



Central Bank of Egypt

Press Release

December 29, 2016

In its meeting held on December 29, 2016, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate, overnight lending rate, and the rate of the Central Bank of Egypt's (CBE) main operation unchanged at 14.75 percent, 15.75 percent, and 15.25 percent, respectively. The discount rate was also kept unchanged at 15.25 percent.

Annual headline inflation rose to 19.43 percent in November 2016 from 13.56 percent in October 2016, as the monthly rate increased to 4.85 percent in November from 1.70 percent in October. Consumer prices during November were strongly impacted by the economic reform measures related to the foreign exchange rate market liberalization as well as the hydrocarbon subsidies adjustment. The bulk of the monthly increase occurred due to core items, particularly food and retail, which came in addition to higher regulated prices. Consequently, annual core inflation rose to 20.73 percent in November 2016 from 15.72 percent in October 2016, while the monthly rate rose to 5.33 percent in November from 2.81 percent in October.

In the meantime, annual real GDP maintained a steady pace of growth during 2015/16, registering 4.3 percent compared 4.4 percent in 2014/15. Labor market data show that the unemployment rate narrowed to 12.5 percent in the quarter ending June 2016 after peaking at 13.4 percent in the quarter ending December 2013, which coincided with lower real unit labor costs since 2015. The unemployment rate inched up to 12.6 percent in the quarter ending September 2016.

Developments in the external environment show that there has been some firming of international commodity prices, while low global inflation and subdued global growth maintain weak pressures on domestic prices, respectively.

From the monetary perspective, broad and reserve money growth are likely to be impacted going forward by the phasing out of monetary financing of the fiscal deficit as well as by relatively higher foreign reserves accumulation. Moreover, broad money growth is strongly affected by the revaluation effects of its foreign currency components.

Looking ahead, annual inflation is expected to narrow after being impacted by transitory cost-push factors stemming from the economic reform measures. The MPC had acted preemptively in its extraordinary meeting on November 3, 2016 by raising the key CBE rates 300 basis points in anticipation of the inflationary pressures.

At this juncture and given the balance of risks, the MPC judges that the key CBE rates are currently appropriate. The MPC reiterates its price stability mandate and will continue to closely monitor all economic and monetary developments, and will not hesitate to adjust the key CBE rates to ensure price stability over the medium-term.

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