



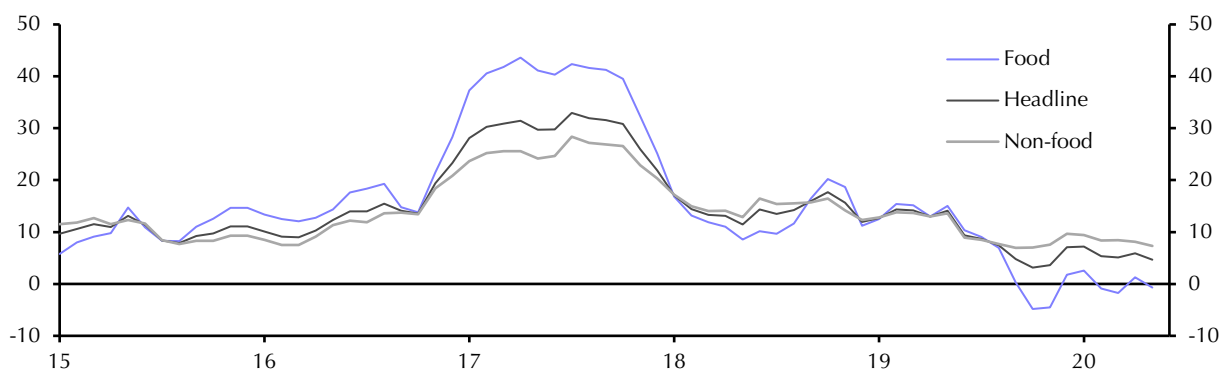
# MENA DATA RESPONSE

## Egypt Consumer Prices (May)

### Door swings open for easing cycle to resume

- **The fall in Egyptian inflation to 4.7% y/y in May leaves the headline rate well below the lower bound of the central bank's target range and, with policymakers' focus shifting away from supporting the pound to boosting the economy, we expect interest rate cuts to resume in the coming months.**
- The headline rate – which covers urban consumers only – dropped from 5.9% y/y in April to 4.7% y/y last month. The outturn was weaker than our forecast for inflation to have fallen to 5.2% y/y and **leaves headline inflation well below the Central Bank of Egypt's (CBE) target range of 9±3% for end-2020.** (See Chart 1.) On a month-on-month basis, prices were unchanged.
- **The breakdown showed that the fall in inflation last month was broad-based.** Food and beverage prices fell by 0.7% y/y last month, compared with a rise of 1.3% y/y in April, which is likely to come on the back of the unwinding of stockpiling ahead of lockdown measures. Among the other major price categories, health and housing inflation slowed last month which more than offset a rise in transport and clothing inflation. (See Table 1.)
- The central bank has loosened its grip on the pound over the past month or so, causing the currency to weaken by 2.4% against the dollar since the end of April. We expect it to fall further towards 17/\$ by year-end. While this, coupled with recently-announced electricity price hikes, might put some upward pressure on inflation in the coming months, we expect the headline rate to remain the mid-point of the central bank's target range throughout our forecast horizon.
- Subdued inflation, in addition to the news that the authorities have reached a staff-level agreement with the IMF for a one-year \$5.2bn stand-by arrangement, means that the environment is becoming much more conducive for the central bank to resume its easing cycle over the coming months in order to support the struggling economy. Our forecast is for **the benchmark overnight deposit rate to be lowered by 225bp, to 7.00%, before year-end.**

Chart 1: Egypt Consumer Prices (% y/y)



Source: CAPMAS

Table 1: Egypt Consumer Prices\* (% y/y)

	Consumer Prices		Food & Bev	Housing	Transport	Health	Clothing	Education
	% m/m	% y/y	% y/y	% y/y	% y/y	% y/y	% y/y	% y/y
<b>Feb.</b>	0.0	5.3	-0.9	4.7	16.1	11.4	3.7	21.9
<b>Mar.</b>	0.7	5.1	-1.8	4.8	15.4	11.7	3.6	21.9
<b>Apr.</b>	1.2	5.9	1.3	5.1	13.6	11.7	1.7	21.9
<b>May</b>	<b>0.0</b>	<b>4.7</b>	<b>-0.7</b>	<b>5.0</b>	<b>14.5</b>	<b>8.3</b>	<b>5.7</b>	<b>21.9</b>

Source: CAPMAS. \*Based on series for urban households.



**Disclaimer:** While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Capital Economics Limited and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or investments.

**Distribution:** Subscribers are free to make copies of our publications for their own use, and for the use of members of the subscribing team at their business location. No other form of copying or distribution of our publications is permitted without our explicit permission. This includes but is not limited to internal distribution to non-subscribing employees or teams.

---



Email [sales@capitaleconomics.com](mailto:sales@capitaleconomics.com) Visit [www.capitaleconomics.com](http://www.capitaleconomics.com)

---