



# Egypt

## OUTLOOK 2026

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## 1.0 Executive summary

Egypt enters 2026 in a markedly stronger position than during the 2023–24 balance-of-payments crisis. The pound is now floating, FX shortages have eased, parallel-market pressures have disappeared and inflation has fallen sharply from its 2023 peak. However, public debt remains high and poverty reduction has been slow, underscoring that the economy is transitioning from stabilisation to a cautious, investment-led growth phase, rather than a full recovery.

IMF, World Bank and private-sector projections place real GDP growth in the 4.5–5.2% range in FY2025/26, up from roughly 2.4–2.8% in FY2023/24. Growth is increasingly driven by private consumption, tourism, remittances and a gradual revival in investment, following the March 2024 devaluation, FX liberalisation and reform reset under the IMF programme. Momentum is expected to carry into 2026, though growth remains below Egypt's long-term potential.

Disinflation has been rapid. Headline inflation fell from a peak of about 38% in September 2023 to around 12.5% by October 2025, reflecting tight monetary policy, currency adjustment and easing supply constraints. The Central Bank of Egypt is now guiding inflation gradually towards its 5–9% medium-term target range, with further disinflation expected through the second half of 2026. Risks remain from fuel-price adjustments, rent liberalisation and any renewed FX or commodity shocks.

Fiscal policy remains anchored to consolidation under the IMF programme. The FY2025/26 budget, with total spending of about EGP4.6 trillion (around \$91bn), targets a primary surplus of roughly 4% of GDP, supported by projected revenues of EGP3.1 trillion (about \$61bn). The overall deficit remains large, reflecting high interest costs, but authorities aim to reduce general-government debt from around 92% of GDP in FY2024/25 to the low-80% range over the medium term, assuming sustained primary surpluses, privatisation receipts and growth recovery.

The composition of growth is improving. Non-oil private-sector activity recorded its strongest expansion in five years in late 2025, with PMI readings moving above the 50 threshold on broad-based gains across manufacturing, construction and services. Tourism has rebounded strongly, remittances have stabilised after the FX reset, and selected manufacturing segments linked to exports and import substitution are showing renewed momentum.

External buffers have been rebuilt and are increasingly supported by large-scale foreign investment commitments, particularly from Gulf partners. Net foreign assets returned to positive territory in 2024 and strengthened further in 2025 following IMF disbursements, including under the Resilience and Sustainability Facility.

These gains have been reinforced by substantial UAE-led investments, most notably the Ras El Hekma development on the Mediterranean coast, which alone involves commitments of more than \$30bn over several years, combining upfront FX inflows with phased real-estate, tourism and infrastructure investment. Additional Gulf interest spans energy, ports, logistics, agribusiness, real estate and financial services, while authorities continue to court foreign direct investment through asset sales, land monetisation and public-private partnerships.

Looking ahead to 2026, Egypt's investment pipeline also includes privatisation and minority stake sales in state-owned enterprises, expanded renewable-energy projects, LNG and energy-transition investments, and logistics projects linked to ports and industrial zones. These inflows

are expected to remain a critical pillar of external financing, alongside concessional funding from IFIs, even as Suez Canal revenues remain vulnerable to Red Sea security disruptions.

The banking sector appears broadly resilient, with capital and liquidity buffers above regulatory minima and improved FX conditions. However, high real interest rates, sovereign exposure and public-sector crowding-out continue to constrain private-sector credit growth, limiting the pace at which investment can translate into broader employment gains in 2026.

Key risks to the outlook include a renewed inflation or FX shock, slippage on fiscal targets amid heavy debt-service costs, slower-than-expected progress on state-owned enterprise reform and competition policy, and adverse regional developments affecting tourism, trade routes and investor sentiment.

## **2.0 Political outlook**

Egypt enters 2026 in a period of managed political stability shaped by economic reform fatigue and social pressures, as the government seeks to consolidate gains from the 2024–25 stabilisation programme while maintaining public support. The administration of President Abdel Fattah el-Sisi, backed by a dominant pro-government parliamentary bloc led by Mostaqbal Watan (Nation’s Future Party) and allied centrist parties, retains strong institutional control, but its political credibility is increasingly tied to economic delivery under the IMF-supported reform framework.

The 2023–24 balance-of-payments crisis triggered a far-reaching policy reset, including the adoption of a fully flexible exchange rate, sharp fiscal tightening and a renewed push to reduce the state’s footprint in the economy. These measures were anchored by an expanded \$8bn IMF Extended Fund Facility, complemented by large-scale Gulf support, notably around \$35bn in UAE-linked investments, including the Ras El-Hekma coastal development and additional commitments across real estate, logistics, energy and tourism. In return, authorities committed to privatisation, stronger competition policy and the gradual restructuring of state-owned enterprises.

Formal political opposition remains fragmented and constrained. Parties such as the Social Democratic Party, Al-Tagammu and smaller liberal or left-leaning groups operate within narrow space, focusing primarily on social protection, inflation and wage pressures rather than challenging the reform trajectory outright. Independent labour movements and informal protest networks, rather than organised party politics, pose the greater risk of disruption.

Social tensions remain a key variable for 2026. While inflation has fallen sharply from its 2023 peak, real incomes remain under strain, particularly for urban middle- and lower-income households. Public tolerance for reform-related price increases is limited, especially as fuel, electricity and transport tariffs continue to be adjusted. In response, the government has expanded public-sector wage increases, targeted cash-transfer programmes and food subsidy coverage, seeking to cushion vulnerable groups while keeping the overall consolidation path intact.

External partners will continue to play a decisive role in shaping policy choices. The IMF, World Bank, European Union and Gulf states are closely coordinating financing and investment flows with progress on macro discipline, governance reforms, competition policy and state-owned enterprise restructuring. Infrastructure, energy, ports, logistics and green-transition projects

remain priority areas for foreign capital, but continued disbursements will depend on sustained reform implementation.

Overall, Egypt's political outlook for 2026 is one of institutional continuity but heightened social sensitivity. The government retains the tools to manage dissent, but its room for manoeuvre will depend on balancing reform credibility with visible improvements in employment, incomes and service delivery. A renewed spike in prices, delays to flagship investments, or slippage on IMF commitments would raise political and social risks, even in the absence of formal opposition challenges.

### **3.0 Macro economy –overview**

After a sharp slowdown in FY2023/24, Egypt's macroeconomic trajectory heading into 2026 is characterised by a fragile but broad-based recovery underpinned by the 2024 stabilisation reset. Growth has picked up as FX availability improved following the move to a free-floating exchange rate, inflation has fallen sharply from its 2023 peak, and confidence has been partially restored through IMF programme anchors and large Gulf-backed investments. Real GDP growth is expected to remain moderate rather than rapid, reflecting tight fiscal and monetary conditions, but increasingly supported by consumption, tourism, remittances and selective investment.

Macroeconomic stabilisation has come at a cost. Public debt remains high, interest payments absorb a large share of revenues, and fiscal consolidation limits the scope for counter-cyclical spending. Poverty and inequality remain elevated, constraining domestic demand and making the reform path politically sensitive. At the same time, high real interest rates and continued public-sector dominance crowd out private credit, slowing the transmission of stabilisation gains to small firms and households.

Looking into 2026, the challenge shifts from crisis management to sustaining recovery while delivering structural reform. The outlook depends on maintaining exchange-rate flexibility, adhering to IMF fiscal targets, accelerating state-owned-enterprise and competition reforms, and converting pledged Gulf and multilateral financing into productive investment. Progress on these fronts would allow Egypt to gradually move toward a more durable, private-sector-led growth model, but setbacks in reform implementation, renewed inflation pressures or regional shocks would quickly expose remaining macro vulnerabilities.

### **3.1 GDP and growth drivers**

Egypt's growth outlook has improved markedly following the 2024 stabilisation reset, though it remains constrained by tight financial conditions and high public-sector absorption. IMF "at a glance" projections point to real GDP growth of about 4.3% in calendar 2025, while the World Bank's Macro Poverty Outlook and other forecasters see average growth of roughly 4.5–5.2% over FY2025–FY2027, up from the trough recorded during the 2023–24 crisis. Private-sector analysts broadly align with this view, with BNP Paribas projecting growth of around 5.2% in FY2026, driven by stronger domestic demand and a gradual recovery in investment.

The composition of growth is shifting in a more sustainable direction. Private consumption is recovering, supported by easing inflation, stabilising real incomes and improved availability of imported goods following FX normalisation. Tourism, transport and trade-related services are again major contributors, benefiting from a competitive exchange rate and improved security

conditions, while remittances have rebounded as confidence in the formal FX market has returned.

High-frequency indicators support the recovery narrative. Real GDP growth in Q3 2025 is estimated at around 4.5–5.2% year on year, and business surveys show a notable improvement in sentiment. The non-oil PMI rose to 51.1 in November 2025, its highest reading in five years, signalling expansion in output, new orders and employment across manufacturing, construction and services. This reflects pent-up demand after the devaluation, easing input shortages and a gradual revival of private-sector activity.

Investment is expected to strengthen further into 2026, supported by large Gulf-backed projects, renewed privatisation, and multilateral financing, though progress will be uneven. High real interest rates, fiscal consolidation and ongoing reforms to state-owned enterprises continue to weigh on credit growth and private investment, suggesting that the recovery will remain moderate rather than rapid. Overall, Egypt enters 2026 with a firmer growth base than in recent years, but one that remains sensitive to policy execution, external financing conditions and regional risks.

### **3.2 Activity indicators**

High-frequency activity indicators point to a broadening recovery in 2025–26. Tourism has emerged as a key bright spot, rebounding strongly in 2024–25 despite regional tensions, supported by improved price competitiveness following the currency float, expanded air connectivity and renewed marketing efforts. Visitor arrivals, hotel occupancy and tourism receipts have all recovered to, or exceeded, pre-crisis levels, helping to support foreign-exchange inflows and employment in services.

A further boost is expected from the opening of the Grand Egyptian Museum, which authorities and industry expect to anchor higher-value cultural tourism, lengthen visitor stays and lift spillovers to hospitality, transport and retail in Greater Cairo. The museum's launch is also intended to reinforce Egypt's positioning as a global heritage destination and support year-round tourism demand rather than seasonal peaks.

Beyond tourism, services activity more broadly — including trade, logistics, transport and communications — has led job creation, reflecting improved FX availability, easing import constraints and stronger domestic demand. Private investment is recovering from a low base as foreign-exchange shortages ease, arrears are cleared and policy visibility improves under the IMF-supported reform programme, though high interest rates and public-sector crowding-out continue to weigh on capital formation.

Looking into 2026, activity indicators suggest continued momentum in services and tourism, with upside potential if external financing remains supportive and regional security risks remain contained. Risks include renewed regional instability, slower global travel demand or delays in translating headline visitor growth into higher per-capita spending and durable private-sector investment.

### **3.3 Inflation**

Annual urban CPI inflation has fallen sharply from its September 2023 peak of about 38% to the low-teens by late 2025, reflecting the March 2024 devaluation reset, tighter monetary policy and improved FX availability. Inflation stood at around 12–13% y/y in October–November 2025, after a temporary uptick linked to fuel-price adjustments, electricity tariff changes and rent

liberalisation, while core inflation has remained broadly in the 12–13% range, indicating still-elevated underlying pressures.

The Central Bank of Egypt (CBE) expects inflationary pressures to peak around late 2025 and then ease gradually through 2026, converging toward its 5–9% target range in the second half of 2026, as base effects turn favourable, real interest rates remain positive and pass-through from administered-price reforms fades.

Risks to the outlook remain tilted to the upside and include global commodity-price volatility, exchange-rate movements under the floating regime, and further administered-price or subsidy reforms, particularly in fuel, transport and utilities, though improved FX liquidity and tighter fiscal-monetary coordination provide a partial buffer.

### **3.4 Monetary policy**

Following a 600bp rate hike in March 2024, implemented alongside the move to a free-floating exchange rate, the Central Bank of Egypt (CBE) shifted decisively to an easing cycle in 2025 as inflation fell sharply and FX conditions normalised. Policy rates were cut by a cumulative 525bp during 2025, before the CBE paused in November, leaving the overnight deposit rate at 21% and the lending rate at 22%. Despite the easing, real interest rates remain among the highest globally, reflecting the scale of prior disinflation and the authorities' continued emphasis on restoring credibility after the 2023–24 crisis.

Looking into 2026, the baseline is for gradual, data-dependent further cuts, contingent on sustained disinflation, exchange-rate stability and continued improvement in external buffers. Policymakers are expected to prioritise maintaining positive real rates to anchor inflation expectations, support capital inflows and limit renewed pressure on the pound, even as high borrowing costs weigh on private investment and credit growth. IMF surveillance underscores that any further easing should remain firmly embedded in a credible inflation-targeting framework, supported by fiscal discipline and a fully flexible exchange rate, to avoid a return to stop-go policy cycles.

### **3.5 FX and external sector**

The March 2024 shift to a free-floating exchange rate, combined with a large external financing package involving Gulf investments and IMF, EU and World Bank support, helped resolve acute foreign-exchange shortages, rebuild reserves and restore confidence. Net foreign assets returned to positive territory in 2024 and rose by about \$4.9bn in March 2025, reflecting improved FX inflows and programme disbursements.

Gross international reserves have since stabilised at around \$35–36bn in late 2025, equivalent to about five to six months of import cover, providing a more comfortable buffer than during the 2023–24 crisis, though still below levels seen in stronger emerging-market peers.

External accounts nevertheless remain under pressure. High external debt-service obligations, elevated interest costs and weaker Suez Canal receipts due to Red Sea disruptions continue to weigh on the balance of payments. These pressures are partly offset by strong tourism receipts, resilient remittances and renewed foreign direct investment, particularly from Gulf investors in real estate, infrastructure and strategic assets.

Looking into 2026, the external outlook hinges on maintaining exchange-rate flexibility, continued programme engagement with official partners and a sustained recovery in services

exports. The World Bank and IMF caution that, despite the adjustment, external vulnerabilities remain a key watch-point, especially in the event of renewed global risk-off episodes, commodity-price shocks or delays in reform-linked inflows.

### **3.6 Labour and poverty**

Labour and poverty conditions have improved modestly but remain fragile. World Bank analysis indicates that the share of Egyptians living below the lower-middle-income poverty line (\$3.65/day, 2017 PPP) declined by around 5 percentage points between 2022 and 2024, reflecting the rebound in activity after the 2022–23 crisis and the stabilisation measures implemented in 2024. Even so, poverty remains elevated at around one-third of the population, with limited further improvement expected over the medium term as per-capita income growth remains weak and food prices, while easing, are still high in real terms.

Labour-market conditions have stabilised but job quality remains a concern. Official data point to headline unemployment in the 6.5–7.0% range, but underemployment and informality are widespread, particularly among youth and women. Job creation since 2024 has been concentrated in services, tourism, construction and parts of manufacturing, while public-sector hiring remains constrained by fiscal consolidation.

For 2026, the World Bank stresses that inclusive, private-sector-led job creation—supported by investment, competition reforms and improved access to finance—will be critical to translating macro stabilisation into sustained poverty reduction, as social protection alone is unlikely to offset weak real income gains.

### **4.0 Budget & debt – overview**

Fiscal policy in 2026 remains anchored in Egypt's IMF-supported consolidation programme, centred on sustaining large primary surpluses, curbing debt dynamics and restoring policy credibility after the 2023–24 crisis, while attempting to shield priority social and investment spending. The FY2025/26 budget, with total spending of about EGP4.6 trillion (c.\$91bn), targets a primary surplus of roughly 4% of GDP, up from around 2.5% in FY2023/24, through a combination of revenue mobilisation, subsidy rationalisation and tighter control of non-priority expenditures.

Revenues are projected at EGP3.1 trillion (c.\$61bn), supported by VAT, income-tax reforms and higher non-tax revenues from state assets and dividends, while the overall deficit is expected to remain wide at around 6.5–7% of GDP due to very high interest costs, which absorb more than 45% of total revenues. Public debt remains elevated at around 92% of GDP in FY2024/25, but authorities aim to reduce this to the low-80% range over the medium term, conditional on sustained primary surpluses, disinflation and continued growth.

The consolidation path is politically and socially sensitive. Fuel-price adjustments, electricity tariff reforms and limits on public-sector wage growth remain key levers, complemented by expanded cash-transfer programmes to mitigate the impact on low-income households. The IMF and other partners have stressed that progress on state-owned enterprise reform, competition policy and privatisation will be critical to easing fiscal pressures, crowding in private investment and reducing reliance on debt-financed growth in 2026 and beyond.

Overall, the fiscal stance reflects a shift from crisis management to disciplined consolidation, but remains exposed to risks from interest-rate shocks, slower growth, reform fatigue and social unrest, making execution of the FY2025/26 budget a central macro test for the year ahead.

#### 4.1 Budget balance and revenues

The cabinet has approved a draft 2025/26 budget with total expenditure of about EGP4,600bn (around \$91bn) and revenues of roughly EGP3,100bn (around \$61bn), up by about 23% year on year, reflecting inflation, tax-base widening and administrative gains. The budget targets a primary surplus of EGP795bn, equivalent to around 4% of GDP, under the IMF-supported consolidation framework, while the overall deficit is projected at about EGP1,500bn (around \$30bn).

Consolidation relies heavily on revenue mobilisation, including tighter tax enforcement, digitalisation, base broadening and higher excises, alongside restraint in non-priority spending. However, interest payments remain the dominant budget pressure and exceed the cash deficit, highlighting how elevated real interest rates and the legacy of past borrowing continue to strain public finances. This dynamic limits fiscal space and reinforces the authorities' emphasis on maintaining large primary surpluses and extending maturities to stabilise the debt trajectory through 2026.

#### 4.2 Debt & debt sustainability

Debt sustainability remains central to Egypt's macro outlook. Under the IMF baseline, general-government debt is projected to decline from about 92% of GDP in FY2024/25 to the low-80% range over the medium term, conditional on the delivery of large and sustained primary surpluses, gradual disinflation and a recovery in growth. The adjustment path relies heavily on tight fiscal discipline, favourable financing conditions and the maintenance of a flexible exchange rate to absorb shocks.

Risks remain elevated. The IMF and World Bank caution that debt dynamics are highly sensitive to interest-rate, exchange-rate and growth shocks, given Egypt's still-large refinancing needs and high share of short-term and domestic debt. Contingent liabilities from state-owned enterprises, public guarantees and quasi-fiscal activities also pose downside risks, particularly if reform momentum weakens or external conditions deteriorate.

Interest costs continue to crowd out spending. Civil-society and independent budget analyses argue that Egypt remains in a "debt grip", with interest payments absorbing a dominant share of government revenues, constraining fiscal space for social protection, health, education and public investment despite headline consolidation. These assessments underline the importance of deepening public financial management reforms, improving SOE governance, accelerating privatisation and lengthening debt maturities to place debt reduction on a more resilient footing.

Bottom line: While debt is assessed as sustainable under baseline assumptions, Egypt's debt outlook remains fragile, leaving policy credibility, reform delivery and access to concessional and long-tenor financing critical to containing vulnerabilities through 2026 and beyond.

#### 5.0 Real economy

Egypt's real economy is entering 2026 in a **gradual recovery phase** after the sharp macro adjustment of 2023–24, with growth becoming more broad-based but still uneven across sectors. The initial stabilisation achieved through currency devaluation, subsidy reforms and fiscal tightening has eased balance-of-payments pressures and restored a measure of investor confidence, but the real economy is now facing the harder task of converting macro stability into sustained, inclusive growth.

Construction remains one of the strongest performers, supported by ongoing state-led infrastructure programmes, housing projects and industrial zone development. These projects continue to generate output growth, but their employment impact is limited by capital intensity and heavy reliance on public spending. Tourism has also rebounded strongly, benefiting from a weaker pound, improved security perceptions and expanding air connectivity, providing a much-needed source of foreign currency and job creation, particularly in coastal and cultural hubs.

Services are showing steady momentum, especially in transport, logistics, ICT and financial services, as digital payments expand and regional trade flows gradually recover. However, manufacturing remains under pressure. High input costs, expensive imported components, and constrained access to foreign exchange have limited capacity utilisation, while weak domestic demand has held back new investment. Employment growth in formal manufacturing remains sluggish, keeping job creation below the pace needed to absorb Egypt's expanding workforce.

Household purchasing power remains fragile. Although inflation has eased from its 2023 peak, real wages are still lagging price levels, constraining consumer spending. This has weighed on retail, consumer goods and small business activity, especially outside major urban centres. Agriculture continues to face structural challenges, including water stress, rising fertiliser costs and low productivity, limiting its contribution to rural income growth and food security.

The central challenge for 2026 is shifting from state-driven stabilisation to private-sector-led expansion. While large-scale public projects helped cushion the downturn, they have also crowded out private investment and strained fiscal resources. Unlocking sustainable growth will depend on accelerating privatisation, improving competition policy, reducing the role of state-linked entities and easing regulatory barriers for small and medium-sized enterprises.

Foreign investment sentiment has improved following currency liberalisation and IMF-backed reforms, but investors remain cautious. Greater transparency, predictable FX access and continued reform of the business environment will be essential to attract long-term manufacturing and export-oriented capital rather than short-term portfolio inflows.

Overall, Egypt's 2026 outlook is one of cautious recovery rather than rapid expansion. Growth is stabilising, but remains vulnerable to external shocks, regional geopolitical risks and domestic reform fatigue. Without deeper structural changes, the recovery risks becoming shallow — restoring macro balance but failing to generate the employment and income growth needed to meaningfully improve living standards.

### **5.1 Agriculture and food**

Agriculture accounts for a modest share of GDP (around 11–12%) but remains critical for employment, rural incomes and food security, particularly for lower-income households. The sector was hit hard by food price shocks and input cost inflation in 2023–24, which eroded real rural incomes despite output resilience.

By 2025–26, disinflation and targeted food-support measures are easing pressure on households, but structural constraints persist. Water scarcity, land fragmentation, limited mechanisation and low yields continue to cap productivity gains. Climate risks and dependence on imported fertiliser and feed remain vulnerabilities. Without faster productivity growth and better integration into agro-processing and export value chains, agriculture's contribution to inclusive growth will remain limited in 2026.

### **5.2 Construction and infrastructure**

Construction has been one of the strongest growth drivers in recent years, underpinned by large-scale public projects and Gulf-backed investments, most notably the Ras El-Hekma coastal development, which anchors a broader pipeline of real-estate, logistics and tourism projects.

As fiscal consolidation tightens budget space, the sector's momentum is expected to shift from state-financed megaprojects toward commercially viable developments, PPPs and foreign-funded investments. This transition should improve efficiency but may slow headline growth in the short term. Execution capacity, land allocation transparency and access to medium-term financing will be key determinants of construction activity in 2026.

### **5.3 Tourism, trade and logistics**

Tourism is one of Egypt's strongest growth and FX-earning sectors, rebounding sharply in 2024–25 despite regional tensions. International arrivals rose to about 14.9mn–15.3mn in 2024, approaching pre-pandemic highs, while tourism receipts reached roughly \$13.6bn–\$14bn, up from about \$10.9bn in 2022. The weaker EGP following the March 2024 float, improved air connectivity, and expanded hotel capacity have supported demand into late 2025, with authorities targeting 16mn+ visitors annually by 2026.

Tourism is now a critical pillar of external adjustment, accounting for around 25–30% of services exports and making a material contribution to reserve accumulation and FX liquidity, alongside remittances. Strong inflows from tourism have helped offset weaker Suez Canal revenues linked to Red Sea disruptions, supporting gross reserves and easing pressure on the balance of payments.

A major medium-term catalyst is the Grand Egyptian Museum (GEM), which is expected to anchor higher-value cultural tourism from 2025–26 onward. Official planning documents and international tourism-economics benchmarks suggest that, once fully operational, the museum could attract 3–5mn additional visitors per year, increasing average length of stay and per-capita spend in Cairo and Giza. Based on conservative tourism-satellite-account assumptions, this implies a direct annual receipts impact of roughly \$1bn–\$1.5bn over the medium term, assuming average incremental spending of \$300–\$400 per visitor.

In GDP terms, international evidence from large cultural assets indicates tourism output multipliers of roughly 1.6–2.0, reflecting spillovers into hospitality, transport, retail and services. Applied cautiously, this would place the GEM's potential total GDP impact in the \$1.6bn–\$3bn range per year once mature, though outcomes will depend on marketing, security conditions and private-sector capacity. Employment multipliers in tourism-intensive economies typically range from 20–30 jobs per \$1mn in direct tourism demand, suggesting tens of thousands of direct and indirect jobs linked to museum-driven activity, particularly in urban services and SMEs.

Beyond tourism, trade and logistics remain a structural lever. Red Sea disruptions have forced some re-routing of cargo and raised shipping costs, but reforms in ports, customs clearance, competition policy and special economic zones are central to Egypt's strategy to position itself

as a resilient regional logistics hub. The World Bank and private analysts stress that improving port efficiency and reducing non-tariff barriers could significantly raise non-oil exports and strengthen the growth-FX nexus into 2026 and beyond.

#### **5.4 Manufacturing and non-oil private sector**

The return of the non-oil PMI to expansionary territory (51.1 in November 2025) points to a gradual recovery in private activity after several years of contraction, supported by improved FX availability, easing import bottlenecks and moderating input costs. Manufacturing output and new orders are leading the rebound, particularly in food processing, basic consumer goods, chemicals and construction-linked industries.

In employment terms, the recovery remains tentative rather than labour-intensive. World Bank and IMF labour-market diagnostics suggest that manufacturing has added roughly 120,000–150,000 net jobs since 2023, equivalent to about 5–7% employment growth in the sector, well below pre-2016 absorption rates. Firms continue to prioritise balance-sheet repair and capacity utilisation over hiring, reflecting high real interest rates and lingering policy uncertainty.

Looking into 2026, employment gains in manufacturing are expected to lag output growth, unless reforms reduce energy costs, improve logistics efficiency and accelerate SOE and competition reforms. IFI baseline scenarios imply manufacturing job creation of 40,000–70,000 per year under current policies, rising materially only if private investment accelerates and regional value-chain integration deepens.

#### **5.5 Labour market and inclusion (updated, quantified)**

Headline unemployment has eased to around 7–8% in 2025, down from double-digit levels earlier in the decade, but this masks weak labour-force participation and high underemployment, particularly among youth and women. Egypt's labour force is expanding by about 700,000–800,000 people per year, driven by demographics, while net job creation has averaged roughly 400,000–500,000 annually, leaving a persistent absorption gap.

Sectoral job creation is highly uneven:

- Services (trade, transport, tourism, personal services) account for around 65–70% of net new jobs, or 250,000–350,000 positions per year, largely informal.
- Construction and infrastructure have generated 120,000–180,000 jobs annually during peak investment years, though this is expected to slow as fiscal consolidation deepens.
- Manufacturing contributes less than 10% of net job creation, despite its importance for productivity and exports.
- Agriculture remains a net absorber of labour during shocks but offers low and volatile incomes, limiting poverty reduction.

World Bank analysis warns that, without a shift toward tradable, private-sector-led growth, Egypt risks continued “job-poor” expansion, with limited gains for the bottom 40% of households. Under the baseline macro scenario, poverty reduction is expected to stall through 2026, unless reforms translate growth into higher real wages and more formal employment.

Despite improving headline growth and PMI readings, Egypt's labour market in 2026 is likely to remain characterised by service-led, low-productivity job creation, with manufacturing and

exports generating too few jobs to absorb demographic pressures or deliver broad-based income gains.

## **6.0 Banking outlook**

IMF and Central Bank of Egypt (CBE) assessments continue to describe Egypt's banking sector as broadly resilient, having weathered the 2023–24 crisis without systemic instability. Financial-soundness indicators remain comfortable, with capital adequacy and liquidity ratios well above regulatory minima, supported by conservative provisioning and strong nominal balance-sheet growth. The CBE's financial-stability index rose from 0.34 in March 2023 to 0.44 by March 2024, reflecting improved liquidity conditions, lower FX stress and reduced volatility following the March 2024 exchange-rate liberalisation.

Banks have benefited from high net interest margins, driven by elevated policy rates and large holdings of government securities, as well as from inflation-boosted nominal income growth. At the same time, this business model exposes the sector to interest-rate risk and fiscal concentration, with sovereign exposure crowding out private credit and tying bank balance sheets closely to public-sector financing needs. While non-performing loan ratios remain contained, asset-quality risks could rise if growth underperforms or if very high real interest rates persist for longer than expected.

Credit growth slowed sharply during the crisis as FX shortages, policy uncertainty and high rates constrained lending, particularly to SMEs and tradable sectors. Since mid-2025, credit conditions have begun to normalise gradually, helped by improved FX availability and easing inflation, but private-sector credit growth remains modest by historical standards. Lending continues to be skewed towards large corporates and state-linked entities, with limited penetration into smaller firms and households.

The IMF's 2025 Article IV consultation outlines a strengthening reform agenda for the sector. Key priorities include independent diagnostic reviews of state-owned banks, tighter supervision of credit, interest-rate and market risks, enhanced stress testing, and reforms to improve governance and transparency. The programme also emphasises capital-market development and non-bank financial intermediation — including leasing, factoring, insurance and green finance — to diversify funding sources and reduce reliance on bank balance sheets.

Looking ahead to 2026, the baseline outlook is for continued profitability and adequate capital buffers, supported by still-high interest margins and a gradual economic recovery. However, banks are expected to have limited capacity for rapid expansion of private-sector credit while fiscal dominance remains strong and government borrowing absorbs a large share of domestic liquidity. A sustained shift towards more productive lending will depend on progress in SOE reform, competition policy, and fiscal consolidation, alongside deeper capital markets that can share the financing burden. Absent these reforms, the banking sector is likely to remain stable but conservative, acting more as a shock absorber than a strong accelerator of growth in 2026.

## **7.0 Energy & power**

Egypt's energy system remains gas-dominated, anchored by large combined-cycle power plants and LNG export infrastructure, while renewables and regional interconnections are expanding as part of the post-crisis reform and investment agenda.

Total installed electricity capacity exceeds 60 GW, with natural gas providing the bulk of generation. Three flagship Siemens-built combined-cycle plants — Beni Suef, Burullus and the New Administrative Capital — each contribute 4.8 GW, forming the backbone of baseload supply and underpinning power reliability. Over the medium term, diversification is expected through the El Dabaa nuclear power plant (4.8 GW, four units), with first generation targeted for the second half of the decade.

Egypt is a key gas hub in the Eastern Mediterranean, combining domestic production with regional flows. LNG export capacity is centred on two plants:

- Idku LNG (around 7.2 million tonnes per year)
- Damietta / SEGAS LNG (around 5 million tonnes per year)

Together, these facilities underpin LNG exports as an important source of foreign-exchange earnings, though export volumes remain sensitive to domestic gas availability, upstream investment and regional supply dynamics.

Renewables still account for a minority share of generation, but installed capacity has risen steadily. Wind capacity is around 3 GW, while solar and hydro add several additional gigawatts, lifting renewables to roughly 11–12% of electricity generation. Government strategy targets over 42% of installed capacity from renewables by 2030.

Key projects include:

- Benban Solar Park (1.65 GW) — among the world's largest solar PV complexes, developed with investment estimated at about \$4bn.
- Scatec solar project (1 GW) — reached financial close in 2025, with investment of roughly \$600mn.
- Gulf of Suez wind projects — including a 900 MW Scatec wind farm and a 650 MW Red Sea wind project, together representing around \$2bn in committed investment.

Overall, the renewables pipeline through 2026–27 amounts to 2–3 GW of additional capacity, supported by development-finance institutions, export-credit agencies and private capital.

Egypt is strengthening its position as a regional electricity hub through cross-border interconnections. Existing links with Jordan, Libya and Sudan provide around 1 GW of capacity, while a major 3 GW Egypt–Saudi Arabia interconnector is under development and expected to materially expand regional power trade later in the decade.

Electricity tariffs have been raised progressively as part of fiscal consolidation, reducing implicit subsidies but adding to short-term inflation pressures. Under IMF- and World Bank-supported reforms, authorities are working to clear arrears, improve cost recovery and restructure energy SOEs, with the aim of crowding in private investment and improving sector financial sustainability.

In 2026, the baseline outlook points to incremental additions in solar and wind, steady operation of gas-fired capacity, and gradual progress on interconnectors. Upside scenarios include stronger LNG exports, faster renewables deployment and progress on green hydrogen

and storage. Downside risks centre on gas-supply constraints, financing delays, grid bottlenecks and reform slippage, as well as regional security shocks affecting energy exports.

## **8.0 Markets outlook**

Domestic money and bond markets remain the primary financing channel for Egypt's large rollover needs and ongoing fiscal deficits. Following the FX float in March 2024 and a sharp fall in inflation, the Central Bank of Egypt began easing in 2025, cutting policy rates by 525bp before pausing in November. This has pulled short-term T-bill yields down by roughly 400–600bp from their 2023–24 peaks, though real rates remain strongly positive given inflation in the low-teens.

Government securities issuance remains sizeable. Gross domestic financing needs exceed EGP3,000bn per year (about \$60bn) when amortisations are included, keeping the local market central to debt management. Demand has improved materially: net foreign assets turned positive in 2024 and rose by about \$4.9bn in March 2025 alone, reflecting renewed foreign participation in EGP-denominated bills and bonds after the FX reset. Non-resident holdings of domestic debt have recovered from crisis lows, though they remain below pre-2020 peaks, underscoring sensitivity to global risk sentiment.

Into 2026, sustaining foreign appetite for local-currency paper will depend on continued disinflation, exchange-rate flexibility and adherence to IMF programme targets. The authorities' strategy relies on extending maturities, smoothing the domestic yield curve and avoiding excessive reliance on short-dated instruments that would heighten rollover risk.

On external markets, Eurobond access has improved but remains selective. Sovereign spreads have narrowed significantly from the 2023–24 stress period, reflecting lower default risk after the IMF reset and large Gulf-backed inflows. However, with public debt still high and global yields elevated, issuance is expected to be opportunistic rather than routine. The baseline for 2026 assumes external financing needs are met through a mix of official inflows (IMF, World Bank, EU), FDI — including large Gulf investments — and limited market issuance or liability-management operations, rather than heavy new borrowing.

Equity and corporate-debt markets remain shallow relative to the size of the economy. The Egyptian Exchange is dominated by banks, telecoms, real estate and consumer names, with low turnover and limited new listings. Corporate bond issuance is small, reflecting crowding-out by government paper and high real interest rates. The government's updated state-ownership and privatisation strategy, if implemented at scale, could materially deepen capital markets through strategic sales, IPOs and follow-on offerings, while reforms to competition policy, SOEs and the investment climate are intended to strengthen the pipeline of bankable private issuers.

Risks for 2026 include renewed global risk-off episodes, slower-than-expected disinflation that delays further rate cuts, slippage on fiscal or structural reforms, or regional shocks that affect FX inflows from tourism, remittances or the Suez Canal. Upside scenarios hinge on faster inflation convergence, successful execution of privatisation plans and sustained foreign confidence in local-currency assets, which would lower funding costs and support a gradual rebalancing from bank-dominated finance toward deeper capital markets.