

Special MPC meeting: MPC decides to raise key policy rates by 100 basis points

In its special meeting today, the Monetary Policy Committee (MPC) decided to raise the overnight deposit rate, the overnight lending rate and the rate of the main operation by 100 basis points to 9.25 percent, 10.25 percent, and 9.75 percent, respectively. The discount rate was also raised by 100 basis points to 9.75 percent.

Egypt's reform program has placed the economy on a strong footing to weather economic disruptions as they emerge. The hard-won macroeconomic gains have provided the CBE with a strong toolkit to implement its monetary policy and maintain price stability over the medium term and with solid buffers to insulate the economy from excessive volatility.

Nevertheless, global inflationary pressures began to build after the world economy emerged from the disruptions caused by the COVID-19 pandemic. These pressures became amplified with the recent Russia-Ukraine conflict. Rising international commodity prices resulting from further supply chain disruptions in addition to increased risk-off sentiment have added to domestic inflationary pressures as well as external imbalances.

Being keen on safeguarding the achieved macroeconomic stability, the CBE stresses on the importance of the exchange rate flexibility to act as a shock absorber to preserve Egypt's competitiveness.

In light of the above developments and given the CBE's monetary policy horizon of its inflation target of 7 percent (± 2 percentage points) on average in 2022 Q4, the MPC decided to raise policy rates by 100 basis points to reign in inflationary pressures while supporting economic activity. The MPC reiterates that the objective of raising policy rates is to anchor inflation expectations and contain second round effects of supply shocks stemming from exogenous factors outside the scope of monetary policy. Achieving low and stable inflation over the medium term supports real incomes and sustains the achieved competitiveness gains of the Egyptian economy.

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.

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