COUNTRY RISK CATEGORY

5

OF 7

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Egypt

COUNTRY ANALYST

Rebecca Lägerud

+46(0)8-788 01 00

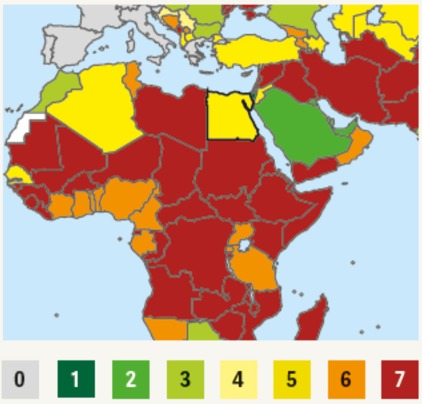
rebecca.lagerud@ekn.se

Basic facts (2020)

Population: 102 million

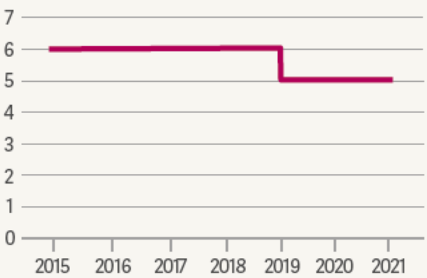
GDP, nominal: USD 363 billion

GDP/capita: USD 3 547



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history



Source: EKN

Strengths

+ Positive growth, despite the pandemic
+ Financial support from multilateral lender

Weaknesses

– Increased military influence
– Significant interest expenses

Increased military influence

Following the Arabic Spring and the subsequent turbulent years, the Egyptian economy has recently begun to stabilise. Thanks to several public sector reforms and improvements in the country's currency arrangements, linked to IMF programs, the confidence in the Egyptian economy has returned. The country has a population of about 102 million and is the largest market in the Middle East. The economy is well-diversified and driven by several sectors such as agriculture, oil and gas exports, tourism and revenues from the Suez Canal.

In 2013, a military coup ousted the country's previous government and president Abdel Fattah al-Sisi formed a military-backed government. Thereafter president al-Sisi has held the presidency with a firm grip. During al-Sisi's presidency, numerous constitutional amendments have been implemented, which enables the Egyptian president to likely remain in office until 2030. The military have become an important stakeholder in the Egyptian economy, as they benefit from free or cheap labour, energy and land. This rapidly growing expansion is damaging to the private sector, which is unable to compete with military-owned businesses. A crucial part of the country's previous IMF programs and the pandemic-related loans in 2020 have been to strengthen the role of the private sector in the economy.

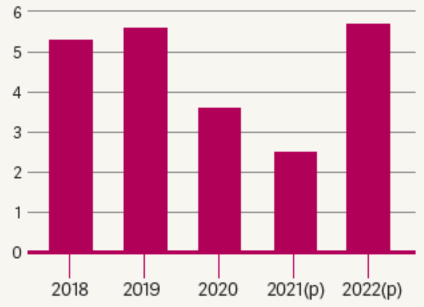
In 2020 government debt rose close to 90% of GDP, whereas 37% of the debt is in foreign currency. The external debt increases the exposure to short-term capital flows, which exaggerate vulnerabilities in the economy and the external debt service has increased during 2020. During recent years, the current account deficit have been relatively stable and corresponds to 4% of GDP. Egypt have been struggling to attract foreign direct investments and the majority of foreign investment are made in the oil and gas sector. Apart from this sector, the share of the private sector in the Egyptian economy has been declining for several years.

As a result of capital inflows from IMF and other multilateral lenders, Egypt's supply of hard currency have increased. This has enabled a functioning foreign exchange market to be established. Further, the international reserves are robust and corresponds to six months of import coverage. The downside of the Egyptian economy regards to the high level of public debt and the significant need for external financing. The largest part of the public expenditures consists of interest payments, which account for 40% of public total expenditures. However, the public debt is expected to reduce in the coming years. The short-term financial risks are mitigated by external financing from the IMF and large international reserves.

Continued growth

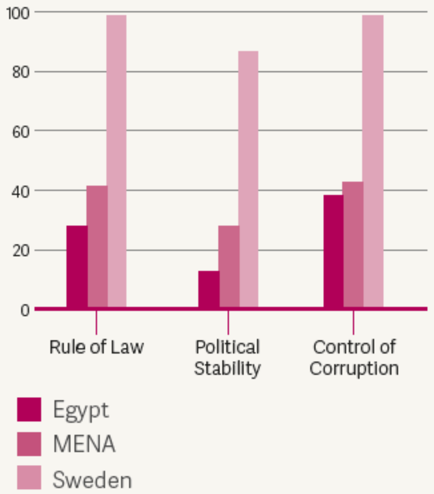
Despite the pandemic, Egypt had a GDP growth of 3.6% during 2020, which makes Egypt one of few countries that experienced growth in 2020. Moreover, major infrastructure projects and robust remittances have mitigated negative spill overs in the economy. Prior to the COVID-19 crisis, the government had made significant progress in reducing public debt. However, the pandemic has exacerbated macroeconomic weaknesses and the public debt has once again increased. Lack of tourism, which is a crucial generator of foreign currency as well as a significant employer, the reduction of domestic demand and exports, as well

GDP growth (fixed prices, % per annum)



Source: IMF WEO 2021

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

as capital outflows, have increased vulnerabilities in the economy. Due to lack of government financial resources and large budget deficit, government support to businesses and households during the pandemic correspond to less than 1,8% of GDP.

The economic outlook is highly affected by the uncertain development and consequences of the pandemic. In the short-term, the economic recovery is hampered by the slow pace of vaccinations. It will presumably take until 2022 before an adequate share of the population have been vaccinated. Hence the risk of prolonged restrictions will remain throughout the year. The service sector will thereby continue to suffer, as tourism is expected to have a protracted recovery. Further downsides regard to the high level of indebtedness and the impact of potential other economic shocks.

Economic growth is likely to remain robust followed by the return of tourism, increased consumption and planned investments. Furthermore, investments are boosted by the construction of the new administrative capital east of Cairo. During 2021, the public authorities will begin their reallocation. In the long-term, the country is considered to have a significant growth potential, which is driven by access to multilateral support and a strategic geopolitical position. However, in order to maintain a sustainable development, the fiscal policy must continue to be tight to keep government finances in check. The country also needs a stable form of financing, such as FDI. For years, Egypt have been struggling to attract FDI. In order to become an attractive for investors, several structural reforms are required, which focus on private investors and improving the business environment. In general, there is an uncertainty of the governments ambition and capability to strengthen the private sector. The private sector has previously been harmed by government intervention. Structural reforms that promote diversification and privatization are essential to reduce the military and state ownership in the economy.

Business environment

The World Bank's Ease of Doing Business Index ranks Egypt 114nd out of 190 countries. The country is ranked at a lower level than regional peers, as it suffers from a weak business climate with corruption, bureaucracy and lack of transparency. Bureaucracy and corruption cause difficulties for creditors in enforcing court judgments and recovery in the case of bankruptcies. The rule of law is inadequate, and the outcome of legal proceedings is unpredictable. In the Transparency International's Corruption Perceptions Index (CPI), Egypt ranks 117th out of 180 countries, which is line with the regional average. The lack of free speech makes information gathering more difficult. The World Bank's Governance Indicators (WBGI) place Egypt below average for the region for various measures relating to institutions and the regulatory environment.

Since the constitutional amendments in 2019, the president has strengthened his control over the judiciary, via, among other measures, the appointment of judges. Complex rules and bureaucracy mean that lawsuits are often protracted. New rules can also be implemented quickly and enter into effect immediately. Information about new rules can be difficult to find, resulting in unpredictability in terms of trade. Thanks to reforms in the early 2000s, the country have established a stable and resilient banking sector, which has been able to withstand the difficult economic conditions following the 2011 revolution. The banking sector

Egypt

Swedish export to Egypt

	MSEK
2020	8 195
2019	6 689
2018	5 901
2017	6 296
2016	6 432

Source: SCB

EKN:s exposure

	MSEK
Guarantees	685
Offers	1 227

remains well-financed, liquid and profitable thanks to significant customer deposits and remittances from Egyptians working abroad. The proportion of reserves for losses in relation to NPLs is generally sufficient. For several years, the banks' primary function has been to finance the central government budget deficit instead of lending to the private sector. The exposure to the Egyptian state dominates the credit risk for the banking system and links the banks' creditworthiness to the state. Further, the process of privatisation in the banking sector is sluggish and the country's central bank is not yet entirely independent. In 2020, a new banking law was adopted which aims to strengthen the supervision of the entire financial services sector, as the banks are obligated to follow the guidelines for Basel III. It also aims to expand the independence of the central bank.

EKN:s policy

EKN classifies Egypt in country risk class 5 out of 7, an assessment made in collaboration with the OECD. Egypt was upgraded in January 2019 as a result of favorable economic developments. EKN applies a normal risk assessment for sovereign risks as well as banking and corporate risks. Payment securities are a requirement for risks relating to other public purchasers, such as individual government ministries, municipalities and government agencies.

EKN:s commitment and experience

EKN's outstanding guarantees consists in several sectors such as transport, telecom and manufacturing. During the period of 2016-2020, EKN issued guarantees for 246 transactions for Swedish companies exporting to Egypt with a total value of approximately SEK 9 billion. In terms of amount, the telecom sector dominates the commitment.

A shortage of hard currency led to arrears in several EKN-guaranteed transactions in 2015 and 2016. Payment experience has improved since 2017, thanks to the IMF programme and currency depreciation. The Paris Club claim, with renegotiated loans from the 1980s, will be fully repaid in 2021.