FUNDAMENTALS

EGYPT MPC UPDATE
DOUBLING DOWN DOVISH STANCE

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Economist
Churchill Ogutu
+254 711 796 739
churchill.ogutu@ic.africa

IN BRIEF

- The Monetary Policy Committee (MPC) of the Central Bank of Egypt (CBE) lowered the key deposit rate by 100bps to 24.0% in its May 2025 meeting. Equally, the overnight lending rate and the rate of the main operation were slashed by 100bps to 25.0% and 24.5%, respectively.

- The monetary policymakers nowcasts 1Q2025 real GDP growth at 5.0% y/y and more than double the 2.3% y/y growth recorded in a similar period last year. The lower inflationary environment and a stable FX have improved the growth prospects despite the negative spillover from global trade tensions.

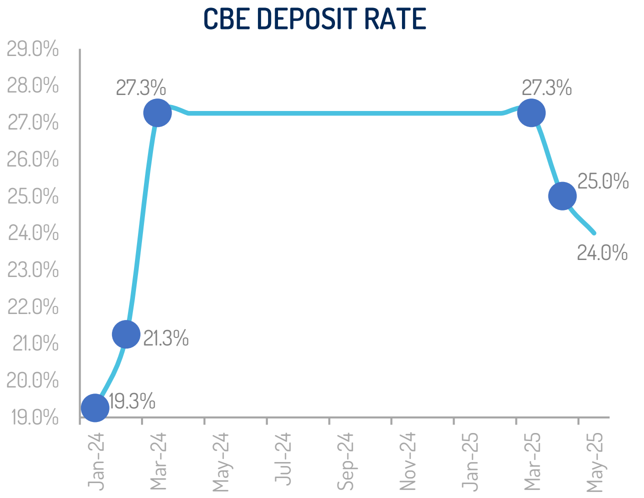
- Inflation has broadly cooled with the April 2025 headline print coming in at 13.9%. The inflation downtrend has been favourably bolstered by base effects and the hitherto tighter monetary policy stance. The disinflation path notwithstanding, we still expect a non-linear trend towards the set target of 5.0% ±2.0% average inflation in 4Q2026, although administered prices are likely to slightly lift the inflation profile.

- However, the negative output gap as flagged by the monetary policymakers suggests that demand-side inflationary pressures are subdued and as such, core inflation is expected to remain downward sticky. The 13.3% YTD decline in global oil price and the backwardation in the commodity's futures price to the end of the year will also anchor inflationary expectations in the near term.

- The Egyptian Pound (EGP) has appreciated 1.5% quarter-to-date with the high FX Reserves offering the much-needed boost. Net international reserves hit USD 48.1bn in April 2025, while net foreign assets improved to USD 15.0bn in April 2025 from USD 10.2bn a month earlier. These developments are likely to anchor EGP stability and minimize the risk of imported inflation.

Second successive rate cut by the CBE

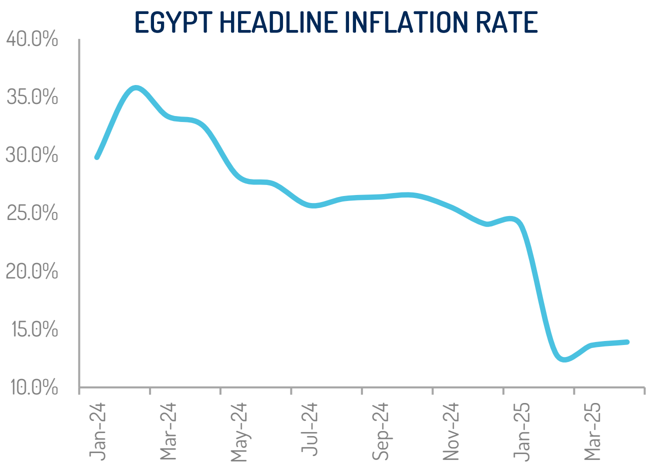
The Monetary Policy Committee (MPC) of the Central Bank of Egypt (CBE) lowered the key deposit rate by 100bps to 24.0% in its May 2025 meeting. Equally, the overnight lending rate and the rate of the main operation were slashed by 100bps to 25.0% and 24.5%, respectively. This was the second successive dovish stance by the CBE MPC delivering a cumulative 325bps of cuts since April 2025, and supportive of the recovery momentum in the local economy.



SOURCE: CENTRAL BANK OF EGYPT, IC INSIGHTS

Higher growth prospects amidst external concerns

The monetary policymakers nowcasts 1Q2025 real GDP at 5.0% y/y and more than double the 2.3% y/y growth recorded in a similar period last year. The lower inflationary environment and a stable FX have improved the growth prospects despite the negative spillover from global trade tensions. Given the need to support the nascent recovery in the domestic economy, we expect the MPC decision to support credit mediation and power activity in the local real sector.



SOURCE: CAPMAS, IC INSIGHTS

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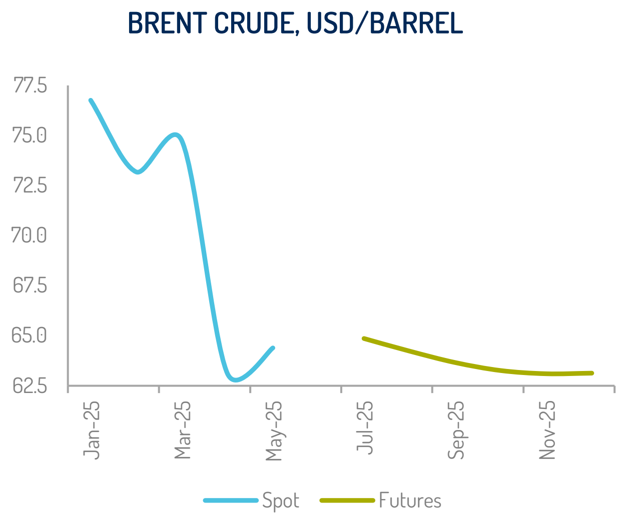
However, the negative output gap as flagged by the monetary policymakers suggests that demand-side inflationary pressures are subdued and as such, core inflation is expected to remain downward sticky. The 13.3% YTD decline in global oil price and the backwardation in the commodity's futures price to the end of the year will also anchor inflationary expectations in the near term. We also expect the draft FY26 Budget that has penciled in a narrowing in the fiscal deficit from 6.7% in the current fiscal year to 6.2% to deflate upside risks to inflation expectations.



SOURCE: BLOOMBERG, IC INSIGHTS

Stable FX to minimize the risk of imported inflation

The Egyptian Pound (EGP) has appreciated 1.5% quarter-to-date with the high FX Reserves offering the much-needed boost. Net international reserves hit USD 48.1bn in April 2025, partly shored by the USD 1.2bn IMF disbursement in March 2025 following the completion of the fourth review. Net foreign assets improved to USD 15.0bn in April 2025 from USD 10.2bn a month earlier, largely due to improvements in the commercial banks sector. Furthermore, we expect the external sector to be bolstered with likely disbursement post-fifth review as the IMF programme progresses favourably. These developments should anchor EGP stability and minimize the risk of imported inflation.

For more information contact your IC representative

Investment Banking | Business Development & Client Relations

Derrick Mensah
Head, Investment Banking
+233 308 250 051
derrick.mensah@ic.africa

Timothy Schandorf
Head, Client Coverage
+233 308 250 051
timothy.schandorf@ic.africa

Dora Youri
Head, Wealth Management
+233 308 250 051
dora.youri@ic.africa

Corporate Access

Benedicta Boateng
Corporate Access
+233 308 250 051
benedicta.boateng@ic.africa

Insights

Courage Kingsley Martey
Economist and Head,
Insights
+233 308 250 051
courage.martey@ic.africa

Churchill Ogutu
Economist
churchill.ogutu@ic.africa

Kwabena Obeng
Associate, Equity Research
+233 308 250 051
kwabena.obeng@ic.africa

Emmanuel Dadzoe
Analyst, FMCG, OMC, Telecoms
+233 30 825 0051
emmanuel.dadzoe@ic.africa

Investing

Obed Odenteh
Chief Investment Officer
+233 308 250 051
obed.odenteh@ic.africa

Herbert Dankyi
Portfolio Manager
+233 308 250 051
herbert.dankyi@ic.africa

Clevert Boateng
Portfolio Manager, Risk Assets
+233 308 250 051
clevert.boateng@ic.africa

Hannah Mate
Analyst, Risk Assets
+233 308 250 051
hannah.mate@ic.africa

Operations

Nana Amoa Ofori
Chief Operating Officer
+233 308 250 051
nanaamoa.ofori@ic.africa

Abigail Adu-Darkwa
Head, Business Operations
+233 308 250 051
abigail.adu-darkwa@ic.africa

Kelly Addai
Fund Accountant
+233 308 250 051
kelly.addai@ic.africa

Trading

Allen Anang
Sales/Trader, Global Markets
+233 308 250 051
allen.anang@ic.africa

Johnson Asiamah
Trader, Equities
+233 308 250 051
johnson.asiamah@ic.africa

Samuel Kwame Ofori
Trader, Fixed Income
+233 308 250 051
samuel.ofori@ic.africa