

Press Release
December 28, 2017

In its meeting held on December 28, 2017, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate, overnight lending rate, and the rate of the Central Bank of Egypt's (CBE) main operation unchanged at 18.75 percent, 19.75 percent, and 19.25 percent, respectively. The discount rate was also kept unchanged at 19.25 percent.

Annual headline and core inflation continued to decline in November 2017 for the fourth consecutive month to record 26.0 percent and 25.5 percent, after peaking in July 2017 at 33.0 percent and 35.3 percent, respectively.

Tighter real monetary conditions supported the decline, which accelerated in November due to a favorable base effect. Nevertheless, inflation was affected during this period by continuous supply shocks related to fiscal consolidation measures, leading regulated price adjustments to account on average for 44 percent of monthly headline inflation, in addition to indirect effects on core CPI items.

Real GDP growth continued to increase for the fourth consecutive quarter in September 2017 to record 5.2 percent, thereby growing on average by 4.8 percent over the first nine months of 2017 which records the fastest pace since 2010. This coincided with the continued narrowing of the unemployment rate to record 11.9 percent in September 2017, the lowest rate since 2011. Leading indicators generally suggest a continued improvement of economic activity, despite weaker momentum in non-hydrocarbon sectors.

Available data up to June 2017 confirm that increasing economic growth over the previous three quarters was initially mainly driven by the industrial sector, due to non-petroleum and petroleum manufacturing as well as natural gas extractions, in addition to the tourism sector. Thereafter, the pickup of economic growth was led by real estate, trade and construction sectors.

Meanwhile, the expenditure structure continued to rebalance with a moderating contribution from consumption and a rising contribution from net exports. The growth of private investment continued to expand in 2016/17 for the third consecutive year, while public investment maintained its double digit growth.

Real monetary conditions continued to tighten, a necessary requirement for disinflation. This process was supported by previous policy rate increases as well as receding inflationary pressures.

The baseline inflation outlook remains consistent with achieving the CBE's inflation target of 13 percent (± 3 percent) in 2018 Q4 and single digits thereafter. Consequently, the MPC decided that current policy rates remain appropriate.

Given its mandate of achieving price stability over the medium-term, the MPC will only reconsider its stance conditional upon data confirming the moderation of underlying inflationary pressures.

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