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Egypt's foreign economic transactions within the next 3 years

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The balance of payments is the window through which the national economy overlooks the global economy and vice versa, being the record of all economic transactions that link the national economy to the global economy through reciprocal relations including credit and indebtedness, as well as movement of goods, services and capital.

The balance of payments includes the trade balance, which reflects receipts and payments of exports and merchandise imports; the services balance, which reflects receipts and payments of exports and service imports, and the capital balance, which reflects capital receipts and payments from foreign investment or remittances, and others.

The balance of payments is of great significance at the level of economic analysis of any country, because it reflects how far the domestic economy is intertwining with the global economy, in addition to the fact that the economic transactions included, in terms of content, reflect the production structure, the national economy's strength and competitiveness potential, how far it responds to the development of international production forces In addition to its ability to attract foreign investments, success of service sectors, and other sources of foreign exchange.

This paper reviews analysis of Egyptian foreign transactions through the Egyptian balance of payments, as shown in Table No. 3, through the following points:

Table (3) of Balance of Payment

(US$ mn)

	FY 2019/2020*	FY 2020/2021*
Trade Balance	-36465.1	-42059.6
Exports**	26376.0	28676.5
Petroleum	8479.9	8597.2
Other Exports	17896.1	20079.3
Imports**	-62841.1	-70736.1
Petroleum	-8900.9	-8603.9
Other Imports	-53940.2	-62132.2
Services Balance	8972.5	5119.0
Receipts	21288.9	15995.1
Transportation	7881.1	7527.7
of which: Suez Canal	*5805.7*	*5911.2*
Travel	9859.4	4861.5
Government receipts	758.5	513.1
Other	2789.9	3092.8
Payments	12316.4	10876.1
Transportation	2050.1	1812.2
Travel	3213.0	2708.2
Government Expenditures	975.8	1246.6
Other	6077.5	5109.1
Income Balance	-11354.0	-12399.2
Income receipts	942.1	572.9
Income payments	12296.1	12972.1
of which: Interest paid	*2947.7*	*2518.7*
Transfers (Net)	27679.9	30903.4
Private Transfers (Net)	27461.8	31180.3
of which: Workers' Remittances	*27758.0*	*31425.3*
Official Transfers (Net)	218.1	-276.9
Current Account Balance	-11166.7	-18436.4

(US$ mn)

	FY 2019/2020*	FY 2020/2021*
Capital & Financial Account	5374.6	23374.0
Capital Account	-248.5	-153.0
Financial Account	5623.1	23527.0
Direct Investment Abroad	-351.2	-379.1
Direct Investment in Egypt (Net)	7453.0	5214.2
Portfolio Investment Abroad (Net)	-818.1	-750.7
Portfolio Investment in Egypt (Net)	-7307.3	18742.4
of which: Bonds	*4394.9*	*4348.9*
Other Investment (Net)	6646.7	700.2
Net Borrowing	4541.6	7964.7
M&L-Term Loans (Net)	7216.8	4263.7
Drawings	9253.1	6502.4
Repayments	-2036.3	-2238.7
MT-Suppliers' Credit (Net)	-644.9	2173.6
Drawings	34.3	3304.1
Repayments	-679.2	-1130.5
ST-Suppliers' Credit (Net)	-2030.3	1527.4
Other Assets	-100.4	-6039.4
Central Bank	-231.7	-115.4
Banks	4306.4	-5014.6
Other	-4175.1	-909.4
Other Liabilities	2205.5	-1225.1
Central Bank	-141.0	-2734.9
Banks	2346.5	1509.8
Net Errors & Omissions	-2795.1	-3075.9
Overall Balance	-8587.2	1861.7
Change in CBE Reserve Assets (Increase(-))	8587.2	-1861.7

First: the Egyptian trade balance

The data in Table 4 indicates a rise in total Egyptian exports from approximately $26.4 billion in FY2019/2020 to $28.7 billion in FY2020/2021, an increase of approximately $2.3 billion.

Most of this increase came from the increase in Egyptian non-oil merchandise exports, which increased from $17.9 billion to nearly $20 billion during the same period, an increase of more than 10% in one year.

In general, it can be said that the main component of Egyptian non-oil exports is based on exports of chemical and fertilizer industries, which were estimated at about $5.2 billion in 2020[1], (Note that these industries are among the environment-polluting industries, of which major industrial countries deliberately dispose and establish in less advanced countries and then import their products from there), in addition to Egyptian agricultural exports, which recorded $2.4 billion during the (FY2020/2021) season, compared to $2.2 billion during the season before[2].

It is noteworthy that these figures are different from the figures disseminated by the Egyptian cabinet, which published a statement in which it referred to the large leap in Egyptian exports during FY2020/2021 compared to FY2019/2020, where exports increased by 18.2%, recording $34.4 billion in FY2020/2021, compared to $29.1 billion in FY2019/2020[3].

The government's estimates of improvement in exports this year may be due to the rise in Egypt's exports of natural gas, whose prices jumped during the post-Covid-19 period, where these additional revenues may compensate for the increase in oil imports after the recent increases in its global prices.

The table data also indicates that the rise in Egyptian exports was offset by a noticeable increase in Egyptian imports during the fiscal year, rising from $62.8 billion in FY2019/2020 to $70.7 billion in FY2020/2021, where this entire increase is due to the increase in non-oil goods imports from $53.9 billion to $62.1 billion in FY2020/2021.

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[1] Egyptian plan to achieve $6.5 billion worth of exports from the chemical and fertilizer industries, link

[2] Exports of agricultural crops exports $2.4 billion last season, link

[3] Egypt.. a historic leap in exports, link

It is noteworthy that the data of the Organization of Arab Petroleum Exporting Countries (OAPEC) showed a rise in Egypt's exports of liquefied natural gas during the first 9 months of this year by 780% compared to the same period in 2020, where Egypt exported about 4.4 tons in the first 9 months of 2021 compared to 500 thousand tons during the same period in 2020[4].

Data of Figure 3 indicate these developments in natural gas exports, which reached its peak in the first quarter of 2021 with a quantity of 2 billion tons, soon declined to 1.4 billion tons only in the following two quarters of the same year.

Undoubtedly, it is logical that the increase in natural gas exports will inevitably reflect on the increase in total export revenues and thus the decline in the trade balance deficit and the dollar gap, but the data indicate a large production fluctuation, for which there is no official explanation, but according to some experts it is due to technical problems.

The Ministry of Petroleum also expected that Egypt's production of natural gas would drop by 250 million cubic feet per day during the fiscal year 2022/2021, down to 7.2 billion cubic feet per day. During the current fiscal year 2020/2021, Egypt produces approximately 7.54 billion cubic feet of gas per day, a marked rise compared to last year (FY2019/2020), in which it produced up to 6.55 billion cubic feet per day[5], which justifies expectations that the end of gas self-sufficiency is approaching, due to the rise in domestic consumption, as well as a decline in gas production, especially from the Zohr field, due to technical problems.

The evolution of Egypt's exports of liquefied natural gas since the outbreak of Covid-19.

Evolution of Egypt's LNG exports since Corona Outbreak

Time	1st. Quarter 2020	2nd. Quarter 2020	3rd. Quarter 2020	4th. Quarter 2020	1st. Quarter 2021	2nd. Quarter 2021	3rd. Quarter 2021
Exports (in 1000 tons)	40	0	100	1000	2000	1400	1000

[4] Development of Egypt's exports of LNG 2021, link

[5] Egypt's production of natural gas may decline during the next year, link

The above analysis indicates that the boom in natural gas production and exports may be largely temporary, especially in the absence of significant new explorations, that is even assuming that there is some improvement in the trade balance deficit for the year 2021 according to the official narrative, yet it is a temporary improvement, and soon the deficit will return and the dollar gap will go back to the previous situation, and both may grow at the end of self-sufficiency, to add more growth in the deficit to complement the rising Egyptian imports.

The major and continued increase in Egyptian imports, even during the year of Covid-19 outbreak, confirms the poor Egyptian productive potentials, both in industry and agriculture, in addition to the growth of imported goods needed for the increasing service projects, which clearly indicates likely continuation of these increases in the next three years, as a likely rise in industrial and agricultural production potentials needs a sufficient period of time, in addition to many legal, economic and competitive arrangements, most of which are still missing in the Egyptian case.

The rise in Egyptian imports by more than three times the rise in exports led to widening the trade balance deficit from $36.5 billion in FY2019/2020 to nearly $42 billion in FY2020/2021, which is likely to widen the foreign exchange gap in the next year or even the next two years, whether in terms of exports that enjoy a great deal of low flexibility, or in terms of imports that are growing in response to the needs of the growing population and service projects.

It is also significant to note that the growth in imports and, consequently, the trade balance deficit could have widened more had it not been for the great government pressure on domestic consumption potentials following the financial control program with the International Monetary Fund at the end of 2016, in addition to the Covid-19 repercussions, globally and domestically.

Even with assuming that the government's expectations of increasing exports to $36 billion for the current year are correct, the deficit will be fixed at more than $36 billion, which is the same deficit rate of the previous year, that is the main component of the foreign exchange income gap, which means that the trade balance deficit will at best, according to government estimates, remain unchanged, as in the previous year, yet it is likely to increase in the next three years.

Second: the balance of services

The data in Table 4 indicate a decline in the Egyptian service balance surplus from $8.9 billion in FY2019/2020 to $5.1 billion in FY2020/2021, down from $13.4 billion in FY2018/2019, due to a decline in receipts from $21.3 billion in FY2019/2020 to approximately $16 billion only in FY2020/2021, down from $24.4 billion in FY2018/2019.

This is despite the decline in service payments from abroad from $12.3 billion in FY2019/2020 to $10.9 billion in FY2020/2021, down from $11.4 billion in FY2018/2019.

The continued decline of service balance surpluses despite the decrease in service payments indicates that service revenues have been suffering greatly during the past three years, not only in the year of Covid-19 outbreak, where the table data indicate a sharp decline in travel proceeds during the last period, from $9.86 billion in FY2019/2020 to $4.86 billion in FY2020/2021, after it had been $12.6 billion before, due to the repercussions of the Covid-19.

Thus, the Egyptian foreign exchange revenues lost a significant part of the foreign exchange sources due to the decline in tourism activity, which in normal circumstances constitutes about 12% of the gross domestic product (GDP), and about 15% of Egypt's revenues from foreign currencies, and the country's third largest source of foreign income.

However, this is a temporary loss to a large extent, as a good recovery is expected for the tourism sector next year, which may restore its revenues before Covid-19, yet that depends on the future of Covid-19 variants and the various international, regional and domestic conditions, as well as the the return of workers and competencies that had left the sector due to the accumulation of crises, taking into mind the limited growth of the Egyptian tourism sector historically, in a way that is not commensurate with the size and diversity of the Egyptian tourism components. This means that the hope of increasing tourism yields and consequently the surplus of the service balance and reducing the dollar gap, is bound only to restoration of the pre-Covid-19 levels. However, it is clear that there will be surges in the number of tourists or in their spending potentials during the next three years, due to the security, diplomatic, marketing, training and other arrangements that are required, amid the sharp competition with other countries that offer professional and disciplined levels of tourism at prices that are close to or less than the Egyptian tourism product.

It is noteworthy that there is a new challenge for the Egyptian dollar resource gap coming from the travel sector, which is related to the increase in the sector's expenditures in foreign currency, amounting to $3 billion on average during the three years before Covid-19 outbreak, which declined to $2.7 billion in FY2020/2021, a slight decrease that is considered an evidence of the sustainability of this spending.

What solidifies this inference, and indicates likeliness of an increase in spending on travel during the next three years, is the gradual return to the Umrah and Hajj activities, which despite all the administrative obstacles imposed by the Saudi authorities in agreement with the Egyptian government, did not succeed in reducing travel expenses in general, except slightly, even in the years before Covid-19 outbreak, which suggests the likeliness of increasing travel expenses and thus reducing the surplus in the service balance, and further widening the gap in the Egyptian dollar resources.

Third: Foreign direct investment in Egypt

The data of the Central Bank of Egypt (CBE) show that net foreign direct investment in Egypt has decreased from $8.2 billion in FY2018/2019 to $7.5 billion in FY2019/2020, and is expected to decrease to $5.2 billion in FY2020/2021. This decline in recent years is due to the repercussions of Covid-19, which pushed foreign capitals to return to the headquarters of their parent companies to face the growing expenses and lack of revenues at that time.

In general, the Egyptian problem with foreign investments is historical, where these investments are very limited compared to many other countries. It is also noteworthy that the size of Arab investments in Egypt seems very small, especially in light of the strategic alliance of the Egyptian regime with the UAE, which invest only a total of $15 billion[6], and Saudi Arabia which invests a total of $30 billion in Egypt, including oil investments[7]. It should also be noted here the trends of Emirati investments in Egypt, amid some warnings that have recently emerged about its tendency to control the private medical sector, as well as expansion in the educational sector in Egypt.

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[6] $15 billion, volume of Emirati investments in Egypt, link

[7] Egypt-Saudi Arabia mutual investments, link

Table (5) of International Investment Position

End of	June 2020*		June 2021*	
	Assets	Liabilities	Assets	Liabilities
Total	69911.9	261688.5	78426.3	295793.1
1- Direct investment	8290.5	129133.6	8669.6	134285.4
2- Portfolio investments	1082.8	32963.7	1080.8	52357.4
Equity security	561.4	1453.5	496.5	638.4
Debt security	721.4	31510.2	584.3	51719.0
3- Other investments	23320.2	99591.2	29229.6	109150.3
Trade credits	***0.0***	***4645.8***	***0.0***	***4846.8***
Government	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0
Other sectors	0.0	4645.8	0.0	4846.8
Long-term	0.0	0.0	0.0	0.0
Short-term	0.0	4645.8	0.0	4846.8
Loans	***370.6***	***72952.3***	***352.3***	***84020.7***
Monetary authorities	0.0	6918.9	0.0	6521.6
Long-term	0.0	6802.3	0.0	6458.1
Short-term	0.0	116.6	0.0	63.5
Government	0.0	45452.8	0.0	53736.3
Long-term	0.0	45452.8	0.0	51736.3
Short-term	0.0	0.0	0.0	2000.0
Banks	370.6	10895.6	352.3	13142.9
Long-term	198.3	8359.7	197.0	10371.9
Short-term	172.3	2535.9	155.3	2771.0
Other sectors	0.0	9686.0	0.0	10609.9
Long-term	0.0	9686.0	0.0	10609.9
Short-term	0.0	0.0	0.0	0.0
Currency and deposits	***22949.6***	***20756.2***	***28877.3***	***19021.2***
Monetary authorities	0.0	19731.0	0.0	17763.7
Long-term	0.0	17188.4	0.0	14976.5
Short-term	0.0	2542.6	0.0	2787.2
Government	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0
Banks	15282.6	1025.1	20706.3	1247.5
Long-term	0.0	0.0	0.0	0.0
Short-term	0.0	1025.1	0.0	1247.5
Other sectors	7667.0	0.0	8171.0	0.0
Long-term	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0
Other assets / Liabilities	***0.0***	***1236.0***	***0.0***	***1281.6***
Monetary authorities	0.0	1236.0	0.0	1281.6
Long-term	0.0	1236.0	0.0	1281.6
Short-term	0.0	0.0	0.0	0.0
Government	0.0	0.0	0.0	0.0
Banks	0.0	0.0	0.0	0.0
Other sectors	0.0	0.0	0.0	0.0
4- Reserves assets	37218.4	0.0	39446.3	0.0

* Preliminary.

In general, net foreign direct investments to Egypt seem to a large extent insignificant, in addition to the fact that the largest percentage of them were directed to the petroleum sector, with a rate ranging between 53% and 70%, during the period from 2012 to 2018[8], which means that the petroleum sector is the focus of foreigners' attention with respect to their investments in Egypt, and at the same time, the oil exports statistics indicate that the foreign partner's share ranges between 35% and 40%, in addition to the natural gas liquefaction projects, where a large proportion of their revenues goes to foreign companies operating in Egypt.

It is also noteworthy that sources of investments flowing into Egypt are concentrated in the United States and the European Union, an average of 50%, and that Arab investments flowing into Egypt are still very small despite their remarkable improvement in recent years.

It can be said that despite the economic procedures taken by the Egyptian government to support the domestic and foreign investment climate, most notably issuance of a new investment law, issuance of companies, money market and bankruptcy laws, in addition to amendment of some monetary policies that ensure availability of foreign currency and the possibility and ease of its transference abroad - despite all these procedures, the size of foreign investment have not been reflective of these reformatory measures[9].

In short, the reasons behind the reluctance of foreign direct investments from access to the Egyptian market can be traced back to the following:

- Erosion of the consumer purchasing power of masses of Egyptians after the financial control programs with the International Monetary Fund.
- Lack of a trained and professionally qualified and skilled workforce with modern specifications, equipped with work morals and culture.
- Infringement on the business climate in Egypt by sovereign bodies and the government.
- High rates of inflation.

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[8] Did foreigners monopolize Egypt's oil wealth?, link

[9] For more details, see: Dr. Ahmed Zikrallah: Foreign Investment in Egypt: Reality and Challenges, link

- The difficulties of doing business in terms of easy entry to establish projects, starting with approvals and licenses and obtaining necessary land and facilities.
- Low levels of transparency and information flow, difficulty of customs clearance operations and spread of corruption in ports, high customs duties on some materials, management of systems and difficulty of defining the functional responsibilities of some government agencies.

A review of the above factors, on which there is almost unanimity among researchers being behind discouraging foreign investments from heading to Egypt, clearly indicates that most of them need a political will in the first place to overcome them, in addition to allocation of sufficient financial resources, especially in education and training, with a need to a relatively intermediate period of time to lead to changing the current conditions of the size of foreign investments.

It can be concluded that foreign direct investments coming into the Egyptian market may only improve to restore the pre-Covid-19 conditions, which may happen in the next year or the year after, according to the conditions of covid-19 variants, vaccines, and medicines.

It will also be difficult for the size of these investments to witness a surge during the next three years, especially in light of the state's failure to engage in seriously addressing the above inhibitors; and even with a serious and close handling of them, there will be a need for a relatively long period of time for to reach due results. Thus, it can be said that the foreign direct investment proceeds in Egypt will not lead to a significant change in the situation of Egypt's income and foreign exchange gap during the next three years.

Fourth: Remittances of workers overseas:

The CBA data in Table 4, and some CBE bulletins of previous years, indicate that remittances from Egyptians abroad have continued to rise over the last ten years, rising from $12.6 billion in FY2010-2011 to nearly $18.7 billion in the two fiscal years 2012/2013 and 2013/2014, then quickly jumped to $25.2 billion and $27.8 billion in FY2018/2019 and FY2019/2020.

These remittances also achieved a high record during FY2021/2020, after they grew by more than 13%, reaching $31.4 billion, where during the fourth quarter only, remittances rose up by about 30% to reach 8.1 billion, compared to $6.2 billion in the same period of FY2020/ 2019.

Thus, Egypt has become one of the top five destinations for remittances from abroad in 2020[10], and it is expected to occupy a more advanced position by the end of this year.

It is noteworthy that the remittances of Egyptian expatriates almost alone exceed the total Egyptian revenues from both the Suez Canal and tourism revenues in addition to non-oil commodity exports (which means that Egyptians at home mainly live on the remittances sent by their families abroad!). In general, it can be said that remittances of Egyptian expatriates constitute more than a third of Egypt's foreign exchange earnings, and this has become more important, not only in the size of remittances, but in their ability to overcome the difficulties, notably the crisis of low oil prices in Gulf countries in recent years and the repercussions of the Covid-19 closure.

In general, the large and steady growth of these remittances in the last three years can be partially explained by the loss of a large number of Egyptian expatriates of their jobs, and consequently they returned with all their funds, not part of it as they used to in the years before the outbreak of Covid-19, especially with failure of many Egyptian workers to return to their workplaces due to closure, or restrictions imposed by the Gulf countries in the context of facing internal financial crisis following the drop in oil prices.

In addition, the high prices in Egypt consequently led to the high living requirements of families working abroad; and the period following the flotation of the Egyptian pound constituted a great purchasing opportunity in local currency for real estate and land at home.

As for future expectations about remittances from Egyptian expatriates, there are several reasons that are likely to continue at the same level of this year during the coming three years, including:

- The upward trend of oil prices during the last period in light of the global economy's tendency to restore pre-crisis production levels, which have relatively compensated the losses of the Gulf countries during the past years, and pushed them to announce huge budgets for the next fiscal year, including large government investments that will result in maintaining the existing employment levels and perhaps relatively increased.

[10] Remittances of Egyptian expatriates reach a new historical peak in FY2020/2021, link

- The relative stability of the situation in Libya and the frequent announcement of need for Egyptian workers in reconstruction, where it is likely that Egyptian companies and workers will have a significant role in the reconstruction of Libya, at least in areas controlled by Haftar, which is likely to extend to the entire Libyan territory. Also, the stability of the flow of Libyan oil revenues will be supportive of the flow of Egyptian labor to Libya, to reach about one million, taking into mind that the major powers are keen on highlighting the role of Libyan oil in controlling the global price, and benefiting from the relative absence of the threat of armed conflict there.

- It is noteworthy that a percentage of Egyptian remittances abroad comes from European countries, the United States and Canada, which may explain escalation of these remittances. On the other hand, this may also explain likelihood of continuation of remittances at their current levels during the coming three years, especially in light of the large compensations disbursed to citizens of these countries during the Covid-19 closures, which caused a significant increase in rates of savings and domestic consumption.

- The jobs provided by infrastructure projects in Egypt are of a temporary nature, where their pace may decline if the external debt flows to Egypt face problems related to the international situation, especially in the aspect of hot money, in addition to the fact that the Egyptian government has not succeeded in settling the industrial activity that absorbs the numbers flowing annually towards the labor market, added the already unemployed citizens.

This clearly indicates that seeking a job overseas will be the only refuge for those who may lose their jobs in Egypt during the next three years, which may ensure stabilization of the volume of external remittances. However, it should be noted that despite these indicators, the volume of remittances is highly sensitive to likely threats to security and stability in the Gulf states, where, for example, in the event of a military conflict with Iran - in absence of agreement on Iranian nuclear program - could have a severe impact on Egyptian labor in the Gulf and consequently the volume of remittances they send to homeland[11].

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[11] The views expressed in this article are entirely those of the author's and do not necessarily reflect the views of the Egyptian Institute for Studies