

EGYPT

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ENCOURAGING SIGNS OF MACROECONOMIC RECOVERY

The impact of the war in Iran and the energy crisis on the Egyptian economy are currently limited. The economy has benefited from macroeconomic fundamentals strengthened by international support and the increased credibility of its economic policy. The momentum for economic recovery and disinflation, which began in 2025, remains intact. The main source of vulnerability – foreign exchange liquidity – has only slightly deteriorated, supported by increased exchange rate flexibility. Nevertheless, while the Egyptian economy's vulnerability to external shocks is diminishing, it remains high, particularly due to the growing imbalance in the energy sector and dependence on volatile capital flows. In the medium term, Europe's willingness to diversify its gas imports could benefit the Egyptian gas hub.

THE ECONOMIC RECOVERY REMAINS ON TRACK

The economic recovery was confirmed during the first three quarters of the 2026 fiscal year (FY), with an average year-on-year growth rate of +5.2%. Growth in the final quarter (April–June 2026) is expected to slow (to +3.2% y/y) due to the repercussions of the war in Iran. Nevertheless, these effects are expected to be confined to the impact of energy consumption rationing measures. For the 2026 fiscal year as a whole, real GDP growth is forecast to reach 4.7%, indicating an improvement on 2025.

The improvement in foreign exchange liquidity since the second half of 2025 has enabled the Egyptian economy to weather the energy crisis linked to the war in Iran more effectively than in 2022. Furthermore, as international investors did not panic and did not exit the Egyptian market en masse, the Egyptian pound ultimately depreciated only slightly against the US dollar, which mitigated the inflationary effects of the energy shock. More generally, the credibility of economic policy has strengthened in recent quarters due to fiscal reforms and increased exchange rate flexibility.

Nevertheless, the momentum behind the recovery in growth, observed since the end of 2024, is showing some signs of running out of steam. Industrial production and private sector lending slowed in Q1 2026. Against this backdrop, we forecast that growth will stabilise at 4.7% during FY2027. Furthermore, in the medium term, growth rates below 5% will be insufficient to include new entrants into the labour market and to reduce poverty levels. According to the World Bank, only growth of more than 6% would achieve this.

DISINFLATIONARY MOMENTUM CONTINUES

The war in Iran and the energy crisis have halted the decline in Egyptian inflation. However, the positive momentum, set in motion in 2024 by macroeconomic stabilisation, is expected to resume in the short term. The sharp rises in energy prices imposed by the government at the start of the war, together with the depreciation of the pound (which fell by 12% against the dollar in the first month before stabilising), have fuelled inflationary pressures (+15% y/y in April compared with 11.9% in January), particularly in the food component. Consumer price inflation averaged 13.2% in FY2026 and is expected to decrease slightly to 12.3% in FY2027.

This resurgence in inflationary pressures is expected to be temporary. In the short term, while inflationary risks remain, they are manageable. In our baseline scenario, oil and gas prices are expected to remain fairly high over the coming quarters. The risk associated with agricultural commodity prices, particularly for wheat (of which Egypt is the world's largest importer), are expected to be contained this year due to the plentiful local harvest and the record imports authorised by the government to build up precautionary stocks.

Economic forecasts

	2022	2023	2024	2025	2026e	2027e
Real GDP growth (%)	6.7	3.8	2.4	4.4	4.7	4.7
Inflation, CPI, year average, %	8.5	24.0	33.6	21.0	13.2	12.3
Gen. Gov. balance / GDP (%)	-5.8	-5.7	-3.3	-6.5	-9.3	-6.1
Gen. Gov. debt / GDP (%)	89	96	91	87	81	72
Current account balance / GDP (%)	-3.5	-1.2	-5.4	-4.2	-3.6	-2.9
External debt / GDP (%)	33	42	40	44	42	40
Forex reserves (USD bn)	31,5	32,8	44,3	45,3	47,3	49,5
Forex reserves, in months of imports	3.7	4.7	6.0	5.1	5.0	5.3

TABLE 1

Fiscal year from July 1st of year n-1 to June 30 of year n
e: ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

Egypt: Economic recovery remains on track

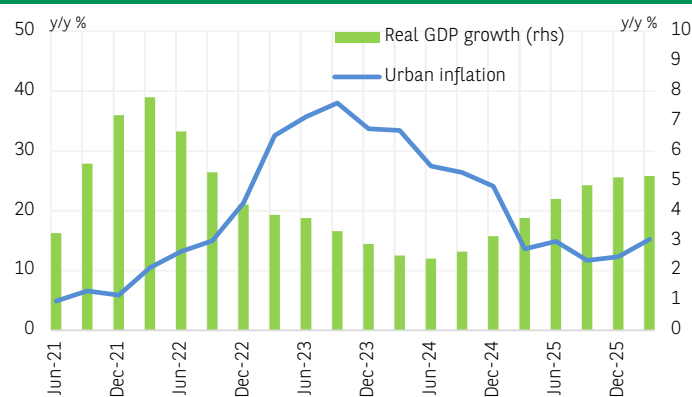


CHART 1

SOURCE: IMF, CEIC, BNP PARIBAS

Inflation is expected to remain significantly above the Central Bank of Egypt's (CBE) target (7.0% ± 2% in Q4 2026). Indeed, we forecast that the annual rate of price inflation will remain above 14.5% by the end of 2026. Against this backdrop, the Central Bank will maintain its cautious monetary easing policy, which began in 2025 as inflation eased. The cycle of rate cuts will not resume until there is a genuine stabilisation of the geopolitical situation in the Gulf. The CBE's lending rate currently stands at 20%, having fallen by 825bp between April 2025 and February 2026.



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EXTERNAL ACCOUNTS REMAIN VULNERABLE

Despite an unfavourable external environment, the current account deficit is expected to shrink to 3.6% of GDP in FY2026. Over the year as a whole, hydrocarbon imports are expected to rise by over 30%, driven by rising prices on international markets and the need to import larger quantities of liquefied natural gas (LNG) to satisfy domestic demand. We do not anticipate a significant decline in LNG prices in the short term. In fact, it will take several years for Qatari production to return to full capacity, and European demand for restocking ahead of next winter is bolstering prices. On a more positive note, non-hydrocarbon exports, tourism revenues and remittances from expatriates are expected to rise sharply. By FY2027, largely due to a moderate decrease in hydrocarbon prices, the current account deficit is expected to shrink to 2.9% of GDP.

Support from bilateral and multilateral creditors remains significant, estimated at 1.7% of GDP in FY2026, according to the IMF. However, this support is expected to decrease from next year onwards as the European and IMF programmes come to an end. At the same time, external financing requirements, which encompass the current account deficit and external debt servicing, will remain high at around 6% of GDP until FY2028, according to the IMF.

Against this backdrop, there is a high risk of a significant tightening of Egypt's foreign exchange liquidity in the short to medium term, particularly as part of its external financing is inherently volatile. The IMF indicates that around 10-15% of financing needs will continue to depend on portfolio investments. Furthermore, the net foreign assets of commercial banks – a key component of Egypt's external liquidity – have nearly halved since January 2026. Maintaining exchange rate flexibility will be essential to reducing Egypt's external vulnerability, particularly because, in the event of pressure on foreign exchange liquidity, it would help to preserve the net foreign assets of the banking system, including both the Central Bank and commercial banks, which would erode rapidly under a fixed exchange rate regime.

MIXED OUTLOOK FOR FISCAL IMPROVEMENT

The state of public finances remains mixed. On the one hand, the primary surplus is rising, expected to reach 4.6% of GDP this year, marking an all-time high excluding one-off items, largely due to higher tax revenues and the gradual reduction in subsidies. On the other hand, interest expenditure on government debt remains at record levels, accounting for 70% of total revenue forecast for the 2026 budget. The budget deficit is expected to be high this year at 9.3% of GDP, due to a sharp rise in the interest burden, which is equivalent to 2.5% of GDP. However, it is expected to decline in FY2027 to 6.1% of GDP, aided by the reduction in interest rates that began in 2025.

Government debt is falling but remains high at 87% of GDP in FY2025. The main challenge lies in the cost of refinancing this debt, particularly through the extension of maturities. Local debt accounts for 70% of total government debt, with over a third comprising securities with maturities of less than one year. The government's objective is to raise the average maturity of the debt stock from the current 3.5 years to between 4.5 and 5 years by FY2029. Keeping inflation under control over the long term will be key to achieving this objective.

Egypt: Growing dependence on LNG imports

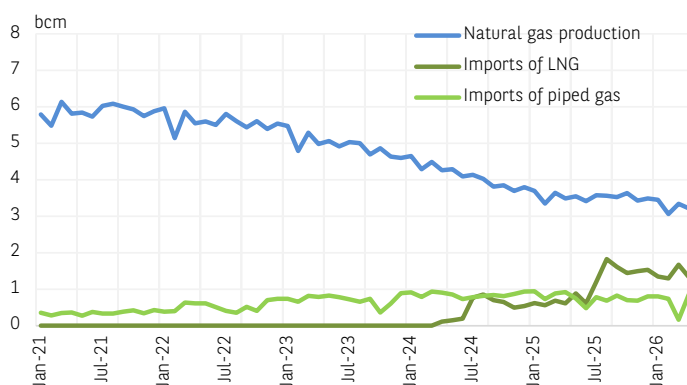


CHART 2

SOURCE: JODI, BNP PARIBAS

THE ENERGY ISSUE REMAINS CENTRAL

The energy issue is a key factor contributing to the vulnerability of the Egyptian economy. While the country benefitted from hydrocarbon export revenues during the 2000s, it became a net importer of hydrocarbons in 2024. In terms of gas, the ongoing increase in consumption (75% of the electricity mix) and the decline in domestic production (down by an average of 12% per year since the production peak in 2021) have led to an increase in imports, which now account for around 38% of gas consumption. Furthermore, Egypt is exposed to market price fluctuations, as a growing proportion of its imports consists of LNG. Moreover, the cost of liquefied gas is twice that of gas supplied from Israel via pipeline. Similarly, the reliance on oil imports has also increased in recent years, coinciding with a steady decline in domestic production.

In the short term, the repercussions of the energy crisis are negative but limited. The 33-day suspension of Israeli exports in March 2026 (which accounted for around 28% of total gas imports prior to the suspension), due to the war, had limited consequences for economic activity (such as reduced shop opening hours). The impact on electricity generation was also limited thanks to the availability of floating storage and regasification units (FSRUs), which allowed for increased reliance on LNG imports.

The impact on inflation was more severe, but is expected to be temporary (see above). In the medium term, the war in Iran is likely to prompt hydrocarbon-importing countries to further prioritise their energy sovereignty, particularly in Europe, which could work in Egypt's favour. Given that Egypt cannot export its own production, it is seeking to position itself as the gas hub of the eastern Mediterranean. The country has two liquefaction terminals that allow producer countries in the region to export their output with minimal investment. Cypriot gas is therefore expected to supply these terminals by the end of this decade. While some of this gas may satisfy domestic demand in Egypt, the remainder is likely to find a natural market in Europe.

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