



Positive Sovereign Credit Dynamics in Egypt Defy Global Headwinds

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Agenda

1. Credit Strengths and Challenges
2. Economic strength reverting back to higher potential
3. Continuing reform key to credit improvement
4. Volatile capital flows test credit resilience
5. Increased FX reserve buffer improves resilience

Key Messages

1

Broad-based growth recovery, continued reform implementation and emerging track record of resilience to capital market volatility inform the positive outlook

2

Key credit challenges include high borrowing costs and large financing needs over the next few years which drive Egypt's significant exposure to interest rate shocks

3

The credit profile remains constrained by labor market challenges to absorb the rapidly expanding labor force as durable basis for social stability. While domestic political stability improved, security risks remain elevated in certain areas

Egypt's Credit Strengths and Challenges

+

- Large and diversified economy with robust growth potential

+

- Strong reform momentum with support from international lenders that has helped reduce external vulnerabilities

+/-

- Large domestic funding base, though the cost of borrowing remains high

+/-

- While domestic political stability improved, security risks remain elevated in certain areas

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- Very weak public finances with high fiscal deficits, high public debt and large borrowing requirements

-

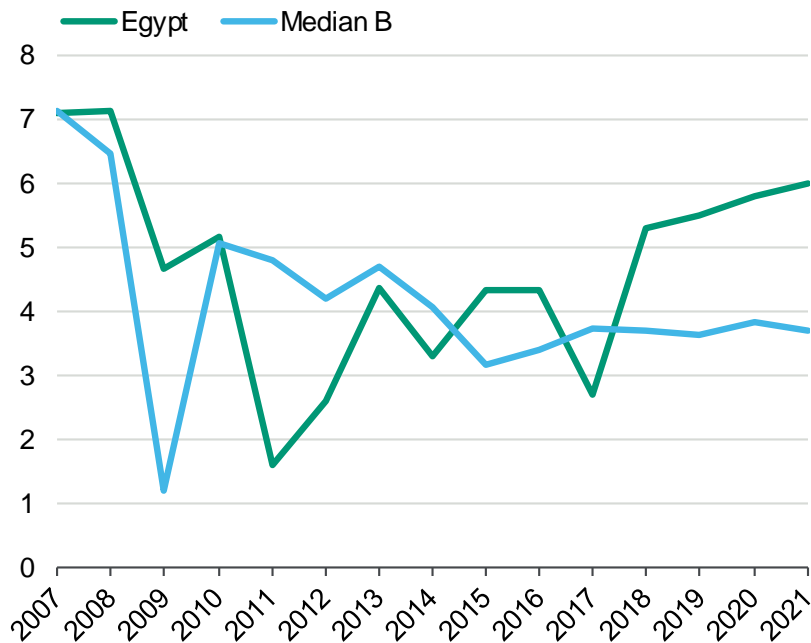
- Socio-economic challenges due to population growth and high youth unemployment

Boost to external competitiveness after the devaluation supports economic strength

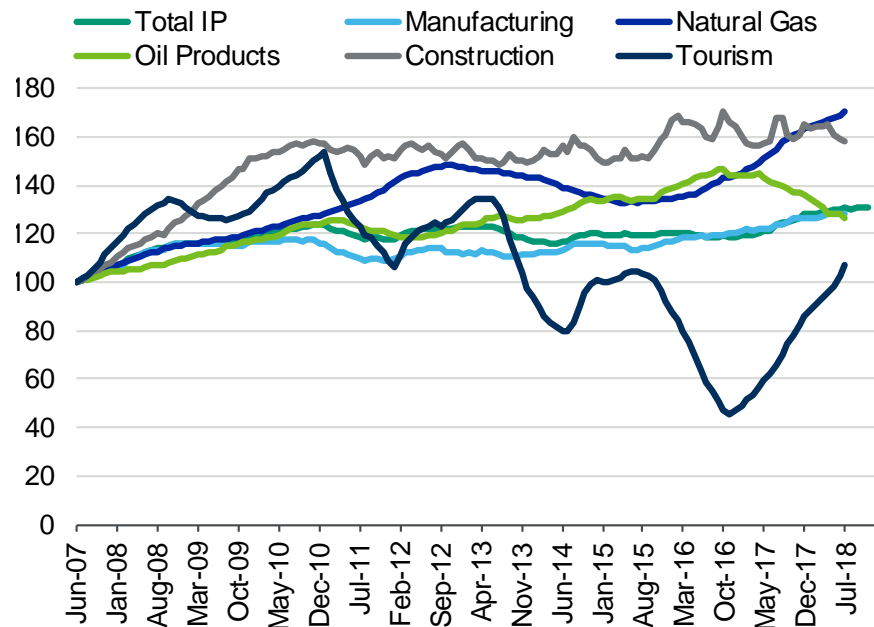
Growth is reverting to pre-crisis levels...

... with activity improving in most sectors

(%)



(Industrial production index, June 2006 = 100, 12-month moving average)



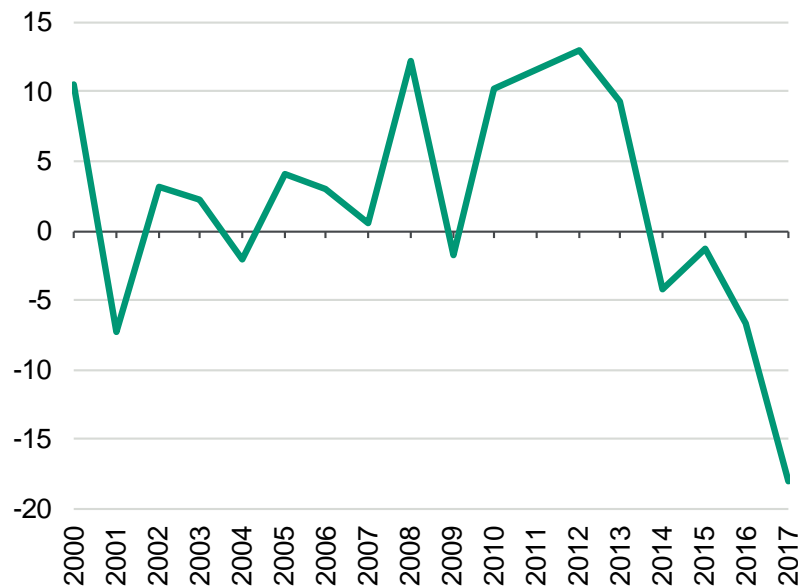
Sources: Haver Analytics, Moody's Investors Service

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Labor market dynamics are among long-term challenges impacting our political risk assessment

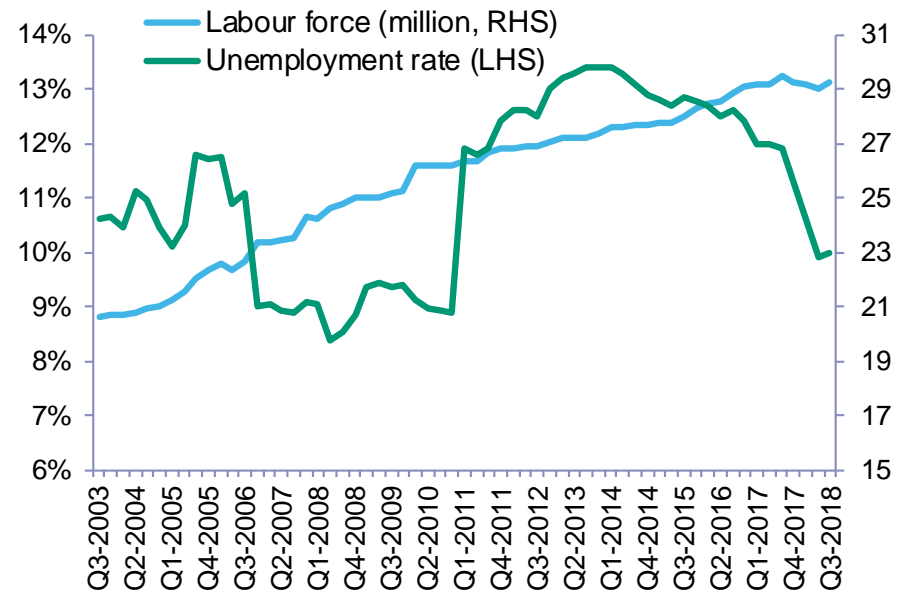
Real wage growth experienced a significant adjustment...

(Weekly average wage growth – Urban CPI growth, %)



... leading to improved demand for labor although unemployment rate remains high

(% LHS; million RHS)



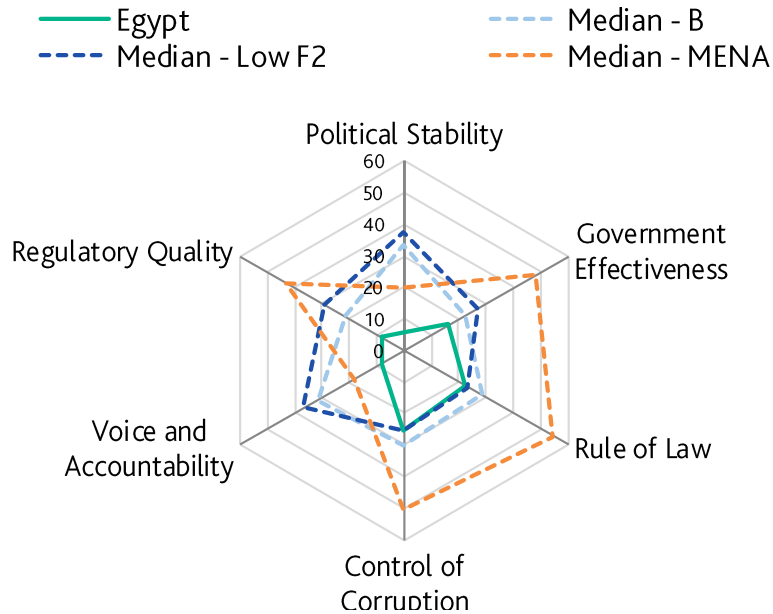
Sources: Haver Analytics, Moody's Investors Service

Sources: Statistical office, Haver Analytics, Moody's Investors Service

Improved institutional strength assessment captures economic and fiscal reform implementation drive

We assess institutions in line with “Low” median sovereign performance...

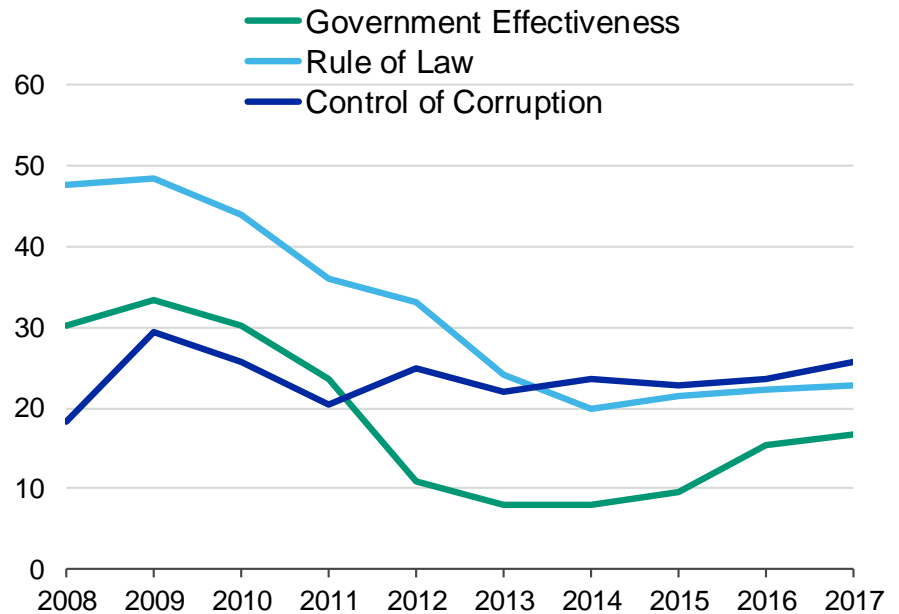
(Percentile rank among Moody's-rated sovereigns)



Sources: Worldwide Governance Indicators,, World Bank, Moody's Investors Service

... taking into account the continued improvement in government effectiveness

(Percentile rank among Moody's-rated sovereigns)

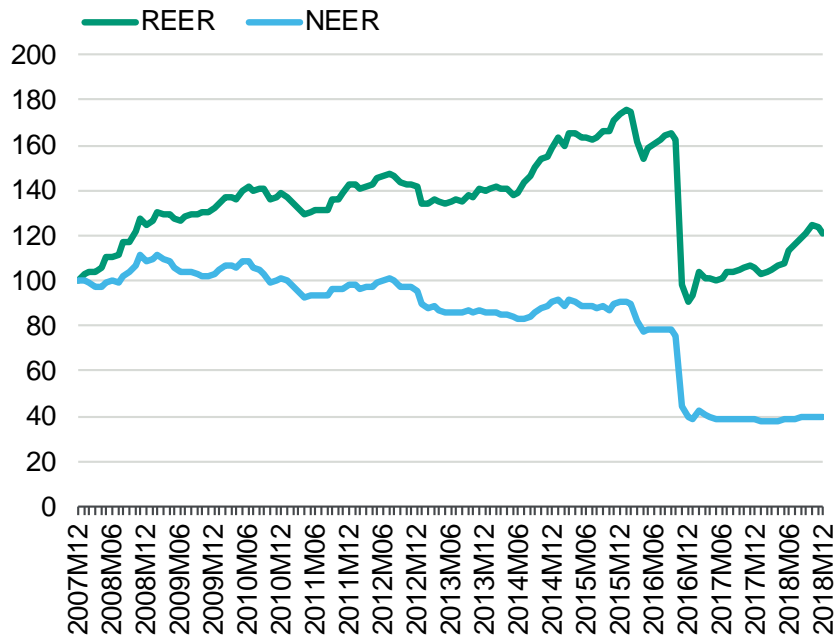


Sources: Worldwide Governance Indicators,, World Bank, Moody's Investors Service

Monetary policy is key to anchoring inflation expectations and reducing borrowing costs over the medium term

Maintenance of relative price competitiveness following the flotation...

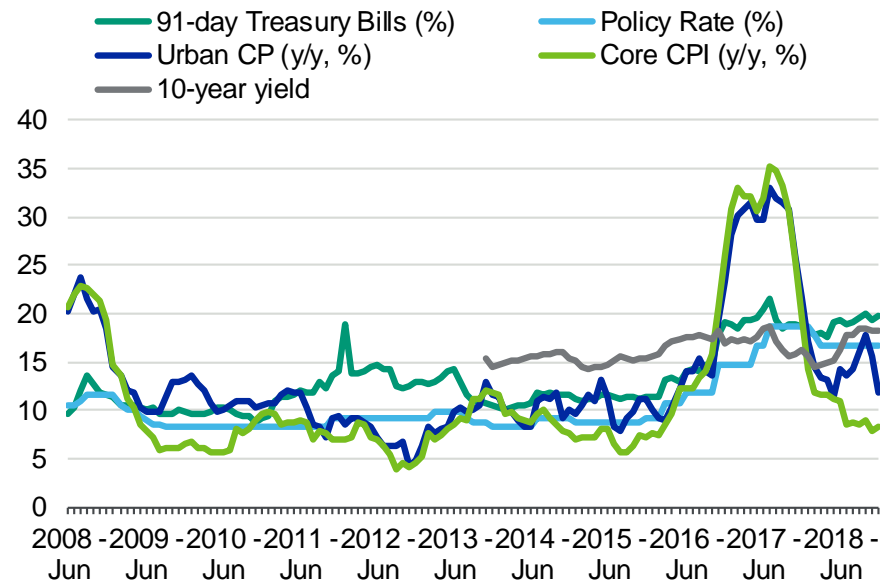
(Real / nominal effective exchange rate, Dec 2007 = 100)



Sources: Bruegel Institute, Moody's Investors Service

...depends on achieving relative price stability without stifling nominal FX adjustments

(%)

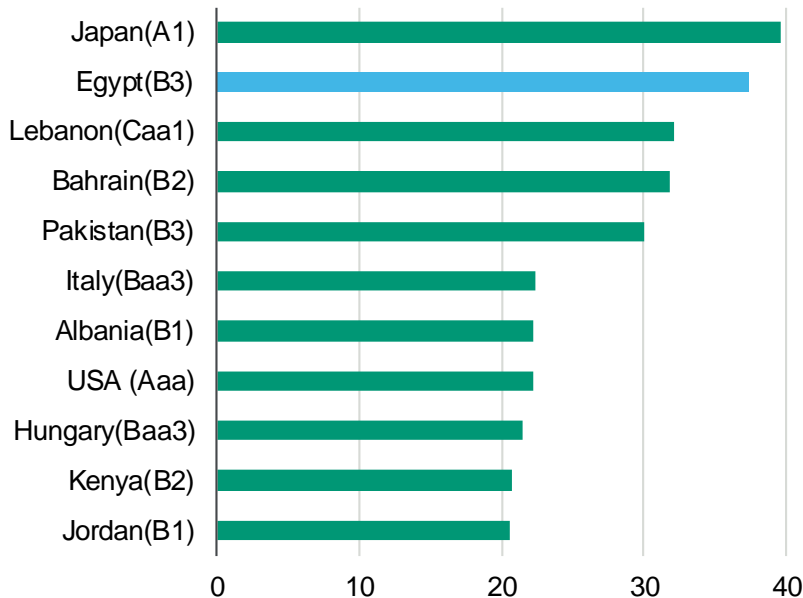


Sources: Central Bank of Egypt, Haver Analytics, Moody's Investors Service

Very weak public finances remain key credit constraint despite the declining debt ratio

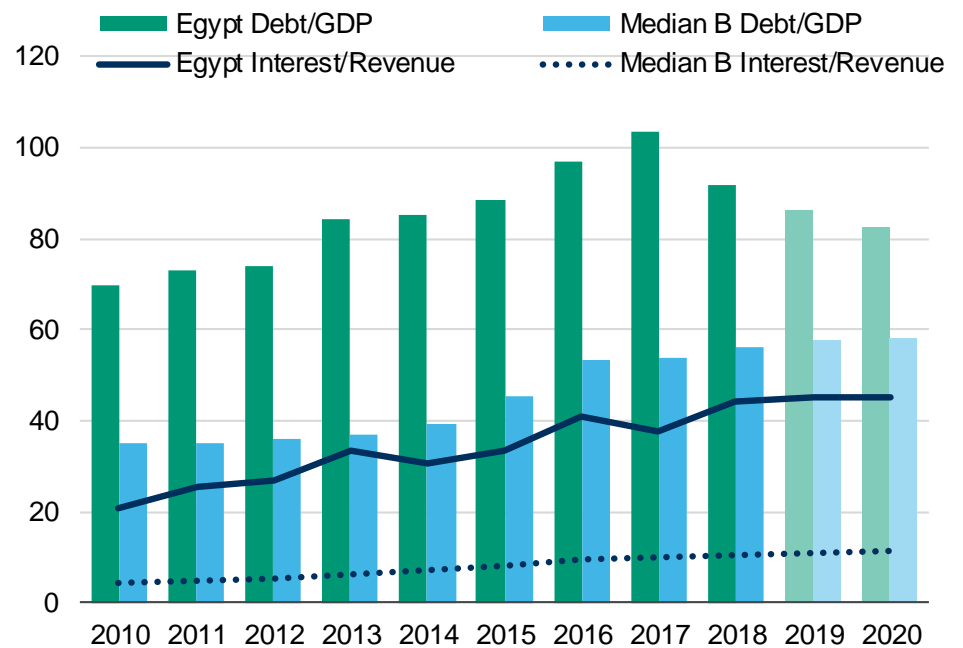
Egypt's financing needs are very high...

(Gross borrowing requirements 2018, % of GDP)



...and debt affordability remains very weak

(Government interest payments, % of government revenue)



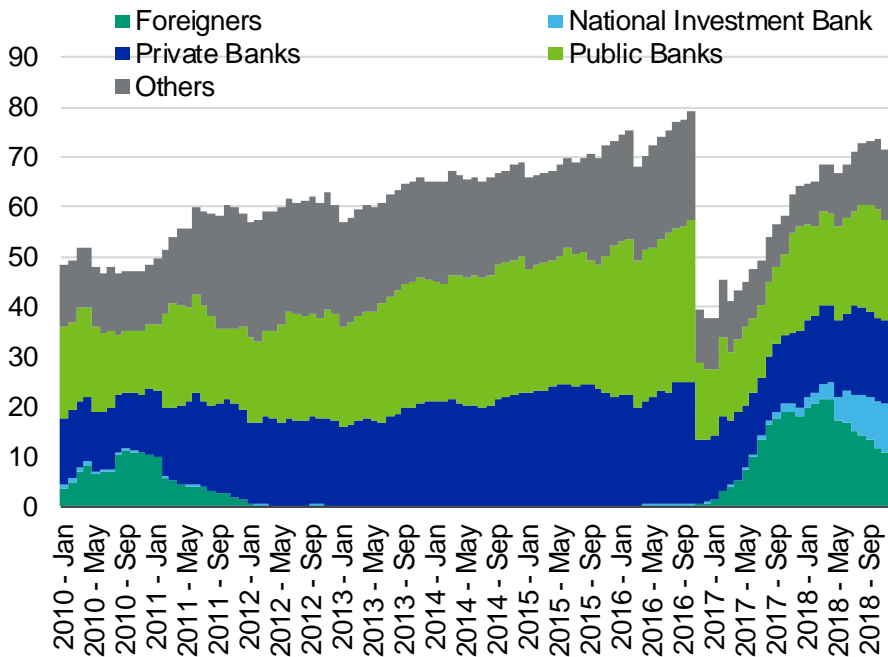
Sources, Moody's Investors Service

Sources: Moody's Investors Service

Large domestic funding base mitigates higher exposure to capital flow and FX volatility

Foreign participation in local currency market has been volatile, but manageable

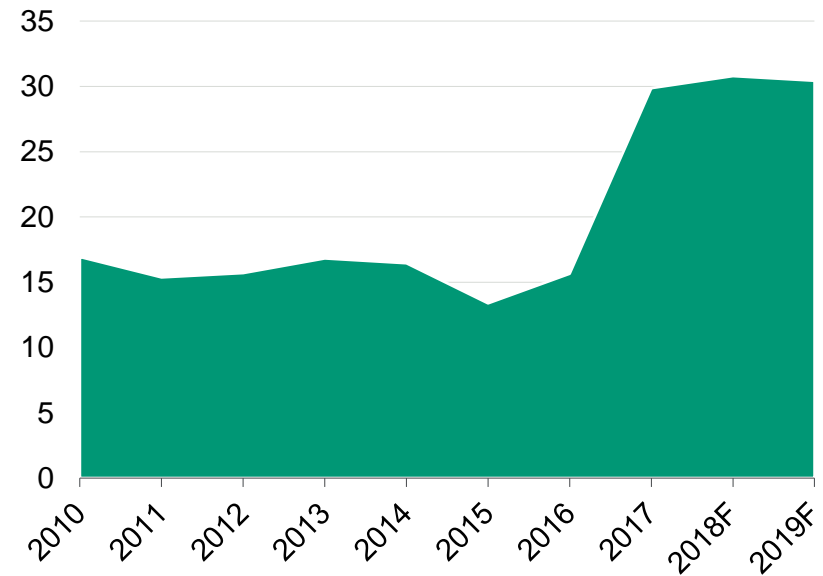
(Domestic T-bill market by holder, in billion \$)



Sources: IMF, Haver Analytics, Moody's Investors Service

Share of foreign currency debt has increased

(Foreign currency debt, % of total general government debt)

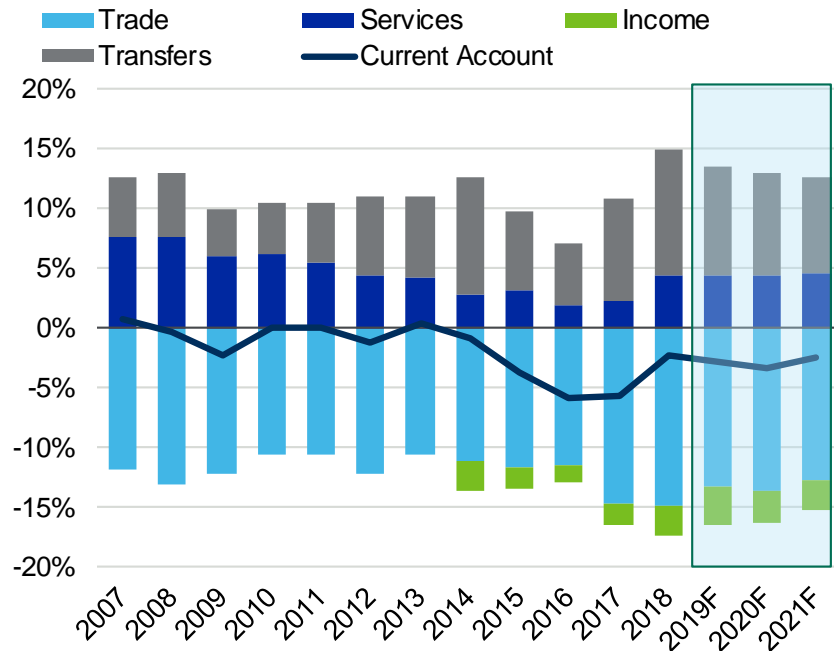


Sources: Ministry of Finance, Moody's Investors Service

Structural improvement in balance of payments reduces external vulnerability risk

Egypt's current account deficit is shrinking...

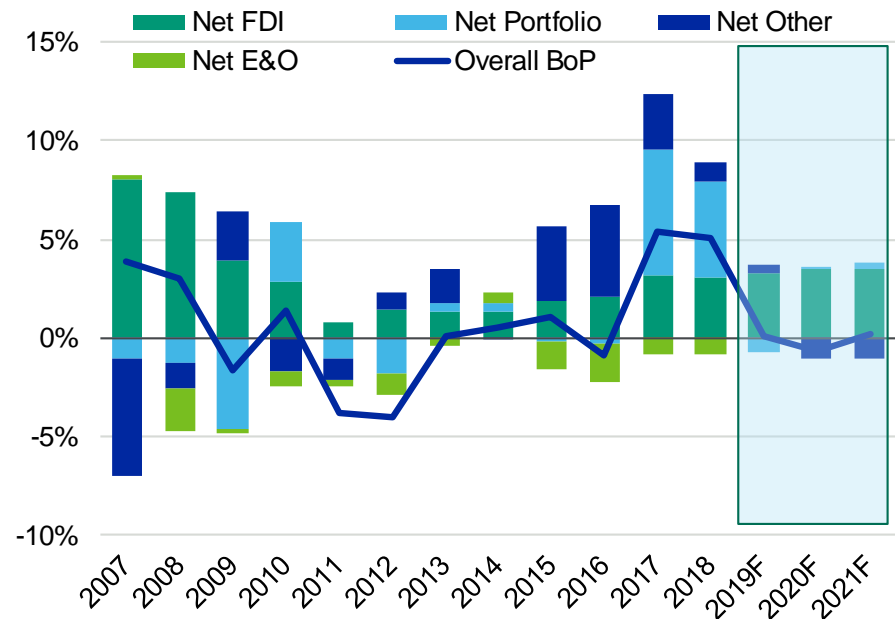
(Current account balance, % of GDP)



Sources: CBE, Haver Analytics, Moody's Investors Service

... and will mainly be funded by FDI inflows

Financial account and balance of payments, % of GDP



Sources: CBE, Haver Analytics, Moody's Investors Service

Foreign exchange buffer adequately covers imports and upcoming external maturities

Egypt's FX reserves cover 6.5 months of imports...

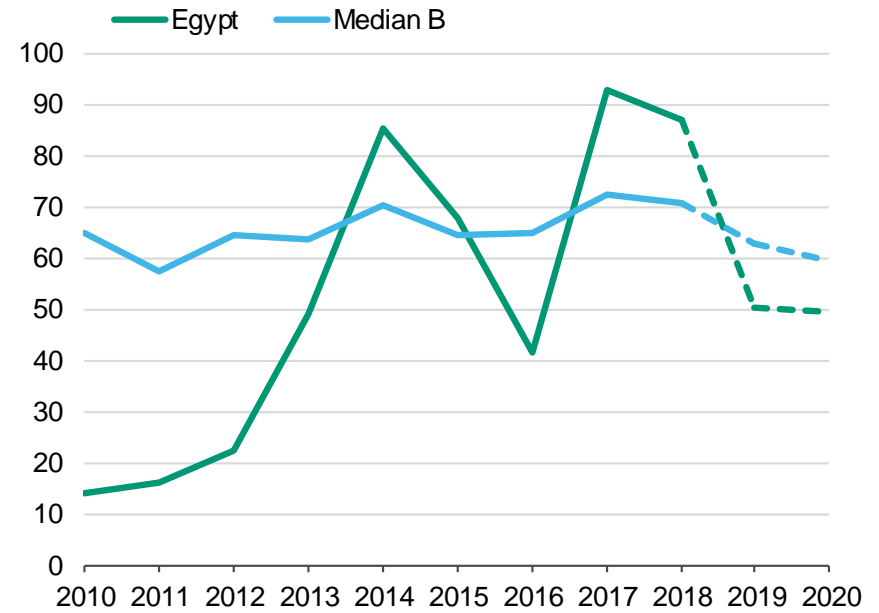
(billion \$)



Sources: CBE, Haver Analytics, Moody's Investors Service

... and sufficiently cover upcoming external maturities

(External vulnerability indicator, %
(ST ext. debt + MLT ext.maturities + Non-res deposits >1 year)



Sources: CBE, Haver Analytics, Moody's Investors Service

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