



Press Release
June 16, 2016

In its meeting held on June 16, 2016, the Monetary Policy Committee (MPC) decided to raise the overnight deposit rate, overnight lending rate, and the rate of the CBE's main operation by 100 bps to 11.75 percent, 12.75 percent, and 12.25 percent respectively. The discount rate was also raised by 100 bps to 12.25 percent.

Headline year-on-year inflation rose to 12.30 percent in May 2016 from 10.27 percent in April, recording at 3.05 percent the highest monthly rate since July 2014. In the meantime, core inflation rose to 12.23 percent in May 2016 from 9.51 percent in April, recording at 3.15 percent the highest monthly rate since January 2008. The monthly headline figure partly reflected regulated price adjustments which contributed by 0.4 percentage points, supply shocks such as the increase in rice prices which contributed by 0.5 percentage points, seasonal effects of the holy month of Ramadan, and a lagged pass-through effect from the March 14, 2016 exchange rate adjustment.

Output remained unfavorably impacted by domestic as well as external factors. Domestic demand, contributed 4.8 percentage points to the revised 4.5 percent real GDP growth in the first half of 2015/16, while net external demand contributed negative 0.3 percentage points. By sector, the services sector was the highest contributor to economic growth, particularly construction and real estate, while tourism contributed negatively. Furthermore, growth continued to be supported by internal trade, agriculture and the general government sectors,

whereas the industrial sector contributed negatively mainly due to continued weakness in the mining activity, but also due to the negative contribution of non-petroleum manufacturing.

After evaluating the balance of risks surrounding the inflation outlook to date, the MPC judges that a rate hike is warranted to anchor inflation expectations over the medium-term. The MPC reiterates its price stability mandate and will continue to closely monitor all economic developments, particularly fiscal policy and its effect on the inflation outlook.

The MPC considers fiscal consolidation policies are necessary and will favorably contribute to macroeconomic stability and sustainable economic growth over the medium-term.

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