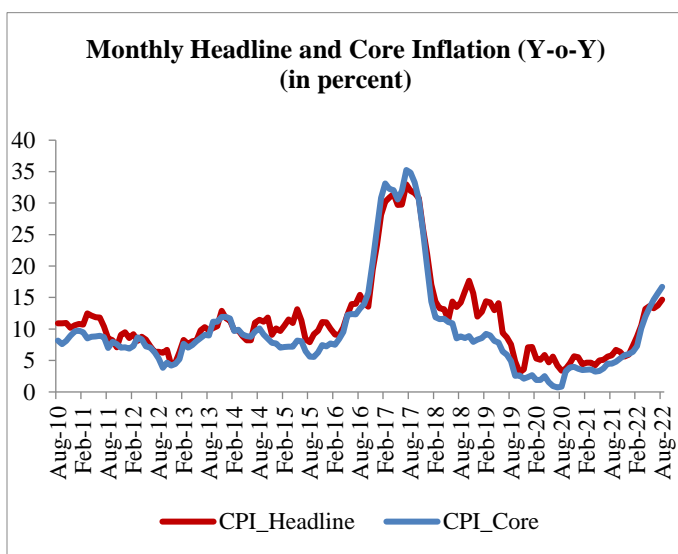


Inflation Expectations Continue to Build-Up during August

Thursday 9th of September 2022

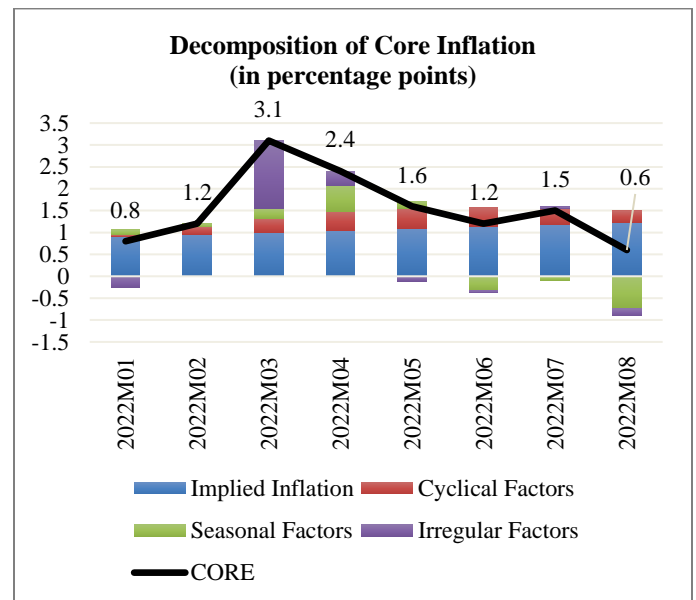
Recent dynamics in headline and core inflation ...

Urban headline inflation (Y-o-Y) increased in August to 14.6% up from 13.6% a month earlier. The monthly dynamics has been also accelerated by 0.9% in August compared to 0.1% during the corresponding month of 2021. Meanwhile, core inflation is still on the upward trajectory surging to 16.7% in August compared to 15.6% a month earlier. This has been accompanied by a monthly rate of 0.6% in August up from negative 0.3% in August 2021. Against this background, the August acceleration can be attributed to the materialization of the second-round effect of the supply-side shocks either from the external sources; primarily the disruptions in the global supply chains, or the internal sources emerged from the hike in the fuel prices took place in July.



Source: CAPMAS and Central Bank of Egypt.

Core Inflation for the Period Jan-Aug 2022



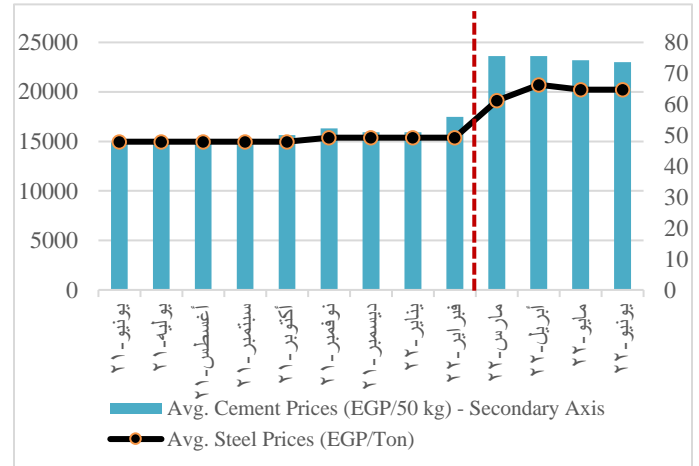
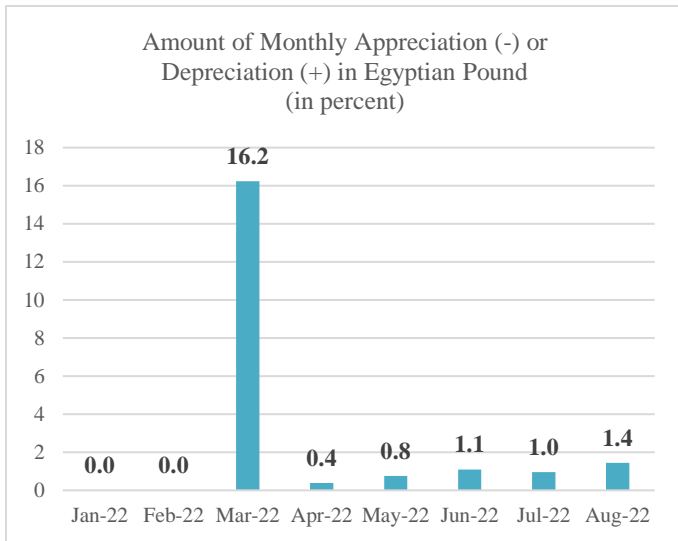
Source: MAP's Estimates, MPED and CBE.

...Sources of demand-driven inflation ... The monthly dynamics for the period January-August 2022, indicates that core inflation has been on the downward trajectory, to record 0.6% in August, down from 1.5% a month earlier. Both implied inflation (inflation expectations) along with the cyclical factors (positive real money gaps) have contributed positively to monthly core inflation. Meanwhile, both seasonal factors and irregular factors have partially offset the increase in monthly rate. Seasonal factors are attributed to nil monthly inflation in the food group since some items witnessed a monthly deceleration such as the fruits (-8.3%), meat and poultry (-5.0%) and fish and sea food products (-1.0%) despite other items experienced an acceleration.

Coming to the negative contribution of the irregular factor, this can be backed by two reasons:

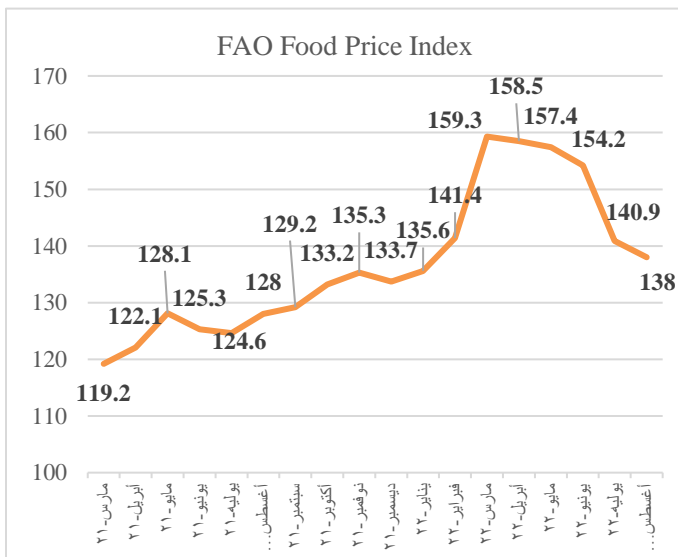
- The eased international food prices index for the fifth month in a row,
- Recently, a softened movement in the EGP vis-à-vis USD. It can be easily observed that in March 2022, the irregular factor was the major contributor to the monthly core inflation on the back of strong pass-through effect.

60% of the prices dynamics during the period March-June 2022. In the meantime, Purchasing Managers' Index (PMI) input costs index growth indicated an accumulated rate of 30% during the period March-June 2022, partially caused by higher staff wages and higher prices, emerged from full pass-through effect from exchange rate.



Source: FAO.

Source: Central Bank of Egypt.



Source: Central Bank of Egypt.

Source: FAO.

...Inflation and Input prices... Prices of both cement and steel experienced a surge since March 2022 and continues through June 2022, partial effect emerged from the exchange rate devaluation amounted for an average of