

MPC decided to raise key policy rates by 300 basis points

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 300 basis points to 16.25 percent, 17.25 percent, and 16.75 percent, respectively. The discount rate was also raised by 300 basis points to 16.75 percent.

On the global front, forecasts for international commodity prices have slightly eased compared to those underlying the previous MPC meeting. In addition, financial conditions broadly stabilized, with several central banks indicating that their inflation may have peaked and potentially started its deceleration path. Nonetheless, the outlook for international commodity prices remains uncertain, as several factors contribute to upside and downside pressures. Notable factors include the expected global economic slowdown, the loosening of COVID-19 restrictions in China, and the continued uncertainty from the Russia-Ukraine conflict on the overall outlook for global supply chains.

Domestically, economic activity picked up in 2022 Q3, registering a preliminary figure of 4.4 percent compared to 3.3 percent in 2022 Q2. Real GDP growth was primarily driven by the positive contributions of agriculture, wholesale and retail trade and tourism. Additionally, most leading indicators continue to register positive growth rates in 2022 Q4. Meanwhile, the unemployment rate recorded 7.4 percent in 2022 Q3, slightly up from the 7.2 percent recorded in the previous quarter.

Annual headline urban inflation continued to accelerate further during 2022 Q4, reaching 18.7 percent in November 2022, its highest rate since December 2017. Similarly, annual core inflation continued its upward trend that started over a year ago, recording 21.5 percent in November 2022, its highest rate since November 2017. November's 2022 inflation figure was mainly impacted by the depreciation of the Egyptian pound that took place in October 2022, as well as the higher broad money growth and the ongoing repercussions of the Russia-Ukraine conflict. Since the beginning of calendar year 2022, annual food inflation was mainly driven by core food inflation. Moreover, the annual inflation of services was mainly driven by expenditure on restaurants and cafes, while the increase in retail items was broad-based. Given these developments, annual headline inflation

is expected to remain above the MPC's preannounced target of 7 percent (± 2 percentage points) on average in 2022 Q4.

The MPC judges that demand side pressures have recently increased, as evidenced by developments in real economic activity relative to potential capacity, higher broad-based inflation outturns, and higher broad money growth. In accordance with the CBE's resolve to achieve price stability over the medium term and in line with the preannounced disinflation target path, the MPC has set its upcoming inflation targets at 7 percent (± 2 percentage points) on average by 2024 Q4 and 5 percent (± 2 percentage points) on average by 2026 Q4.

Against this background, the MPC decided to raise key policy rates by 300 bps to contain inflationary pressures and to steer annual headline inflation rates towards its upcoming targeted levels. The committee notes that the future path of inflation remains a function of the cumulative tightening in its stance to date and the lag with which monetary policy tools operate.

The MPC closely monitors all economic developments and will continue to utilize all available monetary policy tools to anchor inflation expectations, contain demand-side pressures and second-round effects emanating from supply shocks that may lead to deviations from inflation targets.

The MPC reiterates that the path of future policy rates remains a function of inflation expectations, rather than of prevailing inflation rates and will continue to pursue its price stability mandate.

Monetary Policy Sector

monetary.policy@cbe.org.eg