



الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

**Arab Republic
of Egypt**

September, 2016

Egypt's economy registered a growth of 4.2% during 2014/15. This has been the highest expansion in the past four years during which the country's economic climate was affected by socio-political imbalances. However, the country's economic development continues to be hampered by adverse security situation and geopolitical issues. Moreover, the continued depreciation of the Egyptian pound in recent periods and foreign exchange shortages pose additional issues for the economy and has weakened the business environment in recent months. The real GDP growth slowed down slightly to 3.5% in 1H2015/16.

Table 1: Key Economic Indicators	2012/13	2013/14	2014/15	1H2015/16
Real GDP ¹ (USD' billions)	229.2	241.8	236.5	122.6
Real GDP Growth ² (%)	2.1	2.2	4.2	3.5
Inflation (%)	9.8	8.2	11.4	11.1
Gross Domestic Debt (% of GDP)	82.8	86.4	86.5	85.5
External Debt (% of GDP)	16.4	15.6	14.8	13.3
Fiscal Account Balance (% of GDP)	-13.4	-12.1	-12.9	-8.8*
Current Account Balance (% of GDP)	-2.2	-0.9	-3.6	-2.5
Total Exports (USD' billions)	27.0	26.0	22.2	9.1
Total Imports (USD' billions)	57.7	60.2	61.3	28.6
Trade Balance (% of GDP)	10.7	-11.3	-11.7	-5.5
FDI (net) (% of GDP)	1.3	1.4	1.9	0.9
Gross Official Reserves (USD 'billions)	15.0	16.7	20.1	16.5
Population (millions)	84.6	86.8	89.0	-

*Fiscal Balance is reported for 9M15/16

Egypt's economy is diversified with the five largest sectors, Manufacturing, Wholesale & Retail Trade, Extraction, Agriculture, Forests & Fishing and General Government representing 64.5% of the real GDP (at factor cost). Other important sectors that contribute towards the country's GDP include Real Estate, Construction & Building, Social Services, Transportation & Storage, Financial Intermediaries and Tourism. Growth was

witnessed across most sectors in 1H2015/16 vis-à-vis the corresponding period in the previous year.

Construction & Building witnessed the highest growth of 10.7% vis-à-vis other sectors during the period. This growth was aided by several initiatives undertaken by the Egyptian authorities with respect to social housing schemes and partnerships with local and regional developers to construct homes, schools, hotels and medical facilities. Given the country's young and growing demographics, the construction sector is expected to expand further. The government is also undertaking initiatives for the development of other sectors. Few of these projects include, investing in land reclamation projects to increase land available for other activities including agriculture, expansion of Suez Canal to establish an economic zone for manufacturing and logistics and the Golden Triangle project for the expansion of industrial, commercial, mineral and tourism sectors. Tourism sector performed the worst amongst sectors, having witnessed a decline of 15.0% amidst poor security measures and ongoing terrorism-related events in the region. Pressure on this segment is likely to continue in the foreseeable future, also on account of a global economic slowdown underway.

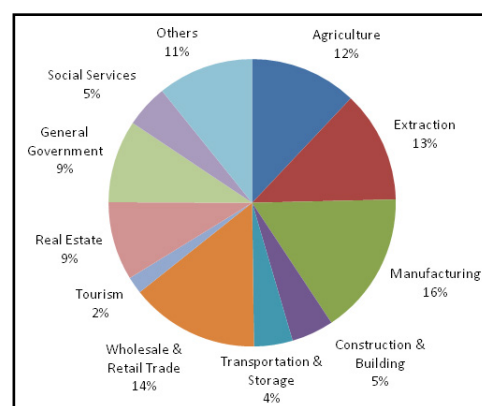


Figure 1: GDP Breakdown by Economic Activity

The downturn in the tourism industry, low levels of foreign direct investment in the country and falling exports in recent periods has led to foreign exchange shortage, in an economy which is heavily dependent upon imports. The country's gross official reserves have declined to USD 16.5b from around USD 36b in June 2010. Concurrently, the pressure on the

¹ At Market Prices

² In local currency terms

economy has led to multiple devaluations of the Egyptian pound by the Central Bank of Egypt (CBE). Certain measures, directed towards restricting imports, were taken by the CBE with the objective of curtailing foreign currency demand and

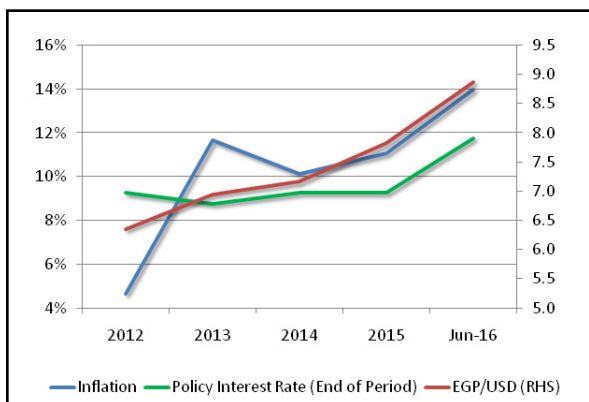


Figure 2: Economic Performance Indicators

reducing the pressure on the Egyptian pound. These included impositions of high foreign currency margin requirements, further exacerbating the foreign exchange shortage and leading to weakening of the Egyptian pound in the unofficial market. Remittances from abroad reduced during 1H2015/16, partly on account of transactions being diverted away from official channels. Beginning 2016, CBE has relaxed the measures relating to import transactions and further devalued the currency in order to reduce the gap between the exchange rate in the official and unofficial market and curb transactions through unofficial channels.

The country’s fiscal deficit narrowed during 9M2015/16 on account of fiscal reforms initiated by the government since 2014. The tax revenues have constantly increased in recent periods as the government has taken measures to widen the tax base. Also steps taken to phase out energy subsidies by raising fuel and electricity prices curtailed the increase in government expenditures. Further, steps to introduce value added tax (VAT) are ongoing, and if introduced, will further benefit the fiscal account balance. The country’s debt levels in relation to GDP though slightly reduced on a timeline stand high at 98.8% as of end-December 2015. However, there is relatively less pressure on the government towards repayment, as 84% of the national debt has been raised in the local currency and in the domestic market. The country is in negotiations with International Monetary Fund (IMF) to finance its economic development initiatives and further help to reduce the fiscal deficit.

Banking Sector

The Egyptian banking sector is concentrated with top five banks representing 59.2% of the banking industry deposits as of end-2015. The influence of the state-owned institutions on the banking sector is significant with three of the top five banks constituting government ownership. The two largest public sector banks (National Bank of Egypt and Banque Misr) dominate the sector and represented 42.6% of the industry deposits as of end-June’2015, whereas the largest private sector bank (Commercial International bank) accounted for 8.2% of the total. The mid and lower tier banking segments are highly competitive, with the share of banks ranking in size between 6 and 10 being 13.3% of the industry’s deposit base, as of end-2015 (2014: 14.6%). The Egyptian banking sector comprises a total of 40 institutions, including foreign banks and rendering the industry as being highly competitive.

As a contributor to industry deposits, the Islamic banking segment has remained range bound. The absence of policy directive enabling growth has left the economy’s potential to drive the Shari’a compliant industry forward, largely untapped. Islamic banks held about 5% of banking industry deposits as of December 31, 2015. All three Islamic banks benefit from significant Middle East ownership and influence.

The Egyptian banking sector recorded a healthy growth rate as the economy trended towards improvement during 2015. The asset growth of 26.3% was supported by a deposit growth of 22.7%. The increase in the non-government deposits contributed about 77% towards the overall growth in the sector’s deposit base. Among the non-governmental deposits, the retail deposits (household sector) posted a significant increase. High growth was an outcome of recent measures taken by the central bank to shore up liquidity in the banking sector, and tackle foreign-exchange shortage in the country,

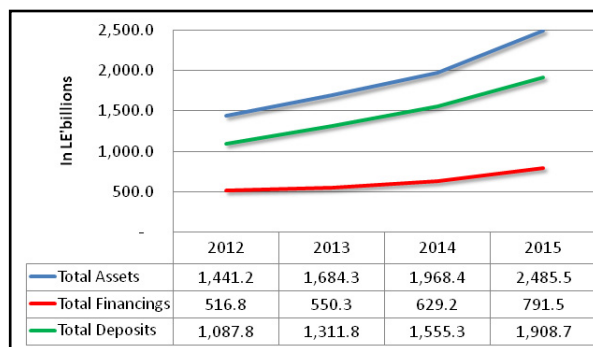


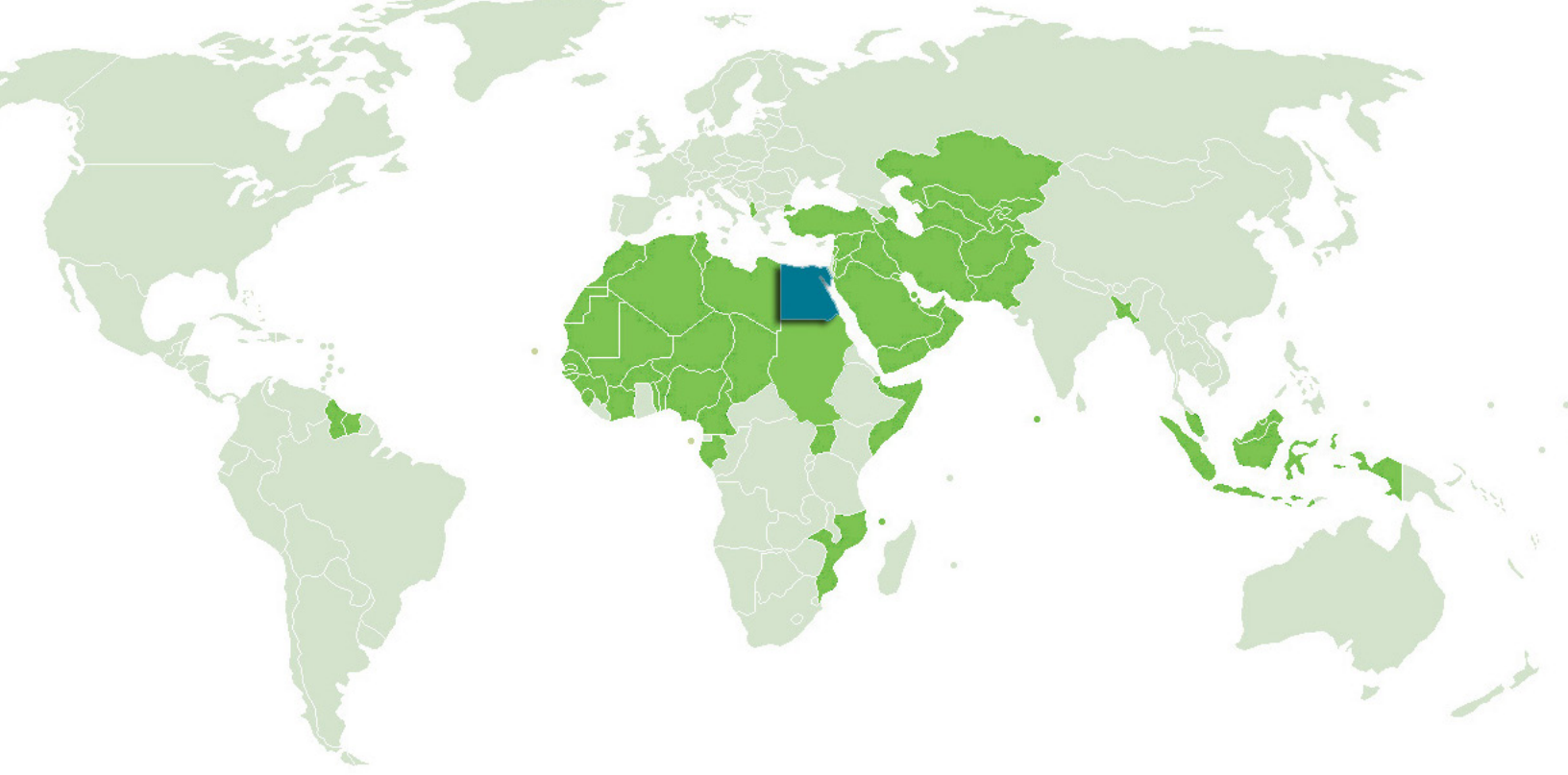
Figure 3: Banking Sector growth trends

which was reflected in attractive deposit profit rates being offered by the banking industry. However, growth must be viewed in the context of continued fall in the value of the Egyptian pound and industry growth in US dollar terms was less robust at 12.4%.

On the asset side, securities and investment in treasury bills, which are of highest credit quality in the local context and represent direct exposure of the banking sector on the government's fiscal health, contributed about 40% towards the total asset growth in 2015. The banking sector's investment in treasury bills has steadily increased on a timeline basis to finance the country's widening budget gaps. As the economy witnessed slight improvement in 2015, financing activities of the banks grew by 25.8%. Financing to the government sector increased by more than twice vis-à-vis the previous year and contributed around 33% to the overall increase in financings. The private sector accounted for the rest of the growth on account of higher credit extended towards services and household sectors.

Banking Sector Financial Indicators <i>(December 2015)</i>	Top 5	Top 10	Banking Sector
Capital Adequacy Ratio	13.1%	13.2%	13.7%
Tier-1 Capital Adequacy Ratio	10.9%	11.1%	11.7%
Gross Impairment	3.8%	4.1%	6.8%
Coverage Ratio	100.0%	100.0%	99.0%
ROAA	1.3%	1.4%	1.3%
ROAE	19.9%	21.6%	18.9%

The asset quality indicators of the banking sector are largely sound and have improved to 6.8% (2014: 8.5%) by end 2015. Although, the banking sector may be impacted by the country's foreign-exchange shortage as interruption of imports could lead to asset quality issues and more significantly pressure on repayment of foreign currency liabilities. Banks' are adequately capitalized and the quality of capital is sound, with most of it represented by Tier-1 capital.



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