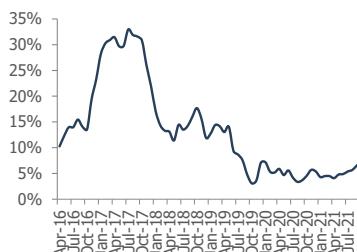


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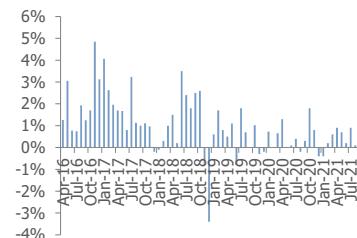
Inflation started gaining momentum, expect maintained rates

Macro Note | Egypt

10 October 2021

Headline inflation in September


Source: CAPMAS

Rising monthly momentum


Source: CAPMAS

Higher annual reading in September

Egypt's annual headline inflation increased to 6.6% in September up from 5.7% in August, coming in slightly above our estimate of 6.4%. The annual rate reflects a rise of 1.1% on a monthly basis compared to 0.1% in August, above our estimate, impacted by 3.5% increase in food prices versus stable food prices a month earlier. We expect inflation in October to maintain its monthly momentum, with the seasonal spending accompanying the school's season coupled with the inflationary impact of the introduced increase in fuel prices. We note that this revision round of fuel prices included an increase in the price of diesel, which is the main fuel used in the transportation of commodities, coupled with an increase in industrial-use mazut. We expect headline inflation to continue gaining momentum in 4Q21 as the rise in global commodity prices starts to reflect gradually in the domestic market coupled with the base effect.

Expect MPC to hold interest rates at its 28 October meeting

The development of the annual headline inflation readings side marked our expected upward trend approaching the CBE target zone of 7% (+/-2%) on average by 4Q22. Given the rising food prices on a monthly basis that coincides with the significant rise in international commodities and energy prices, we expect the Central Bank of Egypt (CBE) to maintain interest rates at the upcoming Monetary Policy Committee (MPC) meeting on 28 October. The need to maintain the lucrative carry trade opportunities in the fixed income market, particularly with the rise in global rates that is posing a risk to inflows into emerging markets, backs our view.

I. Macro-economic Indicators

	FY16/17	FY17/18	FY18/19	FY19/20	FY20/21e	FY21/22e	FY22/23e
Real sector							
GDP, current (USD bn)	235.0	250.4	302.3	361.7	397.8	457.2	532.5
Real GDP growth (%)	4.3%	5.3%	5.6%	3.6%	2.6%	4.9%	5.3%
GDP/Capita, current (USD)	2,469	2,535	3,014	3,603	3,881	4,382	5,014
External sector							
Trade balance (USD bn)	(37.27)	(37.28)	(38.03)	(36.47)	(37.18)	(38.67)	(40.45)
Tourism revenus (USD bn)	4.38	9.80	12.57	9.86	4.77	9.27	12.39
Suez Canal revenue (USD bn)	4.95	5.71	5.73	5.81	5.87	6.00	6.08
Transfers (USD bn)	21.84	26.47	25.11	27.68	29.50	30.10	28.91
Current account (USD bn)	(14.39)	(5.96)	(10.89)	(11.17)	(14.35)	(10.34)	(8.99)
Current account % GDP	-6.1%	-2.4%	-3.6%	-3.1%	-3.6%	-2.3%	-1.7%
FDI (USD bn)	7.93	7.72	8.24	7.45	7.03	7.73	8.44
EGP/USD exchange rate (period avg)	14.76	17.72	17.61	16.09	15.74	15.58	15.41
Net international reserves (end of period, USDbn)	31.3	44.3	44.5	38.2	40.5	42.5	43.3
Reserves/imports coverage (months)	6.4	8.4	8.0	7.3	7.5	7.5	7.2
Monetary sector							
Inflation (CPI, %)	23.3%	21.6%	13.9%	5.7%	4.6%	8.4%	9.7%
Deposits rate (end of period, %)	16.75%	16.75%	15.75%	9.25%	8.25%	8.25%	9.25%
Lending rate (end of period, %)	17.75%	17.75%	16.75%	10.25%	9.25%	9.25%	10.25%
Fiscal sector							
Fiscal deficit (USD bn)	(25.7)	(24.4)	(24.4)	(28.76)	(31.91)	(32.33)	(34.63)
Fiscal deficit % GDP	-10.9%	-9.7%	-8.1%	-8.0%	-8.0%	-7.1%	-6.5%
Primary balance % GDP	-1.8%	0.1%	1.9%	1.8%	1.3%	1.3%	1.3%

Source: CBE, MOF, Beltone estimates

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