

Challenging business conditions against a background of economic headwinds and political transition



General Information

GDP	USD300bn (2015e)
Population	83.39mn (World ranking 15, World Bank 2014)
Form of state	Republic
Head of government	Abdel Fattah al-SISI
Next elections	2018, presidential



Strengths

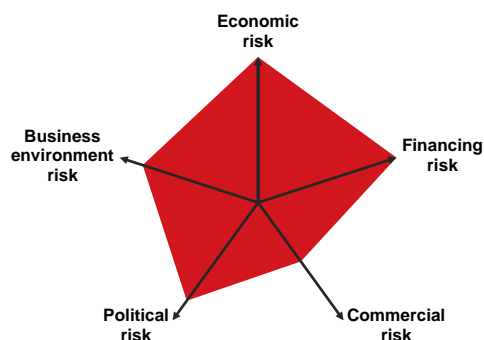
- Large domestic market (83mn) and strategic position between the regional Middle Eastern and African markets.
- Relatively diversified economy and sources of FX generation: including oil and gas, tourism, Suez Canal revenues, workers' remittances and a manufacturing base.
- Although progress towards an IMF facility is limited, financial assistance from the U.S. and the region (particularly the GCC) remains supportive.
- External debt repayments are relatively comfortable.

Weaknesses

- Uncertain political transition. In the short-term, stability appears to have improved, but longer-term issues (see below) persist. Elements within society feel marginalised and represent future stability risks in the absence of meaningful progress in relation to inclusivity.
- Regional uncertainties (relationship with Israel, contagion risk from Syria and Iran's nuclear programme).
- Poverty and lack of job prospects, two underlying reasons behind pressures for regime change, have not been tackled effectively.
- The difficult and protracted political transition has slowed the rebound in economic performance, with consumption and investment (domestic and foreign) decisions still awaiting clarity of policies.

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Italy	8% 1 11%	China
United States	8% 2 8%	United States
India	7% 3 6%	Germany
Saudi Arabia	6% 4 5%	Turkey
Libya	4% 5 5%	Italy

By product (% of total)

Exports	Rank	Imports
Petroleum, petroleum products and related materials	26% 1 14%	Petroleum, petroleum products and related material
Gas, natural and manufactured	9% 2 7%	Cereals and cereal preparation:
Vegetables and fruits	7% 3 5%	Iron and steel
Articles of apparel & clothing accessories	5% 4 5%	Road vehicle
Fertilizers other than group 272	4% 5 4%	Other industrial machinery and part

Source: UNCTAD

Economic Overview

General Overview

Business challenges in the political transition are compounded by global headwinds, including weak oil prices that reduce earning capacity from Suez Canal and Sumed pipeline revenues and a weak recovery in Europe that slows inward investment and tourism flows. In response, policy options have caused further uncertainties at the corporate level.

Policy switchback ride

In mid-March 2016, the Central Bank devalued the EGP by 13% and announced that it will adopt a "more flexible exchange rate" to bolster the country's foreign reserves (see below) and resolve market imbalances. Despite an overvalued EGP the authorities had preferred to use a patchwork of policy measures, including import restrictions. More clarity and transparency of policy is welcome but the new flexibility suggests that further depreciation may be implemented later this year (the exchange rate is now USD1:EGP8.85, compared with the previous rate of USD1:EGP7.73). Moreover, devaluation will increase inflationary pressures (already double-digit levels) at a time when the government is seeking to limit fuel and food subsidy provision and social tensions may increase if countervailing social safety nets are not also increased.

Foreign exchange reserve depletion has stabilised, but FX levels remain fragile

Net international reserves fell sharply from their peak of over USD36bn pre-2011. Currently, they stand at USD16.5bn (February 2016, providing import cover of around three months). However, official foreign currency reserves (excluding gold and SDRs) are currently only USD12.8bn. Recent relative stability in reserves reflects large inflows of aid from the GCC states, including, Saudi Arabia, that pledged USD12bn in loans, grants and oil concessions. In contrast, the domestic economic activities that should be responsible for reserve accumulation (including the tourist sector, associated and other service sectors and the manufacturing industry) remain relatively weak and subject to periodic negative influences, including terrorist attacks. Accordingly, and in the absence of a financial support package from the IMF, Egypt will remain dependent on support from bilateral sources.

Not all bad news

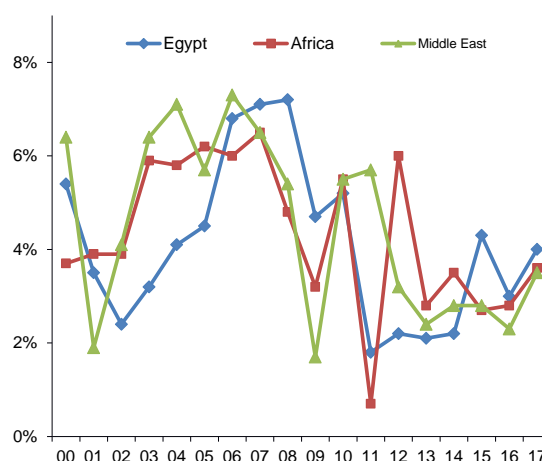
Despite economic headwinds and security concerns, positive developments include: (i) the "New Suez Canal" was officially inaugurated in August 2015 and enables two-way traffic through a new 35-km parallel channel of the existing 190km waterway and (ii) discovery of a "supergiant" offshore gas field, potentially the largest in the Mediterranean.

Key Economic Forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	2.2	4.3	3.0	4.0
Inflation (% end-year)	10.1	11.1	12.0	10.5
Fiscal balance (% of GDP)	-12.0	-10.5	-9.0	-8.5
Public debt (% of GDP)	93.5	95.0	97.0	96.0
Current account (% of GDP)	-2.1	-2.6	-3.0	-3.5
External debt (% of GDP)	16.8	16.8	16.2	15.5

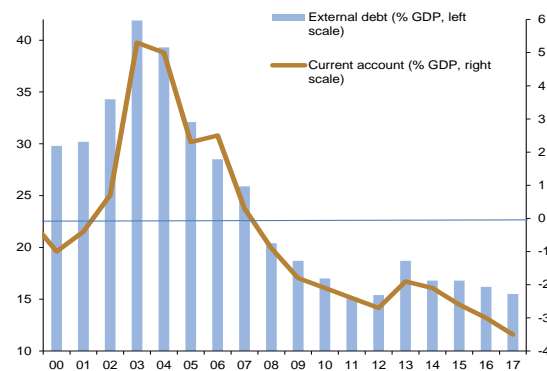
Sources: National Sources, IHS, Euler Hermes

GDP Growth (%)



Sources: National sources, IHS, Euler Hermes

Current Account Balance and External Debt (% of GDP)



Sources: National sources, IHS, Euler Hermes

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