Arab Republic of Egypt

Rating report

Rating rationale

External financial assistance, foreign capital inflows drive the replenishment of net international reserves. Large investments from an Abu Dhabi-based investment company and the renegotiated IMF Extended Fund Facility (EFF) drove the increase in foreign currency liquidity, with net international reserves recovering to USD 46.9bn in October 2024, up from USD 35.1bn in October 2023. The authorities are reportedly working on a large investment on the Red Sea coast, which could further support international reserves. The IMF also notes that there has been progress on the flexibilisation of the exchange rate. In the longer run, sustained progress on the investor-friendly reform agenda is likely to enhance the resilience against external shocks on a standalone basis.

Progress on reform could lower macroeconomic and fiscal imbalances over the medium term. Egypt is likely to complete the fourth review of the EFF assuming sustained progress on the investor-friendly reform agenda towards a more competitive business environment. Moreover, reforms to increase tax revenues, contain public investment and improve public financial management underpin our projection of the primary surplus increasing to 2.5% of GDP in 2025, against 2.0% in 2024 and 1.1% in 2023. However, the authorities' plan to renegotiate targets of the EFF raises uncertainty about sustaining the pace of reform, while the rise in net interest payments, to more than 10% of GDP on average over 2024-27, remains a major constraint on long-term ratings.

Rating challenges include: i) high external financing needs amid challenging funding conditions and gradually recovering international reserves; ii) large fiscal deficits resulting from a very high interest burden and public expenditure rigidities limiting policy flexibility; iii) high public debt-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 [+0]	Egypt [-2]	1/3	B-
Public finance risk		20%	b+			-3/3	
External economic risk		10%	cc			-2/3	
Financial stability risk		10%	a+			-1/3	
ESG risk	Environmental factors	5%	bb			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

B-/Stable

Senior unsecured debt

B-/Stable

Short-term issuer rating

S-4/Stable

Local currency

Long-term issuer rating

B-/Stable

Senior unsecured debt

B-/Stable

Short-term issuer rating

S-4/Stable

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Credit strengths and challenges

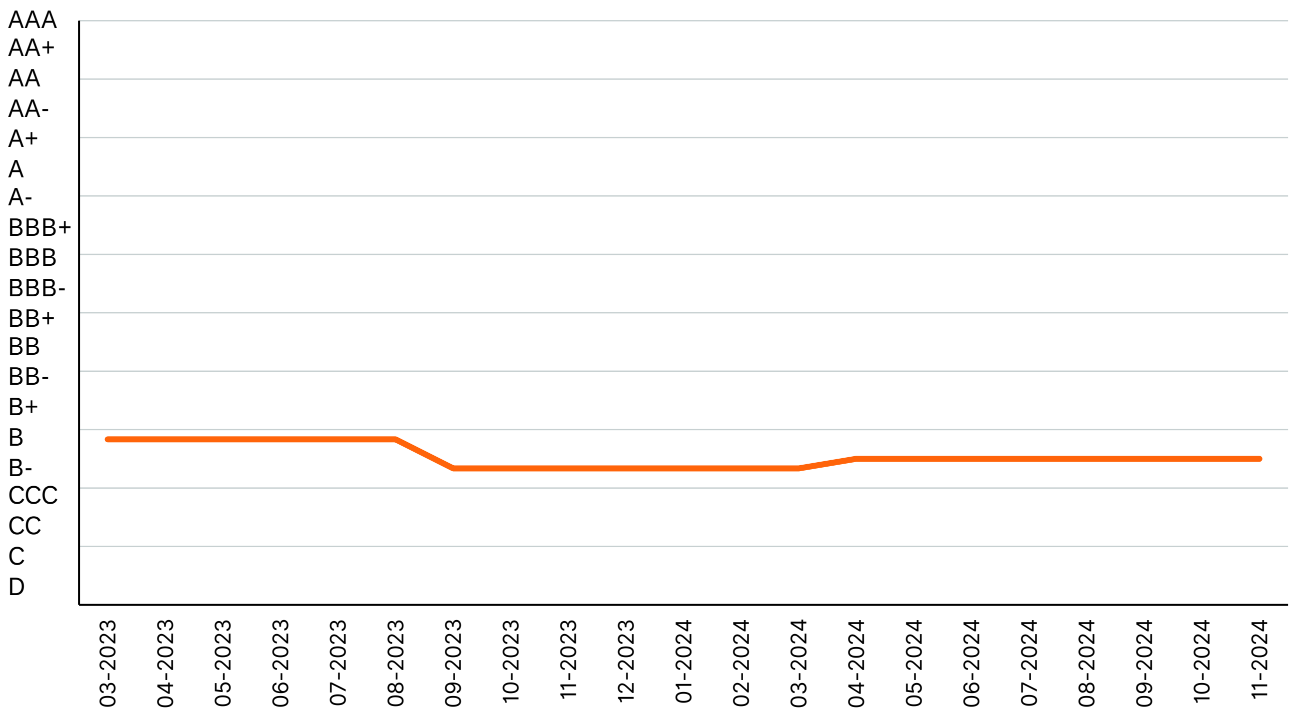
Credit strengths	Credit challenges
• Diversified and resilient economy • Robust relations with official creditors • Track record of structural reforms	• High external financing needs, inadequate international reserves • Large fiscal deficit, very high interest burden • High public debt-to-GDP • Socio-political 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
• Continued execution of IMF policy conditionality, leading to a sustained reduction in external risks • Material reduction in net interest payments, lower current expenditures, and/or higher domestic resources mobilisation	• Significant shortfalls in the execution of the reform agenda lead to a sustained increase in external risks • Widening of the budget deficit, further rise in the interest burden challenging the debt servicing capacity

Figure 2: Rating history[1]



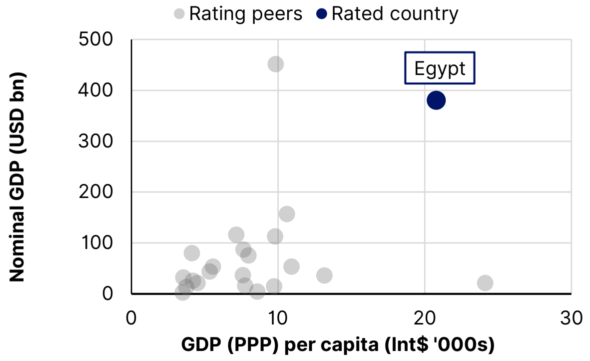
[1]Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment
Source: Scope Ratings

Domestic economic risk

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

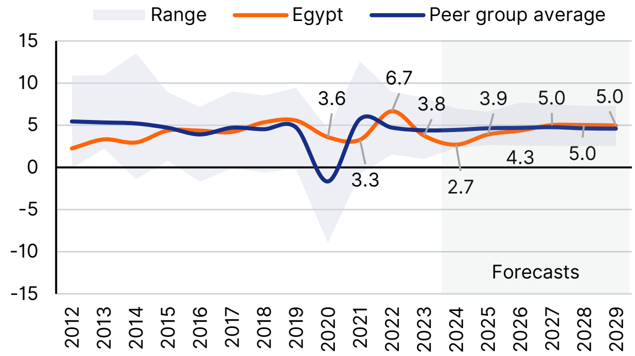
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Growth potential and outlook	Strong	+1/3	Solid growth prospects, well-diversified economy, large labour force, and investment in the energy sector
	Monetary policy framework	Neutral	0	Long history of double-digit inflation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



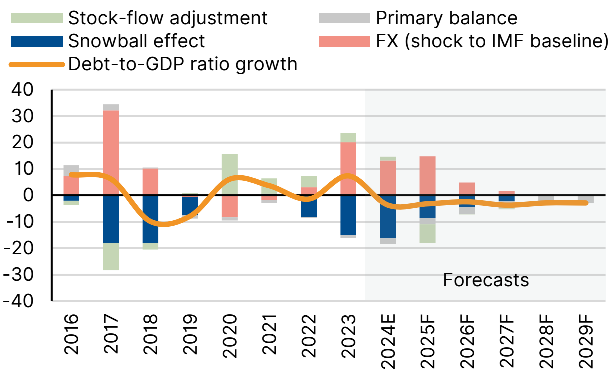
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

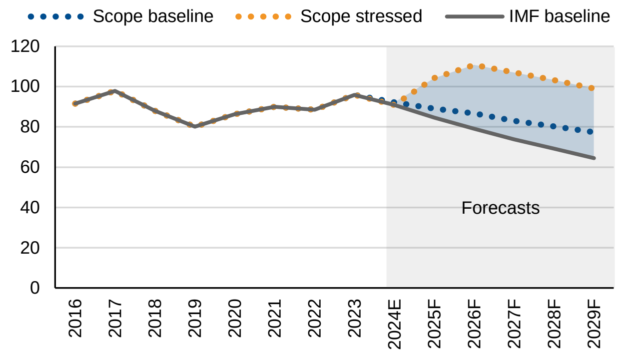
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Fiscal policy framework	Weak	-1/3	Rigid expenditures, including high interest burden and large investment needs, limit the prospects for fiscal consolidation
	Long-term debt trajectory	Weak	-1/3	High public debt-to-GDP;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

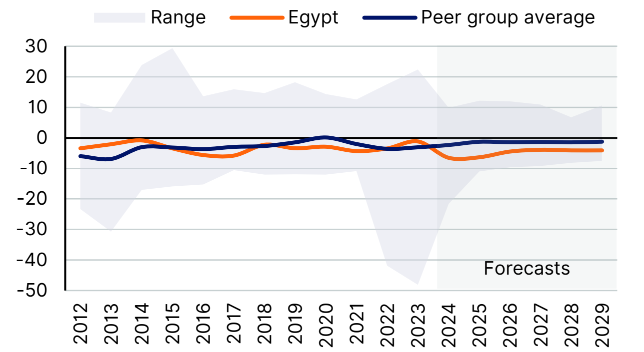
*Sovereign Quantitative Model

External economic risk

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

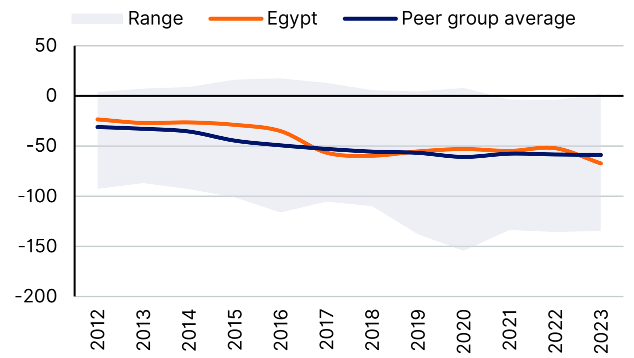
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
CC	Current account resilience	Weak	-1/3	Large financing needs; heavy reliance on external funding, including official financial assistance
	External debt structure	Neutral	0	Moderate and long-term gross external debt; relatively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



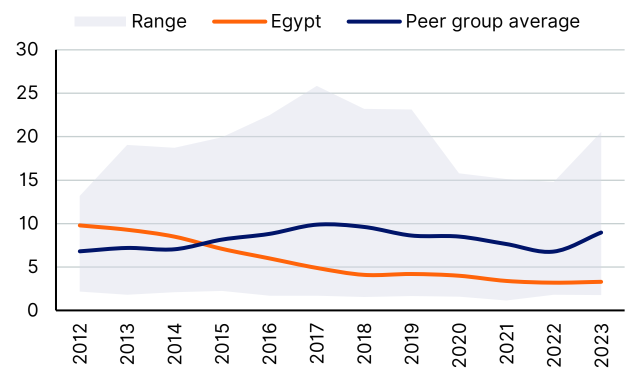
Source: IMF, Scope Ratings

Financial stability risk

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

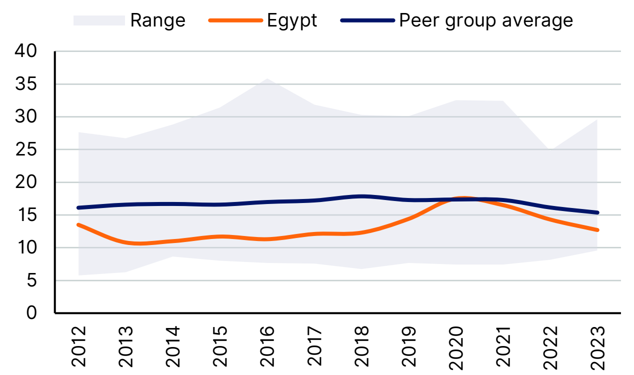
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Banking sector performance	Neutral	0	Resilient banking system despite challenging operating environment; significant pressure on foreign currency liquidity
	Financial sector oversight and governance	Neutral	0	Structural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



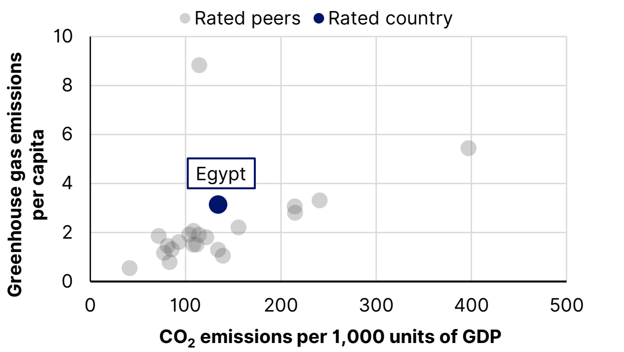
Source: IMF, Scope Ratings

ESG risk

Overview of Scope's assessments of Egypt's *ESG risk*

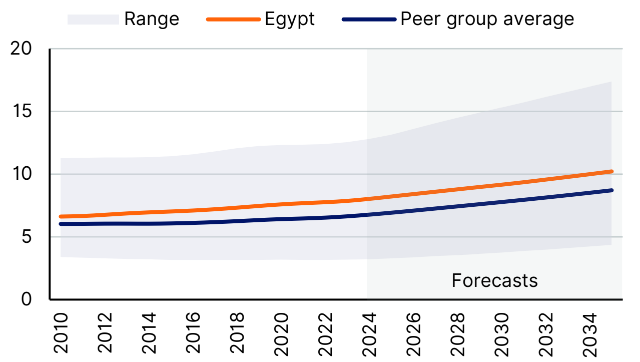
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Environmental factors	Neutral	0	High vulnerability to climate change, mitigated by proactive policies and support from international partners
	Social factors	Weak	-1/3	Pre-existing social vulnerabilities aggravated by 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_2 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

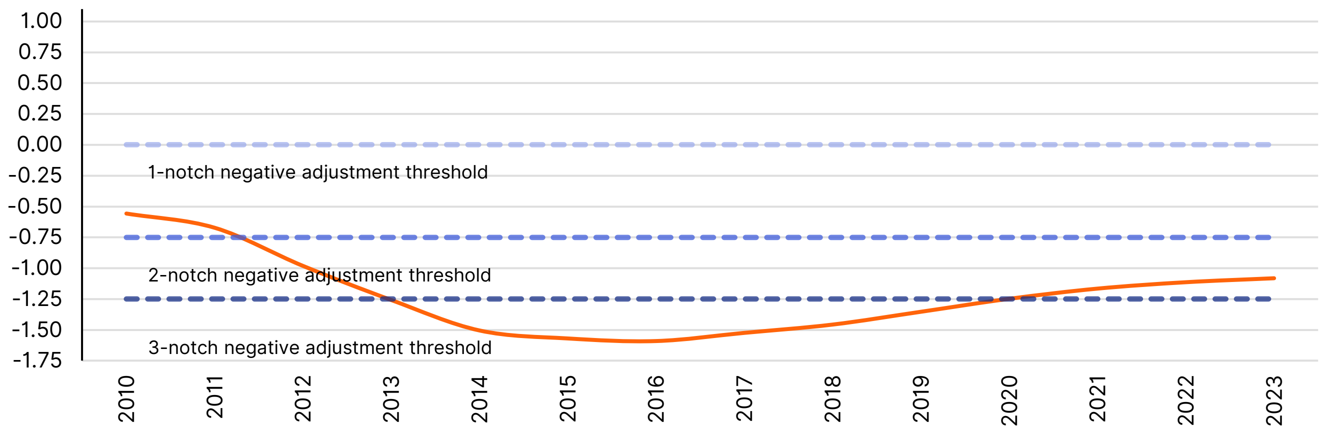
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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



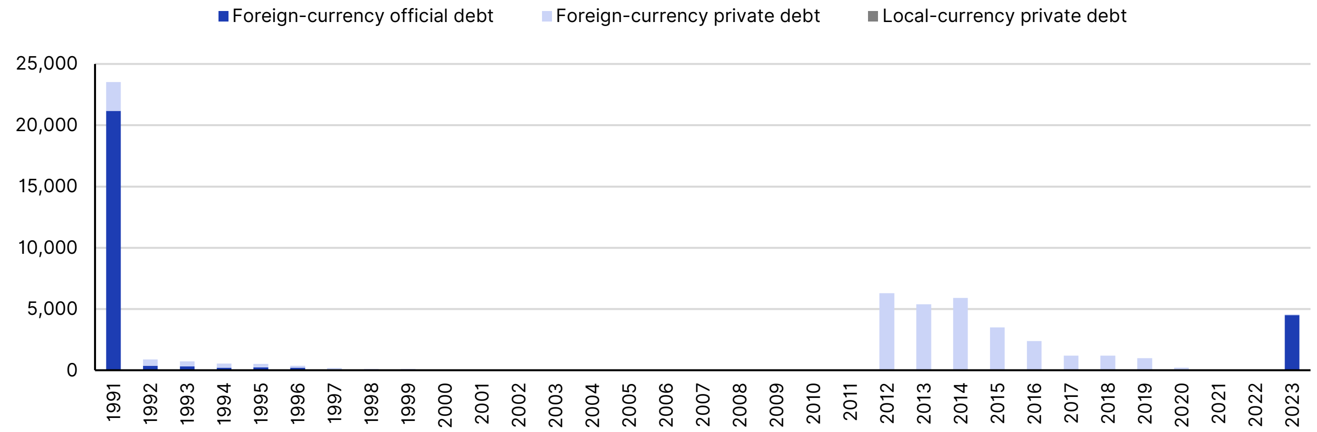
Source: WB, Scope Ratings

Additional consideration

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 14 November 2024	596.75

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	13.4	14.5	16.6	16.9	19.1	20.2
	Nominal GDP, USD bn	IMF	263.2	317.9	382.5	423.3	475.2	393.8
	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	7.3	7.3
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	5.8	5.8	5.5	4.3	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	3.3
	Tier 1 ratio, % of risk-weighted assets	IMF	-	-	-	-	16.0	12.7
	Credit to the private sector, % of GDP	WB	24.3	22.8	25.8	28.2	30.8	29.3
ESG	**CO_2 per EUR 1,000 of GDP**, $mtCO_2e$	EC	167.6	146.7	135.2	144.5	134.1	130.4
	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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Applied methodology

Sovereign Rating Methodology, 29 January 2024

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