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EGYPT - STATE OF THE ECONOMY

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About THE AUTHOR

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Mr. Genena earned his BA in Economics from AUC with honors in 1995, a MSc in Project Analysis, Finance and Investment from York University in the UK in 2000 and became a chartered financial analyst (CFA charterholder) in 2009.

Throughout his professional career, he held various positions within the field of economic/equity research both inside and outside Egypt, including; economist at the American Chamber of Commerce, economist at the Egyptian Ministry of Finance, senior economist at EFG-Hermes, senior economist at the National Commercial Bank in Saudi Arabia, senior economist at Bahrain-based Gulf Finance House, strategist and head of equity research at Pharos Securities Brokerage, head of equity research at Beltone Financial Holding, assistant sub-governor at the Central Bank of Egypt, and head of research at Cairo Financial Holding.

In addition to his core responsibilities, Mr. Genena regularly publishes opinion articles in Zawya, a London Stock Exchange Group (LSEG)-owned company.



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UPDATES AND ANALYSIS

Macroeconomic stability continued to gain traction during August 2025. The USD oscillated around EGP48.5 with a clear tendency to depreciate versus the EGP, the y/y urban CPI inflation rate softened to 13.9% in July 2025, the CBE delivered the third policy rate cut during 2025 (-2% on 28 August 2025) and the 5Y sovereign CDS spread continued to fall towards the 4.0% level, its lowest since 2021. To sustain the disinflation path, the Egyptian government decided to defer upward adjustments in electricity and natural gas prices charged to the manufacturing sector and launched a price reduction initiative in cooperation with the private sector to pull the y/y inflation rate even lower ahead of upcoming fiscal policy measures. Indeed, prices of most fast-moving consumer goods and services remained stable during August 2025 whereas the prices of durables, particularly passenger cars, continued to fall due to the presence of excess supply. Accordingly, we expect the inflation rate to dip further in August 2025 to around 12% y/y before accelerating to 15-16% by yearend due to upward adjustments in electricity, natural gas, and fuel prices. In all cases, double-digit inflation rates will likely become history by mid-2026 when first and second-round effects of fiscal policy measures are exhausted.

WHAT LIES AHEAD UNTIL YEAREND? ONE BIG FAPC DECISION, FIVE INFLATION PRINTS, AND THREE MPC MEETINGS

Until the end of 2025, we will be eyeing three main variables, namely; 1) the decision of the Fuel Automatic Pricing Committee (FAPC) when it next meets in early October 2025, 2) five inflation prints, and 3) the outcome of three remaining meetings of the Monetary Policy Committee (MPC). Obviously, the three variables are highly intertwined.

FAPC is expected to meet during the first week of October 2025. So far, fuel prices have been raised only once this year on 11 April 2025. Back then, diesel fuel was raised from EGP13.5 to EGP15.5/l, gasoline 95-Octane was raised from EGP17.0 to EGP19.0/l and gasoline 92-Octane was raised from EGP15.25 to EGP17.25/l. On average, the price of fuel rose by 14% during April 2025.

To assess the impact of the upcoming FAPC decision on the inflation rate, we looked at the April 2025 Inflation Note published by the CBE. The CBE noted that the prices of goods and services subject to price controls rose by 4% m/m and contributed 0.84% to the m/m inflation rate. This implies that the weight of goods and services subject to price controls in the CPI basket is 21% ($4\% \times 21\% = 0.84\%$). The CBE further noted that the 4% m/m increase was primarily driven by the aforementioned 14% increase in fuel prices. Hence, the weight of fuel in the CPI basket is 6%. Based on this logic, if the blended average price of fuel increases by 15% in October 2025 to attain cost recovery level, the direct impact on the m/m inflation rate will be 0.9% and the indirect impact (particularly via transportation prices) could add another 1.5% to 2.0%. These dynamics could push October m/m inflation rate to 3.0%.



Yet, FAPC decision could be preceded by an upward adjustment in electricity and natural gas prices charged to industrial users in September 2025. We remind readers that there was noise over an imminent increase in natural gas prices in July 2025. However, the decision was delayed to an unknown date. We believe the policy measure could be executed sometime in September. Again, the rate of adjustment will likely be close to 15-20% (e.g., an increase of USD1/mmbtu on prevailing natural gas prices that range from USD4.50/mmbtu charged to urea producers to USD5.75/mmbtu charged to iron and steel facilities. A similar rate of adjustment could be applied to top-strata electricity users. Hence, September m/m inflation rate could be also close to 3.0%.

So, Egypt is likely poised for two consecutive 3.0% m/m inflation prints in September and October 2025. Yet, August inflation reading should be ultra benign (close to 0.2%) and the two readings of November and December 2025 should only reflect second round effects of fiscal policy measures. Using the above path as a guide, we expect the five remaining monthly inflation prints to be 0.2% in August, 3.0% in September, 3.0% in October, 1.5% in November and 0.5% in December 2025. This path yields an end-of-year inflation rate of 16.4%, which implies a still high real interest rate of 5.6%.

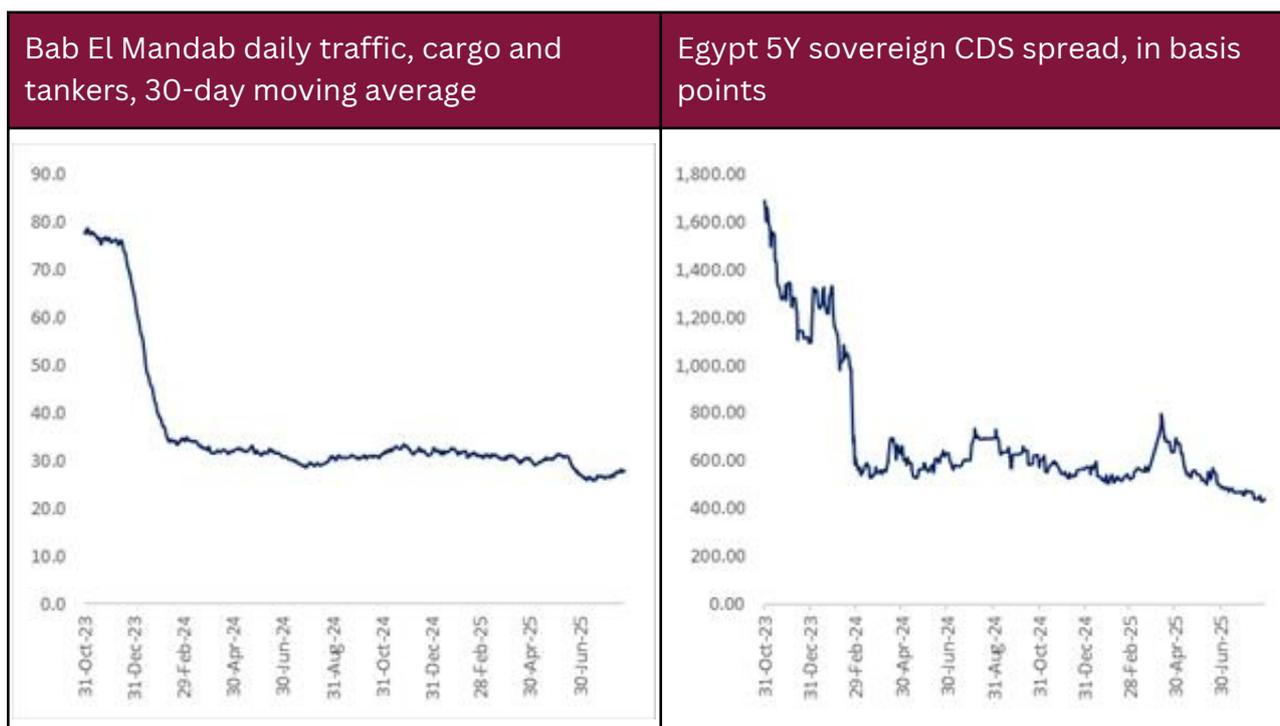
Based on the above, there is room for further monetary policy easing over the coming four months. The MPC has three meetings left until the end of 2025; on 2 October, 20 November, and 25 December 2025. With the above inflation path in mind, we rule out a rate cut on 2 October. However, there is room for 1-2% cumulative rate cuts during the remaining two meetings. In our view, the magnitude of the rate cuts will depend on the strength of EGP versus the USD. Appreciation beyond 47 should easily pave the way for a 2% cut.

WHAT TO WATCH OUT FOR

Noise related to the completion of the fifth and sixth IMF program reviews should resurface during September 2025. Prior announcements made by government officials had put September/October 2025 as the target date for concluding the two reviews and the disbursement of USD2.4 billion. Furthermore, we expect the government to conclude a sizable investment deal with Qatar (c. USD7.5 billion), which should continue to support EGP appreciation to counterbalance the inflationary pressures caused by fiscal consolidation measures expected in September and October 2025.

CHART OF THE MONTH

The positive correlation between the two charts below defies economic logic. The chart on the left-hand side depicts the 30-day moving average of daily cargo and tanker ships crossing the Strait of Bab El Mandab. The one on the right-hand side depicts the 5Y sovereign CDS spread. The plunge in Bab El Mandab crossings costs Egypt around USD5-6 billion annually in transportation receipts – or around 1.2% of GDP. Yet, despite the magnitude of the loss, the 5Y sovereign CDS spread also plunged to around 437 basis points – its lowest since 2021. Why? The answer lies in tourism and workers’ remittances. During 1H25, the number of tourist arrivals surged 24% y/y to 8.7 million tourists, which is consistent with the full year target of 18 million tourists. Similarly, during FY24/25, workers’ remittances jumped 67% y/y to a record high USD36.5 billion. Hence, Suez Canal revenue turned from a major source of foreign currency inflows into a mere option that could be exercised if military activity at the Strait of Bab El Mandab draws to a close.



Sources: IMF PortWatch and Investing.com

KEY METRICS

EXCHANGE RATE RISK	INFLATIONARY PRESSURES	WHAT DO FINANCIAL MARKETS SAY?
USD/EGP Official (28 Aug 25) 48.5	Core Inflation Rate (End Jul 25) 11.6%	5Y CDS Spread (29 Aug 25) 4.4%
USD/EGP CIB Arbitrage (29 Aug 25) 50.1	Y/Y Growth in M1 (End Jun 25) 25.4%	Change in 5Y CDS Spread, 2025YTD -126 bps
M2D/G O Reserves (End Jun 25) 4.2	Y/Y Growth in M2D (End Jun 25) 23.4%	EGX30 (EGP terms), 2025YTD +20.0%
NFA, \$ billion (End Jun 25) 14.9	O/N Lending Facility Rate 23.00%	Change in 1Y T-bill Yield, 2025YTD -0.4%
External Debt, \$ billion, (End Mar 25) 156.7	Change in Policy Interest Rate 2025YTD -5.25%	

KEY ECONOMIC EVENTS DURING AUGUST 2025

MPC CUTS POLICY RATES BY 200 BASIS POINTS TO 22-23%

The CBE slashed policy rates by 200 bps to push cumulative rate cuts during 2025YTD to 5.25%. At present, the corridor rates stand at 22-23%, which is still materially high in real terms compared to current and projected inflation rates. The CBE quoted a benign July y/y inflation rate of 13.9% and a stronger EGP as key factors behind the decision.

EGYPT AND QATAR DISCUSS POTENTIAL USD7.5 BILLION INVESTMENTS OVER THE COMING FEW WEEKS

According to official sources, Egypt and Qatar are planning to activate a USD7.5 billion partnership package that was sealed back in April 2025. HE the Minister of Foreign Affairs later noted that specific projects will be announced over the coming few weeks. Back in July 2025, it was announced that Qatar would invest USD4.0 billion in a hospitality project along the North coast yet limited progress has been announced since then. It is important to note that Qatari investments in Egypt remains relatively limited when compared to those of UAE and KSA. In FY23/24, Qatari investments in Egypt stood at USD618.5 million, versus USD548.2 million a year earlier.

EGYPT CEMENT INDUSTRY IS WITNESSING A RARE M&A WAVE AMID SURGE IN EXPORTS TO RECONSTRUCTION COUNTRIES

After nearly two decades of stagnation, the cement sector in Egypt is witnessing a once-in-a-generation recovery due to the surge in exports to neighbouring war-torn countries. Up to 2017, exports of cement and clinker were close to zero. By 2024, exports approached 10 million tons. During 1H-2025, exports of cement and clinker jumped to 8.2 million tons – which suggests that full year exports could jump by more than 50% y/y during 2025. As export demand started to compete for a limited effective capacity of circa 75 million tons/annum, domestic retail cement prices jumped to EGP4,000/ton (almost USD82/ton), versus levels close to EGP2,000/ton in 2023 and EGP3,000/ton in 2023. Accordingly, the government decided to scrap the so-called local quota system introduced in 2021 to limit oversupply in the domestic market and held several negotiations with Egyptian and international players to limit the magnitude of price hikes. The above dynamics triggered a rare M&A wave in 2025 that pushed the valuations of listed cement mills to record highs. For example, Beni Suef Cement acquired 12.5% of Misr Cement Qena and has already submitted a request to the Egyptian Competition Authority to increase its stake to 33%. French Vicat Cement has recently submitted a mandatory tender offer (MTO) to increase its stake in Sinai Cement to 100%, from the current 77.6%. It is interesting to note that Egypt ranks the world's 10th largest producer of Portland cement.

EGYPT POSTS A
RECORD HIGH
PRIMARY SURPLUS OF
3.6% OF GDP IN
FY24/25

Egypt recorded its highest-ever primary budget surplus in FY24/25, reaching EGP629 billion, equivalent to 3.6% of GDP. As we explained in previous issues of the publication, a primary balance/surplus is one of two conditions for debt sustainability, which is defined as a stable or declining public debt/GDP ratio. The second condition is a nominal yield on public debt that is lower than nominal GDP growth rate. In FY25/26, the second condition will likely be met as interest rates converge to mid-teens and nominal GDP growth rate hovers around 17% as per IMF projections.

EGYPT RECEIVES
RECORD HIGH
WORKERS'
REMITTANCES DURING
FY24/25

According to a press release published by the CBE, workers' remittances jumped to a record high USD36.5 billion during FY24/25 versus USD21.9 billion during FY23/24. In calendar year 2024, the World Bank estimated total remittances flowing to low and middle-income countries to have reached USD685 billion and ranked Egypt as the 7th largest recipient (USD22.7 billion), after India, Mexico, China, Philippines, Pakistan and Bangladesh in USD terms. During FY24/25, remittances flowing to Bangladesh stood at USD30 billion, which pushes Egypt to the 6th place after Pakistan (USD38.2 billion in FY24/25).

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