

**Press Release
May 3, 2012**

In its meeting held on May 3, 2012, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rate unchanged at 9.25 percent 10.25 percent, respectively, and the 7-day repo at 9.75 percent. The discount rate was also kept unchanged at 9.5 percent.

Headline CPI increased by 1.22 percent (m/m) in March following 0.67 percent (m/m) in February, bringing the annual rate to 9.03 percent from 9.19 percent recorded in the previous month. On the other hand, core CPI increased by 1.12 percent in March following 0.52 percent in February while the annual rate increased to 8.68 percent in March from 7.30 percent in the previous month. The bulk of the latest monthly developments continued to be driven by food price movements while non-food prices remained broadly tame. The re-emergence of local supply bottlenecks and distortions in the distribution channels, as well as the probability of a rebound in international food prices pose upside risks to the inflation outlook.

Meanwhile, real GDP grew by a mere 0.4 percent in 2011/2012 Q2 after a similarly feeble growth of 0.3 percent in Q1, following the significant contraction of 4.3 percent recorded in 2010/2011 Q3 due to the political events in Egypt and the region. This mainly came on the back of continued weakening in the tourism, manufacturing, and construction sectors. In the meantime, given the heightened uncertainty that faced market participants over the past year, investment levels remained low in 2011/2012 Q2. Looking ahead, the current political transformation may continue to have ramifications on both consumption as well as investment decisions, adversely weighing on key sectors within the economy. Moreover, downside risks continue to surround the global recovery on the back of challenges facing the Euro Area. These factors, combined, pose downside risks to domestic GDP going forward.

Given the balance of risks surrounding the inflation and GDP outlooks and the uncertainty at this juncture, the 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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