CareEdge Global assigns Long Term Foreign Currency Rating of B- (Unsolicited) to the Arab Republic of Egypt

Credit Profile

Egypt's credit profile is weighed down by its fiscal profile, and monetary and financial stability. Nonetheless, these weaknesses are partly offset by resilient growth in the face of structural constraints.

Several external shocks have weighed on the country's macroeconomic and external balances. The government has taken significant steps towards addressing imbalances, such as exchange rate unification in 2023. This has been anchored by its commitment to a new IMF programme which provides an additional USD 5 billion extended fund facility (EFF) augmenting an original arrangement of USD 3 billion. The facility is conditional on completion of other key reforms. Egypt's commitment under the IMF umbrella has also seen additional support from multiple donors and other announced foreign direct investments (FDI), which will support rectification/correction of previous imbalances.

Strengths

- Among the top 3 economies of Africa; reasonably diversified economy with a healthy growth rate
- Strategic location benefitting trade, especially through the Suez Canal
- Track record of managing deficits through consistent FDI inflow

Weaknesses

- High dependence on imports for food; largest importer of wheat
- Poor debt affordability along with high short-term debt maturities of the government
- Weak external position marked by FX shortages and highly negative net international investment position (NIIP)

Key Monitorables

- Effectiveness of implementing IMF monitored reforms in achieving macroeconomic and external stability
- De-escalation of neighbourhood conflict
- Continued assistance from Gulf Cooperation Council (GCC) countries
- Sustained flexibility of the exchange rate

Key Rating Drivers

Economic Structure & Resilience

The Egyptian economy is amongst the three largest economies in Africa (USD 394 billion in 2023) and reasonably diversified, with a moderate GDP per capita (USD 13,934 GDP per capita, constant PPP in 2023). Growth has remained resilient at an average of 4.6% over the past 5 years. However, growth has slowed since 2022, given several exogeneous shocks, including the Russia-Ukraine war and the ongoing

Israel-Hamas conflict. These shocks have translated into high inflation and foreign exchange (FX) shortages (given that the country is the largest importer of wheat globally). Further, revenues from tourism, exports of liquefied natural gas (LNG) and the Suez Canal have also been impacted due to conflicts in the region.

While growth is expected at 3% in 2024, it may recover towards 4.8% over the medium term as these risks dissipate and given the country's renewed commitments under the umbrella of the IMF. The economy is also constrained by structural inefficiencies, including a large informal sector, weak governance of state-owned enterprises (SOEs), climate risks, low employment (which also contribute to social risks) and delays in infrastructure projects due to FX shortages.

Fiscal Strength

Gross general government (GGG) debt-to-GDP is high and increased to around 96% in 2023 from 89% in 2022 and is projected to remain at this level in 2024, primarily due to the exchange rate reform and muted growth and revenue prospects. High inflation will also keep interest-to-revenue payments elevated given the central bank of Egypt's (CBEs) monetary policy tightening. The governments reliance on short-term (ST) debt has become costly.

Nonetheless, GGG debt is expected to decline to around 83% of GDP by FY25, driven by the continued commitment towards achieving positive primary surpluses and the high inflationary environment. Over the medium-term, the reduction of debt will also be aided by adherence to the new IMF programme, which necessitates Egypt to focus on fiscal tightening, including tax reforms through the newly amended tax law to eliminate tax loopholes, and streamlining the energy subsidy- while ensuring adequate social protection spending. GGG debt could also decline from the continued use of divestment proceeds from the partial sale of SOEs.

External Position & Linkages

The current account deficit (CAD) narrowed to 1.2% in 2023 from 3.5% in 2022, mainly due to a drop in imports on the back of persistent FX shortages and increased exports in non-hydrocarbon goods and a surge in tourism. A sustained moderation in the CAD is unlikely, given the country's reliance on imports for wheat (8% of total imports in 2023) and oil, a possible slowdown in global trade and regional conflicts leading to lower earnings from the Suez Canal, lower tourist arrivals and a drop in LNG exports. Nonetheless, the exchange rate reform should assist exports and facilitate remittances flowing through official markets, which should support the CAD.

Near-term external financing risks have markedly reduced due to the recent IMF facility, a significant foreign investment advance of USD 35 billion (8.8% of GDP) in February 2024 from ADQ, an investment holding company based in the United Arab Emirates (UAE) for land rights and the development of Ras El-Hekma as well as various other donor support from the European Union amongst others. The flurry of inflows has enhanced Egypt's foreign exchange reserves, enough to cover 6.8 months of imports (in H1 2024). Further, the country has also seen the return of sizeable non-resident inflows to the domestic debt market (close to USD 20 billion in H1 2024), supporting its external position.

Monetary & Financial Stability

Headline inflation (at 24% in 2023) is well above the upper boundary of the Central Bank of Egypt's (CBE) target range of 7%±2%, partly due to higher food prices and the weaker exchange rate. The exchange rate reform may also weigh on inflation. However, the CBE simultaneously hiked interest rates by 600bps, following the exchange rate unification, in a bid to combat such pressures. Further, since many goods were being priced at the parallel exchange rate, which has now converged to the official rate, additional sharp price increases of goods are not expected.

The banking sector is significant, with assets amounting to around 117% of GDP (2023). There is some growth potential given low levels of financial inclusion. Banks maintain a stable deposit-based funding structure and have good liquidity in local currency.

Non-performing loans are contained at around 3.4% in 2023. Nonetheless, banks remain heavily exposed to government debt (accounting for more than 50% of total assets in 2023).

Institutions & Quality of Governance

The country faces both external conflicts and internal protests. Externally, conflicts in the neighbourhood may pose a threat to regional stability. Internally, the government had to deal with sporadic protests linked to unemployment and rising inflation.

The government has a good history of completing both fiscal and economic reforms under previous IMF programmes. Under the current IMF programme, the government aims to rectify structural inefficiencies, for which confidence in the government's effectiveness is still pending.

Egypt – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	263.2	317.9	382.5	423.3	475.2	393.9	347.6	328.8
GDP Per Capita (Constant-PPP)	USD	12,140	12,683	12,810	13,032	13,698	13,934	14,066	14,403
Real GDP Growth	%	5.3	5.5	3.6	3.3	6.7	3.8	3.0	4.4
GFCF/ GDP	%	16.5	18.2	14.1	13.2	15.2	22.1	-	-
Gross Domestic Savings/ GDP	%	8.8	12.2	8.8	6.4	10.2	10.6	-	-
Exports (G&S)/GDP	%	18.0	16.6	12.5	10.6	15.1	19.1	-	-
Working-Age (15-64) Population (% Share in Total)	%	62.0	62.0	62.1	62.2	62.3	62.5	62.6	62.9
Old-Age (65+) Population (% Share in Total)	%	4.5	4.6	4.7	4.8	4.8	4.9	5.0	5.2
Fiscal Indicators – General Government									
Fiscal Balance/ GDP	%	-9.0	-7.6	-7.5	-7.0	-5.8	-5.8	-10.9	-9.3
Revenue/ GDP	%	19.7	19.3	18.2	18.6	18.9	17.0	17.5	18.4
Expenditure/ GDP	%	28.6	26.9	25.7	25.5	24.7	22.7	28.5	27.7
GG Gross Debt/ GDP	%	87.9	80.1	86.2	89.9	88.5	95.9	96.4	82.6
GG External Debt (by Creditor)/ GG Gross Debt	%	20.8	24.1	23.4	22.5	19.7	22.4	-	-
Interest/ Revenue	%	47.0	48.6	43.8	39.2	37.1	34.6	32.5	-
External Indicators									
Current Account Balance/ GDP	%	-2.3	-3.4	-2.9	-4.4	-3.5	-1.2	-6.3	-2.4
FDI, Net Inflows/ GDP	%	3.1	2.8	1.5	1.2	2.4	2.5	-	-
Outstanding FII Liabilities/ GDP	%	10.5	12.5	11.5	12.2	6.6	8.0	-	-
NIIP/ GDP	%	-59.6	-55.4	-53.0	-54.9	-52.2	-67.3	-	-
Foreign Exchange Reserves	USD Billion	41.8	44.6	39.0	39.8	32.1	33.1	-	-
Import Cover	Months	5.7	8.0	7.3	6.9	4.6	5.9	-	-
External Debt/GDP	%	34.5	43.9	37.0	41.0	44.0	48.0	54.8	55.0
Monetary and Financial Indicators									
CPI Inflation	%	20.9	13.9	5.7	4.5	8.5	24.4	32.5	25.7
Exchange Rate (Average)	LC per USD	17.8	16.8	15.8	15.6	19.2	30.6	-	-
Non-Performing Loans/ Total Gross Loans	%	4.1	4.2	3.6	-	-	3.4	-	-
Private debt, loans and debt securities/ GDP	%	25.0	22.3	25.6	28.1	31.7	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	B-	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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