

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.

Global economic growth has slowed down, with its outlook revised downwards compared to the previous meeting given the continued effect of policy rate increases by key central banks on demand. Furthermore, key international commodity prices, particularly energy, have declined compared to the previous meeting, mainly due to reduced speculation over oil supply shortages and dampening global demand. The continued impact of monetary policy tightening cycles in advanced and emerging market economies has eased inflationary pressures worldwide, and forecasts for inflation in these economies have been revised downwards compared to the previous meeting. However, increasing geopolitical tensions in the region have raised uncertainty surrounding the inflation outlook, particularly concerning energy prices.

Domestically, real GDP growth slowed down to 2.9 percent in 2023 Q2 compared to 3.9 percent in the previous quarter, implying that fiscal year 2022/23 recorded 3.8 percent compared to 6.7 percent in the previous year. The marked slowdown is primarily due to a contraction in gross domestic investments while net exports and consumption were the main drivers of growth in economic activity. Furthermore, real GDP growth is expected to slow down further during fiscal year 2023/24 before gradually picking-up thereafter. This comes in light of the impact of actual developments and the negative spillovers emanating from geopolitical tensions in the region, especially on the services sector. Meanwhile, the unemployment rate remained broadly stable at 7.1 percent in 2023 Q3.

As expected, annual headline inflation reversed its upward trend and decelerated in both October 2023 and November 2023 due to favourable base effects; to record 34.6 percent in November 2023 down from 35.8 percent in October 2023. In addition, annual core inflation continued to decelerate for the fifth consecutive month, recording 35.9 percent in November 2023, down from 38.1 percent

in October 2023. Monthly headline dynamics came broadly as expected, reflecting seasonal decline in prices of agricultural products, as well as, higher regulated prices in November 2023.

Incoming data since the November MPC, including the recent inflation dynamics, came broadly in line with expectations. In light of the above, the MPC decided that current policy rates remain appropriate at this juncture, and will 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 assess 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 to preserve the decelerating trend of underlying inflation. The tight monetary stance aims to steer the future path of annual inflation rates towards the CBE's upcoming target levels and to safeguard price stability over the medium term.