

**Press Release  
September 17, 2009**

***In its meeting held on September 17, 2009, the Monetary Policy Committee (MPC) decided to cut its overnight deposit rate and overnight lending rate by 25 bps to 8.25 percent and 9.75 percent, respectively. The discount rate was unchanged.***

Annual headline CPI inflation continued to decline reaching a 20-month low of 9 percent in August 2009, compared to 9.9 percent in July, down from the 23.6 percent peak recorded in August 2008. Volatile food items, namely fruits and vegetables, continued to be the determining factor in the overall inflation outturn. While the unfavorable developments in the prices of volatile food items have flattened the disinflation path, they do not characterize the underlying inflationary pressures. Inflation excluding fruits and vegetables accumulated in the first eight months of 2009 reached 4.2 percent compared to the 14.4 percent accumulated during the same period in 2008, reflecting the evident change in the inflation dynamics. Nonetheless, while underlying inflation is expected to remain within the CBE's comfort zone in the period ahead, annual headline inflation is likely to inch up over the coming months mainly owing to base effects from last year. This development has already been factored into the CBE's assessment of the monetary policy stance.

In the meantime, annual real GDP growth in 2008/09 recorded 4.7 percent. This outturn has been better than previously expected at the outset of the global financial crisis yet remains below the 7 percent average registered over the past three years. There are encouraging signs that the global slowdown has stabilized somewhat over recent months and the outlook for the international economy appears to have improved as well. This coupled, with the domestic fiscal and monetary measures undertaken so far will help provide a conducive environment for the domestic economy.

Against this background, the MPC assesses that the current level of policy interest rate is appropriate and supportive of the economic recovery while consistent with maintaining underlying inflation within the CBE's comfort zone.

The MPC will continue to take the necessary measures to contain the adverse effects of the global economic turmoil on the domestic economy, provided that they do not conflict with the price stability objective.

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