

Press Release May 14, 2009

The Central Bank of Egypt decided to cut its overnight deposit rate by 50 bps to 9.5 percent per annum and its overnight lending rate by 100 bps to 11 percent per annum.

The discount rate was also cut by 50 bps to 9.5 percent per annum.

In its meeting held on May 14, 2009, the Monetary Policy Committee (MPC) decided to cut its overnight deposit rate by 50 bps to 9.5 percent and the overnight lending rate by 100 bps to 11 percent. Accordingly, the width of the corridor has been narrowed from 2 percent to 1.5 percent.

Annual headline CPI inflation continued to decline in April 2009, reaching 11.7 percent down from 13.5 percent and 12.1 percent in February and March, respectively. This records a cumulative drop of 11.9 percentage points since its peak in August 2008. The downward trend in headline inflation comes on the back of the decline in domestic food inflation, which fell from 31 percent (y/y) in August 2008 to 13.7 percent (y/y) in April 2009. However, it is important to emphasize that the sharp retrenchment in international commodity prices, which had begun in the second half of 2008, has not been fully reflected in domestic price levels due to the downward price rigidities in domestic markets.

While annual headline inflation is still elevated, the lower inflationary pressures driven by lower international food prices and slower domestic economic growth currently project that annual inflation will fall towards the CBE's comfort zone by mid-2009.

In the meantime, domestic GDP growth softened during the first half of 2008/09, a consequence of the global economic slowdown. Going forward, the dire prospects for global growth in 2009 are likely to exert further downward pressures on external demand with unfavorable repercussions on the domestic growth outlook. Against this background, the MPC judged that narrowing the width of the corridor is appropriate at this juncture.

The MPC will continue to take the necessary measures to contain the adverse effects of the global economic turmoil on the domestic economy, provided that they do not conflict with the price stability objective.

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