



Central Bank of Egypt

**Press Release
November 17, 2016**

In its meeting held on November 17, 2016, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate, overnight lending rate, and the rate of the CBE's main operation unchanged at 14.75 percent, 15.75 percent, and 15.25 percent, respectively. The discount rate was also kept unchanged at 15.25 percent.

Annual headline inflation declined to 13.56 percent in October 2016 from 14.09 percent in September 2016 due to a favorable base effect, as the monthly rate rose by 1.70 percent in October from 1.25 percent in September. The bulk of the monthly increase occurred due to core items, particularly food, education and retail, while volatile food prices declined. Consequently, annual core inflation rose to 15.72 percent in October 2016 from 13.93 percent in September 2016, and the monthly rate rose by 2.81 percent in October from 1.39 percent in September.

Despite elevated inflation rates in October 2016, the contribution of the pass-through from previous exchange rate movements as well as the estimated decline of potential output growth at current demand levels remained moderate. Annual real GDP reportedly grew by 4.3 percent in the fiscal year 2015/16 compared 4.4 percent in 2014/15. Labor market data show that the unemployment rate narrowed to 12.5 percent in the quarter ending June 2016 after peaking at 13.4 percent in the quarter ending December 2013, supported by lower real unit labor costs relative to productivity. The unemployment rate inched up to 12.6 percent in the quarter ending September 2016.

Looking ahead, annual inflation is expected to be impacted by transitory cost-push factors stemming from the economic reform measures before beginning to narrow. At the same time, the liberalization of the foreign exchange market in addition to fiscal and structural reform measures are expected to increase potential output growth, which coupled with weaker demand – partly due to tighter monetary conditions – is estimated to partly offset cost-push pressures.

Developments in the external economic environment show that there has been some firming of international commodity prices, while low global inflation and subdued growth support low cost-push and demand-pull pressures on domestic prices, respectively.

From the monetary perspective, broad and reserve money growth are likely to be impacted going forward by the phasing out of monetary financing of the fiscal deficit as well as relatively higher foreign reserves accumulation. Based on the targeted reserve money and the inflation outlook assessed in the extraordinary MPC meeting on November 3, 2016, tightening monetary conditions was warranted, and the CBE raised its key policy rates by 300 basis points and absorbed excess liquidity via longer-term deposit auctions.

At this juncture and given the balance of risks, the MPC judges that the key CBE rates are currently appropriate. The MPC reiterates its price stability mandate and will continue to closely monitor all economic and monetary developments, and will not hesitate to adjust the key CBE rates to ensure price stability over the medium-term.

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