

Egypt Economic Note

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Inflation jumps in Sep, on food price seasonality

Macro Strategy Report

www

Headline inflation close to two-year high in Sep, on seasonality

Egypt's headline urban consumer price inflation jumped to 6.6% in Sep, from 5.7% in Aug, hitting close to a two-year high and coming in above our expected 5.6%. The elevated reading was driven primarily by a sharp jump in the more volatile items in food prices, reflecting seasonal price swings. Food inflation accelerated to 10.6% in Sep, from 6.6% in Aug, while non-food inflation decelerated to 4.9%, from 5.3% in Aug. On a monthly basis, food prices jumped 3.5% M-o-M in Sep – the highest in more than a year – as vegetable prices jumped 21.2% M-o-M; excluding fruit and vegetables, food prices were up only 0.9% M-o-M. We note that such price jumps are typical at this time of the year, due to weather conditions around the harvest; while the market was spared such moves in the past couple of years, monthly food inflation has averaged 2.5% in Sep between 2014-18 (see fig. 7). Meanwhile, non-food inflation was nearly flat in Sep, up only 0.1% M-o-M, with the absence of any major price rises in non-food items of the consumer basket.

Underlying inflationary pressures remain muted

The Sep inflation reading still points to the absence of any signs of rising underlying inflationary pressures. Food prices have been, indeed, on the rise in the past few months, but this was largely reflecting the lower base from last year and a very gradual pass-through of rising global commodity prices. This month's jump in vegetable prices – almost entirely domestically produced – is not a sign of rising underlying inflation, nor is it indicative of infiltration of global food prices. We adjust our forecasts to include Sep's elevated reading, as well as the recent decision to hike fuel prices for the third time this year; we note that higher fuel prices will not have a large impact on headline inflation, given a 2.4% average increase in prices and a continued stabilisation of diesel prices. We forecast inflation to end the year at 5.2% (from an earlier 4.3%) before rising to a range of 6-7% in 2022.

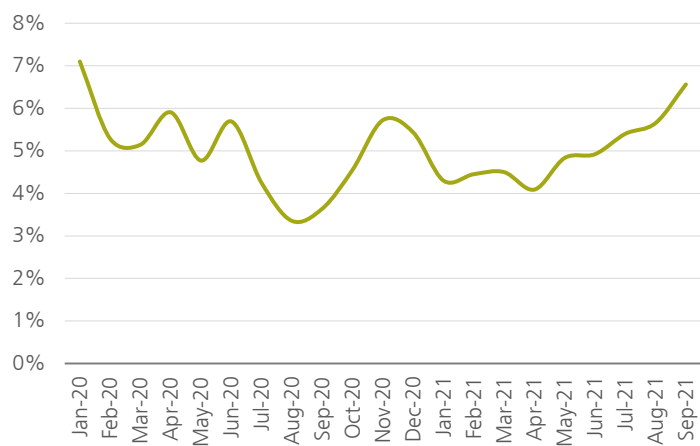
CBE likely to stay on course of stable policy rates

We expect the Central Bank of Egypt (CBE) to continue keeping policy rates on hold at its next meeting to be held later this month and until year-end. Sep's rise in inflation does not warrant any reaction from the CBE, in our view, given that it was driven by seasonal factors. Inflation remains well within the CBE's target of 7% +/-2%. Moreover, underlying inflation remains subdued, by virtue of the low non-food inflation and core inflation numbers. We do not expect any immediate reaction from the CBE to the prospective tightening by the US Federal Reserve, considering the sizable cushion on real rates. Our expectation of relatively subdued inflation at least in 1H21 – as consumption recovers gradually – leads us to expect policy rates to remain on hold at least until mid-2022. Key risks to this outlook include a continued rise in global commodity prices and/or a more-aggressive-than-anticipated tightening in global monetary conditions.

Supporting charts

Figure 1: Annual headline inflation accelerated...

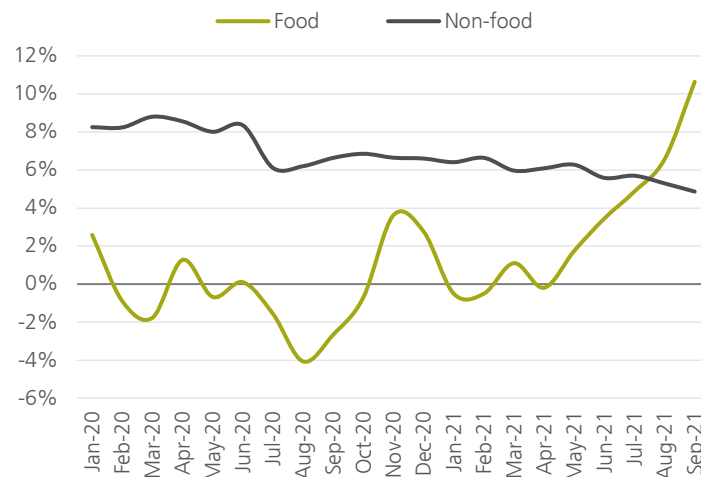
In Y-o-Y % change



Source: CAPMAS

Figure 2: ...driven by food prices as non-food inflation slowed

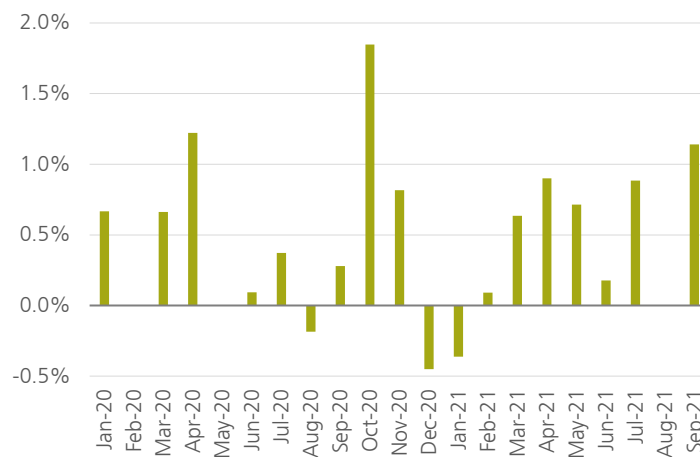
In Y-o-Y % change



Source: CAPMAS

Figure 3: Inflation was up 1.1% M-o-M...

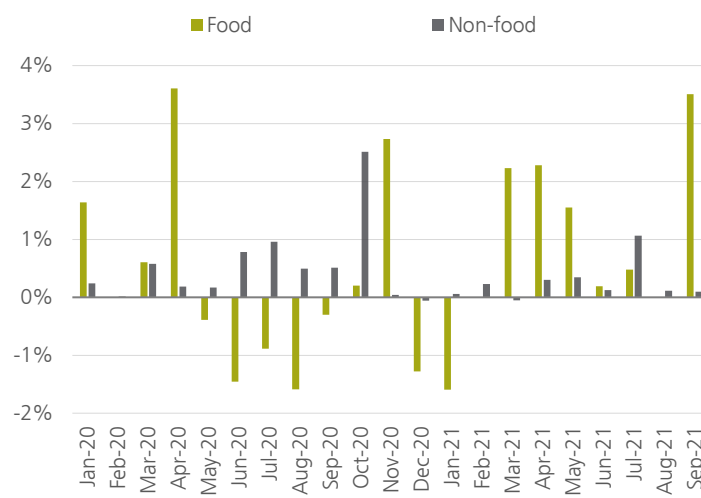
In M-o-M % change



Source: CAPMAS

Figure 4: ...as food prices spiked, while non-food was nearly flat

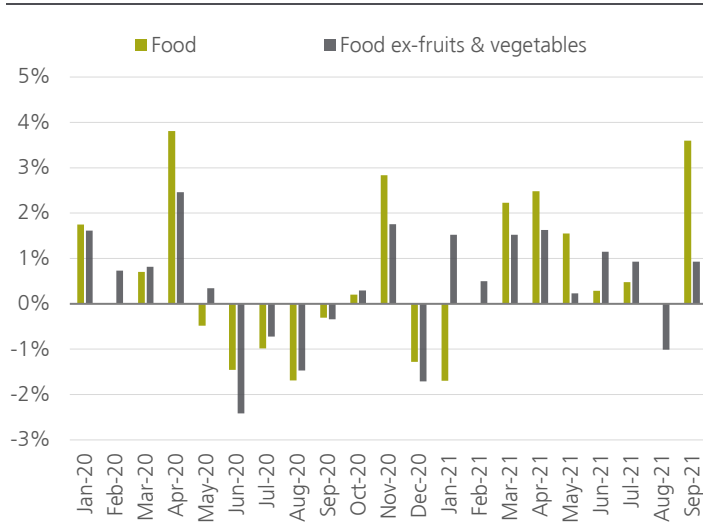
In M-o-M % change



Source: CAPMAS

Figure 5: Seasonal rise in vegetable prices drove the spike in food prices...

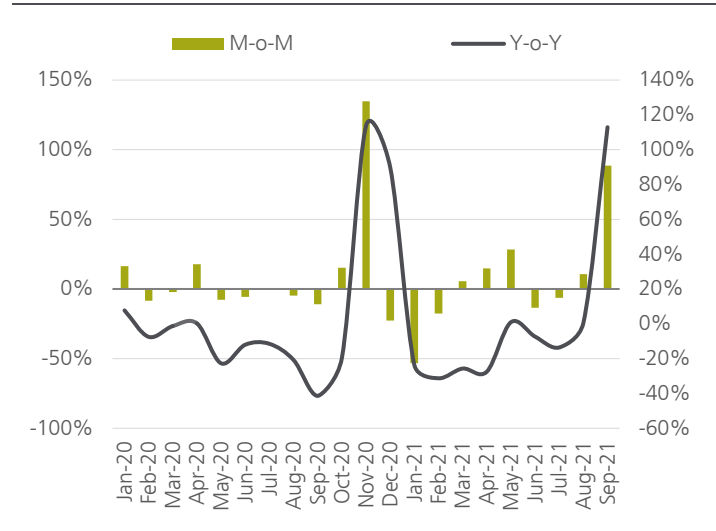
In M-o-M % change



Source: CAPMAS, EFG Hermes

Figure 6: ...with tomatoes leading the price rise, jumping 89% in Sep, on a monthly basis

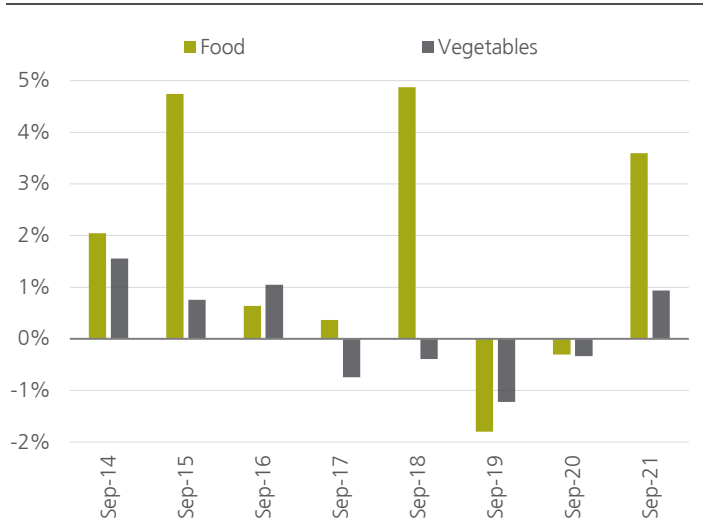
% change in tomatoes prices



Source: CAPMAS

Figure 7: Vegetable prices rising in Sep is typical at this time of the year; food prices average 2.5% M-o-M in Sep 2014-18

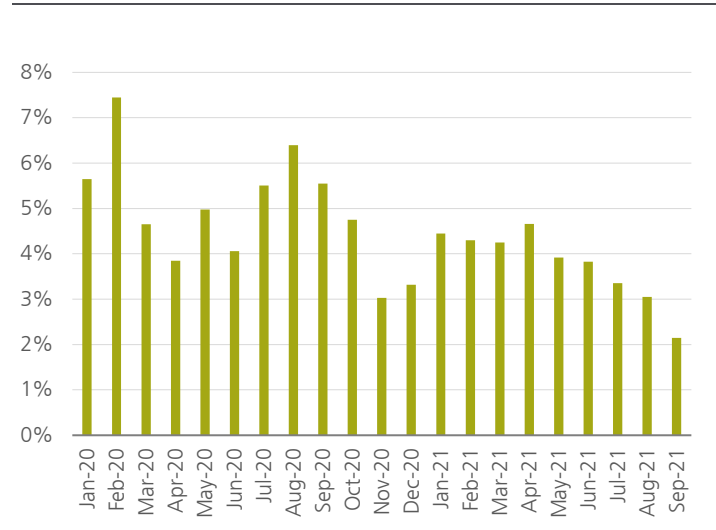
In M-o-M % change



Source: CAPMAS

Figure 8: Real policy rates still enjoy a decent cushion of +2%, albeit having recently diminished as inflation normalises

In %



Source: CAPMAS, CBE

Egypt Macroeconomic Indicators (Year-end Jun)

	2019a	2020a	2021e	2022e	2023e
Real Sector					
Nominal GDP (USDbn)	302.4	361.9	398.5	446.7	481.3
Real GDP growth	5.6%	3.6%	2.8%	5.4%	5.2%
Population (mn)	98.9	100.9	102.9	105.0	107.1
Per capita GDP (USD)	3,057	3,587	3,872	4,256	4,496
CPI inflation (% , Avg.)	13.9%	5.7%	4.5%	6.0%	6.0%
External Sector					
Trade balance (USDbn)	(38.0)	(36.5)	(39.5)	(41.5)	(45.1)
Services balance (USDbn)	13.0	9.0	4.8	11.0	13.8
Tourism (USDbn)	12.6	9.9	4.5	9.3	12.1
Suez canal (USDbn)	5.7	5.8	5.9	6.2	6.4
Private transfers (net) (USDbn)	24.8	27.5	29.0	30.2	31.1
Current account balance (USDbn)	(10.9)	(11.2)	(17.7)	(12.0)	(12.0)
Current account balance (% of GDP)	-3.6%	-3.1%	-4.4%	-2.7%	-2.5%
FDI (USDbn)	7.9	7.1	6.1	7.3	8.3
Fiscal Sector					
Tax revenues (USDbn)	41.8	46.0	51.1	59.1	63.7
Subsidies (USDbn)	11.6	8.2	7.9	8.3	8.8
Primary balance (% of GDP)	1.9%	1.8%	1.2%	1.8%	1.8%
Fiscal balance (USDbn)	(24.4)	(28.8)	(30.7)	(31.0)	(32.2)
Fiscal balance (% of GDP)	-8.1%	-7.9%	-7.7%	-6.9%	-6.7%
Net domestic budget sector debt (% of GDP)	59.1%	62.1%	64.6%	60.8%	58.2%
Gross external government debt (% of GDP)	18.9%	19.2%	20.6%	22.6%	23.5%
Monetary Sector					
NFAs in the banking system (USDbn)	18.4	7.6	16.0	17.0	17.5
Foreign reserves (USDbn)	44.4	38.2	40.6	42.1	43.3
Exchange rate versus USD (Avg.)	17.60	16.08	15.74	15.70	16.25
Benchmark lending interest rate (end of period)	16.8%	10.3%	9.3%	9.3%	10.3%
Broad money growth	11.8%	17.5%	18.1%	10.7%	11.0%
Private sector credit growth (% , eop)	12.4%	19.5%	21.2%	16.6%	16.6%
Private sector credit (% of GDP)	22.9%	25.0%	28.1%	29.3%	30.6%

Source: Central Bank of Egypt, Ministry of Finance, CAPMAS and EFG Hermes estimates

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