THE EDGE CONSULTANCY

The Edge Economic Update

# Egypt's Economic Reset

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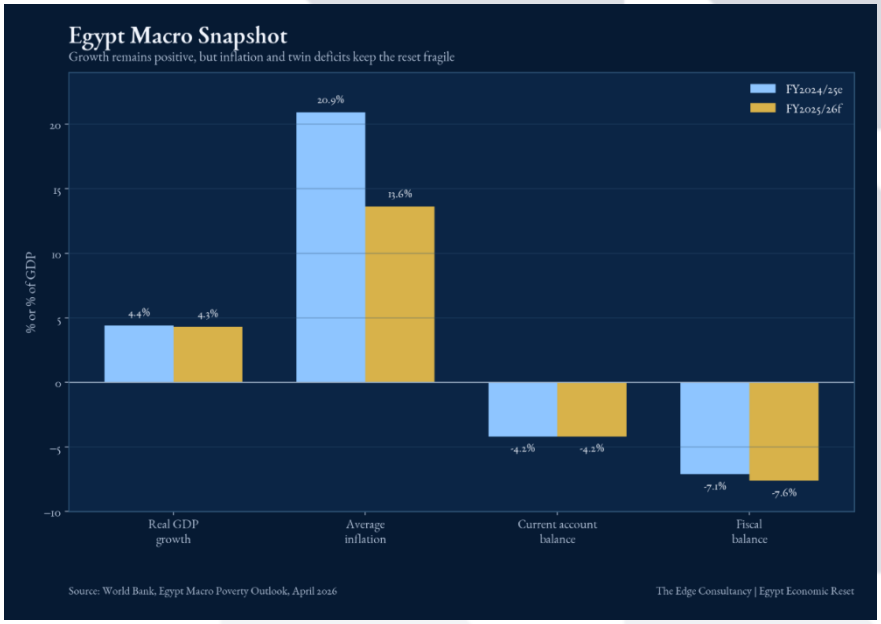
# EGYPT'S ECONOMIC RESET

## EXECUTIVE SUMMARY

Egypt entered the Middle East war shock from a stronger position than it had in 2023–2024. On May 8, 2026, the World Bank said Egypt had moved into a stabilization phase, supported by exchange-rate unification, tighter fiscal discipline, and tax reforms that helped rebuild external buffers, moderate inflation, improve market sentiment, and gradually support growth. But the same release also said the ongoing conflict in the Middle East had added fresh uncertainty and made sustained reform momentum more urgent.

Egypt's reset is real, but it is not complete. The World Bank's April 2026 Egypt Macro Poverty Outlook still projects real GDP growth of 4.3 percent in FY2026, only slightly below 4.4 percent in FY2025, yet it also projects a fiscal deficit of 7.6 percent of GDP, a current account deficit of 4.2 percent of GDP, and government debt of 82.9 percent of GDP in FY2026. Inflation has fallen sharply from its 2023 peak, but it remains in double digits and is still constraining household purchasing power.

The exchange rate remains the clearest stress signal. Using the nearest available business-day quote to February 1 as the pre-war reference, USD/EGP stood at 47.090 on February 2, 2026. It had already weakened to 47.942 by February 27, then moved sharply to 52.787 on March 9, peaked at 54.688 on April 7, and eased to 52.217 by May 27, and firmed to around 51.95 by June 4. That still left the pound about 10 percent weaker than the early-February reference point. In practical terms, Egypt's flexible exchange-rate regime absorbed the external shock, but it did so by passing part of the pressure into imported inflation and tighter local financial conditions.




The investment implication is selective rather than broad-based. In our assessment, the best-positioned themes remain hard-currency earners, export-oriented manufacturers, and reform-linked domestic financial assets, while import-intensive, highly leveraged, rate-sensitive sectors still face a difficult operating backdrop.

That judgment follows from three official facts: inflation is still high enough to limit aggressive easing, interest costs are still crowding out public spending, and global financial conditions have become less forgiving for vulnerable emerging-market commodity importers.

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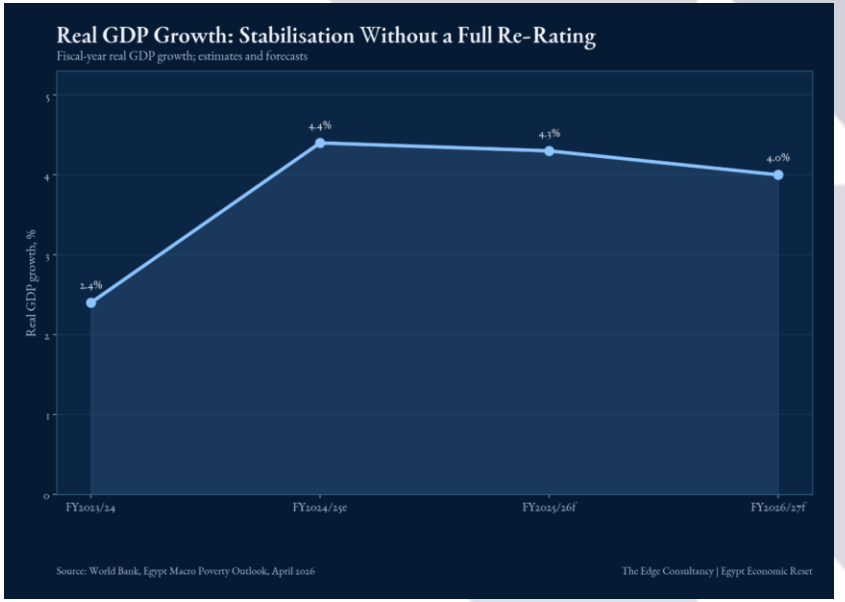
## THE POST-SHOCK MACRO SETTING

The World Bank's April 2026 regional update places Egypt clearly in the second ring of exposure rather than at the center of the conflict. It says the new Middle East war began on February 28, 2026, that Egypt is among the economies increasingly exposed to the broader economic and social effects, and that—excluding Iran—regional growth is now expected to slow from 4.0 percent in 2025 to 1.8 percent in 2026. The same World Bank release identifies disrupted energy routes, damaged infrastructure, financial volatility, and weaker confidence as the main transmission channels.

For Egypt, two transmission channels matter immediately. First, the World Bank's full regional report says that in Egypt, Jordan, and Tunisia, oil and gas imports account for close to 15 percent of the merchandise import bill on a 2015–2024 average basis, versus a global average of 5 percent in 2024. Second, tourism reacted quickly: by March 25, flight arrivals were down by about 20 percent in Cairo, compared with the week before the conflict. These are not marginal sensitivities. They mean Egypt imports a meaningful share of the shock through fuel and logistics, and it also absorbs it through traveler sentiment and regional airspace disruption.

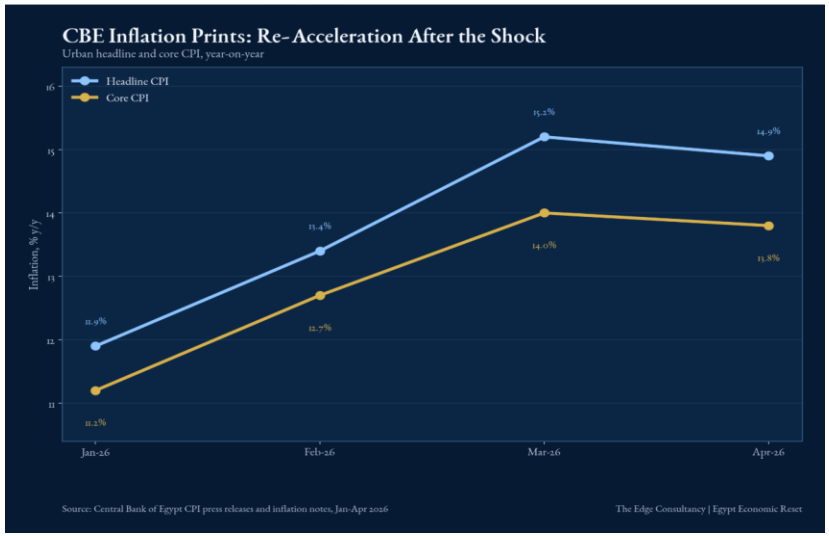
At the same time, the domestic economy had been improving before the war shock. The World Bank reports that real GDP growth reached 5.3 percent in H1 FY2026, up from 3.9 percent in H1 FY2025, helped by better access to foreign exchange and imports for non-oil manufacturing, a gradual recovery in Suez traffic, and robust activity in tourism and communications. That matters because it shows Egypt did not enter this episode from acute domestic disorder; it entered from a still-fragile but improving stabilization base.




## INFLATION AND MONETARY CONDITIONS

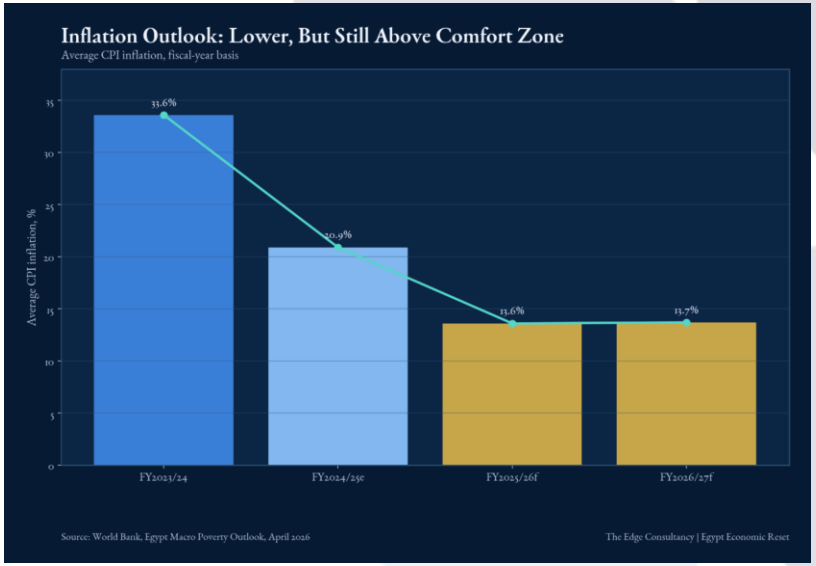
Recent CBE data reproduced in the World Bank's April 2026 Egypt Macro Poverty Outlook show a significant but incomplete disinflation story. Inflation fell from a peak of 38 percent in late 2023 to 13.4 percent in February 2026. That decline allowed the Central Bank of Egypt to cut policy rates by a cumulative 825 basis points between April 2025 and February 2026, bringing the overnight deposit and overnight lending rates to 19 percent and 20 percent, respectively. The CBE then paused its easing cycle, holding key rates unchanged at both the April 2 and May 21, 2026 meetings amid renewed inflation and currency pressure; at the May meeting it also raised its 2026 and 2027 inflation forecasts and trimmed its FY2025/26 growth forecast to 4.9 percent from 5.1 percent. Even so, credit to the private sector was only 23.7

percent of GDP at end-FY2025, well below the 45 percent LMIC average.



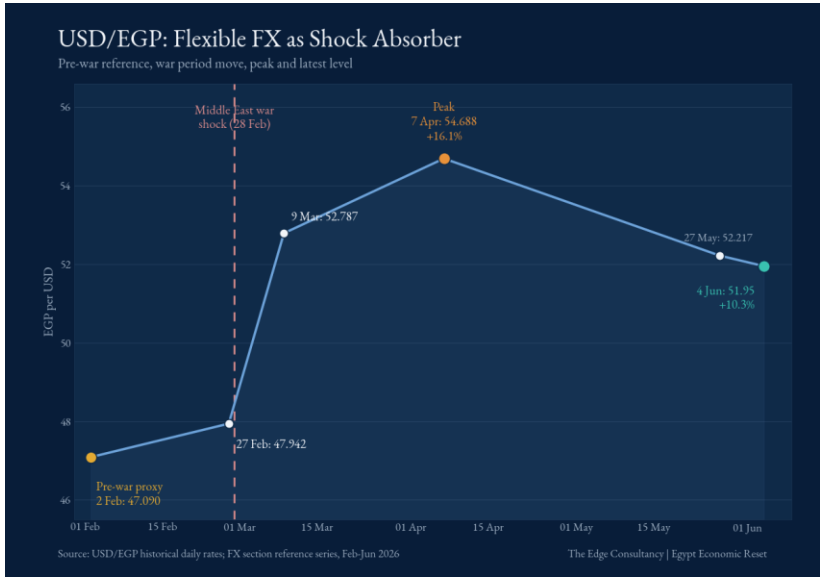

The same World Bank outlook shows why the easing story should not be overstated. It projects annual average inflation of 13.6 percent in FY2026 and explicitly says that imported inflation and 2026 energy-price adjustments will delay the disinflation path. Monthly prints bear this out: urban headline inflation re-accelerated to 15.2 percent in March 2026 before easing to 14.9 percent in April, leaving it well above the February low. The World Bank also says the conflict is pressuring Egypt through higher oil and gas prices and capital flight; the IMF's April 2026 regional and global updates reinforce that point by warning that prolonged hostilities would keep energy prices elevated, deepen trade disruptions, compress confidence, and hit emerging-market commodity importers with preexisting vulnerabilities especially hard.

The practical reading is that the CBE's challenge has shifted from emergency stabilization to credibility management. That is an inference, but it is strongly supported by the data: inflation is lower but not yet low; the exchange rate remains exposed to capital-flow swings; and global conditions are less benign for commodity-importing emerging markets. In that environment, policy flexibility still exists, but it exists inside a narrower confidence band than headline disinflation alone might suggest.

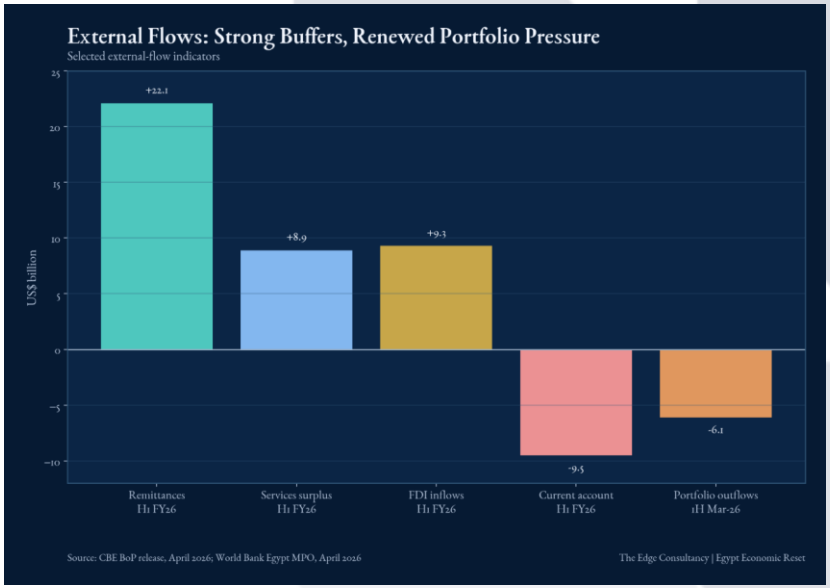


## CURRENCY STABILITY AND EXTERNAL FINANCING

The exchange-rate shock became visible almost immediately after the regional escalation. As a pre-war reference point, the nearest available business-day USD/EGP quote to February 1, 2026 was February 2, 2026, when the rate stood at 47.090. It had already moved to 47.942 by February 27, then weakened sharply after the war shock, reaching 52.787 on March 9 and peaking at 54.688 on April 7. By May 27, USD/EGP had eased back to 52.217 and edged to about 51.95 by June 4, still about 10 percent weaker than the early-February pre-war reference.

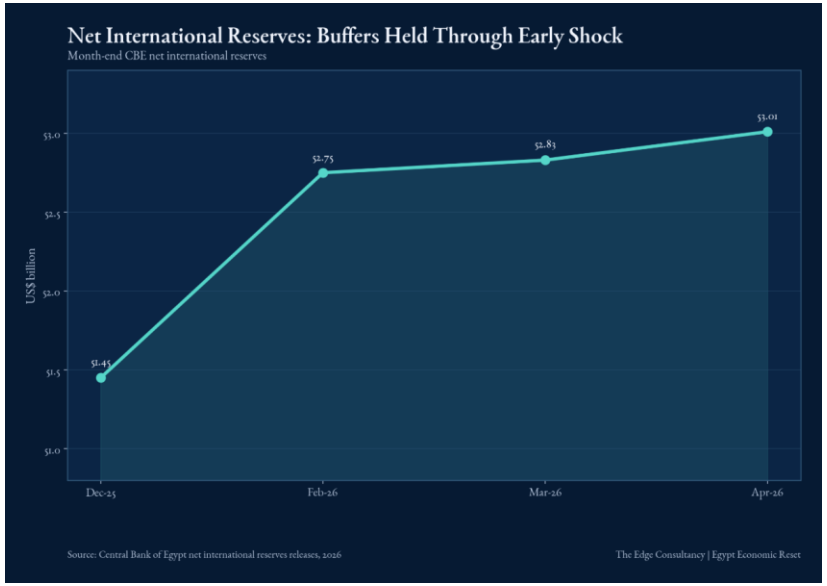



That market path fits the broader World Bank reading of Egypt's financial transmission channels. In the regional report, the World Bank says foreign investors had already taken a sustained net-selling position in Egyptian equities during the military buildup, that selling intensified after the conflict erupted, and that the Egyptian pound had weakened by about 10 percent by March 27, even as the spread between official and parallel-market rates remained stable. This is an important distinction: the post-war move looked more like a flexible-price adjustment than a renewed dual-market breakdown.



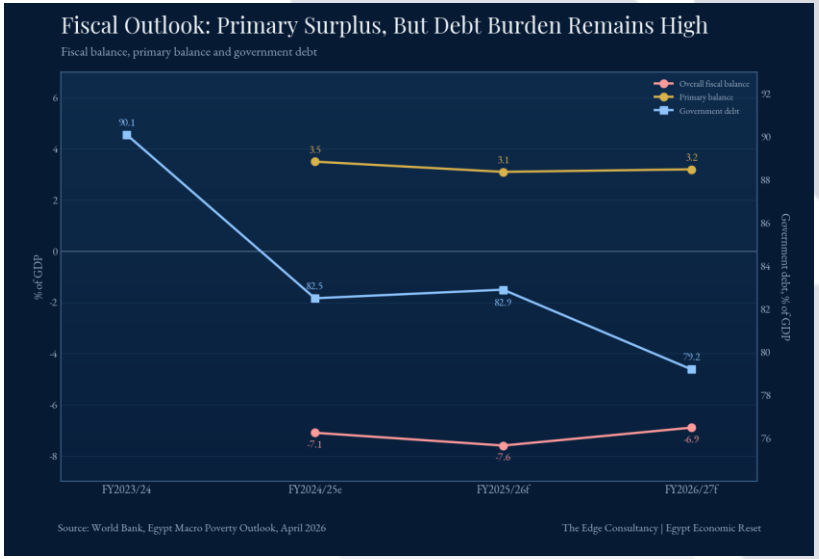

The buffer story is mixed. On the positive side, the World Bank says official foreign reserves and other foreign-currency assets reached US$67.5 billion at end-February 2026, up from US$59.7 billion a year earlier. On the Central Bank of Egypt's narrower net-international-reserves measure, the buffer has since edged up to US$53.0 billion at end-April 2026, a record high. On the negative side, it estimates US$6.1 billion in portfolio outflows during the first half of March 2026 and notes that US$36.3 billion of external debt repayments and interest commitments fall due in the first half of 2026. The IMF's

April 2026 Global Financial Stability Report adds that, since late February, emerging-market assets in commodity-importing and more vulnerable economies have been hit disproportionately, and that capital outflows can amplify currency pressure.




## FISCAL ADJUSTMENT AND INVESTMENT OUTLOOK

Egypt's fiscal story remains the main reason the reset cannot yet be called complete. The World Bank projects an overall fiscal deficit of 7.6 percent of GDP in FY2026, versus 7.1 percent in FY2025, while still projecting a primary surplus of 3.1 percent of GDP in FY2026 (down from 3.5 percent in FY2025). That combination only makes sense because interest costs are so large: the same World Bank report says interest payments reached 10.6 percent of GDP and 87.1 percent of tax revenues in FY2025, crowding out priority spending. Government debt fell sharply to 82.5 percent of GDP at end-FY2025 (from 90.1 percent at end-FY2024), but the World Bank still sees debt at 82.9 percent of GDP in FY2026, before easing to 79.2 percent in FY2027 and 78.0 percent in FY2028, and it flags contingent liabilities of about 27 percent of GDP as an added risk.




This is why the May 2026 World Bank development-policy operation matters for the investment case. The US$1 billion GROWTH II financing—which includes a US$200 million credit guarantee from the United Kingdom and is the second operation in a three-part concessional series—is explicitly aimed at private-sector-led job creation, macroeconomic and fiscal resilience, and greener growth. The World Bank says it supports reforms to strengthen the governance of state-owned enterprises, reduce barriers to private investment, increase

domestic revenue mobilization, improve the efficiency of domestic debt markets, and lower the cost of government funding, while also protecting vulnerable households through automatic enrollment of Takaful and Karama beneficiaries in universal health insurance. In other words, the official reform package is moving beyond crisis funding toward the mechanics of investability.

Global conditions still complicate that transition. The IMF's April 2026 Fiscal Monitor says global public debt rose to just under 94 percent of GDP in 2025 and is expected to reach 100 percent by 2029, while sovereign debt-market repricing risks are rising. The IMF's World Economic Outlook says global growth is projected at 3.1 percent in 2026 and that pressures are concentrated in emerging-market and developing economies, especially commodity importers with preexisting vulnerabilities. Those two facts matter for Egypt because they point to higher scrutiny on debt, credibility, and funding costs even if the domestic reform direction is correct.

The investment conclusion, therefore, should be disciplined. In our view, the most constructive near-term themes are export manufacturers that benefit from restored access to inputs and a weaker currency, hard-currency earners such as tourism and logistics when regional travel normalizes, and financial assets linked to domestic debt-market reform and improved price discovery. The least attractive themes remain import-intensive business models, highly leveraged balance sheets, and equity stories that require a rapid return to cheap domestic funding. That is an inference, but it follows directly from the official mix of still-high inflation, still-heavy interest burdens, and a reform program centered on competitiveness, fiscal efficiency, and private investment rather than short-term credit expansion.

## CONCLUSION

Egypt's economic reset has survived the Middle East shock, but it has not yet graduated from stabilization to durable resilience. The World Bank's May 2026 language is encouraging because it explicitly describes Egypt as having entered a stabilization phase, yet the World Bank's April 2026 country outlook still shows a country carrying high interest costs, double-digit inflation, sizable external financing needs, and a currency that remains sensitive to geopolitical risk.

The most accurate publish-ready conclusion is this: Egypt is no longer in the disorder of the 2023–2024 crisis, but it is still operating inside a narrow macro corridor. Flexible FX has improved shock absorption; inflation is far below its peak; reserves were rebuilt before the war shock; and multilateral backing remains credible. Yet the same official sources make clear that imported inflation, portfolio-flow sensitivity, fiscal crowding-out, and global repricing risk still limit how fast Egypt can move from repair to reacceleration.

For investors and policy observers, that means the right framing is stabilization under stress. If reform execution continues, Egypt can still turn the reset into a stronger medium-term investment story. But the near-term call is not blanket optimism. It is selectivity, balance-sheet discipline, and close attention to inflation credibility, debt-market reform, and hard-currency earning capacity.

## SOURCES

*The core World Bank sources used in this report are the Egypt Macro Poverty Outlook, April 2026, which provides the country growth, inflation, reserves, fiscal, debt, and financing numbers; the Middle East, North Africa, Afghanistan & Pakistan Economic Update, April 2026, which provides the post-war regional transmission channels for energy, tourism, capital flows, and Egypt's external exposure; and the May 8, 2026 GROWTH II Development Policy Financing release, which sets out the reform agenda for private investment, fiscal resilience, and domestic debt-market efficiency.*

*The core IMF sources are the World Economic Outlook, April 2026, for the global growth and inflation backdrop; the Global Financial Stability Report, April 2026, for emerging-market asset pressure, capital-flow sensitivity, and currency-risk transmission; the Fiscal Monitor, April 2026, for the higher-debt global sovereign backdrop; and the Regional Economic Outlook Update for the Middle East and Central Asia, April 2026, for war-spillover channels across energy, logistics, confidence, and fiscal space.*

*For the FX section, the report uses daily USD/EGP exchange-rate history for 2026 through June 4, 2026, which provides the pre-war reference, the immediate post-shock move, the April peak, and the early-June level used in the analysis. The attached Edge report supplied by the user was used only as a stylistic benchmark.*

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