

Arab Republic of Egypt

Rating report

Rating rationale

External financial assistance, foreign capital inflows drive the replenishment of international reserves. The Egyptian authorities have reached an agreement with the IMF staff for the completion of the third review of the Extended Fund Facility. Progress in the implementation of the IMF programme should enable other donors to proceed with disbursements, among which the European Union and the World Bank, complementing the investment plan of USD 35bn announced in February 2024 by an Abu Dhabi-based investment and holding company, which was fully disbursed. External financial assistance drives the rise in net international reserves of the Central Bank of Egypt, alongside monetary policy tightening supporting foreign capital inflows.

Progress on reform could lower macroeconomic and fiscal imbalances over the medium term. The agreement between the Egyptian authorities and the IMF staff points to the introduction of structural reforms. If sustained, those reforms should foster a more dynamic private sector supporting net foreign direct investment. Moreover, the authorities reiterated commitment to advance an investor-friendly reform agenda following the recent cabinet overhaul. However, further clarity and sustained progress in the implementation of the economic reform agenda are necessary to gain greater confidence about the reduction of macroeconomic, fiscal and external imbalances over the coming years.

Rating challenges include: i) high external financing needs amid challenging funding conditions on debt capital markets and gradually recovering international reserves; ii) large fiscal deficits resulting from high interest burden and public expenditure rigidities limiting policy flexibility; iii) high public debt relative to GDP; and iv) socio-political challenges.

Figure 1: Egypt’s sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating	
	Weight	Indicative rating	Notches	Notches	Notches		
Domestic economic risk	35%	bbb-	EGP	Egypt	1/3	B-	
Public finance risk	20%	b+			- 3/3		
External economic risk	10%	ccc			- 2/3		
Financial stability risk	10%	aa-			- 1/3		
ESG risk	Environmental factors	5%			b+		[+0]
	Social factors	7.5%	a	- 1/3			
	Governance factors	12.5%	cc	- 1/3			
Sovereign Quantitative Model			b+		-2		
Additional considerations					0		

*The reserve-currency quantitative adjustment applies to currencies in the IMF’s Special Drawing Rights (SDR) basket. **The political-risk quantitative adjustment is based on the World Bank’s Political Stability & Absence of Violence/Terrorism index. ***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope’s [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

B-/Stable

Senior unsecured debt

B-/Stable

Short-term issuer rating/Outlook

S-4/Stable

Local currency

Long-term issuer rating/Outlook

B-/Stable

Senior unsecured debt

B-/Stable

Short-term issuer rating/Outlook

S-4/Stable

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Credit strengths and challenges

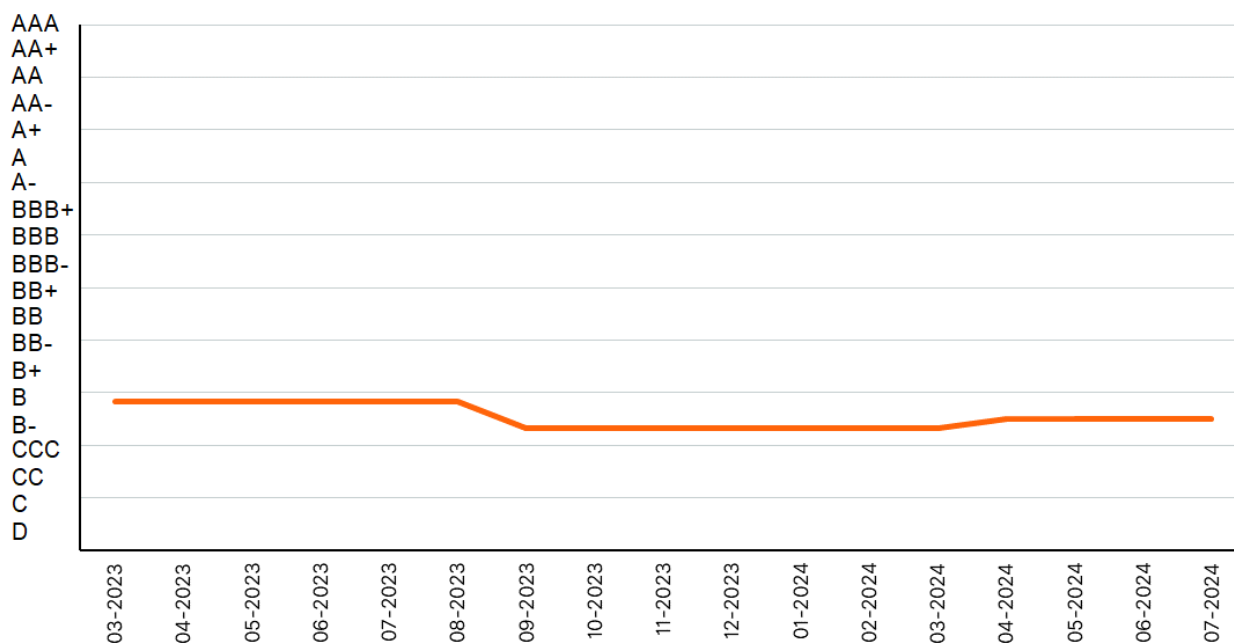
Credit strengths	Credit challenges
<ul style="list-style-type: none"> Diversified and resilient economy Robust relations with official creditors Track record of structural reforms 	<ul style="list-style-type: none"> High external financing needs, inadequate international reserves Large fiscal deficit, very high interest burden High public debt-to-GDP Socio-political challenges

Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Successful execution of IMF policy conditionality reduces external risks, such as higher net international reserves and improved foreign currency liquidity A sustained fiscal consolidation and/or higher-than-expected GDP growth lowered the interest burden and/or placed the debt-to-GDP ratio on a firm downward trajectory 	<ul style="list-style-type: none"> Significant shortfalls in the execution of the reform agenda reduced net international reserves and aggravated foreign currency shortages A firm upward trajectory in the interest burden and/or public debt-to-GDP undermined debt servicing capacity due, for example, to limited fiscal consolidation and/or lower GDP growth

Figure 2: Rating history¹



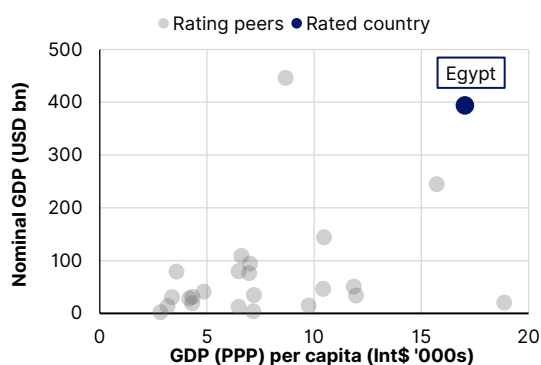
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Egypt's Domestic Economic Risk

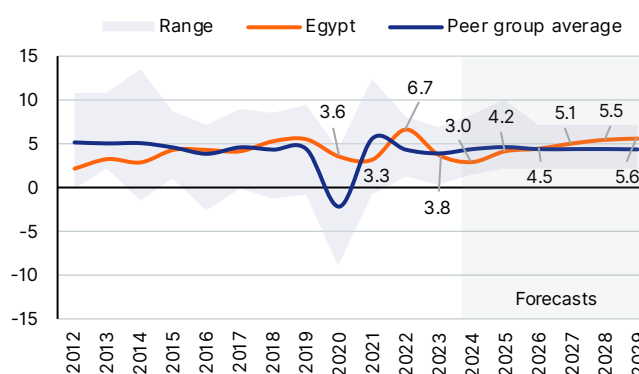
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Growth potential and outlook	Strong	+1/3	Solid growth prospects, well-diversified economy, large labour force, and investment in the energy sector
	Monetary policy framework	Neutral	0	Long history of double-digit inflation rates; transition to flexible exchange rate regime tests the robustness of inflation targeting
	Macroeconomic stability and sustainability	Neutral	0	Robust growth momentum, resilience to external shocks; low domestic saving rates and structurally high unemployment rates

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



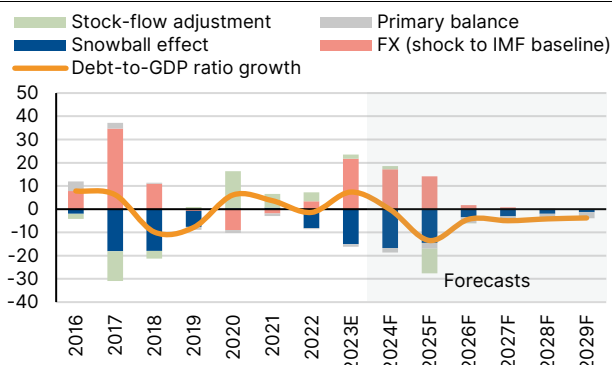
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Egypt's Public Finance Risk

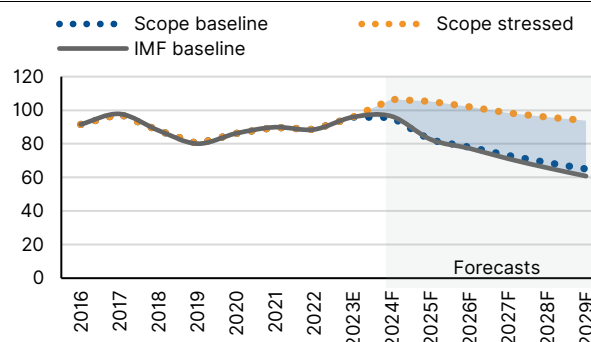
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Fiscal policy framework	Weak	-1/3	Rigid expenditures, including high interest burden, limit the prospects for fiscal consolidation despite strong commitment
	Long-term debt trajectory	Weak	-1/3	High public debt to GDP; debt dynamics exposed to exchange rate adjustment; expected decline subject to timely IMF programme implementation
	Debt profile and market access	Weak	-1/3	Low debt maturity and large debt service amid still challenging funding conditions on local and international capital markets

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

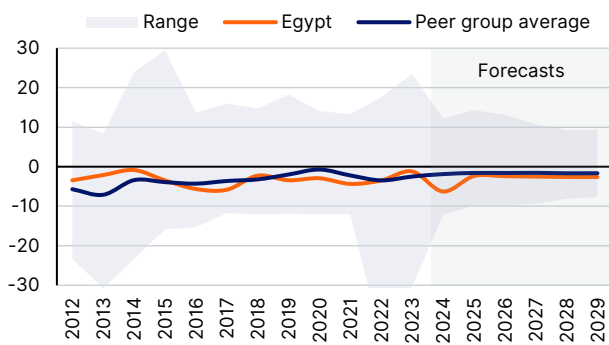
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of Egypt's External Economic Risk

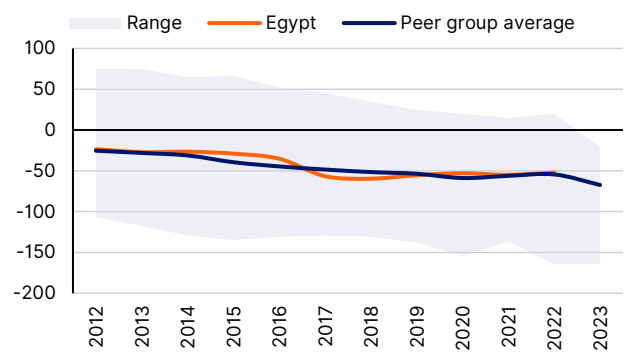
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CCC	Current account resilience	Weak	-1/3	Large financing needs; heavy reliance on external funding, including official financial assistance
	External debt structure	Neutral	0	Moderate and long-term gross external debt; relatively large short-term liabilities in comparison to international reserves
	Resilience to short-term external shocks	Weak	-1/3	Inadequate international reserves compared to financing needs; significant support from the official sector

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



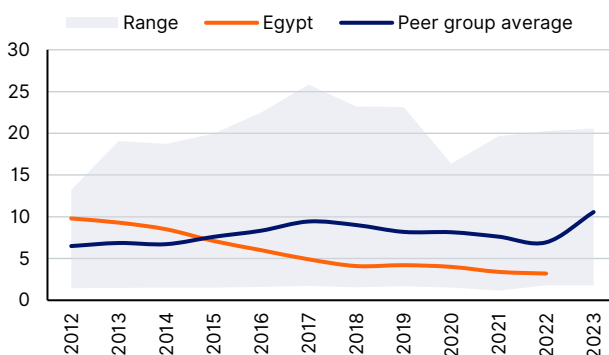
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Egypt's Financial Stability Risk

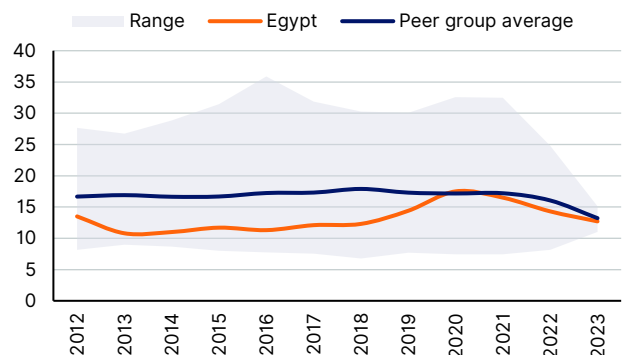
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Banking sector performance	Neutral	0	Resilient banking system despite challenging operating environment; significant pressure on foreign currency liquidity
	Financial sector oversight and governance	Neutral	0	Structural 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

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



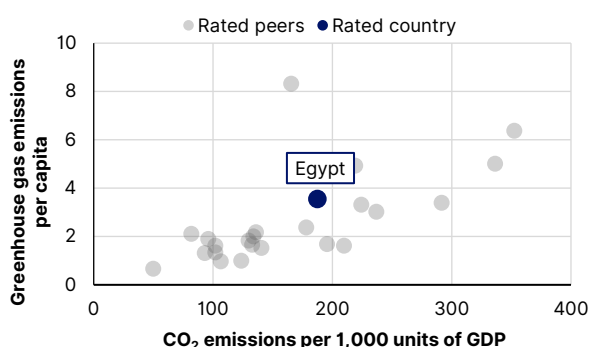
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Egypt's ESG Risk

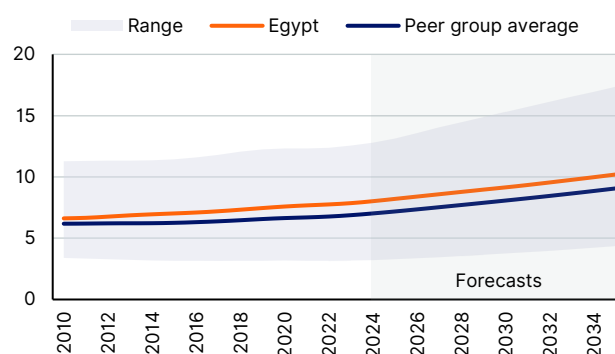
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b-	Environmental factors	Neutral	0	High vulnerability to climate change, mitigated by proactive policies and support from international partners
	Social factors	Weak	-1/3	Pre-existing social vulnerabilities aggravated by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

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

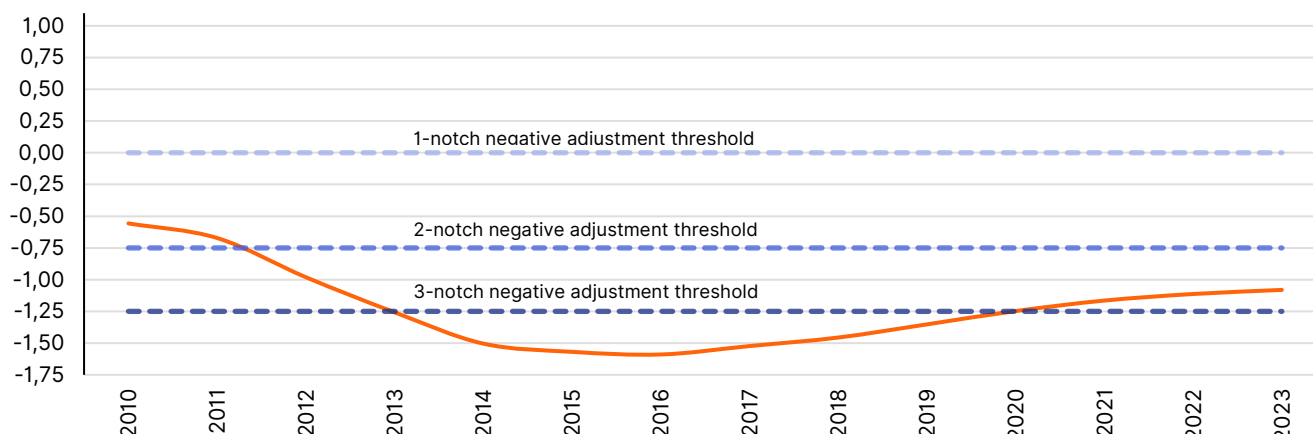
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Egypt, 3-year moving average



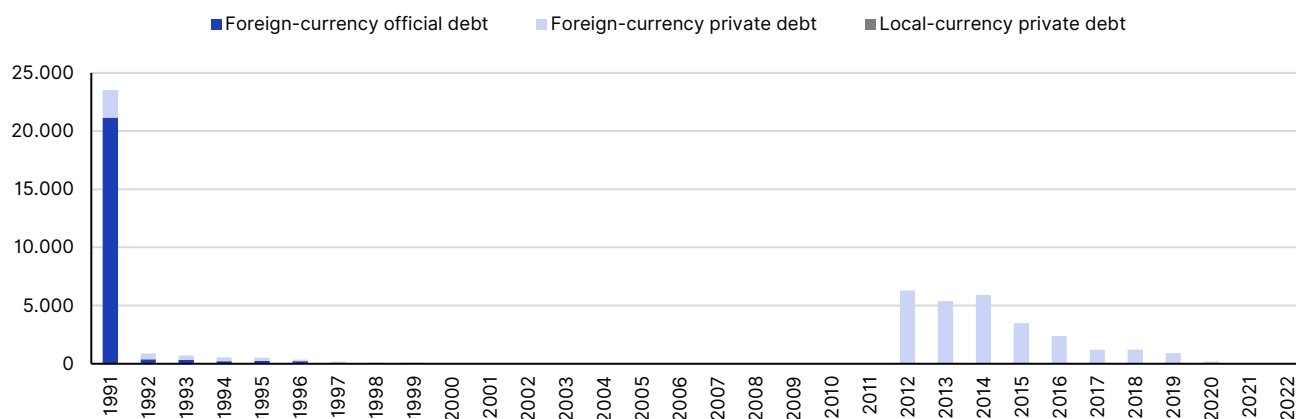
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Morocco

*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5y USD CDS spread (bp) as of 10 July 2024	595.80

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), Int\$ '000s	IMF	12.4	13.2	13.5	14.4	16.2	17.0
	Nominal GDP, USD bn	IMF	263.2	317.9	382.5	423.3	475.2	393.9
	Real growth, %	IMF	5.3	5.5	3.6	3.3	6.7	3.8
	CPI inflation, %	IMF	20.9	13.9	5.7	4.5	8.5	24.4
	Unemployment rate, %	WB	9.9	7.9	8.0	7.4	6.4	6.3
Public Finance	Public debt, % of GDP	IMF	87.9	80.1	86.2	89.9	88.5	95.9
	Net interest payment, % of government revenue	IMF	43.6	46.0	47.5	43.2	32.8	40.2
	Primary balance, % of GDP	IMF	-0.4	1.3	1.2	1.1	0.4	1.1
External Economic	Current-account balance, % of GDP	IMF	-2.3	-3.4	-2.9	-4.4	-3.5	-1.2
	Total reserves, months of imports	WB	5.9	5.8	5.6	4.4	3.3	-
	NIIP, % of GDP	IMF	-59.6	-55.4	-53.0	-54.9	-52.2	-
Financial Stability	NPL ratio, % of total loans	IMF	4.1	4.2	4.0	3.4	3.2	-
	Tier 1 ratio, % of risk-weighted assets	IMF	12.1	12.3	14.4	17.5	16.5	12.7
	Credit to the private sector, % of GDP	WB	24.3	22.8	25.8	28.2	30.8	-
ESG	CO₂ per EUR 1,000 of GDP, mtCO₂e	EC	228.5	188.3	177.1	187.6	187.5	-
	Income share of bottom 50%, %	WID	15.1	15.3	15.4	15.4	15.4	-
	Labour-force participation rate, %	WB	45.7	44.6	44.0	45.6	46.5	-
	Old-age dependency ratio, %	UN	7.3	7.5	7.6	7.7	7.8	7.9
	Composite governance indicators*	WB	-0.7	-0.7	-0.7	-0.7	-0.7	-
	Political stability, index	WB	-1.2	-1.1	-1.2	-1.0	-1.0	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.*

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