

Press Release**June 9, 2011**

In its meeting held on June 9, 2011, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rate unchanged at 8.25 percent and 9.75 percent, respectively, and the 7-day repo at 9.25 percent. The discount rate was also kept unchanged at 8.5 percent.

Headline CPI increased by 0.20 percent (m/m) in May following the 1.21 percent in April, bringing the annual rate down to 11.79 percent from 12.07 percent registered in April. On the other hand, core CPI increased by 0.54 percent in May following the 0.85 percent in April, while the annual rate inched up to 8.81 percent from 8.76 percent recorded the previous month. The latest monthly developments in both headline and core have been mainly driven by sporadic increases in the prices of food items, largely on the back of supply bottlenecks and distortions in the distribution channels. The continuation of these market imperfections, in addition, to the probable acceleration in international food prices pose upside risks to the inflation outlook.

Meanwhile, real GDP contracted by 4.2 percent in 2010/2011 Q3 which marks the first negative year-on-year growth rate since the release of quarterly GDP data in 2001/2002. It is important to note that while a marked decline in economic activity was expected, the magnitude is larger than anticipated at the outset of the revolution. This came on the back of significant declines in the tourism, manufacturing and construction sectors. In the meantime, given the increased uncertainty that faced market participants early this year, investment witnessed a significant annual retrenchment of 26 percent in the quarter ending March 2011. Looking ahead, the current political transformation may continue to have ramifications on both consumption as well as investment decisions, adversely weighing on key sectors within the economy. Moreover, there are concerns related to the global recovery on the back of higher international oil prices given political tensions in the region. These factors, combined, pose downside risks to domestic GDP going forward.

Against the above background, the slowdown in economic growth should limit upside risks to the inflation outlook. Given the balance of risks on the inflation and GDP outlooks and the increased uncertainty at this juncture, the MPC judges that the current key CBE rates are appropriate.

The MPC will continue to closely monitor all economic developments and will not hesitate to adjust the key CBE rates to ensure price stability over the medium-term.

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