

Press Release

February 27, 2014

In its meeting held on February 27, 2014, 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 8.25 percent, 9.25 percent, and 8.75 percent, respectively. The discount rate was also kept unchanged at 8.75 percent.

Headline CPI increased by 1.42 percent (m/m) in January compared to a decline of 1.02 percent (m/m) in December. Despite of the monthly increase, the annual rate declined to 11.36 percent in January from 11.66 percent recorded in the previous month on the back of favorable base effects from last year. On the other hand, core CPI increased by 1.11 percent (m/m) in January following an increase of 0.41 percent in December. Similar to the headline, the annual core inflation rate declined to 11.69 percent in January from 11.91 in December on the back of favorable base effects from last year. The latest monthly developments in both headline and core inflation were largely driven by higher prices of several food items. As 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, annual inflation is projected to ease from their current levels in the coming months.

Meanwhile, real GDP continued to lose some of its already weak momentum in 2013/2014 Q1, growing by 1.04 percent compared to the feeble growth rate of 2.1 percent recorded in 2012/2013. Economic activity remained sluggish in 2013/2014 Q1 on the back of modest growth rates in most of the key sectors, namely manufacturing and construction in addition to the contraction in the tourism and petroleum sectors. 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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