Central Bank of Egypt

Press Release
January 31, 2013

In its meeting held on January 31, 2013, 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.

Headline CPI increased by 0.15 percent (m/m) in December following a decline of 1.31 percent (m/m) in November, bringing the annual rate to 4.66 percent from 4.25 percent in the previous month. The latest monthly developments in headline inflation were largely driven by lower prices of vegetables which were partially offset by regulated price adjustments related to electricity. On the other hand, core CPI increased by 0.44 percent (m/m) in December following a decline of 0.25 percent (m/m) in November on the back of sporadic movements in food prices as well as moderate inch ups in some non-food prices. This led the annual rate to inch up to 4.44 percent in December from 4.20 percent recorded in November. While the probability of a rebound in international food prices is less likely in light of recent global developments, the re-emergence of local supply bottlenecks and distortions in the distribution channels, in addition to the recent exchange rate movements, pose upside risks to the inflation outlook.

Meanwhile, real GDP grew by 2.6 percent in 2012/2013 Q1, following a similarly feeble growth rate of 2.2 percent in 2011/2012. This nascent recovery in economic activity came on the back of tentative signs of recovery in the construction sector. Nonetheless, GDP growth remains to be partly suppressed by continuing weaknesses, albeit of lesser extent, in the manufacturing and tourism sectors. 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.

While the slowdown in economic growth has been limiting upside risks to the inflation outlook, there are possible upward pressures on inflation going forward. Given the mixed 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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