

**Press Release
August 25, 2011**

In its meeting held on August 25, 2011, the Monetary Policy Committee (MPC) decided to keep the overnight deposit rate and overnight lending rate unchanged at 8.25 percent and 9.75 percent, respectively, and the 7-day repo at 9.25 percent. The discount rate was also kept unchanged at 8.5 percent.

Headline CPI increased by 1.20 percent (m/m) in July following the 0.42 percent in June, while the annual rate declined from 11.79 percent to 10.36 percent on the back of favorable base effects from last year. On the other hand, core CPI increased by 1.24 percent in July following the 0.45 percent in June, while the annual rate declined from 8.94 percent to 8.71 percent supported by favorable base effects from last year. The latest monthly developments in both headline and core inflation have been mainly driven by broad based increase in the prices of food items ahead of the Holy month of Ramadan. While the probability of a rebound in international food prices is less likely now in light of recent global developments, supply shortages in certain food commodities on the back of unfavorable weather conditions pose an upside risk to the inflation outlook.

Meanwhile, real GDP contracted by 4.2 percent in 2010/2011 Q3 which marks the first negative year-on-year growth rate since the release of quarterly GDP data in 2001/2002. It is important to note that while a marked decline in economic activity was expected, the magnitude is larger than anticipated at the outset of the revolution. This came on the back of significant declines in the tourism, manufacturing and construction sectors. In the meantime, given the increased uncertainty that faced market participants early this year, investment witnessed a significant annual retrenchment of 26 percent in the quarter ending March 2011. 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, concerns related to the global recovery have intensified over the past weeks on the back of heightened worries regarding fiscal challenges facing the Euro Area along with weaker than anticipated growth rates in a number of advanced economies. These factors, combined, pose downside risks to domestic GDP going forward.

Against the above background, the slowdown in economic growth should limit upside risks to the inflation outlook. Given the balance of risks on the inflation and GDP outlooks and the increased 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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