Press Release
Balance of Payments
Performance in July/March of FY 2021/2022

Egypt's current account[*] deficit remained almost unchanged recording US$ 13.6 billion in July/March FY 2021/2022 despite the increase of US$ 3.0 billion in the trade balance deficit which came as a result of US$ 14.9 billion rise in merchandise imports (oil and non-oil). The widened trade deficit mainly reflected the unprecedented inflationary waves currently sweeping the world as the sectors that had been deterred by the COVID-19 pandemic resumed their usual activity. Furthermore, adverse impacts of the Russia-Ukraine crisis which coincided with the western sanctions on Russia, drove fuel and primary commodity prices to unprecedented levels. This has led many countries to tighten their monetary policies to contain inflation.

The global economy has endured the ramifications of the Russia-Ukraine war, and Egypt was no exception. Besides the rise in import bill amid escalating global prices, the economy has been affected by large-scale portfolio outflows by foreign investors which exited the market in a seamless manner. This led to a fall in the net inflows into the capital and financial account, resulting in an overall deficit of US$ 7.3 billion in the balance of payments, most of which was registered in January/March 2022.

Factors that adversely impacted the current account:

- **Non-oil trade deficit widened** by 22.5 percent, to about US$ 37.7 billion (against US$ 30.7 billion in the corresponding period); as the increase in non-oil imports surpassed that of non-oil exports, as illustrated below:

  - Non-oil merchandise imports rose by US$ 11.7 billion to US$ 57.1 billion. The rise was concentrated in the imports of:
    - Production inputs, such as propylene polymers, inorganic and organic compounds and cast iron; and
    - Agricultural crops, mainly soybeans, maize, and wheat due to the rise in global prices; and

[*] Including merchandise and services economic transactions, income, Egyptian workers' remittances, and government and private grants.

- Medicines, pharmaceutical preparations, gauze pads and vaccines (in light of the State's efforts to combat COVID-19 pandemic).

- Non-oil merchandise exports increased by US$ 4.7 billion to about US$ 19.4 billion. The increase was mainly seen in the exports of:
  - Finished goods, mainly phosphate/mineral fertilizers, ready-made clothing, medicines, transmitter and receiver devices of radio/television, and household electric appliances; and
  - Semi-finished goods, mainly organic and inorganic compounds and ethylene-propylene polymers.

- **Investment income deficit**[†] **grew** by 27.2 percent to about US$ 11.3 billion (from US$ 8.9 billion), as an outcome of the following developments:
  - Investment income payments went up by US$ 2.7 billion, to register US$ 11.8 billion, reflecting the rise in both:
    - Earnings of FDI in Egypt; and
    - Interests and dividends of non-residents' investments in Egyptian bonds and securities.
  - Meanwhile, investment income receipts moved up by US$ 259.1 million to US$ 579.2 million (against US$ 320.1 million in the corresponding period), mainly due to the rise in interest and dividends on foreign bonds and securities.

The rise in the current account deficit was mitigated by the following positive factors:

- **The services surplus** widened by US$ 4.8 billion, to reach US$ 7.9 billion, mainly due to the following factors:
  - **Tourism revenues** rose by US$ 5.1 billion to US$ 8.2 billion (from US$ 3.1 billion in the corresponding period), although negatively affected by the absence of Russian and Ukrainian tourists since the outbreak of the Russia-Ukraine crisis.
  - **Transport receipts** increased by 27.8 percent, to reach US$ 7.0 billion (against US$ 5.5 billion), mainly due to the rise in Suez Canal receipts by 16.9 percent to US$ 5.1 billion (from US$ 4.3 billion).
- **The oil trade surplus went up by US$ 4.0 billion,** to register US$ 4.1 billion (well above the US$ 174.9 million of the corresponding period). This was a

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

main result of the rise in the value of natural gas exports to US$ 5.6 billion (of which, US$ 2.5 billion were registered in October/December 2021, and US$ 2.6 billion in January/March 2022), triggered by the noticeable escalation of global prices, the rise of the exported quantities, and the opening of new markets in Turkey and Europe, mainly in Italy, France, Spain, Croatia, and Greece.

- **Workers' remittances rose** slightly by 1.1 percent, to record US$ 23.6 billion (against US$ 23.4 billion).

<u>As for the capital and financial account</u>[‡]**, net inflows declined by 36.6 percent in July/March of FY 2021/2022** to only US$ 10.8 billion (from US$ 17.1 billion in the corresponding period). The following is a review of the main developments:

- **Portfolio investment in Egypt** shifted from a net inflow of US$ 16.0 billion to a net outflow of US$ 17.2 billion, mainly during January/March 2022, which witnessed net outflows of US$ 14.8 billion. This reflected investors' concerns over the Russian-Ukraine conflict that could escalate into World War III, as well as the contractionary monetary policies adopted by the Federal Reserve leading to outflows of hot money from emerging markets.
- **Medium- and long-term external loans & facilities** recorded a net disbursement of only US$ 1.3 billion (against US$ 5.0 billion), on the back of the rise in repayments to US$ 5.0 billion (from US$ 2.4 billion), and the decline in disbursements to US$ 6.3 billion (from US$ 7.4 billion).
- **Change in the liabilities of the CBE** posted a net inflow of US$ 16.4 billion, of which US$ 14.1 billion were recorded in January/March 2022, mostly representing deposits from Arab countries.
- **Net FDI in Egypt** rose by 53.5 percent to US$ 7.3 billion, as shown below:

  <u>First: Foreign Direct Investment in Non-oil Sectors:</u>

  Net FDI in non-oil sectors mounted by US$ 3.9 billion, to record a net inflow of US$ 9.0 billion (of which US$ 4.6 billion were registered in January/March 2022), as a result of the following:

[‡] Including foreign direct investment (FDI), portfolio investment, and net external borrowing.

1) Net inflows for greenfield investments or capital increases of existing companies rose by US$ 1.5 billion to US$ 2.6 billion (US$ 208.2 million of which went to greenfield investments);

2) The sale proceeds of companies and productive assets to non-residents increased by US$ 2.2 billion to US$ 2.3 billion;

3) Net inflows for real estate purchases by non-residents mounted by US$ 189.8 million, to US$ 643.5 million; and

4) Net retained earnings and credit balances surplus stabilized at US$ 3.5 billion.

Second: Foreign Direct Investment in the Oil Sector:

FDI in the oil sector registered net outflows of US$ 1.7 billion (against just US$ 322.5 million in the corresponding period). This came as an outcome of:

- The rise in outflows (representing cost recovery for exploration, development and operations previously incurred by foreign partners) to US$ 5.4 billion (from US$ 4.6 billion),
- The decline in total inflows (representing new investments of foreign oil contractors) to US$ 3.8 billion (from US$ 4.3 billion).

- Numbers expressed in US$ billion have been rounded.

Balance of Payments

(US$ m.)

	July/March 2020/21*	July/March 2021/22*
Trade Balance	**-30574.5**	**-33537.7**
Exports	20573.5	32469.5
Petroleum	*5931.1*	*13072.7*
Other Exports	*14642.4*	*19396.8*
Imports	-51148.0	-66007.2
Petroleum	*-5756.2*	*-8937.9*
Other Imports	*-45391.8*	*-57069.3*
Services Balance (net)	**3185.1**	**7947.6**
Receipts	**11311.4**	**19527.5**
Transportation	5484.0	7010.3
of which: Suez Canal dues	*4349.7*	*5084.9*
Travel	3112.6	8202.3
Government Receipts	406.9	1559.5
Other	2307.9	2755.4
Payments	**8126.3**	**11579.9**
Transportation	1265.3	2197.3
Travel	1968.8	3024.8
Government Expenditures	898.6	1824.4
Other	3993.6	4533.4
Income Balance (net)	**-8852.3**	**-11259.6**
Income receipts	320.1	579.2
Income payments	9172.4	11838.8
of which: Interest Paid	*1904.6*	*1939.2*
Transfers	**22940.1**	**23256.2**
Private Transfers (net)	23188.6	23487.0
of which: Worker Remittances	*23371.0*	*23628.8*
Official Transfers (net)	-248.5	-230.8
Current Account Balance	**-13301.6**	**-13593.5**

Balance of Payments (cont.)

(US$ m.)

	July/March 2020/21*	July/March 2021/22*
Capital & Financial Account	**17062.2**	**10817.3**
Capital Account	**-118.0**	**-124.7**
Financial Account	**17180.2**	**10942.0**
Direct Investment Abroad	**-302.4**	**-261.4**
Direct Investment In Egypt (net)	**4787.0**	**7348.5**
Portfolio Investment Abroad(net)	**-727.1**	**-10.3**
Portfolio Investment in Egypt (net)	**15986.9**	**-17248.1**
of which: Bonds	*4581.0*	*1056.9*
Other Investment (net)	**-2564.2**	**21113.3**
Net Borrowing	6217.5	-1449.3
M&L Term Loans (net)	2755.5	303.3
Drawings	*4372.6*	*2460.6*
Repayments	*-1617.1*	*-2157.3*
MT Suppliers Credit (net)	2210.8	960.2
Drawings	*2980.6*	*3826.4*
Repayments	*-769.8*	*-2866.2*
ST Suppliers Credit (net)	1251.2	-2712.8
Other Assets	-7449.2	1041.0
Central Bank	*-115.3*	*-159.3*
Banks	*-6925.0*	*3602.5*
Other	*-408.9*	*-2402.2*
Other Liabilities	-1332.5	21521.6
Central Bank	*-2479.3*	*16363.6*
Banks	*1146.8*	*5158.0*
Net Errors & Omissions	**-1964.4**	**-4492.6**
Overall Balance	**1796.2**	**-7268.8**
Change in CBE's reserve assets (increase = -)	**-1796.2**	**7268.8**

* Preliminary.