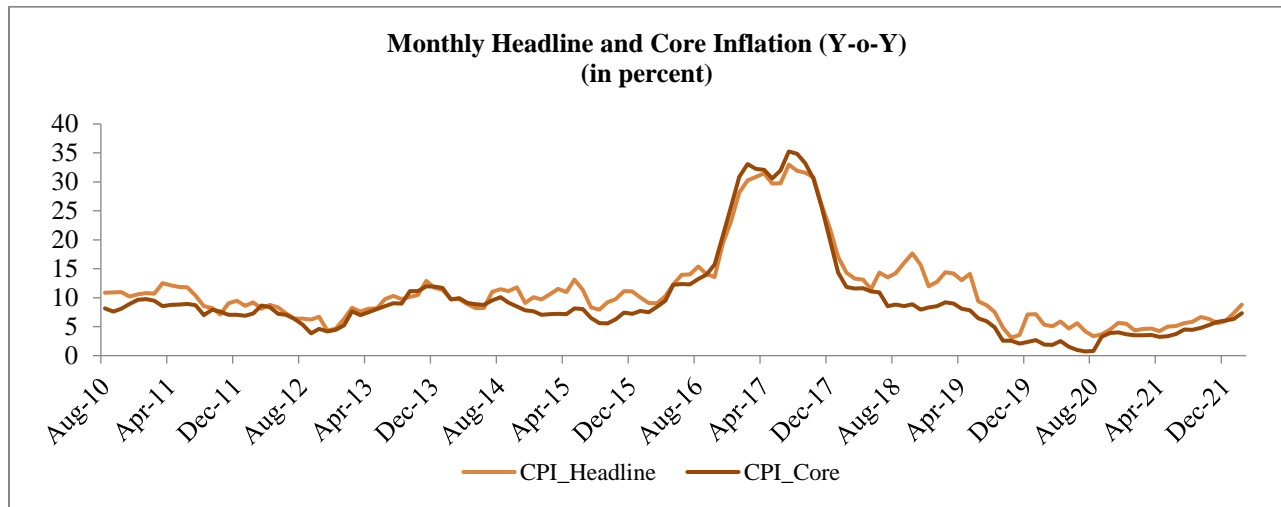




February's Inflation Mirrors International Dynamics

Thursday 10th of March 2022

Recent dynamics in headline and core inflation ... Urban headline inflation (Y-o-Y) inched up to register 8,8% in February, compared to 7.3% a month earlier. The monthly dynamics showed an increase of 1.6% in February compared to 0.9% in the previous month. Meanwhile, core inflation accelerated in February to record 7.2% (Y-o-Y) compared to 6.3% a month earlier. This came on the back of higher m-o-m rate of 1.2% in February 2022, compared to 0.8% a month earlier. Worth to mention, this month rate is the highest in 34 months ago.

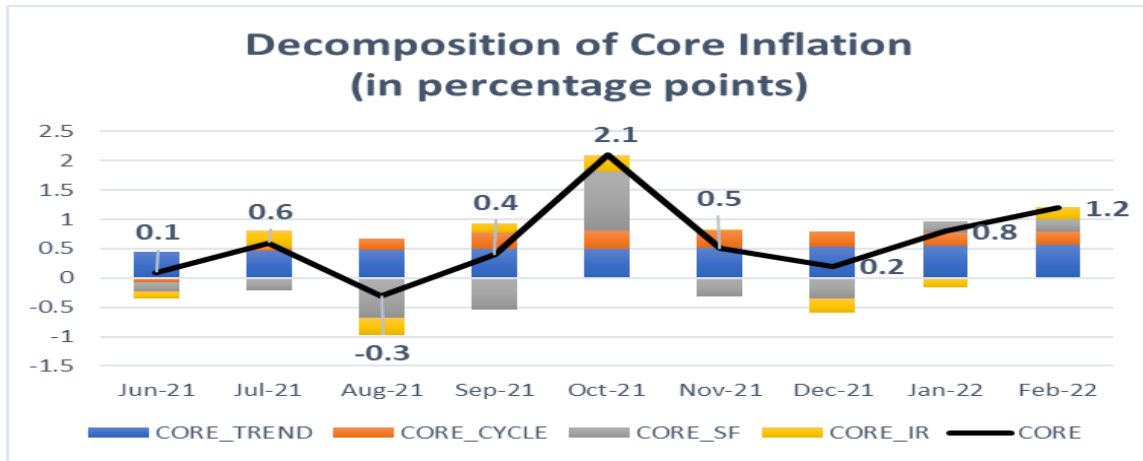


Source: CAPMAS and Central Bank of Egypt.

...Sources of Demand-Driven Inflation ... February's dynamics indicates that monthly core inflation is on the upward trajectory emerging from higher factors across the board. This can be attributed to higher implied inflation or inflation expectations implying that the market expects higher inflation in the short- to medium- terms. Also, irregular factor has reversed from negative to positive this month reflecting unfavorable pass-through effect.

This is coupled with the positive contribution of both seasonal and the cyclical factors accounting for 0.21 and 0.22 percentage points, respectively.

This has rendered the monthly demand-driven inflation to reach a five-month peak of 1.2% increasing for three months in a row after it registered 0.8% a month earlier and compared to 0.3% during February 2021.



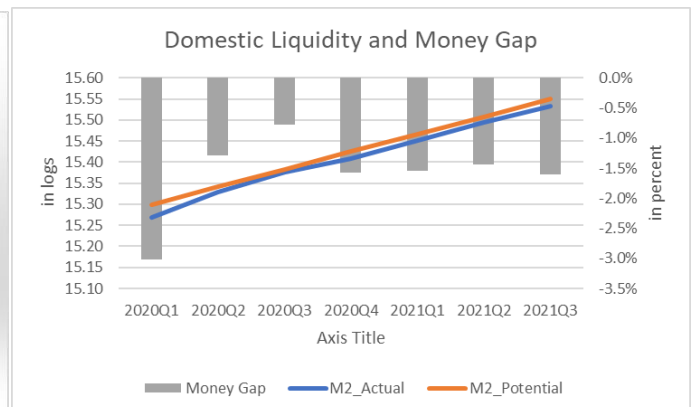
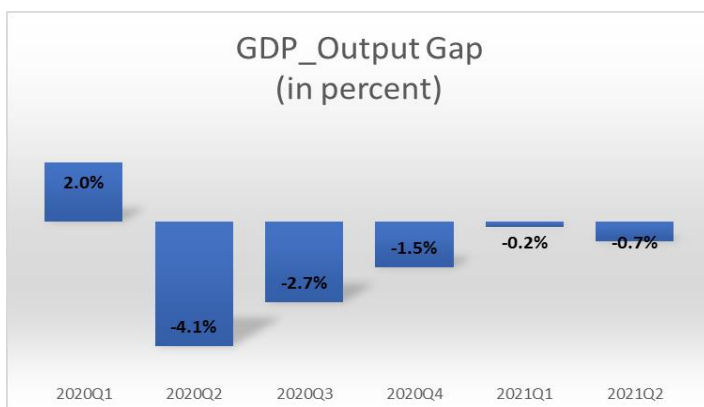
Source: MAP's Estimates, MPED and CBE

Russian-Ukrainian Conflict Spillovers... The recent Russian-Ukrainian war has its anticipated repercussions on the world in general and on the Egyptian economy in particular. Knowing that more than half of the domestically consumed wheat is imported from abroad and about 60% of the wheat imports come from Russia and Ukraine. It is projected that the wheat and grains prices are expected to increase between 10% to 20% in the aftermath of this crisis. Adding to that the price hike in the international oil price that started to pick up to 122.3 USD/barrel, after it was below the 100 USD/barrel before the crisis. Also, the international wheat price surged to USD 13.4/Bushel during March 2022.

...Forecasts for Headline and Core Inflation ... In light of the recent international dynamics, it seems that the main source of inflation emerged from global developments, however, most of the domestic variables indicate no inflationary pressures. Both output gap and money gap are in the negative territory for at least five consecutive quarters. This implies no inflationary pressures from the domestic fundamentals.

Thus, commodities channel and inflation are the key risk on the Egyptian economy. Egypt raised the price of gasoline via the indexation mechanism by 25 piasters earlier in February 2022, and there are expectations that there will be a similar increase sooner to narrow the gap between domestic and international prices.

With respect to wheat, Egypt imports approximately 13 tons per annum at a cost of around USD 4.5 billion, for every 10% increase in price, an additional USD 230 million or 0.1% of GDP is expected (Goldman Sachs, February 2022).



Source: MAP's Estimates.