Central Bank of Egypt

Press Release

July 17, 2014

In its meeting held on July 17, 2014, the Monetary Policy Committee (MPC) decided to raise the overnight deposit rate, overnight lending rate, and the rate of the CBE's main operation by 100 basis points to 9.25 percent, 10.25 percent, and 9.75 percent, respectively. The discount rate was also raised by 100 basis points to 9.75 percent.

Headline CPI increased by 0.84 percent (m/m) in June compared to a decline of 0.73 percent (m/m) in May while the annual rate remained broadly unchanged at 8.20 percent in June. On the other hand, core CPI increased by 0.68 percent (m/m) in June compared to a decline of 0.23 percent in May, while the annual rate decreased to 8.76 percent in June down from 8.86 percent in May on the back of favorable base effect from last year. The quarter ending June 2014 has witnessed a notable slowdown in the prices of several food items which have been reflected in the tame monthly growth rates of both headline and core inflation. Moreover, as the possibility of a sharp rebound in international food prices is unlikely in light of recent global developments, upside risks to the inflation outlook from imported inflation continue to be contained.

Meanwhile, real GDP picked up slightly in 2013/2014 Q3, growing by 2.50 percent compared to the 1.04 and 1.44 percent recorded in the previous two quarters, respectively. This brought the annual growth for the first nine months of 2013/2014 to 1.65 percent compared to the growth rate of 2.31 percent during the corresponding period of 2012/2013. The slight pickup in economic activity during 2013/2014 Q3 came on the back of the pickup in the growth rates in the two key sectors, namely manufacturing and construction, despite the contraction witnessed in the tourism and petroleum sectors. In the meantime, investment levels continue to be low despite the relative improvement witnessed in the annual growth rate, which registered 2.50 percent after six quarters of contraction. 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 government has revised up the prices of several regulated items within the CPI basket including fuel, electricity, and tobacco as part of the 2014/2015 fiscal consolidation plan. While the fiscal consolidation will improve the fiscal sustainability over the medium-term, a relative price increase is inevitable. The direct first round effect of these price adjustments will lead to a level shift up in the headline CPI for July 2014, while the indirect and second round effects could be reflected in both the headline and core inflation rates during the quarter ending September 2014 at varying degrees, which pose an upside risk to the inflation outlook. Therefore, while the MPC acknowledges the favorable medium-term effect of the fiscal measures, it is mindful to the importance of anchoring inflation expectations.

Against this background and given the balance of risks, the MPC judges that a preemptive rate hike is warranted to anchor inflation expectations and hence limit a generalized price increase, which is detrimental to the economy over the medium-term.

However, 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.

Dr. Rania Al-Mashat
Sub Governor, Monetary Policy
Telephone number: 27701315
E-mail address: monetary.policy@cbe.org.eg