

## **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.**

On the global front, forecasts for key international commodity prices, particularly energy, have been revised upwards compared to forecasts underlying the August 2023 meeting. Near-term forecasts for inflation have been revised upwards compared to August forecasts, remaining above their respective target levels and posing a challenge for restoring price stability worldwide. Consequently, policy rates in major economies are expected to remain elevated. Moreover, while the outlook for global economic growth has increased compared to the previous meeting, this outlook could be dampened by weakening growth in China and the Eurozone recently.

Domestically, growth of real economic activity remained unchanged in 2023 Q1 at 3.9 percent compared to the previous quarter, implying that the first nine months of fiscal year 2022/23 recorded 4.1 percent. Detailed data till 2023 Q1 portray that economic activity during the first nine months of fiscal year 2022/23 were mainly supported by the positive contributions of trade, agriculture and construction. Leading indicators for 2023 Q2 point towards a moderation of real GDP growth. Given the above, real GDP growth is expected to slow down in fiscal year 2022/23 compared to the previous fiscal year, before picking up gradually over the medium term. Meanwhile, the unemployment rate slightly declined to 7.0 percent in 2023 Q2 compared to 7.1 percent in the previous quarter, mainly due to an increase in employment, absorbing new entrants into the labor market.

Annual urban headline inflation increased to record 37.4 percent in August 2023 from 36.5 percent in July 2023. On the other hand, annual core inflation has witnessed a slight decline for two consecutive months to record 40.7 percent and 40.4 percent in July and August 2023, respectively, compared to 41.0 percent in June 2023. While annual food inflation is still increasing, it is being driven by volatile items as opposed to core food items in earlier months. Accordingly, inflation

dynamics for both July and August 2023 reflect mainly the combined effect of adverse weather conditions further amplifying the seasonal increase in prices of agricultural products, as well as, supply chain disruptions.

As incoming data since the August MPC meeting- including recent inflation outturns- came broadly in line with expectations, the MPC decided to keep policy rates unchanged 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 monitor all incoming developments underlying the economic outlook. The committee will not hesitate to utilize all its available tools to ensure that the policy stance is set at sufficiently restrictive levels with the aim of attaining the CBE's upcoming inflation targets of 7 percent ( $\pm 2$  percentage points) on average by 2024 Q4 and 5 percent ( $\pm 2$  percentage points) on average by 2026 Q4.

**Monetary Policy Sector**

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