

Press Release  
October 18, 2012

***In its meeting held on October 18, 2012, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rate unchanged at 9.25 percent and 10.25 percent, respectively, and the 7-day repo at 9.75 percent. The discount rate was also kept unchanged at 9.5 percent.***

While headline CPI increased by 1.20 percent (m/m) in September, the annual rate continued on a downward trend reaching 6.22 percent from 6.47 percent recorded in the previous month, supported by base effects from last year. The latest monthly developments in headline inflation were largely driven by higher prices of fresh vegetables which overshadowed favorable movements in other food prices. On the other hand, core CPI declined by 0.31 percent (m/m) in September on the back of lower prices of selected food items along with broadly tame non-food prices. This month's decline in core CPI coincided with significantly favorable base effects from last year which led the annual rate to drop to 3.84 percent from 5.34 percent in August. It is important to underscore that if the latest pick up in international food prices proves to be persistent this would pose an upside risk to the inflation outlook along with the re-emergence of local supply bottlenecks and distortions in the distribution channels.

Meanwhile, real GDP growth remained broadly stagnant, registering a growth rate of 2.2 percent in 2011/2012 following a similarly weak expansion of 1.8 percent in 2010/2011. Continued weaknesses in the manufacturing and tourism sectors weighed heavily on GDP growth during 2011/2012 which suppressed the tentative signs of recovery in the construction sector. In the meantime, given the heightened uncertainty that faced market participants since early 2011, investment levels remained low. 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. These factors, combined, pose downside risks to domestic GDP going forward.

Given the balance of risks surrounding the inflation and GDP outlooks and the 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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