CENTRAL BANK OF EGYPT

Press Release – May 19th, 2022

MPC decides to raise key policy rates by 200 basis points

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 11.25 percent, 12.25 percent, and 11.75 percent, respectively. The discount rate was also raised by 200 basis points to 11.75 percent.

Global economic activity has slowed down due to ongoing tensions between Russia and Ukraine. Trade sanctions imposed on Russia and corresponding supply-chain bottlenecks have elevated global commodity prices, such as international prices for oil and wheat, with the latter's global supply also impacted by adverse weather conditions and poor harvests in select regions. Meanwhile, global financial conditions have tightened, as major central banks have continued to both tighten policy rates and reduce asset purchase programs with the aim of containing increased inflationary concerns in their respective countries. In addition, recently introduced COVID-19 lockdowns in China have raised concerns about exacerbating existing global supply-chain disruptions.

Prior to the Russo-Ukrainian war, domestic economic activity continued to expand in 2021 Q4, recording a preliminary year-on-year growth rate of 8.3 percent, the second highest real GDP growth rate since 2002 Q3. This was partially supported by the robust growth in tourism, construction and manufacturing, as well as a positive base effect emanating from the low growth rates in the same period in 2020, resulting from the COVID-19 containment measures.

Recently, most leading indicators for economic activity have started to gradually normalize, and are expected to continue this trend over the near term, as the strong positive base effect diminishes. Going forward, economic activity will continue to expand albeit at a slower-than previously projected pace, partially due to the unfavorable spillovers of international developments emanating from the Russo-Ukrainian war.

Regarding the labor market, the unemployment rate declined in 2022 Q1, registering 7.2 percent. The witnessed decline stemmed from the increase in employment figures which more than offset the increase in the labor force.

Annual headline urban inflation increased to 13.1 percent in April 2022, from 10.5 percent in March 2022, its highest level since May 2019. In addition, annual core inflation, which excludes volatile food and regulated items, continued its upward trend to record 11.9 percent in April 2022, from 10.1 percent in March 2022, its highest level since April 2018. This increase is attributed mainly to food items and further supported by non-food items. While both were affected by the depreciation in the Egyptian pound that occurred on the 21st of March 2022 and seasonal patterns, several other factors contributed to the increase in food prices; namely adverse weather conditions and high fertilizer prices that caused tomatoes prices to soar. In the meantime, the impact of the Russo-Ukrainian war on the prices of wheat, wheat derivatives, and other food commodities, in addition to the continued seasonal inflationary impact of Ramadan, and the occurrence of multiple holidays during April 2022, increased the prices of the rest of the core food products.

Against this background, the MPC decided that raising policy rates is necessary to contain inflationary pressures which is consistent with achieving price stability over the medium term. Monetary policy tools are utilized to anchor inflation expectations, contain demand-side pressures and second-round effects emanating from supply shocks that may lead to deviations from inflation targets. Therefore, in accommodation of the first-round effects of supply shocks, the elevated annual headline inflation rate will be temporarily tolerated relative to the CBE's pre-announced target of 7 percent (±2 percentage points) on average in 2022 Q4, before declining thereafter.

Achieving low and stable inflation over the medium term is a prerequisite condition to achieve high and sustainable growth rates, as well as supporting real incomes. The MPC reiterates that the path of future policy rates remains a function of inflation expectations, rather than of prevailing inflation rates. The MPC will continue to closely monitor all economic developments and will not hesitate to utilize all available tools to achieve its price stability mandate over the medium term.

Monetary Policy Sector
monetary.policy@cbe.org.eg