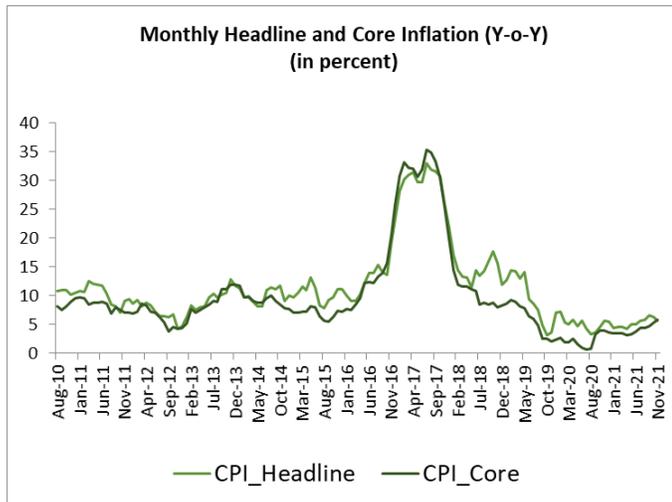




# Low Monthly Core Inflation Amid Stable Economy-Wide Headline in November 2021

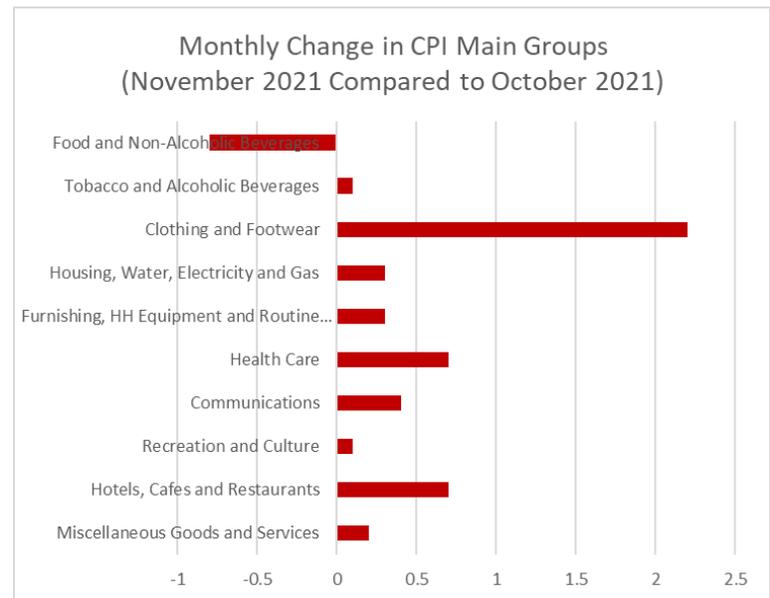
Thursday 9<sup>th</sup> of December 2021

**Recent dynamics in headline and core inflation ...** Urban headline inflation (Y-o-Y) decelerated to register 5.6% in November, compared to 6.3% a month earlier. The decline is driven primarily by the monthly developments accounted for 0.1% in November 2021, compared to 0.8% the same month of the previous year. Meanwhile, core inflation accelerated in November to record 5.8% (Y-o-Y) compared to 5.2% in October. This is due to a higher m-o-m rate of 0.5% in November 2021, compared to 0% during the same month of the previous year.



Source: CAPMAS and Central Bank of Egypt.

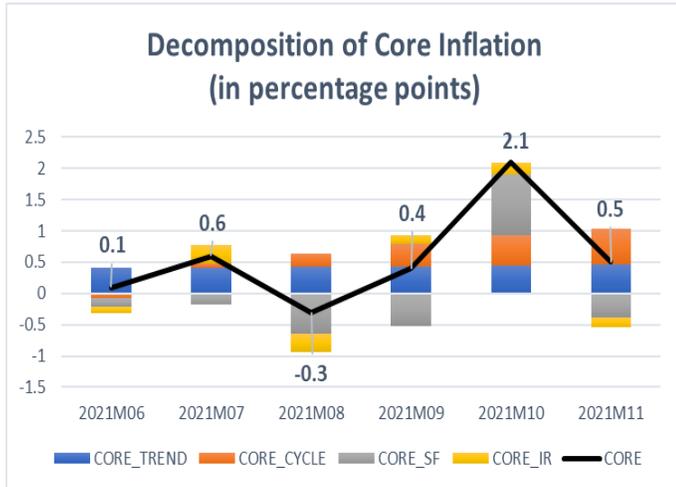
On another front, the annual headline nationwide inflation rate stabilized at 6.2% in November 2021 compared to 6.3% a month earlier. This relative stability stemmed from the balance between increases and decreases of the CPI main groups as shown in the following chart. It is worth to note that food and non-alcoholic beverages group witnessed a monthly deceleration of 0.8% in November 2021.



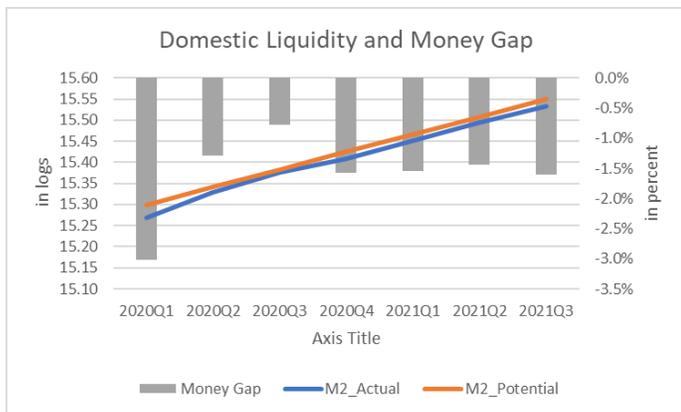
Source: CAPMAS.

**Sources of demand-driven inflation ...** The deceleration in the monthly core inflation emerged from the retreated seasonal factors attributed to the decrease in prices of food products other than fruits and vegetables that usually occur during that time of the year. In addition to favorable pass-through effect from stable FOREX market.

The decomposed series indicated that both seasonal and irregular factors have pulled down core inflation during November 2021. This occurred despite the positive contribution of both inflation expectations (core\_trend) and the cyclical factors (core\_cycle). These dynamics has resulted in a single digit core inflation despite the surge witnessed in international food and oil prices during the period under analysis.



Source: MAP's Estimates, MPED and CBE.



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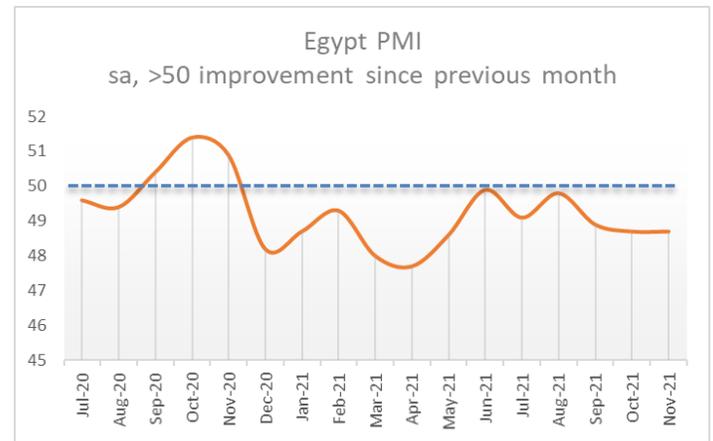
**Domestic liquidity and inflationary pressures ...**

Estimated potential money balances indicated that they are above the actual levels for seven consecutive quarters. This implies unlikely the existence of underlying inflationary pressure in the near future from the demand-side and the business cycle. As such, these dynamics would put downside risks for the Central Bank and would induce it to fix interest rate in the upcoming one or two MPC meetings. Adding to the above, the supply shock related to the raised fuel and energy prices, which took place last month and started to materialize in July's figure, began to spread during November and December.

**PMI developments and prices dynamics ...**

IHS Markit's Purchasing Managers' Index (PMI) came in at 48.7, below the 50.0 threshold that separates growth from contraction, unchanged from October. A sharp rise in business costs continued to drive higher selling prices and lower demand across the Egyptian non-oil economy during November. The input cost inflation sub-index, at 63.7, was at its second-fastest in over three years, beaten only by October's 64.5. A loss of client demand and slowdowns due to global supply chain issues were often behind the downturn. Companies noted that higher selling prices often deterred customer spending in the domestic market.

Lower demand in the domestic economy due to higher selling prices fueled the negative money gaps. Such dynamics suggest that inflationary pressures will be muted during the short- to medium-terms.



Source: IHS Markit.

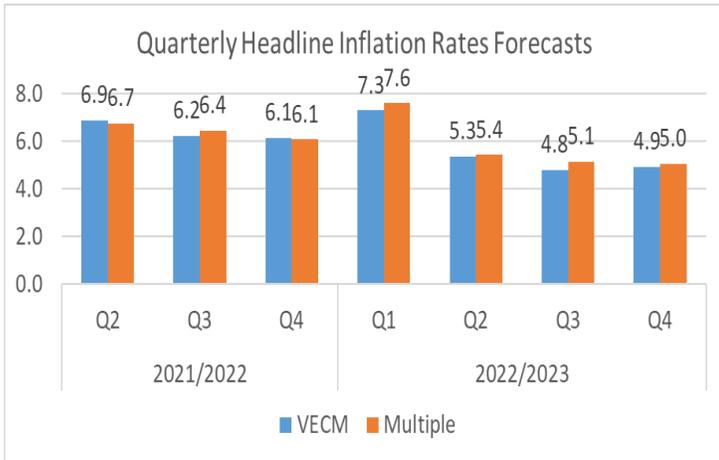
**Forecasts for headline and core inflation ...**

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...**

It is expected that urban headline inflation will be maintained during FY2021/22 at a single digit, although it will increase to reach 7.0%. This would be attributed to the favorable pass-through effect from the

stable FOREX market. Moreover, inflation expectations are broadly managed as shown in the decomposed core figures accounting for only 0.46% of November monthly inflation rate. In addition, money gaps suggest downside risks to inflation during the upcoming quarters.



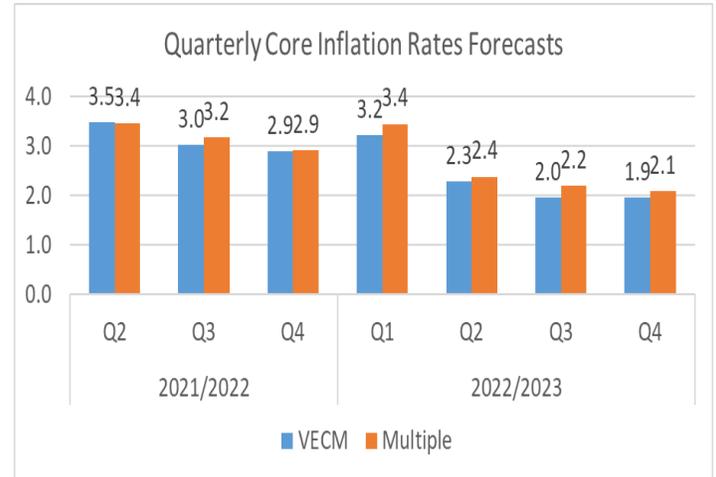
Source: MAP's Estimates.

For headline inflation, baseline forecasted figures are on average ranging between 5.0% and 7.4% for FY2021/22 and FY2022/23.

As such, the forecasts show that short-term inflation will be hovering, on the lower edge, around the target set by the CBE which is 7% (+/-2%) suggesting that the CBE will be able to meet its target, however, conditions might reverse in the medium term.

Regarding the core inflation forecasts, recent dynamics indicate that it will be kept at a single digit for some time, and it will be below the historical averages. Evidently, it will show a muted rates during FY2021/22 and FY2022.23, to reach an average of maximum 3.5% as per both the multiple regression and the VECM model by Q2 FY2021/22; nevertheless, since then, it will be on the downward trajectory, and it will be fluctuating around a single digit for all scenarios likewise ranging between 2.9% to 3.5%.

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.



Source: MAP's Estimates.