Emirates NBD

Egypt Update
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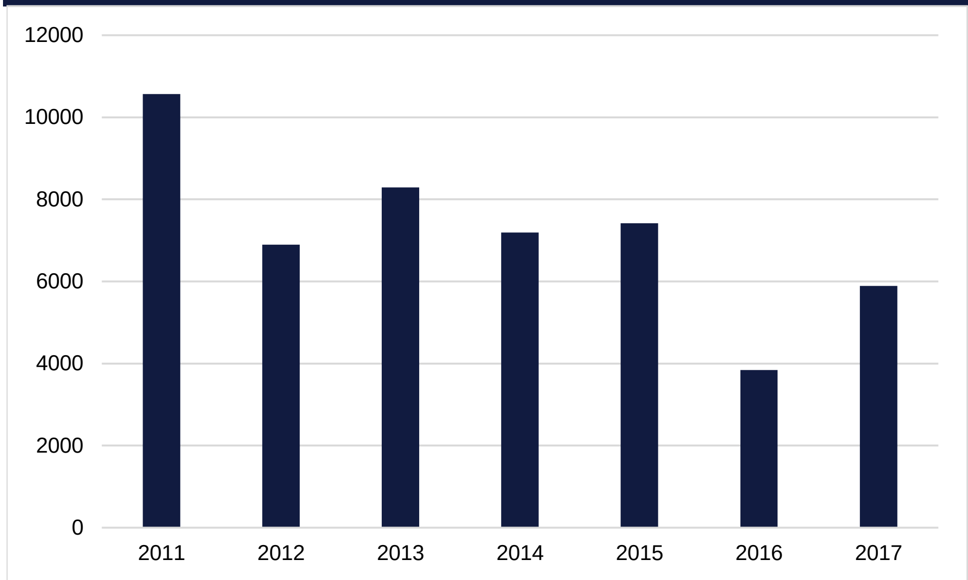
Egypt Update

Tourism sector receives further boost

There were positive developments for Egypt's tourism sector this week, which should reinforce the recovery already seen this year and provide a boost to the economy in 2018. Following meetings between Egyptian President Abdel Fattah al-Sissi and his Russian counterpart Vladimir Putin on Monday, direct civilian flights between Russia and Egypt are set to be resumed for the first time since 2015, when militants downed a Russian tourist flight. Other countries also suspended flights to Red Sea resorts, and this decimated visitor numbers, slashed dollar inflows, and was a contributing factor to the economic weakness which eventually prompted the authorities to turn to the IMF in November 2016.

Egypt visitor numbers, 3Q, '000



Source: Bloomberg, Emirates NBD Research

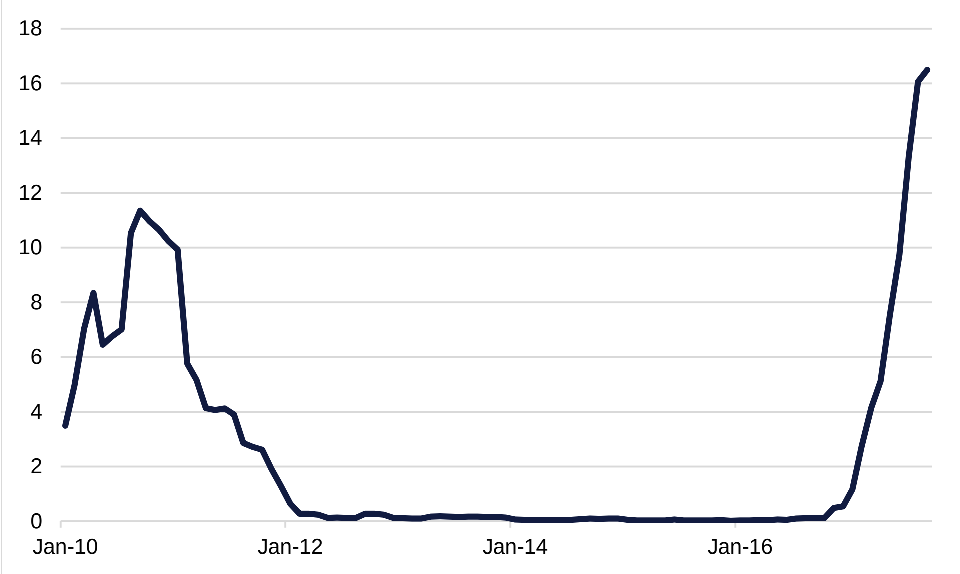
While the agreement reached this week will only see Russian flights to Cairo resumed, with flights to the holiday resorts of Sharm el-Sheikh and Hurghada still embargoed, it is a major positive for the Egyptian tourist sector. The sector has already seen a significant improvement this year, with 3Q numbers up 53.4% y/y. Visitors are still far from those seen prior to the jet's bombing, and especially from pre-2011 volumes, but if Russian fligths to the Red Sea resorts were implemented once more, the sector could see a full recovery. According to the World Travel & Tourism Council, tourism had a total (direct and indirect) contribution of 7.2% of GDP in 2016, and directly supported 773,000 jobs (2.9% of total).

Balance of payments improve

Greater visitor numbers in 2018 will support Egypt's external position, which has already seen a marked improvement in 2017. In figures released this week, the current account deficit narrowed to USD1.6bn in Q1 2017/18 (ended September 30), compared to USD4.7bn in the corresponding period a year earlier. The more competitive currency on offer in Egypt following November 2016's sharp depreciation has had a clear effect on Egypt's current account balance over the intervening months. Travel receipts were up by 255.7% y/y in Q1, and remittances by 37.2%. The wider balance of payments has also seen a dramatic shift, coming in at a surplus of USD5.1bn in the latest quarter, compared to USD1.9bn a year earlier.

While fixed investment - which will be crucial to attract if Egypt is to see sustainable growth hereafter - has lagged so far, portfolio inflows have surged. Very high interest rates and easing of capital controls have seen foreign ownership of treasury bills climb to far above pre-2011 levels. Egypt's reserves have climbed steadily over the course of the year, hitting USD36.7bn in November, compared to just USD19.0bn in October 2016, just prior to the pound's float.

Treasury bills held by foreign owners, USDbn

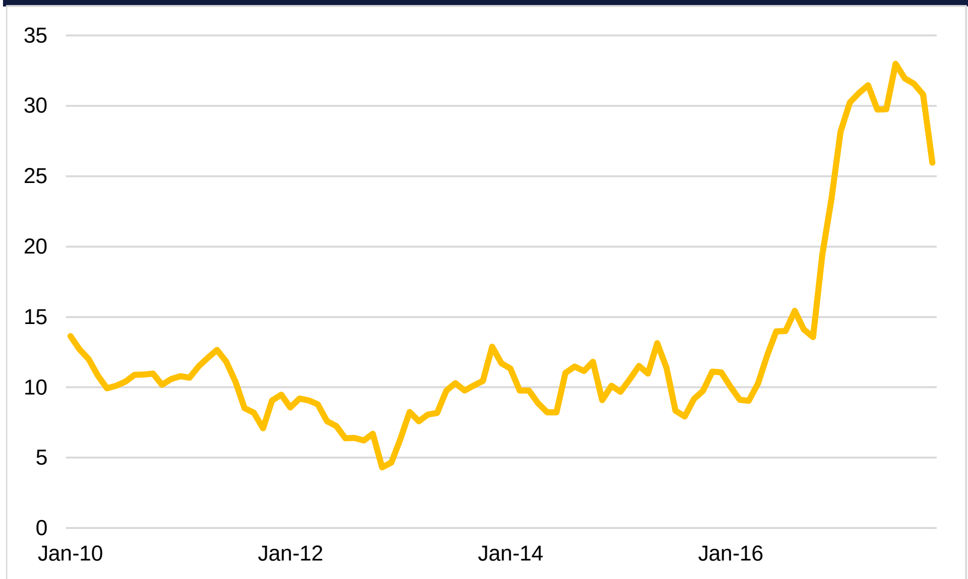


Source: Haver Analytics, Emirates NBD Research

With the improving external position, a further sharp depreciation of the Egyptian pound is unlikely, even as the Central Bank of Egypt begins to ease the very tight monetary policy which was implemented over 2017. Indeed, some modest gains are more probable in the near term as the repatriation mechanism is eased out. As such, we expect further falls in inflation after Egypt's headline inflation rate dipped below 30.0% for the first time since June in November, coming in at 26.0%.

That said, inflation is likely to remain high given other pressures such as a series of subsidy removals and tax hikes enacted as part of the IMF-sponsored economic reform programme. Egypt's monetary policy committee has one more meeting scheduled this year, on December 28. The still-high inflation rate just prior to the meeting will make a Q1 18 cut more likely, although there remains a chance that the CBE will look to make a token cut as pressure to support growth builds.

Egypt headline CPI inflation, % y/y



Source: Haver Analytics, Emirates NBD Research

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