

**Press Release
February 2, 2012**

In its meeting held on February 2, 2012, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rate unchanged at 9.25 percent 10.25 percent, respectively, and the 7-day repo at 9.75 percent. The discount rate was also kept unchanged at 9.5 percent.

Headline CPI declined by 0.24 percent (m/m) in December following the 1.0 percent increase in November. These monthly developments were largely driven by bottlenecks in the distribution channels of butane gas cylinders, along with tame price increases in some food items that were outweighed by declines in others. Despite the monthly decline, the annual rate increased to 9.55 percent in December from 9.07 percent in the previous month on the back of unfavorable base effects from last year. On the other hand, core CPI inched up by 0.21 percent in December following the 0.17 percent increase in November reflecting sporadic increases in food prices. Meanwhile, the annual rate declined from 7.6 percent in October to 7.0 percent in November and December supported by favorable base effects from last year. While the probability of a rebound in international food prices is less likely now in light of recent global developments, the re-emergence of local supply bottlenecks and distortions in the distribution channels pose an upside risk to the inflation outlook.

Meanwhile, real GDP grew by a mere 0.3 percent in 2011/2012 Q1 after a similarly feeble growth of 0.4 percent in 2010/2011 Q4, following the significant contraction of 4.3 percent recorded in 2010/2011 Q3 due to the political events in Egypt and the region. This mainly came on the back of continued weakening in the tourism, manufacturing, and construction sectors. In the meantime, given the heightened uncertainty that faced market participants over the past year, investment levels continued to deteriorate recording an annual retrenchment of 11.4 percent in 2011/2012 Q1. 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, downside risks surrounding the global recovery have mounted on the back of fiscal and banking sector challenges facing the Euro Area and possible spillovers to other regions. These factors, combined, pose downside risks to domestic GDP going forward.

Given the balance of risks surrounding the inflation and GDP outlooks and the 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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