CENTRAL BANK OF EGYPT

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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, economic growth remains broadly stable, albeit slightly below the pre-Pandemic level. Monetary policy tightening cycles in advanced and emerging market economies have contributed to a decline in inflation worldwide, with select central banks continuing to cut interest rates as inflation approaches its target levels. The slight loosening in the policy stance is also motivated by downside risks to employment and economic growth. In the meantime, despite persistent geopolitical uncertainty, energy prices have slightly declined, but the outlook for commodity prices in general remains uncertain.

Domestically, real GDP growth softened to 2.2 percent in Q1 2024 compared to 2.3 percent in Q4 2023. The softening is driven by declining public contribution to economic activity due to the impact of Red Sea maritime trade disruption on the service sector. Moreover, the recent uptick in private economic activity was not sufficient to offset the decline in public economic activity. Updated leading indicators for Q2 2024 indicate that real GDP growth has started to pick up and is expected to gradually recover as of fiscal year 2024/25, following a marked slowdown in fiscal year 2023/24. Nevertheless, real economic activity remains below potential, supporting the forecasted disinflation path over the coming period, and is projected to remain so until it converges towards its potential over the medium term. Meanwhile, the unemployment rate declined to 6.5 percent in Q2 2024 compared to 6.7 percent in Q1 2024, mainly driven by robust employment in the agriculture sector.

With the gradual easing of previous shocks, inflationary pressures continued to subside, as annual headline and core inflation edged downward for the fifth consecutive month to reach 25.7 percent and 24.4 percent in July 2024, respectively. Despite persistent non-food inflation, the significant decline in annual food inflation continues to drive down overall inflation and reflects a contained inflationary impact. It is worthy of note that the recorded annual food inflation at 29.7 percent in July 2024 is the lowest in almost two years, reflecting the favorable base effect from the strong inflationary episode in 2023. Accordingly, the gradual unwinding of food inflation along with the improvement of inflation expectations suggest that inflation is currently on a downward trajectory.

The deceleration of inflation implies a return to normal monthly dynamics given the recent tightening cycle, with the receding impact of previous exchange rate and supply shocks. Inflation is forecasted to hover around current levels until Q4 2024 given the implemented and projected fiscal consolidation measures. Nonetheless, inflation is expected to decline significantly in Q1 2025 due to the cumulative impact of monetary policy tightening and favorable base effect. However, risks to the disinflation path are tilted to the upside given tighter global oil supplies, escalation of regional geopolitical tensions, uncertainty regarding the adoption of protectionist trade policies, and higher than anticipated pass-through of fiscal measures.

In view of the above and leveraging previous MPC decisions, the Committee judges that current policy rates remain appropriate to maintain the prevailing tight monetary stance until a significant and sustained decline in inflation is realized. The balance of risks surrounding the inflation outlook as well as the transmission of previous MPC decisions to the economy will continue to be assessed in a data-driven manner. The Committee 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 maintain the disinflation momentum and safeguard price stability over the medium term.

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