

# CREDIT RATING : EGYPT AND ITS

## BANKING SECTOR'S UPDATES ...

A RATING AGENCY IS A FIRM THAT ESTIMATES THE RELATIVE ABILITY OF AN ENTITY (A CORPORATION, OR A COUNTRY) TO MEET ITS FINANCIAL COMMITMENTS OF ISSUING DEBT OBLIGATIONS. IT PRESENTS THESE RATINGS THROUGH SCALES AND INDICES THAT DIFFER FROM AN AGENCY TO ANOTHER. MAJOR RATING AGENCIES WORLDWIDE ARE STANDARD & POOR'S, FITCH RATINGS AND MOODY'S INVESTOR SERVICE. THESE AGENCIES' MAIN INDICES INCLUDE LONG-TERM SCALES FOR OBLIGATIONS WITH AN ORIGINAL MATURITY OF ONE YEAR OR MORE AND SHORT-TERM SCALES, FOR LESS THAN ONE-YEAR MATURITY.

### EGYPT'S CREDIT RATING

Credit ratings assigned to Egypt and banks operating in the country have gone through 3 stages during the last 4 years and were significantly affected by the ongoing political and economic situation. These stages can be divided as follows:

**Post 2011 Revolution:** Both sovereign and banking sector's credit ratings were downgraded due to the political and economic instability witnessed in Egypt after the breakout of the 25<sup>th</sup> of January Revolution.

**30 June 2013 And Afterwards:** This period was marked by the ousting of former President Mohammed Morsi and the inflow of about \$ 20 billion aid from Gulf states to support the new regime, which helped improve Egypt's credit rating.

**Al-Sisi's Era (2014/2015):** A political stability was maintained as a new constitution was approved, Al-Sisi was elected as a new President, protests lost their momentum with a less ability to mobilize large numbers of demonstrators and the economy showed signs of recovery. These factors contributed in more advancements in credit ratings assigned to Egypt and the Egyptian banking sector.

The following section is going to demonstrate the most recent updates about rating actions taken by top international agencies regarding the credit worthiness of Egypt and its banking sector.



### SOVEREIGN

On the 7<sup>th</sup> of April 2015, Moody's Rating Agency upgraded Egypt's sovereign credit rating to 'B3' from 'Caa1' with a stable outlook, besides raising Egypt's foreign-currency bond ceiling<sup>1</sup> to 'B2' from 'B3'. Key drivers for this rating action were:

- Improving macroeconomic performance.
- Reduction in external vulnerabilities (Stabilized net international reserves, ample coverage for external debt payments and expected recovery in domestic and foreign investment after holding Egypt's Economic Development Conference).
- Commitment to fiscal and economic reform.

### BANKING SECTOR

At the end of April 2015 and after the sovereign rating action, Moody's upgraded the local-currency deposit ratings of the 3 state-owned banks National Bank of Egypt, Banque Misr, Banque Du Caire and the private bank Commercial International Bank (CIB) to 'B3' from 'Caa1'. The agency also upgraded the local currency deposit ratings of ALEXBANK to 'B2' from 'B3'. Additionally, the banks' foreign-currency deposit ratings were upgraded to 'Caa1' from 'Caa2', reflecting the increase in the foreign currency deposit ceiling for Egypt to 'Caa1'.

Moody's attributed the decision to the following factors:

- The improved banking operating environment in the country, which will benefit banks' business prospects and asset quality.
- The improved quality of banks' liquidity buffers<sup>2</sup>.
- The government's improved capacity to support these banks, in case of need.

In May 2015, Moody's assigned Counterparty Risk (CR) assessments<sup>3</sup> of 'B3(cr)' to the National Bank of Egypt, Banque Du Caire and Banque Misr and 'B2(cr)' to the Commercial International Bank. ALEXBANK was also assigned at 'B1(cr)' to be the highest grade given.



### SOVEREIGN

In May 2015, Standard & Poor's Credit Rating Agency (S&P) upgraded Egypt's economic outlook from stable to positive, affirming its long- and short-term foreign and local currency sovereign credit ratings at 'B-/B'.

S&P attributed its decision to the stabilizing political landscape and growth-supporting reforms, as well as continued support from Gulf States.

### BANKING SECTOR

In the same month and following its sovereign rating action, the agency also raised the long-term credit ratings of some banks operating in Egypt, where the National Bank of Egypt, Banque Misr, and Commercial International Bank were upgraded to 'B-' from 'CCC+', with a stable outlook and the short-term credit ratings of the three banks were affirmed at 'C' with a stable outlook.



### SOVEREIGN

In December 2014, Fitch Ratings upgraded Egypt's Long-term foreign and local currency Issuer Default Ratings (IDR)<sup>4</sup> to 'B' from 'B-'. The Outlooks are

Stable. Fitch also upgraded the issue ratings on Egypt's foreign and local currency bonds to 'B' from 'B-'. The Country Ceiling was upgraded to 'B' from 'B-' and the Short-term foreign currency IDR affirmed at 'B'. The upgrade of Egypt's IDRs reflects the government's policies that tackled some of the serious structural weaknesses which emerged or intensified in recent years through the following actions as:

- Fuel subsidy cuts and tax hikes were implemented as part of a clear five-year fiscal consolidation strategy.
- Overdue payments to oil companies reduced.
- Investment laws were revised and different disputes with foreign investors were settled.

### BANKING SECTOR

In December 2014 and following its sovereign rating action, Fitch Ratings upgraded the Long-term Issuer Default Ratings (IDR) of the National Bank of Egypt and Commercial International Bank (CIB) to 'B' from 'B-' with a stable outlook.

## IMPLICATIONS ON THE EGYPTIAN ECONOMY

The improvement in Egypt's credit rating has different positive implications as:

- It enhances the confidence in the Egyptian economy which would help attract more FDIs.
- It improves chances of borrowing from international institutions at a lower cost.

### Long Term Sovereign Credit Rating Scale

	S&P	Fitch	Moody's
Investment Grade	AAA	AAA	Aaa
	AA	AA	Aa
	A	A	A
	BBB	BBB	Baa
Non-Investment Grade	BB	BB	Ba
	B	B	B
	CCC	CCC	Caa
	CC	CC	Ca
	SD- D	C	C
		RD	
		D	

The modifiers (+) or (-) can be added to ratings from AA to B to denote relative status within major rating categories (Fitch).

Ratings from 'AA' to 'CCC' can be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories (S&P).

Numerical modifiers (1,2,3) can be added to each generic rating classification from 'Aa' through 'Caa' (Moody's).

<sup>1</sup> The ceiling generally indicates the highest rating that can be assigned to a foreign-currency denominated security issued by an entity subject to the monetary sovereignty of that country or area.

<sup>2</sup> Liquid assets to deposits ratio.

<sup>3</sup> Credit Risk (CR) Assessment are opinions of how counterparty obligations are likely to be treated if a bank fails.

<sup>4</sup> IDR is a ranking of issuers based on the agency's view of their relative vulnerability to default, rather than a prediction of a specific percentage likelihood of default.



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