CENTRAL BANK OF EGYPT

Press Release – December 26, 2024

MPC decides to keep key policy rates unchanged; extends inflation target horizons

Cairo, Egypt — In its meeting today, the Central Bank of Egypt's Monetary Policy Committee (MPC) decided to keep the CBE's overnight deposit rate, overnight lending rate, and the rate of the main operation unchanged at 27.25 percent, 28.25 percent, and 27.75 percent, respectively. The Committee also kept the discount rate unchanged at 27.75 percent. The meeting also decided to extend the inflation target horizons to Q4 2026 and Q4 2028 at 7 percent (± 2 p.p.) and 5 percent (± 2 p.p.) on average, respectively, in line with CBE's gradual advance towards implementing a fully-fledged inflation targeting regime.

Globally, central banks in advanced and emerging market economies continued to gradually cut their policy rates as inflation moderates, while maintaining a restrictive stance to ensure convergence to target levels. Economic growth is broadly stable, with the current pace expected to continue over the medium term, yet still below pre-pandemic levels. However, the outlook is subject to downside risks, including the dampening effect of monetary tightening on economic activity, heightened geopolitical tensions, and the resurgence of protectionism. Furthermore, global commodity prices have recently exhibited minimal volatility, with forecasts suggesting a potential decline, especially in energy prices. Nonetheless, upside risks to inflation remain, such as disruptions to global trade and the adverse effects of extreme weather events on agricultural production.

Domestically, leading indicators for Q3 and Q4 2024 signal continued recovery in economic activity, with estimates indicating that real GDP growth has accelerated compared to Q2 2024. Nonetheless, real GDP remains below its potential, supporting the forecasted decline in inflation throughout 2025, and is projected to realize its full potential by end of FY 2025/26. With regards to the wage channel, inflationary pressures continue to be subdued, as real wage growth remains contained.

Following three months of broad stability, annual headline inflation eased in November 2024 to 25.5 percent, mainly driven by a decline in food prices, with volatile and core food prices recording their lowest annual inflation in almost two years at 24.6 percent. Conversely, administered prices of non-food items, including fuel products, inland transportation, and tobacco products increased in line with the revenue mobilization strategy aimed at curbing the fiscal deficit. Accordingly, annual core inflation declined to 23.7 percent in November 2024 against 24.4 percent in October 2024. These outturns, along with the improvement in inflation expectations that reflected in the gradual normalization of monthly inflation dynamics, suggest that inflation will continue its downward course.

Following a surge in global inflation for more than two years, inflation in advanced and emerging economies started to moderate, yet remains above target levels. Egypt has not been an exception, with headline inflation declining recently, and is expected to average around 26 percent in Q4 2024, missing the CBE target range of 7 percent (± 2 p.p.). This can be attributed to a combination of domestic and global economic factors throughout 2022-2024, namely (1) the build-up of external imbalances, fueled by a surge in global food prices throughout 2021, imported inflation, and sizeable portfolio outflows following the outbreak of the Russo-Ukrainian conflict, (2) domestic supply shocks arising from market distortions and unanchored inflation expectations, and more recently (3) fiscal consolidation measures aimed at tightening the fiscal stance and placing debt on a downward trajectory. These developments, along with exchange rate depreciation, drove inflation above the target range, with annual headline inflation peaking at 38.0 percent in September 2023, before declining to 25.5 percent in November 2024.

Starting March 2024, the CBE implemented a number of corrective measures aimed at restoring macroeconomic stability, which succeeded in containing inflationary pressures and bringing down overall inflation. These measures include the CBE's significant tightening of monetary policy as well as the unification of the foreign exchange market that helped anchor inflation expectations and attract sizable foreign exchange inflows. Nevertheless, risks to the outlook include possible escalation of geopolitical tensions, resurgence of protectionism, and higher-than-anticipated passthrough of fiscal measures. Looking ahead, inflation is projected to ease substantially in 2025, as the cumulative impact of monetary policy tightening and favorable base effect materializes, with a notable decline in Q1 2025 and convergence to single digits by H2 2026.

Considering inflation dynamics, the MPC deems the deferment of the previous targets as appropriate, extending the target horizons to Q4 2026 and Q4 2028 at 7 percent (± 2 p.p.) and 5 percent (± 2 p.p.) on average, respectively. The deferment will allow for more room to weather price shocks without requiring further stringent monetary tightening, thereby avoiding substantial slowdown in economic activity.

In view of the above, the Committee judges that the current policy rates remain appropriate to maintain a tight monetary stance until a significant and sustained decline in inflation is achieved, and expectations are firmly anchored. The Committee's decisions regarding the duration and extent of policy restrictiveness will be made on a meeting-by-meeting basis. Such decisions will continue to be outlook dependent, responsive to data developments, and sensitive to the prevailing balance of risks. The MPC will continue to monitor economic and financial developments, and will not hesitate to utilize all tools at its disposal to steer inflation to target levels through containing demand-side pressures and second-round effects emanating from supply shocks.

Monetary Policy Sector

monetary.policy@cbe.org.eg