Central Bank of Egypt

Press Release

May 9, 2013

In its meeting held on May 9, 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 increased by 1.47 percent (m/m) in April and 0.64 percent (m/m) in March, pushing the annual rate to 8.11 percent in April from 7.59 percent in March. On the other hand, core CPI increased by 0.97 percent (m/m) in April compared to 0.51 percent (m/m) in March, bringing the annual rate to 7.47 percent in April from 7.03 percent in March. The monthly developments in both headline and core inflation since the beginning of the year 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.

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. Nonetheless, the MPC judges that the current key CBE rates are appropriate given the lagged transmission of the previous rate hike across the economy combined with the mixed balance of risks surrounding the inflation and GDP outlooks at this juncture.

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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