

Press Release

October 31, 2013

In its meeting held on October 31, 2013, 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 8.75 percent, 9.75 percent, and 9.25 percent, respectively. The discount rate was also kept unchanged at 9.25 percent.

Headline CPI increased by 1.57 percent (m/m) in September compared to an inch up of 0.68 percent in August, bringing the annual rate to 10.15 percent in September from 9.74 percent in August. On the other hand, core CPI increased by 1.70 percent (m/m) in September after inching up by 0.14 percent in August, pushing the annual rate to 11.15 percent in September from 8.97 percent recorded in the previous month. The latest monthly developments in both headline and core inflation were driven by increases in several food prices combined with a number of non-food prices. The latter, however, were mostly confined to seasonal items associated with Haj season and the beginning of the school year. Going forward, while inflation numbers are projected to continue to be affected by seasonal patterns associated with Eid festivities and the beginning of the school year, upside risks to the inflation outlook continue to moderate as the possibility of a rebound in international food prices is unlikely in light of recent global developments.

Meanwhile, real GDP growth registered 1.5 percent in 2012/2013 Q4, bringing the annual growth rate for the whole year of 2012/2013 to 2.1 percent, following a similarly feeble growth rate of 2.2 percent recorded in 2011/2012. Economic activity remained sluggish in 2012/2013 on the back of weak growth rates in most of the key sectors, namely manufacturing, construction and tourism, in addition to the contraction in the petroleum sector. In the meantime, investment levels remained low given the heightened uncertainty that faced market participants since early 2011 and the weak credit growth to the private sector. Looking ahead, downside risks that surround the global recovery on the back of challenges facing the Euro Area and the softening growth in emerging markets could pose downside risks to domestic GDP going forward.

The pronounced downside risks to domestic GDP combined with the persistently negative output gap since 2011 will limit upside risks to the inflation outlook going forward. Given the mixed balance of risks surrounding the inflation and the 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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