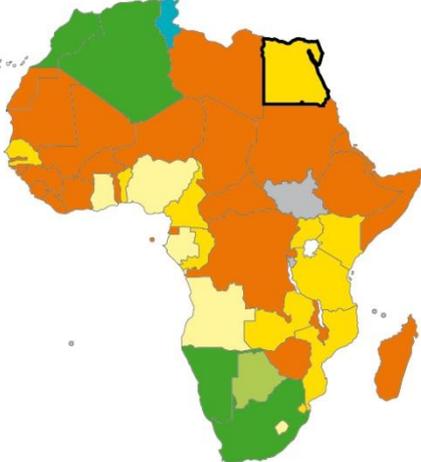
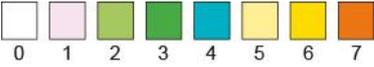


Egypt

	<p>COUNTRY RISK CATEGORY</p> <h2>6/7</h2> <p>The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.</p> 	<p>EKN'S POLICY</p> <p>Sovereign risks: Normal risk assessment</p> <p>Other public risks: Restrictive risk assessment</p> <p>Bank risks: Restrictive risk assessment</p> <p>Corporate risks: Restrictive risk assessment</p> <p>See "EKN'S POLICY" section</p>
	<p>EKN'S OUTSTANDING GUARANTEES IN THE COUNTRY</p> <p>Short-term transactions: SEK 55 million</p> <p>Medium and long-term transactions: SEK 1758 million</p>	<p>DATE</p> <h2>14/05/2013</h2>

Political uncertainty increasing payment risks

Egypt is facing major economic and social challenges. Growth is slowing, unemployment is rising, the budget deficit is growing and political uncertainty is deterring investment and tourism. In the current situation, with growing social tensions and political division, it will be difficult to reach consensus on the necessary reforms to achieve macroeconomic stability and to secure external funding. Payment risks associated with the Egyptian government and the country's banks and companies have increased. Due to the political uncertainty and the economic deterioration, EKN has downgraded Egypt to a poorer country risk category and is tightening its country policy.

STRENGTHS

- Low external debt and debt service ratio.
- Financial support from the Gulf countries.
- EKN's historically good payment experiences.

WEAKNESSES

- The political uncertainty is generating economic instability.
- The dramatic reduction in international reserves is increasing vulnerability.
- Major need of external financing.
- Introduced capital controls are increasing the risk of payment arrears.

POLITICS

Fragmentation slowing economic reforms

With the newly endorsed constitution, the Muslim Brotherhood, which dominates the Egyptian government, is attempting to consolidate its grip on state institutions. The next important political event is the parliamentary elections in the second half of 2013. The election was scheduled to take place in April and June 2013, but has been postponed until the autumn, pending a judicial review of the new electoral law. The delay is prolonging political uncertainty and hampering the government's handling of the country's acute economic and social problems. There are major doubts about the government's ability and willingness to implement the economic reforms needed to achieve macroeconomic stability and to secure external funding. Foreign lenders and investors need to know the direction of the Muslim Brotherhood's political and economic course.

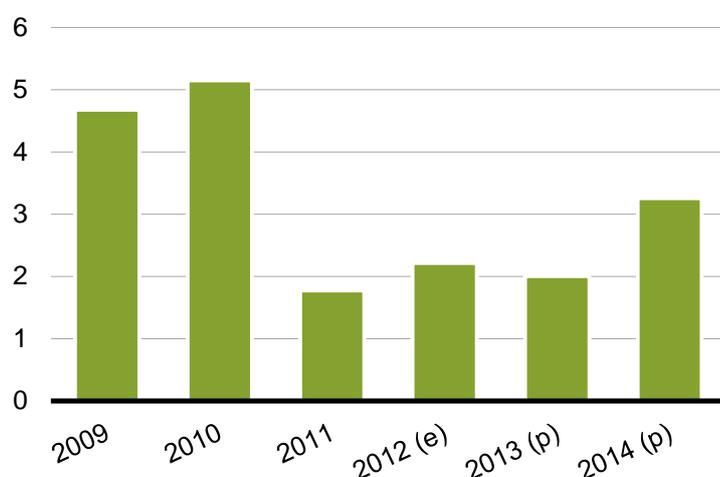
The government of President Mohamed Morsi is facing growing hostility from much of society because of rising unemployment and inflation, fuel shortages and the poor security situation. Morsi is trying to deal with these problems, without building a broad political consensus and reaching out to the opposition. Each time the Brotherhood has had to choose between acting in an inclusive manner, or to usurp more power, it has chosen the latter. At the same time, the opposition has been disorganised. It has not been open for cooperation with the government or presented its own alternative policies. The consensus needed to implement painful but necessary economic reforms is lacking, which is compounding the risk of failure and arousing mistrust in the democratic process. A return to military rule, as in the year after the revolution, is not the main scenario, but cannot be ruled out if the government continues to take its own path without regard to its opponents.

ECONOMY

Political unrest dampening growth and weakening public finances

Egypt's main sources of income are oil and gas exports, tourism, remittances and revenue from the Suez Canal. These activities are largely in the public sector. The economy has nevertheless moved from a socialist central control to a market orientation in recent decades. Liberalisation, privatisation and deregulation have had positive economic effects, but have also driven up unemployment. Due to fears of social unrest following rising unemployment, the regime has retained subsidies on food and fuel longer than planned. Since the revolution, unemployment has jumped from nine per cent in 2010 to 13 per cent in 2012. A further increase is to be expected given the weak growth rates in recent years. Growth in the future will likely be less than the IMF's forecast if the political situation does not improve.

GDP GROWTH (% PER YEAR)



Growth coming years will likely be less than forecasted due to continued political unrest. Data: IMF.

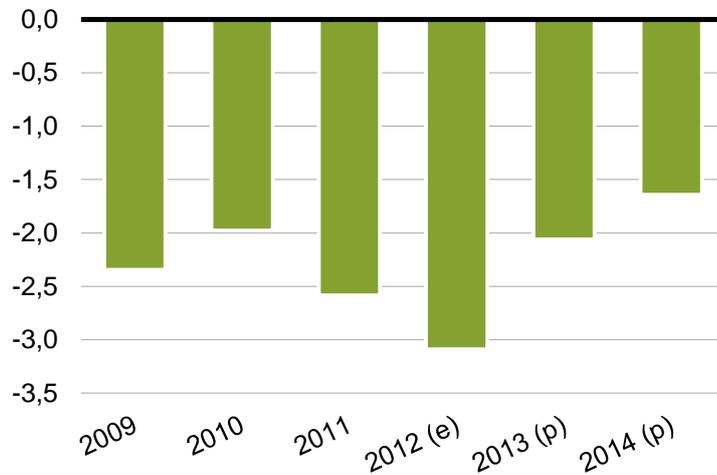
The government that was appointed in 2012 has driven a populist economic policy to appease the anger of the general public. Reluctance and lack of capacity to implement a public austerity programme has created serious doubts about the sustainability of public finances. Reforming the subsidy system is crucial in this regard. The budget deficit has soared due to lower tax revenues and sustained subsidies, which have increased the already high public debt. Payment obligations from the public sector will increase further following the losses made by public banks and companies. An increase in public debt, already 80 per cent of GDP, is likely to crowd out private sector borrowing and generate higher inflation. The risk that growth will be worse than expected, would in this case result in lower tax revenues and make a public austerity programme even trickier. In the short term, the state can fund itself by borrowing from domestic banks and through assistance from other Arab countries, but in the long run a fiscal crisis beckons if nothing is done.

BALANCE OF PAYMENTS AND DEBT ISSUES

Exodus of capital eroding international reserves

In recent years, Egypt has had a major balance of payments deficit. The deficit was particularly large in the months before the revolution until the middle of 2012 due to increased current account deficits and the exodus of capital. Despite aid and loans from Saudi Arabia and Qatar over the past year, the international reserves fell from the equivalent of seven months of import coverage to less than three months of imports today. Egypt has been promised an estimated USD 14.5 billion in international financial support since the revolution, but almost everything is dependent on an IMF programme. Negotiations with the IMF are in progress but an agreement is dependent on the political climate stabilising and the government formulating a credible economic plan.

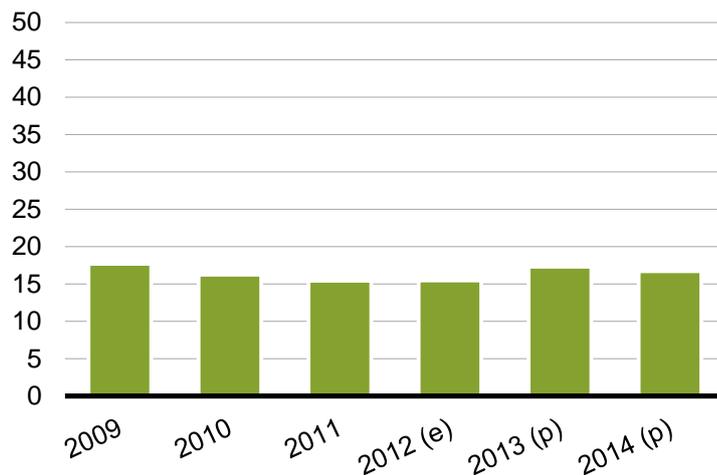
CURRENT ACCOUNT BALANCE (% OF GDP)



The current account deficit grew after the revolution of 2011. Data: IMF.

Egypt's external debt is small and over 85 per cent of the debt is at fixed interest rates which is limiting the impact of the risk premiums that are now rising. Over 90 per cent of the debt is long term, and only a small proportion will mature within the next five years. The favourable debt structure provides a low debt service ratio. Despite the low debt burden there remains a significant liquidity risk. In order to cover the current account and budget deficits and lessen the impacts of the decrease in international reserves, Egypt needs around USD 20 billion in external financing in 2013. The importance of the IMF programme and the accompanying support can therefore not be underestimated.

EXTERNAL DEBT (% OF GDP)



External debt increasing but still at a low level. Data: IMF.

Should the negotiations for an IMF programme grind to a halt, and liquidity further deteriorate, there is the option of temporary liquidity support from the IMF. Support of this kind is not as extensive but is granted without stringent requirements. Along with continued support from the Gulf countries, this is expected to keep the economy afloat in the short term.

Support from the Gulf countries will not restore investor confidence in the Egyptian economy. The government therefore still needs to implement austerity measures and structural reforms. If this is not achieved, the ability to pay in the long run will be seriously threatened.

CURRENCY POLICY

Depreciation and currency restrictions

The political crisis, the delay in the IMF agreement and the erosion of international reserves have increased pressure on the Egyptian Pound since the end of 2012. In order to protect international reserves, the exchange rate policy has changed, from the central bank heavily intervening to keep the Pound stable to the current policy of a more flexible approach with fewer interventions. Since this time, the Egyptian Pound has depreciated by more than ten per cent against the dollar and a black foreign exchange market has evolved. The gloomy economic outlook points to a continued depreciation of the Pound. In the absence of sufficient international financial support the rate of depreciation will further increase, which will fuel inflation and hamper the prospects of economic stability.

As a further measure to stop the decline of international reserves, the central bank has imposed restrictions on foreign currency. A ranking system for types of goods has been introduced, which determines the order in which international payments should be made. Food, pharmaceuticals and oil products are given priority while machinery, equipment and input goods for industry have a lower priority. Consequently, payments for the latter products can take some time. EKN's ability to guarantee local currency transactions has not been tested but the shortcomings in the convertibility of the Egyptian Pound rule this out at the present time.

FINANCIAL SECTOR

The fate of the banks depends on the state

The gloomy macroeconomic climate, with slower growth, lack of economic reforms and the uncertainty of the IMF programme, has negative consequences for the banking sector. Increased credit losses and subdued business volumes will constrain the profitability of the sector. To date, the Egyptian banks have not experienced any difficulty in obtaining funding, given that deposits are equivalent to almost three-quarters of the assets, and dependence on market funding and foreign funding is extremely small. The main risk in this regard is the increased social and political unrest, which could erode the confidence of depositors and lead to large withdrawals from the banks.

Although the capital adequacy requirements are easily met, risks remain for the capitalisation of the banks. In addition to increased credit losses that will erode capital, the major exposure of the banks to the state is the principle risk. At the end of 2012, the banks owned Egyptian government securities equivalent to five times their equity. Government securities are valued as risk-free when calculating capital adequacy, which gives a misleadingly high capital adequacy. A government default would require a comprehensive recapitalisation of the

banking sector. The creditworthiness of the Egyptian banks is consequently linked to, and limited by, weak public finances.

BUSINESS ENVIRONMENT

Currency risks and litigation

Egypt's economy is largely dominated by state enterprises and the public sector. Bureaucracy and corruption are widespread. Weaknesses are mainly difficulties in enforcing judicial decisions and recovery in the event of bankruptcy. In EKN's experience, it takes a long time to register securities. No major changes to the business environment are to be expected in the immediate future. The economic policies of the Muslim Brotherhood are said to be market-oriented and in favour of private enterprise, but the fragmented political situation means reforms on improving the business environment will take time. The World Bank rates the Egyptian business climate in position 109 of 185 countries, which is behind comparable countries in the region such as Tunisia, Morocco and Jordan.

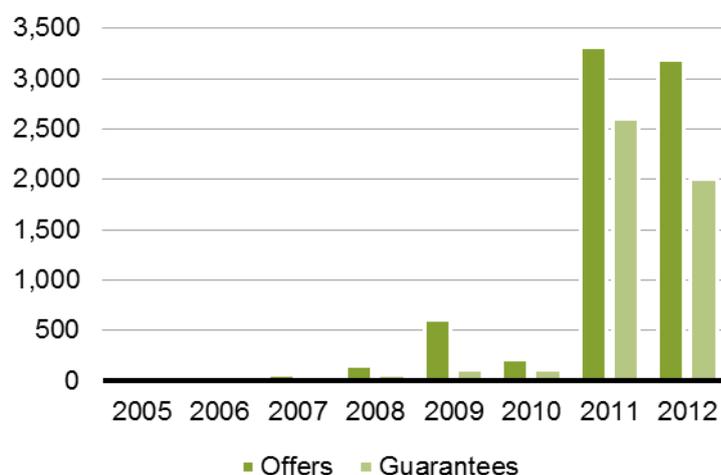
Companies with liabilities in foreign currencies are negatively affected by currency depreciation. The growing dependence of the state on the banking sector to finance the growing budget deficit is also impacting on the private sector and impairing its access to credit. At the same time, litigation processes pertaining to corruption against companies and company executives who were allied with the former regime are being undertaken. A variety of historical privatisations of state enterprises are also being questioned, and these are under threat of renationalisation. In the current situation, the rule of law is very weak and the outcome of these processes is unpredictable. When assessing the credit risks of companies, importance must be given to investigating the ownership structure and assessing the currency exposure.

EKN'S EXPOSURE

A few guarantees dominate

In the period 2008-2012, EKN has issued guarantees for 100 transactions totalling SEK 7.5 billion for Swedish companies exporting to Egypt. Exports have gone to sectors such as transport, telecommunications and manufacturing. In 2011, exposure grew sharply due to a few major offers and guarantees. EKN's claims of almost SEK 120 million is mainly derived from older political claims. The flow of new guarantees is limited but inquiries have increased in 2013 as a result of the deteriorating risk situation in Egypt.

EXPOSURE AT 31/12 (SEK MILLION)



EKN's exposure rose sharply in 2011 as a result of a few major offers and guarantees. Data EKN

PAYMENT EXPERIENCE

Good historical experience

EKN's payment experience in Egypt in recent years has been good. No indemnification payments have been made over the past ten years. However, exposure in previous years has been limited. Despite the current problems with currency allocation for international payments, no new arrears have incurred in EKN guaranteed transactions. The few arrears there have been are of a commercial nature. The Paris Club claims, with renegotiated public and publicly guaranteed loans from the beginning of the 1990s, are being paid according to plan. The claims mainly relate to exports in the telecommunications and transport sectors and over SEK 100 million remains to be paid.

EKN'S POLICY

Downgrade and tighter policy

EKN downgraded Egypt in early 2012 from country risk category 4 to 5, an assessment made in collaboration with the OECD. As economic conditions have further deteriorated since then and the political situation is still problematic, EKN is now downgrading Egypt to country risk category 6 from May 14, 2013.

EKN applies a strict risk assessment for all buyer categories except pure sovereign risks. Payment guarantees are sought for risks for other public buyers and for company risks. For banking and corporate risks, EKN particularly takes into account counterparty currency exposure. Adequate transparency of ownership and financial conditions are important aspects for corporate risks. Given that international payments can take time, the waiting period is extended, i.e. the time from the due date of the claim to the time the guarantee holder may demand indemnification, from three to six months.

OFFICIAL COUNTRY DATA AND CREDIT RATINGS

OFFICIAL COUNTRY DATA	CREDIT RATING		
Area: 1,001,450 km ² (2.2 times Sweden)		COUNTRY CEILING	SOVEREIGN RATING
Population: 83.7 million (2012)	Moody's:	B3	Caa1/neg
Population growth: 1.9 % (2012)	S&P:	B-	B-/neg
GDP: USD 236 billion in 2011 (Sweden USD 545 billion in 2011)	Fitch:	B	B/neg
GDP/capita: USD 2,932 in 2012 (Sweden USD 57,638 in 2012)			

COUNTRY ANALYST

EKN's country analyst for Egypt:

Victor Carstenius

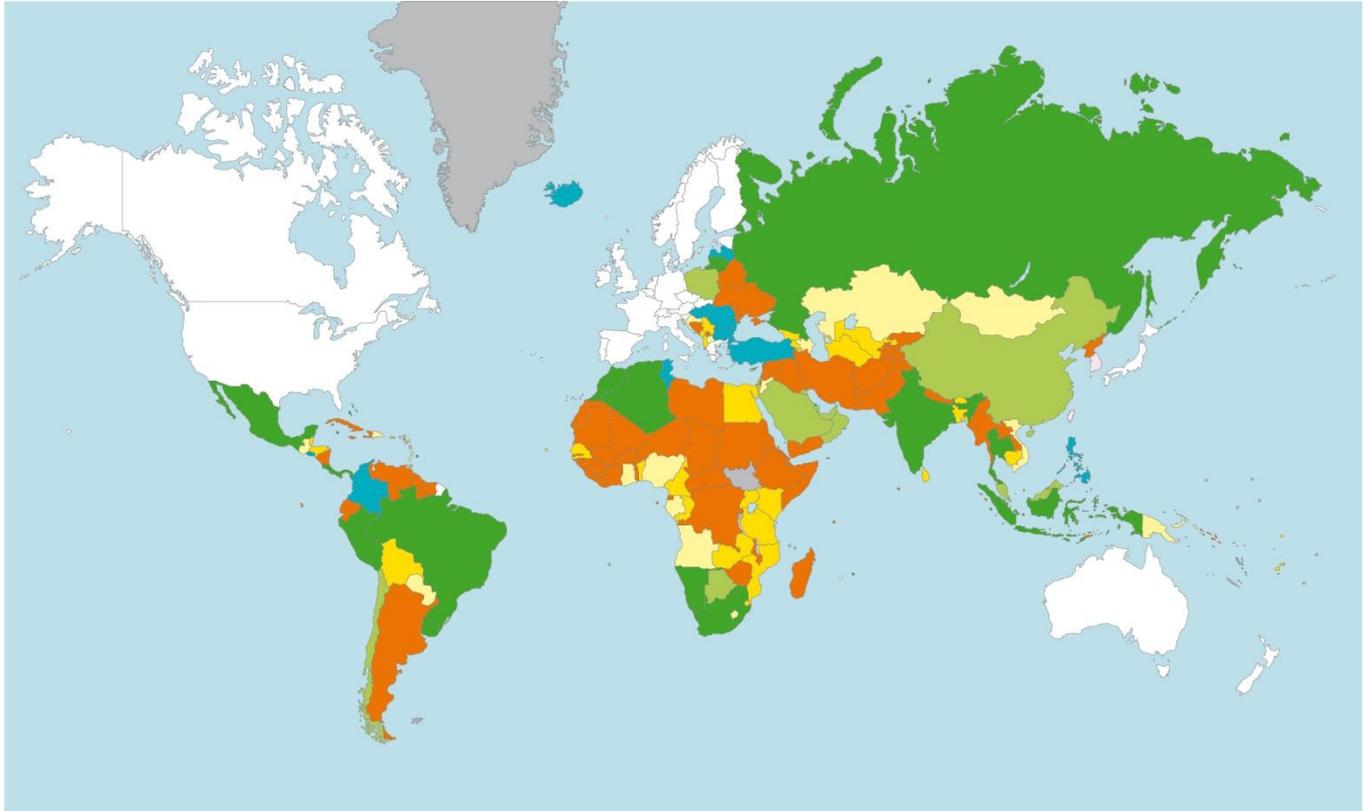
Telephone: +46 (0)8-788 00 65

e-mail: victor.carstenius@ekn.se

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The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damages.

EKN'S VIEW OF THE WORLD



The country risk categories range from 0 to 7.

The lower the number the better the credit rating the country has.

**EKN – CREATING CONFIDENCE IN YOUR EXPORTS**

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management. Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.

The Swedish Export Credits Guarantee Board

Kungsgatan 36, PO Box 3064, SE-10361 Stockholm, Sweden | Tel +46 (0)8-7880000 | www.ekn.se | email info@ekn.se