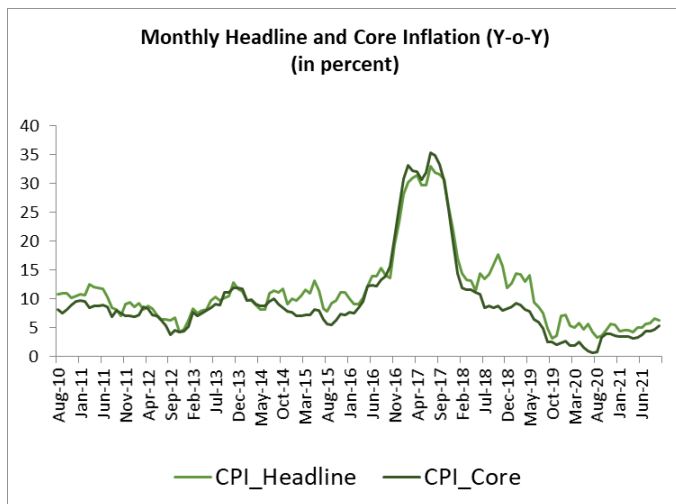




Monthly Headline and Core Inflation Accelerated in October 2021 Fueled by the Schooling Season

Wednesday, November 10, 2021

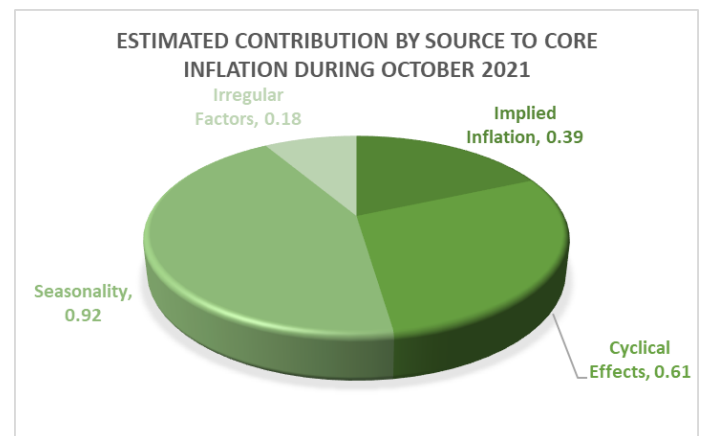
Recent dynamics in headline and core inflation ... Urban headline inflation (Y-o-Y) decreased to register 6.3% in October, compared to 6.6% a month earlier. The decline came on the back of the monthly deceleration by 1.5% compared to 1.8% during the same month of the previous year. Meanwhile, core inflation increased in October to record 5.2% (Y-o-Y) compared to 4.8% in September. This came on the back of higher m-o-m rate of 2.1% in October 2021, compared to 1.7% during the same month of the previous year.



Source: CAPMAS and Central Bank of Egypt.

.... On another front, annual headline nationwide inflation rate increased to 7.3% in October 2021 up from 4.6% in September 2021. This came on the back of accelerated monthly headline registering 1.7%. The annual increase emerged from the acceleration in prices of the CPI main groups mainly; education (13.9%), recreation & culture group (8.0%) and food and non-alcoholic beverages group (1.3%).

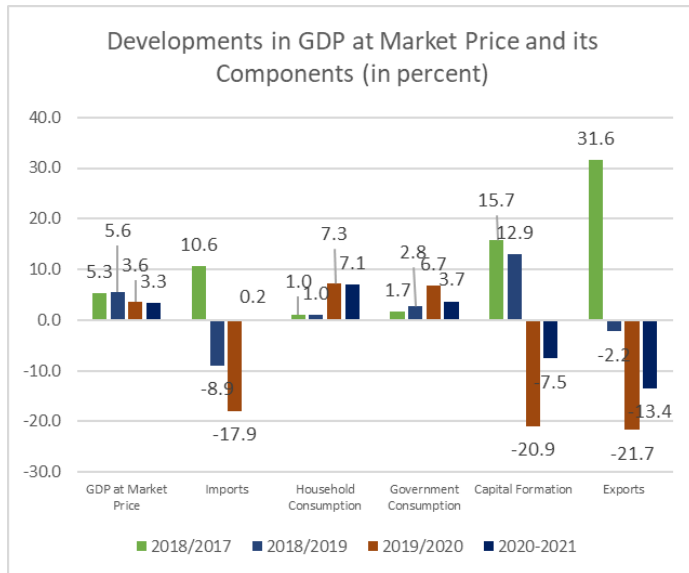
...Sources of demand-driven inflation ... During October 2021, the decomposed series shows that the main source which fuels monthly core inflation is mainly attributed to seasonal factors supported by the schooling season, contributing by 0.92 percentage points out of monthly core inflation of 2.1%. Cyclical factors contributed by 0.61 percentage points. Such dynamics suggests the existence of inflationary pressures emerging from the underlying inflation and the cyclical dynamics.



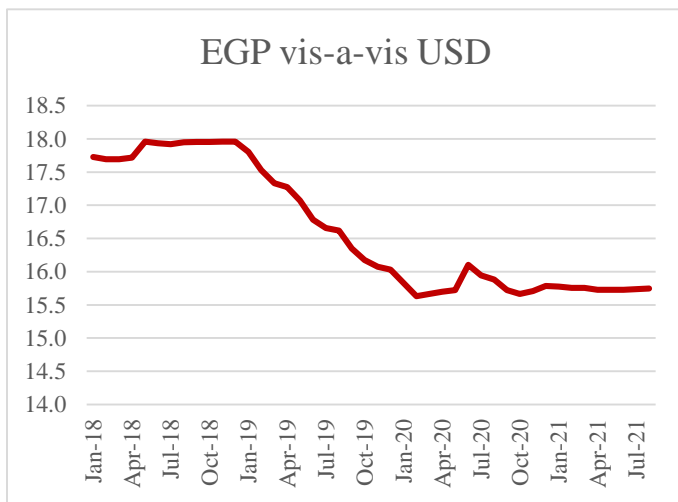
Source: MAP's Estimates, MPED and CBE.

...Sources of economic growth ... calculated contributions to real GDP growth rate revealed that from the demand-side, although real GDP decelerated slightly to 3.3% during FY 2020/21, compared to 3.6% a year earlier. Egypt's real GDP growth rate is among the handful emerging economies that have reasonable and rebounding GDP growth rate. Household consumption is in the front seats in terms of growth rates growing by 7.1% during FY 2020/21, compared to 7.3% a year earlier. Both export and

capital formation witnessed negative growth rate during the same year.



Source: MAP's Estimates, MPED and CBE.

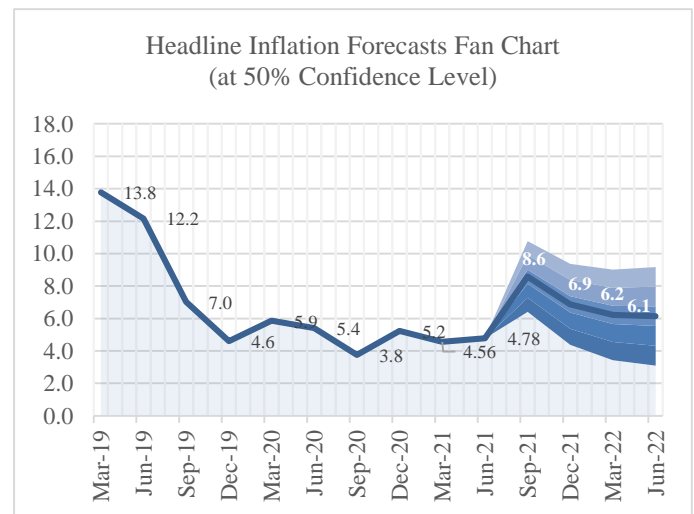


Source: CBE.

...FOREX Market Dynamics ... On another note, still exchange rate is witnessing a relative stability over the last year period. Nonetheless, EGP witnessed an accumulated nominal depreciation of 0.8% over September-October 2021. This can explain the positive contribution of the irregular factors by 0.18 percentage points implying unfavorable pass-through effect.

...Forecasts for headline and core inflation ... The implemented forecasts present two models, in addition to the average of the two scenarios which are calculated using univariate a multiple model specification and a Vector Error Correction Model (VECM), wherein the estimation period spans from 1Q 2010/11 through 4Q 2020/21.

Headline and core inflation forecasts for FY2021/22... based on the baseline scenario, for headline inflation, forecasted figures are on average ranging between 6.1% and 8.6% for FY2021/22. Moreover, we expect headline inflation to inch up during Q2 FY 2021/22 to range between 5.4% and 8.4% on the back of hiked fuel prices first and second round effects, in addition to higher international food prices. Since then, headline will tame out to hover around 6%-7% being within the target set by the CBE which is 7% (+/-2%) to be met by Q4 2022.



Source: MAP's Estimates.

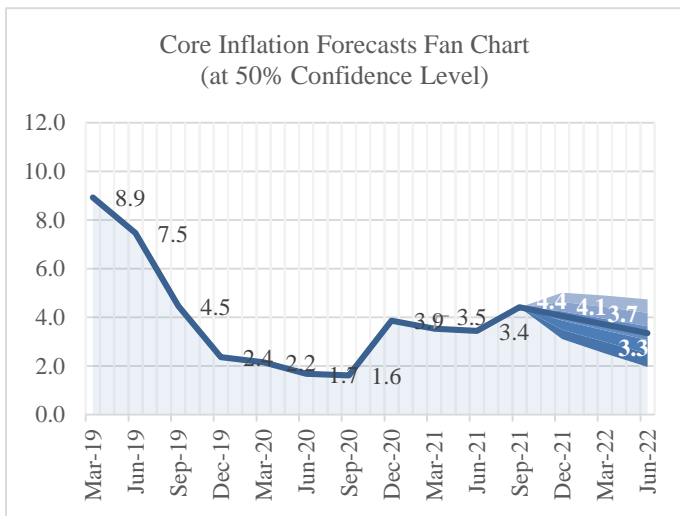
As for core inflation forecasts, recent dynamics indicate that forecasted figures are on average ranging between 3.3% and 4.4% for FY2021/22. Evidently, we found that it will show a slight pick-up by Q1 FY2021/22, to reach a maximum of 4.4% as per both the multiple regression and the VECM model; nevertheless, since then, it will be on the downward trajectory, and it will be fluctuating around a single digit for all scenarios likewise reaching 3.3%.

However, the medium-term picture will be diversified if the international hikes of food and oil prices are to be accounted for. Headline inflation is expected to reach a

double digit of 14.9% by December 2021 that would persist between 11.0% to 13.0% by December 2022.

	Headline Forecasts _Baseline	Contribution of Food Prices to Headline	Contribution of Energy Prices to Headline	Total Effect on Headline CPI
	Weight	35.90%	2.80%	
Jun-21	4.78			
Sep-21	6.04			
Dec-21	6.99	2.10	3.17	12.27
Mar-22	6.63	2.67	2.31	11.60
Jun-22	5.50	3.23	2.35	11.08
	6.29	2.67	2.61	11.65
Sep-22	7.31	3.80	2.63	13.74
Dec-22	5.54	4.37	1.83	11.73
Mar-23	5.28	4.93	1.57	11.78
Jun-23	4.41	5.50	1.38	11.29
	5.63	4.65	1.85	12.14

Source: MAP's Estimates.



Source: MAP's Estimates.

We still emphasize that future dynamics in inflation will partially depend on how the economy will perform on the real activity front along with the dynamics in both inflation rate and FOREX market during the next couple of quarters.