Central Bank of Egypt

Press Release

September 1, 2014

In its meeting held on September 1, 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 accelerated by 3.51 percent (m/m) in July compared to 0.84 percent (m/m) in June, while the annual rate jumped to register 11.04 percent in July from 8.20 percent in June. In early July, the government launched its fiscal consolidation program, adjusting upwards the prices of several regulated prices including diesel, benzene, electricity and tobacco. The direct effect of these price adjustments explained the bulk of the monthly price developments. Moreover, increases in the prices of inland transportation, fresh vegetables & fruits and other food items can be partly attributed to the indirect effects of the regulated price adjustments as well as the seasonal effect of Ramadan. In the meantime, core CPI increased by 1.79 percent (m/m) in July compared to 0.68 percent (m/m) in June, while the annual rate increased to 9.57 percent in July compared to 8.76 percent in June and was partially limited by a favorable base effect from the previous year.

While the direct first round effect of the price adjustments have led to a level shift up in the headline CPI in July 2014, higher than anticipated indirect and second round effects pose an upside risk to the inflation outlook. On the other hand, as the possibility of a sharp rebound in international food prices is unlikely in light of recent global developments, upside risks to the inflation outlook from imported inflation continue to be contained.

Meanwhile, real GDP picked up slightly in 2013/2014 Q3, growing by 2.50 percent compared to the 1.04 and 1.44 percent recorded in the previous two quarters, respectively. This brought the annual growth for the first nine months of 2013/2014 to 1.65 percent compared to the growth rate of 2.31 percent during the corresponding period of 2012/2013. The slight pickup in economic activity during 2013/2014 Q3 came on the back of the pickup in the growth rates in the two key sectors, namely manufacturing and construction, despite the contraction witnessed in the tourism and petroleum sectors. In the meantime, investment levels continue to be low despite the relative improvement witnessed in the annual growth rate, which registered 2.50 percent after 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 going forward.

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 lagged transmission of the previous rate hike across the economy and 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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