

EGYPT

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In the past, Egypt has been incredibly dependent on imports, thereby causing an external trade deficit for the past sixty years. As a result of President Sadat's open-door policy, the deficit grew to US \$4.86 billion in 1980 (National Economies Encyclopedia, 2007).

Egypt's GDP rose steadily from 1995 to 2000 before decreasing in 2001, increasing in 2002, decreasing in 2003, and increasing through 2006 (See Figure 1). The current account, as a portion of GDP, has an upward sloping trend between 1995 and 2006, with a peak in 2003 of approximately 6%. This is a good sign for Egypt; even though there is a negative balance of trade, it has a positive balance of services, income receipts, and unilateral transfers. As of 2007, the current account balance "is projected to move to -2.2 percent of GDP over the next 5 years. If the fiscal deficit reverts back to 8-9 percent of GDP and structural reforms lose momentum, growth and investment would moderate over time and the CA would settle at around -1.0 percent of GDP" (Arab Republic, 2007).

There is not adequate information on the capital account to make informed comments. The financial account has accounted for as much as 8% of GDP in 2003 in the form of outflows, investing in other countries, possibly due to the decreasing value of the Egyptian pound (See Figure 2). Egypt experienced surpluses in both the current and financial accounts in 2006/7, with the balance of payments recording a surplus of US\$5.3 billion (Arab Republic, 2007).

In the current account, the balance of trade has been negative, imports exceeding exports, since 1995 with the gap widening since 2003. Therefore, the trade balance has become more negative since 2003. During the past decade, both imports and exports have increased. Overall, the trend in the trade balance is that it is increasing slightly (See Figure3). As seen in Figure 4, imports have exceeded exports in Egypt since 1975 (National Economies Encyclopedia, 2007).

Offsetting this deficit in the balance of trade, Egypt has been incurring a surplus in their balance of services. The WTO has "noted the vital and growing importance of services for the Egyptian economy" (WTO, 2005). Egypt has been exporting more services than it has been importing since 1995, thus giving it a positive BOS. The

amount of services exported and imported by Egypt has continued to increase since 2001; therefore, there is an upward sloping trend in the balance of services (See Figure 5).

In the income account, there is a negative trend in the NFR. This means that, overall, income payments are exceeding receipts. There is a negative trend in income receipts and a less negative trend in payments. Between 2004 and 2006, income receipts drastically increased (See Figure 6). From 2002 to 2005, income payments exceeded receipts, and in 2006 receipts again superseded payments.

In the past decade, Egypt's unilateral transfer balance has almost exactly followed the receipts. Egypt has had very few transfers out to other countries. It is currently receiving more receipts each year (See Figure 7).

The Egyptian government is striving to improve economic growth and investment by achieving greater stability in the financial sector. A few of the ways the government has been moving toward this goal are by changing the fixed exchange rate to that of a float, raise national savings, and keeping inflation low (Arab Republic, 2007).

In July 2007, Egypt successfully issued its first international local-currency bond, LE 6 billion (Arab Republic, 2007). This explains an increase in the financial account, as there will be an inflow of cash when the government sells the bonds. "Foreign capital will play an increasing role in financing investment. Staff projects that the current account will turn into a deficit of about 2 percent of GDP over the medium term, to be financed largely by foreign direct investment (FDI) and a small increase in borrowing" (Arab Republic, 2007). One of the focus points of the Egyptian government is to increase savings so that it might finance higher investment activities.

In fiscal year 2006/7, CBE's foreign currency placements as a percentage of gross reserves totaled about 230%. Reserves as a percentage of short term external debt were approximately 1150, and reserves as a percentage of broad money were about 35 (Arab Republic, 2007). Investment and savings as a percentage of GDP has been increasing since FY2003/4. Foreign direct investment and gross official reserves have also been increasing during this period, as total external debt has been decreasing (See Table 1).

As of February 18, 2008, it would take approximately 18 cents to purchase one Egyptian pound. This rate is consistent with the steady appreciation of the Egyptian pound versus the United States dollar from 2003 to 2006. From 1998 to 2003, the

Egyptian pound was depreciating against the dollar, with a significant decrease in value from 2000 to 2001 and another from 2002 to 2003 (See Figure 8). In accordance with the indirect view, a person would receive an increasing amount of pounds per dollar from 1998 to 2003 and decreasing again from 2003 to 2006 (See Figure 9).

It was in January 2003 that Prime Minister Atef Obaid made the announcement of changing the Egyptian pound from a fixed exchange rate to one determined by the market (Global Trade Negotiation, 2004). “The de jure exchange rate regime is a managed float. While through mid-2007 the de facto exchange rate arrangement was akin to a conventional fixed peg, in the last few months it has been akin to a managed float” (Arab Republic, 2007). By changing to a system of greater exchange rate flexibility, the monetary policy striving to combat inflation and create stability will be supported because a floating rate acts as a “natural stabilizer” in combating shocks (Arab Republic, 2007). This shift to a market-determined rate caused the depreciation of the pound and increased competitiveness for Egyptian exports (Global Trade Negotiations, 2004).

Initially, it seemed as if Egypt’s open-door policy to trade might have been a disaster, due to the following deficit; however, once the fixed exchange rate of the Egyptian pound shifted to a floating exchange rate, the gap began to narrow, and Egypt began gaining surpluses in other areas. Egypt still maintains a surplus in the current and financial accounts, despite the negative balance of trade.

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