Egypt: Still a bond market favourite

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Egypt macroeconomic indicators[1]					
	2018	2019	2020	2021f	2022f
Real GDP Growth (%)	5.3	5.6	3.6	3.3	5.2
CPI Inflation (%)	14.4	9.2	5.4	7.0	8.0
Fiscal Balance (% of GDP)	-9.6	-7.9	-7.0	-7.5	-6.0
C/A Balance (% of GDP)	-2.4	-3.6	-3.1	-4.0	-4.0
Total Gov't. Gross Debt (% of GDP)	92.5	84.2	90.2	92.9	88.9
Total Gross Extrn'l Debt (% of GDP)	37.4	34.1	34.3	38.1	33.4
Gross Official Reserves (Mos. of Imports)	6.7	7.0	6.4	6.3	6.0
Nominal GDP (USD B)	250.3	302.3	361.8	394.3	429.6
Population (Millions)	97.1	98.9	100.9	102.9	105.0

- **Growth is anticipated to reach 5.2% in 2022; this compares with the 3.3% forecast for 2021, and suggests pre-pandemic momentum is returning.**
- **Obstacles remain; pro-borrowing policies are leading to high levels of debt servicing. This will exhaust government spending.**
- **Elsewhere, private sector economic activity looks set to make a strong rebound in 2022. The challenge remains broader-based sustainable growth.**

Strong appetite for Egyptian debt

Rising inflation and the anticipated tightening of interest rates are set to dominate global economics. Egypt, among other emerging markets, is expected to leverage the situation while it still can.

- Egypt is one of a few MENA countries to have posted economic growth (2.8%) throughout FY 20/21. The government is now targeting 5% growth for FY 21/22.
- These ambitious rates reflect an economy on a trajectory to achieve more balanced and sustainable growth.
- IMF forecasts match these projections, with the fund predicting 5.2% growth in GDP for the whole of the 2022 calendar year.
- As of July 2021, Egypt's government planned to issue around USD 10B of bonds throughout FY 21/22.
  - For context, the government issued around USD 4.5B of bonds last year.
- Earlier this month, Egypt went to the international debt market for the first time this year, where the country raised around USD 3B in bonds.
  - The treasury bills consisted of 6-, 12- and 30-year maturities at yield rates of 5.8%, 7.3% and 8.75%, respectively.
- These are lower than the initial proposed yield rate issued by Egypt's Ministry of Finance (MoF) as the bills were oversubscribed by 3-fold.
  - This reduced investor demand to a point where the MoF has been able to reach the required USD 3B of subscriptions.
    - Reductions constituted 32.5 basis points (bp) for the 6- and 12-year notes, and 12.5 bp for the 30-year note.
- This year's acceleration in debt issuance is the right move by Egypt's government to borrow while it is still cheap to do so.
  - Talk of rising global inflation is expected to prompt US federal reserve policymakers to adopt contractionary monetary policy measures in 2022.
  - Such hawkish ambitions will naturally have a rippling effect across emerging markets. As a result, the Egyptian government will likely raise interest rates, a tactical manoeuvre that will potentially make future borrowing more expensive.
- During the recent Egyptian bond offering, other sovereigns with similar credit ratings and yield rates were also present at the market. However, buyers seemed to opt for the Egyptian package, as it entailed one of the highest real interest rates (real return on investment after accounting for inflation) out of around 50 major economies.
  - It is a debt-favourite among global investors, who currently hold around USD 33B in Egyptian bonds.
- Despite this promise, a point of unease for Egypt is the country's worryingly high debt-service burden. Egypt needs to shift from its reliance on bond issuance to finance its budget.
  - Last year, 36% of Egypt's budget spending was directed to servicing its debt. The figure was 40% for the year before.
  - This year, Egypt aims to lower this figure to 32%.
- An alternative option could be equity income sources.
- A second debt market visit is being planned for later this year. This time the country will offer green bonds as well as Islamic 'sukuk' bonds of 3-year maturities.
  - It is hoped the transaction will raise around USD 2B; this will be arranged by sell-side entities from the United Arab Emirates (UAE).
- In September 2020, Egypt was the first MENA country to issue sovereign green bonds. They amounted to around USD 750M, a considerable sum given the relatively small size of the green bond market compared to the standard market.
- The sukuk will also be the first of its kind after Egypt passed a law for its issuance back in 2018. The MoF reported that it plans to raise around USD 500-700M when it taps into this new credit market in H1 2022.
  - Egypt aims to diversify its use of financial instruments by issuing Islamic bonds.
- Green bonds will be used to fund green projects listed under the MoF Green Financing Framework, which was launched in September 2020. Conversely, Islamic bonds will be used to support the fiscal budget.

[1] Arabia Monitor; IMF.

- Egypt's public sector is a key catalyst with regard to the country's strong economic growth.
  - Large debt issuances of this ilk can be justified if they are efficiently allocated.
- President el-Sisi launched the national Haya Karima ('Decent Life') project in July 2021. The initiative seeks to improve the infrastructure of around 4.5K villages and in doing so enhance the well-being of nearly half the 100M-strong Egyptian population.
- The project is expected to cost almost USD 50B over a period of four years.

Bring on 2022

Despite a fall in overseas demand for Egyptian products, businesses throughout the country seem to possess relatively full order books; a boisterous 2022 may be on the cards.

- When assessing the health of Egypt's economy, a complement to GDP growth is the Purchasing Managers' Index (PMI). This indicates the prevailing direction of economic trends in the manufacturing and service sectors.
- September's PMI figure for Egypt registered below the 50-score threshold, having fallen to 48.9 from 49.8 in August. This indicates a contraction in economic activity month-on month (MoM).
  - Last month's slip was driven mainly by a drop in the 'new orders' and 'output' PMI sub-indices which had previously registered expansion (50+) figures throughout August.
  - This was mainly due to weaker foreign consumer demand for Egyptian products.
- Despite the dip, there is optimism; the survey shows business executives have an upbeat outlook for 2022 given global developments related to the abating of the COVID-19 pandemic, a fast-developing vaccination programme and the easing of international travel restrictions.
  - A crucial aspect of the Egyptian private sector is tourism. It constitutes 12% of GDP.
    - Tourism revenues fell by 70% to around USD 4B in 2020 from a pre-pandemic level of around USD 13B in 2019.
- Nevertheless, 71% of purchasing managers across the Egyptian private sector have a positive business outlook for 2022, the highest level of optimism recorded since 2012 when the PMI survey was introduced in the country.
  - The 'future output expectations' sub index rose to 85.7 in September from 75.3 in August.
- This business buoyancy is reflected in private sector employment; the 'employment' sub index rose to 50.3 in September from 50.2 in August.
  - This was the third consecutive reported MoM expansion within the employment sub index.

Figure 1: Egypt fiscal deficit (% of GDP)[2]

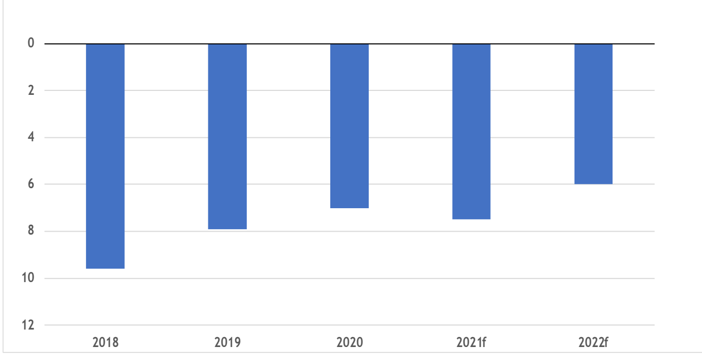


Figure 2: Egypt purchasing managers index[3]

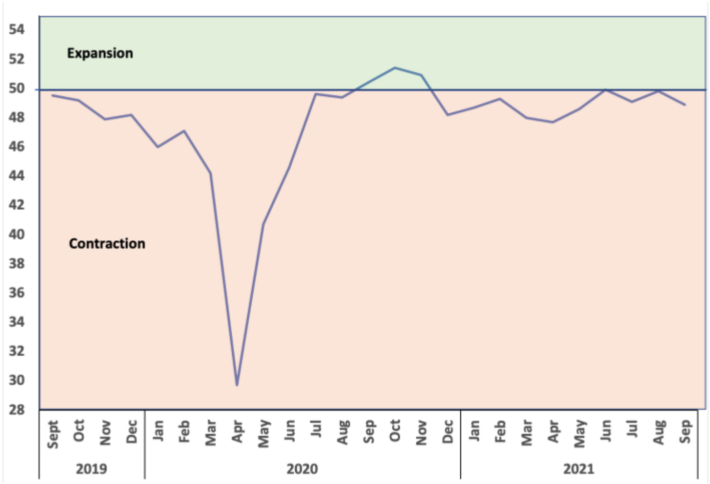
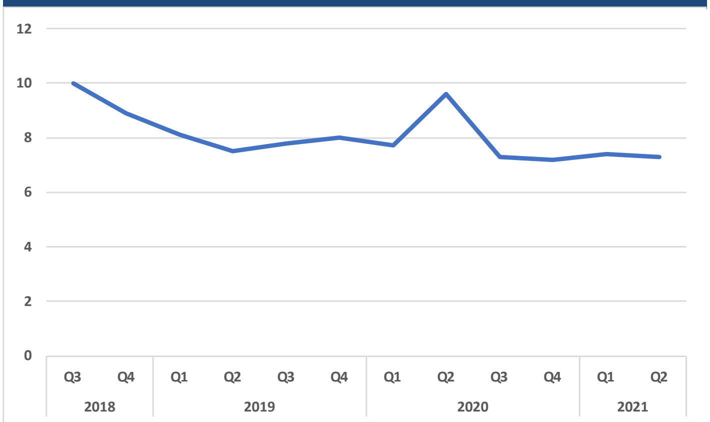


Figure 3: Egypt unemployment rate (%)[4]



[2] Arabia Monitor; IMF.
[3] Arabia Monitor; IHS Markit.
[4] Arabia Monitor; Central Agency for Public Mobilization and Statistics, Egypt.

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