البنك المركزي المصري
CENTRAL BANK OF EGYPT

Central Bank of Egypt

Monetary Policy Report

Q2 – 2025

DISCLAIMER

The cut-off date for the data points included in this report is July 9, 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 (CBE) 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 sets 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 Monetary Policy Committee (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 (CBE's operational target) 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 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

In its recent meeting on July 10, 2025, the Monetary Policy Committee (MPC) of the Central Bank of Egypt (CBE) decided to maintain the CBE's overnight deposit rate, overnight lending rate, and the rate of the main operation at 24.00 percent, 25.00 percent, and 24.50 percent, respectively. The Committee also decided to keep the discount rate unchanged at 24.50 percent.

The MPC judged that maintaining policy rates at their current level is appropriate to support the disinflation path. 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 be a function of the forecast trajectory, and proactively responsive to incoming data and shifts in the balance of risks. The MPC will closely 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.

* Further details at CBE Monetary Policy Framework.

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

Main Features 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, it can either be a tolerance band with a point target or a tolerance 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 public about the conduct of the inflation targeting regime.

Types of Inflation Targets

1. **Point targets (the central bank targets a specific 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 (± 2 percentage points) on average in Q4 2026.
3. **Tolerance ranges (the central bank targets any point within a specified range):** some central banks choose to adopt this concept to have more room to meet their inflation targets.

Contents

Summary

Amidst persistent trade policy tensions and geopolitical uncertainties, this edition of Monetary Policy Report delves into international and local developments during Q2 2025, and evaluates their implications on the domestic economy. Globally, growth exhibited slowing momentum in Q2 2025 compared to the previous quarter, prompting a downward revision in the growth outlook for 2025, with inflation projected to stabilize broadly in Q2 2025. With respect to commodity markets, international food prices rose slightly in June 2025 after a period of moderation, while Brent crude oil prices witnessed marked volatility since early this year. Faced with uncertainty and market volatility, central banks in advanced and emerging economies opted for a cautious approach toward monetary policy.

Domestically, inflation continued its decline in Q2 2025, albeit at a slower pace compared to Q1 2025. Annual headline inflation edged down to 15.2 percent in Q2 2025, on average, down from 16.5 in the previous quarter, while annual core inflation slowed to 11.6 percent from 13.6 percent. Non-food inflation emerged as the primary driver of headline inflation in Q2 2025, with fiscal consolidation measures continuing to exert an inflationary impact during this period. Nonetheless, underlying inflation continued its gradual downward trajectory during Q2 2025, reflecting ongoing dissipation of shocks and improvement in inflation expectations.

The CBE nowcast for real GDP growth signals sustained recovery in Q2 2025, with an estimated growth close to the 4.8 percent recorded in Q1 2025, mainly driven by both non-petroleum manufacturing and tourism. In Q1 2025, real economic activity marked its strongest acceleration since Q4 2022, primarily driven by positive contributions from consumption and net exports, with the latter reflecting increased competitiveness following the unification of the foreign exchange market. Demand-side inflationary pressures are expected to remain subdued, supported by the prevailing monetary stance and the estimated negative output gap. Likewise, real wages remain below their long-term trend, indicating limited inflationary pressures from the wage channel.

The overall balance of payments in Q1 2025 posted a deficit of USD 1.4 bn, reflecting increased net foreign asset accumulation by commercial banks. These developments signal a stronger external position, bolstered by a narrowing current account deficit, which decreased by more than 50 percent compared to the corresponding quarter in the previous year. This notable improvement can be largely explained by the surge in remittances, growth in net service receipts and a narrowing non-hydrocarbon deficit, albeit partially offset by a widening hydrocarbon deficit.

In terms of money supply, M2 growth decelerated markedly in Q2 2025, averaging 24.8 percent compared to 30.6 percent in Q1. NFAs remained relatively stable at USD 14.7 bn in May 2025, compared to USD 15.1 bn in March 2025, with commercial banks' NFAs notably rising in May to USD 4.8 bn—marking their highest level since February 2021. Meanwhile, real growth of local currency loans to the private sector continued to accelerate, averaging 12.6 percent in Q2 2025, up from an average of 10.1 percent in Q1.

While the CBE initiated its easing cycle in Q2 2025, the monetary stance remains appropriate to support the disinflation path. Around 65 percent of the cumulative 325 basis points reduction in policy rates during April and May 2025 was transmitted to the interbank market throughout Q2 2025. Similarly, yields on local currency government securities edged down in Q2 2025, reflecting an initial, modest market reaction to the policy rate reduction. Egyptian Eurobond yields declined by an average of 134 basis points in Q2 2025, extending their downward trend observed since the start of the FY 2024/25, reflecting improved investor confidence.

Moving forward, annual headline inflation is expected to hover around current levels throughout the remainder of 2025, before steadily declining in 2026 towards its target of 7 percent (± 2 percentage points), on average, in Q4 2026. Annual headline inflation forecasts have been revised slightly upwards compared to the Q1 2025 MPR, averaging 15 -16 percent in 2025 and 11-12 percent in 2026 on average, down from 28.3 percent in 2024. Nonetheless, the projected inflation path remains subject to the price stickiness of services and retail items and the pass-through of fiscal consolidation measures to domestic prices.

Real GDP growth is projected to reach 4.8 percent and 5.1 percent in FYs 2025/26 and 2026/27, respectively, supported by the anticipated progress in the easing cycle. This will reflect positively on the real growth of private sector credit, boosting demand and investment across sectors, particularly manufacturing and services. The forecasted pick-up in growth also factors in a gradual rebound in Suez Canal activity during FY 2025/26. Consequently, the output gap is expected to continue narrowing, with output anticipated to reach its potential by end of FY 2025/26.

1.Current Economic Conditions

1.1 Global Developments

Key Takeaways:

- Global growth lost momentum in Q2 2025, leading to a slight downward revision in the annual forecast.
- Global inflation continued to ease, driven by declining energy prices, subdued demand, and easing supply-side pressures.
- Commodity markets experienced diverging trends in Q2 2025, reflected in Brent crude oil and international food prices.
- Tightened global financial conditions led to volatility in capital flows and CDS spreads across emerging markets.
- Central banks' monetary stance in both advanced and developing economies remained cautious, despite improvements in inflation developments.

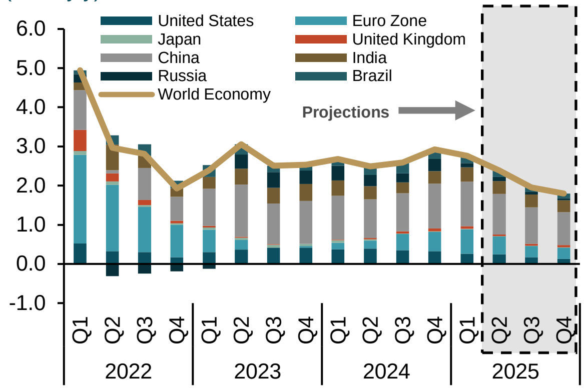
While global growth remained broadly stable in Q1 2025, growth in Q2 2025 is forecasted to weaken, with growth in both advanced and emerging market economies expected to slow or remain stable. This forecasted slowdown is primarily driven by expectations of weakening demand as a result of rising trade policy tensions, heightened economic policy uncertainty, and ongoing geopolitical disruptions. Consequently, the global growth outlook was revised downward to 2.7 percent in 2025, compared to an initial projection of 3.0 percent at the beginning of the year[1].

Average global economic growth, weighted by Egypt's volume of trade with key trading partners, is forecasted to average 2.4 percent in Q2 2025, down from 2.7 percent witnessed in Q1 2025 (figure 1). While the near-term impact of this slowdown on Egypt may be limited, a stronger global outlook could strengthen external demand, boosting exports and tourism earnings.

Figure 1

Economic Growth in Egypt's Trading Partners 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.

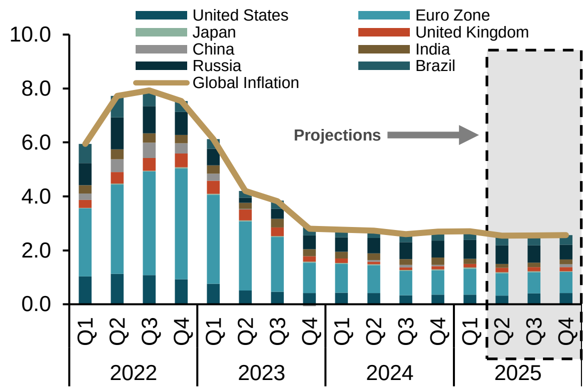
2/ Growth rates for select economies in Q2, Q3 and Q4 2025 represent forecasts.

Global inflation is expected to broadly stabilize in Q2 2025, edging down to 2.5 percent from 2.7 percent in Q1 (figure 2), bringing it closer to central banks' targets. Inflationary pressures are expected to moderate across advanced and emerging economies, with their inflation rates projected at 2.2 percent and 3.1 percent in Q2

Figure 2

Headline Inflation in Egypt's Trading Partners 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/ Inflation rates for select economies in Q2, Q3, and Q4 2025 represent forecasts.

[1] Bloomberg estimates for global growth in CY 2025.

2025, respectively. For Egypt, a global disinflationary trend may imply a reduction in

imported inflation, as well as a potential improvement in the external balance.

Global commodity prices, particularly energy and food, have exhibited varying trends. Brent crude oil prices had witnessed marked volatility since the beginning of the year, with prices fluctuating within a range of USD 65-78 per barrel, before ultimately stabilizing at an average of USD 66.8 per barrel during Q2 2025 (figure 3).

Figure 3
Brent Oil Price Developments
(In USD/bbl., daily prices)

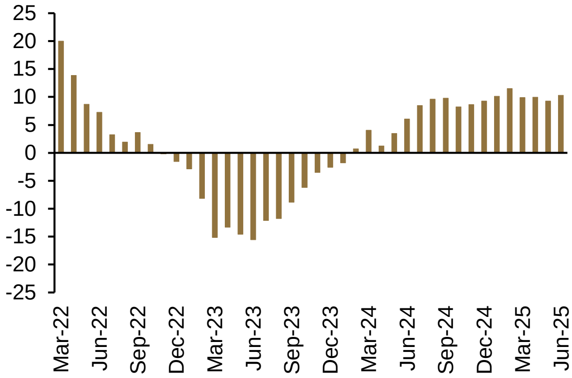
Source: Bloomberg.

This volatility was primarily driven by regional geopolitical tensions, which raised concerns about potential supply disruptions in key oil-producing regions. Nevertheless, the impact of these tensions was largely offset by broader macroeconomic dynamics. In particular, sluggish demand growth from major economies, including China, exerted downward pressure on prices. This lower demand coincided with robust non-OPEC+ supply, especially from the United States, contributing to higher global inventories and further exerting downward pressures on oil prices.

The outlook for the oil market appears uncertain amidst renewed trade policy risks. The recent July 2025 OPEC+ decision to increase production starting August 2025 should accelerate the reversal of earlier voluntary cuts further intensifying downward pressures on oil prices. For Egypt, this weaker oil price outlook could help ease external pressures by lowering import costs, potentially improving the trade balance, narrowing the current account deficit, and alleviating inflationary pressures.

International food prices, measured using domestic CPI basket weights of core food items, increased slightly in June 2025, after broadly moderating since the beginning of the year (figure 4). This uptick was driven by higher beef, poultry, and dairy prices, outweighing the declines in cereal commodities prices.

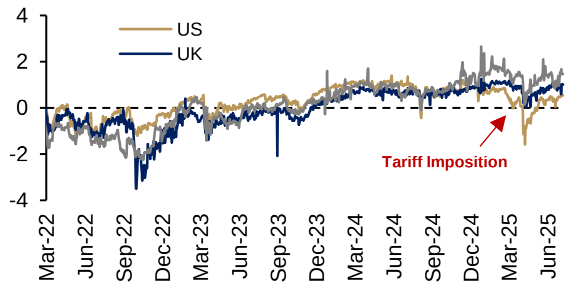
Figure 4
International Food Prices
(In %, y/y, using domestic CPI basket weights of core food items)



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

Heightened geopolitical tensions and tariff escalations, particularly following the U.S. announcement of import tariffs in April 2025, exacerbated global uncertainty in Q2 2025. This development strained global financial conditions in advanced economies, leading to a significant deterioration in U.S. financial conditions index (figure 5). However, shortly after the partial tariff suspension announcement, financial conditions began to recover.

Figure 5
Financial Conditions Index[1]
(Z-score)



Source: Bloomberg.

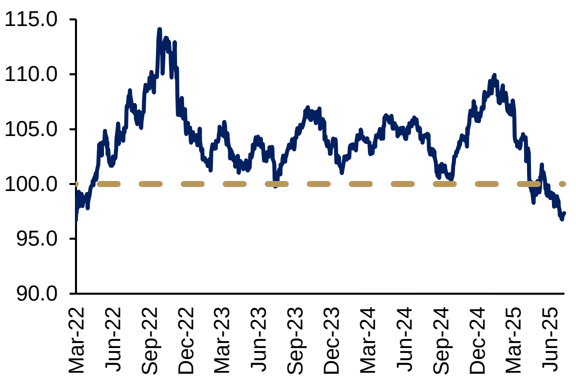
1/ Positive values indicate more accommodative financial conditions, and vice versa.

Nevertheless, the U.S. dollar witnessed significant depreciation during the first half of 2025, with the U.S. Dollar Index (DXY) falling by more than 10 percent, and dipped below 97 by mid-Q2 2025, a three-year low (figure 6). This decline reflected uncertainty surrounding U.S. trade policy and evolving views on the U.S. fiscal trajectory, both of which weighed on investor sentiment. Meanwhile, shifting expectations around the pace and timing of Federal Reserve rate cuts added to DXY volatility and contributed to the erosion of the dollar's safe-haven appeal.

Figure 6

U.S. Dollar Index (DXY)

(Index level, Increase = appreciation and vice versa)



Source: Bloomberg.

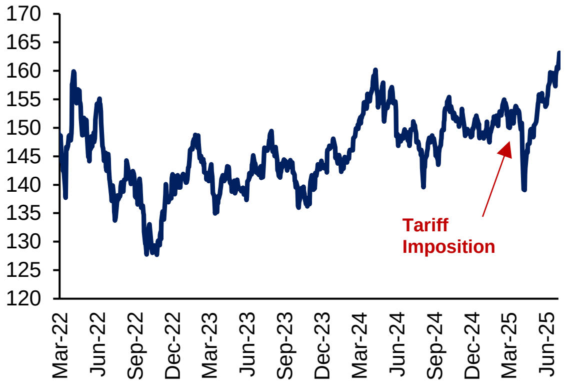
Global trade remained sluggish amid ongoing policy uncertainty and trade tensions, with minimal recovery following recent tariff suspensions. This policy-induced uncertainty weighed on capital flows to emerging markets early in the quarter.

Furthermore, the tightening in global financial conditions at the start of Q2 2025 contributed to a temporary reduction in capital inflows to emerging markets (figure 7). However, as financial conditions began to ease with the suspension of some tariff measures, capital inflows to emerging markets experienced a significant recovery, supported by an improvement in global risk sentiment, weakening U.S. dollar, and expectations of monetary policy easing in advanced economies. This reflects a gradual shift in investor preferences toward emerging market assets during the same period, and a potential repositioning away from dollar-denominated instruments amid the dollar's depreciation.

Figure 7

Emerging Markets Capital Flows Proxy

(Index level, increase = inflows and vice versa)



Source: Bloomberg.

Nonetheless, the outlook remains uncertain, as persistent policy and trade-related risks continue to dampen investor sentiment and risk appetite. However, a faster-than-anticipated pace of monetary easing in advanced economies could bolster capital inflows into emerging markets, including Egypt.

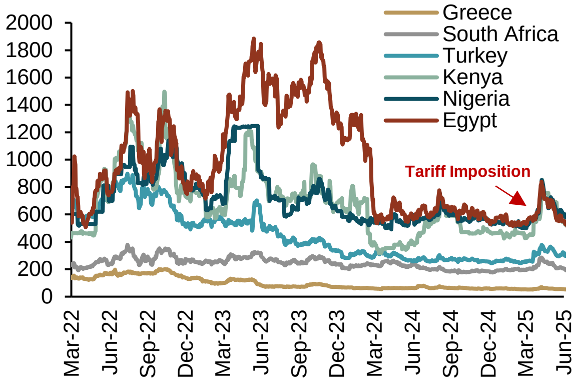
Sovereign risk indicators showed signs of stabilization alongside the recovery in capital flows. Credit default swap (CDS) spreads for emerging market economies experienced renewed volatility at the beginning of Q2 2025. However, by the end of the quarter, spreads broadly returned to levels consistent with pre-shock norms.

This stabilization reflects improved investor confidence and expectations of more favorable global financial conditions. In line with regional peers, Egypt's 5-year CDS spreads exhibited a temporary uptick in early Q2 2025 but subsequently declined, continuing the downward trend observed throughout 2024 (figure 8). The recovery in Egypt's CDS performance is underpinned by a combination of relatively favorable external developments, sustained fiscal, monetary, and structural reforms. Overall, CDS dynamics signal a gradual normalization of risk pricing in emerging markets following the volatility witnessed in previous years.

Figure 8

Egypt and Peers: 5-Year CDS Spreads

(Index level)



Source: Bloomberg.

Monetary policy responses have continued to evolve in line with shifting global dynamics. While central banks in advanced economies initiated their easing cycles during 2024, they have maintained a cautious approach in Q2 2025 (figure 9, panel a). While further easing is expected, central banks are likely to remain cautious, given increasing global uncertainty as well as recent geopolitical developments, and trade-related risks.

In parallel, several emerging market central banks continued to adjust their monetary policies, continuing their easing cycles to stimulate demand, as domestic inflationary pressures softened after a prolonged period of monetary tightening (figure 9, panel b). However, Banco Central do Brasil (Central Bank of Brazil) diverged from this trend, pausing its easing cycle amidst rising fiscal concerns, currency volatility, and heightened external uncertainty.

Similarly, the Central Bank of Egypt has adopted a prudent meeting-by-meeting approach, maintaining its policy rate at 24.5 percent in its July 2025 MPC meeting to support the ongoing disinflationary trajectory, while closely monitoring economic and financial developments.

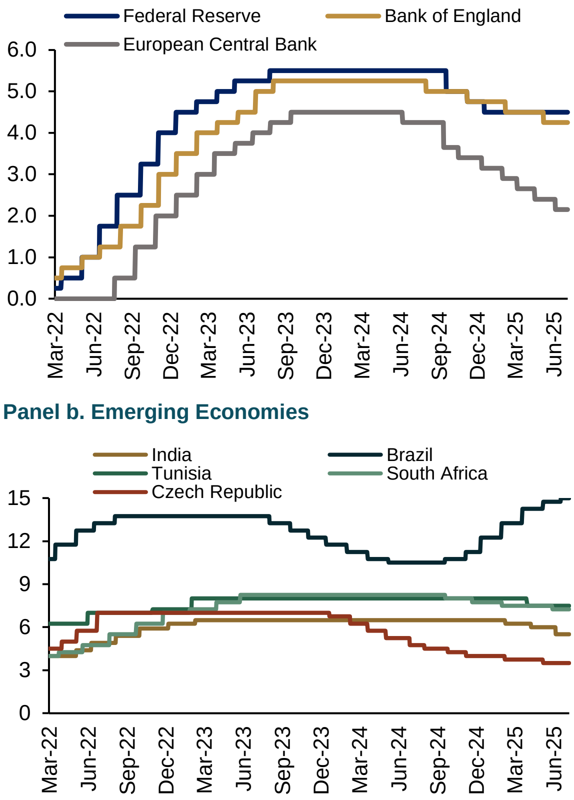
Figure 9

Key Policy Rates in Major Central Banks

(In %)

Panel a. Advanced Economies

Panel b. Emerging Economies



Sources: Bloomberg; and Central Bank of Egypt calculations.

Despite lingering global uncertainty, potential stability in global growth and moderating inflation are expected to generate positive spillovers for the Egyptian economy. The stability of global commodity prices, particularly a continued softening in oil prices, could improve Egypt's trade balance through reduced imported inflation. Furthermore, an ongoing improvement in global financial conditions, coupled with a weakening U.S. dollar and recovering investor sentiment, may bolster capital inflows to emerging markets, including Egypt.

1.2 Domestic Developments

1.2.1 Inflation Developments

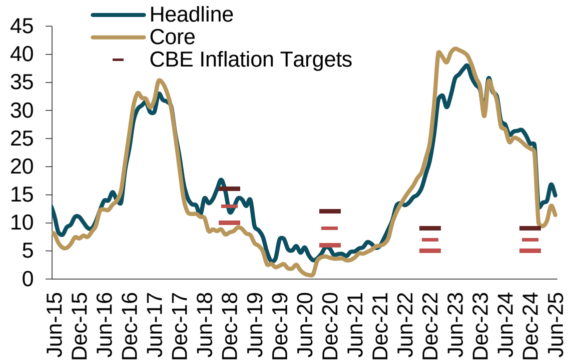
Key Takeaways:

- In Q2 2025, both headline and core inflation decelerated to 15.2 and 11.6 percent, respectively, on the back of easing inflationary pressures and dissipating impact of previous shocks.
- Key drivers of inflation in Q2 2025 include fiscal consolidation measures and seasonal impacts.
- Annual headline inflation decelerated to 15.2 percent in Q2 2025, marking the lowest quarterly rate since Q3 2022.

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.

Annual headline and core inflation moderated in Q2 2025 relative to the previous quarter and the previous year, continuing a deceleration path – albeit at a slower rate than seen in Q1 2025 (figure 10). Accordingly, annual headline inflation decelerated to 15.2 percent in Q2 2025 relative to 16.5 in Q1 2025 and 29.4 percent in Q2 2024. Similarly, annual core inflation slowed down to 11.6 percent in Q2 2025 from 13.6 percent in the previous quarter, significantly lower than its level of 28.5 percent in Q2 2024.

The deceleration in Q2 2025 came despite a temporary acceleration in May 2025, but the downward path was resumed due to weak monthly dynamics in both April and June 2025.

A closer look reveals that inflationary pressures were caused by price adjustments in regulated prices[2], among other items (figure 11). This impact was particularly significant in April, with regulated price changes accounting for approximately 40 percent of monthly inflation. This was reflected in (1) a 14.1 percent fuel price hike in April; and (2) a 33.0 percent increase in the costs of residential piped natural gas services. The second-round effects of the fuel price hike manifested as a 12.4 percent increase in inland transportation costs in April. Additionally, further inflationary pressures stemmed from an 11.8 percent increase in pharmaceutical products prices in April followed by another 6.5 percent in May 2025.

Monthly inflationary dynamics in Q2 2025 also reflected seasonal pressures from shifts in consumption and pricing patterns during religious holidays such as Eid al-Fitr, Eid al-Adha and Easter. The normalization of consumption patterns following the month of Ramadan alleviated pressures on food inflation, leading to a monthly decline of negative 1.5 percent in April. On the other hand, the holiday season had

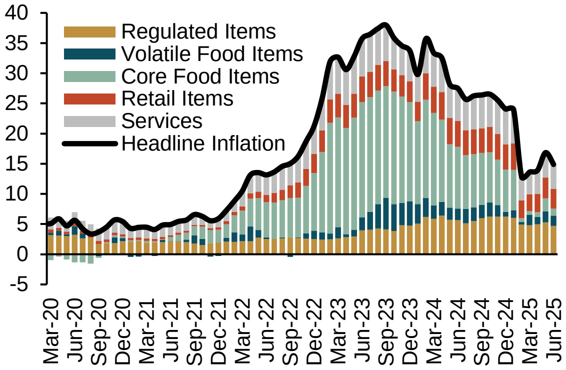
[2] Regulated items encompass goods and services that the government either subsidizes, rations, or caps their market prices. This group also includes public services (such as education or healthcare).

an inflationary impact on services through increased spending on restaurants and cafés, as demand for them increased, in addition to higher costs of Hajj and Umrah during the pilgrimage season.

Figure 11

Breakdown of Headline Inflation

(In p.p., y/y)



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

The prices of agricultural crops, such as fresh fruits and vegetables, continue to exhibit seasonal volatility, declining strongly during April. However, prices picked up in May 2025 with the onset of the summer harvest, before resuming its decline in June 2025.

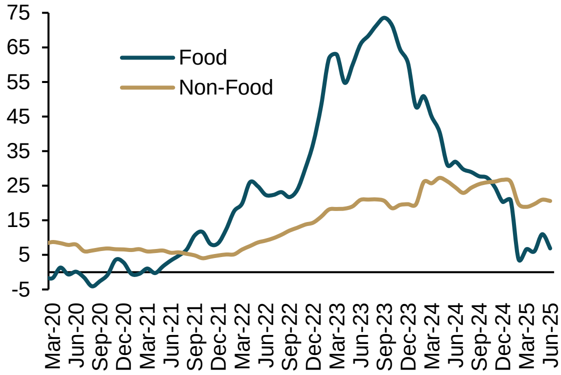
For an extended period since late-2021 to November 2024, food items were the primary driver of inflation, accounting for nearly one-third of the CPI basket. However, since November 2024, non-food items have taken the lead, reflecting relatively higher persistence in the services and retail sectors. This shift highlights a quicker dissipation of the impact of shocks in the food sector relative to non-food sectors. Hence, food inflation has declined sharply from its peak of 73.6 percent in September 2023 to 6.9 percent in June 2025; while non-food inflation has remained broadly stable around an average of 23 percent during the same period (figure 12).

Annual food and non-food inflation have both declined to 7.9 and 20.4 percent in Q2 2025, from 9.9 percent and 21.5 percent in Q1 2025, respectively. However, headline inflation in Q2 2025 was mainly driven by non-food items which contributed 11.9 p.p. to quarterly headline inflation while food items contributed only 3.3 p.p. This comes as food inflation have dropped significantly since the end of 2024, while non-food inflation has been decelerating very slowly during the same period. Non-food's deceleration in Q2 2025 came despite higher prices of the following: energy, healthcare products and services, transportation, clothing, hospitality, and rent.

Figure 12

Food and Non-Food Inflation

(In %, y/y)



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

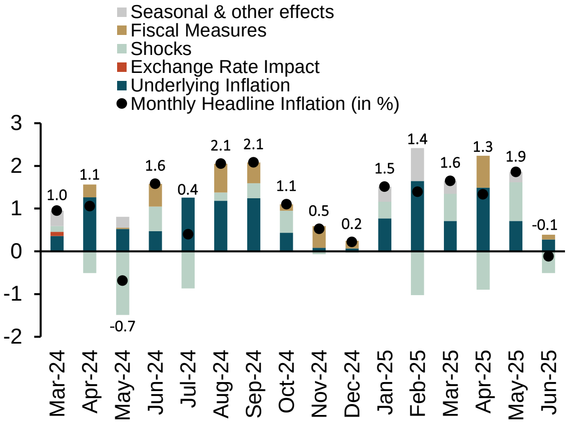
Given the previously mentioned developments – along with a tight monetary policy stance, the gradual dissipation of supply shocks, and anchoring of inflation expectations – monthly inflation dynamics are gradually reverting to their pre-2022 averages, despite a fiscal drag. The impact of the exchange rate volatility on headline inflation has substantially diminished since Q2 2024, after accounting for nearly 13 percent in 2024, and 16 percent in 2023.

In Q2 2025, fiscal consolidation measures accounted, on average, for 50 percent of monthly headline inflation, a significant increase compared to its absence in Q1 2025 (figure 13). This reflects the continued implementation of the reforms aimed at phasing out subsidies on specific items such as petroleum products (natural gas, LPG cylinders, diesel, and gasoline), public transportation, and electricity.

Figure 13

Decomposition of Monthly Headline Inflation

(In p.p.)



Sources: Central Bank of Egypt calculations; CAPMAS data.

Since early 2025, negative shocks have prevailed, mostly stemming from food items as their prices correct the previous shocks. On the other hand, adjustments to the pricing mechanism of pharmaceutical products, as well as changes to the taxation law on tobacco products have added upward pressures on inflation. These shocks collectively contributed to a slowdown in monthly headline inflation as the deflationary impacts offset the inflationary ones.

Seasonal impacts were less pronounced in Q2 2025, relative to Q1 2025, and affected core food items, due to shifts in consumption patterns post-Ramadan and holiday-related demand during Eid El-Fitr and Eid El-Adha. They also manifested in higher Hajj and Umrah costs rising to meet seasonal demand pressures.

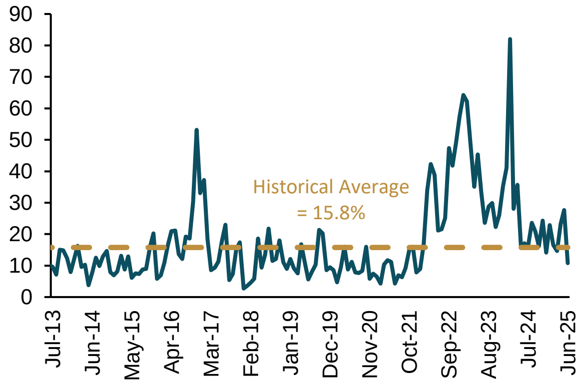
Underlying inflation continued on a gradual downward trajectory during Q2 2025, aligning with historical average levels (figure 13). This reflects the continued dissipation of shocks, and suggests an improvement in inflation expectations towards the CBE's announced targets.

To gauge the dispersion of inflation rates across goods and services, the CBE uses a diffusion index. This index quantifies the breadth of price changes and indicates the persistence of inflationary pressures above a monthly threshold of 2 percent. The index represents the number of CPI items recording a monthly inflation rate exceeding 2 percent as a share of all the items in the CPI basket (figure 14).

Figure 14

Diffusion Index

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



Source: Central Bank of Egypt calculations.

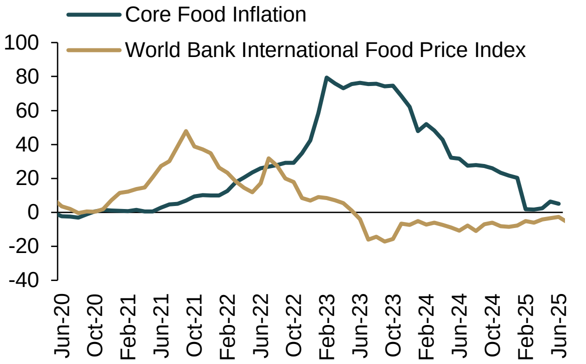
The diffusion index reached 64.3 percent in January 2023 before surging to a record high of 82 percent in February 2024. Exchange rate volatility along with the aforementioned supply shocks strongly impacted inflation expectations, with the majority of the CPI basket exhibiting sharp price increases. Since Q4 2024, the proportion of goods with monthly inflation exceeding the 2 percent threshold dropped to an average of 21 percent in Q2 2025 and even fell below its historical average, reaching 10.7 percent in June 2025. This decline indicates a dissipation of inflationary shocks or their concentration in a narrower set of goods and services, potentially indicating a return to their pre-2022 inflationary norms.

In Q2 2025, domestic core food inflation decelerated to an average of 4.1 percent, down from 7.9 percent in Q1 2025. This decline benefitted from low and stable international food commodity prices. However, an asymmetry in the transmission between international and domestic food price dynamics persists (figure 15). While sharp increases in international food inflation trigger high domestic inflation with a lag, a persistent decline in international prices does not necessarily trigger a drop in domestic inflation, but rather support for a dissipation of the previous shocks.

Figure 15

International Food and Domestic Core Food Inflation

(In %, y/y)



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

The declining domestic prices during Q2 2025 reflected the seasonal nature of Egypt's food consumption patterns, rather than international spillovers. Prices adjusted and reverted to their typical patterns following the dissipation of earlier seasonal shocks, particularly those associated with Eid El-Fitr and Eid El-Adha.

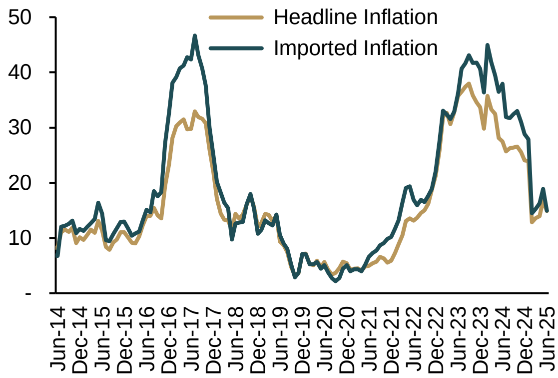
By decomposing the CPI basket, it is revealed that 18 percent of the basket consist of imported final goods or goods that rely on imported components, while the rest is domestically produced (figure 16). Typically, imported inflation and headline inflation move in tandem, diverging only during periods when the prices of most imported items increase independently from the rest of the basket. This divergence is visible through periods of exchange rate volatility, trade disruptions, and elevated international prices.

In Q2 2025, imported inflation moderated to an average of 16.7 percent, down from 19.2 percent in Q1 2025. This decline was consistent with the gradual deceleration in both headline and food inflation, and primarily reflected the stabilization of the exchange rate, which supported the ongoing dissipation of external shocks.

Figure 16

Imported Inflation

(In %, y/y)



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

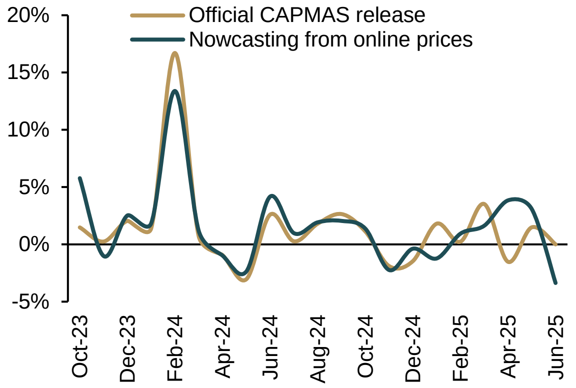
Inflation nowcasts (estimates of current-month inflation) hold significant importance for central banks and markets, especially during times of uncertainty (figure 17). Accordingly, the CBE leverages high-frequency data (daily prices) to help improve the forecasts of monthly inflation and inform the initial conditions of the core medium-term forecasting model (see box 4).

During Q2 2025, the CBE's nowcasts for core food items closely mirrored the official inflation figures, reflecting the effectiveness and accuracy of its nowcasting in forecasting food inflation. Figure 17 shows the reliability of this method in estimating the direction of inflation and, to a lesser extent, the magnitude of price changes across nearly all the food categories in the basket.

Figure 17

Monthly Inflation of Food items

(In %)

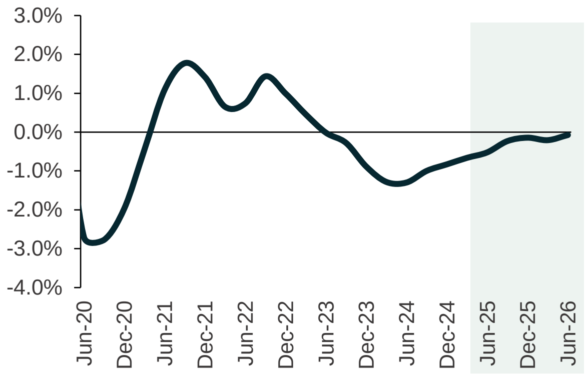


Source: Central Bank of Egypt calculations.

Figure 18

Output Gap

(In % of potential GDP)



Source: MPEDIC & Central Bank of Egypt Calculations.

1.2.2 Real Sector

Key Takeaways:

- An estimated negative output gap, suggesting demand-driven inflationary pressures will likely remain subdued, supporting disinflation in the short term.
- Based on leading indicators, the CBE nowcast for Q2 2025 points to sustained recovery in economic activity, which is projected to hover around the 4.8 percent recorded in Q1 2025.
- Unemployment declined to 6.3 percent in Q1 2025, from 6.7 percent in Q1 2024. Meanwhile, real wages continue to recover, but remain below their long-term trend, indicating limited demand-side inflationary pressures from the wage channel.

The estimated output gap (see box 2) remains in negative territory, but is gradually narrowing, with the economy expected to reach its potential by end of FY 2025/26 (figure 18). Accordingly, demand-side inflationary pressures are expected to remain subdued, supported by the prevailing monetary stance.

The CBE nowcast for real GDP growth signals continued recovery in Q2 2025, with an estimated growth rate close to the 4.8 percent recorded in Q1 2025 in accordance with leading indicators of economic activity. These indicators, which cover approximately 60 percent of sectoral economic activity, offer a reliable estimate of overall economic performance.

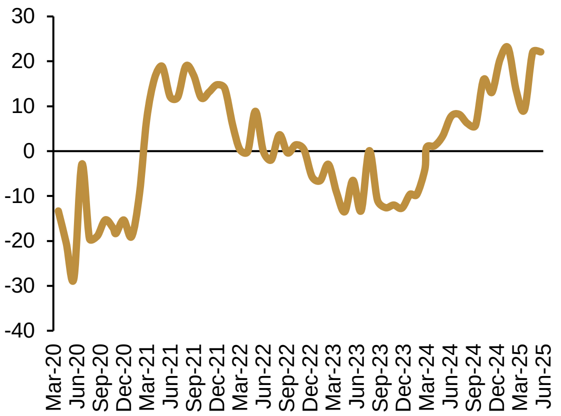
In Q2 2025, the manufacturing index – a leading indicator closely correlated with non-petroleum manufacturing GDP – grew by 19 percent year-on-year (figure 19). This reflects a sustained growth momentum, albeit at a slower pace than in Q1 2025, primarily due to unfavorable base effects stemming from high growth rates registered during the corresponding period of the previous year. Similarly, tourist nights – the leading indicator for tourism GDP – grew by around 19 percent on an annual basis in Q2 2025. Accordingly, both non-petroleum manufacturing and tourism continue to be the main drivers of the sustained recovery in economic activity, contributing positively to overall real GDP growth (figure 20).

On the other hand, leading indicators closely associated with Suez Canal activity point to a continued contraction in Suez Canal GDP for the sixth consecutive quarter. Nonetheless, the pace of decline has moderated for the second quarter in a row, supported by a favorable base effect. The ongoing contraction is primarily attributed to sustained disruptions in maritime trade in the Red Sea, which continue to weigh on overall economic performance. Similarly, indicators strongly correlated with the extractions sector – including crude oil and natural gas production – suggest a slight improvement in Q2 2025 compared to the previous quarter, though the sector continues to contribute negatively towards real GDP growth.

Figure 19

Manufacturing Index Growth

(In %, y/y, unless otherwise specified)

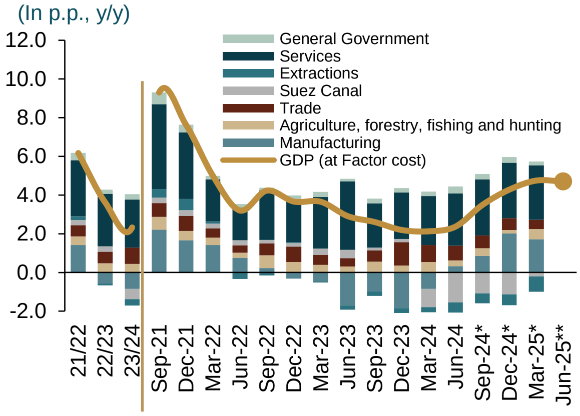


Source: CAPMAS.

Figure 20

Contribution to Real GDP Growth by Sector

(In p.p., y/y)



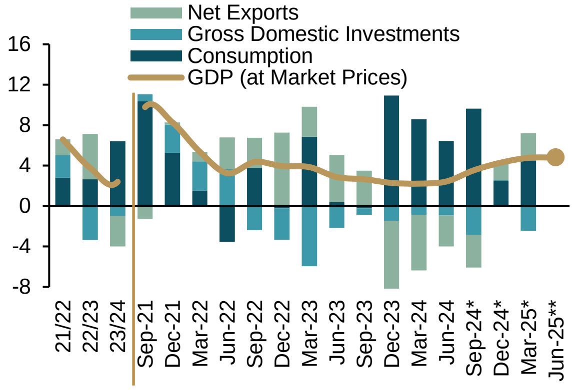
Source: MPEDIC.
*/ Preliminary figures.
**/ June 2025 is the CBE nowcast (subject to revision).

Meanwhile, real GDP at market prices expanded by 4.8 percent in Q1 2025, marking the strongest growth rate since Q1 2022 and signaling a sustained recovery momentum in economic activity (figure 21). This performance was primarily driven by positive contributions from consumption and net exports of goods and services. Nevertheless, the aforementioned positive contributions were partially offset by the dampening effect of gross domestic investment on overall growth.

Figure 21

Contribution to Real GDP Growth at Market Prices

(In p.p., y/y)



Source: MPEDIC.
*/ Preliminary figures.
**/ June 2025 is CBE nowcast (subject to revision).

Although consumption remained a key contributor to growth, its impact moderated significantly, with its contribution to growth declining to 4.5 p.p. in Q1 2025 from 8.6 p.p. in Q1 2024. This moderation was mainly attributable to a decline in private consumption, reflecting the impact of tight monetary policy on household behavior, as higher real interest rates incentivized saving over spending.

Meanwhile, net exports of goods and services contributed positively to GDP for the second consecutive quarter, registering a contribution of 2.7 p.p. in Q1 2025, up from -5.5 p.p. in Q1 2024. This turnaround was driven by a narrowing deficit in the balance of goods and services in real terms, as real exports grew by 54 percent year-on-year, significantly outpacing the 19 percent annual growth in imports. The improvement reflects enhanced export competitiveness following the exchange rate unification.

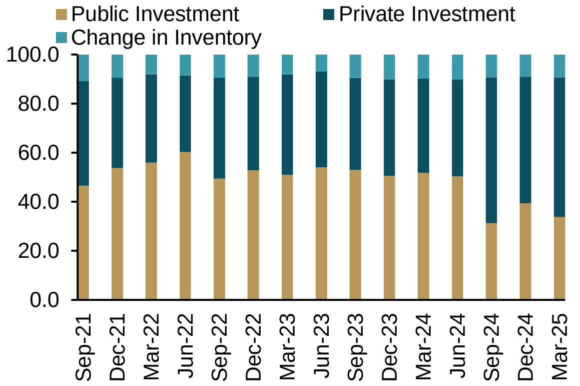
Additionally, the structure of imports has shifted in favor of intermediate and capital goods, such as industrial supplies and equipment, while imports of consumer goods, including food, have declined. This shift reflects ongoing efforts to promote local production and reduce reliance on imported finished goods. The improvement in net exports was largely supported by strong performances in key export-oriented sectors, particularly tourism, non-petroleum manufacturing, and telecommunications.

In contrast, gross domestic investment contributed -2.4 p.p. to GDP in Q1 2025, declining from -0.9 p.p. in Q1 2024. This negative contribution was driven by a sharp 46 percent year-on-year decline in public investment. However, this was partially offset by a 24 percent increase in private investment, consistent with the government's efforts to restructure public investment and strengthen the role of the private sector as a primary driver of economic activity. Hence, private investment's share of gross domestic investment rose by 19 p.p. in Q1 2025, relative to Q1 2024, constituting 57 percent of total gross domestic investments (figure 22).

Figure 22

Gross Domestic Investment Shares

(In %)



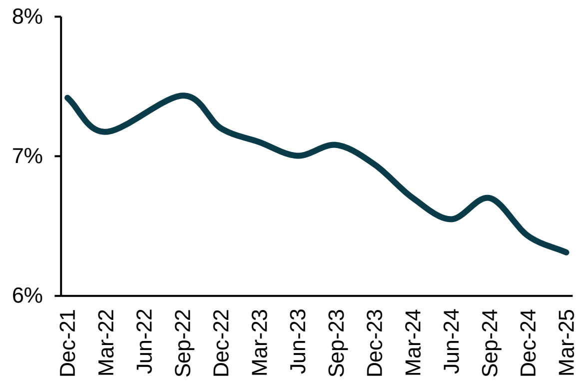
Source: MPEDIC.

The unemployment rate declined to 6.3 percent in Q1 2025 from 6.7 percent in Q1 2024 (figure 23). This year-on-year improvement was primarily driven by employment growth, which outpaced the number of new entrants into the labor force. Employment gains during the quarter were concentrated in key sectors including agriculture, trade, and tourism. The registered decline in unemployment aligns with the anticipated pickup in economic activity in FY 2025/2026, as labor market trends typically precede developments in economic activity.

Figure 23

Unemployment Rate

(As % of labor force)



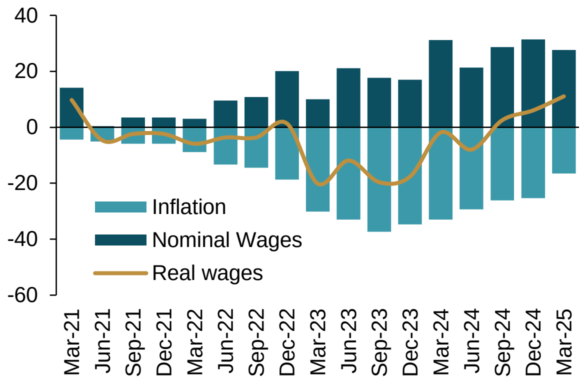
Source: CAPMAS.

Real wages recorded positive growth for the third consecutive quarter in Q1 2025, marking a notable shift following a prolonged contraction that began in Q1 2021. This improvement reflects nominal wage growth outpacing inflation (figure 24). However, the magnitude of the increase remains modest, with real wages still below their long-term trend (figure 25).

Figure 24

Real Wage Decomposition

(In %, y/y)



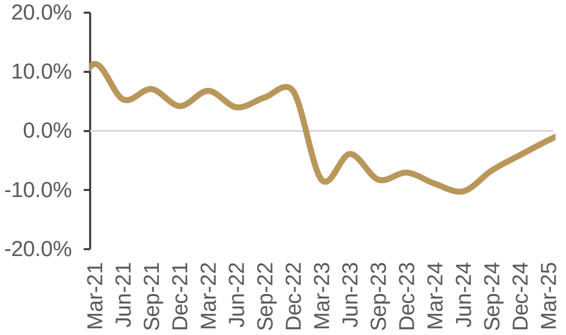
Source: CAPMAS.

As such, inflationary pressures arising through the wage channel remain contained, as the current wage level reflects a gradual recovery of household purchasing power, which was eroded over the past two years. This assessment is consistent with the estimated output gap, which remains in negative territory as supported by the current monetary stance, thereby reinforcing the projected disinflation path over the short term.

Figure 25

Real Wage Gap

(In % of long-term real wage trend)



Sources: CAPMAS & CBE Calculations.

Box 2. Output Gap Measures

The output gap – defined as the percentage deviation of actual output from its potential level – provides an assessment of the position of the economy and **helps assess demand-side inflationary pressures.** A positive output gap typically signals excess demand and potential overheating, whereas a negative output gap suggests a slack in the economy and subdued inflationary risks emanating from the demand side.

Potential output is an unobservable variable and must be estimated using economic and statistical models. As such, measuring the potential GDP is subject to considerable uncertainty, with no universally accepted estimation technique. The Monetary Policy Sector at the CBE employs a set of three univariate and multivariate methodologies to estimate the level of potential output.

I. Hodrick-Prescott (HP) Filter - Univariate Approach

The HP filter is applied to seasonally adjusted quarterly real GDP data.

II. Kalman Filter - Multivariate Approach

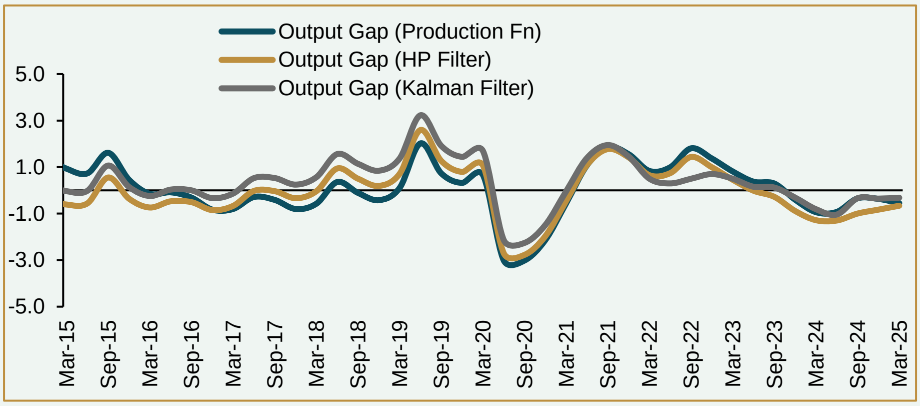
The Monetary Policy Sector utilizes the Kalman filter within its Quarterly Projection Model to estimate the potential output, which is treated as a latent variable. It is estimated through taking into consideration its relationship with other macroeconomic indicators, including the real interest rate gap and real exchange rate gap, among other gaps in the model.

III. Production Function - Multivariate Approach

The production function approach estimates the potential output using a Cobb-Douglas specification, where potential output is derived from the combination of potential; labor input, capital stock[1], and total factor productivity.

Findings and Policy Implications

Estimates across the three methodologies consistently indicate a **negative output gap** at present, suggesting that the economy is currently operating below its potential. While the three methodologies do not produce identical magnitudes for the output gap, **they are highly correlated** and exhibit a **broadly consistent trajectory over time**. The convergence of estimates across techniques reinforces the robustness of the findings and indicates that inflationary pressures from the demand side remain limited, supporting the disinflation trend over the short term, in line with the current monetary stance.



[1] *Calculated using an assumed depreciation rate of around 5 percent (based on the average depreciation rate of capital for Egypt in the Penn World Table).*

1.2.3 External Sector

Key Takeaways:

- Egypt's external position has strengthened, underpinned by a narrowing current account deficit and banks' net foreign asset accumulation.
- The current account deficit narrowed significantly, supported by a sustained increase in remittances and services receipts. This was also supported by the narrowing of the non-hydrocarbon trade deficit.
- The financial account registered a deficit, driven by outflows pertaining to banks' foreign asset accumulation and foreign liability repayments. These outflows were offset in part by robust foreign direct investment and portfolio inflows, reflecting improved access to external financing and growing investor confidence.

In Q1 2025, the overall balance of payments posted a deficit of USD 1.4 bn as the financial account posted a net outflow, and hence, was unable to finance the narrowing current account deficit, which more than halved in magnitude. Nevertheless, financial account outflows were underpinned by positive developments, reflecting foreign asset accumulation and foreign liability repayments by commercial banks. In turn, these developments signal an abundance of foreign exchange liquidity in the domestic market, as local foreign exchange resources have exceeded foreign exchange utilization. Hence, the registered build-up in banks' net foreign asset position. The net foreign asset accumulation is also supported by the narrowing current account deficit.

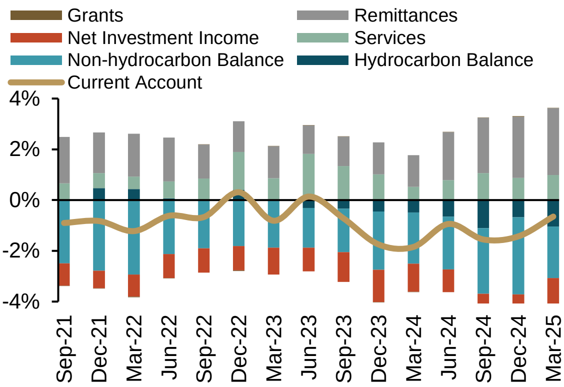
Consequently, the current account deficit narrowed to USD 2.3 bn (0.7 percent of GDP) in Q1 2025— a significant decline from the posted USD 7.5 bn deficit (1.9 percent of GDP) for the same quarter a year earlier. This marks the smallest deficit since the recorded surplus in Q2 2023. The positive outturn signals reduced strain on foreign exchange resources, and hence, reduced imported inflation pressures via the exchange rate channel, and a broadly more sustainable external position. This notable improvement was largely driven by a surge in remittances, growth in tourism revenues, a narrowing of the non-hydrocarbon trade balance. However, the abovementioned improvements were partially offset by a widening hydrocarbon trade deficit, which continues to weigh down on overall current account performance (figure 26).

Notably, worker remittances in Q1 2025 surged by 87 percent compared to Q1 2024, registering its highest quarterly figure on record at USD 9.4 bn. This upsurge was driven by increased confidence in the domestic economy and the stabilization of macroeconomic conditions amid the unification of the foreign exchange market in Q1 2024, which continues to successfully redirect current account inflows into the banking system.

Figure 26

Contribution to Current Account

(In percent of GDP)



Source: Central Bank of Egypt.

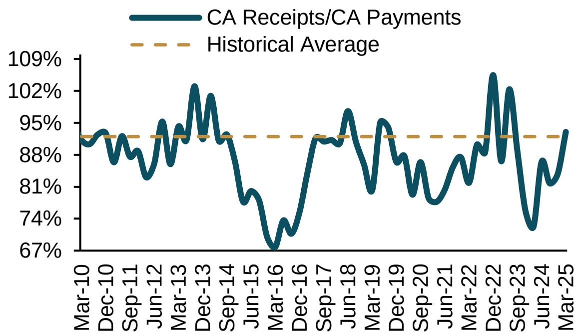
Meanwhile, the non-hydrocarbon trade deficit narrowed by 12 percent in Q1 2025 compared to the corresponding quarter last year. Although non-oil exports and imports increased, growth in exports outpaced that of imports, and thus, aligning with the robust expansion in non-petroleum manufacturing GDP. This reflects ongoing efforts aimed at promoting local production and a growing export capacity in non-hydrocarbon sectors.

Accordingly, the ratio of non-oil exports to non-oil imports recorded 58 percent, the highest ever recorded figure since Q3 2003. Higher ratios imply an increasing capacity to generate ample foreign exchange earnings to cover import expenditures, contributing to the stabilization of the external position.

Conversely, the hydrocarbon trade balance registered a deficit of USD 3.7 bn in Q1 2025, widening by 84 percent compared to Q1 2024. The widening deficit was primarily driven by a significant increase in natural gas imports to meet rising domestic demand needs amid a 20 percent annual decline in domestic natural gas production.

Meanwhile, the net investment income deficit narrowed marginally by 5 percent on annual basis, posting USD 4.2 bn. The marginal narrowing is attributable to a modest increase in income receipts, with a slight decline in interest payments relative to Q1 2024. Accordingly, the ratio of interest payments to exports of goods and services recorded 10.2 percent in Q1 2025, down from 14.5 percent in Q1 2024. This reflects the economy's improved capacity to meet external interest payment obligations. Similarly, the coverage ratio of current account receipts to current account payments has been steadily recovering since the unification of the foreign exchange market in Q1 2024, surpassing its long-term average, and hence, reflecting enhanced external sustainability (figure 27).
In Q1 2025, net services recorded a surplus of USD 3.5 bn, marking a 64.2 percent increase

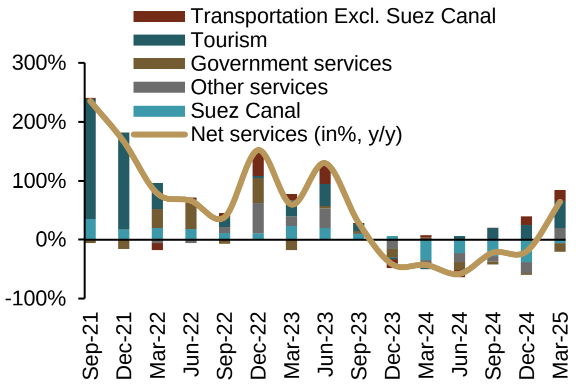
Figure 27
Current Account Receipts
(In percent of Current Account Payments)



Source: Central Bank of Egypt.

compared to Q1 2024 (figure 28). Notably, Q1 2025 marks the first positive contribution of net services to the current account balance since Q3 2023. The robust growth in the net service balance was primarily driven by a 55 percent increase year-on-year in net tourism revenues and an increase in transportation receipts excluding Suez Canal revenues, underscoring the growing potential of the tourism sector and its resilience against ongoing regional tensions.

Figure 28
Contribution to Net Service Balance
(In p.p., y/y unless otherwise specified +ve = improvement)



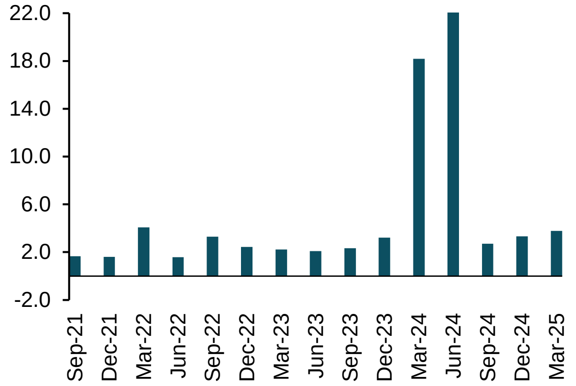
Source: Central Bank of Egypt.

On the other hand, the financial account recorded a marginal deficit of USD 1.2 bn in Q1 2025, due to a USD 8.9 bn net foreign asset accumulation by commercial banks. This was partially offset by robust net FDI inflows and strong net portfolio inflows. Combined, such developments reflect a healthy external position underpinned by increased investor confidence in the domestic economy. This is compared to an unprecedented surplus in the financial account in the corresponding quarter of 2024, which was primarily driven by exceptionally strong FDI inflows following the Ras El-Hikma deal. Nonetheless, net FDI in Egypt increased in Q1 2025 compared to Q4 2024, posting USD 3.8 bn (figure 29).

Figure 29

Net Foreign Direct Investments

(In USD bn)



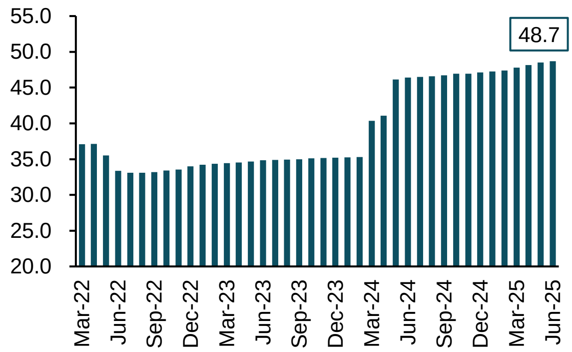
Source: Central Bank of Egypt.

As such, net international reserves (NIR) reached USD 47.8 bn by the end of March 2025, up from USD 40.4 bn registered by the end of March 2024, reflecting the cumulative registered surpluses of balance payments during the aforementioned period. As of March 2025, the level of NIR covers around 6.4 months of imports, remaining well above the standard coverage level (3 months). Furthermore, NIR continued its upward trend in the subsequent quarter, reaching USD 48.7 bn by the end of June 2025 (figure 30).

Figure 30

Net International Reserves

(In USD bn)



Source: Central Bank of Egypt.

1.2.4 Monetary Sector

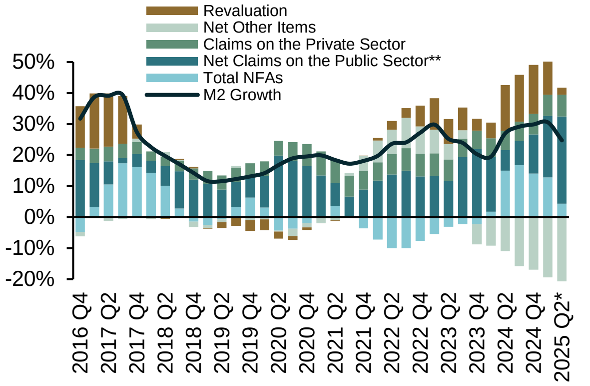
Key Takeaways:

- Broad money (M2) growth slowed markedly in Q2 2025, reaching 24.8 percent on average, down from an average of 30.6 percent in Q1 2025.
- The banking system's net foreign assets (NFAs), comprising the CBE and commercial banks, remained broadly stable at USD 14.7 bn in May 2025, compared to USD 15.1 bn in March 2025.
- Real growth of L/C loans to the private sector continued to accelerate, averaging 12.6 percent in Q2 2025, up from an average of 10.1 percent in Q1 2025.
- M2 growth is expected to continue its decelerating trend in June 2025, before accelerating to 24.2 percent by the end of FY 2025/26. However, it is projected to decelerate again to 19.9 percent by the end of FY 2026/27.

M2 growth slowed significantly in Q2 2025, recording 24.8 percent on average, compared to an average of 30.6 percent in Q1 2025 (figure 31). This deceleration by 5.8 p.p. was primarily driven by the dissipation of revaluation effects of the foreign currency components in M2 following the exchange rate unification in March 2024.

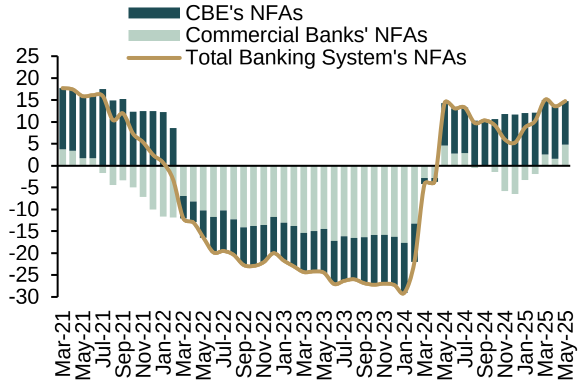
Worth mentioning, the base effects have led to notable changes in the composition of M2 growth in Q2 2025, compared to the previous quarter, as the contribution of net claims on the public sector increased, while that of NFAs declined. This was a result of the unprecedented FX proceeds during the corresponding period in the previous year, specifically the Ras El-Hikma investment deal, net portfolio inflows, and a rebound in remittances. Such FX proceeds have led to an unparalleled recovery in the banking system's NFAs, a notable decline in the fiscal deficit, and, consequently, a marked decrease in the government's reliance on the banking system to finance its deficit a year ago.

Figure 31
Contribution to M2 Growth
(In p.p., y/y, aop)



Source: Central Bank of Egypt.
*/ Q2 2025 is an average of April and May 2025.
**/ Net Claims on the Public Sector includes net claims on the government, net claims on public economic authorities, and claims on public sector companies.

Figure 32
Banking System's Net Foreign Assets
(Stocks, in USD bn)



Source: Central Bank of Egypt.

Despite the decline in its contribution to M2 growth, the banking system's NFAs remained broadly stable at USD 14.7 bn in May 2025, compared to USD 15.1 bn in March 2025, following a temporary decline to USD 13.6 bn in April 2025 (figure 32). On one hand, commercial banks' NFAs notably increased in May 2025 to record USD 4.8 bn – its highest level since February 2021 – after declining to USD 1.6 bn in April 2025 from USD 2.5 bn in March. Such significant pickup in May 2025 came by virtue of commercial banks' accumulation of foreign assets, supported by the increase in FX resources including net portfolio inflows and the sustained strong performance of remittances. On the other hand, the CBE's NFAs declined by a cumulative of USD 2.6 bn to stand at USD 9.9 bn in May 2025, compared to USD 12.5 bn in March 2025, leading to a largely unchanged banking system's NFA position.

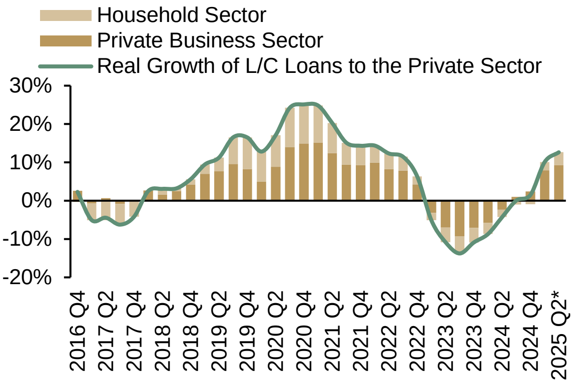
On the private sector front, real growth[3] of L/C loans to the private sector continued to accelerate, averaging 12.6 percent in Q2 2025, compared to an average of 10.1 percent in Q1 2025 (figure 33). This uptick was driven by increased contributions from both the private business sector and the household sector, supported by the decline in annual headline inflation.

Taking a closer look at the private business sector's growth dynamics, real growth of L/C loans to the private business sector also continued its upward trajectory to record an average of 15.0 percent in Q2 2025, compared to 13.0 percent in the previous quarter (figure 34). This stemmed from the increase in the positive contributions of both the services and trade sectors, with the latter's contribution turning positive for the first time since Q4 2022.

This aligns with the nowcasted sustained recovery in the private sector's real economic activity during Q2 2025. Although the contribution of the industrial sector to the real growth of L/C loans to the private business sector has witnessed a decline in Q2 2025, it remains firmly in positive territory, consistent with its corresponding leading indicators.

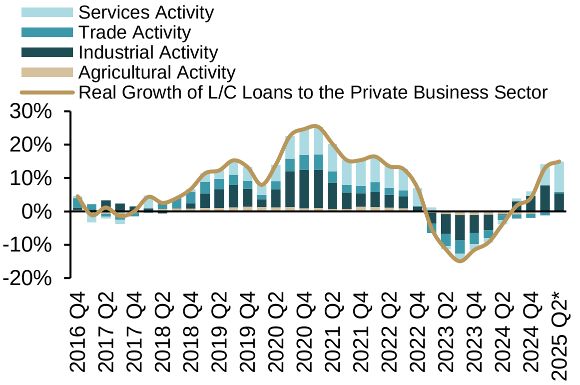
[3] Nominal growth rates are deflated by the headline inflation rate.

Figure 33
Contribution to the Real Growth of L/C Loans to the Private Sector
(In p.p., y/y, aop)



Source: Central Bank of Egypt.
*/ Q2 2025 is an average of April and May 2025.

Figure 34
Sectoral Contribution to the Real Growth of L/C Loans to the Private Business Sector
(In p.p., y/y, aop)

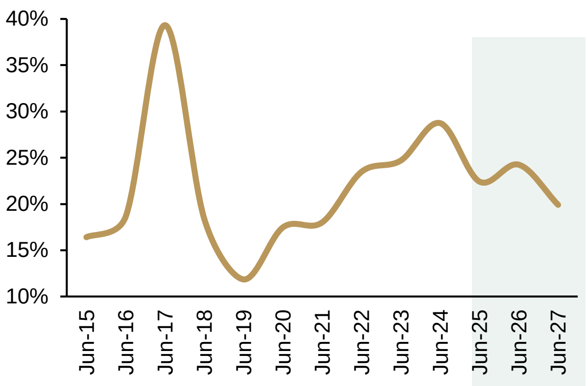


Source: Central Bank of Egypt.
*/ Q2 2025 is an average of April and May 2025.

Regarding M2's growth trajectory, it is expected to remain on its decelerating path in June 2025, before accelerating to 24.2 percent by the end of FY 2025/26 (figure 35). This acceleration is expected to be driven by a potential increase in the contribution of NFAs as the current account deficit narrows due to the continued strong performance of tourism receipts, along with the expected partial recovery in Suez Canal receipts.

However, M2 growth is projected to decelerate again to 19.9 percent by the end of FY 2026/27, primarily driven by the decline in the contribution of net claims on the government in light of the continued revenue-based fiscal consolidation measures (for more information, see box 3). This is expected to be partially offset by the pickup in the contribution of NFAs as the current account deficit continues to narrow, primarily due to the expected recovery of Suez Canal receipts and sustained pickup in tourism and remittances.

Figure 35
Broad Money Forecasts
(In %, y/y, eop)



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

Box 3. Fiscal Developments and Monetary Implications

Recent fiscal developments bear significant monetary implications. The Ministry of Finance's medium-term projections, covering a four-year horizon, signal a narrowing fiscal deficit and a gradual decline in budget sector debt. These trends reflect ongoing efforts to enhance revenue mobilization, improve debt management, and reallocate spending. Combined, these efforts reduce inflationary pressures over the medium term and strengthen the CBE's inflation-targeting framework.

I. Key Fiscal Projections

The fiscal deficit is projected to narrow steadily over the medium term, primarily driven by improved revenue mobilization rather than spending cuts. The FY 2025/26 budget targets a primary surplus of 4 percent of GDP, up from an estimated 3.5 percent in the previous year (table A). In the upcoming four years, the overall fiscal deficit is expected to decline by 3.4 percentage points, reaching 4.2 percent of GDP by FY 2028/29. This reflects a policy shift toward revenue-based fiscal consolidation, with expenditures expected to hover around 23 percent of GDP over the upcoming four fiscal years – slightly above the average of 22.4 percent observed over the past six fiscal years. Despite the apparent stabilization in expenditures, there is a notable reallocation of resources away from non-targeted energy subsidies toward more targeted social protection programs.

Table A. Overall and Primary Balance Targets

Indicator (% of GDP)	2024/25*	2025/26**	2026/27**	2027/28**	2028/29**
Primary Balance	3.5%	4.0%	5.0%	4.5%	3.5%
Overall Balance	-7.6%	-7.3%	-5.5%	-4.9%	-4.2%

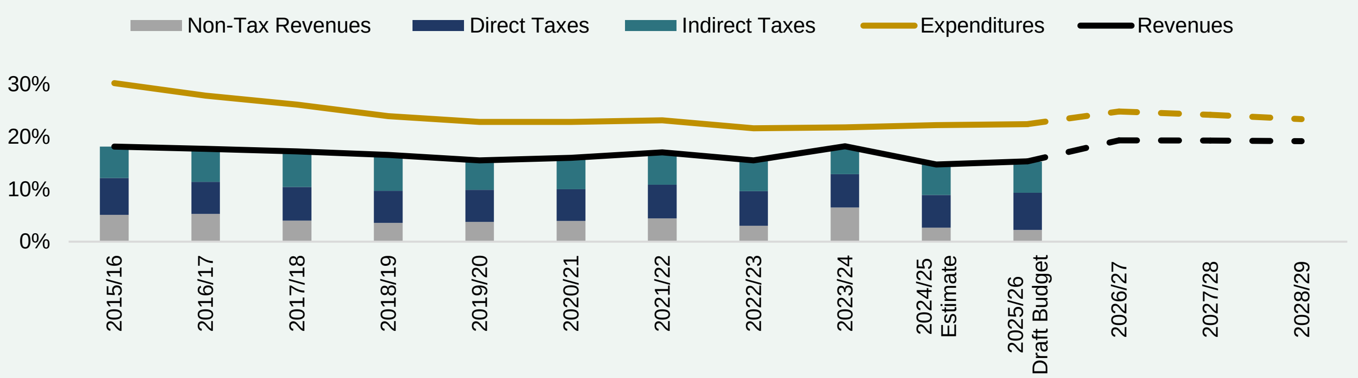
Source: Ministry of Finance – Executive Budget Proposal for FY 2025/26.
* Estimates. ** Projections.

Egypt's tax system is showing signs of both improved compliance and widening tax base, all without any increase in rates. While the tax-to-GDP ratio remains below global benchmarks—standing at 12.5 percent in FY 2021/22 compared to 16.1 percent for emerging markets and 24.8 percent for advanced economies in 2022[1] — the recent progress shows promise. The 2024 tax relief package helped broaden the tax base by encouraging small business registration and integrating e-commerce and informal activity through digitalization. Compliance also improved significantly, supported by simplified tax dispute resolution and specific incentives designed to encourage voluntary registration. Preliminary estimates for FY 2024/25 indicate that tax revenues increased to 12 percent of GDP, and are targeted to reach 13 percent in the current fiscal year, which would be the highest in over a decade (figure A). The composition is also tilting gradually toward direct sources, as direct taxes are projected at 7.1 percent of GDP in FY 2025/26, up from 6.3 percent in the previous year, while indirect taxes are expected to rise slightly to 5.9 percent of GDP.

Figure A

Revenues and Expenditures Developments

(% of GDP)



Source: Ministry of Finance – Executive Budget Proposal for FY 2025/26 – and CBE calculations.

[1] *IMF World Revenue Longitudinal Database. According to the same database, Egypt's tax revenue-to-GDP ratio stood at 12.6 percent in CY 2022.*

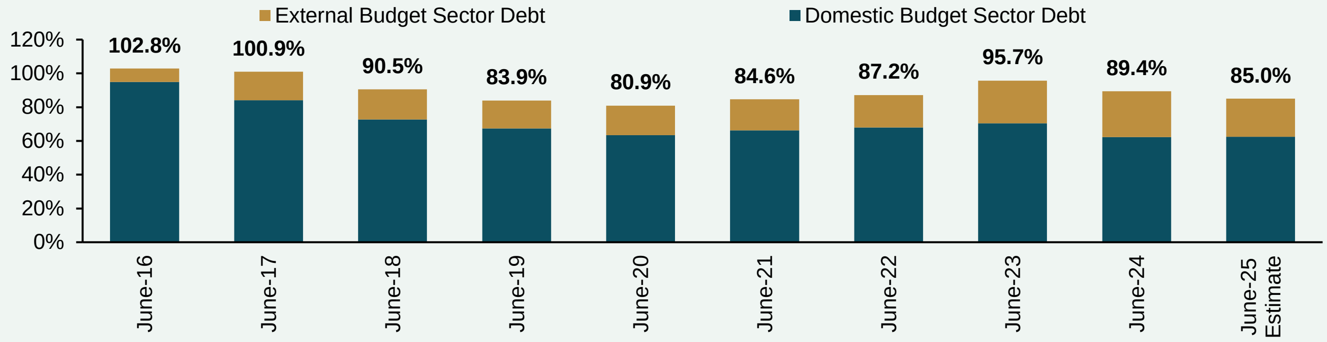
II. Debt Trajectory

Fiscal consolidation is reflected in the estimated decline in the debt-to-GDP ratio, supported by improved revenue mobilization and active debt management. Budget sector debt is estimated to have dropped to 85 percent of GDP by June 2025, down from 95.7 percent in June 2023, with domestic debt accounting for the majority of the decline — 8 percentage points, partially supported by Ras El Hikma investment proceeds — alongside a 2.7 percentage point reduction in external debt (figure B). Looking ahead, the government aims to reduce total budget sector debt stock to less than 80 percent of GDP by June 2028, while gradually lowering external obligations by USD 1–2 bn annually.

Figure B

Budget Sector Debt Decomposition

(% of GDP)



Source: Ministry of Finance.

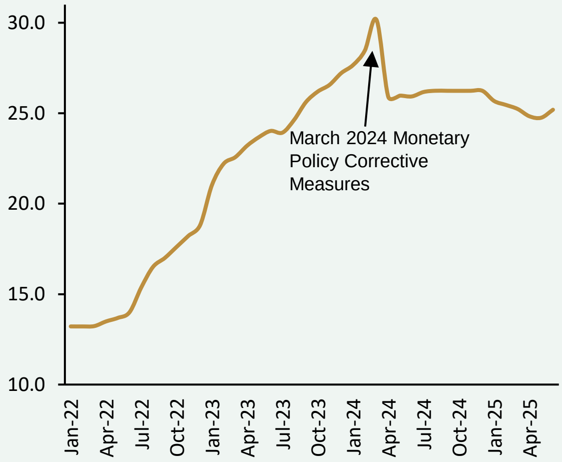
Although more than 90 percent of gross financing needs between FY 2022/23 and FY 2024/25 was met domestically, the composition is expected to shift, as external borrowing is projected to cover more than 11 percent of gross financing needs in FY 2025/26. This aligns with the broader objective of extending the average time to maturity (ATM) of public debt, currently standing at around 3.3 years after a period of flattening. This will help reduce interest payment pressures and provide greater fiscal space over time. Efforts to reduce rollover interest rate risk and alleviate future interest burdens also include broadening the investor base and diversifying the financing instruments and currencies. This strategy includes the issuance of Sukuks, green bonds, and international local currency denominated bonds, such as the already issued Yen and Yuan denominated bonds during 2022 and 2023, among others.

Improved domestic and external financial conditions, coupled with renewed market confidence, are contributing to a reduction in borrowing costs and strengthening the debt outlook. Following the unification of the foreign exchange market and a 600-basis point policy rate hike in March 2024, the weighted average yield on domestic 1-year T-bills (including tax) declined by approximately 4300 basis points between March and April 2024 (figure C). Moreover, Egypt's successful return to international markets with two international issuances of Sukuks (the most recent in June 2025) and an oversubscribed Eurobond in February 2025, signals renewed market trust in Egypt's macroeconomic outlook. Such improved financing environment is expected to contain the debt servicing costs over the medium term, particularly as the global monetary cycle eases. Interest payments are projected to decline steadily from 11.3 percent of GDP in FY 2025/26 to 7.7 percent by FY 2028/29[2], supporting fiscal adjustment efforts and reinforcing the broader disinflationary path.

Figure C

One-Year T-Bills Weighted Average Yield (Including Tax)

(in %)



Source: Central Bank of Egypt.

[2] Interest payments, as implied by Ministry of Finance projections, are calculated as the difference between overall fiscal deficit and primary surplus, as percentages of GDP.

These fiscal developments create a more conducive environment for monetary policy and help strengthen the CBE inflation-targeting framework. As the deficit narrows and debt service costs decline, inflationary pressures from the money supply side would be subdued. Although near-term inflation may be affected by spending reallocations, sustained progress in tax compliance, tax base broadening, and revenue mobilization, along with improved fiscal predictability, are important complements to the inflation-targeting framework.

1.2.5 Domestic Liquidity and Financial Conditions

Key Takeaways:

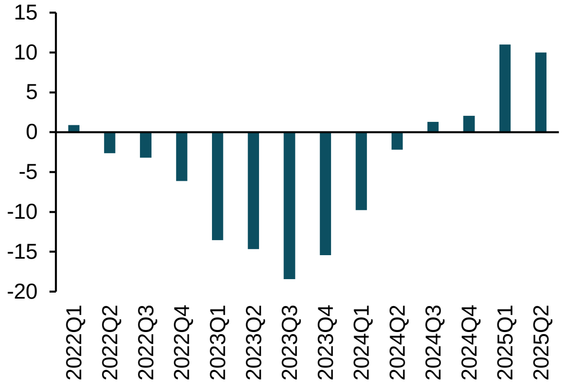
- The CBE has cautiously proceeded with its easing cycle in Q2 2025.
- Following the April–May 2025 rate cuts, early signs of transmission of the policy rate to other key rates in the economy are evident, although this adjustment remains gradual across most market and banking rates.
- Excess liquidity declined in H2 FY24/25, prompting a pickup in interbank activity.
- Egypt's yield curve began to normalize in Q4 FY 24/25 as the CBE initiated its easing cycle, leading the MoF to extend debt maturities.
- Foreign investors continued increasing their exposure to Egypt's local debt market, particularly in longer-dated instruments, amid improved sentiment and easing expectations.
- Egyptian Eurobond yields declined sharply in Q4 FY 24/25, supported by improved global risk appetite and strengthened domestic fundamentals.

In Q2 2025, the Central Bank of Egypt cautiously proceeded with interest rate cuts, cutting the policy rate by 225 basis points on April 17, and by an additional 100 basis points on May 22, before deciding to hold rates unchanged at the Monetary Policy Committee meeting on July 10, 2025. Nevertheless, the monetary policy stance remained supportive of the disinflation path during the same quarter (figure 36).

Figure 36

Real Interest Rate

(In %, -ve = loose monetary stance and vice versa)



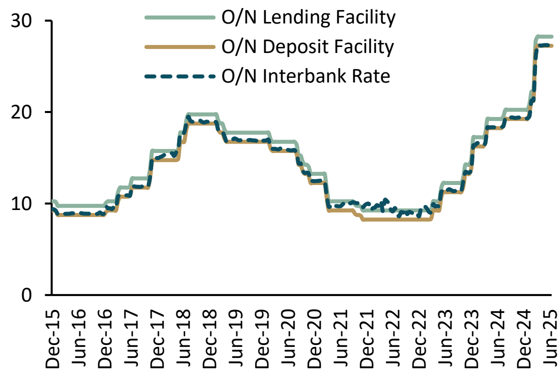
Source: Central Bank of Egypt.

Following the cumulative 325 basis point reduction in policy rates during April and May 2025, the overnight interbank rate began to adjust downward. Approximately 65 percent of the policy rate cuts were transmitted to the interbank market, with the overnight interbank rate averaging 25.4 percent in Q2 2025, compared to 27.5 percent in Q1 2025 (figure 37). Despite this decline, the transmission remains partial, and the adjustment across broader market and banking rates continues to be gradual.

Figure 37

O/N Interbank and CBE Policy Rates*

(In %, unless otherwise specified)



Source: Central Bank of Egypt.

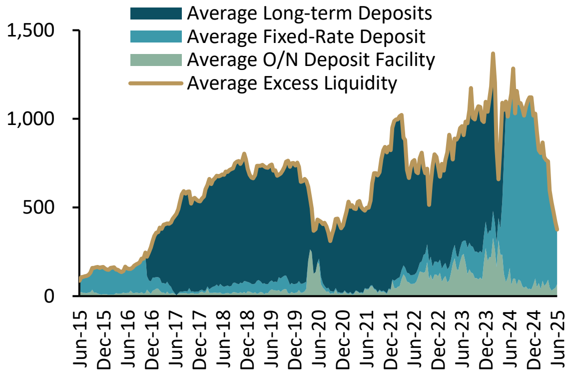
* Data for June 2025 is up until the maintenance period ending June 23rd, 2025.

Egypt's average excess liquidity declined during the second half of FY 2024/25, dropping from around EGP 1,000 billion (1.2x the reserve requirement) during the end of H1 FY 24/25 to around EGP 550 billion (0.5x the reserve requirement) by the end of the FY 24/25, marking its lowest level since Q1 23/24 (figure 40). The drop in excess liquidity can be mainly attributed to: (1) net issuances of government securities, (2) an increase in cash in circulation outside the CBE, and (3) an increase in the average volume of required reserves held by banks at the CBE.

Figure 38

Excess Liquidity*

(In EGP bn, aop)



Source: Central Bank of Egypt.

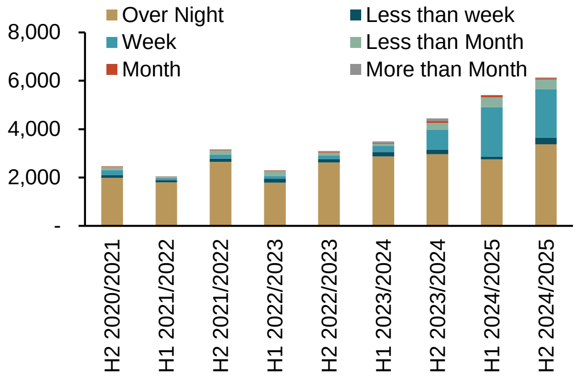
* Data for June 2025 is up until the maintenance period ending June 23rd , 2025.

Interbank market activity strengthened further in H2 FY 2024/25, increasing by 14 percent when compared to H1, amid tighter overall liquidity conditions, which led banks to increase their reliance on the interbank market for liquidity management purposes. Despite the increase in overall volume, overnight transactions continue to dominate interbank volumes, underscoring the market's key role in addressing short-term funding needs. Meanwhile, the share of one-week tenor transactions dropped slightly to 32.5 percent in H2 FY 2024/25, down from 37.9 percent in H1 FY 2024/25 (figure 39).

Figure 39

Interbank Volume

(In EGP bn)



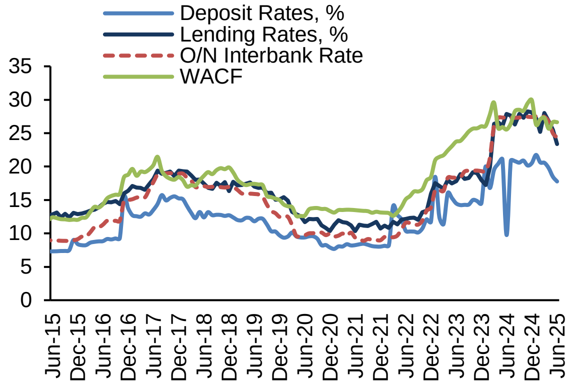
Source: Central Bank of Egypt.

In the banking sector, interest rates on both deposit and lending rates began to adjust downward following the policy rate cuts in April and May 2025 (figure 40). In Q2 2025, the weighted average rate on new deposits declined to 18.7 percent, while the rate on new loans declined to 25.6 percent, compared to 20.7 percent and 26.6 percent in Q1 2025, respectively, signaling the early stages of interest rate pass-through to the banking sector.

Figure 40

Selected Market Interest Rates1/

(In %, unless otherwise specified)



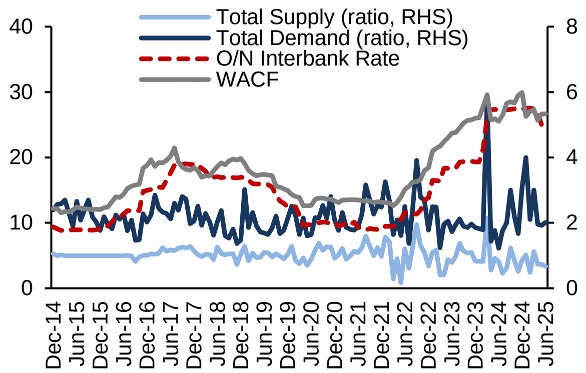
Source: Based on a banking sector survey that is conducted by the Central Bank of Egypt, up to June 30th, 2025.

In Q2 2025, following the CBE's April–May 2025 rate cuts, yields on local currency government securities, as measured by the weighted average cost of funds (WACF), edged down to an average of 26.2 percent, compared to 27 percent in Q1 2025 (gross of tax), reflecting the initial, modest market response (figures 41 and 42). The coverage ratio (submitted to required ratio) moderated to 2.0x, while the accepted-to-required ratio dropped further to 0.7x, compared to 3.0x and 0.9x in Q1 2025, respectively, indicating that the impact of the recent rate cuts is still unfolding.

Figure 41

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

(In %, unless otherwise specified)



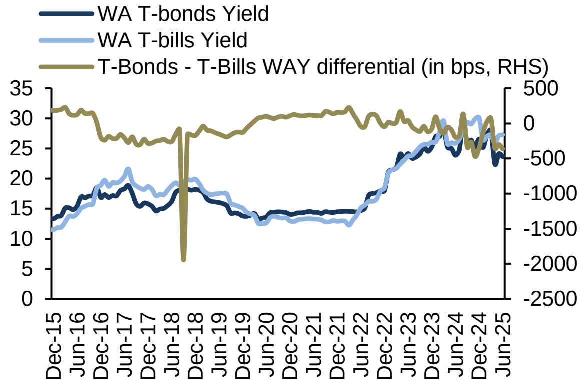
Source: Central Bank of Egypt.

*Data is up to June 30th, 2025

Figure 42

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

(In %, unless otherwise specified)



Source: Central Bank of Egypt.

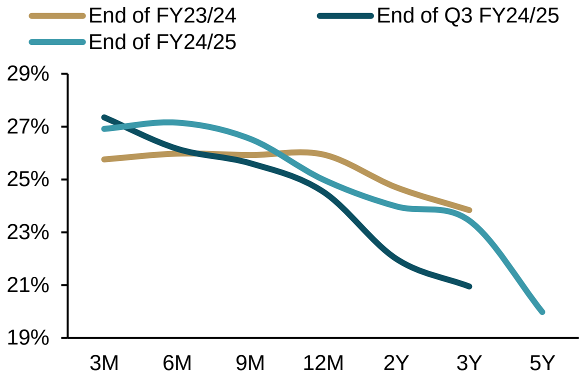
* Data is up to June 30th , 2025

In parallel, Egypt's yield curve began to exhibit signs of normalization, coinciding with the commencement of the CBE's monetary easing cycle. The 3M–12M spread compressed from 282 bps to 192 bps, while the 12M–3Y spread narrowed significantly from 359 bps to 155 bps (figure 43). This flattening of the short end of the curve aligns with typical market behavior during the early stages of an easing cycle, as short-term yields tend to adjust more swiftly to shifts in policy rates compared to longer-dated maturities, reflecting improved clarity on the interest rate trajectory.

Figure 43

Weighted Average of Primary Market Gross Yields

(In %)



Source: Central Bank of Egypt.

Accordingly, as the CBE commenced its monetary easing cycle, the Ministry of Finance has taken steps to capitalize on the decreasing interest rate environment by shifting their issuances towards the longer-end of the yield curve, with the objective of extending the average time to maturity of public debt and reducing rollover risk. In Q4 FY 2024/25, the MoF reintroduced 5-year fixed-rate bonds, complementing the ongoing issuance of 3-year and 5-year floating-rate notes (FRNs).

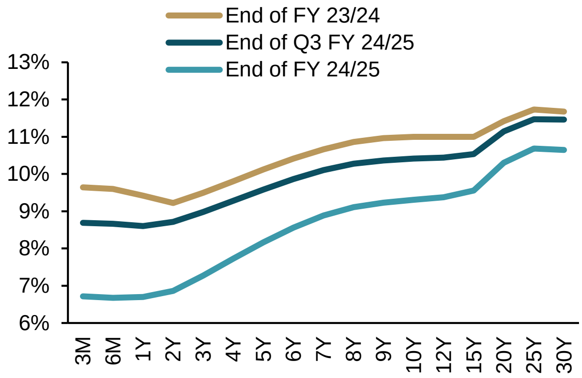
Additionally, in line with the ongoing improvement in risk sentiment, Egypt's local debt market has continued to witness strong portfolio inflows, particularly towards longer-dated instruments, including the recently reintroduced 5-year fixed-rate bonds. This renewed interest has been supported by expectations of further interest rate cuts during 2025 and growing confidence in the sustainability of Egypt's macroeconomic reform program.

In Q4 of FY 2024/25, Egyptian Eurobond yields dropped sharply by an average of 134 basis points (figure 44), continuing the downward trend observed since the start of the fiscal year. This noticeable decline was driven by a combination of international and domestic factors. On the global front, a notable easing in risk sentiment among investors boosted demand for emerging market assets, including Egyptian Eurobonds. This was further supported by favorable domestic developments, including the return of the banking sector's NFAs to positive territory, the successful completion of the fourth IMF review, and sustained portfolio inflows.

Figure 44

Egypt's Eurobond Yields

(In %)



Source: Bloomberg.

2. Outlook

This section outlines inflation medium-term projections reflecting the CBE's assessment of both domestic and international developments. These projections are derived from a combination of model-based analyses and are subject to specific underlying assumptions related to external and domestic environments. Notably, in Q2 2025, annual headline inflation moderated relative to Q1 2025, continuing its decelerating trend, albeit at a slightly slower pace than observed in Q1 2025, as forecasted in the Q1 2025 Monetary Policy Report (MPR).

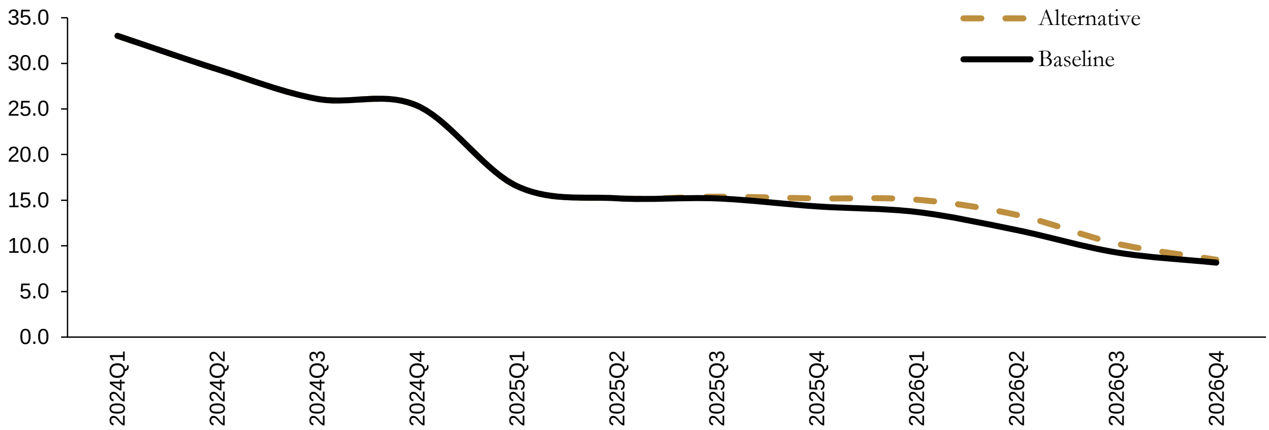
The baseline inflation outlook for Q2 2025 reflects current economic conditions and the expected impact of announced fiscal measures in 2025. Yet, there are several domestic and global upside risks that could place upward pressures on inflation which are reflected in the alternative scenario. Domestically, upside risks include higher-than-expected pass-through of fiscal consolidation measures to consumer prices. Globally, the outlook is subject to several upside risks, including heightened uncertainty surrounding trade policies and possible re-escalation of geopolitical tensions. Nonetheless, downside risks, such as normalizing trade policies and easing geopolitical tensions could support an improvement in inflation dynamics.

Annual headline inflation recorded 15.2 percent in Q2 2025, marking the lowest quarterly reading since Q3 2022. This reflects June's favorable headline inflation outturn, improvement in exchange rate dynamics, and the normalization of sovereign risk levels towards the end of the quarter, which collectively contributed to the easing of underlying inflation pressures. As such, inflation is expected to hover around current levels throughout the remainder of 2025, before steadily declining in 2026 towards its target of 7 percent (± 2 percentage points), on average, in Q4 2026. The baseline and alternative annual headline inflation forecast[4] scenarios have been revised slightly upwards compared to the Q1 2025 MPR, projecting a range of 15-16 percent in 2025 and 11-12 percent in 2026 on average, down from 28.3 percent in 2024 (figure 45), with the upper bound of the range corresponding to the alternative scenario. Nonetheless, the projected path for both the baseline and alternative scenarios remains subject to the price stickiness of services and retail items as well as the aforementioned domestic and global risks.

Figure 45

Annual Headline Inflation Forecast

(In %, y/y)

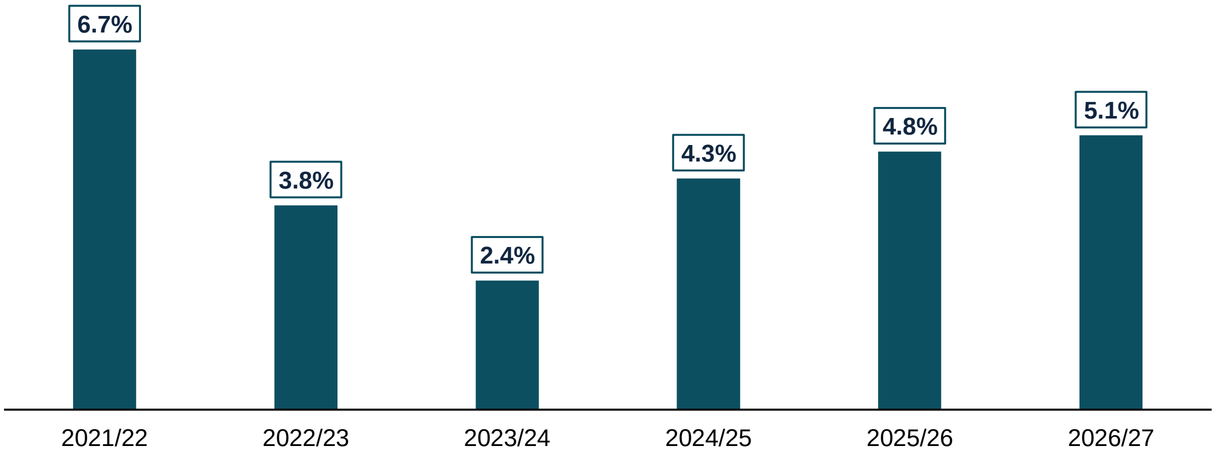


Source: Estimates derived from the Central Bank of Egypt's Quarterly Projection Model (see box 4).

[4] The CBE medium-term forecast employs a semi-structural Quarterly Projection Model (QPM) as outlined in box 4.

Domestically, real GDP growth is estimated to record 4.3 percent in FY 2024/25, up from 2.4 percent in FY 2023/24, signaling gradual recovery from the prolonged period of subdued economic activity observed over the past two fiscal years (figure 46). This anticipated rebound is primarily driven by a revival in manufacturing activity, as evidenced by leading indicators, highlighting the positive impact of the exchange rate unification on firms' ability to procure essential raw materials and intermediate goods.

Figure 46
CBE Real GDP Forecast (Market Prices)
(In %, y/y)



Source: Central Bank of Egypt.

Looking ahead, real GDP growth is projected to gather additional momentum in FYs 2025/26 and 2026/27, averaging 4.8 and 5.1 percent, respectively. This projected acceleration in growth is primarily driven by stronger performance across key sectors, including extractions, manufacturing, Suez Canal, and services. The expected improvement in extractions is supported by a favorable base effect alongside multiple successful onshore and offshore discoveries of crude oil and natural gas[5]. Moreover, the partial recovery in Suez Canal economic activity, assuming the gradual normalization of maritime transport in the Red Sea as geopolitical tensions de-escalate, is projected to support real GDP growth throughout the forecast horizon. Additionally, growth in other key sectors, such as manufacturing and services, is expected to continue in light of the projected progress in monetary easing, which will support real private sector credit growth going forward.

As a result, the estimated negative output gap is expected to narrow over the forecast horizon, with output converging to potential by end of FY 2025/26. Beyond this point, demand-side inflationary pressures may begin to surface; nonetheless, they are expected to remain contained under the current monetary policy stance. However, a faster-than-expected growth would pose upside risks to the inflation outlook, warranting a more cautious approach with regards to further advancements in the monetary policy easing cycle.

Currently, monetary conditions are appropriate to sustain the projected disinflation path. The CBE aims to uphold an appropriate monetary stance, consistent with the CBE reaction function, to safeguard the disinflation path against prevailing uncertainties. This monetary stance ensures that underlying inflation

[5] Source: Ministry of Petroleum and Mineral Resources.

continues to decline sustainably, inflation expectations remain well-anchored, and the CBE inflation target is reached by Q4 2026.

Accordingly, in its July meeting, the MPC judged that prudence is warranted before advancing with the monetary easing cycle, especially that this would allow for an impact assessment of the newly implemented fiscal-related legislative reforms, particularly those pertaining to value added taxes. The Committee decided that maintaining policy rates is appropriate to support the disinflation trajectory, steering inflation towards its target of 7 percent (± 2 percentage points), on average, in Q4 2026.

Box 4. 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-looking[1] 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 Philips 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. Monthly and Annual Contributions to Urban Headline Inflation

	Weights**	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Monthly Contributions to Headline Inflation *(in p.p.)*														
Headline inflation, in %	**100**	**1.58**	**0.39**	**2.05**	**2.08**	**1.10**	**0.52**	**0.21**	**1.51**	**1.39**	**1.65**	**1.34**	**1.85**	**-0.12**
Regulated Items	**21.4**	0.64	0.05	0.59	0.56	0.27	0.77	0.16	0.24	0.55	0.00	0.84	0.24	0.12
Fresh Fruits & Vegetables	**5.5**	-0.04	0.71	0.77	0.82	-0.11	-0.56	-0.61	0.04	-0.34	1.01	-0.36	0.43	-0.11
Core Food	**24.5**	0.57	-0.59	-0.02	0.28	0.58	-0.23	0.02	0.68	0.44	0.39	-0.25	0.16	-0.35
Retail	**14.3**	0.24	0.13	0.24	0.20	0.19	0.22	0.23	0.36	0.25	0.09	0.50	0.54	0.09
Services	**34.3**	0.16	0.10	0.47	0.22	0.17	0.32	0.42	0.19	0.50	0.16	0.61	0.49	0.14
Core Inflation*, in %	**73.1**	**1.30**	**-0.49**	**0.94**	**0.96**	**1.30**	**0.42**	**0.91**	**1.69**	**1.63**	**0.87**	**1.18**	**1.64**	**-0.18**
Annual Contributions to Headline Inflation *(in p.p.)*														
Headline inflation, in %	**100**	**27.51**	**25.67**	**26.25**	**26.40**	**26.53**	**25.54**	**24.06**	**23.95**	**12.84**	**13.62**	**13.93**	**16.84**	**14.89**
Regulated Items	**21.4**	5.65	5.11	5.47	5.97	6.23	6.22	6.26	6.02	4.91	4.79	4.99	5.28	4.71
Fresh Fruits & Vegetables	**5.5**	1.91	2.40	2.29	2.21	2.36	1.95	0.80	1.30	0.44	1.75	1.21	1.82	1.70
Core food	**24.5**	10.26	8.92	8.82	8.60	8.33	7.52	6.97	6.66	0.65	0.59	0.81	2.17	1.16
Retail	**14.3**	4.30	4.13	4.15	4.12	4.18	4.22	4.22	4.39	2.97	2.84	3.00	3.46	3.26
Services	**34.3**	5.39	5.12	5.51	5.49	5.43	5.64	5.81	5.58	3.88	3.65	3.93	4.12	4.06
Core Inflation*, in %	**73.1**	**26.64**	**24.38**	**25.13**	**24.97**	**24.40**	**23.71**	**23.22**	**22.59**	**10.01**	**9.41**	**10.36**	**13.06**	**11.40**

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

* The Core inflation index, constructed by the CBE, excludes fresh fruits and vegetables and regulated items from the headline index; it consists of services, retail, and core food items.

** Weights are derived from the 2017/2018 Household Income, Expenditure, and Consumption Survey (HIECS), starting with September 2019 data.

Table A2. Contribution to Real GDP Growth at Factor Cost (in p.p., unless otherwise stated)

	2021/22	2022/23	2023/24	Mar-24	Jun-24	Sep-24*	Dec-24*	Mar-25*
GDP Growth (at Market Prices) (%)	6.6	3.8	2.4	2.2	2.4	3.5	4.3	4.8
GDP Growth (at Factor cost) (%)	**6.2**	**3.6**	**2.3**	**2.1**	**2.4**	**3.5**	**4.3**	**4.7**
Public GDP (at Factor Cost)	1.6	0.6	-0.4	-0.9	-1.4	-0.3		
Private GDP (at Factor Cost)	4.6	3.0	2.7	3.0	3.7	3.8		
Agriculture, Forestry, Fishing, and Hunting	**0.4**	**0.5**	**0.4**	**0.5**	**0.3**	**0.4**	**0.2**	**0.5**
Industry	**1.6**	**-0.7**	**-1.2**	**-1.1**	**-0.2**	**0.4**	**1.5**	**0.9**
Extractions	**0.2**	**-0.1**	**-0.3**	**-0.3**	**-0.5**	**-0.5**	**-0.6**	**-0.8**
Oil	-0.1	0.0	-0.1	0.0	-0.2	-0.1	-0.2	-0.4
Natural gas	0.2	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5
Other	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.1
Manufacturing	**1.4**	**-0.6**	**-0.8**	**-0.9**	**0.3**	**0.9**	**2.0**	**1.7**
Petroleum	0.3	-0.1	-0.2	-0.4	-0.2	0.0	0.1	-0.2
Non-Petroleum	1.1	-0.5	-0.6	-0.5	0.5	0.9	1.9	1.9
Services	**2.9**	**2.7**	**2.5**	**2.5**	**2.7**	**2.9**	**2.8**	**2.8**
Construction	0.5	0.4	0.4	0.4	0.6	0.4	0.4	0.3
Real Estate Rental and Services	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.2
Transportation and Warehousing	0.2	0.2	0.3	0.3	0.5	0.9	0.5	0.0
Finance	0.1	0.1	0.2	0.2	0.1	0.3	0.4	0.7
Insurance[1/]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Communication	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.5
Tourism	0.8	0.7	0.3	0.2	0.2	0.2	0.5	0.6
Educational, Health Care, and Other Services	0.3	0.4	0.4	0.4	0.4	0.3	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**	**0.9**	**0.8**	**0.7**	**0.6**	**0.5**
Suez Canal	**0.3**	**0.3**	**-0.5**	**-0.9**	**-1.5**	**-1.1**	**-1.1**	**-0.2**
General Government	**0.4**	**0.2**	**0.3**	**0.2**	**0.4**	**0.3**	**0.3**	**0.2**

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 (USD bn)***

Date	2021/22	2022/23	2023/24	2022/23		2023/24				2024/25		
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3*
Trade Balance	**-43.4**	**-31.2**	**-39.6**	**-8.0**	**-7.6**	**-7.9**	**-10.7**	**-10.1**	**-10.8**	**-14.1**	**-13.4**	**-10.8**
Export proceeds	43.9	39.6	32.6	9.6	8.6	8.3	8.1	7.7	8.4	9.1	9.6	11.0
Petroleum exports	18.0	13.8	5.7	3.1	2.1	1.6	1.6	1.4	1.1	1.2	1.8	1.2
Other exports	25.9	25.8	26.8	6.4	6.5	6.7	6.5	6.3	7.3	7.9	7.8	9.9
Import payments**	87.3	70.8	72.1	17.6	16.2	16.3	18.8	17.8	19.2	23.1	23.1	21.9
Petroleum imports	13.5	13.4	13.4	3.2	3.3	2.9	3.4	3.4	3.7	5.4	4.2	4.8
Other imports	73.8	57.4	58.8	14.3	12.9	13.3	15.5	14.4	15.5	17.7	18.8	17.0
Services Balance	**11.2**	**21.9**	**14.4**	**3.7**	**7.4**	**5.2**	**4.0**	**2.1**	**3.1**	**4.1**	**3.2**	**3.5**
Receipts	26.9	34.6	30.2	7.0	9.8	9.0	7.9	6.4	7.0	8.4	7.8	7.6
Transportation	9.7	14.0	10.7	3.1	4.1	3.5	3.3	1.9	2.0	2.2	2.5	2.2
Of which: Suez Canal dues	7.0	8.8	6.6	2.2	2.5	2.4	2.4	1.0	0.9	0.9	0.9	0.8
Travel (tourism revenues)	10.7	13.6	14.4	3.0	3.3	4.5	3.3	3.1	3.5	4.8	3.9	3.8
Payments	15.8	12.6	15.9	3.3	2.4	3.8	3.9	4.3	3.9	4.3	4.6	4.2
Travel	4.5	5.0	5.1	1.1	1.0	1.5	1.5	1.3	0.8	0.8	1.1	1.0
Investment Income Balance	**-15.8**	**-17.3**	**-17.5**	**-4.6**	**-3.8**	**-4.6**	**-5.0**	**-4.5**	**-3.5**	**-4.3**	**-3.7**	**-4.2**
Receipts	1.0	2.1	1.9	0.5	0.9	0.4	0.4	0.3	0.8	0.7	0.6	0.6
Payments	16.8	19.5	19.5	5.1	4.7	5.0	5.3	4.8	4.3	4.9	4.3	4.9
Of which: Interest paid	2.8	6.2	7.9	1.8	1.9	2.0	2.1	2.0	1.8	1.9	1.9	1.9
Current Transfers	31.4	21.8	21.9	5.4	4.6	4.5	4.9	5.0	7.5	8.4	8.8	9.3
Private (net)	31.7	21.9	21.9	5.4	4.6	4.5	4.9	5.0	7.5	8.3	8.7	9.3
Official (net)	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Balance of Current Account	**-16.6**	**-4.7**	**-20.8**	**-3.5**	**0.6**	**-2.8**	**-6.8**	**-7.5**	**-3.7**	**-5.9**	**-5.2**	**-2.3**
Capital & Financial Account	**11.8**	**8.9**	**29.9**	**5.3**	**0.9**	**1.8**	**6.6**	**11.7**	**9.8**	**3.8**	**4.1**	**-1.2**
Capital Account	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	-0.1	-0.1
Financial Account	11.9	9.0	30.0	5.3	0.9	1.8	6.6	11.7	9.9	3.8	4.2	-1.2
Direct investment in Egypt (net)	8.9	10.0	46.1	2.2	2.1	2.3	3.2	18.2	22.4	2.7	3.3	3.8
Portfolio investment in Egypt (net)	-21.0	-3.8	14.5	-0.4	-0.3	-0.5	0.8	14.4	-0.1	-0.4	-3.3	5.3
Of which: Bonds	1.0	0.3	-1.6	0.5	-0.1	-0.3	0.6	-0.7	-1.1	-0.1	-0.2	1.9
Other Investments (net)	24.4	3.4	-29.8	3.7	-0.7	0.1	2.9	-20.7	-12.1	1.6	4.4	-10.1
Net Borrowing	-1.4	1.4	4.9	0.0	-0.9	1.5	4.0	-1.6	0.8	0.7	-1.8	-0.2
Medium- and Long-Term Loans (net)	0.7	-0.2	-2.8	-0.1	-0.1	-0.7	-0.1	-1.6	-0.4	-1.1	0.0	-0.4
Medium- and Long-Term Suppliers' Credit (net)	0.7	1.7	0.4	0.3	0.8	-0.1	0.7	-0.1	-0.1	0.0	-0.9	-0.2
Short term Suppliers' Credit (net)	-2.9	0.0	7.2	-0.2	-1.5	2.4	3.4	0.1	1.4	1.8	-0.8	0.4
Other Assets	4.2	-4.8	-24.9	1.3	-0.8	-3.2	-2.0	-12.3	-7.4	0.0	4.6	-8.0
Other Liabilities	21.6	6.7	-9.8	2.5	1.1	1.8	0.8	-6.8	-5.6	0.8	1.6	-1.8
Net Errors & Omissions	**-5.8**	**-3.3**	**0.6**	**-2.1**	**-0.8**	**1.3**	**-0.4**	**0.3**	**-0.6**	**1.1**	**1.5**	**2.1**
Overall Balance	**-10.5**	**0.9**	**9.7**	**-0.3**	**0.6**	**0.2**	**-0.6**	**4.5**	**5.6**	**-1.0**	**0.5**	**-1.4**
Change in CBE Reserve Assets (Increase -)	**10.5**	**-0.9**	**-9.7**	**0.3**	**-0.6**	**-0.2**	**0.6**	**-4.5**	**-5.6**	**1.0**	**-0.5**	**1.4**

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-21	Jun-22	Jun-23	Jun-24	Sep-24	Dec-24	Mar-25	May-25
Monetary Survey								
Net Foreign Assets	**251.7**	**-372.0**	**-834.6**	**626.6**	**498.7**	**265.9**	**760.8**	**732.6**
Central Bank	225.2	-152.8	-304.9	494.5	505.1	592.5	632.8	492.3
Commercial Banks	26.4	-219.2	-529.7	132.1	-6.4	-326.6	128.0	240.2
Net Domestic Assets	**5,104.9**	**6,986.5**	**9,082.8**	**9,991.9**	**10,583.1**	**11,370.5**	**11,806.0**	**12,089.4**
Net Claims on the Government	3,166.1	3,971.8	5,076.3	5,918.2	7,025.5	7,738.0	8,135.2	8,254.0
Net Claims on Public Economic Authorities	353.5	453.2	766.3	1,205.8	1,284.8	1,551.3	1,736.9	1,701.0
Claims on Public Sector Companies	148.6	154.5	164.8	370.2	400.5	429.0	462.3	447.2
Claims on Private Sector	1,752.3	2,178.2	2,732.2	3,492.7	3,658.7	3,850.5	4,067.8	4,217.1
Other Items, net	-315.5	228.9	343.1	-995.0	-1,786.4	-2,198.2	-2,596.1	-2,530.1
Broad Money (M2)	**5,356.6**	**6,614.5**	**8,248.2**	**10,618.6**	**11,081.8**	**11,636.4**	**12,566.8**	**12,821.9**
Domestic Currency Component (M2D)	4,706.4	5,768.4	6,732.0	8,090.9	8,376.0	8,676.8	9,492.8	9,788.1
Currency Outside Banks	673.4	778.6	1,009.2	1,227.0	1,168.0	1,121.3	1,296.8	1,355.9
Domestic Currency Deposits	4,033.1	4,989.8	5,722.9	6,863.9	7,208.0	7,555.6	8,196.0	8,432.3
Foreign Currency Deposits	650.2	846.1	1,516.2	2,527.7	2,705.8	2,959.6	3,074.0	3,033.8
Central Bank Survey								
Net Foreign Assets	**225.2**	**-152.8**	**-304.9**	**494.5**	**505.1**	**592.5**	**632.8**	**492.3**
Foreign Assets	625.1	611.5	1,045.8	2,161.9	2,185.5	2,326.4	2,344.7	2,347.4
Foreign Liabilities	-399.9	-764.3	-1,350.6	-1,667.3	-1,680.4	-1,733.9	-1,711.8	-1,855.1
Net Domestic Assets	**762.5**	**1,345.7**	**1,833.6**	**1,470.6**	**1,392.4**	**1,651.0**	**1,633.3**	**1,673.8**
Net Claims on the Government	757.8	1,058.9	1,413.0	1,984.6	2,279.5	2,230.6	2,239.7	2,161.5
Net Claims on Public Economic Authorities	-37.8	-57.6	-72.8	-634.1	-619.8	-568.0	-570.0	-578.1
Claims on Banks	377.3	400.0	530.4	875.1	863.3	926.0	987.7	1,014.8
Banks' Deposits in Foreign Currency	-135.1	-216.5	-508.5	-601.5	-628.8	-841.4	-784.0	-723.6
Open Market Operations	-469.1	-735.8	-942.0	-1,117.0	-1,106.3	-737.0	-628.9	-553.2
Other Items, net	269.4	896.6	1,413.6	963.6	604.4	640.9	388.8	352.5
Reserve Money	**987.7**	**1,192.9**	**1,528.8**	**1,965.1**	**1,897.5**	**2,243.4**	**2,266.2**	**2,166.2**
Currency Outside Banks	673.4	778.6	1,009.2	1,227.0	1,168.0	1,121.3	1,296.8	1,355.9
Reserves of Banks	314.4	414.3	519.6	738.2	729.4	1,122.2	969.4	810.3
Cash in Vaults	265.3	354.8	445.5	636.2	637.1	1,007.1	864.6	714.0
Deposits in Domestic Currency	49.1	59.5	74.1	102.0	92.3	115.1	104.8	96.2

Source: Central Bank of Egypt.

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

	Q1 2022	Q1 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Policy Rates								
Mid-Corridor Rate	8.88	16.75	22.80	27.75	27.75	27.75	27.75	25.51
Interbank Rates								
Interbank WAR	9.45	16.43	23.12	27.31	27.30	27.43	27.49	25.42
Interbank O/N Rate	9.36	16.46	23.27	27.35	27.40	27.46	27.52	25.41
Interbank O/N, Average Volume (in EGP bn)	21.61	22.21	27.31	24.11	20.47	22.49	28.82	29.96
Interbank O/N, Share of Total Interbank Volume	88.25	85.10	74.16	58.29	47.05	54.90	58.66	51.71
Banking Sector								
Deposit Rates	11.41	15.36	19.03	17.65	20.75	20.53	20.97	18.67
Time Deposits	7.47	12.11	16.44	15.99	21.36	21.25	20.66	19.24
Short-term Deposits (<1Y)	7.45	12.13	16.52	15.99	21.41	21.40	21.00	19.24
Other Deposits	7.71	11.88	14.83	16.42	16.08	15.75	15.10	19.33
Saving Certificates	15.65	21.39	24.20	23.73	23.23	23.51	24.35	22.70
< 3 years	17.98	23.46	25.07	24.70	24.65	24.63	25.11	25.01
≥ 3 years	10.65	14.31	20.79	23.08	22.26	22.66	23.56	21.81
Saving Accounts	4.73	7.06	10.23	13.35	13.05	13.42	10.92	8.70
Lending Rates	11.30	17.13	21.10	26.99	27.42	27.89	26.58	25.64
W.A. Business Lending Rates	10.03	17.11	20.86	27.19	27.00	27.59	26.17	24.66
Short term Business	10.06	17.52	21.67	27.34	27.21	28.19	28.32	25.33
Long term Business	9.96	15.93	20.04	27.02	26.74	26.26	22.99	22.95
Retail Lending Rates	14.49	17.17	22.08	26.14	29.12	29.10	28.37	28.32
Local Debt Market								
T-bills Yield 1Y	13.22	22.01	29.92	25.94	26.21	26.24	25.37	24.91
Weighted Average T-bills Yield	12.91	21.24	28.19	25.86	28.20	29.75	26.94	26.71
Weighted Average T-bonds Yield	14.54	21.35	27.94	24.30	26.32	26.27	26.78	23.56
WACF[1/]	10.40	17.00	22.60	20.60	22.30	23.40	21.50	21.00
Spreads[2/]								
O/N Interbank - Mid Corridor Rate	0.57	-0.32	0.32	-0.44	-0.45	-0.32	-0.26	-0.09
W.A. Lending rate - Mid Corridor Rate	2.42	0.38	-1.70	-0.76	-0.33	0.14	-1.17	0.13
Mid Corridor - W.A. Deposit Rate	-2.53	1.39	3.77	10.10	7.00	7.22	6.78	6.84

Source: Central Bank of Egypt.

1/ Government securities' yields are adjusted for tax.

2/ All rates are as of June 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
DXY	U.S. Dollar Index
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
MPR	Monetary Policy Report
MPEDIC	Ministry of Planning, Economic Development, and International Cooperation
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

Monetary Policy Report
Q2 – 2025