



NEGATIVE AND POSITIVE IMPACTS OF THE OIL PRICE DECLINE ON THE EGYPTIAN ECONOMY

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ABSTRACT

The study handled the negative effects of the decline in the prices of oil in Egypt. It aimed at identifying the influence of this fall on the different sectors of the country. The results showed that the total earnings of oil in the balanced budget of the year 2014/15 have reached LE. 110.81 billion or about 20% of the total earnings of the balanced budget. The study also showed that the most important reasons for the fall is the insistence of the oil exporting counties not to decrease the amounts of production despite the fall in prices. Consequently,



this has led to the great increase in the demand of oil, the United States' inclination towards producing rocky oil and increasing the production so that it reaches 4 million barrel per day. This fall in the prices could also be a political game against Russia, which produces 10 million barrel a day and mainly depends on exporting pure oil. The study also shows the negative effect on the sectors of tourism and gulf investments in Egypt. This consequently affects the Egyptian working force in gulf countries, which constitutes third of the working force abroad, in an indirect way. The result is the decline in monetary remittances of this working force. The effect of the fall of the oil prices globally will have a limited impact on the support of petroleum materials because it will show on the new dealings of

exporting petroleum productions in the second half of years 2014-15, during which the support of petroleum materials is expected to decrease by about 20% or about LE. 20.05 billion. As for the balance of current dealings, the fall's effect is not yet very clear except that the net deficit of oil industry will decrease by about 30% of the monetary year 2014/15, which will lead to saving \$ 0.3-0.4 billion. The study shows that the global events, whether crises, fall in the prices of goods or oil, affect Egypt only negatively except for the positive effect of decreasing the cutting of electricity, of which Egypt has suffered in the last two years. Moreover, there is the positive effect of decreasing the deficit in the budget because of the tendency to decrease the support in the coming period to a greater degree than

the fall in the profits and taxes of the oil sector. This will eventually help in controlling the governmental debt.

KEY WORDS: Oil Prices, Trade Balance, Tourism Sector, Egyptian Money Markets.

INTRODUCTION :

Lately, oil price has greatly reduced. As a result, many of negative and positive impacts have consequently occurred. This reminds us of the fall that has happened in 2008 since the price has reduced from \$133 per barrel to \$41 in less than 6 months. Then, it began to increase in April 2011 to reach \$123 per barrel. Additionally, the support of petroleum materials amounted about LE.100 billion approximately (According to the financial statement of the state's public balanced budget project for the financial year 2014/2015). Also, it turns out that the price of diesel has reduced by 30%. Several of the state's sectors were influenced by oil price; perhaps the tourism sector was affected mostly. Eastern countries represent about 14% of the number of tourists, which totally amount to 10.5 million tourists; 25% of them are Russian tourists. In addition to the decline of the Russian Ruble in front of all the other currencies including the Egyptian pound, it is expected that the tourism income will be negatively influenced during the following period. Accordingly, oil price has become the most important and the most influential event during the current period and also in the future since it is a commodity that has a great impact on both the domestic and the international domain. Therefore, the change of oil price causes negative effects on some countries while it has a positive impact on others. Eventually, oil price became influential on the global economy stimulating it from stagnation to recovering and vice versa.

The Problem of the Study: The problem of this study is embodied in the negative impacts that may result from the decline of oil prices in this critical period of time through which the Egyptian economy, that has not recovered yet, is passing.

The Aim of the Study: This study aims at acknowledging the negative and positive impacts that have resulted from the decline of oil prices and to what extent this decline has affected several sectors of the state along with the benefits of the decline experience that has happened in 2008.

METHOD AND DATA SOURCES

The study depends on the descriptive statistical approach in achieving its goals. Also, it depends on published and non-published data from the Central Agency for Public Mobilization and Statistics, the Central Bank, beside several electronic sites and other studies relative to the topic.

RESULTS AND DISCUSSION

Costs and Earnings Associated with Oil Prices:

The total earnings of oil in the public balanced budget amounted to LE.110.81 billion for the financial year 2014/2015 that represents 20% of the total earnings of the public balanced budget. The value of oil earnings taxes is represented in the public taxation and amounts to LE.54.26 billion. It is considered as the income taxes valued by LE. 31.67 billion from the Public Petroleum Institution, LE.22.59 billion from the Foreign Partner, LE.9.18 billion from sales taxes and LE.4.62 billion from customs fees on the imports of petroleum materials. Also, it includes the non-taxes earnings valued by LE.42.75 billion; this is the surplus gained to the state from the Public Petroleum Institution decreased

by 14% during the second half of the financial year (Table 1). This earnings is closely associated with oil prices. Therefore, if oil prices decreased, the income of the Public Institution of Petroleum will be logically reduced, while the expenses of the institution remain the same. Consequently, it is expected that taxes and customs will be decreased in its best cases by 30% at least. As a result, the balanced budget will be negatively affected by about 31 billion pound at least.

Table 1: Costs and Income of the Public Institution of Petroleum.

Statement	Billion Pound (LE)
Earning Taxes	31,665
Foreigner Partner	22,593
Sales Taxes	9,18
Custom fees on petroleum Imports	4,62
Non-Taxes Incomes	42,75
Total	110,81

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Reasons behind the Decline of Oil Prices since the Financial Crisis in 2008:

Oil prices had declined by more than 50% from its registered value of June 2014. So, the price of the pure barrel Brent reached to the lowest level since the crisis in 2009. Lately, the severe collapse in prices has occurred following the decline in the global demand of petroleum. The reasons behind this are the deterioration of the conditions of the global economy and the economic stagnation especially in China and Europe, which is considered the second most important market, after the United States, which uses fuel.

Moreover, during the last years, the Chinese economy was the greatest source behind the development of the global demand of oil. Since OPEC’s last meeting in November, the decline of oil continued more widely when OPEC decided not to decrease its production of oil. Besides, OPEC organization decided to keep the level of production as it is: 30 million barrel per day. This is higher than the demand level by 2 million barrel per day. Despite the heavy decline of prices, the oil prices have declined by about 40%.

Besides, during November 2014, it reached its lowest level of deterioration during the last five years by 11%. This was the longest chain of deterioration since the financial crisis of 2008. Regardless of the reasons that urged OPEC to take its decision in this form which led to more collapse in the oil prices whether the reason behind this was a war on the rock American oil from OPEC Organization’s side to save its marketing share or a political war from a new type against Russia and Iran in which oil is used as an economic arm to achieve it. At the end, it is a group of negative and positive impacts behind the fall in oil prices. It is expected that if this fall continues in this way, the price of oil will decline to be \$40-50 per barrel.

Additionally, ISIS (Islamic State in Iraq and Syria) succeeded in attacking oil price globally through taking over a lot of oil springs in Iraq; the biggest petroleum reserve in the world. Besides, they sold oil to international dealers and smugglers through Turkey by a price that reached about \$25 per barrel, while the global price of oil in the stock exchange of global goods reached more than \$100. The amount of the smuggled oil through ISIS was valued by \$100 million per month. This led to a global

decrease of oil price. Thus, these enormous and continuous smuggling processes succeeded in affecting the global oil markets which led to a fall in the pure barrel Brent that is mostly valued in the world to be less than \$84. Hence, this was the lowest barrel price since four years.

The Decline of Oil Materials' Exports and Imports and its Impact on the Trade Balance and the Flows of the Hard Currency:

Egypt is considered an importer of oil since its imports are more than its exports and its derivatives by \$794.4 million in 2013/2014. This year witnessed Egypt's free gaining supply of oil from Gulf countries. Egypt's imports of petroleum materials reached about \$13.25 billion by 22% from the total amount of the imports, while its counterpart of the exports of petroleum materials reached about \$12.45 billion by 48% from the total amount of the exports.

Besides, oil represents an essential resource of the hard currency. It is expected that Egypt's imports of petroleum materials may be decreased during the second half of the current year by about \$2.8 billion. This will be positive because it will lower the total imports by 10% during the second half of 2014/2015. Consequently, the trade balance's shortage will be declined during the second half of the same year by \$505 billion. Equally, Egypt's exports of petroleum materials will be decreased during the same period by \$2.3 billion which will lead to decreasing the total amount of exports by 22%. Therefore, the foreign currency's flow will be decreased also by the decline's value. This will negatively affect the Egyptian economy since it depends heavily on its exports of oil and its derivatives to save a great part of its needs from hard currency. Consequently, this might influence the keeping of a safe reserve of the hard currency. The growth of Egyptian economy and its investing opportunities will continue to be closely associated with the government's ability to interact with these updating issues.

Additionally, it is important to mention that the gulf economy will face a decrease in its income and as a result it will cause a shortage in its budget. This will lead most of these countries to compensate these incomes through increasing the current taxes and customs' fees in addition to imposing new taxes. This is the last shelter for these countries. Moreover, this will increase the costs of investment in these countries and reduce the standards of profitability in front of foreign and gulf investment. This may be a chance for the Egyptian economy to attract part of these investments from these harmed states.

The Impact of the Decline of Oil Price on the State's Sectors:

1-Tourism Sector:

It is expected that the touristic sector will be negatively affected by the fall in the oil price. In 2013, the total number of tourists reached about 10.5 million among them 2.4 million Russian tourists. As a result of the decline in the oil price by 50%, the Russian Ruble decreased by about 50% in front of all the other currencies; the Egyptian pound is among them. This will badly affect the number of tourists who visit Egypt during the coming period. Therefore, the income from tourism will be decreased not just as a value but as a hard currency.

2-Projects that Depend on Egyptian Remittances from Abroad:

Egyptian remittances from abroad reached about LE.18.7 billion in 2014/2015 (Central Bank Statement). Gulf countries represent about 46.3% from the Egyptian remittances from abroad; i.e. LE.8.6 billion. According to the expected shortage in these countries' budgets, this may force these countries to decrease their expenses in their undertaken projects (Most of gulf governments declared they have made their budgets for the coming year without any reductions). Consequently, the number of remittances from those who work in gulf countries is expected to be fixed.

3-Petroleum Sector:

There is no doubt that the decline in oil prices will badly affect the global companies' plans concerning oil mining in Egypt. These companies will revise their expanding plans during the following three years. Moreover, the decline affects the current mining, which may negatively influence the petroleum sector.

4-Supply offering to Egypt and the Flow of Hard Currency:

Gulf countries and Russia are considered among the most harmed countries from the oil prices' decline. Moreover, these countries support Egyptian economy in its current crisis. Yet, it is not clear till now whether this support will go on or not. Till now, there is no change in the supporting plans towards the Egyptian economy. The negative and positive impacts will be determined according to the decisions of these countries. This depends on to what extent the budget of these countries might be affected by this decline. The fall of the petroleum materials' exports became clear by \$2.3 billion. Therefore, the total amount of exports in the trade balance was reduced by 22%. This will lead to a decline in the flow of foreign currency to the Egyptian economy. However, without a strong performance from the foreign exports and investments, the country's ability to save the hard currency from its self-resources will remain limited. The hard currency's reserve reached about \$15.88 billion, which is considered sufficient for only three months, but it is not enough to defend the hard domestic currency that is exposed to the following crisis in the unofficial exchange market. As a result, the dollar is exchanged 9% more than its official price. The negative impact of oil prices' decline may negatively affect the gulf countries, their investments in Egypt and the amount of their grants and supports. Besides, this has its indirect impact on the Egyptian working force in gulf countries, which constitutes third of the working force abroad. Consequently, this will lead to a decline in the Egyptian monetary remittances from abroad, which is considered one of the most important sources of hard currency in Egypt. In addition, this will lead to a decrease in the quantity of foreign and domestic investments, and hence the renewal or extractive energy projects in Egypt. It is important to ask the international petroleum companies that work in the oil field to speedily pay its receivables, which were reduced to \$3.1 billion, to the government.

5-The Impact of this Decline on the Goods that use Petroleum Materials:

Globally, the decline in oil prices and other oil materials is positively reflected on the prices of these goods that are manufactured from these materials; such as: carpets, plastics and petrochemicals. Moreover, it is important to mention that the support of petroleum materials reached about LE.100.25 billion in the public balanced budget of 2014/2015. This includes the support of stove, gasoline, solar, kerosene and diesel. Besides, their cost was determined in the budget. Thus, the total cost of petroleum materials will be about LE.169.71 billion. Therefore, the difference between the costs and the selling's gaining will be LE.100.25 billion and this is what the government will purely bear. Besides, this will be the supporting value of petroleum materials. Actually, the government agreed to supply the demanded amounts based on static and previously determined prices as was previously mentioned in the budget. Accordingly, the impact of oil prices' decline will globally be limited to support petroleum materials only during one part of the second half of 2014/2015. Moreover, it is expected that the value of supporting petroleum materials will be decreased in the current financial year by 20% and with a value that reached about LE.20.05 billion. However, it is essential not to forget the impact of the increasing or decreasing of the dollar price which may limit or increase the amount of savings achieved from oil prices' decline.

6- Decline's Effect on International and Egyptian Money Markets:

Actually, Dow Jones indicator has increased. This is the indicator of the international industrial companies in the American market. At the same time, oil markets have fallen. Besides, warning reports are issued about the stagnation of the economic growth. This leads to creating a case of anxiety for investors in the global markets. This anxiety turns into negativity in markets and urge investors to violent selling processes leading to a fall in all the financial indicators in European and American markets. Thus, this anxious case spread among European investors and led to a negative behavior among investors in monetary markets. Consequently, Arab gulf countries are considered the biggest countries that produce and export oil internationally. Besides, its economies are directly associated with global monetary markets because the biggest gulf countries work in oil manufacturing. Moreover, the economic plans and development in gulf countries are totally related to the global oil prices. The budgets of these countries are affected by global oil prices and its ups and downs. Thus, it is affected by the motion and the behavior of the investors in the international money markets. Accordingly, if American and European money markets fall, it will be natural that money markets will also fall in gulf countries, especially the Saudi market by about (20/30%). This asserts the impact of the Petroleum War launched by ISIS in the global oil markets. This was considered the main reason that led to the deterioration of monetary markets both in gulf countries and globally. This also has its psychological effect on the Egyptian investors which turns into passivity and anxiety on the Egyptian market. Finally, the investors randomly sell their possessions and their companies' shares. Besides, Egypt's connections to the economic and political attitudes of gulf countries whose markets have fallen created a sort of fear inside the Egyptian investor. Also, it caused a lack of vision concerning the future of gulf countries economically. This led to passivity in the market among individuals. Besides, correcting prices turned into random selling processes and heavy losses for investors in the Egyptian market.

7- The Effect of Oil Prices' Decline on the Rates of Development in Egypt:

The decline of oil price may help in limiting the financial shortage, the balance of the commercial transactions, inflation rates and poverty in Egypt. The decline of oil prices will positively affect the rates of development in Egypt. It is expected that the decline of oil prices will participate in promoting the ability of companies and government to provide enough supplies of oil due to the reducing costs of importing oil and gas. This leads to an increase in production and in the rates of abusing the positive energy. Also, it can help Egypt benefit from the additional energy supplies during summer and avoid the repetitive cutting of electricity. Accordingly, it allows the government to go on its reforming program. Thus, what the government actually achieved saves from the decline in oil prices through reducing spending money on supporting energy products by quarter($\frac{1}{4}$). These savings will be invested in basic infrastructure projects.

On the light of reducing oil price, it is expected that spending money on supporting energy in Egypt will be reduced by 25%. This may help in reducing the high monetary shortage. As for the balance of commercial transactions, the impact of oil prices' decline has not shown yet. However, the net shortage of trading oil will be reduced by 30% in 2014/2015. This will lead to achieving saving in-between (\$0.3-0.4 billion). The decline of oil prices coincides with the costs of goods' prices along with domestic inflation rates; especially food prices that represent 40% of the custom's expenses in Egypt. In its reports, the International Bank refers to a kind of improvement in some of the economic indicators in Egypt according to the official statements; among them are the increasing rates of the total domestic production in the first quarter of the financial year 2015, which reaches 6.8% besides a minor setback in the unemployment rate from about 13.3% to 13.1% in the last quarter of the financial year 2013/2014.

This is in addition to an increasing in the income of tourism by 112% in the first quarter of the financial year 2015. The international Bank expects that the growth rate in Egypt will reach 4.3% with a decrease in the unemployment rate to 12% besides a setback in the budget's shortage to 10% and the public debt to 90% from the total domestic production. Therefore, the government will have a chance to free the budget of 2015-2016 from the burden of supporting petroleum materials without imposing any new burdens on the citizen. The effects of the decline in global oil prices will clearly appear by the average of 40%-60% during the second half of the financial year 2014-2015 because the government was actually contracted to supply petroleum materials with fixed prices before this decline of oil prices. However, the wage of war against ISIS and the continuity of Oil War between ISIS and the International Coalition along with the oil prices' decline may greatly benefit the Egyptian economy since Egypt is considered an importing oil country. The global decline of oil prices greatly serves the Egyptian economy because it will help decrease Egypt's continuous costs of importing oil from the global oil markets by 25% from which the public balanced budget benefit. Indeed, the Egyptian economy will never be affected by this war; in the opposite, it will benefit from the current global oil crisis and its low prices.

From what has been mentioned above, it became clear that the most important reasons behind the global decline of oil prices are summarized in the following: the insistence of the oil exporting countries not to decrease the amounts of production despite the fall in prices. Consequently, this has led to a great increase in the demand of oil. As for the offer, the European countries' economy suffers from stagnation and reduction of growth rates. As a result, demanding oil became low; this happened at the time when Saudi Arabia objected concerning the suggestion to reduce oil's production to reach a middle price that satisfies the producers. Additionally, Saudi Arabia practices the policy of increasing production and announces its rejection to politically use oil as a pressuring wagon. Some thought that there are American fingers behind this decision. Also, the United States' inclination towards producing rocky oil and increasing the production so that it reaches 4 million barrel per day. The needed imported amount is increased to reach about (40%-20%) after controlling the whole market through its rocky oil. This fall in the prices could also be a political game against Russia, which produces 10 million barrel a day and mainly depends on exporting pure oil.

Oil sector participates in supplying the balance budget's income by about 90 billion pounds years. Consequently, the decline of its prices will negatively affect the shortage of the balanced budget. Since the government is the supporter of energy, the decline of oil prices will be essentially helpful for it because its expenses on the supply will be reduced. Besides, the continuity of this decline in oil prices enables the reduction of the governmental bill supply by about 3% from the total domestic production. Moreover, the low prices of oil represent a positive factor for Egypt to help in reducing the shortage. However, this shortage will continue due to the supply system that provides oil by prices lower than that of the market. Besides, the global decline of oil prices means a reduction in its derivatives which also means a reduction in ship fuel, and consequently, a reduction in the shipment's costs of goods. A minor reduction of Egyptian remittances from the Gulf is also expected.

Since the Egyptians exports of petroleum materials are bigger than its imports, along with the oil prices' decline, the shortage between the in and out US \$ will be reduced. However, the reduction of oil incomes in gulf countries will negatively affect the infusion of investments to Egypt. Therefore, the flaw of hard currency will be decreased. Besides, OPEC's rejection to reduce its oil production is a bizarre matter along with the increasing of barrel's price to reach 40%. This may happen to keep its marketing share. Yet, this increasing collapse of prices explains the political justification concerning the American pressure over some OPEC countries to influence Iran and Russia whose economy have been severely affected since the Russian currency lost about half of its value in front of the dollar. Finally, the

study shows that the global events, whether crises, fall in the prices of goods or oil, affect Egypt only negatively except for the positive effect of decreasing the cutting of electricity, of which Egypt has suffered in the last two years.

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