CENTRAL BANK OF EGYPT

Press Release – April 17, 2025

MPC decides to cut key policy rates by 225 basis points

Cairo, Egypt — The Monetary Policy Committee (MPC) of the Central Bank of Egypt (CBE) decided today to cut the CBE's overnight deposit rate, overnight lending rate, and the rate of the main operation by 225 basis points to 25.00 percent, 26.00 percent, and 25.50 percent, respectively. The Committee also decided to cut the discount rate by 225 basis points to 25.50 percent.

Globally, the prevailing uncertainty surrounding the outlook for economic growth and inflation has led central banks in select advanced and emerging market economies to opt for a cautious approach towards the future path of monetary policy. While economic growth remains broadly stable, recent developments in global trade are expected to dampen the outlook due to concerns regarding supply chain disruptions and weakening global demand. In particular, oil prices declined significantly due to supply-side factors and expected softening in global demand amidst ongoing trade uncertainties. Meanwhile, prices of key agricultural commodities, particularly grains, have exhibited volatility, driven by climate-related disruptions. Nevertheless, inflation remains vulnerable to upside risks, including heightened geopolitical tensions and continued disruptions in global trade due to rising protectionism.

Domestically, preliminary indicators for Q1 2025 suggest a sustained recovery in economic activity for the fourth consecutive quarter, with growth exceeding the 4.3 percent registered in Q4 2024. Real GDP growth in Q4 2024 was primarily driven by the positive contributions of non-petroleum manufacturing, trade, and tourism. Nonetheless, estimates for the output gap indicate that actual economic activity remains below its full potential, despite continued growth throughout 2024, but is projected to reach full potential by end of FY 2025/26. Accordingly, the current output gap estimates support the forecasted disinflation path over the short term, as demand-side inflationary pressures are expected to remain subdued given the prevailing tight monetary stance.

Q1 2025 witnessed a significant decline in annual inflation due to a sizable favorable base effect, cumulative monetary tightening, and the fading impact of previous shocks. In particular, annual headline and core inflation decelerated to 13.6 percent and 9.4 percent in March 2025, respectively, with the latter recording its lowest rate in almost three years. The slowdown in annual headline inflation is the result of a sharp decline in annual food inflation from 45.0 percent in March 2024 to 6.6 percent in March 2025. However, annual non-food inflation exhibited relative downward stickiness, dropping from 25.7 percent in March 2024 to 18.9 percent in March 2025, due to its slower response to previous shocks and the impact of fiscal consolidation. Additionally, monthly inflation dynamics have moderated since the beginning of the year and are approaching their historical levels, suggesting an improvement in inflation expectations.

The sharp decline in annual headline inflation by approximately 9.0 p.p. in Q1 2025, as largely anticipated, significantly tightened the monetary stance, availing ample room for commencing the easing cycle. Furthermore, inflation is expected to continue declining throughout 2025 and 2026, albeit at a slower pace compared to the decline in Q1 2025. The slower disinflation path is attributed to the impact of recently implemented and planned fiscal consolidation measures in 2025, in addition to the downward stickiness of non-food inflation. However, upside risks surrounding the inflation outlook persist, emanating from possibly higher than expected passthrough of fiscal measures, as well as uncertainty regarding the impact of the current China-US trade war, and an escalation of regional geopolitical conflicts.

In view of the above and considering the prevailing monetary stance, the MPC judges that cutting policy rates by 225 basis points aligns with upholding the appropriate monetary stance, with the aim of anchoring inflation expectations and safeguarding the projected disinflation path. The Committee will continue to assess its decisions regarding the magnitude and pace of monetary policy easing on a meeting-by-meeting basis. These decisions will continue to be a function of the forecast trajectory, and will remain sensitive to the prevailing balance of risks. The MPC will keep monitoring economic and financial developments, and will not hesitate to utilize all tools at its disposal to achieve its price stability mandate, steering inflation towards its 7 percent ± 2 p.p. target, on average, in Q4 2026.

Monetary Policy Sector

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