

## **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 16.25 percent, 17.25 percent, and 16.75 percent, respectively. The discount rate was also kept unchanged at 16.75 percent.**

On the global front, forecasts for international commodity prices have marginally tightened compared to those underlying the previous MPC meeting. On the other hand, financial conditions continued to ease for the US economy while the euro area's financial conditions broadly stabilized, compared to available information at the time of the previous MPC meeting. 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 Russia-Ukraine conflict.

Domestically, economic activity has picked up slightly in 2022 Q3, registering 4.4 percent compared to 3.3 percent in 2022 Q2. Real GDP growth was primarily driven by the improvement in tourism, agriculture and trade. Additionally, most leading indicators continued to register positive growth rates in 2022 Q4, albeit at a slower pace. Going forward, real GDP growth is expected to moderate in the fiscal year 2022/23 compared to the previous fiscal year, before picking up thereafter. Meanwhile, the unemployment rate recorded 7.4 percent in 2022 Q3, slightly up from the 7.2 percent recorded in the previous quarter.

Annual urban headline inflation continued to increase recording 21.3 percent in December 2022. Similarly, annual core inflation has been following an upward trend registering 24.4 percent in the same month. Accordingly, the average annual headline inflation recorded 18.7 percent during 2022 Q4 compared to the preannounced target of 7 percent ( $\pm 2$  percentage points). Such developments reflect the impact of the Russia-Ukraine conflict and supply bottlenecks globally on the elevated levels of international commodity prices, despite having eased recently, the exchange rate fluctuations since March 2022 as well as other demand side pressures.

The MPC judges that demand side pressures on inflation continue to be present, as evidenced by developments in real economic activity relative to potential capacity and the impact of recent exchange rate fluctuations, both of which are consistent with higher broad money growth outturns.

To counter these inflationary pressures, the MPC delivered front loaded policy rate hikes of 800 bps in the previous year, of which 500 bps were in 2022 Q4 alone. In addition, the MPC decided to increase the required reserve ratio by 400 bps in September 2022. The pre-emptive tightening policy response aims to anchor inflation expectations at the upcoming inflation target of 7 percent ( $\pm 2$  percentage points) on average by 2024 Q4.

As the future path of inflation is a function of the cumulative tightening in the monetary policy stance to date and the lag with which monetary policy tools operate, the MPC decided to maintain key policy rates unchanged in today's meeting in order to assess the impact of the implemented front-loaded tightening policies 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 notes that maintaining tight monetary conditions proves to be a necessary condition to achieve the CBE's upcoming inflation targets and price stability over the medium term.

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