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Emirates NBD

Egypt  
Update  
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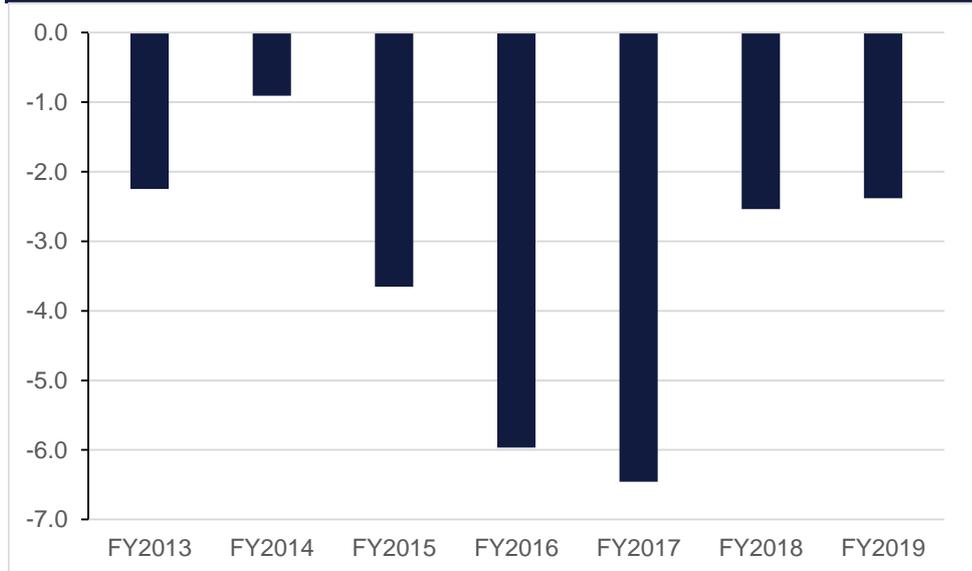
Daniel Richards  
MENA Economist  
+971 4 609 3032  
danielricha@emiratesnbd.com

# Egypt Update

## Current account deficit narrows

The Central Bank of Egypt (CBE) has released full-year balance of payments data for 2017/18 (July-June). The data shows an ongoing improvement in Egypt's external position as a surplus of USD 12.8bn over the year led foreign reserves to rise to record levels of USD 44.26bn in June. Notably, **the current account deficit declined by 58.6% y/y, and stood at 2.5% of GDP according to our estimates, compared to 6.5% the previous year.** In 2018/19 we project that the deficit will narrow further, to 2.0%, aided by declining energy imports and ongoing growth in visitor numbers.

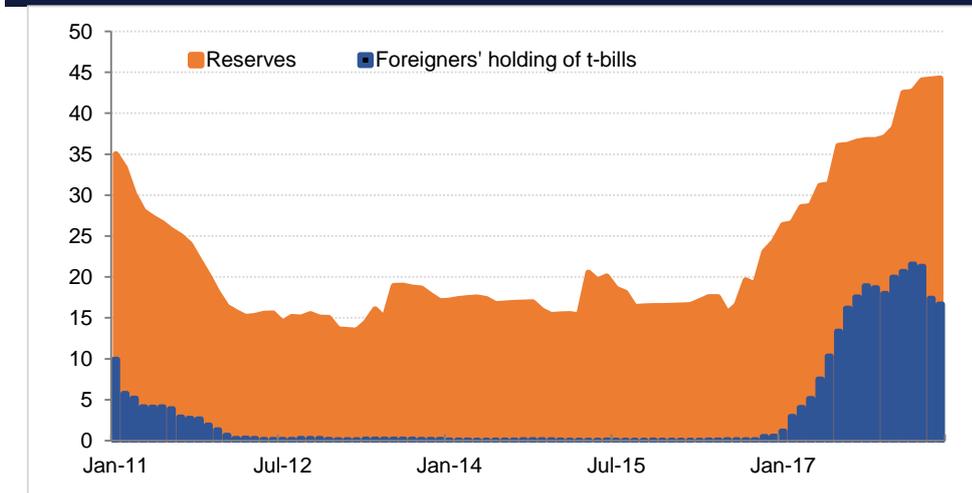
### Current account balance, % GDP



Source: Haver Analytics, Emirates NBD Research

The narrowing current account deficit has been a positive for Egypt's macroeconomic stability, contributing to the EGP's resilience through recent EM turmoil, as compared to other emerging markets where the trajectory has been in the opposite direction. That being said, **the CBE data shows that foreign direct investment has continued to lag, and with portfolio investment likely to decline over the year, a failure to boost other streams of dollar inflows will weigh on consolidation efforts.** The pace of reserves accumulation has already slowed considerably since April, suggesting that the balance of payments surplus has been negligible in recent months.

### Reserves, USDbn

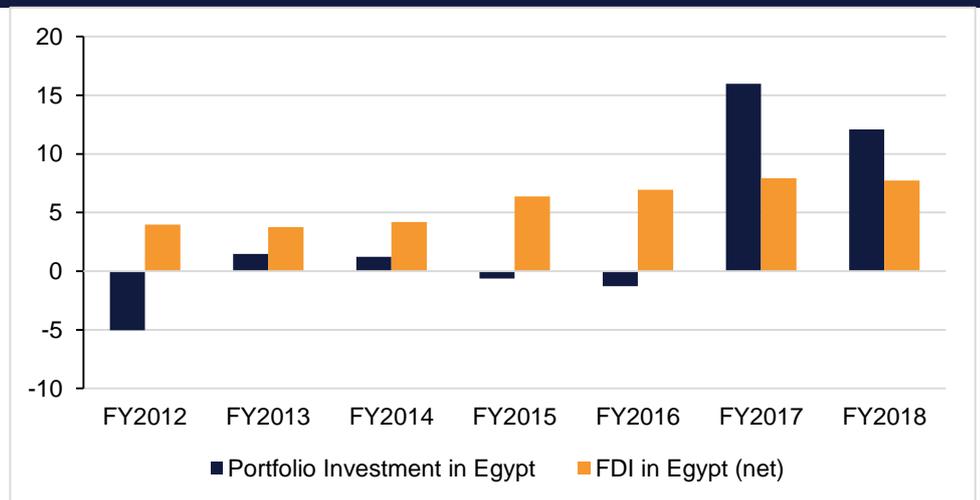


Source: Haver Analytics, Emirates NBD Research

## Services outperform

The IMF reform programme entered into by Egypt in late 2016 progressed in a textbook fashion last year, as the sharp currency devaluation implemented as a condition of the deal served to constrain imports while making exports more competitive. This was most evident in the services account, where **a boom in visitor numbers, enticed by improving security and a more competitive currency, saw travel receipts climb 123.8% y/y**. Stronger world trade contributed to 15.4% growth in Suez Canal revenues, and services receipts overall climbed 39.5%. On the other side of the equation, services payments expanded only 5.9%. Travel payments declined 10.5%, following the 33.0% decline recorded the previous year, as Egyptians' ability to spend abroad continues to be constrained by the weaker pound. The cheaper pound, combined with improving conditions in the GCC, has also contributed to greater inflows of remittances. These rose 21.0% y/y, and with growth in the Gulf expected to strengthen next year, these will likely continue to expand, although ongoing 'Saudisation' efforts in Saudi Arabia do pose a modest risk.

### Declines in portfolio and FDI inflows, USDbn



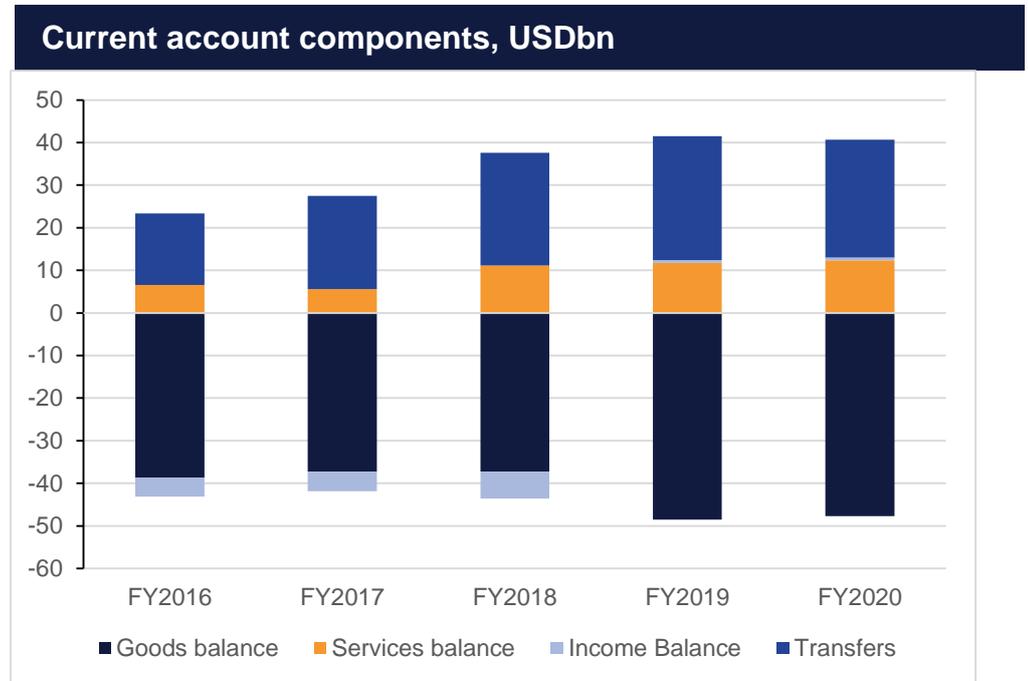
Source: Haver Analytics, Emirates NBD Research

The effect of the currency depreciation on the trade account has been more muted, and the deficit remained static at USD 37.3bn, the same as the previous year. The fairly sticky nature of Egypt's imports and limited success in import substitution to now has seen imports climb over the past two years. Higher oil prices have also led to a greater import bill. Equally, capacity constraints and fairly sluggish FDI inflows have held back growth in Egyptian exports other than petroleum. That said, although the authorities may have expected more robust growth, other exports have expanded by 16.2% and 12.7% in 2016/17 and 2017/18 respectively, compared to an average decline of 2.6% per annum over the previous five years. Petroleum exports grew by 33.1% last year.

## Portfolio inflows under pressure

One of the biggest stories in Egypt's balance of payments over the past two years has been the startling uptick in portfolio inflows enjoyed since the currency devaluation and subsequent 700 cumulative basis points of hikes to the benchmark interest rates and commensurate rise in treasury bill yields. The removal of capital controls also contributed to the recovery which saw portfolio investment climb from negative USD1.3bn in 2015/16 to USD 16.0bn in 2016/17 and USD 12.1bn last year. However, with rising EM aversion since April, this story has begun to unravel. Foreign ownership of treasury bills has declined from USD 21.6bn in March to just USD 14.2bn in August. Much of this entered into Egypt through the repatriation mechanism and so was not reflected in official BoP figures or reserves, and as such the effect of its departure on the EGP has been marginal. Nevertheless, there was a USD 2.9bn outflow of portfolio investment from Egypt recorded in the financial account in Q4 2017/19, and this will likely remain under pressure.

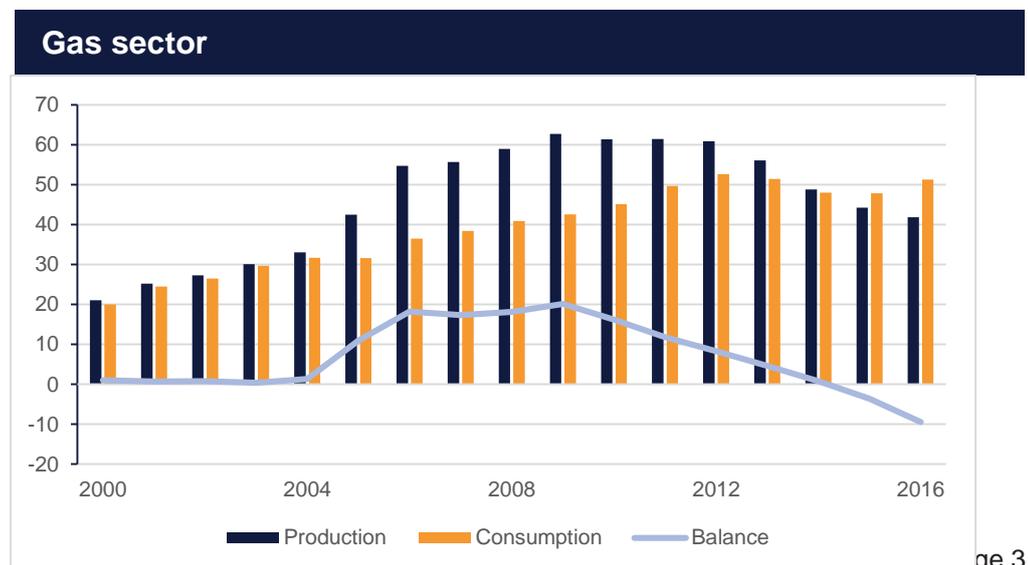
In light of this, the need to boost FDI and other revenue streams will become increasingly important. Net FDI was USD 7.7bn last year, down from USD 7.9bn the previous year, and the bulk of this continues to go into the oil and gas sector (USD 4.5bn), meaning that the development of other growth and employment generating private sector industries has lagged. The improving macroeconomic fundamentals and new investment and bankruptcy laws should aid in this going forward, which will also be positive for ongoing sustainable growth and economic development.



Source: Haver Analytics, Emirates NBD Research

## Gas sector a bright spot

A major bright spot in Egypt's balance of payments dynamics is the development of its offshore gas sector, and according to petroleum minister Tarek el-Molla, Egypt has now ceased imports of LNG following a delivery received in September. The launch of the Zohr gas field in December has seen Egypt's production of natural gas rise to 6.6bn cubic feet per day in September, negating the need to import, and saving USD 250mn a month according to Molla's previous estimates. Egypt aims to become a regional gas hub, servicing volumes from Israeli offshore gas fields, alongside still others belonging to Egypt yet to come online, and this will further boost dollar inflows through associated tariffs.



Source: BP Statistical Review, Emirates NBD Research

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## Emirates NBD Research & Treasury Contact List

**Emirates NBD Head Office**  
12th Floor  
Baniyas Road, Deira  
P.O.Box 777  
Dubai

**Jonathan Morris**  
General Manager Wholesale Banking  
JonathanM@emiratesnbd.com

**Aazar Ali Khwaja**  
Senior Executive Vice President  
Global Markets & Treasury  
+971 4 609 3000  
aazark@emiratesnbd.com

**Tim Fox**  
Head of Research &  
Chief Economist  
+9714 230 7800  
timothyf@emiratesnbd.com

---

### Research

**Khatija Haque**  
Head of MENA Research  
+9714 230 7803  
khatijah@emiratesnbd.com

**Anita Yadav**  
Head of Fixed Income Research  
+9714 230 7630  
anitay@emiratesnbd.com

**Aditya Pugalia**  
Director - Financial Markets Research  
+9714 230 7802  
adityap@emiratesnbd.com

**Daniel Richards**  
MENA Economist  
+9714 609 3032  
danielricha@emiratesnbd.com

**Edward Bell**  
Commodity Analyst  
+9714 230 7701  
edwardpb@emiratesnbd.com

**Mohammed Altajir**  
FX Analytics and Product Development  
+9714 609 3005  
mohammedtaj@emiratesnbd.com

**Hessa Al Khawaja**  
Research Associate  
+9714 609 3015  
hessaalkh@emiratesnbd.com

---

### Sales & Structuring

**Group Head – Treasury Sales**  
Tariq Chaudhary  
+971 4 230 7777  
tariqmc@emiratesnbd.com

**Saudi Arabia Sales**  
Numair Attiyah  
+966 11 282 5656  
numaira@emiratesnbd.com

**Singapore Sales**  
Supriyakumar Sakhalkar  
+65 65785 627  
supriyakumars@emiratesnbd.com

**London Sales**  
+44 (0) 20 7838 2241

**Egypt**  
Gary Boon  
+20 22 726 5040  
garyboon@emiratesnbd.com

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### Emirates NBD Capital

**Hitesh Asarpota**  
Head of Debt Capital Markets.  
+971 50 4529515  
asarpotah@EmiratesNBD.com

---

### Investor Relations

**Patrick Clerkin**  
+9714 230 7805  
patricke@emiratesnbd.com

### Group Corporate Affairs

**Ibrahim Sowaidan**  
+9714 609 4113  
ibrahims@emiratesnbd.com

**Claire Andrea**  
+9714 609 4143  
clairea@emiratesnbd.com