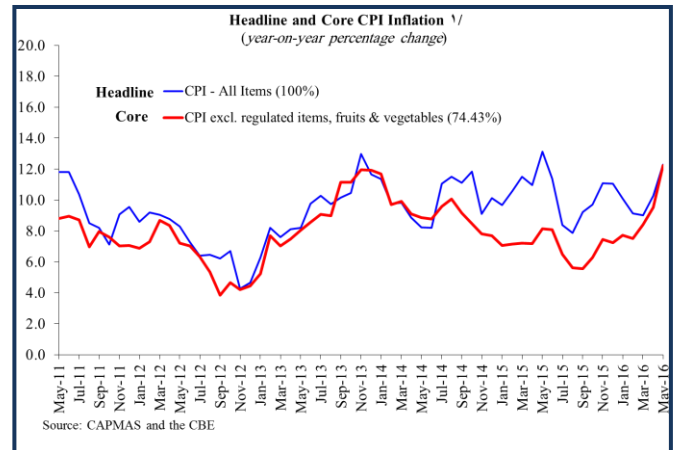
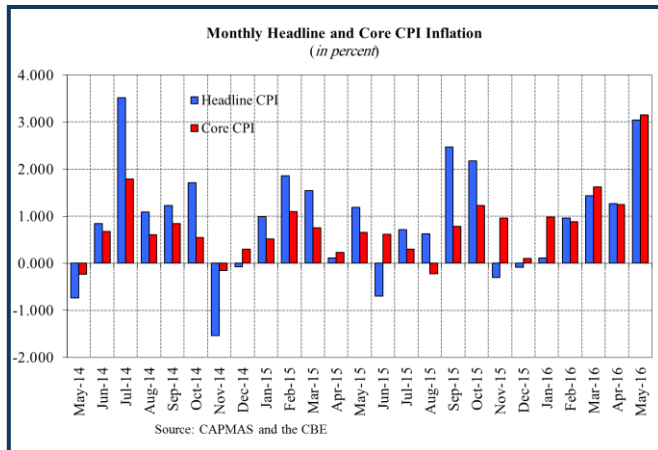


Headline and Core Inflation – May 2016

Headline CPI published by the Central Agency for Public Mobilization and Statistics on June 9, 2016 increased by 3.05 percent (m/m) in May 2016 compared to 1.27 percent (m/m) in April 2016. The annual rate increased to 12.30 percent in May from 10.27 percent in April. The bulk of the monthly changes were explained by a wide-spread increase in the prices of food items including fresh vegetables and fruits, partly affected by the seasonal effect of Ramadan. This came in addition to the adjustment of prices of pharmaceutical products by the government and increases in the prices of several retail items. Meanwhile, core CPI computed by the Central Bank of Egypt increased by 3.15 percent (m/m) in May 2016 compared to 1.24 percent (m/m) in April 2016. The annual rate increased to 12.23 percent in May from 9.51 percent in April. The prices of retail items, other services and paid services inched up by varying degrees ¹.

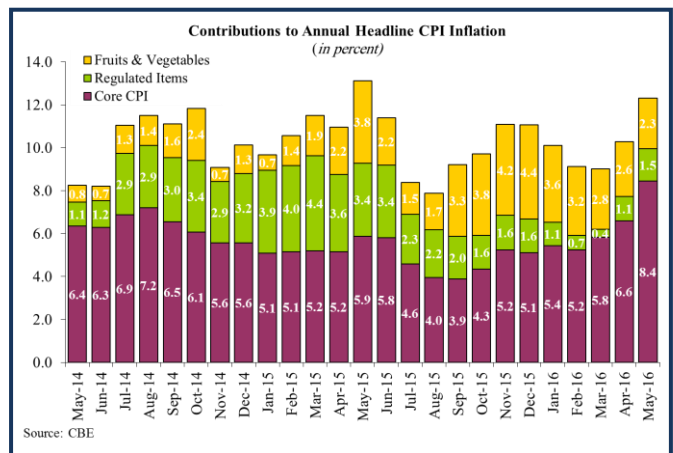
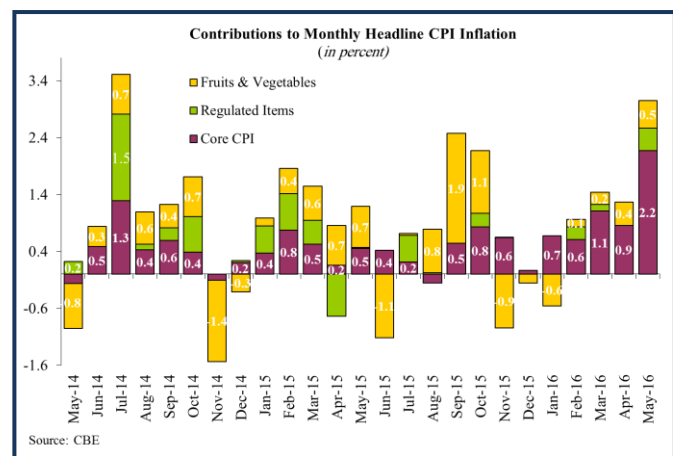


1. Headline CPI²

Headline CPI increased by 3.05 percent (m/m) in May 2016 compared to 1.27 percent (m/m) in April, which is above the monthly pace of 0.94 percent recorded during first four months of 2016. The annual rate increased to 12.30 percent in May from 10.27 percent in April.

Key Highlights

- Prices of regulated items increased by 2.18 percent (m/m) in May, contributing by 0.40 percentage points to monthly headline inflation. This month's increase is attributed to a price adjustments by 22.6 percent of pharmaceutical products by the government to support the domestic companies, in addition to an increase in the prices of imported cigarettes by 18.5 percent.
- The prices of fresh vegetables and fruits increased in May by 3.61 and 4.16 percent (m/m), respectively. Together, they contributed by 0.48 percentage points to monthly headline inflation.
- The prices of poultry and red meat increased by 5.16 and 3.20 percent (m/m), respectively. Together, they contributed by 0.51 percentage points to monthly headline inflation.



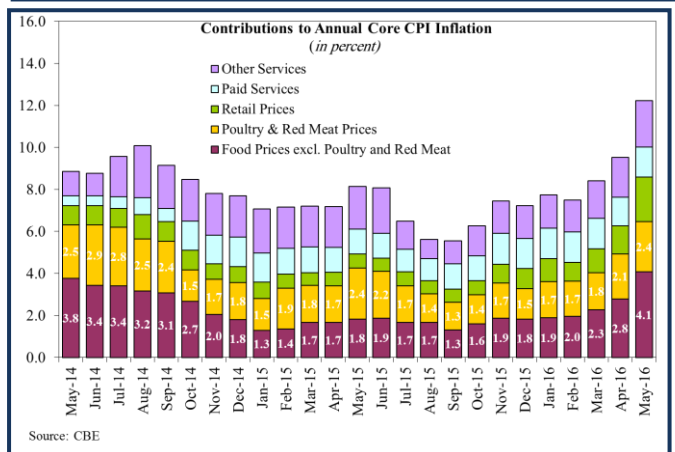
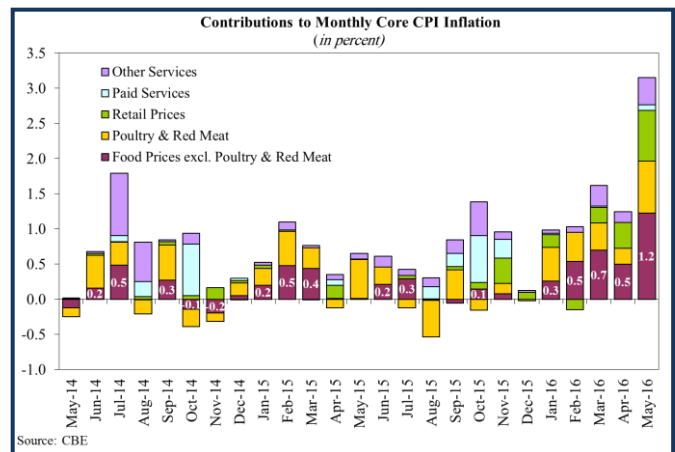
- Moreover, the prices of fish and sea food increased by 1.01 percent (m/m) to contribute by 0.03 percentage points to monthly headline inflation.
- The prices of rice continued to increase for the fifth consecutive month on the back of supply shortages. Price increases registered 19.93 percent in May and contributed by 0.51 percentage points to monthly headline inflation. This brings the cumulative monthly increase since the beginning of 2016 to 47.48 percent.
- The prices of eggs increased by 1.55 percent (m/m) to contribute by 0.03 percentage point to monthly headline inflation.
- The prices of a number of food items including imported butter, margarine, other edible oil, cheese, pulses, dried fruits other fresh meat and tea picked up to contribute jointly by 0.27 percentage points to monthly headline inflation.
- The prices of retail items increased by 4.52 percent (m/m) to contribute by 0.50 percentage points to monthly headline inflation, which was mainly due to the increase in the prices of pharmaceutical products, HH appliances, HH cleaning and miscellaneous products personal care products, cars and motorcycles and stationary and school supplies.
- The prices of other services increased by 1.50 percent (m/m) to contribute by 0.27 percentage points to monthly headline inflation, which was mainly driven by the increase in the prices of restaurant services, private hospitals and Haj and Omra trips.
- The prices of paid services increased by 0.86 percent (m/m) to contribute by 0.05 percentage points to monthly headline inflation, which was mainly driven by the increase in the prices of outpatient services.

2. Core Inflation²

Core CPI computed by the Central Bank of Egypt increased by 3.15 percent (m/m) in May 2016 compared to an increase by 1.24 percent (m/m) in April, which is above the average monthly pace of 1.18 percent recorded during the first four months of 2016, and the highest monthly rate since January 2008. The annual

rate jumped to 12.23 percent in May from 9.51 percent in April, recording the highest rate since February 2009.

The monthly dynamics in May were mainly driven by the developments in the prices of the previously mentioned food items which contributed by 1.96 percentage points to monthly core inflation. Moreover the increase in the prices of retail items, other services and paid services contributed jointly by 1.19 percentage points to monthly core inflation.



1/ CAPMAS publishes three CPI series: (1) the CPI for urban areas which include Cairo, Alexandria, urban Lower Egypt, urban Upper Egypt, Canal cities and Frontier governorates, (2) the CPI for rural areas, and (3) the CPI for All areas. Numbers quoted in this note refer to CPI-Urban .

2/ It is important to underscore that the monthly percentage changes of both headline and core CPI between September 2009 and July 2010 do not match rates of changes presented in previous inflation notes given the replacement of the 8th CPI series by the 9th series starting from August 2009 (Full details are discussed in the Technical Appendix of the August 2010 Inflation Note).

Table 1.
Classification of All Items included in Core CPI

| Food | Retail | Paid Services | Other Services |
|-------------------------|---|-----------------------------------|--|
| 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 | | |
| | 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 1/

| | Weight in basket 2/ | May 2015 | May 2016 | May 2016 to April 2016 | May 2016 to May 2015 |
|--|---------------------|---------------------------------|---------------|------------------------|----------------------|
| | (in percent) | (index) (January 2010 = 100) | | (percentage change) | |
| Headline - All items | 100.00 | 163.61 | 183.74 | 3.05 | 12.30 |
| Food and beverages | 39.92 | 194.73 | 222.61 | 3.82 | 14.32 |
| Tobacco and related products | 2.19 | 314.57 | 320.79 | 1.32 | 1.98 |
| Clothing and footwear | 5.41 | 123.11 | 131.73 | 0.00 | 7.00 |
| Housing, water, electricity, gas and other fuels | 18.37 | 124.18 | 130.82 | 0.00 | 5.35 |
| Furnishings, household equipment and routine maintenance of the dwelling | 3.77 | 139.00 | 155.94 | 0.89 | 12.18 |
| Medical care | 6.33 | 131.17 | 172.48 | 15.56 | 31.49 |
| Transportation | 5.68 | 139.15 | 144.24 | 1.41 | 3.66 |
| Communications | 3.12 | 96.85 | 96.88 | 0.00 | 0.03 |
| Recreation and Culture | 2.43 | 165.83 | 187.52 | 2.55 | 13.08 |
| Education | 4.63 | 196.93 | 219.01 | 0.00 | 11.21 |
| Hotels, cafes and restaurants | 4.43 | 174.95 | 214.39 | 3.12 | 22.54 |
| Miscellaneous goods and services | 3.73 | 111.56 | 120.52 | 0.89 | 8.03 |
| Selective aggregates | | | | | |
| Fruits & vegetables 3/ | 6.90 | 291.48 | 346.89 | 3.71 | 19.01 |
| Regulated items | 18.66 | 164.03 | 177.38 | 2.18 | 8.14 |
| Food excl. fruits & vegetables | 31.08 | 178.94 | 202.43 | 3.98 | 13.13 |
| Retail items | 14.48 | 125.57 | 141.98 | 4.52 | 13.07 |
| Paid services | 5.87 | 158.18 | 185.79 | 0.86 | 17.45 |
| Other services | 23.00 | 129.51 | 140.41 | 1.50 | 8.42 |
| Core CPI | 74.43 | 151.64 | 170.19 | 3.15 | 12.23 |
| 1/ Source: CAPMAS and CBE calculations | | | | | |
| 2/ Based on 2008/2009 Household Expenditure Survey | | | | | |
| 3/ Excluding pulses, processed vegetables and dried fruits | | | | | |