

**Summary of the Balance of Payments and Merchandise
Transactions
During FY 2004/2005***

First: Overall Position of the Balance of Payments

The BOP recorded, for the first time over the past five years, an overall surplus of US\$ 4.5 billion in FY 2004/2005, compared with an overall deficit of US\$ 0.2 billion in the previous FY and US\$ 3.0 billion in FY 1999/2000. This was reflected positively, by the same amount, on the reserve assets in foreign currencies with the CBE.

The current account showed a surplus for the fourth year in a row. The surplus on this account reached US\$ 2.9 billion during FY 2004/2005. This was an outcome of the rise in services surplus and in net unrequited transfers. However, the increase in the trade deficit led to a slight retreat of US\$ 0.5 billion in the said surplus as compared with the previous FY.

Trade deficit increased by 32.5%, to reach US\$ 10.4 billion, as a result of the pick-up in merchandise imports by US\$ 5.9 billion or 32.3%. This pick-up exceeded the growth of US\$ 3.4 billion or 32.2% in merchandise exports. The increase in oil and non-oil imports by 55.9% and 28.5%, respectively, explained the rise in merchandise imports. As to the improvement in merchandise exports, it was owing to the rise of 34.9% in oil exports and of 30.5% in non-oil exports.

The 7.2% pick-up in the services surplus came as an outcome of the increase in invisible receipts by 15.8%, to reach US\$ 15.0 billion, and of the growth in invisible payments by 26.9%, to record US\$ 7.2 billion. As to receipts, travel (tourism revenues) rose by 17.4%. Similarly, transportation receipts rose by 13.4% because of higher earnings from the Suez Canal tolls by 16.1%, as a reflection of the rise in the number of transiting ships and in net tonnage. Moreover, investment income went up by 87.7%, due to a rise in all its components. Other receipts rose by 6.0%. Meanwhile, Government receipts declined by 12.4%. On the payment side, all items showed an increase. Transportation moved up by 35.0% as a consequence of the increase in the transfers by Egyptian navigation companies and foreign airline companies to abroad. There was also a rise in investment income payments by 68.3%, as a main result of the profit transfers of the foreign companies working in Egypt. Also, Government expenditures stepped up by 34.2% and other payments by 21.1%. Moreover, travel payments went up by 9.4%, due to higher payments of tourism and hotel companies to abroad.

* Preliminary figures

Against this background, the ratio of services surplus to trade deficit retreated to 75.6% during FY 2004/2005, against 93.4% during the previous FY.

As for net unrequited transfers, they increased by 38.0%, to post US\$ 5.4 billion. This was due to an increase in private transfers by 43.5%, and in official transfers by 18.9%.

Capital and financial transactions achieved a net inflow of US\$ 3.4 billion during FY 2004/2005, against a net outflow of US\$ 5.0 billion. This comes as a reflection of a number of factors, the most important of which:

- Foreign investment in Egypt with its two types (direct and portfolio) achieved net inflows of US\$ 4.7 billion (of which, net FDI reached US\$ 3.9 billion, including US\$ 2.6 billion foreign investments in the petroleum sector) against US\$ 0.2 billion (of which, net FDI amounted to US\$ 0.4 billion) during the previous FY.
- Net outflows of assets and liabilities (the change in the foreign assets and liabilities with the banks, and the non-reserve foreign assets with the CBE, and the counterpart of some items classified under the current account) retreated to only US\$ 2.8 billion, against US\$ 6.7 billion during the previous FY.
- Outflow of other assets fell, reaching only US\$ 1.0 billion, against US\$ 3.1 billion. This is ascribed to the increase of the banks' purchases of foreign currencies, and to the decline in the difference between estimates of tourism revenues calculated on the basis of the number of tourist nights and the tourist's average spending per night, and those revenues calculated according to the banking system statistics.
- Long- and medium-term loans and facilities revealed a net repayment of US\$ 1.3 billion, against US\$ 0.6 billion.

Second: Merchandise Transactions

Merchandise export proceeds increased by US\$ 3.4 billion or 32.2%, to reach US\$ 13.8 billion, reflecting, as such, the efforts exerted by the government to develop exports, especially non-oil exports. In this respect, the government placed an emphasis on opening new markets in African countries and others, and on conclusion of bilateral trade agreements with neighbor countries, and the European Partnership, and the QIZ between Egypt and the USA & Israel. Such efforts mitigated the effect of the rise in the LE exchange rate vis-à-vis the foreign currencies on Egyptian exports. Moreover, attention has been paid to improving quality, and use of new technologies in manufacturing. Inflation

dropped in Egypt, getting closer to the average inflation rates in trade partner countries. On the other hand, import payments rose by some US\$ 5.9 billion or 32.3%, to post US\$ 24.2 billion. Accordingly, trade deficit rose by US\$ 2.5 billion or 32.5%, to stand at US\$ 10.4 billion, and the ratio of merchandise export proceeds/ import payments slightly declined to 57.1% against 57.2%.

The following is a review of the main developments in the merchandise transactions:

1- Merchandise Structure of Exports and Imports

The rise in export proceeds was due to the increase in the proceeds of both oil exports by 34.9%, to reach US\$ 5.3 billion, and in non-oil exports by 30.5%, to reach US\$ 8.5 billion. The rise in the proceeds of non-oil exports was due to the improvement in the performance of exports of all groups. As such, export proceeds of finished goods rose by US\$ 1.4 billion or 34.6% to US\$ 5.3 billion or 38.7% of total export proceeds. Moreover, export proceeds of raw materials rose by US\$ 56.5 million or 8.4% to US\$ 731.4 million. Export proceeds of semi-finished goods rose by US\$ 12.8 million or 1.7%, to reach US\$ 776.3 million or 5.6% of total proceeds of merchandise exports.

The shares of business sectors in export proceeds varied. The private sector contributed 44.7% of total export proceeds (exports of finished goods accounted for 73.0% of its total exports, mainly iron & steel, cars, tractors & bicycles, ready-made clothes, cotton textiles, cement, glass and its products, and pharmaceuticals). The public sector comes next with a share of 39.6% (oil exports represented 74.0% of its total exports), then the investment sector at 15.7% (oil exports represented 56.8% of its total exports).

Exports by Degree of Processing

	(US\$ mn)				
	Fiscal Year		Fiscal Year		Change
	2003/2004	%	2004/2005	%	
Total	<u>10452.5</u>	<u>100.0</u>	<u>13816.0</u>	<u>100.0</u>	<u>3363.5</u>
1- Fuel, mineral oils & products	4011.8	38.4	5455.3	39.5	1443.5
2- Raw materials	674.9	6.4	731.4	5.3	56.5
3- Semi-finished goods	763.5	7.3	776.3	5.6	12.8
4- Finished goods	3971.8	38.0	5347.7	38.7	1375.9
5- Miscellaneous items, unclassified	1030.5	9.9	1505.3	10.9	474.8

The rise in import payments was due to the increase in the import payments of all groups. Such a rise reflects the fiscal reform measures the

government taken in the previous year, such as lowering the custom tariffs of most merchandise groups, against a background of rising LE exchange rate against foreign currencies.

Imports of intermediate goods recorded a rise of US\$ 1.6 billion or 29.7%, to reach around US\$ 6.8 billion. Imports of investment goods recorded US\$ 4.9 billion, up by US\$ 1.4 billion or 39.6%. In addition, imports of raw materials increased by US\$ 1.2 billion or 36.7%, to reach US\$ 4.3 billion. Likewise, imports of fuel, mineral oils and products rose by US\$ 923.8 million or 60.6%, to record US\$ 2.4 billion.

Imports of consumer goods rose to US\$ 3.2 billion, up by US\$ 271.2 million or 9.3%, due mainly to the growth in imports of durable goods by 23.2%, to reach US\$ 1.1 billion, and in non-durable goods by 3.5% to US\$ 2.1 billion.

The public sector has occupied the top position in the imports activity, accounting for 48.5% of total imports payments (mainly imports of raw materials, investment goods, fuel & mineral oils and intermediate goods). The private sector followed by 44.8% (mainly imports of intermediate goods, investment goods, consumer goods and raw materials). The investment sector came third by 6.7% (mainly imports of intermediate goods, investment goods and consumer goods).

Imports by Degree of Use

(US\$m)

	<u>Fiscal year</u>		%	Change	
	2003/2004	%			2004/2005
Total	18286.3	100.0	100.0	5906.5	
1- Fuel, mineral oils and products	1524.6	8.3	2448.4	10.1	923.8
2- Raw materials	3165.8	17.3	4326.9	17.9	1161.1
3-Intermediate goods	5247.2	28.7	6803.1	28.1	1555.9
4-Investment goods	3506.4	19.2	4894.5	20.2	1388.1
5-Consumer goods	2930.7	16.0	3201.9	13.3	271.2
A- Durables	854.6	4.7	1052.5	4.4	197.9
B- Non-Durables	2076.1	11.3	2149.4	8.9	73.3
6- Miscellaneous items, unclassified	1911.6	10.5	2518.0	10.4	606.4

2- Geographical Distribution of Export Proceeds and Import Payments

According to the geographical distribution of export proceeds, there was a rise in the deficit with the Asian countries, Arab countries, the Russian

Federation and C.I.S, the EU countries and other European countries, while there was a fall in the surplus with the African countries. On the other hand, there was a retreat in the deficit with Australia and the USA. The EU countries were the first market of Egyptian exports, accounting for US\$ 5.1 billion or 37.2% of total export proceeds (mainly Italy, the Netherlands, the UK, France and Spain). The USA came second, absorbing US\$ 4.6 billion or 33.5% of the total. Arab countries came next with US\$ 1.6 billion or 11.3% (headed by the UAE, then Saudi Arabia, Jordan and Lebanon). The share of the Asian countries reached US\$ 1.4 billion or 10.0% (led by India, then Japan, Hong Kong and Singapore). The share of other European countries reached US\$ 752.9 million or 5.4% of total exports (mainly Switzerland and Turkey). The share of African countries was as low as US\$ 182.4 million or 1.3% (mainly Kenya and South Africa). Russian Federation and C.I.S obtained a share of US\$ 57.6 million or 0.4%.

The EU countries continued to be the major source of merchandise imports to Egypt, accounting for US\$ 7.8 billion or 32.4% of total import payments. Germany headed this group, followed by the UK, France, Italy and the Netherlands. The USA contributed US\$ 5.2 billion or 21.6% of total imports. Asian countries ranked third, with US\$ 3.6 billion or 14.9% of total import payments. China topped this group, followed by Japan, South Korea, India and Malaysia. Arab countries came next with US\$ 2.1 billion or 8.8%, with the UAE coming first, then Saudi Arabia, Algeria, Kuwait and Bahrain. Imports from other European countries amounted to US\$ 2.0 billion or 8.2% of the total. Switzerland led this group, followed by Turkey. Meanwhile, imports from the Russian Federation and C.I.S represented only US\$ 548.2 million or 2.3% of total import payments. Imports from the African countries accounted for 0.6% (mainly from Kenya and South Africa).

Geographical Distribution of Merchandise Transactions

(US\$ mn)						
Fiscal Year						
	Export Receipts		Import Payments		Trade Balance	
	2003/2004	2004/2005	2003/2004	2004/2005	2003/2004	2004/2005
Grand Total	<u>10452.5</u>	<u>13816.0</u>	<u>18286.3</u>	<u>24192.8</u>	<u>(7833.8)</u>	<u>(10376.8)</u>
%	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>		
EU*	3534.8	5144.1	5922.7	7849.0	(2387.9)	(2704.9)
%	33.8	37.2	32.4	32.4		
Other European Countries	513.8	752.9	1497.1	1972.7	(983.3)	(1219.8)
%	4.9	5.4	8.2	8.2		
Russian Federation & CIS	65.5	57.6	222.1	548.2	(156.6)	(490.6)
%	0.6	0.4	1.2	2.3		
USA	3701.5	4625.1	4302.6	5220.2	(601.1)	(595.1)
%	35.4	33.5	23.5	21.6		
Arab Countries	1273.3	1557.7	1284.0	2133.6	(10.7)	(575.9)
%	12.2	11.3	7.0	8.8		
Asian Countries	1077.0	1379.7	2642.5	3603.6	(1565.5)	(2223.9)
%	10.3	10.0	14.5	14.9		
African Countries	215.8	182.4	150.4	148.0	65.4	34.4
%	2.1	1.3	0.8	0.6		
Australia	20.0	11.7	350.5	127.2	(330.5)	(115.5)
%	0.2	0.1	1.9	0.5		
Other countries & regions	50.8	104.8	1914.4	2590.3	(1863.6)	(2485.5)
%	0.5	0.8	10.5	10.7		

* Including the ten countries that joined the EU as of May 1st, 2004 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Cyprus, and Malta).

3- Merchandise Balances with the External Sector

The overall balance (goods and services) of the oil sector achieved a surplus of US\$ 2.7 billion, against US\$ 2.4 billion. Merchandise balance of oil revealed a surplus of US\$ 1.3 billion, against US\$ 1.4 billion. Moreover, the merchandise balance of cotton and products thereof & other textiles revealed a surplus of US\$ 318.9 million, denoting a fall of US\$ 57.9 million or 15.4%.

The deficit on the merchandise balance of the base metals and products thereof decreased by US\$ 192.0 million or 41.1%, to post only US\$ 275.1 million, and of the foodstuffs by US\$ 70.5 million or 5.6%, to reach US\$ 1.2 billion.

On the other side, the deficit on chemicals balance accelerated by US\$ 410.3 million or 57.4%, to reach US\$ 1.1 billion. In addition, the deficit on the balance of vehicles and cars and the other means of transportation widened by US\$ 85.2 million or 15.5%, to stand at US\$ 634.1 million. The deficit on the balance of electric machines, appliances and equipments & parts thereof rose by US\$ 106.1 million or 9.0%, to reach US\$ 1.3 billion, and of cereals by US\$ 88.0 million or 6.5%, to reach a total of US\$ 1.4 billion.

Merchandise Balances

(US\$ mn)

	<u>Fiscal year</u>					
	<u>2003/2004</u>			<u>2004/2005</u>		
	<u>Exports</u>	<u>Imports</u>	<u>(Surplus/ Deficit)</u>	<u>Exports</u>	<u>Imports</u>	<u>(Surplus/ Deficit)</u>
1- Petroleum balance (goods and services)	5037.3	2603.9	2433.4	6763.3	4030.4	2732.9
2- Merchandise balance of cotton & products thereof and other textiles	976.3	599.5	376.8	1041.9	723.0	318.9
3- Merchandise balance of base metals and products thereof	847.0	1314.1	(467.1)	1370.0	1645.1	(275.1)
4- Merchandise balance of foodstuffs	272.3	1531.9	(1259.6)	469.1	1658.2	(1189.1)
5- Merchandise balance of chemicals	646.3	1361.0	(714.7)	706.4	1831.4	(1125.0)
6- Merchandise balance of vehicles, cars and other means of transportation	238.8	787.7	(548.9)	379.8	1013.9	(634.1)
7- Merchandise balance of electric machines , appliances & equipment and parts thereof	178.1	1361.3	(1183.2)	272.5	1561.8	(1289.3)
8- Merchandise balance of cereals	324.8	1676.1	(1351.3)	323.0	1762.3	(1439.3)

4- Services Balances with the External Sector

During FY 2004/2005, the services balances showed an improvement in the surplus on both transportation and travel balances. The surplus on transportation balance increased by 8.8%, to reach US\$ 3.4 billion, and on travel balance (tourism revenues) by 20.0%, to reach US\$ 5.0 billion. Meanwhile, the surplus on balance of other receipts and services payments retreated to reach US\$ 246.7 million, against US\$ 587.4 million. The deficit on investment income balance rose by 22.6%, to reach US\$ 253.4 million. The deficit on the balance of invisible transactions of the government increased by 61.1%, to reach US\$ 499.4 million.

Services Balances

(US\$ mn)

	<u>2003/2004</u>			<u>2004/2005</u>		
	<u>Receipts</u>	<u>Payments</u>	<u>(Surplus/ Deficit)</u>	<u>Receipts</u>	<u>Payments</u>	<u>(Surplus/ Deficit)</u>
Transportation balance	3755.2	668.2	3087.0	4259.6	902.4	3357.2
Travel balance	5475.1	1315.1	4160.0	6429.8	1438.3	4991.5
Investment income balance	485.1	691.8	(206.7)	910.6	1164.0	(253.4)
Balance of invisible transactions of the government	179.4	489.3	(309.9)	157.2	656.6	(499.4)
Balance of other services receipts and payments	3086.2	2498.8	587.4	3272.4	3025.7	246.7

Foreign investment in Egypt (direct and portfolio) achieved net inflows of US\$ 4.7 billion (including FDI in the petroleum sector and the proceeds from selling some local companies to foreign investors), compared with US\$ 0.2 billion a year earlier.

Balance Of Payments

	<u>(US.\$ m.)</u>	
	<u>2003/04</u>	<u>2004/05*</u>
<u>Trade Balance</u>	<u>-7833.8</u>	<u>-10376.8</u>
Exports	10452.5	13816.0
Petroleum	3910.3	5276.3
Other Exports	6542.2	8539.7
Imports	-18286.3	-24192.8
Petroleum	-2549.7	-3975.3
Other Imports	-15736.6	-20217.5
<u>Services (net)</u>	<u>7317.8</u>	<u>7842.6</u>
<u>Receipts</u>	<u>12981.0</u>	<u>15029.6</u>
Transportation of which,	3755.2	4259.6
Suez Canal	(2848.4)	(3306.8)
Travel	5475.1	6429.8
Investment Income	485.1	910.6
Government Receipts	179.4	157.2
Other	3086.2	3272.4
<u>Payments</u>	<u>5663.2</u>	<u>7187.0</u>
Transportation	668.2	902.4
Travel	1315.1	1438.3
Investment Income of which,	691.8	1164.0
Interest Paid	(585.9)	(583.7)
Government Expenditures	489.3	656.6
Other	2498.8	3025.7
<u>Balance of Goods & Services</u>	<u>-516.0</u>	<u>-2534.2</u>
<u>Transfers</u>	<u>3934.1</u>	<u>5427.8</u>
Private Transfers (net)	3046.1	4371.7
Official Transfers (net)	888.0	1056.1
<u>Current Account Balance</u>	<u>3418.1</u>	<u>2893.6</u>

* Preliminary figures

19/10/2005

Balance Of Payments(cont.)

	(US.\$ m.)	
	<u>2003/04</u>	<u>2004/05*</u>
<u>Capital & Financial Account</u>	<u>-5016.4</u>	<u>3396.3</u>
<u>Financial Account</u>	<u>-5016.4</u>	<u>3396.3</u>
<u>Direct Investment Abroad</u>	<u>-155.7</u>	<u>-45.0</u>
<u>Direct Investment In Egypt (net)</u>	<u>407.2</u>	<u>3901.8**</u>
<u>Portfolio Investment Abroad(net)</u>	<u>113.0</u>	<u>540.6</u>
<u>Portfolio Investment in Egypt (net)of which,</u>	<u>-225.6</u>	<u>831.1</u>
Sovereign bonds	-147.7	25.9
<u>Other Investment (net)</u>	<u>-5155.3</u>	<u>-1832.2</u>
<u>Net Borrowing</u>	<u>1508.8</u>	<u>1000.6</u>
<u>M&L Term Loans (net)</u>	<u>-642.0</u>	<u>-783.8</u>
Drawings	791.2	727.9
Repayments	-1433.2	-1511.7
<u>MT Suppliers Credit (net)</u>	<u>68.3</u>	<u>-525.8</u>
Drawings	550.4	86.2
Repayments	-482.1	-612.0
<u>ST Suppliers Credit (net)</u>	<u>2082.5</u>	<u>2310.2</u>
<u>Other Assets</u>	<u>-5704.7</u>	<u>-3155.4</u>
Central Bank	-21.4	23.0
Banks	-2593.2	-2171.6
Other	-3090.1	-1006.8
<u>Other Liabilities</u>	<u>-959.4</u>	<u>322.6</u>
Central Bank	-16.7	0.0
Banks	-942.7	322.6
<u>Net Errors & Omissions</u>	<u>1440.0</u>	<u>-1812.2</u>
<u>Overall Balance</u>	<u>-158.3</u>	<u>4477.7</u>
<u>Change in CBE's reserve assets (increase = -)</u>	<u>158.3</u>	<u>-4477.7</u>

* Preliminary

**Include US\$ 2638.0m.foreign direct investments in petroleum sector and US\$ 419.5 m.reciepts of selling some local companies