Central Bank of Egypt

Press Release

February 16, 2017

In its meeting held on February 16, 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.

Annual headline inflation rose to 28.14 percent in January 2017 due to exceptional monthly increases averaging 4.01 percent between November 2016 and January 2017 that were strongly impacted by the economic reform measures. The higher monthly inflation in January (4.07 percent) compared to December (3.13 percent) is estimated to be partly driven by relatively higher regular monthly dynamics as well as the introduction of higher custom tariffs in the end of 2016.

Between November 2016 and January 2017, inflation has been mainly driven by tradable items, while the contribution of non-tradable items started to decline in December, confirming cost-push factors to be the main inflation driver. Core items experienced the largest increases, particularly food, while the joint contribution of retail and services has been narrowing in relative terms. In the meantime, non-core food prices (volatile food) and regulated prices also rose somewhat in January. Given the increases in core items, annual core inflation rose to 30.86 percent in January 2017 due to average monthly inflation of 4.89 percent between November 2016 and January 2017 .

Annual real GDP growth declined to 3.4 percent in 2016/17 Q1 after averaging 4.3 percent between 2014/15 and 2015/16. The drop was mainly driven by consumption, while the contribution of gross fixed investment held steady as the increase in private investment offset the decline in public investment. Furthermore, the negative contribution of net exports narrowed, mainly due to the recovery of exports which registered its first positive contribution to real GDP growth since 2014/15 Q2, while the negative contribution of imports lessened. Labor market data show that the unemployment rate narrowed to 12.4 percent in 2016/17 Q2, continuing its downward trend after peaking at 13.4 percent in 2013/14 Q2.

Developments in the external environment show that there has been some firming of international commodity prices, while low global inflation and subdued global growth, albeit recovering, maintain weak pressures on domestic prices.

From the monetary perspective, annual broad money growth has been strongly affected by the revaluation effects of its foreign currency components. Excluding revaluation effects, higher broad money growth during November and December came mainly due to the recovery of net foreign assets, evident by the CBE's international reserve accumulation. In the meantime the growth of reserve money is expected to be impacted by the phasing out of monetary financing of the fiscal deficit.

Looking ahead, annual inflation is expected to drop after transitory cost-push effects subside and monthly inflation rates decline, supported by preemptive monetary policy actions, term absorption of excess liquidity, as well as favorable base effects.

Consistent with the inflation outlook, the targeted disinflation path, and given the balance of risks, 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, and will not hesitate to adjust the key CBE rates to ensure price stability over the medium-term.

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