

**Press Release
March 17, 2016**

In its meeting held on March 17, 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 150 bps to 10.75 percent, 11.75 percent, and 11.25 percent respectively. The discount rate was also raised by 150 bps to 11.25 percent.

On March 14, 2016, the CBE decided to adopt a more flexible exchange rate regime that better reflects the underlying forces of supply and demand and in order to correct the imbalances that affected the foreign exchange flows in the banking sector. The more flexible exchange rate has restored confidence, creating a favorable investment climate that is expected to raise economic growth rates and attract capital inflows. Prior to this, the imbalances led to a widening premium between the official and unofficial rates which already had a pass-through effect on domestic prices. Both annual headline and core inflation rates reached single digits, registering 9.1 percent and 7.5 percent, respectively in February 2016, which supported the timing of the depreciation decision.

The CBE's monetary policy will be geared towards maintaining price stability by avoiding double digit inflation rates over the medium-term to maintain real incomes. Moreover, stable inflation rates are conducive to achieving sustainable economic growth.

The MPC judges that a rate hike is warranted to anchor inflation expectations.

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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