Press Release – August 18th, 2022

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 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 continued to slow down affected by spillovers from the Russo-Ukrainian conflict, while increased geopolitical risk in South-East Asia is raising uncertainty regarding the global economic outlook. Furthermore, despite edging down recently, global financial conditions have remained relatively tight as major central banks have continued to raise policy rates and reduce asset purchase programs with the aim of containing increased inflationary pressures in their respective countries. Meanwhile, global commodity prices have slightly declined after reaching their peak following the Russo-Ukrainian conflict.

Domestic economic activity is estimated to have grown by a preliminary figure of 6.2 percent in fiscal year 2021/22, compared to 3.3 percent in the previous fiscal year. This reflects stronger than previously expected growth. Latest available data for the first nine months of the fiscal year shows that GDP growth was mainly driven by the private sector, particularly non-petroleum manufacturing, tourism, and trade. Meanwhile, public sector activity was supported by natural gas extractions, Suez Canal and the general government. Moreover, most leading indicators remained in positive territory in 2022 Q2. Going forward, economic activity is expected to be supported by the government's planned structural reforms. This, however, will be at a slower pace than previously projected, given the negative spillovers emanating from the Russo-Ukrainian conflict, among other factors.

Regarding the labor market, the unemployment rate stabilized at 7.2 percent in 2022 Q2. The witnessed stability comes in light of both employment and the labor force figures increasing by similar magnitudes, offsetting one another.

In July 2022, annual headline urban inflation resumed its upward trend, that started in December 2021, to record 13.6 percent, that is after decelerating in June 2022 to record 13.2 percent. In addition, July's annual core inflation - which excludes volatile food and regulated items - recorded 15.6 percent in July 2022 from 14.6 percent during the previous month. The increase was driven by higher prices of core food, retail items and services. This can be mainly attributed to the seasonal impact of Eid Al-Adha, the repercussions of the Russo-Ukrainian conflict, as well as, the indirect effects of higher prices of fuel products.

The MPC decided that keeping policy rates unchanged remains consistent with achieving price stability over the medium term. The MPC treats the developments emanating 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 its previous 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 sustainable economic growth.

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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