



البنك المركزي المصري
CENTRAL BANK OF EGYPT



Central Bank of Egypt

Monetary Policy Report

Q2 – 2026

NOTE

The cut-off date for the data points included in this report is July 15, 2026. Certain data points are preliminary and subject to revision.

CBE Monetary Policy Framework*

The Central Bank of Egypt (CBE) aims to promote a sound monetary and banking system and to ensure price stability. These goals are pursued in alignment with the general economic policy of the State, as outlined in the Central Bank and Banking System Law No. 194 of 2020. As part of its price stability mandate, the CBE is committed to achieving and maintaining low and stable inflation over the medium term.

Since 2017, the CBE has been gradually transitioning towards implementing an inflation-targeting (IT) regime. This framework utilizes policy tools to anchor inflation expectations and contain demand-side pressures and second-round effects of supply shocks, aiming to achieve the set inflation targets. To achieve its mandate whilst transitioning to an inflation-targeting framework, the CBE sets several inflation targets in a way that transitions Egypt's economy gradually to an inflation rate that is consistent with price stability. In December 2024, the CBE announced its inflation targets for Q4 2026 and Q4 2028 at 7 percent (± 2 percentage points) and 5 percent (± 2 percentage points) on average, respectively.

The Monetary Policy Committee (MPC) meets eight times a year to discuss macroeconomic developments and decide on the level of key policy rates (overnight deposit and lending rates, the rate of the main operation, and the discount rate) consistent with achieving the set inflation targets and maintaining price stability over the medium-term. The overnight deposit and lending rates serve as the floor and ceiling of the CBE's corridor system within which the overnight interbank rate (CBE's operational target) fluctuates. A press release is published on the CBE website following each meeting, outlining the rationale behind the decisions made.

Monetary Policy Tools and Instruments

To achieve its price stability mandate, the CBE employs a range of instruments: the overnight deposit and lending facilities, the minimum reserve requirement for commercial banks, and deposit auctions. The CBE utilizes its monetary policy tools to steer the overnight interbank rate towards the level deemed consistent with: (1) minimizing deviations of inflation from the level considered consistent with price stability (inflation gap) and (2) minimizing volatility of real economic activity with respect to its full capacity utilization (output gap).

Recent Monetary Policy Committee Decision

In its meeting on July 9, 2026, the Monetary Policy Committee of the Central Bank of Egypt decided to keep the key policy rates unchanged. The overnight deposit rate, overnight lending rate, and the rate of the main operation remain at 19.0 percent, 20.0 percent, and 19.5 percent, respectively. The discount rate was also maintained at 19.5 percent.

The Committee has decided to keep key policy rates unchanged to maintain an adequately positive real interest margin on average over the forecast horizon, supported by better-than-expected macroeconomic developments compared to the last MPC meeting in May 2026. The Committee will continue to evaluate its monetary stance based on evolving economic conditions, drivers of inflationary pressures, the forecasted inflation trajectory, and the prevailing balance of risks. Looking ahead, the MPC remains firmly committed to price stability and will not hesitate to tighten policy further to ensure inflation returns to target in the near term.

*See [CBE Monetary Policy Framework](#) for further details.

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Summary

The persistence of the Iran-US conflict continues to weigh on the global and domestic economies, with lingering effects on economic activity, foreign investment, and domestic inflation. Nevertheless, the recent favorable macroeconomic developments attributed to the temporary ceasefire agreement and better-than-expected inflation outturns, led the CBE to slightly revise its baseline inflation forecast downward in the short term. Accordingly, the MPC decided at its May and July 2026 meetings to keep key policy rates unchanged, maintaining an adequately tight monetary policy stance to anchor inflation expectations, supporting the disinflation path toward its target level by H2 2027.

Globally, growth among Egypt's trading partners slowed slightly to an average of 2.2 percent in Q2 2026, down from 2.3 percent in Q1, as spillovers from the Iran-US conflict weighed on economic activity. Import-weighted inflation of Egypt's trading partners accelerated from an average of 3.9 percent in Q1 2026 to 4.5 percent in Q2, amid persistent external price pressures and renewed geopolitical tensions. Meanwhile, global commodity prices remained high despite a temporary softening in June, while global financial conditions stabilized as capital flows and sovereign spreads improved during the de-escalation period. Nevertheless, the appreciation of the US dollar and the resurgence of geopolitical tensions toward the end of the quarter renewed risks surrounding global inflation, commodity markets, and external financial conditions.

Domestically, annual headline inflation rose to an average of 14.6 percent in Q2 2026, up from 13.5 percent in Q1, reflecting temporary domestic seasonal factors, adjustments to regulated energy and transportation prices, as well as the pass-through of global shocks and regional geopolitical developments. Annual food inflation recorded 6.6 percent in Q2 2026 compared with 4.1 percent in the previous quarter, while annual non-food inflation remained broadly stable at 19.7 percent, reflecting the relatively persistent nature of inflation across non-food goods, especially services. Nevertheless, the quarterly developments (y-o-y) mask the positive monthly inflation dynamics throughout Q2 2026, reflected in the diffusion index declining to its lowest reading since mid-2025, registering 9.4 percent in June 2026.

The CBE nowcasts real GDP growth in Q2 2026 at approximately 4.5 percent, mainly driven by non-petroleum manufacturing, communications, and trade economic activities. Regarding actual developments, real GDP growth at market prices recorded 5.0 percent in Q1 2026, compared with 4.8 percent in Q1 2025, signaling robust growth in economic activity, primarily driven by consumption and private investments. With respect to the labor market, the unemployment rate declined to 6.0 percent in Q1 2026, against 6.3 percent in the corresponding quarter in 2025, while real wage growth decelerated notably to 1.3 percent in Q1 2026, down from 11.0 percent a year earlier, due to slower nominal wage growth and an uptick in inflation.

Egypt's external position remained resilient in Q1 2026 against the repercussions of the regional conflict, with the balance of payments recording a marginal surplus of USD 0.3 bn. On one hand, the current account deficit more than doubled compared to Q1 2025 to stand at USD 5.1 bn (1.2 percent of GDP). This was driven by a larger trade deficit and a decline in the net investment income balance, which were partially offset by higher remittances and receipts from tourism and the Suez Canal. On the other hand, the capital and financial account recorded a net inflow of USD 3.4 bn in Q1 2026, supported by FDI inflows, medium- and long-term loan disbursements, and a drawdown of commercial banks' foreign assets following considerable net portfolio outflows triggered by the outbreak of the conflict in the region. Nonetheless, during Q2 2026, and after the easing of the regional tensions and the gradual recovery in investor sentiment, net international reserves increased to register USD 55.1 bn by end-June 2026, compared to USD 52.8 bn at end-March 2026. This is also consistent with the partial rebound of the banking system's NFAs during

Q2 2026 to record USD 22.9 bn in May 2026, up from USD 21.4 bn in March, mainly driven by commercial banks' NFAs. This was reflected as well in the notable appreciation of the pound from EGP 54.6 to EGP 49.2 per USD between end-March and end-June 2026.

With respect to financial conditions and domestic credit, tighter liquidity conditions pushed the overnight interbank rate slightly above the policy rate, averaging 19.8 percent in June 2026 compared with 19.5 percent in March 2026. Nonetheless, it remained closely aligned with the policy rate, with approximately 93 percent of the policy rate cuts since April 2025 transmitted to the overnight interbank rate. Similarly, around 75 percent of the decline in the overnight interbank rate since April 2025 passed through to average new deposit and lending rates by June 2026, indicating monetary policy transmission to the money market and financial conditions. Meanwhile, the real growth of local currency (L/C) loans to the private sector registered an average of 7.3 percent in Q2 2026¹, supported by the continued provision of L/C loans to the private business sector, particularly industrial and services sectors. Egyptian Eurobond yields also declined by an average of 110 bps across all tenors in Q2 2026, reflecting improved investor risk sentiment as regional tensions eased by the end of the quarter.

Given the better-than-expected domestic economic developments, CBE inflation projections have been revised slightly downward in the near-term, with average annual headline inflation still expected to temporarily accelerate in Q3 2026, partly due to unfavorable base effects, albeit at a more moderate pace than previously projected. Thereafter, inflation is expected to gradually decline and reach single digits during H2 2027, aligning with the targeted level of 7 percent (± 2 p.p.), supported by the prevailing tight monetary stance over the forecast horizon. Nevertheless, the inflation outlook remains susceptible to risks, as reflected in two alternative scenarios: escalation and de-escalation. As such, annual headline inflation is expected to range 15.2–17.8 percent and 7.7–8.3 percent on average in FYs 2026/27 and 2027/28, respectively, across different prospects of the conflict, compared with an average of 13.3 percent in FY 2025/26.

With respect to output, the CBE slightly revised real GDP growth forecasts to 5.0 and 4.9 percent for FYs 2025/26 and 2026/27, respectively, up by 0.1 p.p. for each fiscal year compared with Q1 2026 MPR, while FY 2027/28 is projected to grow by 5.4 percent on average. The upward revision for FYs 2025/26 and 2026/27 mainly reflects a stronger projected contribution from the Suez Canal than assumed in the previous MPR. Additionally, growth forecasts for FYs 2026/27 and 2027/28 continue to be mainly driven by the manufacturing and services sectors (particularly tourism), with FY 2027/28 also supported by the projected normalization of the monetary policy stance. Nonetheless, estimates indicate that output remains below potential, though gradual convergence is expected by H1 2027, suggesting that demand-side inflationary pressures are projected to remain limited in the short term, supported by the currently tight monetary policy stance.

¹ Q2 2026 is the average of April and May 2026.

1.Current Economic Conditions

1.1 Global Developments

Key Takeaways:

- Global economic conditions improved temporarily after the mid-June Iran-US framework agreement, but the collapse of the ceasefire on July 6 renewed uncertainty across global growth, inflation, and commodity markets.
- Global growth slowed slightly in Q2 2026, weighed down by the conflict's spillovers, with the softer growth environment expected to persist through year-end before gradually improving in early 2027.
- Global inflation picked up in Q2 2026 as price pressures intensified, with the July escalation adding further upside risks.
- Global commodity prices remained elevated throughout Q2 2026. While prices eased in June amid the temporary de-escalation of regional tensions, they partially reversed following the collapse of the ceasefire in July, leaving energy, food, and fertilizer markets vulnerable to renewed supply-chain disruptions.
- Global financial conditions remained relatively stable, with capital flows to emerging markets strengthening and sovereign spreads narrowing during the period of de-escalation. However, a strengthening US dollar and the renewed escalation in July weighed on investor sentiment toward quarter-end.
- Advanced economy central banks were broadly hawkish, while emerging market policy stances became more divergent.

This section reviews recent global economic developments and evaluates their implications for Egypt. Specifically, it explores trends in global growth, inflation, commodity prices, and financial markets. The analysis underscores how these

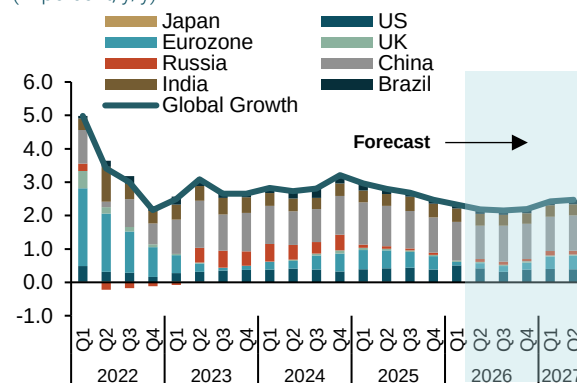
global dynamics influence Egypt's macroeconomic conditions and its external position.

Global growth is estimated to have slightly slowed in Q2 2026, extending the moderation observed in Q1 2026 following the modest recovery in 2025. This deceleration was partly driven by spillovers from the Iran-US conflict, which resumed after the ceasefire—established under the mid-June framework agreement—collapsed on July 6. The resumption of the conflict heightened policy and geopolitical uncertainty, increased risks to maritime and air transport, and exerted upward pressure on international energy prices. Alongside weather and supply-related factors, these developments contributed to an elevation in global commodity prices, although energy prices remained well below its conflict-induced peaks.

Figure 1

Economic Growth of Egypt's Trading Partners*

(In percent, y/y)



Source: Bloomberg.

*The series is weighted using Egypt's time-varying trade volume. Growth rates starting Q2 2026 represent forecasts.

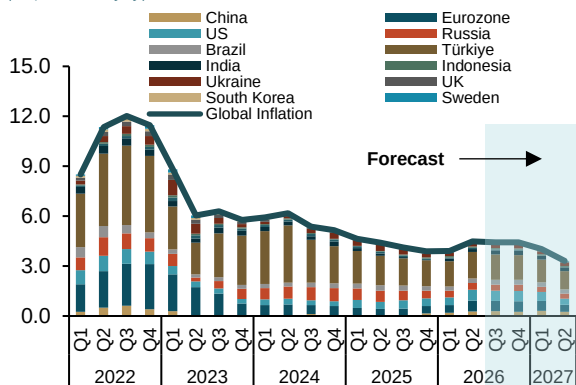
In this context, global economic growth—weighted by Egypt's volume of trade with key

trading partners²—is estimated at 2.2 percent in Q2 2026 on average, down from 2.3 percent in Q1 2026 on average. Global growth is expected to broadly stabilize around current levels over the remainder of 2026, before gradually improving in early 2027 (Figure 1). The slight improvement in the global growth outlook is expected to support external demand for Egyptian exports and generate positive spillover effects through tourism and remittance inflows, thereby providing support to Egypt’s domestic growth outlook.

Alongside the growth slowdown, global inflation—weighted by Egypt’s volume of imports from key trading partners³—averaged 4.5 percent in Q2 2026, compared to 3.9 percent in Q1 2026 (Figure 2). The pickup in global inflation reflected persistent external price pressures from the Iran-US conflict, with the renewed escalation in July adding further upside pressures to the near-term outlook. For Egypt, these external pressures may feed into imported inflation. However, their pass-through to domestic inflation is likely to materialize only gradually, reflecting lags in import pricing, shipping, and consequently, domestic price adjustments.

Figure 2
Headline Inflation of Egypt’s Trading Partners*

(In percent, y/y)



Source: Bloomberg.

* The series is weighted using Egypt’s time-varying imports volume. Inflation rates starting Q3 2026 represent forecasts.

² Prior editions of the CBE MPR calculated trade-weighted growth using fixed trade volume shares. Starting with this edition, weights are updated annually using the previous year’s trade shares, allowing the measure to better reflect evolving trade dynamics with Egypt’s key partners.

³ Prior editions of the CBE MPR calculated trade-weighted inflation using fixed trade volume shares. Starting with this edition, the weighting is

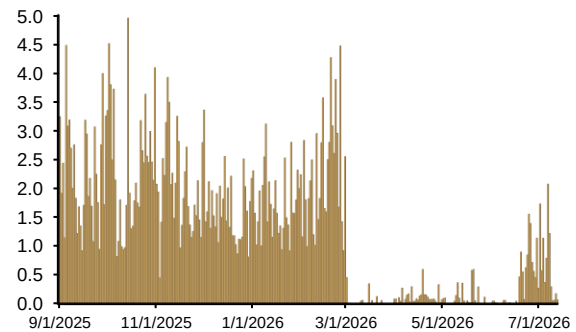
Maritime transit volumes through the Strait of Hormuz fluctuated sharply over the quarter, mirroring the evolving geopolitical backdrop. Both tanker traffic and dry-bulk shipping⁴—which had fallen sharply during the earlier episode of the conflict—recovered modestly during the ceasefire period but remained well below pre-conflict levels (Figure 3). This recovery was short-lived, as renewed geopolitical tensions once again disrupted shipping traffic, heightening uncertainty surrounding global commodity supply.

Figure 3

Daily Transit Trade Volumes through the Strait of Hormuz*

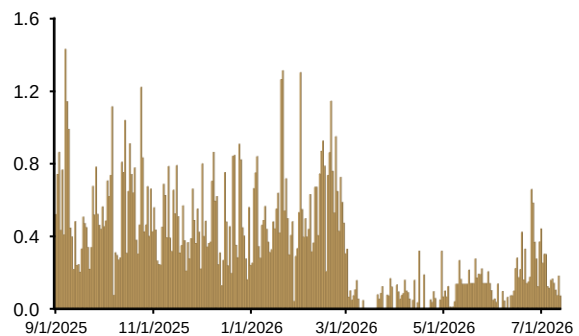
a. Tanker Vessels

(In million metric tons)



b. Dry Bulk Vessels

(In million metric tons)



Source: UN Global Platform; PortWatch.

* Data as of July 12, 2026.

based on import shares, as import exposure was found to be the more relevant channel for transmitting changes in global prices to domestic inflation. Weights are updated annually to reflect evolving trade patterns.

⁴ Tankers carry energy commodities such as crude oil, petroleum products, and LNG, while dry-bulk ships carry grains, coal, and fertilizers.

Accordingly, the shifts in maritime transit fed through to commodity prices, particularly in energy markets. Brent crude oil prices averaged USD 96.7/bbl. in Q2 2026, a 23.3 percent quarter-on-quarter increase, as elevated prices in April and May more than offset the decline observed in June (Figure 4, Panel a). The temporary decline in oil prices during June was also supported by the gradual phase-out of earlier OPEC+ voluntary production adjustments, which increased oil supply. However, prices rebounded in early July amid renewed escalation. Looking ahead, market forecasts point to prices moderating gradually through 2027, though the wide forecast range underscores the uncertainty surrounding the outlook.

Figure 4

Energy Price Developments*

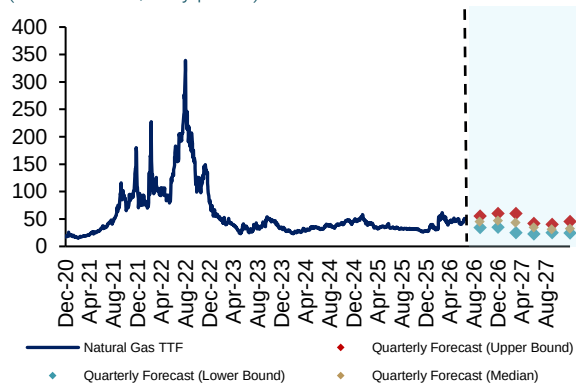
a. Brent Crude

(In USD/bbl., daily prices)



b. Natural Gas (TTF)

(In EUR/MWh., daily prices)



Source: Bloomberg.

* Data as of July 15, 2026.

Natural gas prices averaged EUR 45.7/MWh in Q2 2026, a 13.8 percent quarter-on-quarter increase, as elevated prices earlier in the quarter outweighed the more modest June easing (Figure 4, Panel b). While LNG flows through the Strait of Hormuz began to recover following the June agreement, they remained well below pre-conflict levels, and damage to regional LNG infrastructure has clouded the medium-term outlook on its supply. With European storage levels still low ahead of winter, gas markets are expected to remain tight and vulnerable to renewed supply disruptions over the near term.

For Egypt, the rebound in global oil and gas prices in Q2 2026, alongside renewed geopolitical tensions, has re-introduced upside risks to imported inflation, the current account, and fiscal pressures—reversing the relief provided by the earlier June easing, particularly for gas-intensive sectors.

Fertilizer price trends have diverged. Nitrogen fertilizer (urea) prices have fallen sharply from their conflict-related peak as supply conditions improved and seasonal demand eased, reducing input costs for grain production.⁵ By contrast, phosphate fertilizer prices have remained elevated due to persistent Sulphur supply constraints and continued Chinese export restrictions, keeping cost pressures on oilseed production elevated.

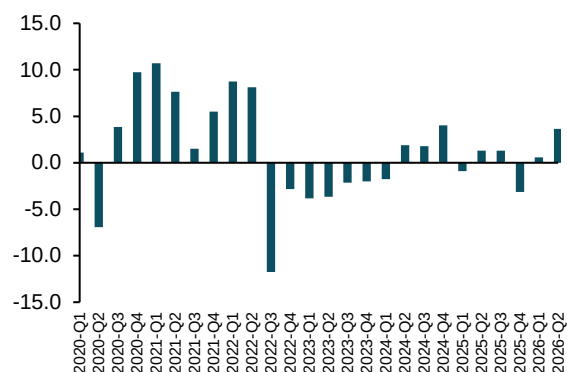
Similar to fertilizer prices, food commodity price developments remained uneven across product groups. The quarter-on-quarter growth of the FAO Food Price Index (FFPI) accelerated from 0.6 percent in Q1 2026 to 3.7 percent in Q2 2026 (Figure 5), as notable price increases earlier in the quarter outweighed a modest decline in June. Meanwhile in June 2026, wheat and maize prices declined, supported by favorable supply prospects and the temporary easing in energy prices, leading to lower cereal prices, while vegetable oil and meat prices remained elevated.

⁵ Grain production includes wheat, maize, and rice.

Figure 5

FAO Food Price Index*

(In percent, Q/Q growth rate)



Source: Food and Agriculture Organization of the United Nations.

* Data as of July 3, 2026.

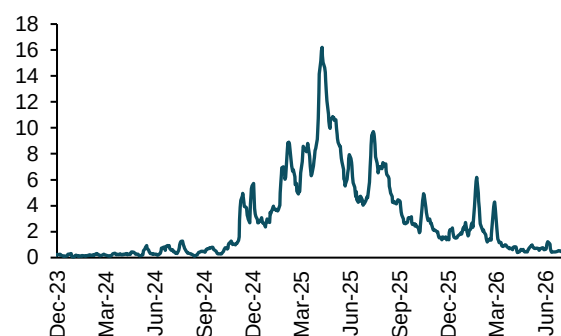
For the Egyptian economy, this divergence points to a mixed external food inflation outlook. While easing maize and wheat prices during June 2026 offer some relief to the food import bill and subsidy expenditures, continued increase in vegetable oil and meat prices, compounded by renewed geopolitical tensions and elevated shipping costs, continue to pose upside risks.

Beyond commodity markets, geopolitical developments also shaped financial and policy conditions over the quarter. Global trade policy uncertainty—as measured by the Global Trade Policy Uncertainty Index—moderated during Q2 2026 from the elevated levels recorded in the previous quarter, as the Iran-US negotiations progressed, before slightly rising following the collapse of the ceasefire in July (Figure 6). While this leaves uncertainty well below its earlier peak, the renewed escalation suggests that downside risks to investment flows, particularly across emerging markets, have not fully dissipated.

Figure 6

Global Trade Policy Uncertainty*

(Index level)



Source: Bloomberg.

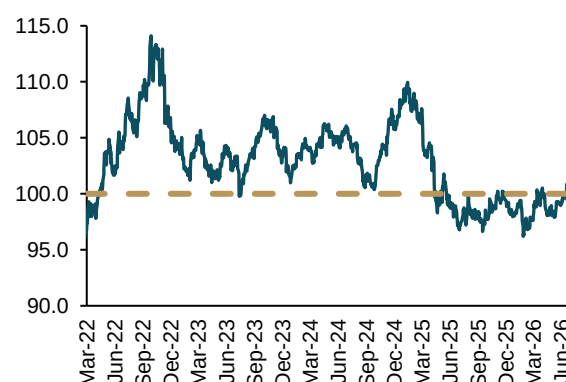
* An increase indicates rising uncertainty surrounding global trade policies. Data as of July 15, 2026.

Amid these developments, the US dollar exhibited some volatility during Q2 2026 before appreciating toward the end of the quarter, with the US Dollar Index (DXY) increasing by approximately 0.9 percent relative to Q1 2026 (Figure 7). The appreciation reflected heightened safe-haven demand, supported by resilient US economic conditions and the Federal Reserve's decision to maintain its policy rate unchanged.

Figure 7

US Dollar Index (DXY)*

(Index level, Increase = appreciation and vice versa)



Source: Bloomberg.

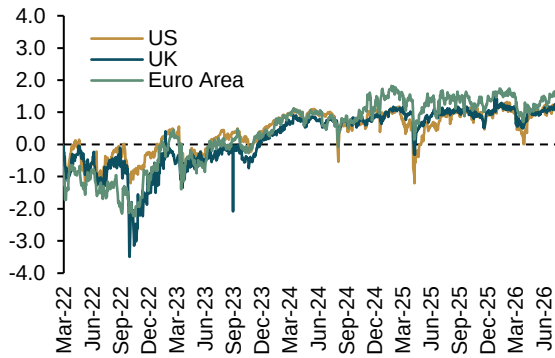
* Data as of July 15, 2026.

Global financial conditions remained broadly stable during Q2 2026 (Figure 8). Nevertheless, elevated geopolitical uncertainty continued to pose risks to capital flows and external borrowing costs for emerging-market economies.

Figure 8

Financial Conditions Index*

(Z-score, daily data)



Source: Bloomberg.

* Positive values indicate more accommodative financial conditions, and vice versa. Data as of July 15, 2026.

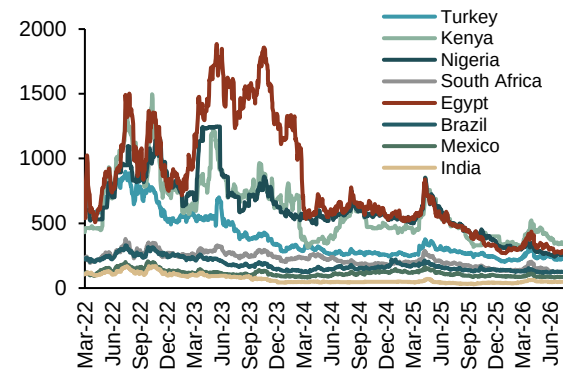
In Q2 2026, emerging market (EM) credit default swap (CDS) spreads generally narrowed, reflecting improved investor perception of sovereign credit risk and a compression in risk premia. This broad-based decline was underpinned by an improvement in global risk sentiment, as geopolitical risk moderated. Although intermittent geopolitical developments and shifts in global financial conditions generated temporary episodes of volatility during the quarter, they did not alter the broader downward trajectory in EM CDS spreads, which ended Q2 2026 below their Q1 2026 levels.

In line with broader emerging market dynamics, Egypt's 5-year CDS spreads narrowed over the course of Q2 2026, reflecting a compression in sovereign risk premia and sustained confidence in the Egyptian economy (Figure 9). This was further supported by the affirmation of Egypt's sovereign credit ratings by both S&P Global Ratings and Moody's in April 2026. S&P maintained Egypt's sovereign rating at *B* with a *Stable Outlook*, while Moody's affirmed its *Caa1* rating with a *Positive Outlook*, citing continued reform momentum, relatively resilient macroeconomic performance despite heightened regional geopolitical tensions.

Figure 9

Egypt and Peers: 5-Year CDS Spreads*

(basis points)



Source: Bloomberg.

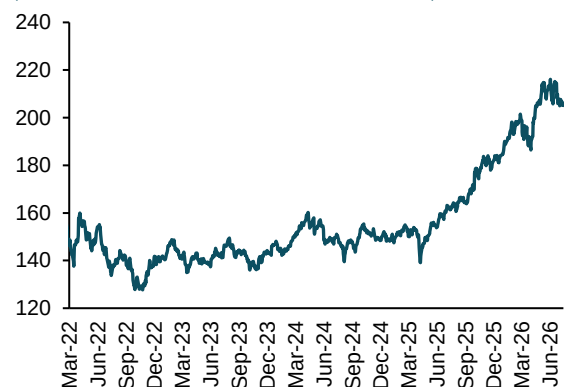
* Data as of July 15, 2026.

Reflecting these dynamics, capital flows to emerging market economies strengthened during early Q2 2026 as geopolitical tensions temporarily eased, supporting investor sentiment (Figure 10). However, the collapse of the ceasefire and the subsequent resurgence of the conflict dampened global risk appetite, prompting a slight reversal in capital flows toward the end of the quarter, further reinforced by the appreciation of the US dollar. Nevertheless, the emerging-markets capital flows index increased by 7.3 percent in Q2 2026 compared with Q1 2026.

Figure 10

Emerging Markets Capital Flows*

(Index level, increase = inflows and vice versa)



Source: Bloomberg.

* The EM Capital Flow Proxy Index captures capital flows through emerging markets, and is constructed from four indices with varying weights: Commodity Index (Goldman Sachs), EM equity index (MSCI), EM bond spread index (EMBI), and EM FX Carry Trade Index. Data as of July 15, 2026.

In this environment, the monetary policy stance across major advanced economies remained hawkish during Q2 2026 (Figure 11, Panel a). While the Federal Reserve and the Bank of England kept their policy rates unchanged, the European Central Bank and the Bank of Japan raised their policy rates by 25 basis points at their June 2026 meetings. Overall, monetary policy decisions continued to prioritize containing inflation amid renewed upside risks associated with heightened geopolitical tensions and their potential second-round effects.

In contrast, monetary policy across emerging market economies exhibited a more divergent pattern during Q2 2026 (Figure 11, Panel b). While certain central banks continued to ease monetary policy, others kept policy rates unchanged or tightened policy in response to persistent inflationary pressures and elevated global uncertainty.

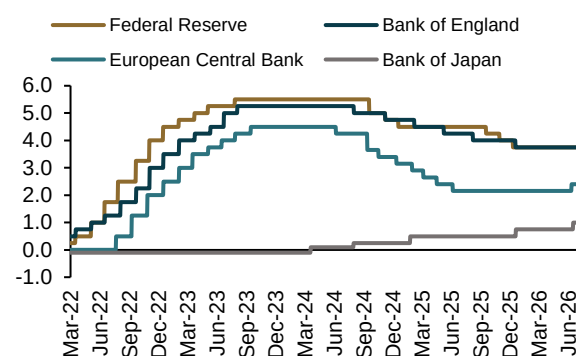
In this context, the CBE has maintained a cautious monetary policy approach. Following two consecutive 100-basis-point cuts in December 2025 and February 2026, which brought the key policy rate to 19.5 percent, the MPC opted to keep rates unchanged at its July 2026 meeting. This decision reflects the need to maintain an appropriately tight monetary policy stance amid heightened uncertainty, while closely monitoring domestic dynamics as well as evolving regional and global developments.

Figure 11

Key Policy Rates in Major Central Banks*

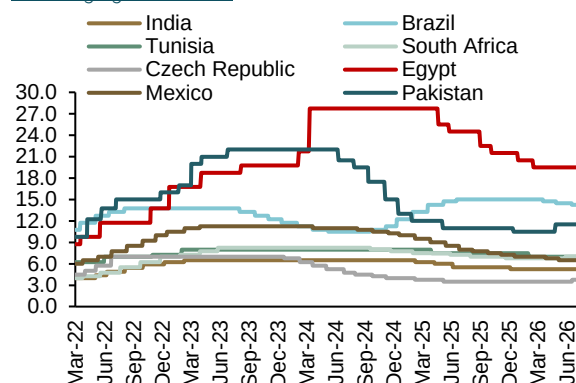
(In percent)

a. Advanced Economies



Note: ECB rate refers to the main refinancing operation rate and the Federal Reserve rate refers to the ceiling of the federal funds target range.

b. Emerging Economies



Source: Bloomberg.

*Data as of July 15, 2026.

Against this backdrop, Egypt's improved macroeconomic indicators and enhanced policy credibility have increased the economy's resilience to external shocks relative to previous episodes. Nevertheless, the outlook remains contingent on the evolution of regional geopolitical tensions and their potential spillovers to global growth, commodity markets, trade, and capital flows.

1.2 Domestic Developments

1.2.1 Inflation

Key Takeaways:

- Annual headline inflation rose to 14.6 percent in Q2, from 13.5 percent in Q1 2026, reflecting regulated price adjustments, as well as the pass-through of global shocks and regional geopolitical developments.
- Annual core inflation also increased to 14.0 percent in Q2 2026, from 12.6 percent in Q1 2026, reflecting the impact of shocks on some core goods and services.
- Q2 2026 inflation dynamics were mainly driven by accelerating food inflation and stable non-food inflation throughout most of the quarter.

This section assesses recent inflation dynamics in Egypt and the key factors affecting domestic prices. Specifically, it examines trends in headline and core inflation, along with developments in food and non-food inflation and across major CPI components. It also evaluates both domestic and external price movements.

Annual headline inflation increased to 14.6 percent in Q2 2026, from 13.5 percent in Q1 2026, reflecting higher food prices and stable non-food inflation. Food inflation was primarily driven by transitory shocks to both volatile and core food components, such as the new harvest season, and other seasonal events such as Eid Al-Adha. On the other hand, non-food inflation stabilized, as stronger services inflation was largely offset by the continued easing in regulated items and retail inflation.

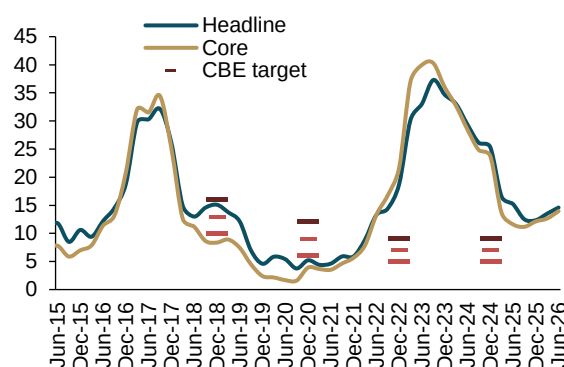
Similar to headline inflation, annual core inflation rose to 14.0 percent in Q2 2026 from 12.6 percent in the previous quarter (Figure 12). The increase was driven mainly by higher core food and

services inflation, which offset the softening in retail inflation.

Figure 12

Headline and Core Inflation*

(In percent, y/y, average of quarter)



Source: Central Agency for Public Mobilization and Statistics; and Central Bank of Egypt.

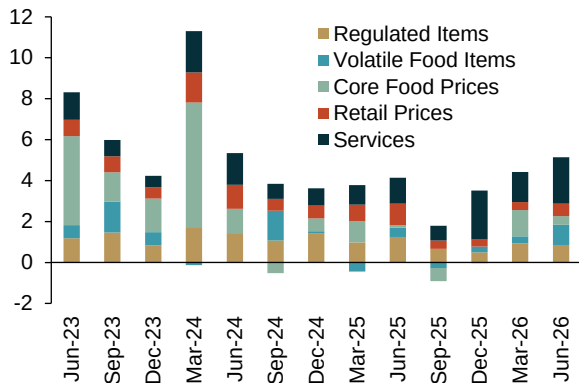
* Core inflation is measured by excluding administered prices and volatile food items from the CPI.

Monthly headline inflation developments during Q2 2026 reflected a broad-based moderation in prices along with declining food inflation (Figure 13). The drop in food inflation was mainly attributed to sharp declines in poultry and egg prices. Accordingly, monthly food inflation recorded negative rates in both April and June 2026, which more than offset the temporary uptick observed in May; this volatility was likely linked to agricultural cycles. As a result, food prices exerted downward pressure on headline inflation relative to the pickup observed in Q1 2026. On a quarterly basis (q/q), food inflation moderated to 3.9 percent in Q2 2026, down from 4.4 percent in Q1 2026, yet remained above the 1.4 percent recorded in Q2 2025, due to higher contributions from red meat and vegetables this quarter.

Figure 13

Breakdown of Headline Inflation, Q/Q

(In p.p., average of quarter)



Source: Central Bank of Egypt calculations; and CAPMAS data.

Regarding non-food inflation, services remained the main contributor to monthly headline inflation during Q2 2026 (Figure 13). This was primarily driven by: (i) higher rents, which increased by 11.6 percent (q/q), compared to 6.0 percent in Q1 2026, likely reflecting the continued spillover from previous adjustments to the Old Rent Law; (ii) higher ADSL and mobile internet service charges, which rose by 12.5 percent in May 2026; (iii) seasonal increases in Hajj and Umrah travel costs around Eid Al-Adha; and (iv) higher prices of restaurants and cafés, which may reflect lagged adjustments due to the March 2026 increases in LPG and natural gas prices. Concerning regulated items, electricity prices increased by 2.1 percent in May 2026, reflecting an official adjustment in electricity tariffs for the higher tranche of household consumption, announced in April 2026. Consequently, quarterly non-food inflation (q/q) accelerated to 5.9 percent in Q2 2026, from 4.4 percent in the previous quarter.

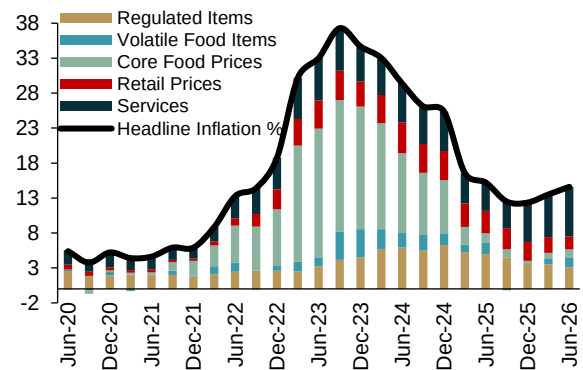
On an annual basis, headline inflation recorded 14.6 percent in Q2 2026, mainly driven by services inflation, which contributed 7.12 p.p., accounting for nearly half of the headline figure, followed by regulated items, adding 3.08 p.p. to annual headline inflation (Figure 14). Services inflation continued to reflect higher rents, while regulated items inflation reflected higher prices of energy, tobacco, and transportation. Volatile food and core food also contributed notably to headline inflation compared to the previous

quarter (together adding 2.57 p.p.), while retail inflation continued to soften, contributing 1.82 p.p. to headline inflation in Q2 2026.

Figure 14

Breakdown of Headline Inflation, Y/Y

(In p.p., average of quarter)



Source: Central Bank of Egypt calculations; and CAPMAS data.

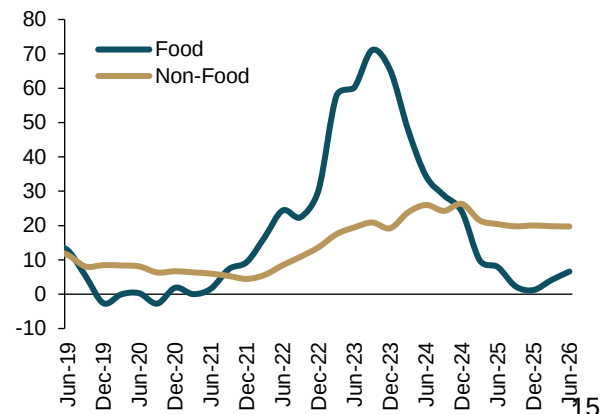
Annual food inflation increased to 6.6 percent in Q2 2026 compared to 4.1 percent in the previous quarter, as annual volatile food and core food inflation both increased to 22.9 percent and 3.7 percent in Q2 relative to 13.5 percent and 2.6 percent in Q1 2026, respectively. This was driven by sharp increases in fresh vegetable prices, despite a decline in fresh fruit prices for the second consecutive quarter.

In contrast, annual non-food inflation remained stable at 19.7 percent in Q2 2026, compared to 19.8 percent in the previous quarter, hovering around 20 percent since early 2025, and reflecting the relatively persistent nature of inflation across non-food goods, especially services (Figure 15).

Figure 15

Food and Non-Food Inflation

(In percent, y/y, average of quarter)



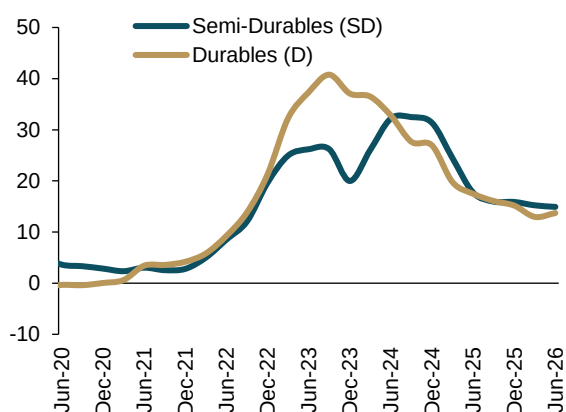
Source: Central Bank of Egypt calculations; and CAPMAS data.

Durable⁶ goods' inflation rose to 13.7 percent in Q2 2026, from 13.0 percent in Q1 2026 (Figure 16). The uptick reflects conflict-related unfavorable exchange rate dynamics in April and May 2026, which exerted upward pressure on the prices of imported household appliances. However, this impact is likely transitory, as monthly durable goods' inflation has already declined in June 2026, in response to a moderation of spillovers from the regional conflict at that time. By contrast, semi-durable⁷ goods' inflation continued its downward trajectory, dropping to 14.9 percent in Q2 2026 from 15.2 percent in the previous quarter, in line with easing retail inflation, as semi-durable goods are almost entirely made up of retail products.

Figure 16

Durable and Semi-durable Inflation

(In percent, y/y, average of quarter)



Source: Central Bank of Egypt calculations, using the Classification of Individual Consumption according to Purpose (COICOP 2018).

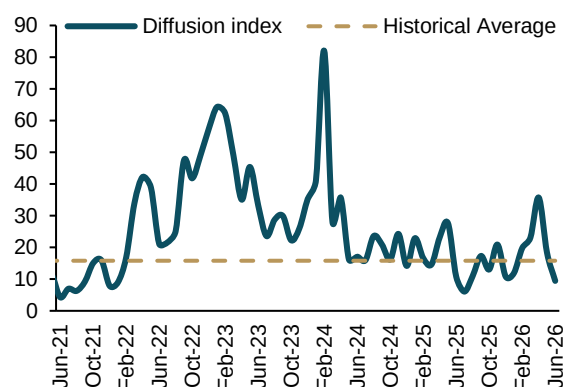
The CBE uses a diffusion index to monitor the dispersion of inflation rates across goods and services by capturing the number of items with a monthly inflation exceeding 2 percent, as a share of total CPI items. Despite picking up to 35.7 percent in April, the index declined to 18.4 percent in May and again to 9.4 percent in June 2026, reaching its lowest level since mid-2025 (Figure

17). This points to a marked narrowing in broad-based inflationary pressures, and highlights the seasonal and temporary nature of the previous shocks in Q1 2026.

Figure 17

Diffusion Index

(Number of items with m/m inflation above 2 percent, as a share of CPI, monthly)



Source: Central Bank of Egypt calculations.

Domestic core food inflation increased to 3.7 percent in Q2 2026, up from 2.6 percent in Q1 2026. Similarly, international food prices also increased from 0.6 percent in Q1 to 9.7 percent in Q2 2026, driven by a sharp rise in the prices of international vegetable oils, affected by higher crude oil prices, as they are used to produce the biofuel which is a substitute source of energy (Figure 18). A closer look reveals that the increase in domestic core food inflation in Q2 2026 remains mainly the product of domestic factors such as seasonal dynamics and adverse weather conditions. This comes in contrast with previous periods (such as 2022-2023) where domestic prices reflected pressures from increasing global food prices compounded by exchange rate depreciation.

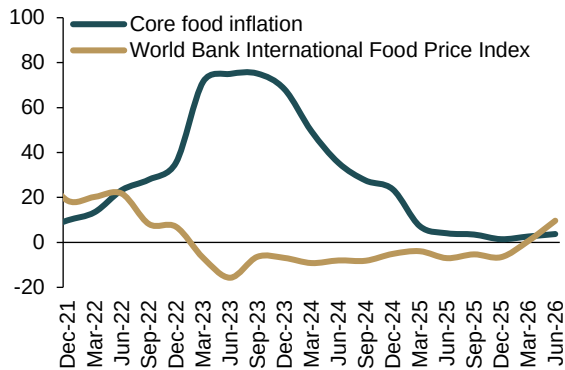
⁶ Durable goods are non-perishable consumer products that have a long service life of more than three years, such as cars, communication equipment, household appliances, and furniture. They represent 1.5 percent of the urban CPI basket.

⁷ Semi-durable goods are non-perishable consumer products with a short service life that are frequently upgradable such as clothing, footwear, and household tools. They represent 5.5 percent of the urban CPI basket.

Figure 18

Food Inflation: Global vs. Domestic Dynamics

(In percent, y/y, average of quarter)



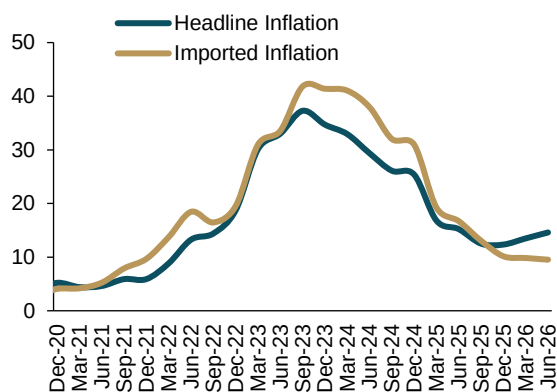
Source: Central Bank of Egypt calculations; CAPMAS data; and World Bank International Food Price Index.

Imported inflation remained stable at 9.5 percent in Q2 2026, compared to 9.8 percent in Q1 2026 (Figure 19). While imported and headline inflation typically move in tandem, the pickup in headline inflation during Q2 2026 was not driven by a similar increase in imported inflation. This divergence is consistent with the predominantly domestic nature of inflationary pressures in Q2 2026, as headline inflation was mainly driven by services, seasonal dynamics of Eid Al-Adha, and the indirect effects of the latest fuel price adjustments, while inflationary pressures stemming from imported commodities remained broadly contained (see Box 1 for a granular analysis of the exchange rate pass-through to domestic inflation).

Figure 19

Imported Inflation

(In percent, y/y, average of quarter)



Source: Central Bank of Egypt calculations; and CAPMAS data.

To ensure timely analysis, the CBE nowcasts inflation rates prior to their official release. These nowcasts rely on online prices that mimic the composition of the official CAPMAS CPI basket, and include more varieties. Such inflation nowcast has captured the general direction of overall price movements fairly well, despite occasional lags.

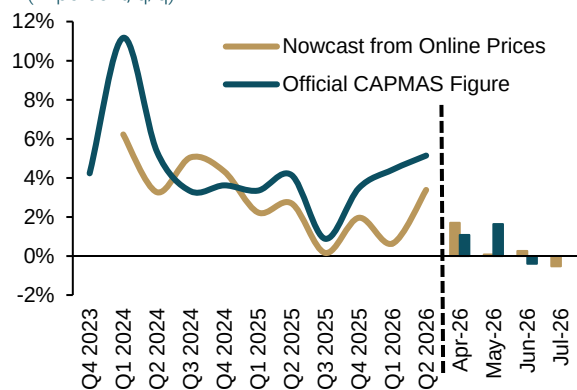
In Q2 2026, the nowcast projected a pickup in headline inflation to 3.4 percent (q-o-q) compared to 0.6 percent the previous quarter, while official figures also increased however came relatively higher at 5.1 percent from 4.4 percent the previous quarter. This divergence is a result of the impact of higher transportation prices in April, Hajj and Umrah trips in June, and higher rents across the quarter, that were not captured by the nowcast, which can be explained by the unavailability of services prices online.

In July, nowcasts suggest that monthly headline inflation will decline to negative 0.5 percent, driven by a decline in food prices, mainly poultry and vegetables (Figure 20).

Figure 20

Nowcasting Headline Inflation

(In percent, q/q)



Source: Central Bank of Egypt calculations; and CAPMAS data.
See Box 2 in Q1 2025 MPR.

Box 1: Exchange Rate Pass-through to Inflation in Egypt

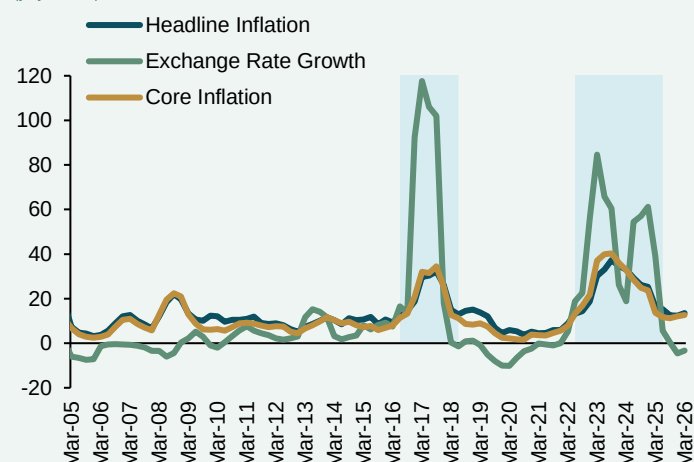
Inflation in emerging market economies is often influenced by exchange rate movements, reflecting the significant role of imported goods and production inputs in domestic consumption and production. Consequently, understanding the magnitude and timing of exchange rate pass-through (ERPT) is essential for inflation forecasting and monetary policy analysis, particularly as the Central Bank of Egypt continues to strengthen its inflation-targeting framework and enhance its analytical toolkit. Accordingly, this Box assesses the relationship between exchange rate and inflation by estimating ERPT across different subcomponents, providing a more granular understanding of how exchange rate shocks are transmitted to domestic prices.

I. Exchange Rate and Inflation Relationship

The relationship between exchange rate movements and inflation is evident in Egyptian data over the period 2005Q1–2026Q1 (Figure A). Periods of exchange rate depreciation, notably in 2016–2017 and 2023–2024, coincided with increases in inflation. This relationship reflects several transmission channels through which exchange rate movements affect domestic prices, including the direct pass-through to imported consumer goods, higher production costs arising from more expensive imported intermediate inputs, and indirect effects through inflation expectations and firms' pricing behavior. However, these episodes also coincided with global supply shocks, domestic supply factors, administered-price adjustments, and broader reform measures. Therefore, while the observed co-movement suggests a strong relationship between the exchange rate and inflation, a formal empirical analysis is required to disentangle the effect of exchange rate movements to inflation dynamics.

Figure A
Evolution of Headline Inflation, Core Inflation, and the Exchange Rate

(y/y, ln %)



Source: Central Bank of Egypt calculations.

To quantify this relationship, a structural vector autoregressive (SVAR) model¹ is estimated using quarterly data over the period 2005Q1–2026Q1. The selected VAR model was chosen based on standard diagnostic tests, including model stability. Consistent with the relevant literature, the model specification includes four endogenous variables: inflation (year-on-year), real GDP growth (year-on-year), the overnight interest rate, and nominal exchange rate growth (year-on-year).² The analysis evaluates ERPT along three key dimensions: (1) the average impact over one-year horizon, capturing the effect on inflation during the first year after an exchange rate shock; (2) the peak impact, measuring the timing and magnitude of the maximum response; and (3) the duration of the impact, assessing how long the effects persist before gradually dissipating.

II. Empirical Evidence

Changes in the exchange rate affect inflation in Egypt, although the pass-through materializes gradually over time (Figure B). Impulse response functions (IRFs)³ suggest that a 1 percent depreciation increases annual headline inflation by around 0.18 percentage points on average during the first year after the shock, with 95 percent confidence bands of (0.12 – 0.24). The effect begins in the same quarter of the shock, and the peak impact occurs approximately three quarters after the shock. Annual core inflation exhibits a slightly higher passthrough, recording 0.2 percentage points per 1 percent depreciation on average during the first year after the shock. The reaction of headline inflation is softer, as headline inflation includes categories (e.g. Volatile Food and Regulated items) which do not respond directly to exchange rate dynamics and are instead shaped by other market or regulatory dynamics.

1 The methodology used in this study was developed in collaboration with the Bank of England under a technical assistance program.

2 The recursive ordering in the SVAR model was identified using Granger causality tests. The results support the following variable ordering: nominal exchange rate growth, core inflation, overnight interest rate, and real GDP growth.

3 Impulse response function represents a tool which traces the response of the variables of a VAR model over time to a shock in one of the model's variables.

Since the transition to a more flexible exchange rate regime, Egypt's recent experience reflects a more gradual and lower magnitude of exchange rate adjustments, which may imply lower ERPT in future periods. This is consistent with the literature, suggesting that countries operating under more flexible exchange rate regimes tend to exhibit lower exchange rate pass-through to domestic prices.⁴

Figure B

Exchange Rate Pass-through Across Inflation Measures - Response to a 1 Percent Depreciation

(In percentage points)

Figure B.1.

Headline Inflation

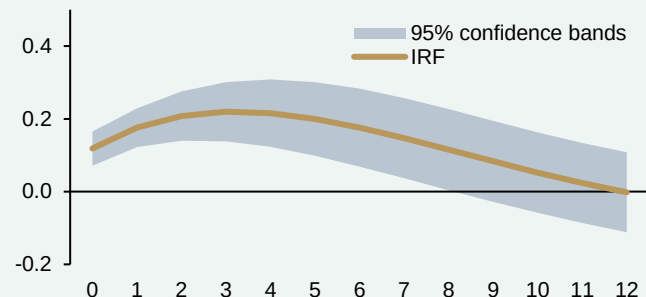


Figure B.2.

Core Inflation

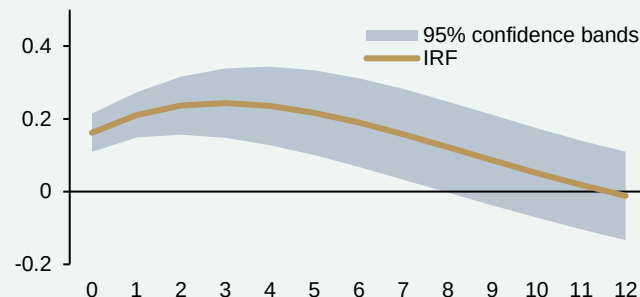


Figure B.3.

Core Food Inflation

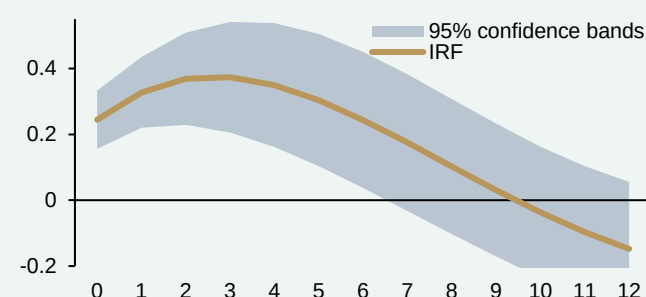
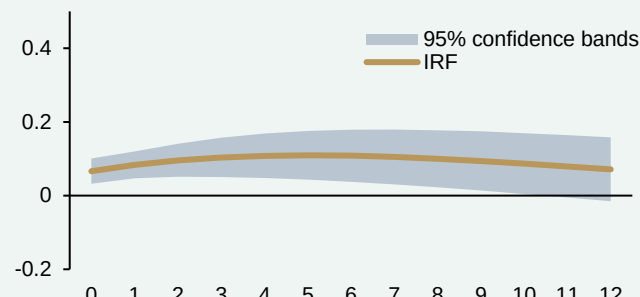


Figure B.4.

Services Inflation



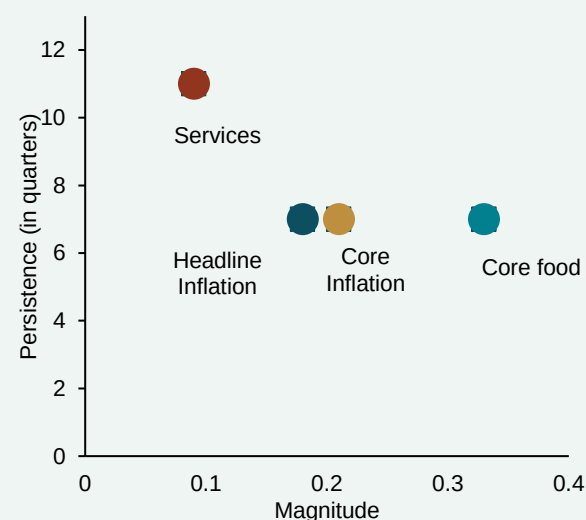
Source: Central Bank of Egypt estimations.

Notes: (i) The x-axis in the IRFs represents the time horizon (in quarters), while the y-axis shows the magnitude of the inflation response to a 1 percent exchange rate depreciation. (ii) Core Food refers to food items excluding fresh fruits and vegetables.

Figure C

Response of Different Inflation Components to a 1 Percent Depreciation

(In percentage points)



Source: Central Bank of Egypt estimations.

The response of CPI components to exchange rate shocks varies across categories. While some components exhibit a larger initial pass-through that dissipates relatively quickly, others experience more moderate effects that persist over a longer horizon. Core Food inflation shows the strongest response, with the effect materializing shortly after the shock and dissipating within less than two years. Non-food components display more moderate responses but greater persistence. In particular, Services⁵ respond with a lower magnitude compared to Core Food inflation, while the effect remains statistically significant for more than two years after the shock (Figure C). On the other hand, Volatile Food does not respond to exchange rate movements in a statistically significant manner, as prices in this category are rather shaped by other market dynamics, and similarly, Regulated Items inflation is shaped by different factors.⁶

⁴ - Kemoe, L., Mbohoul, M., Mighri, H., & Quayyum, S. N. (2024). *Effect of exchange rate movements on inflation in Sub-Saharan Africa*. IMF Working Paper No. 2024/059.

- Ha, J., Stocker, M., & Yilmazkuday, H. (2019). *Inflation and Exchange Rate Pass-through*. World Bank Policy Research Working Paper, (8780).

⁵ Services account for roughly half of the non-food basket's weight and therefore largely shape its overall response.

⁶ Robustness checks are conducted using alternative empirical specifications, including Campa-Goldberg style regressions and exogenous VAR models (VARX) controlling for supply shocks. The results remain robust across all specifications.

1.2.2 Real Sector

Key Takeaways:

- The estimated output gap trajectory suggests that demand-driven inflationary pressures are expected to remain contained in the short term, supported by a tight monetary stance.
- The CBE nowcast for Q2 2026 points to continued moderation in economic activity, with real GDP growth projected at around 4.5 percent. Accordingly, the CBE projects real GDP growth for FY 2025/26 to average around 5.0 percent.
- In Q1 2026, real GDP growth at market prices registered 5.0 percent compared with 4.8 percent in Q1 2025.
- The unemployment rate registered 6.0 percent in Q1 2026, down from 6.3 percent in Q1 2025. Meanwhile, annual real wage growth decelerated markedly to 1.3 percent in Q1 2026 from 11.0 percent in Q1 2025, due to slower nominal wage growth and an uptick in inflation.

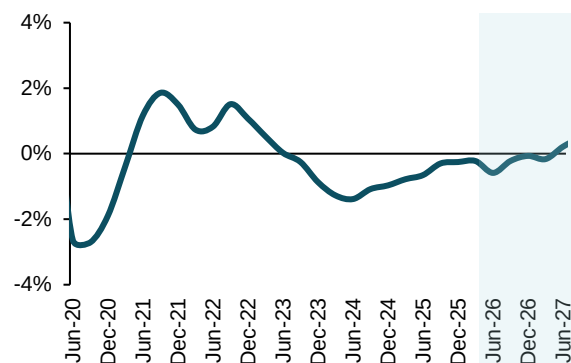
The following analysis outlines the high-frequency indicators employed by the CBE to nowcast Q2 2026 GDP growth, alongside the latest actual data for GDP and the labor market in Q1 2026.

While the estimated output gap remains in negative territory, it is expected to close by H1 2027 (Figure 21). Consequently, demand-side inflationary pressures are expected to remain contained over a more extended horizon than previously projected, reinforced by the prevailing monetary stance.

Figure 21

Output Gap⁸

(In percent of potential GDP)



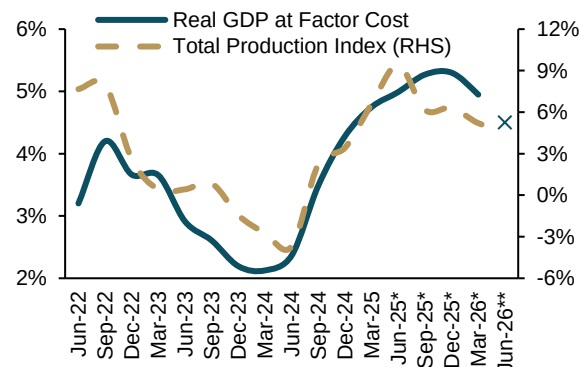
Source: Ministry of Planning and Economic Development (MPED); and CBE calculations.

The CBE nowcasts real GDP growth at factor cost at around 4.5 percent for Q2 2026, in accordance with high-frequency indicators of economic activity, such as the monthly total production index (Figure 22). This composite indicator captures around 60 percent of sectoral economic activity, offering a reliable preliminary estimate of real GDP growth, while other indicators capture economic activity in specific sectors.

Figure 22

Total Production Index and Real GDP at Factor Cost

(In percent, y/y growth)



Source: MPED.

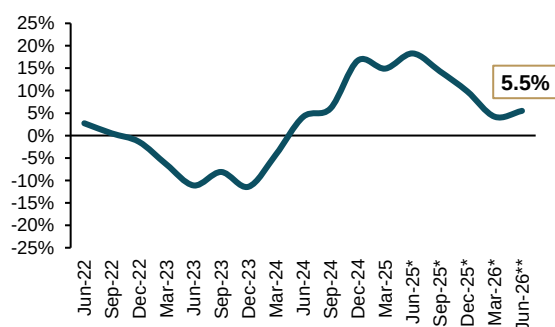
*Preliminary figures, subject to revision by MPED.

**June 2026 is a CBE nowcast (subject to revision).

⁸ For further details on the computation of the output gap, see Box 2 in the [Q2 2025 MPR](#).

In Q2 2026, the manufacturing index—a high-frequency indicator strongly correlated with non-petroleum manufacturing economic activity—grew by 5.5 percent⁹ year-on-year, signaling robust growth in non-petroleum manufacturing, driven by the beverage and clothing industries, attributable respectively to the end of the winter agricultural season¹⁰, as well as market demand (Figure 23).

Figure 23
Manufacturing Index Growth
(In percent, y/y, unless otherwise specified)



Source: CAPMAS.

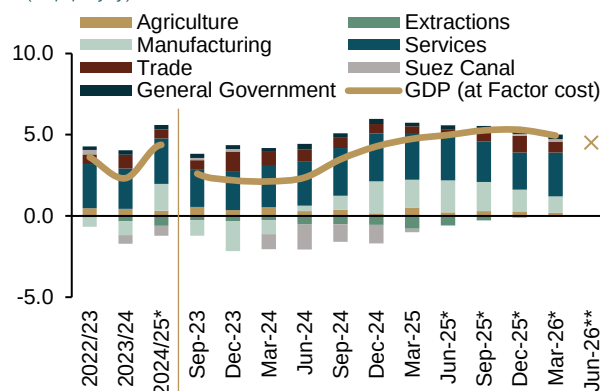
Similarly, the number of fixed-line subscribers—a high-frequency indicator for communications economic activity—recorded 6.8¹¹ percent growth in Q2 2026 against 6.3 percent in Q2 2025, signaling sustained steady growth in this sector, aligning with the continued efforts to expand access to ICT training.¹² This highlights the sector's strengthening human capital base, and ongoing digital infrastructure upgrades.

Consequently, non-petroleum manufacturing, communications, and trade—which is highly dependent on non-petroleum and agricultural activities—economic activities constitute the primary drivers of growth. Combined, these sectors contribute approximately 50 percent of

the total real GDP growth nowcast figure for Q2 2026 (Figure 24).

Figure 24
Contribution to Real GDP Growth at Factor Cost

(In p.p., y/y)



Source: MPED.

*Preliminary figures, subject to revision by MPED.

** June 2026 is a CBE nowcast (subject to revision).

Meanwhile, high-frequency indicators associated with Suez Canal economic activity point to continued improvement in Q2 2026, with net tonnage growing by 32.3 percent year-on-year. In contrast, tourist nights—a high-frequency indicator related to tourism economic activity—point to a mild contraction of around 4.4 percent in Q2 2026, given the adverse impact of the Iran-US conflict on tourist demand in the region. In parallel, indicators of natural gas production continued to contract in Q2 2026, although the rate of contraction eased relative to Q2 2025.

Regarding Q1 2026 actual outturns, real GDP at factor cost grew by 4.9 percent compared to 4.7 percent in Q1 2025, driven by strong performance in communications, trade, and both petroleum and non-petroleum manufacturing. Combined, these sectors contributed almost 50 percent of recorded growth. Notably, the expansion in these sectors aligns with the real growth in local

⁹ Estimate based on available high-frequency data for April and May 2026.

¹⁰ Winter agricultural season starts in October and ends in May in Egypt

¹¹ Estimate based on available high-frequency data for April and May 2026.

¹² Source: [MCIT Yearbook](#).

currency loans extended to the services and industrial sectors. Furthermore, registered growth in petroleum manufacturing is consistent with the reported increase in the diesel self-sufficiency rate to 62.4 percent in April 2026 from 53.3 percent in April 2025. This was driven by a 45 percent year-on-year increase in production, reaching 827 thousand tons in April 2026.¹³

Furthermore, Suez Canal activity in Q1 2026 contributed positively for the third quarter since Q4 2023, suggesting a gradual recovery in net tonnage, albeit remaining 61 percent lower than the levels recorded prior to the war in Gaza, which disrupted maritime trade through the strait of Bab Al-Mandab.

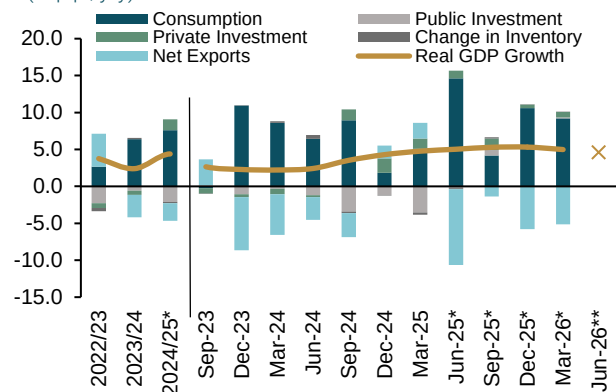
In contrast, the extraction sector continued to weigh on overall growth, although the pace of contraction moderated, with its contribution improving by 0.7 percentage points in Q1 2026 compared with Q1 2025. This relative moderation was primarily driven by the diminishing negative contribution of both crude oil and natural gas extraction, supported by the ongoing on-shore and off-shore discoveries that are mitigating the natural depreciation of mature wells.

Similarly, real GDP at market prices grew by 5.0 percent in Q1 2026, from 4.8 percent in Q1 2025, signaling sustained recovery in economic activity (Figure 25). This outturn was primarily driven by consumption and investments, which propelled growth relative to the corresponding period last year.

Figure 25

Contribution to Real GDP Growth at Market Prices

(In p.p., y/y)



Source: MPED. *Preliminary figures, subject to revision by MOPED

** June 2026 is a CBE nowcast (subject to revision).

In Q1 2026, the contribution of real consumption increased by 4.1 p.p. compared to Q1 2025. This development is consistent with the cumulative 825 bps of monetary easing since April 2025, which lowered the cost of borrowing and facilitated retail and corporate financing, thereby supporting consumption and investment spending.

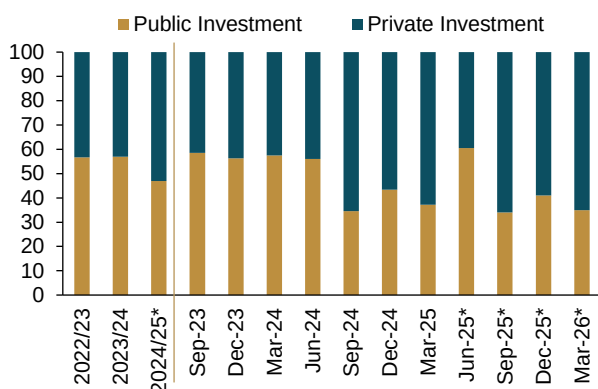
Similarly, the contribution of real investment recorded 0.9 p.p. in Q1 2026, compared to negative 2.4 p.p. in Q1 2025. This positive contribution was driven by an 11 percent year-on-year expansion in private investment, compared to a 3 percent year-on-year increase in public investment. Moreover, this was reflected in a 2.2 p.p. increase in the share of private investment in total implemented investment, in line with government efforts to shift to a private investment-led growth model (Figure 26).¹⁴

¹³ Source: CAPMAS.

¹⁴ State Ownership Policy Document.

Figure 26
Shares in Gross Investments¹⁵

(In percent of gross investments)



Source: MPED.

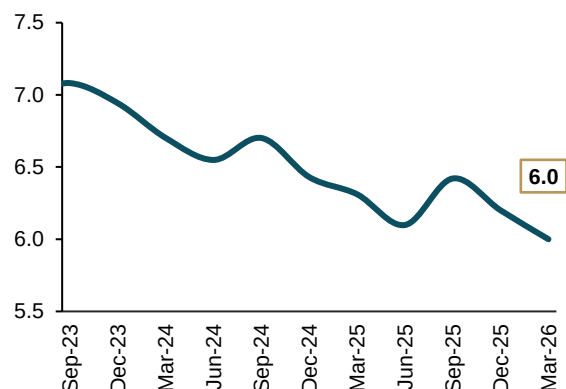
*Preliminary figures, subject to revision by MOPED

Meanwhile, the contribution of real net exports of goods and services recorded negative 5.1 p.p. in Q1 2026, compared to 2.1 p.p. in Q1 2025, primarily due to an expansion in imports, alongside a contraction in exports. Nevertheless, the structure of imports indicates that this expansion was mainly concentrated in intermediate goods essential for the production process. As such, this increase was a function of accelerating real GDP growth.

Regarding the labor market, the unemployment rate declined to 6.0 percent in Q1 2026, compared to 6.3 percent in Q1 2025 (Figure 27). This year-on-year improvement was mainly due to employment growth outpacing the expansion of the labor force. Employment growth was primarily concentrated in construction, trade, transportation, and non-petroleum manufacturing, all of which have continued to contribute positively to real GDP growth.

Figure 27
Unemployment Rate

(In percent of the labor force)

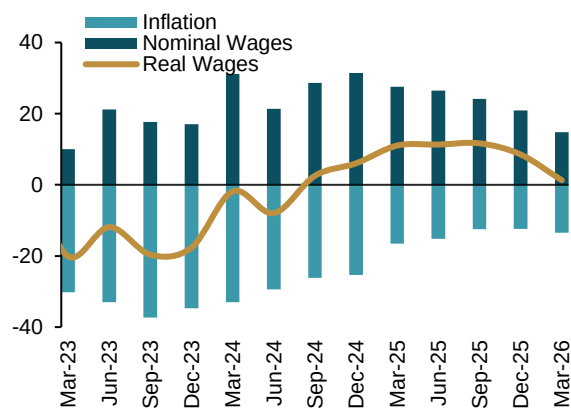


Source: CAPMAS.

On the other hand, annual real wage growth slowed to 1.3 percent in Q1 2026, down from 11.0 percent in the same period last year. This decline reflects a slower decrease in nominal wage growth, as well as an uptick in inflation (Figure 28).

Figure 28
Real Wage Decomposition

(In percent, y/y)



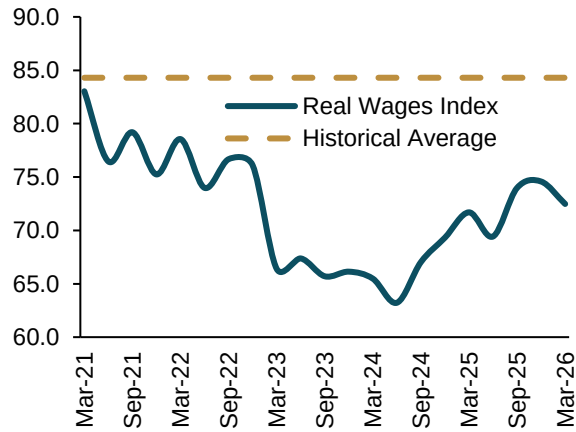
Source: CAPMAS.

¹⁵ Total investments excluding change in inventory.

It is worth noting that the level of real wages remains below the pre-2023 levels, suggesting that recent wage developments primarily represent a partial and gradual recovery of purchasing power, as a result of inflation outpacing nominal wage growth up to June 2024. Accordingly, the moderation in real wage growth along with real wage levels remaining below their long-term trend¹⁶ (Figure 29), support the view that demand-side inflationary pressures arising from the wage channel also remain limited, consistent with the currently estimated negative output gap.

Figure 29
Real Wage Index

(Index 2010 = 100)



Source: CAPMAS and CBE Calculations.

¹⁶ Long-term average over the period Q1 2010 to Q1 2026.

1.2.3 External Sector

Key Takeaways:

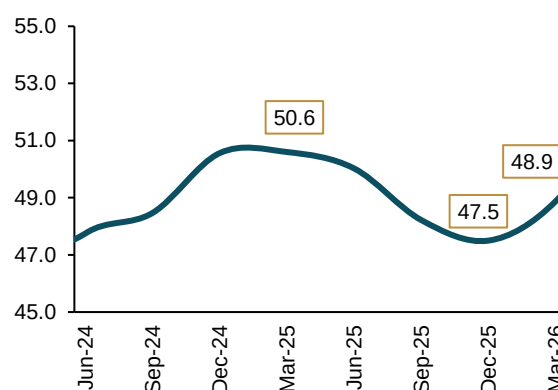
- In Q1 2026, capital and financial account inflows¹⁷ were sufficient to finance the current account deficit, resulting in a marginal balance of payments surplus.
- The current account deficit widened in Q1 2026 year-on-year (y-o-y), driven by larger non-hydrocarbon and hydrocarbon trade deficits, alongside the net investment income deficit, partially offset by increasing remittances and a rising net services surplus.
- The financial account surplus was underpinned by FDI inflows, medium- and long-term loan disbursements, and a drawdown of commercial banks' foreign assets following considerable net portfolio outflows triggered by the outbreak of conflict in the region.
- Nevertheless, the banking system's NFAs partially rebounded in April and May 2026 to stand at USD 22.9 bn, up from USD 21.4 bn in March 2026.

The analysis below examines developments in the current and financial accounts in Q1 2026, and assesses their implications for Egypt's external position and the accumulation of net international reserves.

The current account deficit more than doubled in Q1 2026 relative to Q1 2025, and the capital and financial account recorded a net inflow of USD 3.4 bn (against a deficit of USD 1.2 bn during Q1 2025). Consequently, the overall balance of payments recorded a marginal surplus of USD 0.3 bn.

The balance-of-payments surplus helped cushion external pressures on the nominal exchange rate, as reflected in the Y-o-Y appreciation of the Egyptian pound in Q1 2026 relative to Q1 2025, despite its quarter-on-quarter (Q-o-Q) depreciation amid capital outflows triggered by the outbreak of conflict in the region. Together with lower Y-o-Y global inflation during the same period, the stronger exchange rate contributed to containing imported inflationary pressures in Q1 2026 (Figure 30).

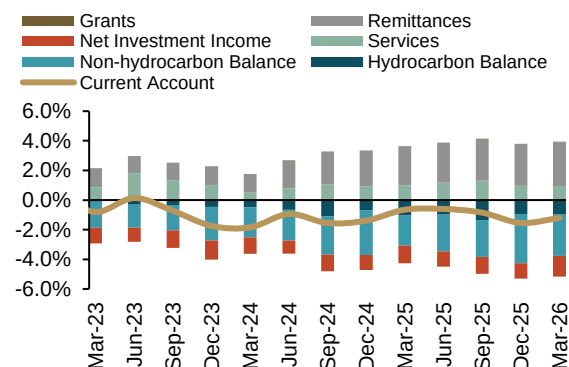
Figure 30
Nominal Exchange Rate¹⁸
(Levels, USD/EGP)



Source: Central Bank of Egypt.

The current account deficit widened to USD 5.1 bn (equivalent to 1.2 percent of GDP)¹⁹ in Q1 2026, compared to 0.6 percent of GDP in Q1 2025 (Figure 31).

Figure 31
Contribution to Current Account
(In percent of GDP)



Source: Central Bank of Egypt.

¹⁷ Including net errors and omissions

¹⁸ Average of the daily mid-rate (the average of the buy and sell exchange rates).

¹⁹ In percent of annual GDP (in USD), derived by calculating the total sum of quarterly GDP released by the Ministry of Planning and Economic Development after evaluating it in USD based on the average exchange rate for each respective quarter.

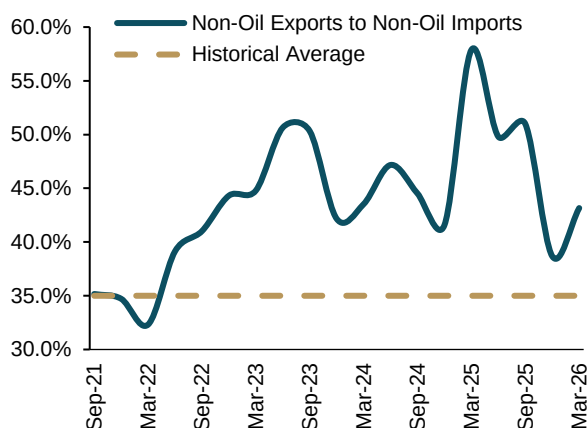
The widening of the current account deficit was primarily driven by increasing non-hydrocarbon and hydrocarbon trade deficits, as well as a widening net investment income deficit. However, these unfavorable developments were partially offset by higher remittances and a growing net services surplus, underpinned by higher tourism and Suez Canal receipts.

The non-hydrocarbon trade deficit widened by 65 percent in Q1 2026 relative to the corresponding period in 2025, registering USD 11.9 bn. This was driven by accelerating import growth, coupled with a mild contraction in exports. Accordingly, the ratio of non-hydrocarbon exports to imports declined Y-o-Y, registering 43 percent in Q1 2026, while remaining above its historical average of 35 percent (Figure 32). Notably, the increase in imports was mainly concentrated in intermediate goods essential for the production process. As such, import growth was a function of the robust 5.0 percent real GDP growth registered in Q1 2026.

Figure 32

Non-oil Exports to Non-oil Imports Ratio

(In percent of non-oil imports)



Source: Central Bank of Egypt.

The hydrocarbon trade deficit increased by 13 percent compared to Q1 2025, recording USD 4.1 bn in Q1 2026. This is due to the increase in the value of oil imports exceeding that of oil exports. Notably, growth in oil-import values was mainly concentrated in both crude oil and natural gas to meet domestic demand in the face of continued annual contractions in domestic natural gas production, in addition to rising global prices amid the regional conflict.²⁰

Furthermore, the net investment income deficit widened by 37 percent Y-o-Y in Q1 2026, registering a deficit of USD 5.8 bn. The widening deficit was the result of growth in payments outpacing that of receipts, with interest payments rising by 21 percent Y-o-Y. Nonetheless, the ratio of interest payments to current account receipts remained stable at around 7 percent in Q1 2026, compared to the corresponding period in 2025, remaining below the peak levels recorded in Q1 2024, as current account receipts and interest payments increased by similar magnitudes in absolute terms. In turn, this development reflects the economy's adequate capacity to service its external payments and obligations.

Meanwhile, remittances continued to post record highs in Q1 2026, increasing by 36 percent Y-o-Y to USD 12.8 bn, and maintaining the robust growth momentum observed since the unification of the exchange rate in Q1 2024. This development underscores the resilience of remittances amid the conflict in the region, as flows unexpectedly increased during the onset of the conflict compared to pre-conflict monthly averages. Additionally, the facilitation of cross-border payments via digital platforms continues to support the flow of remittances from Egyptians working abroad.

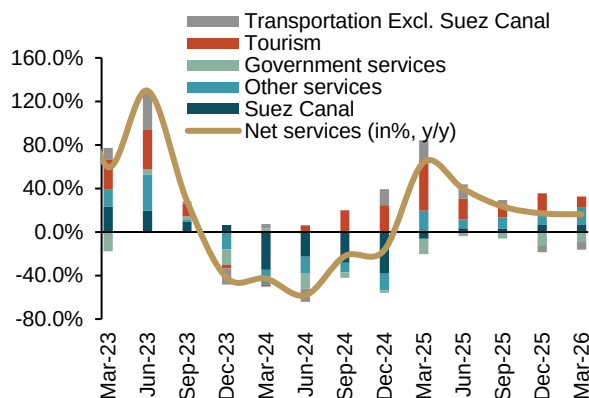
²⁰ Brent crude prices rose from an average of USD 75.0 per barrel in Q1 2025 to an average of USD 77.8 per barrel in Q1 2026, an increase of around 5 percent (Source: Bloomberg).

Moreover, net services surplus expanded by 16 percent compared to Q1 2025, registering USD 4.0 bn in Q1 2026 (Figure 33). This expansion was mainly driven by a 19 percent increase in other services receipts (including services such as communications, computer, and information services), in addition to a 29 and 9 percent increase in Suez Canal and tourism receipts, respectively. Combined, higher remittances and the increasing services surplus served to mitigate the widening of the current account deficit.

Figure 33

Contribution to Net Services Balance

(In p.p., y/y unless otherwise specified +ve = improvement)



Source: Central Bank of Egypt

On the other hand, the capital and financial account recorded a net inflow of USD 3.4 bn in Q1 2026, compared to a net outflow of USD 1.2 bn in the corresponding quarter of 2025.

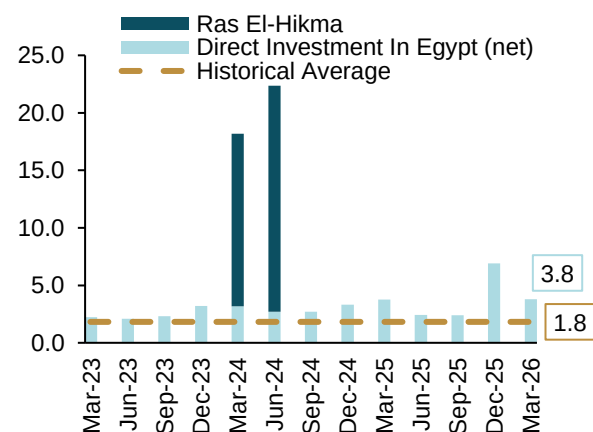
The recorded surplus was primarily driven by a USD 6.7 bn drawdown of commercial banks' foreign assets, strong net FDI inflows totaling USD 3.8 bn, exceeding its quarterly long-term average²¹ (Figure 34), and medium- and long-term loan disbursements, amounting to USD 4.6 bn. The latter included a USD 2.3 bn disbursement from the IMF following the conclusion of the fifth and sixth reviews under the

Extended Fund Facility (EFF) arrangement, as well as approximately EUR 1.0 bn under the EU's Macro-Financial Assistance (MFA) program. These inflows were partially offset by USD 9.5 bn worth of portfolio investment outflows following the outbreak of the regional conflict in late February 2026. As such, financial account inflows offset the observed outflows.

Figure 34

Net Foreign Direct Investment in Egypt

(In USD bn)



Source: Central Bank of Egypt.

Consequently, net international reserves (NIR) reached USD 52.8 bn at end-March 2026, up from USD 51.5 bn at end-December 2025. As of March 2026, NIR covered around 6.2 months²² of imports, well above the international benchmark of three months. Furthermore, NIR continued its upward trend in the subsequent quarter, reaching USD 55.1 bn²³ by end-June 2026, underscoring the resilience of Egypt's external buffers (Figure 35).

²¹ Historical average calculated over the period from Q3 2003 to Q1 2026, excluding the Ras El-Hekma investment deal and the Alam El-Roum investment deal (Q2 2025).

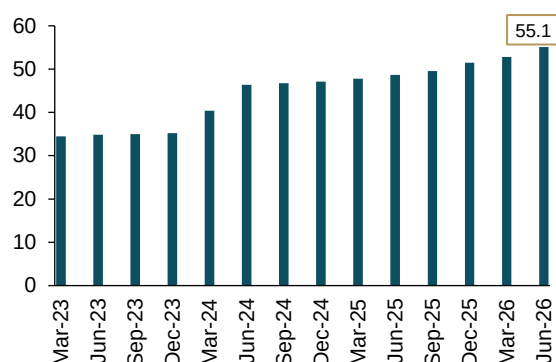
²² Calculated using the four-quarter rolling sum of imports ending March 2026.

²³ Preliminary

Figure 35

Net International Reserves

(In USD bn)

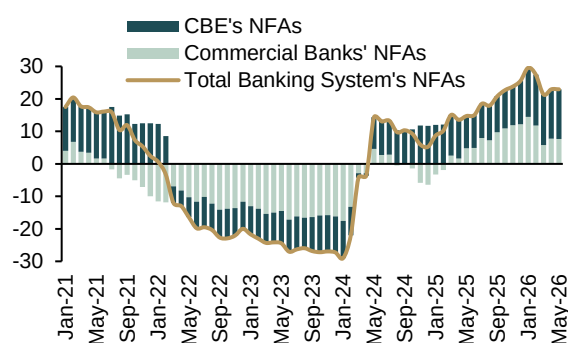


Source: Central Bank of Egypt.

Figure 36

Banking System's Net Foreign Assets

(Stock, in USD bn, eop)



Source: Central Bank of Egypt.

This is also consistent with the partial rebound of the banking system's NFAs during April and May 2026 following the notable declines witnessed in February and March 2026 amid the repercussions of the Iran-U.S. conflict and the associated investor risk-off sentiment toward emerging markets (Figure 36). The banking system's NFAs increased by USD 1.6 bn in April 2026 while remaining stable in May at USD 22.9 bn, compared to USD 29.6 bn in January 2026, prior to the outbreak of the regional conflict.

Such rebound during Q2 2026 was led by commercial banks and supported by strong workers' remittances and a partial recovery in net portfolio inflows. Commercial banks' NFAs increased by USD 1.9 bn in April 2026 while remaining stable in May at USD 7.7 bn. Meanwhile, CBE's NFAs remained broadly resilient throughout Jan-May 2026, standing at USD 15.2 bn in May. Accordingly, the positive external developments during Q2 2026 were reflected in an exchange rate appreciation by around 10 percent from EGP 54.6 per USD by end-March 2026 to EGP 49.2 per USD by end-June 2026.

1.2.4 Domestic Credit and Financial Conditions

Key Takeaways:

- The CBE paused its easing cycle in Q2 2026.
- Real growth of local currency (L/C) loans to the private sector registered an average of 7.3 percent in Q2 2026²⁴.
- Excess liquidity in Q2 2026 declined to its lowest level since Q4 2013, prompting a rise in the interbank volume.
- Egypt's yield curve remained broadly stable, with short term yields declining at the end of Q2 2026 on expectations of easing geopolitical tensions.
- Despite a decline in foreign investor holdings of Egypt's local debt instruments, holdings in longer-dated tenors remained stable, indicating continued confidence in Egypt's medium-term outlook.
- Egypt's Eurobond yields declined by the end of Q2 2026, reflecting an improvement in risk sentiment amid the Iran-US ceasefire.

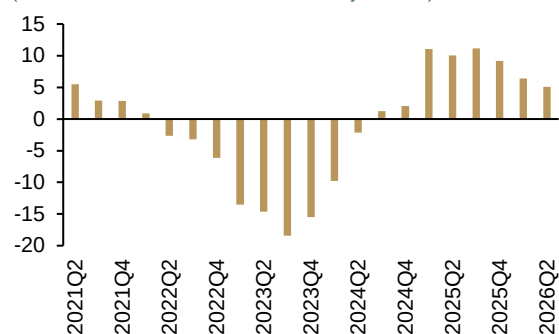
This section reviews developments in financial conditions and domestic liquidity, assessing the impact of monetary policy decisions on the financial system and the effectiveness of the transmission to key market rates and the broader credit conditions. It also considers investor behavior and yield curve dynamics across domestic and international markets.

In Q2 2026, the CBE paused its monetary easing cycle amid the uncertainty stemming from the Iran-US conflict, having implemented cumulative policy rate cuts of 825 bps since April 2025. Despite the pause, nominal interest rates remain higher than inflation, helping to anchor inflation expectations (Figure 37).

Figure 37

Real Interest Rate

(In %, -ve = accommodative monetary stance)



*Contemporaneous real interest rates are calculated as the difference between the weighted average O/N interbank rate and average annual headline inflation rate.

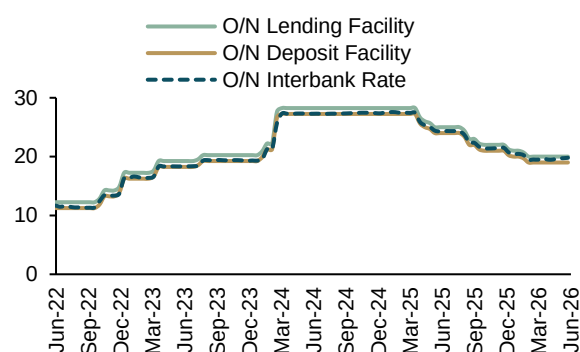
Source: Central Bank of Egypt.

While the policy rate stabilized during Q2 2026 to stand at 19.5 percent in June 2026, down from 27.75 percent in March 2025, tighter liquidity conditions caused the overnight interbank rate to edge slightly above the policy rate, averaging 19.8 percent in June 2026 compared with 19.5 percent in March 2026 (Figure 38). Nonetheless, it remained closely aligned with the policy rate, indicating an effective transmission of monetary policy to the money market, with approximately 93 percent of the policy rate cuts since April 2025 transmitted to the overnight interbank rate in June 2026.

Figure 38

O/N Interbank and CBE Policy Rates*

(In %, unless otherwise specified)



*Data for June 2026 covers the quarter until the maintenance period ending on June 22, 2026.

Source: Central Bank of Egypt.

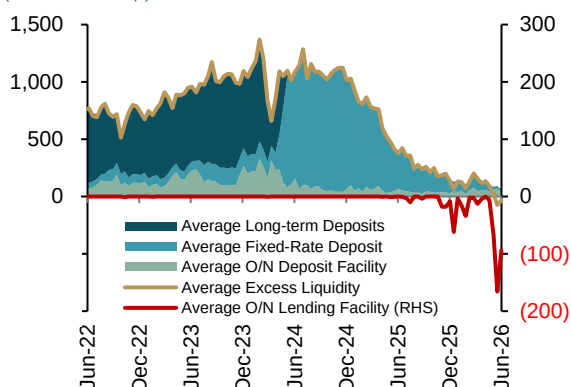
²⁴ Q2 2026 is the average of April and May 2026.

Egypt's excess liquidity declined in Q2 2026 to an average of EGP 34.3 bn (equivalent to 2.9 percent of the reserve requirement), down from an average of EGP 134.7 bn in Q1 2026 (11.7 percent of the reserve requirement) (Figure 39). This is attributed to seasonal factors including increases in currency in circulation during Eid Al-Adha and the tax collection season by the Ministry of Finance. The contraction in excess liquidity was also accompanied by an increase in CBE overnight lending, which averaged EGP 58.3 bn in Q2 2026, compared to EGP 12.3 bn in Q1 2026, while the average fixed-rate (7 days) deposits fell from EGP 97.5 bn to EGP 40.8 bn over the same period. Nevertheless, a notable reversal was witnessed in July 2026 where excess liquidity increased to EGP 136.4 bn by the end of the month, accompanied by a significant decline in currency in circulation outside the CBE, as the impact of seasonal factors dissipate.

Figure 39

Excess Liquidity²⁵

(In EGP bn, aop)



Data for June 2026 covers the quarter until the maintenance period ending on June 22, 2026.

Source: Central Bank of Egypt.

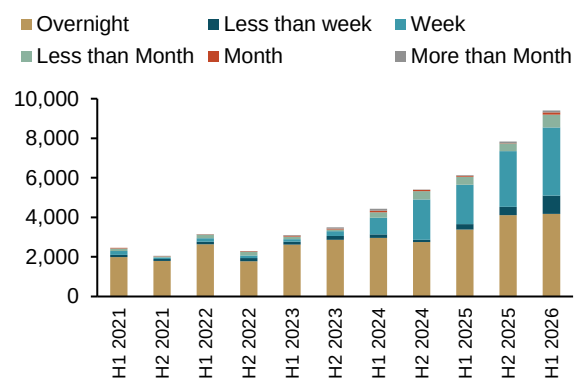
Accordingly, total interbank volumes continued to rise in H1 2026, recording EGP 9.4 tn compared to EGP 6.1 tn in H1 2025 (Figure 40). The overnight tenor remained the largest segment, but its share of total interbank volume declined

further during FY 2025/26, falling to 44.4 percent of total interbank volume in H1 2026, down from 55.1 percent a year ago. On the other hand, less-than-a week volume nearly doubled to account for 9.8 percent in H1 2026, up from 4.6 percent a year earlier, the largest share increase of any tenor during this period. Meanwhile, the share of one-week tenor transactions increased moderately to around 36.7 percent of the total volume in H1 2026 compared to 32.5 percent a year ago, consistent with the impact of the full allotment policy implemented in April 2024.

Figure 40

Interbank Volume

(In EGP bn)



Source: Central Bank of Egypt.

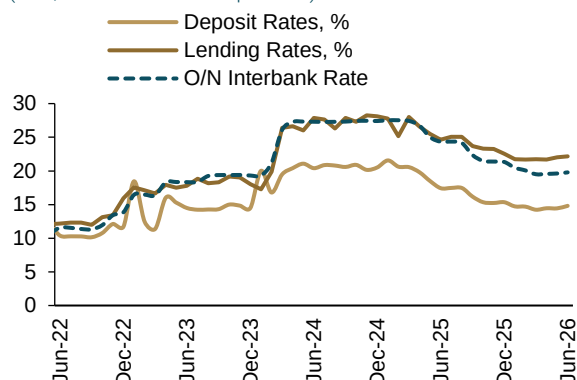
Approximately 75 percent of the decline in the overnight interbank rate since April 2025 passed through to average new deposit and lending rates by June 2026, indicating the transmission of the monetary policy easing that started in April 2025 to the new deposit and lending rates. However, banking deposit and lending rates increased during Q2 2026 driven by tighter liquidity conditions and the pause in the monetary easing cycle. In June 2026, the weighted average rate on new deposits edged up to 14.8 percent, while the weighted average rate on new loans increased to 22.2 percent, compared to 14.2 percent and 21.8 percent, respectively, in March 2026 (Figure 41).

²⁵ Excess Liquidity is the sum of commercial banks' overnight deposits, fixed-rate (7 days) deposits, and long-term corridor-linked deposits less CBE overnight lending. Since the adoption of the full allotment in April 2024 the CBE's main operation shifted from long-term corridor-linked deposits to fixed-rate (7 days) deposits.

Figure 41

Selected Market Interest Rates*

(In %, unless otherwise specified)



Source: Based on a banking sector survey conducted by the CBE.

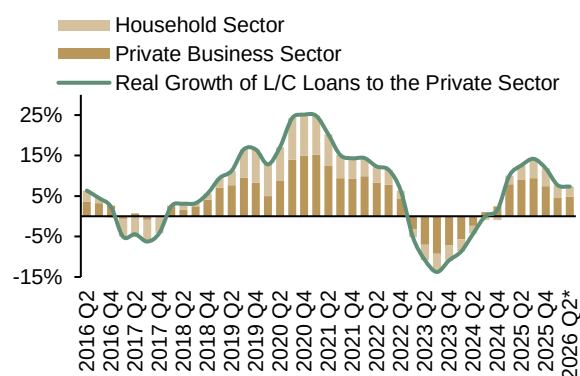
*Data up to June 30, 2026.

Real growth²⁶ of L/C loans to the private sector registered an average of 7.3 percent in Q2 2026²⁷, compared with 7.7 percent in the previous quarter (Figure 42). While this reflects a slight moderation in private sector credit growth, the current level remains well above the 15-year historical average of 4.5 percent. This continued expansion in private credit remains primarily driven by the provision of L/C loans to the private business sector.

Figure 42

Contribution to Real Growth of L/C Loans to the Private Sector

(In p.p., y/y, aop)



*Q2 2026 is an average of April and May 2026.

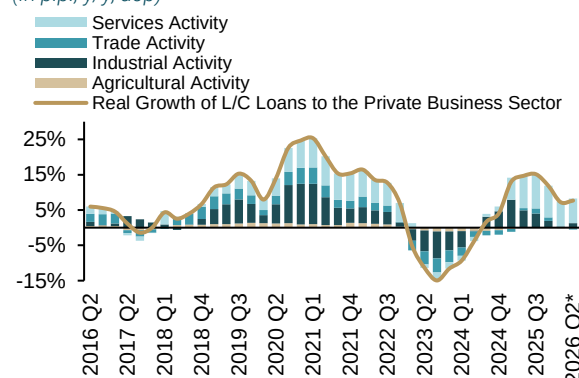
Source: Central Bank of Egypt.

This is reflected in the real growth of L/C loans to the private business sector, which increased to an average of 7.7 percent in Q2 2026, up from 7.2 percent in the previous quarter (Figure 43). Such acceleration was mainly driven by a higher contribution from industrial activity, partially offsetting the lower contribution from trade activity. Meanwhile, the services sector remains the main contributor to the real growth of L/C loans to the private business sector and has accounted for the largest share since February 2025.

Figure 43

Sectoral Contribution to Real Growth of L/C Loans to the Private Business Sector

(In p.p., y/y, aop)



*Q2 2026 is an average of April and May 2026.

Source: Central Bank of Egypt.

Accordingly, the annual growth of broad money (M2) averaged 19.5 percent in Q2 2026²⁷, up from 18.5 percent in the previous quarter. This was partially driven by a higher contribution from claims on the private sector, while net claims on the public sector witnessed a lower contribution. This is consistent with increased government revenue during April and May 2026 in light of the tax season and the continued tax revenue mobilization efforts by the Ministry of Finance.

²⁶ Nominal growth rates are deflated by the annual headline inflation rate.

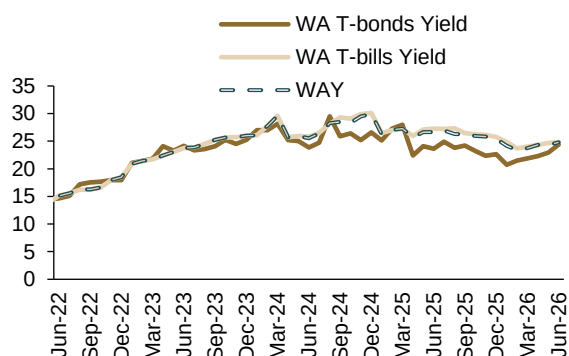
²⁷ Q2 2026 is the average of April and May 2026.

In terms of government credit, the yields on local currency government securities, as measured by the weighted average yield (WAY) of accepted bids in Treasury bill and bond auctions,²⁸ edged up to an average of 24.5 percent (gross of tax) in Q2 2026 compared to an average of 23.8 percent in Q1 2026 (Figure 44). This marks the first uptick following a sustained downward trajectory since Q1 2025, primarily reflecting heightened risk stemming from the Iran-US conflict, leading investors to demand higher yields. With this recent modest increase in the yields of government securities, the overall downward trajectory of the WAY since April 2025 continues to reflect a moderate market response to the CBE monetary easing cycle.

Figure 44

Market Yields of the Treasury's L/C Marketable Securities*

(In percent, unless otherwise specified)



*Data cover the period through June 30, 2026.

Source: Central Bank of Egypt.

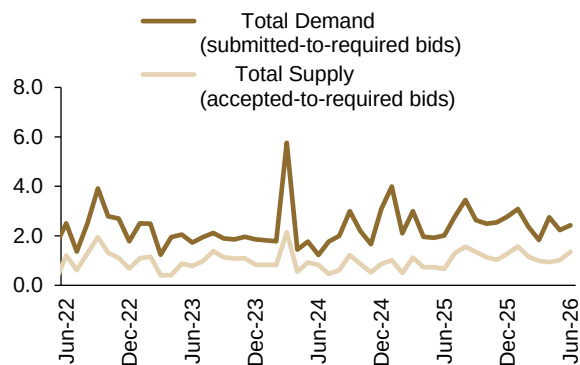
Meanwhile, the coverage ratio (submitted-to-required bids) increased marginally from 2.4x in Q1 2026 to 2.5x in Q2 2026, indicating a slight increase in investor demand for government securities amid the rise in yields (Figure 45). However, the accepted-to-required ratio, indicative of supply dynamics, declined slightly from 1.2x to 1.1x over the same period,

suggesting less acceptance of government securities at higher yields.

Figure 45

Supply and Demand for Treasury's L/C Marketable Securities*

(As a ratio)



Source: Central Bank of Egypt.

*Data cover the period through June 30, 2026.

The Ministry of Finance continues to advance its domestic debt management strategy by implementing measures to reduce gross financing needs and extend the average maturity of domestic debt. These measures include redeeming shorter-term obligations and issuing longer-dated instruments, such as primary market 10-year floating-rate notes, in order to lower the refinancing risk. Additionally, the Ministry of Finance continues to focus on diversifying its domestic financing instruments and sources while strengthening debt sustainability (see Box 2 on insights about the new fiscal budget for FY 2026/27).

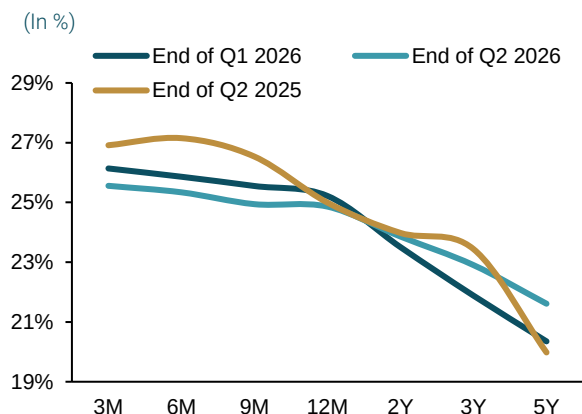
By the end of Q2 2026, yields on government securities declined modestly compared to the end of Q1 2026 (Figure 46). The decrease was concentrated in the shorter-term tenors following an improvement in the external risk environment amid the ceasefire and de-escalation of regional tensions. The one-year tenor remained broadly unchanged, while longer-term yields recorded moderate increases compared to the end of

²⁸ The WAY closely tracks the weighted average yield of Treasury bills due to the significantly higher weight of treasury bills from total issuance compared to treasury bonds.

March 2026. The stability of one-year yields indicates that expectations for the CBE's near-term monetary policy stance remain largely unchanged.

Figure 46

Weighted Average of Primary Market Gross Yields



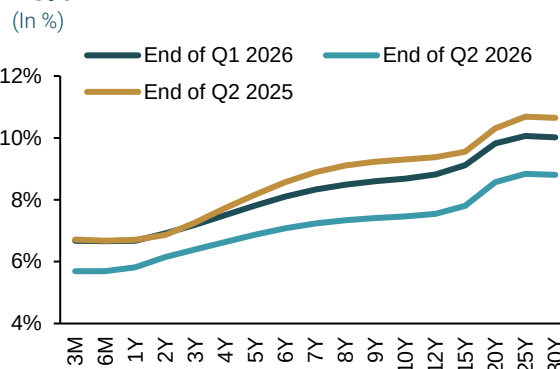
Source: Central Bank of Egypt.

Investment activity continues to be highly sensitive to geopolitical developments and shifts in global risk sentiment. Foreign participation in Egypt's domestic debt market initially dropped during Q2 2026 on the back of continued escalation in the region, before partially rebounding following the announcement of the Iran-US ceasefire. Meanwhile, holdings of longer-dated government bonds have remained broadly stable, indicating continued confidence in Egypt's medium-term outlook.

Similarly, Egyptian Eurobond yields declined by an average of 110 bps across all tenors in Q2 2026 (Figure 47). This decline reflects improved investor risk sentiment as tensions surrounding the regional conflict eased by the end of the quarter, redirecting capital flows back to Egypt. Nevertheless, market sentiment remains highly dependent on the volatile regional geopolitical situation.

Figure 47

Egypt's Eurobond Yields



Source: Bloomberg.

Box 2: Insights into the Fiscal Budget for FY 2026/27 and Medium-term Fiscal Projections

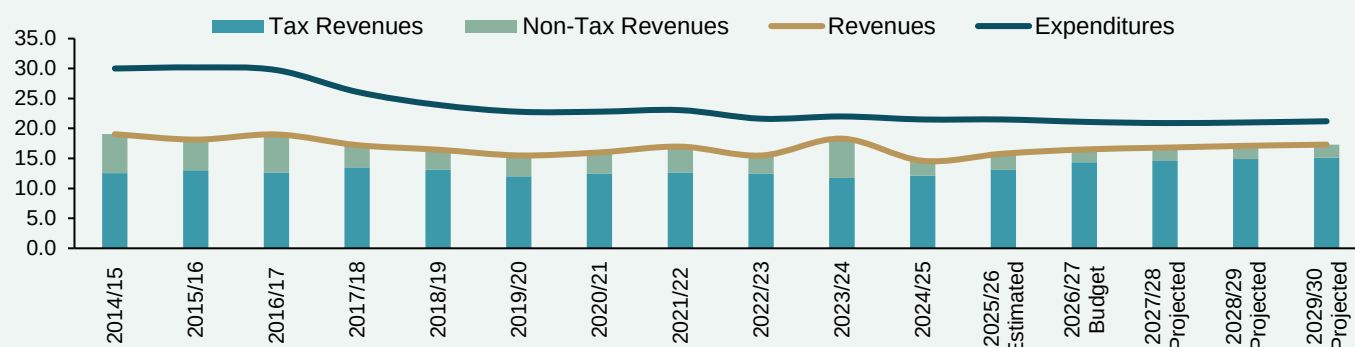
I. Key Fiscal Targets and Projections

The recently approved fiscal budget for FY 2026/27 by the Parliament continues to reflect the Government's revenue-based fiscal consolidation trajectory. Total revenues are expected to increase by 0.7 p.p. in FY 2026/27 to stand at 16.5 percent of GDP, while expenditures are expected to decline by 0.4 p.p. to reach 21.1 percent of GDP by June 2027 compared to previous year (Figure A). Accordingly, the fiscal deficit is targeted to narrow to 4.9 percent of GDP in FY 2026/27, compared to an estimated 6.1 percent of GDP in the previous fiscal year, with the primary surplus projected to increase to 5.0 percent of GDP by June 2027, up from 4.7 percent in June 2026.

Figure A

Budget Sector Revenues and Expenditures

(percent of GDP)



Source: Ministry of Finance Executive Budget Proposal for FY 2026/27.

The annual increase in total revenues by 20.8 percent in FY 2026/27 is driven entirely by the expected increase in tax revenues (mostly income taxes) to reach 14.4 percent of GDP by June 2027, compared to an estimated 13.1 percent of GDP in FY 2025/26. This is supported by the ongoing measures to widen the tax base, enhance voluntary compliance, and reduce exemptions. Conversely, non-tax revenues are expected to decline by around 8 percent in FY 2026/27 compared to a year earlier, driven by higher base effect from Alam El-Roum investment deal proceeds— valued at approximately EGP 167 bn.

Meanwhile, the composition of total expenditures is expected to undergo some notable changes, reflecting an increased focus on social protection and productive investments. Compensation of employees is targeted to increase by almost 21 percent on annual basis due to a higher minimum wage of EGP 8,000 compared to EGP 7,000 in the previous fiscal year, coupled with additional financial incentives targeting employees in the education and health sectors (Table A). Public investments are also expected to increase by approximately 27 percent, while remaining within the national public investments ceiling. Subsidies, grants, and social benefits are projected to increase by 12 percent, mostly due to increased provisions against fiscal risks and support for the universal health insurance program. Interest payments, the largest component in the expenditure category, is expected to inch up by around 5 percent, yet its share from total expenditures is expected to decline from an estimated 50.2 percent in FY 2025/26 to 46.7 percent in FY 2026/27, the first such decrease since June 2022 (Figure B).

Table A. Contribution to Annual Growth in Total Expenditures

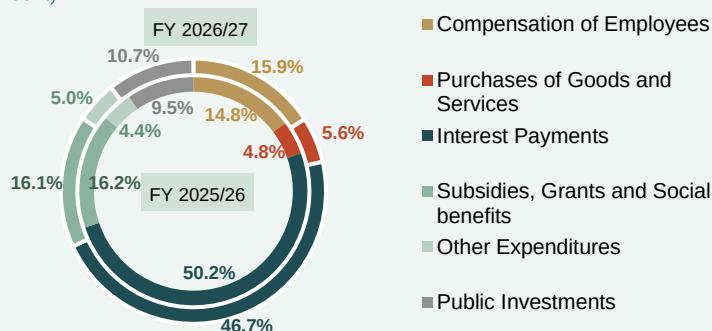
FY 2026/27 Budget

Total Expenditures	13.2 percent
Compensation of Employees	3.1 p.p.
Interest Payments	2.7 p.p.
Public Investments	2.6 p.p.
Subsidies, Grants and Social Benefits	2.0 p.p.
Purchases of Goods and Services	1.6 p.p.
Other Expenditures	1.3 p.p.

Figure B

Budget Sector Expenditures Composition

(In percent)



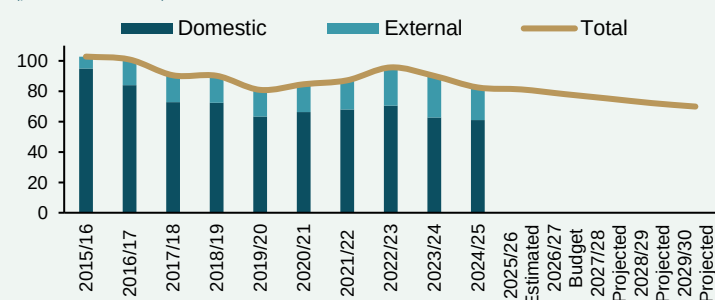
Source: Ministry of Finance Executive Budget Proposal for FY 2026/27.

The medium-term fiscal projections also indicate a sustained increase in revenue mobilization. Total revenues are projected to gradually reach 17.3 percent of GDP by June 2030, supported by a consistent increase in tax revenues, which is expected to record 15.1 percent of GDP in FY 2029/30. While this level remains below the emerging market economies' average of around 17.5 percent in 2024¹, it is above the 15 percent of GDP minimum threshold widely regarded as necessary to fuel growth and inclusive development without excessive borrowing.² Meanwhile, expenditures are projected to stabilize, recording an average of around 21.1 percent of GDP during FYs 2026/27–2029/30. As a result, the overall budget deficit is projected to stabilize at around 4.8 percent of GDP during the same period, implying an expansion in net acquisition of financial assets to record an average of 0.7 percent of GDP over the upcoming four fiscal years.³

II. Budget Sector Debt Trajectory

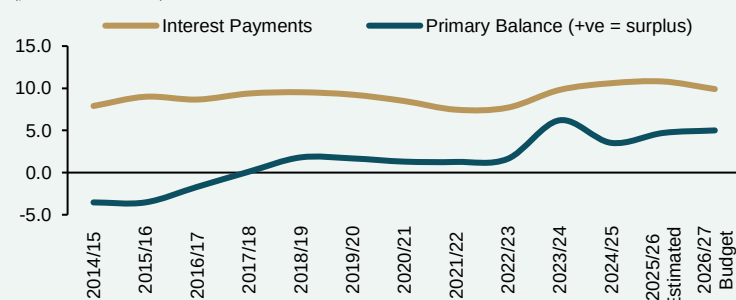
Such fiscal developments and projections are reflected in the downward trajectory of budget sector debt. The target for June 2027 stands at 78.1 percent of GDP, down from an estimated 81.2 percent of GDP in June 2026 and a high of 95.7 percent in June 2023 (Figure C). The expected cumulative decline of around 17.6 p.p. between June 2023 and June 2027 is supported by the continued increase in primary surplus (as percent of GDP), and the targeted decline in interest payments (as percent of GDP) in FY 2026/27 to reach around 10.0 percent, compared to 10.8 percent in June 2026 (Figure D). The Government also targets maintaining the downward trajectory of budget sector debt in the medium term to bring it to a more sustainable level of 70 percent of GDP by June 2030⁴.

Figure C
Budget Sector Gross Debt by Component
(percent of GDP)



Source: Ministry of Finance Executive Budget Proposal for FY 2026/27.

Figure D
Interest Payments and Primary Balance⁵
(percent of GDP)



Despite the favorable budget sector debt outlook, rollover risks and contingent liabilities remain significant challenges. The average time to maturity (ATM) of budget sector debt declined in FY 2024/25 to 2.9 years compared to 3.5 years in the previous fiscal year (of which 1.62 years for domestic debt⁶). This is coupled with notably short maturities for new domestic debt issuances, despite picking up recently to reach 1.04 years in Q1 2026 compared to 0.83 years in Q1 2025. Such short ATM is putting significant pressure from changes in the financial conditions globally and locally on the government's gross financing needs (GFNs), estimated to be close to 40 percent of GDP by June 2025⁶, thereby posing a risk to the budget deficit and budget sector debt outlook. Additionally, government guarantees stand at around 25 percent of GDP in September 2025, posing further risks to the fiscal consolidation path⁷.

Nevertheless, the Government is actively pursuing several measures to reduce its gross financing needs (as percent of GDP) and extend the average time to maturity of the budget sector debt, targeted to reach 4.5–5.0 years by June 2029. These measures include utilizing the proceeds of the sales of state-owned assets by at least 50 percent and diversifying domestic debt instruments, already initiated in FY 2025/26 through the issuance of local sukuk instruments and retail bonds. Additionally, the Government is prioritizing reducing its external debt by USD 1–2 bn annually, while ensuring that concessional financing accounts for at least 60 percent of external financing per year, coupled with diversifying its international bond issuances such as sukuk, sustainable bonds, and yen- and yuan-denominated bonds. Collectively, these initiatives—alongside maintaining an appropriate primary surplus and ensuring continuous mobilization of revenues—will support the Government's efforts to place public debt on a sustainable downward path.

1/ IMF World Revenue Longitudinal Database (WoRLD) 2024. 2/ Choudhary, Ruch & Skrok (2024): "Taxing for Growth: Revisiting the 15 Percent Threshold" World Bank papers. 3/ CBE calculations.

4/ The average maximum sustainable debt level across emerging markets is 76 percent of GDP in 2024. Cao, Jiang, Raphael Lam & Wang (2025): "Maximum Sustainable Debt Across Countries: An Assessment using P-Theory" IMF Working Paper.

5/ The notable pick-up in primary surplus in FY 2023/24 is due to the receipts of Ras El-Hekma amounting to around 3.7 percent of GDP.

6/ Ministry of Finance Medium-term Debt Management Strategy. 7/ Ministry of Finance Executive Budget Proposal for FY 2026/27.

III. Fiscal Policy Transmission to Inflation

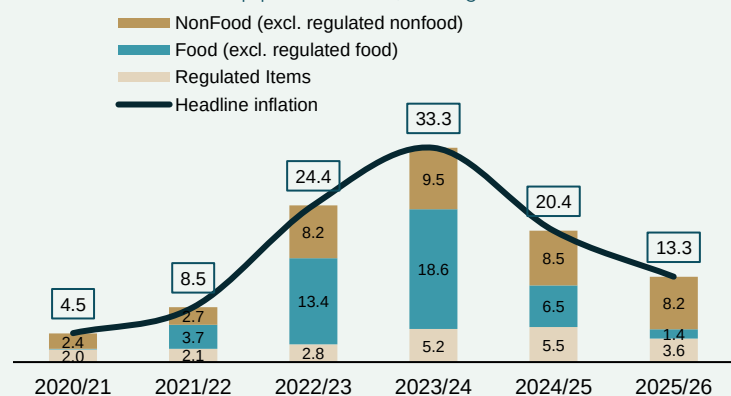
Fiscal policy influences inflation primarily through administered prices and subsidy and tax reforms. Regulated items, whose prices are administered by the government, account for around 21.4 percent of the CPI basket and therefore constitute an important channel through which fiscal measures are transmitted to headline inflation. Within this category the items most directly affected by fiscal policy measures include tobacco (4.4 percent of the CPI basket), utilities (4.9 percent), and petroleum fuels and transportation (3 percent) which represent the largest components of the regulated items making price adjustments in these categories particularly influential for headline inflation. While the following analysis is based on historical developments rather than forecasts, it provides useful insights into the potential implications of FY 2026/27 budget for the inflation outlook.

As part of Egypt's fiscal consolidation strategy, the gradual reform of energy and utility subsidies was reflected in the moderation of subsidies growth rates and as a share of total expenditure and GDP. Together with periodic adjustments to administered prices, these reforms contributed to an increase in regulated items' inflation (Figure F). Accordingly, the contribution of regulated items to headline inflation followed a similar pattern (Figure E). However, the share of regulated items in headline inflation evolved differently, accounting for only 11 percent on average in FY 2022/23, as headline inflation was increasingly driven by food and other market-determined prices following exchange rate adjustments and elevated global commodity prices. The share of regulated items increased again over the subsequent two fiscal years, accounting for around 27 percent of headline inflation in FYs 2024/25 and 2025/26, reflecting renewed adjustments to tobacco prices, electricity tariffs, petroleum fuel prices, and public transportation fares.

Looking ahead, as the government advances its fiscal consolidation agenda, temporary increases in inflation may arise, including initial direct inflationary pressures and second-round effects on other goods and services. However, such effects are expected to fade gradually as fiscal consolidation progresses. Over the medium-term, the announced fiscal projections and the recently approved fiscal budget are expected to support the CBE's transition to an inflation-targeting regime and reinforce the disinflation path toward the CBE's medium-term inflation target of 5 percent (± 2 p.p.) in Q4 2028, on average, while strengthening overall macroeconomic stability.

Figure E
Breakdown of Annual Headline Inflation

Annual contribution in p.p. to inflation, average of FY

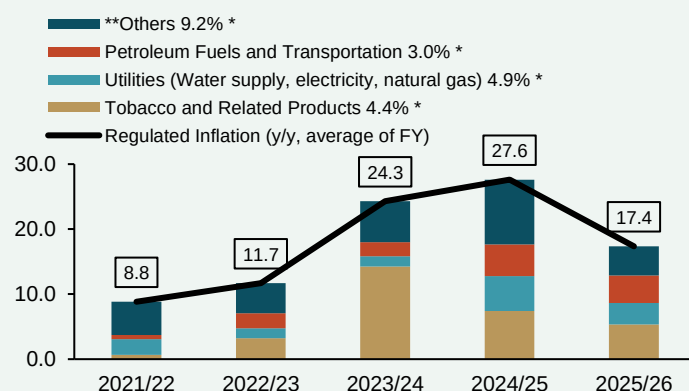


Source: CAPMAS and CBE calculations

* Figures represent weights in the CPI basket

**Includes pharmaceuticals, subsidized food items, public education, communications, and health insurance.

Figure F
Breakdown of Regulated Items Annual Inflation



2. Outlook

Key Takeaways:

- The global economic outlook continues to be clouded by uncertainty regarding the prospects of the Iran–US conflict. The alternating episodes of escalation and de-escalation underscore the volatile nature of the conflict and reinforce the significant uncertainty surrounding its macroeconomic implications.
- The baseline inflation outlook suggests that annual headline inflation is projected to temporarily accelerate through Q3 2026, albeit at a more moderate pace than projected in the Q1 2026 MPR, before gradually declining and aligning with the targeted level of 7 percent (± 2 p.p.) during H2 2027, supported by the prevailing tight monetary stance over the forecast horizon.
- Given the considerable uncertainty surrounding the outlook, two alternative scenarios were devised: an escalation and a de-escalation scenario. As such, annual headline inflation is expected to range between 15.2 – 17.8 percent and 7.7 – 8.3 percent, on average, in FYs 2026/27 and 2027/28, respectively across different prospects for the conflict, compared to an average of 13.3 percent in FY 2025/26.
- Meanwhile, real GDP growth forecasts have been slightly revised upward to 5.0 and 4.9 percent for FYs 2025/26 and 2026/27, respectively, compared with previous estimates of 4.9 and 4.8 percent.

This section outlines the medium-term macroeconomic outlook for inflation and real GDP growth, as well as the balance of risks surrounding the projections. These forecasts, along with their underlying assumptions and the prevailing balance of risks, form the basis of the MPC decisions.

Since February 2026, the global economic outlook has remained clouded by uncertainty regarding the prospects of the Iran–US conflict. The outbreak of the conflict triggered a global energy shock, manifested in elevated energy prices, rising inflationary pressures, and heightened risk aversion towards emerging markets, particularly net oil importers such as Egypt. The subsequent de-escalation and ceasefire announcement temporarily—yet materially—improved the outlook for global energy markets, with oil prices falling close to their pre-conflict levels and restoring investor sentiment. However, the recent renewed escalation has started eroding some of these gains. The alternating episodes of escalation and de-escalation underscore the volatile nature of the conflict and reinforce the considerable uncertainty surrounding its macroeconomic implications. Accordingly, global assumptions have been updated across the forecast horizon to reflect the evolving developments in the global economy (Table A).

Table (A)
Global assumptions factored into Egypt's Quarterly Projection Model
 (in percent, average of period)

Variable	Q1 2026 MPR		Q2 2026 MPR	
	2026	2027	2026	2027
Trading partners' output gap (proxy for foreign demand)	-0.2	-0.1	-0.2	-0.2
Trading partners' real GDP growth rate*	2.2	2.5	2.2	2.4
Trading partners' inflation rate (proxy for imported inflation)	2.6	2.4	3.1	2.7
US interest rate (proxy for global financial conditions)	3.5	3.2	3.6	3.5

Source: Global Projection Model Network (GPMN).

*Calculated using Egypt's normalized total trade weights with trading partners.

Note: GPMN uses a global projection model that provides monthly updates, model-based macroeconomic projections for 10 of the world's leading economies.

Despite broadly stable trading partners' growth prospects relative to the Q1 2026 MPR, inflation projections for trading partners have been revised upward over the forecast horizon due to elevated energy prices since the onset of the conflict. Accordingly, projections for global financial conditions, proxied by US interest rates, have been revised upward. This reflects expectations that a hawkish Federal Reserve will maintain its policy rates unchanged until Q2 2027 before resuming easing thereafter, implying slightly tighter global financial conditions than those assumed in the previous edition of the MPR. Overall, the updated global assumptions have exerted upward pressure on Egypt's inflation forecast via the imported inflation channel.

The domestic inflation outlook is informed by actual inflation outturns, conditioned on near-term forecast figures, and supported by a set of domestic assumptions that underpin the forecast. Average annual headline inflation for Q2 2026 recorded 14.6 percent, slightly below the 15 percent projected in the Q1 2026 MPR inflation forecast. Actual outturns came in lower than anticipated due to the reversal of seasonal and regulated price shocks observed in Q1 2026 and April 2026. These developments, together with the partial retracement in global oil prices and the exchange rate from their conflict-related peaks at the time, led to a favorable reassessment of domestic assumptions, contributing to a slightly lower inflation trajectory in the near term. These developments more than offset the modest increase in inflationary pressures emanating from the updated global assumptions.

Accordingly, the average inflation projection for Q3 2026 is lower than that presented in the Q1 2026 MPR. Moreover, additional assumptions were incorporated for CY 2027 to reflect the persistent path of services inflation. Overall, the projected inflation path has been revised

slightly downward through FY 2026/27, while the inflation forecast for second half of CY 2027 is marginally higher than in the Q1 2026 MPR, reflecting these additional assumptions (Figure 48).

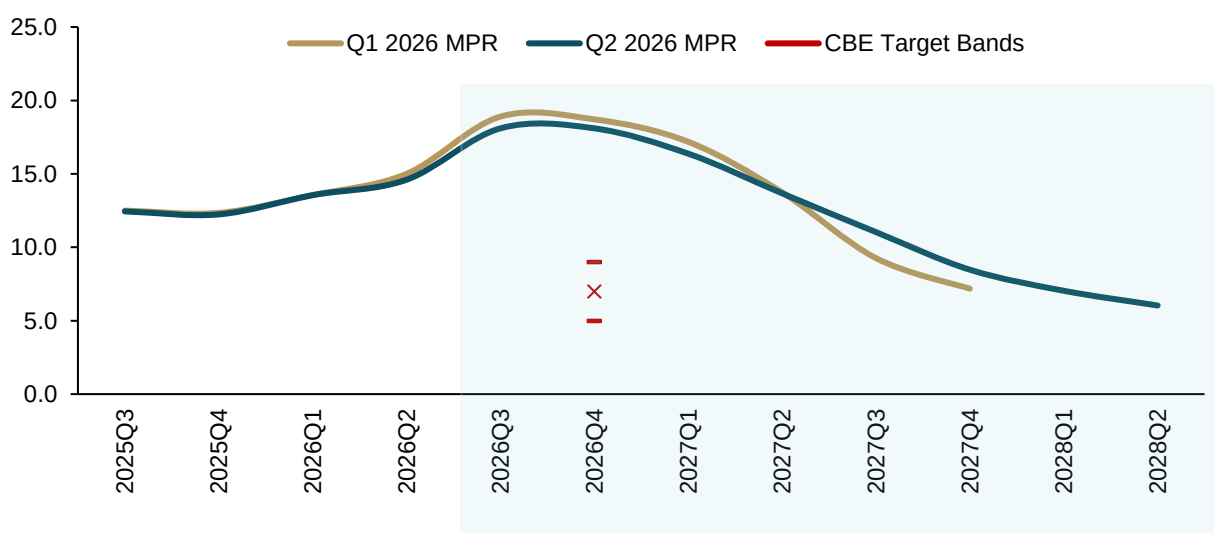
Given the above, the baseline scenario continues to indicate a temporary acceleration in annual headline inflation through Q3 2026 on average, partly due to unfavorable base effects, albeit at a more moderate pace than projected in the Q1 2026 MPR's baseline trajectory. Thereafter, inflation is expected to gradually decline and reach single digits during H2 2027, aligning with the targeted level of 7 percent (± 2 p.p.), supported by the prevailing tight monetary stance over the forecast horizon (see Box 3 for an assessment of the monetary stance). As such, annual headline inflation is expected to average 16.6 percent and 8.1 percent in FYs 2026/27 and 2027/28, respectively, compared with an average of 13.3 percent in FY 2025/26.

Accordingly, annual headline inflation is still expected to exceed the CBE's target of 7 percent (± 2 p.p.), on average, in Q4 2026, given (i) the unanticipated increase in inflation figures amid the outbreak of the regional conflict, which resulted in an upward shift in the inflation trajectory compared with pre-conflict forecasts; as well as, (ii) the limited scope of monetary policy to bring inflation back to target by Q4 2026, given the monetary policy's control horizon.²⁹

Figure 48

Baseline Annual Headline Inflation Forecast Comparison (Q1 2026 vs Q2 2026 MPR)

(in percent, y/y)



Source: Estimates from the Central Bank of Egypt's Quarterly Projection Model (see CBE Quarterly Projection Model box in the Q1 and Q2 2025 MPRs).

²⁹ The *control horizon* is the period over which monetary policy is expected to have a significant impact on inflation and thus guide its convergence to target. This is conditional on the central bank's policy path and the lag with which monetary policy decisions transmit through the economy, which is currently estimated to be from four to eight quarters. Additionally, within this period policy makers weigh the trade-offs between achieving price stability and limiting volatility in output, employment, and interest rates.

The Q2 2026 MPR baseline projection incorporates the current assessment of geopolitical developments and their respective underlying assumptions. Nevertheless, given the rapidly evolving regional developments and the uncertainty surrounding the intensity of the conflict-related shock and its domestic repercussions, two alternative scenarios were devised: an escalation and a de-escalation scenario. These two scenarios bound the baseline projection and reflect alternative developments of the regional conflict (Table B).

Table (B) Domestic and Global Risks to the Baseline Inflation Trajectory*			
Domestic Risks	Impact on Inflation Trajectory	Global Risks	Impact on Inflation Trajectory
Upside Risks / Escalation Scenario			
Higher-than-expected pass-through to inflation from fiscal consolidation measures		Re-escalation of regional geopolitical tensions (Increases in global energy prices, increased risk-off sentiment, stronger capital outflows and thus exchange rate fluctuations)	
		Higher-than-anticipated tightening by central banks in advanced economies (Tighter global financial conditions)	
Downside Risks / De-escalation Scenario			
Improved sovereign risk sentiment (Increased capital inflows, leading to exchange rate appreciation)		De-escalation of geopolitical tensions (Further easing in global energy prices and a more positive investor sentiment)	

* Figure 49 illustrates the inflation forecast in the baseline scenario bounded by the escalation and de-escalation scenarios.

The **de-escalation scenario** assumes easing regional tensions and normalization of maritime traffic through the Strait of Hormuz. Consequently, global energy prices approach pre-conflict levels, accompanied by an unwinding of the risk-off sentiment, broadly mirroring the market developments observed following the June 2026 Iran–US memorandum of understanding (MoU) on the cessation of hostilities. As such, the de-escalation scenario incorporates potential fiscal consolidation measures, albeit with a smaller magnitude compared to the

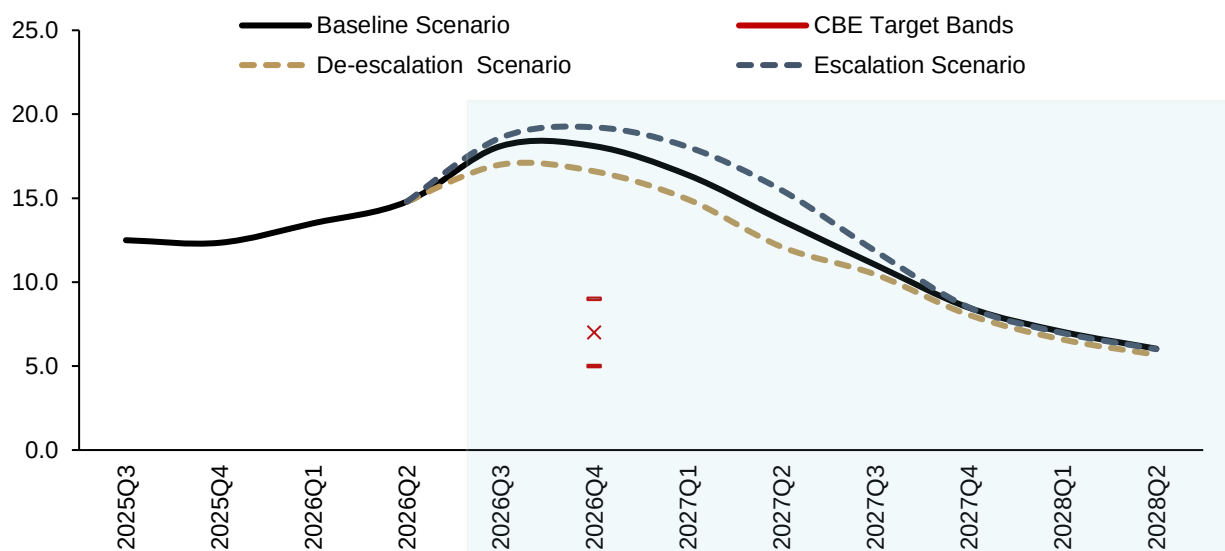
baseline scenario, along with a more favorable exchange rate path over the remainder of 2026. Consequently, annual headline inflation is projected at lower levels compared to the baseline scenario (Figure 49), aligning with the target level by H2 2027. As such, annual headline inflation is expected to average 15.2 and 7.7 percent in FYs 2026/27 and 2027/28, respectively, compared to 16.6 percent and 8.1 percent in the baseline scenario.

Nonetheless, the recent renewed escalation, following the collapse of the Iran—US MoU, has intensified upward pressures on international energy prices and weakened global risk sentiment, posing potential risks to domestic energy prices and capital flows. Therefore, **the escalation scenario** assumes an intensification of current geopolitical tensions, resulting in stronger repercussions on international energy prices and the global risk-off sentiment. These assumptions are reflected domestically through incorporating additional fiscal consolidation measures, as well as possible capital outflows thereby inducing a higher exchange rate path relative to the baseline scenario. These assumptions give rise to a higher inflation trajectory than under the baseline projection (Figure 49). Under this scenario, annual headline inflation is expected to accelerate through H2 2026 before returning to target level during H2 2027 averaging 17.8 percent and 8.3 percent in FYs 2026/27 and 2027/28, respectively, compared with 16.6 percent and 8.1 percent in the baseline scenario contingent on a tighter monetary stance relative to the baseline scenario.

Figure 49

Annual Headline Inflation Forecast (Escalation and De-escalation Scenarios vs. Baseline)

(in percent, y/y)



Source: Estimates from the Central Bank of Egypt's Quarterly Projection Model (see CBE Quarterly Projection Model box in the Q1 and Q2 2025 MPRs).

With respect to output, the CBE has slightly revised real GDP growth forecasts to 5.0 and 4.9 percent for FYs 2025/26 and 2026/27, respectively, up by 0.1 p.p. for each fiscal year compared with Q1 2026 MPR, while FY 2027/28 is projected to grow by 5.4 percent (Figure 50). The upward revision for FYs 2025/26 and 2026/27 mainly reflects a stronger projected contribution from the Suez Canal than assumed in the previous MPR, which had adopted a

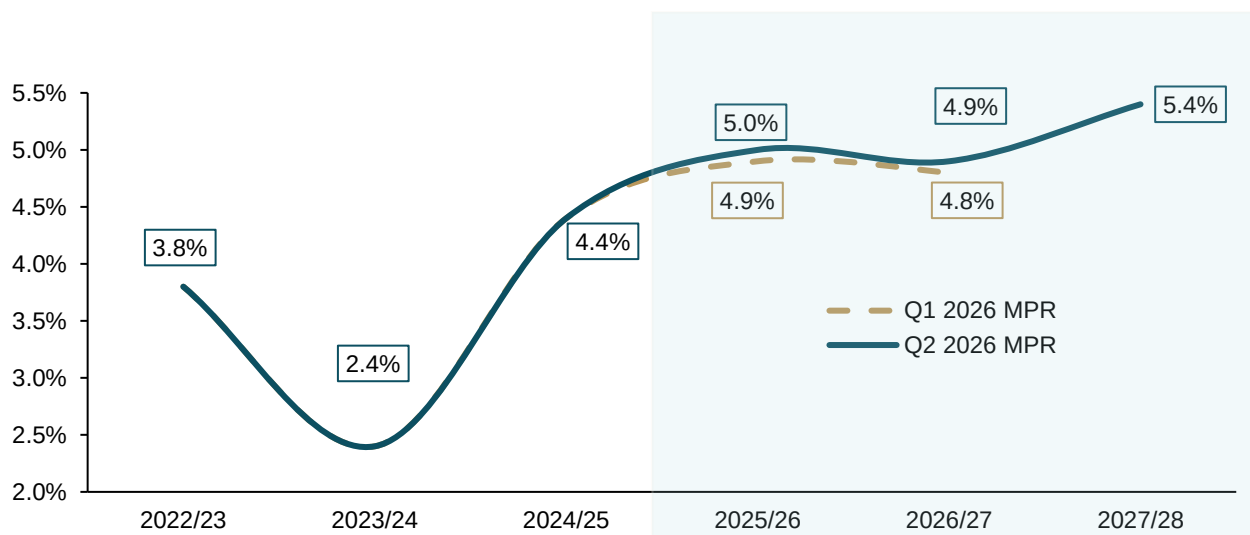
more conservative outlook. This revision is due to an unexpected increase in net tonnage transiting through the Canal, as reflected in actual outturns despite the outbreak of the regional conflict in Q1 2026.

It is noteworthy that growth forecasts for FYs 2026/27 and FY 2027/28 remain underpinned by the contributions of the manufacturing and services sectors, with tourism's contribution projected to continue increasing over the forecast horizon. The aforementioned sectors are expected to continue supporting overall real GDP growth over the forecast horizon. In addition, the extractions sector is expected to improve, supported by successful onshore and offshore discoveries that are anticipated to boost Egypt's crude oil and natural gas production over the medium term, reinforced by the recent full repayment of arrears owed to foreign and multinational oil and gas partners. The expected acceleration in real GDP growth through FY 2027/28 is supported by a projected normalization of the monetary policy stance by that time.

Figure 50

CBE Real GDP Forecast (Market Prices)

(in percent, y/y)



Source: Ministry of Planning and Economic Development and Central Bank of Egypt projections.

Accordingly, estimates indicate that output remains below potential, though gradual convergence to that level is expected by H1 2027, suggesting that demand-side inflationary pressures are expected to remain limited in the short term, supported by the currently tight monetary policy stance.

MPC Decisions

Following the outbreak of the Iran-US conflict, the MPC paused its monetary easing cycle, which had been implemented in a measured manner from April 2025 to February 2026, with a cumulative easing of 825 bps. The measured policy easing was implemented with smaller magnitudes than that observed in the deceleration in inflation, where inflation declined by 14 percentage points on average in 2025 registering 14.1 percent, preserving a highly positive real interest rate margin along the disinflation path. However, in light of the recent conflict-induced global energy price shock, the committee decided to keep key policy rates unchanged in its April and May 2026 meetings, thereby sustaining a tight monetary policy stance, given the prevailing positive real interest margin. Furthermore, the measured policy easing along with pausing the easing cycle availed room to assess the supply-side nature of the shock, its expected persistence, and the extent of its spillovers on the domestic economy.

Additionally, at its July 2026 meeting, the MPC kept key policy rates unchanged to maintain an adequately positive real interest margin on average over the forecast horizon, supported by better-than-previously expected macroeconomic developments. As such, the Committee emphasized that it would continue to evaluate its monetary stance based on a data-dependent approach, reviewed on a meeting-by-meeting basis through assessing drivers of inflationary pressures, the forecasted inflation trajectory, and the prevailing balance of risks. Looking ahead, the MPC noted its firm commitment to price stability and that it would not hesitate to tighten policy further if needed to ensure inflation returns to target in the near term.

Box 3: The Neutral Real Interest Rate — Concept, Policy Relevance, and Estimation

The **neutral real interest rate**—commonly denoted r^* (r-star)—is **the real interest rate consistent with an economy operating at its potential and inflation stable at target**¹. It represents the equilibrium rate at which monetary policy is neither expansionary nor contractionary.

r^* is an **unobservable medium- to long-run equilibrium variable**. Therefore, it varies over time, driven by structural forces factors affecting the economy such as trend productivity growth, demographics, fiscal fundamentals and shifts in risk aversion, among other factors². Since r^* is not directly observable, its estimates are constantly subject to measurement uncertainty and hence continuous revision. Nevertheless, what matters most to the conduct of monetary policy is not the value of r^* per se, but rather the real interest rate (RIR) gap—defined as the difference between the real interest rate³ and r^* . **This gap among other indicators gauges the monetary policy stance** and its degree of restrictiveness, indicating the extent to which monetary policy exerts disinflationary or inflationary pressures on the economy, as seen below:

Real rate below r^*	→	RIR gap is negative	→	monetary policy is accommodative
Real rate equivalent to r^*	→	RIR gap is close to zero	→	monetary policy is broadly neutral
Real rate above r^*	→	RIR gap is positive	→	monetary policy is restrictive

Policy Relevance

r^* plays a key role in the conduct of monetary policy. First, it provides an independent reference point for assessing the monetary stance, through the RIR gap. By construction, r^* is determined by the economy's structural characteristics and is therefore conceptually independent of monetary policy decisions and the prevailing or historical policy rates. While monetary policy can influence the real interest rate in the short term, it cannot determine its equilibrium value. This independence is what allows r^* to serve as a meaningful benchmark for monetary policy assessment, and is therefore treated as an exogenous variable in the monetary policy reaction function⁴.

Second, r^* serves as a key determinant of the policy rate path over the medium to long term. Central banks often rely on their monetary policy reaction functions, among other approaches, to adjust their policy rates relative to r^* in response to deviations of inflation from target and output from potential. As inflation converges to target and the output gap closes, the monetary policy reaction function implies that the real policy rate should gradually converge toward r^* .

Estimating the Neutral Real Interest Rate: Methodologies

The literature offers a broad range of approaches to estimate r^* , each with distinct assumptions, theoretical limitations, and data requirements. Key approaches include: (i) **semi-structural models**, which infer r^* from the interplay between an aggregate demand equation, a Phillips curve, and a law of motion linking r^* to trend output growth; (ii) **DSGE models**, which derive r^* from the real interest rate that would prevail in absence of nominal rigidities (such as sticky prices and wages), consistent with the economy's underlying structural characteristics; (iii) **Market-based approaches**, which leverage financial asset prices as well as the yield curve information to estimate the level of interest rates expected to prevail over the longer term; (iv) **Survey- and filtration-based approaches**, which infer a proxy for r^* from survey expectations of long-run policy rates, or from simple statistical filters such as the HP filter, applied to historical real rates.

¹ Target consistent with long-term economic fundamentals, including productivity growth and inflation differentials with trading partners

² International Monetary Fund. 2023. "Chapter 2: The Natural Rate of Interest: Drivers and Policy Implications." In *World Economic Outlook: A Rocky Recovery*; Brand, Claus, Noémie Lisack, and Falk Mazelis. 2025. "Natural Rate Estimates for the Euro Area: Insights, Uncertainties and Shortcomings." ECB Economic Bulletin, no. 1 (Box 8).

³ Key policy rate deflated by expected headline inflation.

⁴ Woodford, Michael. 2003. *Interest and Prices: Foundations of a Theory of Monetary Policy*. Princeton, NJ: Princeton University Press.

However, estimates of r^* are highly sensitive to model choice and filtering techniques, leaving them subject to statistical uncertainty. Consequently, modern monetary policy analysis views r^* as an informative but inherently uncertain benchmark rather than a rule for setting the policy rate. Borio (2021), for example, argues that monetary policy should not rely solely on estimates of r^* , especially in periods characterized by structural change, heightened uncertainty, or persistent shocks⁵. Instead, when setting monetary policy decisions, policymakers should complement r^* estimates with a comprehensive assessment of macroeconomic and financial conditions, including inflation dynamics, inflation expectations, labor market conditions, exchange rate stance, and other indicators of the underlying economic growth.

Egypt's Neutral Real Interest Rate

The CBE's estimates of r^* are primarily derived from its Quarterly Projection Model (QPM). The QPM, the CBE's core medium-term forecasting tool, is a small, open-economy, forward-looking semi-structural model based on the New Keynesian framework, that is informed by key characteristics of the Egyptian economy (see box 4 on the Quarterly Projection Model in the CBE's Q2 2025 MPR).

r^* is determined by the long-run real uncovered interest parity (UIP) condition underpinning semi-structural modelling frameworks⁶. Within these frameworks, a nominal UIP condition arises from investors' portfolio allocation decisions in internationally integrated capital markets. Under perfect capital mobility, investors allocate their portfolios between domestic and foreign assets based on the relative expected returns, which depend on the interest rate differential, expected exchange rate movements, and a country-specific risk premium.

In the long-run equilibrium, the UIP condition in real terms links the domestic r^* to the foreign r^* , the productivity differential vis-à-vis major trading partners—proxied by the change in the equilibrium real exchange rate trend—and the equilibrium country risk premium. Accordingly, r^* is inferred from the interplay between global⁷ and domestic structural factors. Consequently, sustained improvements in domestic productivity relative to trading partners are associated with an appreciation of the equilibrium real exchange rate and a higher domestic r^* . Conversely, lower global r^* , weaker trend productivity growth relative to trading partners, or a decrease in the equilibrium risk premium would lower the domestic r^* .

Based on this approach, the CBE's current estimates of Egypt's r^* ranges between 3.0 and 4.0 percent. The CBE assesses its monetary policy stance relative to the long-term average of r^* , reflecting the fundamentals of the economy and hence its long-term trends. As noted above, r^* is influenced by both the productivity differential and the equilibrium risk premium. The latter is expected to continue to contribute toward the decline in Egypt's r^* , reflecting the normalization of the sovereign risk premium following the peaks observed over the period 2022–2024, which were influenced by the impact of the Russia-Ukraine conflict.

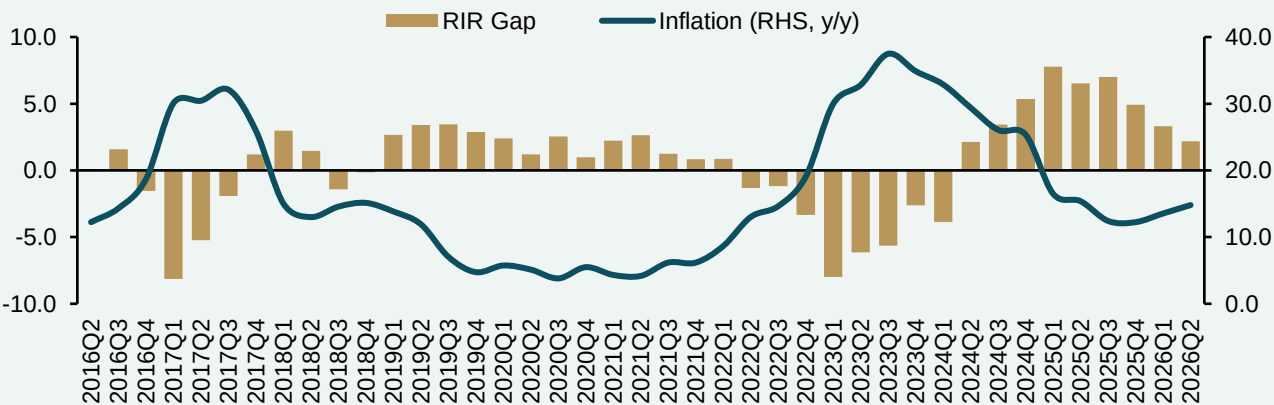
Monetary Policy Stance

Against this benchmark, current estimates suggest that the real policy rate remains above r^* , resulting in a positive RIR gap and signaling a restrictive monetary policy stance (Figure A). As such, the monetary stance is expected to continue supporting the ongoing disinflation process over the forecast horizon and convergence of inflation toward its target over the near term.

Figure A

Egypt's Monetary Policy Stance (RIR Gap) and Annual Headline Inflation

In percent, y/y (+ve=tight)



Source: Estimates from the Central Bank of Egypt's Quarterly Projection Model

⁵ Borio, C. (2021). *Navigating by r^* : safe or hazardous?* (BIS Working Paper No. 982). Bank for International Settlements.

⁶ Akin to IMF Working Paper WP/23/172 (August 2023), NBU Working Paper 3/2019 (2019), Croatian National Bank Survey S-34, Quarterly Projection Model for Croatia (September 2018). Isard, P. (2006). *Uncovered Interest Parity*. IMF Working Paper 06/96.

⁷ Global structural factors are captured via the foreign r^* , which captures the influence of global financial conditions and the global equilibrium cost of capital. The equilibrium country risk premium, on the other hand, reflects structural characteristics affecting the economy's perceived risk.

3. Appendix

Table A1. Contribution to Urban Headline Inflation

	Weights*	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026
Quarterly Contributions to Headline Inflation (in p.p. q/q)										
Regulated Items	21.4	1.4	1.1	1.4	1.0	1.2	0.7	0.5	0.9	0.9
Fresh Fruits & Vegetables	5.5	0.0	1.5	0.1	-0.4	0.4	-0.3	0.3	0.3	1.0
Core Food	24.5	1.2	-0.5	0.6	1.0	0.1	-0.6	0.0	1.3	0.4
Retail	14.3	1.2	0.6	0.6	0.8	1.0	0.4	0.3	0.4	0.6
Services	34.3	1.6	0.7	0.8	1.0	1.3	0.7	2.4	1.5	2.3
Quarterly Headline Inflation, q/q in %	100	5.3	3.3	3.6	3.3	4.1	0.9	3.5	4.4	5.1
Quarterly Core Inflation**, q/q in %	73.1	5.2	1.1	2.9	3.9	3.4	0.7	3.7	4.4	4.6
Quarterly Contributions to Headline Inflation (in p.p. y/y)										
Regulated Items	21.4	5.9	5.5	6.2	5.2	5.0	4.5	3.5	3.5	3.1
Fresh Fruits & Vegetables	5.5	2.1	2.3	1.7	1.2	1.6	-0.2	0.0	0.8	1.4
Core food	24.5	11.4	8.8	7.6	2.5	1.4	1.1	0.5	0.8	1.1
Retail	14.3	4.4	4.1	4.2	3.4	3.2	3.0	2.7	2.2	1.8
Services	34.3	5.5	5.4	5.6	4.3	4.0	4.0	5.6	6.1	7.1
Quarterly Headline inflation, y/y in %	100	29.4	26.1	25.4	16.5	15.2	12.5	12.3	13.5	14.6
Quarterly Core Inflation**, y/y in %	73.1	28.5	24.8	23.8	13.6	11.6	11.2	12.1	12.6	14.0
Source: Central Agency for Public Mobilization and Statistics (CAPMAS) and Central Bank of Egypt calculations.										
*Weights are derived from the 2017/2018 Household Income, Expenditure, and Consumption Survey (HIECS), starting with September 2019 data.										
**The CBE core inflation index consists of services, retail, and core food items, while excluding fresh fruits and vegetables as well as regulated items.										

Table A2. Contribution to Real GDP Growth at Factor Cost

	2022/23	2023/24	2024/25*	Mar-25	Jun-25*	Sep-25*	Dec-25*	Mar-26*
GDP Growth (at Market Prices)	3.8	2.4	4.4	4.8	5.0	5.3	5.3	5.0
GDP Growth (at Factor cost)	3.6	2.3	4.4	4.7	5.0	5.3	5.3	4.9
Agriculture, forestry, fishing and hunting	0.5	0.4	0.3	0.5	0.2	0.3	0.3	0.2
Industry	-0.7	-1.2	1.0	0.9	1.4	1.5	1.2	0.9
Extractions	-0.1	-0.3	-0.6	-0.8	-0.6	-0.3	-0.1	-0.1
Oil	0.0	-0.1	-0.2	-0.4	-0.3	-0.1	0.0	0.0
Natural gas	-0.2	-0.3	-0.4	-0.5	-0.4	-0.2	-0.1	-0.1
Other	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Manufacturing	-0.6	-0.8	1.6	1.7	2.0	1.8	1.3	1.0
Petroleum	-0.1	-0.2	-0.1	-0.2	-0.1	0.0	0.1	0.5
Non-Petroleum	-0.5	-0.6	1.7	1.9	2.1	1.8	1.2	0.5
Services	2.7	2.5	2.8	2.8	2.7	2.5	2.3	2.7
Construction	0.4	0.4	0.3	0.3	0.3	0.2	-0.3	0.4
Real Estate Rental and Services	0.4	0.4	0.3	0.2	0.2	0.3	0.3	0.3
Transportation and Warehousing	0.2	0.3	0.4	0.0	0.1	0.2	0.4	0.2
Finance	0.1	0.2	0.4	0.7	0.3	0.4	0.4	0.3
Insurance 1/	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
Communication	0.4	0.4	0.4	0.5	0.4	0.4	0.7	0.7
Tourism	0.7	0.3	0.5	0.6	0.8	0.4	0.5	0.3
Educational, Health Care, and Other Services	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.3
Utilities 2/	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Information	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trade	0.6	0.9	0.5	0.5	0.4	0.7	1.0	0.7
Suez Canal	0.3	-0.5	-0.6	-0.2	0.0	0.0	0.1	0.1
General Government	0.2	0.3	0.3	0.2	0.3	0.2	0.3	0.3

Source: Ministry of Planning & Economic Development

*Preliminary figures

^{1/}Includes Social Insurance

^{2/}Includes Electricity, Water and Sewage

Table A3. Egypt's Balance of Payments (USD bn)***

Date	2022/23	2023/24	2024/25*	Mar-25	Jun-25*	Sep-25*	Dec-25*	Mar-26*
Trade Balance	-31.2	-39.6	-51.0	-10.8	-12.7	-14.6	-17.1	-16.0
Export proceeds	39.6	32.6	40.2	11.0	10.5	11.1	9.8	10.6
Petroleum exports	13.8	5.7	5.6	1.2	1.4	1.3	1.4	1.6
Other exports	25.8	26.8	34.6	9.9	9.0	9.8	8.4	9.0
Import payments**	-70.8	-72.1	-91.2	-21.9	-23.1	-25.7	-26.9	-26.6
Petroleum imports	-13.4	-13.4	-19.5	-4.8	-5.0	-6.4	-5.2	-5.7
Other imports	-57.4	-58.8	-71.7	-17.0	-18.1	-19.3	-21.8	-20.9
Services Balance	21.9	14.4	15.1	3.5	4.3	5.0	3.9	4.0
Receipts	34.6	30.2	32.1	7.6	8.2	9.4	8.9	8.3
Transportation	14	10.7	9.4	2.2	2.4	2.3	2.5	2.4
Of which: Suez Canal dues	8.8	6.6	3.6	0.8	1.0	1.0	1.1	1.1
Travel (tourism revenues)	13.6	14.4	16.7	3.8	4.2	5.5	4.8	4.2
Payments	-12.6	-15.9	-17	-4.2	-3.8	-4.4	-5.0	-4.3
Travel	-5.0	-5.1	-3.9	-1.0	-0.9	-1.0	-1.4	-1.1
Investment Income Balance	-17.3	-17.5	-15.8	-4.2	-3.7	-4.4	-4.2	-5.8
Receipts	2.1	1.9	2.9	0.6	1.0	0.6	0.8	0.7
Payments	-19.5	-19.5	-18.7	-4.9	-4.7	-5.0	-5.0	-6.5
Of which: Interest paid	-6.2	-7.9	-7.3	-1.9	-1.6	-1.8	-2.1	-2.3
Current Transfers	21.8	21.9	36.3	9.3	9.9	10.7	11.3	12.7
Private (net)	21.9	21.9	36.2	9.3	9.9	10.7	11.3	12.7
Official (net)	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Balance of Current Account	-4.7	-20.8	-15.4	-2.3	-2.2	-3.2	-6.2	-5.1
Capital & Financial Account	8.9	29.9	10.2	-1.2	2.5	-0.4	6.8	3.4
Capital Account	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Financial Account	9.0	30	10.4	-1.2	2.6	-0.3	6.9	3.5
Direct investment in Egypt (net)	10.0	46.1	12.2	3.8	2.4	2.4	6.9	3.8
Portfolio investment in Egypt (net)#	-3.8	14.5	1.6	5.3	-0.5	1.8	3.2	-9.5
Of which: Bonds	0.3	-1.6	1.1	1.9	-1.0	-0.3	0.4	-1.9
Other Investments (net)	3.4	-29.8	-2.8	-10.1	0.8	-4.3	-3.0	9.4
Net Borrowing	1.4	4.9	-0.7	-0.2	0.1	1.8	-0.1	4.3
Medium- and Long-Term Loans (net)	-0.2	-2.8	-2.3	-0.4	-0.9	-1.0	0.9	3.3
Medium- and Long-Term Suppliers' Credit (net)	1.7	0.4	-1.2	-0.2	-0.1	0.0	-0.2	-0.2
Short term Suppliers' Credit (net)	0.0	7.2	2.8	0.4	1.1	2.8	-0.7	1.2
Other Assets	-4.8	-24.9	-9.1	-8.0	-5.7	-6.6	-4.6	6.6
Other Liabilities	6.7	-9.8	7.0	-1.8	6.4	0.5	1.6	-1.5
Net Errors & Omissions	-3.3	0.6	3.1	2.1	-0.5	2.0	-1.1	2.0
Overall Balance	0.9	9.7	-2.1	-1.4	-0.2	-1.6	-0.5	0.3
Change in CBE Reserve Assets (Increase -)	-0.9	-9.7	2.1	1.4	0.2	1.6	0.5	-0.3

*/Provisional.

**/Including exports and imports of free zones.

***/All tabulated figures are rounded to the nearest 1 decimal place. Therefore, the sum of the contributions may not add up to the aggregated totals.

Table A4: Monetary Survey and Central Bank Balance sheet (eop, in EGP bn)

	Jun-22	Jun-23	Jun-24	Jun-25	Sep-25	Dec-25	Mar-26	May-26
Monetary Survey								
Net Foreign Assets	-372.0	-834.6	626.6	741.8	996.1	1,216.2	1,166.3	1,198.8
Central Bank	-152.8	-304.9	494.5	499.6	529.6	634.9	847.1	796.3
Commercial Banks	-219.2	-529.7	132.1	242.2	466.6	581.4	319.2	402.4
Net Domestic Assets	6,986.5	9,082.8	9,991.9	12,331.1	12,626.7	12,811.5	13,908.3	14,132.0
Net Claims on the Government	3,971.8	5,076.3	5,918.2	8,415.4	9,059.4	8,736.7	9,454.3	9,261.7
Net Claims on Public Economic Authorities	453.2	766.3	1,205.8	1,707.2	1,786.4	2,558.4	3,067.6	3,011.2
Claims on Public Sector Companies	154.5	164.8	370.2	447.1	504.8	510.8	529.4	546.2
Claims on Private Sector	2,178.2	2,732.2	3,492.7	4,301.2	4,498.4	4,712.5	4,994.7	5,203.9
Other Items, net	228.9	343.1	-995.0	-2,539.8	-3,222.4	-3,706.9	-4,137.7	-3,891.0
Broad Money (M2)	6,614.5	8,248.2	10,618.6	13,072.9	13,622.8	14,027.8	15,074.6	15,330.7
Domestic Currency Component (M2D)	5,768.4	6,732.0	8,090.9	9,981.0	10,575.8	11,024.3	11,519.7	11,905.6
Currency Outside Banks	778.6	1,009.2	1,227.0	1,381.0	1,418.1	1,443.6	1,576.6	1,737.6
Domestic Currency Deposits	4,989.8	5,722.9	6,863.9	8,600.0	9,157.7	9,580.8	9,943.0	10,168.1
Foreign Currency Deposits	846.1	1,516.2	2,527.7	3,091.9	3,047.0	3,003.4	3,555.0	3,425.1
Central Bank Survey								
Net Foreign Assets	-152.8	-304.9	494.5	499.6	529.6	634.9	847.1	796.3
Foreign Assets	611.5	1,045.8	2,161.9	2,351.6	2,324.6	2,407.4	2,768.1	2,711.1
Foreign Liabilities	-764.3	-1,350.6	-1,667.3	-1,851.9	-1,795.0	-1,772.5	-1,920.9	-1,914.7
Net Domestic Assets	1,345.7	1,833.6	1,470.6	1,821.3	1,739.0	1,791.0	1,616.1	1,772.6
Net Claims on the Government	1,058.9	1,413.0	1,984.6	2,257.7	2,370.1	1,980.9	1,966.6	1,977.9
Net Claims on Public Economic Authorities	-57.6	-72.8	-634.1	-606.4	-606.4	-214.7	-247.2	-277.3
Claims on Banks	400.0	530.4	875.1	938.6	851.5	941.4	1,031.7	1,136.6
Banks' Deposits in Foreign Currency	-216.5	-508.5	-601.5	-682.4	-640.5	-581.4	-660.4	-636.6
Open Market Operations	-735.8	-942.0	-1,117.0	-399.0	-268.6	-120.3	-123.3	-118.2
Other Items, net	896.6	1,413.6	963.6	312.9	32.9	-214.9	-351.2	-309.8
Reserve Money	1,192.9	1,528.8	1,965.1	2,321.0	2,268.5	2,425.9	2,463.3	2,568.9
Currency Outside Banks	778.6	1,009.2	1,227.0	1,381.0	1,418.1	1,443.6	1,576.6	1,737.6
Reserves of Banks	414.3	519.6	738.2	939.9	850.4	982.3	886.6	831.4
Deposits in Domestic Currency	354.8	445.5	636.2	813.8	739.2	875.9	768.9	762.4
Cash in Vaults	59.5	74.1	102.0	126.1	111.3	106.4	117.7	69.0

Source: Central Bank of Egypt

Table A5. Market Developments (in percent, aop, unless stated otherwise)

	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Policy Rates (%) ⁽¹⁾								
Mid-Corridor Rate (A)	27.75	27.75	27.75	25.51	23.77	21.44	19.98	19.50
Interbank Rates (%) ⁽¹⁾								
Interbank Weighted Average Rate (WAR)	27.4	27.5	27.5	25.4	23.6	21.4	20.0	19.7
Interbank O/N rate (B)	27.3	27.4	27.5	25.4	23.6	21.4	20.0	19.7
Interbank O/N average volume, EGP billion	20.5	22.5	28.8	30.0	30.4	33.8	31.8	40.9
Interbank O/N share of total interbank volume	47.1	54.9	58.7	51.7	51.3	53.4	48.3	41.7
Banking Sector ⁽²⁾								
Deposit Rates (C)	20.8	20.5	21.0	18.6	17.0	15.3	14.6	14.6
Time Deposits	21.4	21.3	20.7	19.2	18.2	16.8	15.9	15.6
Short term Deposits (<1Y)	21.4	21.4	21.0	19.2	18.4	16.9	15.9	15.6
Other Deposits	16.1	15.8	15.1	19.2	13.2	13.2	17.5	15.0
Saving Certificates	23.2	23.5	24.4	22.7	19.6	17.5	16.8	17.2
< 3 years	24.7	24.6	25.1	25.0	-	-	-	-
≥ 3 years	22.3	22.7	23.6	21.8	19.6	17.5	16.8	17.2
Saving Accounts	13.1	13.4	10.9	9.5	9.0	7.4	6.4	7.7
Lending Rates (D)	27.4	27.9	26.6	25.6	24.7	23.0	21.8	22.0
W.A. Business Lending Rates	27.0	27.6	26.2	24.7	23.9	22.2	20.3	20.5
Short term business	27.2	28.2	28.3	25.3	23.6	22.2	20.8	20.9
Long term business	26.7	26.3	23.0	23.2	24.4	22.2	19.2	19.4
Retail	29.1	29.1	28.4	28.2	27.7	27.6	26.0	26.3
Local Debt Market ⁽³⁾								
T-Bill yield 1Y	26.2	26.2	25.4	24.9	25.7	25.4	23.6	24.1
T-bill weighted average yield	28.2	29.8	26.9	26.7	27.0	26.0	24.3	24.6
T-bond weighted average yield	26.3	26.3	26.8	23.6	24.2	22.8	21.3	23.6
Overall weighted average yield	27.9	29.3	26.9	26.3	26.5	25.7	23.8	24.5
Spreads								
O/N interbank - Mid Corridor rate % (B-A)	-0.45%	-0.32%	-0.26%	-0.09%	-0.15%	-0.04%	-0.03%	0.17%
W.A. Lending rate -O/N Interbank rate % (D-B)	0.12%	0.46%	-0.90%	0.14%	1.08%	1.59%	1.77%	2.31%
O/N Interbank rate - W. A Deposit Rate % (B-C)	6.56%	6.90%	6.52%	6.80%	6.59%	6.09%	5.40%	5.10%

Source: Central Bank of Egypt

1/ Policy rates and Interbank rates are quarterly average of Interbank Working days rate

2/ Banking Sector rates are quarterly averages of monthly rate

3/ Local Debt Market yields are quarterly averages of auction yields and are gross of tax.

4. Abbreviations

bps	Basis points
bn	Billion
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CDS	Credit default swaps
CPI	Consumer Price Index
CY	Calendar year
DXY	US Dollar Index
EGP	Egyptian pound
F/C	Foreign currency
FDI	Foreign direct investment
FX	Foreign exchange
FY	Fiscal year
GDP	Gross domestic product
L/C	Local currency
m/m	Month on month
M2	Broad money
MPC	Monetary Policy Committee
MPR	Monetary Policy Report
MPEDIC	Ministry of Planning, Economic Development, and International Cooperation
NFA	Net foreign assets
NIR	Net international reserves
O/N	Overnight
p.p.	Percentage points
QPM	Quarterly Projection Model
USD	United States dollars
W.A.	Weighted average
WAY	Weighted average yield
y/y	Year on year



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CENTRAL BANK OF EGYPT

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