



**Press Release
March 10, 2011**

In its meeting held on March 10, 2011, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rate unchanged at 8.25 percent and 9.75 percent, respectively. The discount rate was also kept unchanged at 8.5 percent.

The CBE has decided to launch regular repurchasing agreements (repo) as part of its monetary policy operational framework on every Tuesday starting March 22, 2011. The main open market operation will be a 7-day repo set by the MPC at 9.25 percent.

The political landscape in Egypt has undergone significant transformations since the last MPC meeting with implications on economic activity and financial markets. On the one hand, market liquidity conditions have come under pressure, while the balance of risks surrounding the inflation and GDP outlooks has changed.

In order to ensure that the prevailing short-term market rates are consistent with the MPC's policy rate based on the continuous assessment of macroeconomic developments and the price stability mandate, the CBE has decided to introduce repos as part of its monetary policy operational framework.

Headline CPI inched up by 0.12 percent (m/m) in February compared to 1.02 percent in January, while the annual rate declined slightly from 10.79 percent to 10.71 percent on the back of a favorable base effect from last year. While the early days in February witnessed a marked increase in food prices driven by disruptions in production lines as well as transportation networks this was largely reversed in recent weeks. This has been also reflected in core CPI which inched up by 0.11 percent (m/m) in February compared to 0.74 percent in January while the annual rate declined to 9.51 percent compared to 9.74 percent. It is important to underscore that the pick up in international food prices since late 2010 have had limited spillover effects on domestic food prices. Nonetheless, if

the recent increases in international food prices prove to be persistent this would pose an upside risk to the inflation outlook.

The past six weeks have witnessed interruptions in economic activity triggered by the domestic political events. The current political uncertainty will continue to have ramifications on both consumption as well as investment decisions, adversely weighing on key sectors within the economy. Moreover, there is heightened uncertainty related to the global recovery on the back of higher international oil prices given political tensions in the region. These factors, combined, increase the downside risks to domestic GDP going forward.

Against the above background, the expected slowdown in economic growth could largely offset the upside risks on inflation from the rising international food prices. Given the balance of risks on the inflation and GDP outlooks and the increased 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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