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Egypt negotiating USD12bn IMF loan; buckle up for structural adjustment

Egypt Economics / Strategy

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Deal could be sealed by September, parliament permitting

Egypt said yesterday it is negotiating a 3-year USD12bn loan programme with the IMF to bridge a total funding gap of USD21bn, which was largely in line with our expectations. Negotiations, which have been ongoing for the past three months according to the statement, could be finalised during IMF's mission visit which starts this Friday. We believe a staff level agreement could be reached once the VAT law has been approved by Parliament, with the latter having already approved the Civil Service law – the fund will also want a commitment on a more flexible FX policy. Such agreement would then need to be ratified by the IMF's board, likely post implementation of the VAT in September, as well as by Parliament; only then would the fund start to disburse the money.

Eurobonds targeted for September

The gov't aims to capitalise on the signing of the loan and passing critical fiscal reforms to access international bond markets with USD2-3bn issuance, according to Finance Minister Amr El Garhy. He is targeting the last week of September or first week of October for the issuance.

Bridging the funding gap – GCC funding is key

Bridging the funding gap – which we estimate at cUSD30bn (CA deficit less expected FDI) for the next three years - will also require rallying other sources of funding where we believe the GCC will have to play a large role. Saudi Arabia and UAE have already pledged USD4.5bn in cash support for the next few months: more could be announced, and GCC guarantees on loans and bonds are possible. In addition, the government has access to a USD3bn World Bank loan and a USD1bn loan from African Development Bank. In the medium term, a recovery in carry trade financing of the fiscal deficit (which peaked at USD12bn in 2010) is likely following a devaluation.

EGP adjustment needs reserve buffer, will likely follow agreement

We stick to our view that a successful float of the EGP would first require building a liquidity shield to enable authorities to stabilize FX markets post-adjustment and to minimise inflationary impact. We therefore expect such a move, which clearly will be a key component of the IMF programme, to take place once an IMF agreement is concluded rather than in the immediate future. We believe that foreign investors should stay Underweight on Egypt until the extent of devaluation is clear. Local investors should preserve capital by buying RE and financials, but cyclical stocks are likely to remain under pressure as domestic demand – already under pressure for the past 18 months – will be squeezed in the first phase of any IMF programme.

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Macroeconomic Indicators (Year-End June)

Egypt	2014a	2015a	2016e	2017f	2018f
Real Sector					
Nominal GDP (USD bn)	301.4	330.3	344.2	349.9	387.4
Real GDP Growth Rate, %	2.2	4.2	3.7	4.0	4.4
Population (mn)	86.8	88.8	90.8	92.8	94.8
CPI Inflation, Annual Average %	10.1	11.0	10.2	12.5	10.0
External Sector					
Trade Balance (USD bn)	(34.1)	(39.1)	(37.0)	(32.6)	(34.1)
Current Account (USD bn)	(2.7)	(12.1)	(18.0)	(15.9)	(17.9)
Current Account, % of GDP	(0.9)	(3.7)	(5.2)	(4.5)	(4.6)
Fiscal Sector					
Fiscal Balance (USD bn)	(36.6)	(38.0)	(41.4)	(41.1)	(43.0)
Fiscal Balance, % of GDP	(12.2)	(11.5)	(12.0)	(11.7)	(11.1)
Net Domestic Budget Sector Debt, %	73.2	76.8	77.2	76.5	76.7
External Government Debt, % of	15.7	15.1	13.5	12.9	11.9
Monetary Sector					
NFAs in the Banking System (USD	16.7	6.7	(10.7)	(17.7)	(19.7)
USD Exchange Rate	6.97	7.36	8.17	9.40	9.75
Y-o-Y Growth in Broad Money, %	17.0	16.4	15.5	16.0	18.5
Y-o-Y Growth in Private Sector	7.4	16.7	11.8	13.8	16.6

Source: Central Bank of Egypt, Ministry of Finance, CAPMAS, and EFG Hermes estimates

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