Press Release
December 24, 2015

In its meeting held on December 24, 2015, 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 50 bps to 9.25 percent, 10.25 percent, and 9.75 percent, respectively. The discount rate was also raised to 9.75 percent.

During the Coordinating Council meeting on December 17, the government and the CBE have decided to collaborate on designing a macroeconomic framework, aimed at achieving macroeconomic stability that will contribute positively to economic growth and job creation. The next meeting is scheduled on January 10, 2016. The key elements of the framework include but are not limited to:

- Narrowing the country's fiscal deficit to sustainable levels in order to alleviate the pressure on domestic liquidity, avail greater resources to the private sector to increase production, and hence reduce the consequent inflationary pressures from money creation.

- Maintaining price stability by avoiding double digit inflation rates over the medium-term.

- Reducing the country's trade deficit by initiating a strategy aimed at encouraging local production to meet domestic market needs and enhance imports substitutions.

- Stepping up the structural economic reform agenda to raise the economy's potential output, by addressing the impediments that challenge increasing investments.

In connection to the latest inflation outturn, inflationary pressures have been slowly building up as evident in the increase in non-food prices, which have contributed to headline and core inflation rates. Annual headline CPI jumped to 11.08 percent in November from 9.70 percent in October, partly on the back of unfavorable base effect from last year, while core inflation increased to 7.44 percent from 6.26 percent in October. Looking ahead, while upside risks to the inflation outlook are mitigated by contained imported inflation, in light of broad-based declines in international commodity prices, underlying domestic inflationary pressures could push up inflation expectations.

On the other hand, real GDP grew robustly by 4.2 percent in 2014/15 after recording 2.2 percent (y/y) growth in 2013/14. The main contributors to growth were the manufacturing, construction, real estate and tourism sectors, while the extractions sector remained weak. In the meantime, strong investment growth more than compensated for the negative contribution of net exports. Looking ahead, while investments in domestic mega projects are expected to continue to contribute to economic growth, the downside risks and uncertainty that surround the global economy on the back of softening growth in emerging markets and challenges facing the Euro Area could pose downside risks to domestic GDP.

In view of the above and given the balance of risks surrounding the inflation and GDP outlooks, the MPC judges that a rate hike is warranted to address inflationary pressures and 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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