



Press Release
January 27, 2011

In its meeting held on January 27, 2011, 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 decelerated by 0.68 percent (m/m) in December following the 0.82 percent decline in November. Despite the monthly decline, the annual rate remained broadly unchanged at 10.28 percent in December due to unfavorable base effects from last year. While the supply shortages related to fruits and vegetables in addition to red meat and poultry have largely eased during the past three months, their price increases since the beginning of 2010 continue to explain more than 40 percent of annual headline inflation. On the other hand, core CPI inched up by 0.18 percent (m/m) in December compared to 0.69 percent in November, mainly driven by several food items. The annual rate increased to 9.65 percent in December from 8.93 percent registered in the previous month, largely led by unfavorable base effects. Moreover, while more than 40 percent of annual core inflation is attributed to the acceleration in the prices of red meat and poultry witnessed during 2010, less than 25 percent is explained by the inch-up in the prices of non-food items.

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

Against the above background, 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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