الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

Arab Republic of Egypt

January , 2020

TRUST . TRANSPARENCY . INDEPENDENCE

Economic Overview - Arab Republic of Egypt ("Egypt")

With a nominal GDP of USD 250b during 2017/18 (2016/17: USD 256b), Arab Republic of Egypt ("Egypt" or "the country") is the 3rd largest African economy. Following the IMF authorities reform program since November 2016, increased stability is evident in terms of the macroeconomic environment. Liberalization of the foreign exchange market, and gradual fiscal consolidation has alleviated some of the pressures. Egypt posted a higher economic growth of 5.3% in 2017/18 (2016/17: 4.2%) led by recovery in net exports and investments. In line with increase in economic activity, unemployment rate has declined from 12.9% in FY2014/15 to 10.9% in FY2017/18, and is expected to decline further to single digit during this year.

Following a surge in inflation due to change in foreign exchange regime, Central Bank of Egypt (CBE) adopted a monetary tightening policy during 2017. As inflationary pressure eased off declining from 33% in July'2017 to 4.8% in Sep'2019, CBE has also been lowering its benchmark rates significantly to 13.75% as of Oct 1'2019 from a peak of 19.25%in 2017.

A significant surge in tourism receipts and inward remittances assisted Egypt in improving current account deficit to -2.4% of GDP during 2017/2018 (2016/ 2017: -5.6%). Current account balance has also benefitted from an increase in oil and gas exports and moderation in oil and gas imports and is overall likely to remain in similar range during next year. Given structural imbalances in the external position, Egypt's external position is likely to remain in deficit.

A fiscal consolidation drive is under way with the imposition of new taxes and subsidy optimization efforts. The government adopted a Medium Term Revenue Strategy to boost revenues. Overall fiscal deficit declined to -9.6% of GDP during 2017/2018 (2016/2017: 10.6%), which is expected to further improve to -8.5% of GDP during 2018/2019. Nevertheless, fiscal deficits are considered potentially destabilizing and its continuing funding through the banking sector, has resulted in the crowding out of the private sector, not allowing for balanced economic growth.

With the Euro bond issuance last year, the net international reserve position had strengthened to cover 6.8 months of imports at FY2017/2018 (FY2016/2017: 5.0 months). Gross domestic debt levels are still high despite having reduced to 73.4%[1] at FY2017/2018 (FY2016/2017: 85%). The country has a sizeable reserve position comfortably covering short term external debt obligations during the year.

With the re-election of the incumbent president for another 4-year term in March 2018, the country is considered politically stable. The cabinet has been reshuffled twice during 2018 until date – both prior and post presidential elections. However, the newly formed cabinet has demonstrated policy continuity and investor sentiment remained positive. Volatility in global oil prices and as till high fiscal deficit are major challenges faced by Egypt.

Banking Sector Overview

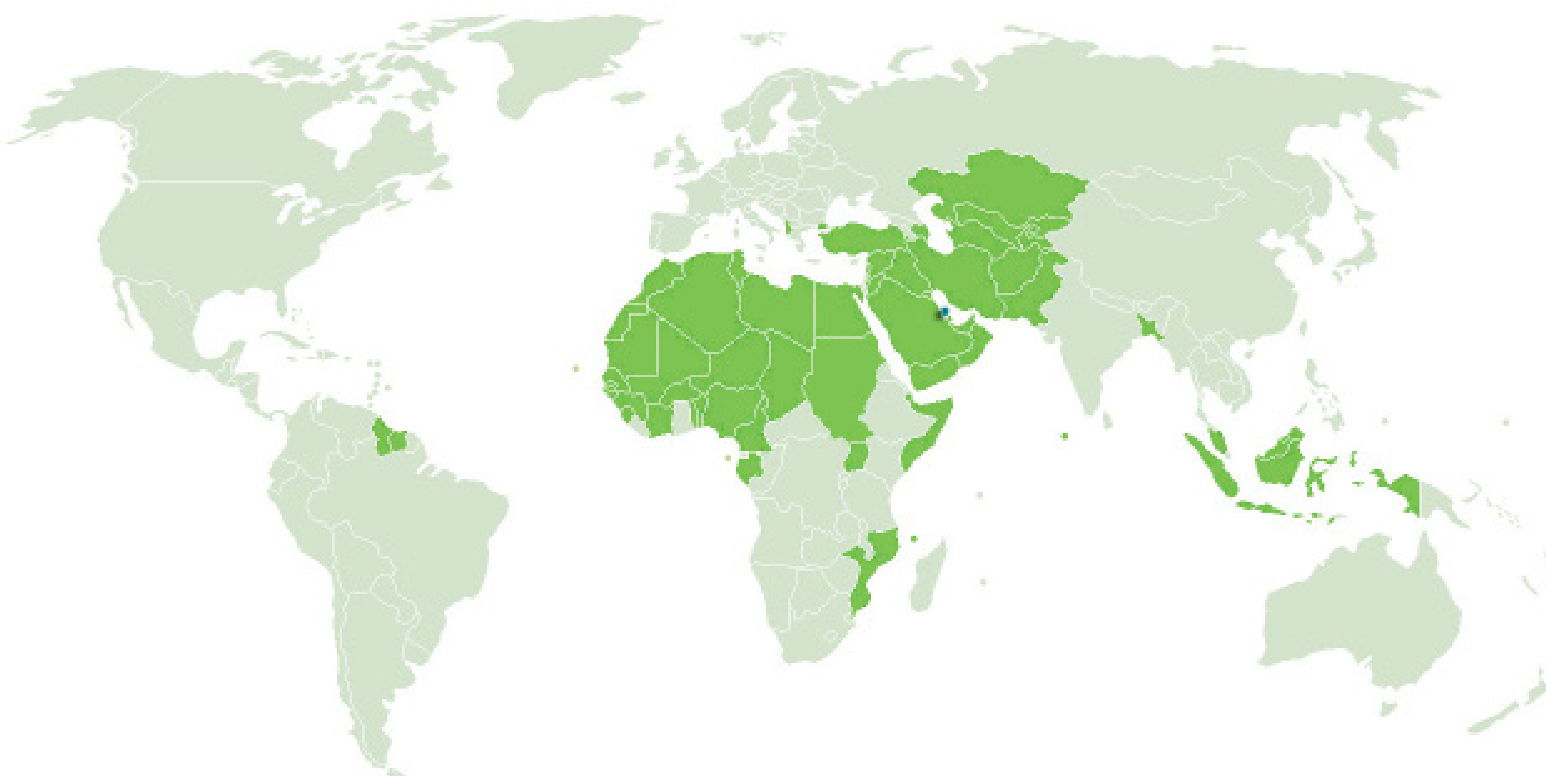
The Egyptian banking system has remained profitable with high liquidity, and improving capitalization levels. Banking sector's capital adequacy ratio has clocked significant improvement reaching 16.5% as at end-March'2019 from 15.7% as at end-2018. In line with revised capital requirements recently imposed by the CBE and requiring banks to increase capital to LE 5b by 2022, we expect capitalization profile to improve further.

The Egyptian Islamic finance industry consists of three fully-fledged Islamic banks, namely Faisal Islamic Bank of Egypt, Al Baraka Bank-Egypt and Abu Dhabi Islamic Bank of Egypt, in addition to several conventional banks with Islamic windows, and Takaful companies. Collectively, Islamic bank assets were estimated at about LE 220b as at end-September'2018, up from LE 207b as at end-June'2018, according to the Egyptian Islamic Finance Association (EIFA). This translated to a market share of less than 6% of all banking assets in the country. EIFA expects industry to benefit from planned Sukuk issuance in Egypt during 2019.

[1] *Preliminary for 2017/18*

Table 2: Snapshot of the Turkish Banking Sector (%)[7]						
%	**2014**	**2015**	**2016**	**2017**	**2018**	**Q3`19**
NPLs to Total Loans	2.9	3.1	3.2	3.0	3.9	5.0
Specific Provisions to NPLs	73.9	74.6	77.4	79.3	68.3	65.6
Loans to Deposits	121.6	123.4	123.6	126.6	122.6	109.1
Capital Adequacy Ratio	16.3	15.6	15.6	16.9	17.3	18.4
Return on Assets	1.3	1.2	1.5	1.6	1.4	1.2

[5] *https://evds2.tcmb.gov.tr/index.php?/evds/dashboard/341*
[6] *https://www.bddk.org.tr/ContentBddk/dokuman/duyuru_0730_01.pdf*
[7] *As per the BRSA figures*



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