: Capital and Financial Account

Net inflows of the capital and financial account rose by US\$ 3.3 billion, to register US\$ 3.9 billion in the first quarter of FY 2020/2021, (compared to only US\$ 657.9 million in the same quarter a year earlier), as a result of the following main developments:

- **Portfolio investment in Egypt switched** to net inflows of US\$ 6.7 billion (from net outflows of US\$ 2.0 billion in the corresponding quarter a year earlier).
- **Net flows of FDI to Egypt contracted** by 31.8%, to post US\$ 1.6 billion (compared to US\$ 2.4 billion), as an outcome of:
 1. **The shift in net investments in the oil & gas sector** to a net outflow of US\$ 75.3 million (from a net inflow of US\$ 744.2 million);
 2. **The decline** of US\$ 55.6 million in net investments in **the non-oil sectors**, to register US\$ 395.5 million, on the back of the decline of US\$ 49.2 million to record US\$ 235.1 million in net inflows for capital increases. In addition, **inflows for establishing greenfield projects retreated by US\$ 27.7 million, to post only US\$ 8.0 million**, while inflows for real estate purchases in Egypt by non-residents fell by US\$ 3.2 million, to stand at US\$ 127.9 million. In contrast, proceeds from selling local entities to non-residents picked up to US\$ 24.5 million.
 3. **The increase in retained earnings and credit balances surplus** by US\$ 127.6 million to record US\$ 1.3 billion.
- **Net disbursements of medium- and long-term loans and facilities** recorded US\$ 2.2 billion (against US\$ 2.1 billion).

Balance of Payments

| | (US\$ m.) | |
|---------------------------------------|-----------------------|-----------------------|
| | <u>July/Sep 2019*</u> | <u>July/Sep 2020*</u> |
| <u>Trade Balance</u> | <u>-8783.2</u> | <u>-8559.3</u> |
| Exports | 7120.8 | 6280.6 |
| <i>Petroleum</i> | 2438.3 | 1600.1 |
| <i>Other Exports</i> | 4682.5 | 4680.5 |
| Imports | -15904.0 | -14839.9 |
| <i>Petroleum</i> | -3044.5 | -1456.4 |
| <i>Other Imports</i> | -12859.5 | -13383.5 |
| <u>Services Balance (net)</u> | <u>4035.0</u> | <u>876.3</u> |
| <u>Receipts</u> | <u>7436.6</u> | <u>3397.2</u> |
| Transportation | 2262.8 | 1738.3 |
| <i>of which: Suez Canal dues</i> | 1507.3 | 1380.7 |
| Travel | 4193.6 | 801.0 |
| Government Receipts | 219.9 | 137.7 |
| Other | 760.3 | 720.2 |
| <u>Payments</u> | <u>3401.6</u> | <u>2520.9</u> |
| Transportation | 522.8 | 437.5 |
| Travel | 955.2 | 575.8 |
| Government Expenditures | 227.3 | 230.7 |
| Other | 1696.3 | 1276.9 |
| <u>Income Balance (net)</u> | <u>-3328.0</u> | <u>-3066.8</u> |
| Income receipts | 300.8 | 57.5 |
| Income payments | 3628.8 | 3124.3 |
| <i>of which: Interest Paid</i> | 828.4 | 706.1 |
| <u>Transfers</u> | <u>6694.0</u> | <u>7964.9</u> |
| Private Transfers (net) | 6630.5 | 7947.9 |
| <i>of which: Worker Remittances</i> | 6712.6 | 8028.1 |
| Official Transfers (net) | 63.5 | 17.0 |
| <u>Current Account Balance</u> | <u>-1382.2</u> | <u>-2784.9</u> |

Balance of Payments (cont.)

| | (US\$ m.) | |
|--|-----------------------|-----------------------|
| | <u>July/Sep 2019*</u> | <u>July/Sep 2020*</u> |
| <u>Capital & Financial Account</u> | <u>657.9</u> | <u>3917.6</u> |
| <u>Capital Account</u> | <u>-37.2</u> | <u>-44.3</u> |
| <u>Financial Account</u> | <u>695.1</u> | <u>3961.9</u> |
| Direct Investment Abroad | -70.6 | -78.5 |
| Direct Investment In Egypt (net) | 2352.6 | 1605.1 |
| Portfolio Investment Abroad(net) | 123.2 | -85.9 |
| Portfolio Investment in Egypt (net) | -1981.5 | 6686.4 |
| <i>of which: Bonds</i> | <i>-300.2</i> | <i>29.8</i> |
| Other Investment (net) | 271.4 | -4165.2 |
| Net Borrowing | 3954.9 | 2189.2 |
| M&L Term Loans (net) | 2290.8 | 331.8 |
| <i>Drawings</i> | <i>2964.8</i> | <i>956.1</i> |
| <i>Repayments</i> | <i>-674.0</i> | <i>-624.3</i> |
| MT Suppliers Credit (net) | -170.3 | 1884.9 |
| <i>Drawings</i> | <i>2.9</i> | <i>2053.0</i> |
| <i>Repayments</i> | <i>-173.2</i> | <i>-168.1</i> |
| ST Suppliers Credit (net) | 1834.4 | -27.5 |
| Other Assets | -2965.9 | -4381.4 |
| <i>Central Bank</i> | <i>-168.4</i> | <i>39.0</i> |
| <i>Banks</i> | <i>-564.5</i> | <i>-4417.2</i> |
| <i>Other</i> | <i>-2233.0</i> | <i>-3.2</i> |
| Other Liabilities | -717.6 | -1973.0 |
| <i>Central Bank</i> | <i>-120.1</i> | <i>-2151.7</i> |
| <i>Banks</i> | <i>-597.5</i> | <i>178.7</i> |
| Net Errors & Omissions | 951.6 | -1201.9 |
| Overall Balance | 227.3 | -69.2 |
| Change in CBE's reserve assets (increase = -) | -227.3 | 69.2 |

* Preliminary.