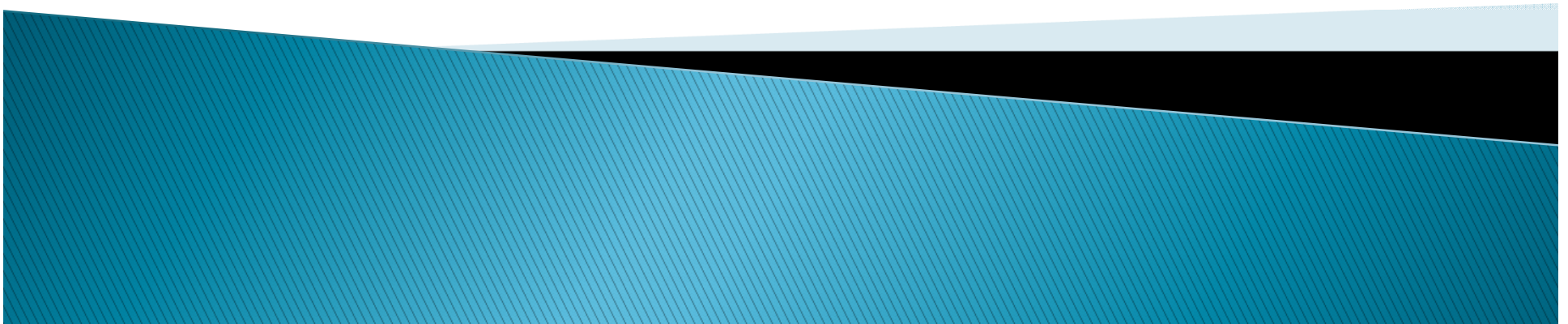


Recent Global Economic Developments and their Impact on Egypt's Economic Outlook

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Emerging Market Looming Crisis

▶ Turkey

- An economic crisis in Turkey has pushed inflation to new highs and the value of the Lira to new lows due to:
 - Excessive current account deficit
 - Excessive foreign-currency debt
 - Political tension with the U.S.
 - Significant reliance on capital inflows to fund private-sector excess
 - Economic policy with a focus on the construction industry, state-awarded contracts and stimulus measures, while neglecting education and research and development



Emerging Market Looming Crisis

▶ Argentina

- Peso plunges faster than expected due to investors' concerns about the government's ability to control inflation and interest rate hikes by the U.S. Federal Reserve.
- Argentina's FCY denominated debts became more expensive for the government, prompting it to turn to the International Monetary Fund (IMF) for a \$50 billion loan.
- Over the years, populist governments printed money to finance wide budget deficits.
- Hikes to utility prices as part of an effort to reduce subsidies and close the fiscal deficit have kept inflation high.
- Worst drought in decades slashed the harvests of soybeans and corn.



Emerging Market Looming Crisis

- ▶ South Africa
 - Slow GDP growth of around 1%
 - Currency dropped dramatically to levels it last saw in June 2016
 - Price of Brent crude oil is marching steadily upwards
 - A grim outlook for the manufacturing sector, which accounts for about 13% of GDP
 - Unemployment rate increased to reach a near 15-year high of 27.2%
 - Low private sector investment
- ▶ Mexico's peso and Indonesia's rupiah are all under pressure.
- ▶ India and Brazil are looking volatile too.



ANYTHING IN COMMON?

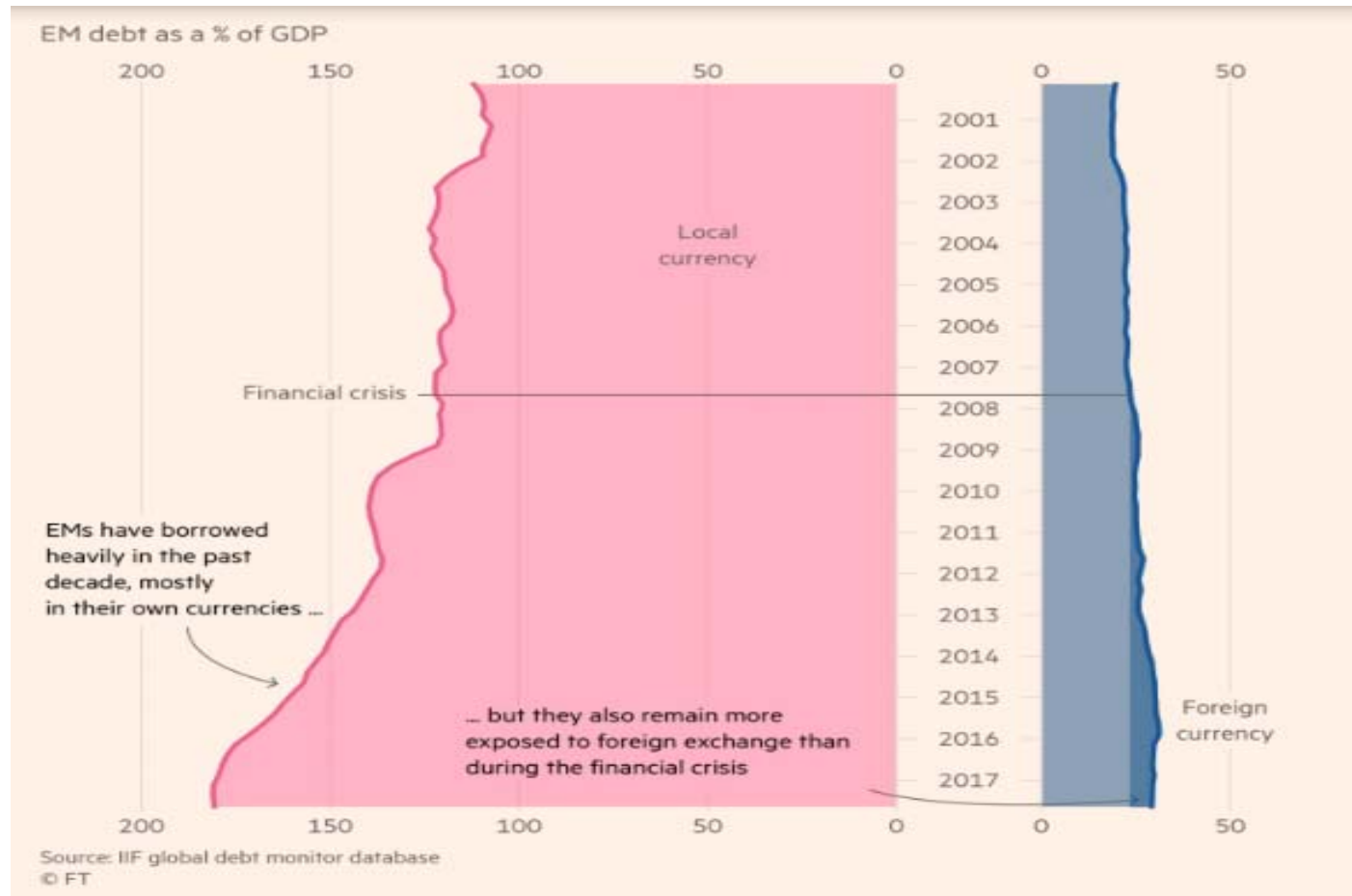


Global Debt Levels

- ▶ Christine Lagarde, IMF Managing Director has said the following in her opening remarks at the Sovereign Debt Conference, Washington, DC in September 2018:
 - *“The bottom line is that high debt burdens have left many governments more vulnerable to a sudden tightening of global financial conditions and higher interest costs. For emerging market and frontier economies, concerns about debt levels in this environment could contribute to market corrections, sharp exchange rate movements, and further weakening of capital flows.”*

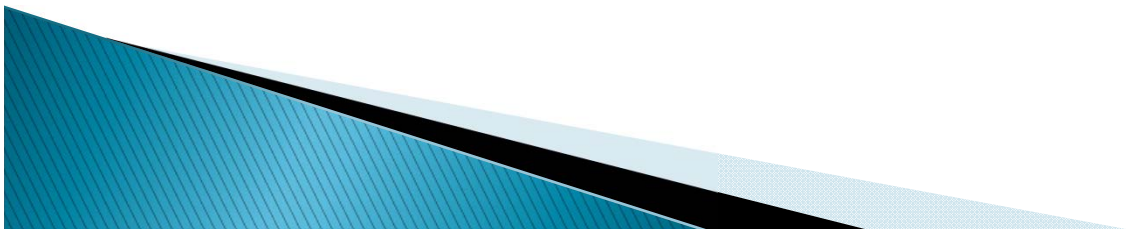


Emerging Market Debt



Egypt's Key Reforms

August 2016 Electricity Subsidy Reform Telecom 4G License	September 2016 VAT Law taking effect	September 2016 Tax Dispute Settlement Law	October/November 2016 Currency Swap-Agreement with China
November 2016 Civil Service Law	November 2016 Fuel Subsidy Reform	November 2016 Flotation of Currency	November 2016 IMF EFF to Egypt
June 2017 New Investment Law	March 2018 New Insolvency Law	June 2018 Cutting Fuel & Electricity Subsidies	July 2018 Parliament approves Government Accountability Law

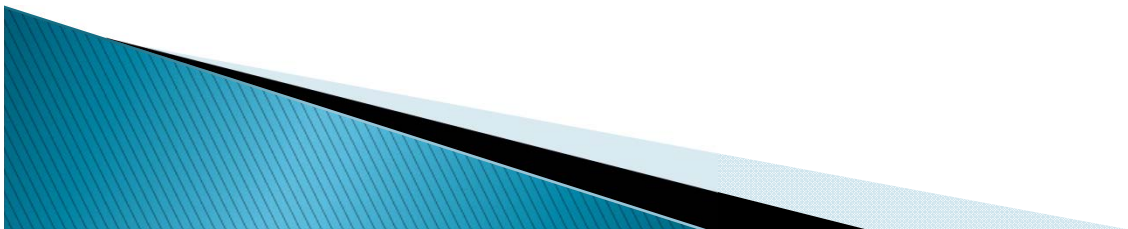


Implications for Egypt

- ▶ Despite strong and bold reforms that have tackled:
 - Growth mainly fueled by government spending
 - Flexible exchange rate policy
 - Subsidy reforms with focus on safety nets
 - Tight monetary policy to control inflationary pressures
 - Mega-projects mainly lifting the level of infrastructure
 - Regulatory reforms to improve investment climate

There remains some concerns that we should look up to

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Debt Strategy

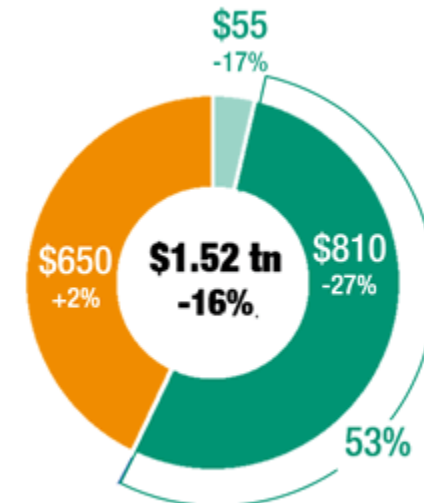
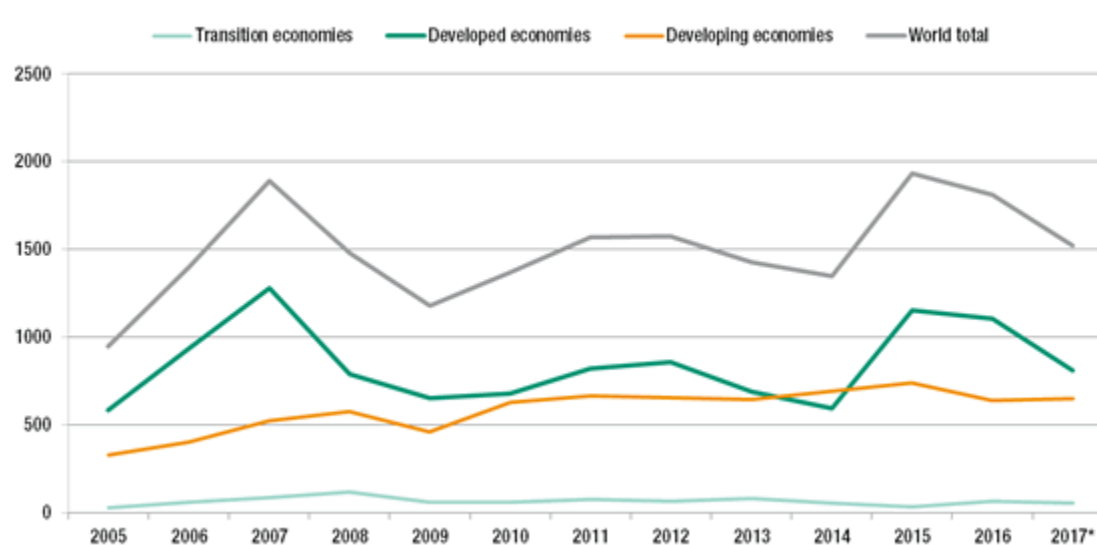
- ▶ Lack of a clear debt strategy that market participants can follow and understand.
- ▶ Increased debt level especially on the shorter end of the curve which is rather expensive and is highly vulnerable to roll over risk.
- ▶ Increased reliance on FCY denominated debt without comfortable levels of reserves to support it.
- ▶ FCY revenues are very much dependent on exogenous factors like world trade and region's stability, which makes debt service a concern
- ▶ Increased contingent liabilities levels (government guarantees)



Productive Strategy

- ▶ The focus of policy makers is on FDIs, which is a main driver of growth but not the only one especially with FDI level globally declining.

FDI inflows: global and by group of economies, 2005–2017
(Billions of US dollars)

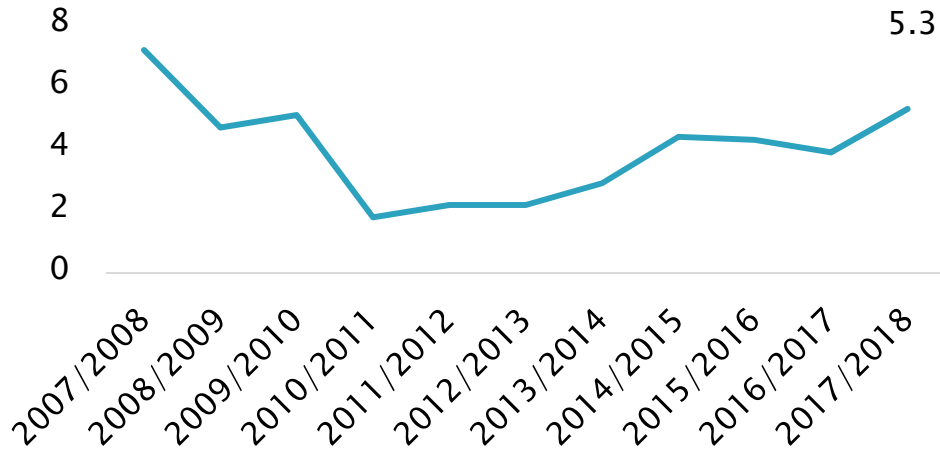


Source: UNCTAD.ORG

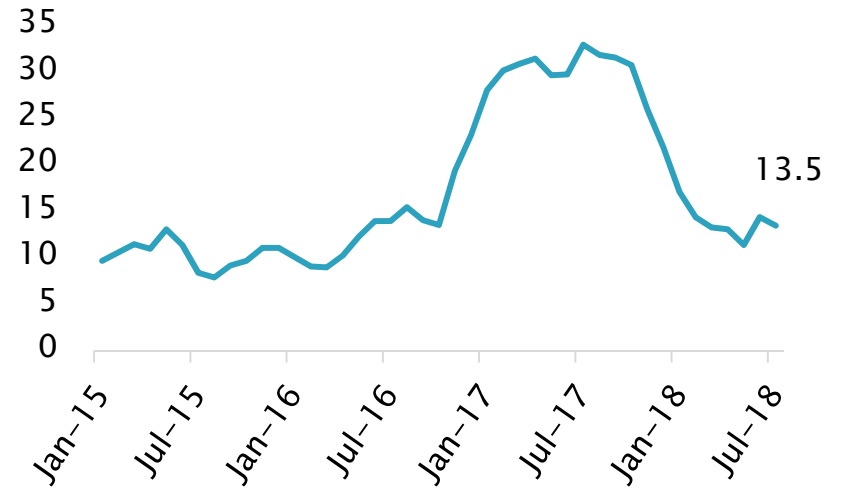
- ▶ However, there is lack of industrial/manufacturing strategy that has focus on increasing exports.

Macroeconomic Indicators

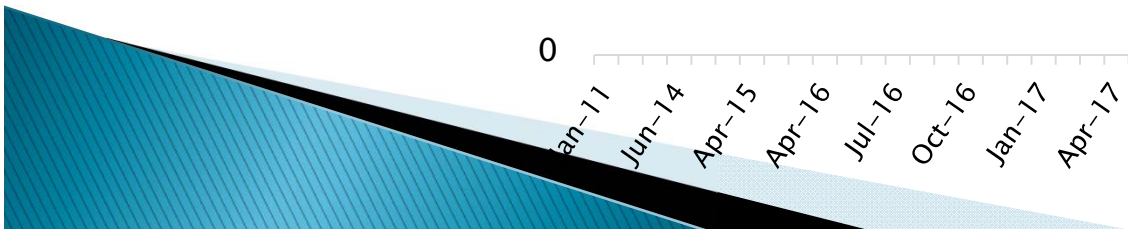
Annual Real Growth (at Market Prices) – Jul–Mar
2017/2018



Annual Inflation in Domestic Prices

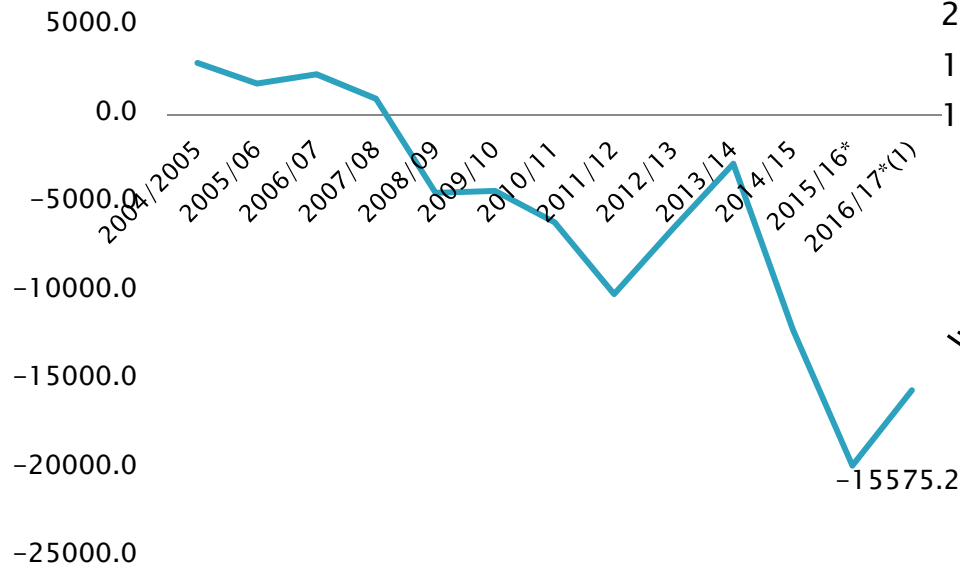


Net International Reserves

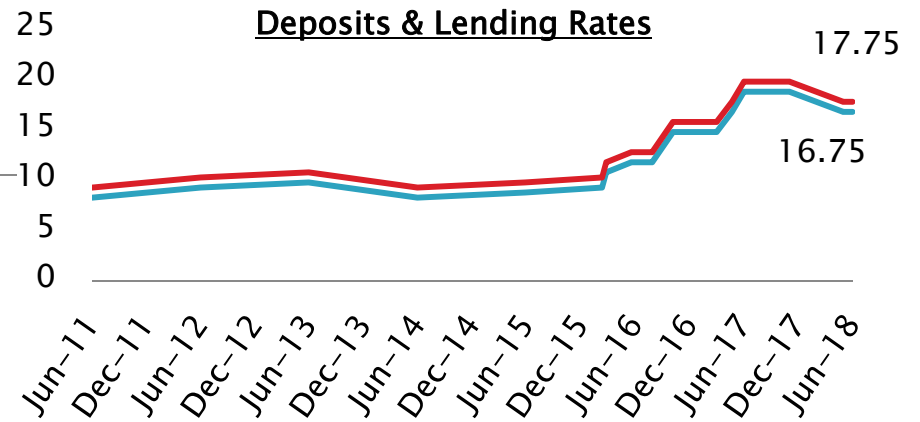


Macroeconomic Indicators

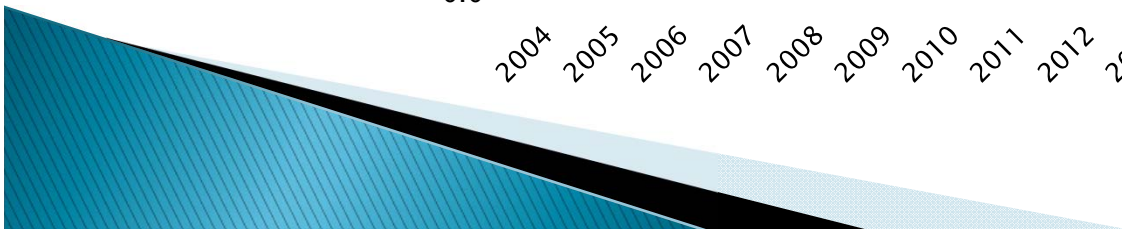
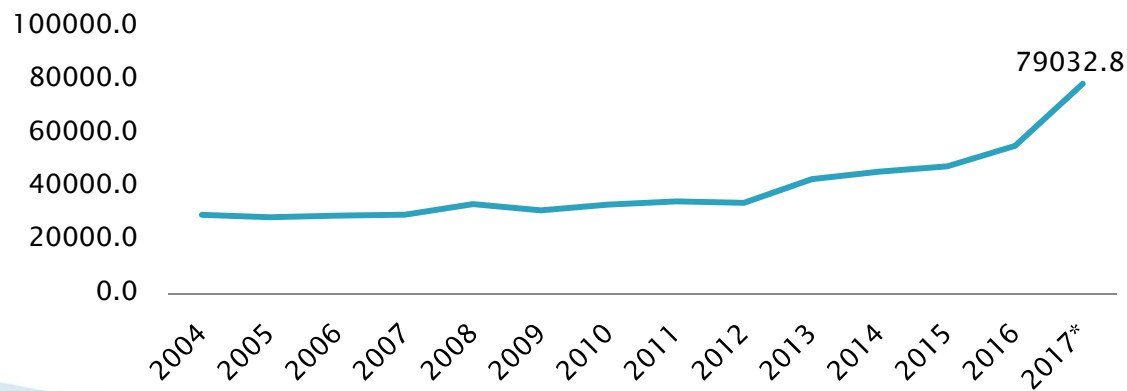
Balance of Current Account



Deposits & Lending Rates



Total External Debt



THANK YOU

