

# BEST'S COUNTRY RISK REPORT

## Egypt CRT-5

August 22, 2018

**Region:** Middle East & North Africa

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Egypt is categorized as a CRT-5 country and has a high level of economic risk and very high levels of political and financial system risk.
- GDP growth was 4.2% in 2017, driven by a recovery in tourism and an increase in natural gas production. Inflation levels are still high but are expected to decrease slightly in 2018 and moderate further over the medium term, with inflation rates of 13.0% in 2019 and 10.0% in 2020.
- The map depicts countries in the region that A.M. Best evaluates and contains countries with risk levels ranging from CRT-3 to CRT-5.



- **Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- **Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- **Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- **Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- **Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

## Regional Summary: Middle East & North Africa

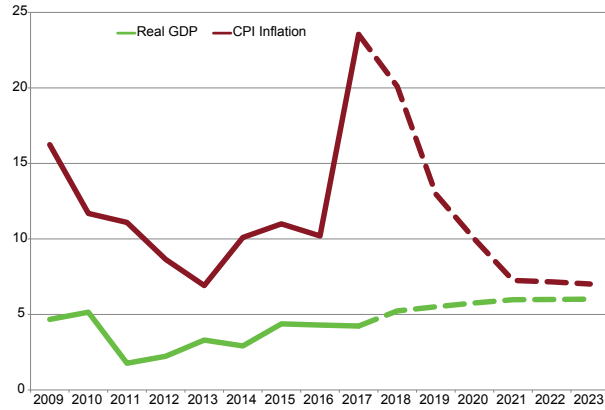
- Higher global interest rates, particularly if interest rates increase faster than expected, raise the potential for greater fiscal vulnerabilities and tighter credit conditions. According to the IMF, debt in the region has increased an average of 10% of GDP each year since 2013, owing to countries financing large fiscal deficits through increased borrowing and draw downs of fiscal buffers.
- Economic growth for the region is estimated to increase in 2018 on strengthening global growth, a moderate rise in oil prices, easing fiscal adjustment, reforms to promote non-oil sector growth, and growing infrastructure investment.
- Fiscal consolidation and revenue generating programs implemented over the last few years continue, albeit at a slower pace. Revenue measures include the introduction of a value-added tax (January 2018) in Saudi Arabia and the United Arab Emirates, with other countries likely to implement similar measures by the end of the year. Improving the efficiency of public spending (via a bill that lowers the government wage bill, for example) on the expenditure side is also a priority.

Vital Statistics 2017		
Nominal GDP	USD bn	237.07
Population	mil	94.8
GDP Per Capita	USD	2,501
Real GDP Growth	%	4.2
Inflation Rate	%	23.5
United Nations Estimates		
Literacy Rate	%	73.8
Urbanization	%	43.3
Dependency Ratio	%	61.8
Life Expectancy	Years	73.0
Median Age	Years	23.9
Insurance Statistics		
Insurance Regulator	The Financial Regulatory Authority (FRA)	
Premiums Written (Life)	USD mil	761
Premiums Written (Non-Life)	USD mil	826
Premiums Growth (2016 - 2017)	%	9.8
Regional Comparison		
		Country Risk Tier
Egypt		CRT-5
Algeria		CRT-5
Jordan		CRT-4
Morocco		CRT-4
Saudi Arabia		CRT-3
Tunisia		CRT-4

Source: IMF, UN, Swiss Re, Axco and A.M. Best



### Economic Growth (%)



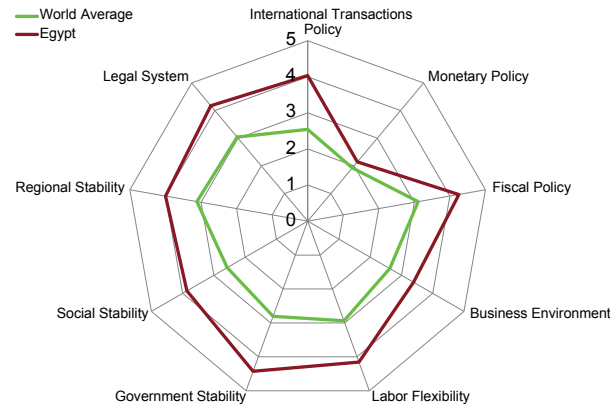
Source: IMF World Economic Outlook and A.M. Best

### Economic Risk: High

- In November 2016, Egypt entered into an Extended Fund Facility loan arrangement with the IMF for USD12 billion. Under IMF recommendations, the country has implemented a number of monetary and fiscal adjustments. Two of the main reform measures were the free flotation of the Egyptian pound and cuts to government subsidies.
- Egypt's economy is services-based, with approximately 50% of GDP divided among tourism, public administration, and the Suez Canal. State-owned enterprises are still prominent in Egypt's economy, particularly in the cement and steel industries.
- Allowing the currency to free-float caused a large currency depreciation that resulted in higher rates of inflation. Rising prices are a concern owing to the country's dependence on fuel and food imports and the potential for a disproportional impact on poor communities. Inflation in 2017 was 23.5% and is forecast at 20.1% for 2018.

### Political Risk Summary

Score 1 (best) to 5 (worst)

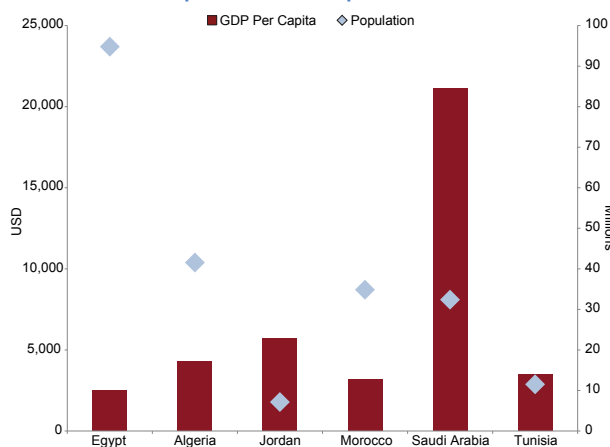


Source: A.M. Best

### Political Risk: Very High

- President Abdel Fattah Al-Sisi was re-elected in March 2018, winning approximately 97% of the vote. The government continues to face security risks from terrorist groups and potential political instability from members of the now banned Muslim Brotherhood Party.
- The security situation in Egypt remains volatile. In November 2017, the country suffered its worst terrorist attack in its history, when militants detonated a bomb inside a mosque that left more than 300 people dead. Egypt has been under a state of emergency since April 2017, as a result of two Coptic church bombings.
- Subsidy cuts and additional austerity measures for fiscal consolidation, rising prices, opposition protests, a shortage of basic goods, and sectarian issues all have the potential to raise the level of political instability.
- The government rules in an authoritarian manner and cracks down on freedom of speech and assembly. Independent journalists are targeted for anti-government articles.
- Investor confidence is still weak, despite somewhat improving economic conditions. However, foreign investment is expected to rise as structural reforms become more entrenched.

### GDP Per Capita and Population



Source: IMF and A.M. Best

### Financial System Risk: Very High

- The Egyptian Financial Supervisory Authority (EFSA) became operational in July 2009 and regulates all non-banking financial activity, including insurance.
- According to the IMF, Egypt's banking system is well capitalized, liquid, and profitable. Non-performing loans decreased from 6% in 2016 to 4.9% in 2017, due largely to write-offs. Additionally, the banking sector appears to be resilient to moderate shocks; banks with weaker metrics do not pose significant risks to financial sector stability.