

May 10, 2017

The monthly inflation rate decelerated further from 2.1% MoM in March to 1.8% MoM in April, however, the monthly disinflation pace slowed down as seasonal effects of Ramadan pushed food prices slightly higher. On the other hand, we expect the annual inflation rate acceleration (32.9% YoY in April) to ease as favorable base effect emerges gradually in the following months.

### **April inflation dynamics: Core food items' contribution rose slightly, non-food items' contribution declined, fruits and vegetables' contribution remained high**

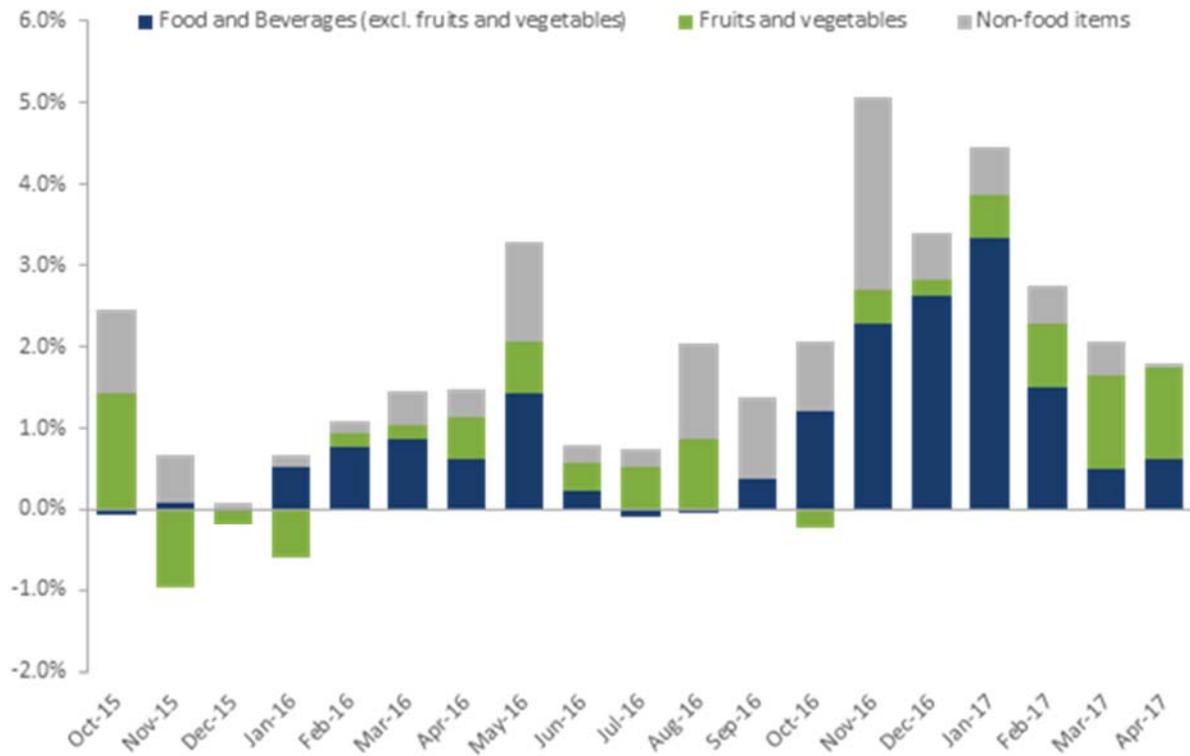
In April, core food items' contribution to the monthly inflation rate rose slightly, from 0.5% in March, to 0.6% in April. **Such an acceleration was supported by an increase in the prices of meat, poultry and fish ahead of Ramadan.** Non-food items' contribution went down from 0.4% in March to 0.04% in April. Meanwhile, the contribution of fruits and vegetables remained at 1.1% in April.

### **Three factors to pose upside risks to the inflation rate**

Going forward, we see three factors posing upside risks to the inflation rate:

- **Electricity tariff hike:** We note that 'housing, water, **electricity**, gas and other fuels' represents 18.4% of the overall Consumer Price Index weight. Such a small weight implies that the tariff hike impact on the general price level will be small and short-lived. Moreover, the core tariff increase targets higher-consumption levels, which will also help mitigate the impact on lower-income groups.
- **An increase in the Value Added Tax rate from 13% to 14%:** We believe that prices reaction will not be as big as last year, when the VAT was introduced to include more services at a higher tax rate (The GST rate was 10%).
- **Another round of fuel price hike:** In line with the IMF extended fund facility, the current level of the EGP exchange rate, in addition to the oil price outlook an ad-hoc fuel price adjustment is inevitable. Fuel products' ripple effect would go through the economy affecting the prices of various products, directly and indirectly, leading to a wave of cost-push inflation. However, most importantly, it may also alter inflation expectation, fueling a demand-pull inflationary pressure.

### Contribution to the overall monthly inflation



Source: CAPMAS



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Source: CAPMAS

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