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A pick up in the economic activity, a narrower fiscal deficit and lower external vulnerabilities support an upgrade to B2

As Moody's announces the results of Egypt's sovereign credit rating review on August 18, we see potential for an upgrade from B3 to B2, matching Egypt's current credit rating level of Fitch (which is B). In our view, an upgrade is supported by three factors:

- **Higher economic growth rate results and outlook:** According to the Ministry of Finance preliminary figures, the real GDP growth rate recorded 4.1% in FY2016/17. This is slightly higher than our projection of 3.8%, in addition to the consensus estimates (i.e. The IMF forecasts the real GDP growth rate to record 3.5% in FY2016/17). Moreover, we expect the economic growth rate to pick up gradually over the next two years, reaching the pre-2011 levels.
- **A narrower fiscal/primary deficit:** The overall budget deficit declined from 12.5% of GDP in FY2015/16 to 10.8% of GDP in FY2016/17. Moreover, the primary deficit narrowed from 3.5% of GDP in FY2015/16 to 1.8% in FY2016/17. Although, we expect the fiscal consolidation to be a lengthy process, the recent fiscal reform measures confirm the government's commitment towards bringing down the budget deficit to a more sustainable level in the future.
- **Lower external vulnerabilities:** This is supported by the recent improvement in the balance of payments (BoP), in addition to the surge in the CBE's international reserves. We note that the fundamental BoP indicator showed a significant inflow in 3QFY2016/17 for the first time since 2011.

However, the persistence of the current high inflation rate environment will pose a continued downside pressure to the economic outlook.

Finally, we believe that a credit rating upgrade will support further foreign inflows into the equity and the fixed income market, and that it will boost domestic confidence in the Egyptian economic reform plan.



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