



Summary

Egypt's economic performance has been severely undermined by the ongoing political turmoil. GDP growth dropped to a low 1.6% in 2011, from 5.1% the year before. In addition, foreign exchange reserves fell sharply, from USD 22bn last October, to USD 15.7bn now. It is estimated that Egypt requires roughly USD 11bn in the next two years to prevent a balance of payments crisis. It hopes to obtain a USD 3.2bn IMF loan in the coming months. Much depends on the pending presidential elections that are set to take place in May and June 2012. It remains uncertain if the ruling military council (SCAF) will hand over power to the new government. Its failure to do so would aggravate existing tensions. In light of this fragile political and economic situation we expect GDP growth to linger around a low 2% in 2012.

Things to watch:

- Upcoming presidential elections
- Negotiations with IMF
- Foreign exchange reserves

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EGYPT			
National facts		Social and governance indicators	
Type of government	Republic	Human Development Index (rank)	101 / 169
Capital	Cairo	Ease of doing business (rank)	94 / 183
Surface area (thousand sq km)	997	Economic freedom index (rank)	96 / 179
Population (millions)	86.1	Corruption perceptions index (rank)	98 / 178
Main languages	Arab (100%)	Press freedom index (rank)	127 / 178
Main religions	Muslim/Sunnite (90%) Coptic/Christian (10%)	Gini index (income distribution)	32
Head of State (president)	vacant	Population below \$1.25 per day (PPP)	2%
Head of Government (PM)	Essam Sharaf	Foreign trade	
Monetary unit	EGP (Egyptian pound)	2010	
Economy		2010	
2011		2010	
Economic size		Main export partners (%)	
	<i>bn USD</i>	<i>% world total</i>	<i>2011</i>
Nominal GDP	231	0.34	US 8
Nominal GDP at PPP	516	0.65	Italy 6
Export value of goods and services	47	0.21	Spain 6
IMF quatum (in mln SDR)	944	0.43	India 6
Economic structure		Main import partners (%)	
	<i>2011</i>	<i>5-year av.</i>	<i>2011</i>
Real GDP growth	1.8	6.2	US 9
Agriculture (% of GDP)	15	14	China 9
Industry (% of GDP)	38	38	Germany 8
Services (% of GDP)	48	48	Italy 6
Standards of living		Main export products (%)	
	<i>USD</i>	<i>% world av.</i>	<i>2011</i>
Nominal GDP per head	2685	25	Crude petroleum & -products 46
Nominal GDP per head at PPP	5994	49	Finished goods (incl textiles) 29
Real GDP per head	1487	18	Semi finished products 5
		Iron & steel 2	
		Main import products (%)	
		Semi-finished goods 24	
		Consumer goods 24	
		Capital goods 20	
		Petroleum & products 7	
		Openness of the economy	
		Export value of G&S (% of GDP) 20	
		Import value of G&S (% of GDP) 27	
		Inward FDI (% of GDP) 0.2	

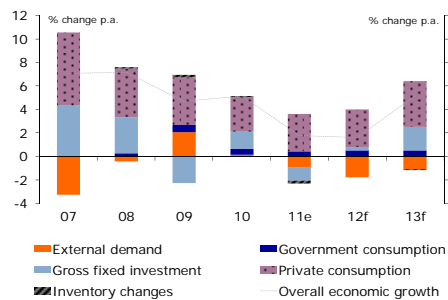
Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Introduction and update

Egypt's economic performance has been severely undermined by the ongoing political turmoil. Since the revolution in the spring of 2011, foreign investors have pulled out of the country, while tourists continue to stay away. As a result, the current account deficit increased from 2.3% of GDP in 2010, to 3.2% of GDP in 2011. In addition, foreign exchange reserves fell sharply, from USD 22bn last October, to USD 15.7bn now. GDP growth dropped to a low 1.6% in 2011, from 5.1% the year before. Furthermore, increased public spending and reduced tax income resulted in an expected budget deficit of nearly 10% of GDP in 2011, which further adds to an already high public debt level of 83% of GDP in 2011. All in all, it is estimated that the government of Egypt requires roughly USD 11bn in the next two years to prevent a fiscal and /or balance of payments crisis. Further unrest would only increase this number and thus the risk of crisis. It is hoped that if the country obtains the USD 3.2bn IMF loan, currently under negotiation, it would be able to attract investors and bilateral donor support.

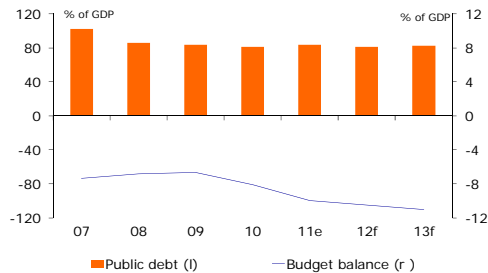
Much depends on the pending presidential elections that are set to take place in May and June 2012. It is widely expected that a candidate linked to the Freedom and Liberty Party (FLP), the political wing of the Muslim Brotherhood (MB), will win the elections. FLP won the most seats in the recent parliamentary elections and remains very popular. Still, it is far less certain that the ruling military council (SCAF) will hand over power to the new government. This would aggravate existing tensions between the MB and the SCAF and could severely destabilize the country. In light of this fragile political and economic situation we expect GDP growth to linger around a low 2% in 2012.

Figure 1: Growth performance



Source: EIU

Figure 2: Public finances



Source: EIU

Political struggle...

Until recently, it appeared Egypt had achieved some semblance of political stability, as a result of a power sharing arrangement between the SCAF and the MB, which came about after the MB won the parliamentary elections in January (2012). The arrangement was largely a manifestation of the mutual understanding that open conflict would not be beneficial to either party. Nonetheless, a deep-seated distrust between the SCAF and the MB remains and continues to raise its ugly head. While the MB fears the SCAF will maintain its firm grip on political and economic power, the SCAF holds that the MB is attempting to create an Islamic constitution.

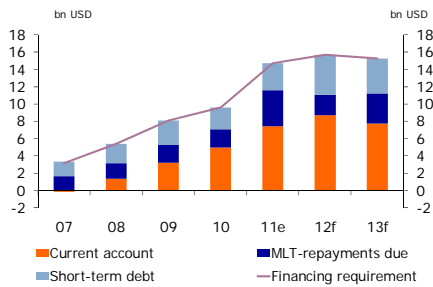
Lately, tensions between the two powers have been rising as a result of disagreement over the candidates for the upcoming presidential elections, the speed in which the SCAF is to hand power over to the new government, as well as the new constitution. In the worst-case scenario, the SCAF would employ its control over the media and the country's judicial system to manipulate the outcome of the presidential elections. In addition, given its control over the military, even an outright military coup is not out of the question. In such a scenario renewed protests and riots seem the most likely outcome. The MB enjoys considerable support from the Egyptian population and, even though it is currently at odds with the youth groups that started the revolution, it would be able to mobilize the masses.

For now, we do not think renewed protests are the most likely scenario, as the consequent turmoil would not benefit either side. A return to the cold war-type arrangement, in which both parties reluctantly agree to co-exist and not attack, is thus believed to be the most likely outcome. For the same reasons, the SCAF seems motivated to avoid any accusation of rigging the elections. Although it disqualified no less than ten presidential candidates, these also included a candidate endorsed by the SCAF (and a former ally of Mubarak). Furthermore, all disqualifications were based on legal arguments. Still, given the many tensions it remains hard to predict whether the SCAF will hand over power after the presidential elections, and whether it will block Egypt's transition to a democratic republic.

...leads to economic uncertainty

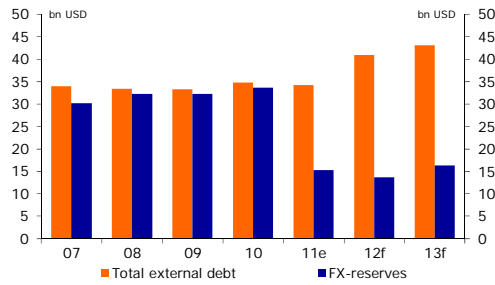
In addition to the political impact, renewed unrest would further aggravate the country's economic problems. The upheaval already delayed IMF negotiations, as the IMF requires both sides to fully endorse its conditions, before extending the credit facility. Obtaining the credit facility is a crucial first step in convincing investors to return to Egypt and will therefore prove vital for any effort to strengthen FX reserves. Any further delays in negotiating the facility would thus jeopardize Egypt's delicate economic stability.

Figure 3: Financing requirement



Source: EIU

Figure 4: External position



Source: EIU

Political uncertainty is also impacting the economy via another channel. This month, the Egyptian Natural Gas Company (EGAS) announced it would not honor existing exporting contracts with Israel. EGAS claims this was a purely commercial decision, but it seems more likely to have been motivated by populist pressures, including anti-corruption sentiments. The impact on the Egyptian economy will be small, at least in the short term, as attacks on gas pipelines were already hampering trade. However, the event underscores the importance of political development for the future of Egypt's (other) state-owned enterprises, which traditionally play a large role in the overall economy.

EGYPT							
Selection of economic indicators	2007	2008	2009	2010	2011e	2012f	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa)	7.1	7.2	4.7	5.1	1.8	1.6	5.2
Consumer prices (average % change pa)	9.5	18.3	11.8	11.1	10.2	11.0	9.6
Current account balance (% of GDP)	0.1	-0.8	-1.7	-2.3	-3.2	-3.3	-2.5
Total foreign exchange reserves (mln USD)	30188	32216	32253	33612	15321	13700	16330
<i>Economic growth</i>							
GDP (% real change pa)	7.1	7.2	4.7	5.1	1.8	1.6	5.2
Gross fixed investment (% real change pa)	23.7	14.8	-10.2	7.7	-5.6	1.4	10.8
Private consumption (% real change pa)	8.8	5.7	5.7	4.1	4.5	4.3	5.2
Government consumption (% real change pa)	0.2	2.1	5.6	4.5	3.8	4.2	4.7
Exports of G&S (% real change pa)	20.2	28.8	-14.5	-3.0	4.6	6.1	13.8
Imports of G&S (% real change pa)	30.5	26.3	-17.9	-3.2	7.5	11.1	15.1
<i>Economic policy</i>							
Budget balance (% of GDP)	-7.3	-6.8	-6.6	-8.1	-10.0	-10.5	-11.0
Public debt (% of GDP)	102	86	84	81	83	81	82
Money market interest rate (%)	6.9	11.6	9.8	9.3	12.5	13.0	11.8
M2 growth (% change pa)	19	10	9	12	7	14	10
Consumer prices (average % change pa)	9.5	18.3	11.8	11.1	10.2	11.0	9.6
Exchange rate LCU to USD (average)	5.6	5.4	5.5	5.6	5.9	6.2	6.2
Recorded unemployment (%)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
<i>Balance of payments (mln USD)</i>							
Current account balance	194	-1331	-3195	-4939	-7424	-8720	-7720
Trade balance	-20801	-26774	-22475	-27016	-27815	-29990	-33210
Export value of goods	24455	29849	23089	25024	28105	31790	35210
Import value of goods	45256	56623	45564	52041	55920	61780	68420
Services balance	11195	14312	13242	15482	11959	13010	15010
Income balance	1478	1373	-1922	-5843	-6032	-5260	-3070
Transfer balance	8322	9758	7960	12439	14464	13520	13540
Net direct investment flows	10913	7575	6141	5211	-196	1650	3060
Net portfolio investment flows	-4217	-7650	-527	8942	-10263	-4260	250
Net debt flows	2054	-80	-251	1864	-1684	7680	2750
Other capital flows (negative is flight)	-3151	3960	-2085	-9219	1839	2340	3530
Change in international reserves	5793	2475	84	1859	-17728	-1310	1870
<i>External position (mln USD)</i>							
Total foreign debt	33998	33365	33308	34844	34187	40900	43080
Short-term debt	2236	2843	2561	3149	4611	4030	4550
Total debt service due, incl. short-term debt	4243	4983	5755	5537	7945	7810	8580
Total foreign exchange reserves	30188	32216	32253	33612	15321	13700	16330
International investment position	-8364	-27028	-29739	-40548	n.a.	n.a.	n.a.
Total assets	76365	67351	72701	79456	n.a.	n.a.	n.a.
Total liabilities	84729	94379	102439	120004	n.a.	n.a.	n.a.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP)	-15.7	-16.2	-12.0	-12.6	-12.0	-11.3	-10.9
Current account balance (% of GDP)	0.1	-0.8	-1.7	-2.3	-3.2	-3.3	-2.5
Inward FDI (% of GDP)	8.8	5.8	3.6	3.0	0.2	1.1	1.5
Foreign debt (% of GDP)	26	20	18	16	15	15	14
Foreign debt (% of XGSIT)	61	49	62	56	55	61	59
International investment position (% of GDP)	-6.3	-16.4	-15.9	-18.9	n.a.	n.a.	n.a.
Debt service ratio (% of XGSIT)	8	7	11	9	13	12	12
Interest service ratio incl. arrears (% of XGSIT)	2	1	2	1	1	1	1
FX-reserves import cover (months)	5.4	5.4	7.2	6.4	6.4	2.7	2.2
FX-reserves debt service cover (%)	711	647	560	607	193	175	190
Liquidity ratio	173	171	166	158	158	126	125

Source: EIU

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