

**Press Release
September 6, 2012**

In its meeting held on September 6, 2012, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rate unchanged at 9.25 percent and 10.25 percent, respectively, and the 7-day repo at 9.75 percent. The discount rate was also kept unchanged at 9.5 percent.

While headline CPI inched up by 0.38 percent (m/m) in July, the annual rate continued on a downward trend reaching 6.39 percent from 7.26 percent recorded in the previous month. Similarly, annual core CPI continued to decline in July, reaching 6.34 percent down from 7.04 percent recorded in the previous month despite of the monthly increase of 0.58 percent (m/m). The latest monthly developments in both headline and core were largely driven by favorable movements in food prices while non-food prices remained broadly tame. It is important to underscore that if the latest pick up in international food prices prove to be persistent this would pose an upside risk to the inflation outlook along with the re-emergence of local supply bottlenecks and distortions in the distribution channels.

Meanwhile, real GDP grew by 5.2 percent in 2011/2012 Q3, following feeble average growth rates of 0.35 percent in the first two quarters. This rebound was largely driven by a significant favorable base effect from the respective quarter of 2010/2011 during which economic activity was interrupted following the unfolding political events. During the first three quarters of 2011/2012, real GDP expanded by 1.8 percent on the back of tentative signs of recovery in the construction sector which was partly suppressed by continuing weaknesses in the manufacturing and tourism sectors. In the meantime, given the heightened uncertainty that faced market participants over the past year, investment levels remained low. 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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