

## **MPC decided to raise key policy rates by 200 bps**

**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 200 bps to 18.25 percent, 19.25 percent, and 18.75 percent, respectively. The discount rate was also raised by 200 bps to 18.75 percent.**

On the global front, forecasts for international commodity prices have eased compared to those underlying the previous MPC meeting, but their outlook remains uncertain. Notable factors include the outlook for global supply bottlenecks and global economic activity, especially in light of the reopening in China coupled with the recent financial sector issues in advanced economies. The latter factor has contributed to large volatility in financial conditions indices in key markets such as the US and EU, which confirms an increased level of uncertainty regarding the global economic outlook.

Domestically, growth in real economic activity moderated to 3.9 percent in 2022 Q4 compared to 4.4 percent in 2022 Q3, implying that growth during the first half of FY 2022/23 registered 4.2 percent. Detailed sectoral data for 2022 Q3 show that growth was primarily driven by the improvement in private sector activity, specifically tourism, agriculture and trade. Additionally, most leading indicators continue to register positive growth rates in 2023 Q1. Going forward, real GDP growth is expected to soften in fiscal year 2022/23 compared to the previous fiscal year, before picking up thereafter. Meanwhile, the unemployment rate recorded 7.2 percent in 2022 Q4 compared to 7.4 percent in the previous quarter.

Annual urban headline inflation continued to increase to record 25.8 percent and 31.9 percent in January and February 2023, respectively. Similarly, annual core inflation recorded 31.2 percent in January 2023 and marked a historical high in February 2023 by recording 40.3 percent. The witnessed strong dynamics reflect the combined effect of several factors. These factors include the supply chain disruptions domestically, the depreciation of the Egyptian pound, demand side pressures as evidenced by developments in real economic activity relative to potential capacity and high broad money growth outturns. In addition, the seasonal impact of Ramadan affected both Umrah trips and food prices.

The MPC continues to assess the impact of the front-loaded tightening policies in a data-driven manner, with recent inflation developments showing higher broad-based inflation across CPI items. These recent developments necessitate additional tightening in the monetary stance, not only to contain demand side pressures as mentioned above, but also to avoid broad and persistent inflationary effects that could emanate from the supply shocks, with the aim of anchoring inflation expectations.

In light of the above, the MPC decided to raise policy rates by 200 bps and reiterates that the path of future policy rates remains a function of forecasted inflation rather than prevailing inflation rates. The MPC stresses that achieving a tight monetary stance is a necessary condition to attain 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. The MPC will continue to monitor all economic developments and will not hesitate to adjust its stance in line with its price stability mandate.

**Monetary Policy Sector**  
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