Central Bank of Egypt

Press Release

January 16, 2014

In its meeting held January 16, 2014, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate, overnight lending rate, and the rate of the CBE's main operation at 8.25 percent, 9.25 percent, and 8.75 percent, respectively. The discount rate was also kept unchanged at 8.75 percent.

Headline CPI declined by 1.02 percent (m/m) in December after recording an increase of 0.95 (m/m) in November, bringing the annual rate to 11.66 percent in December down from 12.97 percent in the previous month. Monthly developments in headline inflation during 2013 Q4 were largely driven by higher prices of several food items and a number of non-food items. Additional upward pressure came on the back of a sharp rise in the prices of butane gas cylinders in light of bottlenecks in the distribution channels which relatively eased in December. On the other hand, core CPI increased by 0.41 percent (m/m) in December following an increase of 0.46 percent in November on the back of the above mentioned increases in food and non-food prices. Despite of the monthly increase, the annual rate remained broadly unchanged standing at 11.91 percent in December compared to 11.95 percent in November on the back of favorable base effects from last year. As upside risks to the inflation outlook continue to moderate as the possibility of a rebound in international food prices is unlikely in light of recent global developments, annual inflation is projected to ease from their current levels in the coming months.

Meanwhile, real GDP continued to lose some of its already weak momentum in 2013/2014 Q1, growing by 1.04 percent compared to the feeble growth rate of 2.1 percent recorded in 2012/2013. Economic activity remained sluggish in 2013/2014 Q1 on the back of modest growth rates in most of the key sectors, namely manufacturing and construction in addition to the contraction in the tourism and petroleum sectors. In the meantime, investment levels remained low given the heightened uncertainty that faced market participants since early 2011 and the weak credit growth to the private sector. Looking ahead, downside risks that surround the global recovery on the back of challenges facing the Euro Area and the softening growth in emerging markets could pose downside risks to domestic GDP going forward.

The pronounced downside risks to domestic GDP combined with the persistently negative output gap since 2011 will limit upside risks to the inflation outlook going forward. Given the mixed balance of risks surrounding the inflation and the GDP outlooks at this juncture, 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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