Press Release – June 23rd, 2022

MPC decides to keep key policy rates unchanged

In its meeting today, the Monetary Policy Committee (MPC) decided to keep the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate, and the rate of the main operation unchanged at 11.25 percent, 12.25 percent, and 11.75 percent, respectively. The discount rate was also kept unchanged at 11.75 percent.

Global economic activity has slowed down due to ongoing tensions between Russia and Ukraine. Trade sanctions imposed on Russia and corresponding supply-chain bottlenecks have elevated global commodity prices, such as international prices for oil and wheat. Meanwhile, global financial conditions have tightened, as major central banks have continued to both tighten policy rates and reduce asset purchase programs with the aim of containing increased inflationary pressures in their respective countries. In addition, recently reintroduced COVID-19 lockdowns in China have raised concerns about exacerbating existing global supply-chain disruptions.

Domestic economic activity continued to expand in 2022 Q1, albeit at a slower pace, registering a preliminary growth figure of 5.4 percent, compared to 8.3 percent in 2021 Q4. Detailed sectoral growth data for 2021 Q4 portrays that economic activity was supported by the robust positive contribution of tourism, non-petroleum manufacturing and trade. The witnessed softening in economic growth is attributable to several factors most notably the impact of the Russo-Ukrainian conflict, as well as the diminishing of the positive base effect observed during the previous three quarters.

Leading indicators for 2022 Q2 point towards normalized economic activity, as the strong positive base effect diminishes. Going forward, economic activity is expected to expand at a slower than projected pace. This is mainly a result of the unfavorable spillovers emanating from the Russo-Ukrainian conflict.

Regarding the labor market, the unemployment rate declined in 2022 Q1, registering 7.2 percent. The witnessed decline stemmed from the increase in employment figures which more than offset the increase in the labor force.

Annual headline urban inflation continued to increase, but at a slower pace, to record 13.5 percent in May 2022, from 13.1 percent in the previous month. In addition, annual core inflation – which excludes volatile food and regulated items – witnessed also a slower pace of increase for the second consecutive month. It continued its upward trend to record 13.3 percent in May 2022 from 11.9

percent in the previous month. The increase in annual headline inflation was attributed to non-food items, since food items' annual inflation decelerated for the first time since the beginning of the year supported by the reversal of the supply shock witnessed in previous months in some fresh vegetables. May 2022 inflation reading continued to be affected by the depreciation of the Egyptian Pound, as well as by the repercussions of the Russo-Ukrainian conflict on commodities.

The MPC treats the developments stemming from the Russo-Ukrainian conflict to be among the exogenous shocks that are outside the scope of monetary policy and yet may lead to transitory deviations from pre-announced target rates. Monetary policy tools are utilized to anchor inflation expectations, contain demand-side pressures and second-round effects emanating from supply shocks that may lead to deviations from inflation targets. Therefore, in accommodation of the first-round effects of supply shocks, the elevated annual headline inflation rate will be temporarily tolerated relative to the CBE’s pre-announced target of 7 percent (±2 percentage points) on average in 2022 Q4, before declining thereafter.

In its decision to maintain policy rates unchanged today, the MPC takes note of its policy rate hikes in the previous two meetings and will continue to assess their impact on inflation expectations and other macroeconomic developments over the medium term. Achieving low and stable inflation over the medium term is a requisite condition to achieve high and sustainable growth rates, as well as supporting real incomes.

The MPC reiterates that the path of future policy rates remains a function of inflation expectations, rather than of prevailing inflation rates and as such, will not hesitate to adjust its stance to achieve its price stability mandate.

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