

Egypt



Summary

Moody's B3 / S&P B- / Fitch B¹

Economy: Agriculture 12%, Industry 33%, Services 55%

Egypt has embarked on a bold and ambitious structural reform program that includes support from the International Monetary Fund (IMF) and should help restart the economy. One of Egypt's key strengths is dependable donor support due to its geopolitical importance, particularly with the Gulf Cooperation Council (GCC). The United States and European Union are also likely to re-engage with Egypt, given its regional importance as an ally. Despite high debt levels, a key strength is low public external debt as the majority of public debt is denominated in local currency. As Egypt undertakes austerity measures as part of its adjustment process, containing social tension amid high unemployment will pose a challenge. Another important challenge will be implementing structural reforms that improve the business environment and make the economy more competitive to attract much-needed FDI. The government also needs to address security and terrorism, which affect both investment and important sectors of the economy such as tourism.

Economic Indicators

	2013	2014	2015	2016	2017F	2018F
Population (Millions)	84.7	86.7	89.0	90.2	92.3	94.4
GDP per Capita (USD)	3,400	3,524	3,731	3,685	2,091	2,744
Nominal GDP (USD Billions)	288.0	305.6	332.1	332.3	192.9	259.0
Real GDP (%)	3.3	2.9	4.4	4.3	4.1	4.5
Year-End CPI (%)	9.8	8.2	11.4	14.0	29.8	11.7
Fiscal Balance (% of GDP)	-13.3	-11.8	-11.4	-10.9	-9.5	-7.3
Interest (% of Revenues)	32.3	28.9	30.9	36.1	36.5	35.1
FC Debt/Public Debt (%)	16.2	14.2	14.0	15.5	15.5	15.5
Government Debt (% of GDP)	84.0	85.1	88.5	96.9	101.2	88.8
Government Debt (% of Revenue)	387.3	349.1	401.5	457.0	469.7	399.2
Current Account (% of GDP)	-2.2	-0.8	-3.6	-6.0	-5.9	-3.8
FDI (% of GDP)	1.4	2.2	2.0	2.6	4.9	3.9
External Debt (% of GDP)	15.7	15.7	16.8	22.9	38.4	28.4
Foreign Reserves/External Debt (%)	37.8	40.5	30.6	40.8	40.8	42.2
Foreign Reserves (Mo. of imports)	2.8	3.2	3.1	5.7	5.3	5.2
Foreign Reserves (% of GDP)	5.9	6.4	5.1	9.3	15.7	12.0

As of November 2017

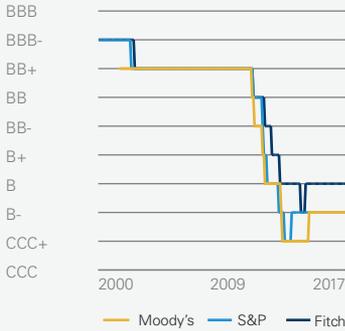
Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change.

Source: Haver Analytics, IMF

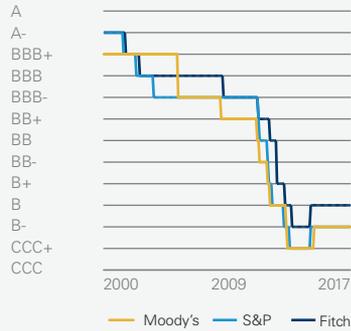
Rating History

Below is a history of the country's foreign and local currency ratings by the major agencies dating back to 2000. We have also included a chart of the country's hard currency external debt spread and the JP Morgan EMBI Global Diversified Index spread for comparison.

Rating History Hard Currency



Local Currency

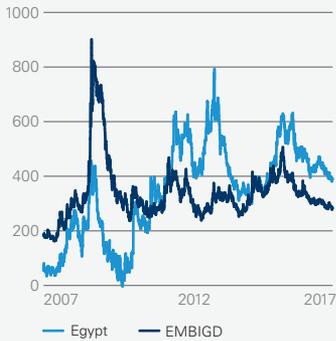


As of December 2017

Performance represents past performance. Past performance is not a reliable indicator of future results.

Source: Bloomberg, Fitch, Moody's, Standard and Poor's

Bond Spreads



As of December 2017

Performance represents past performance. Past performance is not a reliable indicator of future results.

Source: JP Morgan

Strengths

Geopolitical Significance

With a population of more than 90 million, significant power in a volatile and complex region, and access to the Middle East via the Suez Canal, Egypt holds significant geopolitical influence. As such, Egypt traditionally counts on the GCC, particularly Saudi Arabia and the UAE, for support and financing. For example, from 2014–2015, Egypt received over \$10 billion from these sources, consisting of \$6 billion in deposits at the central bank to strengthen reserves and liquidity, \$1 billion in cash grants, and \$3.7 billion in-kind grants.² The UAE also made a \$1 billion deposit to help Egypt secure the conditions of the 2016 IMF agreement.³ The GCC sees Egypt as a key ally, and we expect the GCC to continue providing support given that they see Islamic extremists and the Muslim Brotherhood as threats to their own regimes. However, GCC support has decreased recently in light of the commodity price shock that is stressing fiscal conditions as well as ongoing diplomatic discord with Qatar.⁴ The United States has also been a traditional ally of Egypt, providing an estimated \$77.4 billion between 1948 and 2016,⁵ and an estimated \$1.3 billion annually, the largest military aid from the USA after Israel.⁶ Ensuring stability and fighting terrorism remains high on the US agenda,⁷ although the Trump administration has halted some military aid over human right concerns.⁸

Strong Reform Agenda with IMF Support

Since President el-Sisi took office in 2014, the government has enacted a series of important reforms including an investment law in March 2015, which updated Egypt's legal framework to attract and protect investments.⁹ Egypt also hosted a high-profile investment conference that attracted an initial pledge for investment worth \$38.2 billion and signed memorandums of understanding for deals worth up to \$92 billion.¹⁰ The government also implemented a series of fiscal and budgetary reforms, such as the gradual elimination of fuel subsidies, which was well received by rating agencies and led to a credit rating upgrade in 2015.¹¹ Egypt reached a major agreement with the IMF in November 2016 that should help consolidate reform efforts and restart the Egyptian economy.¹² A year after reaching the agreement, the IMF has lauded Egypt for carrying out bold but necessary reforms such as a flexible exchange rate regime, reduction of the budget deficit, implementation of a VAT and reduction of energy subsidies, among other reforms.¹³

Energy Sector

The energy sector is one of the Egypt's key reform priorities, and the government has made significant progress since President el-Sisi took office. Power shortages, which were frequent in the past, have been reduced considerably, and the government also set an ambitious renewable energy target of 20% by 2020.¹⁴ Energy subsidies, which were a major fiscal drag as they represented a large share of government spending but benefited the rich, are being eliminated gradually as part of the structural reform agenda.¹⁵ Finally, the recent "supergiant" gas discovery of up to 30 trillion cubic feet is significant for Egypt. Once gas production comes online, Egypt will no longer need to import gas to meet domestic demand.

Low External Debt Burden and Low Rollover Risk

Egypt's external debt is low at 26% of 2018 GDP,¹⁶ of which only a small portion is owed to bondholders.¹⁷ While external debt is likely to rise in the coming years as Egypt enters into various bilateral and multilateral agreements and issues debt to rebuild its external liquidity, the external debt burden is likely to remain low both in absolute and relative terms. Close to 83% of public debt is denominated in local currency.¹⁸ Thus, even though the headline public debt-to-GDP ratio is high at more than 100% of 2017 GDP, actual refinancing risk remains low.¹⁹

Positive Growth Throughout Crisis

Egypt's economic performance has been weak since the crisis, with GDP growth less than half its rate prior to the Arab Spring. Tourism, investment, and consumption have all struggled amid political volatility and uncertainty. Remarkably, growth remained positive throughout this shock, which has been among of the biggest in the country's history. Since the political situation stabilized, economic activity has picked up, with GDP growth in 2018 projected at 4.5%.²⁰ Tourism is improving from its slowdown; in the first seven months of 2017, the annualized number of tourists rose by 54% and reached 4.3 million. However, this remains well below the 14.7 million annual visitors before the Arab Spring.²¹ Construction activity remains strong due to GCC-funded infrastructure and real estate projects.

Weaknesses

Political and Social Tensions

After the removal of Egypt's first democratically elected president, President Morsi, in July 2013, General el-Sisi won the May 2014 presidential election in a landslide victory, with 96.9% of the votes amid low voter turnout. Supporters—the business community that was strongly tied to former President Mubarak in particular—were happy to see order restored after three years of turmoil. However, the West initially gave a lukewarm reception to the new regime over concerns about repression of the opposition. Indeed, more than 16,000 people have been jailed, public protests have been banned, and there have been crackdowns on the press.²² Yet the threats stemming from violent jihadism in the region have changed the West's attitude toward Egypt, as it is a major regional ally, and the political dynamic presents a quandary for US policymakers.²³ As Egypt undertakes austerity measures, the government will also be challenged to contain social tension.²⁴ Youth unemployment is a major problem and source of potential unrests. As of end 2016, 83.3% of Egyptians aged 15 to 19 are unemployed, while the corresponding figure for Egyptians aged 20 to 24 is 58%.²⁵

Challenging Structural Reforms to Improve Business Environment

While the Sisi administration has embarked on an adjustment program and has made significant progress, especially on the fiscal front, much work remains to be done in order to tackle other structural weaknesses. In the longer term, Egypt needs to create a more competitive business environment to attract foreign investments. In the World Bank's 2018 Ease of Doing Business, Egypt ranked 128 out of 190 countries, ranking poorly in subcategories such as Enforcing Contracts (160/190), Paying Taxes (167/190), Trading Across Borders (170/190) and Resolving Insolvency (115/190).²⁶ Simplifying bureaucracy may also prove a daunting task; it is estimated that Egypt has 33 different ministries, more than 2,500 departments and executive bodies that employ around 6.4 million people in aggregate.²⁷ The challenge for the government is to balance reforms and adjustments with maintaining social stability.

Security Situation

Terrorist attacks and the ensuing security concerns limit the potential of Egypt by hindering the business environment. From the Russian plane crash incident of 2015 in Sharm el-Sheikh to the more recent attack targeting Coptic Christians in 2017, these incidents negatively impact the tourism sector, which attracts less than \$4 billion per year, down from more than \$9 billion per year in 2011–2012. Security concerns impact not only civilians, but the military as well. Almost 100 soldiers have been killed in 2017 alone, prompting President el-Sisi reshuffle security officials.²⁸

Country Background



Size	1,002,450 KM ² (31st)
Capital	Cairo
Population	94.0 Million
Religion	Muslim 90.0%, Christian 10.0%
Median Age	23.9 Years
Literacy Rate	73.8%
Independence	28 February 1922
Political System	Presidential Republic
Government Leadership	President Abdel Fattah el-Sisi; Prime Minister Sherif Ismail
Next Election	2018
Legislative Branch	Unicameral House of Representatives
Economy	Agriculture 11.9%, Industry 32.9%, Services 55.2%
Labor Force	Agriculture 29.2%, Industry 47.3%, Services 23.5%
Merchandise Exports	Crude Oil and Petroleum Products, Fruits and Vegetables, Cotton, Textiles, Metal Products, Chemicals, Processed Food
Export Partners	UAE 12.5%, Saudi Arabia 7.7%, Italy 6.5%, Turkey 6.3%, United Kingdom 4.6%, United States 4.5%
Currency	Egyptian Pound (EGP)

As of November 2017

Source: CIA

Country Timeline

1971	Egypt's new constitution is introduced and the country is renamed the Arab Republic of Egypt.
1973	Egypt and Syria go to war with Israel during Israel's celebration of Yom Kippur to reclaim the land they lost in 1967. Egypt begins negotiations for the return of Sinai after the war.
1975	The Suez Canal is re-opened. It had been closed since the 1967 war.
1979	The peace treaty between Egypt and Israel is signed. Egypt is then condemned by other Arab nations and excluded from the Arab League.
1981	Anwar al-Sadat is assassinated by Jihad members. A national referendum approves Hosni Mubarak as the new president.
2000	Egypt, Lebanon and Syria agree on a billion-dollar project for a pipeline to carry Egyptian gas under the Mediterranean to the Lebanese port of Tripoli.
2005	Parliamentary polls end with clashes between police and supporters of the opposition Muslim Brotherhood. The National Democratic Party and its allies retain their large parliamentary majority. Muslim Brotherhood supporters, elected as independents, win a record 20% of seats. More than 20 Sudanese migrants die after police break up a protest camp outside the UN offices in Cairo.
2007	Independent, opposition newspapers protest against "government harassment" after seven journalists are imprisoned and an editor is put on trial. Dustur newspaper editor Ibrahim Eissa sentenced to six months in jail for reporting rumors about President Mubarak's health. Rights groups demand change to law on reporting "false information."
2009	Leading opposition figure Ayman Nour freed after serving three years of five-year sentence on forgery charges that he said were politically motivated. Bomb attack in popular tourist area of Cairo kills a French student and injures 24 other people. Authorities arrest three suspects, say small Islamist cell thought to be responsible.
2012	Muslim Brotherhood candidate Mohammed Morsi narrowly wins presidential election. Court sentences ex-President Mubarak to life in prison for complicity in the killing of protesters during the 2011 uprising.
2013	The military removes President Morsi amid mass demonstrations calling on him to quit. Mr Morsi's supporters in the Muslim Brotherhood reject a timetable for new elections laid out by interim president Adly Mansour.
2014	Egyptians vote in referendum on a new constitution drafted since the July 2013 overthrow of the Islamist-led government. The new basic law bans parties based on religion. Former army chief Abdul Fattah al-Sisi wins presidential election.
2015	Islamic State claims responsibility for destruction of Russian airliner in Sinai, in which all crew and 224 tourist passengers were killed.
2016	IMF approves a three-year \$12B loan to Egypt designed to help the country out of its deep economic crisis.

Source: BBC

Notes

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- 5 <https://www.reuters.com/article/us-usa-egypt-aid/u-s-will-consider-resuming-halted-military-aid-to-egypt-trump-idUSKCN1BV2ZP> accessed 30 October 2017
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- 7 <http://www.al-monitor.com/pulse/originals/2016/11/trump-aid-middle-east-congress-jordan-egypt-tunisia.html> accessed 16 November 2016
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- 13 <http://www.imf.org/en/News/Articles/2017/09/25/na092617-egypt-the-economy-is-gathering-strength> accessed 30 October 2017
- 14 Carlisle, Tamsin, "Egypt's Sisi outlines national energy policy at World Future Energy Summit," Platts, The Barrel, 21 January 2015, accessed 27 November 2015, <http://blogs.platts.com/2015/01/21/egypt-sisi-energy-policy/>.
- 15 <http://www.imf.org/en/Publications/CR/Issues/2017/09/26/Arab-Republic-of-Egypt-First-Review-Under-the-Extended-Arrangement-Under-the-Extended-Fund-45273> accessed 30 October 2017
- 16 <http://www.imf.org/en/Publications/CR/Issues/2017/09/26/Arab-Republic-of-Egypt-First-Review-Under-the-Extended-Arrangement-Under-the-Extended-Fund-45273>
- 17 Arab Republic of Egypt, Base Prospectus Supplement, September 2017
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- 20 IMF WEO October 2016 data.
- 21 <http://www.reuters.com/article/us-egypt-tourism-revenues/egypts-tourism-revenues-rise-170-percent-in-first-seven-months-of-2017-official-idUSKCN1BG0VJ?il=0>, accessed 30 October 2017
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Important Information

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