Central Bank of Egypt

Press Release
December 5, 2013

In its meeting held on December 5, 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 8.25 percent, 9.25 percent, and 8.75 percent, respectively. The discount rate was also cut by 50 basis points to 8.75 percent.

Headline CPI increased by 1.06 percent (m/m) in October compared to 1.57 percent in September, bringing the annual rate to 10.44 percent in October from 10.15 percent in the previous month. The latest monthly developments in headline inflation were largely driven by higher prices of several domestic food items on the back of supply bottlenecks in the distribution channels, despite the decline in international food prices, in addition to the effect of Eid festivities. Moreover, these bottlenecks also caused a sharp rise in the prices of butane gas cylinders. On the other hand, core CPI increased by 1.17 percent (m/m) in October following an increase of 1.70 percent in September on the back of the above mentioned increases in food prices. Despite of the monthly increase, the annual rate remained at 11.15 percent in October on the back of favorable base effects from last year.

While upside risks to the inflation outlook continue to moderate as the possibility of a rebound in international food prices is unlikely in light of recent global developments, annual inflation could increase above their current levels in November and December, despite of the expected seasonal slowdown in the monthly rates (unfavorable base effect).

Meanwhile, real GDP growth registered 1.5 percent in 2012/2013 Q4, bringing the annual growth rate for the whole year of 2012/2013 to 2.1 percent, following a similarly feeble growth rate of 2.2 percent recorded in 2011/2012. Economic activity remained sluggish in 2012/2013 on the back of modest growth rates in most of the key sectors, namely manufacturing, construction and tourism, in addition to the contraction in the petroleum 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, 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 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