

**Press Release**  
September 28, 2017

**In its meeting held on September 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.**

Since the MPC meeting on August 17, 2017, annual headline inflation declined to 31.9 percent from 33.0 percent in July, while monthly headline inflation declined to 1.1 percent from 3.2 percent. Inflation in August was mainly driven by an upward adjustment of regulated prices due to higher electricity tariffs, as well as by the increase in prices of fresh vegetables. On the other hand, core food prices registered the lowest increase since August 2016, and prices of services were only affected by the indirect first-round effect of the hydrocarbon-subsidy reforms on inland transportation. Meanwhile, prices of retail items remained broadly unchanged. Consequently, annual core inflation declined to 34.9 percent in August from 35.3 percent in July, while monthly core inflation dropped to 0.3 percent from 2.8 percent, recording the lowest monthly inflation rate since July 2016.

Economic activity continued to improve with real GDP growing by a revised 5.0 percent in 2016/17 Q4 and more recent activity indicators solidifying the improvement. As a result, real GDP growth averaged 4.6 percent during the second half of 2016/17, growing at the fastest pace since 2009/10. This coincided with the narrowing of the unemployment rate to 12.0 percent on average during the second half of 2016/17, registering the lowest rate since 2011/12. Available data up to March showed that the structure of economic growth shifted towards increased sustainability, with declining contribution of consumption and increasing contribution of net exports as well as investment by a lesser extent. Tourism, natural gas, trade, construction and non-petroleum manufacturing were the main sectors driving economic growth.

Real monetary conditions continued to tighten, a necessary requirement to achieve the CBE's inflation target. This process was supported by the combination of previous policy rate increases and the recent stability of the Egyptian pound against trading-partner currencies. Consistent with the tighter monetary policy stance, annual reserve-money growth adjusted by overnight deposits and seven-day deposit auctions shrunk to reflect the absorption of excess liquidity via longer-term open market operations.

The inflation outlook remains in line with achieving the inflation target. Against this background and given the continuation of tightening real monetary conditions, the MPC decided that current policy rates remain appropriate at this juncture. The MPC continues to closely monitor all economic developments as well as the balance of risks, and will not hesitate to adjust its stance to offset anticipated deviations from the inflation target of 13 percent (+/- 3 percent) in 2018 Q4 and single digits thereafter.

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