

**Press Release
September 22, 2016**

In its meeting held on September 22, 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 11.75 percent, 12.75 percent, and 12.25 percent, respectively. The discount rate was also kept unchanged at 12.25 percent.

Headline year-on-year inflation rose to 15.47 percent in August 2016 from 14.0 percent in July 2016 as the month-on-month rate increased to 1.93 percent in August from 0.74 percent in July. In the meantime, core inflation rose to 13.25 percent in August 2016 from 12.31 percent in July 2016 as the month-on-month rate increased to 0.61 percent in August from 0.25 percent in July.

Monthly headline inflation in August 2016 came mainly due to higher prices of regulated items, primarily electricity, in addition to increases in prices of fresh vegetables and seasonal increases in prices of red meat associated with Eid-Al-Adha. The pass-through from previous exchange rate movements to domestic prices as measured by the consumer price index remained limited.

Real GDP growth registered 4.3 percent during the first nine months of 2015/16, down from 4.8 percent during the respective period of the previous year. Growth was driven by domestic demand, while net external demand contributed negatively. Domestic demand came largely due to consumption expenditure, while the contribution of investment expenditure was weak. By sector, real GDP growth was driven mainly by services, despite the contraction of tourism. General government, trade and the agricultural sectors contributed positively as well. These positive contributions were partly offset by the adverse impact stemming from the industrial sector, which was mainly driven by weaknesses in the mining sector, as the contribution of the manufacturing sector was negligible.

The current level of inflation and future upside risks are largely explained by transitory cost-push factors, while demand-side factors continue to pose downside risks to the inflation outlook. 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 developments, particularly fiscal policy and its effect on the inflation outlook, and will not hesitate to adjust the key CBE rates to ensure price stability over the medium-term.

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