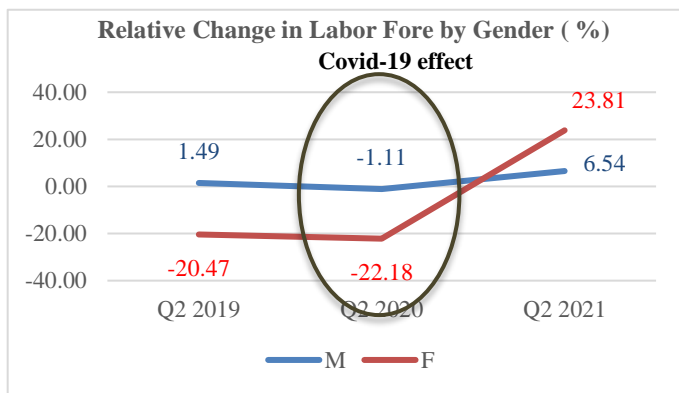


Unemployment Rate Retreated Slightly in Q2 2021 Fueled by Improved Female Unemployment

August 16, 2021

CAPMAS announced latest unemployment figure for 2021 Q2

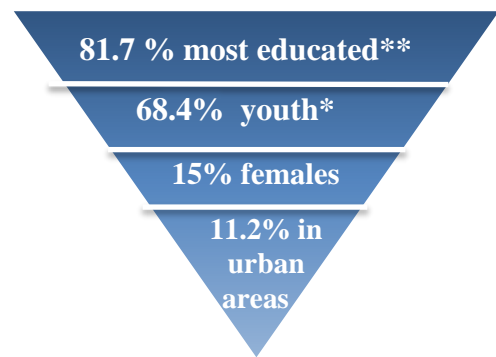
Unemployment rate retreated slightly and reached 7.3% in Q2, down from 7.4% in 2021 Q1, and 9.6% in 2020 Q2 by 2.3% points for the latter. This reflects the relative improvement in labor market conditions despite the third wave of Covid-19 global pandemic. The labor force kept its downward trajectory during this quarter registering 29.115 million in Q2 2021 versus 29.284 million over the previous quarter by - 0.6% resulting from the precautionary measures implemented by the government leading to the drop in the number of unemployed & employed persons by -1.9% & -0.5% respectively leaving the total number of unemployed at 2.115 million persons in Q2 and 27.000 million for employed persons. It is worth mentioning that female labor force decreased in Q2 2021 compared to Q1 2021 registering -4.3%, while relatively recovered compared to Q2 2020 which witnessed the beginning of the pandemic in Egypt. Male labor force slightly inched up in Q2 2021 compared to Q1 2021 by 0.19%, while increased by 6.54% comparing to Q2 2020.



Source: CAPMAS.

Egypt’s unemployment inverted pyramid

The inverted pyramid remains manifested in Q2 2021 where unemployment rates rose among the most educated to 81.7% vs 81.5% in Q1 2021, the youth reached 68.4% vs 62.4% in Q1, the females 15% vs 15.9% in Q1 and in the urban areas 11.2% vs 11.1 in Q1.



Source: CAPMAS, Q2 2021 labor force survey

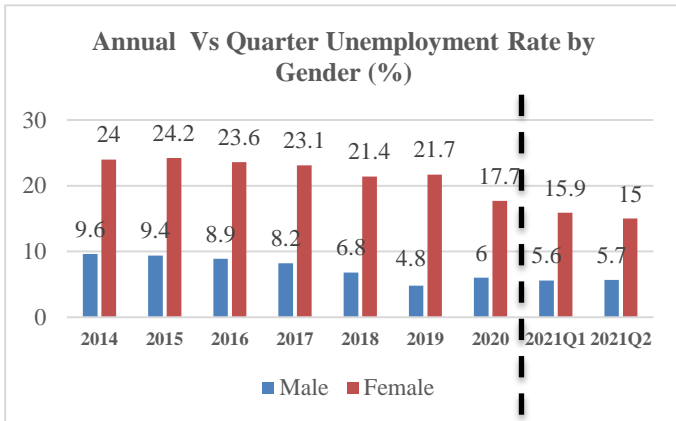
* Youth: 15 -29 years old

** The most educated: are identified with intermediate educational status, above intermediate, university degree or higher.

At normal conditions, the educated youth are supposed to get better job opportunities in urban areas compared to the rural areas. However, there is a mismatch between education system outcomes and labor market requirements. High unemployment rates among the most educated representing 81.7% in Q2 2021 assures this structural bottleneck. From which, 43.9% are university degree holders in Q2 up from 43.2% in Q1 2021.

The following charts showed the persisting structural gender gap challenge observed in both employment and unemployment rates over the years. Women empowerment is among Egypt’s top priorities addressed through women empowerment 2030 strategy launched by President El-Sisi in 2017 aiming at making women by

2030 key partners in sustainable development as well as focusing on economic empowerment.



Source: CAPMAS.

the second which contributed by 15.3% of total employed, they accounted for approximately 4.1 million workers. Construction and manufacturing sector came afterwards, contributed by about 13.6% and 12.9%, respectively to total employed persons.

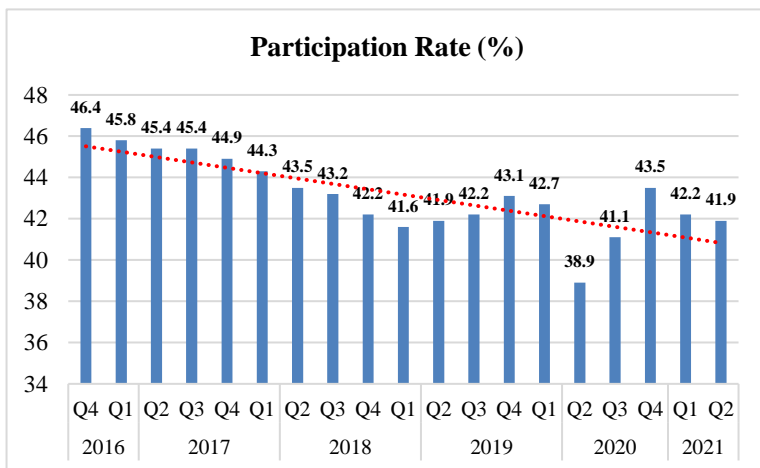


Source: CAPMAS.

Participation rates and sectoral employment distribution

Participation rates in Q2 2021 remained at its downward slope accounted for 41.9% compared to 42.2% in Q1 2020 and 38.9% in Q2 2020 resulted from lower male & female participation registering 67.7% vs 67.8% during the previous quarter and 14.5% versus 15.1% in Q1 2021 respectively. Such dynamic prevails Covid-19 negative implications on labor market from one side, and the population increase from the other side.

Whilst, economic activities that lost workers during Q2 2021 were construction sector reporting 88 thousand workers, followed by agriculture (82 thousand workers), then education losing 60 thousand workers. On the other hand, wholesale and retail attracted 206 thousand workers in Q2 2021 followed by water supply and drainage activity registering 65 thousand workers.



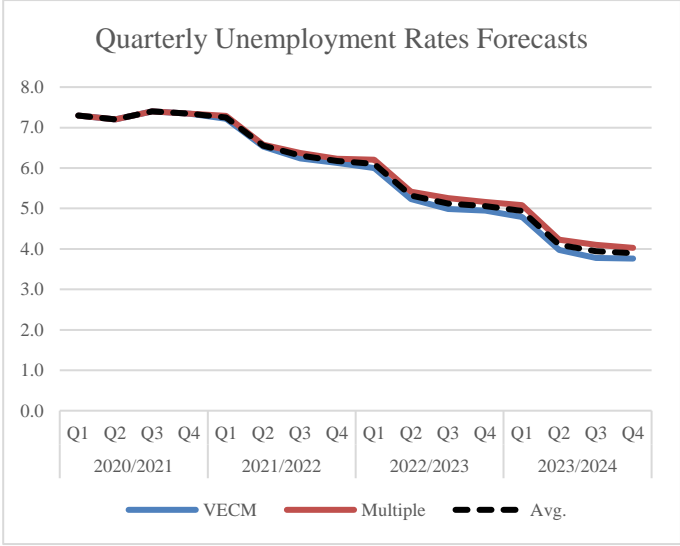
Source: CAPMAS.

Unemployment, economic growth, and inflation rate

As for the sectoral distribution of employed persons, agriculture sector had the largest proportion share of 19.2% of total employed persons who constituted about 5.3 million workers. Retail and wholesale sector ranked

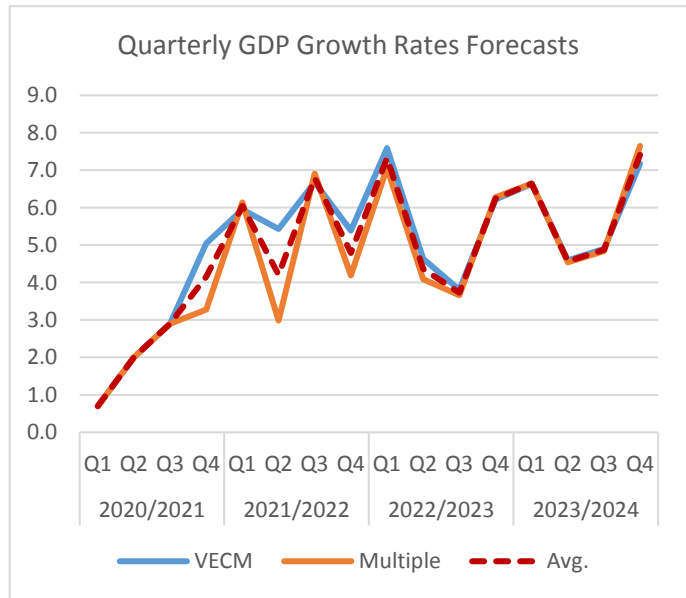
Q4 2020/21 forecast for the GDP ranges between 3.3% - 5.0%, with an average of 4.2% for the same quarter. As such, the annual GDP growth rate for the FY 2020/21 is expected to hover around 2.7%- 2.8%. Accordingly, the IMF expects that the GDP growth rate will reach 2.8% during FY 2020/21 and will jump to 5.5% during the FY 2021/22. Practically, the dynamics in economic activity are reflected on the labor market. As such, the forecasted unemployment rate comes in line with these dynamics and is expected to reach on average about 7.2% - 7.3% for the next quarter.

Worth to mention, unemployment rate forecasts for Q2 2021 just came in line with the actual figure, it is forecasted that unemployment rate will reach 7.3% during Q2 2021, which materialized as 7.3% as published by CAPMAS.

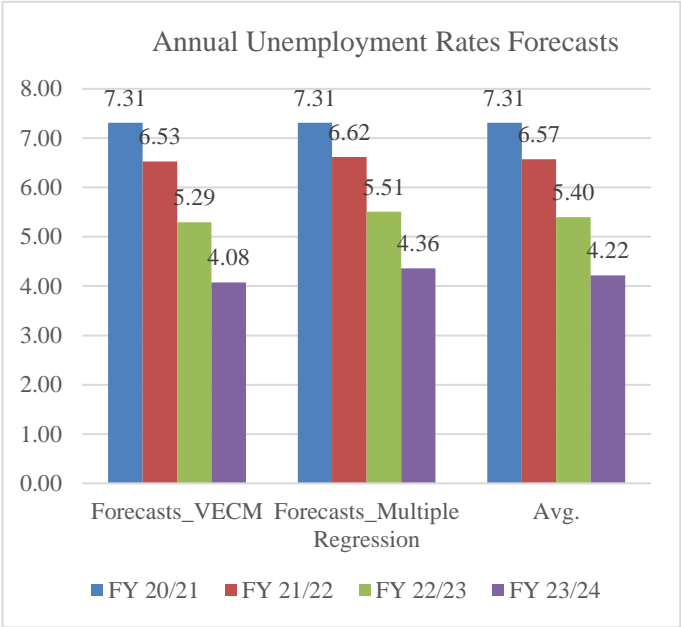


Source: MAP's Estimates and CAPMAS.

Also, the forecasts reveal that the unemployment rate will be on the downward trajectory over the upcoming three fiscal years. This is fueled by a stronger economic growth during the same period that is quantified to be on average 5.3%, 5.7% and 6.6% respectively during the next three years 21/22, 22/23 and 23/24. Such resilient economic activity is expected to be associated with better unemployment rates that will be on average 6.6%, 5.4% and 4.2%, respectively for the next 3 years as illustrated in the following charts.



Source: MAP's Estimates and CAPMAS.



Source: MAP's Estimates and CAPMAS.

Technical Annex: Macro Forecasts Summary

1. Real GDP: Market Prices

- The analysis will present two models: the first one is a straightforward multiple regression model and the second is a Vector Error Correction (VECM) Model.
- The forecasts are employed on GDP (market price); thus, the explanatory variables include the household consumption, capital formation, exports, and imports.
- The estimation results for the multiple regression model are given as follows:

	<i>COEFFICIENTS</i>	<i>STANDARD ERROR</i>	<i>T STAT</i>
INTERCEPT	3.071121	1.412902	2.173626
IMPORTS	-0.68578	0.04608	-14.8826
HOUSEHOLD CONSUMPTION	1.212037	0.016609	72.97543
CAPITAL FORMATION	0.778831	0.053388	14.58817
EXPORTS	0.571482	0.036977	15.45487

- All variables appear to be statistically significant at 95% confidence level, and all are estimated at the expected signs. The model is estimated at R-squared 99.7%, and Durbin Watson equals to 1.94. This implies that the model is diagnostically valid and with good statistical specifications. As such, it can be used for statistical inferences and forecasting future time points.
- The second model is VECM specified at 3 lags with the following results:

Long Run Equation and Short-run Equations:

$$\text{GDP_MP} = 7.26 + 1.29 \text{ HH Cons} + 0.42 \text{ Capital Formation} + 0.62 \text{ Exports} - 0.78 \text{ Imports} + [0.40*(0.33 \Delta \text{ HH Cons} - 0.39 \Delta \text{ Capital Formation} - 0.64 \Delta \text{ Exports} - 0.94 \Delta \text{ Imports})]$$

Technical Annex: Macro Forecasts Summary

2. Labor Market: Unemployment Rate

- Based on a behavioral equation as a function in real GDP, GDP_t and unemployment rate with a lag effect of quarter unemployment rate $_{t-1}$.

3. Inflation Forecasts: Headline and Core

- Based on a behavioral equation as a function in real GDP, induced real money gaps and unemployment rate (Philips Curve).

4. Exchange Rate Forecasts:

- Based on a behavioral equation including headline inflation rate, deposit rate and real GDP.