

MPC decided to raise key policy rates by 100 bps

In its meeting today, the Monetary Policy Committee (MPC) decided to raise the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate, and the rate of the main operation by 100 bps to 19.25 percent, 20.25 percent, and 19.75 percent, respectively. The discount rate was also raised by 100 bps to 19.75 percent.

On the global front, forecasts for key international commodity prices have been revised downwards slightly compared to forecasts underlying the June MPC meeting, while actual spot prices of crude oil have increased. In addition, forecasts for headline inflation in key global economies have been revised downwards compared to the June MPC meeting, despite remaining above their respective target levels. The outlook for global economic growth has increased compared to the June MPC meeting. Moreover, policy rates in major economies are expected to remain elevated given persistent inflation rates globally, in line with moderately tight financial conditions.

Domestically, growth of real economic activity remained unchanged in 2023 Q1 at 3.9 percent compared to the previous quarter. Preliminary figures for 2023 Q1 portray that economic activity is mainly supported by the positive contributions of tourism, agriculture and construction. Leading indicators for 2023 Q2 point towards a moderation of real GDP growth. Given the above, real GDP growth is expected to slow down in fiscal year 2022/23 compared to the previous fiscal year, before picking up gradually over the medium term. Meanwhile, the unemployment rate slightly declined to 7.1 percent in 2023 Q1 compared to 7.2 percent in the previous quarter, mainly due to an increase in employment.

Annual urban headline inflation increased to record 35.7 percent in June 2023 from 32.7 percent in May 2023. Similarly, annual core inflation increased to record 41.0 percent in June 2023 from 40.3 percent in May 2023. The annual inflation rates continued to be affected by persistent supply shocks, which fed through higher underlying pressures. Accordingly, the annual acceleration in headline and core inflation during June 2023 is driven by broad-based increases in the prices of most of the CPI items.

In light of the above and given the balance of risks surrounding the inflation outlook, the MPC judges that a policy rate hike of 100 bps is warranted in order to contain the inflationary pressures and anchor inflation expectations around the CBE's targets. The MPC judges that inflation rates are likely to peak in the second half of 2023 before beginning a disinflation path towards the CBE's preannounced targets afterwards, supported by the cumulative monetary policy tightening to date.

The committee will not hesitate to utilize all its available tools to ensure that the policy stance is set at sufficiently restrictive levels with the aim of attaining the CBE's upcoming inflation targets of 7 percent (± 2 percentage points) on average by 2024 Q4 and 5 percent (± 2 percentage points) on average by 2026 Q4. The MPC reiterates that the path of future policy rates remains a function of forecasted inflation rather than prevailing inflation rates, and will continue to monitor all incoming developments underlying the economic outlook.

Monetary Policy Sector

monetary.policy@cbe.org.eg