

SITUATION ANALYSIS

Egypt's Economy Under Regional Geopolitical Pressures

SECTORAL IMPACT ANALYSIS

The ongoing regional conflict represents a significant and multifaceted external economic shock to the Arab Republic of Egypt. While Egypt is not directly involved in the kinetic aspects of the conflict, its underlying economic structure renders it highly exposed to the resulting geopolitical disruptions. This vulnerability is primarily characterized by **a deep dependence on energy imports, a heavy reliance on global trade routes (specifically the Suez Canal), and a structural dependence on foreign currency inflows** to maintain macroeconomic equilibrium.

In this context, broader economic implications are already unfolding as regional geopolitical tensions extend beyond the immediate conflict zone, influencing global energy markets, trade routes, and investor sentiment. Egypt is increasingly operating within what can be described as a **“peripheral war economy”**—where external developments shape domestic prices and business decisions.

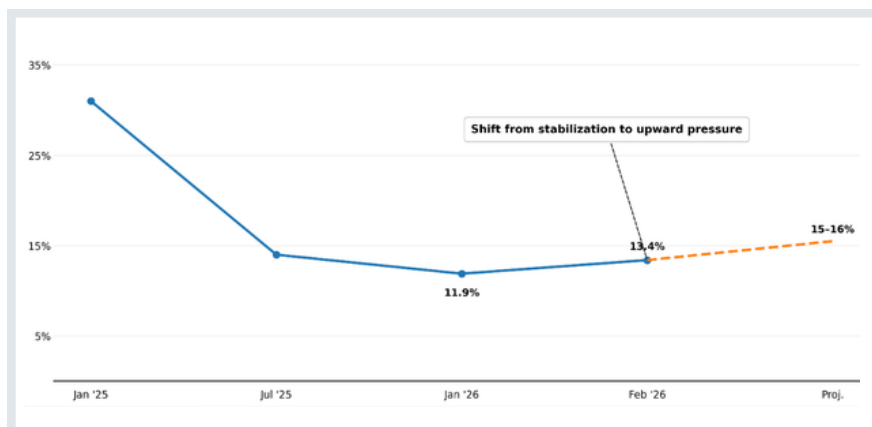
Egypt is undergoing a structural shift toward a **cost-plus-constraint environment**, where business performance is no longer driven by cost efficiency alone, but by the ability to operate within tightening constraints. In this context, energy availability, logistics reliability, and access to foreign currency are becoming the primary determinants of growth, pricing, and operational continuity requiring businesses to prioritize resilience, flexibility, and resource optimization alongside traditional cost management.

CURRENT ECONOMIC SIGNALS

Early signals of economic impact are increasingly visible across key indicators, as geopolitical developments translate into measurable shifts in exchange rates, inflation, energy pricing, and capital flows. *These indicators reflect a connected transmission mechanism, where external shocks are simultaneously affecting costs, business activity, and financial conditions.*

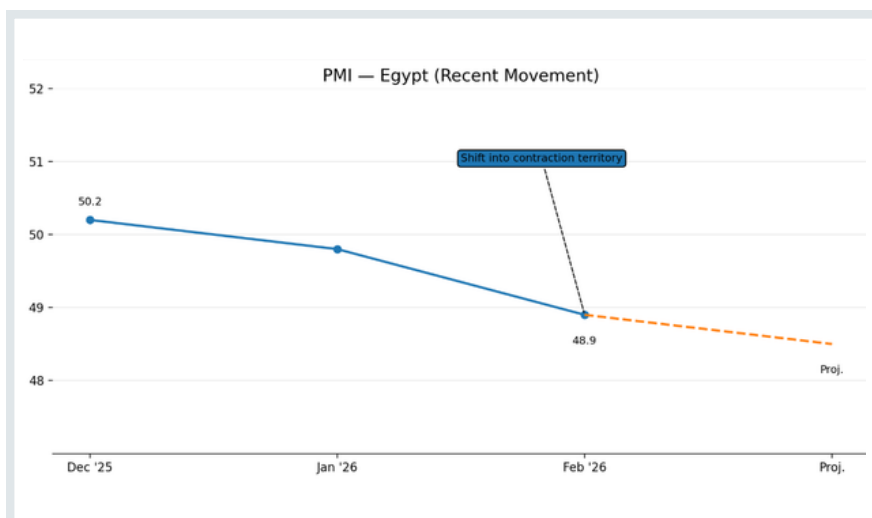
Inflation Rate %

Cost pressures are materializing through inflation, which is shifting from stabilization to renewed upward pressure rising from **11.9% to 13.4%** and **projected at 15–16%**. This reflects the impact of geopolitical tensions driving higher energy, import, and logistics costs across the economy.



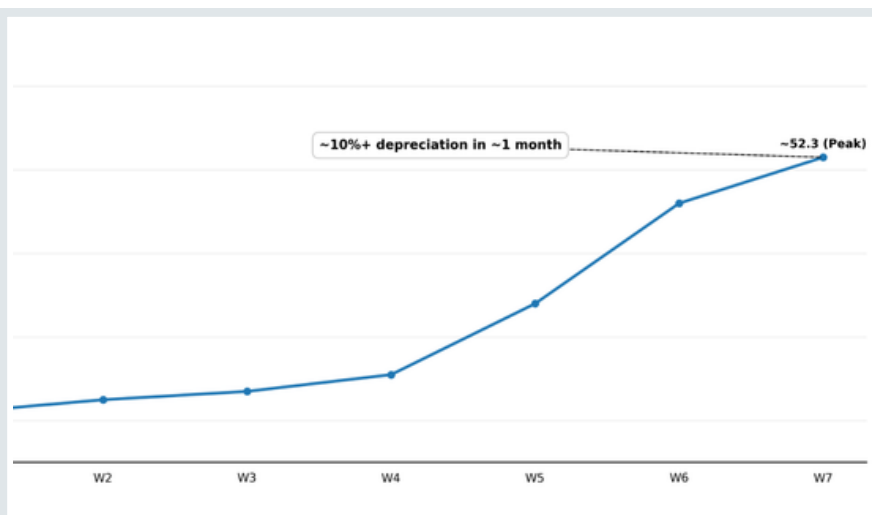
The PMI Index

These pressures are now reflected in **business activity**, with the PMI moving into contraction territory (**48.9**), signaling weakening conditions driven by rising input costs, softer demand, and heightened uncertainty affecting corporate planning.



Exchange Rate Dynamics

At the same time, **financial conditions** are tightening through exchange rate dynamics, with the EGP experiencing notable depreciation, reflecting **increased foreign currency demand**, portfolio outflows, and reinforcing cost pass-through into imports and business operations.



CURRENT ECONOMIC SIGNALS

→ Capital Flows: Foreign Portfolio Outflows (“Hot Money”)

Outflows of **~\$6.7 B** reflect a shift to safer assets, tightening FX liquidity and pressuring the exchange rate.

Foreign Portfolio Flows (USD)

TOTAL STOCK: **~\$43 B**

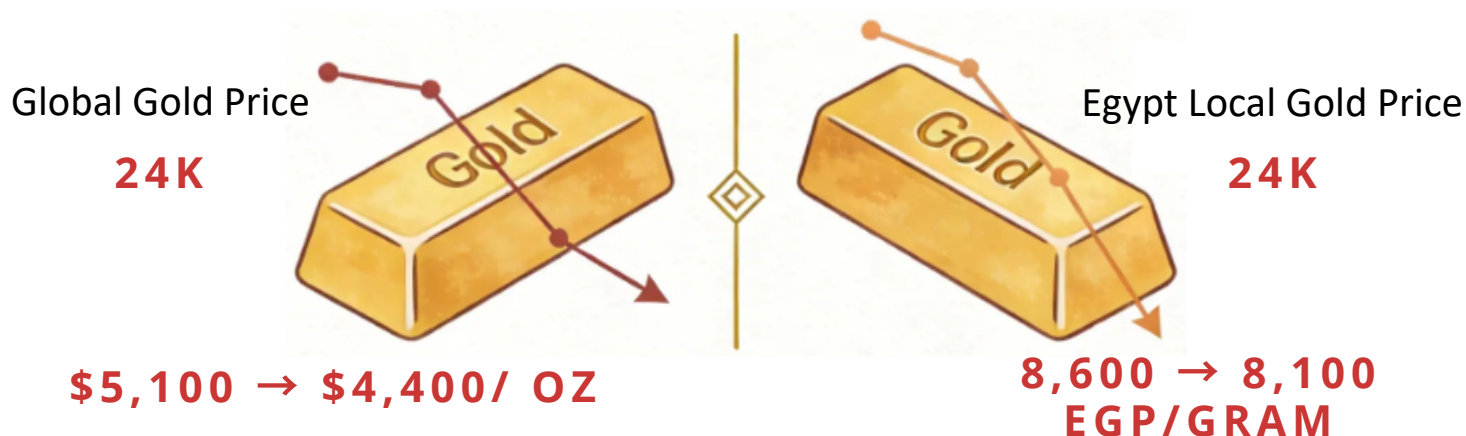


OUTFLOWS (~\$6.7B) SHOWN IN ORANGE

Recent outflows reflect a typical shift toward safer assets during periods of uncertainty, contributing to tighter foreign currency liquidity and added pressure on the exchange rate. While the scale remains manageable relative to total inflows and reserves, these movements reinforce broader market sensitivity and link directly to currency and financing conditions.

→ Gold as a Local Indicator

In Egypt, gold serves not just as a commodity, but as a critical barometer for local risk perception and parallel market FX expectations. Recent price movements highlight a complex local dynamic against global trends:



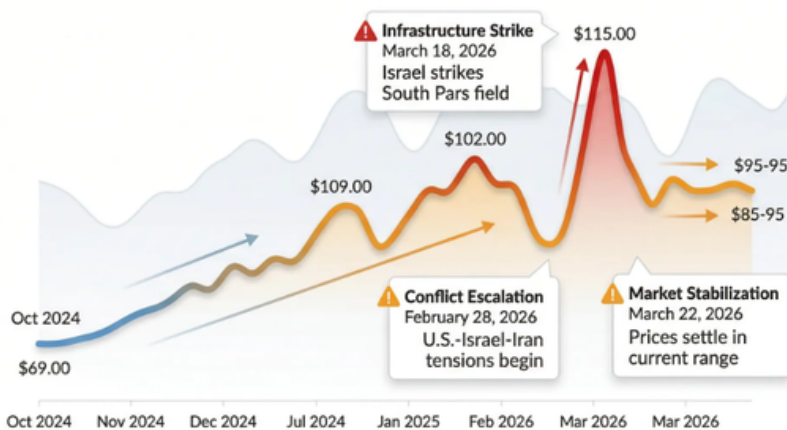
The persistent **250-300 EGP** premium signals that local risk sentiment remains disconnected from global market corrections

TRANSMISSION CHANNELS OF WAR IMPACT

The impact of geopolitical tensions is transmitted through *key structural channels energy, logistics, and foreign currency dynamics* affecting **costs, availability, and operational continuity**. While FX buffers remain resilient, liquidity is increasingly redirected toward energy imports, creating operational friction for private sector access to foreign currency.

Energy: From Cost Shock to Constraint

Energy is the primary transmission channel of the current crisis, shifting from a price shock to a structural constraint. Global oil prices have shown sharp volatility from a baseline of **\$69 per barrel to spikes above \$100**, before stabilizing in the **\$85–\$95** range driving significant fiscal pressure and cascading cost impacts across operations.



Pre-Crisis Monthly Bill

\$560 M

Q4 2024 Baseline

2-2.5x Surge

95% INCREASE

Shift to spot LNG increases Cost Volatility and supply risk

Current Monthly Bill

\$2.5 BI

Q1 2026 Reality

35%
Pipeline gas from traditional Sources

65%
LNG tanker from expensive spot markets

heavy reliance on volatile spot LNG pricing

Logistics and Trade Disruption

The geopolitical situation in the Red Sea and surrounding areas has severely disrupted maritime logistics, directly impacting Egypt's strategic asset: the Suez Canal.

+141%

FREIGHT COSTS

+45%

SUPPLY CHAIN DELAYS

~\$800 M

SUEZ CANAL LOSSES

SECTORAL IMPACT ANALYSIS

Fertilizers — Supply Risk with Strategic Export Sensitivity



The fertilizers sector remains highly exposed due to its direct reliance on natural gas as both a fuel and feedstock. Reduced gas allocations are leading to production constraints, creating risks to export volumes and global market positioning.

Implication

Production volatility + export risk, particularly in a context where global supply chains are already tightening.

Aluminium — Cost Pressure with Market Opportunity



As a highly energy-intensive sector, aluminium production is directly impacted by rising electricity costs. **However, global disruptions—particularly in Gulf production hubs that rely heavily on energy are reshaping supply patterns.**

Implication

Cost pressure locally, but **potential opportunity** to capture **alternative export markets** as global supply tightens.

Cement — Cost-Demand Dual Pressure

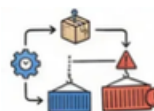


The cement sector faces a dual challenge: rising import costs for coal and petcoke, alongside a slowdown in domestic demand driven by inflation and reduced construction activity.

Implication

Margin compression + demand softness, requiring operational efficiency and cost optimization.

Manufacturing — System-Wide Operational Pressure



Manufacturing is broadly impacted by rising input costs and supply chain disruptions, including **extended transit times (+45%)**. This is increasing working capital requirements and reducing production efficiency.

Implication

Higher costs + operational delays, affecting competitiveness across industrial segments.

Consumer Goods — Demand Compression



Consumer-facing sectors are increasingly affected by declining purchasing power as inflation rises (~13.4%), leading to reduced discretionary spending.

Implication

Demand slowdown + shift toward essential consumption

Tourism — FX Buffer with Sensitivity Risk



Tourism remains a key source of foreign currency inflows, supporting macroeconomic stability. However, it is highly sensitive to regional geopolitical developments and perception-driven demand shifts.

Implication

Strong FX support, but volatility linked to regional sentiment

GOVERNMENT RESPONSE AND STRATEGIC DIRECTION

The government's response reflects a clear evolution from traditional shock absorption toward more active and targeted resource management. In the face of rising external pressures—particularly in energy and foreign currency—the focus has shifted to maintaining macroeconomic stability while optimizing the allocation of critical resources across the economy. Rather than fully offsetting external shocks, current policies aim to contain their systemic impact while ensuring continuity of essential services.

Energy Strategy — Ensuring Supply Continuity

The government is prioritizing energy security through diversified sourcing and expanded LNG imports to offset supply constraints.

- Scaling up LNG procurement, including negotiations for **40–60 cargoes (~\$3B)**
- Expanding regasification capacity (FSRUs)
- Implementing nationwide demand management and energy efficiency measures

Short-term cost pressures are elevated, but supply continuity and system resilience are preserved.

Pricing Policy — Gradual Cost Rebalancing

A phased and controlled pass-through of global cost increases, aligned with ongoing structural reform commitments.

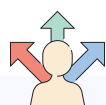
- ***Fuel price adjustments in the range of 14–17% in 2026***
- Targeted increases across specific categories

Businesses face progressive cost adjustments, requiring ongoing adaptation in pricing and cost management strategies.

The government's approach reflects a coordinated strategy to manage external pressures across energy, pricing, foreign currency, and fiscal policy. By balancing supply security, gradual cost rebalancing, prioritized FX allocation, and disciplined fiscal management, the state is containing systemic risks while maintaining macroeconomic stability and enabling the economy to adapt to a more constrained operating environment.

ROAD AHEAD

Corporate planning should be anchored in the trajectory of regional geopolitical developments, which remain the primary external driver shaping Egypt's economic outlook through 2026–2027. The evolution of the conflict will continue to influence energy markets, inflation dynamics, and overall business activity.



Scenario Overview

Variable	Scenario 1: De-escalation (Normalization)	Scenario 2: Base Case (Sustained Pressure)	Scenario 3: Escalation (Production Disruption)
Oil Prices	\$80 – \$90 / bbl	\$85 – \$100 / bbl	\$100 – \$120 / bbl
Inflation	10% – 12%	11% – 14%	13% – 18%
PMI	50 – 52 (Expansion)	48 – 50 (Stagnation)	45 – 48 (Deep Contraction)



Key Business Considerations

Under the base case scenario, businesses should prepare for a sustained period of operational pressure, driven by sticky inflation (11–14%), constrained business activity (PMI 48–50), and evolving energy and FX dynamics. While Egypt remains macro-stable, the operating environment is increasingly defined by cost, constraint, and uncertainty—particularly across energy-intensive and import-dependent sectors such as fertilizers, aluminium, manufacturing, and consumer goods. In this context, success will depend on pricing agility, energy-aware operations, disciplined liquidity management, and more adaptive planning cycles, enabling firms to protect margins, maintain supply continuity, and respond effectively to shifting geopolitical conditions.