البنك المركزي المصري
CENTRAL BANK OF EGYPT

Central Bank of Egypt

Monetary Policy Report

Q4 – 2025

NOTE

The cut-off date for the data points included in this report is February 15, 2026. Some of the data presented is preliminary and subject to revision.

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. 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 each 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 February 12, 2026, the Monetary Policy Committee of the Central Bank of Egypt decided to cut key policy rates by 100 basis points. Accordingly, the overnight deposit rate, overnight lending rate, and the rate of the main operation were reduced to 19.0 percent, 20.0 percent, and 19.5 percent, respectively. The discount rate was also cut to 19.5 percent. In addition, the CBE Board of Directors reduced the required reserve ratio (RRR) for commercial banks from 18 percent to 16 percent.

The MPC judged that a 100-basis-point cut in key policy rates, complemented with a two-percentage point reduction in the RRR, is consistent with upholding a monetary policy stance conducive to achieving the inflation target of 7 percent (±2 percentage points), on average, in Q4 2026. The reduction in the RRR aims to safeguard the effectiveness of monetary policy transmission through ensuring effective pass-through of CBE decisions to money markets and the broader economy by appropriately calibrating liquidity conditions within the banking system.

*See CBE Monetary Policy Framework for further details.

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Summary

Recent macroeconomic outturns and updated forecasts indicate that inflation is expected to remain largely stable near current levels in Q1 2026 and is projected to resume its broadly declining path thereafter. Inflation remains well on track to reach the CBE target of 7 percent (± 2 p.p.), on average, in Q4 2026, supported by broad-based easing of inflationary pressures, the gradual dissipation of earlier shocks, non-inflationary growth, and a strengthening of the external position. This edition of the quarterly *Monetary Policy Report* covers the latest global and domestic developments during Q4 2025, and evaluates their implications for the Egyptian economy. It also presents the outlook for key macroeconomic indicators, including inflation and economic growth.

Globally, economic growth witnessed modest recovery in 2025, with emerging market (EM) economies contributing most to global growth. Global inflation is expected to continue converging toward central banks' targets, recording 2.4 percent, on average, in Q4 2025 compared to 2.7 percent in Q4 2024, with global commodity prices broadly declining as well in Q4 2025. Meanwhile, uncertainty surrounding global trade policy remained elevated in Q4 2025, yet slightly lower relative to the previous quarter and well below its peak in April 2025. Accordingly, central banks are expected to maintain their easing cycles during 2026 with continued caution given global uncertainty and trade-related risks.

Domestically, Q4 2025 inflation dynamics were marked by subdued food inflation and contained, yet persistent pressures from services and regulated prices. These pressures, however, were not strong enough to reverse the broader disinflationary trend with annual headline inflation declining to 12.3 percent in Q4 2025, on average, against 12.5 percent in the previous quarter. Meanwhile, annual core inflation recorded 12.1 percent in Q4 2025, up from 11.2 percent in Q3 2025 driven by services, and despite a decline in core food prices.

The CBE nowcast for real GDP growth in Q4 2025 is estimated to have recorded approximately 4.9 percent, mainly driven by non-petroleum manufacturing, tourism, and communications. Real GDP at market prices grew by 5.3 percent in Q3 2025, marking its strongest growth rate since Q1 2022, compared to 3.5 percent in Q3 2024, signaling a sustained recovery in economic activity. Nevertheless, demand-side inflationary pressures are expected to remain contained, supporting Egypt's disinflation path over the short term and through the inflation target horizon. Regarding the labor market, the unemployment rate registered 6.2 and 6.4 percent in Q4 and Q3 2025, respectively, down from 6.4 and 6.7 percent in the corresponding quarters of 2024.

In Q3 2025, Egypt's external position continued to show signs of improvement despite the balance of payments recording a deficit of USD 1.6 bn. The current account deficit narrowed to USD 3.2 bn (0.8 percent of GDP) in Q3 2025, almost halving compared to Q3 2024, driven by continued growth in workers' remittances, higher services receipts, as well as lower non-hydrocarbon trade deficit. Meanwhile, the capital and financial account recorded a marginal deficit, yet underpinned by favorable developments including an accumulation of foreign assets by commercial banks, offset by sustainable FDI inflows, portfolio flows, and short-term suppliers' credit. Such developments signal easing pressures on the foreign exchange receipts needed to meet external payments, reducing external pressures on the nominal exchange rate which is evident by its recent appreciation trend.

In terms of broad money (M2), annual M2 growth marginally decelerated in Q4 2025, averaging 21.5 percent, down from an average of 22.7 percent in Q3 2025. Meanwhile, the banking system's NFAs increased significantly by a cumulative USD 4.7 bn during Q4 2025, standing at USD 25.5 bn in December 2025, compared to USD 20.8 bn in September 2025. This increase was partially driven by commercial banks' NFAs due to increased FX resources, including sustained workers' remittances and net portfolio

inflows. On the other hand, real growth of local currency loans to the private sector remained positive, standing at 11.8 percent in Q4 2025, modestly down from 14.2 percent in the previous quarter.

The CBE resumed its easing cycle in Q4 2025, bringing policy rate cuts to a cumulative 725 bps in 2025, while maintaining a monetary stance supportive of the disinflation path. Approximately 94 percent of the policy rate cuts were transmitted to the interbank market, with the overnight interbank rate recording 20.6 percent at the end of Q4 2025, compared to 27.4 percent at the end of Q1 2025, indicating an effective and rapid passthrough of key policy rate changes to the interbank market. Additionally, Egyptian Eurobond yields declined by an average of 140 basis points in Q4 2025 across all tenors, extending their downward trend observed since the start of FY 2024/25. This decline was driven by relatively more accommodative global financial conditions, stronger investor demand toward emerging market assets, as well as improving domestic economic fundamentals, as reflected in the continuous buildup of net international reserves and the broader disinflationary trend.

Looking ahead, CBE forecasts point to annual headline inflation remaining largely stable near current levels in Q1 2026, and is expected to resume its broadly declining path over the remainder of the year. By Q4 2026, inflation is expected to converge toward the CBE's target range of 7 percent (±2 p.p.), on average, and to remain within single-digit territory thereafter. Accordingly, annual headline inflation is expected to range between 12.0—12.5 percent and 9.0 percent, on average, in FYs 2025/26 and 2026/27, respectively, down from 20.4 percent in FY 2024/25. Nonetheless, the disinflation path remains susceptible to domestic and global upside risks, including a higher-than-expected passthrough of fiscal consolidation measures and re-escalation of geopolitical tensions.

With respect to real GDP growth[1], the CBE projects a higher acceleration than previously expected to register an average of 5.1 and 5.5 percent in FYs 2025/26 and 2026/27, respectively, compared to the previously estimated 4.8 and 5.1 percent. The forecast revision is attributed to higher anticipated contributions from non-petroleum manufacturing and services sectors, which are expected to accelerate at a faster pace, supported by the projected progress in monetary easing, which is likely to further support real private sector credit growth. Consequently, the output gap is expected to continue narrowing over the forecast horizon with the economy projected to converge to potential by end-2026.

[1] GDP at market prices.

1.Current Economic Conditions

1.1 Global Developments

Key Takeaways:

- Global economic growth continued to recover modestly over 2025.
- Global inflation is broadly moderating, however there remain upside risks stemming from resurgent geopolitical tensions and lingering trade policy uncertainties.
- Commodity prices broadly declined in Q4 2025, as seen in the softening Brent crude and international food prices.
- Easing global financial conditions as well as reduced perceptions of sovereign risks across emerging markets supported an increase in capital flows to emerging markets.
- Central banks in both advanced and developing economies maintained a cautious approach in the conduct of monetary policy.

This section reviews recent global economic developments and evaluates their implications for Egypt. Specifically, it explores trends in global growth, inflation, commodity prices, and financial markets, with particular attention to emerging economies. The analysis underscores how these global dynamics influence Egypt's macroeconomic conditions and external position.

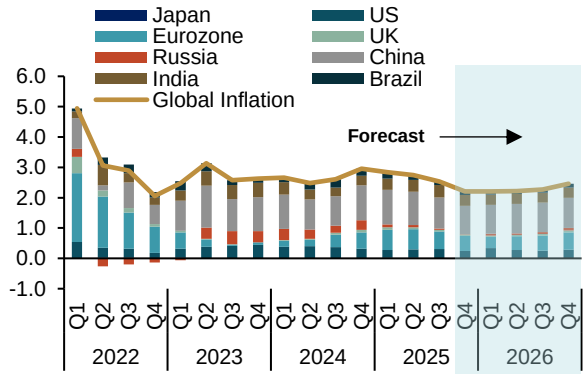
Global economic growth continued to experience modest recovery in 2025, albeit slowing slightly compared to 2024. [2] This slowdown is a result of the dampening effect of post-pandemic recovery, as well as the lagged transmission of restrictive monetary policy to global economic output. Growth was mainly driven by emerging market economies, as the contribution from advanced economies to global growth was weighed down by heightened policy uncertainty. In 2026, the growth outlook remains subject to downside risks from potential geopolitical tensions and volatility in global trade policies.

In this context, average global economic growth, weighted by Egypt's volume of trade with key trading partners, is projected to average 2.2 percent in Q4 2025, compared to 3.0 percent in Q4 2024, and to remain broadly stable through 2026 (Figure 1). Stability in global activity is expected to support external demand, and hence exports, tourism receipts, and remittance inflows, contributing positively to Egypt's domestic growth. However, stronger external demand may also exert upward pressure on domestic inflation.

Figure 1

Economic Growth of Egypt's Trading Partners*

(In percent, y/y)



Source: Bloomberg.

*The series is weighted using Egypt's trade volume in FY 2023/24. Growth rates starting Q4 represent forecasts.

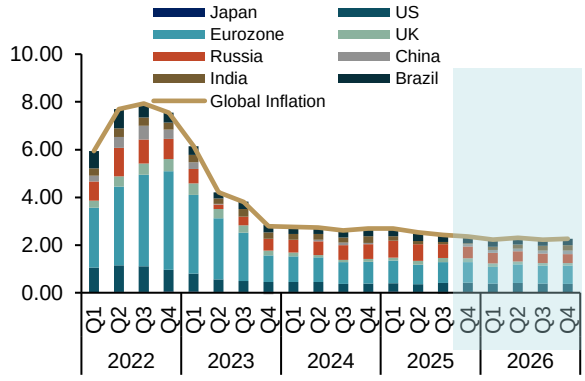
Alongside stabilizing growth, global inflation is expected to continue converging toward central banks' targets, declining to an average of 2.4

[2] Growth projections are according to Bloomberg data, weighted by Egypt's volume of trade with key trading partners.

percent in Q4 2025 compared to 2.7 percent in Q4 2024 (Figure 2).[3] Over the medium term, inflationary pressures are expected to continue easing across both advanced and emerging economies, supported by the lagged effects of tightening monetary policy and softening commodity prices globally. For Egypt, this disinflationary trend could reduce imported inflation risks, supporting price stability and easing external pressures on the current account balance.

Nonetheless, elevated geopolitical tensions, heightened trade policy uncertainty, and the potential re-emergence of supply chain disruptions pose upside risks to the disinflation outlook.

Figure 2
Headline Inflation of Egypt's Trading Partners*
(In percent, y/y)



Source: Bloomberg.
* The series is weighted using Egypt's trade volume in FY 2023/24. Inflation rates starting Q4 represent forecasts.

Further underpinning this disinflationary environment, global commodity prices broadly declined in Q4 2025, as increased supply reduced upward pressures in energy markets, and international food prices continued to fall.

In the oil market, Brent crude prices declined in Q4 2025, averaging USD 63.1 per barrel, compared to USD 68.2 in Q3 2025, and down from 74.0 in Q4 2024 (Figure 3). Rising supply from both OPEC+ members and non-member producers contributed to this decline, alongside speculations over weakening global demand. Amid this environment, Brent prices slipped below the USD 60 per barrel threshold for the first time since Q1 2021.

Looking ahead, the energy market outlook remains tilted to the downside, even following the OPEC+ decision to halt production increases, yet could still be impacted by heightened geopolitical tensions and consequent supply disruptions.

For Egypt, the passthrough from international oil prices to domestic inflation remains limited given the domestic fuel pricing mechanism. Nevertheless, lower oil prices translate into reduced import prices and freight costs. The decline in oil prices would also improve the oil trade balance, alleviating pressures on both the external position and fiscal balances.

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

Source: Bloomberg.
*/Data as of January 8, 2026.

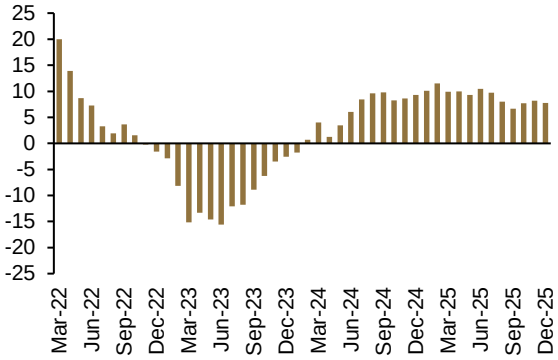
[3] Inflation projections are according to Bloomberg data, weighted by Egypt's volume of trade with key trading partners.

With respect to food commodities, international food prices, measured using domestic CPI basket weights of core food items, softened in Q4 2025, averaging 7.9 percent compared to 8.1 percent in Q3 2025 (Figure 4). This moderation was primarily driven by lower rice, sugar and dairy prices, which were offset by an uptick in beef and poultry prices.

Figure 4

International Food Prices*

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



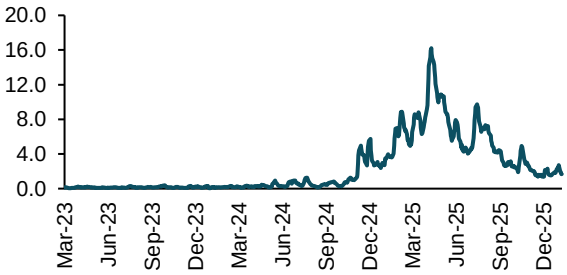
Source: Central Bank of Egypt calculations; World Bank; and Food and Agriculture Organization of the United Nations.
*/Data as of January 8, 2026.

Turning to global financial and policy conditions, global trade policy uncertainty, as measured by the Global Trade Policy Uncertainty Index, was relatively elevated in Q4 2025, but diminished slightly relative to the previous quarter, remaining well below the sharp peaks recorded in mid-2025. This suggests that persistent policy ambiguity continues to weigh on global trade (Figure 5).

Figure 5

Global Trade Policy Uncertainty*

(Index level)



Source: Bloomberg.
* An increase indicates rising uncertainty surrounding global trade policies. Data as of January 8, 2026.

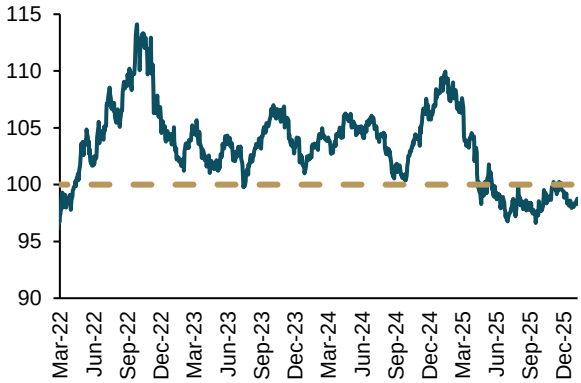
Looking ahead, recovery in the global trade environment could boost investor confidence and strengthen Egypt's non-oil export competitiveness, while attracting additional FDI as firms reorient production toward stable and more competitive markets such as Egypt.

Amid these developments, the US dollar continued its depreciation trend observed in mid-2025. During Q4 2025, the US Dollar Index (DXY) declined by approximately 7.2 percent compared to Q4 2024 (Figure 6). This weakening reflects expectations of further Fed rate cuts and investor portfolio rebalancing toward higher-yielding emerging market assets and lower-risk assets such as gold.

Figure 6

U.S. Dollar Index (DXY)*

(Index level, Increase = appreciation and vice versa)



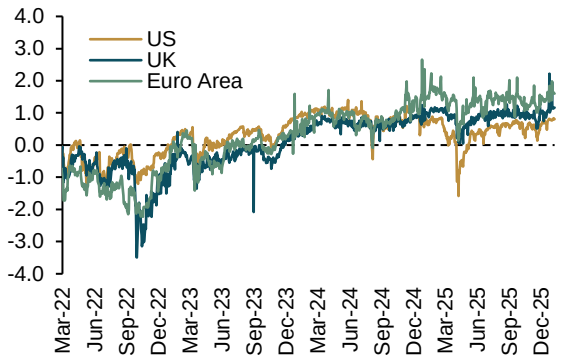
Source: Bloomberg.
*/Data as of January 8, 2026.

The modest depreciation of the US dollar, along with easing monetary policy stance across major central banks, contributed to the continued easing of financial conditions in advanced economies in Q4 2025 compared to Q4 2024 (Figure 7). In turn, this easing of global financial conditions has alleviated external financing constraints for developing economies, helping stimulate capital inflows, and if sustained, would support growth prospects.

Figure 7

Financial Conditions Index*

(Z-score)



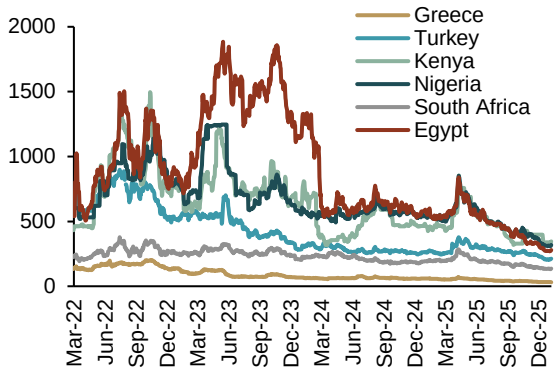
Source: Bloomberg.

* Positive values indicate more accommodative financial conditions, and vice versa. Data as of January 8, 2026.

Figure 8

Egypt and Peers: 5-Year CDS Spreads*

(basis points)



Source: Bloomberg.

*/Data as of January 8, 2026.

Consistent with these shifts in the global investment climate, emerging market (EM) sovereign credit default swap (CDS) spreads continued to tighten in Q4 2025, reflecting improved global risk sentiment. Economic recovery and resilient external buffers further improved credit perceptions, signaling a normalization of risk pricing across emerging markets following the heightened volatility of recent years.

In line with broader emerging market trends, Egypt's 5-year CDS spread tightened markedly in Q4 2025, reaching its narrowest level in five years (Figure 8). Beyond signaling improved sovereign risk and stronger external confidence, narrower CDS spreads lower the risk premium of Egypt's Eurobond yields and new issuance, supporting market access and reducing external borrowing costs. If sustained, this improved sovereign risk environment can ease the pressures of debt refinancing and rollover. However, these benefits remain vulnerable to shifts in global risk sentiment.

Given the above developments, capital inflows to emerging markets rose by 8.5 percent in Q4 2025 compared to 8.2 percent in Q3 2025 (Figure 9). This increase was driven by a weaker US dollar, moderately more accommodative financial conditions in advanced economies, and improved investor sentiment toward emerging markets.

Figure 9

Emerging Markets Capital Flows*

(Index level, increase = inflows and vice versa)

Source: Bloomberg.

* The EM Capital Flow Proxy Index captures capital flows through emerging markets, and is constructed from four indices with varying weights: Commodity Index (Goldman Sachs), EM equity index (MSCI), EM bond spread index (EMBI), and EM FX Carry Trade Index. Data as of January 8, 2026.

Looking ahead, a faster-than-anticipated pace of monetary easing in advanced economies, combined with improved investor sentiment,

could further strengthen capital inflows into emerging markets, including Egypt.

In light of these developments, central banks continued to adjust monetary policy in response to shifting global conditions. In Q4 2025, central banks in advanced economies gradually continued their easing cycles amidst a level of persistent risk (Figure 10, panel a).

However, Japan remains a notable exception. In Q4 2025 the Bank of Japan continued raising its policy rate by 25 bps to 0.75 percent,[4] the highest level in approximately 30 years. However, a potential move toward higher rates may dampen the appetite for relatively riskier emerging market assets. Looking ahead, while additional rate cuts are anticipated, central banks are expected to proceed cautiously given global uncertainty and trade-related risks.

This easing trend in advanced economies broadly influenced monetary policy in emerging markets. However, the overall policy stance across emerging economies remains cautious (Figure 10, panel b). Nevertheless, trends across emerging economies diverged. Some central banks opted to reduce policy rates in recent quarters to support economic activity amid easing inflationary pressures and a prolonged tight monetary stance, while others opted to keep rates unchanged to preserve their disinflation path.

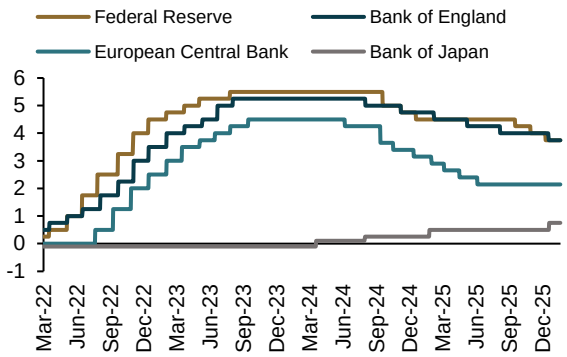
Similarly, the CBE has maintained its prudent, forward-looking approach, reducing its key policy rate to 20.5 percent at the December 2025 MPC meeting to support ongoing disinflation trajectory, while continuing to closely monitor domestic and external developments.

Figure 10

Key Policy Rates in Major Central Banks*

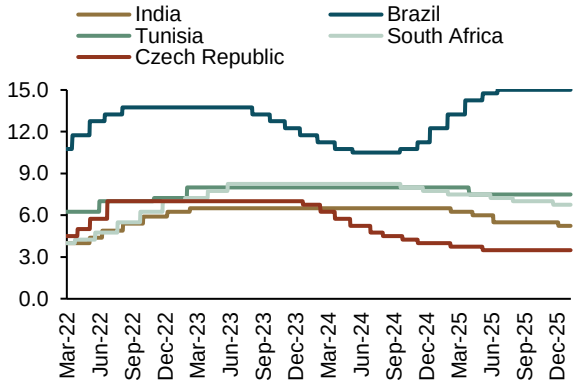
(In percent)

a. Advanced Economies



Note: ECB rate refers to the main refinancing operation rate and the Federal Reserve rate refers to the ceiling of the federal funds target range.

b. Emerging Economies



Source: Bloomberg.
*/Data as of January 19, 2026.

The recovery in global economic growth, alongside stabilizing inflation, is expected to generate positive spillovers for the Egyptian economy. Recent moderation in global commodity prices could help ease imported inflation pressures, supporting both external balances and domestic price stability. In addition, a weaker US dollar, more accommodative global financial conditions and improved investor risk appetite are likely to enhance the attractiveness of emerging market assets, bolstering capital inflows to emerging markets, including Egypt.

[4] Despite the increase in the nominal interest rate, Japan's real interest rate continues to remain negative.

1.2 Domestic Developments

1.2.1 Inflation

Key Takeaways:

- Headline inflation continued to decline in Q4 2025 and in January 2026, reflecting a broad-based easing of inflationary pressures, a gradual dissipation of earlier shocks and favorable base effects.
- Meanwhile, core inflation picked up to 12.1 percent in Q4 2025, from 11.2 percent in Q3 2025, before resuming its downward trajectory in January 2026. This increase resulted from temporary shocks that disrupted the downward trend in non-food inflation, despite relative stability in core food inflation.
- Q4 2025 inflation dynamics were marked by subdued food inflation and contained, yet persistent pressures from services and regulated prices. These pressures, however, were not strong enough to reverse the broader disinflationary trend.

This section assesses recent inflation dynamics in Egypt and the key factors shaping domestic prices. Specifically, it examines trends in headline and core inflation, as well as developments in food and non-food inflation and across major CPI components, presenting an evaluation of both domestic conditions and external price movements.

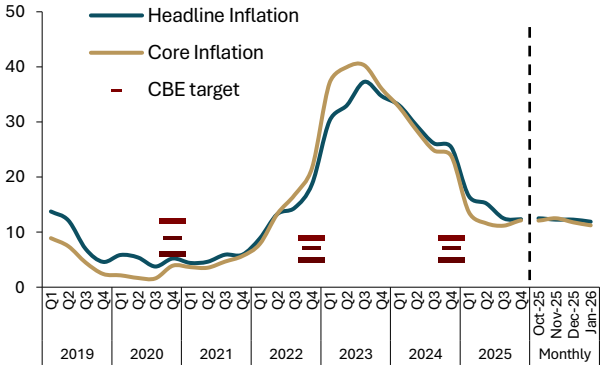
Annual headline inflation averaged 12.3 percent in Q4 2025, slightly below 12.5 percent in Q3 2025 and substantially lower than 25.4 percent in Q4 2024. This outcome reflects the continued dissipation of earlier inflationary shocks, supported by strong base effects and a broad-based easing in food prices, which reverted to pre-2022 levels. Fresh fruit and vegetable prices recorded marginal increases during the quarter, and core food inflation declined. These positive developments partially offset upward pressure from non-food components and administered prices. This downward trend was sustained through January 2026, as headline inflation dropped to 11.9 percent from 12.3 percent in December 2025. The slowdown was driven by decelerating non-food inflation, which recorded 18.6 percent, its lowest figure since October 2023, offsetting the temporary pickup in food inflation (Figure 11).

By contrast, annual core inflation rose to 12.1 percent in Q4 2025 from 11.2 percent in the previous quarter. The increase was driven mainly by higher cost of services, which outweighed the decline in core food inflation, leading to a modest acceleration in overall core inflation. However, annual core inflation resumed its deceleration in December and January 2026, dropping to 11.8 and 11.2 percent respectively, driven by a faster decline in non-food inflation coupled with relatively stable core food inflation.

Figure 11

Headline and Core Inflation*

(In percent, y/y, average of quarter)



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

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

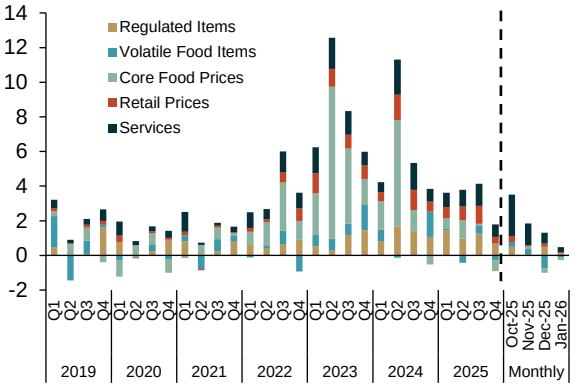
Monthly inflation developments in Q4 2025, reflected a contribution from: (i) services as the primary driver, due to rent adjustments after the repeal of the Old Rent Law. Rents rose by an average of 7.1 percent over the quarter, with the

largest increase in October; and from (ii) price-regulated items, which also increased following an 11.6 percent fuel price adjustment in November, with subsequent second-round effects on transportation fares, and a 23 percent hike in household natural gas costs in December. In January 2026, monthly inflation dynamics reflected a pickup in food prices, consistent with the seasonal increase ahead of Ramadan, despite decelerating non-food inflation (Figure 12).

Figure 12

Breakdown of Headline Inflation

(In p.p., q/q)



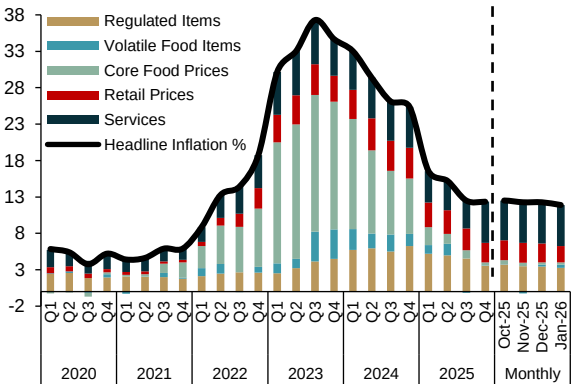
Source: Central Bank of Egypt calculations; and CAPMAS data.

Food and non-food components exerted opposing influences on inflation during the quarter resulting in a relatively contained headline figure. Non-food inflation remained elevated, reflecting strong service inflation and several regulated adjustments, including fuel, transportation, LPG cylinders, natural gas, and tobacco. In contrast, food inflation dropped markedly over Q4 2025, driven primarily by declining volatile food and poultry prices. This pattern was temporarily interrupted by higher food inflation in January 2026, in line with typical pre-Ramadan dynamics (Figure 13).

Figure 13

Breakdown of Headline Inflation

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



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

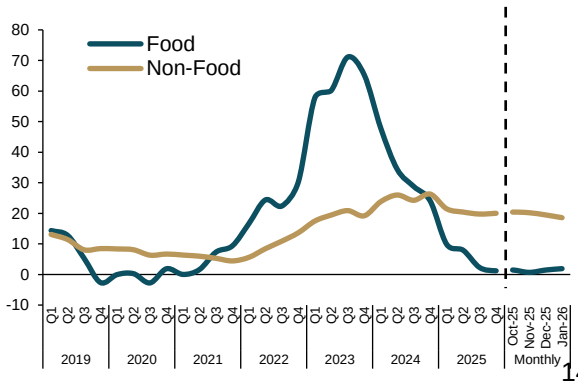
Annual food inflation declined to 1.2 percent in Q4 2025, its lowest level since Q1 2021, reflecting base effects and broad-based price declines. Meanwhile, non-food inflation remained stable at around 20 percent, indicating persistent pressures from services and regulated prices. However, in January 2026, food inflation temporarily edged up to 1.9 percent from 1.4 percent in December 2025, reflecting the aforementioned seasonal dynamics ahead of Ramadan. Meanwhile, non-food inflation started a stronger deceleration, dropping to 18.6 percent in January 2026 from 19.5 percent in December 2025.

Overall, the pronounced deceleration in food inflation throughout 2025 played a key role in containing headline inflation, as it mitigated the pass-through from elevated non-food pressures and prevented a more persistent impact (Figure 14).

Figure 14

Food and Non-Food Inflation

(In percent, y/y, average of quarter)



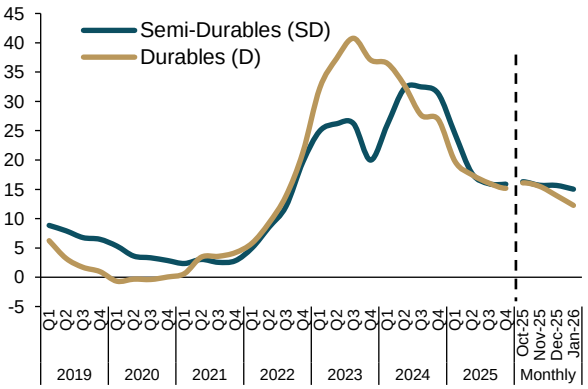
Source: Central Bank of Egypt calculations; and CAPMAS data.

Durable goods inflation declined to 15.2 percent in Q4 2025 from 16.1 percent in Q3 2025, and 26.9 percent in Q4 2024.[5] This moderation reflects the combined impact of a prevailing tight monetary stance, favorable exchange rate dynamics and improved FX availability, and declining global inflation; which together reduced imported inflation pressures. Semi-durable goods inflation also fell to 15.9 percent, down from its peak of 32.5 percent in Q3 2024.[6] In January 2026, both durable and semi-durable goods inflation declined, with durable goods inflation dropping to 12.3 percent compared to 13.9 percent in December 2025, and semi-durable goods inflation easing to 15.0 percent compared to 15.7 percent in December 2025 (Figure 15).

Figure 15

Durable and Semi-durable Inflation

(In percent, y/y, average of quarter)



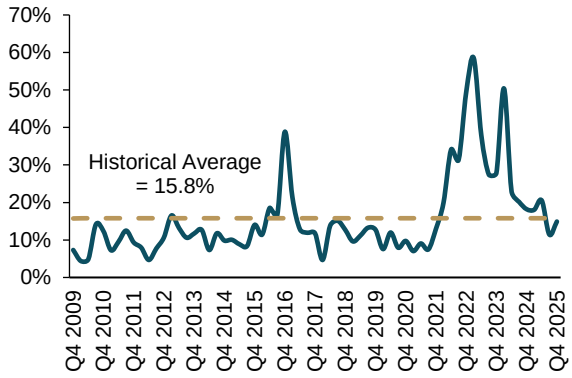
Source: Central Bank of Egypt calculations, using the Classification of Individual Consumption according to Purpose (COICOP 2018).

To measure the dispersion of inflation rates across goods and services, the CBE uses a diffusion index. The diffusion index averaged 14.9 percent in Q4 2025, below its historical average of 15.8 percent. This indicates that fewer CPI items recorded monthly inflation above 2 percent, consistent with a continued normalization of inflation dynamics (Figure 16).

Figure 16

Diffusion Index

(Number of items with m/m inflation above 2 percent, as a share of CPI)



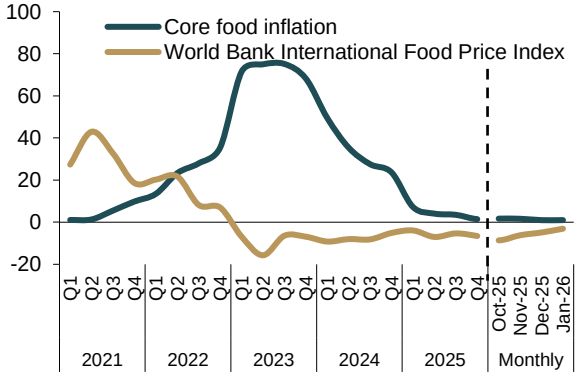
Source: Central Bank of Egypt calculations.

International commodity prices continued to decline. Accordingly, domestic core food inflation declined to 1.4 percent in Q4 2025, compared to 3.5 percent in Q3 2025. Domestic core food inflation remained stable at around 1.0 percent in January 2026 and December 2025, benefiting from reduced external price pressures, as international food inflation continued to record negative rates for the past two years, despite being on an upward trend (Figure 17).

Figure 17

Food Inflation: Global vs. Domestic Dynamics

(In percent, y/y, average of quarter)



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

[5] Durable goods are non-perishable consumer products that have a long service life of more than three years, such as cars, communication equipment, household appliances, and furniture. They represent 1.5 percent of the urban CPI basket.

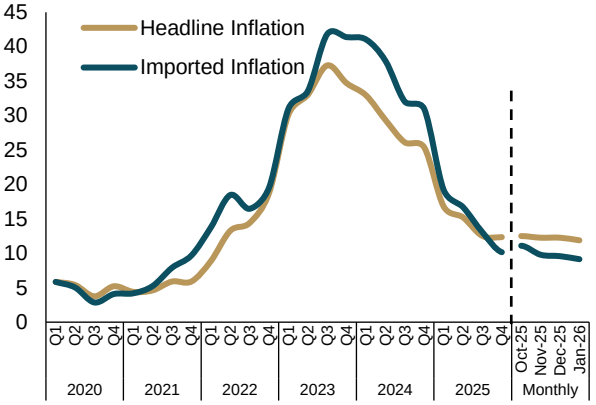
[6] Semi-durable goods are non-perishable consumer products with a short service life that are frequently upgradable such as clothing, footwear, and household tools. They represent 5.5 percent of the urban CPI basket.

Imported inflation declined to 10.2 percent from 13.1 percent in Q3 2025, likely due to lower exchange rate volatility and the dissipation of external shocks.[7] While imported and headline inflation typically move in tandem, during Q4 2025 headline inflation was driven up by domestic dynamics that did not affect imported items. Imported inflation continued its deceleration, dropping to 9.1 percent in January 2026 compared to 9.6 percent in December 2025 (Figure 18).

Figure 18

Imported Inflation

(In percent, y/y, average of quarter)



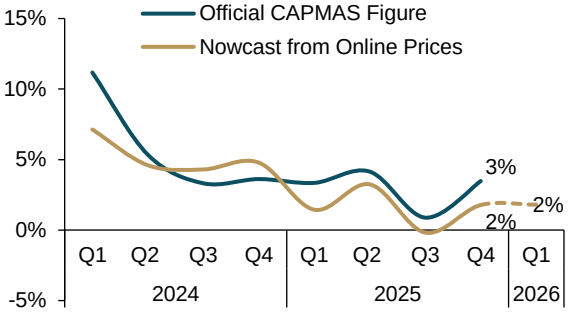
Source: Central Bank of Egypt calculations; and CAPMAS data.

CBE nowcasts based on online prices continued to track official CAPMAS inflation releases closely, capturing the general direction of overall price movements despite occasional momentary lags (Figure 19). In Q4 2025, the nowcast projected a headline inflation of 2 percent compared to previous quarter, while official figures came higher at 3 percent, however, the direction of price movements across most categories was the same. Nowcasts for January 2026 indicated a mild pickup in food inflation and stability across non-food items, bringing the CBE projection for Q1 2026 to 2 percent compared to Q4 2025.

Figure 19

Nowcast of Headline Inflation

(In percent, q/q)



Source: Central Bank of Egypt calculations; and CAPMAS data.
*CBE projection based on nowcast data for January 2026.
See Box 2 in Q1 2025 MPR.

[7] Imported inflation represents a sub-basket of the urban CPI comprising goods that are entirely imported or assembled domestically from imported components.

Box 1. Inflation and Employment: Revisiting the Phillips Curve in Egypt

A central question for monetary policy is how movements in economic activity are reflected in inflation outcomes. The Phillips Curve formalizes this link by relating inflation to measures of economic slack, conditional on expectations and other factors. The underlying mechanism operates through labor market conditions proxying demand. Lower unemployment reflects tighter labor markets, which tend to exert upward pressure on wages and, in turn, on inflation. Conversely, weaker inflation is typically associated with slower economic conditions and higher unemployment rates.

Under this framework, the Phillips Curve predicts a negative relationship between unemployment and inflation. However, a large strand of the literature shows that inflation is shaped by both demand-side factors (such as labor market conditions and aggregate demand) and supply-side forces (including global commodity price shocks and geopolitical disruptions). In this context, Gordon (2013) argues that the Phillips Curve exhibits a negative slope only when demand-side forces dominate supply-side drivers.[1] Similarly, Geerolf (2020) finds that this negative relationship holds primarily in closed economies with fixed exchange rate regimes, whereas open economies with flexible exchange rates are more exposed to supply shocks that weaken the inflation–unemployment trade-off.[2]

In addition, inflation expectations play a central role in mediating this relationship, with evidence that changes in expectations can attenuate the response of inflation to domestic demand (Coibion and Gorodnichenko, 2015).[3] Building on earlier evidence that activity and labor market conditions move closely together in Egypt (see Box 3 in Q3 2025 MPR), this box examines whether inflation has remained similarly responsive to domestic activity over time.

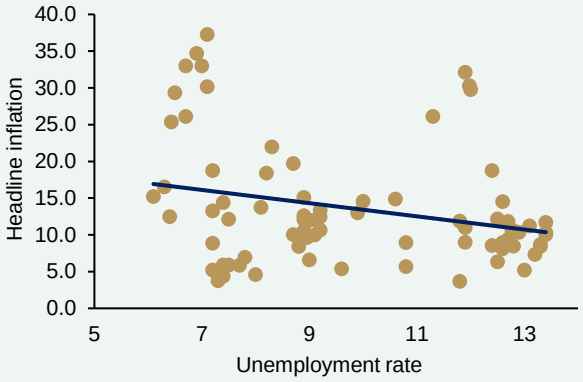
I. Stylized Facts on the Unemployment–Inflation Relationship

Egyptian quarterly data from Q1 2006 to Q3 2025 provide mixed evidence on the inflation–unemployment relationship. Over the full sample, there appears to be a negative correlation between the two variables. However, a number of observations lie away from the fitted line, particularly during episodes of high inflation (Figure a). This dispersion suggests that the inflation–unemployment relationship may not be stable over time and requires further examination.

Figure a.

Relationship Between Inflation and Unemployment in Egypt (Q1 2006 – Q3 2025)

(In percent)



Source: Central Bank of Egypt calculations based on data from the Central Bank of Egypt and Ministry of Planning, Economic Development, and International Cooperation.

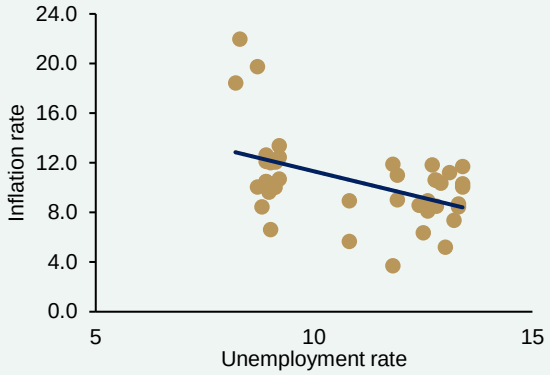
The sample is, therefore, split into two sub-periods. The first spans from Q1 2006 to Q4 2015, while the second covers Q1 2016 to Q3 2025. During the first sub-period, the relationship is negative and the dispersion around the fitted line is relatively limited, consistent with a Phillips Curve–type relationship. In contrast, during the second sub-period, the correlation diminishes, and observations are more widely dispersed around the fitted line (Figure b). This pattern suggests that additional factors may have played a more prominent role in shaping inflation dynamics, thereby weakening the inflation–unemployment relationship.

II. Analysis and Empirical Support

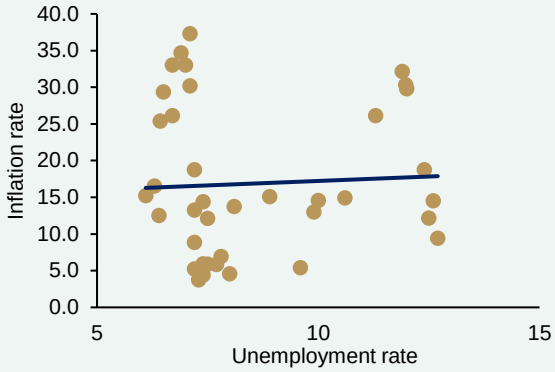
To further assess the inflation–unemployment relationship, a Phillips Curve–type regression framework is employed. Inflation is modeled as a function of both labor market slack, proxied by the unemployment gap, and other controls. Consistent with the literature, the unemployment gap[4] is used instead of the unemployment rate, as deviations from equilibrium, rather than the level itself, are more informative for inflation dynamics. This analysis adopts the Triangle model of Gordon (2013), which links inflation dynamics to expectations (past inflation), and both demand and supply-side factors.

[1] Robert J. Gordon, "The Phillips Curve is Alive and Well: Inflation and the NAIRU During the Slow Recovery," NBER Working Paper 19390.
[2] Geerolf, F. (2018): "The Phillips Curve: Price Levels or Real Exchange Rates?" Meeting Papers 1187, Society for Economic Dynamics.
[3] Coibion, O., and Gorodnichenko, Y. (2015). Is the Phillips curve alive and well after all? Inflation expectations and the missing disinflation. *American Economic Journal: Macroeconomics*, *7*(1), 197-232.
[4] Potential levels of unemployment are calculated by applying the Hodrick-Prescott (HP) filter to seasonally adjusted quarterly unemployment data (see Box 2 in Q2 2025 MPR).

Figure b.
Correlation Between Unemployment and Inflation
From Q1 2006 to Q4 2015
(In percent)



From Q1 2016 to Q3 2025



Source: Central Bank of Egypt calculations.

Within this framework, two specifications are considered. In the first specification, current inflation is modeled as a function of both lagged inflation and forward-looking inflation expectations, as well as the unemployment gap and its past value.[5] Results indicate that during the first sub-period (Q1 2006–Q4 2015), increases in the unemployment gap were associated with lower inflation, while inflation expectations were positively correlated with realized inflation. In the second sub-period (Q1 2016–Q3 2025), the relationship between the unemployment gap and inflation becomes tenuous. Meanwhile, inflation expectations remain statistically significant, emphasizing their role in shaping inflation dynamics.

In the second specification, expectations are considered as backward-looking, and are therefore embedded in the lagged values of inflation. In this case, the model accounts for the inflation, unemployment gap, unemployment gap past values, alongside external price pressures captured by a trade-weighted foreign inflation index as a proxy for broader price pressures.[6] Consistent with the former specification, estimates suggest that prior to 2016, a higher unemployment gap was associated with lower inflation, whereas unemployment and inflation dynamics do not appear to follow a consistent pattern over the period starting in 2016. In contrast, factors such as the trade-weighted inflation and past inflation remained relevant in interpreting the current inflation dynamics.

These results can be interpreted in light of changes in the broader macroeconomic environment over time. Prior to 2016, Egyptian inflation dynamics appear to have been more closely aligned with domestic economic conditions, allowing demand-side factors to play a clearer role in shaping price developments. In the period starting 2016, a number of significant global and domestic developments transpired. These developments include the COVID-19 pandemic, global supply chain disruptions due to the Russia–Ukraine conflict in 2022, heightened geopolitical tensions, and the implementation of the economic reform program (exchange rate unification and fiscal consolidation measures). As a result, inflation dynamics became subject to a wider set of supply-side influences, which interacted with domestic conditions reducing the responsiveness of inflation to labor markets.

These findings are consistent with recent evidence on the Phillips Curve in peer economies. Using a multi-country sample that includes South Africa, Taiwan, Indonesia, and Thailand, among others, Firat and Hao (2023) posit that the Phillips Curve relationship tends to weaken during periods of strong supply-side shocks, such as the post-pandemic period.[7]

[5] Inflation expectations are proxied by IMF annual inflation forecasts prior to the start of each year.
[6] The index is calculated by using the weight of each trade partner in Egypt's total imports, multiplied by the partner's quarterly inflation value, and therefore the index is used as a proxy for supply side shocks.
[7] Firat, M., and Hao, O. (2023). *Demand vs. supply decomposition of inflation: Cross-country evidence with applications*. International Monetary Fund.

1.2.2 Real Sector

Key Takeaways:

- Demand-driven inflationary pressures are likely to remain contained, supporting the disinflationary trend over the short term and hence, the achievement of the CBE inflation target by Q4 2026.
- CBE nowcast for Q4 2025 points to continued growth in economic activity, with real GDP growth projected to have recorded around 4.9 percent.
- Real GDP growth at both market prices and factor cost recorded 5.3 percent in Q3 2025, up from 3.5 percent in Q3 2024.
- The unemployment rate registered 6.2 and 6.4 percent in Q4 and Q3 2025, respectively, down from 6.4 and 6.7 percent in the corresponding quarters of 2024. Meanwhile, real wages continued to recover in Q3 2025, albeit remaining below their pre-2022 levels, indicating limited inflationary pressures from the wage channel.

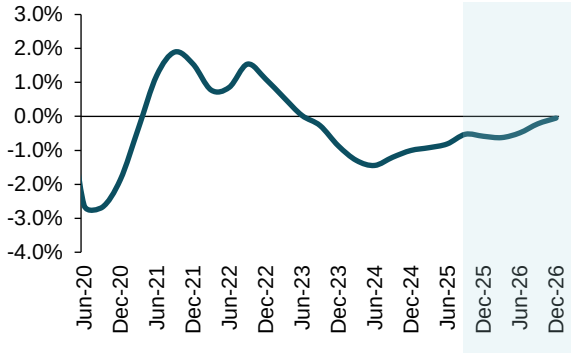
The estimated output gap remains in negative territory but continues to gradually narrow in line with the forecasted pick-up in growth compared to the previous year, with the economy projected to converge to potential by end 2026 (Figure 20). Consequently, demand-side inflationary pressures are expected to remain contained, supporting Egypt's disinflation path over the short term and through the inflation target horizon. This downward path is further reinforced by the prevailing tight monetary policy stance.

The following analysis will outline the high-frequency indicators employed to estimate the Q4 2025 CBE nowcast, in addition to the latest actual GDP and labor market developments for Q3 2025.

Figure 20

Output Gap[8]

(In percent of potential GDP)



Source: Ministry of Planning, Economic Development and International Cooperation (MPEDIC); Central Bank of Egypt calculations.

The CBE's nowcast for real GDP growth for Q4 2025 is estimated to have recorded approximately 4.9 percent, in accordance with high-frequency indicators of economic activity. These indicators capture around 60 percent of sectoral economic activity, offering a reliable estimate of real GDP growth.

In Q4 2025, the manufacturing index—a high frequency indicator strongly correlated with non-petroleum manufacturing economic activity—recorded a 10.5 percent[9] year-on-year growth (Figure 21), signaling sustained growth momentum. This positive performance was reinforced by developments in the Purchasing Managers' Index (PMI), which averaged 50.2 in Q4 2025, surpassing its neutral threshold for the first time since December 2020. This reflects a pick-up in non-oil private sector activity, further supporting employment in manufacturing, which accounted for approximately 13 percent of total employment in Q3 2025.

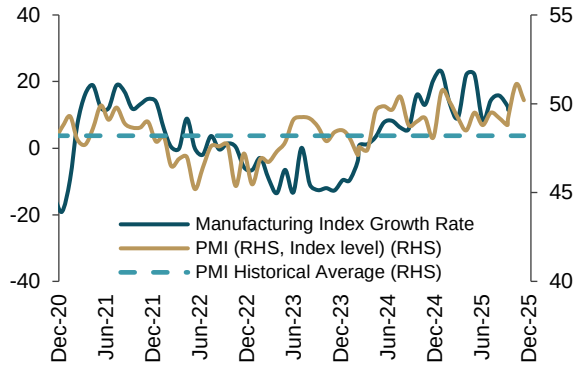
[8] Refer to Box 2 in Q2 2025 MPR for further details on the computation of the output gap.

[9] Estimate based on available high frequency data for October and November 2025.

Figure 21

Manufacturing Index Growth and PMI

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



Source: CAPMAS and S&P Global.

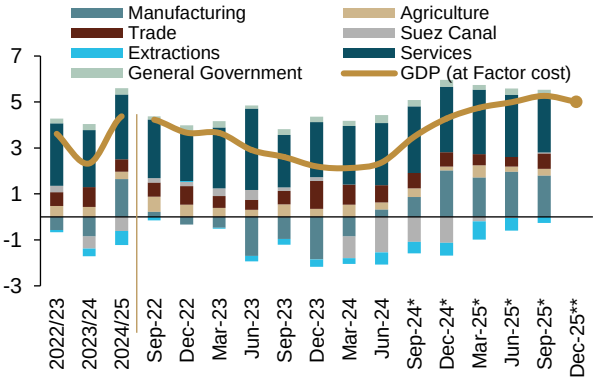
Similarly, tourism sector economic activity—proxied by tourist nights as a leading indicator—registered an annual increase of 14.8 percent in Q4 2025, growing at a faster pace than in Q3 2025. The registered growth underscores the sector's strong performance amid the opening of the Grand Egyptian Museum, which attracted an average of 19,000 visitors[10] daily in its first week of opening in November 2025. This growth also reflects sustained efforts to renovate touristic sites, diversify destinations, and hence attract a broader tourist base. Consequently, both non-petroleum manufacturing and tourism remain the primary drivers of growth alongside communications,[11] contributing an estimated 2.4 p.p., almost half of the overall real GDP growth nowcast figure for Q4 2025 (Figure 22).

Meanwhile, high frequency indicators associated with Suez Canal activity point to an improvement in the Suez Canal sector in Q4 2025 compared to the previous quarter, marking its second consecutive expansion since Q4 2023. This development reflects sustained gradual recovery in net tonnage transiting via the Canal. In addition, indicators linked to natural gas production suggest a modest improvement[12] in Q4 2025 relative to Q3 2025 and the earlier quarters of the same year. Nevertheless, the extractive sector as a whole continues to exert a drag on overall real GDP growth, as it remains in contractionary territory.

Figure 22

Contribution to Real GDP Growth at Factor Cost

(In p.p., y/y)



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

In Q3 2025, real GDP at factor cost grew at its fastest pace since Q4 2021, recording 5.3 percent growth compared to 3.5 percent in Q3 2024, driven by strong performance in non-petroleum manufacturing, trade, communication, and tourism sectors. Combined, these sectors contributed 3.3 p.p. compared to 2.1 p.p. in the corresponding quarter of 2024. Worth noting, the expansion in these sectors aligns with the real growth in local currency loans extended to manufacturing, services, and trade activities.

Furthermore, Suez Canal economic activity in Q3 2025 contributed positively for the first time since Q4 2023, reflecting a gradual recovery in net tonnage transiting through the Canal amid the beginning of normalization of maritime traffic in the Red Sea. In contrast, the extractions sector

[10] Source: State Information Service

[11] Number of fixed lines subscribers is used as a high frequency indicator for the communications sector

[12] Estimate based on available October and November 2025 high frequency data

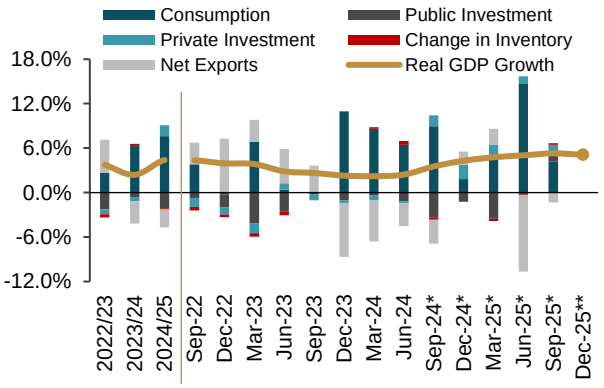
continued to weigh on overall growth; however, the pace of contraction eased, with its contribution improving by 0.3 p.p. compared to Q2 2025. This moderation is primarily driven by an improvement in the contribution of natural gas extractions, though remaining in negative territory. This gradual recovery is supported by recent offshore and onshore oil and natural gas discoveries.

Similarly, real GDP at market prices grew by 5.3 percent in Q3 2025, marking its strongest growth rate since Q1 2022, compared to 3.5 percent in Q3 2024, signaling a sustained recovery momentum in economic activity (Figure 23). This outturn was primarily driven by the improvement in the contributions of gross domestic investments and net exports of goods and services, propelling growth compared to the corresponding period last year.

Figure 23

Contribution to Real GDP Growth at Market Prices

(In p.p., y/y)



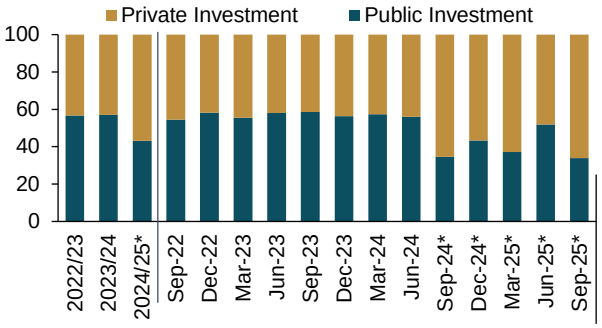
Source: MPEDIC.
** Preliminary figures.*
*** December 2025 is CBE nowcast (subject to revision).*

Furthermore, gross domestic investments contribution increased to 2.4 p.p. in Q3 2025 compared -2.2 p.p. in Q3 2024. The positive performance is primarily driven by private investments, which continue to increase, registering 25.9 percent growth on an annual basis. An improvement that is also reflected in its growing share to gross fixed investments (Figure 24).

Figure 24

Shares in Gross Fixed Investments

(In percent of gross fixed investments)



Source: MPEDIC.
**/ Preliminary figures.*

Similarly, the contribution of net exports of goods and services recorded -1.3 p.p. in Q3 2025, up from -3.2 p.p. in Q3 2024, reflecting the continued positive impact of FX unification on the competitiveness of Egyptian goods and services in foreign markets, as well as the concentration of growth in export-oriented tradable economic sectors such as manufacturing. It is noteworthy that the structure of imports is concentrated in intermediate goods that are essential for domestic production, allowing firms to fully utilize idle production capacity, and hence, propel sustainable real GDP growth.

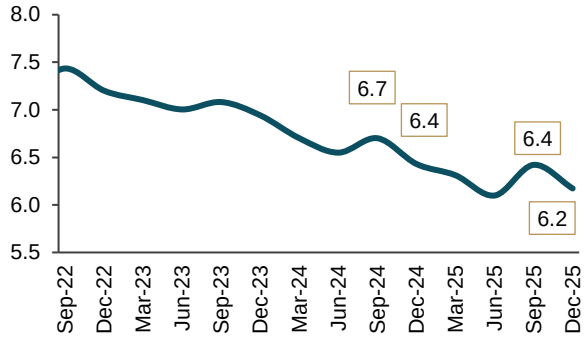
Regarding the labor market, the unemployment rate registered 6.2 and 6.4 percent in Q4 and Q3 2025, respectively, compared to 6.4 and 6.7 percent in Q4 and Q3 2024, respectively (Figure 25). The annual improvements were mainly driven by stronger employment growth, which outpaced the increase in labor force entrants. In Q4 2025, employment gains were primarily concentrated in non-petroleum manufacturing and trade, both of which continued to contribute positively to real GDP. This improvement aligns with the sustained pick-up in real GDP growth over the past year, and is also consistent with the estimated pickup in economic activity in FY 2025/26, as labor market shifts typically precede broader developments in the economy.

Nonetheless, the marginal increase from Q2 to Q3 2025 was in line with the typical seasonal pattern for the September quarter, as it coincides with new university graduates entering the labor force.

Figure 25

Unemployment Rate

(In percent of the labor force)



Source: CAPMAS.

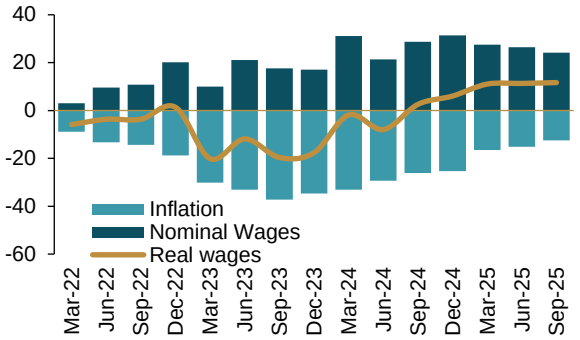
Meanwhile, real wages continued to record positive growth for the fifth consecutive quarter in Q3 2025, sustaining its upward trend following a prolonged period of contraction that began in Q2 2021 (Figure 26).

Nevertheless, the magnitude of the wage increase remains modest, with real wages remain below their 2022 levels, as the period of positive growth has not fully offset the previous period of negative growth (Figure 27), reflecting limited inflationary pressures from the wage channel.

Figure 26

Real Wage Decomposition

(In percent, y/y)

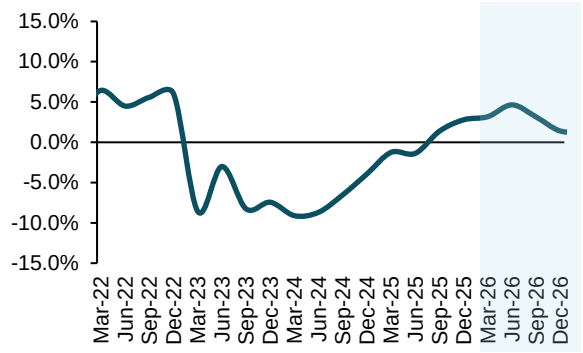


Source: CAPMAS.

Figure 27

Real Wage Gap[13]

(In percent of real wage long-term trend)



Source: CAPMAS & CBE calculations.

As such, inflationary pressures stemming from the wage channel remain contained, as current wage levels reflect a mere recovery in household purchasing power compared to the past two years. This assessment is consistent with the estimated output gap, which is projected to close by end 2026, supported by the current tight monetary stance that reinforces the projected disinflation path over the short term.

[13] Real wage gap is calculated as the percent deviation of real wages from its long-term trend, which is computed using HP-filter.

1.2.3 External Sector

Key Takeaways:

- In Q3 2025, Egypt's external position strengthened, supported by a significantly narrowing current account deficit and the accumulation of foreign assets by commercial banks.
- The current account deficit narrowed significantly in Q3 2025, driven by sustained growth in workers' remittances and services, as well as the narrowing non-hydrocarbon trade deficit.
- The capital and financial account recorded a marginal outflow, driven by sustained accumulation of foreign assets by commercial banks. These outflows were offset in part by robust foreign direct investment, portfolio inflows, and short-term suppliers credit, reflecting improved access to external financing and growing investor confidence.

The analysis below examines developments in the current and financial accounts in Q3 2025 and assesses their implications for Egypt's external position and net international reserve accumulation.

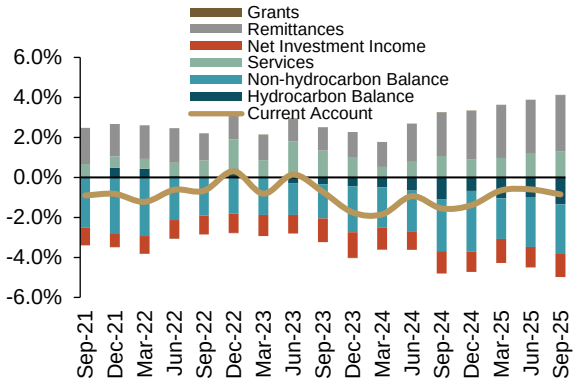
In Q3 2025, Egypt's external position continued to show signs of improvement. Although the overall balance of payments recorded a deficit of USD 1.6 bn, as capital and financial account flows were insufficient to cover the current account deficit, underlying developments point to a more resilient external position. This sustained improvement is reflected in the continued narrowing of the current account deficit, the accumulation of foreign assets by commercial banks, foreign direct investment, portfolio inflows.

The current account deficit narrowed to USD 3.2 bn (0.8 percent of GDP[14]) in Q3 2025, almost halving compared to Q3 2024, when it stood at 1.6 percent of GDP (Figure 28).

Figure 28

Contribution to Current Account

(In percent of GDP)



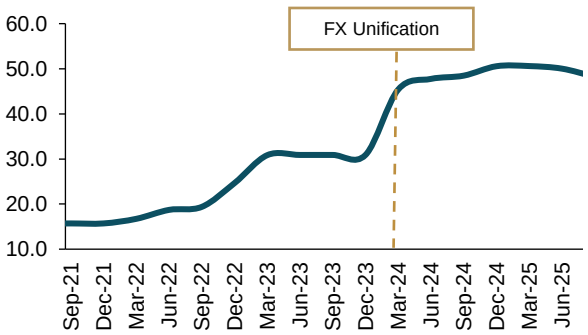
Source: Central Bank of Egypt

This development signals easing pressures on foreign exchange receipts needed to meet external payments. Current receipts cover more than 91 percent of payments compared to 82 percent in the corresponding period last year. Thus, reducing external pressures on the nominal exchange rate, which is evident by the witnessed appreciation trend in nominal exchange rate developments (Figure 29). Both exchange rate appreciation and declining global inflation have contained imported inflationary pressures.

Figure 29

Nominal Exchange Rate

(Levels, EGP/USD)



Source: Central Bank of Egypt

[14] In percent of the annual GDP (in USD), derived by calculating the total sum of quarterly GDP released by the Ministry of Planning, Economic Development and International Cooperation after evaluating it in USD based on the average exchange rate for each quarter.

The narrowing of the current account deficit was primarily driven by continued growth in workers' remittances, higher services receipts, particularly from tourism and transportation, as well as a narrowing non-hydrocarbon trade deficit. However, these gains were more than offset by a widening hydrocarbon trade deficit and a widening investment income deficit.

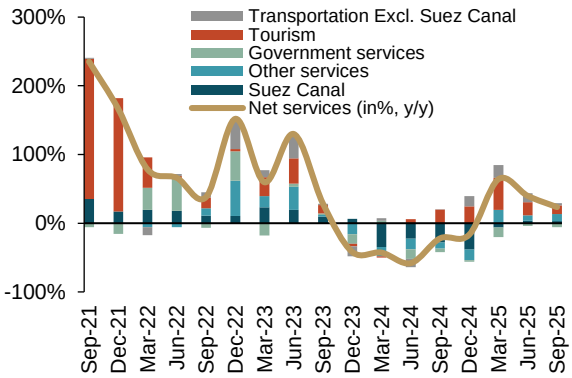
Notably, workers' remittances increased by 30 percent year-on-year in Q3 2025, reaching a record high of USD 10.8 bn. This strong performance reflects ongoing efforts to facilitate cross-border transfers through the continued enhancement of digital payment services, alongside continued confidence in the domestic economy. This confidence has been underpinned by macroeconomic stability following the unification of the foreign exchange market in Q1 2024.

Moreover, the net services balance recorded its largest surplus since Q3 2023, registering USD 5.0 bn in Q3 2025, up by 23 percent on an annual basis. This was largely driven by a 14 percent year-on-year rise in tourism receipts (Figure 30), underscoring the sector's resilience, expanding capacity, and increasingly diversified tourist base. Services performance was further bolstered by an 8 percent increase in transportation revenues, including Suez Canal receipts, which registered a positive growth rate for the second consecutive quarter since Q1 2024. This trend points to a gradual recovery in canal traffic, signaling the return of maritime shipping through Bab Al-Mandab Straits in the Red Sea.

Figure 30

Contribution to Net Service Balance

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



Source: Central Bank of Egypt

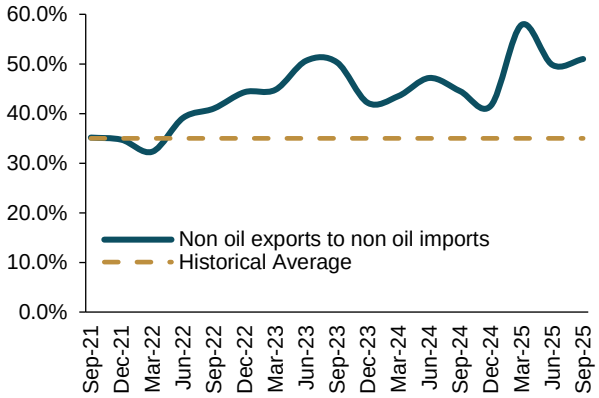
Furthermore, the improvement in the current account balance was further supported by a narrowing non-hydrocarbon trade deficit in Q3 2025 compared to the corresponding quarter of the previous year. It is worth noting that imports were largely concentrated in intermediate goods (42.3% of non-hydrocarbon imports) required for the production process, consistent with the robust expansion in non-petroleum manufacturing GDP and the positive contribution of gross domestic investment to real GDP growth.

Despite the increase in imports, its annual growth remained lower than that of exports. Accordingly, the ratio of non-oil exports to non-oil imports increased to 51 percent, significantly above its historical average of approximately 35 percent. A higher ratio indicates an enhanced capacity to generate foreign exchange earnings sufficient to finance import requirements, thereby supporting stability in Egypt's external position (Figure 31).

Figure 31

Non-oil Exports to Non-oil Imports Ratio

(In percent of non-oil imports)



Source: Central Bank of Egypt.

By contrast, the hydrocarbon trade deficit continued to widen, posting USD 5.2 bn in Q3 2025, up by 22 percent compared to Q3 2024. This widening deficit was driven primarily by an increase in natural gas imports to meet peak domestic energy demand during summer months, amid an 11 percent year-on-year decline in domestic natural gas production[15].

The net investment income deficit widened marginally, registering USD 4.4 bn in Q3 2025. This was driven by a decline in income receipts, alongside an increase in income payments. Nonetheless, interest payments declined marginally compared to Q3 2024. Accordingly, the ratio of interest payments to exports of goods and services continued its downward trajectory, falling to 8.6 percent in Q3 2025 from 11.1 percent in Q3 2024. This improvement indicates a stronger capacity of the economy to service its interest obligations, underscoring the strengthening external position and the enhanced sustainability of Egypt's balance of payments.

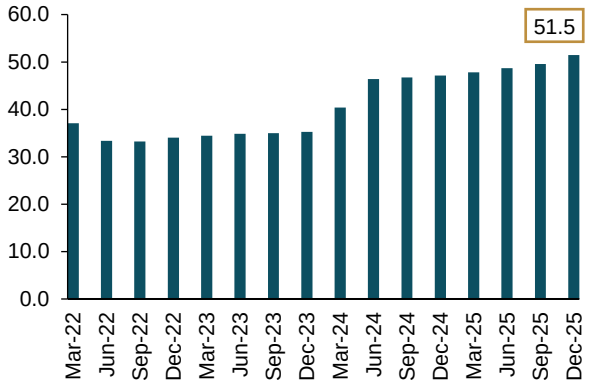
On the other hand, the capital and financial account recorded a marginal outflow of USD 0.4 bn in Q3 2025, compared to an inflow of USD 3.8 bn in the corresponding quarter of 2024. The marginal outflow in Q3 2025 was mainly underpinned by favorable developments including commercial banks' accumulation of foreign assets, which amounted to USD 5.3 bn during the aforementioned period. This was partially offset by sustainable non-debt financing from continued FDI inflows, portfolio investment inflows reflecting growing investor confidence, as well as short-term suppliers' credit to finance imports. Higher short-term suppliers' credit reflects greater external confidence in the ability of domestic private sector borrowers to meet their short-term obligations.

Consequently, net international reserves (NIR) reached USD 49.5 bn by end of September 2025, up from USD 48.7 bn by end June 2025. As of September 2025, the level of NIR covers around 6.3[16] months of imports, well above the standard coverage level of three months. Furthermore, NIR continued its upward trend in the subsequent quarter, reaching USD 51.5 bn by end of December 2025 (Figure 32).

Figure 32

Net International Reserves

(In USD bn)



Source: Central Bank of Egypt.

[15] Source: Joint Organizations Data Initiative (JODI)

[16] Calculated using the four-quarter rolling sum of imports ending September 2025.

1.2.4 Monetary Sector

Key Takeaways:

- Annual M2 (broad money) growth marginally decelerated in Q4 2025, averaging 21.5 percent, down from an average of 22.7 percent in Q3 2025.
- The banking system's net foreign assets (NFAs), comprising the CBE and commercial banks, increased by a cumulative USD 4.7 bn during Q4 2025 to stand at USD 25.5 bn in December 2025.
- Real growth of local currency (L/C) loans to the private sector remained positive for the sixth successive quarter, to stand at an average of 11.8 percent in Q4 2025.
- Annual M2 growth is expected to remain broadly stable during the current fiscal year to reach 24.1 percent by June 2026, and to decline to 18.0 percent by June 2027, compared to 23.1 percent in June 2025.

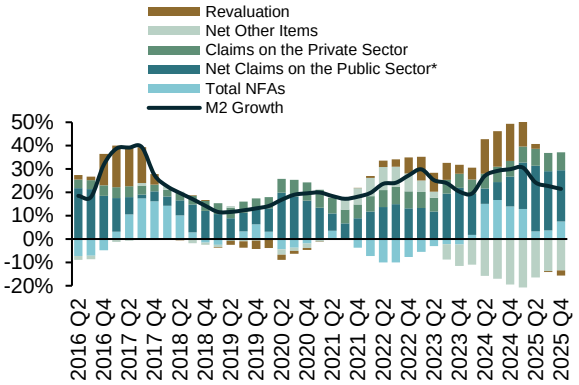
The analysis below outlines the drivers of M2 growth in Q4 2025, highlighting key annual and monthly developments, changes in the banking system's net foreign assets and private sector credit, as well as M2 growth projections through June 2027.

On an annual basis, M2 growth marginally decelerated in Q4 2025, recording 21.5 percent on average, down from an average of 22.7 percent in Q3 2025 (Figure 33). This deceleration was driven by a decline in the contribution of net claims on the public sector as well as the revaluation effects in light of the relative exchange rate appreciation during Q4 2025, compared to the same period in previous year. However, this was partially offset by the higher contribution of the banking system's NFAs on the back of the notable pick-up by a cumulative of USD 4.7 bn during Q4 2025.

Figure 33

Contribution to Annual M2 Growth

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



Source: Central Bank of Egypt.

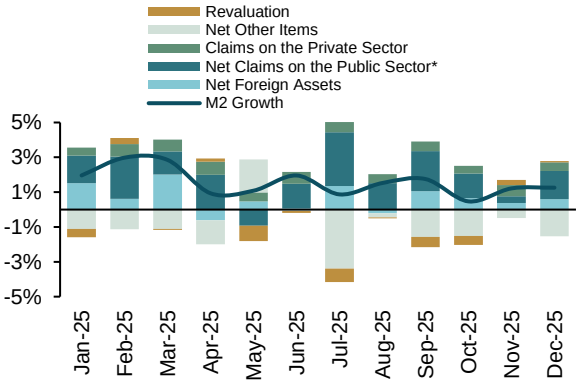
*/ Net claims on the public sector includes net claims on the government, net claims on public economic authorities, and claims on public sector companies.

On a monthly basis, M2 growth registered 0.5, 1.2, and 1.3 percent in October, November, and December 2025, respectively (Figure 34). The combined 3.0 percent increase in M2 between December and September 2025 was driven by the increases in NFAs of the banking system, net claims on the public sector, and claims on the private sector on the back of the pickup in L/C loans to the services and industrial activities.

Figure 34

Contribution to Monthly M2 Growth

(In p.p., m/m)



Source: Central Bank of Egypt.

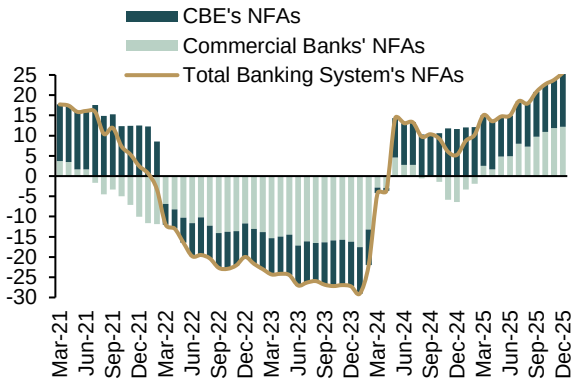
*/ Net claims on the public sector includes net claims on the government, net claims on public economic authorities, and claims on public sector companies.

The banking system's NFAs continued its strong performance in 2025, increasing by a cumulative USD 4.7 bn to reach USD 25.5 bn in December 2025, highest level since July 2012, compared to USD 20.8 bn in September 2025 (Figure 35). This increase was partially driven by the higher commercial banks' NFAs, which accounted for USD 2.4 bn of the
cumulative increase to reach USD 12.2 bn in December 2025, its highest level since February 2014. Such increase was mainly reflected in the accumulation of foreign assets and supported by the increase in FX resources, including sustained workers' remittances and net portfolio inflows.

Figure 35

Banking System's Net Foreign Assets

(Stocks, in USD bn)



Source: Central Bank of Egypt.

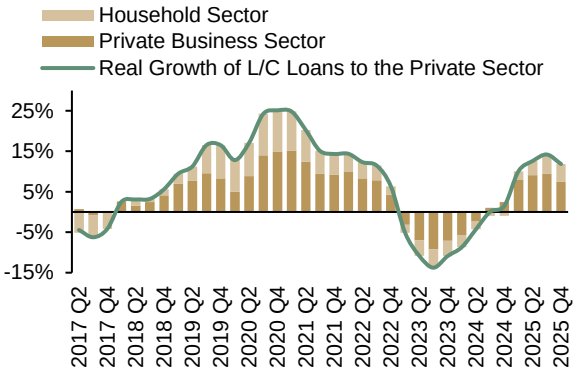
Similarly, the CBE's NFAs continued to increase for the eighth consecutive month, registering USD 13.3 bn in December 2025 and USD 15.1 bn in January 2026—its highest level since September 2021—partially driven by the pickup in international gold prices. Accordingly, the banking system's NFAs increased by a cumulative USD 20.3 bn during 2025, consistent with the improving external position and the observed exchange rate appreciation since April 2025.

Concerning the private sector's credit growth dynamics, real growth[17] of local currency (L/C) loans to the private sector remained positive for the sixth successive quarter, to stand at 11.8 percent in Q4 2025, modestly down from 14.2 percent in the previous quarter (Figure 36). This 2.3 p.p. decrease was mainly reflected in the lower contribution of the private business sector.

Figure 36

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

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



Source: Central Bank of Egypt.

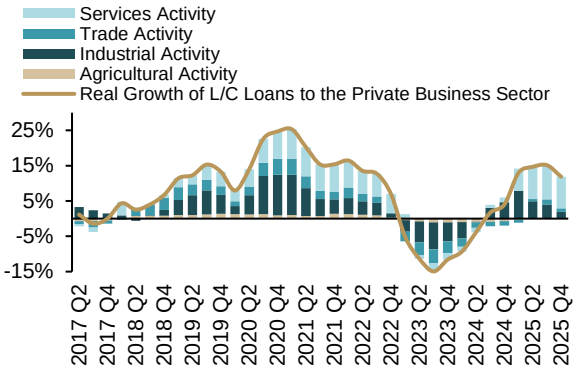
Taking a closer look at the private business sector's credit growth dynamics, real growth of L/C loans to the private business sector declined in Q4 2025, recording an average of 11.9 percent, compared to 15.1 percent in the previous quarter. Nevertheless, real growth remains positive for the sixth consecutive quarter, recording an average of 13.7 percent during 2025, and hence returning back to pre-Covid levels (Figure 37). The 3.3 p.p. decline in Q4 2025 was mostly reflected in the lower contribution of industrial activity—mainly driven by pharmaceuticals & chemicals, food & beverages, and electronics & industrial goods subsectors—yet continuing to contribute positively to the real growth of L/C loans to the private business sector.

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

Figure 37

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

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



Source: Central Bank of Egypt.

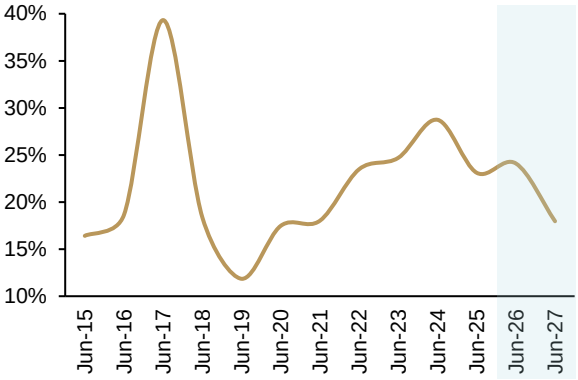
Annual M2 growth is expected to remain broadly stable during the current fiscal year to reach 24.1% in June 2026, compared to 23.1% in June 2025 (Figure 38). However, the dynamics impacting M2 annual growth are expected to change as it is projected that the contribution of net claims on the government would decline notably in light of the continued revenue-based fiscal consolidation measures that are estimated to decrease the fiscal deficit (% of GDP) from 7.2% in FY 24/25 to 7.0% and 4.9% in the following two fiscal years.[18] That is also coupled with the expected increase in the availability of external sources to finance the fiscal deficit.

However, this is projected to be partially offset by the increase in NFAs as the current account deficit narrows, due to the continued strong performances of tourism receipts and workers' remittances, as well as the expected partial recovery in Suez Canal receipts. This is in addition to the anticipated rise in FDI inflows particularly from the expected sales of state-owned assets. Annual M2 growth is also expected to decline further towards its historical average during FY 2026/27 to reach 18.0% by June 2027, consistent with the projected disinflation path.

Figure 38

Broad Money Forecast

(In percent, y/y, eop)



Source: Central Bank of Egypt.

[18] Ministry of Finance Medium-term Fiscal Strategy (2026/27 – 2029/30).

1.2.5 Domestic Liquidity and Financial Conditions

Key Takeaways:

- The CBE cautiously proceeded with its easing cycle in Q4 2025, albeit maintaining a sufficiently tight monetary stance.
- Following the cumulative policy rate cuts totaling 725 bps in 2025, monetary policy passthrough to money market and banking conditions was rapid and effective.
- Excess liquidity in Q4 2025 declined to its lowest level since Q4 2016, prompting a pickup in interbank market activity, reflected in the expansion of interbank transaction volumes.
- Egypt's yield curve continued normalizing during Q2 FY 2025/26, prompting the Ministry of Finance 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 continued to decline in Q2 FY 2025/26, supported by more accommodative global financial conditions and strengthened domestic fundamentals.

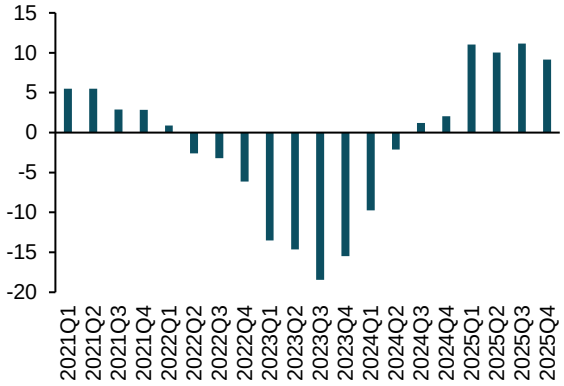
This section reviews developments in financial conditions and domestic liquidity, assessing the impact of monetary policy decisions on the financial system and the effectiveness of the transmission to key market rates and the broader financing conditions. It also considers investor behavior and yield curve dynamics across domestic and international markets.

In Q4 2025, the CBE continued its monetary easing cycle, reducing its policy rate by a total of 200 bps in October and December 2025, bringing the cumulative rate cuts to 725 bps in 2025. Nevertheless, nominal interest rates remain higher than inflation, preserving positive real interest rates and a tight monetary stance, anchoring inflation expectations (Figure 39).

Figure 39

Real Interest Rate

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



Source: Central Bank of Egypt.

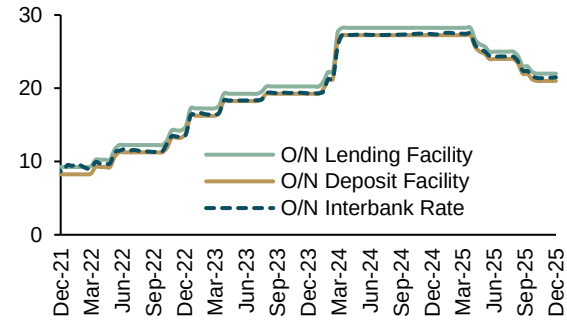
**/ Real Interest Rates are calculated as the difference between the current-period interbank rate and inflation rate*

Following the cumulative 725 basis-point reduction in policy rates throughout 2025, the policy rate reached 20.5 percent by the end of Q4 2025 compared to 27.8 percent at the end of Q1 2025 (Figure 40). Approximately 94 percent of the policy rate cuts passed through to the interbank market, with the overnight interbank rate recording 20.6 percent at the end of Q4 2025, compared to 27.4 percent at the end of Q1 2025, indicating an effective and rapid passthrough of monetary policy to money market conditions.

Figure 40

O/N Interbank and CBE Policy Rates*

(In percent)



Source: Central Bank of Egypt.

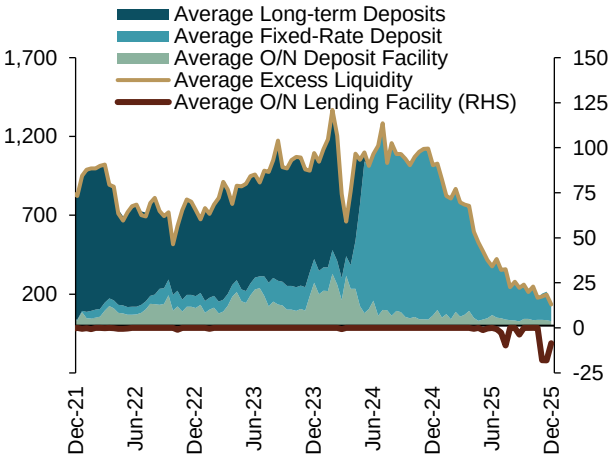
*/Data for December 2025 until the maintenance period ending December 22, 2025.

Egypt's average excess liquidity continued to decline in Q4 2025, reaching an average of EGP 176.5 billion (equivalent to 20 percent of the reserve requirement), down from EGP 828.5 billion (90 percent of the reserve requirement) in Q1 2025, before the beginning of the cutting cycle. This marks its lowest level since Q4 2016, and can mainly be attributed to net issuance of government securities. (Figure 41). The contraction in excess liquidity was accompanied by an increase in average O/N central bank lending, which recorded an average of EGP 14.97 billion in Q4 2025 following a prolonged period of near-zero activity (See Box 2 for further information regarding CBE liquidity management).

Figure 41

Excess Liquidity*

(In EGP bn, aop)



Source: Central Bank of Egypt.

*Data for December 2025 covers until the end of the maintenance period on December 22, 2025.

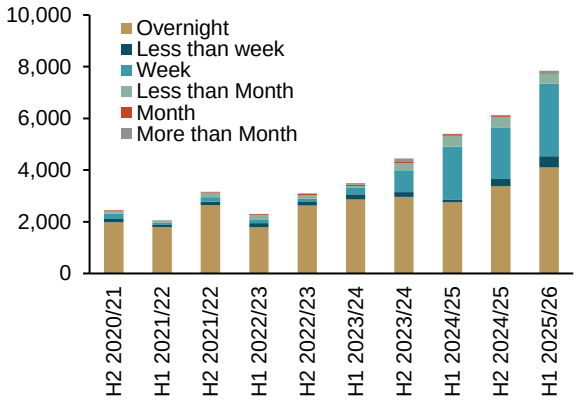
In parallel, this decline in excess liquidity was reflected in a narrowing spread between the overnight interbank rate and the policy rate, with the overnight interbank rate higher than the policy rate by 5 bps on average in December 2025.

Turning to interbank market activity, it continued to gain momentum in H1 FY 2025/26, with total transaction volumes rising by EGP 1,708 billion relative to the previous half, representing a 28 percent increase. Trading activity was predominantly concentrated in overnight and one-week tenors, underscoring banks' continued reliance on the interbank market for short-term liquidity management. The share of one-week-tenor transactions remained stable at 36 percent of total volume, almost unchanged from the previous half. However, this level remains markedly elevated compared to the averages of 5 percent in H1 FY 2022/23 and 7 percent in H1 FY 2023/24. This structural shift highlights banks' growing preference for one-week transactions, reflecting the impact of the full-allotment policy alongside relatively tighter liquidity conditions in the market (Figure 42).

Figure 42

Interbank Volume

(In EGP bn)



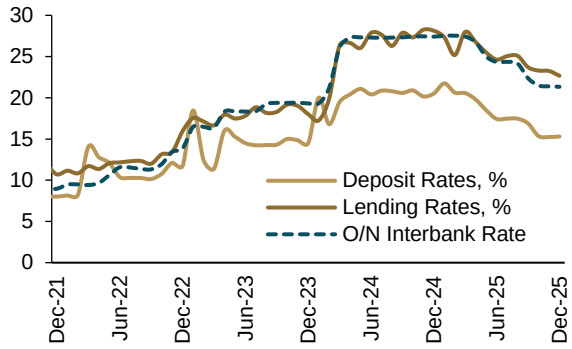
Source: Central Bank of Egypt.

The banking sector began to adjust both deposit and lending rates following the 725-bps cumulative policy rate cuts in 2025. In December 2025, the weighted average rate on new deposits declined to 15.3 percent, while the rate on new loans fell to 22.7 percent, compared to 20.6 percent and 28 percent, respectively, in March 2025 (Figure 43). Accordingly, with respect to the overnight interbank rate, approximately 87 percent of its decline passed through to new deposit rates and new lending rates in December 2025. This indicates strong transmission of policy easing to both deposit and lending rates Furthermore, the spread between new lending rates and the interbank rates has remained low, reflecting broadly accommodative financing conditions.

Figure 43

Selected Market Interest Rates

(In percent, unless otherwise specified)



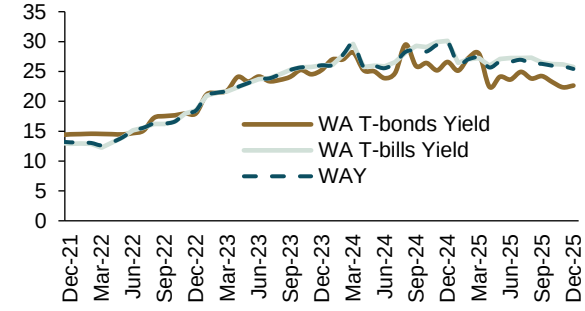
Source: Based on a banking sector survey conducted by the CBE, up to Dec 31, 2025.

In Q4 2025, yields on local currency government securities, as measured by the weighted average yield (WAY) of both accepted bids in Treasury bills and bonds auctions, edged down to an average of 25.7 percent in Q4 2025. This compares to 26.9 percent in Q1 2025 (gross of tax) before the start of the monetary easing cycle. The change reflects a moderate market response to the CBE's cumulative 725 bps policy rate cuts in 2025. The WAY closely tracks the weighted average yield of Treasury bills, which is underpinned by the significantly higher weight of accepted Treasury bills relative to Treasury bonds in total issuance. Furthermore, yields on Treasury bills have generally exceeded those on Treasury bonds since the beginning of the easing cycle (Figure 44).

Figure 44

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

(In percent, unless otherwise specified)



Source: Central Bank of Egypt.

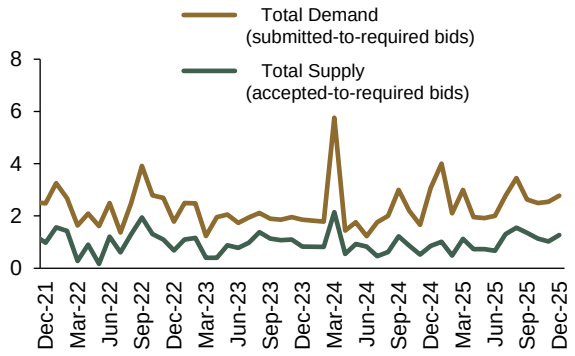
*/Data until December 31, 2025

The coverage ratio (submitted-to-required bids) reflecting demand for treasury securities declined from an average of 3.0x in Q1 2025 to 2.6x in Q4 2025, indicating continued investor appetite despite the recent slight moderation. However, the accepted-to-required ratio, indicative of supply dynamics, increased from an average of 0.9x to 1.2x over the same period, suggesting improved acceptance of government securities at lower yields (Figure 45). Overall, the decline in yields points to early transmission of the easing cycle.

Figure 45

Supply and Demand for Treasury's L/C Marketable Securities*

(As a ratio)



Source: Central Bank of Egypt.

*Data until December 31, 2025

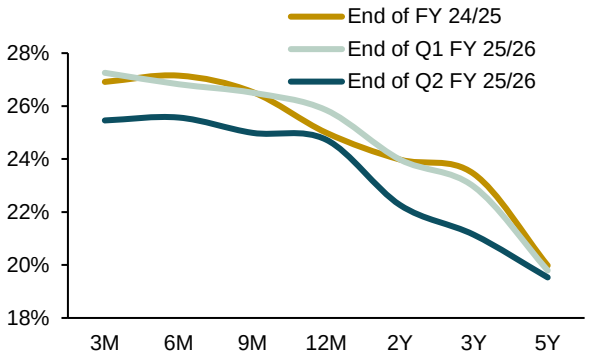
The aforementioned decline in T-bill yields reflects lower funding costs across the domestic market in line with the CBE's monetary easing cycle. In parallel, the Ministry of Finance continued to deepen and diversify its local debt market, introducing its local-currency sukuk issuances during Q2 FY 2025/26 as part of its broader funding diversification strategy. At the same time, it maintained its focus on issuing longer-dated bonds, extending the maturity profile of domestic debt to reduce rollover risks, smooth the redemption profile, and lock in funding at more favorable rates amid the easing cycle.

In parallel, Egypt's yield curve has shown clear signs of normalization as the CBE continues its monetary easing cycle The 3M–12M spread narrowed from 141 bps to 73 bps. This flattening of the short end of the curve aligns with typical market behavior during an easing cycle. Short-term yields tend to adjust more quickly to shifts in policy rates compared to longer-dated maturities. This indicates greater market confidence and improved clarity regarding the near-term interest rate path (Figure 46).

Figure 46

Weighted Average of Primary Market Gross Yields

(In percent)



Source: Central Bank of Egypt.

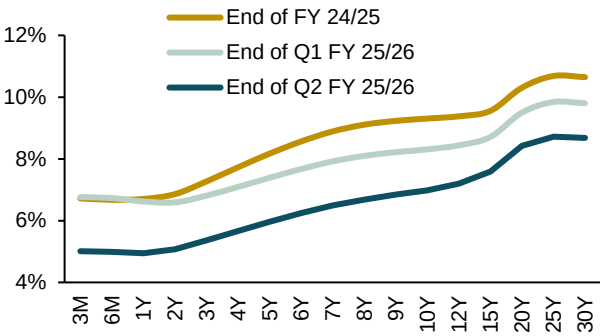
In line with Egypt's improving risk sentiment, foreign participation in the domestic debt market has continued to strengthen. Foreign investors are increasingly allocating funds to longer-dated instruments, supported by expectations of further monetary easing and confidence in the continuity of Egypt's macroeconomic reform program.

In Q2 FY 2025/26, Egyptian Eurobond yields dropped by an average of 140 basis points (Figure 47), continuing the downward trend that began at the start of the previous fiscal year. This decline was driven by a combination of international and domestic factors. Globally, more accommodative financial conditions (see figures 7 and 10, Global Developments section), reinforced investor risk appetite and supported stronger demand for emerging market assets, including Egyptian Eurobonds.

Figure 47

Egypt's Eurobond Yields

(In percent)



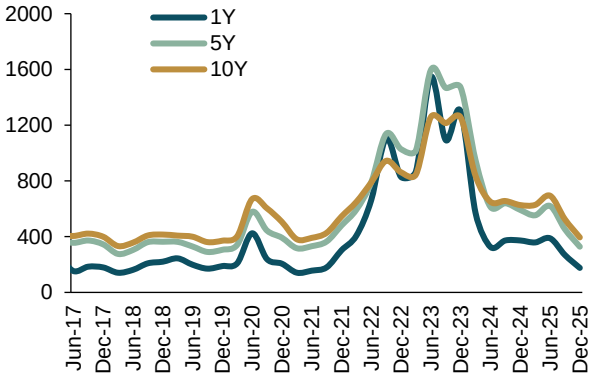
Source: Bloomberg.

Domestically, the continued buildup of net international reserves, declining inflation, and sustained portfolio inflows further supported the downward movement in yields. Improved CDS spreads across all tenors have also supported investor confidence, with CDS spreads normalizing to levels witnessed before the beginning of the hiking cycle (Figure 48).

Figure 48

Egypt CDS Spreads

(In bps)



Source: Bloomberg Figures.

Box 2. The CBE's Liquidity Management Framework

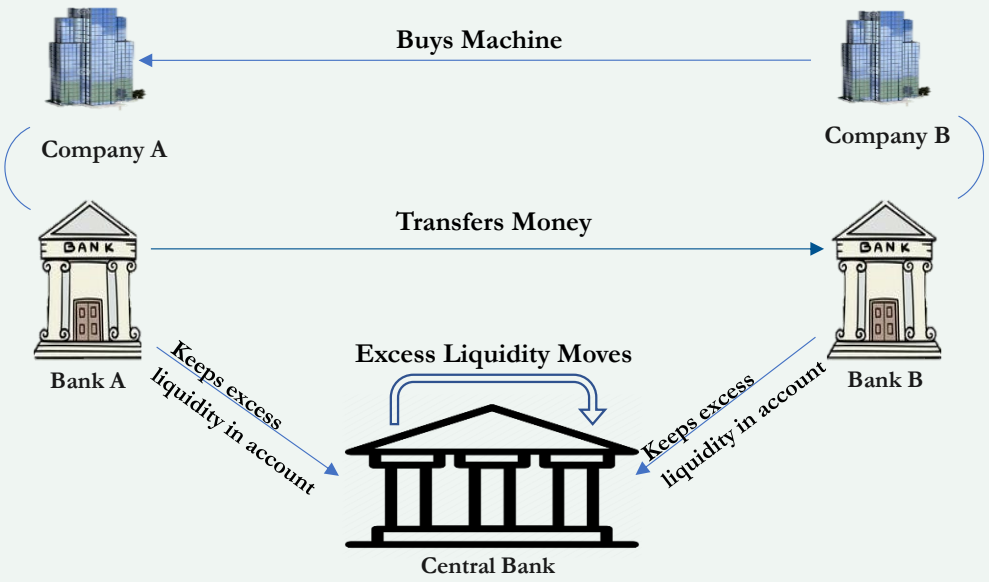
Defining Monetary Aggregates and Banking Sector Liquidity

Money is defined in terms of monetary aggregates rather than the ease with which financial assets can be traded. The classification of monetary aggregates ranges from narrow measures, such as central bank money or reserve money (M0), to broader measures of money supply, such as M2, which is the broadest measure of money in Egypt.

Operationally, central banks manage reserve money (M0) which includes commercial banks' L/C current account balances held at the central bank and currency in circulation. Commercial banks hold these current accounts at the central bank to either fulfill their minimum reserve requirement or for settlement purposes to facilitate payments between commercial banks.

On the other hand, banking sector liquidity is defined as the available stock of liquid monetary instruments held within the banking sector that support payments, settlement, and credit creation. Banking sector liquidity, as a whole, can either be in shortage or excess. Both scenarios have implications for price stability and require interventions from the central bank. In particular, excess liquidity is the amount of liquidity in the banking sector beyond the needs of commercial banks and the economy (i.e. funds that could be extended as credit to the economic agents but are not), which can fuel inflation and therefore, must be absorbed by the central bank.

Once liquidity enters the banking sector, it is redistributed among commercial banks through interbank lending based on their individual funding needs; liquidity does not disappear but circulates from one bank to another.



The CBE's Operational Framework

The CBE manages liquidity in the banking sector through its monetary policy tools, whose rates are set by the MPC. These tools are the minimum reserve requirement for commercial banks, standing facilities which jointly form the interest rate corridor's upper and lower bounds, as well as fixed deposit auctions. The objective of the CBE liquidity management operations is to steer the overnight interbank rate, presented herein by Cairo Overnight Index Average (CONIA)[1], around the rate of main operation (the mid-corridor rate), and hence, transmit MPC decisions on key policy rates to the banking sector and in turn the wider economy.

[1]CONIA is the trimmed mean of the volume-weighted average rate on overnight unsecured interbank transactions. For further information, please refer to the CBE website and the published CONIA Brochure.

Liquidity Management Tools Used by the CBE

- **Minimum Reserve Requirement for Commercial Banks:** This constitutes the minimum share of deposits that commercial banks must hold at the central bank. The CBE recently reduced the required reserve ratio (RRR) in February 2026 to 16 percent from 18 percent, complementing the current CBE monetary easing cycle and safeguarding the effectiveness of monetary policy transmission by appropriately calibrating liquidity conditions within the banking system.
- **Standing Facilities**: The CBE provides commercial banks with overnight access to deposit and lending facilities at the announced corridor rates. Commercial banks place excess liquidity in the overnight deposit facility at the corridor's lower bound, while short-term funding needs are met through the overnight lending facility at its upper bound. Together, these facilities keep CONIA within the corridor.
- **Deposit Auctions**: The CBE's primary operational tool for absorbing excess liquidity is the deposit auctions. The main operation is the seven-day deposit auction, conducted weekly, and serves as the key instrument for managing short-term liquidity conditions.

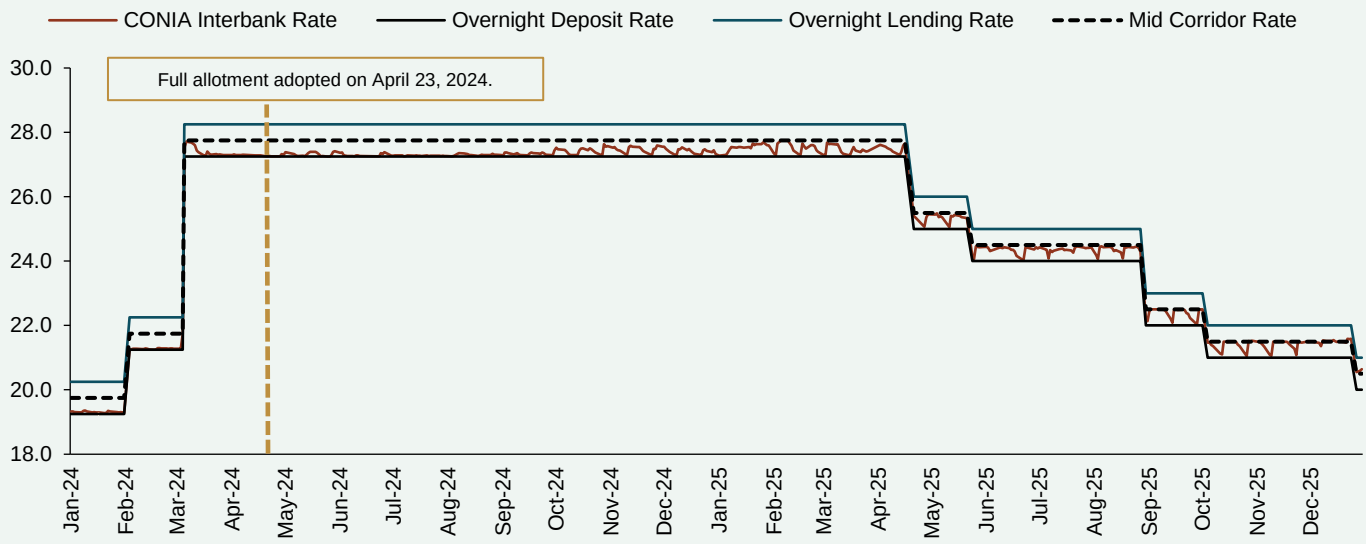
Transition Toward Full Allotment

A key operational change was implemented in April 2024 whereby the CBE transitioned to a seven-day full allotment, allowing all eligible bids by commercial banks to be accepted, rather than being subject to rationed allocation. By absorbing excess liquidity at the rate of main operation, the full allotment system helps keep short-term market rates, particularly CONIA, closer to the mid-corridor rate, strengthening the monetary policy transmission mechanism through aligning the CBE operational target with the monetary policy stance.

Figure A

CONIA vs Mid-Corridor Rate*

(In percent)



Source: Central Bank of Egypt.
**/Data until December 31, 2025.*

This recent development in the liquidity management framework along with the utilization of the abovementioned monetary policy tools and instruments reinforce the CBE's commitment to achieving price stability.

2. Outlook

Key Takeaways:

- Inflation outturns for CY 2025 were in line with expectations. Throughout the year, annual headline inflation in the baseline scenario was forecasted to average 14-15 percent compared to an actual outturn of 14.1 percent.
- Similarly, real GDP growth for FY 2024/25 was forecasted at 4.3 percent, compared to an actual figure of 4.4 percent.
- The baseline inflation outlook for 2026 is expected to remain largely stable in Q1 2026 near current levels, and is projected to resume its broadly declining path during the remainder of the year, converging toward the CBE target range, while real GDP is projected to continue growing at a faster pace.

This section outlines the model-based medium-term macroeconomic projections (See Box 3 for further details on the CBE's Forecasting and Policy Analysis System). These forecasts, along with their underlying assumptions and the prevailing balance of risks, underpin MPC decisions. Global assumptions have been updated across the forecast horizon compared to Q3 2025 MPR (see table (a) below).

Table (a)
Global assumptions factored into Egypt's Quarterly Projection Model
(in percent, average of period)

Variable	Q3 2025 MPR		Q4 2025 MPR	
	2026	2027	2026	2027
Trading partners' output gap *(proxy for foreign demand)*	-0.2	-0.1	0.0	-0.1
Trading partners' inflation rate *(proxy for imported inflation)*	2.6	2.5	2.4	2.5
U.S. interest rate *(proxy for global financial conditions)*	3.5	3.2	3.5	3.2

Source: Global Projection Model Network (GPMN).
Note: GPMN uses a global projection model, which provides updated monthly, model-based macroeconomic projections for 10 of the world's leading economies.

The trading partners' output gap[19] has been slightly revised upward for 2026 relative to the Q3 2025 MPR, as global growth has shown resilience in 2025. The global economy is now projected to operate near potential in 2026 and 2027. Inflation projections for trading partners' have been marginally revised downward for 2026, while remaining unchanged for 2027. As persistent inflation continues to exceed inflation targets in advanced economies, cautious monetary easing is expected to continue through 2026 and 2027, keeping estimates for global financial conditions in line with the projections outlined in the Q3 2025 MPR.

Domestically, initial conditions are set according to near-term forecast figures that incorporate actual outturns and planned fiscal consolidation measures, such as VAT amendments, as well as assumptions on energy price increases. For 2025, annual headline inflation averaged 14.1 percent,[20] with Q4 2025's figure averaging 12.3 percent, broadly in line with the Q3 2025 MPR projections. Accordingly, the updated inflation forecast for Q4 2025 MPR remains in line with the previous projection published in the Q3 2025 MPR. This comes due to monthly inflation developments that largely offset each other, whereby October's annual headline inflation figure exceeded projections, due to a higher-than-expected increase in services inflation, while December's annual headline inflation figure undershot our projections due to a sharper-than-expected decline in core food prices, as well as favorable FX dynamics.

Over the forecast horizon, CBE forecasts point to annual headline inflation remaining largely stable near current levels in Q1 2026, and is expected to resume its broadly declining path over the remainder of the year. By Q4 2026, inflation is expected to converge toward the CBE's target range of 7 percent (±2 p.p.), on average, and to remain within single-digit territory thereafter. Accordingly, annual headline inflation is expected to average 12.0 percent and 9.0 percent in FYs 2025/26 and 2026/27, respectively, down from 20.4 percent in FY 2024/25. However, the forecasted disinflation path remains constrained by:

(i) the impact of planned fiscal consolidation measures across the forecast horizon, such as energy price increases;
(ii) the expected persistence of annual non-food inflation.

[19] Calculated as a weighted average of Egypt's export volumes with trading partners.

[20] Disinflation was mainly driven by the food CPI component, which averaged 5.2 percent in CY 2025, down from 32.9 percent in the previous year compared to a relatively persistent non-food inflation, which registered a marginal decline to 20.4 percent compared to 25.1 percent over the same period.

As outlined in Table (b), the inflation outlook is subject to a balance of both domestic and global risks that can potentially alter the inflation trajectory in either direction. Domestically, upside risks could arise from a stronger-than-expected pass-through of fiscal measures, which may add inflationary pressures over the forecast horizon. These risks, however, are countered by mitigating factors, most notably a recovery of Suez Canal receipts, which are expected to positively impact exchange rate dynamics and, in turn, the forecasted disinflation trajectory.

Globally, inflation risks are skewed to the upside by the potential escalation of regional geopolitical tensions and persistent volatility in global commodity and food prices. These pressures are partly alleviated by an improving sovereign-risk profile for the Egyptian economy, as evidenced by tighter CDS spreads, further supporting exchange rate dynamics and reinforcing the projected disinflationary path. Nevertheless, a more cautious easing of the monetary stance in advanced economies may lead to tighter global financial conditions relative to expectations, and consequently, reduce capital flows to emerging markets.

Table (b)
Domestic and Global Risks to Inflation Outlook

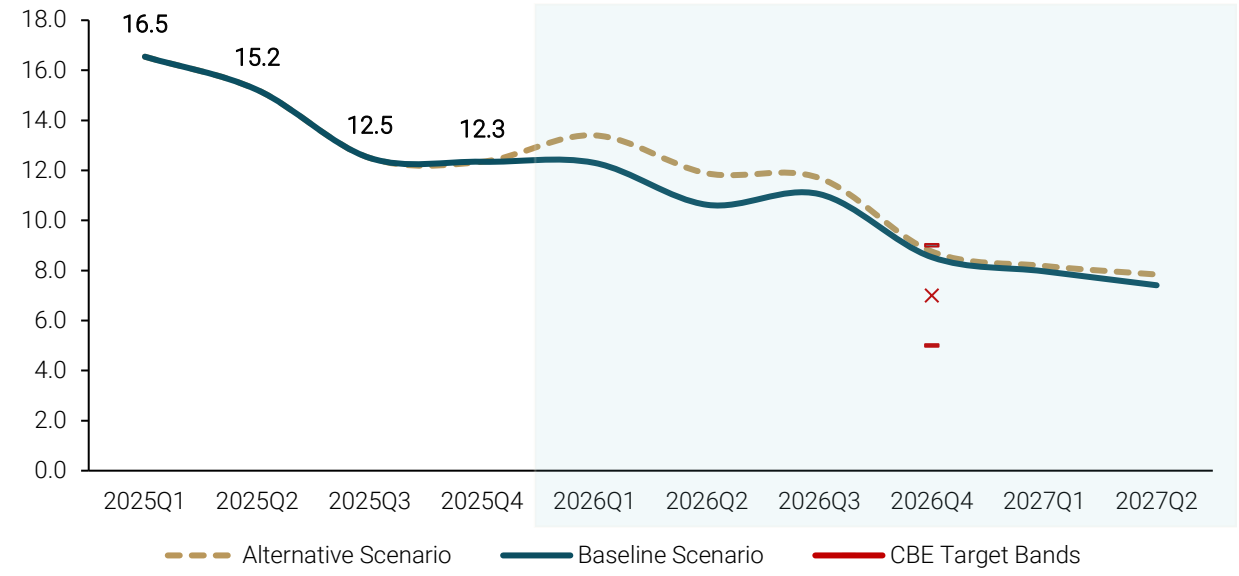
Domestic	Impact on Inflation Trajectory	Global	Impact on Inflation Trajectory
Higher-than-expected pass-through of fiscal consolidation measures	↑	Escalation of regional geopolitical tensions	↑
		Increases in global commodity and food prices	↑
Higher Suez Canal Receipts (Mitigating the Current Account deficit, improving FX dynamics and hence, the projected disinflation path)	↓	A more cautious easing of the monetary stance by developed economies (Tightening global financial conditions, affecting capital flows to emerging markets)	↑
Improved sovereign-risk profile (Supporting favorable FX conditions)	↓		

In this regard, an alternative scenario was devised to account for the implications of the aforementioned upside risks. This scenario assumes a sovereign-risk-premium shock, proxied by CDS spreads shocked to levels observed during previous episodes of domestic and global shocks. Under this alternative scenario, a tighter monetary stance is assumed compared to the baseline scenario. Consequently, annual headline inflation is projected to maintain a disinflationary trajectory throughout 2026, albeit at a higher path relative to the baseline (Figure 49), before converging to the target by Q4 2026. As such, annual headline inflation is expected to average 12.5 and 9.0 percent in FYs 2025/26 and 2026/27, respectively.

Figure 49

Annual Headline Inflation Forecast (Alternative vs. Baseline)

(in percent, y/y)



Source: Estimates from the Central Bank of Egypt's Quarterly Projection Model (see CBE Quarterly Projection Model Box in Q1 and Q2 2025 MPR).

Looking ahead, real GDP is projected to accelerate at a faster-than-previously estimated pace. Growth[21] is forecasted to register an average of 5.1 and 5.5 percent in FYs 2025/26 and 2026/27, respectively, compared to previously estimated 4.8 and 5.1 percent (Figure 50). The forecast revision is attributed to higher anticipated contributions stemming from non-petroleum manufacturing and services sectors, which are expected to accelerate at a faster pace, supported by the projected progress in monetary easing, which is likely to further support real private sector credit growth. Furthermore, forecasts are further strengthened by an anticipated stronger performance in the extractive sector, underpinned by multiple successful onshore and offshore discoveries of crude oil and natural gas, which are expected

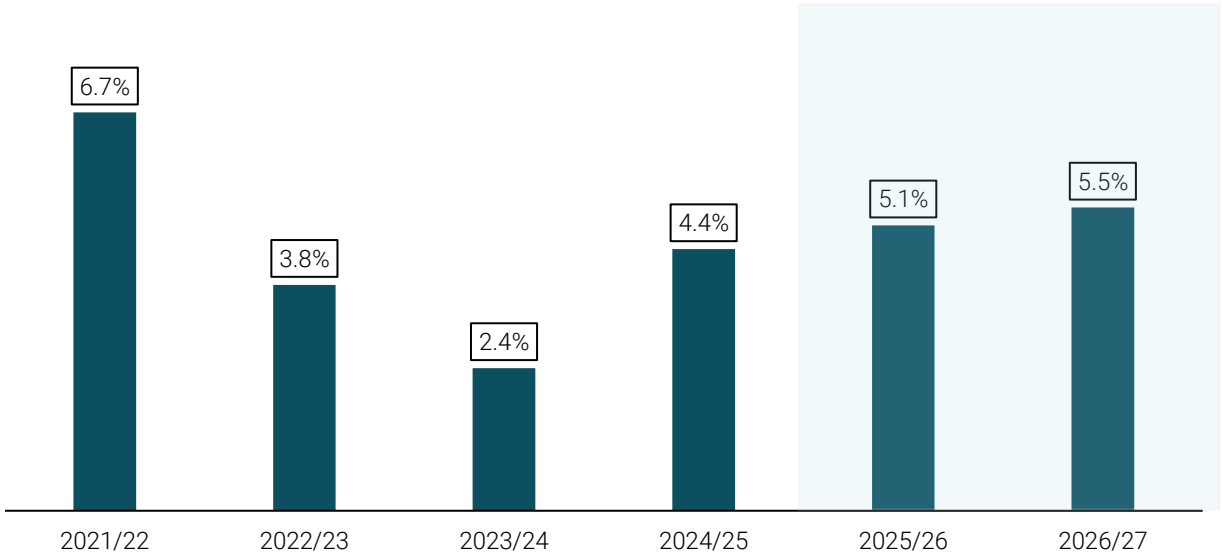
[21] GDP at market prices.

to gradually increase domestic production.[22] Additionally, the growth outlook is further reinforced by a projected rebound in Suez Canal activity during the current fiscal year,[23] assuming the normalization of maritime traffic in the Red Sea in light of the recent peace deal in Gaza, which has restored confidence and prompted the return of shipping lines through the Canal, including Maersk and CMA CGM. Overall, sustained momentum in key sectors—manufacturing, services, and Suez Canal—is expected to continue supporting real GDP growth over the forecast horizon.

Figure 50

CBE Real GDP Forecast (Market Prices)

(in percent, y/y)



Source: Central Bank of Egypt.

Consequently, the estimated negative output gap is expected to narrow over the forecast horizon, with output levels approaching potential by end-2026. For now, demand-side inflationary pressures are expected to remain contained, given the currently restrictive monetary policy stance. However, faster-than-expected growth will pose upside risks to the inflation outlook, warranting a more cautious approach toward the pace of the monetary easing cycle. In turn, the CBE remains committed to upholding an appropriate monetary stance, consistent with its reaction function, to safeguard the projected disinflation path amid prevailing uncertainties. Accordingly, current monetary conditions support a sustained decline in underlying inflation, anchor inflation expectations, and enable the achievement of the CBE inflation target by Q4 2026.

[22] Ministry of Petroleum and Mineral Resources.

[23] Source: Suez Canal Authority Chairperson, Admiral Osama Rabie.

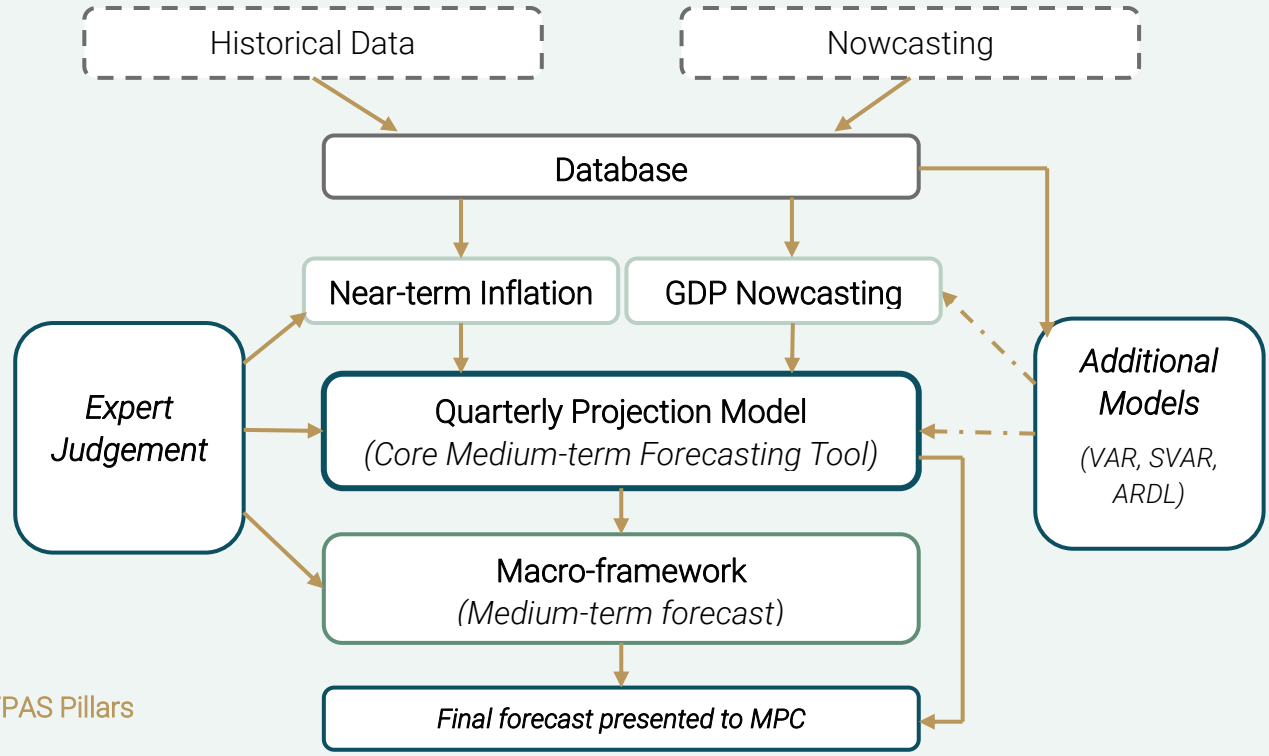
MPC Decisions

In its meeting on February 12, 2026, and given the forecasted disinflation trajectory, the MPC decided to cut key policy rates by 100 basis points. This decision comes supported by recent moderation in inflation, with headline inflation easing to 11.9 and 12.3 percent in January 2026 and December 2025, respectively. The CBE Board of Directors complemented this decision with a two-percentage point reduction in the required reserve ratio for commercial banks from 18 percent to 16 percent. Both decisions align with a monetary stance that anchors inflation expectations and supports the ongoing disinflation path. Throughout CY 2025, the MPC commenced the monetary easing cycle, cutting policy rates by a cumulative 725 bps given the progression of the disinflation process, in line with expectations, and supported by prevailing positive real interest rates and favorable exchange rate dynamics. The Committee will continue to base its decisions on the forecast trajectory, evolving economic conditions, and the balance of risks surrounding the outlook, and will not hesitate to utilize its policy instruments as needed to maintain price stability and guide inflation toward its target of 7 percent (± 2 percentage points), on average, in Q4 2026.

Box 3. The CBE's Forecasting and Policy Analysis System (FPAS)

As part of its transition to an inflation-targeting regime, the CBE conducts its monetary policy decision-making through a comprehensive assessment of macroeconomic conditions. This assessment is data-driven, covering actual outturns, forecast trajectory over the monetary policy horizon, and the balance of risks surrounding the outlook. To that end, the CBE leverages the FPAS, which is a structured framework for interpreting economic developments and articulating a coherent narrative for developments in the Egyptian economy. Within this system, the technical inputs presented to the MPC are generated through a structured and recurring FPAS, which is composed of a suite of quantitative models that produce forecasts and scenario analyses to support the monetary policy decision-making process.

Figure (a): The CBE's FPAS Process



The FPAS Pillars

The CBE's FPAS (see Figure a) incorporates several analytical tools, including near-term and medium-term forecasting methods, as well as additional econometric models, as detailed below.

- **The Near-term Forecasting Tools**

The FPAS cycle begins with an assessment of the latest data releases and high-frequency indicators[1] to analyze recent economic developments. These inputs are used to produce near-term forecasts for domestic macroeconomic variables, namely inflation and real GDP growth rates, which then serve as **initial conditions**[2], informing the medium-term core forecasting model.

[1] High frequency indicators that are used to inform the future developments of economic activity.

[2] Initial conditions are defined as the inputs of the first point in the forecast horizon.

- The Medium-term Forecasting Tools

At the core of the FPAS lies the QPM, the CBE's core forecasting tool[3] used to generate monetary policy recommendations. The QPM captures the fundamentals of the Egyptian economy, as well as interactions among key macroeconomic variables over the medium-term. Forecasts generated by the QPM are based on the initial conditions from the near-term forecast and a set of key domestic and global[4] economic assumptions. The baseline scenario, informed by the aforementioned assumptions, reflects the scenario that appears most likely given the available set of information. Nevertheless, given the inherent uncertainty surrounding the economic outlook, alternative scenarios are then devised to account for potential risks and policy trade-offs.

Additionally, a macroeconomic framework is employed to capture the interactions among key macroeconomic variables over the medium-term. The macroeconomic framework is built on key macroeconomic identities, behavioral equations, and consistency checks across the real, fiscal, external, and monetary sectors. This framework is based on an enhanced version of the IMF's financial programming macro-framework, which includes multiple satellite models to predict specific indicators for various economic sectors, and accounts for linkages between macroeconomic variables.

- Additional Econometric Models

These tools are used to cross check stylized facts about the Egyptian economy through VAR, SVAR, and ARDL models[5], such as, but not limited to, estimating interest and exchange rate pass-through, and the monetary policy transmission mechanism to key macroeconomic indicators.

Expert Judgment and Periodic ex-Post Evaluation

Expert judgment, grounded in sound understanding of domestic economic developments, remains central throughout the process, ensuring that analysis and forecasts reflect evolving conditions and information not fully captured by econometric and modelling techniques. Moreover, periodic ex-post evaluation is embedded in the FPAS, contributing to continuous learning and ongoing refinements, thereby reducing forecasting errors. This reinforces a forward-looking, data-driven decision-making process, bolstering the predictive power of monetary policy modelling in an uncertain and evolving environment.

[3] For further details, see the CBE Quarterly Projection Model Box in Q1 and Q2 2025 MPR.

[4] Global assumptions are sourced from the Global Projection Model Network (GPMN), which uses a global projection model that provides updated monthly, model-based macroeconomic projections for 10 of the world's leading economies.

[5] Vector Auto-regressive (VAR), Structural Vector Auto-regressive (SVAR), and Auto-regressive Distributed Lag (ARDL) models.

3. Appendix

Table A1. Contributions to Urban Headline Inflation

	Weights*	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Quarterly Contributions to Headline Inflation *(in p.p. q/q)*									
Regulated Items	**21.4**	1.7	1.4	1.1	1.4	1.0	1.2	0.7	0.5
Fresh Fruits & Vegetables	**5.5**	-0.1	0.0	1.5	0.1	-0.4	0.4	-0.3	0.3
Core Food	**24.5**	6.1	1.2	-0.5	0.6	1.0	0.1	-0.6	0.0
Retail	**14.3**	1.5	1.2	0.6	0.6	0.8	1.0	0.4	0.3
Services	**34.3**	2.0	1.6	0.7	0.8	1.0	1.3	0.7	2.4
Quarterly Headline Inflation, q/q in %	**100**	**11.2**	**5.3**	**3.3**	**3.6**	**3.3**	**4.1**	**0.9**	**3.5**
Quarterly Core Inflation, q/q in %**	**73.1**	**13.1**	**5.2**	**1.1**	**2.9**	**3.9**	**3.4**	**0.7**	**3.7**
Quarterly Contributions to Headline Inflation *(in p.p. y/y)*									
Regulated Items	**21.4**	5.7	5.9	5.5	6.2	5.2	5.0	4.5	3.5
Fresh Fruits & Vegetables	**5.5**	2.8	2.1	2.3	1.7	1.2	1.6	-0.2	0.0
Core food	**24.5**	15.2	11.4	8.8	7.6	2.5	1.4	1.1	0.5
Retail	**14.3**	4.0	4.4	4.1	4.2	3.4	3.2	3.0	2.7
Services	**34.3**	5.3	5.5	5.4	5.6	4.3	4.0	4.0	5.6
Quarterly Headline inflation, y/y in %	**100**	**33.0**	**29.4**	**26.1**	**25.4**	**16.5**	**15.2**	**12.5**	**12.3**
Quarterly Core Inflation, y/y in %**	**73.1**	**32.7**	**28.5**	**24.8**	**23.8**	**13.6**	**11.6**	**11.2**	**12.1**

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

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

*** 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.*

Table A2. Contribution to Real GDP Growth at Factor Cost

	2022/23	2023/24	2024/25*	Sep-24*	Dec-24*	Mar-25*	Jun-25*	Sep-25*
GDP Growth (at Market Prices)	**3.8**	**2.4**	**4.4**	**3.5**	**4.3**	**4.8**	**5.0**	**5.3**
GDP Growth (at Factor cost)	**3.6**	**2.3**	**4.4**	**3.5**	**4.3**	**4.7**	**5.0**	**5.3**
Agriculture, Forestry, Fishing and Hunting	**0.5**	**0.4**	**0.3**	**0.4**	**0.2**	**0.5**	**0.2**	**0.3**
Industry	**-0.7**	**-1.2**	**1.0**	**0.4**	**1.5**	**0.9**	**1.4**	**1.5**
Extractions	-0.1	-0.3	-0.6	-0.5	-0.6	-0.8	-0.6	-0.3
Oil	0.0	-0.1	-0.2	-0.1	-0.2	-0.4	-0.3	-0.1
Natural gas	-0.2	-0.3	-0.4	-0.4	-0.4	-0.5	-0.4	-0.2
Other	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Manufacturing	-0.6	-0.8	1.6	0.9	2.0	1.7	2.0	1.8
Petroleum	-0.1	-0.2	0.0	0.0	0.1	-0.2	-0.1	0.0
Non-Petroleum	-0.5	-0.6	1.7	0.9	1.9	1.9	2.1	1.8
Services	**2.7**	**2.5**	**2.8**	**2.9**	**2.8**	**2.8**	**2.7**	**2.5**
Construction	0.4	0.4	0.3	0.4	0.4	0.3	0.3	0.2
Real Estate Rental and Services	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.3
Transportation and Warehousing	0.2	0.3	0.4	0.9	0.5	0.0	0.1	0.2
Finance	0.1	0.2	0.4	0.3	0.4	0.7	0.3	0.4
Insurance 1/	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Communication	0.4	0.4	0.4	0.3	0.3	0.5	0.4	0.4
Tourism	0.7	0.3	0.5	0.2	0.5	0.6	0.8	0.4
Educational, Health Care, and Other Services	0.4	0.4	0.3	0.3	0.3	0.3	0.4	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**	**0.9**	**0.5**	**0.7**	**0.6**	**0.5**	**0.4**	**0.7**
Suez Canal	**0.3**	**-0.5**	**-0.6**	**-1.1**	**-1.1**	**-0.2**	**0.0**	**0.0**
General Government	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**	**0.2**	**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	2022/23	2023/24	2024/25*	Sep-24*	Dec-24*	Mar-25*	Jun-25*	Sep-25*
Trade Balance	**-31.2**	**-39.6**	**-51.0**	**-14.1**	**-13.4**	**-10.8**	**-12.7**	**-14.6**
Export proceeds	39.6	32.6	40.2	9.1	9.6	11.0	10.5	11.1
Petroleum exports	13.8	5.7	5.6	1.2	1.8	1.2	1.4	1.3
Other exports	25.8	26.8	34.6	7.9	7.8	9.9	9.0	9.8
Import payments**	70.8	72.1	91.2	23.1	23.1	21.9	23.1	25.7
Petroleum imports	13.4	13.4	19.5	5.4	4.2	4.8	5.0	6.4
Other imports	57.4	58.8	71.7	17.7	18.8	17.0	18.1	19.3
Services Balance	**21.9**	**14.4**	**15.1**	**4.1**	**3.3**	**3.5**	**4.3**	**5.0**
Receipts	34.6	30.2	32.1	8.4	7.9	7.6	8.2	9.4
Transportation	14.0	10.7	9.4	2.2	2.5	2.2	2.4	2.3
Of which: Suez Canal dues	8.8	6.6	3.6	0.9	0.9	0.8	1.0	1.0
Travel (tourism revenues)	13.6	14.4	16.7	4.8	3.9	3.8	4.2	5.5
Payments	12.6	15.9	17.0	4.3	4.6	4.2	3.8	4.4
Travel	5.0	5.1	3.9	0.8	1.1	1.0	0.9	1.0
Investment Income Balance	**-17.3**	**-17.5**	**-15.8**	**-4.3**	**-3.7**	**-4.2**	**-3.7**	**-4.4**
Receipts	2.1	1.9	2.9	0.7	0.6	0.6	1.0	0.6
Payments	19.5	19.5	18.7	4.9	4.3	4.9	4.7	5.0
Of which: Interest paid	6.2	7.9	7.3	1.9	1.9	1.9	1.6	1.8
Current Transfers	**21.8**	**21.9**	**36.3**	**8.4**	**8.8**	**9.3**	**9.9**	**10.7**
Private (net)	21.9	21.9	36.2	8.3	8.7	9.3	9.9	10.7
Official (net)	-0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Balance of Current Account	**-4.7**	**-20.8**	**-15.4**	**-5.9**	**-5.0**	**-2.3**	**-2.2**	**-3.2**
Capital & Financial Account	**8.9**	**29.9**	**10.2**	**3.8**	**5.1**	**-1.2**	**2.5**	**-0.4**
Capital Account	-0.1	-0.1	-0.2	0.0	-0.1	-0.1	-0.1	-0.1
Financial Account	9.0	30.0	10.4	3.8	5.2	-1.2	2.6	-0.3
Direct investment in Egypt (net)	10.0	46.1	12.2	2.7	3.3	3.8	2.4	2.4
Portfolio investment in Egypt (net)	-3.8	14.5	1.6	-0.4	-2.8	5.3	-0.5	1.8
Of which: Bonds	0.3	-1.6	1.1	-0.1	0.3	1.9	-1.0	-0.3
Other Investments (net)	3.4	-29.8	-2.8	1.6	4.8	-10.1	0.8	-4.3
Net Borrowing	1.4	4.9	-0.7	0.7	-1.3	-0.2	0.1	1.8
Medium- and Long-Term Loans (net)	-0.2	-2.8	-2.3	-1.1	0.0	-0.4	-0.9	-1.0
Medium- and Long-Term Suppliers' Credit (net)	1.7	0.4	-1.2	0.0	-0.9	-0.2	-0.1	0.0
Short term Suppliers' Credit (net)	0.0	7.2	2.8	1.8	-0.4	0.4	1.1	2.8
Other Assets	-4.8	-24.9	-9.1	0.0	4.6	-8.0	-5.7	-6.6
Other Liabilities	6.7	-9.8	7.0	0.8	1.6	-1.8	6.4	0.5
Net Errors & Omissions	-3.3	0.6	3.1	1.1	0.4	2.1	-0.5	2.0
Overall Balance	**0.9**	**9.7**	**-2.1**	**-1.0**	**0.5**	**-1.4**	**-0.2**	**-1.6**
Change in CBE Reserve Assets (Increase -)	-0.9	-9.7	2.1	1.0	-0.5	1.4	0.2	1.6

**/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	Jun-25	Sep-25	Dec-25
Monetary Survey							
Net Foreign Assets	**251.7**	**-372.0**	**-834.6**	**626.6**	**741.8**	**996.1**	**1,216.2**
Central Bank	225.2	-152.8	-304.9	494.5	499.6	529.6	634.9
Commercial Banks	26.4	-219.2	-529.7	132.1	242.2	466.6	581.4
Net Domestic Assets	**5,104.9**	**6,986.5**	**9,082.8**	**9,991.9**	**12,331.1**	**12,626.7**	**12,811.5**
Net Claims on the Government	3,166.1	3,971.8	5,076.3	5,918.2	8,415.4	9,059.4	8,736.7
Net Claims on Public Economic Authorities	353.5	453.2	766.3	1,205.8	1,707.2	1,786.4	2,558.4
Claims on Public Sector Companies	148.6	154.5	164.8	370.2	447.1	504.8	510.8
Claims on Private Sector	1,752.3	2,178.2	2,732.2	3,492.7	4,301.2	4,498.4	4,712.5
Other Items, net	-315.5	228.9	343.1	-995.0	-2,539.8	-3,222.4	-3,706.9
Broad Money (M2)	**5,356.6**	**6,614.5**	**8,248.2**	**10,618.6**	**13,072.9**	**13,622.8**	**14,027.8**
Domestic Currency Component (M2D)	4,706.4	5,768.4	6,732.0	8,090.9	9,981.0	10,575.8	11,024.3
Currency Outside Banks	673.4	778.6	1,009.2	1,227.0	1,381.0	1,418.1	1,443.6
Domestic Currency Deposits	4,033.1	4,989.8	5,722.9	6,863.9	8,600.0	9,157.7	9,580.8
Foreign Currency Deposits	650.2	846.1	1,516.2	2,527.7	3,091.9	3,047.0	3,003.4
Central Bank Balance Sheet							
Net Foreign Assets	**225.2**	**-152.8**	**-304.9**	**494.5**	**499.6**	**529.6**	**634.9**
Foreign Assets	625.1	611.5	1,045.8	2,161.9	2,351.6	2,324.6	2,407.4
Foreign Liabilities	-399.9	-764.3	-1,350.6	-1,667.3	-1,851.9	-1,795.0	-1,772.5
Net Domestic Assets	**762.5**	**1,345.7**	**1,833.6**	**1,470.6**	**1,821.3**	**1,739.0**	**1,791.0**
Net Claims on the Government	757.8	1,058.9	1,413.0	1,984.6	2,257.7	2,370.1	1,980.9
Net Claims on Public Economic Authorities	-37.8	-57.6	-72.8	-634.1	-606.4	-606.4	-214.7
Claims on Banks	377.3	400.0	530.4	875.1	938.6	851.5	941.4
Banks' Deposits in Foreign Currency	-135.1	-216.5	-508.5	-601.5	-682.4	-640.5	-581.4
Open Market Operations	-469.1	-735.8	-942.0	-1,117.0	-399.0	-268.6	-120.3
Other Items, net	269.4	896.6	1,413.6	963.6	312.9	32.9	-214.9
Reserve Money	**987.7**	**1,192.9**	**1,528.8**	**1,965.1**	**2,321.0**	**2,268.5**	**2,425.9**
Currency Outside Banks	673.4	778.6	1,009.2	1,227.0	1,381.0	1,418.1	1,443.6
Reserves of Banks	314.4	414.3	519.6	738.2	939.9	850.4	982.3
Deposits in Domestic Currency	265.3	354.8	445.5	636.2	813.8	739.2	875.9
Cash in Vaults	49.1	59.5	74.1	102.0	126.1	111.3	106.4

Source: Central Bank of Egypt.

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

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Policy Rates (%)								
Mid-Corridor Rate	26.89	27.75	27.75	27.75	27.75	24.50	22.50	21.28
Interbank Rates (%)								
Interbank WAR	26.3	27.4	27.4	27.5	27.5	24.4	22.4	21.3
Interbank O/N rate	26.1	27.3	27.3	27.4	27.4	24.3	22.4	21.3
Interbank O/N average volume, EGP billion	40.3	17.4	23.5	20.3	33.7	25.8	30.7	39.7
Interbank O/N share of total interbank volume	73.4	45.0	51.2	51.9	61.6	51.7	48.0	55.5
Banking Sector								
Deposit Rates	19.5	20.4	20.6	20.5	20.6	17.4	16.9	15.3
Time Deposits	19.2	21.1	21.2	21.5	21.1	18.8	17.8	16.9
Short-term Deposits (<1Y)	19.2	21.1	21.2	21.5	21.4	18.8	17.8	17.0
Other Deposits	17.1	15.4	14.0	14.6	16.6	18.8	17.2	15.5
Saving Certificates	24.0	23.5	22.8	23.6	24.2	20.2	19.5	17.4
< 3 years	24.9	24.6	24.6	24.6	25.0	20.9	19.3	17.1
≥ 3 years	23.3	22.7	21.7	22.9	23.4	20.2	19.5	17.4
Saving Accounts	11.8	11.4	13.3	12.7	11.3	9.1	8.8	7.4
Lending Rates	26.4	27.9	27.9	28.1	28.0	24.6	23.7	22.7
W.A. Business Lending Rates	26.8	27.7	27.7	27.8	28.0	23.5	22.4	21.9
Short term business	25.7	27.5	27.1	28.7	28.6	24.1	22.7	22.3
Long term business	27.9	27.8	28.2	25.8	26.6	21.8	21.3	21.7
Retail	24.1	29.1	29.1	30.0	27.9	28.3	27.5	28.7
Local Debt Market								
T-Bill yield 1Y	30.2	25.9	26.2	26.2	25.0	25.2	25.8	25.2
Weighted Average T-bill yield	29.6	25.9	29.3	30.1	27.2	27.3	26.5	25.8
Weighted Average T-bond yield	28.2	23.9	25.9	26.6	28.0	23.6	24.2	22.6
WAY, 1/	29.6	25.5	28.5	29.9	27.3	26.6	26.3	25.4
Spreads 2/								
O/N interbank - Mid Corridor rate	-0.80%	-0.45%	-0.42%	-0.34%	-0.32%	-0.16%	-0.13%	0.05%
W.A. Lending rate - Mid Corridor rate	-0.52%	0.12%	0.13%	0.38%	0.24%	0.13%	1.20%	1.38%
Mid Corridor - W. A Deposit Rate	7.41%	7.34%	7.16%	7.23%	7.19%	7.07%	5.62%	5.98%

Source: Central Bank of Egypt.

1/ Government securities' yields are gross of tax

2/ All rates are as of December 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
CPI	Consumer Price Index
CY	Calendar year
DXY	U.S. Dollar Index
EGP	Egyptian pound
F/C	Foreign currency
FDI	Foreign direct investment
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
WAY	Weighted average yield
y/y	Year on year

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