## Special Monetary Policy Committee Meeting

The domestic economy has been recently weighed down by foreign exchange shortages resulting in the existence of a parallel exchange rate market and constraining economic growth. Coinciding with this, external spillovers emanating from global inflationary pressures have continued to accumulate as the world economy witnesses successive shocks. Such shocks elevated risk-off sentiment and inflation expectations, amplifying underlying inflation. The resulting exchange rate movements and significant passthrough of international commodity prices, coupled with domestic supply shocks, have resulted in persistent inflationary pressures driving headline inflation to record levels. Accordingly, while annual inflation figures have been recently declining, they are expected to remain substantially above the Central Bank of Egypt's inflation target of 7 percent (±2 percentage points) on average in 2024 Q4.

Noting these developments, the Central Bank of Egypt reiterates its commitment to safeguard the requisite conditions for sustainable economic development and reaffirms its main mandate to maintain price stability over the medium term. To this end, the CBE is committed to continue the transition to a flexible inflation targeting regime. To ensure a smooth transition, the CBE will continue to target inflation as its nominal anchor, allowing the exchange rate to be determined by market forces. The unification of the exchange rate is crucial, as it facilitates the elimination of foreign exchange backlogs following the closure of the spread between the official and the parallel exchange rate markets.

**In light of the aforementioned, and in line with the continuation of the CBE's tightening stance, the Monetary Policy Committee (MPC) decided in its special meeting to raise the CBE's overnight deposit rate, the overnight lending rate, and the rate of the main operation by 600 basis points to 27.25 percent, 28.25 percent, and 27.75 percent, respectively. The discount rate was also raised by 600 basis points to 27.75 percent.**

Building on the decision to raise rates by 200 basis points in February 2024, the MPC decided to accelerate the monetary tightening process in order to fast-track the disinflation path and ensure a decline in underlying inflation. The MPC emphasizes that anchoring inflation expectations is critical and warrants this policy response to bring the real interest rate into positive territory.

While the CBE acknowledges that the tighter stance could result in a short-term contraction in the private sector's real credit growth, the persistence of excessive inflationary pressures poses greater risks to its stability. Thus, the CBE recognizes that price stability fosters an environment conducive to sustainable private sector growth over the medium term.

The announced measures have been adopted as part of a set of comprehensive economic reforms in coordination with the Government, and backed by the steadfast support of multilateral and bilateral partners. In preparation for the successful implementation of these measures, sufficient funding has been secured to avail foreign exchange liquidity. Moreover, to prevent the exacerbation of external spillovers on the domestic economy, prudent and complementary monetary and fiscal policies will place the Egyptian economy on a sustainable path to preserve macroeconomic stability, safeguard debt sustainability, and allow for the accumulation of foreign exchange buffers.

The elimination of the parallel foreign exchange market is expected to dampen inflation expectations, rein in underlying inflation and accordingly, headline inflation is projected to follow a steadily decelerating path over the medium term. Nevertheless, upside risks to the predicted inflation path include regional geopolitical tensions, expected volatility in international commodity markets and the state of global financial conditions. In light of these risks and changes in macroeconomic dynamics, the reassessment of the CBE's inflation targets will be clearly communicated.

**Mindful of the lagged impact of the MPC's decision to raise key policy rates by an additional 600 basis points, the committee will continue to assess the balance of risks surrounding the inflation outlook with the aim of strengthening credibility and placing inflation on a downward trajectory. The MPC judges that this tightening brings the monetary stance to a sufficiently restrictive level, to anchor inflation expectations, and will be maintained for as long as necessary to achieve the desired disinflation course.**

Going forward, the monetary stance will be realized in a way that minimizes both, deviations of expected inflation from its target and deviations of real economic activity from the level consistent with its full capacity. Furthermore, the committee will continue to monitor all economic developments in a data driven manner and will not hesitate to utilize all its available tools to attain its price stability mandate over the medium term. The MPC reiterates that the path of future policy rates remains a function of forecasted inflation.

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