REPORT

FROM GLOBAL SHOCK TO EGYPT'S ECONOMY:

ANALYZING THE IMPACT OF THE IRAN WAR ON ENERGY SECURITY

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The current international environment is undergoing sharp transformations as a result of escalating military tensions linked to Iran, which have led to significant disruptions in global energy markets, reshaping supply-demand dynamics and driving prices to elevated and volatile levels. The energy crisis is no longer a cyclical market fluctuation, but has evolved into a prolonged structural shock with intertwined geopolitical and economic dimensions, particularly amid bottlenecks in strategic corridors such as the Strait of Hormuz, a critical artery for global oil and gas flows. In this context, energy-importing emerging economies—foremost among them Egypt—have become increasingly vulnerable to the repercussions of this multifaceted crisis.

This report proceeds from a central premise that the effects of the war and the associated energy crisis on the Egyptian economy extend beyond direct price pressures, generating instead a multi-channel shock that encompasses the external sector, monetary stability, and fiscal conditions, in addition to its social implications. Rising petroleum import bills, declining foreign currency inflows from sources such as tourism and Suez Canal revenues, and accelerating inflation collectively represent concurrent pressures that highlight constraints in the economy's capacity to absorb external shocks. Accordingly, analyzing these repercussions requires a comprehensive approach that links global variables with the internal dynamics of the Egyptian economy.

Moreover, the report highlights the most sensitive dimension—energy security—as a fundamental pillar of economic national security. The current crisis reveals structural challenges related to supply security, price volatility, and the limited diversification of the energy mix, underscoring the need to move beyond short-term crisis management toward long-term strategies centered on enhancing resilience, diversifying energy sources, and increasing the contribution of renewable energy. On this basis, the report seeks to provide an integrated strategic analysis that connects the implications of the current crisis with opportunities to restructure Egypt's energy sector in a manner that supports sustainable economic growth and strengthens the capacity to withstand future shocks.

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First:

The Nature of the Current War and Its Implications

The war linked to Iran is witnessing a complex escalation that extends beyond direct military confrontation to assume a broader, asymmetric regional character, encompassing the targeting of energy infrastructure and critical maritime routes, particularly the Strait of Hormuz. Recent developments suggest that the conflict has reached a stage of "fragile containment," whereby the intensity of direct strikes has relatively declined without achieving a comprehensive political settlement, while persistent tensions and reciprocal threats continue to sustain the risk of escalation—especially following the announcement by Donald Trump of a blockade of the Strait of Hormuz.

Within this framework, the conflict is no longer a limited military engagement, but has evolved into a prolonged geopolitical crisis with profound implications for the stability of global energy markets and international trade. This dynamic reinforces uncertainty and keeps the global economy—particularly energy-importing countries such as Egypt—exposed to continuous external shocks.

The war has triggered unprecedented disruption in global oil and gas markets, widely described as the largest supply-side shock in the history of the global oil market. Reciprocal strikes and damage to energy infrastructure have reduced global supply by approximately 1.5 million barrels per day, while prices have surged by more than 50% since the onset of the crisis. This has been directly reflected in sharp price volatility, with levels exceeding $100–120 per barrel at certain points, alongside expectations of continued fluctuations.[1] The crisis has not been confined to oil alone, but has extended to natural gas, as global liquefied natural gas supplies declined by nearly 20% due to disruptions affecting key facilities in the Gulf. This underscores the nature of the crisis as a "dual energy shock" impacting all conventional energy sources.

At the same time, global supply chains have played a critical role in amplifying the crisis. Military operations and the targeting of energy infrastructure have disrupted international trade flows, increased transportation and insurance costs, and led to congestion in major maritime corridors. Available data indicate that approximately 150 vessels were stranded in the vicinity of the Strait of Hormuz, highlighting the scale of logistical bottlenecks affecting global trade. The repercussions have also extended to industrial and food supply chains, given the central role of energy in production inputs and transportation. As a result, the crisis has transmitted beyond the energy sector into the broader macroeconomic sphere, generating widespread inflationary pressures and contributing to a slowdown in global economic activity.

The Strait of Hormuz remains the most decisive factor in explaining the depth of the crisis, as it constitutes a strategic chokepoint through which approximately 20% of global oil and gas trade flows—equivalent to around 20 million barrels of oil per day, in addition to substantial volumes of liquefied natural gas, particularly from Qatar. Its near-total disruption has reduced oil flows to historically low levels, with shipments falling below 4 million barrels per day at certain intervals. The strait also serves as a transit route for essential commodities such as fertilizers and petrochemicals; consequently, any disruption extends beyond energy to affect agriculture (through rising fertilizer prices), industry (through increased raw material costs), and food systems (through global price increases). This dynamic renders any instability in the strait a multiplier of risks to both global food security and industrial stability.

In light of the foregoing, it is evident that the current crisis does not represent a conventional cycle of volatility in energy markets, but rather constitutes a systemic shock whose effects extend across the global economy as a whole. According to estimates by the International Monetary Fund[2] , every 10% increase in oil prices leads to a rise in global inflation of approximately 0.4 percentage points and a decline in growth of around 0.2 percentage points, reflecting the depth of the interlinkages between energy and the macroeconomy. Moreover, the convergence of geopolitical and economic dimensions, the targeting of energy infrastructure, and the absence of rapid alternatives for supply routes collectively render this crisis a long-term structural shift, necessitating a reconfiguration of global energy policies and intensifying the challenges faced by energy-importing countries, foremost among them the Egyptian economy.

Second:

Key Transmission Channels of the Crisis to the Egyptian Economy

Energy Sector

The energy sector represents one of the principal channels through which the current crisis is transmitted to the Egyptian economy. The continuation of the war with Iran has generated a structural imbalance in global energy supply, directly affecting energy-importing countries such as Egypt through rising petroleum import costs and increasing pressure on the balance of payments.

Within this context, the energy import bill constitutes the most significant channel of impact on the Egyptian economy, as rising global prices increase fiscal burdens on the state budget, particularly given the continued relative reliance on imported petroleum products. The persistence of elevated prices over an extended period imposes a dual pressure: either increasing allocations for energy subsidies or passing on cost increases to consumers, thereby exacerbating inflationary pressures.

In addition, supply security emerges as one of the most critical dimensions of the crisis. The war has disrupted maritime supply chains and targeted energy infrastructure, particularly in vital regions such as the Gulf, thereby undermining the ability to secure stable flows of fuel and gas. The continuation of such disruptions heightens the risks of supply shortages and rising insurance and shipping costs, which directly affect the stability of Egypt's electricity sector, especially during peak demand periods. This, in turn, increases the likelihood of resorting to exceptional measures such as consumption rationalization or load shedding, as Egypt has already implemented as part of its crisis management response.

The repercussions of the energy shock also extend to the macroeconomic level through the channels of inflation and growth. The International Monetary Fund indicates that every 10% increase in energy prices leads to a rise in global inflation of approximately 0.4 percentage points and a reduction in growth of around 0.1–0.2 percentage points. These estimates carry particular significance in the Egyptian context, given the economy's relatively high dependence on energy imports. This implies that the continuation of the crisis will intensify inflationary pressures, erode purchasing power, and reduce growth rates, reinforcing the structural nature of the crisis and underscoring the need for a comprehensive strategic response.

External Sector and Foreign Currency Resources

The external sector constitutes the primary channel through which the geopolitical shock is transmitted to the Egyptian economy, given its heavy reliance on foreign currency sources that are highly sensitive to regional tensions—most notably the Suez Canal and the tourism sector. Disruptions to navigation in the Red Sea have led to a noticeable decline in canal revenues due to the rerouting of vessels, negatively affecting one of the country's most critical sources of foreign exchange. At the same time, the tourism sector has been adversely impacted by heightened security uncertainty, resulting in lower bookings and reduced hotel occupancy rates during certain periods. In parallel, foreign capital inflows have come under pressure, with short-term investments exiting the market and external financing costs rising amid an increased risk premium on emerging markets.

Accordingly, the crisis reflects a complex interaction between declining dollar-denominated revenues, volatile investment flows, and tightening financial conditions, thereby intensifying pressures on the balance of payments and amplifying the challenges faced by the Egyptian economy in responding to geopolitical shocks.

Goods and Services Sector

Recent reports issued by the International Monetary Fund in April 2026[3] indicate that the energy price shock resulting from the war in the Middle East has led to a marked increase in global oil and gas prices, directly affecting energy-importing economies such as Egypt. Oil prices in the baseline scenario rose by approximately 19% in 2026, with global inflation projected to reach around 4.4%. This reflects the transmission of the shock from energy markets to overall price levels through production, trade, and transportation channels. As such, supply-side energy shocks represent a key driver of rising global living costs through imported inflation, exerting pressure on vulnerable economies.

The impact of this shock is transmitted to the Egyptian economy primarily through the price and inflation channel, one of the most significant mechanisms of economic contagion. Rising global oil prices increase the costs of transportation, shipping, and industrial and agricultural inputs, leading to a decline in real household incomes and a slowdown in private consumption. This effect is particularly pronounced in Egypt, given its significant reliance on imports of fuel and wheat, where higher energy prices are directly transmitted to the cost of essential goods through production and distribution chains.

As these pressures persist, the phenomenon of “imported inflation” intensifies as a direct consequence of rising global energy and food prices, further exacerbating the cost-of-living burden on consumers. Higher energy prices propagate through a range of indirect effects, including increased food prices due to higher fertilizer and transportation costs, reduced household purchasing power, and rising domestic production costs. Consequently, inflation in the Egyptian context becomes dual-sourced: internally driven by structural features of the economy, and externally driven by global energy price shocks. This dynamic heightens price instability and renders inflation management a central challenge for economic policymaking in the current phase.

Exchange Rate and Foreign Reserves

The escalation of the war in the Middle East reflects the transmission of pressures to the Egyptian economy through the exchange rate and foreign reserve channels. Rising oil prices and heightened global uncertainty have led to tighter international financial conditions, prompting investors to shift toward safe-haven assets. This dynamic translates into relative capital outflows from emerging markets and increased pressure on their currencies, including the Egyptian pound. The impact is amplified in the case of Egypt, given its status as an importer of both energy and food. Demand for the US dollar rises to finance imports, while key sources of foreign exchange—such as revenues from the Suez Canal and tourism—decline, widening the foreign currency gap and increasing the sensitivity of the exchange rate to external shocks. Moreover, the relative reliance on external financing and portfolio investment renders the economy more exposed to short-term capital movements, which tend to exit rapidly during periods of heightened uncertainty.

Within this context, foreign exchange reserves serve as the first line of defense in maintaining exchange rate stability and meeting external obligations. However, sustained pressures stemming from rising import bills and higher financing costs reduce the available policy space, meaning that the use of reserves becomes a tool for shock absorption rather than an indicator of structural weakness. Instead, it reflects the volatility of the international environment in which the economy operates.

Third:

Implications for Egypt's Energy Security

The energy crisis associated with the current war represents a qualitative shift in the nature of the challenges facing energy security in Egypt. The issue is no longer confined to conventional supply–demand balances, but has expanded to encompass more complex dimensions, including supply security, price stability, infrastructure efficiency, and the degree of diversification within the energy mix. Recent geopolitical shocks have exposed increasing vulnerabilities within Egypt's energy system, stemming from its relative reliance on external markets and their volatility. In this context, analyzing the implications for Egypt's energy security constitutes a critical entry point for assessing the sector's resilience to crises, identifying vulnerabilities and opportunities, and ultimately evaluating current policies while formulating more flexible and sustainable strategies to address future shocks.

Energy Supply Security in Egypt

Egypt relies on an energy mix that combines limited domestic production of natural gas and oil with a growing dependence on imports from external markets, with a notable concentration on regional suppliers located in some of the most geopolitically volatile areas. This increases exposure to global supply fluctuations during periods of crisis. As a result, the flexibility of oil and gas supplies is reduced, while the risks of temporary shortages and sharp price increases intensify. These pressures have affected the electricity and industrial sectors, prompting the use of more costly alternative fuels such as fuel oil (mazut), alongside direct inflationary effects through rising fuel, transportation, and goods and services prices. This dynamic directly impacts Egypt's energy security, particularly given its reliance on imports of liquefied natural gas and petroleum products to meet domestic demand gaps during peak periods.

Price Security

The surge in global oil prices to levels approaching or exceeding $100 per barrel at certain points has sharply increased the cost of energy imports. This type of shock transmits directly into domestic inflation through rising transportation and production costs, placing pressure on public finances and domestic energy pricing. It effectively widens the gap between global energy costs and local retail prices, creating a difficult policy trade-off between maintaining domestic price stability and avoiding an expansion in the fiscal deficit—particularly given the continued reliance on energy subsidies as a key social and economic instrument.

Reuters reports[4] indicate that the energy import bill more than doubled, with the cost of gas imports rising from approximately $560 million to around $1.6 billion per month during the war period. This has significantly increased subsidy burdens and the overall cost of energy provision, exerting direct pressure on the state budget. Estimates suggest that every $10 increase in global oil prices raises Egypt's annual energy bill by approximately $2–3 billion. In response, the government has implemented measures such as increasing fuel prices by up to 17% and raising electricity tariffs by approximately 16–20% for certain segments in order to partially mitigate the fiscal burden. Consequently, the energy shock has evolved from a mere rise in global prices into a primary driver of mounting fiscal pressures on the Egyptian state.

Energy Infrastructure Security

Global energy infrastructure has become increasingly vulnerable to geopolitical risks, whether through the targeting of production facilities or disruptions to maritime shipping routes. The International Energy Agency has warned that damage to oil and gas facilities in the Middle East has led to a loss of production capacity and heightened uncertainty in global markets. For Egypt, the impact is manifested indirectly through increased reliance on liquefied natural gas regasification terminals and domestic electricity transmission networks. This underscores the need to enhance maintenance efficiency, improve operational performance, and strengthen infrastructure resilience to ensure continuity of supply during periods of crisis.

Diversification of the Energy Mix

Egypt has made notable progress in diversifying its energy sources by increasing reliance on natural gas and renewable energy, with targets to raise the share of renewables to approximately 42% by 2030 and to exceed 60% by 2040[5] . However, fossil fuels—particularly natural gas—continue to dominate the current energy mix, limiting the economy's capacity to absorb external shocks. In the context of the current crisis, the importance of accelerating the energy transition becomes more pronounced, as it represents a strategic tool for enhancing relative energy independence and reducing exposure to global market volatility, especially in light of recurrent increases in oil and gas prices and supply disruptions.

Accordingly, Egypt's energy security is subject to compounded pressures arising from the interaction of four principal dimensions: supply disruptions, price volatility, infrastructure constraints, and limited diversification of the energy mix. This convergence underscores that the challenge is no longer sectoral in nature, but rather a strategic issue linked to national economic security, necessitating a shift from short-term crisis management toward the development of a resilient system capable of adapting to recurring external shocks.

Fourth:

Analyzing Structural Challenges and Resilience in Egypt's Energy Mix

With regard to the challenges facing Egypt's energy system, the country continues to experience a structural imbalance driven by increasing reliance on a hybrid model that combines fluctuating domestic production of natural gas and oil with external imports to bridge demand gaps, particularly during peak periods. This relative dependence on imports—especially from regionally concentrated and geopolitically exposed sources—heightens vulnerability to external shocks during periods of crisis and rising energy prices, as evidenced by recent disruptions in global energy markets.

In addition, the continued limitations in energy efficiency and conservation programs across sectors, coupled with the energy-intensive nature of certain productive industries, place further strain on domestic resources and increase the Egyptian economy's sensitivity to global price fluctuations. These factors collectively reflect a degree of structural fragility in both supply security and price stability.

Conversely, several structural strengths underpin Egypt's relative position in the energy sector. The country possesses a comparatively advanced infrastructure in liquefied natural gas and regasification facilities, as well as extensive electricity transmission networks. Its strategic geographic location further enables it to play a pivotal role as a regional hub for energy trade and transit between Europe, Africa, and Asia.

Moreover, Egypt has significant potential in renewable energy, supported by ambitious strategies aimed at expanding its share and advancing the development of a green hydrogen economy. These efforts provide a strong foundation for diversifying the energy mix and reducing dependence on fossil fuels. Ongoing reforms in the energy sector—particularly those aimed at improving the investment climate and increasing private sector participation—also contribute to enhancing the system's resilience and its capacity to withstand future shocks.

Fifth:

How Egypt Is Managing the Current Crisis

With regard to the current response of Egypt's energy sector amid the ongoing crisis and its associated pressures, the Egyptian government has adopted a set of concurrent policy measures aimed at correcting imbalances and mitigating the impact of the shock. These include strengthening energy conservation programs, adjusting fuel prices in line with global market trends[6] , increasing electricity tariffs for certain segments, allowing greater exchange rate flexibility, rationalizing public expenditure, and gradually restructuring the energy subsidy system to reduce pressure on the state budget and contain the fiscal deficit. Collectively, these measures have contributed to maintaining a degree of economic and social stability thus far, despite persistent challenges stemming from elevated global energy prices and rising geopolitical uncertainty.

In terms of policy assessment, these measures can be characterized as adaptive and short-term responses linked directly to the crisis. While they have achieved a measure of short-term stabilization, this stability remains relatively fragile under continued external shocks. The policy approach relies heavily on conventional fiscal and monetary tools—such as price adjustments and subsidy reductions—without yet achieving a comprehensive structural transformation of the energy sector. Furthermore, recent increases in electricity and fuel prices reflect a shift toward passing part of the cost burden onto end consumers. While this contributes to fiscal balance, it also intensifies social and inflationary pressures in the short term and may have implications for social stability.

Regarding existing policy gaps, three principal shortcomings can be identified:

- The continued reliance on short-term crisis management approaches, focusing on immediate response rather than building long-term structural resilience within the energy sector.
- The relatively slow pace of diversification of the energy mix, as ongoing expansion in renewable energy projects remains insufficient to significantly reduce dependence on imported fossil fuels.
- The limited use of hedging mechanisms against global energy price volatility, whether through long-term supply contracts, price stabilization instruments, or the strengthening of strategic reserves.

The persistence of these gaps leaves the Egyptian economy exposed to recurring pressures in the event of continued or renewed geopolitical conflicts. This underscores the need to transition from a model of “shock management” to one centered on building a resilient and sustainable energy system capable of absorbing future shocks rather than merely reacting to them.

Sixth:

Strategic Opportunities for Egypt

Egypt emerges as a pivotal strategic hub within the global energy system, with the Suez Canal serving as one of the most critical arteries for the transport of oil and gas between East and West. This role is reinforced by robust infrastructure, including the SUMED pipeline, which enables the rerouting of energy shipments in the event of disruptions in the Strait of Hormuz. As risks in the Gulf intensify, Egypt's importance is expanding beyond that of a transit corridor to that of a central node in maintaining the continuity of oil and gas flows, providing it with the capacity to play a decisive role in stabilizing regional and global energy supplies.

Within this context, Egypt possesses significant strategic opportunities to consolidate its position as a regional energy hub, leveraging its infrastructure in the Eastern Mediterranean. The country operates two major liquefaction facilities—Idku and Damietta—with a combined capacity of approximately 12 million tons annually, enabling it to re-export liquefied natural gas (LNG) to Europe, which is actively seeking to reduce its dependence on unstable supply sources. Although Egyptian gas exports experienced fluctuations during 2025–2026, they remain a central component of the country's strategy to position itself as a regional center for gas trade and distribution, particularly in light of sustained European demand for LNG.

At the same time, the economic significance of Egypt's strategic corridors is increasing, most notably the Suez Canal, through which approximately 10–12% of global trade passes, including a substantial share of oil and gas flows. With rising risks in the Strait of Hormuz and increasing shipping and insurance costs, routes associated with Egypt become relatively more attractive, thereby enhancing its role in the redirection of global energy trade.

Over the longer term, the current crisis underscores the necessity of expanding the role of renewable energy and green hydrogen as both

economic and strategic priorities, rather than merely environmental considerations. Egypt holds a clear comparative advantage in this domain, with installed renewable energy capacity exceeding 6 gigawatts (solar and wind), alongside major projects under development in the Gulf of Suez and the Western Desert exceeding 10 gigawatts. Egypt is also pursuing its ambition to become a regional hub for the production and export of green hydrogen and its derivatives, leveraging its geographic position and partnerships with international stakeholders. This trajectory has the potential to gradually reduce dependence on imports and strengthen long-term energy security in the face of future geopolitical shocks.

In conclusion, the current crisis presents Egypt with a dual test. On the one hand, it faces short-term pressures in the form of rising energy costs, supply challenges, and their macroeconomic repercussions. On the other hand, it offers a genuine strategic opportunity to reposition the country as a regional energy hub, capitalizing on its geographic location and infrastructure, while accelerating the transition toward renewable energy and green hydrogen. Egypt's ability to transform current pressures into strategic gains will depend on its success in striking a careful balance between short-term crisis management and the long-term structural transformation of its energy mix, thereby enhancing its energy security and strengthening its role within the evolving global energy landscape.

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