

Press Release

March 30, 2017

In its meeting held on March 30, 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 14.75 percent, 15.75 percent, and 15.25 percent, respectively. The discount rate was also kept unchanged at 15.25 percent.

Monthly headline inflation dropped to 2.63 percent in February 2017, after averaging 4.01 percent between November 2016 and January 2017, reflecting fading cost-push inflationary pressures. Inflation has been mainly driven by tradable items, led by core food items which registered in February the lowest contribution since October 2016, while the contribution of non-tradable items dropped since December 2016. Accordingly, monthly core inflation dropped to 2.61 percent in February 2017 after averaging 4.89 percent between November 2016 and January 2017. Nevertheless, given elevated monthly inflation rates, annual headline and core inflation registered 30.25 percent and 33.10 percent in February 2017, respectively.

Meanwhile, annual real GDP growth recorded 3.8 percent in 2016/17 Q2 following the 3.4 percent recorded in Q1. This coincided with the narrowing of the unemployment rate to 12.4 percent in 2016/17 Q2 from 12.6 percent in Q1, resuming its downward trend after peaking at 13.4 percent in 2013/14 Q2. However, annual real GDP growth weakened compared to the 4.5 percent registered during the first half of 2015/16.

Developments in the external environment show that there has been some firming of international commodity prices, while low global inflation and subdued global growth continue to maintain weak pressures on domestic prices, albeit recovering and beginning to set the stage for monetary policy normalization.

From the monetary perspective, annual broad money growth has been strongly affected by revaluation effects of its foreign currency components. Excluding revaluation effects, higher broad money growth between November 2016 and February 2017 came mainly due to the recovery of net foreign assets, evident by the CBE's international reserve accumulation. Furthermore, money growth will continue to be impacted by the phasing out of the CBE's monetary financing of the fiscal deficit. In the meantime, the longer-term absorption of excess liquidity continued to tighten liquidity conditions.

Looking ahead, annual inflation is expected to drop after transitory cost-push effects diminish and monthly inflation rates moderate, supported by the previous preemptive policy rate hikes, longer-term absorption of excess liquidity, as well as by favorable base effects.

Consistent with the inflation outlook and the targeted disinflation path, the MPC judges that the key CBE rates are currently appropriate. The MPC reiterates its price stability mandate and will continue to closely monitor all economic and monetary developments as well as the balance of risks, and will not hesitate to adjust the key CBE rates to ensure price stability over the medium-term.

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