

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. The CBE also decided to increase the required reserve ratio to 18 percent from 14 percent. This works as a catalyst, complementing the tightening stance that the CBE is maintaining, by calibrating liquidity conditions.

On the global front, forecasts for the global economic activity have dampened due to spillover effects from the conflict between Russia and Ukraine. Furthermore, global financial conditions are expected to tighten further as major central banks continue to raise policy rates and reduce asset purchase programs with the aim of containing increased inflationary pressures in their respective countries. In contrast, global commodity prices, such as international prices of oil, have slightly declined, as a result of weakening demand due to global recession expectations.

Domestically, economic activity has grown by a preliminary figure of 3.2 percent in 2022 Q2, implying that fiscal year 2021/22 registered a growth rate of 6.6 percent, compared to 3.3 percent in the previous fiscal year. 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, select leading indicators continue to register positive growth rates in 2022 Q3. However, economic activity is expected to grow at a slower rate than previously projected, given the uncertainty and negative spillovers from the global scene.

In the labor market, both employment and the labor force figures increased by similar magnitudes, therefore, the unemployment rate remained stable at 7.2 percent in 2022 Q2.

Annual headline urban inflation increased to 14.6 percent in August 2022 from 13.6 percent in July 2022. Similarly, annual core inflation - which excludes volatile food and regulated items - increased to 16.7 percent in August 2022 from 15.6 in July 2022. The increase in annual inflation since the beginning of 2022 is emanating predominately from supply side issues particularly

international commodity prices. Despite rising annual figures, the recorded monthly rates are lower than the recent highs witnessed during March and April 2022.

Therefore, the MPC concurs that the current key CBE rates coupled with the increased required reserve ratio are consistent with achieving price stability over the medium term. Noting that the previous tightening policy rates by 300bps is still transmitting through the economy, the MPC will continue to assess the impact on inflation expectations and other macroeconomic developments over the medium term. The elevated annual headline inflation rate will continue to be temporarily tolerated above the CBE's pre-announced target of 7 percent (± 2 percentage points) on average in 2022 Q4. The CBE remains committed to achieving low and stable levels of inflation over the medium term which is a requisite condition towards sustainable economic growth.

Moving forward, the MPC will keep monitoring the global and domestic conditions for further developments and will not hesitate to utilize all available tools to achieve its price stability mandate over the medium term. The MPC reiterates that the path of future policy rates remains a function of inflation expectations rather than of prevailing inflation rates.

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