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Egypt: Staying the course

Egyptian authorities reached a staff-level agreement with the IMF on the first review under the US$12bln EEF[1]. The Current account improved and private sector inflows picked up markedly allowing for FX accumulation by the CBE. Risks stem from persistent inflation and reform fatigue.

- Egypt's gross foreign-exchange reserves rose to a six-year high of USD 28.6bn in April from USD 17bn in end-June 2016, surpassing IMF program requirements so far.
- The fiscal position is gradually improving, but remains a formidable challenge. The draft budget, praised by the IMF, assumes a reduction of overall fiscal deficit to about 9% of GDP in 2017/2018.
- We expect inflation to come off to approximately 20% by end-2017, our forecast is less optimistic than that of the IMF. We therefore do not see the CBE cutting rates in the near term from the current 16.75%.
- We remain constructive on Egypt's T-bill market (1y currently trading near 20%) and expect the currency to remain stable or appreciate moderately in 2017.
- We hold a constructive view on Egypt's sovereign credit, but risk premium has diminished after the rally earlier this year. We take a neutral position and look to add on dips. We believe the Eurobonds curve is too steep relative to peers and the newly issued bonds 47s and 27s offer superior relative value from asset allocations perspective.
- Risks stem from Egypt's ability to stay in the IMF program, still-elevated inflation, and social stability concerns ahead of 2018 presidential elections.

[1] May 12, 2017 – IMF Reaches Staff-Level Agreement for Completion of the First Review of Egypt's Extended Fund Facility http://www.imf.org/external/country/EGY/index.htm

Egypt: Staying the course

Egypt – the near-term outlook is positive

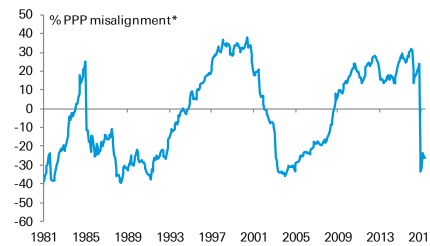
The near-term outlook for Egypt is positive. There has been a turnaround in Egypt's external vulnerabilities, with strengthening FX reserves accumulation. FX reserves grew to USD 28.6bn in April. EGP has seen a 0.39% qtd gain. In parallel, Egypt's GDP growth is likely to have reached 3.9% in the first quarter of 2017, and the IMF estimates that the primary fiscal deficit has fallen by 2%, from 4% deficit in 2015/2016 (overall deficit stood at 12% in 2015/2016 according to the IMF). The Ministry of Finance (MoF) has drafted an ambitious budget for 2017/18 that is now under review by the Parliament.

Risks to the outlook stem from reform fatigue and high inflation. It is likely growth in 2017 will be below the authorities' 4.6% estimate. Structural reforms supported by the IMF program may run into reform fatigue leading to fiscal slippages, especially ahead of the 2018 presidential elections. Stubborn inflation may force the central bank to continue tightening, especially if EGP underperforms.

We believe the currency is undervalued using a simple PPP metric as manifested by the CBE's reserve accumulation. PPP implies that nominal exchange rates move in tandem with inflation differentials. In other words, this implies a mean-reverting REER. Hence we define our PPP misalignment as the % difference between REER and its 10 year rolling average. At the end of October 2016, before the exchange rate peg was removed, EGP was overvalued by 24% by our measure. Currently, it is undervalued by 26% following the sharp depreciation.

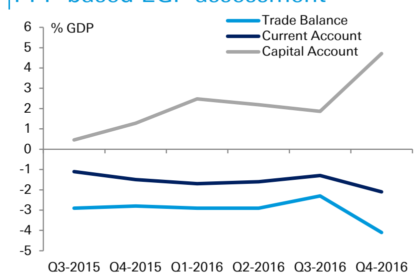
The IMF program is on track for now. On May 12th, in its first review of the US$12bn extended fund facility (EFF), the IMF provided a positive assessment of the authorities' reform agenda. Subject to IMF board approval, a disbursement of US$1.25bn will be made, bringing the total amount disbursed to US$4bn.

Capital inflows allow for reserve accumulation



Source: Monthly Statistical Bulletin, CBE; Deutsche Bank

PPP-based EGP assessment



Source: Monthly Statistical Bulletin, CBE; Deutsche Bank

Balance of Payments improvement exceeded expectations

The CBE's reserve position has continued to improve. Egypt's gross foreign-exchange reserves rose to a six-year high of USD 28.6bn in April, sufficient to cover more than five months of imports. The CBE is already way ahead of its target to raise foreign-exchange reserves (from end-June 2017 by USD1.92bn end-December 2016 and USD 4.175bn by end-June-2017). However, sustained net inflows are needed to cover the large financing needs in 2017-18 and 2018-19. Egypt needs to raise USD 7 billion in 2017/18 and an additional USD 4 billion in 2018/19 to reach 136 percent of the Fund's reserve adequacy metric for flexible exchange rate regimes.

Current account position is improving. After a prominent plunge in REER (of more than 45% YoY by December 2016), early signs of expenditure switching are starting to occur, with imports nearly flat in 2016Q4, and export up 18% YoY. In addition, quarterly overseas workers' remittances grew more than 10% YoY in the same quarter, following a protracted period of declines. Seasonally adjusted quarterly figures show that the current account deficit, narrowed to USD 4.36bn in the last quarter of 2016, versus a USD 5.47bn deficit in the previous quarter, thanks to inflows and an important recovery in workers' remittances, even as donor support (grants) from the GCC slowed.

Key external sector indicators in (%)

	Q3-2015	Q4-2015	Q1-2016	Q2-2016	Q3-2016	Q4-2016
Trade Balance % GDP	-2.9	-2.8	-2.9	-2.9	-2.3	-4.1
Current Account % GDP	-1.1	-1.5	-1.7	-1.6	-1.3	-2.1
Capital Account % GDP	0.5	1.3	2.5	2.2	1.9	4.7

Source: Monthly Statistical Bulletin, CBE; Deutsche Bank

Further improvements in the current account will likely be less pronounced. Imports of staples (especially food, and energy) tend to be inelastic, limiting the extent to which we can expect a correction in the deficit to happen. Moreover, recent inflows have tended to put appreciating pressure on REER, and exports growth has already decelerated in March, decreasing more than 13% over the previous month, in seasonally adjusted terms.

The authorities are on track with donors' programs. In March, the World Bank disbursed USD 1bn, out of a 3bn loan. The next tranche of USD 1bn is expected by December 2017. World Banks' Takaful and Karama program, with 6.7 million beneficiaries, has disbursed USD 306.21mn so far. Following the completion of the first review, total disbursements from the IMF will reach USD 4bn this fiscal year.

Private sector inflows have exceeded expectations. Egypt raised USD 2bn in financing from international banks in November, followed by a USD 4bn Eurobond in January and USD 3bn in May, far exceeding expectations. Minister of Finance Amr El-Garhy said that Eurobond issuance to "a large extent" covers financing needs for 2017-2018 and next issuance is planned for February-March 2018.

Remarkably, since the CBE hiked interest rates earlier this month, foreign inflows into Egypt's debt and equity have surged. The T-Bill auctions over the last week recorded near USD 1bn in foreign investor inflows. As of May 30, according to the Egyptian Finance Ministry, overseas holdings of Treasury bills rose to USD 7.5bn. Further, in an effort to attract more inflows, Egypt's parliament voted on Monday to extend for three more years a freeze on its capital gains tax.

Foreign direct investment has recovered, but remains below the pre-2011 averages. The discovery of the Zohr offshore natural gas field is expected to attract FDI and bolster exports of natural-gas sometime in 2018. In addition, Egypt secured agreements on coal-fired and renewable plants, which are envisioned to strengthen electricity generation infrastructure. The Egyptian cabinet approved in May six agreements between the Egyptian General Petroleum Corporation and a number of foreign companies on oil exploration in Egypt's western desert.

Selected balance of payments statistics (USD bn)

Further Balance of Payments statistics (US$ bn)

	Q3-2015	Q4-2015	Q1-2016	Q2-2016	Q3-2016	Q4-2016
Trade Balance	-10.0	-9.9	-10.0	-8.8	-8.7	-9.2
Exports	4.7	4.4	4.3	5.3	5.3	5.2
Imports	-14.7	-14.3	-14.2	-14.1	-13.9	-14.4
Investment Income Balance	-1.1	-1.3	-0.7	-1.4	-1.1	-1.1
Current Transfers	4.3	4.0	4.1	4.4	3.4	4.6
Of which: Remittances of Egyptians working abroad	*4.4*	*4.1*	*4.2*	*4.4*	*3.4*	*4.6*
Balance of Current Account	-4.0	-5.4	-5.7	-4.8	-5.0	-4.7
Capital & Financial Account	1.6	4.5	8.4	6.6	7.1	10.5
Capital Account	0.0	0.0	-0.1	0.0	0.0	0.0
Financial Account	1.7	4.6	8.4	6.6	7.1	10.6
Direct investment abroad	0.0	0.0	0.0	-0.1	-0.1	0.0
Direct investment in Egypt (net)	1.4	1.8	2.8	1.0	1.9	2.4
Portfolio investment abroad	0.0	0.1	0.0	0.0	0.0	0.1
Portfolio investment in Egypt (Net)#	-1.4	-0.2	0.1	0.2	-0.8	1.1
Of which: Bonds	*-1.4*	*0.0*	*0.0*	*0.0*	*-0.8*	*0.0*
Other Investments (Net)	1.7	3.0	5.6	5.4	6.1	7.0
Net Borrowing	0.8	3.0	1.5	1.8	1.3	4.7
Medium- and Long-Term Loans	-0.6	0.2	0.2	0.0	0.3	2.7
Disbursements	0.2	0.7	1.1	0.4	1.2	3.2
Repayments	-0.9	-0.5	-0.9	-0.5	-1.0	-0.5
Medium- and Long-Term Suppliers' Credit	0.1	0.1	0.5	0.8	0.6	0.3
Disbursements	0.1	0.1	0.5	0.9	0.6	0.4
Repayments	0.0	0.0	0.0	0.0	0.0	0.0
S .T. Suppliers' Credit (Net)	1.4	2.6	0.8	1.0	0.5	1.7
Other Assets	0.2	-3.2	-1.3	0.8	-0.2	-2.2
CBE	0.0	0.0	0.0	-0.1	0.0	-2.0
Banks	0.8	0.7	-0.3	0.9	-0.2	0.2
Others	-0.6	-3.9	-1.0	0.0	0.0	-0.4
Other Liabilities	0.7	3.2	5.4	2.8	5.0	4.5
CBE	0.0	1.5	3.0	1.4	3.4	4.6
Banks	0.7	1.7	2.5	1.3	1.6	-0.1
Net Errors & Omissions	-1.3	1.1	-3.0	-1.0	-0.2	-0.7
Overall Balance	-3.7	0.3	-0.2	0.8	1.9	5.1

Source: Monthly Statistical Bulletin, CBE, Deutsche Bank

Fiscal position is marginally improving, but challenging

The authorities target overall deficit of 9% of GDP in the 2017/18 budget. In the draft budget interest payments are the largest item, estimated at EGP 381bn (USD 21bn), almost one-third of total expenditure. Debt-service costs therefore remain a challenge, given the recent tightening of monetary policy. On the revenue side, taxes on goods and services are set to rise by 41% in 2017/18, making up 36% of total budget revenue, under the assumption that value-added tax will do most of the job (a hike of 1pp to 14%). However, tax revenue is likely to fall below the government's projections, given the short run impact of the stabilization policies on domestic demand.

On the expenditure side, cuts to fuel subsidies are penciled in, but actual spending on fuel subsidies is likely to be similar to the last year, given that EGP has depreciated below budget assumptions (EGP 16 to USD) and higher commodity prices. Current levels of EGP have also pushed up the budgetary cost of petroleum product subsidies. Early in May, media reports suggested the fuel subsidy bill was already well above EGP 110bn. The 16/17 fuel subsidy budget estimate was of EGP 35.04bn, (with EGP at 9.00 and Brent at $40). IMF's indicative target on that fuel subsidy bill is a ceiling at EGP 62bn by June 2017. The budget also pencils in a 7.6% year-on-year increase in public-sector employee compensation, substantially below the current inflation. Electricity prices are planned to increase from the start of July this year.

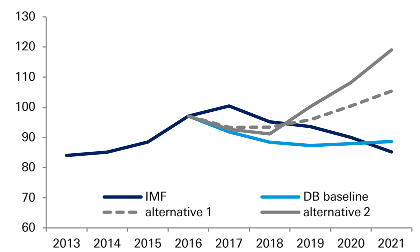
While the IMF gave a positive review of the Egyptian authorities' efforts, it has left the timing of fuel price hikes to Egypt. However, the timing of fuel energy reform may once again turn to be a thorny issue due to their impact on inflation and political concerns as we near 2018 Presidential elections.

Nonetheless, it is unlikely debt will exhibit explosive dynamics in the coming two years, assuming FX remains stable. At current yield levels, under our baseline of high inflation and moderate growth, debt dynamics are set to improve in the next two years. Inflation is doing much of the heavy lifting. The automatic debt dynamics may turn explosive again after 2019, however, with inflation coming off, moderate growth below 4%, and likely higher funding costs.

We consider the following two stress scenarios: [2]

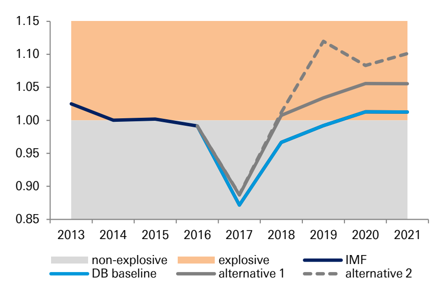
- *Alternative 1* assumes that the inflation comes down, as in the baseline, and GDP growth stays stable around 4%, however, yields spike in 2018 due to US monetary policy normalization. Under this scenario, debt turns explosive already in 2018, creating a turnaround in debt accumulation, and reaching more than 100% of GDP by 2020.
- *Alternative 2* in addition to the above, domestic conditions worsen. Growth deteriorates substantially and inflation comes down faster than the baseline as a result. Under such circumstances, the debt to GDP ratio will reach 100% already in 2019. Although automatic debt dynamics should start marginally improving in 2020, the debt to GDP ratio would have already reached 108% by then.

Debt sustainability (baseline and alternative scenarios) debt-to-GDP



Source: Deutsche Bank

Automatic debt dynamics (ф)



Source: Deutsche Bank

We expect inflation to come off to about 20% by end-2017

The central bank has moved to a dirty peg FX regime supported by goals for both monetary aggregates and inflation levels, and recently has been forced to pre-empt second-round effects on inflation expectations, arising from supply shocks, by hiking the policy rate by 200bps to 16.75% on 21 May.[3] The CBE communicated in its MPC press release that despite the moderation of monthly inflation rates of late, risks related to inflation expectations had already materialized. In addition, the committee also cited demand pull forces on core inflation.

The recent hike may take a long time to transmit into the real economy and inflation is likely to stay elevated for a while. In addition, while reserve accumulation is desirable to build buffers against a BoP crisis, CBE may be running into the limits of sterliziation. FX accumulation over time could pose a

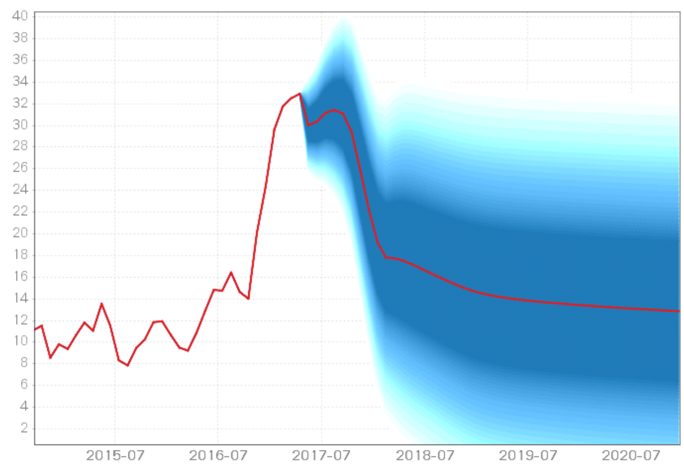
[2] For simplicity, we assume here that the share of foreign denominated debt is zero. Note that the share of foreign to domestic interest payments in the budget expenditures of Egypt has steadily declined and was 2.1% in 2016.

[3] http://www.cbe.org.eg/en/Pages/HighlightsPages/MPC-Press-Release-21-May-2017.aspx

threat to the monetary aggregates' targets. The YoY growth of the ratio of M2-to-GDP stood at 34% in 2016 Q4.

The CBE may also be forced hike in response to second round effects of subsidy removal and VAT hike. The IMF sees 24.8% and 11.6% average headline CPI in 2017 and 2018, respectively. In our view, average inflation could hover around 30% in 2017 and 16.9% in 2018[4]. We see asymmetric upside risks in the near term, derived from the uncertain effects of price liberalization and VAT reforms, and commodity price recovery in 2018.

Headline CPI projections and uncertainty (yoy%)



Source: Haver Analytics, Deutsche Bank

Improving ratings outlook

Fitch has the most bullish view on Egypt, rating them one notch higher than Moody and S&P at B (Stable outlook) since Dec-2014. S&P recently affirmed their B- rating and their next review will take place in November. Moody's next review is due on 18th August. Fitch doesn't have a specific date, but we expect the next review to happen sometime in June/July 2017.

Moody's might consider upgrading Egypt's ratings to B2 from B3 in their upcoming review (18th August) given the accelerated build-up of FX reserves and prospects of lowering fiscal deficit as per the draft budget plans. However, high inflation and risks to growth outlook might act as potential deterrents.

Fitch, we believe are most likely to affirm the ratings at B and at best might upgrade their outlook to Positive from Stable. Unlike Moody's and S&P, Fitch doesn't have a specific date for its next review on Egypt's sovereign rating, however, looking at historical timelines and the upcoming key events (budget as well as the IMF board meeting), we expect the next review to happen sometime in June/July 2017. We believe that Fitch would like to see more sustainable progress on all of the following criteria to be able to consider a rating upgrade: 1) progress on fiscal consolidation, 2) economic growth and reform measures and 3) accumulation FX reserves. Amongst all these, we note that Egypt's reserve position has improved significantly (up 68% YoY at April

[4] We use a multifactor model that takes into account a common factor from inflation and commodity prices in global markets, in conjunction with an idiosyncratic factor from local price dynamics, including Egyptian monetary aggregates. For the exercise, we assume that the global component is driven by an initially flat global commodity price path (including oil); we then assume a gradual recovery of oil starting in 2018. The latter further prevents the headline finding a lower steady state, as for example envisioned by IMF projections.

end), and the draft budget proposal was also praised by the IMF, which is an encouraging sign.

Egypt - Key rating agency rating drivers and sensitivities

Rating agency	Current Rating	Next review dates	Upward drivers	Downward drivers
Moody's	B3 (Stable)	18-Aug-17, 08-Dec-17	(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 FX reserve buffers, driven by less reliance on external donor support; and/or (4) further improvement in the domestic security situation.	(1) A renewed intensification of political turmoil and instability; (2) a significant deterioration in the external payments position; (3) a slippage or reversal of fiscal and economic reforms, which leads to a sharp rise in the government's funding costs; and/or (4) diminution in the banking system's capacity to fund government
S&P	B- (Stable)	10-Nov-17	1) If GDP growth picks up beyond our expectations, and 2) if Egypt improves its fiscal and external positions substantially.	1) If current account financing, including from GCC, became less forthcoming ; 2) Deterioration in domestic fiscal funding options; 3) Increased political risk or a weaker institutional environment.
Fitch	B (Stable)	*June/July 2017 and Dec-2017	1) A track record of progress on fiscal consolidation leading to declining government debt/GDP. 2) Sustained stronger economic growth supported by reforms to the business environment leading to increased investment and employment and 3) Significant accumulation of international reserves following a sustained narrowing of the current account deficit and higher net foreign direct investments.	1) Failure to narrow the fiscal deficit and put government debt/GDP on a downward trend. 2) Reversal of fiscal and/or monetary reforms, for example in the face of social unrest. 3) Renewed downward pressure on international reserves due to further strains on the balance of payments, including weaker access to foreign financing.

Source: Deutsche Bank, Moody's S&P and Fitch. Notes from latest reports

Credit market valuation – risk premium has diminished

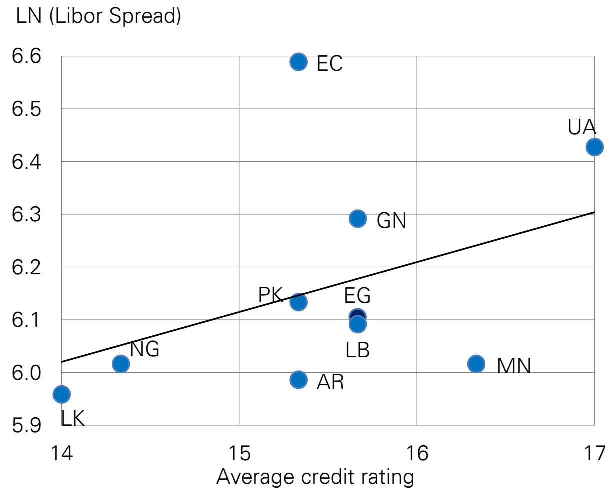
We hold a constructive view on Egypt credit given the positive outlook, but at the current valuation we would take a neutral position and look to add on dips

If credit market valuation on Egypt's Eurobonds is slightly on the rich side based on spread / credit rating relationship (first graph below), it does not appear overtly expensive[5].

The credit market has generally rewarded sovereigns that are perceived to be on a positive path in their credit standings (e.g. Argentina, Mongolia), but it has punished the ones that are not (e.g. El Salvador, Ecuador). While fiscal outlook remains challenging due to the large deficit, high debt repayment burden, high inflation, various structural issues, supports from the IMF and other official sources have helped prevent a balance of payment crisis while the associated fiscal consolidation efforts and reforms (as mandated by the IMF program) help restore Egypt's macroeconomic stability, putting its debt dynamic on an improving path. The improving outlook has been recognized by markets, as Egypt's eurobonds were among the best performers in the past six months, with its subindex having tightened by 90bp year-to-date. The IMF agreement (November), the floating of currency (December) and successful bond issuances (January) all contributed to positive performance. However, after a significant rally, Egypt's outperformance has stalled since April, as the risk premium in the credit had been all but removed by then (second graph below).

[5] The spreads are shown in log scale. For fair comparison, the spread for each curve is defined as the libor spread of a hypothetical bond with duration matching that of EM average (around 7.2 years), and derived through curve fitting as employed in our *implied rating model*. Credit rating measures are on a linear scale (14=B+/B1, 17=CCC+/Caa1).

Egypt's Eurobonds are on the expensive side in comparison with peers, but not overtly so.



Source: Deutsche Bank

Outperformance has stalled since April, after a significant rally in January through March

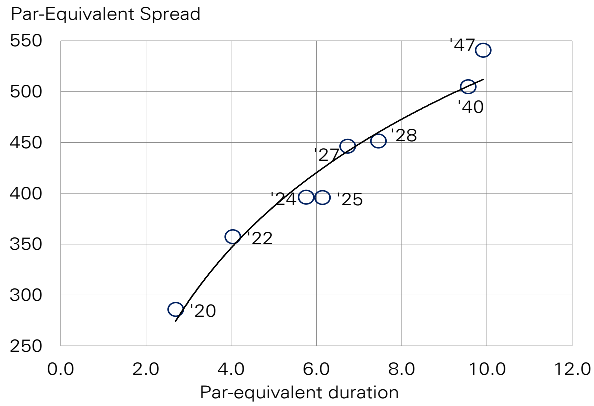
Source: Deutsche Bank

Credit relative value–the new 27s and 47s remain cheap; curve looks too steep

Egypt has issued a total of USD11bn of Eurobonds over the past six months (USD4bn in November 2016, USD4bn in January 2017 and USD3bn added on 24 May through taps). While the issuances were generally met by strong demand, the sheer amount of supplies has added some pressure to the curve. Significant levels of concessions were offered in January issuances of 17s, 27s and 47s (see Trade Recommendation – Buy new Egypt $2047s vs. $2040s, 25 January 2017). These new bonds were gradually catching up, but the 24 May retaps helped cause some re-cheapening. Currently, the 27s are 20-25bp cheap to the 25s (the latter look particularly rich,) while the 47s are about 15bp cheap to the 40s, according to our term structure model. While investors continue to digest the recent taps, we expect the cheapness in these bonds to be gradually removed. We do not expect Egypt to issue any more bonds this year.

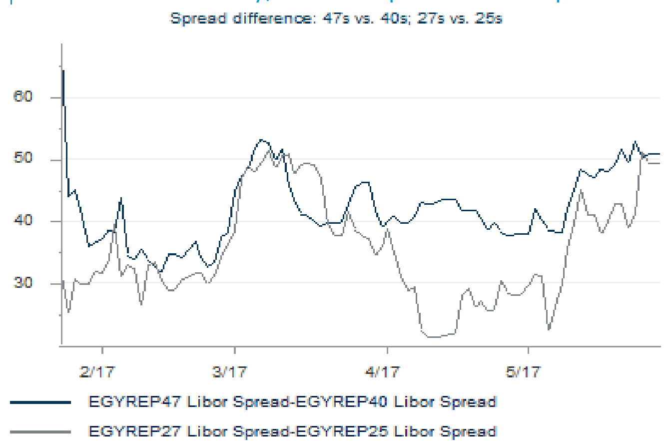
Therefore, we recommend switching from 25s to 27s (current spread differential: 50bp; target: 25bp) and from 40s to 47s (we note that the 40s have limited liquidity given their small size – only USD500m). The main risk to these switch recommendations is that some investors favor low-priced bonds on the curve and ignore the valuation disparity between these bonds.

Par-equivalent spread curve of Egypt Eurobonds - the 47s are cheap to 40s, 27s cheap to 25s



Source: Deutsche Bank

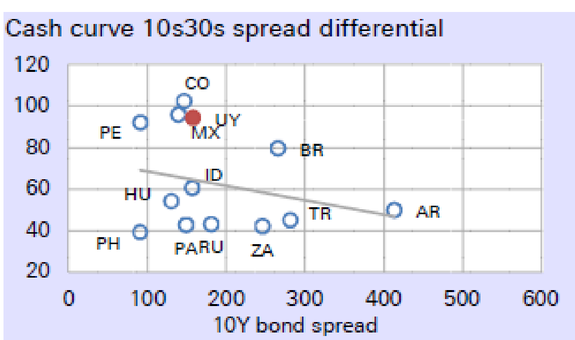
Relative values in the 27s (vs. 25s) and 47s (vs. 40s) have been restored recently, thanks in part to the retaps



Source: Deutsche Bank

Finally, the 10s30s curve in Egypt appears very steep from a cross-sectional point of view. Typically, EMEA curves and higher yielding curves in LatAm features a flatter 10s30s slope (see graph below), but Egypt's slope - measured at around 100bp – look very out of place; it is in fact comparable with LatAm low beta names. Among credits with a similar credit rating, only Argentina and El Savador have 30Y bonds but both have a much flatter curve (50bp and 10bp, respectively). From an asset allocation perspective, we favor the long end of the curve, especially the 47s.

EM 10s30s curve slope vs. spread – slopes should be flatter for higher spread names



Source: Deutsche Bank

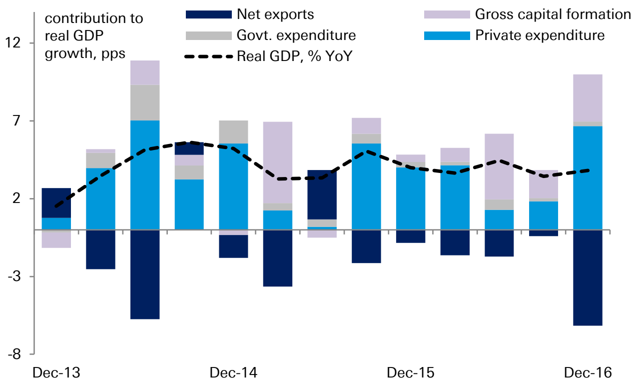
What to watch in the coming 12 months

While the near-term outlook is positive, there are important milestones in the coming year: the passage of the 2017/2018 budget, deceleration in inflation towards end-2017, and continued compliance with the IMF program. Presidential elections will take place by mid-2018, but we believe risks of social instability are low. While President Abdul Fattah al-Sisi has significantly tightened security, two attacks on the Coptic Christian community since the beginning of the year will weigh on tourism, but unlikely to put a significant dent in president's popularity as opposition is limited.

1. End-June passage of the 2017/2018 budget that is in line with the IMF program and includes further reduction in energy subsidies.
2. Payment of the arrears to international oil companies expected in June of $750mio (total outstanding US$3.5bln).
3. Fitch (June/July) and Moody's (18 August) may consider improving their rating/outlook.
4. June/July IMF disbursement following staff-level agreement on the first review reached in May 2017.
5. Second review by the IMF for end-June performance criteria.
6. Further relaxation of the FX regime, reduction in capital controls by end-2017.
7. Presidential elections by mid-2018. Nominations will begin in March 2018, election process to begin 120 days before the end of the current presidential term.

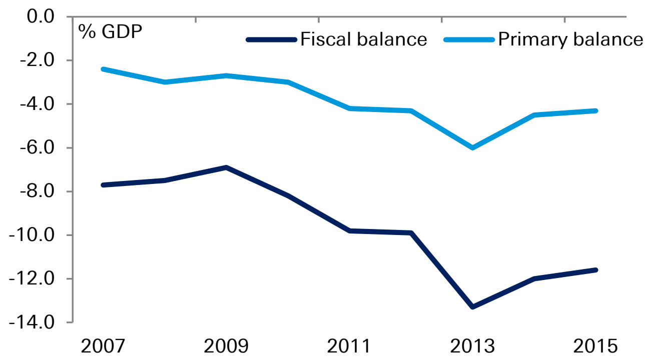
The authors wish to acknowledge the contribution of Twisha Roy in preparation of this report.

Private consumption driving growth



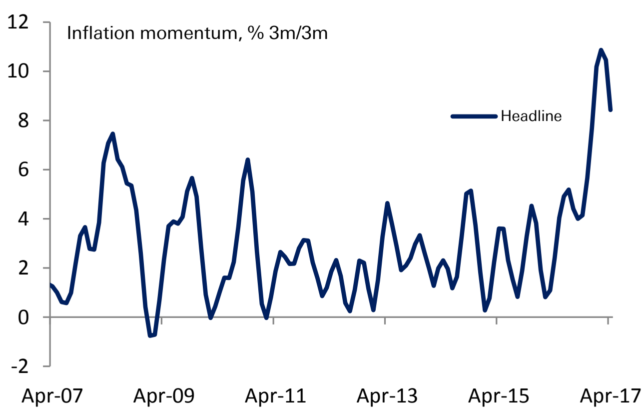
Source: Haver Analytics, Deutsche Bank

Fiscal and primary balance – gradual improvement



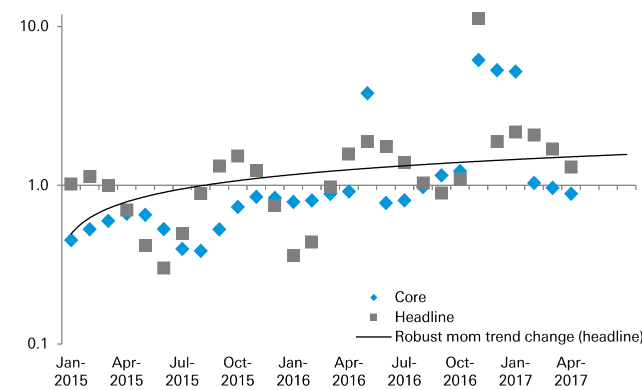
Source: Haver Analytics, Deutsche Bank

Inflation momentum off its peak …



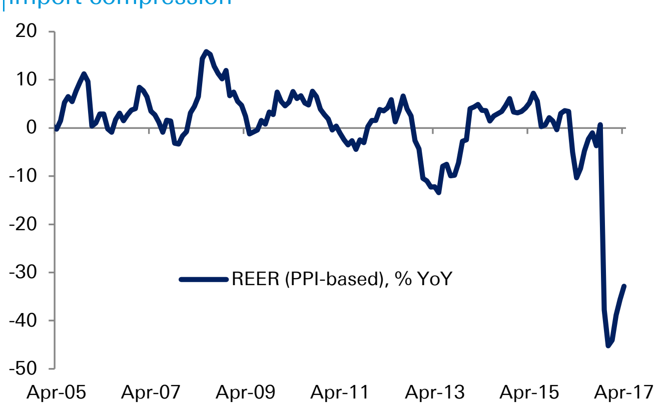
Source: Deutsche Bank

…but the sequential change in the trend of headline and core inflation are still on a general upward trajectory



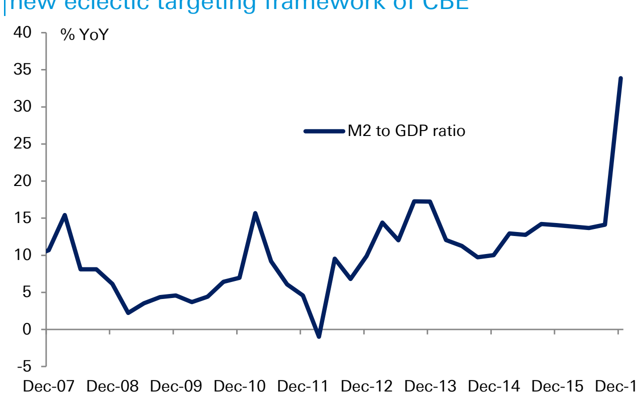
Note: x100 and Log base 10 scale
Source: Deutsche Bank

Recent REER appreciation may pose a threat to further import compression



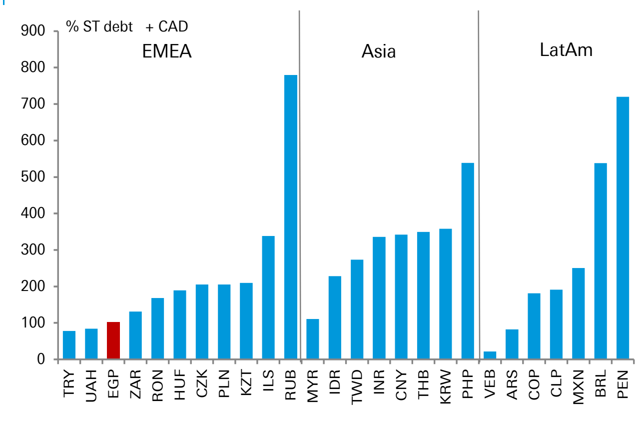
Source: Haver Analytics, Deutsche Bank

Growth in M2 to GDP ratio may pose challenges to the new eclectic targeting framework of CBE



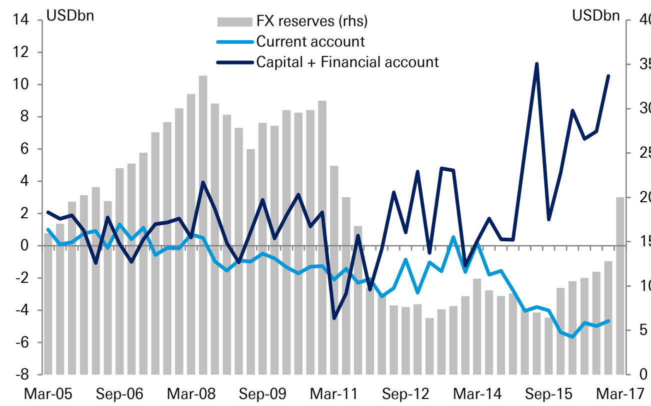
Source: Haver Analytics, Deutsche Bank

FX reserves one of the lowest in EM



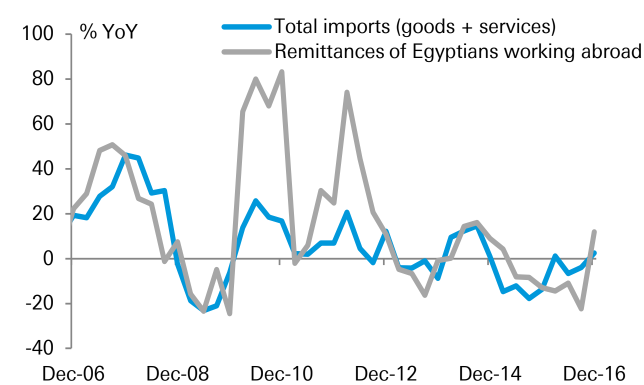
Source: Haver Analytics, Deutsche Bank

Strong financial inflows



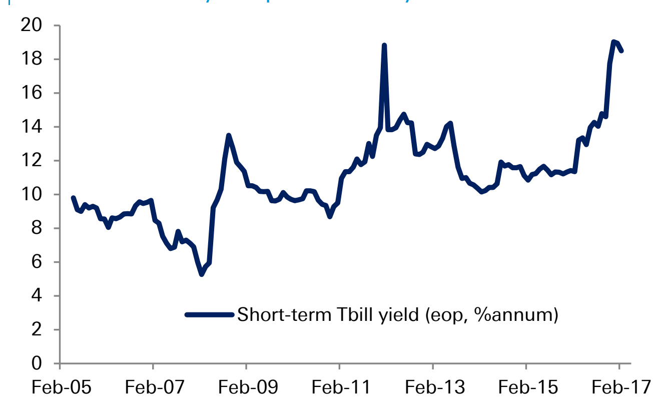
Source: Haver Analytics, Deutsche Bank

Imports and remittances responded to FX depreciation



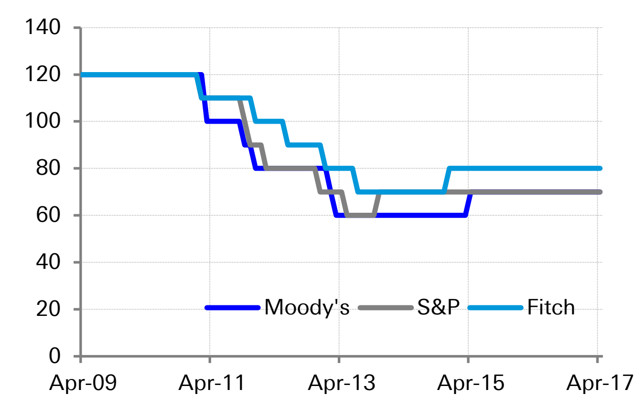
Source: Haver Analytics, Deutsche Bank

As the hunt for yield environment warrants it, investors seem attracted by the positive carry



Source: Haver Analytics, Deutsche Bank

History of credit ratings



Source: Bloomberg Finance LP, Deutsche Bank

Current credit ratings and scheduled announcements

Egypt Sovereign credit ratings

	Current	Announcements in 2017		
S&P	B- (Stable)	12-May	10-Nov	-
Fitch	B (Stable)	-	-	-
Moody's	B3 (Stable)	21-Apr	18-Aug	8-Dec

Source: Bloomberg Finance LP, Deutsche Bank

Key Macroeconomic data

	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Q1-2016	Q2-2016	Q3-2016	Q4-2016	Q1-2017
Nominal GDP (USDbn)	78.2	76.7	90.8	87.4	80.4	74.4	94.8	59.1	-
Real GDP (% YoY)	3.3	3.3	5.1	4.0	3.6	4.5	3.4	3.8	-
Private consumption	1.5	0.3	6.6	4.8	5.0	1.7	2.1	7.9	-
Public consumption	4.2	3.3	5.7	3.0	2.0	4.8	1.8	2.5	-
Gross capital formation	39.0	-3.0	8.7	3.6	4.9	26.0	15.0	22.7	-
Exports	-14.2	-2.4	-25.0	-12.0	-18.7	-2.4	0.6	68.5	-
Imports	6.1	-14.4	-6.8	-3.7	-3.2	6.9	2.5	66.1	-
Prices (pavg, % YoY)									
CPI	10.6	11.8	8.5	10.6	9.4	12.2	14.5	18.8	29.8
o/w food	7.7	11.8	9.2	14.0	12.6	14.9	17.5	21.1	39.9
Core CPI*	7.1	7.8	5.9	7.0	7.9	11.4	13.2	20.8	32.1
PPI	-3.8	-1.7	-5.7	-1.3	-0.1	2.8	9.2	20.4	37.3
Money & Banking (eop, % YoY)									
Reserve money	17.9	33.3	13.3	15.9	13.1	-1.6	19.7	18.5	22.6
Domestic private credit	16.1	16.7	15.3	17.5	15.6	14.2	15.6	43.4	39.9
Fiscal accounts (% GDP)**									
Fiscal balance	-	-12.0	-	-	-	-11.6	-	-	-
Revenues	-	24.4	-	-	-	22.0	-	-	-
Expenditure	-	35.7	-	-	-	33.0	-	-	-
Primary balance	-	-4.5	-	-	-	-4.3	-	-	-
External accounts (USDbn)									
Current account balance	-4.0	-3.8	-4.0	-5.4	-5.7	-4.8	-5.0	-4.7	-
% GDP	*-5.2*	*-5.0*	*-4.4*	*-6.1*	*-7.0*	*-6.4*	*-5.3*	*-7.9*	-
Balance of goods	-9.2	-9.5	-10.0	-9.9	-10.0	-8.8	-8.7	-9.2	-
Exports	4.8	5.1	4.7	4.4	4.3	5.3	5.3	5.2	-
Exports of Petroleum	1.6	2.0	1.7	1.5	1.1	1.5	1.5	1.4	-
Other exports	3.2	3.2	3.1	2.9	3.2	3.8	3.7	3.8	-
Imports	13.9	14.7	14.7	14.3	14.2	14.1	13.9	14.4	-
Imports of Petroleum	2.2	3.1	2.8	2.6	1.6	2.2	2.6	2.5	-
Other imports	11.7	11.5	11.9	11.6	12.6	11.9	11.3	11.9	-
Balance of services	1.6	1.9	2.8	1.8	0.9	1.0	1.4	1.0	-
Exports	4.3	5.1	5.0	4.0	3.4	3.6	3.8	3.5	-
Transportation	2.2	2.5	2.6	2.4	2.2	2.3	2.3	2.0	-
o/w Suez Canal	1.2	1.3	1.4	1.3	1.2	1.2	1.3	1.2	-
Travel	1.5	1.9	1.7	1.0	0.6	0.5	0.8	0.8	-
Other	0.6	0.7	0.7	0.7	0.6	0.8	0.7	0.7	-
Imports	2.7	3.2	2.2	2.2	2.6	2.6	2.4	2.5	-
Income balance	-1.5	-1.1	-1.1	-1.3	-0.7	-1.4	-1.1	-1.1	-
Transfers	5.0	4.9	4.3	4.0	4.1	4.4	3.4	4.6	-
Capital account	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	-
Financial account	5.9	11.3	1.7	4.6	8.4	6.6	7.1	10.6	-
Net FDI	2.6	1.3	1.4	1.8	2.8	1.1	1.9	2.5	-
Net FPI	0.0	1.3	-1.4	-0.2	0.0	0.2	-0.9	0.9	-
Net other investment	3.4	8.6	1.7	3.0	5.6	5.4	6.1	7.0	-
Net E&O	-1.9	-2.7	-1.3	1.1	-3.0	-1.0	-0.2	-0.7	-
Change in CBE's reserves	0.0	-4.8	3.7	-0.3	0.2	-0.8	-1.9	-5.1	-
Reserves (USDbn)	15.3	20.1	16.4	17.4	18.0	18.0	19.6	24.6	31.3
% GDP	4.6	6.1	4.9	5.2	5.4	5.4	6.2	8.4	11.3
% ST Debt	517.1	782.4	586.8	392.6	263.8	256.3	246.7	205.9	261.9
% CAD + ST Debt	106.2	123.2	85.8	76.5	68.5	65.4	69.4	78.4	101.0
% 20% of M2	34.8	43.6	34.7	35.7	40.3	38.1	40.0	84.2	102.6
Months imports	2.5	3.1	2.5	2.8	3.1	3.4	3.8	5.2	6.6
% IMF Metric (floating exchange rate)	85.9	110.5	88.8	90.9	87.3	84.5	89.4	138.1	172.1
Debt Indicators (% GDP)									
Government debt	80.0	81.8	69.6	75.2	93.2	94.5	76.7	96.0	-
Domestic	72.6	73.9	62.8	68.4	85.3	86.6	70.2	81.3	-
External	7.4	7.9	6.8	6.8	7.9	7.9	6.5	14.7	-
Foreign holding of govt. securities (% total)	0.0	0.1	0.1	0.0	0.1	0.1	0.1	1.5	-
Total External debt	12.3	14.8	13.2	13.6	17.3	18.1	16.3	37.6	-
in USDbn	39.9	48.1	46.1	47.8	53.4	55.8	60.2	67.3	-
Short-term (% of total)	7.4	5.4	6.1	9.3	12.8	12.6	13.2	17.7	-
General (pavg)									
IP (% YoY)	1.0	-5.5	-3.5	-6.8	-9.7	-15.3	-9.9	1.8	17.4
Unemployment rate (%)	12.8	12.7	12.8	12.8	12.7	12.5	12.6	12.4	12.0
Tourist arrivals (% YoY)	6.9	9.3	-5.0	-28.9	-46.5	-55.1	-42.8	-18.3	51.0
Total Suez canal reciepts (% YoY)	1.8	-4.0	-7.8	-6.1	-0.5	-3.4	-4.1	-5.1	-2.9
Financial markets (%, eop)									
CBE O/N deposit rate (Policy rate)	8.75	8.75	8.75	9.25	10.75	11.75	11.75	14.75	14.75
CBE O/N lending rate	9.75	9.75	9.75	10.25	11.75	12.75	12.75	15.75	15.75
CBE Discount rate	9.25	9.25	9.25	9.75	11.25	12.25	12.25	15.25	15.25
O/N interbank rate	8.88	8.91	8.83	9.78	10.89	11.98	11.84	14.97	15.69
10y government bond yield	14.45	14.65	15.10	15.54	17.15	17.97	17.50	17.15	17.42
EGP/USD (pavg)	7.51	7.63	7.82	7.89	8.05	8.88	8.88	14.47	17.80
EGP/USD (eop)	7.63	7.64	7.83	7.83	8.88	8.87	8.88	18.13	18.05
JP Morgan REER (CPI based) (2010=100)	115.70	115.43	116.54	121.40	121.59	111.98	117.06	87.28	71.66

** Core CPI is excluding prices of fruits, vegetables and regulated items*
*** Annual FY data*
Source: CAPMAS, CBE, MinFin, Deutsche Bank

Appendix 1

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