Flashnote on Egypt: Talks Enter Final Stages over $12B Loan for Egypt from IMF

BLOMINVEST BANK

July 21, 2016

Contact Information

Research Asisstant: David Achdjian

david.achdjian@blominvestbank.com

Head of Research: Marwan Mikhael

marwan.mikhael@blominvestbank.com

Research Department

Tel: +961 1 991 784 ext:327

On July 30th, the IMF will officially begin a visit to Egypt to enter final discussions regarding the issuance of a $12B loan to Egypt over the next three years in an attempt to bolster the country's foreign currency reserves. These instalments represent a bulk of a wider target of raising up to $21B over the next three years. Loans from the World Bank, the African Development Bank and several bilateral agreements with other countries are expected to account for the remaining loan target. The IMF loan will most likely come with several conditions that the government will have to meet, such as the implementation of increased Value Added Tax (VAT) and the reduction of subsidies on products such as fuel, electricity and food. It is worth mentioning that the Egyptian government currently has maturing loans of $7-8 B in value during the fiscal year 2016/2017.

Strains on the Egyptian economy have been almost continuous for more than 5 years, starting with the breakout of the Arab Spring in Egypt in January 2011. The aftermath of those uprisings on a political level, and global security and macroeconomic developments since then have all served to severely inhibiting the Egyptian economy's growth potential.

One of the key areas of the Egyptian economy that suffered the biggest hits was Egypt's foreign reserves. As of June 2016, the Republic's foreign currency reserves had attained a level of roughly $17.5B, 12.93% down from H1 2015's close, and equivalent to 3.7 months of imports according to the Central Bank of Egypt (CBE.(

The dwindling of foreign currency reserves is the result of the political turmoil since 2011 that caused three important developments: increased capital outflows in search for stability, reduced capital inflows from the tourism sector, and from lower FDIs .

Regarding capital outflows, the CBE has used up significant amounts of its foreign currency in an attempt to control the black market for the Egyptian Pound. Following the decision to devalue the EGP to a forex rate of EGP/$ 8.9484 on March 14th of this year, the spread between the official and parallel rates had narrowed to EGP/$ 1.3016. However, and despite the continued efforts to reel in the spread and exterminate the black market, the spread has now widened EGP/$ 3.7724, with the official rate at EGP/$ 8.8776 and the black market rate hitting a peak of 13.00 before lessening to EGP/$ 12.65 on Thursday July 28th,following the announcement of IMF negotiations. It is also important to bear in mind that further devaluation of the currency may occur before the end of the calendar year.

A large portion of the drop in capital inflows can be attributed to Egypt's struggling tourism sector. Historically, the tourism sector has been a major contributor to the economy's access to foreign currencies, and the recent political and security events both locally and regionally have served to dry up a majority of this currency stream .

The slower FDIs also played their part, and are linked to the existence of monetary policies that limited dollar deposits and withdrawals by companies and individuals, in addition to lengthy procedures imposed on the repatriation of income by foreign investors. Dollar deposit and withdrawal restrictions have since been lifted or eased depending on the nature of the transactions, but an uncertain investment environment has led to a slower pickup than expected in FDIs.

For these reasons, the forthcoming agreement with the IMF, which is expected to be agreed upon in the coming two weeks, represents welcome news for the Egyptian economy as a whole and presents Egypt with another opportunity to stand up against headwinds that have been pressuring the economy recently.

For your Queries:

BLOMINVEST BANK s.a.l.
Research Department
Downtown Beirut, Bab Idriss,
Weygand St., Semiramis Bldg.
POBOX 11-1540 Riad El Soloh
Beirut, Lebanon

David Achdjian, Research Assistant
Tel: +961 1 991 784 Ext: 327
david.achdjian@blominvestbank.com

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 743 300 Ext: 1234