EGYPT OIL&GAS
RESEARCH & ANALYSIS

The Petroleum Sector:

FUEL OF EGYPT'S ECONOMIC ENGINE

The petroleum sector is one of the main contributors to Egypt's economic growth, as a major attractor to both public and private investments. In fiscal year (FY) 2016/2017, the sector attracted around EGP 90.1 billion, a staggering annual increase of 9.1%. In addition, petroleum imports and exports represent a significant share of the country's Balance of Payments (BOP). This report highlights the economic contribution of Egypt's oil and gas sector through tackling different perspectives from FY 2010/2011-2016/2017.

By Mahinaz El Baz, Hania El Kady

GROWTH RATE OF THE SECTOR

Although the extractives sector suffered as a result of declining oil prices and slowing global growth, FY 2016/2017 witnessed an improvement in the performance of the petroleum sector in comparison with FY 2015/2016. The rate of decline of the sector's real gross domestic product (GDP) reached 1.8% in FY 2016/2017 against 5.3% in the previous year. This could be attributed to the positive developments of the natural gas extractions and the increasing number of producing wells.

The real GDP of natural gas achieved a growth of 2.1% in FY 2016/2017 as opposed to a negative growth of 11% in the past fiscal year. Meanwhile, the real GDP of crude oil extractions kept declining during FY 2016/2017 to 6.5% against a slight decrease of 1.5% in the previous fiscal year.

The sector also witnessed a decline in the growth rate by 5.3% in FY 2015/2016 in comparison with FY 2014/2015. Natural gas was the most affected extraction activity with a decline rate of 11%, crude oil extractions decreased by 1.5%, while other extraction activities increased during the same period.

The growth rate of the oil refining sector decreased by 3.4% in FY 2014/2015 after an increase of 2.4% in FY 2013/2014. The total output of the oil refining sector for Q4 FY 2014/2015 was EGP 17.3 billion against EGP 18.6 billion for the same period of the previous year, constituting a 7% decrease, while the total output of oil refining in FY 2014/2015 was EGP 70.6 billion against EGP 73.1 billion in FY 2013/2014, a 3.4% rate of decline.

The production of natural gas and crude oil witnessed a decline of 4% and 1% respectively in FY 2012/2013. At the same time, the production of petroleum and petrochemicals products increased by 3% and their consumption by 5%.

The overall performance of the sector during FY 2011/2012 was quite poor, although Q4 witnessed a slight increase in the production of crude oil, condensates and butane. Their total production amounted to 8.68 million tons in comparison with 8.52 million tons during the same quarter of the past year, registering a growth rate of 1.9%. Similarly, the amount of production in FY 2011/2012 increased by only 1.2% reaching 35 million tons. Meanwhile, the total output of petroleum and petrochemicals products recorded a decrease of 8% in the same FY.

CRUDE OIL CONTRIBUTION TO GDP *(Current Prices/Million EGP)*

FISCAL YEAR (FY)	PUBLIC	PRIVATE	TOTAL	CONTRIBUTION OF CRUDE OIL IN GDP (%)
FY 2010/2011	69542	12024	81566	6.2
FY 2011/2012	93893.0	16726.0	110619.0	6.45
FY 2012/2013	105832.2	18915.8	124748.0	6.48
FY 2013/2014	124816.7	22136.4	146953.1	6.66
FY 2014/2015	117366.2	20345.1	137711.3	5.56
FY 2015/2016	78455.3	12985.1	91440.4	3.42
TOTAL	589,905.4	103,132.3	693,037.8	5.63

Source: Ministry of Planning, Monitoring and Administrative Reform (MPMAR)

NATURAL GAS CONTRIBUTION TO GDP *(Current Prices/Million EGP)*

FISCAL YEAR (FY)	PUBLIC	PRIVATE	TOTAL	CONTRIBUTION OF NATURAL GAS IN GDP (%)
FY 2010/2011	88817	19389	108206	8.26
FY 2011/2012	119969.0	25071.0	145040.0	8.46
FY 2012/2013	132229.2	27109.7	159338.9	8.27
FY 2013/2014	146171.4	29199.6	175371.0	7.95
FY 2014/2015	121272.1	23155.3	144427.4	5.83
FY 2015/2016	73437.7	13363.2	86800.9	3.24
TOTAL	681896.40	137287.8	819184.20	6.66

Source: MPMAR

SECTORAL CONTRIBUTION TO GDP GROWTH

According to a report by the European Bank for Reconstruction and Development, growth in Egypt continues to accelerate, reaching 5.4% in Q2 FY 2017/2018 as a result of improved competitiveness and greater investor confidence. This increase is attributed to manufacturing, trade, tourism and the mining sector recovery. The economic activity is expected to reach 5.3% and 5.5% in FY 2017/2018 and FY 2018/2019 respectively, owing to a set of factors, including the start of natural gas production from the Zohr natural gas field and the reform of business environment and macroeconomic policies.

The highest contribution of crude oil in GDP was realized in FY 2013/2014, where both the public and private sectors recorded a total of EGP 146,953.1 million. Conversely, FY 2010/2011 had the slightest share in GDP, in both public and private sectors, that totaled at EGP 81,566 million. This could be attributed to the fact that, in 2010, Egypt became a net importer of oil. Meanwhile, the real GDP of crude oil extractions continued to decline by 6.5% during FY 2016/2017 against a slight decline of 1.5% in previous year.

As for natural gas, the highest contribution of public and private sectors in GDP actualized in FY 2013/2014, recording EGP 146,171.4 and 29,199.6 million respectively. The lowest contribution of natural gas in GDP took place in FY 2010/2011, where the public and private sectors recorded EGP 88,817 and 19,389 million. This coincided with a slowdown in production and the halting of new exploration contracts from the government after the 2011 revolution that toppled former president Hosni Mubarak. On the other hand, in FY 2016/2017, the real GDP of natural gas activities increased by 2.1% as opposed to the negative growth of 11% in the preceding year.

The oil refining contribution in GDP peaked in FY 2015/2016, where public and private sectors amounted to EGP 113,909.1 million. On the other hand, FY 2010/2011 witnessed the least contribution of oil refining in GDP. The Ministry of Planning, Monitoring and Administrative Reform (MPMAR) stated its intent to raise the capacity of oil refining laboratories by 10% to reach 41 million tons per year in addition to completing nine development projects with $8.3 billion total investments, according to Asharq Al-Awsat newspaper.

PETROLEUM INVESTMENT INFLOWS

The oil and gas industry has been one of the main indicators of the health of Egypt's economic environment. In response to the fluctuations post 2011, total investment influx into the industry saw a sharp decline from EGP 12,178.5 million in FY 2010/2011 to around EGP 8,074.7 million in FY 2011/2012, according to MPMAR.

Despite economic and political unrest, crude oil investments hiked in FY 2012/2013 representing around 11.1% of total investments in the Egyptian economy. This increase was mainly attributed to the rise in public investments, which accounted for 85.9% of the total investment.

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From FY 2010/2011 - FY 2015/2016, crude oil investments contributed 7.4% of the petroleum sector's total inward investments, awarded around EGP 102,742.1 million from public investment sources and EGP 23,789 million from private investment sources.

Natural gas investments account for 12.1% of petroleum total inward investments on average. It represents the biggest share among other hydrocarbon exploration and production (E&P) inward investments. In FY 2011/2012, natural gas recorded the highest share of the petroleum sector's investments, reaching 22.1% of total oil and gas inflow investments. On the other hand, in FY 2015/2016, natural gas's investment share

CRUDE OIL INVESTMENTS (Current Prices/Million EGP)

FISCAL YEAR (FY)	PUBLIC INVESTMENTS	PRIVATE INVESTMENTS	TOTAL INVESTMENTS	CONTRIBUTION IN TOTAL SECTOR'S INVESTMENT (%)
2010/2011	2745.5	9433	12178.5	5.1
2011/2012	4536.7	3538	8074.7	3.3
2012/2013	23072.8	3800	26872.8	11.1
2013/2014	21686.2	1900	23586.2	8.9
2014/2015	21087.2	2504	23591.2	7.1
2015/2016	29613.7	2614	32227.7	8.2
TOTAL	102742.1	23789	126531.1	7.4

Source: MPMAR

NATURAL GAS INVESTMENTS (Current Prices/Million EGP)

FISCAL YEAR (FY)	PUBLIC INVESTMENTS	PRIVATE INVESTMENTS	TOTAL INVESTMENTS	CONTRIBUTION IN TOTAL SECTOR'S INVESTMENT (%)
2010/2011	9235	23312.8	32547.8	14.2
2011/2012	14779.2	39512	54291.2	22.1
2012/2013	3622.8	33000	26622.8	11.0
2013/2014	3609.4	21900	25509.4	9.6
2014/2015	4189	27435.6	31624.6	9.5
2015/2016	5563.2	30190	35753.2	9.1
TOTAL	40998.6	175350.4	206349	12.1

Source: MPMAR

PETROLEUM BALANCE OF TRADE ($ Billion)



decreased to the lowest since FY 2010/2011, making up 9.1% of total investments in the sector.

Unlike crude oil and natural gas, oil refining activities had a relatively slight contribution in the total investments of the petroleum sector. In FY 2015/2016, it represented only 0.2% of the sector's total investments, while in FY 2011/2012 it recorded 4.2%, marking the highest percentage in the past decade.

In FY 2016/2017, Egypt's oil and gas sector received around EGP 90.1 billion of investments, increasing by 9.1%. It is worth noting that 73% of these investments were injected into natural gas exploration activities, while crude oil amounted to 10.2% of the total investment inwards, and other extractions represented 16.8%, according to MPMAR.

Affirming the economic importance of the oil and gas sector in Egypt, MPMAR figures highlight that from FY 2010/2011 until FY 2015/2016, petroleum investments represented more than 20% of total investments injected into the national economy.

PETROLEUM SECTOR'S FOREIGN TRADE PERFORMANCE

Egypt's oil and gas industry remains the major driver of Egypt's BOP. It ran an overall surplus of $13.7 billion in FY 2016/2017, of which $12.2 billion were actualized in November-June FY 2016/2017, following the government's decision to liberalize the exchange rate against an overall deficit of $2.8 billion in the previous FY, according to the Central Bank of Egypt (CBE).

The performance curve of Egypt's BOT - part of the country's BOP - witnessed a continuing deterioration from FY 2010/2011 to FY 2016/2017. It shifted from a surplus of $2.87 billion in FY 2010/2011 to a $4.4 billion of deficit in FY 2016/2017.

The decline started in FY 2011/2012, due to political unrests and economic fluctuations. However, FY 2013/2014 was the first year to witness a deficit in Egypt's petroleum BOT, when imports exceeded exports.

It is worth noting that in FY 2014/2015, Egypt had to halt liquefied natural gas (LNG) exports and became a net natural gas importer, with a hydrocarbon external deficit of $3.6 billion compared with a surplus of $5.1 billion in FY 2009/2010. During that period, the current account deficit was largely driven more by the negative hydrocarbon balance than by the decline in tourism, according to CBE statistics.