CENTRAL BANK OF EGYPT

Press Release – May 23, 2024

**MPC decides to keep key policy rates unchanged**

**Cairo, Egypt — In its meeting today, the Central Bank of Egypt's Monetary Policy Committee (MPC) decided to keep the CBE's overnight deposit rate, overnight lending rate, and the rate of the main operation unchanged at 27.25 percent, 28.25 percent, and 27.75 percent, respectively. The Committee also kept the discount rate unchanged at 27.75 percent. The decision reflects recent developments and outlook at the global and domestic levels since the previous MPC meeting.**

Globally, the outlook for economic growth has remained positive, albeit below its historical average. While inflation has declined worldwide, key central banks have maintained a tight monetary policy stance to ensure that inflation converges to its target level. For international commodity prices, particularly energy, the outlook remains uncertain surrounding demand and supply over the medium term, especially that supply continues to be vulnerable to supply shocks stemming from geopolitical tensions. Meanwhile, in emerging economies the credit risk outlook has improved in anticipation of monetary easing cycles in advanced economies.

Domestically, real GDP growth recorded 2.3 percent in Q4 2023, bringing growth in the first half of fiscal year (FY) 2023/24 down to 2.5 percent compared to 4.2 percent in the corresponding period of the previous year. The slowdown in economic activity is mainly attributed to the declining contribution of the manufacturing sector. Leading indicators for Q1 2024 suggest that economic activity remains subdued. Given the above, real GDP growth is expected to soften further in FY 2023/24 compared to the previous fiscal year. Real economic activity is expected to pick up as of FY 2024/25.

Inflationary pressures continued to ease since annual headline and core inflation already peaked at 38.0 percent in September 2023 and 41.0 percent in June 2023, respectively. This decelerating trend was sustained despite the unexpected surge in February 2024, as annual headline and core inflation declined to 32.5 percent and 31.8 percent in April 2024, respectively. Favorable base effects from the strong inflationary episodes in 2023 played a role in bringing inflation rates down in 2024. Annual headline inflation rates have been driven by food items since December 2022, although the steady unwinding of annual food inflation has been offset by rising non-food inflation since November 2023.

Recent inflation dynamics since the Special MPC on March 6, 2024 serve as an early indication of monthly dynamics normalizing to their usual pattern prior to March 2022. Forecasts indicate that inflation has already peaked and thus, is expected to moderate in 2024, as inflationary pressures begin to subside. A significant decline in inflation is anticipated in H1 2025 due to the combined impact of recent monetary policy tightening, unification of the foreign exchange market, and favorable base effects. Moreover, sizable foreign direct investment inflows, substantial improvement in external financing conditions, and their subsequent impact on foreign reserve accumulation, as well as increasing domestic and foreign demand for Egyptian pound denominated assets will contribute significantly to price stability. Consequently, recent exchange rate dynamics are supporting the tightening of monetary conditions, which will anchor inflation expectations, and dampen the inflation outlook going forward.

In view of the above, and the previous MPC decisions to raise key policy rates by a cumulative 800 basis points in Q1 2024, the Committee judges that the current monetary stance remains appropriate to place inflation on a declining trend, and will continue to assess its transmission to the economy in a data-driven manner. Upside risks to the forecasted disinflation path, include but are not limited to, an escalation of the current geopolitical tensions, unfavorable climate conditions, both domestically and globally, and a higher than anticipated outturns of fiscal prudence measures. Furthermore, the Committee will continue to assess the balance of risks surrounding the inflation outlook. The MPC reiterates that the path of future policy rates remains a function of inflation expectations rather than prevailing rates and will not hesitate to utilize all tools at its disposal to ensure that the policy stance is set at sufficiently restrictive levels, allow for a sustained decline in underlying inflation, and safeguard price stability over the medium term.

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