



Press Release

March 21, 2013

In its meeting held on March 21, 2013, the Monetary Policy Committee (MPC) decided to raise the overnight deposit rate and overnight lending rate by 50 basis points to 9.75 percent and 10.75 percent, respectively, and raise the rate of the CBE's main operation* by 50 basis points to 10.25 percent. The discount rate was raised by 75 basis points to 10.25 percent.

Headline CPI increased by 2.50 percent (m/m) in February following an increase of 1.69 percent (m/m) in January. This comes as the highest monthly increase since August 2010, pushing the annual rate to 8.21 percent from 4.66 percent recorded in December 2012. On the other hand, core CPI increased by 2.86 percent (m/m) in February following an increase of 1.31 percent (m/m) in January. This also comes as the highest monthly increase since August 2010, pushing the annual rate to jump to 7.68 percent in February up from 4.44 percent in December 2012. The latest monthly developments in both headline and core inflation were largely driven by broad based increases in food and non-food prices on the back of the recent movements in the exchange rate and diesel distribution bottlenecks across the country. 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. These factors, combined, pose downside risks to domestic GDP going forward.

* The CBE's main operations would be Repos or Deposit Auctions depending on the prevailing market liquidity conditions.

While the slowdown in economic growth has been limiting upside risks to the inflation outlook, there is a possible build-up of upward pressures on inflation going forward for the previously mentioned reasons. Despite the downside risks to the GDP outlook, the MPC judges that disanchored inflation expectations are more detrimental to the economy over the medium term. Hence, a rate hike is warranted.

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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