

Press Release

April 28, 2014

In its meeting held on April 28, 2014, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate, overnight lending rate, and the rate of the CBE's 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.

Headline CPI increased by 0.68 percent (m/m) in March compared to a decline of 1.03 percent (m/m) in February, bringing the annual rate to 9.82 percent in March up from 9.76 percent recorded in the previous month. Monthly developments in headline inflation during 2014 Q1 were largely driven by higher prices of several food items in addition to a seasonal increase in prices of fruits and vegetables. On the other hand, core CPI increased by 0.70 percent (m/m) in March following an increase of 1.02 percent in February on the back of increases in food prices. The annual rate increased to 9.90 percent in March up from 9.70 in February. Upside risks to the inflation outlook continue to be contained as the possibility of a sharp rebound in international food prices is unlikely in light of recent global developments.

Meanwhile, real GDP picked up slightly in 2013/2014 Q2, growing by 1.4 percent compared to the 1.04 percent recorded in the quarter ending September 2013. This brought the annual growth for the first half of 2013/2014 to a feeble 1.2 percent compared to the growth rate of 2.1 percent recorded in 2012/2013. Economic activity remained sluggish in 2013/2014 Q2 on the back of modest growth rates in most of the key sectors, namely manufacturing and construction in addition to the contraction in the tourism and petroleum sectors. 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, downside risks that surround the global recovery on the back of challenges facing the Euro Area and the softening growth in emerging markets could pose downside risks to domestic GDP going forward.

The pronounced downside risks to domestic GDP combined with the negative output gap since 2011 will limit upside risks to the inflation outlook going forward. Given the mixed balance of risks surrounding the inflation and the GDP outlooks at this juncture, 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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