MOODY'S
INVESTORS SERVICE

Announcement: Moody's: Egypt benefits from strong reform momentum; very weak government finances remain key challenge

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Frankfurt am Main, September 19, 2017 -- Egypt's (B3 stable) credit profile reflects its large and diversified economy and strong reform momentum, set against constraints which include its very weak government finances, Moody's Investors Service said in an annual report today.

The report, "Government of Egypt -- B3 stable: Annual credit analysis", is now available on www.moodys.com. Moody's subscribers can access this report via the link at the end of this press release. The research is an update to the markets and does not constitute a rating action.

"Although Egypt's economic growth is still below pre-revolution levels, it has started to pick up, and investor sentiment has also improved on the back of strengthened reform momentum," said Steffen Dyck, a Moody's Vice President -- Senior Credit Officer and co-author of the report. "We also expect that Egypt's high fiscal deficits and government debt levels will gradually reduce."

Moody's estimates that the general government primary deficit has been cut to 1.8% of GDP in fiscal year 2017 which ended on 30 June from 3.7% the year before and will start to show small surpluses from 2019.

The rating agency forecasts a 10% of GDP budget deficit for fiscal year 2018, slightly higher than 9.2% projected by the budget, but down from an estimated 12.1% in 2016.

Preliminary official figures suggest real GDP growth of 4.2% in 2017, and Moody's expects a further acceleration to 5.0% in 2019, supported by the government's structural reforms.

The implementation of economic and fiscal reforms underlines improved government effectiveness and policy predictability. Moody's believes that risks to policy-making have declined further since mid-2016, underpinned by better co-ordination between government entities.

The stable outlook on Egypt's sovereign rating indicates that the country's credit strengths and challenges are balanced.

Positive pressure on the rating would stem from faster-than-expected progress on the government's reform programme, more rapid fiscal consolidation and improvements in debt metrics.

Early signs of the successful implementation of structural economic reforms that boost foreign direct investment (FDI) inflows, and continued strengthening of external buffers would also be credit positive.

Conversely, any signs of reform slowdown would jeopardize the stable outlook. Depending on the form and speed of reversals and the implications for government finances and external liquidity this could even lead to downward credit pressure.

Renewed social and political instability or a material deterioration in the security situation could also lead to a negative rating action.

Subscribers can access the report at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1085414

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