



Central Bank of Egypt

**Press Release
March 26, 2009**

The Central Bank of Egypt decided to cut its overnight deposit rate by 50 bps to 10 percent per annum.

The discount rate was also cut by 50 bps to 10 percent per annum.

In its meeting held on March 26, 2009, the Monetary Policy Committee (MPC) decided to cut the overnight deposit and overnight lending rates by 50 bps to 10 percent and 12 percent, respectively.

Annual headline CPI inflation continued to decline in February 2009, reaching 13.5 percent down from 14.3 percent in January, to record a cumulative drop of 10.1 percentage points over the past six months. The downward trend in headline inflation comes on the back of the decline in domestic food inflation, which fell from 25.5 percent (y/y) in September 2008 to 14.4 percent (y/y) in February 2009. However, it is important to emphasize that the sharp retrenchment in international commodity prices, which had begun in the second half of 2008, has not been fully reflected in domestic price levels due to the downward price rigidities in domestic markets.

In the meantime, domestic GDP growth in 2008/09 Q2 softened, declining to 4.1 percent compared to 5.8 percent in the previous quarter and 7.1 in 2007/08, chiefly a consequence of the continuing global economic slowdown. The slower growth rates witnessed in the manufacturing sector, in addition to the contraction in Suez Canal activity and exports, have led to the evident retreat in domestic economic growth. Going forward, the dire prospects for global growth in 2009 are likely to exert further downward pressures on external demand with unfavorable repercussions on the domestic growth outlook.

While annual headline inflation is still elevated, the lower inflationary pressures driven by lower international food prices and slower domestic economic growth currently project that annual inflation will fall towards the CBE's comfort zone by mid-2009.

The MPC will continue to take the necessary measures to contain the adverse effects of the global economic turmoil on the domestic economy, provided that they do not conflict with the price stability objective.

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