Central Bank of Egypt

Press Release
November 24, 2011

In its meeting held on November 24, 2011, the Monetary Policy Committee (MPC) decided to raise the overnight deposit rate by 100 bps to 9.25 percent while raising the overnight lending rate and the 7-day repo by 50 bps to 10.25 percent and 9.75 percent, respectively. The discount rate was also raised by 100 bps to 9.5 percent.

Headline CPI inched up by 0.33 percent (m/m) in October following the 1.43 percent increase in September. The annual rate declined to 7.10 percent on the back of favorable base effects from last year down from 8.21 percent recorded in September. On the other hand, core CPI inched up by 0.4 percent in October following the 1.13 percent increase in September, while the annual rate declined from 7.95 percent to 7.60 percent. The latest monthly developments showed that the sharp food price increases witnessed in July and August due to the Ramadan effect have moderated in September through October while annual adjustments in school tuition led to a further increase in non-food prices. While the probability of a rebound in international food prices is less likely now in light of recent global developments, the re-emergence of local supply bottlenecks and distortions in the distribution channels pose an upside risk to the inflation outlook.

Meanwhile, real GDP expanded by a mere 0.4 percent in 2010/2011 Q4 following the significant contraction of 4.3 percent recorded the previous quarter. This led the annual GDP growth for the whole year 2010/2011 to fall to 1.8 percent from 5.1 percent recorded in 2009/2010. It is important to note that while a marked decline in economic activity was expected, the magnitude is larger than anticipated at the outset of the revolution. This came on the back of significant declines in the tourism, manufacturing and construction sectors. In the meantime, given the increased uncertainty that faced market participants early this year, investment witnessed a significant annual retrenchment of 20 percent in the second half of 2010/2011. 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, concerns related to the global recovery have intensified on the back of heightened worries regarding fiscal and banking sector challenges facing the Euro Area and possible spillovers to other regions along with weaker than anticipated growth rates in a number of advanced economies. These factors, combined, pose downside risks to domestic GDP going forward.

While the slowdown in economic growth should limit upside risks to the inflation outlook, there are possible upward pressures on inflation as mentioned above. Given the upside risks on the inflation outlook and the increased uncertainty at this juncture, the MPC judges that a rate hike is needed.

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
A. Sub Governor, Monetary Policy Department
Telephone number: 27701315
E-mail address: monetary.policy@cbe.org.eg