

EGYPT

Investor's Guidebook

SEPTEMBER 2026

LYNX FORUM

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Executive Summary

Egypt's private sector entered the second half of 2026 amid a **more supportive macroeconomic environment than a year earlier, although the recovery remains uneven**. Foreign-exchange inflows have strengthened, the balance of payments has remained in surplus, and policy measures are increasingly supporting investment, productive activity and trade. **These developments are creating opportunities across selected sectors, even as the operating environment remains differentiated across firms.**

The external position provides an important source of resilience. Remittances and tourism receipts reached record levels in the first quarter, while Suez Canal revenues increased and FDI remained supportive. These inflows helped the balance of payments remain in surplus despite substantial portfolio outflows following the escalation of regional conflict. Together with the access to external financing, they provide a stronger foreign-exchange buffer for the private sector and the wider economy **than a year earlier**.

Policy support is also creating opportunities for productive investment. Customs reforms, faster clearance and targeted duty relief can reduce input costs for eligible firms, while industrial and export-support measures are strengthening incentives for local production and higher-value activities. Concessional financing and development-finance initiatives are expanding funding channels for MSMEs and priority sectors. Tourism, agriculture, policy-supported industries, import-dependent manufacturers and higher-value export activities therefore remain areas where opportunities are emerging, although access to these benefits varies across firms.

At the same time, domestic operating conditions remain challenging. Cost pressures intensified in the second quarter, while weak demand limited firms' ability to pass higher costs through to consumers. Manufacturing and smaller firms have been particularly exposed, while financial services and tourism have shown greater resilience. Household purchasing power also remains constrained, with real wages still below pre-2023 levels. The financing environment remains restrictive as persistent inflation has kept monetary policy tight and borrowing costs continue to constrain leveraged and interest-sensitive investment.

These domestic pressures are accompanied by broader external and financial risks. Public-sector borrowing continues to account for a large share of domestic credit, constraining access to bank financing for private firms. Externally, the wider current-account deficit, continued financing needs and the gap between headline reserves and readily deployable foreign-currency liquidity remain important considerations. Exporters also face rising trade barriers in key markets. Most importantly, renewed regional escalation could raise energy and shipping costs, disrupt trade and capital flows, delay disinflation and prolong restrictive financial conditions.

For investors, the resulting landscape is one of selective opportunity rather than broad-based recovery. Policy-supported industries, import-dependent manufacturers benefiting from cost and customs reforms, tourism, agriculture, higher-value export activities and firms able to access concessional financing offer areas of potential opportunity. The principal risk remains renewed regional escalation, particularly through energy and Red Sea disruptions, which could delay disinflation, prolong restrictive financial conditions and place renewed pressure on the exchange rate and sovereign risk premium.

Egypt's macro-financial position has become more resilient, but the domestic recovery remains incomplete. The investment environment is therefore likely to remain highly differentiated across sectors, with the strongest opportunities concentrated where firms are better positioned to withstand domestic demand weakness, manage input costs and benefit from policy support.



Egypt's Private-Sector Operating Environment:

Demand, Costs and Policy Developments



This section examines the main factors shaping Egypt's private-sector operating environment in Q2 2026, covering business activity and cost pressures, sectoral and company-size differences, household demand and consumer financing, and recent trade and customs policy developments. It assesses how these dynamics are affecting firms' operating costs, pricing power, demand conditions and market access.

Q2 2026: PMI Data Reveals Cost Pressures Surge as Weak Demand Constrains Pricing Power

Q2 2026 revealed a difficult combination of accelerating cost pressures and persistent demand weakness in Egypt's non-oil private sector. In April 2026, **the PMI fell to 46.6, its lowest level since January 2023**, as new orders declined at their fastest pace since March 2023. At the same time, input prices rose markedly, with firms citing higher fuel and material costs amid the Middle East conflict. Firms responded by raising selling prices at their fastest rate since August 2024.

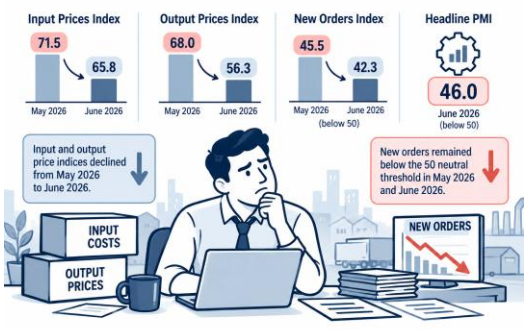


Egypt's Private-Sector Operating Environment





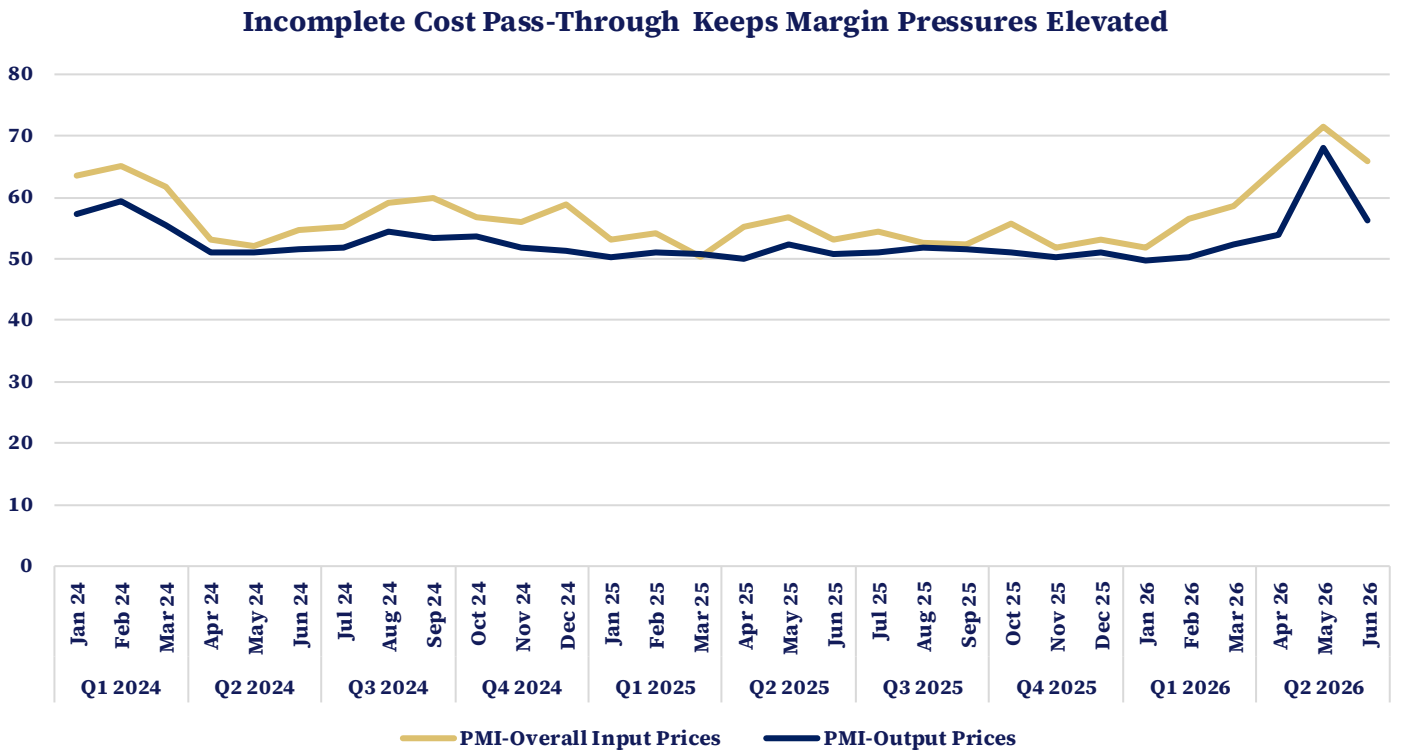
The pressure intensified in May 2026. Input-cost **inflation accelerated further to a new record high**, its fastest rate since January 2023, with nearly half of surveyed firms reporting higher input costs, particularly from diesel and electricity prices, currency weakness and wages. Importantly, new orders contracted for a fifth consecutive month, with the rate of decline remaining close to April's 37-month record. This suggests that firms were confronting a particularly challenging operating environment: costs were accelerating sharply while customer demand remained below the neutral threshold. Firms consequently increased selling prices at one of the fastest rates in the survey's history. **S&P Global explicitly linked the near-record increase in selling prices to firms' efforts to offset margin compression**, noting that the comparatively subdued response of output prices relative to costs in March and April had become unsustainable.

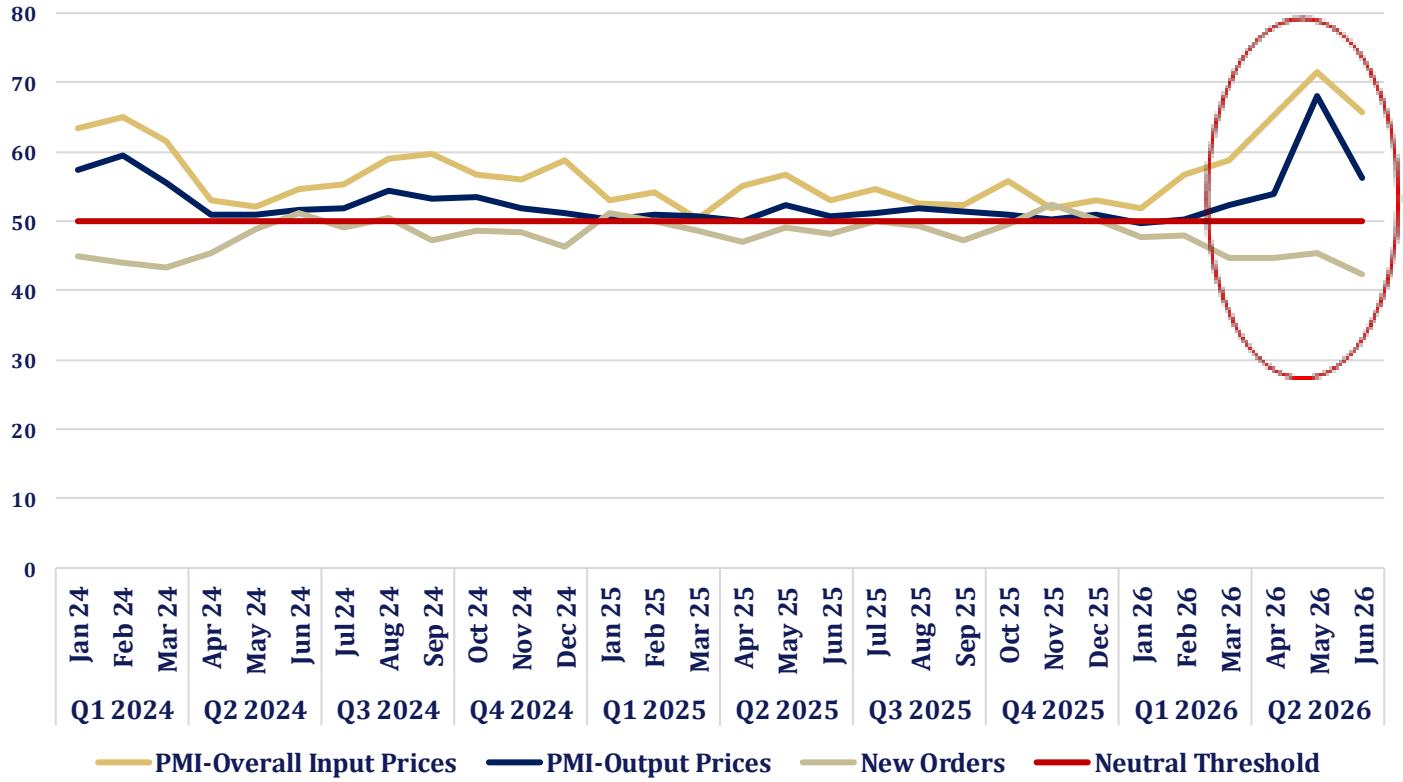




By June 2026, the intensity of the price pressures moderated, but the demand problem remained. The chart shows both input and output price indices retreating from their May peaks, indicating a moderation in the pace of price increases. However, **new orders remained below the 50 neutral threshold, while the headline PMI fell to 46.0**, signaling a renewed deterioration in overall operating conditions. Thus, the June moderation in price pressures should not be interpreted as a broad improvement in business conditions; rather, it occurred alongside continued weakness in demand.

Egypt's Private-Sector Operating Environment





Disclosure / Methodological Note:

- The analysis is based on the **S&P Global Egypt PMI**, which covers Egypt's **non-oil private sector** and therefore should not be interpreted as representing the entire Egyptian economy. The PMI price and demand measures shown in the chart are **diffusion indices**, rather than actual price levels or percentage changes. A reading of **50 represents no change from the previous month**; readings above 50 indicate an increase, while readings below 50 indicate a decrease.

- Accordingly, the analysis focuses on the **direction, acceleration or deceleration, and relative divergence or convergence of the input-price, output-price and new-orders indices**. The numerical difference between the input-price and output-price indices should **not** be interpreted as a percentage of costs passed through, an actual price-cost margin, or a quantitative measure of margin compression. Rather, the relative movements provide an indication of **cost pressures, firms' pricing response and the extent to which weak demand may constrain pricing power**.

Disclosure / Methodological Note:
The ECES Business Barometer and the PMI: Two Complementary Views of Business Conditions

The Egyptian Center for Economic Studies (ECES) Business Barometer and the PMI: Two Complementary Views of Business Conditions

The S&P Global PMI and the ECES Business Barometer (that will be covered in the next section) both track the health of Egypt's non-oil private sector, but they are built on different methodologies and serve different analytical purposes, making them most useful when read together rather than in isolation.

- The ECES Business Barometer is a locally designed instrument tailored specifically to the structure of the Egyptian economy. It surveys a fixed panel of 120 private-sector firms on a quarterly basis, with results broken down across six key sectors: manufacturing, construction, transport, tourism, telecom, and financial services and separately between large companies and SMEs. Beyond the same core variables of production, sales, prices, and employment, the Barometer also asks firms directly what constraints they faced during the quarter.

- Both surveys share the same underlying logic: firms report whether a given variable rose, fell, or stayed the same, and the results are converted into a diffusion index scored against a neutral threshold of 50, above which conditions are improving and below which they are deteriorating. This shared design means the two series can be read side by side without reconciling incompatible scales.

- Where the PMI's advantage lies in frequency, international comparability, and its ability to signal turning points in near real time, the Barometer's advantage lies in depth and local specificity, its sectoral and firm-size breakdowns reveal whether a slowdown is broad-based or concentrated, whether large firms and SMEs are experiencing the same conditions, and, through its direct questioning on constraints and priorities, what is actually driving the numbers. Used together, the PMI provides the pulse of Egypt's non-oil private sector, while the Barometer provides its anatomy.

Egypt Business Barometer Confirms Softer Business Conditions

The ECES Business Barometer broadly corroborates the PMI's signal of softer private-sector momentum in Q2 2026, while providing a more detailed view of how business conditions varied across sectors and company sizes. The Business Performance Index remained **one point above the neutral level**, unchanged from the corresponding quarter but **two points below Q1 2026.**

The quarter-on-quarter moderation was reflected in lower readings for **production, domestic sales, and capacity utilization**, although all three remained above neutral. The exports index improved during the quarter but remained below the neutral level. At the same time, **intermediate input prices increased significantly**, while final product prices also rose, although at a slower pace than in the previous quarter.

This is consistent with the PMI's evidence of sustained cost pressures during the quarter, while the relatively more moderate increase in selling prices points to continued constraints on firms' ability to fully pass higher costs through to customers amid weak demand.



The sectoral breakdown points to a clear divergence in business conditions



Performance declined across all sectors compared with Q1 2026, but the extent of the deterioration varied significantly. **Manufacturing recorded the weakest reading, at three points below neutral**, followed by transport, which stood at the neutral level.



The weaker performance reflected pressures on both demand and supply, including **weaker domestic and external demand, lower purchasing power, higher energy and raw-material costs, disruptions to global supply chains, and higher shipping costs** amid continued geopolitical tensions in the Middle East. By contrast, **financial services and tourism recorded stronger performance**, providing greater support to overall business activity.

Sectoral performance remained uneven, with manufacturing recording the weakest conditions



The Business Performance Index declined across **all economic sectors** in Q2 compared with Q1. The **manufacturing sector recorded the lowest reading, at three points below the neutral level**, followed by **transport, which stood at the neutral level**. The decline reflects unfavorable conditions on both the **demand and supply sides**.



Domestic and external demand remained weak, driven by lower purchasing power, while production costs increased as a result of higher energy and raw-material prices. These pressures were compounded by **disruptions to global supply chains and higher shipping costs**, particularly amid the continued geopolitical tensions in the Middle East. The sectoral results therefore point to a combination of **demand weakness and elevated production costs**.

Company size represents another important source of divergence



Large companies remained above neutral, with the Business Performance Index reaching **three points above the neutral level**, supported by **higher** production, domestic sales, and capacity utilization. SMEs, in contrast, recorded a reading **below neutral**, reflecting broadly **stable** production, sales, and capacity utilization.



The difference was also evident in exports: the exports index for SMEs remained below neutral, whereas that for large companies remained at the neutral level. Nevertheless, export performance improved relative to Q1 2026 for both groups.

The Q3 2026 outlook points to modest improvement, although expectations do not indicate a broad-based acceleration



The Business Performance Expectations Index for July–September is projected at **one point above neutral**, three points higher than in the previous quarter but three points below the corresponding quarter. The expected improvement is primarily associated with stronger anticipated performance in **financial services and tourism**. At the broader business level, companies expect **production, domestic sales, exports, and capacity utilization to remain broadly stable** during Q3.



The improvement in the headline expectations index therefore appears concentrated in selected service activities rather than reflecting expectations of a significant acceleration in core operating activity. Continued challenges and renewed conflict are also expected to sustain uncertainty, although at a lower intensity than in Q2.

Sectoral Performance:

Sector	Q2 2026 Performance	Key drivers of Q2 performance	Outlook	Key factors shaping the outlook
Financial services	↗ **+21 pts above neutral**	**Strongest-performing sector.** Higher trading activity, increased valuations of leading stocks, and greater trading in government debt instruments supported activity. Performance also benefited from macroeconomic stability and the return of foreign investors.	↗ **+9 pts above neutral**	Expectations of higher trading activity amid the government's planned offering programme and state-ownership restructuring, which could expand the pool of companies available for investment. Improved assessment of the macroeconomic environment, including fiscal and monetary adjustment and greater exchange-rate flexibility, also supports expectations.
Tourism	↗ **+8 pts above neutral**	Activity remained firmly in expansion territory, supported by investment in tourism infrastructure, including airports, hotels, and roads; higher international tourist arrivals; conference tourism; and increased visitor flows. The Hajj season and expanded tourism-promotion campaigns also supported activity.	↗ **+3 pts above neutral**	Companies expect continued domestic tourism during the summer season, higher hotel and resort occupancy, and further increases in tourist arrivals supported by tourism promotion. Religious tourism associated with Umrah is also expected to remain supportive.
Telecommunications	↗ **+6 pts above neutral**	Sustained demand for IT services and continued infrastructure development supported activity. New corporate contracts, including accounting and reporting services, expansion into new markets, overseas contracts for IT and smart solutions, and demand for technology training provided additional support.	↗ **+1 pt above neutral**	Continued infrastructure development and expansion in new cities are expected to support activity, while stronger tourism activity is expected to generate additional demand for IT services.
Construction & building	↗ **+3 pts above neutral**	Activity benefited from implementation of the new reconciliation law and completion of required licensing procedures, alongside continued demand for resorts and new cities and the launch of projects in coastal and newly developed areas. Government infrastructure, road, and new-city projects, together with *Decent Life 2*, provided additional support.	↗ **+2 pts above neutral**	Continued implementation of the reconciliation law, rising foreign investment in real estate, and government infrastructure projects underpin expectations. However, higher raw-material costs, particularly for imported materials, are expected to constrain performance.
Transport	= **At neutral**	Despite strong investment in transport infrastructure, ports, and logistics, activity remained under pressure from regional maritime risks and the repercussions of the war with Iran. Longer routes, higher shipping and insurance costs, weaker maritime traffic, and lower import activity weighed on performance. Weaker manufacturing activity also generated negative spillovers.	↘ **−1 pt below neutral**	The outlook remains constrained by geopolitical uncertainty and the risk of further maritime disruption, which could increase shipping pressures and reduce export and import volumes. Expected continued weakness in manufacturing is an additional drag given the close linkage between the two sectors.
Manufacturing	↘ **−3 pts below neutral**	**Only sector in contraction.** Weaker production, domestic sales, and exports were compounded by higher energy and raw-material costs and shortages of key inputs. Food manufacturers were particularly affected by heat-related damage to agricultural crops. Weaker purchasing power constrained domestic demand, while higher shipping and transportation costs and longer routes reduced export price competitiveness.	↗ **+1 pt above neutral**	Expectations remain only marginally positive. Raw-material shortages and higher costs, alongside anticipated increases in energy prices, foreign-exchange costs, and inflation and continued weakness in purchasing power, are expected to constrain the sector. Continued geopolitical tensions add to the downside risks.

Key Constraints Facing the Business Community During Q2 2026

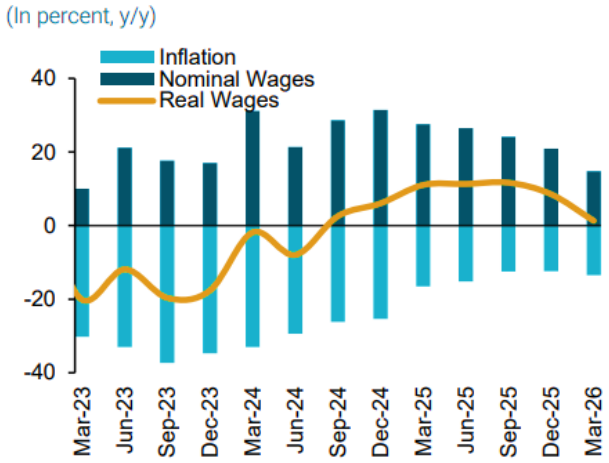
Constraint	Ranking	Change vs. Previous Quarter	Transmission Channel	Specific Issues Identified by ECES	Implication for Businesses
High inflation	1st **Most significant**	Remained the leading constraint	Affects both demand and costs. Higher prices reduce purchasing power and weaken demand, while increasing production costs through higher raw-material and wage costs.	Inflation continued to represent the most pervasive constraint across sectors because of its broad impact on business costs and consumer purchasing power.	Creates simultaneous pressure on sales and margins, as businesses face weaker demand alongside higher input and labour costs.
Energy & water costs	2nd	Less severe than in the previous quarter	Repeated increases in energy and water prices raise production and operating costs, particularly for energy- and water-intensive activities.	Energy and water costs remained among the most prominent constraints despite being less severe than in the previous quarter.	Adds to the cost burden of businesses and places greater pressure on production costs, particularly in energy- and water-intensive activities.
Transport & logistics	3rd	Remained a major constraint	Longer shipping routes and weaker maritime transport activity increase transportation and logistics pressures and affect the movement of goods.	Maritime transport and shipping activity declined as shipping lines required longer periods to reach Egyptian ports. This contributed to weaker import flows. Despite strong investment in infrastructure, ports, and logistics services, the sector remained exposed to regional maritime risks.	Longer routes and shipping times increase logistical costs and can delay the availability and delivery of imported goods and inputs.
Exchange-rate challenges	Joint 4th	Less severe than in the previous quarter	Exchange-rate movements can translate into higher prices for goods and services, affecting business costs and market conditions.	Although exchange-rate challenges became less severe than in the previous quarter, businesses remained concerned that even limited exchange-rate increases could result in significant increases in the prices of goods and services.	Maintains pressure on business pricing and costs, particularly where exchange-rate movements feed through into domestic prices.
Difficulties in dealing with government authorities	Joint 4th	More severe than in the previous quarter	Administrative difficulties and delays increase the time and cost required to complete regulatory procedures and can delay business operations.	Businesses reported difficulties and delays in licence renewals, complex requirements, and the presence of multiple judicial enforcement officers across government institutions. These conditions were identified as creating scope for corruption and unofficial expenses.	Increases administrative burdens and can generate additional formal and unofficial costs associated with regulatory compliance and business procedures.
Fragmented government databases	Part of the administrative constraint	Ongoing issue	Lack of coordination between government entities makes it more difficult to access and use information efficiently, despite the data already being available.	Each government entity maintains its own data, but databases are not well organized and there is insufficient coordination among different government entities.	Creates an additional administrative and coordination burden for businesses dealing with multiple government entities.

Household Purchasing Power

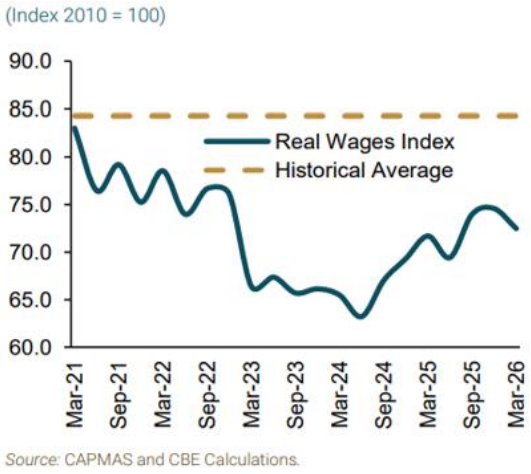


According to the latest data published by the Central Bank of Egypt (CBE), **annual real wage growth slowed sharply to 1.3% in Q1 2026, from 11.0% in Q1 2025**. The slowdown reflects slower nominal wage growth alongside higher inflation. More importantly, **the level of real wages remains below pre-2023 levels**, meaning that the significant erosion in household purchasing power during the 2023–24 inflation shock has not been recovered yet. The latest data therefore point to **a much slower improvement in household purchasing capacity.**

Real Wage Decomposition



Real Wage Index



Source: CAPMAS and CBE Calculations.

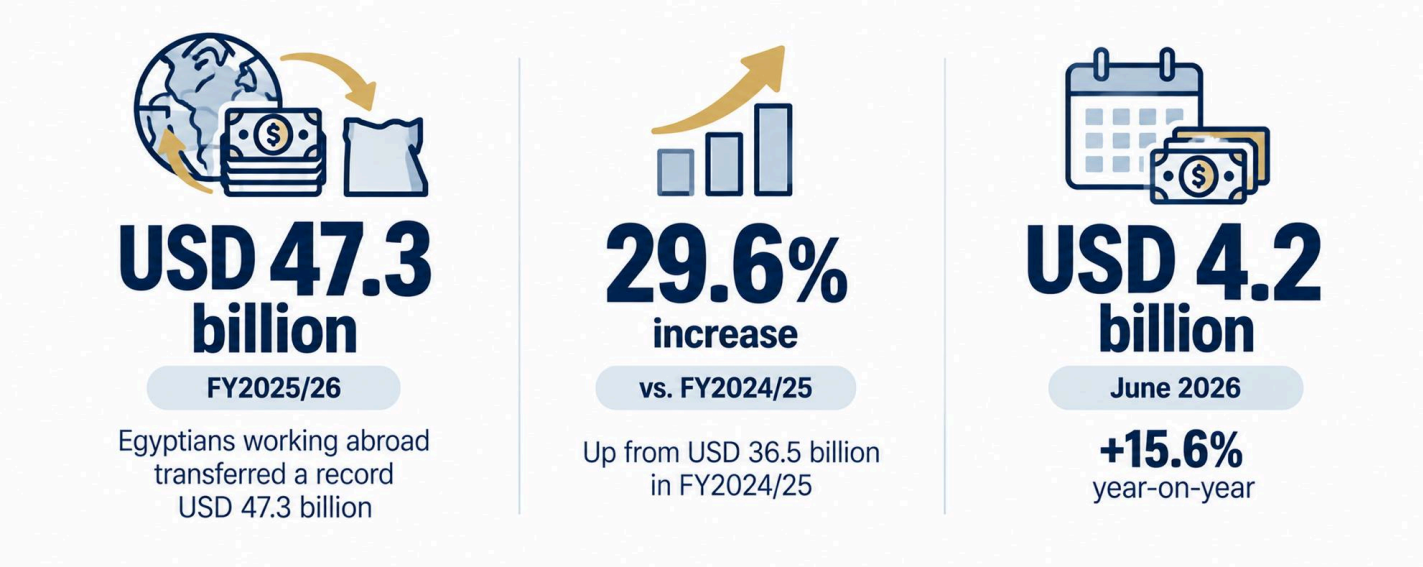


For investors, however, the aggregate real-wage measure should not be interpreted as a uniform indicator of consumer demand. Egypt's consumer market comprises households with materially different income sources, wealth positions and spending capacities. Consequently, subdued mass-market purchasing power can coexist with more resilient demand in selected segments, particularly where household income is supported by sources other than domestic wages. This distinction is important when assessing the composition of consumption rather than simply its aggregate trajectory.

Fore example, remittances represent an important alternative source of household income.

- **Egyptians working abroad transferred a record USD 47.3 billion** during FY2025/26, up 29.6% from USD 36.5 billion in FY2024/25, according to the CBE. Monthly inflows also remained strong, with remittances reaching approximately USD 4.2 billion in June 2026, up 15.6% year-on-year.

- These flows provide additional foreign-currency-linked income to recipient households and therefore create a consumer segment whose spending capacity is less directly determined by domestic wage growth. This can support household expenditure, savings and asset purchases including property despite the slower recovery in real domestic wages.



Consumer Financing as a Demand-Support Mechanism

For durables and other high-ticket items, regulated consumer finance and Buy Now, Pay Later (BNPL) are increasingly providing an affordability channel by converting large upfront purchase costs into more manageable monthly instalments. This is particularly relevant for categories such as automobiles, appliances, electronics and furniture, where the upfront cost remains a significant constraint on household purchasing decisions.



The scale of consumer financing has expanded materially. **According to the Financial Regulatory Authority (FRA), consumer-finance companies provided EGP 71.84 billion of financing in H1 2026**, compared with around EGP 38.11 billion in H1 2025, representing growth of approximately 88.5% year-on-year. The expansion accelerated further in June 2026, when consumer-finance originations reached EGP 20.87 billion, up 135.2% year-on-year, while the number of customers reached approximately 2.0 million during the month, nearly double the level in the same month in the previous year. Importantly, financing activity is concentrated in relatively high-value consumer categories.

In H1 2026, electronics and electrical appliances accounted for 22.7% of consumer-finance originations, followed by automobiles and vehicles at 22.3%. Consumer goods purchased through financing cards represented a further 11.5%, household appliances 9.3%, and mobile phones 4.8%.



For investors,



The composition of financing is significant because it indicates that consumer finance is operating as a demand-enabling mechanism in categories where upfront prices have become a key affordability constraint, rather than being confined primarily to small discretionary purchases. The strong growth in financing therefore provides a channel through which deferred demand for high-ticket goods can translate into actual transactions as consumers become able to spread the cost over time.



The sustainability of this channel nevertheless depends on the evolution of household income, financing costs, repayment capacity and credit quality. Instalment financing redistributes the affordability constraint over future household cash flows; it does not remove it. Accordingly, the current expansion in financed consumption should be viewed as supporting a selective recovery in high-ticket demand, with its durability ultimately dependent on the extent to which income growth and financing conditions can sustain households' ability to service these obligations.

Trade And Customs Policy: Changing Costs, Incentives and Market Access



Recent trade and customs measures point to a multi-faceted approach to managing trade costs and domestic production. **Egypt is utilizing customs and trade policy to influence the relative attractiveness of imports, support targeted industries**, reduce the cost of inputs and improve the efficiency of goods transportation and movement.



This creates a mixed cost environment for the private sector: **some measures increase protection for domestic producers, while others reduce the cost and administrative burden of importing inputs and equipment.**



The changes affect a range of industries, including automotive, energy, commodities, and textile and garment production. Tariff changes are expected to affect landed input costs, working-capital requirements, inventory decisions and final selling prices, while changes in export duties and foreign-market tariffs directly affect exporters' margins and market access.

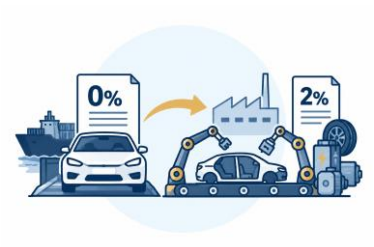


These effects can influence whether companies absorb higher costs, pass them through to consumers, adjust sourcing strategies, or invest in local production capacity.

1. Proposed Measures for Targeted Import Protection



A proposed 5% customs duty on fully imported electric vehicles (EVs), which remains under government evaluation and has not yet received final approval or been formally announced by official authorities, is one example of a potential shift towards using tariffs to address the perceived imbalance between importing finished products and developing local manufacturing capacity.



Fully built-up EVs currently enter Egypt at 0% customs duty, while local manufacturers face customs duties of around 2% on imported production components, in addition to VAT. If approved and implemented, the proposed duty would make importing finished EVs relatively less attractive and could strengthen the incentive to establish local assembly and manufacturing capacity.



The proposed measure could raise the landed cost of fully imported EVs, with some of the increase potentially passed through to consumers. For local manufacturers, the resulting price gap could improve their competitive position and create greater room for investment in assembly and local sourcing. However, if domestic production remains reliant on relatively expensive imported components, the cost advantage could be limited, with the tariff potentially translating into higher vehicle prices rather than a significant increase in local production. The country has also enabled US-manufactured vehicles and parts to enter Egypt, increasing competitive pressure in the automotive market. As the 5% duty remains a proposal under evaluation, its final rate, scope, implementation, and potential impact should be treated as uncertain pending an official government decision.

2. Decreasing Cost of Productive/Essential Imports



Other developments aim to reduce the cost of imported inputs and equipment, with current government discussions including temporarily removing customs duties, taxes, fees and other charges on imported solar-energy components. This is because domestic manufacturing capacity for these components would require several years to establish, and imposing additional costs now could delay investments in renewable energy. If implemented, the measure would lower the upfront cost of solar projects for industrial and commercial users and potentially reduce business exposure to electricity costs.

3. Customs Reforms to Address Non-Tariff Component of Import Costs



The government is also pursuing reforms aimed at reducing the time and administrative cost of importing by introducing measures to cancel the requirement to obtain a delivery permit before beginning customs clearance. The change is expected to reduce average release times by around 3.8 days for shipments, and comes alongside broader reforms including integrated risk management across more than 28 regulatory bodies, expanded pre-clearance procedures and a whitelist system for more compliant companies.



Other proposed amendments including allowing companies to pay customs duties on production inputs in interest-free installments over three months could provide an additional liquidity benefit. For import-dependent manufacturers, this would effectively reduce the immediate working-capital burden associated with bringing inputs into Egypt, particularly when combined with shorter clearance times as delays at ports increase inventory requirements, cause production interruptions and increase storage and handling costs. The government also implemented a TIR guarantee agreement which enforces the same plans, as it reduces border procedures, and processing costs.

4. Export Policy's Responsiveness to External Price and Competitiveness Conditions

In response to deteriorations and changes to external market conditions, Egypt has implemented changes to protect key industries, including commodities such as fertilizers. For example, **the government has cancelled the 10% export duty on Nitrogen fertilizers starting 1 August 2026 in response to a 39% drop in Nitrogen fertilizer prices, reaching USD 550 per tonne, in an effort to preserve exporters' profit margins.**

The measure is implemented alongside potential reductions in domestic natural gas prices. With gas representing around 80% of nitrogen fertilizer production costs, lower gas costs combined with the removal of the export duty would materially improve producers' cost position. The government is consequently moving from taxing unusually high export prices toward supporting the sector's competitiveness as global prices normalize.



5. Changes in External Trade Barriers

- As domestic manufacturing becomes more attractive in response to local custom reforms that are implemented with the aim of reducing operational costs, Egyptian manufacturers face risks of decreasing access to export markets due to increasing trade barriers in key markets.

- The US finalization of anti-dumping duties on Egyptian rebar, combined with the countervailing and existing Section 232 tariffs, raises the effective tariff burden to more than 100% for most Egyptian exporters, while a new 12.5% US tariff applies to a range of Egyptian goods, with exemptions for several products including fertilizers, certain food products and oil and gas.

- The impact is likely to be concentrated rather than economy-wide. The measures increase the cost of serving the US market and could weaken the attractiveness of Egypt as a production base for manufacturers whose investment decisions depend on preferential access to US consumers. Textiles and garments are particularly exposed, given their reliance on labor-cost competitiveness and relatively narrow margins.

- This creates a growing divergence between Egypt's domestic industrial policy and the external environment facing exporters. The government can reduce domestic production costs through customs reform, energy pricing and export incentives, but these gains can be offset where destination markets impose substantially higher tariffs on Egyptian products, and demand in the local market does not meet production supply.



6. Trade Diversification Measures

- Egypt's expansion of preferential and bilateral market access provides a partial counterweight to rising protectionism in major markets.

- Egypt's entry into the D-8 Preferential Trade Agreement will reduce tariffs on qualifying goods traded with member states, while the agreement prevents participating countries from increasing tariffs on covered products after implementation, subject to its review framework. The developments create alternative markets for Egyptian producers facing increasing barriers elsewhere with near-term growth depending on effective translation of formal market access into commercially viable exports through scale, certification, logistics and distribution networks.

- Egypt's recent expansion of export rebates to higher-value digital activities, including electronics design, semiconductors and embedded systems, similarly indicates an effort to diversify Egypt's export base beyond traditional goods and lower-value services.

- Collectively, the developments present that the direction of costs will increasingly depend on what a company imports, why it imports it, and where it sells its output. Firms importing finished consumer products may face a progressively less favorable environment where the government is prioritizing localization, while manufacturers importing production inputs could benefit from faster clearance, lower administrative costs and greater customs flexibility. Export-oriented firms, meanwhile, may face a more uncertain environment as domestic competitiveness improvements are increasingly offset by trade-policy measures in overseas markets.

- Looking forward, the main issue is whether customs and industrial-policy reforms translate into lower effective production costs without creating input bottlenecks or excessive protection of inefficient domestic capacity.

Investor's Takeaway

What has improved?

Cost-pressure intensity moderated by June 2026: Both input and output price indices retreated from May peaks, indicating a slower pace of price increases even though demand remained weak.

Exports improved relative to Q1 2026 for both large companies and SMEs: Although SMEs' exports index stayed below neutral, both groups saw quarter-on-quarter improvements.

Customs and trade-process reforms are reducing frictions for productive imports: Measures include cancelling the pre-clearance delivery permit (cutting average release times by ~3.8 days), integrated risk management across 28+ regulatory bodies, expanded pre-clearance, whitelists, and allowing interest-free 3-month installments for customs duties on production inputs.

Services and selected industries are holding up: Financial services and tourism remain the strongest performers, with telecom/IT and construction also above neutral, providing the main support to private-sector activity. Any cyclical upturn is likely to be services-led and selective, rather than broad-based across industry.

Targeted policy support is emerging for key industries: The cancellation of the 10% export duty on nitrogen fertilizers (from 1 August 2026) and discussions on temporary duty/tax relief for imported solar components signal a shift toward protecting margins in strategic sectors and lowering energy-related costs.

Consumer finance as a demand-enabling channel despite weak real wages: Despite real wages remaining below their pre-2023 levels, strong growth in consumer financing, particularly for electronics, appliances, and autos/vehicles suggests that financing is helping ease upfront affordability constraints and enabling a selective recovery in demand for high-ticket durable goods. At the same time, record remittance inflows have supported a consumer segment whose spending capacity is less directly tied to domestic wage growth, underpinning household expenditure, savings, and asset purchases

Opportunities

Beneficiaries of customs and input-cost reforms: Import-dependent manufacturers can benefit from faster clearance, lower administrative costs and duty installments, while potential duty/tax relief on imported solar components could improve project economics and reduce exposure to electricity costs.

Trade diversification opening alternative markets: Egypt's entry into the D-8 Preferential Trade Agreement and expanded export rebates for digital activities (electronics design, semiconductors, embedded systems) create alternative markets and higher-value export avenues for firms facing rising barriers elsewhere.

Fertilizer exporters' margin support: The removal of the nitrogen-fertilizer export duty and potential lower domestic gas prices (gas ≈ 80% of production cost) can materially improve producers' cost position as global prices normalize.

Investor's Takeaway

Main Risks to watch

Demand remains too weak for a broad recovery: Both PMI and the Business Barometer show new orders and overall activity below neutral, with manufacturing in contraction and transport at best flat, indicating persistent demand weakness despite some moderation in cost pressures.

Inflation is still the binding constraint: High inflation remains the top business constraint, eroding household purchasing power and raising production costs; energy and water costs remain a prominent burden, especially for energy-intensive activities.

Real wages have not recovered to pre-2023 levels: Real wage growth slowed sharply to 1.3% in Q1 2026, and the level of real wages remains below pre-2023, limiting the recovery in mass-market purchasing power.

Geopolitical and shipping risks continue to weigh: Regional maritime risks, longer routes, higher shipping/insurance costs and weaker maritime traffic are pressuring transport and import-dependent industries, with negative spillovers to manufacturing.

External trade barriers are rising for some exporters: US anti-dumping and countervailing duties on Egyptian rebar (effective tariffs >100%) and a new 12.5% US tariff on a range of Egyptian goods increase the cost of serving the US market, with textiles and garments particularly exposed.

SMEs are more vulnerable than large companies: SMEs' performance remains below neutral, with exports still below neutral, reflecting greater sensitivity to financing constraints, input-cost volatility and administrative burdens.

Financed consumption sustainability depends on credit quality: The rapid expansion of consumer finance supports durables demand, but its durability depends on household income growth, financing costs and repayment capacity, with any deterioration posing a risk to future consumption.



Credit & Financing

This section assesses credit allocation, borrowing costs, and access to financing for the private sector, including the role of exceptional measures, sector-targeted incentives, and policy-driven financing programs that may temporarily alter funding conditions.

Domestic Credit Allocation

Total domestic credit reached EGP 17.65 trillion by the end of June 2026 (Q2 2026), increasing by 18.7% year-on-year, compared with EGP 14.87 trillion by the end of June 2025. Within this total, **claims on the private business sector** increased by 22.1% year-on-year to EGP 3.66 trillion, outpacing the growth of domestic credit as a whole. As a result, the private business sector's share of domestic credit increased modestly to 20.8% in June 2026, from 20.2% a year earlier, indicating a directionally positive, albeit limited, shift in credit allocation toward private productive activity. Notwithstanding this improvement, private-sector access to bank financing remains structurally constrained and remains well below levels consistent with a genuinely private-sector-led growth model.



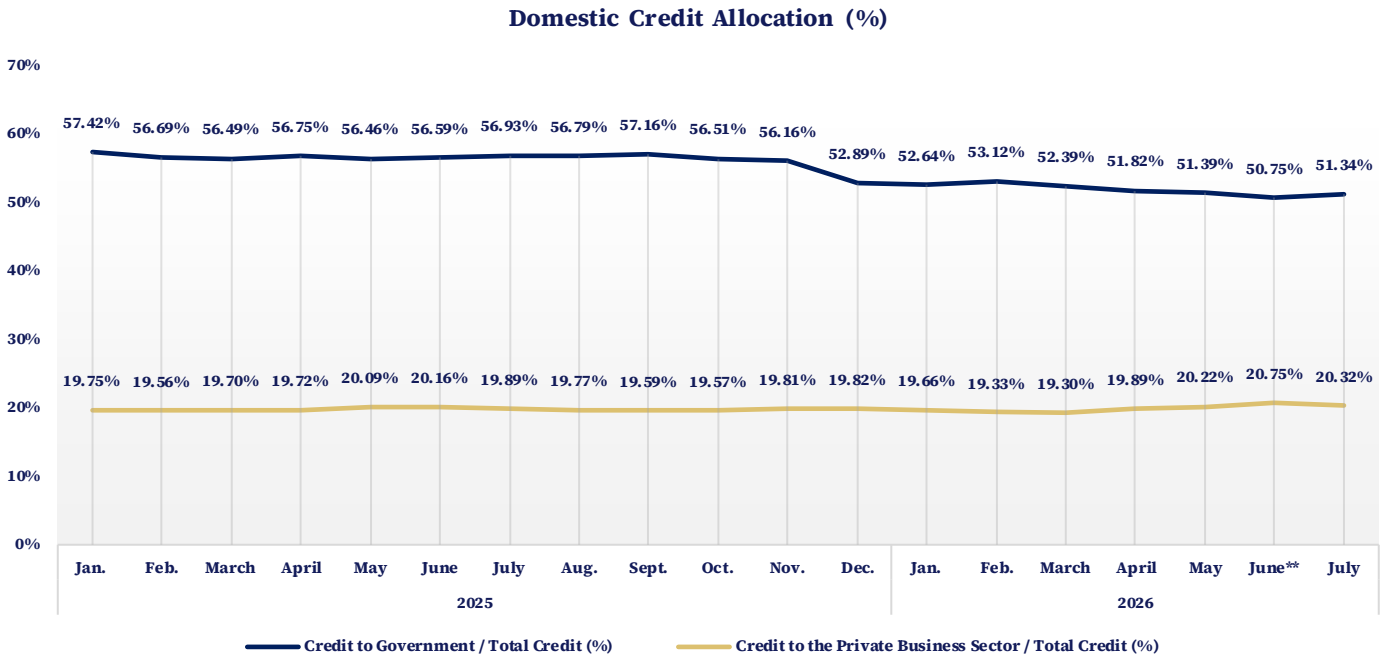


At the same time, **net claims on government increased** by 6.4% year-on-year, reaching EGP 8.95 trillion by the end of June 2026. Consequently, the government's share of domestic credit declined to 50.7%, from 56.6% recorded by the end of June 2025.



It is also worth noting that **net claims on public economic authorities increased** notably, raising their share of domestic credit from approximately 11.7% in Q2 2025 to 16.5% in Q2 2026. Consequently, when net claims on the government, public economic authorities, and public-sector enterprises are considered together, the public-sector-related share of domestic credit remained broadly stable at around 71% of total domestic credit in both Q2 2025 and Q2 2026.

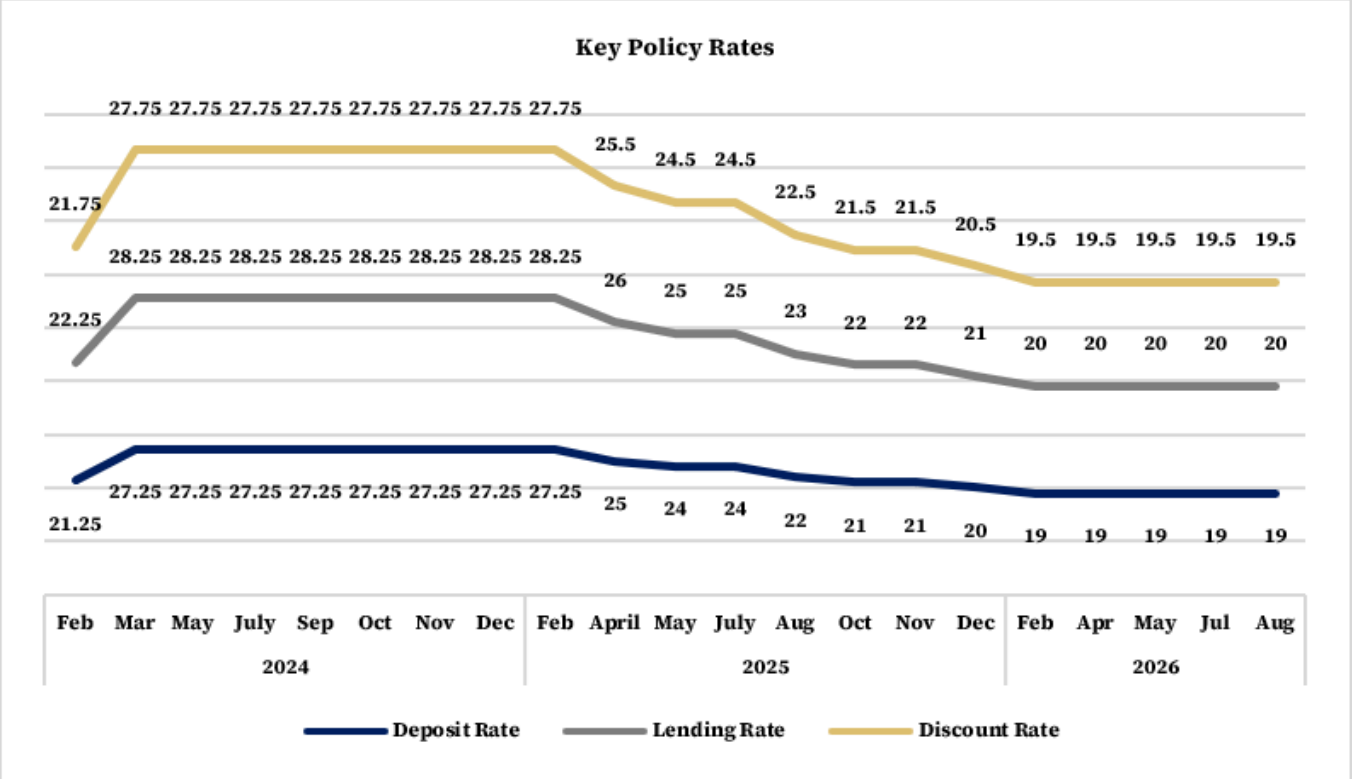
The data therefore point to a change in the composition of public-sector credit absorption rather than a decisive shift in credit allocation from the public to the private sector. This suggests that private-sector access to domestic bank funding remains constrained by the overall structure of credit allocation, particularly for businesses that do not benefit from targeted or subsidized financing programmes.



Borrowing Costs and Monetary Policy Outlook

- Following a **100-basis-point cut at its February 2026 meeting**, the Central Bank of Egypt (CBE) has entered a prolonged monetary-policy pause, leaving policy rates unchanged at its **April, May, July and 20 August 2026 meetings**. At the latest meeting, the CBE maintained the overnight deposit rate at **19.0%**, the overnight lending rate at **20.0%**, and both the main operation and discount rates at **19.5%**. The decision reflected the CBE's assessment that the prevailing monetary stance remained sufficiently restrictive to contain inflation while preserving room to assess whether the recent disinflation trend was durable.

- In July, headline inflation increased to **14.9% from 14.3% in June**, while core inflation rose to **14.7% from 14.3%**; however, both headline and core inflation recorded **0.0% month-on-month**, indicating that the July increase in annual inflation was predominantly attributable to an unfavorable base effect rather than a renewed acceleration in monthly price pressures. The CBE therefore judged that maintaining rates would preserve an adequately positive real interest-rate margin, help anchor inflation expectations and support the projected disinflation path, while avoiding premature monetary easing amid persistent upside risks from geopolitical developments, energy and food prices, supply-chain disruptions and the potential pass-through from fiscal consolidation.



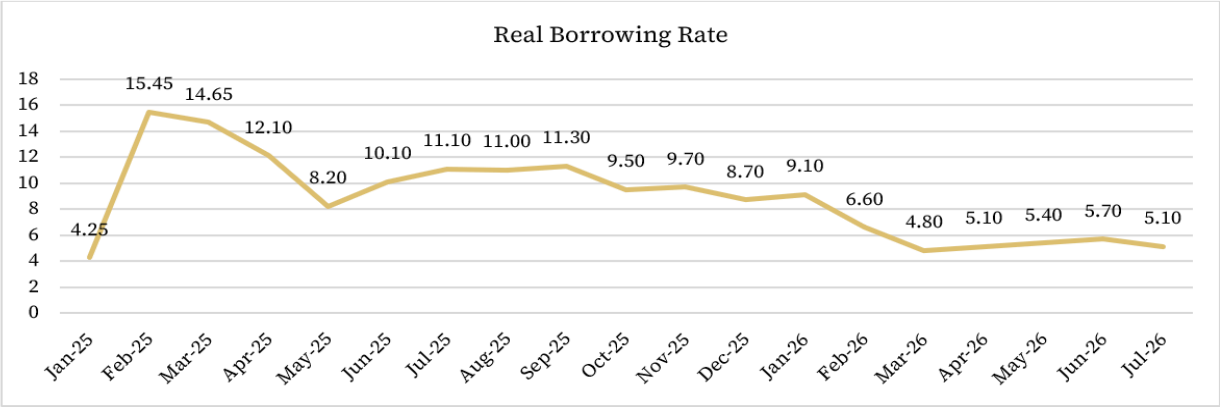
Borrowing costs remain restrictive despite the easing delivered in 2026

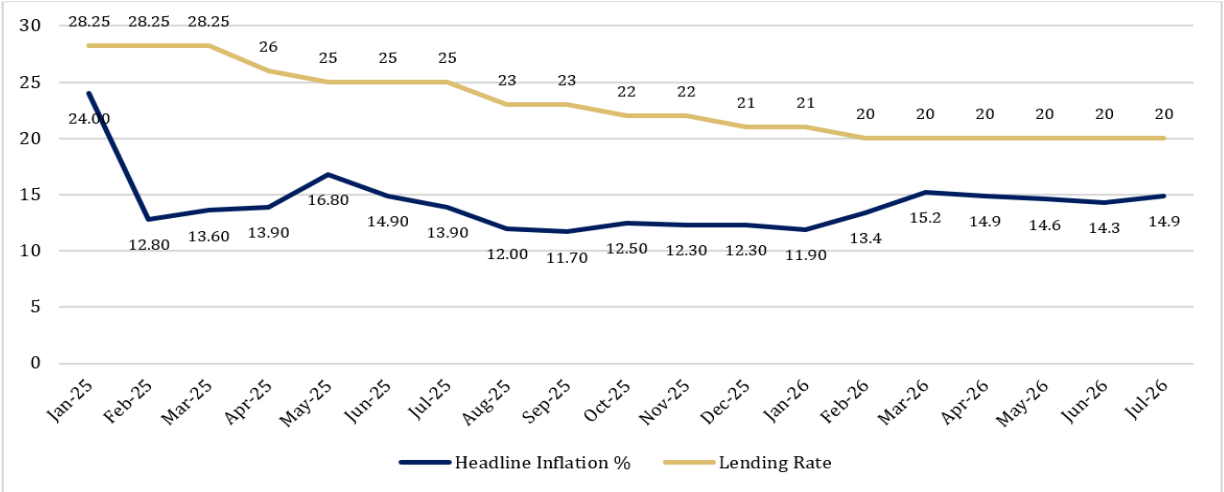


The easing delivered earlier in the year has nevertheless reduced the real cost of borrowing materially. Based on the overnight lending rate and annual headline inflation, the **real borrowing-cost margin declined from approximately 10.1 percentage points in Q2 2025 to 5.7 percentage points in Q2 2026**, before narrowing further to approximately **5.1 percentage points in July 2026**.



The reduction represents an improvement in financing conditions compared with 2025, but the real cost of debt remains substantial. For a debt-financed investment, a real borrowing cost of around 5% represents a meaningful hurdle before accounting for the required return on equity, project-specific execution risks and operating margins. Consequently, while the decline in rates has improved the investment environment, **monetary conditions remain restrictive enough to continue weighing on highly leveraged companies and interest-sensitive investment decisions**, particularly where projects generate relatively low or uncertain returns.





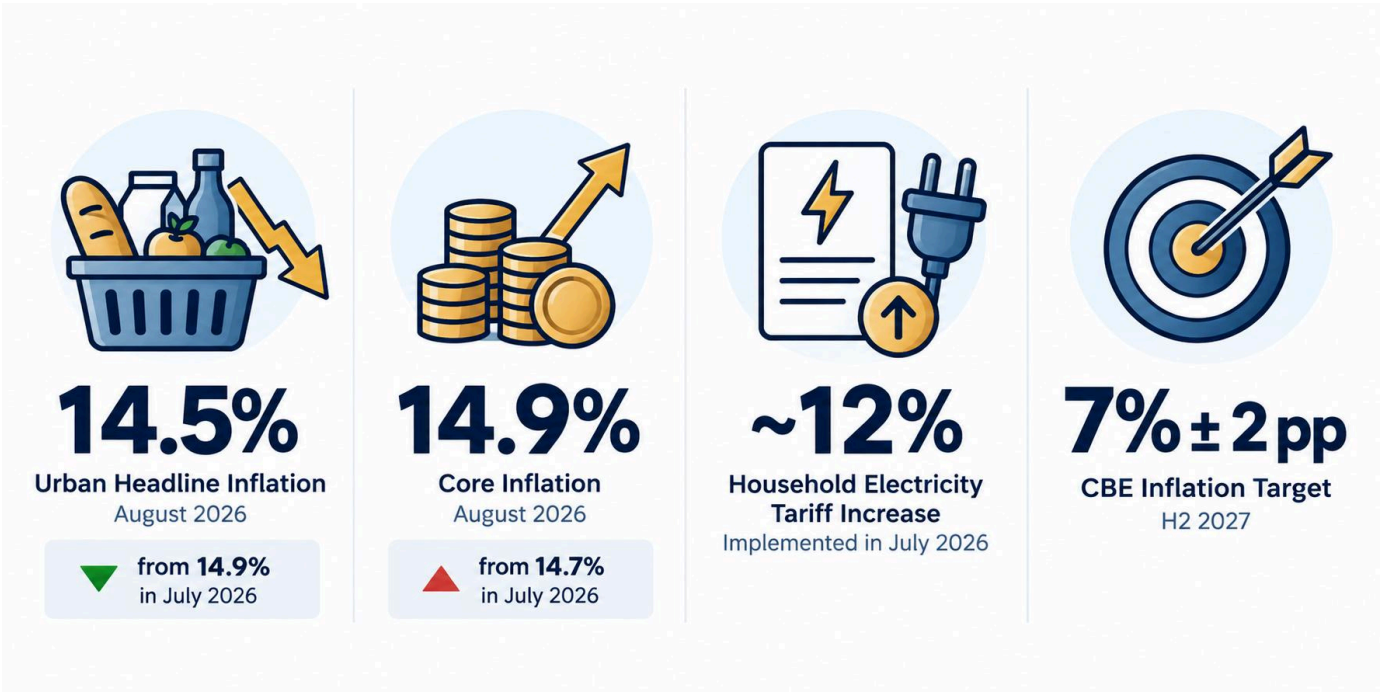
MPC Outlook for the rest of 2026, and why?

Three MPC meetings remain this year: 24 September, 29 October, and 17 December 2026.



With **three MPC meetings remaining on 24 September, 29 October and 17 December 2026**, our central case is for the CBE to **maintain its current policy rates through year-end**, keeping the overnight deposit rate at **19.0%** and the overnight lending rate at **20.0%**, with further monetary easing deferred to 2027. This is also broadly consistent with **Fitch Solutions' expectation of unchanged rates through end-2026 followed by a broader easing cycle in 2027 as disinflation solidifies**.

The latest inflation data do not yet provide a sufficiently strong basis for an earlier resumption of rate cuts. **Urban headline inflation declined to 14.5% in August from 14.9% in July**, supported by a third consecutive monthly decline in food and beverage prices that offset the pass-through from the approximately **12% increase in household electricity tariffs** implemented in late July. However, **core inflation increased to 14.9% from 14.7%**, indicating that underlying price pressures remain firmer than the headline trajectory suggests. At the same time, the CBE expects the acceleration in annual headline inflation through Q3 2026 to be more moderate than previously projected at its July meeting, following lower-than-expected inflation readings in June and July, before inflation gradually declines from Q1 2027 and converges toward the **7% ±2 percentage-point target during H2 2027**.



The principal risk to this outlook is a renewed deterioration in the regional environment. The **mid-September disruption to Saudi Arabia's East-West oil pipeline**, following drone strikes launched from Iraq. Furthermore, the **capture of Mayun (Perim) Island by Houthi forces** raises the risk of further disruption to Red Sea shipping. With both energy supply and shipping routes facing heightened risks, a renewed increase in oil and shipping costs could feed into Egypt's import bill and domestic fuel-linked inflation, potentially delaying the projected disinflation path. These developments reinforce the CBE's already identified upside risks from **escalating regional hostilities and a higher-than-expected pass-through from fiscal consolidation**.



Implications for Investors and Businesses



For investors, the resulting policy environment remains **supportive of real-rate carry through the remainder of 2026.** Stable policy rates alongside gradually moderating, but still double-digit, inflation should preserve positive real returns on EGP-denominated Treasury instruments. However, this carry remains exposed to the regional conflict's potential impact on the **exchange rate and sovereign risk premium**.



For businesses, meanwhile, the prolonged policy pause means that **domestic borrowing costs are likely to remain elevated through year-end**, continuing to weigh on investment decisions in interest-sensitive sectors and on highly leveraged companies.

Financing Initiatives and Policy Measures

How are state-led financing policies and development-finance initiatives changing access to financing for the private sector?



The approach to private-sector financing during June-August 2026 focused on providing new financing facilities with the continued implementation of longer-running programmes, with the aim of improving access to capital through targeted programmes. The measures combine initiatives focused on offering subsidized lending for priority sectors, mandatory MSME credit allocation, development-finance credit lines, guarantees and risk-sharing facilities. This creates additional financing channels, with the strongest support directed toward MSMEs, startups, manufacturing, tourism, exporters, and other activities aligned with government investment and foreign-exchange objectives to enhance domestic output and industrial development, while increasing exports to balance the trade deficit.



The measures reflect the government's broader effort to direct financing toward activities where additional capital is expected to generate wider economic benefits, particularly through investment, localization and the development of domestic value chains. Preferential financing is being used to influence the allocation of private investment toward productive and export-oriented activities, which for investors can reduce effective borrowing costs for eligible projects, improve the availability and tenor of financing, and strengthen the investment case for activities that qualify for government or development-finance support. At the same time, access remains dependent on sector eligibility, project characteristics and the specific financing mechanism available to each business.

Newly Introduced General Financing Initiatives

The newly introduced facilities are concentrated at the smaller end of the private sector. MSMEDA's agreements with Tamweely, Banque Misr and Aman together represent EGP 1.1bn in new financing announced during July-August, while the EBRD facilities add another channel by providing wholesale funding to NBFIs, allowing them to expand their own MSME lending rather than providing loans directly to businesses.



EBRD-GlobalCorp: EBRD offered a USD 15 million senior loan in EGP equivalent to GlobalCorp to enhance lending to Egyptian Micro, Small and Medium Enterprises. Launched 23 June 2026, the facility expands the pool of funding available to NBFIs and MSMEs and addresses the shortage of medium- and long-term financing for smaller businesses.



EBRD-EFG Holding: EBRD Provided a USD 40 million senior, unsecured loan for on-lending to MSMEs through EFG subsidiaries. Launched 22 July 2026 and set to be implemented for four years, with a one year grace period, the mechanism provides longer-term wholesale funding to support MSME liquidity and working capital requirements.



MSMEDA-Tamweely: State-enterprise Micro, Small, and Medium Enterprises Development Agency (MSMEDA) and Tamweely finance offer EGP 350 million in new financing contracts for microenterprises. Launched July 2026, The financing facility expands formal financing availability for microenterprises that may have limited access to conventional bank lending.



MSMEDA-Banque Misr: State-enterprise MSMEDA and Banque Misr offer EGP 500 million facility for microenterprise financing, including working capital and equipment funding. Launched July 2026, the facility supports access to financing for productive assets and day-to-day operations.



MSMEDA-KfW: German state-owned bank KFW provided MSMEDA a EUR 30 million private sector and innovation support facility. Launched August 2026, the development financing expands resources available to microenterprises and innovation-oriented businesses.



MSMEDA-Aman: MSMEDA and AMAN provide a EGP 250 million financing mechanism for microenterprises and entrepreneurs across Egypt. Launched August 2026, the facility broadens access to formal financing for smaller businesses and entrepreneurs.

New Financing Policies

- Measures aimed at widening the channels through which private businesses can raise or access financing have also increased from June - August 2026. Constraints on private-sector financing extend beyond a limited supply of bank credit, with smaller and newer businesses often lacking the collateral, financial histories or formal receivables needed to obtain conventional loans, while companies with imported equipment or long working-capital cycles may require financing structures that banks do not readily provide.

- Expanding capital-market instruments, factoring and leasing can therefore improve the allocation of financing by allowing businesses to borrow against different forms of assets. Over time, this can reduce the concentration of private-sector financing within traditional bank lending and allow more credit to reach productive businesses without requiring a corresponding expansion in direct government subsidies.

- The measures also support financial-sector risk management by improving the information available to lenders and creating clearer frameworks for alternative financing, which can increase the willingness of financial institutions to serve higher-risk or underserved businesses.

These measures include:



CBE corporate and securitization bond rules: Central Bank of Egypt (CBE) introduced new rules governing banks' investments in corporate and securitization bonds. Launched July 2026, the regulatory framework supports the expansion of capital-market and securitization-based financing channels for private companies.



FRA FX leasing and factoring amendments: FRA eased foreign-currency financing rules to allow additional financing structures, including sale-and-leaseback arrangements for imports, asset purchases and FX liabilities linked to operating activities. Launched August 2026, the amendments expand financing options available through leasing and factoring companies for businesses with foreign-currency financing needs.

Ongoing Financing Programs

While new measures concentrated on MSMEs and financing infrastructure, longer-running programmes continued to provide targeted access to finance across priority segments of the economy. Together, these programs create a broader policy framework in which financing is differentiated according to the size of the business, sector, type of investment and development objective.

General Financing Access

The CBE's MSME lending requirement remains the main structural mechanism for ensuring that smaller businesses receive a defined share of bank financing. Development-finance programs and business-support platforms complement this requirement by reducing the information, collateral and risk barriers that can prevent smaller companies from accessing formal credit.



CBE MSME lending requirement: Banks are required to allocate at least 25% of their credit portfolios to MSMEs, including at least 10% to small enterprises. The requirement remains ongoing and creates a structural channel for bank financing to smaller businesses.



HAFIZ: The government's HAFIZ platform connects private companies with concessional finance, credit lines, guarantees, investment and technical support from development partners. Launched December 2023, with a second phase introduced in 2025, the program remains ongoing and broadens access to development-finance resources.



EU-Egypt EFSD: The EU and Egypt established a EUR 1.8 billion investment-guarantee mechanism to support concessional and blended financing. Launched June 2025 under the 2024-2027 partnership framework, the facility helps development-finance institutions extend financing to private-sector investments while sharing project risk.



EIB MSME Guarantee Facility: The European Investment Bank approved a EUR 70 million guarantee facility supporting approximately EUR 500 million in total coverage across several countries, including Egypt. Launched November 2025, the facility allows financial intermediaries to take greater lending risk and improve financing terms for underserved MSMEs.

Sector Specific Financing Programs

Sector / Program	Program	Mechanism	Launch	Impact
Industry	Initiative to Support Priority Industrial Sectors	Financing at 15% annually for five years, with the Ministry of Finance covering the interest-rate differential	Phase I: January 2025; Phase II: February 2026 Five-year financing period for eligible loans	Reduces the cost of capital for fixed investment in priority industries, including machinery, equipment and production capacity
	Industrial Sector Working Capital Financing Initiative	EGP 150 billion financing framework for industrial working-capital requirements	2023 - ongoing	Supports industrial liquidity and day-to-day operating requirements
	Investment Fund for the Restructuring and Financing of Distressed Factories Incentive	Proposed EGP 3 billion fund for restructuring and investment in viable distressed factories	Announced April 2026 - ongoing	Provides an alternative source of restructuring and potentially equity financing for viable factories
Tourism	EGP 50 billion tourism support initiative	Financing at a 12% declining rate for new hotel rooms, acquisition and renovation of non-operating rooms, and conversion of closed buildings into hotels	October 2024 - ongoing	Supports tourism capacity expansion and links financing to FX-generating investment
Agriculture	Transforming the Livelihoods of Smallholder Farmers	EGP 120 million 2 in financing and support for agricultural production, strategic and export crops, solar infrastructure and financial services	January 2025 - December 2026	Supports smallholder productivity, agricultural investment and access to formal financial services
	Banque Misr agricultural financing arrangements	Financing arrangements for agricultural projects under the national 1.5 million-feddan development programme	June 2026	Supports investment in agricultural land development and production
Startups	Egypt startup charter	USD 1 billion financing framework combining government resources, guarantees and co-investment with venture-capital and private investors	February 2026 - 2031	Expands access to risk capital for startups that may not qualify for conventional debt financing



The financing measures during June-August 2026 establish a more diversified and targeted financing system, with both the newly launched incentives and ongoing initiatives expected to improve the availability of capital for private businesses and strengthen the flow of financing toward productive investment. By expanding concessional lending, development-finance facilities, guarantees and alternative financing channels, the measures should gradually ease some of the structural constraints limiting private-sector credit, particularly for MSMEs and businesses requiring longer-term or asset-based financing.

Credit & Financing



Broader access to financing should support private investment and business expansion while improving the transmission of liquidity from the financial system into the real economy. The emphasis on industrial and export-oriented activities could have a stronger effect on domestic production and foreign-exchange generation than a broad-based credit expansion.



The impact is likely to be gradual because expanding the supply of financing does not translate into additional borrowing or productive investment. Smaller firms may still face collateral requirements, limited financial records, high risk premiums and eligibility restrictions, while subsidized programs remain concentrated in selected sectors and may not reach businesses outside government priorities.



There is also a risk that stronger credit allocation targets increase lending to eligible firms without materially improving the quality of financing, particularly if banks remain cautious about credit risk. For larger industrial projects, financing availability may not be sufficient to unlock investment where imported machinery, FX requirements, input costs or weak demand remain major constraints.



Their broader impact will depend on whether additional credit is converted into productive capacity, rather than short-term working-capital or refinancing existing obligations. If implementation remains strong, the initiatives should gradually deepen private-sector credit and support industrial investment, but its effect on overall credit growth, domestic production and the external balance is likely to remain constrained by demand-side and structural issues.

Investor's Takeaway

What has improved?

Private-sector credit share edged up modestly, but public dominance persists: Claims on the private business sector grew 22.1% year-on-year to EGP 3.66 trillion by June 2026, lifting its share of domestic credit to 20.8% from 20.2% a year earlier; however, while the government's direct share declined to 50.7% from 56.6%, the overall public-sector-related share (government, public economic authorities and public-sector enterprises combined) remained broadly stable at around 71% in both Q2 2025 and Q2 2026, indicating a change in the composition of public credit absorption rather than a decisive reallocation to the private sector.

Real borrowing costs have declined materially from 2025 peaks: The real cost of borrowing fell from approximately 10.1 percentage points in Q2 2025 to about 5.1 percentage points in July 2026, reflecting earlier rate cuts and moderating inflation, though real borrowing costs remain substantial enough to weigh on highly leveraged companies and interest-sensitive investment decisions.

Monetary policy pause is preserving positive real-rate carry: The CBE has maintained policy rates unchanged since February 2026 (overnight deposit at 19.0%, lending at 20.0%), with the central case for rates to remain on hold through end-2026, supporting positive real returns on EGP-denominated Treasury instruments while deferring broader easing to 2027.

New financing facilities are expanding access for MSMEs: Newly announced facilities in June-August 2026 include USD 55 million in EBRD financing to GlobalCorp and EFG Holding for on-lending to MSMEs, alongside EGP 1.1 billion in MSMEDA financing through Tamweely, Banque Misr and Aman, and a EUR 30 million KfW facility to support microenterprises and innovation-oriented businesses, helping address the shortage of medium- and long-term funding available to smaller businesses.

Alternative financing channels are being enabled: New CBE rules on banks' investments in corporate and securitization bonds, together with FRA amendments easing FX leasing and factoring (including sale-and-leaseback for imports), are widening non-bank financing options and allowing businesses to borrow against a broader set of assets.

Concessional and development-finance programs remain active: Ongoing initiatives, including the CBE MSME lending requirement (25% of bank credit portfolios), HAFIZ platform, EU-Egypt EFSD and EIB MSME guarantee facility, continue to provide concessional finance, guarantees and risk-sharing for MSMEs, startups, manufacturing, tourism and exporters.

Sector-specific subsidized financing is supporting priority investment: Programs such as the 15% annual-rate financing for priority industrial sectors, EGP 150 billion industrial working-capital framework, EGP 50 billion tourism support initiative at 12% declining rate, and agricultural financing arrangements are reducing the cost of capital for eligible fixed investment and working-capital needs in targeted sectors.

Investor's Takeaway

Opportunities

Positive real-rate carry on EGP fixed income through 2026: Stable policy rates alongside gradually moderating, but still double-digit, inflation should preserve positive real returns on EGP-denominated Treasury instruments, supporting carry strategies for investors comfortable with regional conflict risks affecting the exchange rate and sovereign risk premium.

Beneficiaries of subsidized sector financing: Companies in priority industrial sectors, tourism, agriculture and startups can access below-market financing (e.g., 15% annual rate for priority industry, 12% declining rate for tourism projects), reducing effective borrowing costs for eligible capex, expansion and working-capital requirements.

MSMEs and innovation-oriented businesses gaining better access: Expanded MSME facilities (EBRD lines to NBFIs, MSMEDA partnerships, CBE 25% MSME portfolio requirement) and new alternative financing channels (securitization, FX leasing, factoring) improve the availability and tenor of financing for smaller and asset-light businesses that previously faced collateral and documentation constraints.

Import-dependent manufacturers benefiting from FX leasing reforms: FRA amendments allowing additional FX financing structures, including sale-and-leaseback for imports and asset purchases, expand financing options for businesses with foreign-currency financing needs and long working-capital cycles.

Export-oriented and FX-generating projects: Financing programs that prioritize FX-generating investment (e.g., tourism capacity expansion, export-focused manufacturing) align with government objectives and may benefit from more favorable terms, longer tenors and stronger policy support.

Investor's Takeaway

Main Risks to watch

Private-sector credit remains structurally constrained: Despite the modest rise in the private-sector credit share, when government, public economic authorities and public-sector enterprises are combined, the public-sector-related share of domestic credit remained broadly stable at around 71%, indicating that private-sector access to bank financing remains constrained by the overall structure of credit allocation, particularly for businesses outside targeted programs.

Monetary easing is likely deferred to 2027: With three MPC meetings remaining in 2026 (24 September, 29 October, 17 December), the central case is for unchanged policy rates through year-end, meaning domestic borrowing costs will stay elevated and continue to weigh on interest-sensitive investment and highly leveraged companies.

Regional conflict could delay disinflation: Core inflation remains firm at 14.9% in August, and upside risks from regional hostilities (including the recent disruption to Saudi Arabia's East-West oil pipeline), energy and food prices, and fiscal pass-through could slow the decline in inflation, potentially keeping real rates high for longer and threatening the projected disinflation path.

Targeted financing may not translate into productive investment: Expanding the supply of concessional and development finance does not guarantee additional borrowing or capacity expansion; smaller firms may still face collateral requirements, limited financial records, high risk premiums and eligibility restrictions, while subsidized programs remain concentrated in selected sectors.

Credit quality and allocation risks: Stronger credit allocation targets (e.g., MSME portfolio requirements) could increase lending to eligible firms without materially improving financing quality, particularly if banks remain cautious about credit risk or if additional credit is used mainly for working-capital or refinancing rather than new productive capacity.

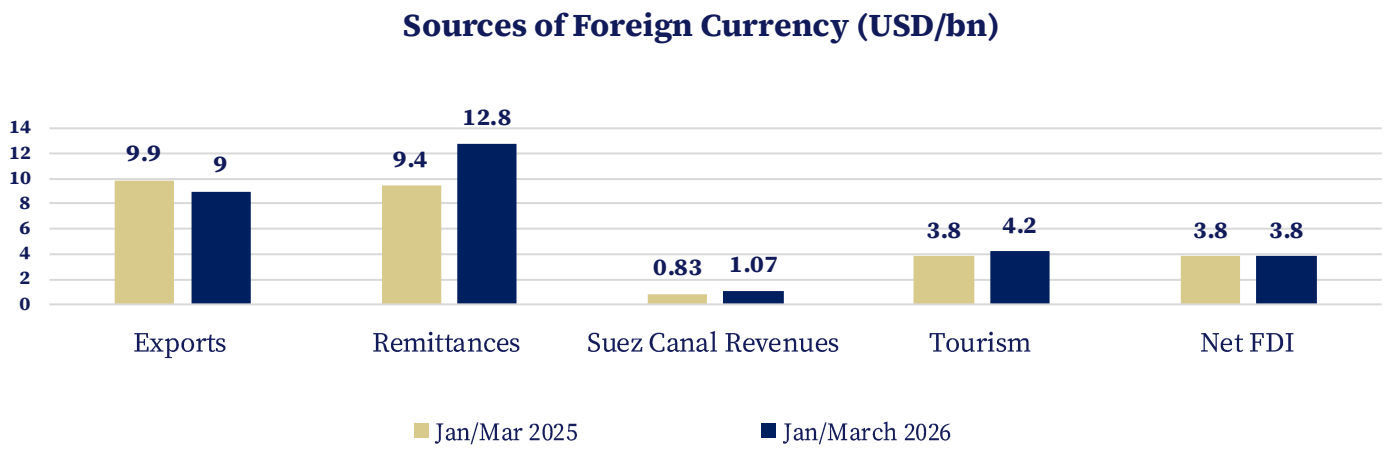


External Buffer

External Buffer

This section assesses the strength and sustainability of Egypt's foreign currency inflows relative to its external payment obligations, offering investors a forward-looking read on FX liquidity conditions and their implications for the operating environment.

1. Structure of Foreign Currency Inflows





Remittances: the strongest resilience signal. Remittance inflows reached a record USD 12.8 billion in Q1 2026, up 36% y-o-y, extending the strong momentum established following the exchange-rate unification in Q1 2024. More importantly, inflows accelerated rather than weakened when regional tensions intensified in late February. This resilience suggests that remittances are increasingly a structural source of foreign currency rather than a flow that is highly responsive to short-term geopolitical or financial shocks. The growing use of digital cross-border payment channels is also supporting the formalization and accessibility of these transfers.



Services: net services receipts increased 16% y-o-y to USD 4.0 billion, supported by a broad-based improvement across key foreign currency-generating sectors.

- **Suez Canal receipts** increased by 27.2% to USD 1.15 billion in Q1 2026, compared with approximately USD 901.2 million in the corresponding period of the previous year. The recovery was also evident in underlying navigation activity: vessel tonnage increased 23.6% to 142.9 million tons, while the number of transiting vessels rose 11.5% to 3,324. This recovery is particularly significant given the Canal's exposure to regional geopolitical disruptions. In March, despite heightened tensions in the Middle East, vessel tonnage still increased 21.7% y-o-y to 51.5 million tons, while Canal revenues rose 23.3% to USD 410.2 million and vessel transits increased 11.0% to 1,191 vessels. The Suez Canal Authority has also continued to use targeted incentives to support traffic recovery, including the extension of a 15% discount for container ships with net tonnage exceeding 130,000 tons through March 2026, while considering additional incentives linked to cargo volumes and returning vessels.

External Buffer

- **Tourism receipts** rose 9% y-o-y to a record USD 4.16 billion in Q1 2026, up from USD 3.8 billion in Q1 2025. The increase is notable given the persistent regional geopolitical headwinds and reflects the sector's growing operational resilience. Uninterrupted air transport services and the continued opening of regional airspace supported inbound connectivity, while Egyptian airports continued to serve as strategic hubs for the national carrier and regional airlines. The recovery was further reinforced by stronger domestic demand, with increased participation in recreational activities and domestic tourism providing an additional buffer against external volatility. The improvement was reflected in key volume indicators: tourist nights increased 8.3% y-o-y to 44.2 million, from 40.8 million, while tourist arrivals rose 15.6% to 4.6 million, from 3.9 million.

- **Other services (communications, computer, and information services)** expanded 19%. This growth was supported by a National Telecom Regulatory Authority (NTRA) directive requiring mobile operators to provide complimentary international calling minutes, which boosted cross-border telecommunications traffic, as well as, the expansion of Business Process Outsourcing (BPO) and digital service exports is strengthening Egypt's position as a regional and cost-competitive services hub, as international firms increasingly seek offshore locations for digitally enabled and cost-efficient operations.



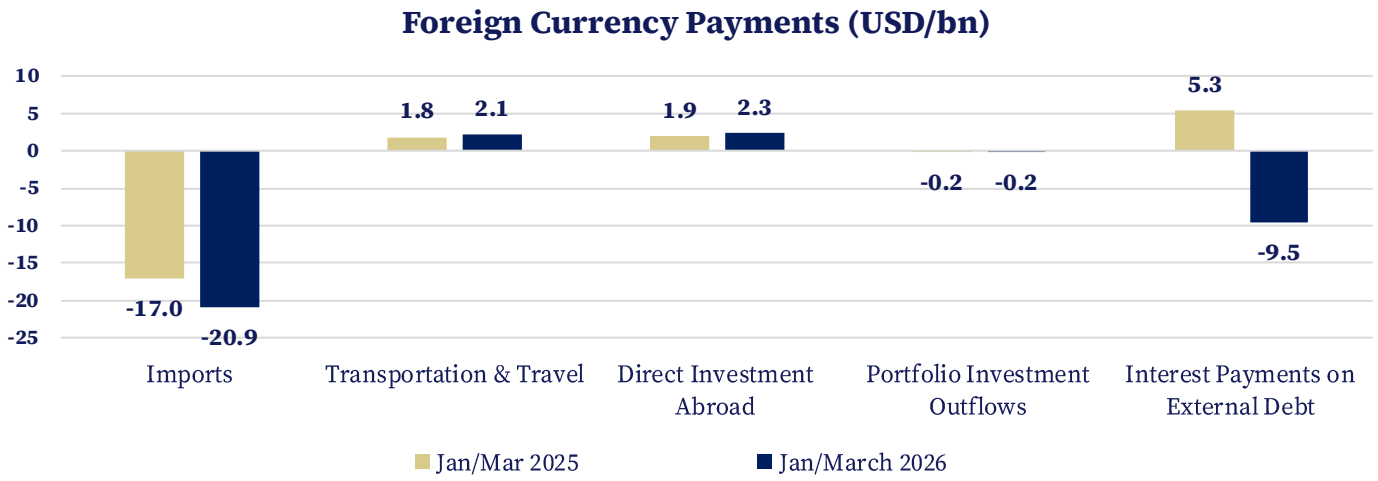
Foreign direct investment (FDI) and official financing provided an additional layer of external support. Net FDI inflows reached USD 3.8 billion, exceeding their quarterly long-term average. This was complemented by official financing, including a USD 2.3 billion IMF disbursement following the fifth and sixth reviews under the Extended Fund Facility (EFF), alongside approximately EUR 1.0 billion under the EU's Macro-Financial Assistance programme.



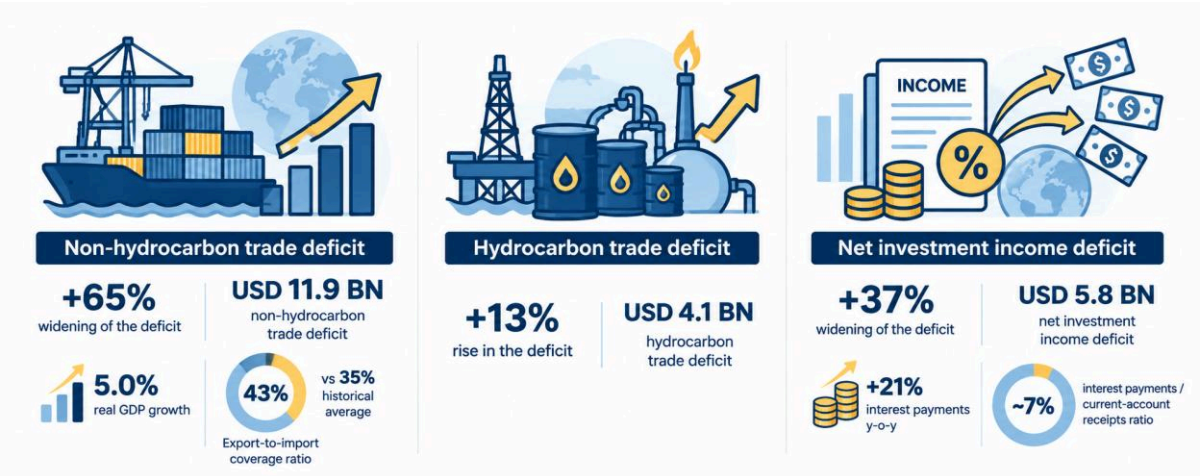
The main vulnerability lies in portfolio investment, which saw USD 9.5 bn of outflows following the conflict's outbreak underscoring that hot money remains the most volatile and risk-sensitive component of Egypt's external inflow structure.

2. External Foreign Currency Outflows and Coverage

Outflow pressures intensified in Q1 2026, with the current account deficit more than doubling y-o-y to USD 5.1 bn (1.2% of GDP, versus 0.6% in Q1 2025). This was driven by:

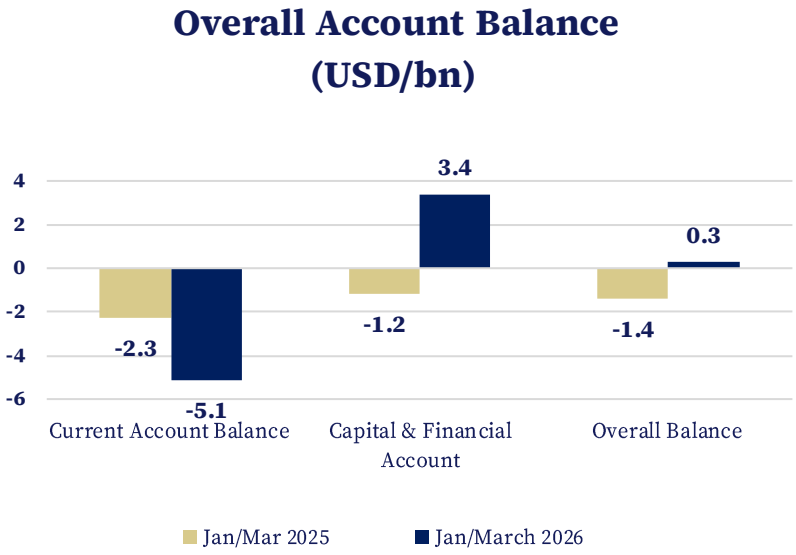


- A **65% widening of the non-hydrocarbon trade deficit** to USD 11.9 bn, as import growth (linked to strong 5.0% real GDP growth and intermediate goods demand) outpaced a mild export contraction. The non-hydrocarbon export-to-import coverage ratio fell y-o-y to 43%, though it remained above its 35% historical average, a sign that trade coverage, while softening, has not broken down.
- A **13% rise in the hydrocarbon trade deficit** to USD 4.1 bn, reflecting higher global prices amid regional conflict and continued domestic natural gas production contraction.
- A **37% widening of the net investment income deficit** to USD 5.8 bn, with interest payments up 21% y-o-y. Importantly, the interest-payments-to-current-account-receipts ratio held stable at around 7%, below the Q1 2024 peak indicating debt-servicing capacity has kept pace with the growth in obligations rather than deteriorating.



External Buffer

- **Coverage and liquidity implications:** Despite the wider current account gap, the capital and financial account more than compensated, swinging to a USD 3.4 bn net inflow (from a USD 1.2 bn outflow in Q1 2025), driven by a USD 6.7 bn drawdown of commercial banks' foreign assets, FDI, and USD 4.6 bn in medium/long-term loan disbursements absorbing the portfolio outflow shock. The result was a marginal but positive overall balance of payments surplus of USD 0.3 bn.

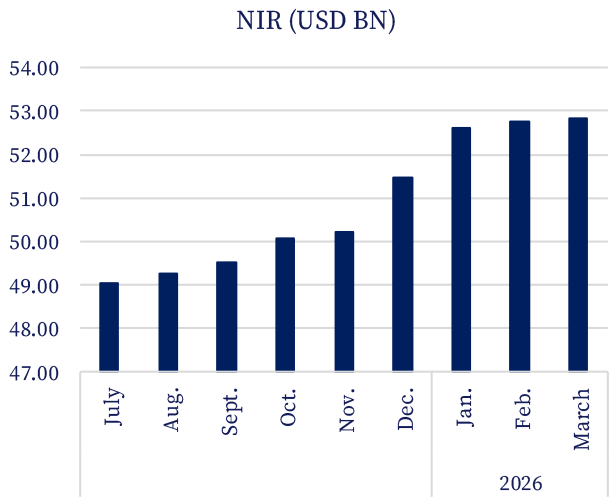


How this was translated in terms of reserve accumulation

- Net international reserves rose to USD 52.8 bn by end-March 2026 (from USD 51.5 bn at end-2025), covering 6.2 months of imports double the 3-month international benchmark.

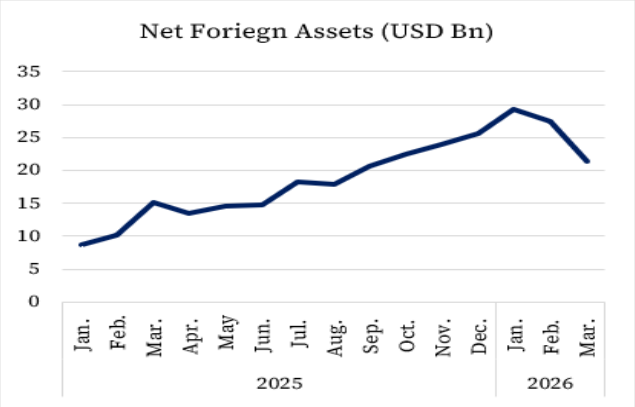
- However, the composition of this increase is important for assessing the quality and deployability of the reserve buffer. The USD 5.07 billion year-on-year increase in NIR was fully explained by the rise in the recorded value of gold reserves. Gold holdings increased from USD 12.61 billion in March 2025 to USD 19.19 billion in March 2026, a USD 6.58 billion increase. By contrast, foreign-currency reserves declined by USD 2.04 billion, from USD 35.14 billion to USD 33.10 billion. This distinction is important from an investor perspective, while Egypt's headline reserve adequacy has strengthened materially, the more immediately deployable component of reserves foreign currency available to support external payments, debt servicing and FX-market operations has not increased in tandem.

- The rise in gold reserves also appears to be predominantly a valuation effect rather than a material accumulation of physical gold. Gold holdings increased only marginally, from 128.27 tonnes in March 2025 to 129.51 tonnes in March 2026, or less than 1%. The substantial increase in their dollar value therefore largely reflects the sharp appreciation in international gold prices over the period. The gold prices opened Q1 2026 at USD 4,386.85/oz, reached an all-time high above USD 5,500/oz on January 28, and closed the quarter at USD 4,608.35/oz.



Beneath the Headline: What Liquidity Is Actually in the Market?

To assess the foreign-currency liquidity actually available to the system including banks, importers and the government during Q1 2026, banking-system NFA provides a broader measure of market liquidity, capturing the banking system's net foreign-currency position and the extent of its external liquidity cushion. Banking-system NFA stood at USD 29.5 billion in January 2026, declined to USD 27.4 billion in February 2026, and then fell sharply to USD 21.3 billion in March 2026, a USD 6.1 billion, or 22%, decline in a single month.



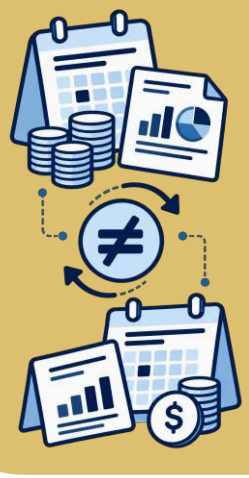


The March deterioration was concentrated in commercial banks: their NFA declined by approximately USD 5.9 billion, while the CBE's NFA declined by only around USD 130 million. This is consistent with the balance-of-payments data, which recorded a USD 6.7 billion decline in commercial banks' foreign assets during Q1 2026, indicating that the commercial banking system's external assets were drawn down as part of the financing of the quarter's external deficit and capital-flow pressures.



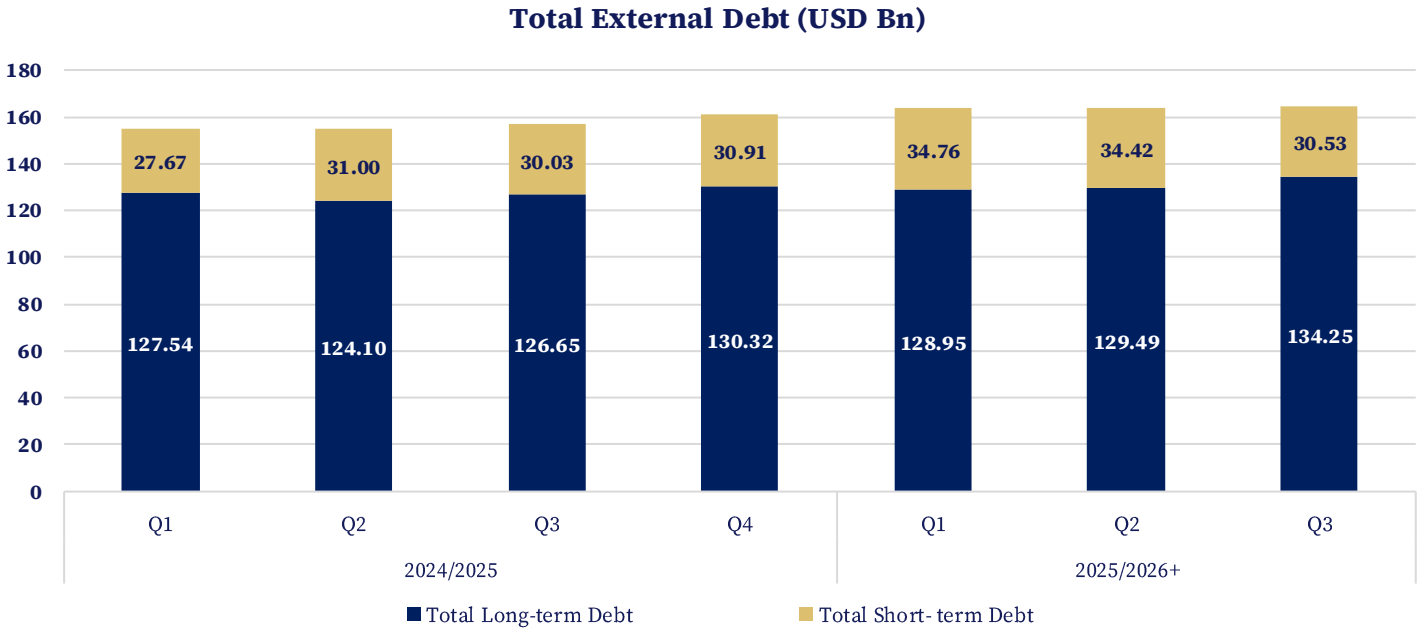
Despite the sharp Q1 drawdown, the year-on-year position remained substantially stronger. Banking-system NFA stood at USD 21.3 billion at end-March 2026, up approximately 40% from USD 15.2 billion at end-March 2025, indicating that the banking system entered the latest external shock with a significantly larger net FX buffer than a year earlier. However, the sharp March drawdown shows that part of this buffer was deployed rapidly as portfolio outflows intensified.

What the Buffer Must Cover: Egypt's External Debt Stock and Structure



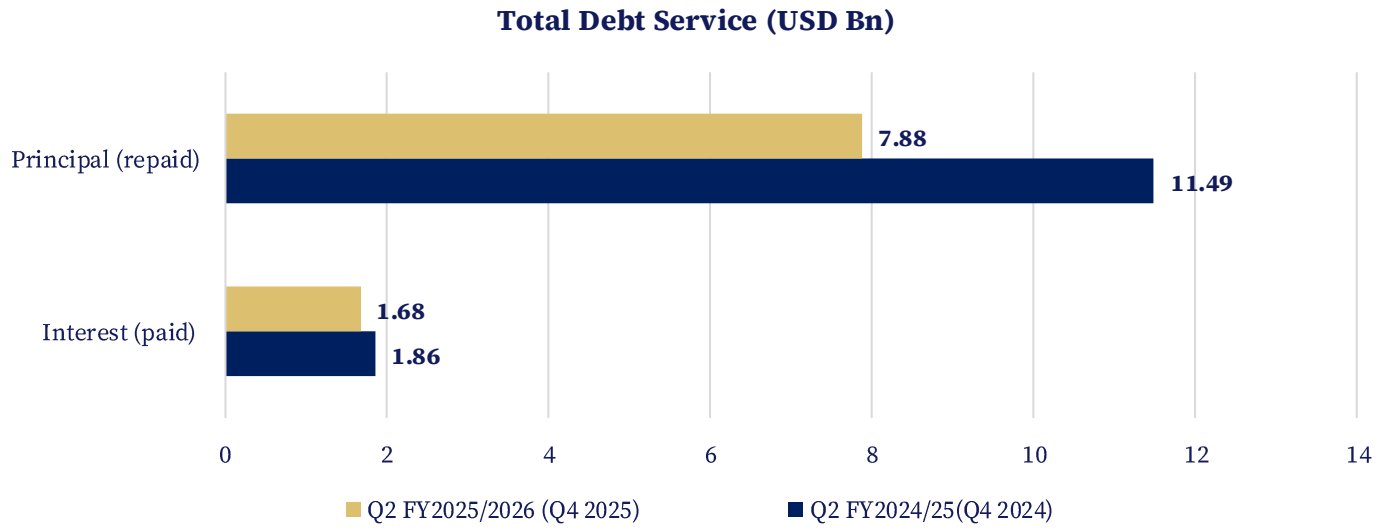
Data timing and interpretation: The latest CBE data on external debt stock and maturity structure are available for **Q3 FY2025/26 (January–March 2026)**, while the latest published data on external debt service cover **Q2 FY2025/26 (October–December 2025)**. Accordingly, the former are used to assess the most recent size and maturity composition of Egypt's external liabilities, while the latter provide the latest available reference point for the external debt-servicing burden. The two indicators therefore have different reporting cut-offs and should not be interpreted as contemporaneous measures of Q3 FY2025/26 debt service.

The strength of Egypt's external buffer ultimately needs to be assessed against the size, maturity and servicing profile of the external obligations it may need to support. According to the latest data available by the CBE, external debt amounted to USD 164.78 billion in the first quarter of 2026 (Q3 2025/26), marking a year-on-year 5.2% increase equivalent to USD 8.1 billion from USD 156.69 billion recorded in the corresponding quarter of the previous year. **Long-term external debt increased by 6.0% y-o-y to USD 134.25 billion, while short-term debt rose by only 1.7% to USD 30.53 billion.** As a result, the share of long-term debt in total external debt increased modestly from **80.8% in Q3 FY2024/25 to 81.5% in Q3 FY2025/26**, while the short-term share declined from 19.2% to 18.5%. The sovereign component is also relatively contained from a maturity perspective. **Government external debt stood at USD 82.84 billion at end-March 2026, only 1.0% above the USD 82.04 billion recorded a year earlier, and the CBE classifies the entire government external debt stock as long-term.**



External Buffer

Turning from the debt stock to near-term liquidity pressure, the most important indicator was the external debt service obligations during the quarter under study. However, Debt service obligations most recent data available at the CBE was for the fourth quarter of 2025, during Q4 2025, debt service obligations declined by approximately 28.5%, recording USD 9.55 billion, compared to USD 13.35 billion in in the same quarter in the previous year. This decrease was primarily attributed to a reduction in both principal repayments, which fell by USD 3.6 billion, and interest payments, which declined by USD 186.3 million. This translated directly into an improvement in the **annual debt-service-to-current-receipts ratio, declining from 39.9% in Q4 2024 to 27.5% in Q4 2025**, a reduction of **12.4 percentage points**.



The improvement in near-term debt-service pressure does not, however, eliminate the medium-term refinancing challenge posed by the size of the external debt stock. This is where the government's debt-management strategy becomes relevant. The authorities are targeting a gradual reduction in external debt of USD 1–2 billion annually, while seeking to ensure that at least 60% of external financing is concessional. They are also targeting an extension of the average maturity of budget-sector debt to 4.5–5.0 years by June 2029, alongside greater use of domestic sukuk and retail bonds, allocation of at least 50% of state-asset-sale proceeds toward debt reduction, and diversification of international market access through instruments including sukuk, sustainable bonds, and yen- and yuan-denominated issuance.

The objective is therefore not simply to reduce the headline debt stock, but to reduce the frequency and cost of refinancing required from the external market. If implemented consistently, a lower external debt stock, longer maturities and a higher concessional share of financing would reduce the probability that temporary shocks to portfolio flows, tourism, Suez Canal receipts or other FX-generating sources translate into a rapid drawdown of reserves or banking-system foreign assets.



Broader sovereign refinancing risk:
Zooming out to the wider budget-sector debt**, which covers both domestic and external government debt**, nevertheless points to continued rollover pressure. The CBE reports that the **average time to maturity (ATM) of budget-sector debt declined to 2.9 years in FY2024/25, from 3.5 years in FY2023/24**, while the ATM of **domestic debt stood at only 1.62 years**. The average maturity of new domestic debt issuance also remained short, although it improved to **1.04 years in Q1 2026, from 0.83 years in Q1 2025**. The CBE identifies this short maturity profile as a source of pressure on gross financing needs and exposure to changes in domestic and global financing conditions**.** The government's objective of extending the ATM of budget-sector debt to **4.5–5.0 years by June 2029** therefore represents an important risk-mitigation measure.

Sovereign Credit Ratings and External Risk Signals

What is the foreign sentiment of Egypt's market conditions and sovereign risk?

Foreign assessments of Egypt's sovereign risk and funding conditions point to a gradual improvement in macroeconomic stability but remain more conservative than the broader domestic conditions. S&P Global Ratings for example has maintained Egypt's sovereign rating at B with a stable outlook, while Moody's Ratings affirmed its Caa1 rating with a positive outlook in April 2026. The agencies' ratings reflect a relatively stable market, however, they continue to flag **high refinancing needs, weak debt affordability and continued reliance on external financing**.

Rating Agency	Sovereign Rating	Outlook	Assessment
S&P Global Ratings	B	Stable	Notes improved macroeconomic stability and policy credibility, while highlighting high financing needs and debt vulnerabilities.
Moody's Ratings	Caa1	Positive	Acknowledges improving macroeconomic conditions but remains concerned about debt affordability and external refinancing risks.

The main distinction across the agencies is between recent policy performance and the durability of the underlying adjustment, with S&P placing greater weight on the improvement achieved since the 2024 shift to a flexible exchange-rate regime, particularly the reduction in FX-market distortions and stronger macroeconomic policy credibility. Moody's is more cautious, maintaining Caa1 because it considers Egypt's debt affordability and external refinancing vulnerabilities severe to the extent of still constraining the sovereign credit profile. The discrepancies test the sustainability of Egypt's macroeconomic management without external support or renewed build-up of imbalances and is the reason why exchange rate flexibility is a central condition across the global ratings. Moody's allocated greater weights to external refinancing and exchange rate flexibility in its calculations



Foreseeable Downside Risk

Both rating agencies point to a relatively clear set of conditions that could weaken Egypt's sovereign credit profile. These mainly include:

- A reversal of exchange-rate flexibility that recreates FX-market distortions,
- A sustained deterioration in external liquidity or persistent current-account pressures,
- Weaker access to external financing,
- Weakening of fiscal discipline that prevents debt-service and public-debt ratios from declining.

Unlocking a rating upgrade will require evidence that the recent stabilization is not dependent on temporary external support. To achieve a more stable outlook, Egypt must be able to:

- Sustain exchange rate flexibility and resilient external liquidity,
- Maintain a durable narrowing of external financing needs,
- Improve access to international markets,
- Lower borrowing and debt servicing costs.

Maintaining these improvements beyond the IMF-supported period would be particularly important in demonstrating that external stability can be preserved without recurring exceptional support.

Emerging Market Classification

S&P's Dow Jones Indices also maintained a complimentary rating of Egypt's market, retaining the country's position within the Emerging Market category instead of downgrading it to Frontier Market. **Even though distinct from sovereign credit ratings, Egypt's retention of this category remains essential for investor's view of the market,** as it will support continued access to a broader pool of international investors and provide a positive market-access signal as portfolio flows remain sensitive to global and regional risk.

Investor's Takeaway

What has improved?

Recurring FX inflows showed strong diversification and resilience in Q1 2026: Remittances reached a record USD 12.8 billion (+36% YoY), tourism receipts hit a record USD 4.16 billion (+9% YoY), Suez Canal revenues rose 27.2% to USD 1.15 billion, and other services (communications, computer, information) expanded 19%, indicating that Egypt's core FX-generating sectors are increasingly resilient to regional geopolitical shocks.

Balance of payments remained in surplus despite significant portfolio outflows: The capital and financial account swung to a USD 3.4 billion net inflow (from a USD 1.2 billion outflow in Q1 2025), driven by a USD 6.7 billion drawdown of commercial banks' foreign assets, FDI and USD 4.6 billion in medium/long-term loan disbursements, resulting in a marginal overall balance-of-payments surplus of USD 0.3 billion despite USD 9.5 billion in portfolio outflows, demonstrating the system's improved capacity to absorb external shocks.

Headline reserve adequacy strengthened materially, but quality of buffer diverged: Net international reserves rose to USD 52.8 billion by end-March 2026 (from USD 51.5 billion at end-2025), covering 6.2 months of imports, double the 3-month international benchmark; however, the USD 5.07 billion year-on-year increase in NIR was fully explained by the rise in the recorded value of gold reserves (from USD 12.61 billion to USD 19.19 billion), **largely reflecting a valuation effect as physical gold holdings increased by only around 1%**,while foreign-currency reserves actually declined by USD 2.04 billion (from USD 35.14 billion to USD 33.10 billion).

Banking-system NFA remains substantially stronger year-on-year despite Q1 drawdown: Banking-system NFA stood at USD 21.3 billion at end-March 2026, up approximately 40% from USD 15.2 billion at end-March 2025, indicating that the banking system entered the latest external shock with a significantly larger net FX buffer than a year earlier, **although part of this buffer was deployed rapidly as portfolio outflows intensified.**

Debt-service pressure eased in near term: Debt service obligations declined by approximately 28.5% in Q4 2025 to USD 9.55 billion (from USD 13.35 billion in Q4 2024), with the annual debt-service-to-current-receipts ratio falling from 39.9% to 27.5%, a reduction of 12.4 percentage points.

External debt maturity structure improved modestly: Long-term external debt increased 6.0% YoY to USD 134.25 billion, while short-term debt rose only 1.7% to USD 30.53 billion, lifting the long-term share of total external debt to 81.5% from 80.8%, with government external debt (USD 82.84 billion) classified by the CBE entirely as long-term.

Egypt retained Emerging Market classification: S&P's Dow Jones Indices maintained Egypt's position within the Emerging Market category instead of downgrading to Frontier Market, supporting continued access to a broader pool of international investors.

Investor's Takeaway

Main Risks to watch

Portfolio investment remains highly volatile: USD 9.5 billion of portfolio outflows followed the conflict's outbreak in Q1 2026, underscoring that hot money remains the most risk-sensitive component of Egypt's external inflow structure and can reverse quickly during geopolitical tensions.

Current account deficit widened significantly: The current account deficit more than doubled YoY to USD 5.1 billion (1.2% of GDP, versus 0.6% in Q1 2025), driven by a 65% widening of the non-hydrocarbon trade deficit to USD 11.9 billion and a 13% rise in the hydrocarbon trade deficit to USD 4.1 billion, indicating that import growth is outpacing export performance.

Size versus quality of external buffer: headline NIR increase masks declining deployable FX: While net international reserves rose to USD 52.8 billion, the increase was fully explained by gold valuation gains (gold holdings increased only marginally from 128.27 tonnes to 129.51 tonnes, less than 1%), while foreign-currency reserves declined by USD 2.04 billion, meaning the more immediately deployable component of reserves available to support external payments, debt servicing and FX-market operations has not increased in tandem with headline reserves.

Sharp Q1 drawdown in banking-system NFA signals liquidity vulnerability: Banking-system NFA fell sharply to USD 21.3 billion in March 2026 from USD 27.4 billion in February, a USD 6.1 billion (22%) decline in a single month, concentrated in commercial banks (approximately USD 5.9 billion), indicating that part of the FX buffer was deployed rapidly as portfolio outflows intensified.

External debt stock remains large with medium-term refinancing challenge: External debt amounted to USD 164.78 billion in Q1 2026, up 5.2% YoY, and although the maturity structure has improved, Egypt continues to face sizeable refinancing requirements, with rating agencies flagging high refinancing needs and debt affordability as key vulnerabilities.

Rating agencies remain cautious on debt sustainability: S&P maintains B with stable outlook and Moody's Caa1 with positive outlook, but both continue to flag high refinancing needs, weak debt affordability and continued reliance on external financing, with Moody's considering Egypt's debt affordability and external refinancing vulnerabilities severe enough to still constrain the sovereign credit profile.

Investor's Takeaway

Main Risks to watch



Downside risks to sovereign credit profile remain clear: Both rating agencies identify a reversal of exchange-rate flexibility, sustained deterioration in external liquidity, weaker access to external financing, or weakening of fiscal discipline as conditions that could weaken Egypt's sovereign credit profile, while a stronger rating would require evidence that recent stabilization is not dependent on temporary external support.

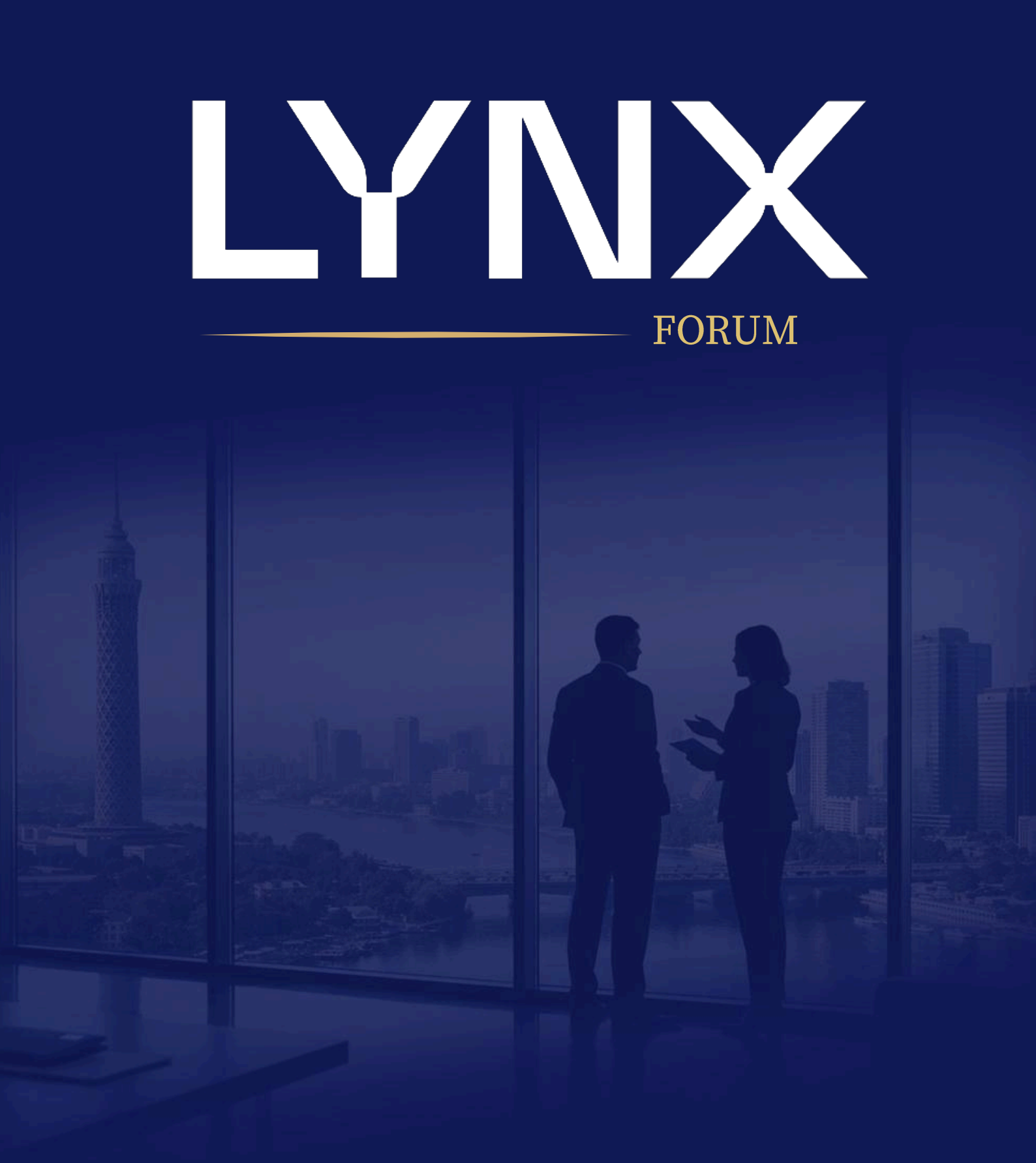


External position remains dependent on continued financing availability to bridge structurally large current-account deficit: The Q1 widening of the deficit, portfolio outflows and commercial banks' foreign asset drawdown demonstrate how quickly external liquidity can come under pressure when capital flows reverse, indicating that Egypt has moved from acute external-liquidity vulnerability toward greater, but not yet fully self-sustaining, resilience.

Egypt should therefore be viewed as having moved from acute external-liquidity vulnerability toward greater, but not yet fully self-sustaining, resilience.

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