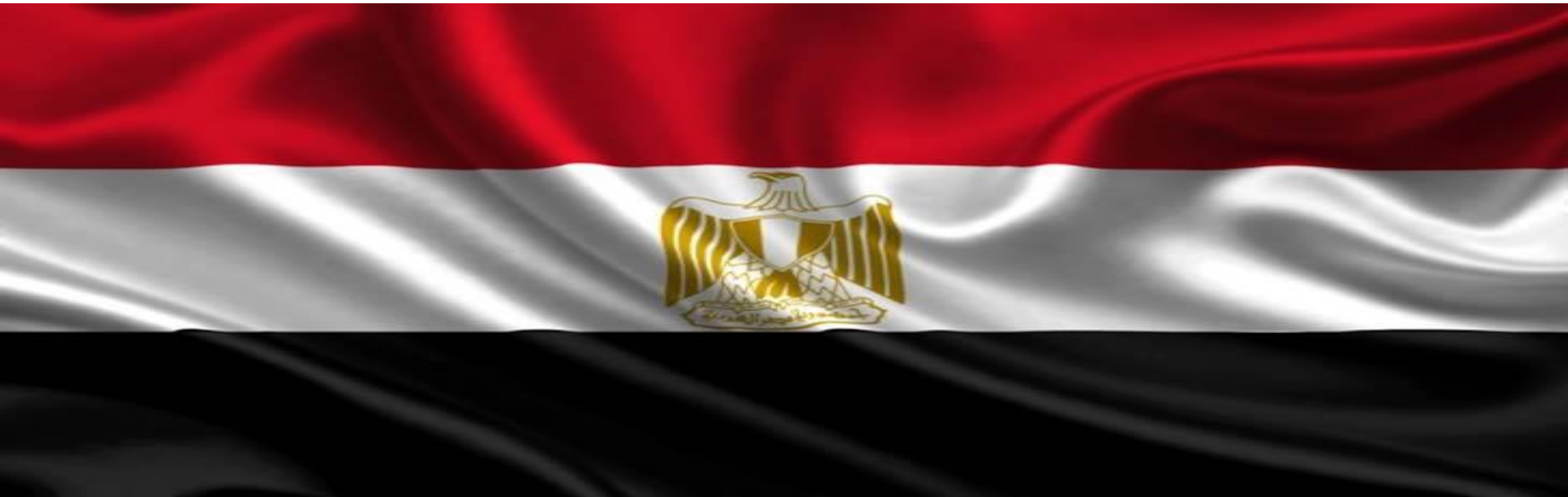




Ministry of Finance

# Managing Risks Posed by High Debt Levels



**(June 2021)**

# Agenda

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1

**Managing Refinancing risks in a volatile and uncertain environment**

2

**Egypt's Medium-term Debt Strategy (MTDS)**

3

**Improving investor relations and market communication**

4

**Innovative funding opportunities**

5

**Egypt's Economic Reform Beyond the Pandemic: Numerical Targets**

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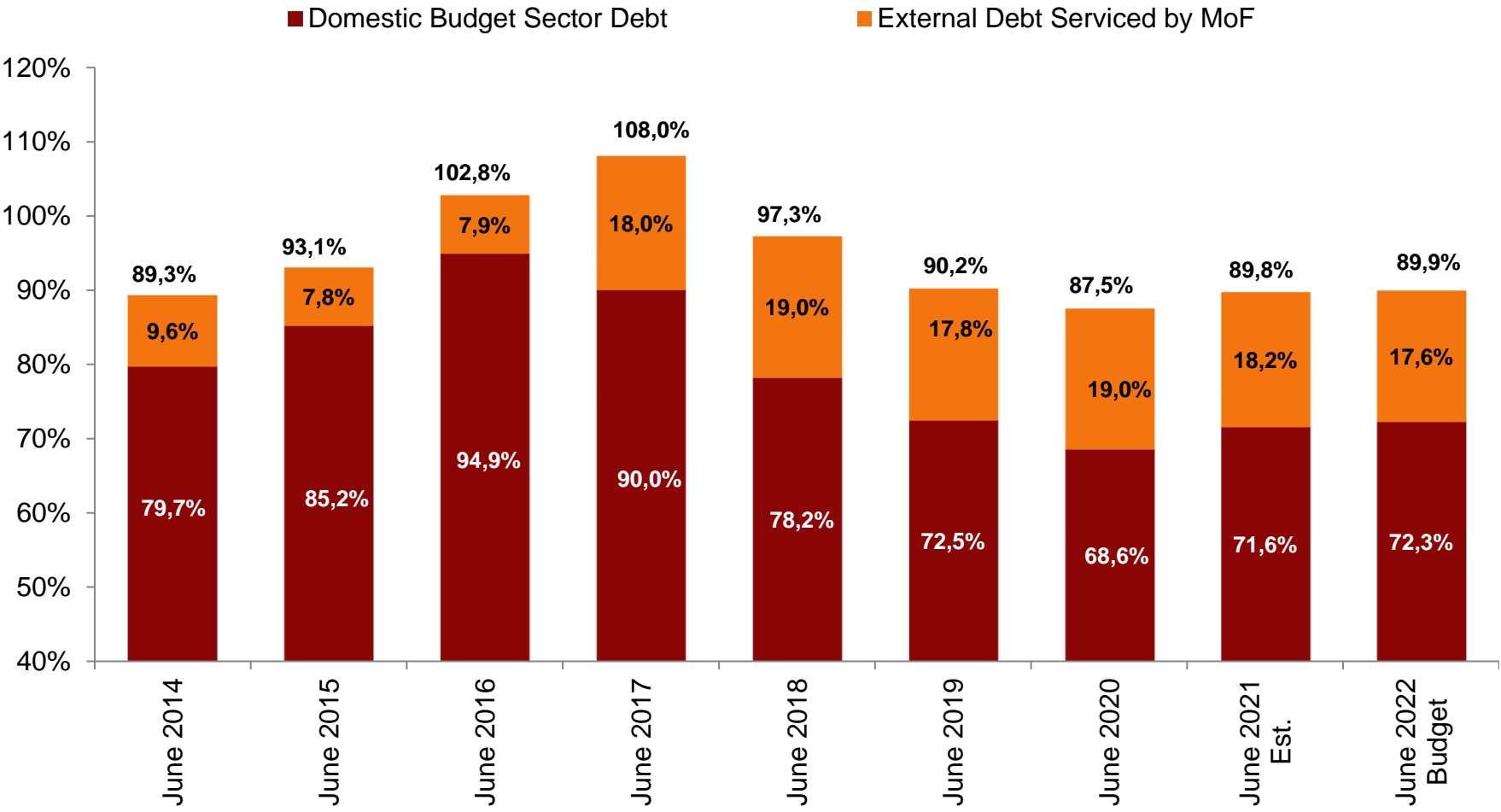
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**Budget sector debt is projected to stabilize at 89.9% of GDP by end June 2022 before resuming its declining trend to reach below 85% of GDP by June 2024.**

**Total Budget Sector Debt  
(% of GDP)**



# Managing Refinancing Risks

MOF succeeded to increase its net issuance in T. Bonds compared to T. Bills from 3% during FY 17/18 to 81% during FY 19/20. The gradual decrease in average interest rates paved the way to lengthen the average term to maturity by issuing more bonds than bills, leading to lower gross financing needs.

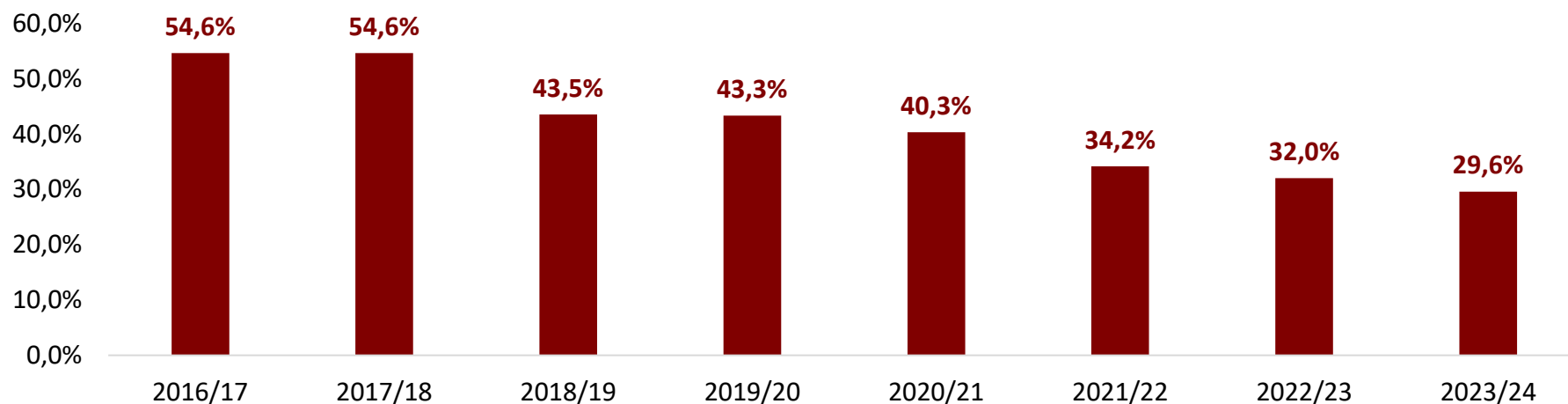
## Issuances

	2017/18	2018/19	2019/20	2020/21 as of 1/6/2021
<b>Total Net Issuances (LE Billion)</b>	<b>371.0</b>	<b>460.1</b>	<b>745.8</b>	<b>485.4</b>
<b>T-Bills</b>	<b>359.8</b>	<b>136.5</b>	<b>140.6</b>	<b>-32.9</b>
<i>%of total issuances</i>	<i>97%</i>	<i>29.7%</i>	<i>18.9%</i>	<i>-6.8%</i>
<b>T-Bonds</b>	<b>11.2</b>	<b>323.6</b>	<b>605.2</b>	<b>518.3</b>
<i>%of total issuances</i>	<i>3%</i>	<i>70.3%</i>	<i>81.1%</i>	<i>106.8%</i>

# Managing Refinancing Risks

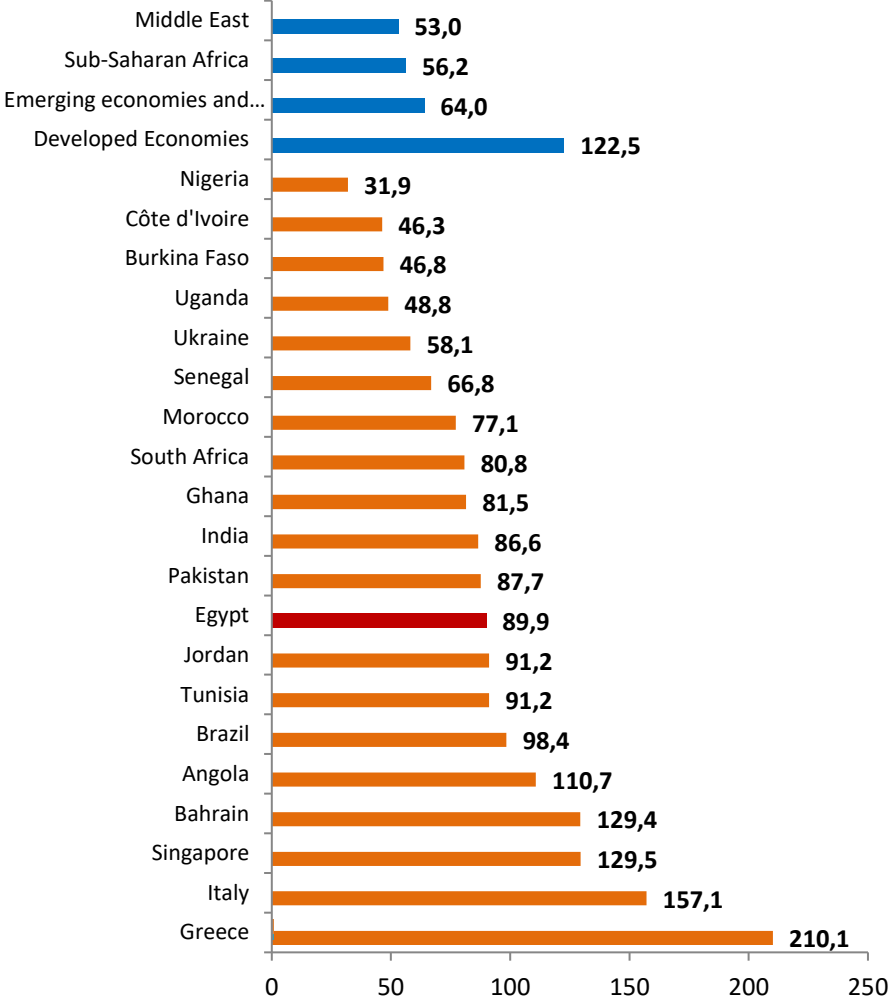
Total Financing Needs Developments								
	LE Billion							
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
<b>Total Financing Needs</b>	<b>1894.6</b>	<b>2425.6</b>	<b>2316</b>	<b>2520.8</b>	<b>2581.6</b>	<b>2442.5</b>	<b>2560</b>	<b>2648.3</b>
Primary Deficit								
Negative value means surplus	63	-4.9	-103.1	-105.6	-63.4	-104.1	-126.4	-173.8
Interest Payments	316.6	437.4	533	568.4	566	579.6	619.4	635.1
Repayments	1,515	1,993	1,886	2,058	2,079	1,967	2,067	2,187

## Financing Needs (% of GDP)

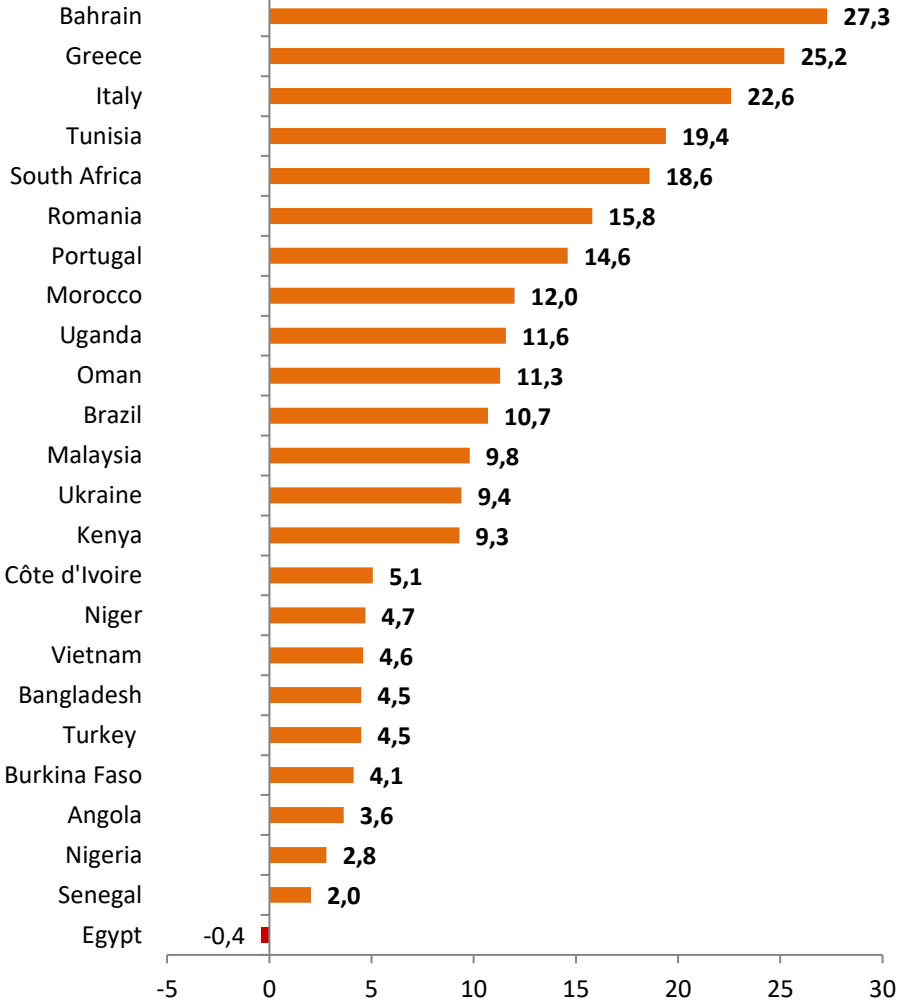


# Despite initial high debt levels, Egypt outperformed peers in terms of stabilizing & containing debt ratio to GDP during the Pandemic

General government debt (% of GDP) for the year 2021/2020

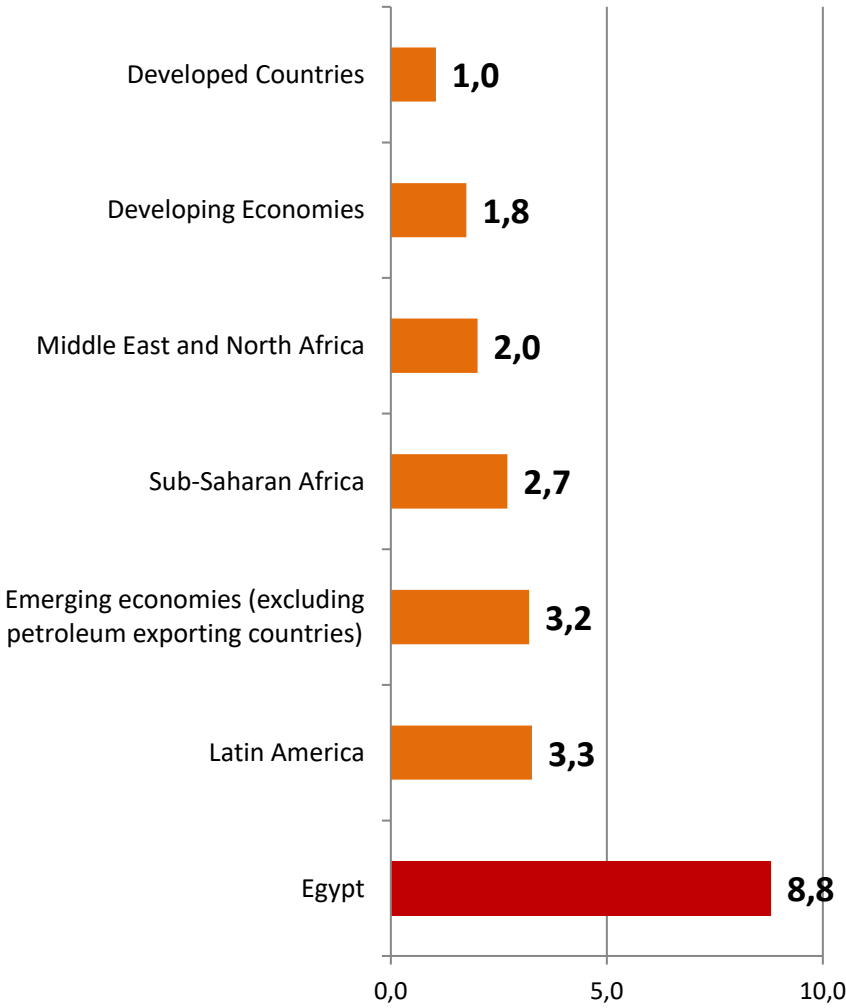


Expected Change in General Government Debt (% to GDP) for the year 2019-2021

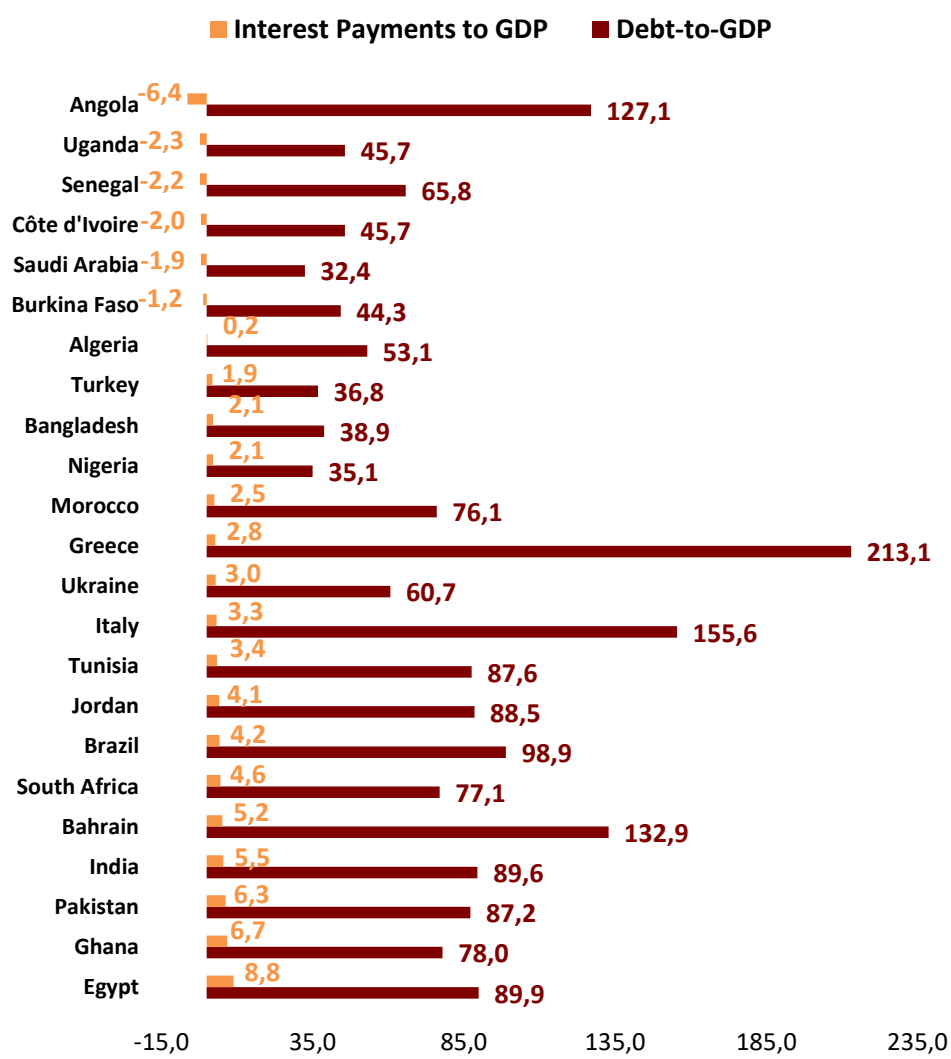


# Egypt has a much higher debt service bill versus countries with comparable debt levels; confirming exceptional high interest rate and cost

**Expected Interest Payments (% of GDP) for the year 2020/2021**

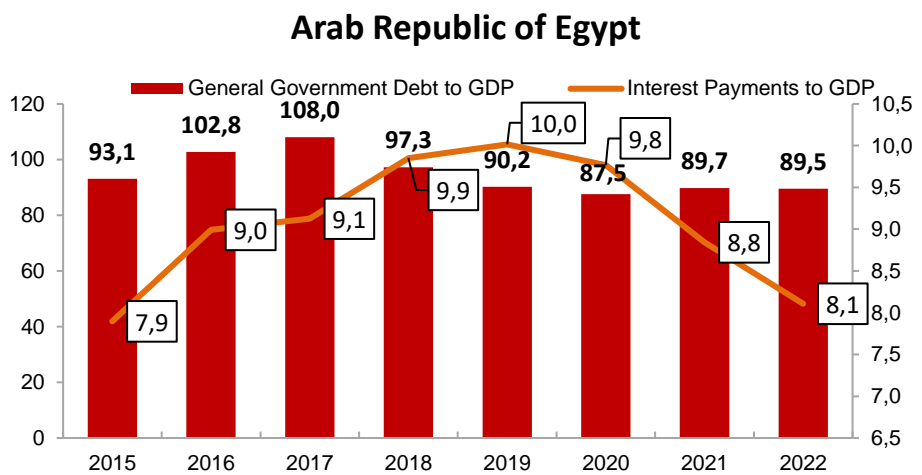
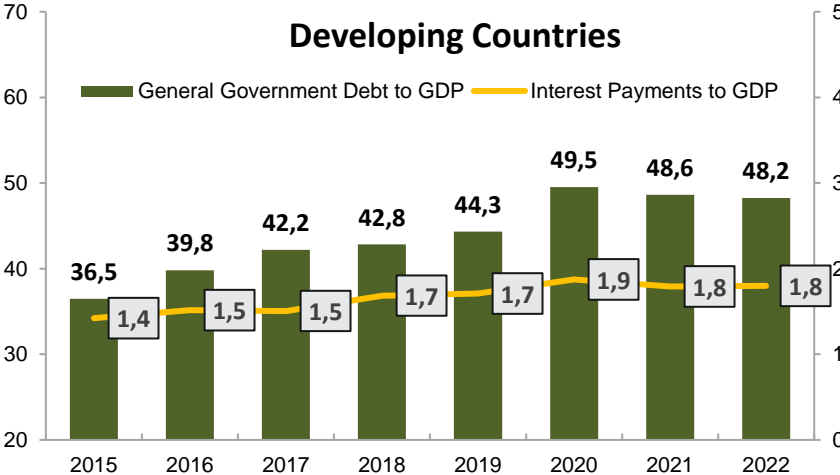
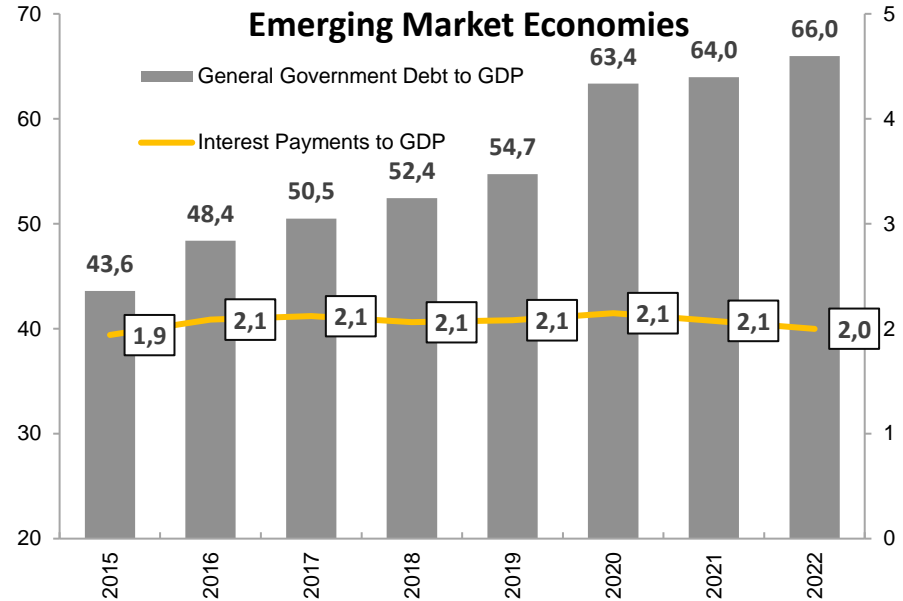
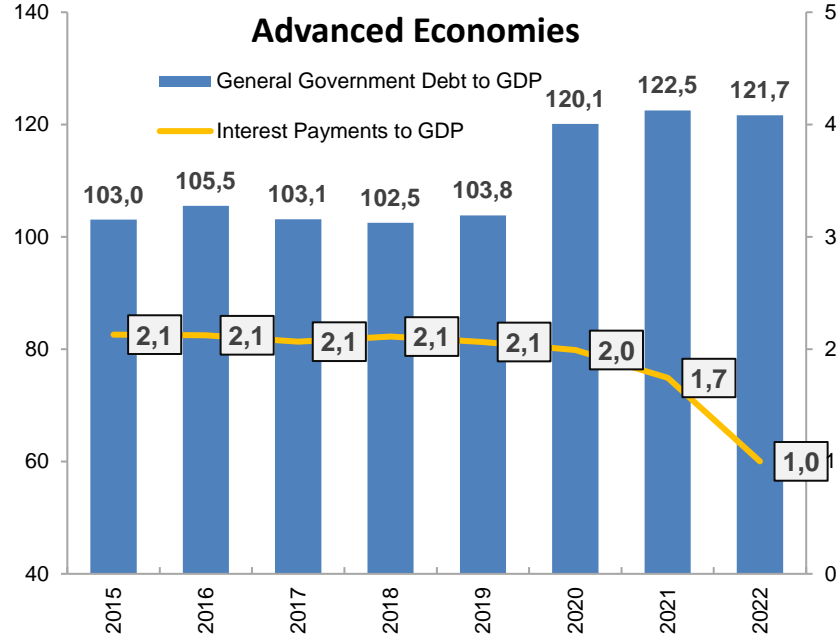


**Domestic debt and interest payments (% of GDP)**



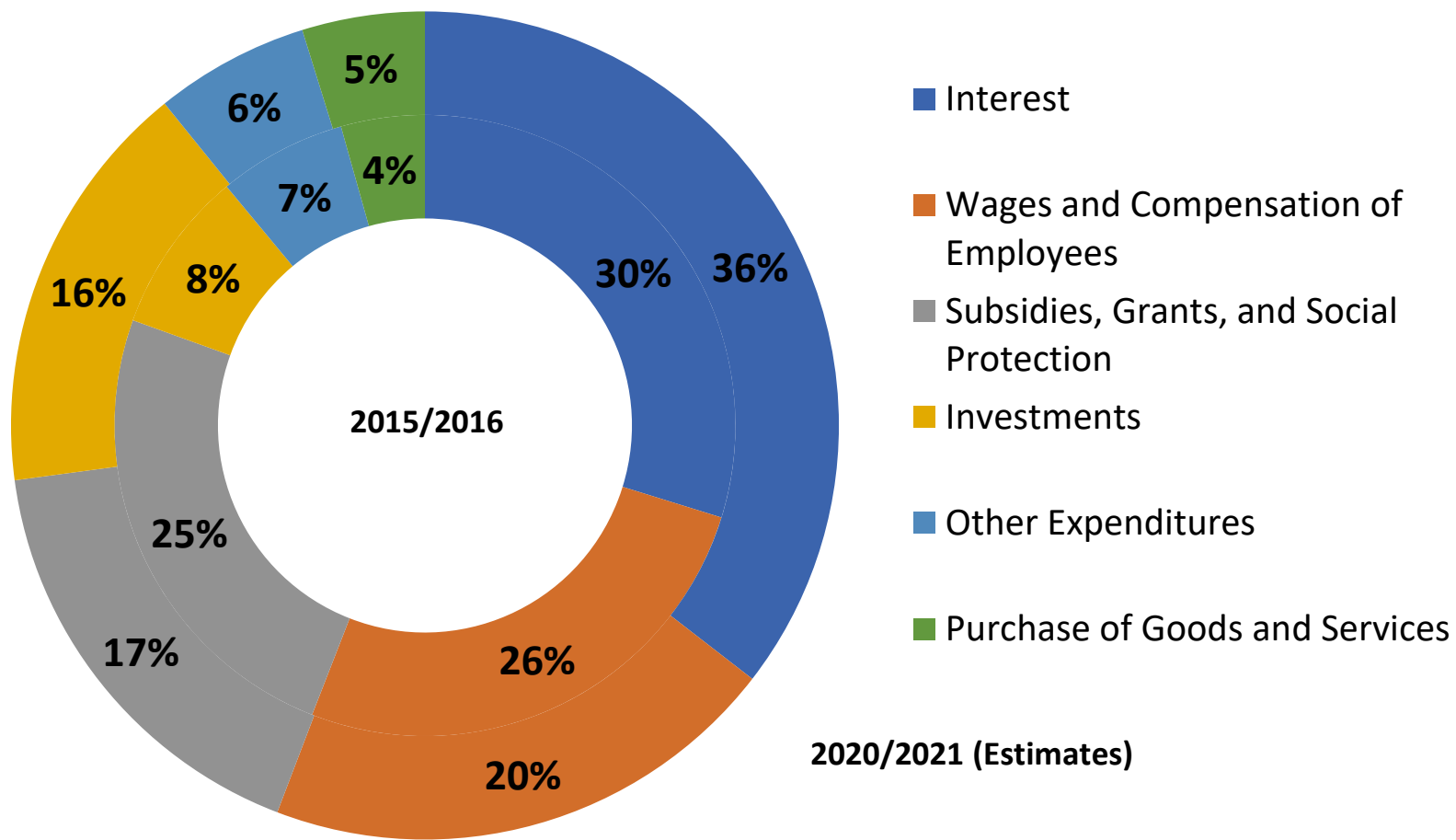


# Egypt has a much higher debt service bill versus countries with comparable debt levels; confirming exceptional high interest rate and cost



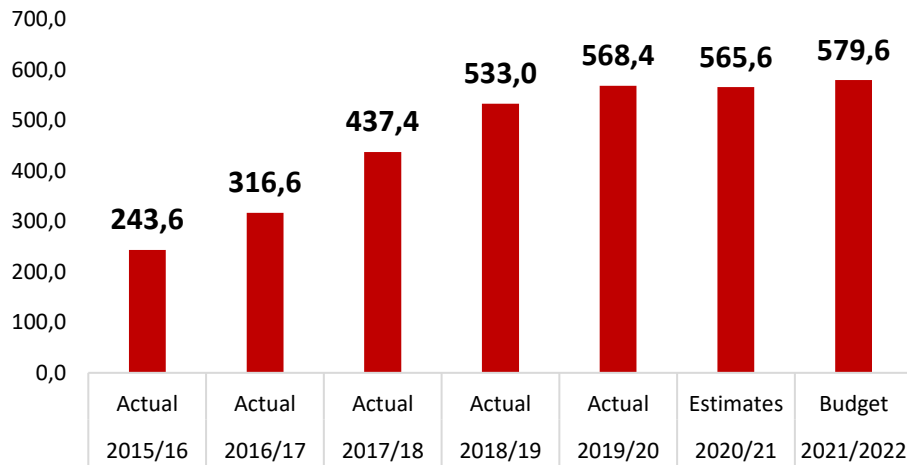
# Posing pressures on MoF's continuous efforts to improve expenditure structure

Improvement in the structure of the budget according to the economic classification  
(% of total expenditures)

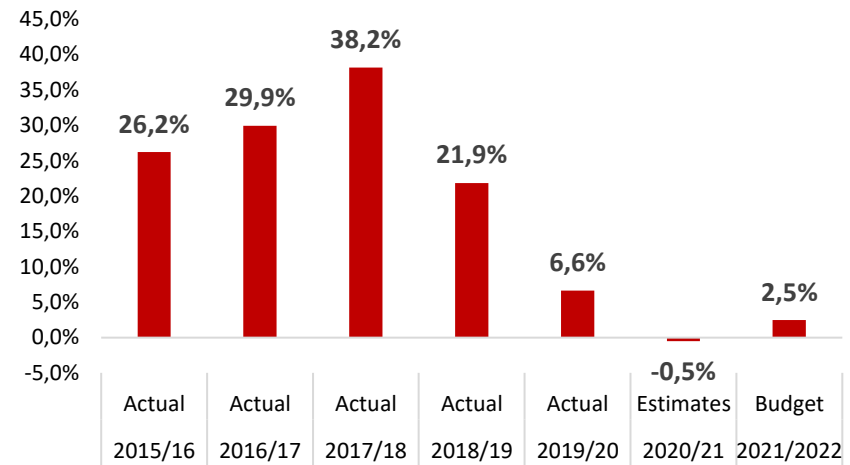


**Interest payments are starting to be contained and to decline as percent of GDP and total budget expenditures. In 2020/2021, interest payment bill is expected to decline for the first time in years in nominal value relative to the bill paid in 2019/2020.**

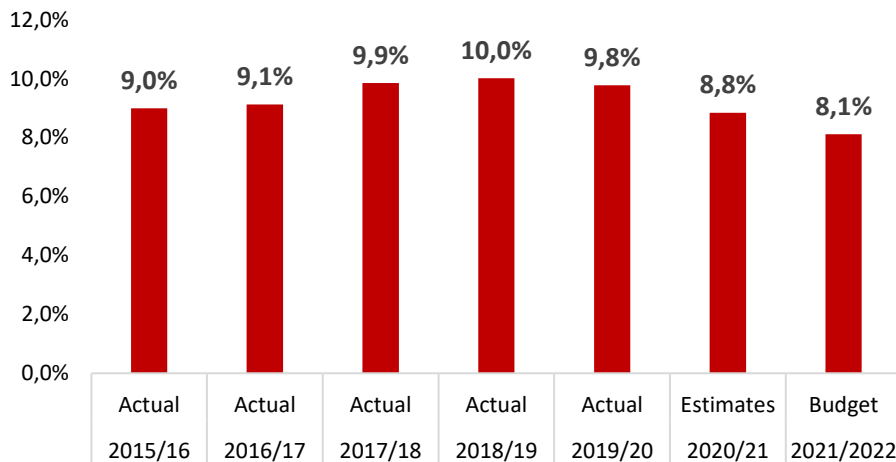
**Interest Payments (LE Billion)**



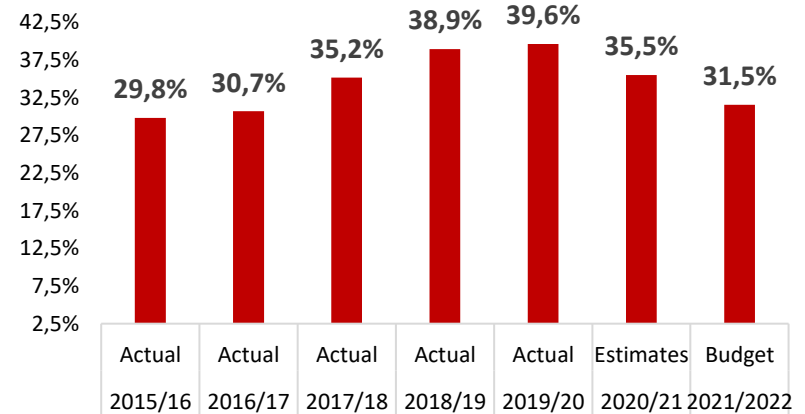
**Interest Payments, Growth Rate (%)**



**Interest Payments, % of GDP**



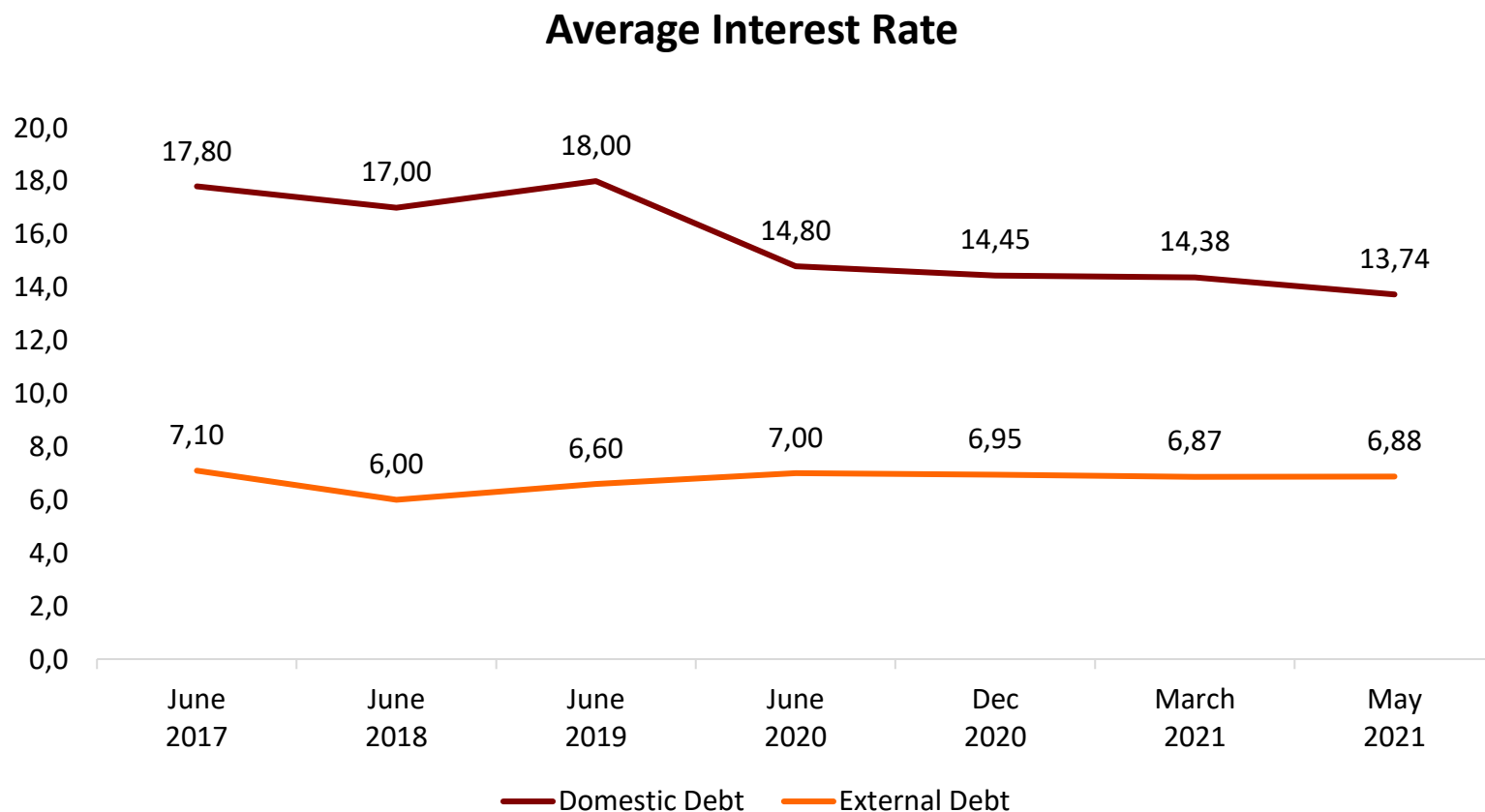
**Interest Payments, % of Expenditures**



# Managing Refinancing Risks

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MOF Succeeded to improve the average of interest rates to be 13.74% & 6.88% for its Domestic & External Debt respectively.

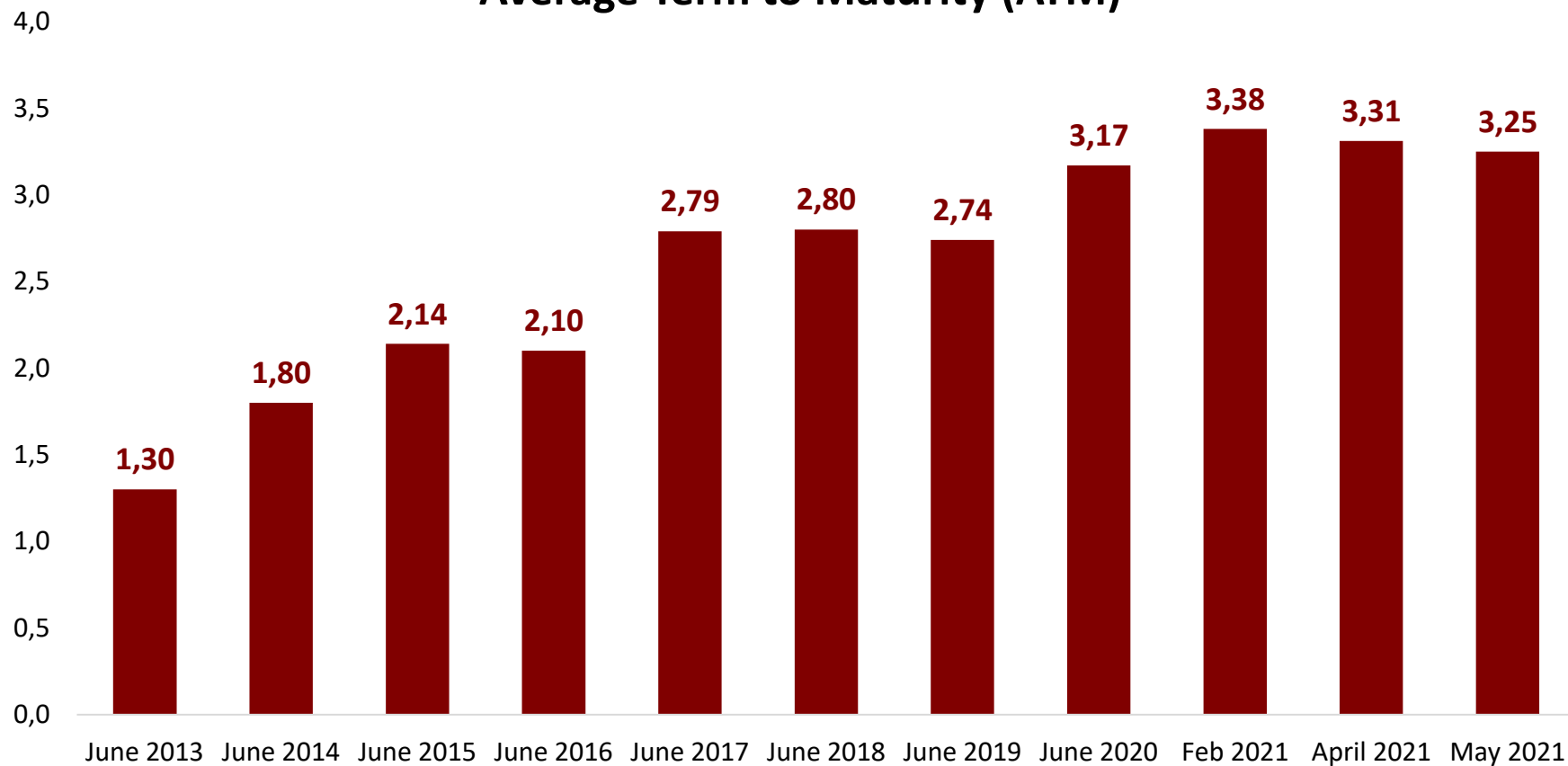


# Managing Refinancing Risks

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MOF Succeeded to improve the average term to maturity to be 3.31 years in April 2021.

## Average Term to Maturity (ATM)



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# Egypt's Medium-term debt strategy

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## Objectives and Targets of (MTDS)

- **Medium term Debt Strategy (MTDS) assigns two key objectives for Egypt Debt Management Unit and adopted policies over the Medium term**
  - 1- **To ensure timely funding for MOF (budget sector) and contribute to minimizing the cost burden while being consistent with a prudent degree of identified risk.**
  - 2- **To support the development of the debt market.**
  - 3- **To contribute to reducing relative size of Budget sector Gross financing needs over the Medium Term.**
  
- **MTDS set three key targets**
  1. **Lengthen average maturity (life) of budget sector debt through more reliance on longer term issuances.**
  2. **To contain, reduce & smoothen relative debt service burden over the medium term.**
  3. **To widen investors base and enhance competition for Egypt Government securities market.**

# Egypt's Medium-term debt strategy

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## Medium-term Debt Strategy (MTDS)

- The strategy has been published by end-December 2020 with key target amounts including reducing gross borrowing needs to below 30 percent of GDP and bringing down debt-to-GDP to below 85% by June 2024. The strategy will be updated/revised on an annual basis.
- This is particularly important given that financial and economic conditions are likely to be more uncertain in the post-COVID-19 environment.
- We are also working to meet the requirements to make domestic-currency debt eligible to be settled through **Euroclear** in order to open the domestic market to a larger audience of foreign investors and expect to have completed this process by the third quarter of 2021. This should boost the confidence of foreign investors.
- Recently , **JP Morgan** announced that Egypt has fulfilled all needed requirements to be added to the watch list in preparation for its inclusion in its global bond index (expected in the coming 6 months). This should secure additional long- term financing for budget needs



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# Improving investor relations and market communication

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## Investor Relations Unit (Capital Market Investors)

- Keep an open channel with the investors to hold periodical conference calls to give them an update about the main Macro-economic indicators, market developments and debt profile.
- Act as a focal point for the investors to answer their inquiries.
- Meet with investment banks and portfolio managers for market updates.
- Provide the media (e.g Reuters, bloomberg, enterprise .. Etc) with market data and market updates to keep the international community informed.

## Communication with International Financial Institutions

- Put Egypt on the map of the international indices that follow government debt instruments as a tool to attract passive funds but also to get the investors familiarized with the Egyptian market.
- Explore new products and share international practices to better design the debt strategy.
- Seize the opportunity to tap new markets and widen our investor base.

# Improving investor relations and market communication

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As a result :

## 1- JP Morgan Index Inclusion

In April 2021 JP Morgan has put Egypt on the Watch List for the following indices:

**a- JP Morgan Government Bond Index for Emerging Markets Global Diversified (GBI-EM)** with an estimated weight of 1.78% representing 14 bonds (issuance) with a total value of USD 24 billion, which amounts to approximately 30% of the total debt under review for the eligibility.

**b- JP Morgan Environmental, Social and Governance Index (JESG)** On the back of the green bonds issuance in October 2020, Egypt is eligible for the inclusion in the JESG Index with an estimated weight of 1.14%.

## 2- FTSE Russel Index Inclusion

In April 2021 Egypt has been included in the FTSE Russel Index for Frontier Emerging Markets which tracks the performance of 13 countries with a weight of 10 % (which is the cap of each country).

## 3- Euroclear

The project has started in November 2018 and we are in close contact with Euroclear not only to do the link but to identify the market gaps and develop it to comply with international standards and apply best practices.

# Improving investor relations and market communication

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## On the real investors front:

### 1- Investors Issues Unit

- Keep an open channel with the companies to solve their problems with taxes, customs or any other issues that are related to MoF to enhance the investment environment in Egypt.
- Open a continuous dialogue to exchange the views about providing structural solutions.

### 2- Initiatives to support Exporters

- As part of the initiatives taken by the Ministry of Finance (MOF) to settle the financial entanglements with different counterparts, MOF collaborated with the Ministry of Trade and Industry to pay back to the exporters their due amounts, that got accumulated at the Export Development Fund.
- So far around EGP 27 billion of arrears has been settled and paid to more than 2000 companies.

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# Egypt's Green Bond 2020/2021

## Issuance Highlights

\$750 mm, 5 Years, 5.25%

- **First** Green Bond issued by a MENA sovereign
- High quality Orderbook peaked above **\$3.7bn** achieving **7x subscription** for the announced size of \$500 mm and **5x subscription** for an upsized transaction of \$750mm.
- Remarkable investors' demand enables reducing interest by **50 bps** compared to the IPTs (opening at 5.75% and closing at 5.25%)
- Priced at **12.5bps** negative new issue concession representing the highest negative new issue concession paid by Egypt to date
- Achieved the **lowest** 5-year coupon for Egypt ever and second lowest US\$ coupon for Egypt since 2016

## Innovative funding opportunities

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- **Over 30** ESG-focused investors engaged in dedicated fixed income investor calls and over 100 investors from Asia, Europe, MENA, North America and UK viewed the pre-recorded presentation
- Added **16** new first time investors in Egypt's US\$-bond issuances highlighting success in continuing to diversify and grow the existing sizable investor base
- Allocation strategy focused on Green investors while maintaining a balance to allocate long-standing supporters of Egypt's bonds

# Innovative funding opportunities

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## EXISTING

### ❖ **T. Bonds with new maturities:**

- **2 Yrs.** with annual coupons' criteria. T-Bonds.
- **15 Yrs.** with annual coupons' criteria.
- **1.5 Yrs.** Zero Coupon

### **Benefits:**

- Meeting demands of local & foreign investors.
- Matching a new Benchmark with a long – term yield as a major need from leasing companies”
- Meeting demands from the social and pensions' funds.

## PIPELINE

### ❖ **Sukuk:**

- Sukuk law is finalized and approved by the Parliament.
- Working on the last Phase of getting the final Presidential approval.
- The Executive Regulations is in the Process
- **Benefits:**
  - Access to the domestic and External Markets.
  - Meeting the Demands of a new class of investors “interested in the Sharia compliant instruments”.
  - Positive effect on our Debt cost due to its yields.



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# Egypt's Economic Reform Beyond the Pandemic: Numerical Targets

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## GDP Growth

- Increase real GDP growth to 5.4% by 21/22 and above 6% by 23/24.

## Job creation

- Adequate job creation to reduce the unemployment rate, reduce youth unemployment, and create more decent jobs.

## Fiscal and debt sustainability

- Maintain and safeguard fiscal discipline, to reach an overall deficit below 5% of GDP by 2023/24, maintain annual primary surpluses of 2% of GDP, and bring down debt to GDP ratio to below 85% by June 2024.

## Manufacturing & Export Promotion

- Targeted support of economic activity to boost the manufacturing sector, promote exports, and pave the road for the private sector to lead.

## Investment Policy

- Increase public investment to improve infrastructure and human capital and to crowd in private investments .

## Social Protection

- Ensure adequate support to the underprivileged and improving the standard of living of citizens, while making sure that Egypt's growth is inclusive.