

## **MPC decided 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 18.25 percent, 19.25 percent, and 18.75 percent, respectively. The discount rate was also kept unchanged at 18.75 percent.**

On the global front, forecasts for key international commodity prices have been revised downwards compared to those underlying the previous MPC meeting. Global inflationary pressures have also eased as a result of a mix of factors, most notably the monetary policy tightening on the part of major central banks, the declining energy prices, and a reduction in global supply bottlenecks. Similarly, forecasts for economic growth have broadly stabilized, while volatility in financial conditions of key advanced economies has eased compared to the previous MPC meeting.

Domestically, growth of real economic activity eased to 3.9 percent in 2022 Q4 compared to 4.4 percent in 2022 Q3, indicating that growth during the first half of fiscal year 2022/23 registered 4.2 percent. Detailed sectoral data for 2022 Q3 show that growth was primarily driven by private sector economic activity, specifically tourism, agriculture and trade. Additionally, most leading indicators point towards a slowdown of real GDP growth in 2023 Q1. In line with the early signs of economic activity slowdown, broad money (M2) and its local currency components grew at a slower pace in March 2023. Going forward, real GDP growth is expected to slowdown in fiscal year 2022/23 compared to the previous fiscal year, before recovering thereafter. Meanwhile, the unemployment rate recorded 7.2 percent in 2022 Q4, down from 7.4 percent in the preceding quarter. This was mainly attributed to an increase in employment compared to the previous quarter.

Annual urban headline inflation decelerated to record 30.6 percent in April 2023, compared to 32.7 percent in March 2023, marking the first deceleration since June 2022. Meanwhile, annual core inflation decelerated for the second consecutive month in April 2023 to record 38.6 percent, breaking its upward trend that lasted since mid 2021. The recent deceleration in both annual headline and core inflation is primarily attributed to favorable base effects as well as the ease of major inflationary shocks; such as the domestic supply chain disruptions that affected main core food commodities and the repercussions of the exchange rate developments.

Economic developments following the last MPC meeting were broadly in line with expectations. The MPC continues to assess the impact of the cumulative policy rate hikes of 1000 bps since March 2022 in addition to the 400 bps increase in the required reserve ratio in September 2022, to contain inflationary pressures in a data-driven manner. In light of the above, the MPC decided to keep policy rates unchanged.

The MPC reiterates that the path of future policy rates remains a function of forecasted inflation rather than prevailing inflation rates and notes that achieving a tight monetary stance is a necessary condition to attain the CBE's upcoming inflation targets of 7 percent ( $\pm 2$  percentage points) on average by 2024 Q4 and 5 percent ( $\pm 2$  percentage points) on average by 2026 Q4. The Committee is closely tracking the inflation risks that may arise from possible supply chain disruptions and geopolitical tensions, among other factors. The MPC will continue to monitor all economic developments and will not hesitate to adjust its stance in line with its price stability mandate.

**Monetary Policy Sector**  
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