

# Arab Republic of Egypt

## Rating report

### Rating rationale

**Diversified and resilient 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 conditional upon a stronger reform impetus.

**Robust relations with official creditors:** Robust relations with multilateral and bilateral creditors, first and foremost the IMF and the Gulf Cooperation Council, anchor external financial assistance and the reform agenda, supporting the rebalancing of public and external accounts. Despite multiple financial assistance packages, uneven progress on IMF policy conditionalities could weigh on relations with official creditors.

**Track record of structural reforms:** Egypt has a track record of reforms under the IMF assistance initiated in 2016, including sustained primary surpluses. However, the momentum fell short of expectations in the context of the Extended Fund Facility approved in December 2022, especially around the exchange rate policy, raising concerns on the authorities' willingness to introduce a level playing field between public and private sectors.

**Rating challenges include:** i) high external financing needs amid challenging funding conditions on local and international capital markets, and inadequate 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 rating peers; 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				
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]	[-2]	0	
	Social factors	7.5%	a			-1/3	
	Governance factors	12.5%	cc			-1/3	
<b>Sovereign Quantitative Model</b>		<b>b+</b>				<b>-2</b>	
<b>Additional considerations</b>						<b>0</b>	

\*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-/Negative

Senior unsecured debt

B-/Negative

Short-term issuer rating/Outlook

S-4/Stable

### Local currency

Long-term issuer rating/Outlook

B-/Negative

Senior unsecured debt

B-/Negative

Short-term issuer rating/Outlook

S-4/Stable

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### Credit strengths and challenges

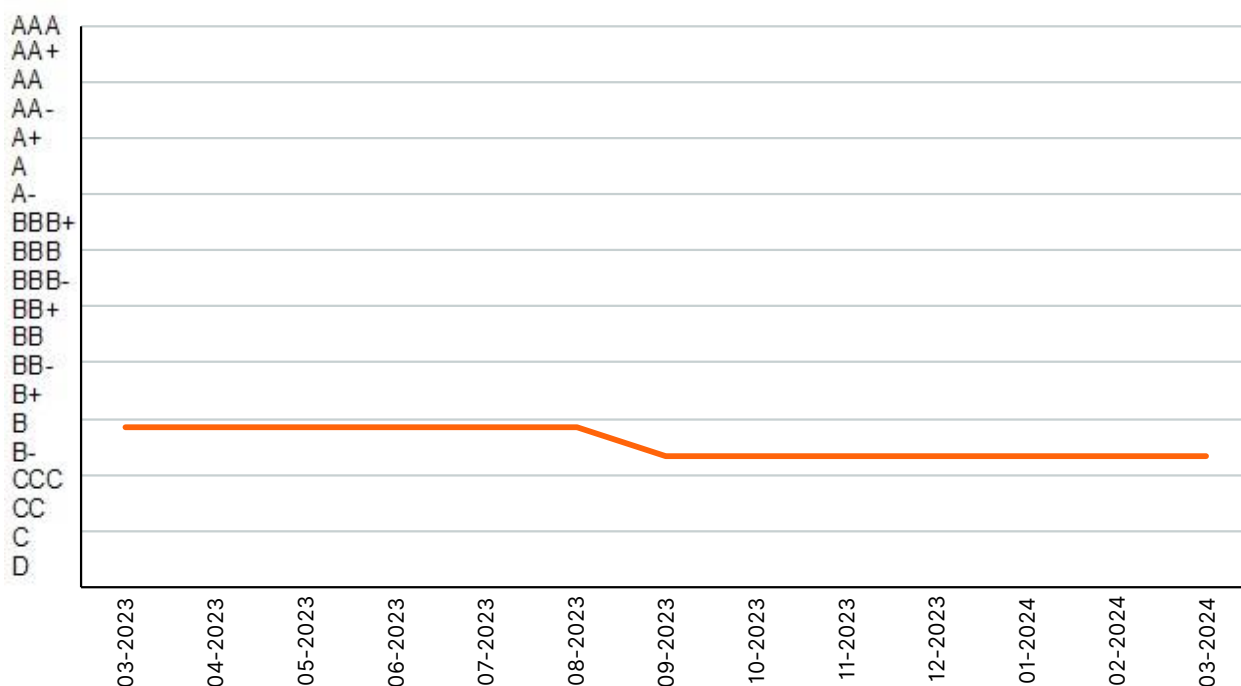
Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>Diversified and resilient economy</li> <li>Robust relations with official creditors</li> <li>Track record of structural reforms</li> </ul>	<ul style="list-style-type: none"> <li>High external financing needs, inadequate international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

### Outlook and rating triggers

The Negative Outlook reflects Scope’s view that risks to the ratings are tilted to the downside.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>Successful execution of IMF policy conditionality reduces external risks, such as higher net international reserves and improved foreign currency liquidity</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Significant shortfalls in the execution of the reform agenda reduced net international reserves and aggravated foreign currency shortages</li> <li>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</li> </ul>

Figure 2: Rating history<sup>1</sup>



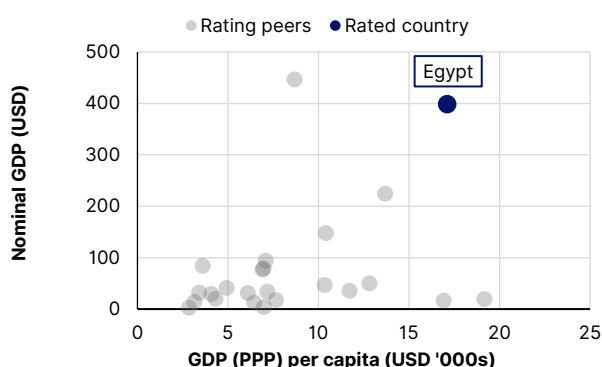
<sup>1</sup>Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

## Domestic economic risk

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

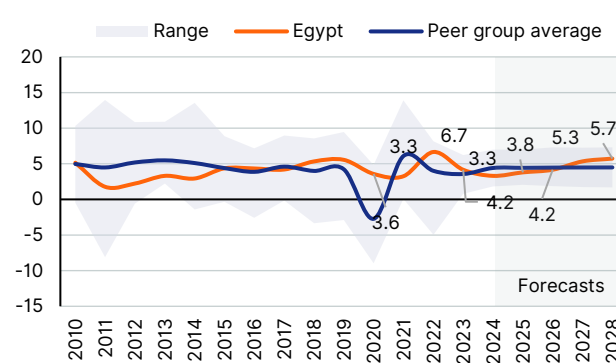
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Growth potential and outlook	Strong	+1/3	Solid growth prospects, well-diversified economy, large labour force, and investment in the energy sector
	Monetary policy framework	Neutral	0	Long history of double-digit inflation 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, %



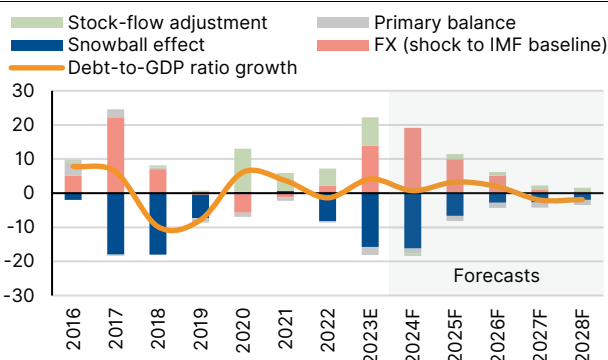
Source: IMF WEO, Scope Ratings forecasts

## Public finance risk

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

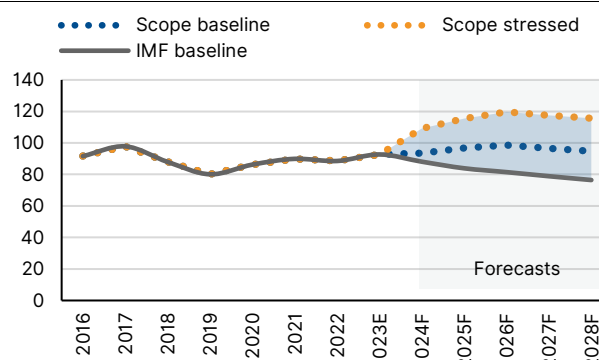
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Fiscal policy framework	Weak	-1/3	Rigid expenditures, including high interest burden and large investment needs, limit the prospects for fiscal consolidation
	Long-term debt trajectory	Weak	-1/3	High public debt to GDP; debt dynamics exposed 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

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

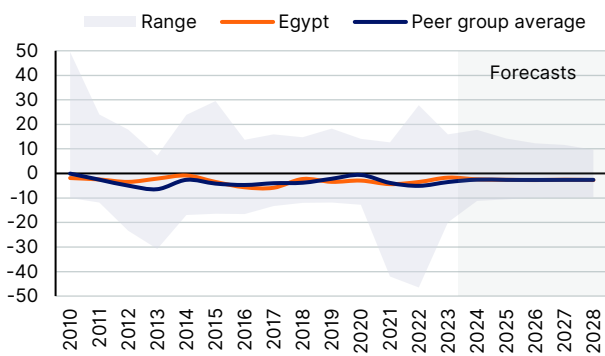
\*Sovereign Quantitative Model.

### External economic risk

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

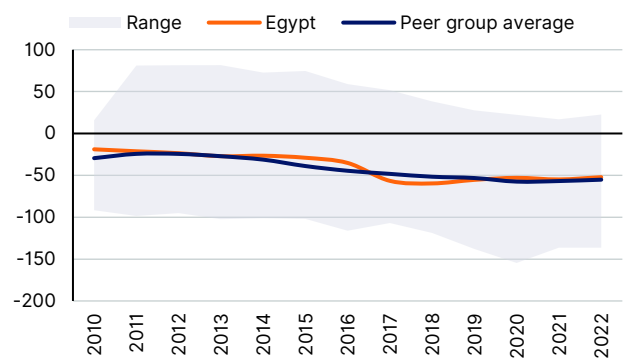
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CCC	Current account resilience	Weak	-1/3	Large financing needs; heavy reliance on external funding, including official financial assistance
	External debt structure	Neutral	0	Moderate and long-term gross external debt; relatively 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; official support conditional upon challenging reforms

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

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



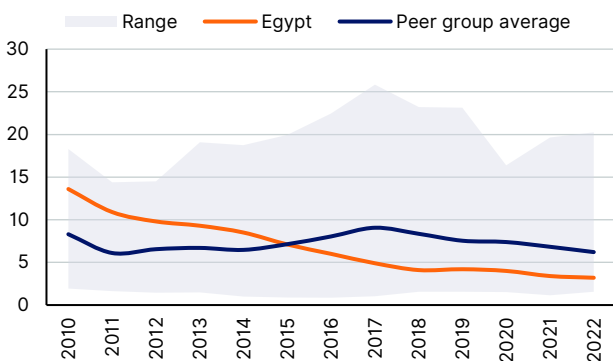
Source: IMF, Scope Ratings

### Financial stability risk

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

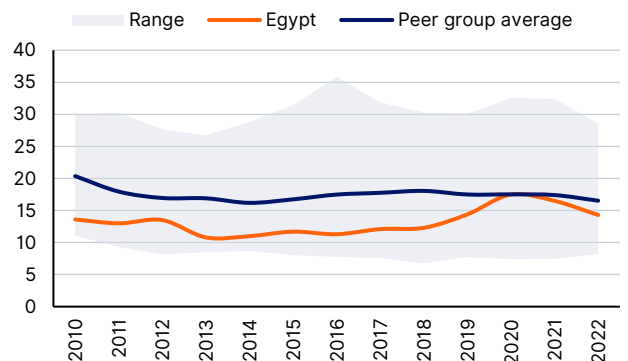
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Financial sector performance	Neutral	0	Resilient banking system despite challenging operating environment; significant pressure on foreign currency liquidity
	Financial sector oversight and governance	Neutral	0	Structural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



Source: World Bank (WB), Scope Ratings

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



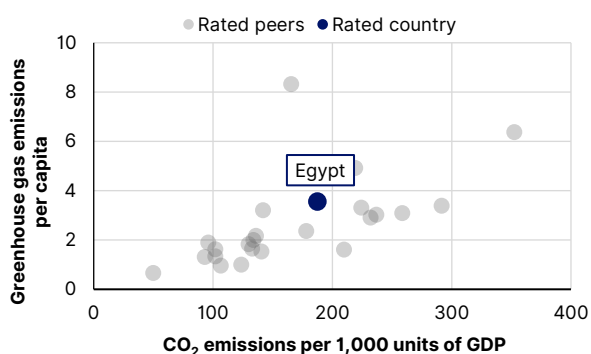
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

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

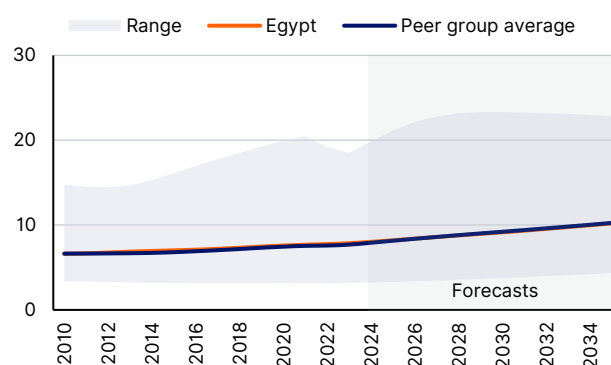
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b-	Environmental factors	Neutral	0	High vulnerability to climate change, mitigated by proactive policies and support from international partners
	Social factors	Weak	-1/3	Pre-existing social vulnerabilities aggravated by 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: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

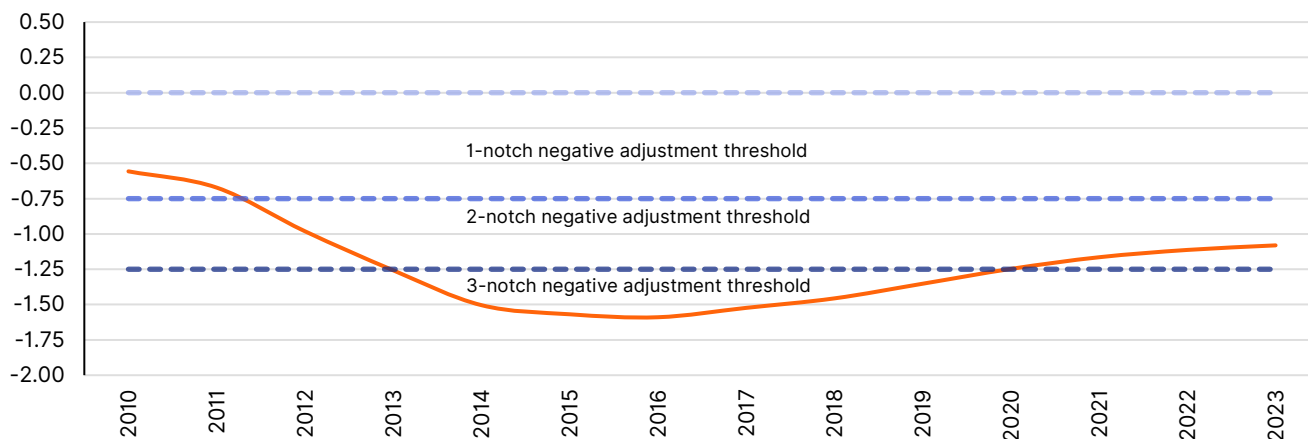
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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



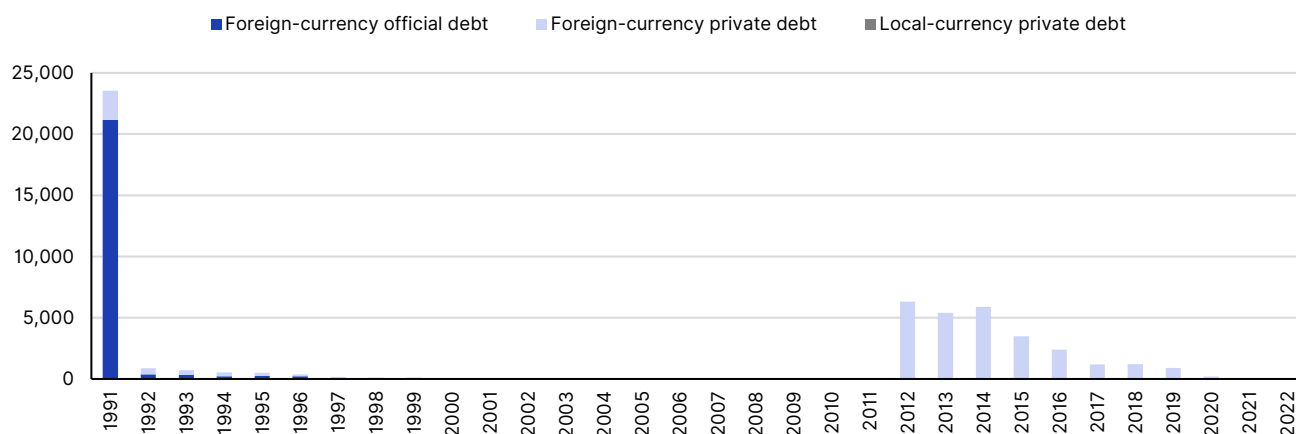
Source: WB, Scope Ratings

### 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

\*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 28 February 2024	616.7

## 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), USD '000s	IMF	12.4	13.2	13.5	14.4	16.2	17.1
	Nominal GDP, USD bn	IMF	263.2	317.9	382.5	423.3	475.2	398.4
	Real growth, %	IMF	5.3	5.5	3.6	3.3	6.7	4.2
	CPI inflation, %	IMF	20.9	13.9	5.7	4.5	8.5	23.5
	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	92.7
	Net interest payment, % of government revenue	IMF	43.6	46.0	47.5	43.2	32.8	38.3
	Primary balance, % of GDP	IMF	-0.4	1.3	1.2	1.1	0.4	2.3
External Economic	Current-account balance, % of GDP	IMF	-2.3	-3.4	-2.9	-4.4	-3.5	-1.7
	Total reserves, months of imports	IMF	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	6.0
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	228.5	188.3	177.1	187.6	187.5	-
	Income share of bottom 50%, %	WID	14.5	14.7	14.9	14.9	14.9	-
	Labour-force participation rate, %	WB	45.7	44.6	43.9	43.7	-	-
	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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