

**Press Release
December 16, 2010**

In its meeting held on December 16, 2010, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rate unchanged at 8.25 percent and 9.75 percent, respectively. The discount rate was also kept unchanged at 8.5 percent.

Headline CPI declined by 0.82 percent in November following the 1.37 percent increase in October which led the annual rate to decelerate to 10.19 percent in November from 11.02 percent in October. While the supply shortages related to fruits and vegetables in addition to red meat and poultry have largely eased during the past two months, their price increases since the beginning of the year continue to explain more than half of annual headline inflation. On the other hand, core CPI increased by 0.69 percent in November compared to 0.40 percent in October, which pushed the annual rate to 8.58 percent in November from 7.75 percent in the previous month, mainly driven by the increase in a few non-food prices. While non-food prices increased by 1.68 percent and 0.36 percent in October and November, respectively, these increases have been largely seasonal, associated with the beginning of the school year in October and Eid festivities in November.

Meanwhile, annual real GDP growth for 2010/2011 Q1 registered 5.5 percent following 5.4 percent in 2009/2010 Q4. While investment has been improving following the retrenchment witnessed in the aftermath of the global financial crisis, its contribution to GDP growth remains limited. This coupled with increased uncertainty about the nascent global recovery could potentially weigh on domestic economic activity going forward.

Against the above and despite sporadic increases in non-food prices, underlying inflation pressures arising from the ongoing economic recovery remain contained. Nonetheless, the MPC is mindful of the risk of possible propagation of shocks related to food items to other prices.

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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