Central Bank of Egypt

Press Release

October 16, 2014

In its meeting held on October 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 unchanged at 9.25 percent, 10.25 percent, and 9.75 percent, respectively. The discount rate was also kept unchanged at 9.75 percent.

Headline CPI inched up by 1.23 percent (m/m) in September, following an increase of 1.09 percent and 3.51 percent (m/m) in August and July, respectively. This brings the annual rate to 11.12 percent in September, after it increased to 11.49 percent in August up from 11.04 percent in July, on the back of the favorable base effect from the previous year. Effects of the regulated price adjustments implemented in July 2014 explain the bulk of the price developments during the quarter. Moreover, while the prices of food items decelerated in August, there was a seasonal pick up in September which coincided with Eid El-Adha. In the meantime, core CPI increased by 0.84 percent (m/m) in September compared to an inch up of 0.60 percent 1.79 percent (m/m) in August and July, respectively. The annual rate eased to 9.15 percent in September, after it increased to 10.07 percent in August up from 9.57 percent in July, also due to the favorable base effect from the previous year.

While higher than anticipated indirect and second round effects resulting from the July 2014 regulated price adjustments pose an upside risk to the inflation outlook, upside risks from imported inflation continue to be contained on the back of lower international food price forecasts in light of global developments.

Meanwhile, real GDP picked up significantly in 2013/2014 Q4, growing by 3.70 percent compared to 2.50 percent, 1.44 percent and 1.04 percent recorded in Q3, Q2 and Q1, respectively. This brought the annual growth rate for the whole FY2013/2014 to 2.2 percent following a similarly sluggish growth rate of 2.1 percent during FY2012/2013. The expansion in economic activity during 2013/2014 Q4 came on the back of the acceleration in manufacturing and real estate activities, along with a moderate growth in the construction sector. This occurred despite the continued contraction witnessed in the tourism and petroleum sectors. In the meantime, investment continues to be below historical levels despite the relative improvement witnessed in the annual growth rate during 2013/2014 Q3 and Q4, following six quarters of contraction.

Looking ahead, while investments in domestic mega projects such as the Suez Canal are expected to contribute to economic growth, the 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.

At this juncture, the MPC judges that the key CBE rates are currently appropriate to anchor inflation expectations and limit a generalized price increase given the balance of risks surrounding the inflation and GDP outlooks.

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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