

Press Release

June 20, 2013

In its meeting held on June 20, 2013, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rate unchanged at 9.75 percent and 10.75 percent, respectively, and the rate of the CBE's main operation at 10.25 percent. The discount rate was also kept unchanged at 10.25 percent.

Headline CPI declined by 0.16 percent (m/m) in May compared to an increase of 1.47 percent in April which lies below the average monthly pace of 1.57 percent recorded in the first four months of 2013. In spite of the monthly decline, the annual rate increased to 8.20 percent from 8.11 percent recorded in April, given the unfavorable base effect. On the other hand, core CPI remained unchanged in May compared to 0.97 percent increase in April. Given the unfavorable base effect from last year, the annual rate increased to 8.04 percent from 7.47 percent recorded in April 2013. The favorable monthly developments in both headline and core inflation came on the back of declines in several food prices, despite sporadic increases in non-food prices. 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 pose upside risks to the inflation outlook.

Meanwhile, real GDP grew by 2.4 percent in 2012/2013 H1, 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 and tourism sectors. Nonetheless, GDP growth remains to be partly suppressed by continuing weaknesses, albeit of lesser extent, in the manufacturing 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 and the softening growth in emerging markets. 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 at this juncture, 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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