

DETECTING THE PATH OF EGYPT'S PETROLEUM SECTOR ECONOMIC CONTRIBUTION OVER FYS (2014/15- 2018/19)

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The petroleum sector is considered one of the engines of the Egyptian economic growth. Over fiscal years (FYS) 2014/15-2018/19, the petroleum extraction's contribution to the gross domestic product (GDP) significantly amounted to about EGP 342 billion, on annual average. Meanwhile, the sector outstandingly succeeded to attract average investments of about EGP 70 billion annually, representing more than one-eighth of the total investments, according to the Ministry of Planning and Economic Development's (MPED) data. This was a result of the ministry of petroleum's (MoP) plan to encourage and promote the Exploration and Production (E&P) activities in different regions. From the country's Balance of Payments (BOP) side, the petroleum sector's exports accounted for \$8.5 billion (EGP 143.31 billion), on annual average, exceeding one-third of the total exports, according to the Central Bank of Egypt's (CBE) data.

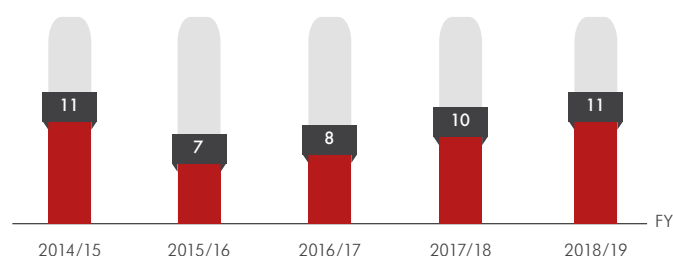
This report sheds light on the economic contribution of the Egyptian petroleum sector by addressing different angles during the above-mentioned period. Within the report, all numbers in dollars are converted to their equivalent in EGP on the basis of 2019 average exchange rates.

1. PETROLEUM EXTRACTIONS GDP

Over FYS 2014/15-2018/19, petroleum extractions GDP- crude oil and natural gas extracts - contributed a total of EGP 1,711 billion, representing about 9% of the total GDP. Petroleum extractions GDP severely declined by 37% from EGP 282.1 billion in FY 2014/15 to EGP 178.2 billion in FY 2015/16. Yet, the extractions have witnessed an increasing trend since FY 2016/17 to hit the highest value in FY 2018/19 at EGP 545.9 billion, according to the MPED's data.

Despite the increasing value of the petroleum extractions GDP since FY 2016/17, the extractions' share in the total GDP has declined. The share dropped from 58% in FY 2016/17 to 50% and 29% in FYS 2017/18 and 2018/19 respectively, according to the MPED's data.

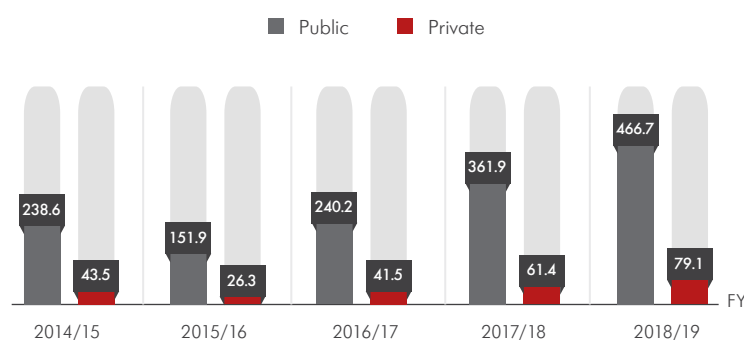
Petroleum Extractions Share in Total GDP (%)



The public sector dominates petroleum extractions GDP. Thus, over the referred period, the public sector contributed a total GDP of EGP 1,596 billion, representing

85% of total GDP. On the other hand the private sector contributed only EGP 252 billion, representing 15% of total GDP, according to the MPED's data.

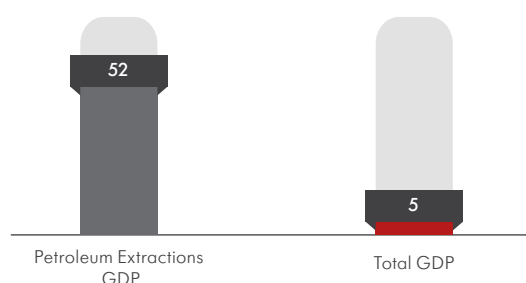
Petroleum Extractions GDP per Sector (EGP billion)



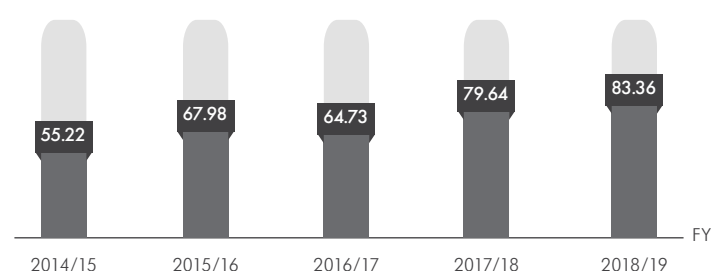
A. NATURAL GAS SHARE IN THE GDP

Natural gas extracts contributed a total of EGP 897.9 billion in the GDP over FYS 2014/15 to 2018/19. Natural gas extraction activities tracked an increasing trend since FY 2015/16, with an average annual growth rate of 52%. FY 2018/19 remarked the highest growth rate for natural gas extraction activities, with a 35% increase, while FY 2015/16 represents the lowest rate recording a decline of 40% in comparison to the previous year, according to the MPED's data.

Natural Gas Extractions Share in GDP over FYs (2014/15-2018/19) (%)



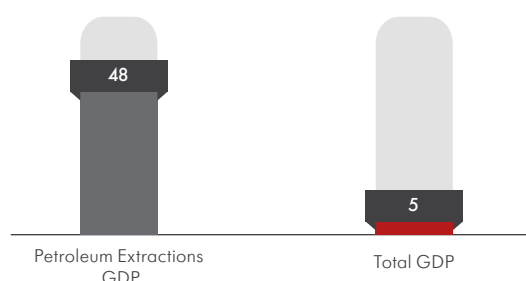
Petroleum Extractions Investments (EGP billion)



B. CRUDE OIL SHARE IN THE GDP

Crude oil extracts contributed a total of EGP 813.4 billion in the GDP over the referred period. Since FY 2015/16, crude oil extracts remarked an increasing trend of about 39% as an annual average increase. Thus, FY 2018/19 recorded the highest year for crude oil extractions, with 22% increase. FY 2015/16 represents the lowest year for the extraction activities, with a decline of 34%, according to the MPED's data.

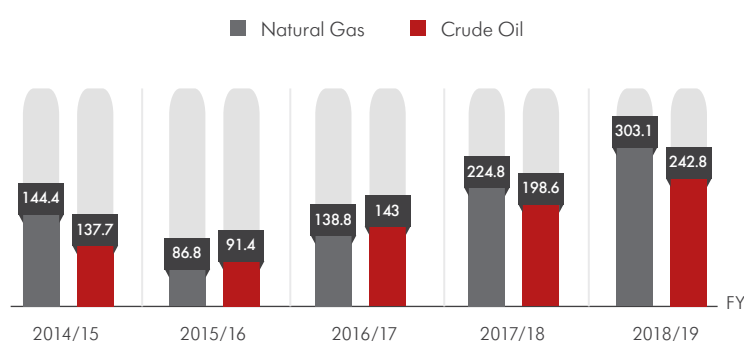
Crude Oil Extractions Share in GDP over FYs (2014/15-2018/19) (%)



On an annual basis, the public sector dominates natural gas and crude oil extraction activities' GDP. Over the referred period, the public sector contributed 85% of total natural gas extraction activities, which is equivalent to EGP 761.7 billion. Furthermore, the public sector's share of the total crude oil extraction activities recorded 86%, reaching EGP 697.8 billion, according to the MPED's data.

On the other hand, the private sector contributed a total of 15% of the natural gas extraction activities, which is equivalent to EGP 136.3 billion, while it contributed 14% of total crude oil extraction activities, worth EGP 115.6 billion, according to the MPED's data.

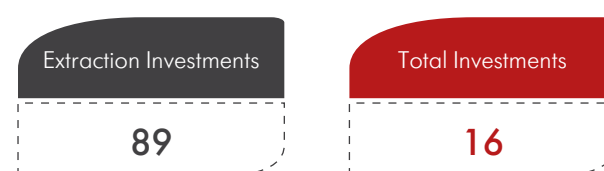
Petroleum Extractions GDP per Product (EGP billion)



2. PETROLEUM EXTRACTIONS INVESTMENTS

Egypt launched a plan in 2014 to implement a set of major investment projects to push the economy and attract more foreign investments to different sectors. This led to a boom in crude oil and natural gas investment activities, as they grew by 51% from a low level of EGP 55.2 billion in FY 2014/15 to a high of EGP 83.6 billion in FY 2018/19, according to the MPED's data. Over the period from FY 2014/15 to 2018/19, petroleum extraction investments recorded a total of EGP 350.9 billion.

Petroleum Extractions Share in Investments over FYs (2014/15-2018/19) (%)

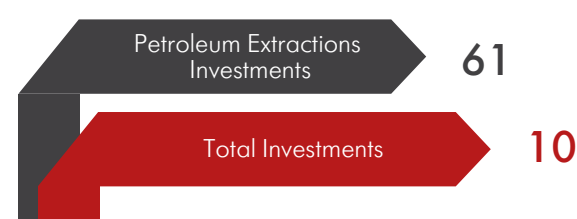


A. NATURAL GAS SHARE IN THE INVESTMENTS

Thanks to the giant Zohr field discovery, the natural gas sector is considered more active than the crude oil sector. The total investments in natural gas extraction activities over the period from FY 2014/15 to 2018/19 recorded EGP 214.4 billion, which is one and a half times crude oil investments.

On an annual average, EGP 42.9 billion are invested in Egypt's natural gas extraction activities. From FY 2014/15 to 2018/19, the sector witnessed an increasing trend that reached a maximum of EGP 75.01 billion in FY 2017/18, according to the MPED's data.

Natural Gas Extractions Share in Investments over FYs (2014/15-2018/19) (%)



B. CRUDE OIL SHARE IN THE INVESTMENTS

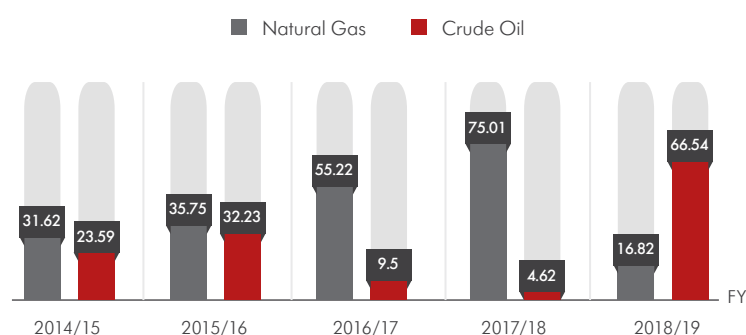
Crude oil extraction investments over the mentioned period amounted to EGP 136.5 billion, with annual average investments of EGP 27.3 billion. The investments in crude oil activities witnessed a highly fluctuating trend over the years over the referred period. However, the investments exhibited an overall growth rate of 182% from EGP 23.6 billion in FY 2014/15 to EGP 66.5 billion in FY 2018/19, according to the MPED's data.

Crude Oil Extractions Share in Investments over FYs (2014/15-2018/19) (%)





Petroleum Extractions Investments per Product (EGP billion)



C. PETROLEUM FOREIGN INVESTMENTS

Over FYs 2014/15-2018/19, the petroleum sector's Foreign Direct Investments (FDI) totalled \$40.4 billion (EGP 681.14 billion), according to the MoP's data. This was a result of the efforts exerted by the MoP's to encourage IOCs to invest in the petroleum sector through reducing arrears, implementing projects and launching bid rounds for exploiting crude oil and natural gas fields.

In this line, the number of FDIs have increased remarkably due to the discovery and development of fields in the Western Desert, the Mediterranean Sea, and the Nile Delta. Furthermore, the development of the Zohr field also attracted a flood of investments.

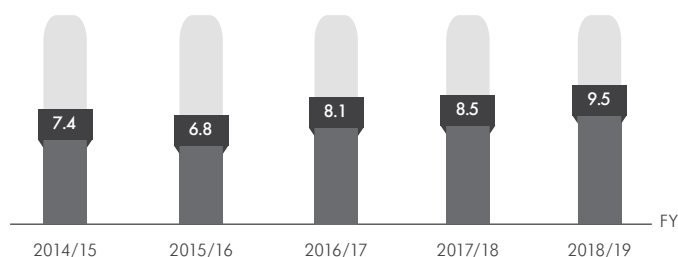
As a result, petroleum FDI in FY 2018/19 increased to \$9.5 billion (EGP 160.17 billion), marking the highest level over the referred and contributing 75% of the total FDI inflows to Egypt, according to the MoP's data.

Pre-FY 2014/15, arrears to IOCs witnessed an increasing trend. The economic slowdown in 2011 led the arrears to reach its highest value at \$6.3 billion (EGP 106.22 billion) in FY 2011/12. However, in FY 2014/15, the arrears significantly dropped by 41%. Since then, the arrears have been steadily declining, according to the MoP's data.

Arrears considerably declined by 74% between FY 2014/15-2018/19. Correspondingly, the sector's foreign investments increased by 28%, according to the MoP's data.



Petroleum Foreign Investments (\$ billion)

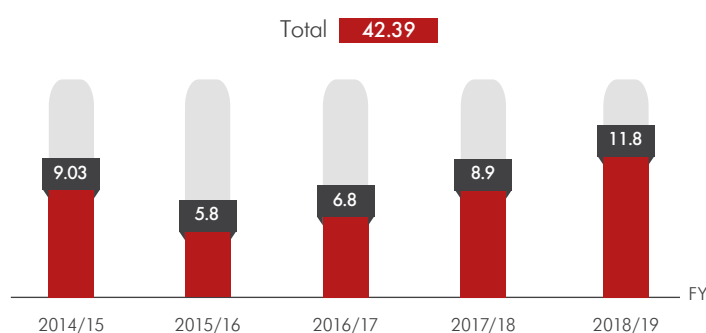


3. PETROLEUM EXPORTS

The CBE's data showed that petroleum exports declined by 36% in FY 2015/16. Yet, the development of fields, especially natural gas, drove petroleum exports to outstandingly rise by 74% over FYs 2016/17-2018/19. Thus, FY 2018/19 witnessed the highest exports of about \$11.8 billion (EGP 198.95 billion).



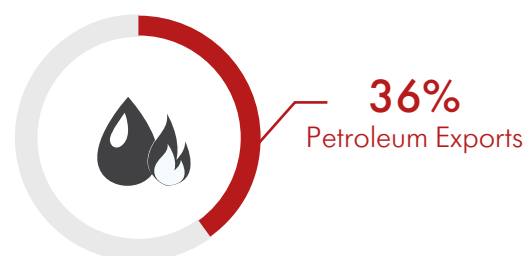
Petroleum Exports (\$ billion)



Over FYs 2014/15-2018/19, petroleum trade greatly affected the Egyptian BoP. The rise in petroleum exports in FYs 2016/17 and 2017/18 created a BoP surplus of about \$13 billion (EGP 219.18 billion), on average. On the contrary, the decline in FY 2015/16 caused a BoP's deficit of \$2.8 billion (EGP 47.21 billion). Despite FY 2018/19 having the highest exports however, the drop in the non-petroleum exports caused a slight deficit of \$0.1 billion (EGP 1.69 billion), as explained by the CBE's data.



Petroleum Sector Share in Total Exports over FYs (2014/15-2018/19)



A. OIL PRODUCTS EXPORTS

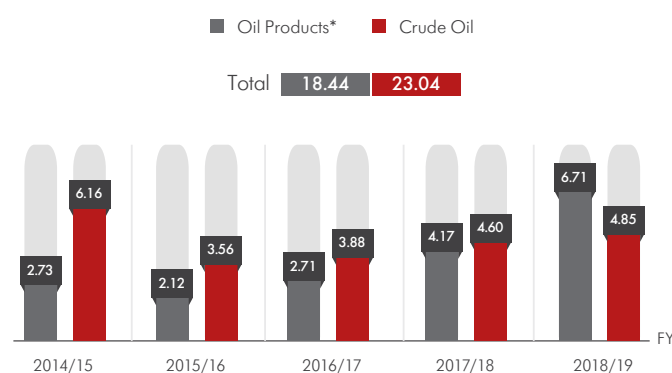
Over the referred period, oil products, including natural gas, bunker and jet fuel-exports' share in the petroleum exports totalled 44%, which is worth \$3.7 billion (EGP 62.38 billion), on average. Corresponding to the petroleum exports, the oil products exports declined in FY 2015/16 then exceptionally increased to hit its highest value in FY 2018/19 at \$6.7 billion (EGP 112.96 billion). This came in line with the boost in natural gas production by 42% over FYs 2016/17-2018/19. It is worth mentioning that the oil products exports surprisingly rose by 145% in FY 2018/19 compared to those in FY 2014/15, stated by the CBE's data.

B. CRUDE OIL EXPORTS

Over FYs 2014/15-2018/19, crude oil exports represented 54% of the petroleum exports, averaging at \$4.6 billion (EGP 77.56 billion). Similarly, they followed the petroleum exports' trend with a considerable drop in FY 2015/16 and slight increases starting from FY 2016/17 until FY 2018/19. The exports increased by 36% in FY 2018/19 compared to FY 2015/16. Yet, FY 2014/15 represented the year of the highest crude oil exports worth \$6.2 billion (EGP 104.53 billion), according to the CBE's data.



Petroleum Exports per Product (\$ billion)



*Natural gas, bunker and jet fuel.

Since 2014, the Egyptian government has undertaken ambitious reforms for modernizing the petroleum sector. The socio-economic reforms, in general, along with the sector's modernization program, in particular, transformed the sector from a highly regulated industry to a free market economy, creating an optimistic outlook towards the sector. This has led to the 2035 Integrated Sustainable Energy Strategy, which drove the sector's contribution to the GDP to rise to 27%. Moreover, amending investment legislations has made Egypt a top investment destination, bringing over \$30 billion (EGP 505.8 billion) in the past four years, as stated by the Minister of Petroleum and Mineral Resources, Tarek El Molla during CERAWeek's annual energy conference.

All these steps have helped Egypt achieve self-sufficiency of natural gas and become a net exporter. Furthermore, with more investments flowing in, higher production rates and exports made by the sector, the government is able to move towards its goal of transforming Egypt into a regional energy hub in the Eastern Mediterranean region.