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CENTRAL BANK OF EGYPT



Central Bank of Egypt
Monetary Policy Report
Q1 – 2025

DISCLAIMER

The cut-off date for the data points included in this report is March 31, 2025. Some of the data presented is preliminary and may be subject to revision. The views expressed herein are those of the technical teams within the Monetary Policy and Markets Sectors.

CBE Monetary Policy Framework

The Central Bank of Egypt 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 (see box 1). This framework utilizes policy tools to anchor inflation expectations, 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 set 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 MPC meets eight times a year to discuss macroeconomic developments and decide on the level of key policy rates (overnight deposit and lending rates and the rate of the main operation) 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 fluctuates. A press release is published on the CBE website following every 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 (CBE's operational target) 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

The Monetary Policy Committee (MPC) of the Central Bank of Egypt (CBE) decided 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.

The MPC judged that cutting policy rates by 225 basis points aligned with upholding the appropriate monetary stance, aiming to anchor inflation expectations and safeguard the projected disinflation path. The Committee stated that it would continue to assess its decisions regarding the magnitude and pace of monetary policy easing on a meeting-by-meeting basis, and that these decisions would remain a function of the forecast trajectory and would remain sensitive to the prevailing balance of risks. The MPC stressed that it would continue to monitor economic and financial developments and would 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.

Box 1. Basic Institutional Design of an Inflation Targeting (IT) Regime

Main Features in the Determination of an Inflation Targeting Regime

- 1. Choice of Inflation Target:** there are two alternatives –headline inflation or core inflation.
- 2. Target Definition:** can be a single point or a band. If the target is a band, there is still the option of whether or not having a central target such as targeting an inflation range. If the set target is high compared to peer countries but considered transitional towards the rate consistent with price stability, then transitional targets should be set on a declining path.
- 3. Target Horizon:** definition of the reference period for assessing the accomplishment of the inflation target.
- 4. Existence of Escape Clauses:** establishment of situations that can justify the non-fulfilment of the inflation targets.
- 5. Transparency:** methods of communication used by the monetary authority to inform the general public about the conduct of the inflation targeting regime.

Types of Inflation Targets

- 1. Point targets (the central bank objective is formulated by a single number):** it is effective in anchoring inflation expectations, by pinning it down over the medium-term to single digits.
- 2. Tolerance bands around point targets:** the target itself is a specific number but the central bank tolerates certain deviations around the point target. It creates more flexibility for central banks, especially for emerging markets, to accommodate uncertainties such as: the CBE's 7 percent (\pm 2 percentage points) on average in Q4 2026.
- 3. Tolerance ranges (the central bank targets an entire range):** some central banks choose to adopt this concept to have more room to meet their inflation targets.

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Summary

Global economic growth has shown signs of stabilization throughout 2024. Meanwhile, global growth prospects are expected to face further pressures throughout 2025 and 2026, driven by the resurgence of trade protectionism, rising geopolitical tensions, and widening global imbalances. Commodity prices have shown varied dynamics, particularly after their surge in 2022-2023 following the onset of the Russia-Ukraine conflict. While the outlook for oil prices is tilted to the downside due to both demand and supply factors, international food prices weighted by domestic CPI core food items have been increasing since February 2024. However, the outlook for commodity prices continues to be subject to geopolitical risks, relatively tight global financial conditions, and current trade developments. Within this context, central banks in advanced economies have begun cautiously easing their monetary policy stance in a measured manner that ensures the convergence of inflation rates to their respective targets. Similarly, emerging markets have adjusted their domestic policies while ensuring that inflation expectations are anchored around their corresponding targets.

On the domestic front, inflation rates have been on a downward path after peaking in Q3 2023. Annual headline inflation declined sharply to 16.5 percent in Q1 2025, from 25.4 percent in Q4 2024, and 33.0 percent in Q1 2024. The drop 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 persistence, dropping from 25.7 percent in March 2024 to 18.9 percent in March 2025. Nevertheless, the decline in headline inflation reflects the cumulative impact of monetary tightening and easing supply disruptions, in addition to a favorable base effect. As such, the CBE is committed to maintaining an appropriate monetary stance, which aligns with the aim of anchoring inflation expectations and safeguarding the projected disinflation path.

Following a period of subdued growth since Q2 2022, domestic economic activity reflected a sustained recovery in Q4 2024, driven by strong recovery in the contributions of real net exports and gross domestic investments. The improved contribution of real net exports reflects the impact of exchange rate unification on Egyptian exports of goods and services, enhancing its competitiveness. Meanwhile, the increase in gross domestic investments was mainly driven by an increase in private investments while public investments receded, with the aim of supporting a more private sector-led growth model. Leading indicators for Q1 2025 reflect that economic activity is estimated to have grown at a faster pace compared to Q4 2024. This is also supported by the expansion of real growth of local currency (L/C) loans to the private sector since Q3 2024 following six consecutive quarters of negative real growth rates. On the other hand, the unemployment rate declined to 6.4 percent in Q4 2024 from 6.9 percent in Q4 2023, as employment creation outpaced new entrants into the labor market.

In Q4 2024, Egypt's external sector reflected the economy's adequate capacity to finance its external funding needs, as the balance of payments recorded a surplus, albeit a marginal one. The surplus was primarily driven by a narrowing current account deficit, compared to the corresponding period in 2023. This comes on the back of the positive contributions emanating from the surge in remittances along with the narrowing of the net investment income deficit, offsetting the negative contributions stemming from a widening trade deficit and a declining services surplus. On the other hand, the financial account posted a surplus, primarily driven by sustained foreign direct investment (FDI) inflows which were sufficient to bridge most of the current account deficit.

M2 growth has re-accelerated starting Q2 2024 to register an average of 30.6 percent in Q1 2025, compared to an average of 19.5 percent in Q1 2024, on the back of revaluation effects following the exchange rate unification in March 2024, as well as the unparalleled recovery in the banking system's net

foreign assets (NFAs) which returned back to positive territory since May 2024, reaching USD 15.1 bn in March 2025. This was mainly the result of the unprecedented Ras El-Hikma investment deal, portfolio inflows in light of the improved market sentiment, rebound in workers' remittances, and the steadfast support of multilateral institutions. Accordingly, M2 growth decomposition became more driven by NFAs and the replenishment of foreign exchange (FX) reserve buffers.

The monetary policy stance has started tightening significantly following the significant 800 bps hike in Q1 2024, with contemporaneous real interest rate turning positive in Q3 2024 for the first time since Q1 2022 and remained on an upward trajectory since then on the back of the decline in inflation rates. Meanwhile, financial market conditions reflect slightly less-than-complete transmission of the 1900 bps tightening cycle that started in March 2022, with the overnight interbank rate and new lending rates witnessing the strongest pass-throughs. Eurobond yields, on the other hand, remained broadly stable since their significant improvement during March 2024 on the back of the implemented corrective measures.

Inflation is expected to continue declining throughout the remainder of 2025 and 2026, albeit at a slower pace compared to the significant decline witnessed in Q1 2025. The slower disinflation path is partially due to the fiscal drag impact, stemming from implemented and planned fiscal consolidation measures across the forecast horizon, in addition to the relative persistence of non-food inflation. As such, inflation is forecasted to converge towards the CBE target band by Q4 2026. Furthermore, real GDP growth is projected to register 4.3 percent and 4.8 percent in FYs 2024/25 and 2025/26, respectively, up from 2.4 percent in FY 2023/24, gradually recovering from the subdued spell of economic activity during the past two fiscal years. Accordingly, the output gap is estimated to be negative and is expected to remain so throughout the forecast horizon, with growth converging to potential by the end of FY 2025/26. Thus, the output gap trajectory remains supportive of the forecasted disinflation path over the forecast horizon, as demand-side inflationary pressures are expected to remain subdued, supported by the prevailing tight monetary stance.

Nonetheless, the inflation outlook remains subject to upside risks emanating from possibly higher-than-expected passthrough of fiscal measures, as well as the aforementioned global risks. In light of the prevailing global uncertainty, the pace and magnitude of domestic monetary policy normalization will be set in a measured manner over the forecast horizon. The MPC remains prepared to adjust its stance amid these evolving risks to ensure that inflation converges to its set targets while safeguarding macroeconomic stability.

1. Current Economic Conditions

1.1 Global Developments

Key Takeaways:

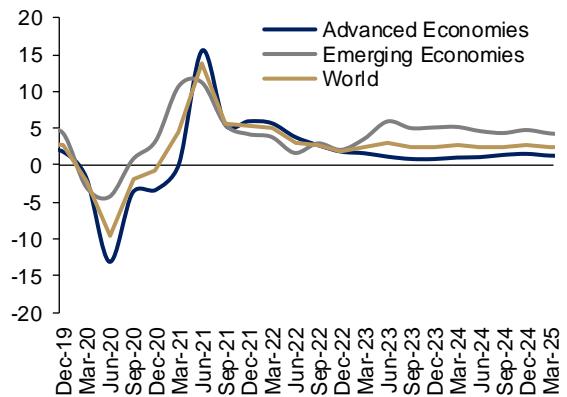
- Global economic growth has shown signs of stabilization throughout 2024. However, mounting global imbalances are expected to exert pressure on the global outlook.
- Global headline inflation eased in 2024 following the period of volatility observed in 2022-2023. The anticipated disinflation in 2025 remains contingent on future demand and supply shocks, as well as the expected path of global monetary policy.
- Commodity prices have shown varied dynamics, particularly after their surge in 2022-2023 following the onset of the Russia-Ukraine conflict.
- Since the beginning of 2024, central banks in advanced economies have eased their monetary policy stance, while emerging economies have adjusted theirs based on their respective economic conditions. However, the outlook for monetary policy globally remains contingent on risks to economic growth and the disinflation path.
- International trade recorded positive growth rates in 2024, following a period of contraction in 2023. Nonetheless, the resurgence of trade protectionism in Q1 2025 induced higher trade policy uncertainty which poses downside risks to the trade outlook.
- Capital flows to emerging markets have exhibited volatility during 2022-2023, before briefly recovering in 2024. Despite this, increasing global uncertainty in Q1 2025 has triggered a drop in capital flows.

Global post-pandemic economic recovery staggered following the onset of the Russia-Ukraine conflict. Since then, global growth has slowed due to several factors, including a prolonged tight monetary stance to contain persistent inflationary pressures, supply chain disruptions stemming from geopolitical tensions, as well as increasing uncertainty as a result of the resurgence of protectionist trade policies. Nevertheless, growth across economies has shown signs of stabilization in 2024. However, global growth prospects are expected to face further pressures throughout 2025 and 2026 driven by continued trade policy uncertainty, rising geopolitical tensions, and widening global imbalances.

Figure 1

Economic Growth of Egypt's External Environment ^{1/2}

(In %, y/y)



Sources: Bloomberg; and Central Bank of Egypt calculations.

1/ The series is weighted using Egypt's trade volume in 2023/24.

2/ Global growth rates for select developing economies is still forecasted for Q1 2025 (not actual figures).

Average global economic growth¹, weighted by Egypt's value of trade with its key trading partners, recorded its peak in Q2 2021. Since then, annual

¹ Global growth figures, as well as figures for growth in emerging and advanced economies, are weighted by Egypt's relative trade

volumes with major trading partners (EU, China, USA, Russia, Brazil, India, UK, Japan).

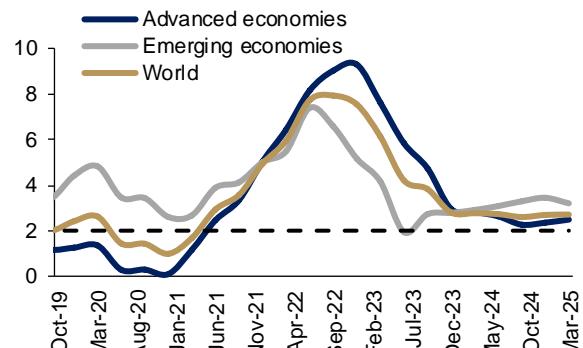
growth has normalized, driven by the dissipation of COVID-19 base effects, expanding by only 1.9 percent, 2.5 percent, and 2.8 percent in Q4 2022, Q4 2023, and Q4 2024, respectively (figure 1). Growth in emerging economies slowed down following Q2 2021 to record 2.1 percent in Q4 2022. However, growth rebounded to 5.1 percent in Q4 2023 and stabilized around 4.8 percent on average in Q4 2024, driven by economic activity in China, India, and Russia. In contrast, advanced economies exhibited slower economic growth with averages of 1.8 percent, 0.8 percent, and 1.5 percent during Q4 2022, Q4 2023, and Q4 2024, respectively. Weaker growth in the euro-area during this period was offset by more robust growth in the US.

Global growth in Q1 2025 has exhibited a broad-based slowdown, recording 2.5 percent, driven by reduced global demand, a weakening manufacturing sector, and geopolitical disruptions. While weaker global growth in the short-term may have limited impact on Egypt's economy, a more stable outlook for 2025–2026 could lead to stronger demand for Egyptian exports and encourage FDI inflows.

After reaching historically high levels in 2022 driven by post-pandemic demand recovery, supply chain disruptions, and elevated commodity prices, annual headline inflation in Egypt's external environment—in both advanced and emerging economies—has been on a downward trajectory since late 2022. This decline was driven by easing supply-chain bottlenecks, global trade flow normalization, and the impact of tight global monetary policy which effectively curbed aggregate demand.

By Q1 2025, global inflation averaged 2.7 percent, gradually approaching central banks' targets in many economies. Within this trend, inflation in advanced economies registered 2.5 percent, while that of emerging economies recorded 3.2 percent (figure 2).

Figure 2
Headline Inflation of Egypt's External Environment ^{1/}
(In %, y/y)



Sources: Bloomberg; and Central Bank of Egypt calculations.
1/ The series is weighted using Egypt's trade volume in 2023/24.

Following the onset of the Russia-Ukraine conflict at the beginning of 2022, Brent crude oil prices exhibited marked volatility, driven by significant supply-chain disruptions and speculations over future oil prices. However, since June 2022, Brent prices faced sustained downward pressure amid a slowdown in global economic growth and heightened recessionary fears, as well as a notable decline in oil demand from China - one of the world's largest consumers - at the time (figure 3). While oil prices spiked periodically as a result of geopolitical tensions and related Red Sea maritime trade disruptions, they have recently witnessed a significant decline, primarily driven by subdued global demand, coupled with an increase in expected oil production.

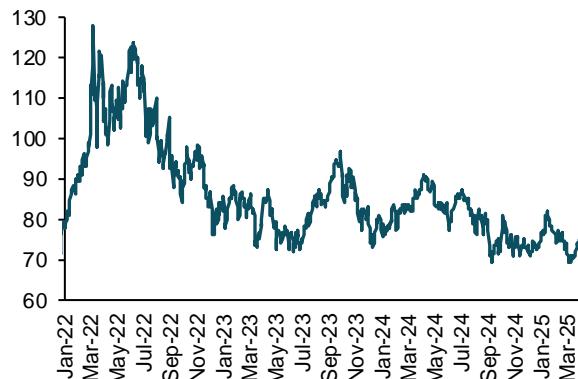
The outlook for the oil market remains uncertain amidst mounting geopolitical and trade volatilities. Additionally, the recent OPEC+ decision to unwind production cuts, alongside the increase in oil production from non-OPEC producers, is expected to increase oil supply, further increasing downward pressures on oil prices.

As a net importer of oil and its products, Egypt's trade balance may improve given the weaker outlook for oil prices, which can lead to decreasing import costs. This can potentially narrow the

current account deficit, and counterbalance the impact of recent domestic fiscal consolidation measures. However, a higher-than-expected outlook for oil prices may cause the current account balance to deteriorate, as was the case following the onset of the Russia-Ukraine conflict, after which the current account deficit widened by approximately 52.3 percent in Q1 2022.

Figure 3
Brent Oil Price Developments

(In USD/bbl, daily prices)



Source: Bloomberg.

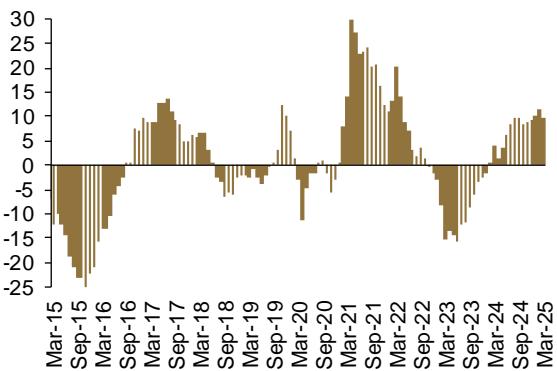
After peaking globally in October 2022, international food prices, measured using domestic CPI basket weights of core food items, entered a deflationary period throughout 2023. This decline was primarily driven by a drop in global prices for vegetable oil, poultry, and dairy products following earlier supply disruptions resulting from the Russia-Ukraine conflict. However, international food prices shifted back to an inflationary path beginning February 2024, driven by a rise in global beef and poultry, vegetable oil, and dairy prices (despite strong price declines in fish, sugar and rice, which are assigned a lower weight in the domestic CPI). These commodity prices increased as a result of renewed supply disruptions from volatility in food production, as well as recovering global demand (figure 4).

Continued increase in international food prices may induce inflationary pressures in Egypt through imported food inflation. In 2022 and 2023, global supply shocks notably contributed to

domestic inflation as a result of the Russia-Ukraine conflict and geopolitical tensions in the region. However, the impact of supply shocks on inflation has dissipated in 2024 following positive global developments, causing international commodity prices to revert to their pre-shock levels.

Figure 4
International Food Prices

(In %, y/y, using domestic CPI basket weights of core food items)



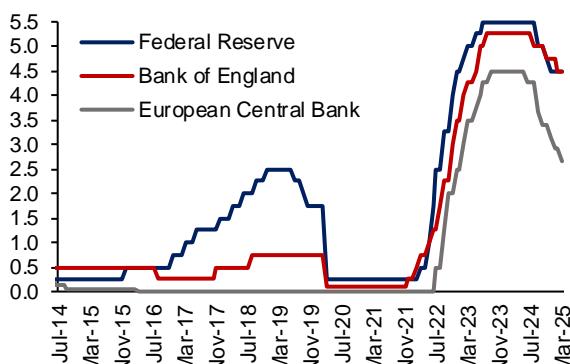
Sources: Central Bank of Egypt calculations; World Bank; and Food and Agriculture Organization of the United Nations.

Global monetary policy tightened significantly following the onset of the Russia-Ukraine conflict in 2022, with key central banks embarking on their rate hiking cycles. However, as inflationary pressures eased worldwide, global monetary policy in advanced economies loosened since mid-2024 with key central banks beginning their cutting cycles. Specifically, the Fed cut its main policy rate by a cumulative 100 basis points towards a target range of 4.25 percent - 4.50 percent since September 2024. Similarly, the BoE reduced its main policy rate to 4.25 percent, a cumulative 100 basis points since August 2024. Additionally, the ECB decreased key interest rates by a cumulative 210 basis points to 2.40 percent since June 2024 (figure 5). While further easing is expected to continue in advanced economies, central banks are expected to remain vigilant with regards to the magnitude and pace of policy rate cuts given increasing global uncertainty as well as recent geopolitical developments.

Figure 5

Advanced Economies: Central Bank Key Policy Rates

(In %)



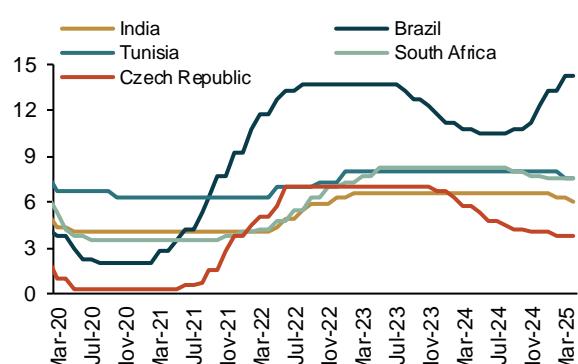
Sources: Bloomberg; and Central Bank of Egypt calculations.

Egypt's peers in emerging markets have also adjusted their monetary stances to reflect their economic dynamics, with central banks either beginning easing cycles, resuming policy rate hikes following their easing cycles due to recent economic developments, or maintaining high interest rates following their hiking cycle. For example, emerging economies' central banks that have recently begun easing their monetary policy, with the aim of supporting economic growth as inflation approaches target levels, include the Czech National Bank (CNB) – which started cutting interest rates since December 2023 – and the South African Reserve Bank (SARB) – which began cutting interest rates in September 2024. Similarly, the Reserve Bank of India (RBI) and Central Bank of Tunisia (BCT) have more recently initiated interest rate cuts beginning Q1 2025, after holding their interest rates at restrictive levels for an extended period. On the other hand, the Central Bank of Brazil (BCB) began its easing cycle in August 2023, but reinstated its monetary tightening cycle in Q4 2024, driven by heightened uncertainty surrounding the economic policy outlook in the U.S. and a widening domestic output gap (figure 6).

Figure 6

Emerging Economies: Central Bank Key Policy Rates

(In %)



Sources: Bloomberg; and Central Bank of Egypt calculations.

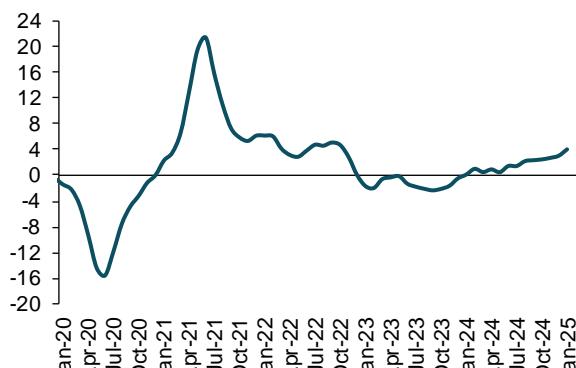
Annual global trade growth turned positive in 2024, following a prolonged period of contraction throughout 2023 (figure 7). Over the same period, Egypt's non-petroleum exports increased by approximately 4.0 percent. This rebound in both global trade and Egypt's non-oil exports has increased foreign exchange inflows, reducing exchange rate pressures.

However, trade tensions have escalated significantly since February 2025, following successive announcements of tariffs imposed by the United States, prompting retaliatory countermeasures and contributing to heightened global trade policy uncertainty. Forecasts show a slight contraction in global trade growth in 2025. Continued uncertainty in trade policy outlook may pose downside risks to the future of trade flows in both advanced and emerging economies, including Egypt. However, Egypt's relatively lower tariff exposure can potentially enhance its export competitiveness in US markets, boosting non-oil exports and foreign exchange inflows. This relative advantage may also attract FDI, with global supply chains redirected through Egypt to avoid higher-tariff jurisdictions.

Figure 7

Global Trade Growth

(In %, y/y)



Source: CPB World Trade Monitor.

Capital flows into emerging markets declined significantly throughout 2022-2023, driven by the ongoing conflict between Russia and Ukraine, which deteriorated market sentiment towards emerging economies, in addition to monetary policy tightening cycles in advanced economies. A brief recovery was seen in 2024, as global economic conditions began to stabilize. However, emerging markets experienced a drop in capital flows amid heightened global uncertainty in Q1 2025.

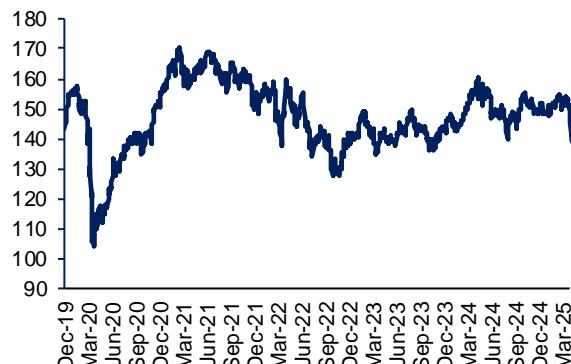
During this period, net FDI into Egypt dropped by approximately 45 percent on average between Q1 2022 and Q1 2023. However, net FDI has witnessed a resurgence during 2024, primarily driven by the landmark USD 35 bn Ras El-Hikma deal, which enhanced investors' confidence in the domestic economy.

Despite this rebound, the future outlook remains uncertain, primarily due to ongoing policy uncertainties. Trade tensions, in particular, continue to pose significant risks which may adversely influence investor sentiment and the broader economic environment (figure 8). Nonetheless, if monetary policy easing in advanced economies continues at a quicker pace than anticipated, this could have a more positive impact on capital flows into emerging economies, including Egypt.

Figure 8

Emerging Markets Capital Flows Proxy

(Index level, increase = inflows and vice versa)



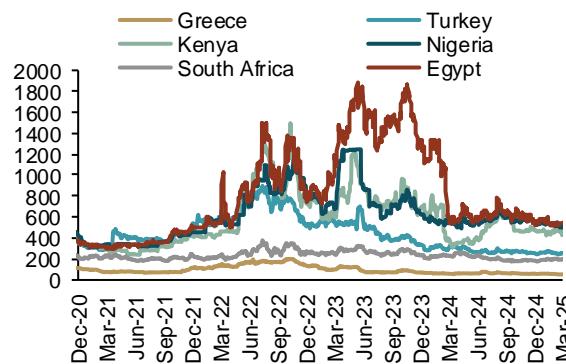
Source: Bloomberg.

In line with these developments, Credit Default Swap (CDS) spreads for emerging markets have broadly stabilized during 2024 and Q1 2025, after a period of significant increases between Q1 2022 and Q1 2024. Egypt's 5-year CDS spreads have generally mirrored the trends of its peers, despite experiencing a notable surge in 2023. However, Egypt's CDS spreads showed significant improvement in 2024 given favorable economic developments, and are currently in line with the trends observed amongst its peers (figure 9). This positive shift was further supported by Moody's upgrade of Egypt's credit outlook from negative to positive on March 7, 2024. Most recently, Fitch upgraded Egypt's credit rating from B- to B on November 1, 2024, and reaffirmed this position on April 11, 2025. These developments reflect increased investor confidence in Egypt's economic prospects.

Figure 9

Egypt and Peers: 5-Year CDS Spreads

(Index level)



Source: Bloomberg.

1.2 Domestic Developments

1.2.1 Inflation Developments

Key Takeaways:

- During the past two years, headline and core inflation dynamics reflected several international shocks such as the Russia-Ukraine conflict, the ensuing volatility in international commodity prices, as well as geopolitical tensions in the region. This coincided with economic reforms domestically, thus fueling inflationary pressures and unanchoring inflation expectations.
- After reaching their peak in Q3 2023, inflation rates have been on a downward path, and decelerated faster towards the end of 2024.
- Annual urban headline inflation declined sharply to 16.5 percent in Q1 2025, from 25.4 percent in Q4 2024, and 33.0 percent in Q1 2024. Similarly, annual core inflation dropped significantly to 13.6 percent in Q1 2025, from 23.8 percent in Q4 2024 and 32.7 percent in Q1 2024.
- Prices of international food commodities have been declining since early-2023, likely correcting the increases witnessed from mid-2020.

Since Q4 2021, several significant developments on both the domestic and international fronts have taken place, and their compounded impacts underpinned strong inflationary pressures to both headline and core inflation rates.

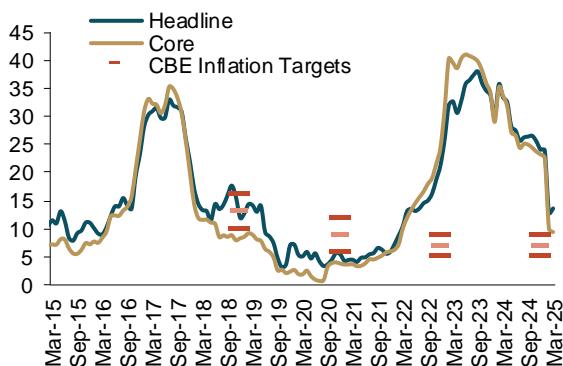
On the back of the Russia-Ukraine conflict in February 2022: (1) international commodity prices soared, driving up Egyptian food import costs, and consequently the food subsidy bill. This, in addition to other economic reforms, entailing some subsidy alleviation measures which translated into broad-based increases in domestic food and energy prices, as well as their spillovers on other services and domestically produced commodities; (2) Following the increased global

uncertainty around the conflict, emerging markets witnessed capital outflows, including Egypt, which placed pressures on the exchange rate to depreciate. Consequently, this further increased the cost of imports, as well as disrupting domestic supply chains and unanchoring inflation expectations, and ultimately posing additional inflationary pressures.

Accordingly, CBE's inflation targets were missed in Q4 2022 and Q4 2024. This comes as annual headline inflation recorded 18.7 percent on average in Q4 2022 and 25.4 percent on average in Q4 2024, well above the CBE's target range of 7 percent (± 2 p.p.) on average in Q4 2022 and Q4 2024 (figure 10).

Figure 10
Headline and Core Inflation*

(In %, y/y)



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

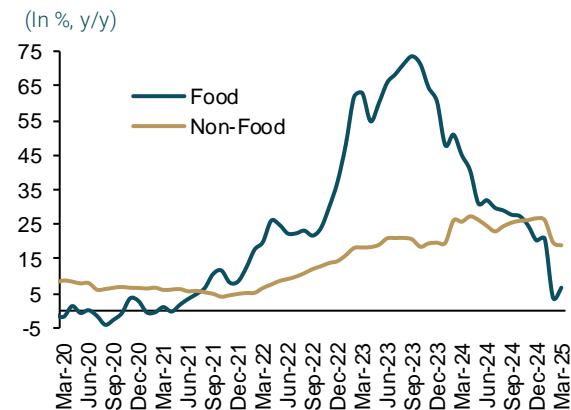
* Core inflation excludes administered prices and volatile food items from the CPI.

As part of the CBE's efforts to restore macroeconomic stability, in March 2024 the CBE implemented a number of corrective measures, including the unification of the foreign exchange markets, as well as a substantial tightening of monetary policy. Since then, annual headline and core inflation rates have been on a broadly decelerating path from their peaks of 38.0 percent in September 2023 and 41.0 percent June 2023, respectively, to record rates as low as 13.6 percent and 9.4 percent in March 2025, respectively. This marks their lowest rates in almost three years.

This decelerating path benefited from a favorable base effect, and was mostly driven by a slowdown in food inflation as the impact of the previous shocks dissipate.

Since the beginning of 2023 and up to Q1 2024, headline inflation has been mostly driven by food rather than non-food items, as annual food inflation increased sharply and rapidly as a reaction to the aforementioned shocks until it reached a peak of 73.6 percent in September 2023. However, since Q1 2024, food inflation has been on a downward trajectory, easing markedly to record 6.6 percent in March 2025 and 3.7 percent in February 2025, (its lowest rate since June 2021), mainly due to a disinflation in the prices of many food items, and a strong favorable base effect. Accordingly, the impact of food inflation on headline inflation subsided, giving non-food inflation the lead. On the other hand, annual non-food inflation is relatively more persistent and reflects a slower reaction to shocks. Accordingly, it remained stable around an average of 25 percent throughout 2024, and began declining to 18.9 percent in March 2025, reflecting a gradual dissipation of previous imbalances (figure 11).

Figure 11
Food and Non-Food Inflation



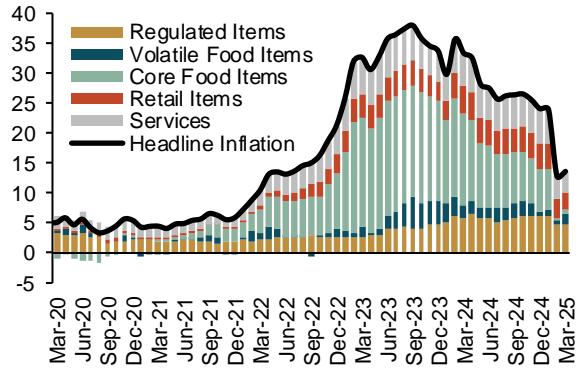
Sources: Central Bank of Egypt calculations; and CAPMAS data.

A closer look reveals that during the period when headline inflation was driven by food, core food was the main driver of food inflation; responsible for around 90 percent of food inflation dynamics between Q1 2023 and Q1 2024. This is explained

by the sizable weight of core food items (24.5 percent of CPI) and their relatively inelastic nature. Food inflation is also occasionally influenced by volatile food inflation, according to agricultural seasonal patterns and weather conditions but their impact on food inflation is usually transitory (figure 12).

Figure 12
Breakdown of Headline Inflation

(In p.p., y/y)



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

On the other hand, non-food inflation is typically equally driven by price-regulated items and services (together accounting for 80 percent of non-food inflation on average during the past 15 years), while the remaining impact comes from retail items.

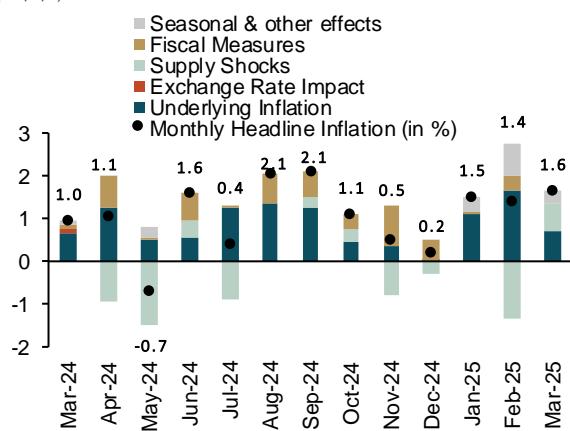
Despite being sporadic, price changes in regulated items tend to be significant in magnitude especially during economic reforms. During 2023 and 2024, the government undertook several fiscal consolidation measures to alleviate subsidy pressures on several food items, energy products (fuel products, natural gas, and electricity), as well as some public services. Since 2023, regulated items accounted for an average of 30 percent of monthly headline inflation dynamics.

Services tend to record relatively milder inflation rates, as their prices adjust to changing costs of production (from import prices, exchange rate volatility or other supply chain dynamics) and to spillovers from other food or regulated commodities. Annual inflation of services

remained rather stable around 19 percent throughout 2024, before dropping to 13.5 percent in March 2025, driven by the gradual dissipation of previous shocks.

Given the previously mentioned developments, tight monetary policy stance, a gradual dissipation of the previous supply shocks and the anchoring of inflation expectations; monthly inflation dynamics are gradually returning to normal pre-2022 levels despite the drag from fiscal measures (figure 13). The impact of the exchange rate volatility on headline inflation has almost disappeared since Q2 2024, after accounting for nearly 13 percent during Q1 2024, and 16 percent in 2023. However, the remaining impact from fiscal consolidation measures contains a lagged adjustment to previous exchange rate depreciations.

Figure 13
Monthly Headline Inflation Decomposition
(In p.p.)



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

During 2024, fiscal consolidation measures accounted for 20 percent of total monthly headline inflation, compared to only 5 percent in 2023. This includes the impact of the subsidy alleviation plan of selected regulated items in

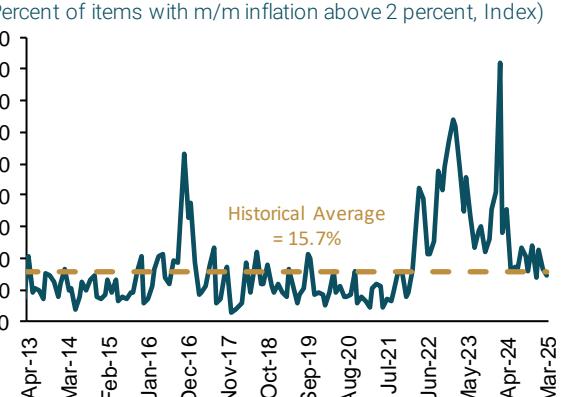
² The subsidy alleviation plan for electricity was paused in 2021 and resumed in January 2024.

2024, such as electricity², fuel products (natural gas, butane cylinders, diesel and gasoline), subsidized food items (bread and rice), and other public services such as landline fees, water supply, public transportation, railway transportation, tobacco products, and postal services.

Underlying inflation remains on a gradually declining trend since the beginning of 2023, approaching its historical average, reflecting the continued dissipation of shocks, declining food inflation and the improvement in anchoring inflation expectations closer to the CBE's announced targets (figure 13). Despite some positive supply shocks in 2024, negative supply shocks have cancelled them out, compared to predominantly positive supply shocks, of around 33 percent of total monthly headline inflation in 2023.

In an attempt to measure the dispersion of inflation rates across goods and services, a diffusion index is constructed by the CBE, which measures the breadth of price changes and reflects the persistence of inflationary pressures above a threshold of 2 percent monthly. The index represents the number of CPI items recording a monthly inflation rate that exceeds 2 percent every month as a share of all the items in the CPI (figure 14).

Figure 14
Diffusion Index
(Percent of items with m/m inflation above 2 percent, Index)



Source: Central Bank of Egypt calculations.

The index reached 64.3 percent in January 2023, then surged to an all-time high of 82 percent in February 2024, as exchange rate volatility along with the aforementioned supply shocks strongly impacted inflation expectations and the majority of the CPI basket exhibited sharp price increases. Since Q4 2024, the number of goods with monthly inflation exceeding 2 percent threshold dropped to an average of 18 percent in Q1 2025 and even dipped below its historical average, reaching 14.6 percent in March 2025. This decline suggests a dissipation of inflationary shocks or their concentration in a narrower set of goods and services, potentially indicating a return to the pre-2022 inflationary norms.

International food inflation, as measured by an international basket of highly traded food commodities and reported monthly by the World Bank, has been gradually recovering from the sharp spikes witnessed in 2021 and 2022. It continued to steadily decelerate since April 2022 and started recording negative annual rates since February 2023 to date (figure 15). Historically, domestic core food inflation has been asymmetrically related to international food inflation, and more directly linked to domestic developments. The asymmetric relationship reflects the fact that domestic prices mirror the increase in global commodity prices, but not their decline. However, the sharp surge in domestic core food inflation starting Q2 2022 reflected not only the lagged impact of higher import prices (from higher international prices and a depreciated exchange rate), but also other factors such as trade and supply disruptions, and domestic market imbalances (figure 15).

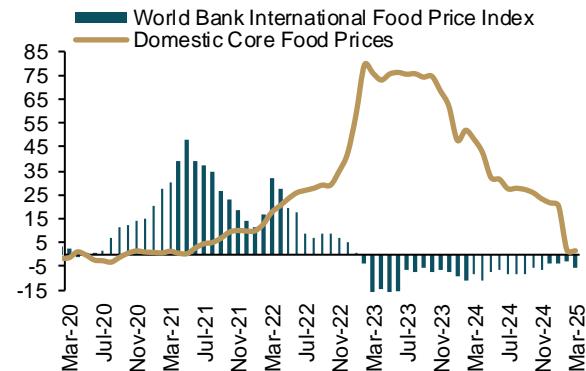
By decomposing the CPI basket, 18 percent of the basket is either imported or relies on some imported components while the rest is domestically produced (figure 16). Typically, imported inflation and headline inflation move in tandem, and only diverge in periods where the prices of most imported items increase independently from the rest of the basket. This is visible through periods of exchange rate volatility,

trade disruptions, and higher international prices. (figure 16). At times of stable import prices, the two series reflect almost the same inflation rates.

Figure 15

International Food & Domestic Core Food Inflation

(In %, y/y)

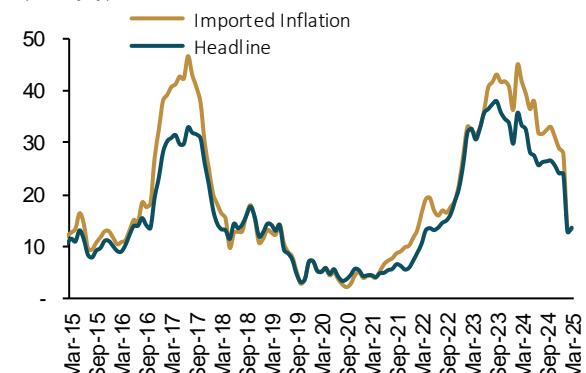


Sources: Central Bank of Egypt calculations; CAPMAS data; and World Bank International Food Price Index.

Figure 16

Imported Inflation

(In %, y/y)



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

Inflation nowcasts (forecasts of current-month inflation) are of great importance to central banks and markets, especially during times of uncertainty. Accordingly, the CBE resorts to high frequency data (daily prices) to help improve the nowcasts of monthly inflation (figure 17) and inform the initial conditions of the core medium-term forecasting model (see box 2).

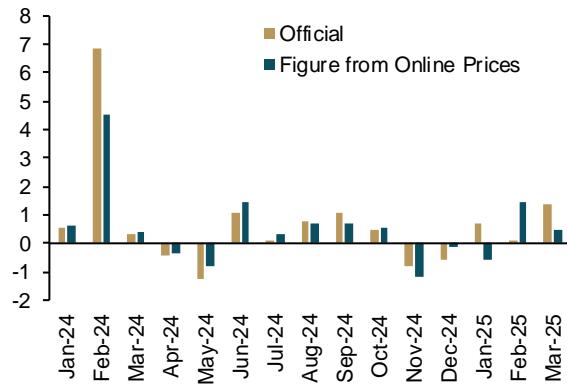
The CBE uses a large pool of daily prices from websites of a variety of outlets to measure current price movements in food inflation. This allows the

CBE to better calibrate its forecasts prior to the official release of inflation figures on the 10th of every month. Figure 17 shows the reliability of this method in estimating the direction of inflation and, to a lesser extent, the magnitude of price changes in almost all the food basket.

Figure 17

Monthly Contribution of Food items to Headline Inflation

(In p.p.)



Source: Central Bank of Egypt calculations.

Box 2. Nowcasting Alternative Food and Beverages Inflation Using Online Prices

Value Added of Estimating Alternative Food and Beverage CPI

1. **Near Real-Time Insights:** provides policymakers with up-to-date views on one of the largest components of the CPI, complementing official statistics.
2. **Wider Scope:** leverages online platforms to capture a broader range of products, enhancing the coverage of the CPI, particularly in volatile categories like food and beverages.
3. **High-Frequency Data:** utilizes high-frequency data to better capture the volatility of CPI sub-components.
4. **Strategic Policy Support:** aids in the nowcasting and forecasting of inflation, enabling more informed policy decisions.

Overview of the Methodology Used to Compile the Alternative Index

1. **Web Scraping:** employs web scraping techniques to gather data from supermarkets with a large market share and an online presence.
2. **Data Pre-Processing:** involves rigorous data cleaning and preprocessing to ensure data quality and consistency.
3. **Data Classification:** uses text similarity metrics and data science methods to match online product data with CAPMAS classifications to group supermarket products into the respective CPI categories as per the official CPI basket.
4. **Data Adjustment:** includes a rigorous series of steps to adjust the collected data, including outlier detection and handling, imputing missing prices, and handling seasonal items with large absence periods.
5. **Index Compilation:** compiles the series for the CPI items using a weighted indexing approach, relying on the weights of the official CPI basket.

Results of Alternative Food & Beverages (F&B) Inflation

The nowcast methodology yields various results, including:

1. Constructing an alternative index for Food & Beverages (F&B).
2. Disaggregate breakdown of the main drivers of inflation.
3. Analysis on product presence to track product categories that are missing from the market for extended periods at a time.

1.2.2 Real Sector

Key Takeaways:

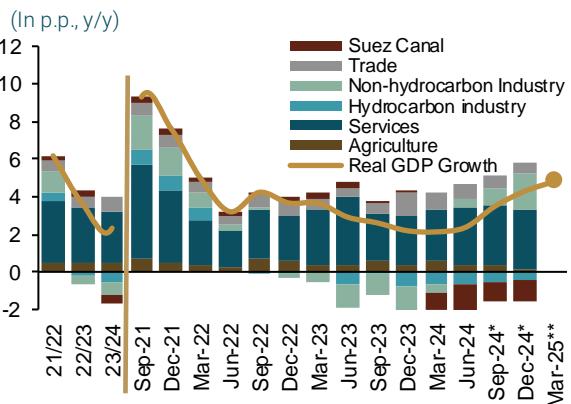
- The estimated output gap trajectory, indicates that demand-side inflationary pressures are expected to remain subdued, supporting the disinflation path over the short term.
- Nowcast for Q1 2025 sectoral real GDP growth shows that it is expected to record a preliminary figure of 5.0 percent³ based on leading indicators developments. Leading indicators strongly correlated with non-petroleum manufacturing GDP and tourism GDP exhibited improvements in Q1 2025, while those closely linked to Suez Canal GDP and hydrocarbon GDP indicated continued contraction during the same period.
- Both real GDP growth at market prices and at factor cost registered 4.3 percent in Q4 2024, compared to 2.3 and 2.2 percent, respectively, in Q4 2023.
- Meanwhile, the unemployment rate declined to 6.4 percent in Q4 2024 compared to 6.9 percent in Q4 2023. Real wages continued to pick up, nonetheless remaining below its long-term trend, posing limited demand-side inflationary pressures, a finding also supported by the estimated output gap trajectory.

Real GDP at factor cost grew significantly by 6.2 percent in FY 2021/2022, driven by substantial increases in the contributions of manufacturing, as well as the services sector, and in particular tourism. However, these increases were partially driven by a strong favorable base effect, as the aforementioned sectors witnessed a considerable slowdown, emanating from the negative impact of COVID-19 related lockdowns on economic activity during FY 2020/21.

Real growth slowed in FYs 2022/23 and 2023/24, dropping to 3.6 percent and 2.3 percent, respectively (figure 18). This deceleration was largely due to a decline in the contributions of extraction industries, petroleum, and non-petroleum manufacturing, all of which have registered contractions in economic activity. This was mainly attributable to foreign exchange pressures prior to the unification of the exchange rate in March 2024 which had limited the productive capacity of the economy and hence, constrained economic growth.

Figure 18

Contribution to Real GDP Growth by Sector



Source: Ministry of Planning, Economic Development and International Cooperation.

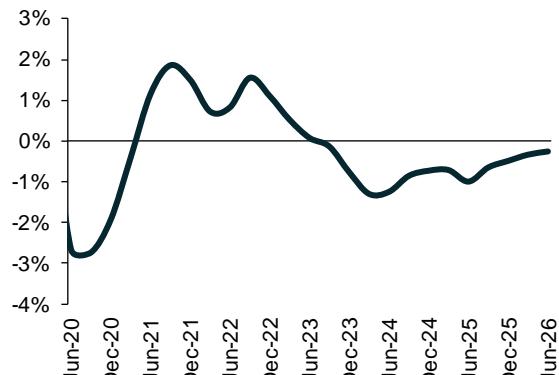
*/ Preliminary figures.

**/ March 2025 is CBE nowcast and subject to revision.

The estimated output gap remains in negative territory, suggesting that its trajectory continues to be supportive of the forecasted disinflation path over the short-term, as demand-side inflationary pressures are expected to remain subdued supported by the prevailing monetary stance (figure 19).

³ CBE estimates

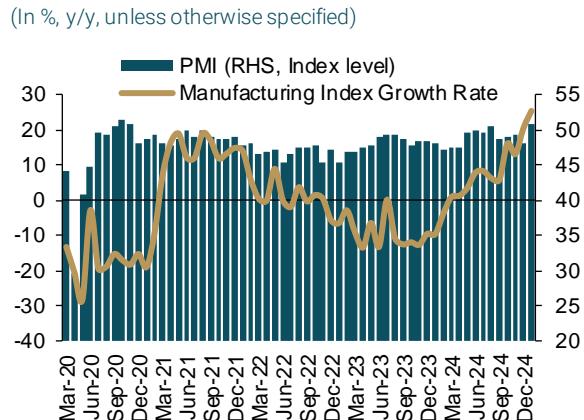
Figure 19
Output Gap
 (In percent of potential GDP)



Source: Central Bank of Egypt.

Economic activity leading indicators for Q1 2025 show that sectoral real GDP growth is expected to register 5.0 percent. Leading indicators⁴ employed to nowcast real GDP growth figures cover around 60 percent of sectoral economic activity and hence, provide an accurate estimate of economic activity. In Q1 2025, the manufacturing index, which exhibits strong correlation with non-petroleum manufacturing GDP is estimated to have grown by 18.2 percent year-on-year, depicting a more robust growth outlook for Q1 2025 compared to Q1 2024 (figure 20). Furthermore, the Purchasing Managers' Index (PMI) in Q1 2025 averaged 50, which is the expansionary threshold, and surpassed its historical average of 48.2, reflecting a continued uptick in private sector non-petroleum economic activity. In turn, leading indicators portray that the estimated pick-up in economic activity is driven by non-petroleum manufacturing, tourism and construction sectors.

Figure 20
Leading Indicators (Manufacturing Index Growth & PMI)



Sources: S&P Global; and CAPMAS.

On the other hand, leading indicators closely tied to Suez Canal GDP point to a sustained contraction for the fourth consecutive quarter. Nevertheless, the magnitude of contraction has started to recede due to a favorable base effect, emanating from the sizeable decline in net tonnage passing through the canal in Q1 2024. The sustained contraction is driven by continued disruptions in maritime trade in the Red Sea, which continues to weigh down on overall economic activity.

In Q4 2024, actual data reflected that real GDP at market prices grew by 4.3 percent in Q4 2024, signaling a sustained recovery in economic activity, and recording its highest figure since Q4 2022 (figure 21). The recorded figure reflects the combined improvement in the contribution of net exports and gross domestic investments. Net exports' contribution to GDP registered 1.8 p.p., its first positive figure since Q3 2023, reflecting a narrowing of the net exports' deficit in real terms. This improvement reflects the impact of the exchange rate unification on Egyptian exports of goods and services, enhancing its

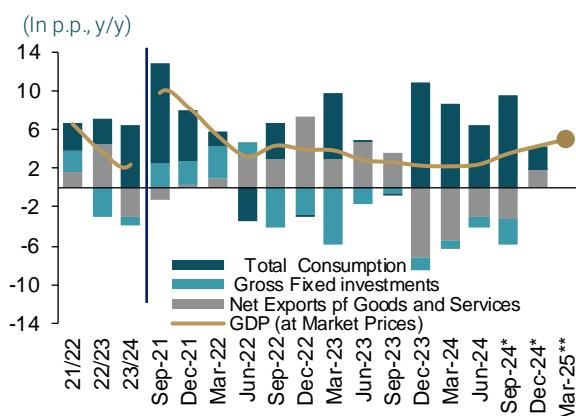
⁴ Leading indicators used to nowcast real GDP growth include the following: industrial production index, manufacturing index, production of natural gas, crude oil and petroleum products, Suez Canal net tonnage, tourist nights, marine, air, and rail cargo and

passengers, steel sales, fixed line subscribers, and electricity consumption.

competitiveness. Consequently, real growth of exports outpaced that of imports, whereby on an annual basis, exports grew by 40 percent, while imports grew by 20 percent only.

Figure 21

Contributions to Real GDP Growth at Market Prices



Source: Ministry of Planning, Economic Development and International Cooperation.

*/ Preliminary figures.

**/ December 2024 is CBE nowcast and subject to revision.

Similarly, the contribution of gross domestic investment improved, registering a marginal positive contribution of 0.1 p.p. in Q4 2024, the first positive figure since Q3 2022, and up from negative 1.5 p.p. in Q4 2023. This improvement was driven by an increase in private investments, which grew by 35 percent year-on-year. Nevertheless, public investments declined by 26 percent year-on-year, reflecting the government's adherence to the investment spending ceiling and privatization efforts, with the aim of supporting a more private sector-led growth model.

Nonetheless, consumption contribution declined to 2.4 p.p. in Q4 2024, down from 10.9 p.p. in Q4 2023, partially offsetting the increasing positive contributions of net exports and gross domestic investments. In particular, the decline in private consumption was the primary driver of decreasing consumption contribution, largely reflective of the prevailing tight monetary stance on households, incentivizing consumers to save as opposed to spending.

From the production side, real GDP growth at factor cost picked up for the third consecutive quarter, recording 4.3 percent in Q4 2024. The continued pick up was largely driven by the increasing contributions of the non-petroleum manufacturing, trade, and tourism sectors, which combined contributed 3 p.p. to aggregate GDP, up from 0.1 p.p. in the corresponding period last year. This suggests that the aforementioned sectors contributed 70 percent of growth in economic activity in Q4 2024. The witnessed improvement in the non-petroleum manufacturing and services sectors are consistent with the continued real growth in L/C loans extended to the industrial and services sectors during the same period.

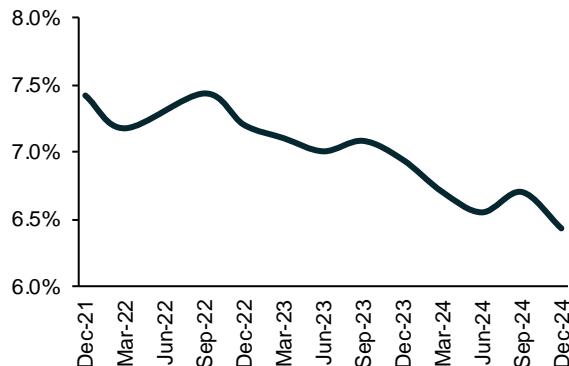
On the other hand, Suez Canal GDP continued to weigh down on economic activity, as it continued to contract, contributing -1.1 p.p. in Q4 2024, compared to 0.2 p.p. in Q4 2023. This is due to ongoing maritime trade disruption in the Red Sea. Furthermore, the contribution from the extractions sector declined to -0.6 p.p. in Q4 2024, down from -0.3 p.p. in Q4 2023, and remained in contractionary territory since 2022 Q1. Oil and natural gas production declined in Q4 2024 by 7 percent and 20 percent on an annual basis, respectively. Yet, the combined positive contributions of non-petroleum manufacturing, tourism, and trade in Q4 2024 more than offset the negative contributions stemming from the Suez Canal and extractions sectors, and hence, the recorded increase in real GDP growth.

Regarding the labor market, the unemployment rate declined to 6.4 percent in Q4 2024 compared to the recorded 6.9 percent in Q4 2023 (figure 22). On an annual basis, the observed decrease in the unemployment rate was attributed to growth in employment. Hence, all new entrants into the labor market were fully absorbed. Employment in Q4 2024 was concentrated in trade, education,

transportation, and manufacturing sectors⁵, all of which continued to register robust growth rates over the same period.

Figure 22
Unemployment Rate

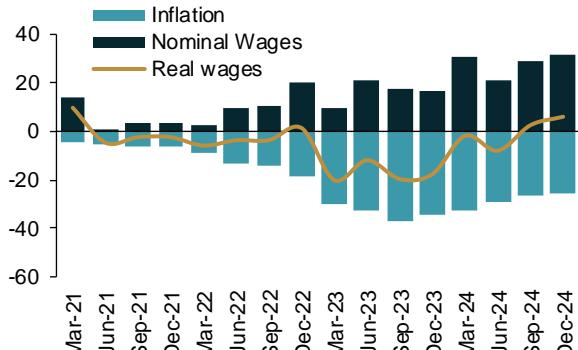
(As a percent of labor force)



Source: CAPMAS.

In addition, real wages grew for the second consecutive quarter in Q4 2024 following a long contractionary spell since Q1 2021, as nominal wage growth outpaced inflation (figure 23). However, the magnitude of the increase remains modest and hence, inflationary pressures emanating from the wage channel remain limited, especially as real wages remain below their trend. Hence, the current wage trajectory merely reflects a gradual recovery of purchasing power. Similarly, the estimated output gap trajectory⁶ continues to reflect subdued demand-side inflationary pressures supported by the prevailing monetary stance, as it remains in negative territory and is expected to remain so over the short-term, further supporting the forecasted disinflation path.

Figure 23
Real Wages
(In %, y/y)



Source: CAPMAS.

1.2.3 External Sector

Key Takeaways:

- Following the unification of the exchange rate in Q1 2024, Egypt's external position witnessed a positive turnaround due to unprecedented FDI and portfolio inflows, which managed to plug the current account deficit and rebuild external buffers.
- In Q4 2024, the overall balance of payments recorded a surplus, albeit a marginal one. The surplus was primarily driven by a narrowing current account deficit, compared to the corresponding period in 2023.
- On the other hand, the financial account posted a surplus, primarily driven by sustained FDI inflows and domestic bank financing, both of which were sufficient to finance the registered current account deficit in Q4 2024.

In FY 2023/24, the balance of payments registered a substantial surplus of USD 9.7 bn. The turnaround in Egypt's external position was mainly driven by FDI, emanating from the proceeds of Ras El-Hikma investment deal and portfolio inflows in the capital and financial account, which more than offset the widening current account

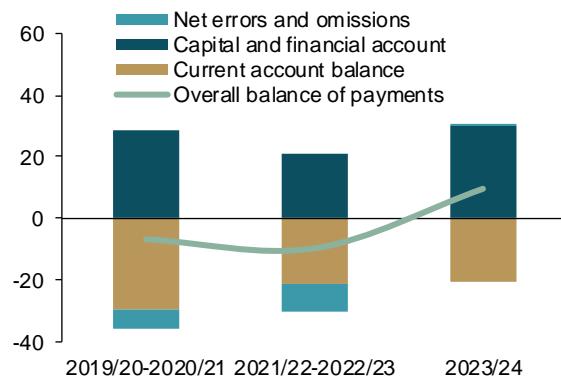
⁵ Source: Labor Force Survey, CAPMAS.

⁶ Estimated using a Hodrick-Prescott (HP) filter.

deficit (figure 24). The declining current account balance was mainly due to a deteriorating hydrocarbon trade balance, as well as a shortfall in services receipts. Moreover, the deterioration in the hydrocarbon trade balance was driven by a substantial decline in natural gas production. Hence, natural gas export volumes⁷ declined by 76 percent in FY 2023/24 compared to the previous year, while imports were ramped up by 37 percent to satisfy domestic demand needs. Moreover, the shortfall in services receipts was mainly due to a 24 percent decline in Suez Canal revenues, nonetheless, modest growth in tourism receipts partially mitigated these declines.

Figure 24
Contribution to the Overall Balance of Payments

(In USD bn)



Source: Central Bank of Egypt.

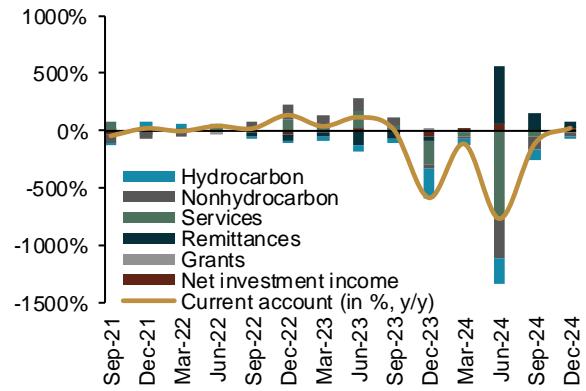
Conversely, during the period spanning FYs 2021/22 - 2022/23, Egypt's balance of payments registered an overall deficit of USD 9.7 bn, as capital and financial account financing fell short of bridging the current account deficit. Nonetheless during the aforementioned period, the current account deficit narrowed compared to the previous two years, driven by the positive contributions of services and the non-hydrocarbon trade balance. Yet, the capital and financial account flows, were insufficient to finance the posted current account deficit. In turn, total financing in FYs 2021/22 - 2022/23 declined

by around 28 percent compared to the previous two years due to substantial portfolio outflows, driven by investor risk-off sentiment that prevailed in emerging markets, including Egypt, following the outbreak of the Russia-Ukraine conflict.

In Q4 2024, the overall balance of payments recorded a marginal surplus of USD 0.5 bn, as capital and financial account flows, taking into account net errors and omissions, were sufficient to finance the narrowing current account deficit, which posted USD 5.2 bn. The registered deficit narrowed by 24 percent compared to that recorded in Q4 2023, mainly attributable to an improvement in remittances and the investment income balance (figure 25).

Figure 25
Contribution to the Current Account

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



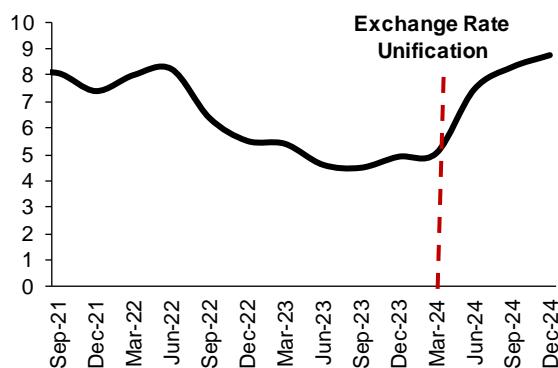
Source: Central Bank of Egypt.

Worker's remittances surged by 77.3 percent in Q4 2024, registering USD 8.7 bn (compared to 4.9 bn in Q4 2023), its highest level on record (figure 26). This is primarily due to the positive impact of the exchange rate unification in March 2024, channeling back current account receipts into the banking system. Furthermore, the deficit booked on the net investment income balance narrowed by 26 percent compared to the same quarter in 2023, posting USD 3.7 bn. Collectively, both

⁷ Source: Joint Oil Database Initiative (JODI).

factors offset the widening trade deficit and the narrowing services surplus, leading to an overall improvement in the current account deficit.

Figure 26
Remittances
(In USD bn)

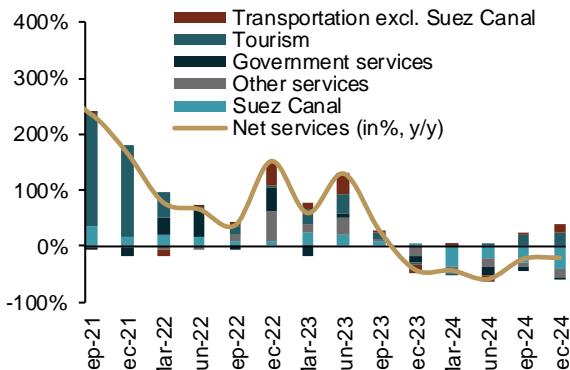


Source: Central Bank of Egypt.

The widening trade deficit partially offset the registered improvement, increasing by 26 percent year-on-year, driven by both hydrocarbon and non-hydrocarbon balances. Notably, the hydrocarbon balance deficit increased by 38 percent on annual basis in Q4 2024, recording USD 2.4 bn. This was largely due to ramped up natural gas imports to meet domestic demand needs. Demand for natural gas imports increased as domestic production declined by 20 percent during the same period. Meanwhile, the declining non-hydrocarbon balance in Q4 2024 is due to growth in non-oil imports outpacing that of exports, which is also consistent with the sustained recovery in economic growth, picking up by 2 percentage points compared to Q4 2023, as economic growth is a key driver of increased demand for imported goods and services through higher consumption and investment spending.

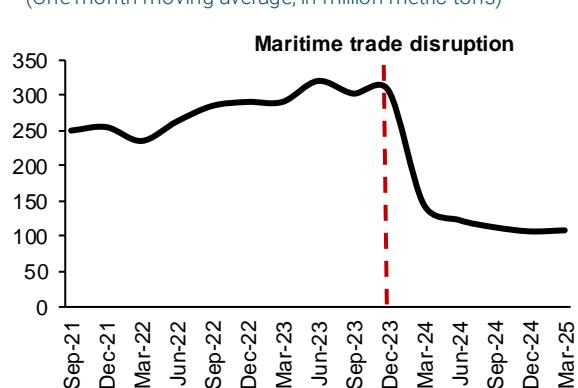
Accordingly, the ratio of non-oil exports to non-oil imports recorded 42 percent, remaining well-above its historical average of 34 percent since Q3 2003. Higher ratios imply an increasing capacity to generate sufficient foreign exchange earnings to cover import expenditures, stabilizing the external position of the economy.

Figure 27
Contribution to Net Services Balance
(In p.p., y/y unless otherwise specified +ve = improvement)



Source: Central Bank of Egypt.

Figure 28
Suez Canal Transit Volume
(One month moving average, in million metric tons)

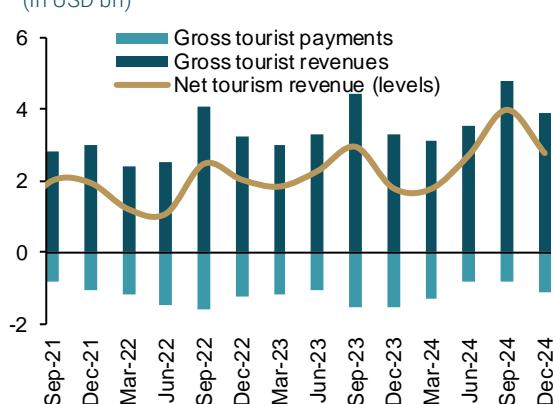


Source: IMF Port Watch.

Furthermore, the services surplus declined, contributing negatively to the current account deficit and hence, partially offsetting the improvement in remittances and net investment income (figure 27). In Q4 2024, the services balance posted a surplus of USD 3.2 bn, 20 percent less than that recorded in Q4 2023. The narrowing surplus is mainly attributed to a 63 percent shortfall in Suez Canal receipts, as a result of maritime trade disruptions in the Red Sea, diverting away international trade traffic away from the canal to the Cape of Good Hope route (figure 28). However, net tourism receipts increased by 54 percent on an annual basis, driven by the sector's continued resilience and increased competitiveness in light of regional conflicts,

mitigating the shortfall in Suez Canal receipts (figure 29).

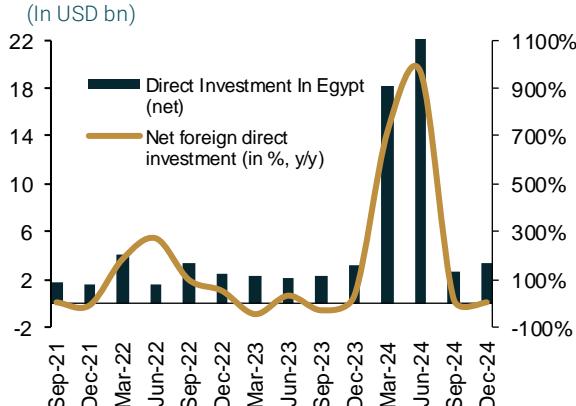
Figure 29
Tourism Receipts and Payments
(In USD bn)



Source: Central Bank of Egypt.

The capital and financial account recorded a surplus of 4.1 bn in Q4 2024, primarily stemming from robust USD 3.3 bn in net FDI flows and domestic bank financing. Net FDI recorded a slight increase in Q4 2024 compared to the corresponding period last year, underscoring an increasing ability to sustainably finance the current account deficit (figure 30). Differently, portfolio outflows weighed down on the posted surplus and contributed negatively to the capital and financial account, portraying the normal end-of-year seasonal profit-taking dynamics by major hedge funds and investment banks.

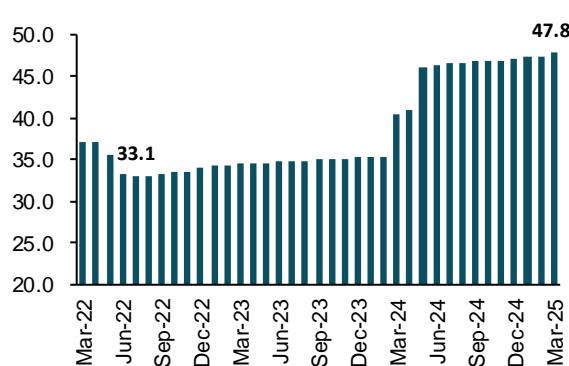
Figure 30
Net Foreign Direct Investments
(In USD bn)



Source: Central Bank of Egypt.

As such, net international reserves (NIR) stood at USD 47.1 bn in December 2024, increasing from USD 35.2 bn in December 2023, reflecting the registered balance of payments surpluses during the aforementioned period. The accumulation of reserves was primarily driven by robust inflows of FDI and a significant recovery in remittances. Furthermore, NIR continued its upward trend in the following quarter, posting USD 47.8 bn in March 2025 (figure 31). The current level of NIR covers around 6.2 months of imports as of March 2025 which is above the standard adequacy level (3 months import coverage).

Figure 31
Net International Reserves
(In USD bn)



Source: Central Bank of Egypt.

1.2.4 Monetary Sector

Key Takeaways:

- M2 growth has accelerated to an average of 30.6 percent in Q1 2025, compared to an average of 19.5 percent in Q1 2024, becoming more driven by the banking system's NFAs and the replenishing of FX reserve buffers. Noteworthy, M2 growth has notably decelerated to 25.8 percent in March 2025, compared to 33.9 percent in the previous month, as the revaluation effects dissipated.
- The banking system's NFAs (CBE and commercial banks) have returned to positive territory in May 2024 registering USD 15.1 bn in March 2025, after remaining in negative territory since February 2022. This came on the heels of the unprecedented Ras El-Hikma investment deal, portfolio inflows in light of the improved market sentiment following the exchange rate unification, rebound in workers' remittances, and the steadfast support of multilateral institutions.
- Real growth of L/C loans to the private sector started expanding in Q3 2024 to reach an average of 10.1 percent in Q1 2025, compared to an average of -8.7 percent in Q1 2024, mostly driven by the private business sector and supported by the significant drop in annual headline inflation in February 2025 on the back of sizeable favorable base effects. This is consistent with the recently witnessed and expected recovery of private sector's real economic activity going forward.

Since September 2021, broad money (M2) growth has accelerated noticeably, reaching a high of 29.8 percent in Q1 2023, mainly driven by the increasing contribution of net claims on the public sector (specifically the government) and the revaluation of foreign currency components in M2 following the exchange rate depreciation during the aforementioned period (figure 32). The government's increased reliance on the banking system to finance its fiscal deficit during this period stemmed primarily from the challenging

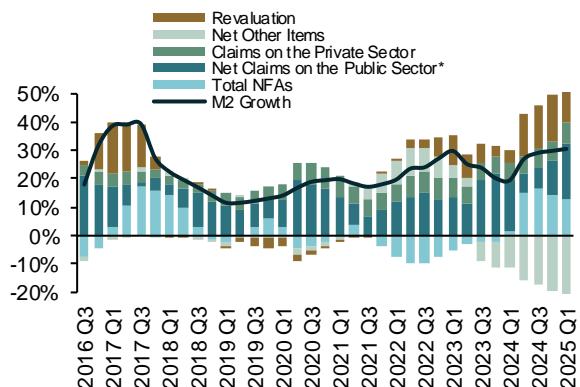
external financing environment on the back of the global monetary tightening due to the repercussions of Russia-Ukraine conflict.

M2 growth started decelerating throughout the following four quarters ending Q1 2024 as revaluation effects started dissipating. Nonetheless, the contribution of net claims on the public sector to M2 growth continued its upward trend with an increasing reliance on the banking system to finance the widening fiscal deficit. In fact, the fiscal deficit reached a high of EGP 898 bn (6.5 percent of GDP) during the period July-February of FY 2023/24, compared to EGP 501 bn (4.9 percent of GDP) during the same period of FY 2022/23.

Figure 32

Contribution to M2 Growth

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

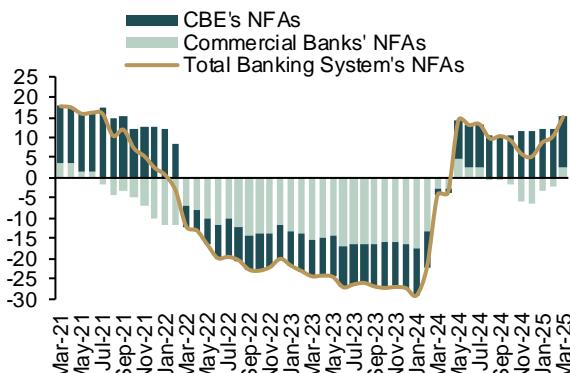


Source: Central Bank of Egypt.

*Net Claims on the Public Sector includes net claims on the government, net claims on public economic authorities, and claims on public sector companies.

This period also witnessed a significant drop in the banking system's NFA positions reaching USD -29.0 bn in January 2024, while remaining in negative territory since February 2022, with the CBE and commercial banks registering USD -11.4 bn and USD -17.6 bn, respectively (figure 33).

Figure 33
Banking System's Net Foreign Assets
(Stocks, in USD bn)



Source: Central Bank of Egypt.

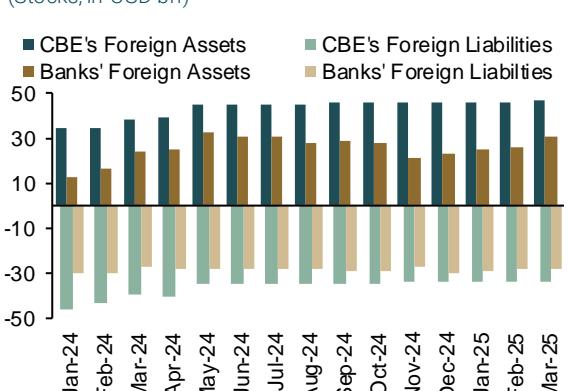
Nevertheless, following the exchange rate unification in March 2024, the accompanying revaluation effects, as well as the unparalleled recovery in banking system's NFAs, M2 growth has recently re-accelerated to register an average of 29.9 percent in Q4 2024 and continued its pickup reaching 33.9 percent in February 2025, compared to an average of 19.5 percent in Q1 2024. However, as the revaluation effects started dissipating in March 2025, M2 growth has notably decelerated to reach its lowest rate since April 2024, recording 25.8 percent in March 2025.

The aforementioned recovery in the banking system's NFAs came primarily on the heels of the (a) unprecedented Ras El-Hikma investment deal amounting to USD 35.0 bn (USD 24.0 bn in the form of fresh funds and USD 11.0 bn conversion of UAE's deposits at the CBE); (b) portfolio inflows in L/C treasury securities in light of the improved market sentiment; (c) upsurge in workers' remittances by 51.3 percent during 2024 compared to the previous year to record USD 29.6 bn; (d) as well as the steadfast support of multilateral institutions. In turn, the banking system's NFAs have returned to positive territory since May 2024 reaching USD 15.1 bn in March 2025.

Particularly, the CBE's NFAs have markedly rebounded to USD 12.5 bn in March 2025, compared to USD -11.4 in January 2024. This

recovery was supported by the aforementioned increase in FX resources coupled with the notable decline in the CBE's foreign liabilities by a cumulative of USD 11.5 bn throughout the period January 2024 – March 2025 (figure 34). The latter was mainly driven by the conversion of UAE's deposits at the CBE to be utilized for investments in real estate and other prime projects across Egypt in addition to the development rights of Ras El-Hikma. Similarly, commercial banks' NFAs significantly recovered to stand at USD 2.5 bn in March 2025, compared to USD -17.6 bn in January 2024, primarily driven by the commercial banks' notable accumulation of foreign assets and – to a much lesser extent – their decline in foreign liabilities.

Figure 34
CBE's and Commercial Banks' Foreign Assets and Liabilities
(Stocks, in USD bn)



Source: Central Bank of Egypt.

Accordingly, M2 growth decomposition notably shifted towards healthier dynamics starting Q1 2024, compared to the previous two years, becoming more driven by the recovery in NFAs and the replenishing of FX reserve buffers. This was also coupled with a notable decline in the CBE's extension of credit to the government as the fiscal deficit (percent of GDP) significantly declined to 3.6 percent in FY 2023/24, compared to 6.0 percent in the previous fiscal year, on the back of the proceeds from the Ras El-Hikma investment deal. Meanwhile, continued revenue mobilization and fiscal consolidation efforts brought the fiscal deficit to 5.1 percent of GDP

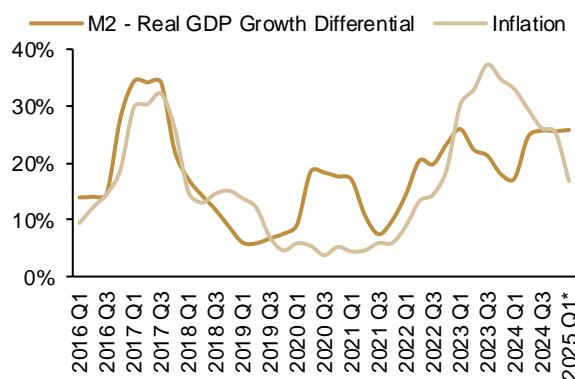
during Jul – Feb FY 2024/25 compared to 6.5 percent of GDP during the corresponding period in previous year.

In general, the increase in the gap between M2 – Real GDP growth results in inflationary pressures from the money creation side. Specifically, M2 – Real GDP growth differential widened during the period Q4 2021 – Q2 2024, which largely explains the accelerating trend of inflation rates during the same period (figure 35).

However, it is worth mentioning that the marked rise in inflation rates during 2023, despite the brief decline in M2 – Real GDP growth differential, can be attributed to supply-side shocks, which accounted for approximately 33% of total monthly headline inflation in 2023. Conversely, the marked decline in inflation rates since Q3 2024 – Q1 2025 can be attributed to the decline in supply-side shocks and improved macroeconomic sentiment following the unification of the exchange rate in March 2024 and the accompanying significant recovery in the banking sector's net foreign assets, in addition to the favorable base effect.

Figure 35 M2 - Real GDP Growth Differential and Inflation

(In %, y/y, aop)



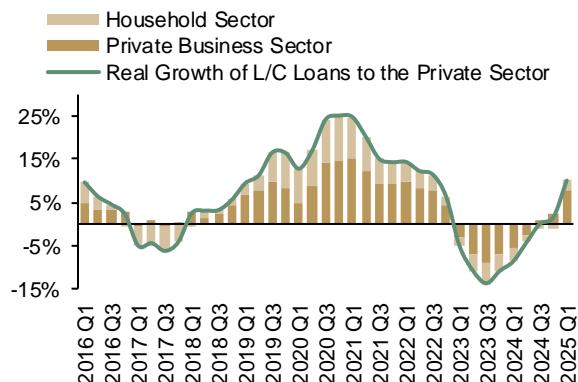
Source: Central Bank of Egypt.

*/ Real GDP growth rate in Q1 2025 is based on the Monetary Policy Sector's estimates and is subject to revision.

Concerning the private sector's growth dynamics, real growth of L/C loans to the private sector has been on a downward path since Q2 2022, reaching a record low of -13.8 percent in Q3 2023, after peaking at 25.1 percent in Q4 2020 mainly supported by the CBE's subsidized lending initiatives during the COVID-19 pandemic (figure 36). This declining trajectory and the ensuing contraction of real growth of L/C loans to the private sector for the six consecutive quarters ending Q2 2024 was predominantly driven by the significant monetary tightening by a cumulative 1900 bps between March 2022 and March 2024 as well as the phasing out of the CBE initiatives starting end-2022. With respect to the private business sector, the industrial sector (mainly food & beverages and construction materials sectors) contracted the most during the period Q2 2022 – Q3 2023 followed by the services (primarily the construction & building and real estate sectors) and trade sectors (figure 37).

Figure 36 Contribution to the Real Growth of L/C Loans to the Private Sector

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

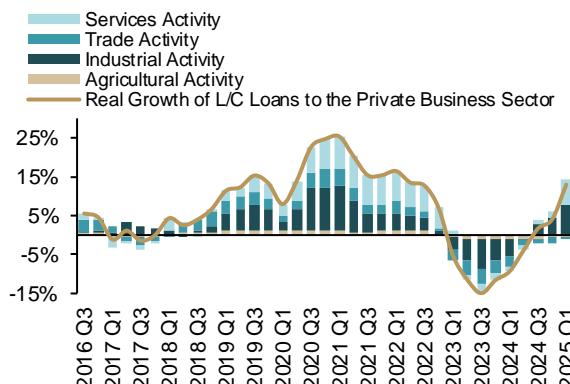


Source: Central Bank of Egypt.

Figure 37

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

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



Source: Central Bank of Egypt.

However, following the ease in the negative real growth rates of L/C loans to the private sector during Q4 2023 – Q2 2024, real growth of L/C loans to the private sector started expanding in Q3 2024 and continued its expansion in the following quarter to register 1.5 percent compared to -4.3 percent in Q2 2024, with the private business sector being the main driver. This is reflected in the return of the real growth of L/C loans to the private business sector to positive territory in Q3 2024 and Q4 2024 recording 1.7 percent and 4.0 percent, respectively, compared to -3.8 percent in Q2 2024. This recovery was chiefly attributable to the pickup in the contributions of the industrial sector (oil & gas, construction materials, pharmaceuticals, and food & beverages sectors) and to a lesser extent the services sector (construction & building, real estate, and financial services sectors).

Recently, real growth of the L/C loans to the private sector markedly increased to an average of 10.1 percent in Q1 2025, profoundly impacted by the sharp decline in annual headline inflation witnessed in February 2025 on the back of the sizeable favorable base effects. Such acceleration by a cumulative 8.6 p.p. during Q1 2025, compared to previous quarter, reflected the following dynamics: a pickup in the positive

contribution of private business sector – with its real growth rate of L/C loans registering 13.0 percent – coupled with the return of the household sector's contribution to positive territory for the first time since Q4 2022.

This recovery in real growth of L/C loans to the private sector aligns with the aforementioned pickup in the private sector's real economic activity during H2 2024 (including both private consumption and investment, with the latter concentrated in Q4 2024) as well as the expected continued recovery in economic activity in Q1 2025 as shown by its corresponding leading indicators.

1.2.5 Domestic Liquidity and Financial Conditions

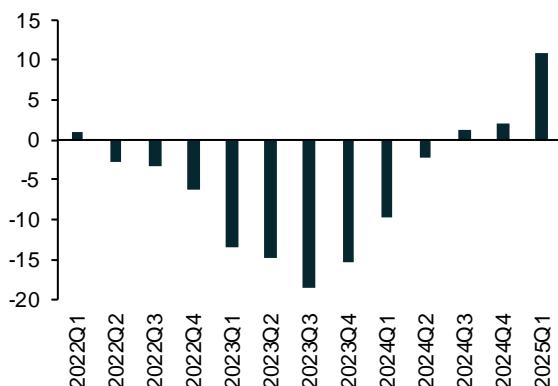
Key Takeaways:

- Monetary stance has started tightening in Q1 2024, driven by the 1900 bps cumulative increase in policy rates since March 2022.
- Transmission of the cumulative 1900 bps policy rate hikes to broader financial conditions has been slightly less than complete across the board, with the O/N interbank rate and weighted average rate on new loans witnessing the strongest transmission.
- The yield curve became inverted, led by the rise in T-bills rates on the back of the monetary tightening cycle.
- In line with the improvement in foreign sentiment since the exchange rate unification in March 2024, there has been renewed appetite for Egyptian government securities.
- Meanwhile, Eurobond yields, serving as a proxy for sovereign credit risk of Egypt in foreign currency, have been broadly stable following its significant improvement after the March 2024 corrective measures.

The monetary policy stance has started tightening significantly following the significant 800 bps hike in Q1 2024. The tightening of the stance comes

after a two-year long period, in which real interest rates were negative, coinciding with heightened inflationary pressures throughout 2022 and 2023. Nonetheless, the contemporaneous real interest rate turned positive in Q3 2024 for the first time since Q1 2022 and remained on an upward trajectory since then (figure 38).

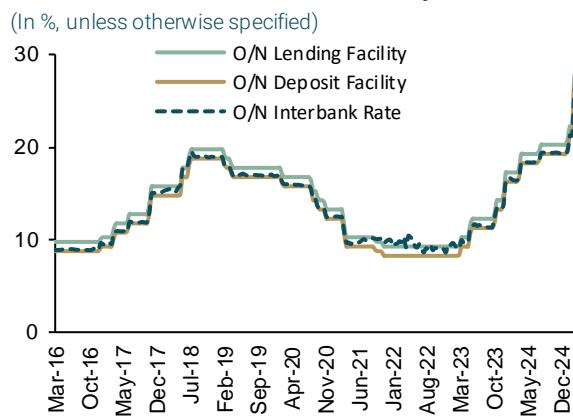
Figure 38
Real Interest Rate
(In %, -ve = loose monetary stance and vice versa)



Source: Central Bank of Egypt.

Between March 2022 – March 2025, the policy rate was raised by a cumulative of 1900 bps from 8.75 percent to 27.75 percent, reflecting a series of policy rate hikes on March 21, May 19, October 27, and December 22, 2022, followed by additional hikes on March 30, August 3, 2023, February 1, and March 6, 2024. Rates across the economy (i.e., interbank rates, rates on government securities, and banking sector rates) continue to witness partial transmission. Approximately 92 percent (0.92x) of the cumulative increase in policy rates has been reflected in the O/N interbank rate, which averaged 27.5 percent during March 2025, compared to 10 percent in March 2022 (prior to the cumulative 1900 bps policy rate hikes, figure 39).

Figure 39
O/N Interbank and CBE Policy Rates*

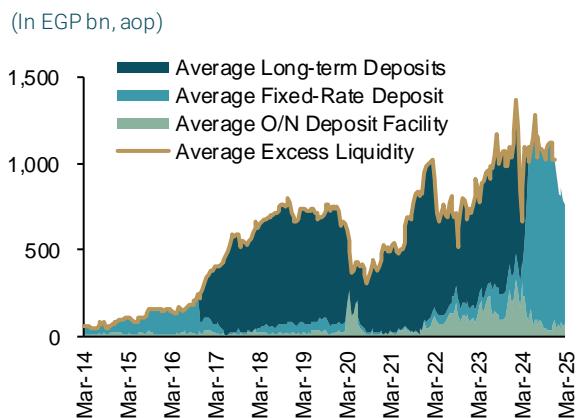


Source: Central Bank of Egypt.

* Data for March 2025 is up until the maintenance period ending March 31, 2025.

On the other hand, Egypt's average excess liquidity showed significant fluctuations throughout 2024, reflecting the CBE's active liquidity management strategies. In March 2024, following a significant 600 bps hike in interest rates, excess liquidity sharply declined from its February 2024 peak of EGP 1,279.5 bn (1.7x the reserve requirement) to EGP 809.1 bn (1.0x the reserve requirement), as the CBE adjusted the key policy rate with the aim of absorbing liquidity and curbing inflationary pressures (figure 40).

Figure 40
Excess Liquidity*



Source: Central Bank of Egypt.

* Data for March 2025 is up until the maintenance period ending March 31, 2025.

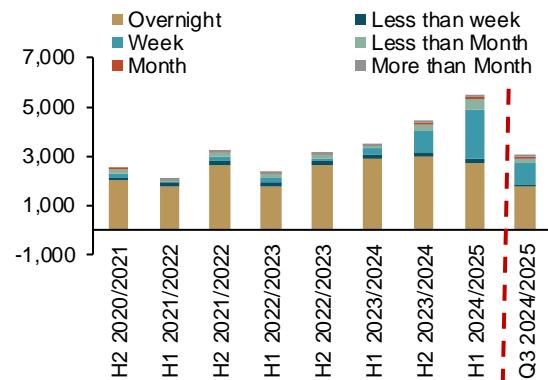
Subsequently, in April 2024, the CBE implemented a 'full allotment' policy in its open market operations, accepting all submitted bids from eligible banks to manage liquidity more effectively. This resulted in a moderate recovery of excess liquidity to EGP 990.9 bn (1.3x of the reserve requirement) during the same month. The adoption of the full allotment policy has played a crucial role in calibrating liquidity conditions and steering the weighted average overnight interbank rate around the mid-corridor rate, which is the CBE's main operation rate.

During the first quarter of 2025, excess liquidity continued its downward trend, reaching EGP 766.6 bn (0.8x the reserve requirement), the lowest level recorded since April 2023. This sustained decline highlights the CBE's effectiveness in managing liquidity.

Meanwhile, interbank volumes increased starting from H2 FY 2023/24, in light of the implementation of the full allotment policy. Accordingly, one-week tenor transactions' volume increased significantly from an average of 5.7 percent of the total volume during H2 FY 2020/21 to 18.9 percent in H2 FY 2023/24, then 37.9 percent in H1 FY 2024/25 and 28.5 by Q3 FY 2024/25 (figure 41).

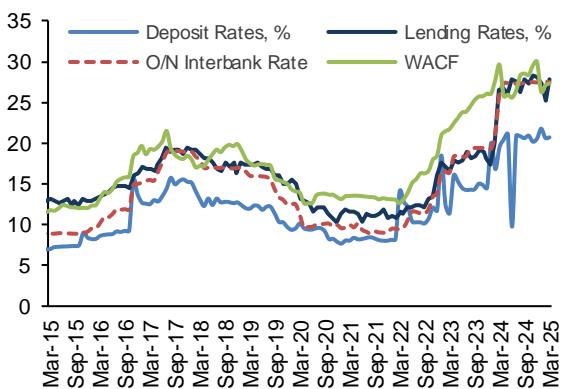
In the banking sector, the weighted average rate of new deposits⁸ increased to record an average of 20.7 percent in March 2025, compared to an average of 8.1 percent in March 2022 (prior to the cumulative 1900 bps policy rate hikes by the CBE), reflecting a partial transmission of 0.66x (66 percent) (figure 42). Meanwhile, the weighted average rate on new loans increased to record an average of 28 percent in March 2025, compared to an average of 10.9 percent in March 2022, reflecting a less-than-complete transmission of c.0.9x (90 percent).

Figure 41
Interbank Volume
(In EGP bn)



Source: Central Bank of Egypt.

Figure 42
Selected Market Interest Rates^{1/}
(In %, unless otherwise specified)



Source: Based on a banking sector survey that is conducted by the Central Bank of Egypt, up to March 31, 2025.

Yields on L/C government securities shown as the weighted average cost of funds (WACF) in figure 43 have been broadly increasing for the last three quarters to record an average of 27 percent (gross of tax) during Q1 2025. This is a notable increase compared to 13 percent recorded during Q1 2022 (prior to the cumulative 1900 bps policy rate hikes by the CBE), reflecting a partial transmission of c.0.74x (74 percent).

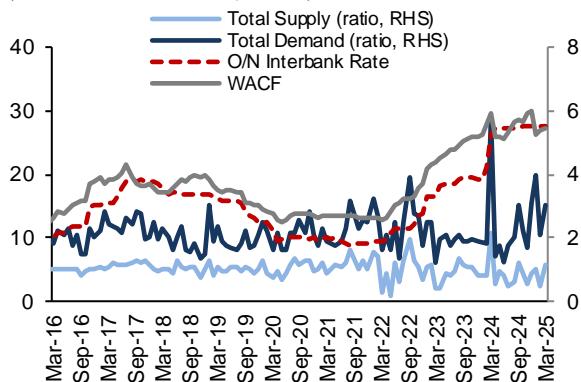
⁸ Rates of new deposits refer to the rates of deposits that were created in the latest available month only (March 2025), rather

than the average rate on the total stock of deposits in March 2025. The same definition applies to rates on new loans.

Figure 43

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

(In %, unless otherwise specified)



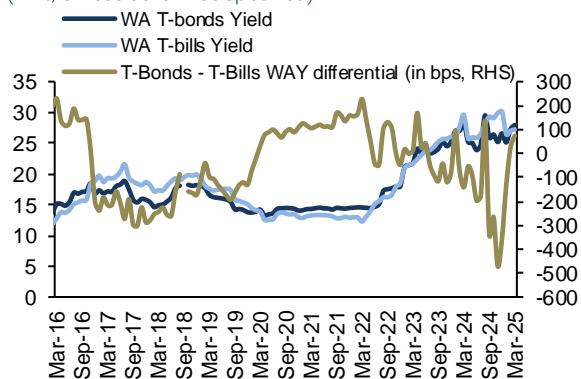
Source: Central Bank of Egypt.

* Data is up to March 31, 2025

Figure 44

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

(In %, unless otherwise specified)



Source: Central Bank of Egypt.

* Data is up to March 31, 2025

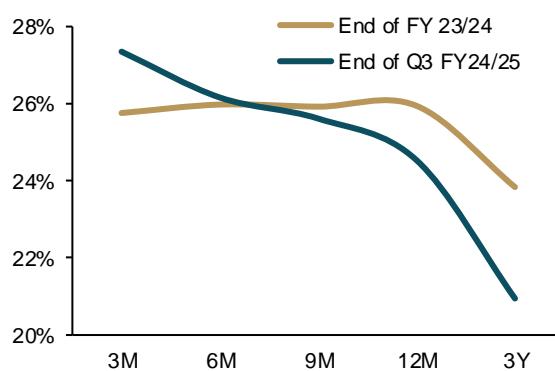
This partial transmission was affected by both an increase in demand and a decrease in supply contributing to lower yields (figure 43). Demand, as measured by the coverage ratio, increased to an average of 3.0x during Q1 2025, compared to 2.7x during Q1 2022. Meanwhile, supply, reflected by the accepted-to-required ratio, declined to an average of 0.9x during Q1 2025, down from 1.2x in Q1 2022. Despite these opposing pressures, yields continued to rise, highlighting the strong impact of the CBE's monetary tightening on market rates (figure 44).

Historically, Egypt had an upward sloping yield curve. However, the yield curve started to invert, led by an increase in T-bills rates following the cumulative 1900 bps hike in policy rates that took place between March 2022 and March 2024 (figure 45). This comes naturally as shorter tenor T-bills are generally more responsive to policy rate changes, when compared to longer tenor bonds, and due to market expectations pricing in expected interest rate cuts in anticipation of the continuation of the easing cycle by the CBE, paving the way for the normalization of interest rates as the disinflation path is expected to continue.

Figure 45

Weighted Average of Primary Market Gross Yields

(In %)



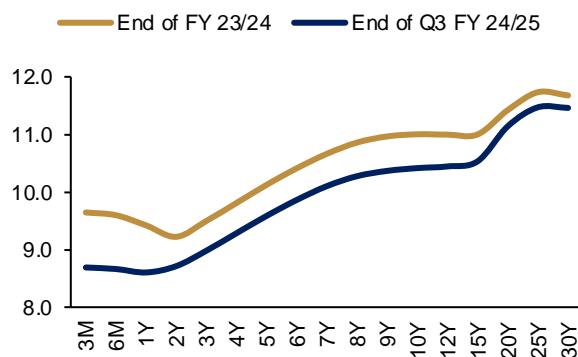
Source: Central Bank of Egypt.

Going forward and in anticipation of the continuation of the CBE monetary easing cycle, the Ministry of Finance increased the supply of the short end of the curve. Meanwhile, the majority of the total accepted amount in T-bonds during the first 3 quarters of FY 2024/25 was in 3Y bonds. Despite the relatively large supply of 3Y bonds, yields remained relatively lower as there was an increase in demand on the 3Y tenor from both local and foreign investors, reflecting broad-based confidence in the corrective measures implemented in March 2024 and their positive impact on macroeconomic stabilization over the medium term.

In-line with the improvement in foreign sentiment since March 2024, foreigners have re-entered Egypt's local debt market. Moreover, positioning for T-bonds has started to pick-up following the expectations of interest rate cuts during 2025.

Since the start of the FY 2024/25, yields on Egyptian Eurobonds declined, dropping by an average of 56 bps across all tenors as of end-March 2025 (figure 46). This decline reflects a recovery in demand and foreign sentiment for Egyptian Eurobonds on the back of the corrective measures implemented since March 2024 and the accompanying notable FDI and portfolio flows, which have also contributed to the stability in yields in recent quarters.

Figure 46
Egypt's Eurobond Yields
(In %)

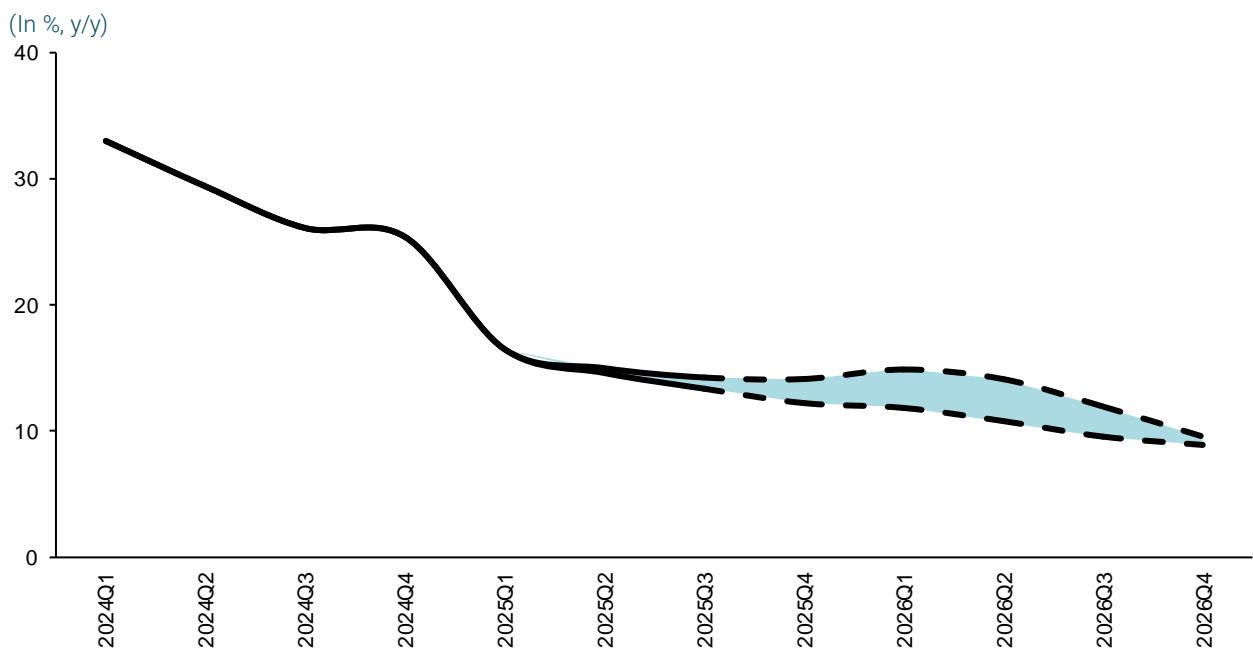


Source: Bloomberg.

2. Outlook

Inflation is forecasted to average around 14-15 and 10-12.5 percent in CYs 2025 and 2026, respectively, compared to 28.3 percent in CY 2024⁹ (figure 47). As such, annual headline inflation is expected to continue declining throughout the remainder of 2025 and 2026, albeit at a slower pace compared to the significant decline witnessed in Q1 2025. The slower disinflation path is partially due to the drag from implemented and planned fiscal consolidation measures across the forecast horizon, in addition to the relative persistence of non-food inflation. As such, inflation is expected to converge towards the CBE target band of 7 percent (± 2 percentage points) on average, in Q4 2026. The inflation forecast depends on several underlying assumptions, which if changed can lead to a different path for inflation rates over the medium term.

Figure 47
Annual Headline Inflation Forecast



Source: Central Bank of Egypt's estimates using the Quarterly Projection Model (see box 3).

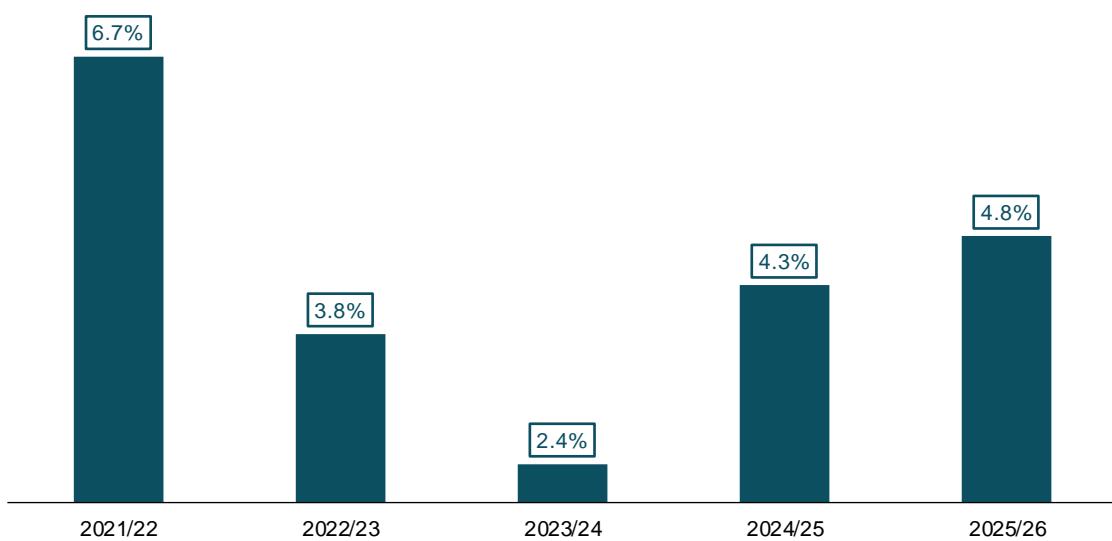
Given global uncertainty stemming from the ongoing trade developments and geopolitical tensions, an upper bound for the inflation forecast was devised to model the aforementioned developments. The upper bound mainly assumes a partial passthrough of trade tariffs to import and domestic prices. As such, inflation for the upper bound is expected to stabilize throughout 2025 and H1 2026, before resuming its declining trajectory thereafter, as opposed to steadily declining throughout the forecast horizon. At present, upside risks to the aforementioned inflation forecast remain subject to geopolitical and trade war developments, as well as higher-than-anticipated passthrough of planned fiscal measures. On the other hand, downside risks to the inflation forecast include quicker than penciled interest rate cuts from major central banks.

⁹ The CBE medium-term forecast employs a semi-structural Quarterly Projection Model (QPM) as outlined in box 3.

Monetary conditions are currently estimated to be appropriate to sustain the forecasted disinflation path, conditional upon the CBE reaction function (see box 3). The CBE aims to sustain the prevailing positive real interest rate, ensuring that a sustainable and significant decline in underlying inflation is realized and inflation expectations are well anchored at the announced target.

While global 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 further slowdown in global demand amidst ongoing trade uncertainties.

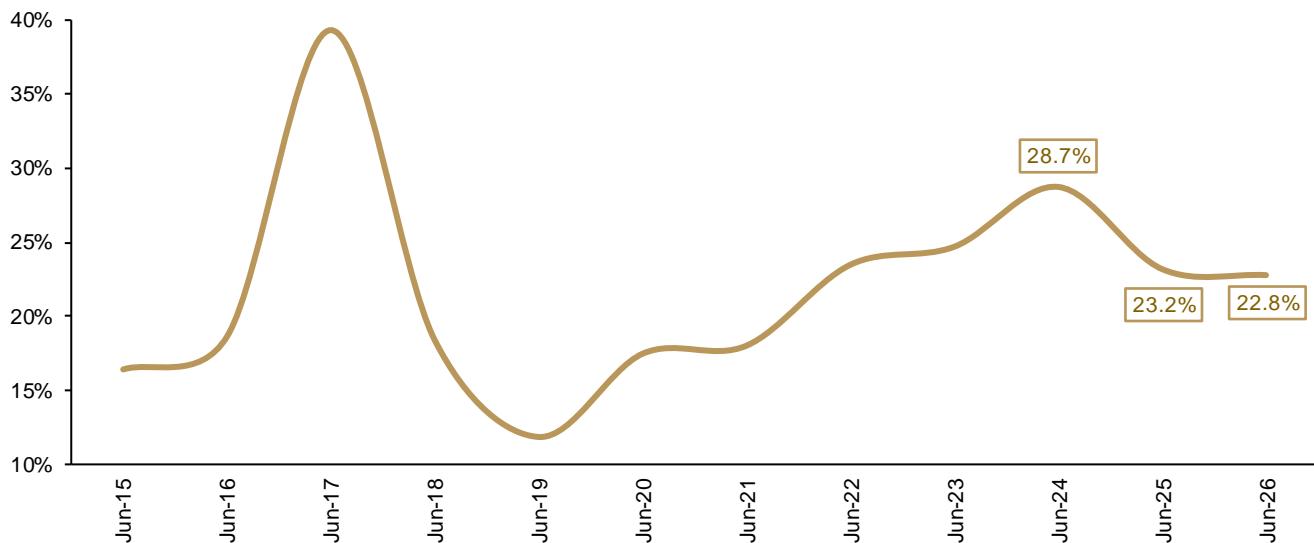
Figure 48
CBE Real GDP Forecast (Market Prices)
(In %, y/y)



Source: Central Bank of Egypt.

Domestically, real GDP growth is expected to register 4.3 percent in FY 2024/25, up from 2.4 percent in FY 2023/24, and gradually recovering from the subdued spell of economic activity during the past two fiscal years (figure 48). The expected recovery is mainly due to the rebound of manufacturing economic activity as shown by leading indicators, reflecting the positive impact of the unification of the foreign exchange markets on the ability of firms to import requisite raw materials and intermediate goods for the production processes. Moreover, growth will be supported by an expected improvement in the contribution of the extractions sector, as various successful onshore and offshore discoveries are projected to revive Egypt's production of crude oil and natural gas. Additionally, growth is forecasted to continue picking up in FY 2025/26, yet still below potential, with the output gap expected to remain negative, but is expected to gradually converge to potential by the end of FY 2025/26, with real GDP growth registering 4.8 percent on average during the fiscal year. As such, the output gap trajectory is supportive of the forecasted disinflation path over the forecast horizon, as demand-side inflationary pressures will remain subdued given the prevailing tight monetary stance.

Figure 49
Broad Money Forecasts
 (In %, y/y, eop)



Source: Central Bank of Egypt, Monetary Policy Sector estimates.

M2 Growth is expected to decelerate to 23.2 percent by end-June 2025, compared to 28.7 percent by the end of the previous FY 2023/24, before stabilizing thereafter at 22.8 percent by end-June 2026 (figure 49). The notable deceleration estimated by the end of the current FY 2024/25, compared to the previous fiscal year, is primarily on the back of the exchange rate unification in March 2024 coupled with the unprecedented rebound in the banking system's NFAs in the previous fiscal year, which are not expected to recur in the current fiscal year, and will therefore, lead to significant favorable base effects starting March 2025.

In view of the above macroeconomic outlook and developments, as well as the balance of risks surrounding the inflation forecast, and considering the prevailing monetary stance, the MPC concluded in its April 17th meeting 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.

Box 3. CBE Quarterly Projection Model

The forecasting and policy analysis system (FPAS) incorporates several technical and analytical tools that support a forward-looking and data-driven decision-making process consistent with achieving the CBE's mandate of price stability. It also ensures that the decision-making process is carried out within a well-organized, consistent, and documented framework, allowing for the creation of a narrative for the Egyptian economy to explain the drivers of the medium-term forecast.

The Quarterly Projection Model (QPM) is the Central Bank of Egypt's core medium-term forecasting and story-telling tool, used to generate policy recommendation and inform monetary policy decision-making. It is a small, open-economy, forward-looking¹ gap (semi-structural) model based on the New Keynesian framework, informed by key characteristics of the Egyptian economy. This model is used by the Monetary Policy Sector within the FPAS, which has been adopted by the CBE to support the transition towards an inflation targeting regime. This system supports policy-makers in setting an appropriate monetary policy path, considering the CBE's inflation target, current and expected macroeconomic conditions over the forecast horizon.

The QPM incorporates four behavioural equations: aggregate demand function (IS curve), aggregate supply function (Phillips curve), a modified uncovered interest rate parity (UIP), and the CBE reaction function. The interlinkages between each illustrate different macroeconomic relationships in the economy. For example, the effect of excess demand on inflation is captured through a forward-looking Phillips curve, wherein a positive output gap leads to a higher inflation rate. Meanwhile, monetary policy influences the real economy (i.e., demand) through an aggregate demand equation, where monetary policy decisions affect both real interest rate and real exchange rate gaps and hence, impacting aggregate demand. For example, positive real interest and real exchange rate gaps slow down demand. In addition to these key equations, different shocks are also incorporated into the model to quantify their economic impact. Examples of these shocks include a monetary policy shock in the reaction function to incorporate alternative interest rate paths.

Monetary Transmission Mechanism in the QPM: The QPM captures both the interest rate and exchange rate channels of the monetary transmission mechanism, which in turn impact an economy's monetary conditions with a lag of four to six quarters. Both channels recognize that economic agents' decisions are largely determined by the real interest and exchange rates, rather than their nominal rates. A tighter monetary stance (i.e. rising real interest rates) will lead households and firms to reduce consumption and investment, consequently constraining aggregate demand and containing inflationary pressures. The exchange rate channel captures the transmission of monetary policy decisions to real marginal cost through domestic and import channels, which themselves are a function of real exchange rate movements.

¹ A key feature of the model is its forward-looking approach, which is a pre-requisite to transitioning to an inflation targeting regime. This means that monetary policy responds not to current inflation but to the future inflation outlook, recognizing that price-setting decisions affecting current inflation were made in the past, as well as the lagged impact of the monetary policy transmission mechanism on real economic variables.

3. Appendix

Table A1. CPI Contribution*

	Weights**	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Monthly Contributions to Headline CPI Inflation (in pp)														
Headline	100.00	0.95	1.06	-0.68	1.58	0.39	2.05	2.08	1.10	0.52	0.21	1.51	1.39	1.65
Regulated Items	21.40	0.07	0.71	0.02	0.64	0.05	0.59	0.56	0.27	0.77	0.16	0.24	0.55	0.00
Fresh Fruits & Vegetables	5.50	-0.19	0.12	-0.11	-0.04	0.71	0.77	0.82	-0.11	-0.56	-0.61	0.04	-0.34	1.01
Core CPI	73.10	1.43	0.31	-0.79	1.30	-0.49	0.94	0.96	1.30	0.42	0.91	1.69	1.63	0.87
Food Prices	32.70	0.31	-0.40	-1.28	1.07	0.11	0.75	1.10	0.47	-0.79	-0.60	0.72	0.09	1.40
Retail Prices	14.30	0.20	0.39	0.17	0.24	0.13	0.24	0.20	0.19	0.22	0.23	0.36	0.25	0.09
Services	34.30	0.38	0.36	0.40	0.16	0.10	0.47	0.22	0.17	0.32	0.42	0.19	0.50	0.16
Annual Contributions to Headline CPI Inflation (in pp)														
Headline	100.00	33.34	32.54	28.15	27.51	25.67	26.25	26.40	26.53	25.54	24.06	23.95	12.84	13.62
Regulated Items	21.40	5.88	6.42	5.73	5.65	5.11	5.47	5.97	6.23	6.22	6.26	6.02	4.91	4.79
Fresh Fruits & Vegetables	5.50	2.21	2.24	2.01	1.91	2.40	2.29	2.21	2.36	1.95	0.80	1.30	0.44	1.75
Core CPI	73.10	33.66	31.81	27.13	26.64	24.38	25.13	24.97	24.40	23.71	23.22	22.59	10.01	9.41
Food Prices	32.70	17.81	16.13	12.49	12.85	11.97	11.76	11.44	11.32	10.09	8.38	8.56	1.62	2.86

Sources: Central Agency for Public Mobilization and Statistics (CAPMAS); and Central Bank of Egypt calculations.

*Discrepancy is due to rounding numbers.

** Weights are based on 2017/2018 Household Income, Expenditure, and Consumption Survey (HIECS), starting with the release of September 2019 data.

Table A2. Contribution to Real GDP Growth at Factor Cost

	2021/22	2022/23	2023/24	Dec-23	Mar-24	Jun-24	Sep-24*	Dec-24*
GDP Growth (at Market Prices)	6.6	3.8	2.4	2.3	2.2	2.4	3.5	4.3
GDP Growth (at Factor cost)	6.2	3.6	2.3	2.2	2.1	2.4	3.5	4.3
Public GDP (at Factor Cost)	1.6	0.6	-0.4	0.1	-0.9	-1.4	-0.3	
Private GDP (at Factor Cost)	4.6	3.0	2.7	2.1	3.0	3.7	3.8	
Agriculture, Forestry, Fishing, and Hunting	0.4	0.5	0.4	0.4	0.5	0.3	0.4	0.2
Industry	1.6	-0.7	-1.2	-2.2	-1.1	-0.2	0.4	1.5
Extractions	0.2	-0.1	-0.3	-0.3	-0.3	-0.5	-0.5	-0.6
Oil	-0.1	0.0	-0.1	0.0	0.0	-0.2	-0.1	-0.2
Natural gas	0.2	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4
Other	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Manufacturing	1.4	-0.6	-0.8	-1.9	-0.9	0.3	0.9	2.0
Petroleum	0.3	-0.1	-0.2	-0.4	-0.4	-0.2	0.0	0.1
Non-Petroleum	1.1	-0.5	-0.6	-1.4	-0.5	0.5	0.9	1.9
Services	2.9	2.7	2.5	2.4	2.5	2.7	2.9	2.8
Construction	0.5	0.4	0.4	0.4	0.4	0.6	0.4	0.4
Real Estate Rental and Services	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Transportation and Warehousing	0.2	0.2	0.3	0.2	0.3	0.5	0.9	0.5
Finance	0.1	0.1	0.2	0.1	0.2	0.1	0.3	0.4
Insurance 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Communication	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Tourism	0.8	0.7	0.3	0.4	0.2	0.2	0.2	0.5
Educational, Health Care, and Other Services	0.3	0.4	0.4	0.4	0.4	0.4	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	0.6	0.9	1.2	0.9	0.8	0.7	0.6
Suez Canal	0.3	0.3	-0.5	0.2	-0.9	-1.5	-1.1	-1.1
General Government	0.4	0.2	0.3	0.2	0.2	0.4	0.3	0.3

Source: Ministry of Planning, Economic Development and International Cooperation.

*Preliminary figures.

1/Includes Social Insurance.

2/Includes Electricity, Water, and Sewage.

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

	2021/22	2022/23	2023/24	2022/23			2023/24				2024/25	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2*	Q1	Q2*	
Trade Balance	-43.4	-31.2	-39.6	-6.4	-8.0	-7.6	-7.9	-10.7	-10.1	-10.8	-14.1	-13.4
Export proceeds	43.9	39.6	32.6	11.5	9.6	8.6	8.3	8.1	7.7	8.4	9.1	9.6
<i>Petroleum exports</i>	18.0	13.8	5.7	4.9	3.1	2.1	1.6	1.6	1.4	1.1	1.2	1.8
<i>Other exports</i>	25.9	25.8	26.8	6.6	6.4	6.5	6.7	6.5	6.3	7.3	7.9	7.8
Import payments**	87.3	70.8	72.1	18.0	17.6	16.2	16.3	18.8	17.8	19.2	23.1	23.1
<i>Petroleum imports</i>	13.5	13.4	13.4	3.0	3.2	3.3	2.9	3.4	3.4	3.7	5.4	4.2
<i>Other imports</i>	73.8	57.4	58.8	15.0	14.3	12.9	13.3	15.5	14.4	15.5	17.7	18.8
Services Balance	11.2	21.9	14.4	6.8	3.7	7.4	5.2	4.0	2.1	3.1	4.1	3.2
Receipts	26.9	34.6	30.2	9.7	7.0	9.8	9.0	7.9	6.4	7.0	8.4	7.8
Transportation	9.7	14.0	10.7	3.7	3.1	4.1	3.5	3.3	1.9	2.0	2.2	2.5
<i>Of which: Suez Canal dues</i>	7.0	8.8	6.6	2.0	2.2	2.5	2.4	2.4	1.0	0.9	0.9	0.9
Travel (tourism revenues)	10.7	13.6	14.4	3.2	3.0	3.3	4.5	3.3	3.1	3.5	4.8	3.9
Payments	15.8	12.6	15.9	2.9	3.3	2.4	3.8	3.9	4.3	3.9	4.3	4.6
Travel	4.5	5.0	5.1	1.2	1.1	1.0	1.5	1.5	1.3	0.8	0.8	1.1
Investment Income Balance	-15.8	-17.3	-17.5	-4.4	-4.6	-3.8	-4.6	-5.0	-4.5	-3.5	-4.3	-3.7
Receipts	1.0	2.1	1.9	0.4	0.5	0.9	0.4	0.4	0.3	0.8	0.7	0.6
Payments	16.8	19.5	19.5	4.8	5.1	4.7	5.0	5.3	4.8	4.3	4.9	4.3
<i>Of which: Interest paid</i>	2.8	6.2	7.9	1.2	1.8	1.9	2.0	2.1	2.0	1.8	1.9	1.9
Current Transfers	31.4	21.8	21.9	5.4	5.4	4.6	4.5	4.9	5.0	7.5	8.4	8.8
Private (net)	31.7	21.9	21.9	5.5	5.4	4.6	4.5	4.9	5.0	7.5	8.3	8.7
Official (net)	-0.3	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Balance of Current Account	-16.6	-4.7	-20.8	1.4	-3.5	0.6	-2.8	-6.8	-7.5	-3.7	-5.9	-5.2
Capital & Financial Account	11.8	8.9	29.9	-1.6	5.3	0.9	1.8	6.6	11.7	9.8	3.8	4.1
Capital Account	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	-0.1
Financial Account	11.9	9.0	30.0	-1.6	5.3	0.9	1.8	6.6	11.7	9.9	3.8	4.2
Direct investment in Egypt (net)	8.9	10.0	46.1	2.4	2.2	2.1	2.3	3.2	18.2	22.4	2.7	3.3
Portfolio investment in Egypt (net)	-21.0	-3.8	14.5	-0.9	-0.4	-0.3	-0.5	0.8	14.4	-0.1	-0.4	-3.3
<i>Of which: Bonds</i>	1.0	0.3	-7.6	0.0	0.5	-0.1	-0.3	0.6	-0.7	-1.1	-0.1	-0.2
Other Investments (net)	24.4	3.4	-29.8	-3.0	3.7	-0.7	0.1	2.9	-20.7	-12.1	1.6	4.4
Net Borrowing	-1.4	1.4	4.9	0.1	0.0	-0.9	1.5	4.0	-1.6	0.8	0.7	-1.8
Medium- and Long-Term Loans (net)	0.7	-0.2	-2.8	0.3	-0.1	-0.1	-0.7	-0.1	-1.6	-0.4	-1.1	0.0
Medium- and Long-Term Suppliers' Credit (net)	0.7	1.7	0.4	0.2	0.3	0.8	-0.1	0.7	-0.1	-0.1	0.0	-0.9
Short term Suppliers' Credit (net)	-2.9	0.0	7.2	-0.5	-0.2	-1.5	2.4	3.4	0.1	1.4	1.8	-0.8
Other Assets	4.2	-4.8	-24.9	-4.0	1.3	-0.8	-3.2	-2.0	-12.3	-7.4	0.0	4.6
Other Liabilities	21.6	6.7	-9.8	0.8	2.5	1.1	1.8	0.8	-6.8	-5.6	0.8	1.6
Net Errors & Omissions	-5.8	-3.3	0.6	0.3	-2.1	-0.8	1.3	-0.4	0.3	-0.6	1.1	1.5
Overall Balance	-10.5	0.9	9.7	0.1	-0.3	0.6	0.2	-0.6	4.5	5.6	-1.0	0.5
Change in CBE Reserve Assets (Increase -)	10.5	-0.9	-9.7	-0.1	0.3	-0.6	-0.2	0.6	-4.5	-5.6	1.0	-0.5

Source: Central Bank of Egypt.

*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-20	Jun-21	Jun-22	Jun-23	Jun-24	Sep-24	Dec-24	Mar-25
Monetary Survey								
Net Foreign Assets	122.1	251.7	(372.0)	(834.6)	626.6	498.7	265.9	760.8
Central Bank	156.6	225.2	(152.8)	(304.9)	494.5	505.1	592.5	632.8
Commercial Banks	(34.5)	26.4	(219.2)	(529.7)	132.1	(6.4)	(326.6)	128.0
Net Domestic Assets	4,416.7	5,104.9	6,986.5	9,082.8	9,991.9	10,583.1	11,370.5	11,806.0
Net Claims on the Government	3,023.2	3,166.1	3,971.8	5,076.3	5,918.2	7,025.5	7,738.0	8,135.2
Net Claims on Public Economic Authorities	212.6	353.5	453.2	766.3	1,205.8	1,284.8	1,551.3	1,736.9
Claims on Public Sector Companies	156.3	148.6	154.5	164.8	370.2	400.5	429.0	462.3
Claims on Private Sector	1,454.6	1,752.3	2,178.2	2,732.2	3,492.7	3,658.7	3,850.5	4,067.8
Other Items, net	(430.1)	(315.5)	228.9	343.1	(995.0)	(1,786.4)	(2,198.2)	(2,596.1)
Broad Money (M2)	4,538.8	5,356.6	6,614.5	8,248.2	10,618.6	11,081.8	11,636.4	12,566.8
Domestic Currency Component (M2D)	3,872.2	4,706.4	5,768.4	6,732.0	8,090.9	8,376.0	8,676.8	9,492.8
Currency Outside Banks	602.7	673.4	778.6	1,009.2	1,227.0	1,168.0	1,121.3	1,296.8
Domestic Currency Deposits	3,269.4	4,033.1	4,989.8	5,722.9	6,863.9	7,208.0	7,555.6	8,196.0
Foreign Currency Deposits	666.6	650.2	846.1	1,516.2	2,527.7	2,705.8	2,959.6	3,074.0
Central Bank Survey								
Net Foreign Assets	156.6	225.2	(152.8)	(304.9)	494.5	505.1	592.5	632.8
Foreign Assets	603.5	625.1	611.5	1,045.8	2,161.9	2,185.5	2,326.4	2,344.7
Foreign Liabilities	(446.9)	(399.9)	(764.3)	(1,350.6)	(1,667.3)	(1,680.4)	(1,733.9)	(1,711.8)
Net Domestic Assets	699.0	762.5	1,345.7	1,833.6	1,470.6	1,392.4	1,651.0	1,633.3
Net Claims on the Government	815.0	757.8	1,058.9	1,413.0	1,984.6	2,279.5	2,230.6	2,239.7
Net Claims on Public Economic Authorities	(7.2)	(37.8)	(57.6)	(72.8)	(634.1)	(619.8)	(568.0)	(570.0)
Claims on Banks	274.0	377.3	400.0	530.4	875.1	863.3	926.0	987.7
Banks' Deposits in Foreign Currency	(112.3)	(135.1)	(216.5)	(508.5)	(601.5)	(628.8)	(841.4)	(784.0)
Open Market Operations	(424.0)	(469.1)	(735.8)	(942.0)	(1,117.0)	(1,106.3)	(737.0)	(628.9)
Other Items, net	153.4	269.4	896.6	1,413.6	963.6	604.4	640.9	388.8
Reserve Money	855.6	987.7	1,192.9	1,528.8	1,965.1	1,897.5	2,243.4	2,266.2
Currency Outside Banks	602.7	673.4	778.6	1,009.2	1,227.0	1,168.0	1,121.3	1,296.8
Reserves of Banks	252.8	314.4	414.3	519.6	738.2	729.4	1,122.2	969.4
Cash in Vaults	204.4	265.3	354.8	445.5	636.2	637.1	1,007.1	864.6
Deposits in Domestic Currency	48.4	49.1	59.5	74.1	102.0	92.3	115.1	104.8

Source: Central Bank of Egypt.

Table A5. Market Developments (*in %, unless stated otherwise*)

	2022 Q1	2023 Q1	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1
Policy Rates							
Mid-Corridor Rate	8.88	16.75	22.80	27.75	27.75	27.75	27.75
Interbank Rates							
Interbank WAR	9.45	16.43	23.12	27.31	27.30	27.43	27.49
Interbank O/N Rate	9.36	16.46	23.27	27.35	27.40	27.46	27.52
Interbank O/N, Average Volume (in EGP bn)	21.61	22.21	27.31	24.11	20.47	22.49	28.82
Interbank O/N, Share of Total Interbank Volume	88.25	85.10	74.16	58.29	47.05	54.90	58.66
Banking Sector							
Deposit Rates	11.41	10.24	10.24	10.24	10.24	10.24	10.24
Time	7.47	9.37	9.37	9.37	9.37	9.37	9.37
Short-term Deposits (<1Y)	7.45	12.13	16.52	15.99	21.41	21.40	20.99%
Other Deposits	7.71	11.88	14.83	16.42	16.08	15.75	15.11
Saving	15.65	21.39	24.20	23.73	23.23	23.51	24.35
< 3 years	17.98	23.46	25.07	24.70	24.65	24.63	25.11
≥ 3 years	10.65	14.31	20.79	23.08	22.26	22.66	23.55
Saving Accounts	4.73	7.06	10.23	13.35	13.05	13.42	9.99
Lending Rates	11.30	17.13	21.10	26.99	27.42	27.89	26.50
W.A. Business Lending Rates	10.03	17.11	20.86	27.19	27.00	27.59	26.03
Short term Business	10.06	17.52	21.67	27.34	27.21	28.19	28.25
Long term Business	9.96	15.93	20.04	27.02	26.74	26.26	22.82
Retail	14.49	17.17	22.08	26.14	29.12	29.10	28.44
Local Debt Market							
T-Bill Yield 1Y	13.22	22.01	29.92	25.94	26.21	26.24	25.37
Weighted Average T-bill Yield	12.91	21.24	28.19	25.86	28.20	29.75	26.94
Weighted Average T-bond Yield	14.54	21.35	27.94	24.30	26.32	26.27	26.78
WACF 1/	10.40	17.00	22.60	20.60	22.30	23.40	21.50
Spreads 2/							
O/N Interbank - Mid Corridor Rate	0.57	-0.32	0.32	-0.44	-0.45	-0.32	-0.26
W.A. Lending rate - Mid Corridor Rate	2.42	0.38	-1.70	-0.76	-0.33	0.14	-1.25
Mid Corridor - W.A. Deposit Rate	-2.53	6.51	12.56	17.51	17.51	17.51	17.51
WACF - Mid Corridor rate	1.56	0.24	-0.25	-7.16	-5.42	-4.34	-6.21
W.A. Yield Curve	1.30	0.09	-0.20	-1.25	-1.51	-2.78	-0.13
W.A. Business Lending rate - WACF	-0.41	0.12	-1.69	6.60	4.67	4.18	4.50
W.A. Bus. Lending Rate - T-bill Yield	-0.29	0.12	-1.69	6.51	4.44	3.79	4.48
W.A. Lending Rate - W.A. Deposit Rate	-0.11	6.89	10.86	16.75	17.19	17.66	16.26
Long term Business - Short term Business Lending	-0.10	-1.59	-1.63	-0.32	-0.47	-1.92	-5.43

Source: Central Bank of Egypt.

1/ Government securities' yields are adjusted for tax.

2/ All rates are as of March 2025.

4. Abbreviations

bps	Basis points
bn	Billion
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CDS	Credit default swaps
c.	Circa
CPI	Consumer Price Index
CY	Calendar year
EGP	Egyptian pound
F/C	Foreign currency
FDI	Foreign direct investment
F&B	Food and beverages
FPAS	Forecasting and Policy Analysis System
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
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
WACF	Weighted average cost of finance of the Treasury's L/C marketable securities
y/y	Year on year



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CENTRAL BANK OF EGYPT

Monetary Policy Report

Q1 – 2025

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