

## The bad, the good, and the mixed news: BoP figures in H1 2018/19

Two days ago, the Central Bank of Egypt (CBE) released the results of the Balance of Payments (BoP) for H1 FY2018/19 ended 31 December 2018. The figures convey both bad and good news. Bad news comes from the overall balance and foreign direct investments (FDIs). Good news is related to petroleum trade balance and tourism. On the other hand, non-petroleum trade balance showed an unchanged pattern of relatively high growth of non-oil imports vis-à-vis sluggish growth in non-oil exports. Below, we detail our main observations.

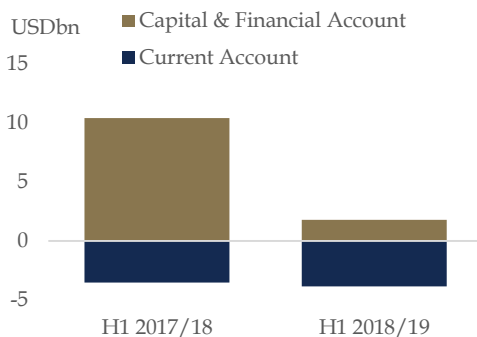
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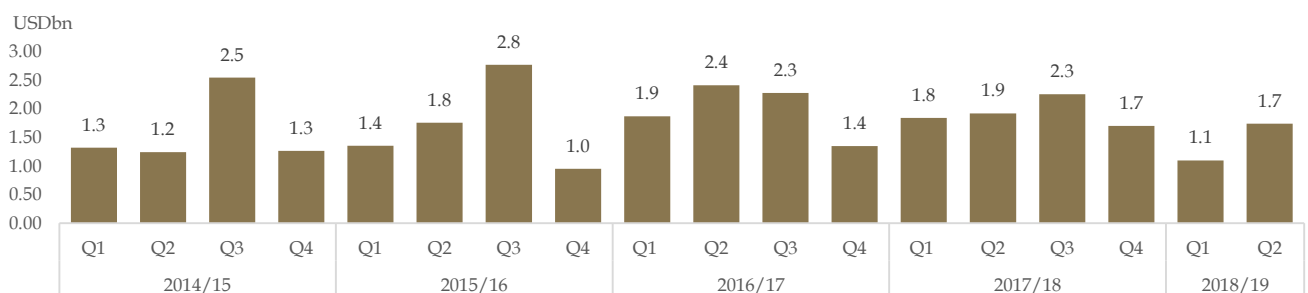
### Overall BoP records a deficit in H1 FY2018/19 on much weaker financial account inflows



Source: CBE.

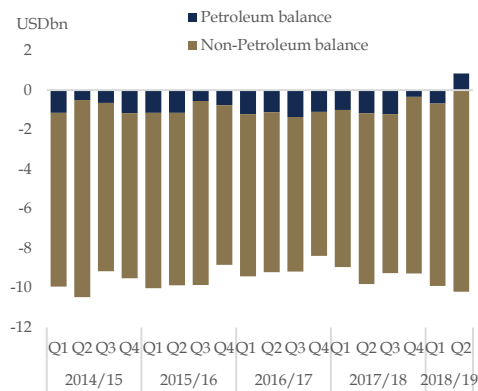
- Overall BoP recorded a deficit for the first time in 10 consecutive quarters:** The overall BoP recorded a USD1.8bn deficit in H1 FY2018/19 and particularly a USD2bn deficit in Q2 alone (October-December). This was mainly caused by a drop in financial account inflows, which—unsurprisingly—came in view of high portfolio outflows and the absence of major loan disbursement and Eurobond issuances. All these factors dragged the financial account net inflows from USD10.4bn in H1 FY2017/18, to USD1.8bn in H1 FY2018/19. Current account registered a deficit of USD3.9bn in H1 FY2018/19 (9% wider y/y) and USD2.1bn in Q2 FY2018/19 (20% wider q/q). This underscores our view of gradually increasing current account pressures save for any breakthrough in trade balance structure.
- FDIs recorded a large drop:** Net FDI inflows have dropped significantly from USD3.8bn in H1 FY2017/18 to USD2.8bn in H1 FY2018/19 (-24% y/y). This is the net effect of: (1) Flat inflows (USD6.6bn compared to USD6.57bn in the year-ago period), (2) Higher outflows amounting to USD3.8bn compared to the USD2.8bn outflows previously recorded. Sequentially, outflows also increased from USD1.8bn in Q1 FY2018/19 to USD2bn in Q2 FY2018/19, which raises a flag. Unfortunately, there are no data as to which sectors, activities, or nations that may have withdrawn their capital. We presume that Egypt needs deeper institutional reform (i.e., tax administration, licensing procedures, and more investment incentives) to compensate investors for the higher cost of energy (cheap energy was one of Egypt's competitive edges previously).

### Net FDI inflows recover q/q but drop 24% y/y in H1 FY2018/19



Source: CBE.

## Petroleum trade balance turns positive with USD839mn in Q2 FY2018/19



Source: CBE.

- **Unsurprising trade balance behavior:** On another note, non-oil trade deficit does not show any change in its pattern. That is, strong growth in non-oil imports (+11% y/y) to USD27.7bn and sluggish growth in non-oil exports to USD8.27bn (almost flat, with only 0.26% y/y growth).

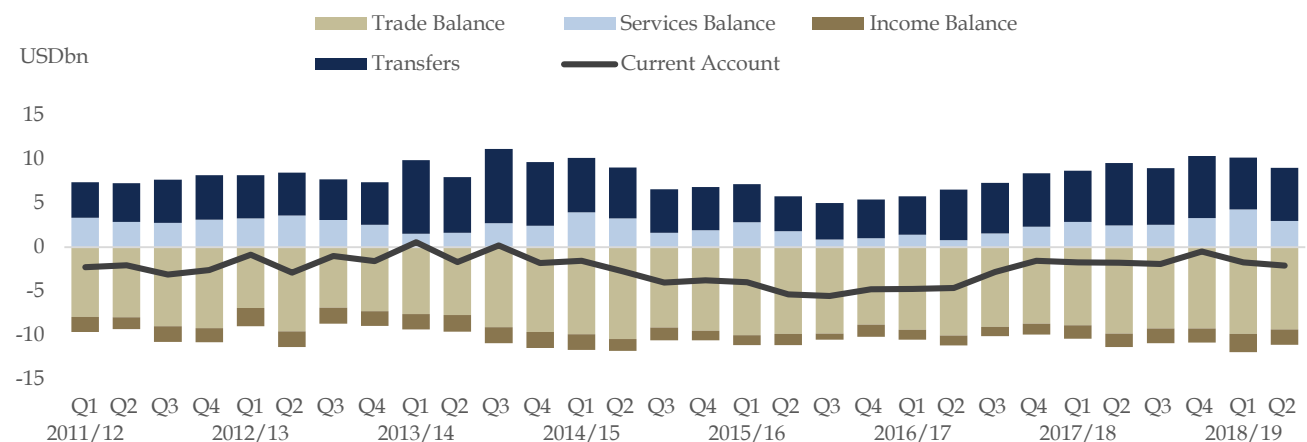
### So, what's the good news?

- **Tourism picks up significantly:** Tourism revenues surged y/y by 36%, from c.USD5bn in H1 FY2017/18 to USD6.8bn in H1 FY2018/19. This contributed to the higher bulk of the y/y 37% surge in services balance, from USD5.3bn to USD7.3bn in the corresponding periods.
- **Net petroleum trade balance turns positive:** Lower volumes and prices of imported oil, simultaneously with self sufficiency of natural gas, helped turn the petroleum trade balance positive. It recorded an overall net positive balance of USD150mn in H1 FY2018/19 and USD839mn in Q2 FY2018/19 alone.

### What does all this mean for Egypt's external sector?

- We reiterate [our view that flotation gains for Egypt's external sector have almost peaked](#) and that the economy's structural factors will dominate future patterns.
- Stimulating FDIs to higher than the quarterly average of USD1.7bn resistance point is vital. This is highly needed to keep external financing sources on an even keel with no growing need to accumulate external debt.
- We do not expect major changes in the current account pattern in the rest of the fiscal year. Still, we believe H2 FY2018/19 will witness an overall balance of payments surplus, supported by high inflows in the financial account. This will be backed by disbursed IMF tranches and Eurobonds proceeds.

## Current account breakdown by item



Source: CBE.

## Selected BoP Items

USDbn	FY2017/18				FY2018/19	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>Trade Balance</b>	-8.91	-9.84	-9.26	-9.27	-9.90	-9.36
Exports proceeds	5.84	6.22	6.76	7.02	6.79	7.49
Import payments	-14.75	-16.06	-16.01	-16.29	-16.68	-16.85
<b>Services Balance</b>	2.85	2.46	2.53	3.28	4.28	2.98
Suez Canal dues	1.38	1.39	1.39	1.55	1.44	1.49
Travel (tourism revenues)	2.70	2.28	2.27	2.55	3.93	2.86
<b>Balance of Goods &amp; Services</b>	-6.06	-7.38	-6.73	-5.99	-5.61	-6.38
<b>Income Balance</b>	-1.52	-1.52	-1.66	-1.58	-2.05	-1.77
<b>Transfers</b>	5.83	7.11	6.46	7.07	5.91	6.05
<b>Balance of Current Account</b>	-1.75	-1.79	-1.93	-0.49	-1.75	-2.10
<b>Financial Account</b>	6.29	4.22	8.65	2.98	1.59	0.26
Direct Investment In Egypt (net)	1.84	1.92	2.26	1.70	1.10	1.74
Portfolio Investment in Egypt (net)	7.48	0.54	6.91	-2.83	-3.24	-2.65
Other Investment (net)	-3.00	1.83	-0.39	4.18	3.87	1.26
<b>Overall Balance</b>	5.08	0.52	5.38	1.82	0.28	-2.05
<b>Change in CBE reserve assets (increase -)</b>	-5.08	-0.52	-5.38	-1.82	-0.28	2.05

Source: CBE.

Source: CBE, MoF, SHUAA Securities Egypt.

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