

Arab Republic of Egypt

Rating Review Annex

SCOPE

B-

NEGATIVE
OUTLOOK

Credit strengths

- Diversified and resilient economy
- Robust relations with official creditors
- Track record of structural reforms

Credit challenges

- Large and sustained external imbalances
- High interest burden and public debt
- Socio-political challenges

Rating rationale:

Strong growth momentum supported by a diversified economy: Real GDP growth has been resilient to external shocks thanks to the dynamism of the service and manufacturing sectors. Higher energy exports and private-sector-led activities could support higher growth potential in the long run.

Robust relations with official creditors: Proactive negotiations and robust relations with the IMF and the Gulf Cooperation Council anchor the reform agenda to rebalance public and external accounts.

Track record of structural reforms: Egypt has a track record of reforms under the IMF assistance initiated in 2016, among which sustained primary surplus. However, the momentum fell short of expectations in the context of the Extended Fund Facility approved in December 2022.

Rating challenges include: i) elevated external financing requirements amid challenging funding conditions on local and international capital markets; ii) large fiscal deficits resulting from elevated interest burden and public expenditures limiting policy flexibility; iii) high public debt relative to rating peers; and iv) socio-political challenges amid presidential election in February 2024.

Arab Republic of Egypt's sovereign rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	bb-	EGP [+0]	1/3	B-	
Public Finance Risk	20%	b+		-3/3		
External Economic Risk	10%	ccc		-2/3		
Financial Stability Risk	10%	a+		-1/3		
ESG Risk	5%	b		aaa		0
	7.5%	a+		b+		-1/3
	12.5%	c		b		-1/3
Indicative outcome	b+		-2			
Additional considerations			0			

Note: The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings

Outlook and rating triggers

The Negative Outlook reflects Scope's view that risks to the ratings are tilted to the downside over the next 12 to 18 months.

Positive rating-change drivers

- Successful execution of IMF policy conditionality leads to a sustained reduction in external risks
- Sustained fiscal consolidation and/or higher-than-expected GDP growth lowers the interest burden and/or places the debt-to-GDP ratio on a firm downward trajectory

Negative rating-change drivers

- Significant shortfalls in the execution of the reform agenda underlying the official sector's financial assistance reduce net international reserves
- A firm upward trajectory of the interest burden and/or the public-debt-to-GDP ratio undermines the debt service capacity

Ratings and Outlook

Foreign currency

Long-term issuer rating	B-/Negative
Senior unsecured debt	B-/Negative
Short-term issuer rating	S-4/Stable

Local currency

Long-term issuer rating	B-/Negative
Senior unsecured debt	B-/Negative
Short-term issuer rating	S-4/Stable

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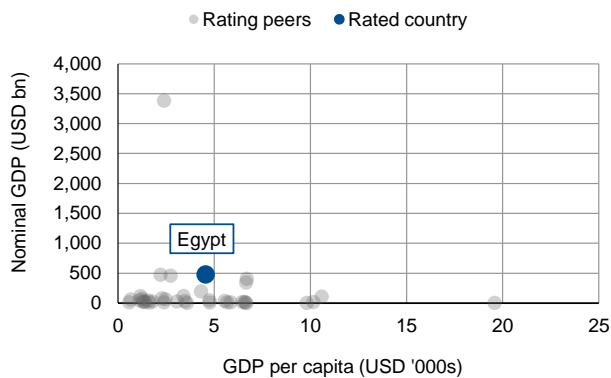
Bloomberg: RESP SCOP

Domestic economic risk

Overview of Scope's qualitative assessments for Arab Republic of Egypt's *domestic economic risk*

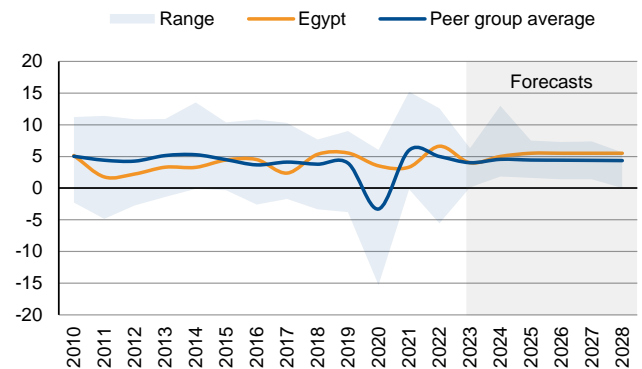
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Growth potential of the economy	Strong	+1/3	Solid growth prospects, above rating peers, underpinned by well-diversified economy, large labour force, and investment in the energy sector
	Monetary policy framework	Neutral	0	Long history of double-digit inflation rates exceeding CBE's target, transition to flexible exchange rate regime tests the robustness of inflation targeting
	Macro-economic stability and sustainability	Neutral	0	Strong growth momentum and resilience to external shocks, although low domestic saving increase reliance on external funding; structurally high unemployment rates

Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



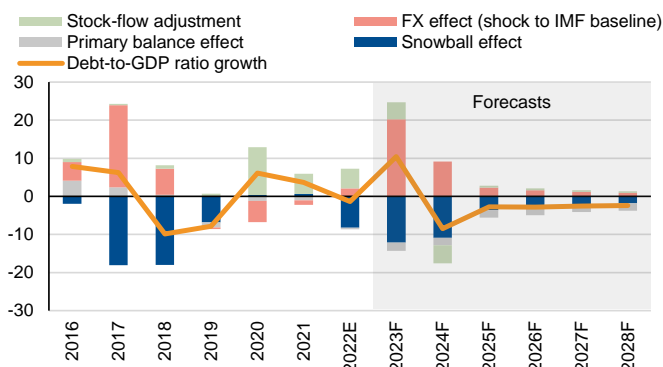
Source: IMF WEO, Scope Ratings forecasts

Public finances risk

Overview of Scope's qualitative assessments for Arab Republic of Egypt's *public finances risk*

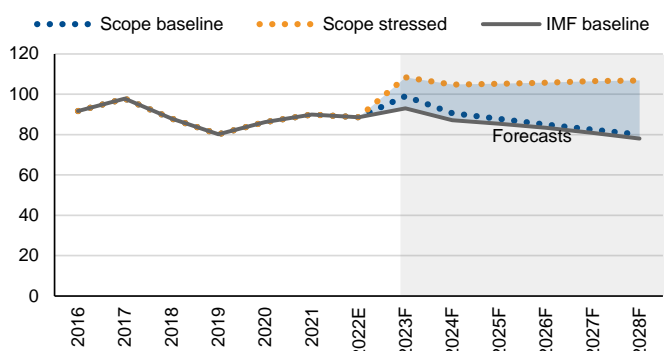
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Fiscal policy framework	Weak	-1/3	Rigid expenditures and large investment needs limit the prospects for fiscal consolidation
	Debt sustainability	Weak	-1/3	High interest burden and public debt; sensitivity of the debt dynamics to exchange rate adjustment
	Debt profile and market access	Weak	-1/3	Low debt maturity and large debt service amid challenging funding conditions on local and international capital markets

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



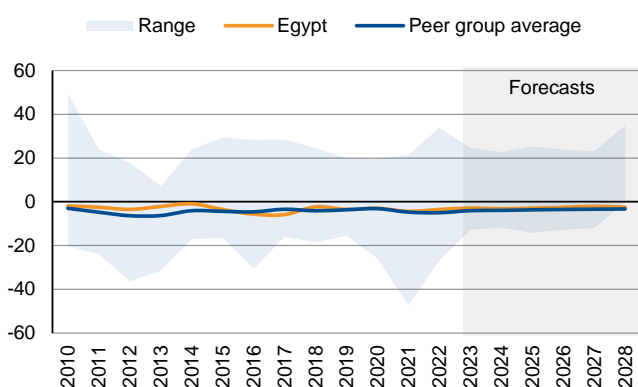
Source: IMF WEO, Scope Ratings forecasts

External economic risk

Overview of Scope's qualitative assessments for Arab Republic of Egypt's *external economic risk*

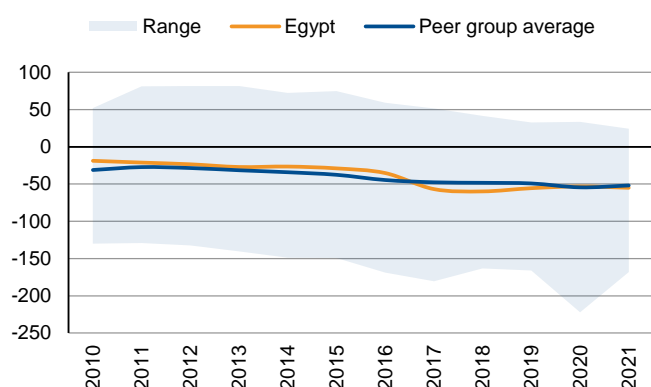
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CCC	Current account resilience	Weak	-1/3	Large gross financing needs partially covered by volatile capital inflows; heavy reliance on external funding, including financial assistance
	External debt structure	Neutral	0	Moderate and long-term gross external debt, but relatively large short-term liabilities in comparison to international reserves
	Resilience to short-term external shocks	Weak	-1/3	Limited international reserves compared to external financing needs; external financial support conditional upon challenging reforms

Current account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



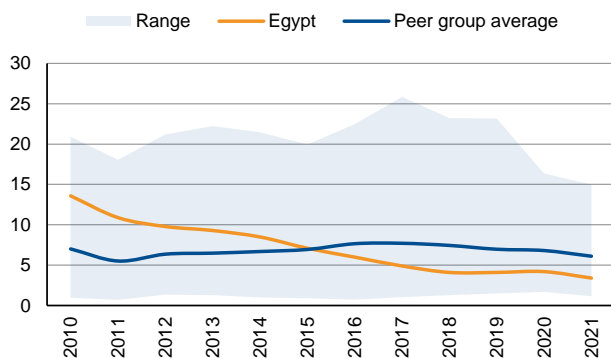
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's qualitative assessments for Arab Republic of Egypt's *financial stability risk*

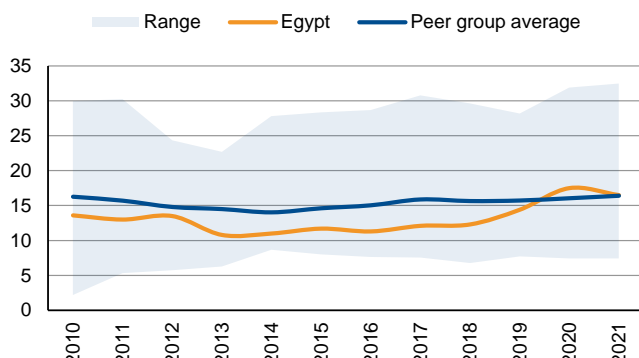
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Banking sector performance	Neutral	0	Resilient banking system despite increasingly challenging operating environment and significant pressure on foreign currency liquidity
	Banking sector oversight	Neutral	0	Structural shortcomings partly addressed by the strengthening of the supervision framework
	Financial imbalances	Weak	-1/3	Strong sovereign-bank nexus; local asset prices exposed to foreign capital outflows and exchange rate volatility

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



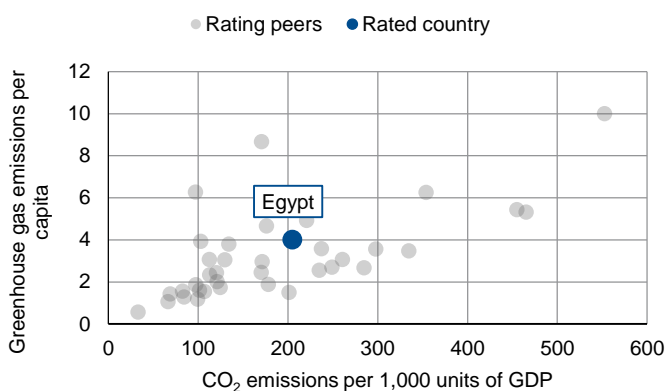
Source: IMF, Scope Ratings

ESG risk

Overview of Scope's qualitative assessments for Arab Republic of Egypt's ESG risk

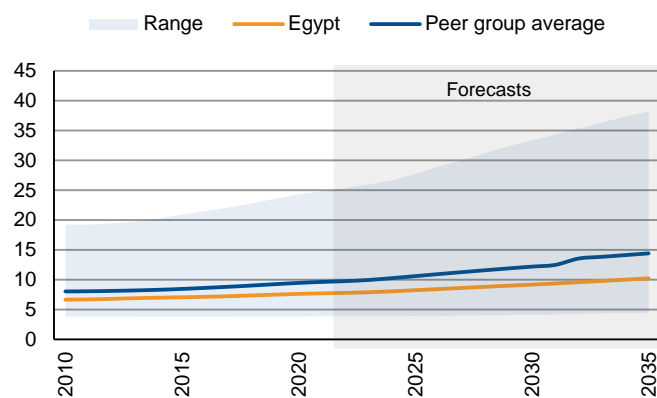
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CCC	Environmental factors	Neutral	0	High vulnerability to climate change, mitigated by proactive policies and the support of international partners
	Social factors	Weak	-1/3	Pre-existing social vulnerabilities aggravated by rising inflation amid high poverty rates
	Institutional and political factors	Weak	-1/3	State intervention in the economy challenged by structural reform agenda; record of institutional instability and constitutional changes

CO₂ emissions per GDP, mtCO₂e



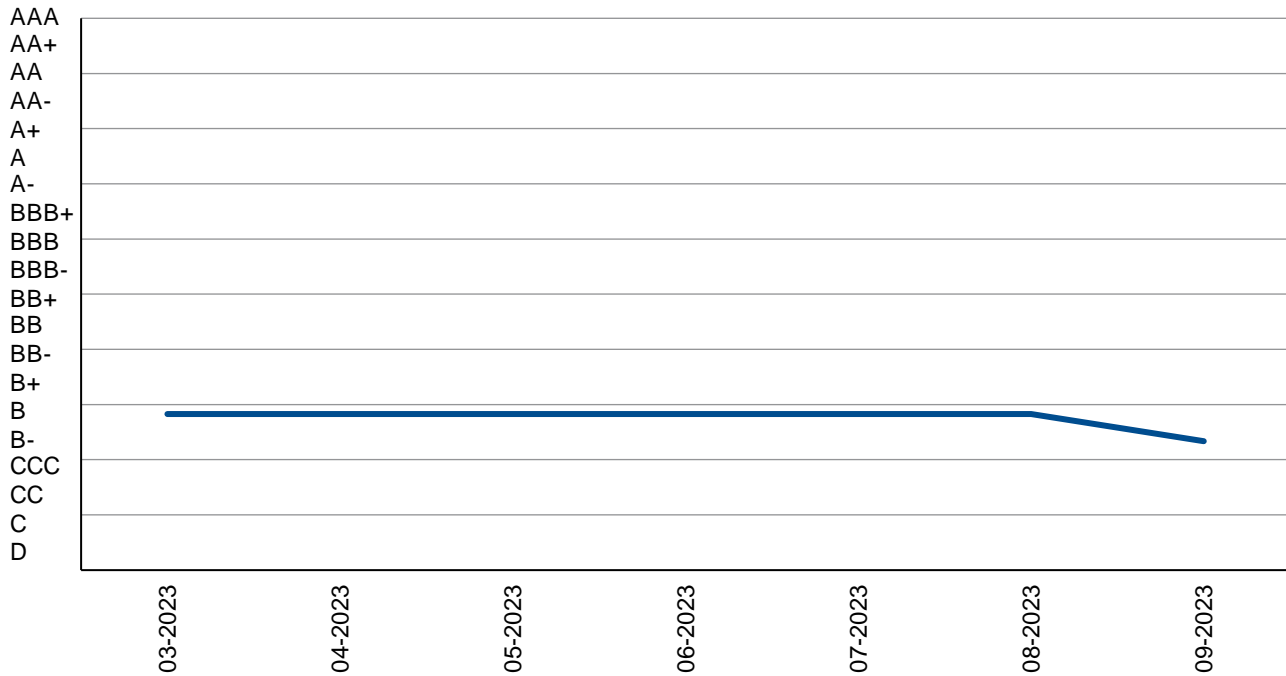
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, with Scope's core variable scorecard embedding a methodological reserve-currency adjustment.

Peer group*
South Africa

Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	2.7	3.2	3.8	4.1	4.6
	Nominal GDP, USD bn	IMF	263.2	317.9	382.5	423.3	475.2
	Real growth, %	IMF	5.3	5.5	3.5	3.3	6.6
	CPI inflation, %	IMF	20.9	13.9	5.7	4.5	8.5
	Unemployment rate, %	WB	9.9	7.9	7.9	7.4	7.0
Public Finance	Public debt, % of GDP	IMF	87.9	80.1	86.2	89.9	88.5
	Net interest payment, % of revenue	IMF	43.6	46.0	47.5	43.2	32.8
	Primary balance, % of GDP	IMF	-0.4	1.3	1.2	1.1	0.4
External Economic	Current-account balance, % of GDP	IMF	-2.3	-3.4	-2.9	-4.4	-3.5
	Total reserves, months of imports	IMF	5.9	5.8	5.6	4.4	-
	NIIP, % of GDP	IMF	-59.6	-55.4	-53.0	-54.9	-
Financial Stability	NPL ratio, % of total loans	IMF	4.1	4.1	4.2	3.4	3.2
	Tier 1 ratio, % of risk-weighted assets	IMF/CBE	-	-	-	-	16.0
	Credit to the private sector, % of GDP	WB	25.5	24.0	27.1	-	30.8
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	251.0	227.2	198.9	205.2	-
	Income share of bottom 50%, %	WID	14.6	14.6	14.6	14.6	-
	Labour-force participation rate, %	WB	47.9	47.9	43.9	43.7	-
	Old-age dependency ratio, %	UN	7.3	7.5	7.6	7.7	7.8
	Composite governance indicators*	WB	-0.7	-0.7	-0.8	-0.7	-

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

5y USD CDS spread (bps) as of 8 September 2023

Emerging market and developing economy

1554



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