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Central Bank: Core inflation in Egypt 21.5% Y-o-Y in November 2022



In its statement issued on December 8, 2022, the Central Bank of Egypt stated that **core inflation** in Egypt recorded a monthly rate of 2.7% in November, compared to 0.5% in the corresponding month last year, while recording 21.5% on an annual basis in November 2022 against 19% in October 2022.

[Link](#)

Our Views

- First, it should be noted that there are two inflation rates in Egypt: *The first* is published by the Central Agency for Public Mobilization and Statistics (CAPMAS), which is headline inflation that reflects the rates of change in consumer price indices on the various items of expenditure according to relative weights contained in the income, expenditure, and consumption survey. The second is published by the Central Bank of Egypt, which is core inflation that calculates the rates of change in consumer price indices after excluding items such as vegetables and fruit (representing 8.8% of the consumers' commodity basket) and administratively defined items, which represent 19.4% of the consumers' commodity basket. In other words, it excludes a total of 28.2% of expenditure items that are considered when calculating headline inflation. The basis of exclusion is that the first item is highly volatile, while in the second prices are determined by specific parties rather than based on changes in market supply and demand. This means that core inflation reflects lower rates of inflation.
- By following developments in both rates since October 2021, both are in an upward trajectory, as expected. However, one notices that the core inflation rate published by the Central Bank of Egypt has exceeded, for the fifth consecutive month (starting July 2022), the headline inflation rate published by CAPMAS. This is strange and has only happened in 2017 in recent years, as shown by the Figure below. This can be attributed to the fact that headline inflation is the most comprehensive in terms of

items, and therefore is expected to be always the higher of the two rates. This phenomenon is analyzed as follows:

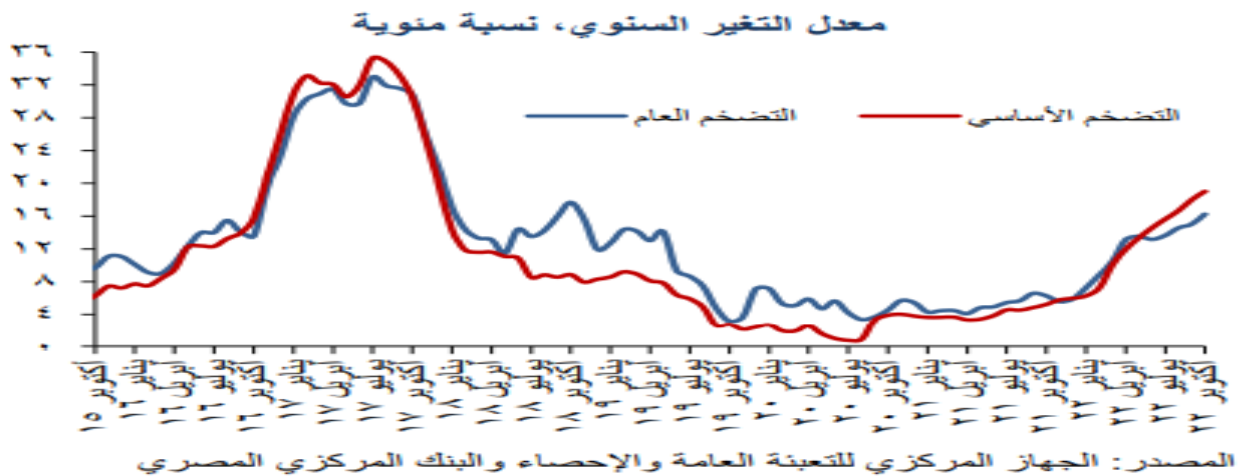
- The inflation index of the Central Bank recorded about 132.19 in November 2022 compared to 111.06 in November 2021, bringing core inflation to 21.5%, according to the Central Bank's calculations, while the consumer price index reached 138.09 in November 2022 against 117.07 in November 2021. Therefore, according to CAPMAS calculations inflation is around 18.7%.
 - With the base year 2018-2019 remaining the same for both inflation rates (core and headline), and weights of the different items for both remaining unchanged (that is, the accounting methodology has not changed), the difference between the two inflation rates is necessarily attributed to the nature of the movement in the prices of expenditure items themselves—in particular, a large and continuous movement in the stable items of spending over the years, reflecting the severity of inflation currently suffered by Egypt.
- The reasons for the high rate of inflation in general, as everyone is aware, relate not only to global economic disruption, but also in a larger extent to problems related to the internal management of the economic system, especially the ill-suited decisions of the Central Bank issued in March 2022, and its unprecedented interference in foreign trade, causing a great paralysis of the production system. ECES addressed in detail the consequences of these decisions in previous issues of *Views on News*.
 - Moreover, the value of the pound against the US dollar has declined significantly recently, which led to an unprecedented

increase in the prices of imports, in addition to their unavailability in the local market because of the aforementioned decisions of the Central Bank. It is worthy of note that core inflation exceeded headline inflation in 2017 following devaluation of the pound against the dollar at that time. Therefore, there is a link between the two phenomena.

- Considering the continuation of this situation, the average inflation rate targeted by the Central Bank, estimated at about 7%, is expected to increase by ± 2 percentage points by end of 2022.
- In the face of the inflationary wave and monetary tightening, the Central Bank of Egypt, like other central banks around the world, resorted to raising the policy interest rate, which was done on May 19, 2022 by 200 basis points, then on October 27, 2022 by another 200 points, bringing the overnight rates of deposit and lending, the rate of the central bank's main operation, and the credit and discount rates to 13.25%, 14.25%, 13.75%, and 13.75%, respectively (Central Bank of Egypt, 2022).¹
- However, it is important to note that raising the interest rate will not necessarily affect inflation, especially in the case of Egypt, given that inflation is not a result of high liquidity, but a large part of it is due to reasons related to supply and production problems.

¹ Central Bank of Egypt, Monetary Policy Committee press release on October 27, 2022.

ECES previously held a seminar that addressed this topic in more detail.²



Based on the foregoing, it is not possible to address the escalation of inflation rates without addressing the real challenges that impede production, the majority of which are linked to local factors, led by restriction of imports. Therefore, we hope the Central Bank will adhere to its announced decision regarding the complete cancellation of its previous decisions, which caused bottlenecks in production chains.

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² Link for the New Macroeconomic Model in Egypt - First Application: Detailed analysis of inflation trends in recent months