



Press Release
December 24th, 2020

The Monetary Policy Committee (MPC) decided to keep the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate, and the rate of the main operation unchanged at 8.25 percent, 9.25 percent, and 8.75 percent, respectively. The discount rate was also kept unchanged at 8.75 percent.

Annual headline urban inflation accelerated for the third consecutive month to 5.7 percent in November 2020 from 4.5 percent in October 2020. Higher annual headline inflation has been mainly driven by higher annual contribution of selected food items since September 2020. In November 2020, it reflected a transitory supply shock in tomatoes. In the meantime, annual core inflation increased only slightly to 4.0 percent in November 2020 from 3.9 percent in October 2020. Average annual headline inflation is estimated to be in the low single digits range in 2020 Q4, with increasing likelihood of coming under the inflation target floor of 6 percent. The magnitude of a possible deviation from the target would mainly depend on the degree of the reversal of the supply shock of tomatoes, among other factors.

Real GDP growth recorded a preliminary figure of 0.7 percent during 2020 Q3, up from -1.7% during 2020 Q2. Moreover, growth registered a preliminary figure of 3.6 percent in FY 2019/20 compared to 5.6 percent a year earlier. Economic activity was affected by the impact of COVID-19 and its resulting containment measures. Meanwhile, most demand side leading indicators for October and November 2020 show continued signs of recovery after displaying weakness during 2020 Q2. Furthermore, the unemployment rate recorded 7.3 percent in 2020 Q3, the lowest rate on record, and down from 9.6 percent in 2020 Q2.

Globally, economic activity remains subdued despite the accommodative financial conditions, as the outbreak of the second wave of COVID-19 pandemic and its related lockdown measures weigh on the near-term outlook. On the other hand, the continued development and roll-out of vaccines could ease the level of uncertainty regarding economic activity over the medium term. Meanwhile, international oil prices started to slightly pick up recently.

As the CBE continues to support macroeconomic stability, the CBE's next inflation target has been set at 7 percent (± 2 percentage points) on average during 2022 Q4 down from 9 percent (± 3 percentage points) on average during 2020 Q4. Monetary policy tools are utilized to anchor inflation expectations, contain demand-side pressures and second-round effects of supply shocks. Exogenous factors that are outside the scope of monetary policy may lead to transitory deviations from previously announced target rates.

Egypt's GDP growth is expected to recover albeit gradually, with structural measures expected to support economic activity. On the other hand, annual headline inflation rates are expected to be affected by unfavorable base effects related to the normalization of monthly inflation rates in 2021, but will continue hovering around the inflation target's mid-point of 7 percent in 2022.

In account of the above, the MPC decided that keeping key policy rates unchanged at this juncture remains consistent with achieving the inflation target of 7 percent (± 2 percentage points) in 2022 Q4 and price stability over the medium term. The MPC reiterates that the path of current policy rates remains a function of medium-term inflation expectations rather than current inflation outturns.

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

Monetary Policy Sector

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