Central Bank of Egypt

Press Release
July 26, 2012

In its meeting held on July 26, 2012, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rate unchanged at 9.25 percent and 10.25 percent, respectively, and the 7-day repo at 9.75 percent. The discount rate was also kept unchanged at 9.5 percent.

Headline CPI declined by 0.55 percent (m/m) in June following a 0.24 percent (m/m) decline in May, bringing the annual rate to 7.26 percent in June from 8.30 percent recorded in the previous month. On the other hand, core CPI increased marginally by 0.28 percent (m/m) in June, while the annual rate declined to 7.04 percent in June from 7.22 percent in May. The latest monthly developments in both headline and core were largely driven by favorable movements in food prices while non-food prices remained broadly tame. The re-emergence of local supply bottlenecks and distortions in the distribution channels pose upside risks to the inflation outlook.

Meanwhile, real GDP grew by 5.2 percent in 2011/2012 Q3, following feeble average growth rates of 0.35 percent in the first two quarters. This rebound was largely driven by a significant favorable base effect from the respective quarter of 2010/2011 during which economic activity was interrupted following the unfolding political events. During the first three quarters of 2011/2012, real GDP expanded by 1.8 percent on the back of tentative signs of recovery in the construction sector which was partly suppressed by continuing weaknesses in the manufacturing and tourism sectors. In the meantime, given the heightened uncertainty that faced market participants over the past year, investment levels remained low. 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, downside risks continue to surround the global recovery on the back of challenges facing the Euro Area. These factors, combined, pose downside risks to domestic GDP going forward.

Given the balance of risks surrounding the inflation and GDP outlooks and the 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.

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