

EGYPT

30

POSITIVE SHORT-TERM OUTLOOK

The gradual stabilisation of the Egyptian economy is ongoing, driven by the restoration of foreign currency liquidity, even though the pace of reforms has been uneven. The rebound in activity, bolstered by household consumption, has exceeded expectations, despite a restrictive fiscal and monetary environment. The decrease in inflation appears to be sustained and should allow for continued monetary easing in the coming quarters. The outlook for foreign currency liquidity is positive, thanks in particular to substantial financing from bilateral and multilateral creditors. The public finance landscape is more complex: consolidation efforts are genuine, despite the slow pace of some reforms, yet the interest burden continues to be a significant source of vulnerability. Finally, the situation in the energy sector needs to be monitored, as its growing imbalances continue to adversely affect Egypt's economic activity and external accounts

GRADUAL RECOVERY IN ACTIVITY

Despite an environment characterised by high inflation, budgetary constraints and high real interest rates, the recovery in activity was stronger than expected during the 2025 fiscal year¹ (FY). Economic growth reached 4.4%, in contrast to 2.4% in FY2024. Household consumption (+8% y/y) and, to a lesser extent, investment (+1.4% y/y) despite the reduction in public sector investment) were the main drivers of this rebound. Public spending (-2% y/y) remains constrained by the need to reduce the budget deficit, while the sustained rise in imports (due to a post-crisis catch-up effect in the balance of payments and higher energy imports) limits the support that foreign trade can provide to economic activity.

In the short term, economic growth is expected to continue improving (+5.2% expected in FY2026) due to household consumption, which constitutes over 80% of GDP, and the ongoing recovery in corporate investment, supported by monetary easing. However, the potential for an acceleration in activity remains to be confirmed, given that a large part of the rebound observed in FY2025 (for example, manufacturing activity grew by 13.6% in the first nine months of FY2025), is mainly due to the lifting of restrictions on access to foreign currency. On the other hand, the outlook for the hydrocarbon sector remains uncertain. Activity across all extractive sectors (mainly oil and gas) declined by 9% in FY2025.

REDUCTION IN INFLATIONARY PRESSURES

Inflation continues to fall, mainly due to the slowdown in food inflation, which accounts for one-third of the price index. Urban inflation rose by 11.7% y/y in September and is projected to average 10.7% in FY2026, compared to 20.9% in FY2025. In the last quarter, the drop in oil prices and the relative weakness of the dollar also contributed to the reduction in inflation. In the short term, disinflation is expected to continue, albeit at an uneven pace. While oil prices are likely to continue falling at least until Q1 2026, the trajectory of the exchange rate is uncertain. In addition, the reduction of certain subsidies, which is one condition of the IMF's support plan, could temporarily exacerbate inflationary pressures. For example, fuel prices rose by more than 10% in October 2025 following a reduction in energy subsidies. Nevertheless, the Central Bank's inflation target seems achievable, averaging 7% +/-2pp in Q4 2026.

In this disinflationary context, the Central Bank has been cutting its key interest rates since last April, with a total decrease of 525 bp following an increase of 1600 bp between March 2022 and April 2025 (Chart 1). Monetary easing is expected to continue in 2026.

¹ Fiscal year n from 1 July of year n-1 to 30 June of year n

FORECASTS

	2023	2024	2025	2026e	2027e
Real GDP growth, %	3.8	2.4	4.4	5.2	5.5
Inflation, CPI, year average, %	24.0	33.6	21.0	10.7	8.3
Central gov. balance / GDP (%)	-5.7	-3.3	-7.0	-6.9	-6.0
Central gov. debt / GDP (%)*	96	91	79	74	70
Current account balance / GDP (%)	-1.2	-5.4	-4.2	-3.6	-3.3
External debt / GDP (%)	42	40	46	47	43
Forex reserves, excl. Gold, incl. Tier II (USD bn)	31	47	46	48	50
Forex reserves, in months of imports	4.5	6.3	5.1	5.6	5.3

TABLE 1

(1) Fiscal year from July 1st of year n-1 to June 30 of year n
* 2024: Including proceeds from Ras El Hekma

ESTIMATES & FORECASTS

SOURCE: BNP PARIBAS ECONOMIC RESEARCH

EGYPT: CPI INFLATION AND MONETARY POLICY

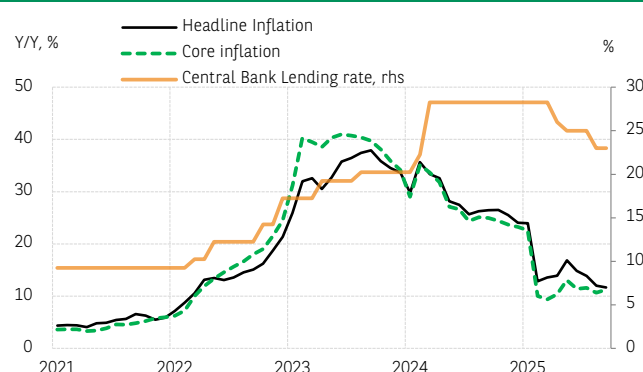


CHART 1

SOURCE: CBE, MOF, BNP PARIBAS

IMPROVED FOREIGN CURRENCY LIQUIDITY

External accounts have been performing well since 2024, despite a difficult regional environment. In FY2025, the fall in Suez Canal revenues was largely offset by a notable increase in tourist arrivals and, above all, an increase in remittances from expatriates. However, a concerning trend is the growing energy trade deficit, which is expected to extend



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from the gas sector—where LNG imports rose by 85% year-on-year in the first nine months of FY2025—to the oil sector, due to the declining trend in local production. In FY2025, the current account deficit widened to 4.2% of GDP. Conversely, net FDI and portfolio investment inflows decreased due to a lack of exceptional items. Debt flows were negative in net terms due to high external debt amortisations. Overall, the Central Bank's foreign exchange reserves declined. Nevertheless, the overall foreign exchange liquidity of the banking system continued to improve as the net external position of commercial banks continued to recover. By the end of September 2025, the net external position of the whole banking system was in surplus by nearly USD 21 billion.

In the short term, the gradual reduction in the current account deficit, supported by ongoing growth in tourism revenues and a recovery in activity in the Red Sea, along with bilateral and multilateral financing (for example, the disbursement of EUR 7.4 billion by the EU over the period 2024-2027) is expected to sustain foreign currency liquidity at a satisfactory level. One of the key conditions for macroeconomic stabilisation is the authorities' commitment to continue the policy of making the exchange rate regime more flexible. Progress is being made in this area, but the authorities have so far benefited from a favourable environment, supported by substantial external financing and, more recently, the depreciation of the dollar.

MIXED FISCAL PERFORMANCE

Since the end of the crisis in 2024, the evolution of public finances has been rather mixed. To the government's credit, primary expenditure (excluding interest payments) has been restrained, particularly through a reduction in public investment and subsidies (-0.5% of GDP). Conversely, budget revenues as a share of GDP have remained virtually stable despite the economic recovery, notably affected by the decline in revenues from the Suez Canal. However, the primary surplus has continued to grow, reaching 3.7% of GDP in FY2025, compared with 2.5% the previous year (excluding exceptional items).

Interest payments on government debt continue to be the main source of vulnerability for public finances and are currently preventing any significant reduction in the budget deficit (*Chart 2*). In FY2025, interest payments surpassed 10% of GDP for the first time, representing around 62% of total government revenue. This figure is by far the highest among emerging countries (less than 15% on average). The increase in the cost of domestic debt has largely overshadowed the positive impact of the Ras El Hekma² (REH) operation on public finances (approximately 3.7% of GDP).

Overall, the budget deficit reached 7.0% of GDP in FY2025 (unchanged from FY2024 when excluding the exceptional revenue associated with the REH operation). In 2026 and 2027, the ongoing IMF reforms, particularly the reduction in energy subsidies (which should be supported by the anticipated fall in oil prices in 2026) and the increase in revenue, should stabilise the primary surplus above 3% of GDP. In addition, continued monetary easing will gradually lower the government's financing costs on the shortest maturities. The budget deficit is projected to continue to decrease, reaching 6% of GDP in FY2027.

ONGOING DECREASE IN PUBLIC DEBT

The budget deficit continues to be primarily financed by local currency securities with maturities of less than one year. In addition, there is both bilateral and multilateral financing. The government's objective is to extend the maturities of its domestic securities while limiting external market debt (the government stipulates that international issues

EGYPT: FISCAL BALANCE AND INTEREST BURDEN

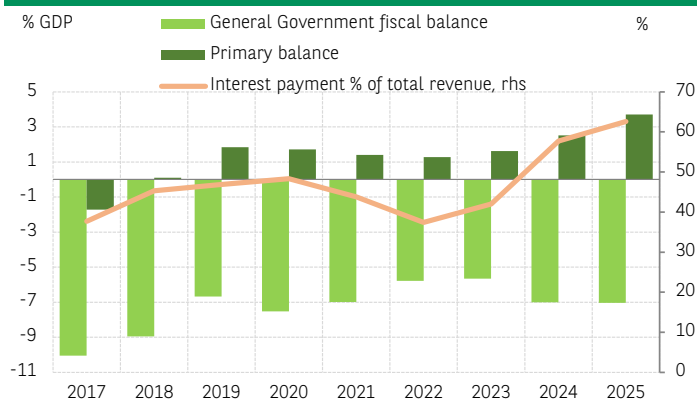


CHART 2

SOURCE: MOF, BNP PARIBAS

should not exceed USD4 billion in FY2026, which is approximately 1% of GDP).

Since the balance of payments crisis in 2022-2023, financing conditions have been steadily improving. The risk premium on Egyptian sovereign international borrowings has fallen from 1,150 basis points at the end of 2023 to around 400 basis points currently. In 2025, the government borrowed around USD5 billion on international markets through Eurobonds and Sukuk, and the average maturity of local market issues has lengthened as the government has increased its issuance of T Bonds. However, this remains limited: in the first seven months of 2025, T Bonds accounted for just over 10% of local currency issues.

The government's objective of extending the average maturity of total debt to 4.5 years by Q4 2026 (up from 3.3 years in Q2 2025) seems optimistic to us, as it faces two constraints: the intention to limit external debt and the Central Bank's cautious monetary policy easing, which diminishes the government's interest to rapidly increase the maturity of its issues.

Government debt reached 83% of GDP in FY2025 (compared to 96% in FY2023). External debt accounts for 27% of the total, and this figure rises to 35% when including locally issued debt held by non-residents. According to our central scenario, the debt-to-GDP ratio is expected to continue its downward trend, reaching 74% of GDP in FY2027.

As the budget deficit is primarily financed through domestic sources, the government's financing conditions are not directly exposed to changes in international interest rates. However, they are a source of vulnerability for the Egyptian economy. The country's external financing requirements are substantial and are currently met through significant international financing (notably from the IMF, World Bank and European Union), which is secured until 2027. In the medium term, the need to attract portfolio investments to stabilise the balance of payments will remain critical. In this context, ensuring that Egyptian interest rates are sufficiently attractive to international investors will continue to be a key objective for the Central Bank.

Completed on 20 October 2025

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² Agreement between the Egyptian government and an Abu Dhabi sovereign wealth fund for an investment of USD 35 billion, of which USD 12 billion has been received by the Egyptian Ministry of Finance.


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