

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 19.25 percent, 20.25 percent, and 19.75 percent, respectively. The discount rate was also kept unchanged at 19.75 percent.

On the global front, forecasts for key international commodity prices, particularly energy, have been revised upwards compared to the forecasts underlying the previous meeting, mainly due to rising geopolitical tensions in the region. Nonetheless, inflationary pressures have eased worldwide as a result of monetary policy tightening cycles in major economies, as well as favourable base effects. Consequently, forecasts for headline inflation in key global economies have been revised downwards compared to the previous meeting, yet are still expected to remain above their respective target levels. Moreover, the outlook for global economic growth has decreased compared to the previous meeting given the impact of continued global policy rate tightening on demand, as well as increasing geopolitical uncertainty in the region.

Domestically, real GDP growth remained unchanged in 2023 Q1 at 3.9 percent compared to the previous quarter. Detailed data for 2023 Q1 portray that economic activity was mainly supported by the positive contributions of consumption and net exports. The latter has been the main driver of real growth since 2022 Q1 on average, which comes in line with exchange rate developments. Furthermore, real GDP growth is estimated to slow down during fiscal year 2022/23 compared to the previous fiscal year, which registered 6.7 percent. Leading indicators for 2023 Q3 suggest a general stability in economic activity compared to 2023 Q2. Meanwhile, the unemployment rate slightly declined to 7.0 percent in 2023 Q2 compared to 7.1 percent in the previous quarter, mainly due to an increase in employment, absorbing new entrants into the labor market.

As expected, annual urban headline inflation continued its upward trend recording 38.0 percent in September 2023 due to higher food inflation while non-food inflation softened. For the third consecutive month, the increase in food inflation came due to higher prices of volatile food items as opposed to core food items in earlier months. Accordingly, inflation dynamics for the past three

months ending in September 2023 mainly reflect the effect of adverse weather conditions, which further amplified the seasonal increase in the prices of agricultural products. On a positive note, annual core inflation declined for the third consecutive month to record 39.7 percent in September 2023 down from 40.4 percent in August 2023.

Incoming data since the September MPC, including the recent inflation outturns, came broadly in line with expectations. In light of the above, the MPC decided to keep policy rates unchanged and to continue assessing the cumulative impact of previously enacted tightening policies and its transmission to the economy in a data-driven manner. 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 judge the balance of risks surrounding the inflation outlook. 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.

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