

# CHART OF THE WEEK

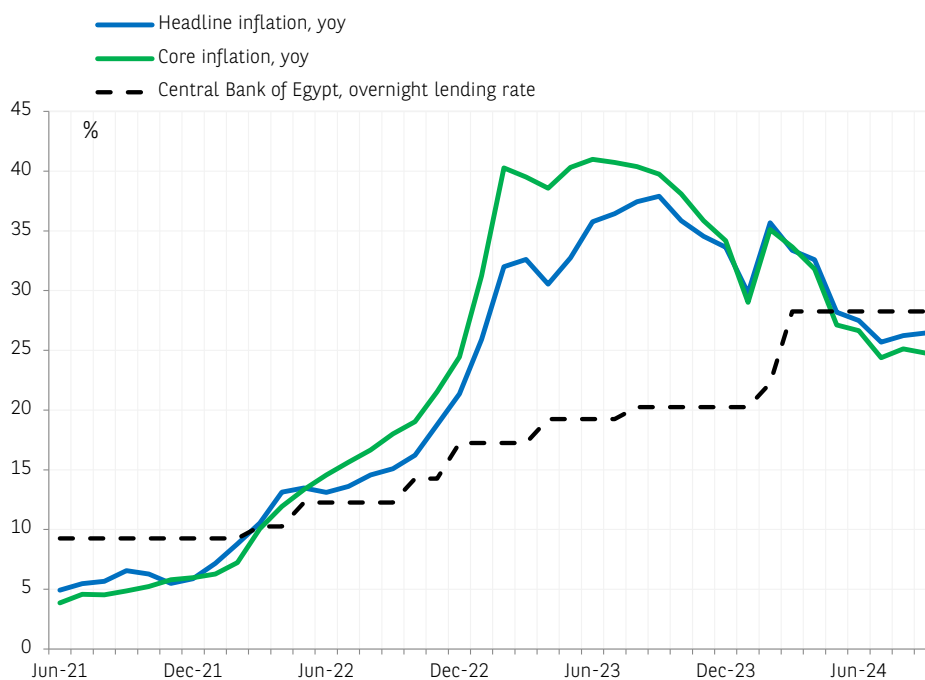


23<sup>rd</sup> October 2024

## CENTRAL BANK OF EGYPT: CAUTIOUS MONETARY POLICY

Pascal Devaux

Central Bank of Egypt: cautious monetary policy



Source: Central Bank of Egypt, BNP Paribas

In the main emerging economies, the pace of disinflation is slowing and the cycle of monetary easing began more than a year ago. Egypt is an exception to this trend, due to a severe balance-of-payments crisis that affected its economy until early 2024. Inflation only began to moderate in Q2 2024, and the Central Bank of Egypt decided to leave its key rates unchanged at its Monetary Policy Committee meeting on 17 October 2024.

The general consumer price inflation index (in urban areas) and core inflation have been falling since March 2024, mostly driven by the drop in food-price inflation (a third of the basket). The easing of external constraints during Q1 2024 helped to stabilise the exchange rate and to gradually clear import backlogs. Lower commodity prices on global markets also contributed to curb inflationary pressure.

However, several factors explain the Central Bank of Egypt's decision to leave its rates unchanged:

- Inflationary pressures are only abating slowly and the general index actually rose again slightly in September. Financial support from the IMF has resulted in rocketing electricity prices (+30% on average) and domestic gas prices (+50% for LPG) since August.
- In addition, and this is one of the arguments put forward by the Central Bank of Egypt, the significantly rising geopolitical tensions in the region constitute a major risk for commodity prices, particularly oil prices. Egypt's energy balance is moving deeper and deeper into deficit.

Inflation is expected to fall significantly in the short term, thanks in particular to a favourable base effect. We are forecasting 12.1% year-on-year in March 2025. In addition, money supply is still decelerating (+18% y/y in August 2024, excluding exchange rate effects, compared to 30% on average in 2023), signalling the downward trend in inflationary pressures.

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