Central Bank of Egypt

Press Release

August 1, 2013

In its meeting held on August 1, 2013, the Monetary Policy Committee (MPC) decided to cut the overnight deposit rate, overnight lending rate, and the rate of the CBE's main operation by 50 basis points to 9.25 percent, 10.25 percent, and 9.75 percent respectively. The discount rate was also cut by 50 basis points to 9.75 percent.

Headline CPI increased by 0.88 percent (m/m) in June compared to a decline of 0.16 percent in May, pushing the annual rate to 9.75 percent from 8.20 percent in May. On the other hand, core CPI increased by 0.77 percent (m/m) in June after remaining unchanged in May, bringing the annual rate to 8.56 percent from 8.04 percent in May. It is worth mentioning that the cumulative monthly increase in headline CPI inched up by only 2.2 percent in 2013Q2, after increasing by around 5 percent in 2013Q1. Similarly, the cumulative monthly increase in core CPI registered 1.7 percent in 2013Q2 compared to 4.7 percent in the previous quarter. The latest monthly developments in both headline and core inflation were largely driven by increases in several food prices. Upside risks to the inflation outlook have moderated as the possibility of a rebound in international food prices is unlikely in light of recent global developments.

Meanwhile, real GDP grew by 2.3 percent in the first nine months of 2012/2013, following a similarly feeble growth rate of 2.2 percent in 2011/2012. This nascent recovery in economic activity came on the back of tentative signs of recovery in the construction and tourism sectors. Nonetheless, GDP growth remains to be partly suppressed by continuing weaknesses, albeit of lesser extent, in the manufacturing sector. In the meantime, investment levels remained low given the heightened uncertainty that faced market participants since early 2011 and the weak credit growth to the private sector. 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 continue to surround the global recovery on the back of challenges facing the Euro Area and the softening growth emerging markets. These factors, combined, pose downside risks to domestic GDP going forward.

The pronounced downside risks to domestic GDP combined with the persistently negative output gap since 2011 will limit upside risks to the inflation outlook going forward. Given that the downside risks to the GDP outlook outweigh the upside risks to the inflation outlook, the MPC decided to cut the key CBE rates.

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.

Dr. Rania Al-Mashat
Sub Governor, Monetary Policy
Telephone number: 27701315
E-mail address: monetary.policy@cbe.org.eg