



**Press Release**

November 12, 2020

**The Monetary Policy Committee (MPC) decided to cut the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate, and the rate of the main operation by 50 basis points to 8.25%, 9.25%, and 8.75%, respectively. The discount rate was also cut by 50 basis points to 8.75%.**

Annual headline urban inflation recorded 4.5% in October 2020 and 3.7% in September 2020 from 3.4% in August 2020. The increase in annual headline inflation continued to be mainly driven by higher annual contribution of food items as well as regulated items. This comes as negative annual food inflation eased for the second consecutive month. In the meantime, annual core inflation increased to 3.9% in October 2020 up from 3.3% in September 2020. Nevertheless, annual inflation rates continued to reflect muted inflationary pressures.

Preliminary figures announced show that real GDP growth for FY 2019/20 recorded 3.6% compared to 5.6% a year earlier. Growth was dragged downwards in 2020 Q2, mainly due to the partial lockdown measures that were implemented to contain COVID-19, registering negative 1.7%, down from 5.0% in 2020 Q1. The pickup in consumption in 2020 Q2 was not enough to offset the combined contraction in investments, and to a lesser extent in net exports. This was also reflected in the unemployment rate which recorded 9.6% in 2020 Q2 up from 7.7% in 2020 Q1. Meanwhile, leading indicators for 2020 Q3 continue to show gradual signs of recovery.

Globally, economic activity remained weak despite some recovery, international oil prices broadly stabilized, and global financial conditions continued to improve, supported mainly by policy measures despite the ongoing uncertainty.

The outlook for inflation in 2020 Q4 is estimated to be in the low single digits range, with increasing likelihood of coming under the inflation target floor of 6%, further confirming the muted inflationary pressures in the medium-term. And because the path for current policy rates remains a function of medium-term inflation expectations rather than current inflation outturns, the MPC decided to cut key policy rates by 50 basis points. The reduction in key policy rates in today's MPC meeting provides appropriate support to economic activity, while remaining consistent with price stability over the medium term.

The MPC closely monitors all economic developments and will not hesitate to utilize all available tools to support the recovery of economic activity, within its price stability mandate.

**Monetary Policy Sector**

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