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Egypt Macro Strategy and Economics | Europe

Resilience Narrows the Gap

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We assess how continued regional tensions could affect Egypt's external financing needs in FY27. Record remittances and lower oil-price assumptions have narrowed external financing risks. We also update our inflation and monetary policy outlook and discuss the FX implications across scenarios.

Key Takeaways

- We expect stable FX inflows to provide meaningful shock absorbers in FY27.
- A sustained oil-price premium and a risk-off episode triggering portfolio outflows remain the main risks to our outlook.
- Inflation has surprised to the downside, leading us to lower our year-end 2026 forecast to 12%.
- We continue to expect the CBE to remain on hold to year-end, with a higher chance of a 4Q26 cut if geopolitical risks subside, given downside inflation surprises.
- We remain long 6M Egypt T-Bills (FX-unhedged), supported by ~22% post-tax carry and resilient external inflows.

Exhibit 1: Scenarios Summary

End of FY27 Summary	Scenario 1	Scenario 2	Scenario 3
Oil Prices (Year Average)	US$ 65/bbl	US$ 75/bbl	US$ 88/bbl
Current Account Deficit (USD, Bn)	13	14	17
Estimated Level of Gross International Reserves (USD Bn)*	56	55	52

Source: Haver Analytics, Morgan Stanley Research estimates. Note: Scenario 1 is based on MS bear case Brent forecast, implying a price decreasing to $65/bbl by enðd-2026 and $60/bbl in 1H27. Scenario 2 is based on MS base case of Brent decreasing to US$75/bbl by end-2026 and $70/bbl in 1H27. Scenario 3 reflects oil prices in the event of prolonged disruption in a range of $100/bbl to $80ð/bbl in 2H26 to 1H27. * Portfolio investment flows are excluded from Gross International Reserves estimations.

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Economic & Macro Implications

Yomna Moheieldin, Arnav Gupta

On March 24, we published our second update on the implications of the US-Iran conflict for Egypt's economy, covering both FY26 and CY26. We considered three scenarios, based on CY26 average oil prices of $78/bbl in Scenario 1 and $126/bbl in Scenarios 2 and 3. Nearly five months on, the conflict is still ongoing and uncertainty around the oil-price outlook remains elevated. Economic and market outcomes have so far been within the range bounded by Scenario 1 of de-escalation and Scenario 2 of contained prolonged conflict. The broader shock to tourism and remittances envisaged under Scenario 3 has not materialized as the conflict has remained largely contained.

Egypt's External Position Has Proven More Resilient Than Expected: The key lesson from the past five months is that Egypt's external vulnerability to higher oil prices appears materially lower than we had previously assumed. While the energy deficit remains sensitive to oil prices, stronger remittance inflows and continued exchange-rate flexibility have significantly improved the economy's capacity to absorb external shocks. In light of this resilience, we take a more constructive view of Egypt's external position in FY27 across scenarios. Lower oil-price assumptions in our base case compared to the Mid-Year Outlook, strong remittances inflows, and improved FDI prospects result in manageable external financing gap across our three scenarios, although vulnerability to a portfolio-flow reversal remains the principal risk to our outlook.

Oil-Market Adjustments Have Contained the Price Shock: The past five months have also demonstrated new factors of adaptability in the oil market. Despite the sharp reduction in flows through the Strait of Hormuz, Brent only briefly traded above $120/bbl despite continued quantity disruptions, while positive news around reopening of the Strait led to a rapid decline in prices. This partly reflects two adjustments that were not present before the conflict: US seaborne net exports increased by around 3 mb/d relative to last year and China's seaborne net imports declined by around 7 mb/d. Together, these "twin-solvers" shielded the market from almost 10 mb/d quantity reduction and absorbed an estimated 50% of the decline in Middle Eastern seaborne exports. The twin-solvers, in addition to the alternative east-west Yanbu pipeline for Saudi crude exports providing ~4.2mb/d and Sharjah pipeline for UAE crude exports providing ~1.5mb/d, have helped shield the market from the quantity reduction from closure of the Strait.

The Oil-Market Offsets Are Likely to Fade, the Longer the Conflict Persists: The twin-solver adjustments cannot persist indefinitely and their support should decrease, the longer the conflict persist, albeit the threshold at which they can no longer be sustained is hard to mark. Strong US exports have been accompanied by rapid domestic inventory draws and a narrowing of the WTI-Brent spread, which should gradually weaken the economic incentive to sustain this trend if the conflict is prolonged. Similarly, the reduction in Chinese net imports would eventually reverse. If disruptions in oil exports from the Middle East were to continue beyond the ability of the twin-solvers to support the market, we should see oil prices persistently above $100/bbl.

Rapid Hormuz Normalization Could Push Oil Markets into a Supply Glut: Going forward, given that these twin-solvers have eased the effect of the conflict on oil prices, if flows through Hormuz continue to normalize before these two offsets fully reverse, returning Middle Eastern supply should meet a market still characterized by elevated US exports and subdued Chinese imports, creating a physical surplus. Our commodities strategists estimate that Hormuz flows need to recover to only 11-12 mb/d, or around 65% of their pre-conflict level, for the oil market to balance. A faster or stronger recovery in flow through the Strait of Hormuz would create a sustained downward pressure on prices, creating a bear supply glut scenario in which prices can reach $60/bbl.

We Assess Egypt's External Position Across Three Oil Scenarios: To capture these new learnings about the energy market and Egypt's resilience, we re-run our scenarios and estimate Egypt's external financing gap for FY27. The first scenario assumes a fast de-escalation met with existing high US oil exports and muted Chinese imports, leading to a supply glut oil market in which oil prices decrease to $60/bbl in 2027. The second scenario assumes de-escalation with partial recovery in flow through the Strait leading to a moderate and gradual oil supply surplus, with oil prices averaging $75/bbl for the rest of 2H26 and further declining to $70/bbl in 1H27. The third one is a permanent oil premium scenario in which the underlying geopolitical risks are not fully resolved and oil flows remain partially constrained, leading to oil prices re-escalating to $100/bbl in 3Q26 and end the year at $90/bbl. This scenario is the closest to oil prices implied by Brent forwards, in which the average price for 4Q26 is $84/bbl.

Stronger Remittances Provide a Meaningful External Shock Absorber: In this note, we are more constructive on the ability of Egypt's FX inflows to partially absorb the impact of a wider energy deficit on the current-account balance compared to our March note. Remittances remained historically high throughout FY26, leading us to assess to what extent this increase is here to stay and raise our FY27 forecast.

A Firmer Energy-Investment Pipeline Supports the FDI Outlook: We also take a more constructive view on Egypt's FY27 FDI outlook. In our March note, we highlighted the risk that FDI could moderate toward its historical range of $10bn, or around 2.5% of GDP, as geopolitical risks increase. Our updated assessment incorporates two additional sources of support: first, stronger investment in oil and gas exploration and field development; and second, renewed momentum behind the government's asset-sale programme. International petroleum companies have announced investment programmes around $19bn. These commitments span different multi-year execution periods and therefore should not be interpreted as a one-off or an evenly spread out addition to FY27. We expect asset sales to generate $0.5-1.5bn in FY27, excluding any potential land sales. The $19bn announced energy investment pipeline should support a baseline level of FDI, even if privatization proceeds are lower than expected. Asset sales therefore represent upside to, rather than the foundation of, our FY27 FDI forecast.

Downside Inflation Surprises Reduce Our Expected 3Q26 Peak and Year-End Inflation: In light of the downside inflation surprises in 2Q26, we lower our forecast for peak inflation in 3Q26 to 15.2% from 17.1%, and our December 2026 forecast to 11.8% from 13.5% in our Mid-Year Outlook. We maintain our base case for the CBE to remain on hold through year-end.

Egypt's vulnerability to portfolio-flow reversals remains the principal risk to our constructive view: Since the onset of the conflict, net portfolio inflows have increased YTD despite geopolitical risks, bringing our estimates of the stock of foreign holdings of Egyptian treasuries to $34bn. These holdings represent investors' confidence in the Egyptian reform story, but also increase the sensitivity of Egypt's external buffers to a sharp global risk-off episode. We view the near-term risk of such disorderly unwinding of positions as contained, given the observed stickiness of EM flows and Egypt's enhanced macroeconomic backdrop outlined in this note.

Scenario 1: Rapid De-escalation Narrows the Current-Account Deficit

Lower oil prices and stronger FDI narrow the current account deficit and the FY27 external financing gap to only $1bn.

Assumption: In Scenario 1, we adopt our commodity strategists' bear case for oil prices. We assume that the Strait of Hormuz reopens and regional production normalizes. At the same time, elevated US exports and subdued Chinese imports remain in place, creating a supply glut in the oil market, with Brent prices averaging $65/bbl for the remainder of 2H26 and $60/bbl in 2027.

Current Account: For Egypt, this is the most favorable external-balance scenario. Lower oil and petroleum-product prices reduce the energy-import bill. The current-account deficit narrows to $13bn supported by stable remittances.

Financial Account: Rapid de-escalation and reduced regional uncertainty would provide the most supportive backdrop for capital inflows. In this scenario, we assume net FDI of $15bn in FY27, supported by disbursements under previously announced oil and gas investment agreements and continued progress on the government's asset-sale programme. The more benign external environment should also support the execution of transactions that could otherwise be delayed by elevated geopolitical uncertainty. Our assumption nevertheless remains below the government's asset-sale target and does not incorporate any unconfirmed GCC investment in new energy or logistics infrastructure.

External Balance: In FY27, we estimate external financing needs at around $25bn, while financing sources excluding portfolio inflows amount to approximately $24bn, resulting in an initial financing gap of around $1.4bn. Scheduled multilateral financing of approximately $4bn would more than cover this requirement, leaving a residual external financing surplus of around $3bn.

FX & Rates Strategy: With oil prices remaining more benign in this scenario, we think there is scope for renewed portfolio inflows into Egypt, as investors look to re-engage with carry trades. The current NDF carry of close to 20%, combined with improving real rates, should support demand for both NDFs and local bills, with the latter offering a modest yield pickup. While remittance inflows may moderate from recent elevated levels as Middle East tensions ease, we think portfolio inflows can more than offset this effect. In addition, Egypt's floating exchange-rate regime means investors have the potential to benefit not only from carry, but also from currency appreciation. In a benign oil and geopolitical environment, we see USD/EGP moving back toward pre-conflict levels of 46-48, providing an additional source of return on top of already attractive yields.

Scenario 2: Strong Remittances Still Offset Moderately Higher Oil Prices

Despite a still-elevated energy deficit, strong remittances keep the current-account deficit moderate, while scheduled multilateral financing broadly closes the remaining external financing gap.

Assumption: Scenario 2 is based on our commodity strategists' base case for oil prices, in which the Strait of Hormuz reopens in 2H26, and the recovery in regional supply is sufficient to return the global oil market to surplus in 2027. They believe that oil flows through the Strait of Hormuz only need to recover to around 65% of their pre-conflict level for the market to balance, leaving oil prices averaging $75/bbl for the rest of 2H26 and 1Q27, before declining towards $70/bbl in 2H27 as inventories rebuild and the surplus becomes more visible.

Current Account: In this scenario, the current account increases to $14bn – still a more constructive view than in our March note, given both a lower oil premium than initially expected and stronger remittances inflow. We model the energy deficit at $19bn in FY27, higher than the deficit in FY25 of $14bn and estimated FY26 energy deficit of ~$19bn; however, maintained strong remittance inflows absorb some of the increase, leading to a moderate current account deficit. In FY27, we expect remittances to reach $43bn compared to $36bn in FY25 and ~$46bn in FY26.

Financial Account: We maintain a constructive view on FDI under our base case, forecasting net inflows of $14bn in FY27. The forecast incorporates expected disbursements from the announced $19bn pipeline of energy investments over three years, together with approximately $1bn of asset-sale proceeds. Compared with Scenario 1, the slower resolution of regional tensions results in a somewhat more gradual realization of investment commitments, but does not materially disrupt the underlying FDI pipeline.

External Balance: Despite not assuming a complete or rapid normalization of flows through the Strait of Hormuz, we still view the external financing outlook as more constructive than earlier in the conflict. This reflects (a) lower expected oil prices, even if trade disruptions persist for a few more months, (b) our increase in the FY27 remittances forecast to $43bn from $38bn previously, and (c) marginally higher expected FDI inflows. External financing needs amount to around $27bn, compared with approximately $23bn of financing sources excluding portfolio inflows, resulting in an initial financing gap of around $4bn. Scheduled multilateral financing of approximately $4bn would broadly close this requirement, leaving the residual external financing position balanced.

FX & Rates Strategy: Even under a scenario of higher oil prices, we think Egypt's macro backdrop would prove relatively resilient, given that the financing gap is small relative to the country's NFA position and gross reserve buffers. Strong remittance inflows should continue to offset part of the higher energy import bill, limiting the impact on reserves and the external position. In this environment, we would remain constructive on carry trades, expecting USD/EGP to be broadly range-bound around 48-50. A more flexible exchange-rate regime should help absorb external shocks while preserving incentives for remittance inflows. As a result, we would expect investors to maintain exposure to local bills, with hedging activity likely increasing only if there is a material risk of a further spike in oil prices. Overall, strong fundamentals and attractive yields should continue to support demand for Egyptian carry.

Scenario 3: A Persistent Oil Premium Widens the Financing Gap

Higher oil prices for longer and weaker FDI inflows widen the FY27 current account deficit to $17bn and the external financing gap to ~$4bn.

Assumption: This scenario captures an energy market in which the Strait of Hormuz is partially operational, but the underlying geopolitical risks are not fully resolved and oil flows remain constrained to some degree. In this scenario, we assume oil prices hover around $100/bbl for the rest of 3Q26, average $95/bbl in 2H26 and $80/bbl in 1H27.

Current Account: For Egypt, the sustained oil premium further increases, creating a current account deficit of $17bn. We continue to assume strong remittances in this scenario and stable tourism inflows.

Financial Account: The persistence of geopolitical uncertainty weighs on the timing and execution of new investment commitments, although we would expect the existing energy-investment pipeline to continue. We therefore model net FDI inflows of $13bn in FY27. This represents a moderation from the estimated $16bn in FY26, which included $3.5bn from the Alam El-Roum land-rights transaction with Qatar.

External Balance: The wider current-account deficit raises external financing needs to around $29bn, while lower FDI inflows reduce financing sources, excluding portfolio inflows, to approximately $22bn, resulting in an initial financing gap of around $7bn. Scheduled multilateral financing would partially offset this gap, but we estimate that a residual external financing gap of around $3bn would remain.

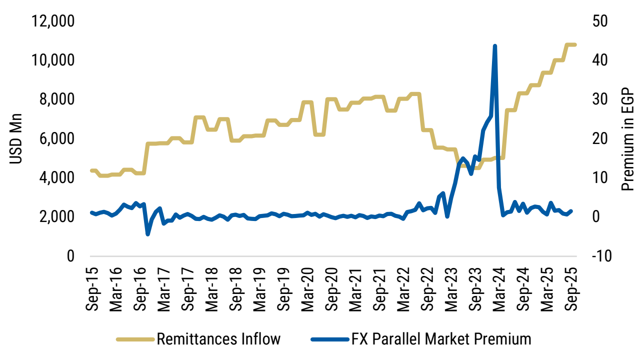
FX & Rates Strategy: In this scenario, we would expect USD/EGP to trade broadly in the 50-52 range. Even so, we think the carry trade would remain attractive, provided oil prices do not move materially higher and trigger a more significant reversal of portfolio flows. At current levels, investors can still earn close to 20% carry through NDFs, while FX volatility remains within a range that is manageable relative to the carry on offer. In addition, Egypt's strong NFA position and reserve buffers should help absorb any temporary deterioration in the external balance. We would also expect inflation to remain higher for longer in this scenario, resulting in higher policy rates for longer, which should help preserve the attractiveness of local bills. As a result, we think investors would remain engaged in Egyptian carry trades, with the combination of resilient fundamentals, attractive yields and manageable FX volatility continuing to support demand for local assets.

Exhibit 2: Fiscal Year 2027 External Financing Needs and Sources Across Scenarios

As of end of FY27	Scenario 1	Scenario 2	Scenario 3
External Financing Needs	25	27	29
Current Account Deficit	13	14	17
Energy Deficit	18	20	23
Medium/long-term loan & supplier credit amortization	8	8	8
External bond amortization	2	2	2
Other sectors' investments	0	0	0
IMF repayments*	2	2	2
External Financing Sources	27	27	27
FDI, net	15	14	13
Portfolio investment*	0	0	0
Medium/long-term disbursements*	8	8	8
Net short-term supplier credit	1	1	1
External Financing Gap	-1	-4	-7
Scheduled Multilateral Financing**	4	4	4
Residual External Financing Balance (+Surplus/-Gap)	*2*	*0*	*-3*

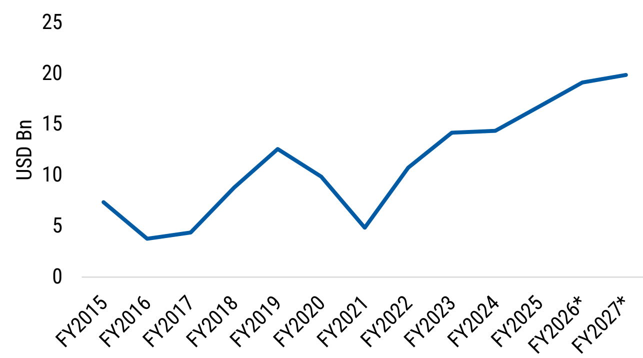
Source: Haver Analytics, IMF, and Morgan Stanley Research Forecast. For amortization, loan disbursement, other sector investments, and multilateral financing, we use IMF estimates and projections from Table 11 of IMF Country Report No. 26/69. *Portfolio investments flows are excluded to base the analysis on fundamentals.**Scheduled Multilateral Financing in FY27 include US$1.5Bn IMF Extended Facility, US$0.7Bn World Bank, US$1.7Bn from EU Commission, and US$0.2Bn from Arab Monetary Fund and Others

Exhibit 3: Egypt's remittances are sensitive to local macroeconomic conditions



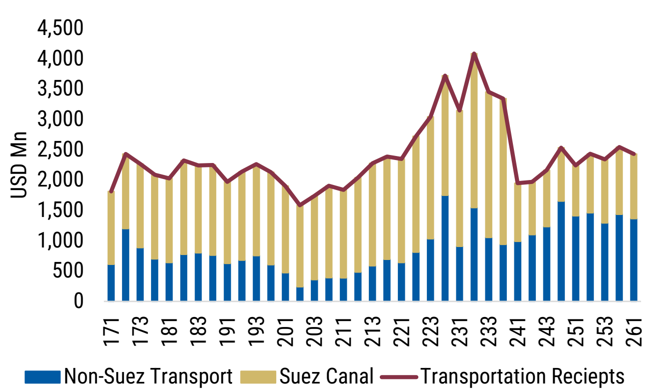
Source: Haver Analytics, Morgan Stanley Research

Exhibit 4: Tourism receipts have proven resilient in FY26, despite geopolitical risks



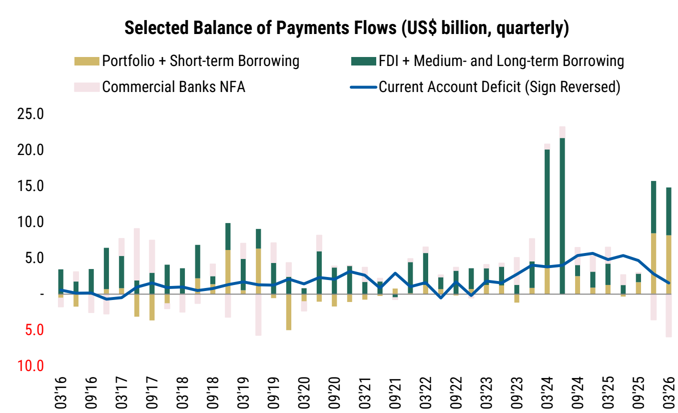
Source: Haver Analytics, Morgan Stanley Research

Exhibit 5: Non-Suez Canal transport receipts have increase since 2Q24 despite drop in Suez Canal revenue



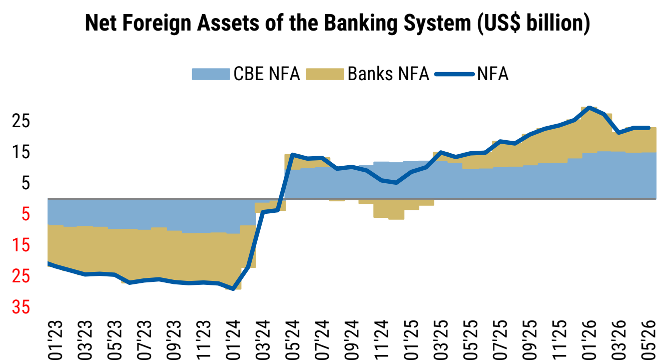
Source: Haver Analytics, Morgan Stanley Research

Exhibit 6: Current account deficit has decreased since FY24 while FDI and portfolio inflows have increased



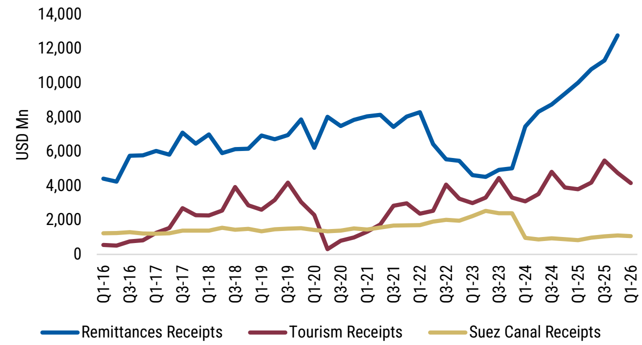
Source: Haver Analytics, Morgan Stanley Research

Exhibit 7: CBE and banks' NFAs have recovered after March dip



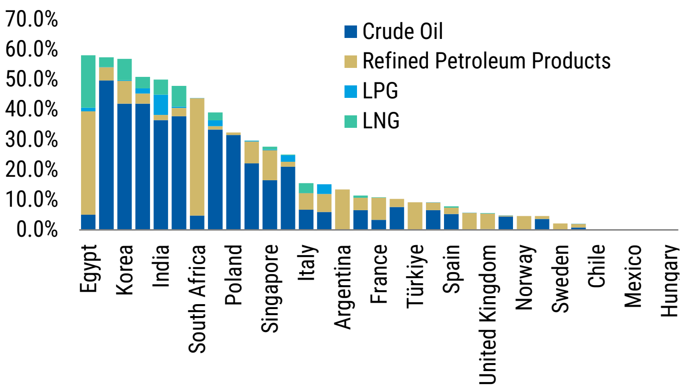
Source: Haver Analytics, Morgan Stanley Research

Exhibit 8: Remittances receipts remain key to Egypt's FX liquidity



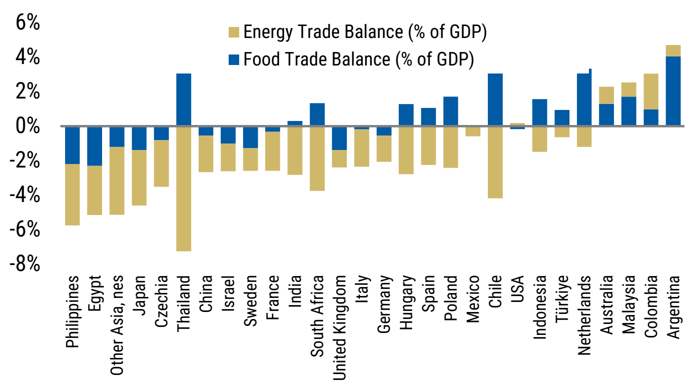
Source: CBE Data, Morgan Stanley Research

Exhibit 9: Energy imports from Middle East as % of all energy imports



Source: UN Comtrade, Morgan Stanley Research

Exhibit 10: Inflationary risks to headline inflation are linked to food and energy balances



Source: UN Comtrade, Morgan Stanley Research

Remittances: How Much Is Here to Stay?

Yomna Moheieldin

Remittance inflows increased sharply in FY26, with actual data through May indicating $43bn and full-year inflows expected to reach around $46bn, up from $36bn in FY25. We receive frequent client questions on how much of this increase is a one-off versus how much is likely to persist. We test four hypotheses: (a) a cyclical boost linked to the Middle East conflict and Egyptians temporarily returning home from the GCC; (b) a cyclical reversal of remittances from unofficial channels or pent-up inflows following the March 2024 FX liberalization; (c) a structural increase from more Egyptians working abroad; and (d) a structural increase from higher migrant family expenses in Egypt in dollar terms.

1) Cyclical Factor: The Regional Conflict Provided a Temporary ~$1.6bn Boost to FY26 Remittances

The escalation of the Middle East conflict likely provided a temporary boost to remittances, as some Egyptians working in GCC countries returned to Egypt for extended stays or shifted temporarily to working remotely. The Egyptian Foreign Ministry stated that, in March 2026, it facilitated the return to Egypt of thousands of Egyptian visitors and residents from Qatar, Bahrain, Kuwait, Iraq and the UAE amid the regional escalation and disrupted air travel. The sharp increase in remittances around March and April is consistent with a temporary impact from this disruption. However, the $3.8bn March-May YoY increase is not fully cyclical, since remittances were already growing 20-25% YoY in Jan-Feb before the conflict began. Applying Jan-Feb's underlying YoY growth of 23% to March-May 2026 implies inflows of $12.0bn, versus actual inflows of $13.6bn, indicating a conflict-related cyclical component of approximately $1.6bn.

2) Cyclical Factor: Post March 2024 Liberalization, Normalization Explains Much of the Initial Rebound in FY25 Remittances

We test the normalization hypothesis using FY19 remittances inflow as a percentage of GDP. We choose FY19 as a relatively normal pre-crisis year unaffected by the 2016 FX liberalization's aftermath, the 2020 pandemic, and the 2022-24 FX pressures. Remittances were equivalent to approximately 8.4% of GDP in FY19. Holding this ratio constant implies remittances of around $31.2bn in FY23 and $30.3bn in FY24, versus actual inflows of $22.1bn and $21.9bn, a cumulative $17.5bn shortfall over FY23-24, as the widening parallel-market premium reduced incentives to remit through official channels.

Following the March 2024 FX liberalization, this relationship reversed. The same 7.9%-of-GDP benchmark implies remittances of around $28.8bn in FY25 and $34.0bn in FY26, versus actual inflows of $36.5bn in FY25 and estimated $46bn. This represents a cumulative FY25-26 excess of approximately $19.6bn. Notably, the prior FY23-24 shortfall ($17.5bn) accounts for almost 90% of this FY25-26 increase. This does not mean 90% of the increase was literally delayed and subsequently transferred; rather, it shows the scale of the prior diversion from official channels was large enough to explain most of the rebound.

The scale of pent-up release appears to be diminishing over time. The deviation above trend was higher in FY25 than in FY26, consistent with the catch-up dynamic fading. The monthly data for FY26 suggest that the story has evolved beyond a one-off release of pent-up transfers. Between July 2025 and February 2026, remittances averaged approximately $3.7bn per month, an annualized run-rate of roughly $44bn. This persistence, nearly 18 months after the March 2024 liberalization, suggests part of the increase reflects a structural shift rather than merely a temporary catch-up.

3) Structural Factor: A Larger Overseas Workforce Supports a Structurally Higher Remittance Base

We lack a clean time series on the number of Egyptians working abroad, so we test this hypothesis against available indicators. CAPMAS data on work permits issued to Egyptians working abroad show approximately 1.02 million permits in 2022, 0.92 million in 2023, 1.08 million in 2024 and 1.18 million in 2025. The 2025 level is therefore around 16% above 2022 and 29% above 2023. CAPMAS identifies these permits as its main administrative measure of Egyptians working abroad. However, we do not interpret this as direct proof of a proportional increase in the number of Egyptians abroad, since permits are a flow measure that includes renewals, and estimates of the total expatriate population are not sufficiently consistent over time to calculate this reliably. Separately, other estimates put the number of Egyptians abroad at around 10 million in 2017 versus more than 14 million in 2024. Thus, while we cannot gauge the exact increase in Egyptians working abroad in recent years, the data points indicate some increase. It is also rational to expect that more Egyptians to be incentivized to work abroad given the decrease in domestic wages in dollar terms following the 2022-24 depreciation episode.

At the FY19 remittances/GDP ratio of 7.9%, FY27 remittances would be approximately $36.2bn; our $43bn forecast assumes a remittances share of GDP of ~10%. If remittances per worker were unchanged, explaining this entire gap through migration alone would require roughly an 18% increase in the effective remitting population compared to FY19.

4) Structural Factor: Higher Dollar Living Costs Only Provided a Modest Boost to FY26 Remittances

We test whether the increase in remittances in FY25 and FY26 can be explained by migrants needing to send more dollars home simply because supporting their families in Egypt became more expensive in dollar terms, using Egypt's broad, trade-weighted real effective exchange rate (REER) as a proxy for dollar living costs. This cannot explain any of the FY25 increase: Egypt's REER averaged approximately 29% below its FY19 level in FY25, as the March 2024 FX liberalization left the currency substantially undervalued in real terms, even after accounting for the inflation differential. In other words, living in Egypt remained considerably cheaper in dollar terms in 2025 compared to 2019.

The picture changes somewhat in FY26. With the exchange rate more stable while domestic inflation has continued to increase, the REER has appreciated by approximately 8% on an average this year compared to FY25. This supports a modest, FY26-specific contribution from rising dollar living costs. However, Egypt's

REER remains well below its FY19 level even after this recovery, so we would frame this factor as a potential secondary contributor that can only apply to FY26.

Part of the Remittance Surge Is Here to Stay: We raise our FY27 remittances forecast to $43bn from $38bn, as the evidence suggests that part of the FY26 increase reflects a durable structural shift.

We view the FY26 surge in remittances as a combination of (i) a fading, cyclical normalization of previously diverted flows, (ii) a structural increase from more Egyptians working abroad, (iii) a small boost from higher dollar living costs, and (iv) an approximately $1.6bn regional conflict-related increase.

The persistence of a roughly $44bn annualized run-rate during July 2025-February 2026, together with evidence of a rising number of Egyptians employed abroad and, more recently, marginally higher dollar-denominated household expenditures, suggests that the underlying level of remittances has shifted higher on a durable basis and that some of the increase in remittances observed in FY26 is here to stay. We therefore raise our FY27 remittances forecast to $43bn from $38bn previously. Our forecast strips out the exceptional regional conflict-related uplift and assumes that the residual effects of the post-March 2024 normalization continue to fade, while incorporating a lasting structural increase in remittance inflows. At $43bn, remittances would remain elevated at around 10% of GDP in FY27, we estimate.

Inflation and Monetary Policy Outlook

Yomna Moheieldin

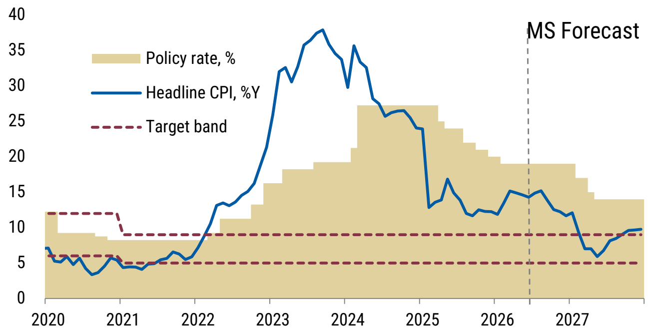
Downside Surprises Lower Our December 2026 Inflation Forecast to Below 12%: We update our inflation forecast and continue to expect inflation to accelerate temporarily on unfavorable base effects in 3Q26 and to decelerate to 11.8% by December 2026. We now expect inflation to continue accelerating in August and peak at 15.2%, down from our previous forecast of 17.1% in our Mid-Year Outlook. We now expect inflation to end the year below 12% in December 2026. While this remains above our pre-conflict forecast of 10.2% in December 2026, it is substantially lower than our Mid-year outlook given the persistent downside surprises and the lower oil prices forecast. The main source of uncertainty remains food inflation, with its monthly standard deviation increased to around 2.9pp in 1H26, from 1.9pp in 1H25, reflecting particularly the large movement upward in March and downward in June.

Energy-Price Pass-Through Has Faded Faster Than Expected: Inflation surprised to the downside throughout 2Q26 and July, with headline inflation declining to 14.3%Y in June, from 14.6%Y in May and 14.9%Y in April. While inflation reaccelerated in July to 14.9%, it was still well below market consensus of 15.6%. The direct impact of the March energy-price increase dissipated faster than expected: monthly transport inflation moderated from 9.76% in March to 1.83% in April and just 0.24% in May, while second-round effects on utilities and the broader non-food basket remained muted as month-on-month housing inflation decreased, albeit remaining stickily positive since the October energy hikes and new rental law.

FX Pass-Through from the March 2026 Shock Has Remained Narrow: FX pass-through was only visible in selected categories in March, particularly Furnishings & Household Equipment, where monthly inflation rose to 2.67% in April, and Restaurants & Hotels, at 2.78%. However, the effects did not broaden materially into food prices or the wider core basket and softened in April and May, with inflation in these two categories slowing on a month-to-month basis.

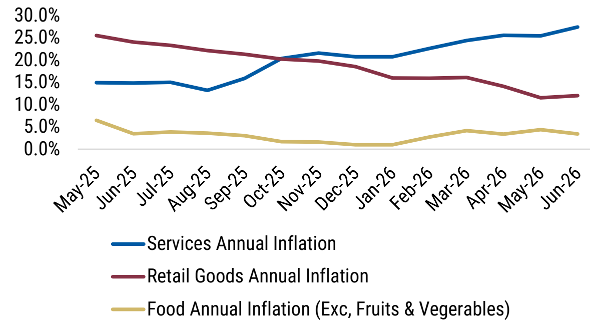
We Maintain Our Hold Call, but the Risk of a 4Q26 Cut Is Rising: We maintain our base case for the CBE to remain on hold through year-end, with risks of a cut in 4Q26 increasing. We expect inflation to decelerate in 4Q26 to less than 13% starting october, which would create room for the CBE to cut rates by 200bp while maintaining a positive real rate of ~4% in 4Q26. However, our base case remains a hold, given the CBE's cautious approach and our expectation that some regional risk premium will persist. A renewed risk-off episode that puts the EGP on a sharper depreciation path remains the primary upside risk to our policy outlook.

Exhibit 11: We expect inflation to decelerate in 4Q26



Source: Haver Analytics, Morgan Stanley Research estimates

Exhibit 12: Services inflation remained sticky while food inflation decreased in 2Q26



Source: Central Bank of Egypt

FX and Rates Strategy: Long Egypt T-Bills 6m Horizon

Arnav Gupta

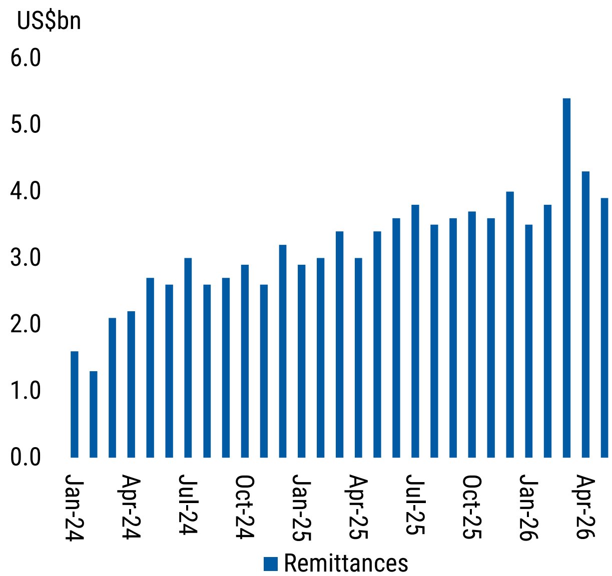
When the Middle East conflict first escalated, we turned more cautious on the Egypt carry trade, as FX weakness was eroding returns and higher energy prices posed a risk to the external balance given Egypt's status as a net energy importer. However, we turned constructive again last month after Egypt demonstrated greater resilience than expected. The economy weathered the shock relatively well, with limited outflows and continued investor confidence in the authorities' more orthodox FX framework. We currently favor 6-month Egyptian T-Bills on an unhedged FX basis, as we believe the attractive carry more than compensates for the expected volatility in the currency.

Egypt Has Proven More Resilient Than Expected: Even though Egypt remains a net importer of energy and food and is therefore vulnerable to inflation shocks from higher commodity prices, the authorities' willingness to allow the currency to adjust freely has helped the economy navigate the recent period of volatility far better than in previous episodes. The more flexible FX framework has supported investor confidence and allowed external inflows to remain resilient despite heightened uncertainty.

- **Remittances Continue to Do the Heavy Lifting:** As highlighted by our economist, the increased flexibility of the exchange-rate regime has strengthened confidence in the official FX market, encouraging a greater share of USD earnings to be repatriated through formal channels and supporting a sustained rise in remittances. In addition, regional tensions appear to have generated incremental inflows from Egyptians working in GCC countries. As a result, remittances are on track to reach $46bn in FY26, up from $36.5bn in FY25. Even if oil prices average $80–85/bbl, implying an additional $4–5bn increase in the energy import bill, the improvement in remittances alone is sufficient to offset most of the deterioration. Looking ahead, we expect remittances to remain elevated at around $43bn, leaving any residual financing requirement manageable relative to Egypt's strong reserve position and improving external buffers. In our view, the combination of resilient remittance flows and ample reserves significantly enhances Egypt's ability to absorb higher energy prices without creating meaningful external stress.
- **Stronger External Anchors Than Before:** Unlike previous episodes, Egypt has allowed the exchange rate to absorb external shocks rather than defending an artificial FX level. This has helped preserve remittance inflows while avoiding a significant drawdown in reserves. In our view, the economy is entering this period of uncertainty from a much stronger position than in past crises.
- **Regional Shifts Create New Opportunities:** The recent conflict may also encourage a reassessment of regional energy infrastructure and transportation routes. Over time, this could create opportunities for additional investment in Egyptian infrastructure, including upgrades to the SUMED pipeline and greater utilisation of the Suez Canal for energy flows. We are already seeing signs of increased activity, with some Saudi oil exports being redirected through Suez toward Asian markets.
- **Carry Positions Look Durable:** We estimate foreign investor positioning in Egyptian carry trades stood at around $37-38bn before the conflict, falling to $22-

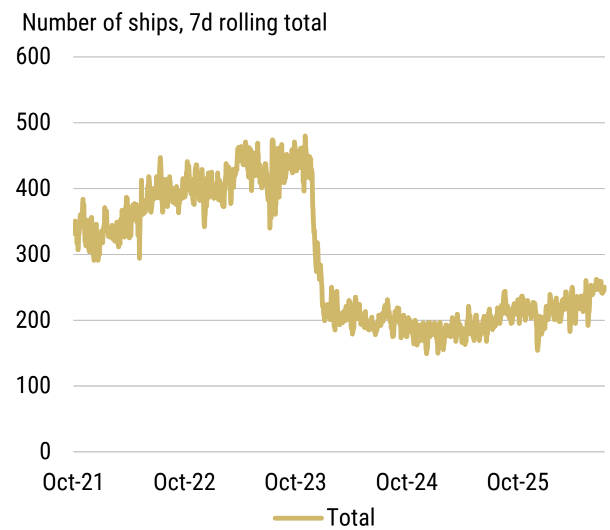
25bn during the peak of the volatility before recovering to roughly $34-35bn. In our view, these positions are likely to remain sticky unless markets experience a significant Value-at-Risk (VaR) shock, most likely caused by oil prices moving above $130-140/bbl or a material deterioration in the global growth outlook. Until then, Egypt's combination of attractive carry, strong remittances and improved policy credibility should continue to support investor interest, we believe.

Exhibit 13: Remittances continue to support the economy



Source: Haver Analytics, Morgan Stanley Research

Exhibit 14: Suez Canal flows have started to move higher due to crude oil related ships being re-routed via the canal



Source: Bloomberg, Morgan Stanley Research

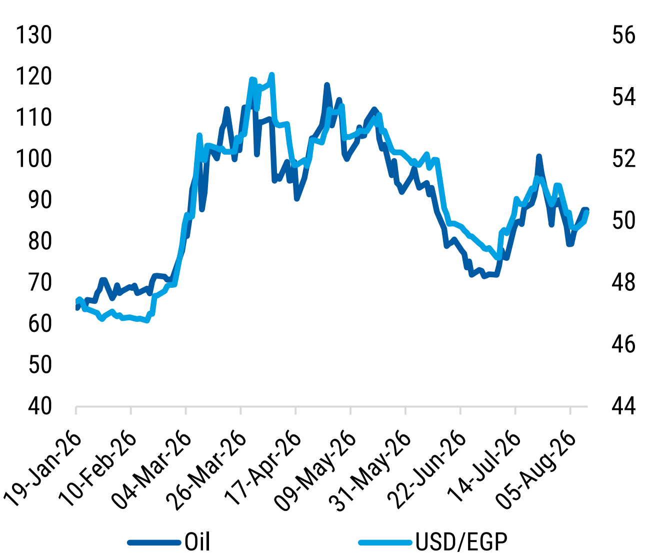
Egypt's more orthodox policy framework, combined with substantially stronger reserve buffers, has allowed the economy to navigate higher energy prices relatively well. Robust remittance inflows and continued FDI have helped offset the impact of a larger energy import bill, while portfolio outflows have remained limited. In addition, tourism revenues have held up well despite the recent conflict, providing a further source of USD inflows and supporting the external position.

Harvesting Yield While Waiting for Stabilization: We remain constructive on 6-month Egyptian T-Bills, which currently offer around 26% nominal carry, translating into roughly 22% after the 15% withholding tax. In our view, these yields remain attractive relative to the underlying macro risks and provide a meaningful cushion against moderate FX volatility. Importantly, the return profile is not solely dependent on carry. In a scenario where Middle East tensions continue to ease, investors could benefit from an additional tailwind through EGP appreciation, further enhancing total returns. Given the recent stability in USD/EGP, we think the break-even level at which FX losses would fully offset carry remains relatively high, making the risk-reward attractive at current levels.

- **USD/EGP – An Oil Proxy With Attractive Carry:** While our analysis suggests that Egypt remains resilient from a macro perspective, USD/EGP continues to exhibit a high sensitivity to oil prices. Historically, a 1% increase in oil prices has translated into roughly a 0.2% rise in USD/EGP. Based on this relationship, it would require an exceptionally large move in oil prices to fully offset the current carry on offer. Even assuming FX sensitivity increases during stress periods, oil would likely need to rise toward $150/bbl before carry returns were completely eroded, which we view as a low-probability outcome. As long as oil remains broadly within the $70–100/bbl range, we would expect investors to continue allocating to Egyptian carry trades. In fact, investors with a constructive medium-term view on Middle East de-escalation may find that being short USD/EGP offers a more attractive expression than being short oil directly, as the latter carries a negative roll profile in today's backwardated oil market.

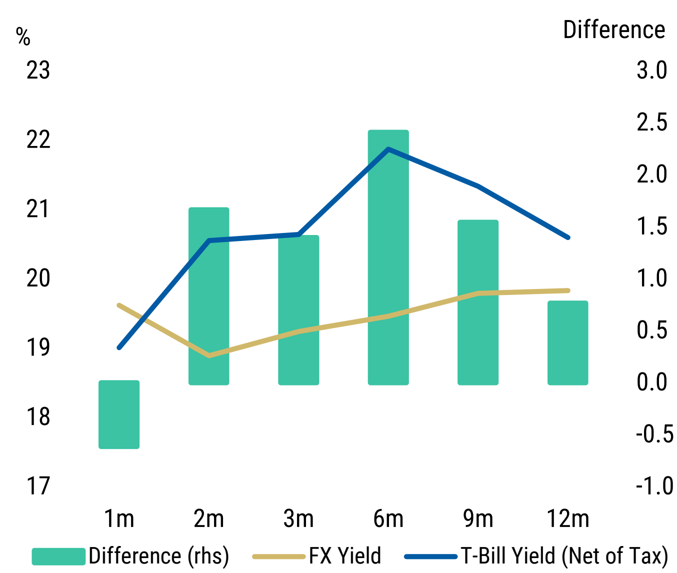
- **Bills Continue to Offer a Pickup Over FX:** As shown in Exhibit 16 below, 6-month T-Bills offer an additional yield pickup of roughly 2.5% relative to a pure FX position, making them an attractive way to express a constructive view on Egypt. While FX remains the more liquid instrument and may be preferred by investors seeking tactical exposure, we think 6-month bills provide superior risk-adjusted returns for medium-term investors, even after accounting for the 15% withholding tax. In our view, investors who are constructive on Egypt over a 6–12 month horizon are better compensated through local bills, where the additional carry provides a meaningful buffer against moderate FX volatility while maintaining exposure to any potential currency appreciation.
- **FX swaps for hedging tail risks:** For investors concerned that oil prices could move materially higher, we think it makes sense to complement carry exposure with payer positions in front-end FX swaps. In a tail-risk scenario, higher oil prices would likely trigger a repricing of external risks, resulting in a sharp increase in implied FX yields, which could help offset losses from weaker FX performance. We view these structures primarily as portfolio insurance rather than a core directional trade. When oil prices are trading below $80/bbl, FX swap payer positions become particularly attractive, in our view, as stronger demand for carry tends to push the implied curve lower, making protection cheaper to acquire. This allows investors to retain exposure to attractive carry while hedging against the risk of a severe oil-driven shock to the currency and external accounts.

Exhibit 15: USD/EGP is a positive carry trade for lower oil prices



Source: Morgan Stanley Research, Bloomberg

Exhibit 16: 6m T-Bills offer attractive pick up over FX, net of withholding tax



Source: Morgan Stanley Research, Bloomberg

Valuation Methodology and Risks

Exhibit 17: Valuation methodology and risks

Trade	Date	Entry Level	Target	Stop	Rationale	Risks
Long 6-month EGP T-Bills (FX-Unhedged)	26-Jun-26	89.6	100	86	We inititate bullish bias towards EGP-denominated assets as we see the macroeconomic backdrop remaining supportive. We prefer to express our view via T-Bills given the significant pick-up offered relative to FX-implied yields. Potential for a further normalisation in ME and low oil prices should provide support for the external balances and the currency.	Risk-off sentiment leading to concentrated outflows.

Source: Morgan Stanley Research

Exhibit 18: History of recommendations

Long 6m T-Bills Egypt										
Instrument	Identifier	Maturity	Trade	Entry Date	Entry Level	Exit Date	Exit Level	Target/ Objective	Stop/Re-assess	Size of Trade or Unit/Notional
Egypt Bill	EGYTB 0 12/22/2026 Corp	6M	Long 6m T-Bills Egypt	26-Jun-2026	89.67			100	86	10

Source: Morgan Stanley Research

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Sell/Short: The analyst expects the total or excess return (depending on the nature of the recommendation) of the instrument or issuer that is the subject of the investment recommendation to be negative over the relevant time period.

Selling protection or Buying Risk: The analyst expects that the price of protection against the event occurring will decrease over the relevant time period.

Buying protection or Selling Risk: The analyst expects the price of protection against the event occurring will increase over the relevant time period.

Pay: The analyst expects that over the specified time period the variable rate underlying the swap agreement that is the subject of the investment recommendation will increase.

Receive: The analyst expects that over the specified time period the variable rate underlying the swap agreement that is the subject of the investment recommendation will decrease.

Like: Based on current market conditions as of the date of this report the analyst expects that the relevant securities of the issuer that is subject of the recommendation will perform favorably over the relevant time period as compared to the overall market of comparable securities by other issuers. This is not intended to be, nor should it be interpreted as a formal fundamental rating of the issuer or its creditworthiness.

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1529	42%	442	47%	29%	750	43%
Equal-weight/Hold	1582	43%	396	42%	25%	773	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	560	15%	97	10%	17%	217	12%
Total	3,674		936			1741	

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