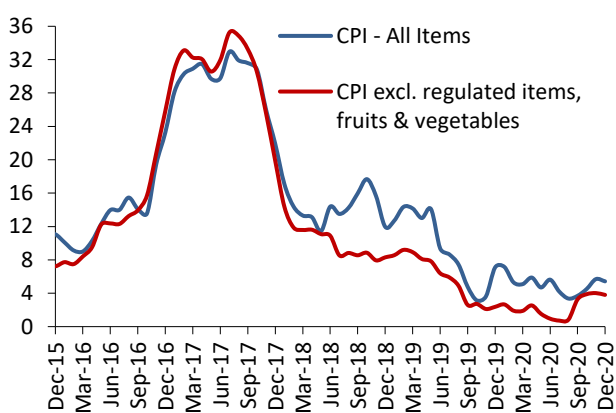


## Headline and Core Inflation – December 2020

- Annual headline urban inflation<sup>1/</sup> declined to 5.4 percent in December 2020 from 5.7 percent in November 2020. This comes as monthly headline urban inflation recorded negative 0.4 percent in December 2020 compared to negative 0.2 percent in December 2019. Annual headline urban inflation registered an average of 5.2 percent during 2020 Q4 against a target lower band of 6 percent as was announced in 2018 (see box 1 for more details). The subsequent inflation target has been set at an average of 7 percent ( $\pm 2$  percent) during 2022 Q4, as was announced in December 2020.
- December 2020 monthly headline urban inflation<sup>1/</sup> was mainly driven by lower prices of tomatoes, which contributed by negative 0.36 p.p. to monthly headline inflation. Such decline reflected its normal seasonal pattern as well as a partial reversal of the transitory shock witnessed during November 2020, as expected. Meanwhile, prices of fresh fruits increased after declining for five consecutive months. Prices of remaining CPI basket items contributed only marginally to monthly headline inflation, as slightly higher prices of core food items and services were offset by lower prices of retail items.
- Accordingly, annual food inflation declined to 2.8 percent in December 2020 from 3.6 percent in November 2020, mainly due to lower annual contribution of fresh vegetables. Meanwhile, annual nonfood inflation remained stable at 6.6% in December 2020, after declining in November 2020 from 6.9% in October 2020.
- Against this background, monthly core inflation<sup>2/</sup> continued to record zero percent in December 2020 for the second consecutive month, compared to 0.2 percent in December 2019. Hence, annual core inflation declined to 3.8 percent in December 2020 from 4.0 percent in November 2020.
- Nationwide and rural annual inflation<sup>1/</sup> declined to record 6.0 percent and 6.6 percent in December 2020 from 6.3 percent and 6.9 percent in November 2020, respectively.

**Headline and Core CPI Inflation <sup>3/</sup>**

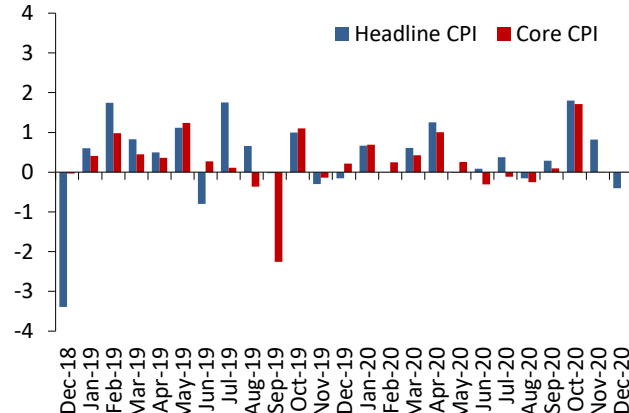
(y/y, in percent)



Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

**Headline and Core CPI Inflation <sup>3/</sup>**

(m/m, in percent)



Source: Central Agency for Public Mobilization and Statistics and Central Bank of Egypt.

## Box 1: Headline Inflation Developments during 2020

The outbreak of COVID-19 pandemic started to impact Egypt by mid-March 2020. In response to this health crisis, and its impact both domestically and globally, the CBE undertook several measures<sup>1</sup> in order to ease the monetary conditions and anchor inflation expectations to mitigate the economic and social impacts emanating from the pandemic, while maintaining macroeconomic stability. These measures included the MPC acting preemptively by cutting key policy rates by 300 basis points in an unscheduled meeting on the 16<sup>th</sup> of March 2020 to support economic activity and alleviate pressures in domestic financial markets. Additional measures included the launch of several initiatives directed to the most affected sectors in the economy, especially the tourism sector. Moreover, with the continued containment of underlying inflation expectations, the MPC decided to cut key policy rates by 50 basis points in each of the September and November 2020 meetings, yielding cumulative cuts of 400 basis points during 2020.

Accordingly, average annual headline urban inflation recorded 5.0 percent during 2020 (CY), compared to 9.2 percent in 2019, marking the lowest rate recorded since 2005. This comes as annual headline urban inflation recorded an average of 5.2 percent during 2020 Q4, which came against a target lower band of 6 percent as was announced in December 2018. The deviation from the target was a result of the combined impact of (i) the outbreak of the COVID-19 pandemic and its effect on the economic activity, notwithstanding the resulting unprecedented level of uncertainty, as well as (ii) the government measures to avoid any supply-chain induced shortages in the market.

At the onset of the pandemic outbreak, annual headline urban inflation rate increased in April 2020; however, it mainly reflected a short-lived hoarding behavior of food items in light of the containment measures, which coincided with the seasonal price increases of Ramadan. Since then, underlying inflationary pressures have remained broadly muted as annual rates continued to be mainly affected by favorable and unfavorable base effects. Accordingly, the impact of the COVID-19 outbreak became deflationary, with inflationary concerns not materializing unlike what was witnessed at the beginning of the pandemic in Egypt and in some other countries. This reflected the slowdown of economic activity induced by the containment measures and the repercussions of the shock both domestically and globally. Accordingly, real GDP growth registered a preliminary figure of 3.6 percent in FY 2019/20, compared to 5.6 percent a year earlier. This comes as it recorded negative 1.7 percent during 2020 Q2, before recovering to 0.7 percent during 2020 Q3. In addition, the unemployment rate increased

---

<sup>1</sup> For more detailed documentation of measures, please check <https://www.cbe.org.eg/en/Pages/HighlightsPages/Central-Bank-of-Egypt-Measures-to-offset-the-impact-of-COVID-19.aspx>

to 9.6 percent during 2020 Q2, before declining to 7.3 percent during 2020 Q3. This comes along broadly stable exchange rate, low international oil prices<sup>2</sup> as well as the absence of negative supply shock mainly related to food items, except for November 2020, before its partial reversal in December 2020.

Historically, food inflation has been the main driver of headline inflation in Egypt. However, the subdued inflationary pressures were particularly evident in food inflation. While the group of food and beverages remains the largest component in the CPI basket, its weight declined from 39.9 percent to 32.7 percent with the release of the 10<sup>th</sup> CPI series starting from September 2019 data. Accordingly, food inflation has been impacted by the release of the new series and its linking methodology to the 9<sup>th</sup> series. In addition, lower food inflation reflected the impact of structural factors to improve supply chains as well as measures to avoid any supply shortage<sup>3</sup>. It was also affected by containment measures which included a partial curfew and the closure of hotels and restaurants (before being lifted gradually but didn't reach full capacity back yet), and its effect on domestic inventory levels. Furthermore, according to studies released by CAPMAS<sup>4</sup>, households resorted mainly to consuming cheaper sources of food, as well as lowering their weekly consumption of meat, poultry and fish in response to the impact of COVID-19 on lowering their incomes.

---

<sup>2</sup> In April 2020, domestic prices for some fuel products were reduced with a magnitude that allows for the savings to be utilized in supporting higher costs expected from facing the outbreak, as per the announcement by Egypt's Fuel Automatic Pricing Committee. This in turn helped in reducing pressures on inflation from the fiscal side.

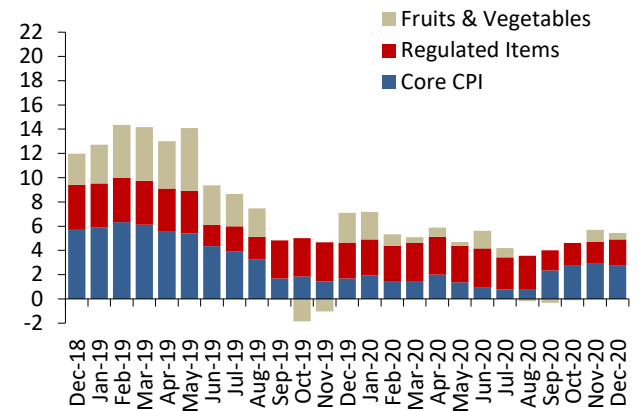
<sup>3</sup> Such as the export ban of beans as announced by the ministry of trade and industry.

<sup>4</sup> For full reports: [https://capmas.gov.eg/Pages/StaticPages.aspx?page\\_id=7233](https://capmas.gov.eg/Pages/StaticPages.aspx?page_id=7233)

## Key Highlights:

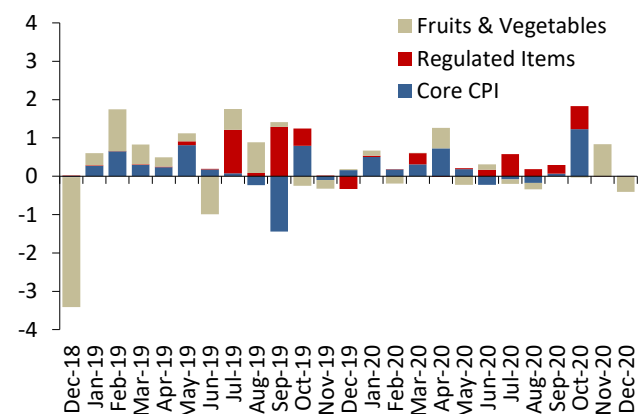
- Prices of fresh vegetables declined by 11.6 percent following three consecutive months of increases, while prices of fresh fruits increased by 4.1 percent, following five consecutive months of decreases. Together, fresh vegetables and fresh fruits contributed by negative 0.4 percentage points to monthly headline inflation.
- Prices of poultry increased by 0.3 percent, to contribute by 0.01 percentage points to monthly headline inflation.
- Prices of fish and seafood increased for the second consecutive month by 0.3 percent, to contribute by 0.01 percentage points to monthly headline inflation.
- Prices of other core food items, including pasta, oil and fats, increased slightly to contribute by 0.02 percentage points to monthly headline inflation.
- Prices of retail items declined by 0.4 percent, to contribute by negative 0.06 percentage points to monthly headline inflation. This was mainly due to seasonally lower prices of clothing and slightly lower prices of personal care products.

**Contribution to Annual Headline CPI Inflation**  
(in percentage points)



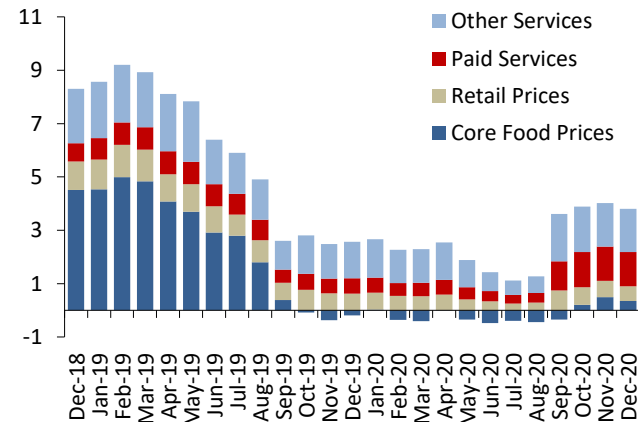
Source: Central Bank of Egypt.

**Contribution to Monthly Headline CPI Inflation**  
(in percentage points)



Source: Central Bank of Egypt.

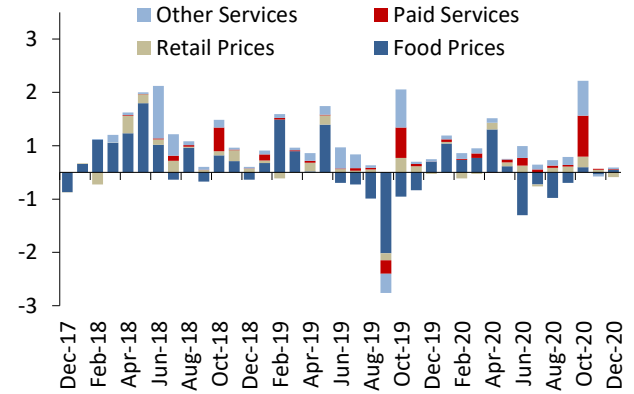
**Contribution to Annual Core CPI Inflation**  
(in percentage points)



Source: Central Bank of Egypt.

- Prices of services increased slightly by 0.1 percent, to contribute by 0.03 percentage points to monthly headline inflation. This was mainly due to slightly higher rental values of occupied housing and air transportation.
- Prices of regulated items remained broadly unchanged.
- Monthly core inflation was affected by price changes of the aforementioned core CPI items. Core food items and services items contributed by 0.05 and 0.04 percentage points to monthly core inflation, respectively, which were offset by negative contribution of retail items by 0.09 percentage points to monthly core inflation.

**Contribution to Monthly Core CPI Inflation**  
 (in percentage points)



Source: Central Bank of Egypt.

**Table 1:**  
Classification of All Items included in Core CPI

<b>Food</b>	<b>Retail</b>	<b>Paid Services</b>	<b>Other Services</b>
Bread and cereals	Clothing	Tailors, laundry & shoe repair	Rentals (new law)
Meat	Fabrics	Dwelling maintenance services	Rental value of owner occupied housing
Fish and other seafood	Footwear	Portman & gardener's services	Hospital services
Eggs & Dairy products	Products related to dwelling repairment	Cook & maid's services	Transportation Services
Oils and fats	Furniture	Technicians to HH appliances	Mobile & internet services
Dried fruits	Carpets and other floor covering	Repairs of Audio-visual equipment	Recreational & sporting services
Processed vegetables	Household (HH) textiles	Physicians	Cultural services
Pulses	HH appliances	Mechanics	Hajj & Omra trips
Sugar and confectionery	Glassware, tableware and HH utensils	Teachers	Restaurants and Cafes
Other food products	HH small tools & supplies	Hairdressers	Accommodation services
Beverages	HH cleaning products		Private schools
	HH miscellaneous products		Summer & Winter Vacations
	Purchase of vehicles		
	Spare parts		
	Motor oil		
	Telephone & telefax equipment		
	Home entertainment equipment		
	Recreational equipment		
	Personal care supplies and products		
	Personal effects		
	Books		
	School supplies		
	Medical care goods		

**Table 2:**  
Consumer Price Index and Major Components <sup>1/</sup>

	Weight in basket 2/	December 2019	December 2020	December 2020 to November 2020	December 2020 to December 2019
	(in percent)	(index)		(percentage change)	
	(Average 2018/2019 = 100)				
<b>Headline - All items</b>	<b>100.00</b>	<b>104.93</b>	<b>110.62</b>	<b>-0.41</b>	<b>5.43</b>
Food and beverages	32.73	97.56	100.30	-1.24	2.80
Tobacco and related products	4.41	101.78	113.28	0.00	11.30
Clothing and footwear	4.38	105.15	107.01	-1.21	1.77
Housing, water, electricity, gas and other fuels	19.46	104.66	109.30	0.12	4.43
Furnishings, household equipment and routine maintenance of the dwelling	3.93	101.98	106.35	-0.05	4.28
Medical care	8.59	110.82	116.89	0.04	5.48
Transportation	6.66	115.91	120.68	0.09	4.12
Communications	2.75	102.03	104.49	0.00	2.41
Recreation and Culture	2.24	112.34	117.33	0.06	4.44
Education	5.49	125.86	150.97	0.00	19.95
Hotels, cafes and restaurants	4.98	109.83	117.38	-0.02	6.88
Miscellaneous goods and services	4.37	104.65	112.97	-0.33	7.95
<b>Selective aggregates</b>					
Fruits & vegetables 3/	5.46	98.30	108.54	-7.10	10.42
Regulated items	21.44	111.32	121.85	-0.01	9.46
Food excl. fruits & vegetables	24.51	97.16	98.24	0.17	1.11
Retail items	14.34	106.29	109.17	-0.43	2.71
Paid services	6.96	110.47	124.53	0.08	12.73
Other services	27.30	106.08	110.56	0.09	4.22
Core CPI	73.09	101.68	105.55	0.01	3.80

1/ Source: CAPMAS and CBE calculations

2/ Based on 2017/2018 Household Expenditure Survey

3/ Excluding pulses, processed vegetables and dried fruits