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CENTRAL BANK OF EGYPT

Press Release – May 22, 2025

MPC decides to cut key policy rates by 100 basis points

Cairo, Egypt — The Monetary Policy Committee (MPC) of the Central Bank of Egypt (CBE) has decided today to cut the CBE's overnight deposit rate, overnight lending rate, and the rate of the main operation by 100 basis points to 24.00 percent, 25.00 percent, and 24.50 percent, respectively. The Committee also decided to cut the discount rate by 100 basis points to 24.50 percent. This decision reflects the most recent outlook and assessment of economic conditions since the previous MPC meeting.

Globally, growth forecasts have softened since April's MPC meeting, primarily due to ongoing developments in global trade policy and possibly further supply chain disruptions. In response, several central banks in advanced and emerging market economies have taken a cautious approach to monetary policy, reflecting the prevailing uncertainties surrounding economic growth and inflation. Regarding global commodity prices, oil prices continue to be driven by supply-side factors and expectations of weakening global demand. Meanwhile, prices of key agricultural commodities have shown a less pronounced decline due to climate-related risks. Despite some easing in inflationary pressures, upside risks to inflation persist, driven by heightened geopolitical tensions and continued disruptions to global trade policies.

Domestically, the CBE nowcast for Q1 2025 suggests a sustained recovery in economic activity, with real GDP growth projected at around 5.0 percent compared to 4.3 percent in Q4 2024. Output gap estimates indicate that real GDP remains below potential, despite continued increase in economic activity, indicating that demand-side inflationary pressures will remain subdued. This aligns with the expected disinflation path in the short term, and is supported by the current monetary stance. Nonetheless, the economy is expected to reach its potential by end of FY 2025/26. In terms of the labor market, the unemployment rate decreased marginally to 6.3 percent in Q1 2025, from 6.4 percent in Q4 2024.

Regarding annual inflation, it decelerated significantly in Q1 2025 due to muted inflationary pressures, monetary tightening, favorable base effects, and the fading impact of previous shocks. By April 2025, both annual headline and core inflation largely stabilized at 13.9 percent and 10.4 percent, respectively. This was primarily driven by subdued monthly dynamics due to declining food prices, which helped offset the rise in non-food inflation resulting from adjustments to administered prices. Owing to the transitory nature of these pressures, along with the perceived improvement in inflation expectations, underlying inflation dynamics have eased and remain on a declining path since the beginning of the year, gradually approaching their long-term trend consistent with achieving the CBE's target in Q4 2026.

The moderating trend in headline and core inflation, coupled with easing underlying dynamics, suggests an improvement in inflation expectations. Accordingly, inflation is expected to continue declining throughout the remainder of 2025 and 2026, albeit at a constrained pace given the expected drag from implemented and planned fiscal consolidation measures in 2025, in addition to the relative persistence of non-food inflation. Upside risks surrounding the inflation outlook have eased relative to April's MPC meeting in light of unwinding trade tensions, current exchange rate dynamics, and the normalization of sovereign risk levels, enabling further progress in the easing cycle initiated in the previous MPC meeting. Nevertheless, risks remain concentrated around uncertainty regarding global trade protectionism, possible escalation of regional conflicts and higher-than-anticipated pass-through of fiscal consolidation to domestic prices.

In view of the above and given the current monetary stance, the MPC judges that cutting policy rates by 100 basis points strikes a balance between vigilance against prevailing risks and the ample room available to advance the monetary easing cycle, whilst supporting the projected disinflation path over the forecast horizon. The Committee will continue to evaluate its decisions regarding the magnitude and pace of policy adjustment on a meeting-by-meeting basis. These decisions will continue to be a function of the forecast trajectory, and responsive to incoming data and the prevailing balance of risks. The MPC will continue to monitor economic and financial developments, and will not hesitate to utilize all tools at its disposal to achieve its price stability mandate, steering inflation towards its target of 7 percent (± 2 percentage points), on average, in Q4 2026.

Monetary Policy Sector

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