

## **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 basis points to 21.25 percent, 22.25 percent, and 21.75 percent, respectively. The discount rate was also raised by 200 basis points to 21.75 percent.**

Global economic growth has continued to slow down given the continued effect of policy rate increases by key central banks on demand. Moreover, 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 and ongoing trade disruptions in the Red Sea have raised uncertainty surrounding the inflation outlook, particularly concerning supply-chain shocks and their impact on key commodity prices.

Domestically, real GDP growth registered 2.7 percent in 2023 Q3 compared to 2.9 percent in the previous quarter. Economic activity was mainly supported by the positive contributions of trade, agriculture and communication sectors. However, leading indicators for 2023 Q4 point towards a general slowdown. To that end, real GDP growth is expected to soften during fiscal year 2023/24 before gradually picking-up thereafter, in light of actual developments and the negative spill overs from ongoing regional instability and maritime trade disruptions in the Red Sea on the services sector. Meanwhile, the unemployment rate remained broadly stable at 7.1 percent in 2023 Q3.

Annual headline and core inflation continued to decelerate, recording 33.7 percent and 34.2 percent in December 2023, respectively, due to favourable base effects. However, recent developments indicate higher than expected monthly dynamics and sustained inflationary pressures. This is reflected by persistent non-food and food inflation, which is expected to continue in light of fiscal consolidation measures, as well as prolonged supply side pressures. Moreover, elevated broad money growth running above its historical average further contributed to existing inflationary pressures.

Incoming data since the December MPC, including recent inflation outturns, came above expectations. Widespread inflationary pressures remain elevated, continuing to impact pricing and consumption behaviours. Moreover, geopolitical uncertainty and ongoing maritime trade disruptions continue to raise domestic and global inflationary pressures. Against this background, the MPC judges that the balance of risks surrounding the inflation outlook has tilted to the upside. Consequently, the MPC decided that raising policy rates by 200 basis points is warranted to anchor inflation expectations and set the policy rate at sufficiently restrictive levels, in order to ensure a decelerating inflation trend. The committee will continue to judge the balance of risks surrounding the inflation outlook with the aim of achieving price stability over the medium term. Furthermore, the committee will not hesitate to utilize all its available tools to attain a tight policy stance and calibrate liquidity conditions accordingly. The MPC reiterates that the path of future policy rates remains a function of forecasted inflation.

### **Monetary Policy Sector**

[monetary.policy@cbe.org.eg](mailto:monetary.policy@cbe.org.eg)