Press Release–October 17, 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, 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. While economic growth is broadly stable, the outlook remains subject to downside risks due to the dampening effect of monetary tightening on economic activity. In addition, inflation remains susceptible to upside risks as key international commodity prices, particularly energy, have exhibited volatility due to supply chain disruptions stemming from geopolitical tensions, and adverse weather conditions.

Domestically, real GDP grew by 2.4 percent in Q2 2024 compared to 2.2 percent in Q1 2024, indicating that growth in FY 2023/24 moderated to 2.4 percent compared to 3.8 percent in FY 2022/23. The slight uptick in Q2 2024 was driven by the increasing contributions of non-petroleum manufacturing, construction and trade to GDP. Additionally, leading indicators for Q3 2024 suggest that real economic activity is gradually recovering, and is expected to realize its full potential by FY 2025/26. Currently, real GDP is estimated to be below potential, supporting the projected disinflation path over the coming period.

Annual headline and core inflation stabilized around 26.4 and 25.0 percent, respectively in September 2024. Non-food items were the main drivers of inflation during August and September, reflecting the impact of fiscal measures, and offsetting the easing of previous shocks, the decline in food inflation, and favorable base effects. The gradual unwinding of food inflation along with the improvement of inflation expectations since the beginning of the year suggest that inflation remains on a downward trajectory, albeit restrained by the drag of fiscal measures.

Looking ahead, inflation is expected to stabilize around current levels through Q4 2024 despite the balance of risks being tilted to the upside. These risks include the persistence of regional tensions, elevated international commodity prices, and higher than anticipated pass-through of fiscal measures. Starting Q1 2025, inflation is projected to decline as the cumulative impact of monetary policy tightening and favorable base effect materialize, given the lagged effect of monetary policy decisions.

In view of the above and drawing upon the outcome of previous MPC meetings, 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 MPC will continue to follow a data-driven approach to determine the sufficient level and duration of restriction based on its assessment of the inflation outlook, dynamics of underlying inflation, and strength of monetary policy transmission. The Committee will not hesitate to utilize all tools at its disposal to sustain the disinflation path and ensure price stability in the medium term.

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