



Press Release
September 24, 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 8.75 percent, 9.75 percent, and 9.25 percent, respectively. The discount rate was also cut by 50 basis points to 9.25 percent.

Annual headline urban inflation declined to 3.4 percent in August from 4.2 percent in July 2020, the second lowest rate recorded in almost 14 years, after October 2019's figure. Annual headline inflation continued to reflect muted inflationary pressures registering below 6 percent since February 2020. The decline in annual headline urban inflation was driven by lower annual contribution of food items, which more than offset slightly higher annual contribution of non-food items. This came as prices of fresh vegetables came against their seasonal pattern for the second consecutive month. Hence, monthly headline inflation continued to reflect lower food prices and higher nonfood prices for the fourth consecutive month. In the meantime, annual core inflation rate recorded 0.8 percent in August 2020, compared to 0.7 percent in July 2020. In September 2020, annual core inflation is expected to be affected by unfavorable base effect, given the release of the 10th CPI series as well as its linking methodology with the 9th CPI series starting with September 2019 data.

Preliminary figures announced recently show that real GDP growth for FY19/20 recorded 3.5 percent, down from 5.6 percent in the previous fiscal year. Meanwhile, the unemployment rate recorded 9.6 percent in 2020 Q2 up from 7.7 percent in 2020 Q1. These developments reflect COVID-19's impact on the real economy. However, the stability of some leading indicators in August and July after signs of improvement in June point to a gradual recovery in economic activity.

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

As incoming data continues to confirm the moderation of inflation expectations, the reduction of policy rates in today's MPC meeting provides appropriate support to economic activity, while remaining consistent with achieving price stability over the medium-term. In 2020 Q4, average annual headline inflation is expected to hover around the lower band of the inflation target 9 percent (± 3 percentage points).

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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