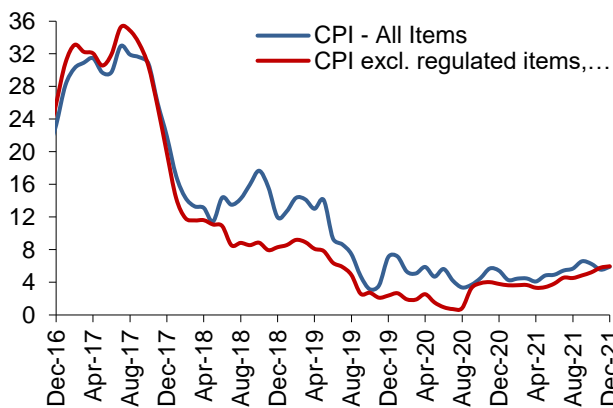


Headline and Core Inflation – December 2021

- Annual headline urban inflation^{1/} increased to record 5.9 percent in December 2021 from 5.6 percent in November 2021, after declining for two consecutive months. The increase in annual headline inflation came partially due to unfavorable base effects. This comes as monthly headline urban inflation recorded negative 0.1 percent in December 2021 compared to negative 0.4 percent in December 2020. Consequently, on average, annual headline urban inflation recorded 5.2 percent in 2021 compared to 5.0 percent in 2020 (CY).
- Monthly headline urban inflation^{1/} in December 2021 was mainly driven by seasonally lower prices of fresh vegetables, especially tomatoes and potatoes. Meanwhile, prices of core food items were broadly stable as the decline in poultry prices were broadly offset by higher prices of other core food items; namely red meat, edible oil and cheese among others. On the other hand, the decline in food prices more than offset the higher prices of nonfood items which mainly reflected higher prices of natural gas for houses as well as Butane gas prices as announced by the government, which is their first official increase since 2019. In addition, it also reflected higher prices of rent, private hospitals, outpatients' services as well as cafes and restaurants among others.
- On an annual basis, the increase in headline inflation during December 2021 was driven by a higher annual contribution of non-food items, and further supported by higher food items' contribution. The increase in non-food items' contribution came as annual non-food inflation increased to 4.8 percent in December 2021 from 4.5 percent in November 2021. On the other hand, annual food inflation picked up its upward trend that started in May 2021 and was only interrupted in November 2021, to record 8.4 percent in December 2021 from 8.1 percent in November 2021; due to a weaker decline in the prices of volatile food items in December 2021 relative to December 2020.
- Driven by the higher annual contribution of services and retail items, annual core inflation^{2/} increased, for the fourth consecutive month, to record 6.0 percent in December 2021 compared to 5.8 percent in November 2021. The increase was partly affected by unfavorable base effects which reflect the muted inflationary pressures during December 2020. This comes as monthly core inflation recorded 0.2 percent in December 2021 compared to zero in December 2020.
- Nationwide annual inflation^{1/} and annual rural inflation increased to record 6.5 percent and 7.1 percent in December 2021 from 6.2 percent and 6.8 percent in November 2021, respectively.

Headline and Core CPI Inflation ^{3/}

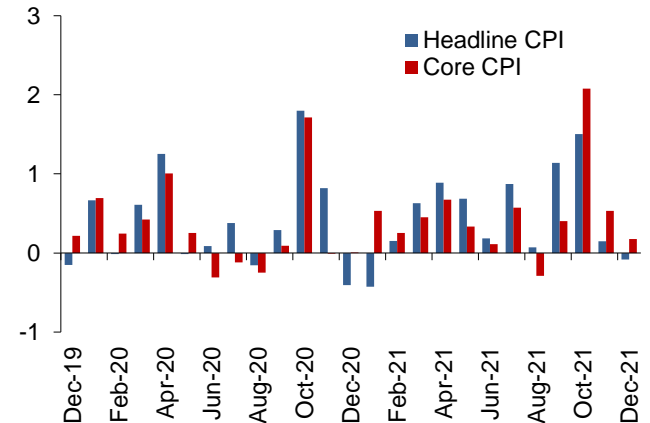
(y/y, in percent)



Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

Headline and Core CPI Inflation ^{3/}

(m/m, in percent)



Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

1/ Published by the Central Agency for Public Mobilization and Statistics.

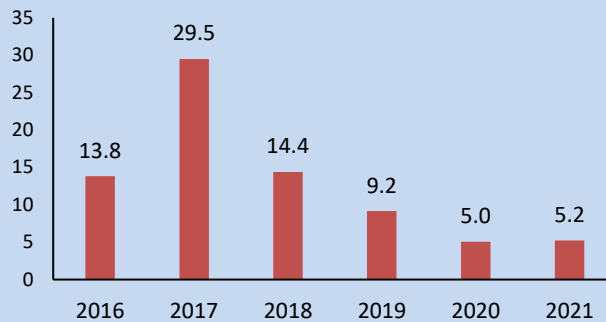
2/ Computed by the Central Bank of Egypt.

3/ CAPMAS publishes three CPI series: (1) the CPI for urban areas which include Cairo, Alexandria, urban Lower Egypt, urban Upper Egypt, Canal cities and Frontier governorates, (2) the CPI for rural areas, and (3) the CPI for All areas. Numbers quoted in this note refer to CPI-Urban.

Egypt's Headline Inflation Developments During 2021

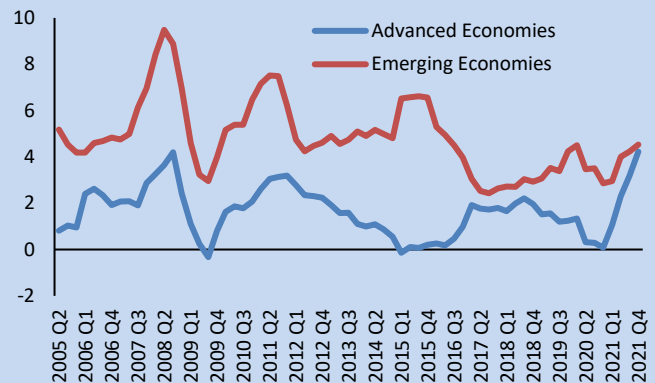
Globally, the outbreak of the COVID-19 pandemic casted its shadows on economic activity as a result of the containment measures, shutdowns and the associated level of uncertainty. However, with the easing of these measures and the spread of vaccines, economies started to open and to recover, albeit with different degrees, mainly due to uneven vaccination access and policy support¹. Yet, challenges remain as different variants of the virus arise, as well as rising inflation in both advanced and emerging economies since the beginning of 2021, among other things.

Average annual headline urban inflation in Egypt (in %)



*Source: Central Agency for Public Mobilization and Statistics.

Average annual headline inflation Globally (in %)



* Source: Bloomberg.

During 2021, the Egyptian economy continued to deal with the outbreak of the COVID-19 pandemic, however, it showed resilience. It came among the few countries that recorded a positive growth rate during 2020. Real GDP growth registered a preliminary figure of 9.8 percent in 2021 Q3 compared 7.7 percent in 2021 Q2, which reflects the sustained pick-up of domestic economic activity, as well as the partial impact of a positive base effect. In addition, the unemployment rate stabilized at 7.5 percent in 2021 Q3 compared to 7.3 percent in 2021 Q2. This comes along a broadly stable exchange rate. During all of the Monetary Policy Committee (MPC) meetings held in 2021, the CBE decided to maintain its main policy rate unchanged. This comes after cutting key policy rates, by a cumulative of 400 bps, in 2020 to support economic activity in light of the global and domestic developments stemming from the outbreak of the COVID-19 pandemic.

¹ According to IMF world Economic Outlook October 2021 <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

Accordingly, average annual headline urban inflation recorded 5.2 percent during 2021 (CY) compared to 5.0 percent during 2020 (CY) which was the lowest rate recorded since 2005. However, dynamics within 2021 diverged between the first four months and the rest of the year. During the first four months of 2021, annual inflation recorded muted rates below 5.0 percent due to broadly muted monthly inflation rates – for instance, monthly headline inflation in January 2021 was as low as negative 0.4 percent – in addition to favorable base effects created by the high inflation rates recorded at the onset of the pandemic in early 2020.

After that, annual headline urban inflation was on an upward trend since May 2021, that was only interrupted during October and November 2021. It picked up to be above 5.0 percent, partially reflecting unfavorable base effects resulting from the low inflation levels that were recorded in the second half of 2020, especially in Q3 2020 when the impact of the COVID-19 outbreak became deflationary, as well as the reversal of a short-lived tomato supply shock witnessed during December 2020.

The pickup also reflects the impact of rising international commodity prices such as Brent prices which recorded an average of 71.5 USD/bbl. in 2021 compared to an average of 41.6 USD/bbl. in 2020, which led the Automatic Price Indexation Committee to raise the prices of some fuel products in three reviews. In addition, several fiscal consolidation measures were announced by the government which include raising electricity prices for households, fees on various governmental paperwork and licenses, Butane gas prices, as well as the price of natural gas for houses, cars and factories. Moreover, the Ministry of Agriculture and Land Reclamation of Egypt announced an increase in the prices of subsidized fertilizers which plays a role in increasing the input costs of food production.

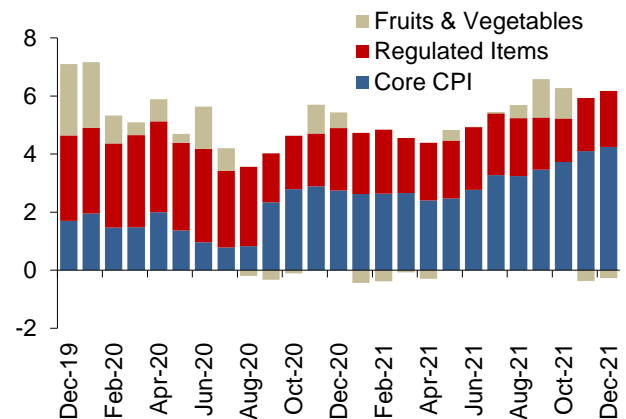
While the weight of the food and beverages group declined from 39.9 percent to 32.7 percent with the release of the 10th CPI series starting from September 2019, it still remains the largest component in the CPI basket. Starting May 2021, annual food inflation picked up strongly until the end of the year (except for November 2021), reflecting (i) the increase of international food prices by 28.1% in 2021 compared to an increase of only 3.2% in 2020, according to the FAO², and (ii) unfavorable base effects resulting from muted prices in 2020 where containment measures have affected domestic inventory levels. This trend not only reflected the increase in market prices but also reflected their impact on domestic inflation via rising prices of subsidized food items such as edible oil which witnessed an increase in its prices twice during 2021.

² According to the FAO's International Food Price Index December 2021.
<https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

Key Highlights:

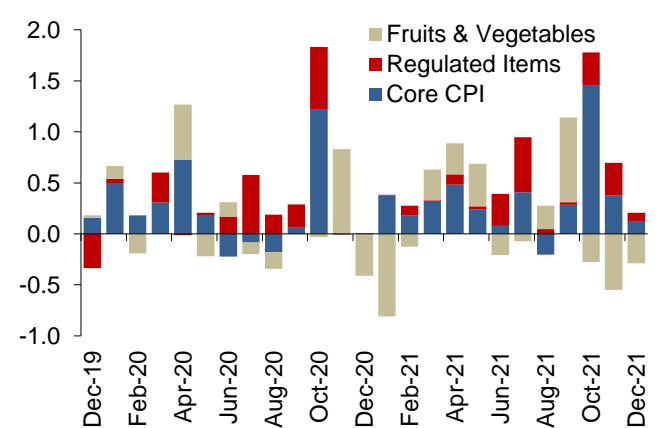
- Prices of **fresh vegetables** declined by 8.8 percent, while prices of **fresh fruits** increased by 0.1 percent. Together, **fresh vegetables and fresh fruits** contributed by negative 0.29 percentage points to monthly headline inflation.
- Prices of **poultry** declined by 3.9 percent for the second consecutive month, to contribute by negative 0.15 percentage points to monthly headline inflation.
- Prices of **eggs** declined by 1.3 percent, for the first time in seven months, to contribute by negative 0.02 percentage points to monthly headline inflation.
- Prices of **Fish and seafood** declined by 0.5 percent, to contribute by negative 0.01 percentage points to monthly headline inflation.
- Prices of **red meat** increased by 0.7 percent, to contribute by 0.03 percentage points to monthly headline inflation.
- Prices of **dairy products** increased by 1.1 percent, to contribute by 0.04 percentage points to monthly headline inflation.
- Prices of **other core food items**, including other edible oils, fats, rice, pasta, pulses, and

Contribution to Annual Headline CPI Inflation
(in percentage points)



Source: Central Bank of Egypt.

Contribution to Monthly Headline CPI Inflation
(in percentage points)



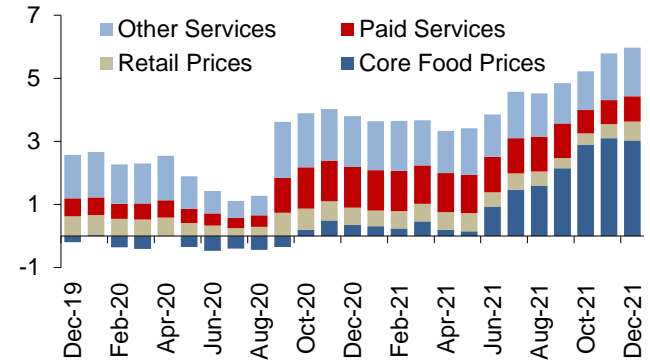
Source: Central Bank of Egypt.

tea increased to contribute by 0.10 percentage points to monthly headline inflation.

- Prices of **regulated items** increased by 0.3 percent, to contribute by 0.08 percentage points to monthly headline inflation. This was mainly due to the increase in the prices of Butane & piped gas service.
- Prices of **services** increased by 0.3 percent, to contribute by 0.09 percentage points to monthly headline inflation. This was mainly due to the increase in rental values, expenditures on restaurants and cafes, prices of outpatient services, as well as, private hospitals' services among others.
- Prices of **retail items** increased by 0.3 percent, to contribute by 0.04 percentage points to monthly headline inflation. This was mainly due to the increase in prices of clothing, cleaning products and personal care products.
- Monthly core inflation** was affected by price changes of the aforementioned core CPI items. **Services** items contributed by 0.13 percentage points to monthly core inflation. **Retail items** contributed by 0.06 percentage points to monthly core inflation. Meanwhile, **core food items** contributed by negative 0.02 percentage points to monthly core inflation.

Contribution to Annual Core CPI Inflation

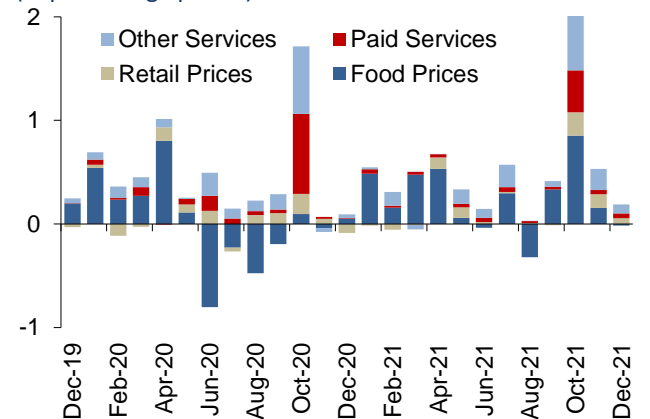
(in percentage points)



Source: Central Bank of Egypt.

Contribution to Monthly Core CPI Inflation

(in percentage points)



Source: Central Bank of Egypt.

Table 1:
Classification of All Items included in Core CPI

| Food | Retail | Paid Services | Other Services |
|-------------------------|---|-----------------------------------|--|
| Bread and cereals | Clothing | Tailors, laundry & shoe repair | Rentals (new law) |
| Meat | Fabrics | Dwelling maintenance services | Rental value of owner occupied housing |
| Fish and other seafood | Footwear | Portman & gardener's services | Hospital services |
| Eggs & Dairy products | Products related to dwelling repairment | Cook & maid's services | Transportation Services |
| Oils and fats | Furniture | Technicians to HH appliances | Mobile & internet services |
| Dried fruits | Carpets and other floor covering | Repairs of Audio-visual equipment | Recreational & sporting services |
| Processed vegetables | Household (HH) textiles | Physicians | Cultural services |
| Pulses | HH appliances | Mechanics | Hajj & Omra trips |
| Sugar and confectionery | Glassware, tableware and HH utensils | Teachers | Restaurants and Cafes |
| Other food products | HH small tools & supplies | Hairdressers | Accommodation services |
| Beverages | HH cleaning products | | Private schools |
| | HH miscellaneous products | | Summer & Winter Vacations |
| | Purchase of vehicles | | |
| | Spare parts | | |
| | Motor oil | | |
| | Telephone & telefax equipment | | |
| | Home entertainment equipment | | |
| | Recreational equipment | | |
| | Personal care supplies and products | | |
| | Personal effects | | |
| | Books | | |
| | School supplies | | |
| | Medical care goods | | |

Table 2:
Consumer Price Index and Major Components ^{1/}

| | Weight in basket 2/ | December 2020 | December 2021 | December 2021 to November 2021 | December 2021 to December 2020 |
|--|---------------------------|---------------|---------------|--------------------------------|--------------------------------|
| | (in percent) | (index) | | (percentage change) | |
| | (Average 2018/2019 = 100) | | | | |
| Headline - All items | 100.00 | 110.62 | 117.15 | -0.08 | 5.90 |
| Food and beverages | 32.73 | 100.30 | 108.75 | -0.98 | 8.43 |
| Tobacco and related products | 4.41 | 113.28 | 116.97 | 0.01 | 3.26 |
| Clothing and footwear | 4.38 | 107.01 | 109.95 | 0.27 | 2.75 |
| Housing, water, electricity, gas and other fuels | 19.46 | 109.30 | 113.87 | 0.54 | 4.18 |
| Furnishings, household equipment and routine maintenance of the dwelling | 3.93 | 106.35 | 109.03 | 0.34 | 2.52 |
| Medical care | 8.59 | 116.89 | 120.05 | 0.22 | 2.70 |
| Transportation | 6.66 | 120.68 | 126.48 | 0.42 | 4.80 |
| Communications | 2.75 | 104.49 | 105.19 | 0.01 | 0.67 |
| Recreation and Culture | 2.24 | 117.33 | 134.64 | 0.06 | 14.76 |
| Education | 5.49 | 150.97 | 170.21 | 0.00 | 12.75 |
| Hotels, cafes and restaurants | 4.98 | 117.38 | 120.86 | 0.33 | 2.97 |
| Miscellaneous goods and services | 4.37 | 112.97 | 117.01 | 0.55 | 3.58 |
| Selective aggregates | | | | | |
| Fruits & vegetables 3/ | 5.46 | 108.54 | 103.04 | -5.68 | -5.07 |
| Regulated items | 21.44 | 121.85 | 131.82 | 0.34 | 8.18 |
| Food excl. fruits & vegetables | 24.51 | 98.24 | 107.96 | -0.05 | 9.90 |
| Retail items | 14.34 | 109.17 | 112.44 | 0.30 | 3.00 |
| Paid services | 6.96 | 124.53 | 133.50 | 0.41 | 7.20 |
| Other services | 27.30 | 110.56 | 115.00 | 0.23 | 4.02 |
| Core CPI | 73.09 | 105.55 | 111.85 | 0.17 | 5.97 |

1/ Source: CAPMAS and CBE calculations

2/ Based on 2017/2018 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits