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27 September 2016

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RATINGS

Egypt

	Foreign Currency	Local Currency
Gov. Bond Rating	B3/STA	B3/STA
Country Ceiling	B2	Ba2
Bank Deposit Ceiling	Caa1	Ba2

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Government of Egypt - B3 Stable

Annual Credit Analysis

OVERVIEW AND OUTLOOK

Economic and fiscal reform momentum supports Egypt's B3 rating and stable outlook. Although still below pre-revolution levels, growth has started to pick up, and investor sentiment has improved. We also expect that high fiscal deficits and government debt levels will gradually reduce. The domestic market continues to provide a sizable funding base for the government. Financial support from Gulf countries has helped stabilize Egypt's international reserves and balance of payments position, but this has slowed. Nonetheless, and even under our baseline scenario of oil prices staying lower for longer, we would expect support from these countries in times of stress. Furthermore, low levels of foreign currency and external government debt mitigate external vulnerabilities.

Egypt's very large government financing needs of more than 50% of GDP annually form its key credit weakness. Furthermore, inflationary pressures remain high and will decline only gradually, posing macroeconomic risks and keeping government funding costs high. High unemployment rates – especially amongst the youth – are a sign of underlying structural economic challenges. While domestic political stability has improved somewhat, security risks remain elevated in certain areas, and pose a heightened event risk for Egypt.

The stable outlook indicates that credit strengths and challenges are balanced. We would consider the following factors as credit positive: (1) an accelerated implementation of measures to lower fiscal deficits and government debt; (2) a sustained growth recovery to pre-revolution levels, combined with a sharper reduction in inflation rates; (3) a faster-than-envisaged build-up of foreign exchange reserve buffers, driven by a reduced reliance on external donor support; and/or (4) further improvement in the domestic security situation.

We would view tightening domestic liquidity to fund government deficits, problems to close the external funding gap, and any signs of delay, slippage or reversal of fiscal and economic reforms agreed upon under the IMF program as triggers for a negative rating action. Renewed intensification of political turmoil and instability would also be highly credit-negative.

This Credit Analysis elaborates on Egypt's credit profile in terms of Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk, which are the four main analytic factors in Moody's Sovereign Bond Rating Methodology.

This Credit Analysis provides an in-depth discussion of credit rating(s) for Government of Egypt and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

SPECIAL TOPIC

On 19 August 2016, we affirmed Egypt's long-term issuer and senior unsecured bond ratings at B3 and maintained a stable outlook.

RATING AFFIRMATION AT B3

The decision to affirm Egypt's B3 rating reflects our view that it appropriately captures the country's ongoing credit challenges in a number of key areas, mainly the very weak level of government finances, a vulnerable external liquidity position and the presence of elevated security risks, all of which are contributing to a poor business climate and constrain Egypt's growth potential.

Public finances are characterized by sizeable fiscal deficits, high general government debt levels, and weak debt affordability ratios which will all continue to exceed the median for B3-rated peers. We however note that Egypt's low levels of foreign-currency denominated and externally-held government debt mitigate fiscal risks. The Egyptian banking system's demonstrated ability to provide funding even in times of stress alleviates the immediate risks of a fiscal crisis.

Egypt's external liquidity position remains vulnerable. The current account deficit widened to more than 5% of GDP in the fiscal year ended June 2016 (fiscal 2016), driven by a persistently high trade deficit, the negative impact on tourism from recent security incidents, and weaker Suez Canal revenues. Also, due to the economic slowdown in Gulf Cooperation Council (GCC) economies and the divergence between official and parallel exchange rates, private remittances have come under pressure lately. In addition, external support from GCC governments in the form of public transfers has slowed. Despite a recovery in financial account inflows since early 2015, foreign direct investment (FDI) inflows are below the levels seen in the second half of the 2000s. Uncertainty over the Central Bank of Egypt's exchange rate policy and restrictions on access to hard currency have had a dampening effect on both direct investment and portfolio inflows from abroad.

We note that government effectiveness has improved, risks to policy making have diminished, and the overall political situation appears to be broadly stable. However, security risks are elevated, as reflected in ongoing terrorist attacks – predominantly on security forces and particularly in North Sinai – and due to Egypt's exposure to regional sectarian violence. In addition, high unemployment rates create social pressure, in turn translating into ongoing demand for comparatively high levels of recurrent government spending, and could pose implementation risks for further-reaching fiscal and economic reforms.

Finally, structural impediments to a quick return to high growth rates include Egypt's weak business environment. We project real GDP growth to average only 4.2% on average over 2016-2020, compared to the 6.2% average growth recorded between 2006 and 2010.

RATIONALE FOR THE STABLE OUTLOOK

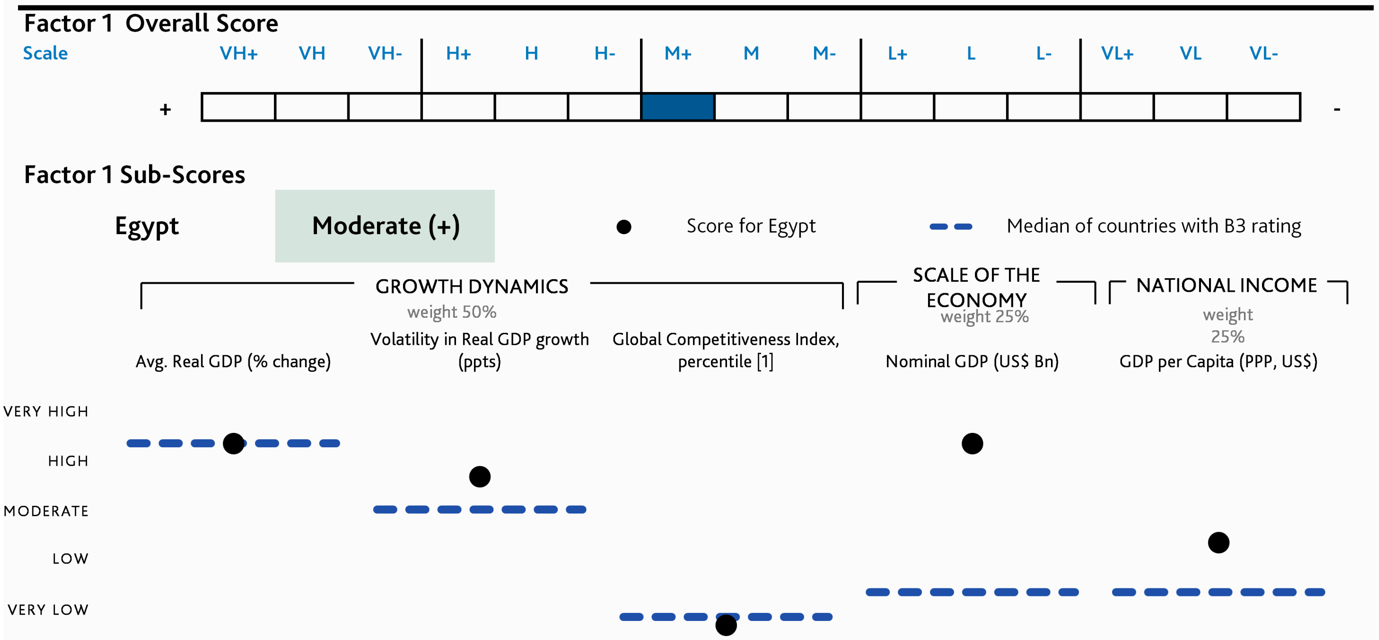
The stable rating outlook reflects our view that despite the somewhat slower-than-expected implementation of fiscal and economic reforms over the past 12-18 months, upward and downward pressures on the rating are balanced.

We view the staff-level agreement with the IMF, announced on 11 August 2016, as credit-positive, because it will help alleviate some of Egypt's external liquidity pressures. Under the Extended Fund Facility (EFF), Egypt will gain access to about $12 billion of external funding through the IMF. The agreement is subject to approval by the IMF's Executive Board, which we expect in the coming weeks. The agreement reached with the IMF is also important because it will unlock external funding from other multilateral and bilateral sources, and support the implementation of fiscal and economic reforms.

RATING RATIONALE

Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk. When a direct and imminent threat becomes a constraint, that can only lower the preliminary rating range. For more information please see our Sovereign Bond Rating Methodology.

Economic Strength: Moderate (+)



Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Economic strength is adjusted in case excessive credit growth is present and the risks of a boom-bust cycle are building. This 'credit boom' adjustment factor can only lower the overall score of economic strength.

Our assessment of Egypt's economic strength is 'Moderate (+)'. Other countries which score 'Moderate (+)' for this rating factor include Latvia (A3 stable), Russia (Ba1 negative) and Sri Lanka (B1 negative).

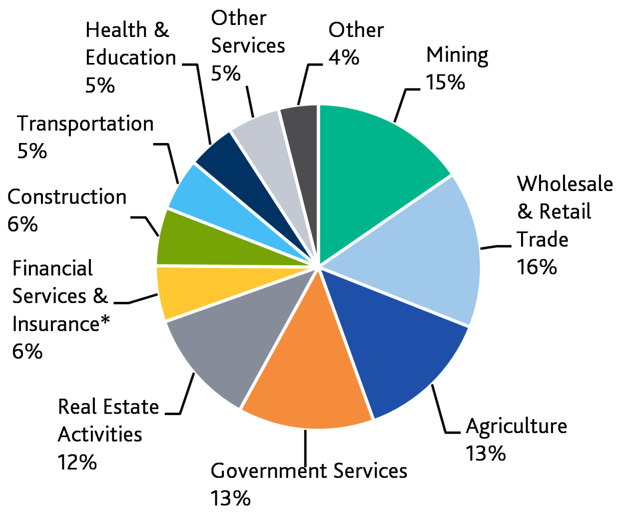
Our assessment is primarily supported by the country's large scale and economic diversification, which have offered a degree of economic resilience throughout four years of challenging economic and political conditions. These same conditions have, however, also weighed on the country's growth performance and negatively affected its already weak competitiveness indicators. We acknowledge that the foundation for future macroeconomic stability has improved since July 2013, reflected in a pick-up in real GDP growth since then. Comparatively low levels of per capita income and high unemployment rates are a constraint for Egypt's economic strength assessment.

Nominal GDP was $330.3 billion in fiscal 2015 (an order of magnitude higher than the B3-rated median of $20.3 billion). In fact, Egypt is the third largest B-rated sovereign in terms of GDP size, after Argentina (B3 stable) and Nigeria (B1 stable). Manufacturing, mining, trade and agriculture consistently represent the largest economic sectors, and accounted for 54.5% of nominal Gross Value Added (GVA) in 2015 (see Exhibit 1), while services sectors – including the Suez Canal – comprised about 51.4%. Within the mining sector, oil & gas exploration clearly dominate, accounting for 90% of total mining. However, the services sector had the highest growth contribution, with an average share of about 85% in real GVA growth over the past five years, whereas the share for the agriculture and mining sectors has been negative (see Exhibit 2).

Exhibit 1

A diversified economic structure with services as main growth driver

Nominal GVA (2015)

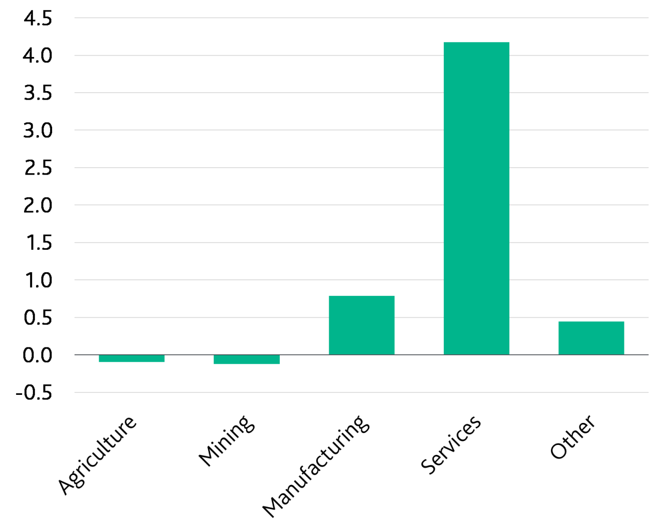


*Includes Social Insurance

Source: Ministry of Planning, Haver Analytics, Moody's Investors Service

Exhibit 2

Contribution to real GVA growth, %-points (2010-15 average)



Source: Ministry of Planning, Haver Analytics, Moody's Investors Service

Per capita income, at around $3,700 in fiscal 2015, is in line with the overall B3-rated median, although when measured in purchasing power parity terms the country's per capita income is close to $12,000 according to the IMF's latest estimates, slightly higher than the peer group median of $7,823.

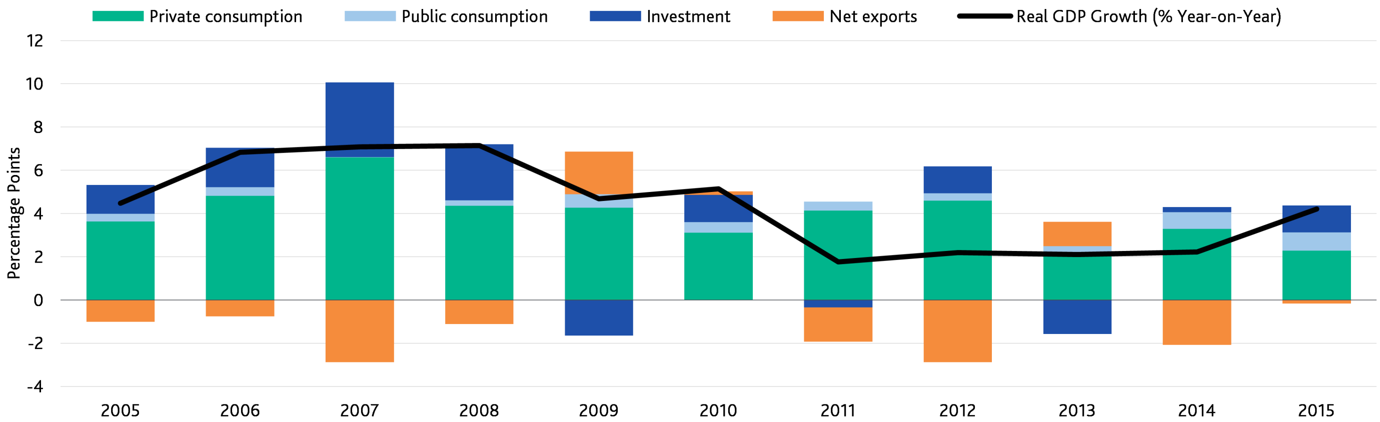
Growth has picked up on the back of recovering confidence and investment

Following the 2011 revolution, real GDP growth slowed to around 2.1% annually during the period 2011-14, from around 6% during 2005-10. The return to political stability following the second revolution in mid-2013 has helped to restore domestic confidence to a certain degree and supported economic activity, which is reflected in a pick-up in real GDP growth rates since then with average annual headline growth of 4.2% during fiscal 2015, up from an average 2.2% during fiscal years 2013 and 2014. The authorities project growth of 4.4% for fiscal 2016 and 5.2% in fiscal 2017. Our more conservative projections of 3.0% and 3.5% for fiscal 2016 and 2017, respectively, take into account the slowdown in the economy driven by a combination of external and internal factors, including lower tourist arrivals, foreign currency shortages and weaker global trade.

There is also a growing discrepancy between expenditure and production side measures of real GDP: For the period July 2015 to March 2016, expenditure-side real GDP grew by 4.3% from the same period a year before, whereas the production-side measure grew by only 2.3%.

Private consumption has long been the largest contributor to economic growth, growing at a more rapid pace than overall GDP growth over the past few years (see Exhibit 3). At the same time, net export contribution has primarily been negative. This highlights the negative impact heightened domestic political instability had on services exports, predominantly tourism. However, investment growth contribution, which has been much weaker than prior to the global financial crisis and first revolution as domestic political uncertainty has weighed on investor sentiment, showed improvement in fiscal 2015.

Exhibit 3
Private consumption has been driving real GDP growth



Source: Ministry of Planning, Moody's Investors Service calculations

Although the tourism sector showed signs of revival in 2014 and 2015, a Russian plane crash in late October 2015, suspected to be the result of a terrorist attack, has shaken tourist confidence. As a result, tourist arrivals dropped by more than 50% in the first six months of 2016 relative to the same period in 2015, and travel receipts have fallen sharply.

Egypt's Purchasing Manager's Index (PMI) has also been more volatile and has been showing signs of contraction since October 2015. Although the PMI ticked up to 48.9 in July from 47.5 in June, reflecting an improvement in underlying demand, this was balanced by liquidity shortages, rising costs and a weak client turnout. Amid elevated security risks and foreign currency shortages, foreign new business has continued to fall sharply.

Public and private investment as key growth driver over the coming years

Going forward, in addition to private consumption, growth will be predominantly supported by public and private investment. However, due to the expected increase in investment and connected stronger growth in capital goods imports, as well as weak global demand, negative net export growth contribution will remain a feature of Egypt's growth profile for the coming years.

In August 2015, Egypt officially opened a 35 kilometer expansion to the Suez Canal, along with a deepening and widening of almost 40 kilometers of the existing canal. The development of surrounding areas for the logistics sector should be beneficial for economic growth and employment. Infrastructure development of roads and ports is another focus area for public investment over the coming four to five years.

Additional private investment has been pledged in the oil and gas-related sector, amounting to more than $20 billion over the next four to five years. This should support growth directly, improve electricity generation, and reduce LNG imports in the medium term, eventually re-establishing the country as a net hydrocarbon exporter. Declining domestic production of natural gas and petroleum combined with rising energy consumption in recent years has led to severe power cuts during summer. However, the discovery of the Zohr offshore natural gas field, with potential reserves of 30 trillion cubic feet or 5.5 billion barrels of oil equivalent, could meet Egypt's natural gas demands for well over a decade. Egypt has also signed several agreements, particularly focusing on coal-fired and renewable plants, which could see electricity generation capacity more than double from current levels.

Structural challenges include weak competitiveness and high unemployment

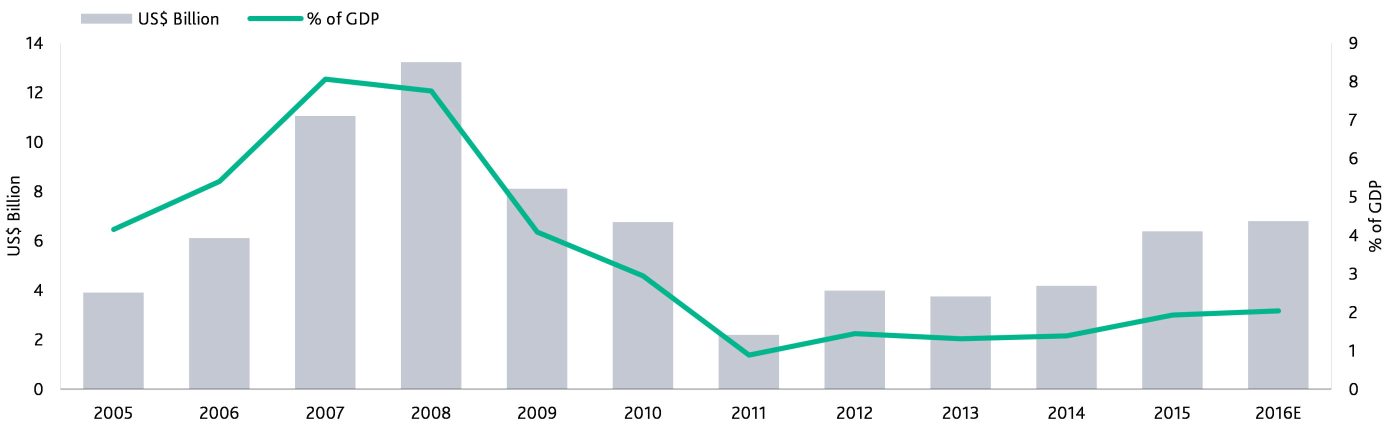
Infrastructure bottlenecks and unreliable energy supply, together with an inflexible and inefficient labor market are cited as key constraints in the 2015-2016 World Economic Forum Global Competitiveness Index (GCI). Egypt ranks 116th out of 140 countries, whereas it ranked 70th out of 133 in the 2009-2010 GCI. Nonetheless, it has shown improvement over the previous year, when it ranked 119th out of 144 countries. The improved score reflects better security conditions and economic reforms initiated.

But key challenges for Egypt's overall competitiveness and operating conditions remain. In the World Bank's 2016 Doing Business survey, Egypt ranked 131st out of 189 countries, down from 126th in 2015, owing to very low rankings in categories such as trading across borders, enforcing contracts and paying taxes. The IMF also identified "considerable red tape, cumbersome regulations, and poor enforcement of contracts and minority investors" in its latest report.

In this context, it is worth mentioning that acceleration of dispute settlement is an important part of the government's structural reforms. The new investment law makes the decisions of the dispute settlement committee legally binding for government entities, as opposed to an only consultative nature previously.

Improvements to the business climate would help bring back foreign direct investment (FDI) inflows. Net FDI inflows have dropped from 5.7% of GDP on average during 2005-10 to just 1.4% since 2011 (see Exhibit 4). The trend though has been positive in fiscal 2016, reflecting recovering investor sentiment. For the period July 2015 to March 2016, cumulative net FDI inflows reached $5.8 billion, up from $5.1 billion during the same period a year ago. We estimate the total FDI inflows for fiscal 2016 will reach 2% of GDP, slightly higher than the 1.9% in fiscal 2015.

Exhibit 4
Net FDI inflows are gradually recovering, but still below the peak levels

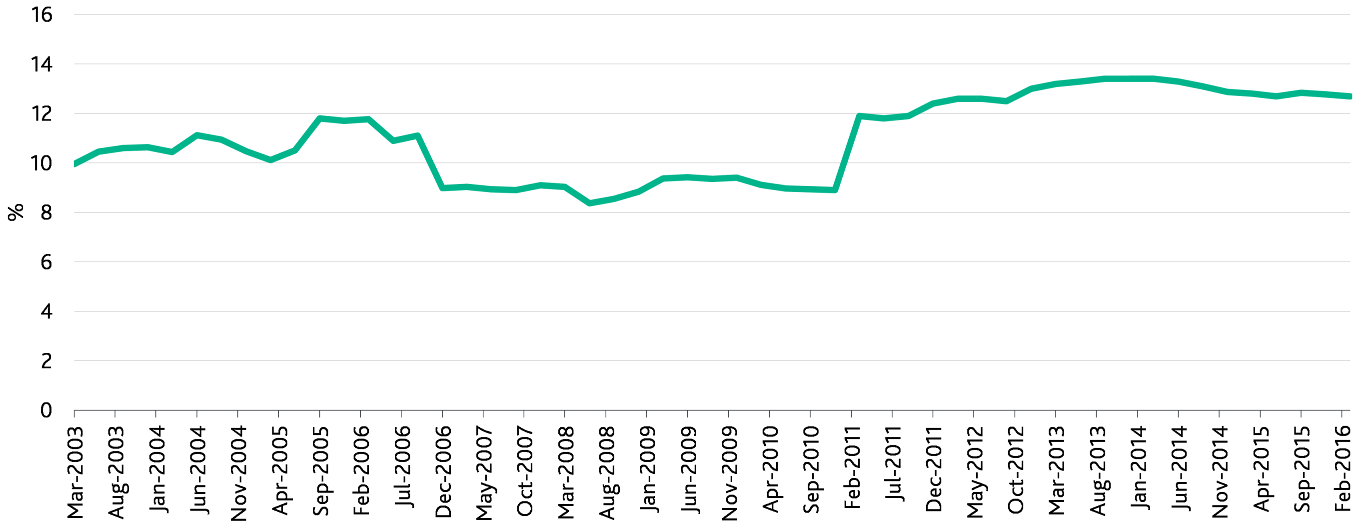


Source: Central Bank of Egypt, Moody's Investors Service calculations

Unemployment remains high, averaging 12.9% during fiscal 2015 and 12.5% as of June 2016. This is only marginally lower than the 13.4% reported in fiscal 2014, and still above pre-2011 levels (see Exhibit 5). Unemployment rates are particularly high for women, at 25.7%, and people aged 18 to 29. For that age group, which accounts for 43% of Egypt's labor force, the official unemployment rate reached 27.3% in March.

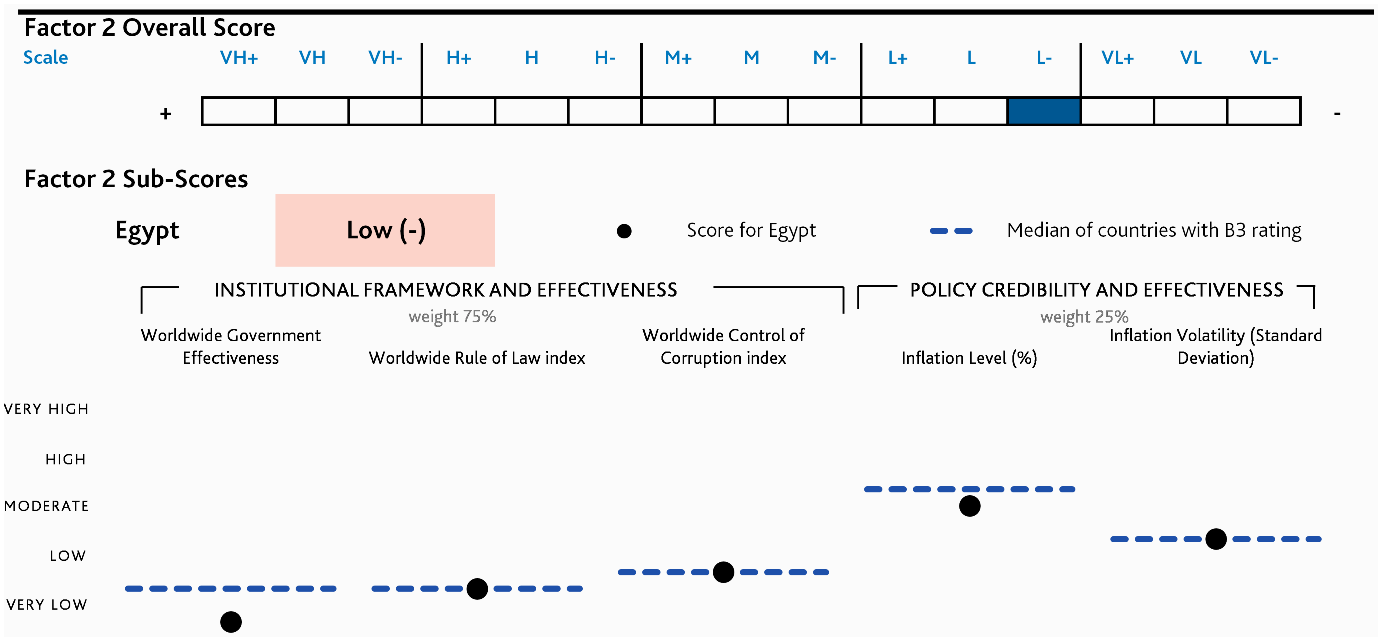
As outlined above, improvements to the business environment will likely lead to increased economic activity, which in turn will help job creation. However, given Egypt's demographic structure – with more than 30% of the total population under the age of 15 years – unemployment rates are unlikely to fall quickly, translating into the risk of social discontent and pressure on government spending.

Exhibit 5
Egypt's unemployment rate remains high



Source: Central Agency for Public Mobilization and Statistics

Institutional Strength: Low (-)



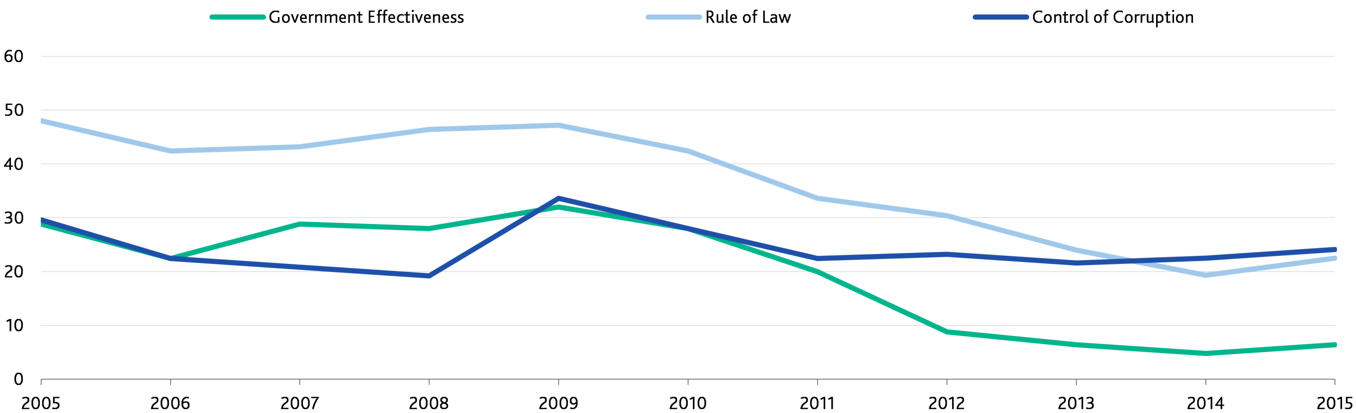
Institutional strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect of institutional strength is the capacity of the government to conduct sound economic policies that foster economic growth and prosperity. Institutional strength is adjusted for the track record of default. This adjustment can only lower the overall score of institutional strength.

Our assessment of Egypt's institutional strength at 'Low (-)' takes the Worldwide Governance Indicators as a starting point. The impact from almost three years of political turmoil is clearly visible in the deterioration of these indicators. However, we think that institutions central to economic management and sovereign creditworthiness, such as the Central Bank of Egypt (CBE) and the Ministry of Finance, have maintained a degree of stability and were able to function throughout these turbulent times.

With the exception of the indicator for Voice & Accountability, Egypt's governance indicators have all seen a marked deterioration from their peaks – although at very low levels – in the late 2000s. Within the group of three indicators that we focus on, Government

Effectiveness has suffered the steepest decline, with negative implications for economic performance and the government's financial profile, but all of these indicators have seen slight improvements from 2014 (see Exhibit 6).

Exhibit 6
Key governance indicators have slightly improved from 2014
Percentile rank based on all Moody's-rated sovereigns

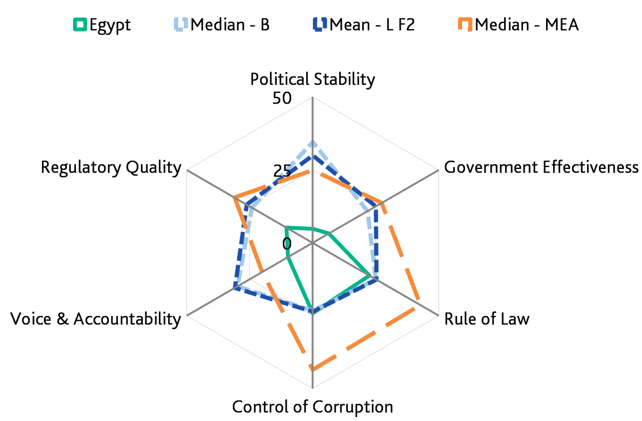


Source: Worldwide Governance Indicators, Moody's Investors Service calculations

Compared to all Moody's-rated sovereigns, Egypt's rankings for Government Effectiveness, Rule of Law, Political Stability, and Regulatory Quality dropped by more than 20 percentiles between 2008 and 2015. Egypt ranks worse than the B-rated median, the median for sovereigns scored 'Low' in the Institutional Strength factor, and the regional median for all of the Worldwide Governance Indicators, except Control of Corruption (see Exhibit 7). However, there was a slight uptick in Egypt's Worldwide Governance Scores in 2015 reflecting improved political stability, policy implementation, rule of law and control of corruption.

Countries which also carry an institutional strength assessment of 'Low (-)' include Azerbaijan (Ba1 negative), Ethiopia (B1 stable), Gabon (B1 negative) and Uganda (B1 negative).

Exhibit 7
Egypt's governance indicators are weaker than for its peers
2015 Percentile rank based on all Moody's-rated sovereigns



Source: Worldwide Governance Indicators, Moody's Investors Service calculations

The Central Bank of Egypt focuses on anchoring inflationary expectations

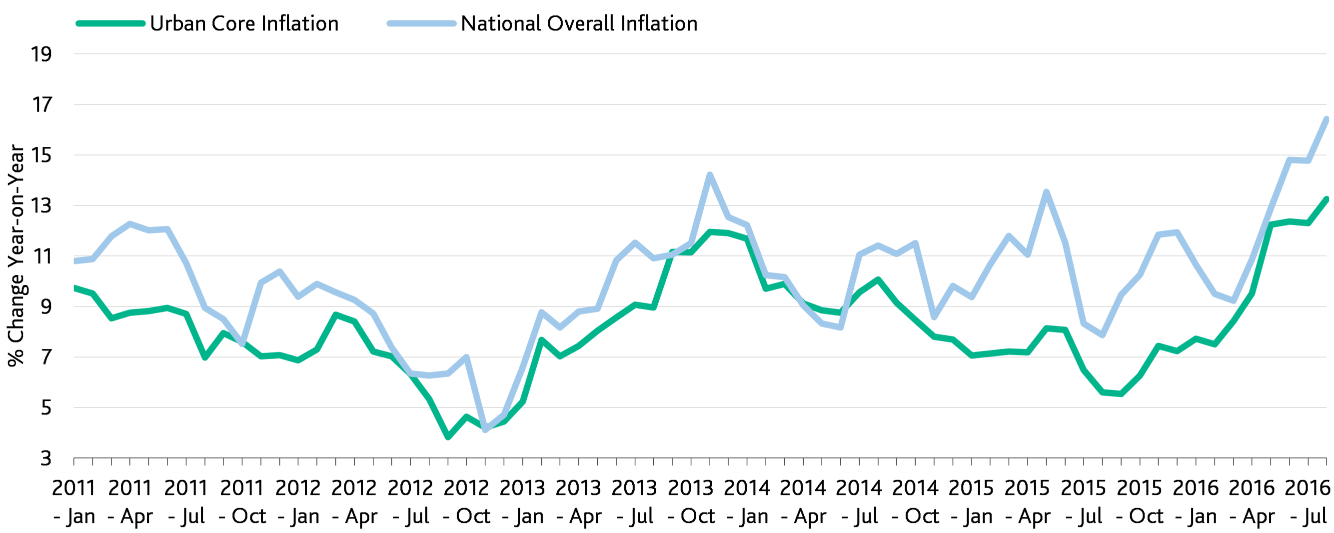
We use inflation performance as a proxy to assess policy credibility and effectiveness, a sub-category in which Egypt ranks in the moderate range. The country has shown heightened inflation rates and elevated levels of inflation volatility in the past. Inflation rates, which peaked at 16.2% in fiscal 2009 and averaged close to 10% from 2010-2015, have been stoked by infrastructure bottlenecks, domestic financing of government deficits, and reforms to administered prices.

Egypt's national and urban headline inflation rates rose to 16.4% year-on-year in August from a low of 9.2% in March, and compared to an average of 10.6% during 2015. The recent sharp rise reflects the hike in electricity tariffs introduced in August, currency devaluation in March, rising food prices, as well as structural issues such as the widening gap in the currency value between the official and parallel market. Urban core inflation (which excludes fruits and vegetables and fuel) also spiked in August to 13.3% year-on-year, compared to 9.5% in April and a low of 5.5% in September 2015 (see Exhibit 8).

During fiscal 2017, we project inflation rates to remain elevated and average 12.5%, up from an average of 10.2% in fiscal 2016. The anticipated further devaluation of the Egyptian pound, along with subsidy fuel reforms planned during the coming year, will keep inflation levels high. In addition, the IMF expects that the introduction of the valued-added tax (VAT) of 13% from October 2016 onwards will add around 0.8-0.9 percentage points to inflation.

Exhibit 8

Large gap between urban core and national headline inflation, with spikes in both categories



Source: Central Bank of Egypt

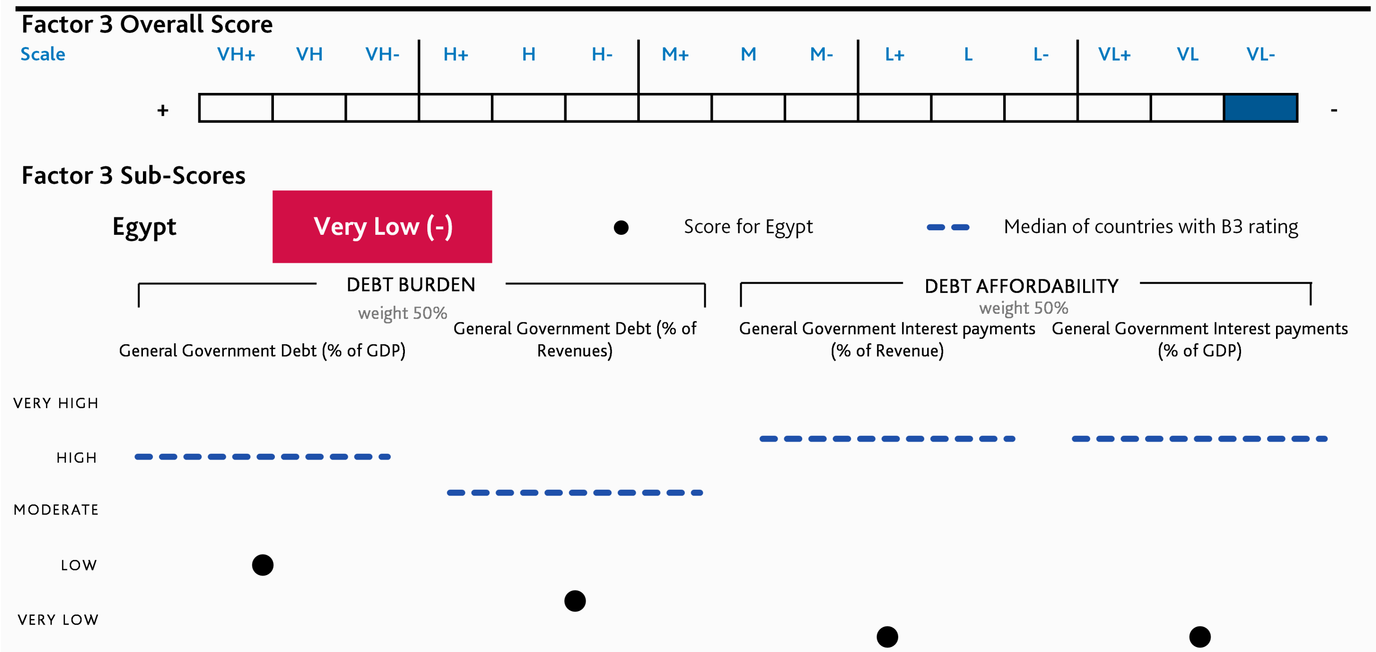
Given the expectation of elevated and rising inflation rates, the CBE's Monetary Policy Committee decided to raise interest rates by 100 basis points (bps) in June, bringing the overnight deposit rate, overnight lending rate, and the rate of the CBE's main operation to 11.75%, 12.75%, and 12.25%, respectively. The discount rate was also raised by 100 bps to 12.25%. This marked the second interest rate hike in 2016, following a 150 bps hike after the Egyptian pound was devalued in mid-March by 14.4%. However, the rate hike have also led to a sharp rise in borrowing costs for the government.

Excellent data availability and a relatively high degree of government transparency support institutional strength assessment

In contrast to its very weak governance scores, Egypt has a high degree of economic and financial data transparency. It is one of 74 countries which publish economic and financial data in accordance with the IMF's Special Data Dissemination Standard, which is more rigorous than the IMF's General Data Dissemination Standard, and allows for timely monitoring of a wide array of indicators.

Transparency with regard to policy analysis was helped by the publication of the government's medium-term macroeconomic framework in March 2014, as well as the first-time release of a pre-budget statement for the previous fiscal year, the publication of the Citizen Budget for fiscal 2016 for the second consecutive year and the release of the three-year Government Economic Program in March 2016.

Fiscal Strength: Very Low (-)



Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor the overall score of fiscal strength can be lowered or increased.

Egypt's 'Very Low (-)' government financial strength is reflective of large fiscal deficits and a very high government debt burden. Other sovereigns carrying the same fiscal strength score are Barbados (Caa1 stable), Ghana (B3 stable), Jamaica (Caa2 positive), Lebanon (B2 negative), Pakistan (B3 stable), and Sri Lanka (B1 negative).

Between fiscal 2005 and fiscal 2014, the general government deficit averaged 9.5% of GDP[1], far higher than the average B-rated median of 3.0% over the same period. The deficit spiked at 13.4% of GDP by fiscal 2013, before declining to 12.1% in fiscal 2014 and 11.7% in fiscal 2015. For fiscal 2016, we estimate a higher fiscal deficit of 13% of GDP, compared to the deficit target of 8.9% of GDP for the budget sector. The weaker-than-expected fiscal performance can be attributed to (1) delays with regard to VAT introduction, (2) slow implementation of further reforms to tackle current spending and (3) weaker performance in revenue sources dependent on external factors, including Suez Canal Authority (SCA, unrated) receipts and revenues from Egypt General Petroleum Company (EGPC, unrated).

Egypt's budget for fiscal 2017 was approved by parliament on 29 June and projects a fiscal deficit of 9.8% of GDP for the budget sector. However, the revenue shortfall resulting from a lower VAT rate of 13% instead of 14% and our lower growth forecast of 3.5% compared to the government's updated assumption of around 4% underpins our higher deficit forecast of 12% of GDP[2].

Mixed track record on revenue-enhancing measures

General government revenues at 22% of GDP are largely in line with the peer group median. However, sluggish economic activity has constrained revenue growth, and tax revenues have fallen to 12.6% of GDP from 15.7% in 2009. During July-May 2015/16, total budget sector revenues increased only by 1.9% year-on-year to EGP356.6 billion, driven by an increase of 4.4% in non-tax revenues and 3.0% in tax revenues, whereas grants declined by 59.1%.

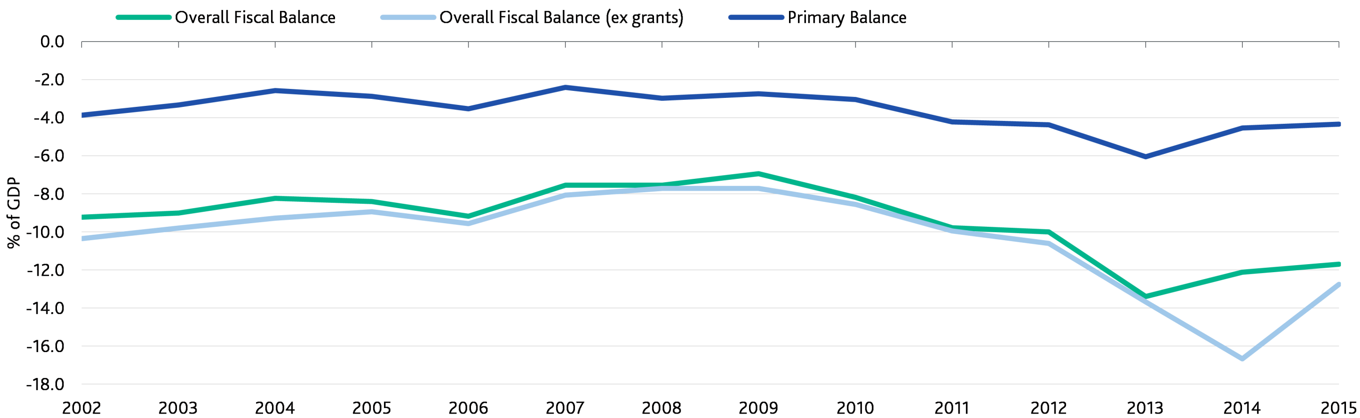
Revenues are highly reliant on tax collections and dividends from the hydrocarbon sector and the Suez Canal, controlled respectively by two state-owned corporations, the EGPC and SCA. Together these two entities contributed close to 20% of total revenue in fiscal

2015. However, weak global trade and no petroleum settlements received from EGPC in the first 11 months of fiscal 2016 resulted in a 25% year-on-year reduction in revenues from these entities.

Foreign grants, almost exclusively from Gulf Cooperation Council member states Kuwait (Aa2 negative), Saudi Arabia (A1 stable) and United Arab Emirates (Aa2 negative) amounted to almost EGP96 billion, or close to 20% of total revenue in fiscal 2014. However, these grants sharply fell to EGP25 billion in fiscal 2015 and to EGP3.3 billion over the first 11 months of fiscal 2016. Nonetheless, fiscal consolidation efforts bore fruit, as the underlying fiscal deficit excluding grants narrowed to 12.7% of GDP in fiscal 2015, from 16.7% in the year before (see Exhibit 9).

Exhibit 9

Temporary relief to the fiscal position from grants has faded



Source: Egypt Ministry of Finance

While the Egyptian government has enacted a number of fiscal reforms, it has also backtracked on some. Vigorous adjustments for administered fuel prices were followed by a pause on that front in 2015. However, electricity price increases continued as planned. As a result, as of May, total revenues and grants had reached only 57% of the budgeted total, driven by weak performance in tax and other revenues, particularly property income.

For fiscal 2016, the government had announced steps towards implementing revenue-enhancing measures, including raising the tax rate for Special Economic Zones (SEZ) from 10% to 22.5%. In addition, the government implemented a new property tax law that had first been proposed in 2008, and a mining law that raised royalty fees and directs mining revenues to the treasury instead of municipalities. However, only 10% and 33% of the budgeted revenues from the mining law and property tax, respectively, are expected to be realized in fiscal 2016. Moreover, no revenues are expected from measures planned in the fiscal 2016 budget such as the VAT, telecoms licenses, settlements of agricultural lands used for non-agricultural purposes and collection of tax arrears on T-bills and T-bonds, resulting in a loss of revenue of EGP61 billion or almost 10% of budgeted total revenues.

The fiscal 2017 budget projects an increase in total revenues to about EGP670 billion, from EGP622 billion in the 2016 budget, driven mainly by increased non-tax revenues such as land sales and telecom licences.

The government however has begun to re-start the reform momentum. The draft VAT law was approved by parliament at the end of August and enacted in September. This is credit positive, as it will gradually increase Egypt's low tax receipts and support its fiscal consolidation efforts[3]. Other revenue-side reforms include higher taxes on tobacco, and improved tax administration. Non-tax measures include the transfer of public bank dividends to the treasury, telecoms licenses, sale of government land and initial public offerings (IPOs) from fiscal 2018.

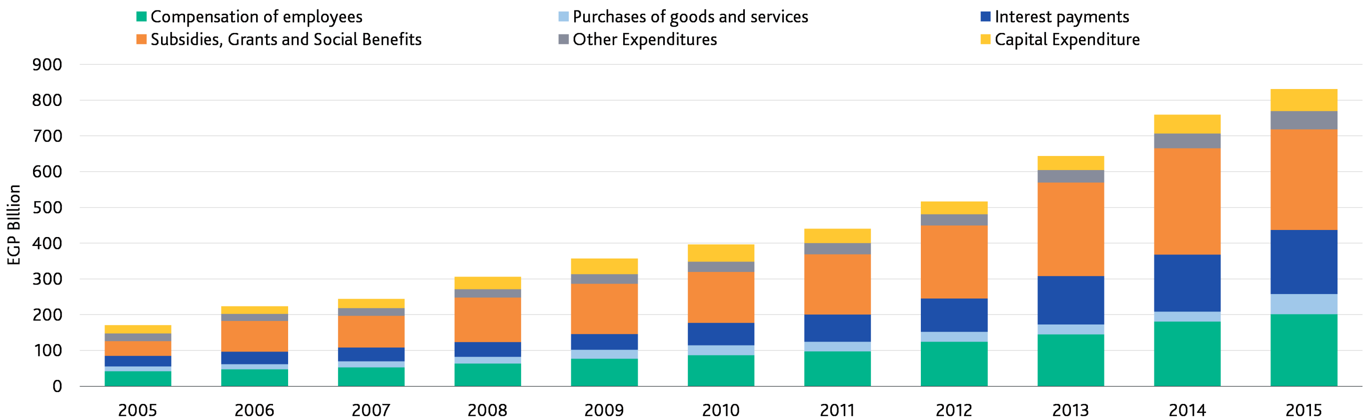
Balancing act between rationalizing current spending and maintaining social spending commitments

The Medium-Term Macroeconomic Policy Framework states that aside from putting "public debt onto a sustainable trajectory", the government aims to improve the structure and quality of government spending, taking into account the economic and social impact of government spending. This ties in with the constitutional requirement to raise spending on healthcare, education, and scientific research to 10% of GDP by 2017.

General government expenditures are dominated by subsidies & transfers and interest payments, which account for 35% and 22% of general government expenditure, respectively (see Exhibit 10).

Exhibit 10

Very high level of recurrent spending weighs down on public investment



Source: Ministry of Finance, Central Bank of Egypt, Haver Analytics

The fiscal 2017 budget projects a rise in budget sector expenditure to EGP975 billion, from EGP865 billion in the fiscal 2016 budget, a 12.7% increase. Interest payments are projected to grow by 20%, while subsidies and benefits are expected to decline by 10.7%. This decline is primarily driven by a 40% expected fall in petroleum subsidies, in turn supported by a further drop in oil prices in fiscal 2016 and planned fuel price hikes in the coming year. Our expectation for the slight deficit reduction in 2017 is supported by the passing of three key fiscal reforms: (1) price hikes in electricity tariffs by an average of 35% in August, which is in line with the government's medium-term plan; (2) a civil service law approved by the parliament in July that will help contain the public sector wage bill; and (3) the introduction of VAT in September.

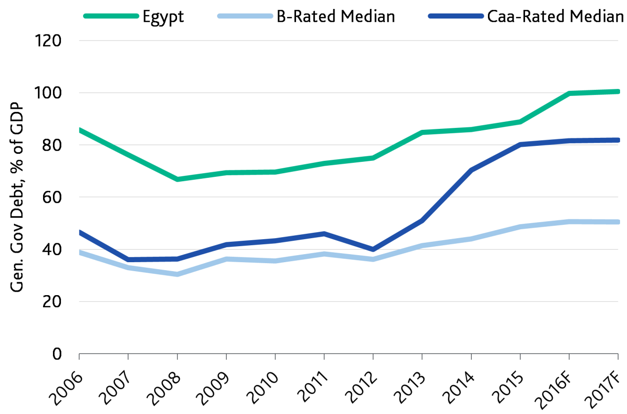
Government debt will continue to rise

Primary deficits have averaged around 5% of GDP since fiscal 2011, exacerbating the rise in government debt since 2008 (see Exhibit 11). Since fiscal 2011, general government debt has increased by 2.6 times in nominal terms, reaching EGP2.7 trillion as of June 2016, equivalent to 100% of GDP based on our nominal GDP estimate. This reflects a 25.7% increase from fiscal 2015 and was partly driven by one-off measures, such as bond issuances to clear arrears with the pension system, and the budget-neutral settlement of National Investment Bank debt. We forecast that general government debt will peak at EGP3.4 trillion or around 102% of GDP in fiscal 2018.

Debt affordability has weakened since fiscal 2008, as reflected in very high debt-to-revenue ratios (see Exhibit 12). Rollover risks persist due to the short maturity of government securities of about two years. About 40% of total government debt is in treasury bills of one year and less, of which more than two-thirds are held by domestic public and private sector banks.

Exhibit 11

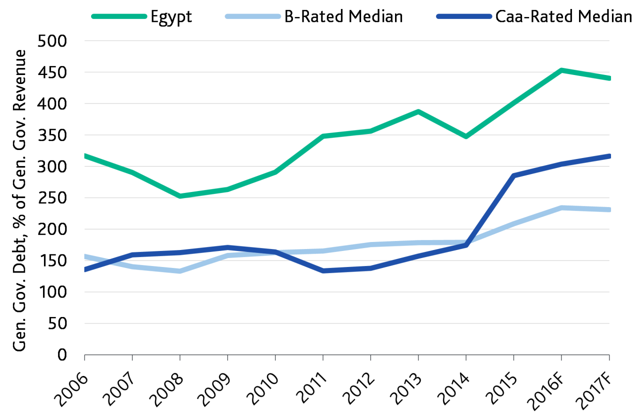
Egypt's government debt burden is higher…



Source: National authorities, Moody's Investors Service

Exhibit 12

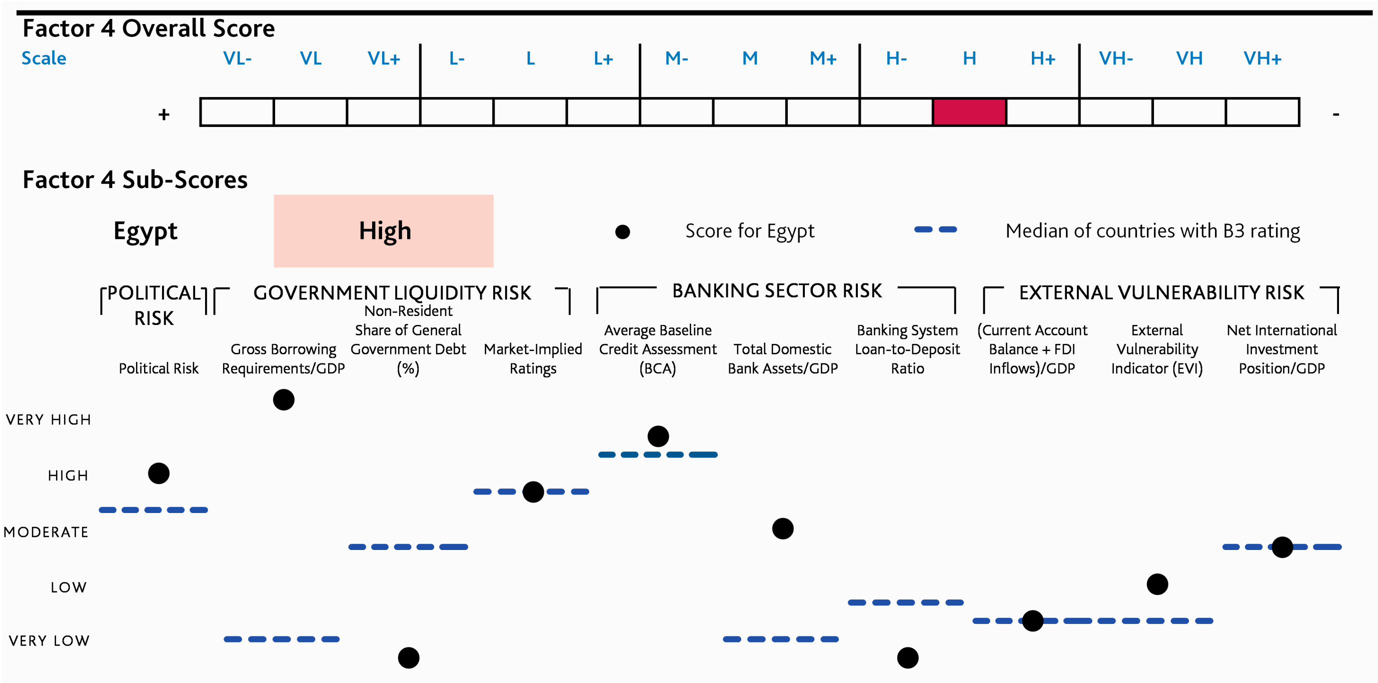
… and debt affordability is weaker than that of its peers



Source: National authorities, Moody's Investors Service

The CBE and commercial banks are the main holders of government debt securities, and overall lending of banks and the central bank to the government has continued to grow. Around 92% of total consolidated general government debt was domestically held according to preliminary figures for June 2016, up from about 83% at the end of fiscal 2010. This is despite an international bond issuance and additional international long-term deposits over 2015, primarily from the Gulf countries, and thus adding to external debt levels. Foreign-currency denominated and externally held government debt remains low at less than 15% of GDP, which is an important support factor for Egypt's rating.

Susceptibility to Event Risk: High



Susceptibility to Event Risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility of Event Risk is a constraint which can only lower the preliminary rating range as given by combining the first three factors.

Domestic political event risk is the driving force behind Egypt's overall score on susceptibility to event risk. Other countries which score 'High' are Argentina (B3 stable), Pakistan (B3 stable) and Belarus (Caa1 stable).

Domestic political event risk has declined but is still elevated

The implementation of economic and fiscal reforms underlines improved government effectiveness and predictability of policy formulation. Despite a number of changes in government and cabinet reshufflings – with the most recent one in March when ten new ministers, including the Minister of Finance, were appointed – the main narrative of gradual reform remains intact, although the momentum has slowed over the past year.

Parliamentary elections were concluded on 16 December 2015, and marked the third and final milestone of Egypt's political roadmap. The country had been ruled by presidential decrees since the last parliament was dissolved in July 2013. The new parliament remains broadly supportive of the government's current policies, although it initially rejected the civil service law in February and only approved it in July following some amendments. The low voter turnout of around 30% however carries the risk that the perception of non-representation could foster underlying discontent among parts of the population, which would add to a still fragile security situation.

Moreover, high unemployment rates create social pressure and planned reforms under an IMF program have the potential to trigger more widespread public discontent. The VAT and further subsidy rationalization, along with the expected move towards a more flexible exchange rate regime, will further increase inflation rates and could also weigh on people's perception of social justice.

Security risks persist, with the potential of negatively affecting sentiment

So far, the army has been relatively successful in neutralizing the Muslim Brotherhood's most radical followers, but security risks persist. This is reflected in scattered terrorist attacks targeting security forces and government officials, with one of the most prominent ones being the assassination attempt on the former Grand Mufti in August.

Aside from relatively small-scale attacks targeting security forces in the urban centres, larger scale violent confrontations between militants and the armed forces continue to take place in parts of the Northern Sinai, far from tourism areas, with hundreds of Egyptian security force casualties since the second revolution. The attacks have been carried out by Ansar Bayt al-Maqdis, a militant group based in the Sinai, which has also sabotaged the Egypt gas pipeline to Jordan, and has affiliated itself with the Islamic State. The Egyptian army has ramped up its security apparatus in the Sinai, with US support.

Recent high-profile events including a Russian plane crash in October 2015 due to a bomb explosion, an accidental attack on Mexican tourists by security forces in September 2015, and a terrorist attack in Luxor in February 2015, all of which have threatened the nascent revival of economic activity and tourism. Although foreign investment inflows have stayed stable, further incidents that raise investors' perception of higher security risk in Egypt could reverse the recent positive trend of FDI inflows.

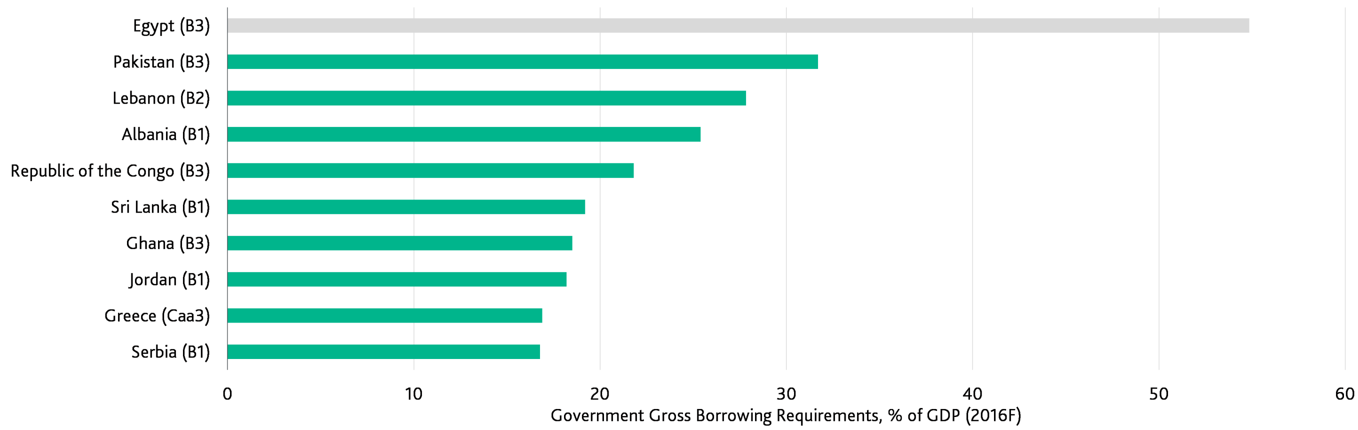
Susceptibility to geopolitical event risk is determined by Egypt's exposure to regional sectarian conflict

Terrorist threats also stem from the border region with Libya, but similar to events on the Sinai, these relate to relatively small-scale attacks. The Egyptian air force has carried out airstrikes in February, targeting ISIS in Libya, following the killing of more than 20 Egyptian hostages in Libya. In addition, Egypt participates in the coalition against Houthi rebels in Yemen. The Yemen conflict could directly affect Egypt's economy if the rebels seize control of the Bab-el-Mandeb strait, which could threaten commercial shipping destined for the Suez Canal.

Very large government financing needs are balanced by largely domestic and local currency funding

As a result of large fiscal deficits and the high share of short-term government debt, Egypt's government gross borrowing requirements remain very large, in fact the largest among Moody's-rated sovereigns (see Exhibit 13).

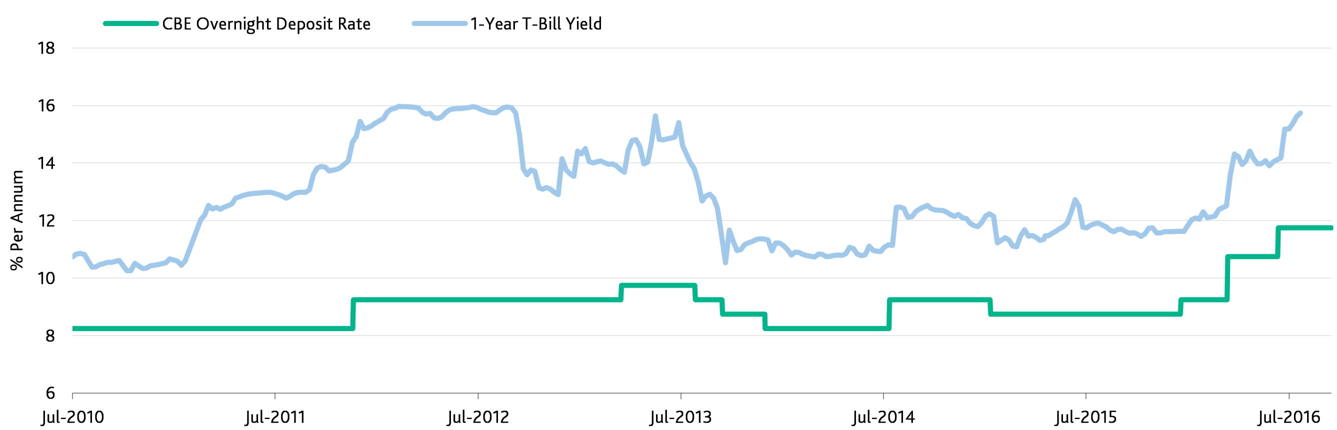
Exhibit 13
Fiscal deficits and short debt maturities lead to very large financing needs



Source: Moody's Investors Service

While external support from GCC countries, political stabilization, and steps to tackle the fiscal imbalances helped reduce and stabilize the government's financing costs between mid-2013 and 2015, the cost of one-year T-bills has recently spiked again. As inflation rates have stayed high, the CBE has hiked interest rates three times since April 2015 by a cumulative 300 basis points, which has had a direct impact on financing costs for the government (see Exhibit 14).

Exhibit 14
Government financing costs remain at elevated levels



Source: Central Bank of Egypt, Ministry of Finance, Haver Analytics

The structure of Egypt's general government debt is an important mitigating factor. The reliance on a domestic, local currency funding base is reflected in the low share of external and foreign currency denominated government debt, which reduces the risks associated with a sudden stop in capital inflows or abrupt exchange rate movements. The Ministry of Finance is also striving to lengthen the average term to maturity, which has risen back above its pre-revolution levels, exceeding two years.

However, the use of central bank financing has increased sharply since 2013, driven by a strong increase in direct loans from the CBE to the government. And while this balance has reduced since the beginning of the year, the CBE's holdings of government securities have increased proportionately, keeping the overall gross exposure close to EGP700 billion.

Egypt successfully issued a $1.5 billion international 10-year bond in June 2015 that was three times oversubscribed. This was the first international bond issuance since 2010, and supported efforts to lengthen the average term to maturity. Egypt is in the final stages of issuing another Eurobond in 2016, targeting $3 billion to $4 billion to support its external financing needs.

Egyptian banks' creditworthiness is linked to the sovereign

Egyptian banks have high direct exposure to government securities. These securities accounted for around 42% of banking system assets and are a significant source of concentration risk.

The Egyptian banks have strong domestic funding and liquidity profiles. The banks are funded by domestic deposits, mainly households, which accounted for 62% of total deposits as of May 2016. We expect nominal deposit growth, which in recent years averaged around 20%, to soften somewhat due to the larger deposit base, but remain above 15%. Total deposits grew to EGP2,071.7 billion as of May 2016 from EGP981.3 billion in December 2011. These amounts include government deposits which have been relatively stable. Government deposits accounted on average for 16% of total deposits between May 2015 and May 2016. However, Egypt's dollar shortage is reducing banks' foreign currency liquidity, and will continue to hinder imports and create bottlenecks for economic activity.

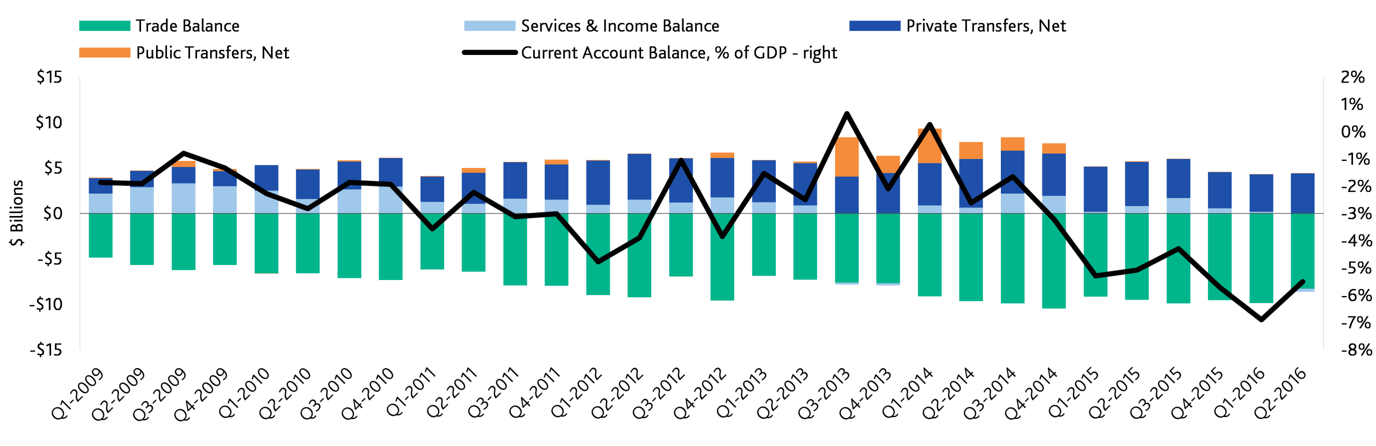
We expect loan growth to slow to around 13%-15%. Reduced loan demand due to the political and macro-economic uncertainty and the Egyptian banks' growing exposure to government securities, constrained loan growth between 2011 to mid- 2014. Although credit growth accelerated following President Sisi's election, reaching 20% in mid-2015, the government's financing needs remain high, thereby pressuring banks investment decisions. Annual loan growth (excluding loans to the government) declined to 16.5% as of May 2016. Credit risk remains high particularly in the SME space, where banks have been mandated to grow significantly, because of: (1) a lack of financial awareness, (2) limited availability of financial statements and centralized information for SMEs, (3) low availability of collateral, limitations on collateral registering, and (4) weaknesses in the legal framework concerning realization of collateral. The banks have also restructured loans to vulnerable clients (mainly in tourism) and will likely face further losses if the financial performance of these borrowers does not improve.

Widening current account deficit reflects underlying structural imbalances

As donor support in the form of grants from the GCC has slowed, along with lower incoming deposits from the Gulf, the balance of payments deficit has widened and mainly reflects structural imbalances in the current account (see Exhibit 15).

The current account deficit expanded to $18.7 billion in fiscal 2016 from $12.1 billion in fiscal 2015, or 5.6% of GDP, significantly higher than the 2.6% average over the last five years. This was primarily driven by a large trade deficit due to lower petroleum exports, and lower transfers in the form of grants and remittances, whereas the services surplus narrowed due to a drop in tourism revenues by close to 50% and lower Suez Canal receipts. Temporary support to Egypt's current account balance provided by large net official transfers from the Gulf countries in fiscal 2014 has faded, dropping to $101.5 million in fiscal 2016 from $2.7 billion in fiscal 2015 and $11.9 billion in fiscal 2014.

Exhibit 15
Current account deficit dragged down by widening trade deficit and lower transfers



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

Financial account inflows have been negatively affected by the two revolutions, but the capital and financial account balance shows significant improvement from 2014. Net foreign direct investment has recovered since 2013, with increasing inflows towards greenfield and oil sector investments, although the growth rate of FDI inflows declined to 7.2% in fiscal 2016 from 52.7% the previous year. However, this surplus was counterbalanced by a surge in net errors and omissions, which rose to a $4.0 billion from $2.1 billion in fiscal 2015 and can be interpreted as a sign of capital flight. Uncertainties over the CBE's exchange rate policy and, connected to that, restrictions on access to foreign exchange have a dampening effect on both direct investment and portfolio inflows from abroad.

As a result, net international reserves fell from their peak in April 2015 of $20.5 billion to a low of $15.5 billion in July 2016, before increasing somewhat to $16.6 billion in August 2016. Pressures on foreign exchange reserves stem from the widening trade deficit in combination with lower deposit inflows, sovereign bond repayments and the build-up of arrears to international oil companies, which the government has been paying down gradually. However, according to official figures, there are still $3.4 billion in outstanding arrears.

For fiscal 2017 and beyond, we expect continued support from Gulf countries, although the composition of external assistance will continue to shift away from official grants and deposits to increased participation and investment from government-related entities and private sector companies.

Traditional donors have also resumed their support. Along with the expected IMF program of $12 billion over 3 years (see Box 1), the World Bank and African Development Bank (AfDB) have also resumed funding programs for Egypt. Although World Bank funding of the first tranche of $1 billion of the $3 billion loan over 3 years was postponed due to delays in the VAT approval, this was disbursed in September. Around 30% of the funds will be used to support macro-fiscal management programs, while the rest will support projects in the energy sector. Egypt also received $500 million from the AfDB in fiscal 2016 and is expected to receive another $500 million loan in fiscal 2017 for budgetary support.

Nonetheless, the low foreign exchange reserve coverage adds depreciation pressure on the Egyptian pound. Egypt maintains a pegged exchange rate system and controls the exchange rate through foreign currency auctions. To ease pressure on falling net international reserves, the Central Bank of Egypt devalued the Egyptian pound by 14.4% to EGP8.85 to the US dollar in mid-March and announced it would adopt a more flexible exchange rate regime. Accompanying the adjustment in the currency regime was a removal of limits on foreign currency cash deposits and withdrawals for importers of essential goods and individuals, which had been in place since February 2015, abolishing most administrative controls.

An IMF program will grant Egypt access to much-needed external funding

On 11 August 2016, the IMF and the Government of Egypt announced that they had reached a staff-level agreement for a $12 billion (SDR8.5966 billion or 422% of Egypt's quota), 3-year Extended Fund Facility (EFF). The agreement is still awaiting approval by the IMF's Executive Board, which will most likely happen in the second half of September 2016. It is yet unclear whether the funding will come in three equal tranches of $4 billion per year.

The key reform objectives mentioned in the staff-level agreement are:

» Restoring macroeconomic stability: Bring inflation down to single-digits

» Improving the functioning of FX market: Move to a flexible exchange rate regime

» Reducing government deficit and debt: This includes VAT, energy subsidy and tax reforms and re-prioritizing spending

» Increasing foreign exchange reserves

» Raising growth and creating jobs

» Improving competitiveness and the business environment

Most of these points have been previously mentioned by the government in its own reform program. In the medium term, among the few quantitative targets mentioned in the IMF's staff-level agreement press release, is a statement by the IMF mission head that general government debt will be lowered to 88% by fiscal 2019, from an official estimate of 98% of GDP in fiscal 2016. This is broadly in line with the medium-term targets published by the Egyptian government. However, this target hinges on achieving a 5.5 percentage point of GDP fiscal consolidation, which is more ambitious than what the government outlined in its earlier medium-term debt strategy paper.

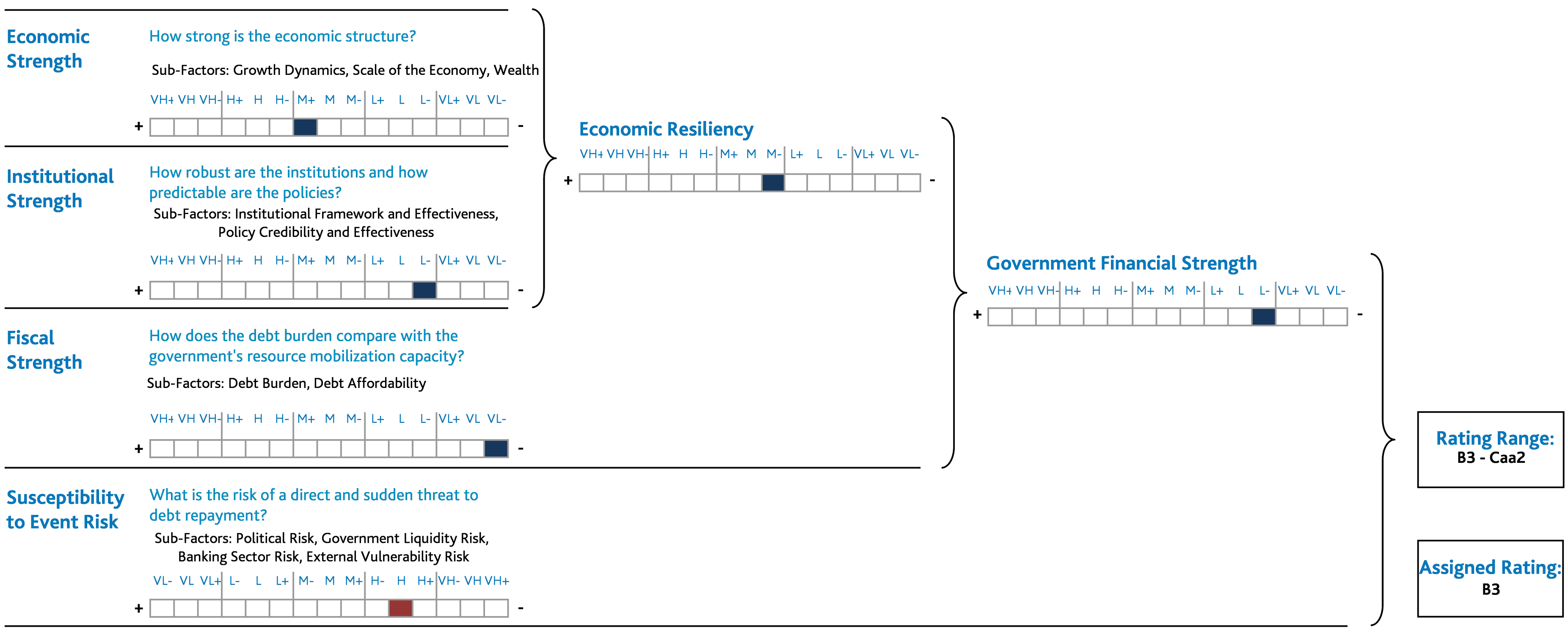
While partially supporting external liquidity needs, we believe that the IMF agreement and expected program will also help Egypt gain access to other multilateral and bilateral funding to close its external funding gap, which we estimate at $14-$20 billion per year for the next three years, excluding net FDI inflows.

An IMF program will likely ensure further devaluation of the Egyptian pound and a gradual floating of the currency. Such reforms would be credit positive, despite negative effects on inflation, as it would encourage higher conversion of remittances through official channels, attract more FDI and lower external imbalances.

Rating Range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information please see our Sovereign Bond Rating Methodology.

Exhibit 16
Sovereign Rating Metrics: Egypt



Source: Moody's Investors Service

Comparatives

This section compares credit relevant information regarding Egypt with other sovereigns rated by Moody's Investors Service. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores.

Egypt's scores for Economic Strength and Institutional Strength are higher than the median of B3-rated sovereigns. This can be attributed to the large size of the economy, and comparatively high levels of per capita income, as well as a somewhat better transaprency scoring. Nevertheless, Egypt scores weaker in terms of Fiscal Strength and Susceptibility to Event Risk.

Exhibit 17

Egypt [1] Key Peers

	Year	Egypt	Bosnia and Herzegovina	Pakistan	Lebanon	Democratic Republic of the Congo	Argentina	B3 Median	Middle East & North Africa Median
Rating/Outlook		B3/STA	B3/STA	B3/STA	B2/NEG	B3/STA	B3/STA	B3	A3
Rating Range		B3 - Caa2	B3 - Caa2	B3 - Caa2	B2 - Caa1	B3 - Caa2	Caa1 - Caa3	B2 - Caa1	A3 - Baa2
Factor 1		**M+**	**L**	**M**	**L+**	**L+**	**M-**	**L**	**M+**
Nominal GDP (US$ Bn)	2015	330.3	16.2	267.5	51.2	39.5	505.0	29.7	109.7
GDP per Capita (PPP, US$)	2015	11,850	10,492	5,000	18,240	770	22,554	5,864	33,656
Avg. Real GDP (% change)	2011-2020	3.4	2.5	4.3	2.2	6.8	2.6	3.4	3.4
Volatility in Real GDP growth (ppts)	2006-2015	2.2	3.1	1.6	3.9	1.8	3.8	2.8	3.1
Global Competitiveness Index, percentile [2]	2015	6.1	8.8	1.7	15.9	--	13.2	11.0	72.1
Factor 2		**L-**	**VL+**	**VL**	**L-**	**VL-**	**VL-**	**VL+**	**H-**
Government Effectiveness, percentile [2]	2015	5.4	18.6	8.5	24.0	0.0	30.2	16.7	52.7
Rule of Law, percentile [2]	2015	19.3	37.9	12.4	13.1	0.7	7.7	19.8	60.4
Control of Corruption, percentile [2]	2015	22.4	41.0	14.7	6.2	1.5	24.0	23.2	58.9
Avg. Inflation (% change)	2011-2020	8.5	1.0	6.8	3.0	4.0	15.1	5.4	2.5
Volatility in Inflation (ppts)	2006-2015	3.2	2.9	4.2	3.0	6.7	6.7	3.5	3.2
Factor 3		**VL-**	**M+**	**VL-**	**VL-**	**H-**	**L**	**M-**	**M+**
Gen. Gov. Debt/GDP	2015	88.9	44.4	63.2	126.4	13.4	44.1	45.0	54.6
Gen. Gov. Debt/Revenues	2015	401.1	100.2	436.9	675.7	101.0	220.5	197.1	221.1
Gen. Gov. Interest Payments/Revenue	2015	33.3	2.1	32.8	50.3	2.2	9.1	8.3	4.4
Gen. Gov. Interest Payments/GDP	2015	7.4	0.9	4.7	9.4	0.3	2.6	2.0	0.5
Gen. Gov. Financial Balance/GDP	2015	-11.7	-1.6	-5.1	-7.7	0.2	-4.8	-4.3	-4.2
Factor 4		**H**	**H+**	**H**	**M+**	**H-**	**H**	**H-**	**M**
Current Account Balance/GDP	2015	-3.7	-5.6	-0.6	-25.0	-3.9	-3.2	-3.8	-3.7
Gen. Gov. External Debt/Gen. Gov. Debt	2015	9.1	68.6	--	15.3	71.7	24.5	64.8	19.9
External Vulnerability Indicator	2017F	84.7	62.2	66.2	116.3	43.1	147.0	65.5	108.6
Net International Investment Position/GDP	2015	-30.8	-54.3	-27.9	--	--	--	-30.8	39.6

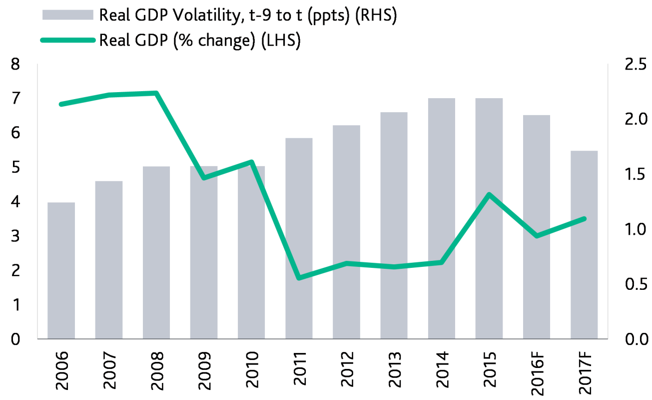
Notes: [1] Fiscal years ending June 30, e.g. 2014 refers to fiscal year 2013/14. [2] Moody's calculations. Percentiles based on our rated universe.
Source: Moody's, IMF, Worldwide Governance Indicators, World Economic Forum

Chart Pack

Egypt

Exhibit 18

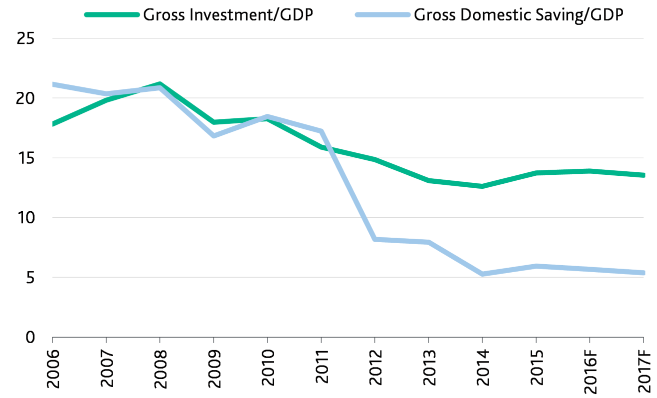
Economic Growth



Source: Central Bank of Egypt, Moody's

Exhibit 19

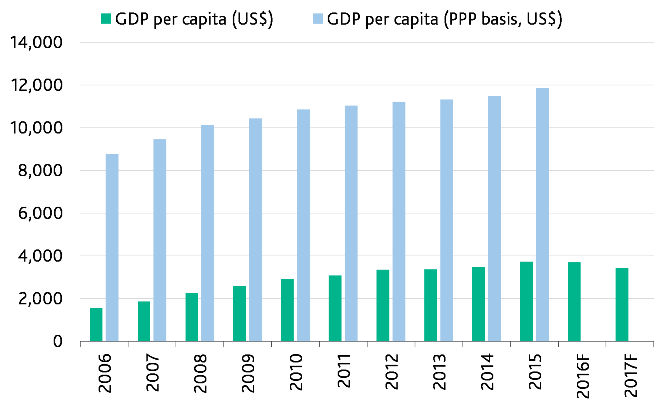
Investment and Saving



Source: Central Bank of Egypt, Moody's

Exhibit 20

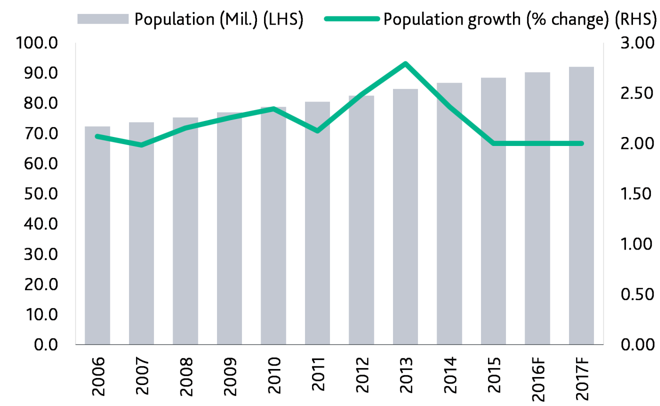
National Income



Source: IMF, Moody's

Exhibit 21

Population

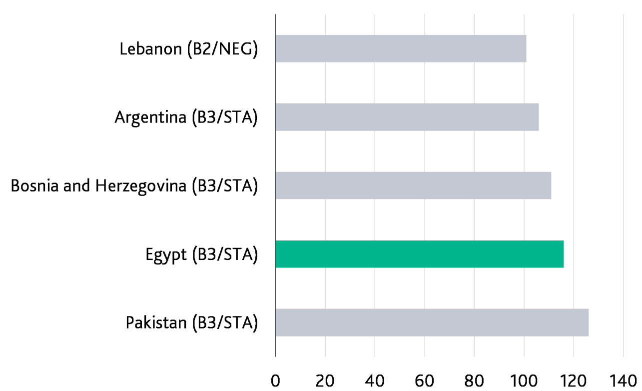


Source: IMF, Moody's

Exhibit 22

Global Competitiveness Index

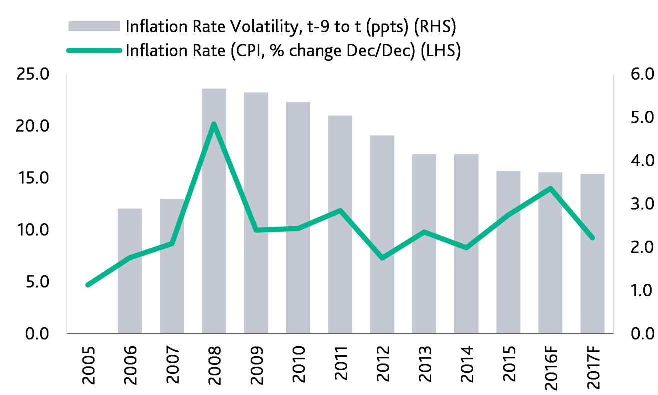
Rank 116 out of 140 countries



Source: World Economic Forum

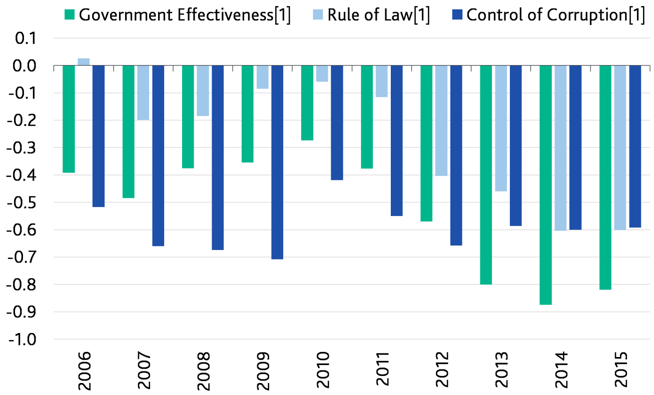
Exhibit 23

Inflation and Inflation Volatility



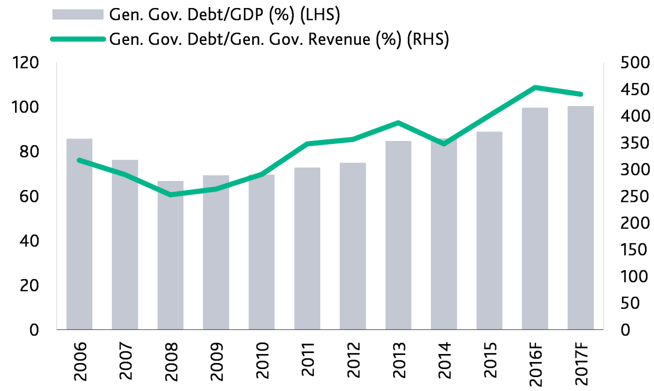
Source: Central Bank of Egypt, Moody's

Exhibit 24
Institutional Framework and Effectiveness



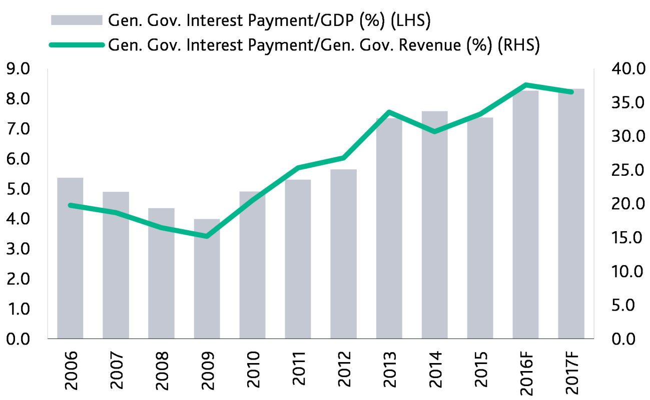
[1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Source: Worldwide Governance Indicators

Exhibit 25
Debt Burden



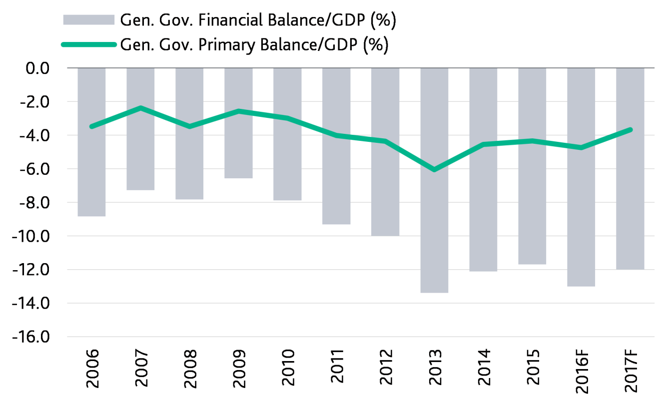
Source: Ministry of Finance, Moody's

Exhibit 26
Debt Affordability



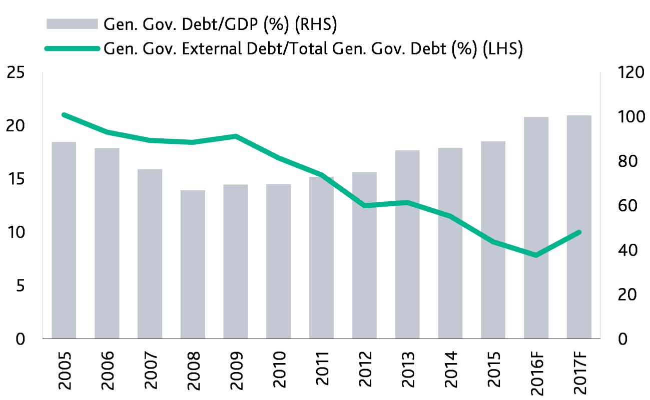
Source: Ministry of Finance, Moody's

Exhibit 27
Financial Balance



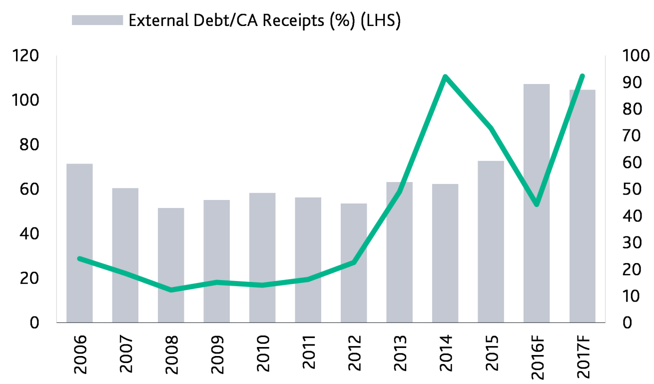
Source: Ministry of Finance, Moody's

Exhibit 28
Government Liquidity Risk



Source: Ministry of Finance, Central Bank of Egypt, Moody's

Exhibit 29
External Vulnerability Risk



Source: Central Bank of Egypt, Moody's

Rating History

Exhibit 30
Egypt

	Government Bonds			Foreign Currency Ceilings				
	Foreign Currency	Local Currency	Outlook	Bonds & Notes		Bank Deposit		
				Long-term	Short-term	Long-term	Short-term	Date
Raiting Affirmed	--	--	--	--	--	--	--	August-16
Rating Raised	B3	B3	Stable	B2	--	Caa1	--	April-15
Outlook Changed	Caa1	Caa1	Stable	--	--	--	--	October-14
Rating Lowered	Caa1	Caa1	Negative	B3	--	Caa2	--	March-13
Rating Lowered & Review for Downgrade	B3	B3	RUR-	B1	--	Caa1	--	February-13
Review for Downgrade	B2	B2	RUR-	--	--	--	--	January-13
Outlook Changed	B2	B2	Negative	--	--	--	--	September-12
Rating Lowered & Review for Downgrade	B2	B2	RUR-	Ba3	--	B3	--	December-11
Rating Lowered	B1	B1	Negative	Ba2	--	B2	--	October-11
Rating Lowered	Ba3	Ba3	Negative	Ba1	NP	B1	--	March-11
Rating Lowered	Ba2	Ba2	Negative	Baa3	P-3	Ba3	--	January-11
Outlook Changed	Ba1	Ba1	Stable	--	--	--	--	August-09
Outlook Changed	Ba1	Ba1	Negative	--	--	Ba2	--	June-08
Rating Lowered	--	Ba1	--	--	--	--	--	June-08
Rating Raised	--	--	--	Baa2	P-2	--	--	May-06
Rating Lowered	--	Baa3	Negative	--	--	--	--	May-05
Outlook Changed	--	Baa1	Negative	--	--	--	--	November-01
Rating Assigned	Ba1	--	--	--	--	--	--	July-01
Rating Assigned	--	Baa1	--	--	--	--	--	March-99
Rating Raised	--	--	Stable	Ba1	--	Ba2	--	November-97
Review for Upgrade	--	--	RUR+	--	--	--	--	October-97
Outlook Changed	--	--	Positive	--	--	--	--	August-97
Outlook Assigned	--	--	Stable	--	--	--	--	March-97
Rating Assigned	--	--	--	Ba2	NP	Ba3	NP	October-96

Source: Moody's

Annual Statistics

Exhibit 31

Egypt

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017F
Economic Structure and Performance												
Nominal GDP (US$ Bil.)	113.1	137.1	170.7	198.4	229.6	247.7	275.8	285.7	301.4	330.3	333.5	314.6
Population (Mil.)	72.2	73.6	75.2	76.9	78.7	80.4	82.4	84.7	86.7	88.4	90.2	92.0
GDP per capita (US$)	1,566	1,862	2,269	2,579	2,917	3,081	3,347	3,373	3,476	3,735	3,697	3,419
GDP per capita (PPP basis, US$)	8,774	9,458	10,116	10,434	10,851	11,036	11,210	11,317	11,485	11,850	--	--
Nominal GDP (% change, local currency)	14.7	20.6	20.2	16.4	15.8	13.6	14.9	11.3	14.0	15.6	12.0	12.0
Real GDP (% change)	6.8	7.1	7.2	4.7	5.1	1.8	2.2	2.1	2.2	4.2	3.0	3.5
Inflation (CPI, % change Dec/Dec)[2]	7.3	8.6	20.2	9.9	10.1	11.8	7.2	9.8	8.2	11.4	14.0	9.2
Gross Investment/GDP	17.8	19.8	21.2	18.0	18.3	15.9	14.9	13.1	12.6	13.7	13.7	13.2
Gross Domestic Saving/GDP	21.2	20.4	20.9	16.8	18.5	17.2	8.2	7.9	5.3	5.9	5.6	5.0
Nominal Exports of G & S (% change, US$ basis)	18.8	22.4	36.0	-12.2	-1.0	3.9	-5.6	7.3	-11.3	0.3	-20.5	15.4
Nominal Imports of G & S (% change, US$ basis)	16.5	33.7	38.1	-4.9	-2.6	0.2	16.6	-0.7	2.9	3.2	-9.7	5.6
Openness of the Economy[3]	58.5	61.9	68.2	53.8	45.6	43.0	41.2	40.7	37.4	34.9	29.8	34.4
Government Effectiveness[4]	-0.5	-0.4	-0.4	-0.3	-0.4	-0.6	-0.8	-0.9	-0.8	--	--	--
Government Finance												
Gen. Gov. Revenue/GDP	27.1	26.3	26.4	26.3	23.9	20.9	21.1	21.9	24.7	22.2	22.0	22.8
Gen. Gov. Expenditures/GDP	35.9	33.5	34.3	32.9	31.8	30.3	31.1	35.3	36.8	33.9	35.0	34.8
Gen. Gov. Financial Balance/GDP	-8.8	-7.3	-7.8	-6.6	-7.9	-9.3	-10.0	-13.4	-12.1	-11.7	-13.0	-12.0
Gen. Gov. Primary Balance/GDP	-3.5	-2.4	-3.5	-2.6	-3.0	-4.0	-4.4	-6.0	-4.5	-4.3	-4.7	-3.6
Gen. Gov. Debt (US$ Bil.)	97.3	104.9	117.6	135.9	155.0	176.3	205.2	222.7	252.5	282.7	306.0	292.5
Gen. Gov. Debt/GDP	85.8	76.3	66.8	69.4	69.6	72.9	75.0	84.8	85.9	88.9	99.8	100.8
Gen. Gov. Debt/Gen. Gov. Revenue	316.9	290.4	252.6	263.5	291.0	347.8	356.3	387.4	347.6	401.1	453.6	442.0
Gen. Gov. Int. Pymt/Gen. Gov. Revenue	19.8	18.7	16.5	15.2	20.5	25.3	26.8	33.5	30.7	33.3	37.6	36.6
Gen. Gov. FC & FC-indexed Debt/GG Debt	19.4	18.6	18.4	19.0	16.9	15.4	15.6	16.8	16.5	13.4	15.1	18.1
External Payments and Debt												
Nominal Exchange Rate (local currency per US$, Dec)	5.7	5.7	5.3	5.6	5.7	6.0	6.1	7.0	7.1	7.6	8.9	10.5
Real Eff. Exchange Rate (% change)	4.6	3.9	3.1	6.9	4.2	2.1	0.8	-4.9	-1.8	4.3	-1.2	--
Current Account Balance (US$ Bil.)	1.8	2.3	0.9	-4.4	-4.3	-6.1	-10.1	-6.4	-2.8	-12.1	-18.7	-16.1
Current Account Balance/GDP	1.5	1.7	0.5	-2.2	-1.9	-2.5	-3.7	-2.2	-0.9	-3.7	-5.6	-5.1
External Debt (US$ Bil.)	29.6	29.9	33.9	31.5	33.7	34.9	34.4	43.2	46.1	48.1	55.8	61.2
Public External Debt/Total External Debt	63.7	65.2	63.9	81.9	77.9	77.6	74.4	65.9	63.1	53.5	43.8	47.8
Short-term External Debt/Total External Debt	5.5	4.8	7.4	6.7	8.8	7.9	8.4	16.3	7.9	5.4	12.6	13.5
External Debt/GDP	26.2	21.8	19.9	15.9	14.7	14.1	12.5	15.1	15.3	14.6	16.7	19.5
External Debt/CA Receipts[5]	71.4	60.4	51.4	55.1	58.2	56.3	53.4	63.1	62.2	72.7	107.2	104.5
Interest Paid on External Debt (US$ Bil.)	0.6	0.6	0.8	0.7	0.7	0.6	0.7	0.6	0.7	0.7	0.8	0.9
Amortization Paid on External Debt (US$ Bil.)	2.4	2.3	1.8	2.4	2.0	2.2	2.2	2.4	2.5	4.9	4.3	4.7
Net Foreign Direct Investment/GDP	5.4	8.1	7.8	4.1	2.9	0.9	1.4	1.3	1.4	1.9	2.1	2.2
Net International Investment Position/GDP	-9.5	-6.1	-15.8	-15.0	-18.9	-21.2	-24.8	-28.1	-28.3	-30.7	--	--
Official Forex Reserves (US$ Bil.)	21.2	26.9	32.6	29.3	31.6	22.2	10.9	10.3	11.8	15.5	12.7	13.1
Net Foreign Assets of Domestic Banks (US$ Bil.)	12.5	21.7	23.2	14.8	16.2	17.8	13.5	12.1	11.5	3.5	--	--

Monetary, External Vulnerability and Liquidity Indicators												
M2 (% change Dec/Dec)[2]	13.5	18.3	15.7	8.4	10.4	10.0	8.4	18.4	17.0	16.4	--	--
Monetary Policy Rate (% per annum, Dec 31)[6]	8.0	8.8	10.5	9.0	8.3	8.3	9.3	9.8	8.3	8.8	--	--
Domestic Credit (% change Dec/Dec)[2]	6.3	4.9	4.6	20.0	9.7	16.4	19.0	25.0	20.9	25.0	--	--
Domestic Credit/GDP[2]	85.8	74.7	64.9	67.0	63.5	65.0	67.3	75.6	80.1	86.6	--	--
M2/Official Forex Reserves (X)[2]	4.6	4.3	4.4	5.1	5.1	7.6	16.6	17.8	17.9	14.9	--	--
Total External Debt/Official Forex Reserves	139.4	111.3	104.1	107.7	106.6	157.2	315.2	417.9	389.8	309.4	438.6	466.7
Debt Service Ratio[7]	7.3	5.9	3.9	5.5	4.5	4.5	4.5	4.5	4.3	8.5	9.8	9.6
External Vulnerability Indicator[8]	24.0	18.5	12.2	15.0	14.0	16.2	22.5	49.0	92.1	72.7	44.4	92.4
Liquidity Ratio[9]	14.2	22.8	33.5	35.6	42.6	36.3	28.6	25.0	21.1	27.3	--	--
Total Liabilities due BIS Banks/Total Assets Held in BIS Banks	33.3	41.9	56.1	68.4	74.1	56.5	56.7	48.8	47.0	52.3	--	--
"Dollarization" Ratio[10]	29.4	28.4	25.8	25.7	22.9	24.0	23.9	24.4	23.4	21.0	--	--
"Dollarization" Vulnerability Indicator[11]	79.6	62.8	60.4	77.1	67.9	85.5	135.9	152.0	167.6	177.0	--	--

[1] Fiscal years ending June 30, e.g. 2010 refers to fiscal year 20009/2010
[2] Figure as of end-June
[3] Sum of Exports and Imports of Goods and Services/GDP
[4] Composite index with values from about -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions
[5] Current Account Receipts
[6] Overnight deposit rate; figure as of end-June
[7] (Interest + Current-Year Repayment of Principal)/Current Account Receipts
[8] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Total Nonresident Deposits Over One Year)/ Official Foreign Exchange Reserves
[9] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks
[10] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System
[11] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

Source: Moody's, IMF, Worldwide Governance Indicators, World Economic Forum

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Endnotes

1 Refers to the consolidated fiscal operations of the general government (including the budget sector, National Investment Bank and Social Insurance Funds).

2 See Government of Egypt: Fiscal Challenges Will Not be Resolved Soon

3 See Egypt's Long-Awaited Approval of Value-Added Tax is Credit Positive

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