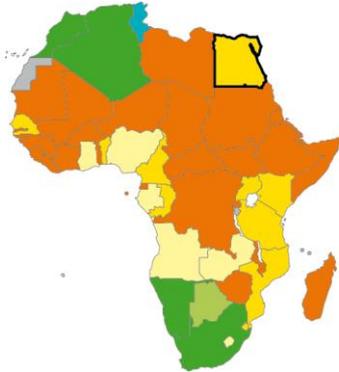


Egypt



COUNTRY RISK CATEGORY

6/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.



EKN'S OUTSTANDING GUARANTEES TO THE COUNTRY

SHORT-TERM TRANSACTIONS: SEK 584 MILLION

MEDIUM AND LONG-TERM TRANSACTIONS: SEK 2057 MILLION

DATE

25/5/2015

Increased stability speeding up growth

The election of former head of the armed forces Sisi as president has given Egypt a degree of political stability not seen since before the Arab Spring in 2011. Along with financial support from several Gulf countries, this has improved the economic situation in the country. The outlook for both the public and external finances of the country is positive and the supply of hard currency is expected to increase going forward. The economy is still fragile and the cautiously positive outlook is dependent on continuing political stability. The risk of an escalation of violence remains as a result of the hard hand the military-run regime has taken to Islamists. Structural reforms are needed to create higher and lasting growth and to keep the public finances sustainable in the long term.

Egypt is one of the countries in the Middle East and North Africa that EKN has the highest exposure to. EKN's payment experience has been good in recent years, in spite of political and economic turbulence. EKN's policy for the provision of guarantees for Egypt is largely restrictive.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

Strengths

- Financial support from Gulf countries.
- Improved growth outlook.
- Low external debt and debt service ratio.

Weaknesses

- Unresolved conflict between the military-run regime and Islamists.
- Long-term unsustainable public finances with large budget deficit.
- Lack of hard currency.
- Weak business climate with a lack of financing and an unpredictable legal system.

EKN'S POLICY

EKN categorises Egypt in country risk category 6 out of 7 – an assessment made in collaboration with the OECD. EKN has a normal risk assessment policy for pure sovereign risks and bank risks. Payment collateral is required for risks associated with other public buyers, such as line ministries, municipalities and government agencies. The risk assessment policy is restrictive for corporate risks. EKN pays particular attention to any foreign exchange earnings of the buyer, given that buyers with their own foreign exchange earnings can be expected to be able to cope with the shortage of hard currency better.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY?

The policy may be made less restrictive in the event of

- An IMF programme that would boost structural reforms and external financing.
- Fiscal reforms that reduce the budget deficit.

The policy may be made more restrictive in the event of

- The suspension of support from the Gulf countries or the IMF, resulting in external financing problems for the country.
- An escalation of violence that would impact trade, investments and tourism.

EKN'S EXPOSURE AND EXPERIENCE

EKN guarantees exports to Egypt in sectors such as transport, telecom and the manufacturing industry. One investment guarantee dominates the exposure. Other offers and guarantees are spread among around a dozen exporters. The frequency of new guarantees is limited, but has increased since 2012 as a result of the deteriorating risk situation in Egypt.

EKN's payment experiences in Egypt have been positive in recent years. There have not been any indemnifications over the past ten years. The Paris Club claims, with renegotiated loans from the 1980s, are being paid according to plan. These claims are for exports in the telecom and transport sectors. Around SEK 65 million remains to be paid.

COUNTRY ANALYST



EKN's country analyst for Egypt:
Victor Carstenius
Telephone: 08-788 00 65
email: victor.carstenius@ekn.se

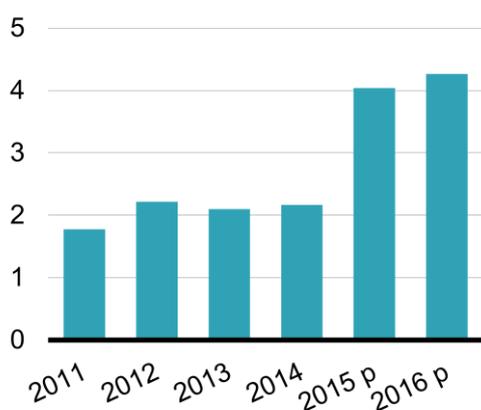
DISCLAIMER

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 damage.

Economy stronger thanks to stability and financial assistance

After his victory in the presidential elections in 2014, former head of the armed forces Abdel Fattah al-Sisi has focused on restoring security in the country. This includes continuing to take a heavy hand to the Muslim Brotherhood and other Islamist groups. The authoritarian interventions on the part of the new regime are becoming increasingly pronounced, which creates uncertainty concerning how long the current stability will hold up before a new wave of protests begins. The next, and final, step in the military's roadmap to civilian rule is to hold parliamentary elections in 2015. Considering how divided the political parties are, no party will be able to secure a majority in the election. The likely outcome will be a coalition government that supports President Sisi.

GDP GROWTH (% PER YEAR)



Growth is on the rise in the coming years. Data: IMF

President Sisi's economic policies seem relatively conservative. Taxes have been raised in certain areas and the expensive energy subsidies have been cut. Reforms are positive for the public finances and have met with little political resistance. Even though an ambitious reform agenda has been initiated, the economy is still fragile. Weak institutions and political division make the economy difficult to control. The greatest challenge for the government is to get traction with growth, which is now slowly on the way up after several years of stagnation. A series of major infrastructure projects have been announced, including the expansion of the Suez Canal, which should increase economic activity. An annual growth rate around 4% is expected over the coming years.

The outlook for Egypt's balance of payments is more favourable than it has been in a long time. The current account balance was nearly balanced in 2014, for the first time since 2008. Much of the improvement was due to the aid from the Gulf countries. Increased revenue from tourism, goods exports and remittances as well as increased foreign investment will provide a more stable foundation for the balance of payments in the long term. Discussions on an IMF agreement will likely be resumed in 2015. An agreement would secure sufficient financing in the coming years and increase the rate of reform.

The currency dropped sharply until the military coup in mid-2013, but has been steady ever since. The central bank's attempts to support the currency have depleted the international reserves, which led to a shortage of hard currency. The international reserves have stabilised since 2013 thanks to the support from Gulf states, but hard currency is still rationed. The shortage of liquidity may lead to temporary payment delays, but these problems should subside as more capital flows into the country, the international reserves increase and the stock of overdue amounts is paid off.

Weak business environment but greater economic confidence

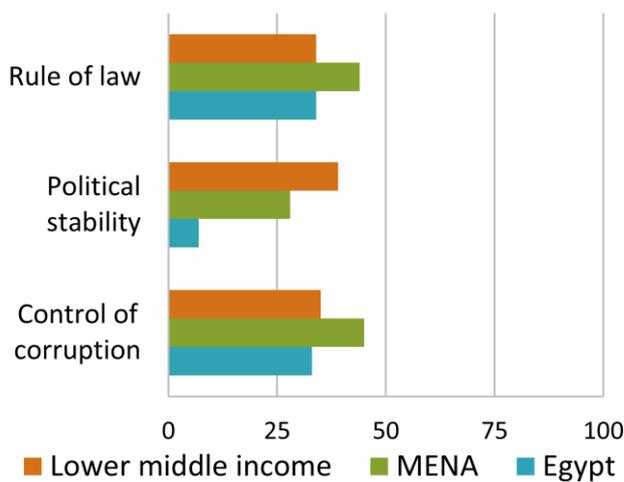
The stabilisation of Egypt's economic and political situation has had positive effects on the country's banking sector. The banks are expected to remain well-financed thanks to their sizeable customer deposits and remittances from Egyptians working abroad. However, their main function for a couple of years has been to finance the state's budget deficit instead of lending to the private sector, in spite of high demand from SMEs for loans. Exposure to the Egyptian state is the single largest credit risk for the banking system and links the credit rating of the banks to the government's credit rating.

Egypt's economy is dominated by state-owned companies and the public sector. The growing dependence of the government on the banking sector to finance the budget deficit has displaced the private sector and impaired its access to financing. The lack of financing has led to underinvestment, especially in infrastructure. Bureaucracy and corruption are widespread. These weaknesses pose difficulties for creditors in relation to enforcing judicial decisions and

recovery in the event of bankruptcy. The rule of law is poor and the outcome of legal proceedings is unpredictable. The World Bank ranks the Egyptian business climate 128th out of 189 countries, which is behind comparable countries in the region such as Tunisia, Morocco and Jordan. On the bright side, companies and households are in the process of regaining confidence in the economy. Consumption is increasing and domestic and foreign investment is on the rise, especially from the Gulf countries.

BUSINESS ENVIRONMENT

Ranking from 0 (worst) to 100 (best)



Egypt has particularly weak business climate. Source: World Bank