

**Press Release
September 16, 2010**

In its meeting held on September 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 accelerated by 2.85 percent in August following the 2.51 percent in July, pushing the annual rate to 10.93 percent in August. While these monthly rates are exceptionally high, they have been mainly driven by higher prices of a number of food items, which had witnessed seasonal increases of varying degrees in July and August ahead of and during the month of Ramadan. The Ramadan effect exacerbated the impact of supply shortages in red meat and poultry witnessed since early 2010, which caused a surge in their prices during the past two months. The surge in the prices of red meat and poultry in addition to the acceleration in the prices of fruits and vegetables collectively explain on average more than sixty percent of annual headline inflation in both July and August. On the other hand, core CPI accelerated by 2.82 percent in August leading to a jump in the annual rate to 8.16 percent with more than fifty percent driven by the prices of red meat and poultry.

Meanwhile, annual real GDP growth recorded 5.9 percent in 2009/10 Q4 compared to the four year low of 4.1 percent witnessed in 2008/09 Q2, reflecting a steady improvement in economic activity. Looking ahead, unfolding global economic developments have created uncertainty about the nascent global recovery, which could potentially weigh on domestic investment and external demand.

Against the above and despite the sharp increase in food prices, non-food inflation has remained largely subdued since early 2009, implying that 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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