Central Bank of Egypt

Press Release
October 13, 2011

In its meeting held on October 13, 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, and the 7-day repo at 9.25 percent. The discount rate was also kept unchanged at 8.5 percent.

Headline CPI increased by 1.43 percent (m/m) in September following the 1.10 percent increase in August. The annual rate declined for the second consecutive month, on the back of favorable base effects from last year, falling from 8.49 percent to 8.21 percent in September. On the other hand, core CPI increased by 1.13 percent in September following the 1.18 percent in August, leading the annual rate to increase from 6.98 percent to 7.95 percent. The latest monthly developments show that the sharp food price increases witnessed in July and August due to the Ramadan effect have moderated in September while adjustments in housing rentals led to an increase in non-food prices. The probability of a rebound in international food prices is less likely now in light of recent global developments, nonetheless supply shortages in certain food commodities on the back of bad harvests could pose an upside risk to the inflation outlook.

Meanwhile, real GDP expanded by a mere 0.4 percent in 2010/2011 Q4 following the significant contraction of 4.3 percent recorded the previous quarter. This led the annual GDP growth for the whole year 2010/2011 to fall to 1.8 percent from 5.1 percent recorded in 2009/2010. It is important to note that while a marked decline in economic activity was expected, the magnitude is larger than anticipated at the outset of the revolution. This came on the back of significant declines in the tourism, manufacturing and construction sectors. In the meantime, given the increased uncertainty that faced market participants early this year, investment witnessed a significant annual retrenchment of 20 percent in the second half of 2010/2011. Looking ahead, the current political transformation may continue to have ramifications on both consumption as well as investment decisions, adversely weighing on key sectors within the economy. Moreover, concerns related to the global recovery have intensified on the back of heightened worries regarding fiscal and banking sector challenges facing the Euro Area along with weaker than anticipated growth rates in a number of advanced economies. These factors, combined, pose downside risks to domestic GDP going forward.

Against the above background, the slowdown in economic growth should limit upside risks to the inflation outlook. Given the balance of risks on the inflation and GDP outlooks and the increased uncertainty at this juncture, the 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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