وزارة التخطيط والتنمية الإقتصادية
Ministry of Planning and Economic Development

MONTHLY ECONOMIC REVIEW

MACRO ANALYSIS POLICY UNIT (MAP)

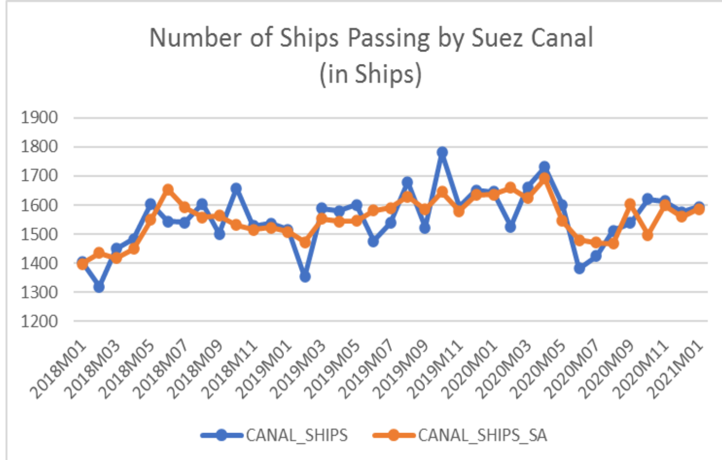
February 2021

Issue (6)

The Monthly Economic Review is newly published by MAP Unit, highlighting the most recent economic updates. It aims to monitor the main developments in the real sector, fiscal sector, monetary sector, and external sector. In addition, the Monthly Economic Review would help to track the economic response and recovery in light of the COVID-19 crisis, considering challenges and future prospects as well.

I. Real Sector: Economic Activity

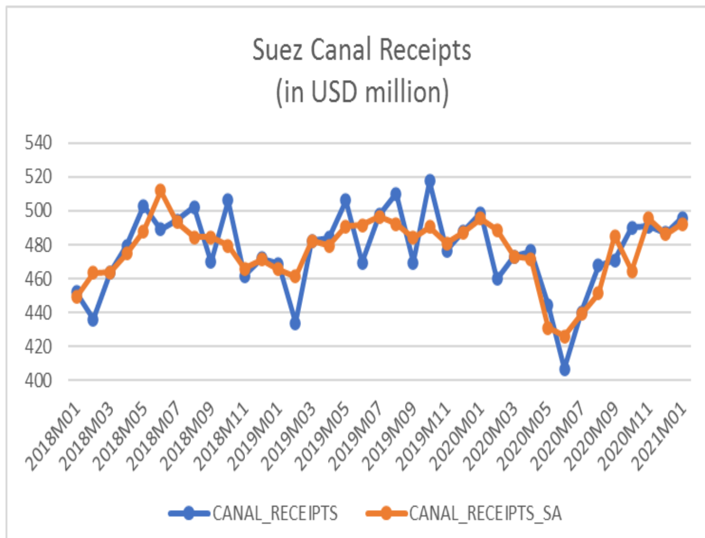
•This section of the report plays a vital role when screening the macroeconomic and primarily the real sector activity, because it relies on presenting data related to proxies for the supply side of the economy. It can be considered as a forward looking section for the GDP data which should cover the period October-December 2020. Most of the selected proxies give information for months October, November and December 2020. The variables are concerned with four main sectors: Suez Canal, Extractions, Construction and Transportation.



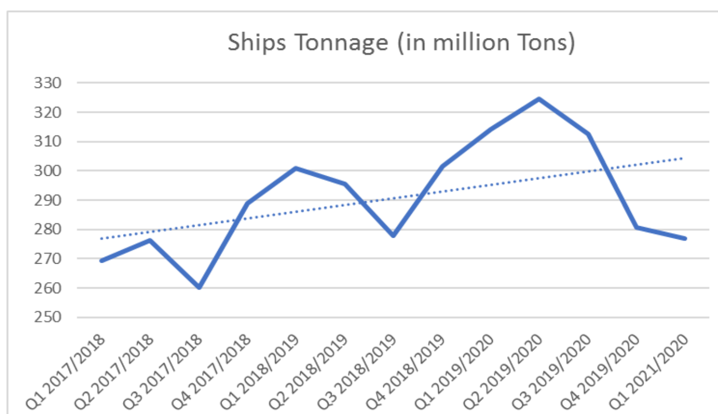
Source: Suez Canal Authority.

Economic Activity - Suez Canal

- Indicators of Suez Canal revealed that in general the total number of ships passing by the Suez Canal and the total receipts are trending upwards since the trough witnessed in last June, as a result of the Global pandemic and its repercussions on the international trade and travel movements. The two charts indicated that the Suez Canal started to restore back its historical and normal levels.
- Seasonally adjusted figure for number of ships showed that January's figures of 1586 ships which came well above the historical average of 2019 amounting to 1572, this came after it has been severely hit by the Global Pandemic and its adverse impact was vividly appeared in June 2020. Moreover, annual receipts closed at USD 492.5 million during January, compared to and average of USD 483.5 million in 2019.
- Meanwhile, ships tonnage showed a slight decline during Q2 of the FY2020/21, to record 277 million tons compared to 281 million tons a quarter earlier, registering 1.4%.



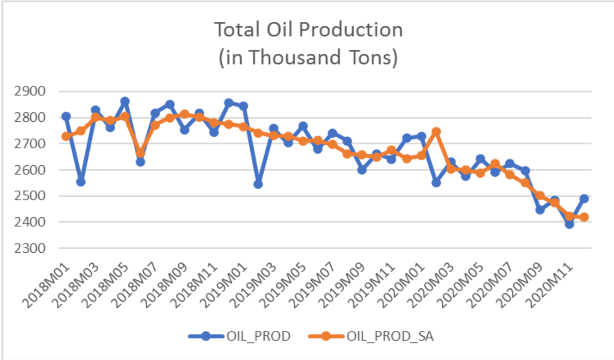
Source: Suez Canal Authority

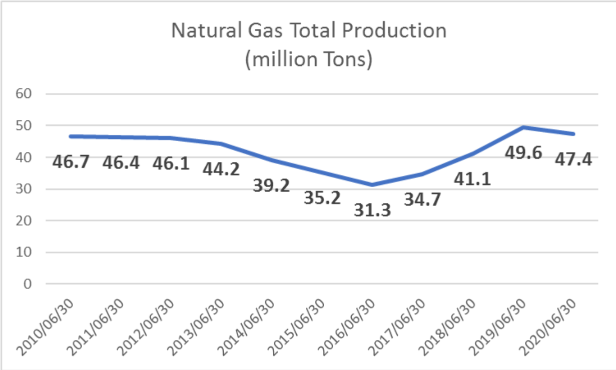


Source: Central Bank of Egypt.

Economic Activity – Extractions

- The Extractions sector displayed a downward sloping trend since August 2020, implying lower economic activity, especially during 2020. Seasonally adjusted figures for total production of oil revealed a still downward trend albeit the non-seasonally adjusted series showed a pickup to register 2.42 million tons in December, compared to an average of 2.69 million tons during 2019.
- On the other hand, the discoveries, production and exports of Natural Gas exceeded the historical levels. Egypt is also set for a long-awaited boost to its LNG sector as the shareholders in the five million mt/year Damietta LNG facility reached a new deal to allow for the plant to restart in Q1 2021, which will provide additional export optionality for Egypt, which has a surplus of gas mainly due to production from the Eni-operated supergiant Zohr field in the East Mediterranean.

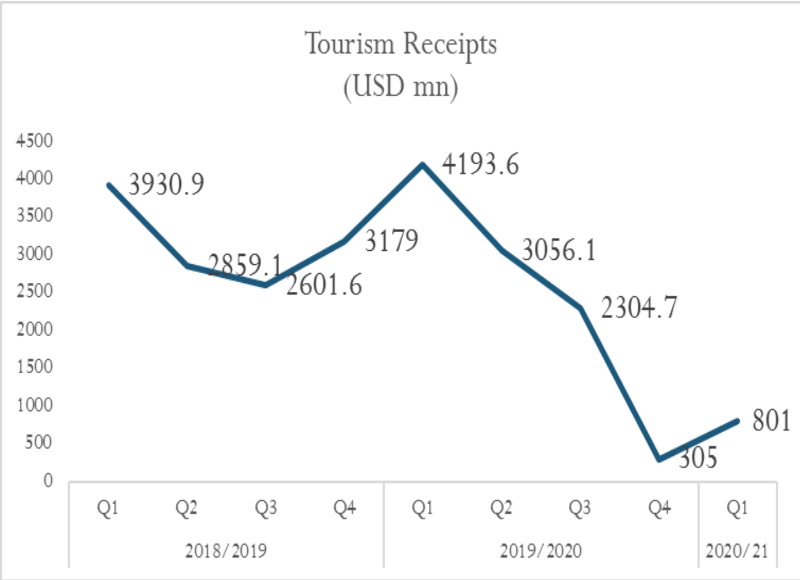




Source: Ministry of Petroleum and Mineral Resources

Economic Activity – Tourism

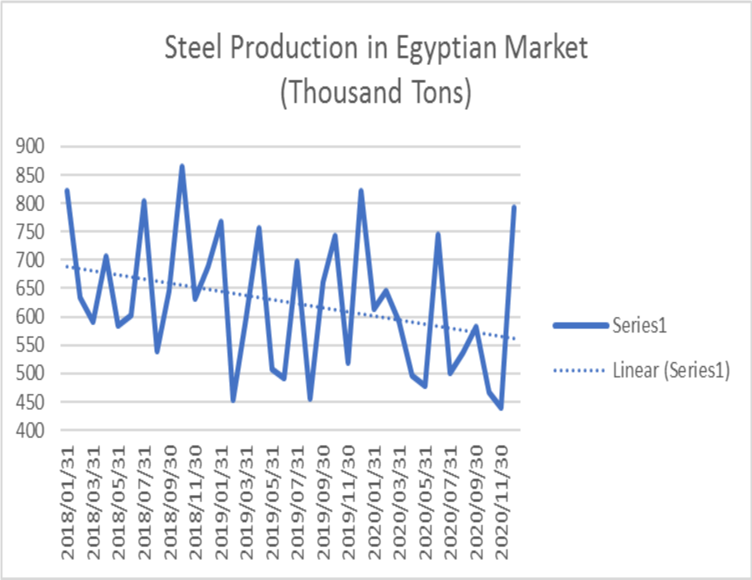
- Tourism sector is among the economic sectors which was severely hit by the Global Pandemic. According to the Central Bank figures, Balance of Payments has shown that tourism receipts have plunged to only USD 305 million during Q4 of the fiscal year 2019/20., compared to USD 3.2 billion a year earlier. Nevertheless, it slightly rebounded to USD 801 million during Q1 of FY 2020/21.
- The adversely affected international trade and travel movements especially during Q1 2020 and its manifestation in Q2 2020, resulted in a modest performance of the tourism sector which is still below its normal levels.



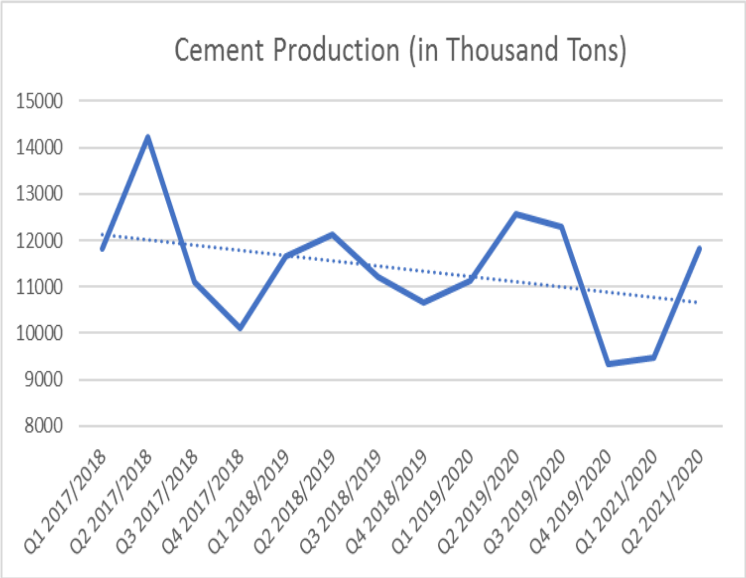
Source: Central Bank of Egypt.

Economic Activity – Construction

- Coming to the Construction sector, it has been proxied by the production of steel, which started to witness an improvement during December 2020 a peak of 793 thousand tons up from 467.8 and 440 thousand tons in October and November, respectively.
- Such an upward trend suggests a better economic activity during Q2 FY 2020/21. Latest data of GDP indicated that construction growth rate has declined to reach 2.6% during Q1 FY 2020/21, down from 8.1% in the corresponding quarter of FY 2019/20.
- Cement production indicated a clear pickup during Q2 of the FY2020/21, to register 11.8 million tons. As such, it is now restoring its historical levels of an average of 11.7 million tons.
- Nonetheless, despite this improvement, cement production still exhibits a downwards trend affected primarily from the period of the global pandemic when it plunged to only 9.3 and 9.4 million tons during the last two quarters.



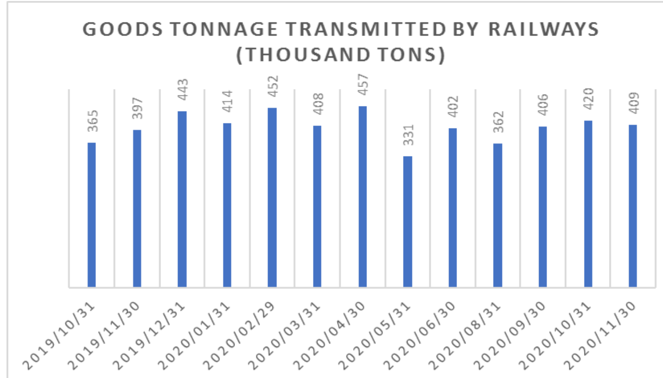
Source: Ministry of Supply and Home Trade.



Source: Cement Industry Division.

Economic Activity – Transportation

Source: National Authority for Railways.

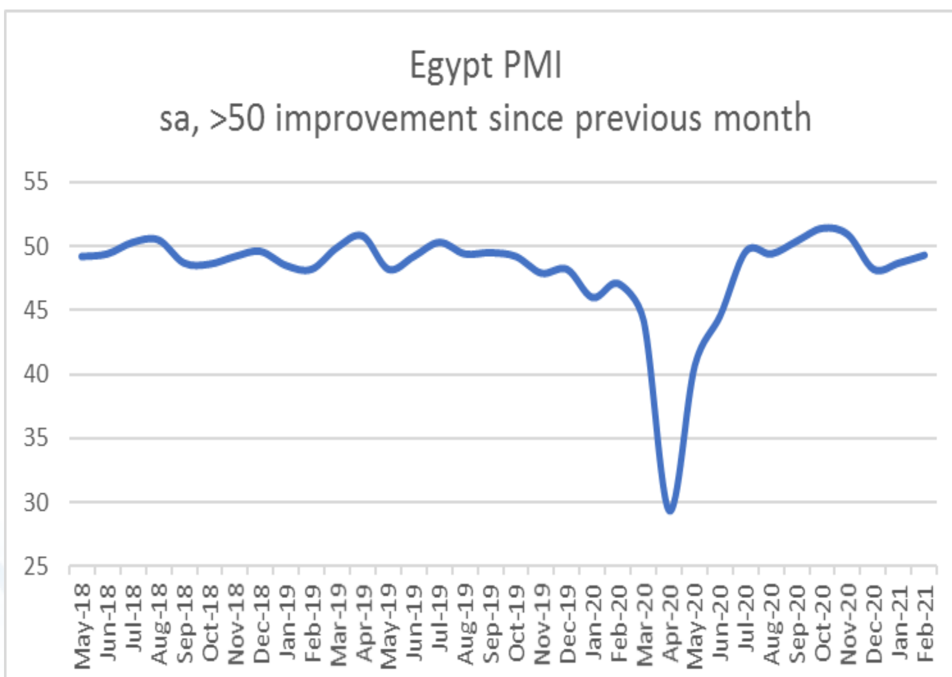


Source: National Authority for Railways.

• Recent indicators reflect a significant rebound in number of passengers and the goods tonnage which are transported by the railways after it has witnessed a record low in May 2020. The number of passengers jumped to reach 27.88 million passengers by the end of November 2020. Moreover, goods tonnage eased to 409 thousand tons by the end of November 2020, after it recorded 420 thousand Tons by the end of October 2020. The upward sloping pattern suggests that transportation sector will be among the growing sectors during H1 of FY 2020/21, which has been partially mirrored on the sector quarterly growth at 5.2%

Economic Activity – Purchasing Managers Index (PMI)

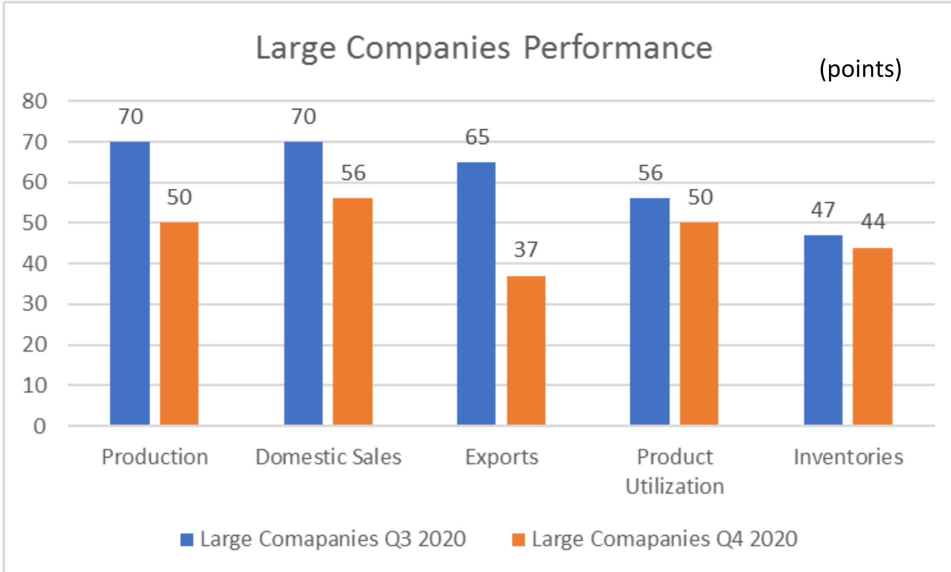
- IHS Markit Egypt Purchasing Managers' Index (PMI) posted 49.3 in February, up from 48.7 in January, to signal only a slight deterioration in operating conditions. The rate of decline was the softest for three months, and the index was also above its long-run average of 48.2.
- Private sector output decreased for a third straight month in February. Also, the drop in new sales was less marked compared to that seen in January, in part due to a strong upturn in export demand.
- Finally, the outlook for the forthcoming year worsened in February, although companies still expect output to pick up from current levels.



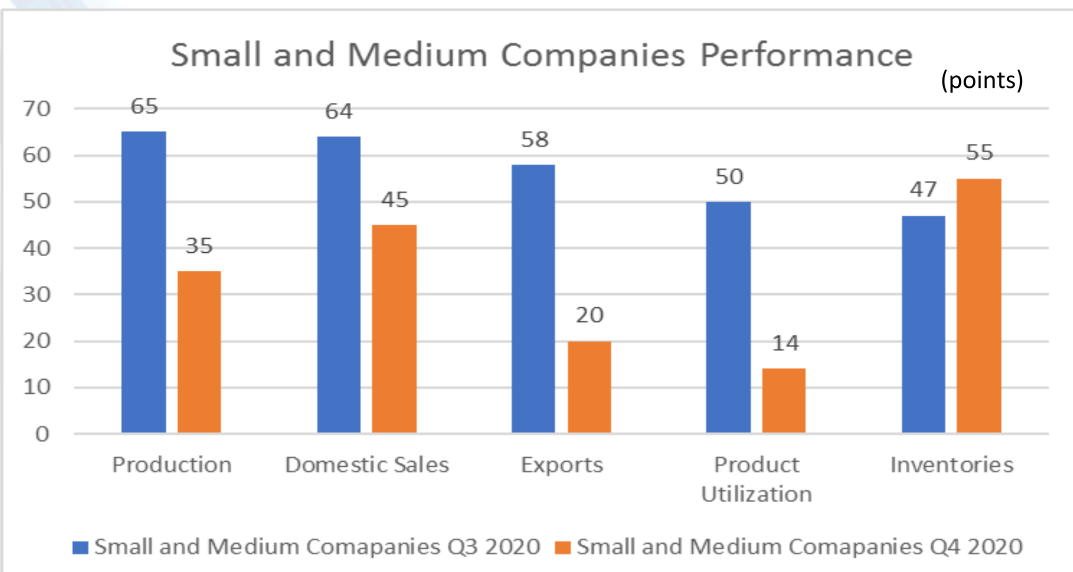
Source: IHS Markit.

Business Barometer (BB):

- Recent indicators for the Egyptian Center for Economic Studies (ECES) Business Barometer indicated that the index has deteriorated during the period (October– December 2020) to record 47 points compared to 53 points during the previous quarter. Also, the results of the questionnaire revealed that there is a positive and somehow optimistic outlook for the upcoming quarter, in which the index would register about 51 points .

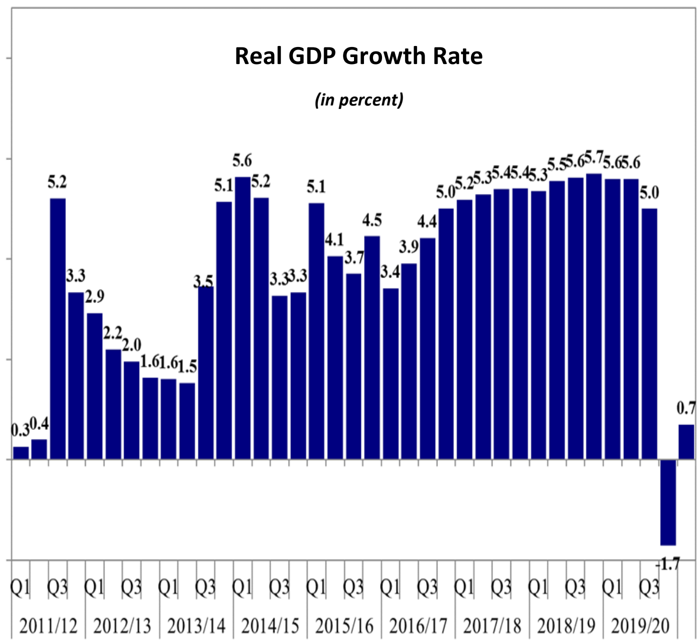


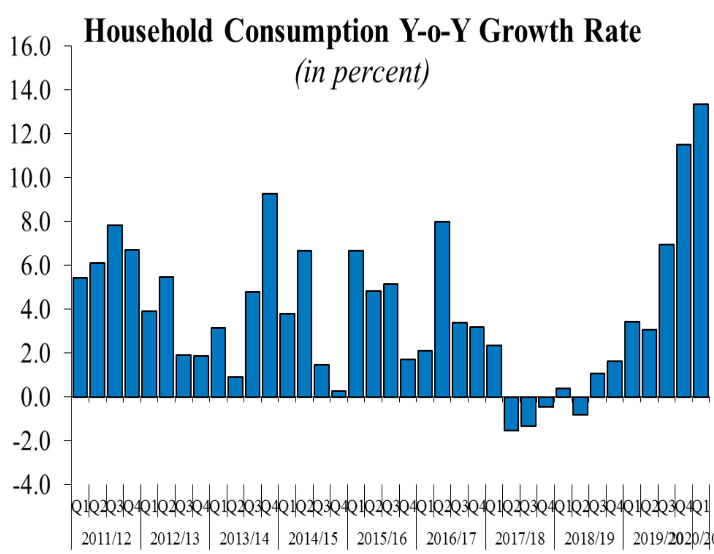
- Worth to mention, dure to the second wave of the Global Pandemic, all the companied performance indices indicated a clear deterioration; for the large companies, the index recorded 47 points for the period under analysis, compared to 55 points during a quarter earlier. As for the small and medium enterprises, the index registered about 46 points during the period (October- -December 2020), compared to 52 points during the previous quarter.
- Despite the continued uncertainty, most of the companies had a positive outlook especially the large companies in which its index registered 53 points for the upcoming quarter covering the period (January-March 2021), while the index for the small and medium companies was fixed at 50 points.



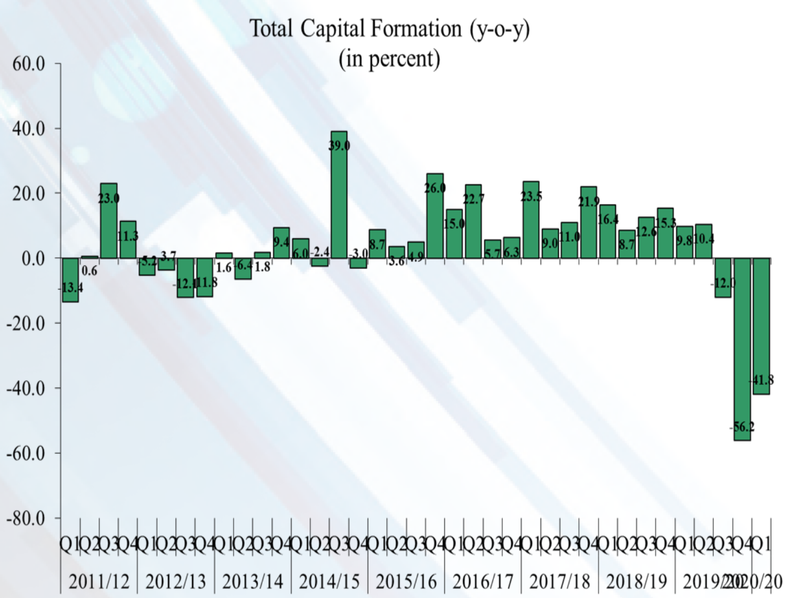
I. Real Sector: GDP by Expenditure

- Real GDP growth rate slightly rebounded to 0.7% during Q1 of FY2020/21, after it diminished by negative 1.7% during Q4 of FY2019/20. This was the first deceleration in 10 years. This came on the back of the repercussions of the Global Pandemic of COVID-19, which has hit the economy and the world by the beginning of 2020.
- On another note, private consumption growth rate rebounded and jumped for the second quarter in a row during Q1 of FY2020/21 and Q4 of FY2019/20, respectively showing the highest record since 10 years ago.
- This is associated with better private consumption pattern measured by better grocery & pharmacy and retail & recreation mobility.
- Worth to mention, total capital formation has much deteriorated during Q1 of the FY 2020/21, registering a negative growth rate of -41.8% compared to 9.8% during the corresponding quarter of FY 2019/20.





Source: Ministry of Planning and Economic Development.

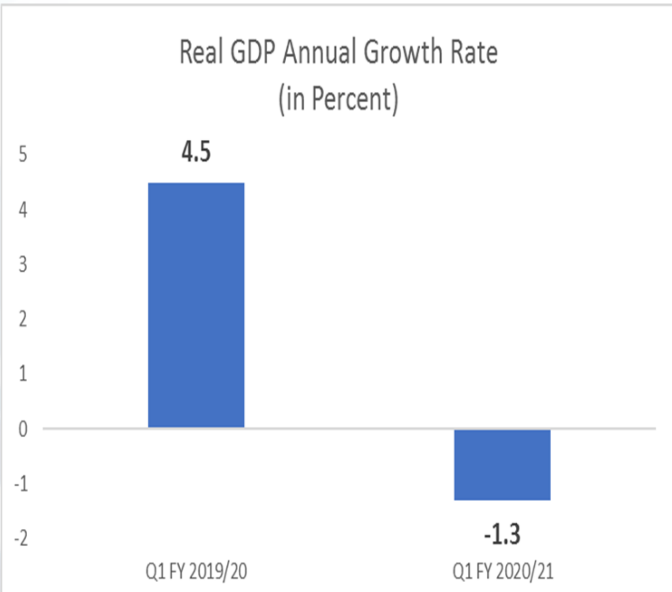


- This has resulted in negative contribution of investment to GDP during the quarter under investigation.

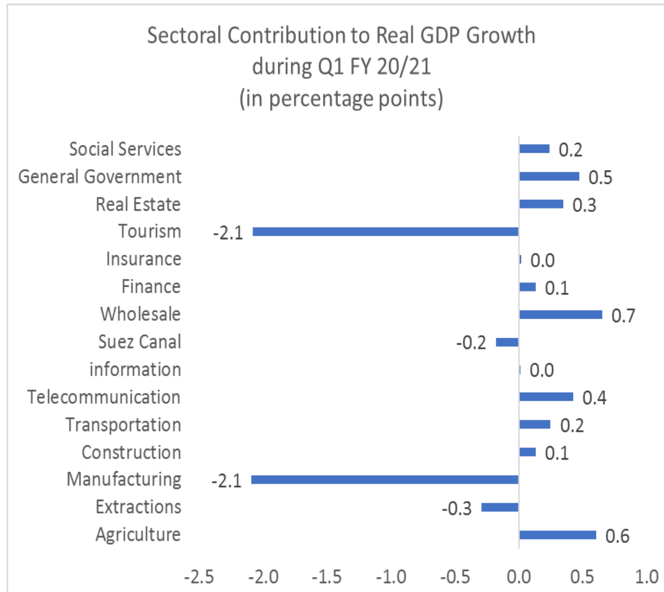
Source: Ministry of Planning and Economic Development.

I. Real Sector: GDP by Sector

- Updated quarterly factor cost GDP growth rate (Y-o-Y) registered –1.3% during Q1 FY 2020/21, compared to 4.5% a year earlier. The decline came on the back of retreated performance of some leading sectors mainly; Hotels and Restaurants, Suez Canal and Manufacturing. This has occurred due to the decline of demand on major goods and services, in addition to the suspension of air traffic by many European countries.



Source: Ministry of Planning and Economic Development.



Source: Ministry of Planning and Economic Development.

Manufacturing Sector	
Q1 FY2019/2020	Q1 FY 2020/21
3.3	-12.7

Hotels & Restaurants Sector	
Q1 FY2019/2020	Q1 FY 2020/21
3.0	-66.5

Suez Canal Sector	
Q1 FY2019/2020	Q1 FY 2020/21
7.0	-11.3

Source: Ministry of Planning and Economic Development.

II. Fiscal Sector:

•The FY2020/21 budget is dedicated to achieving sustainable, inclusive growth while fostering human development and implementing wide-ranging structural reforms.

•It is also characterized by an unprecedented set of measures and a stimulus package of EGP 100 billion, considered the largest in the history of Egypt for exceeding in size and measures the package implemented for the global economic crisis in 2008.

•This stimulus package aims at supporting citizens and sectors negatively affected by COVID-19 crisis. Further, it includes many incentives for productive industries and projects. All in consideration of the valuable partnership the Government has with the private sector and the accent the Government puts on protecting people's lives.

New Budget FY2020/21

Total Revenues (EGP 1288.8 bn)	Total Expenditures (EGP 1713.1)
Taxes (964.8)	**Wages (335)**
Grants (2.2)	**Purchases of Goods and Services (100.2)**
Other Revenues (321.8)	**Subsidies and Grants (326.2)**
	Interests (566)
	Other Expenditure (105)
	Investments (280.7)

Source: Ministry of Finance.

A rise in total expenditures by 8.8% in FY2020/21, due to the increase in:

- Allocation for water 136.6%
- Social housing support 46.2%
- Total spending on goods and services 33.7%
- Investments 26.4%
- Exports development fund 16.7%
- Wages 11.3%
- Cash subsidies (solidarity pensions and Takaful & Karama program 2.7%

	FY 2019/20	FY2020/21
Cash Deficit (EGP bn)	-440.1	-424.2
Overall Deficit (EGP bn)	-445.1	-432.1
Cash Deficit (% of GDP)	-7.1	-6.2
Overall Deficit (% of GDP)	-7.2	-6.3
Primary Surplus (% of GDP)	1.8	2.0

Fiscal Sector: Reform Measures include:

•Increase spending allocations for health, and education, and human development.

•Increase non-sovereign tax receipts by 0.5 percent of GDP

•Increase spending allocations for investments, maintenance, export subsidies, and infrastructure

•Widening tax base, improving tax collection, and enhancing tax automation

•Allocating EGP 3.5 billion to extend natural gas pipe lines to around 1.2 million beneficiaries

•Allocating EGP 5.7 billion to finance social housing

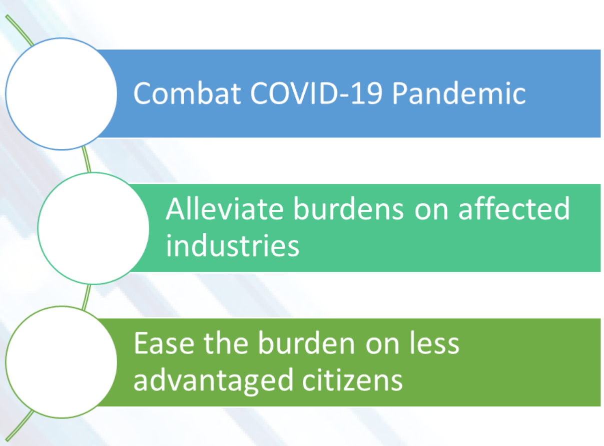
•Increase efficiency of the state administrative apparatus to cope with economic and technological developments

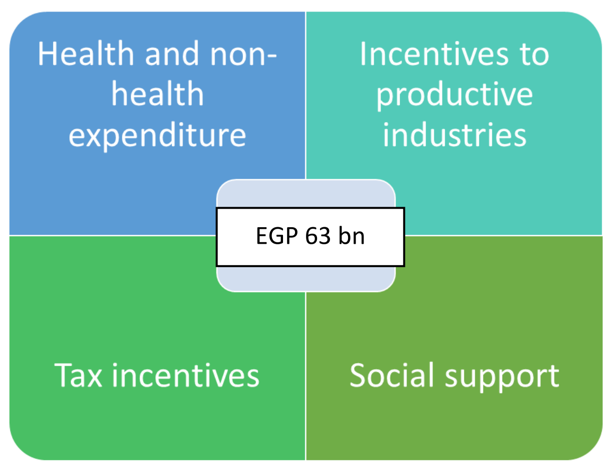
•Achieving efficient pricing of goods, and services

•Improving and rationalize public spending. Reprioritize spending allocation from current to capital and productive expenditure

•Expanding the application of program-based budgeting for enhanced performance and better exploitation of the country's resources

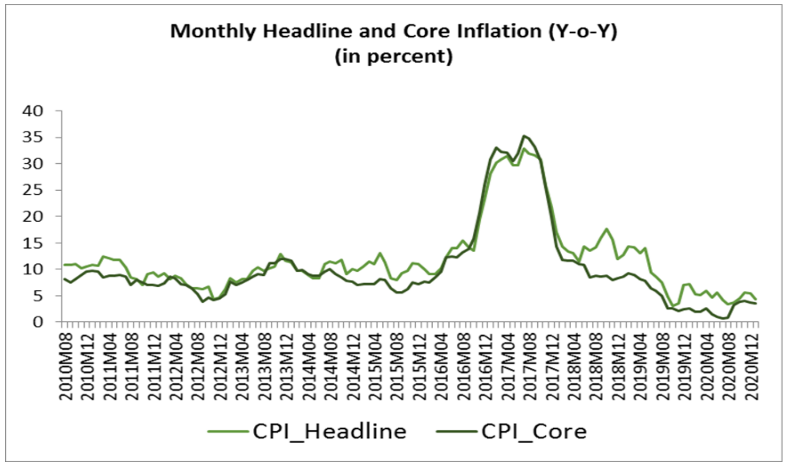
EGP 63 bn out of the EGP 100 bn are allocated to:



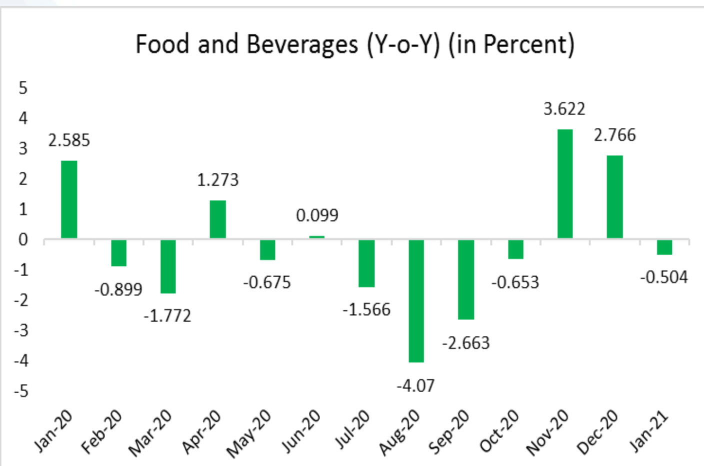


III. Monetary Sector: Inflation

• Urban headline inflation (Y-o-Y) declined to 4.3% in January, compared to 5.5% in the previous month. The deceleration is driven by monthly developments by -0.4% in January -for two months in a row, compared to 0.7% in the corresponding month. Moreover, core inflation (Y-o-Y) slightly declined to reach 3.6% in January, down from 3.8% a month earlier. This came on the back of an anchored monthly rate of 0.5% in January, compared to a muted rate of zero% a month earlier.



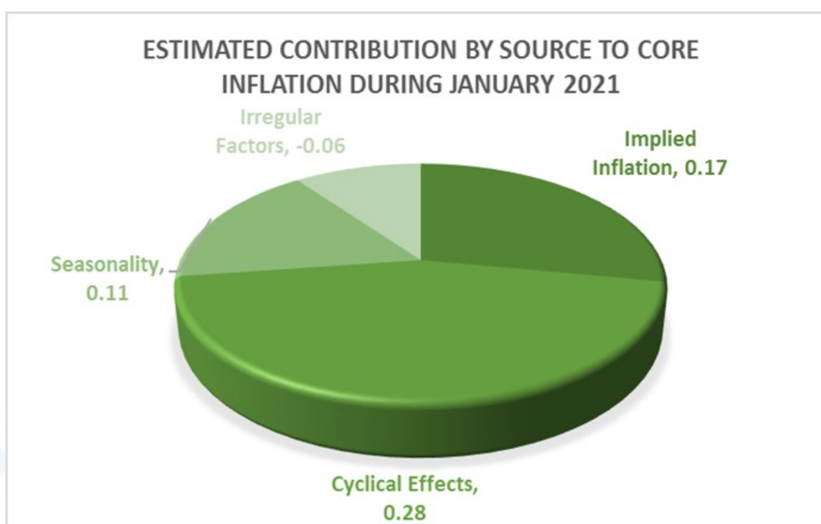
Source: CAPMAS and CBE



Source: CAPMAS and CBE

• As obvious, food and beverages group showed a deceleration during January. This can explain partially the eased headline inflation during the same month. It recorded –0.5% in December compared to 2.8% during a month earlier.

• During January 2020, the decomposed series shows that the main source which fuels monthly core inflation during this month is mainly attributed to cyclical factors accounting for 0.28 percentage points out of 0.5%. This can be backed by the fact that economic conditions are relatively getting back to normal, especially that inflation which came back from the spillovers of the irregularities primarily the effects of COVID-19 the global pandemic, started to diminish to record -0.06 percentage points. This has been associated with a limited pass-through effect emerging from the recent slight depreciation of the EGP in front of the USD during the last two months, which might be transmitted to the inflation rate. Moreover, the implied inflation has shown a positive contribution of 0.17 percentage points- albeit anchored to a great extent. Also, seasonality recorded a positive contribution of 0.11 percentage points by during January .



Source: MAP's Estimation.
* Normally, seasonal factor estimates appear with nil value in case of annual data, while seasonality is a high-frequency data concept that emerges in monthly or quarterly series.

•The implemented forecasts present two scenarios, in addition to the baseline scenario which is calculated using univariate ARIMA model specification. Both optimistic and pessimistic scenarios are induced from a macro-model estimation (refer to the technical annex), wherein the estimation period spans from 1Q 2004/05 through 1Q 2020/21.

•We still expect that urban headline inflation will be maintained during FY2020/21 at a single digit -albeit with an upward trend, it will be well below the historical average (excluding the overshooting inflation period took place during 2016 and 2017), for all scenarios. For headline inflation, the forecasted figures are on average ranging between 4.8% and 6.6% for FY2020/21.

•Further, according to the pessimistic scenario forecasts, inflation will pick up -though below the historical average- to reach 9.3% by Q4 of FY2020/21. The forecasted inflation is motivated primarily from the macroeconomic dynamics concerning expectations of tamed GDP growth accompanied but with lower unemployment rate, which improved significantly during Q4 2020 to register 7.2% down from 9.6%. This is expected to be partially offset by having positive money gaps during the period under investigation.

•As such, our forecasts show that short-term inflation will be hovering -on the edge- around the target set by the CBE which is 7% (+/-2%) suggesting that the CBE will be able to meet its target.

•When shifting to core inflation forecasts, recent dynamics indicate that it will be kept well below its historical average of 8.8% for some time. Evidently, we found that it will show a slight pick-up by Q4 FY2020/21, to reach a maximum of 7.4% as per the baseline scenario; nevertheless, it will be fluctuating around a single digit for all scenarios likewise. Business as usual scenario shows that if economic conditions are ceteris-paribus, core inflation will be maintained at a record low of 2.77% on average during FY2020/21.

	Headline Inflation Rate		
	Baseline Scenario	Pessimisitic Scenario	Optimistic Scenario
Q3 2019	7.02		
Q4 2019	4.60		
Q1 2020	5.86		
Q2 2020	5.40		
Q3 2020	3.76		
Q4 2020	5.20	5.20	5.20
Q1 2021	4.24	8.12	7.61
Q2 2021	6.11	9.32	9.56

Source: MAP's Estimation
The implemented forecasts present two scenarios, in addition to the baseline scenario which is calculated using univariate ARIMA model specification..

	Core Inflation Rate		
	Baseline Scenario	Pessimisitic Scenario	Optimistic Scenario
Q3 2019	4.47		
Q4 2019	2.36		
Q1 2020	2.16		
Q2 2020	1.68		
Q3 2020	1.62		
Q4 2020	3.86	3.86	3.86
Q1 2021	1.50	5.44	3.92
Q2 2021	4.12	7.35	6.62

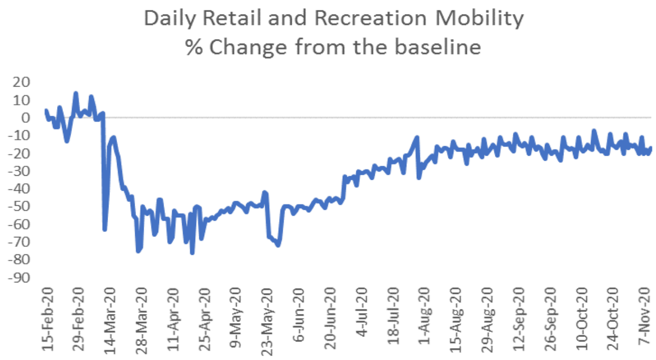
Source: MAP's Estimation
The implemented forecasts present two scenarios, in addition to the baseline scenario which is calculated using univariate ARIMA model specification..

Consumption Indicators:

•Retail and Recreation Mobility:

· This variable reflects mobility trends for places like restaurants, cafes, shopping centers, theme parks, museums, libraries and movie theatres.

· Updated figures show that retail and recreation mobility is still in the negative territory for a prolonged time when compared to the mobility in grocery and pharmacy. This can be backed by the fact that the latter can be considered more of a necessity that the retail activities. The latter will need some time to rebound totally after the pandemic vanishes.



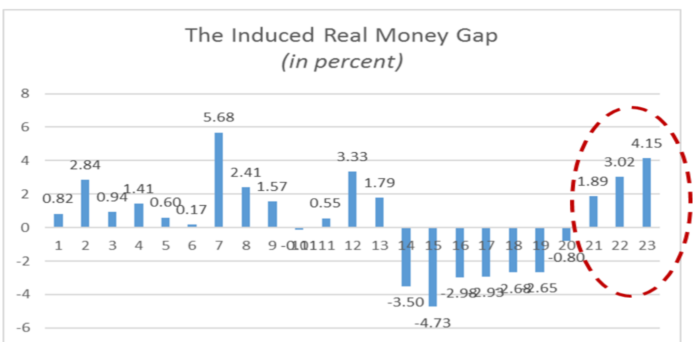
Source: Google Mobility Report.

· It remained broadly unchanged compared to a month ago, registering an average of -17% in November, compared to an average of –16% during October.

•Domestic Liquidity (M2) and the induced money gaps:

The induced money gap is measured as the deviation of the money demand from the money supply. Having a positive money gaps indicate an unfavorable impact on inflation, and unsustainable economic growth.

Theoretically, positive gap reflects the presence of inflationary pressures in the short-run, which started to appear during 2020, this means that demand exceeds supply of goods.



Source: MAP's Estimations and Central Bank of Egypt.

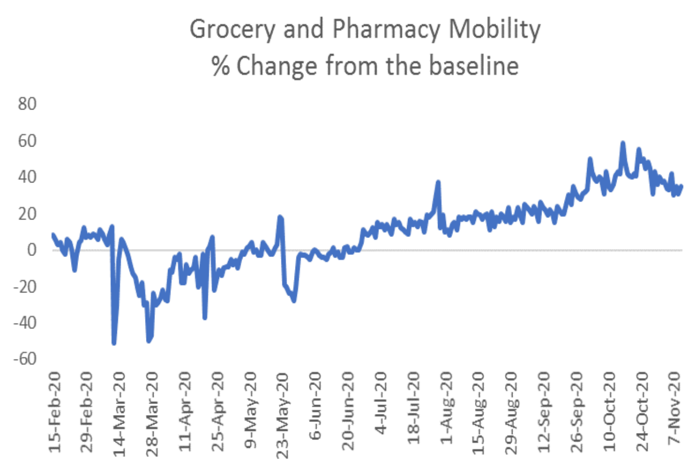
The induced money gap reveals that the pandemic has an nonnegligible impact on the supply and demand of money, which appeared vividly during the first three quarters of 2020.

In detail, the money gap was negative during the fiscal year 2018/19 and during the first half of 2019/20, before the economy was hit by COVID-19.

•Grocery and Pharmacy Mobility:

This variable reflects mobility trends for places like grocery, markets, food warehouses, farmers markets specialty food shops, drug stores and pharmacies.

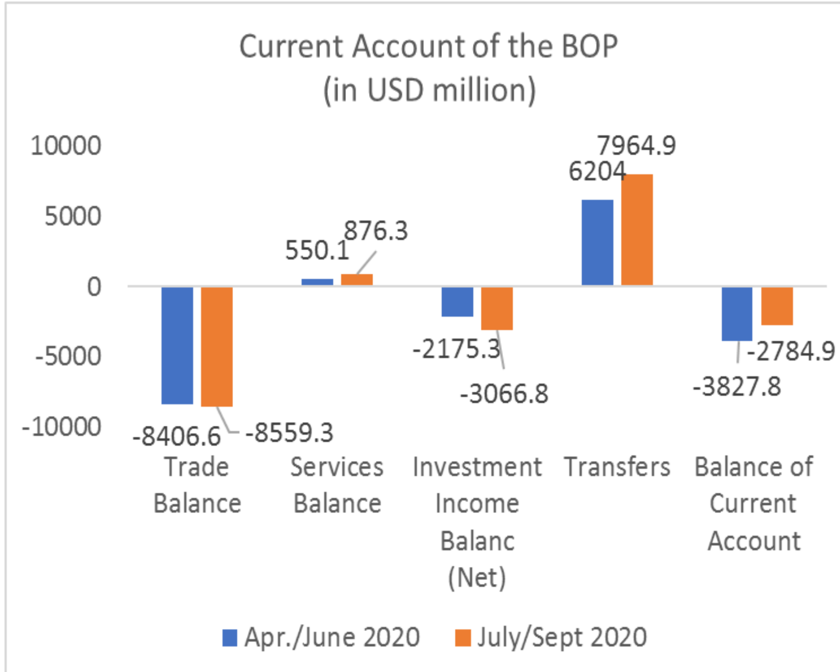
The numbers shown on the figure represent the percentage change from the baseline. Recent trends reveal after showing relative rebound in early October, it started to lower once again during November, which can be attributed to the precautionary measures taken to mitigate the impact of the second wave of the Pandemic.



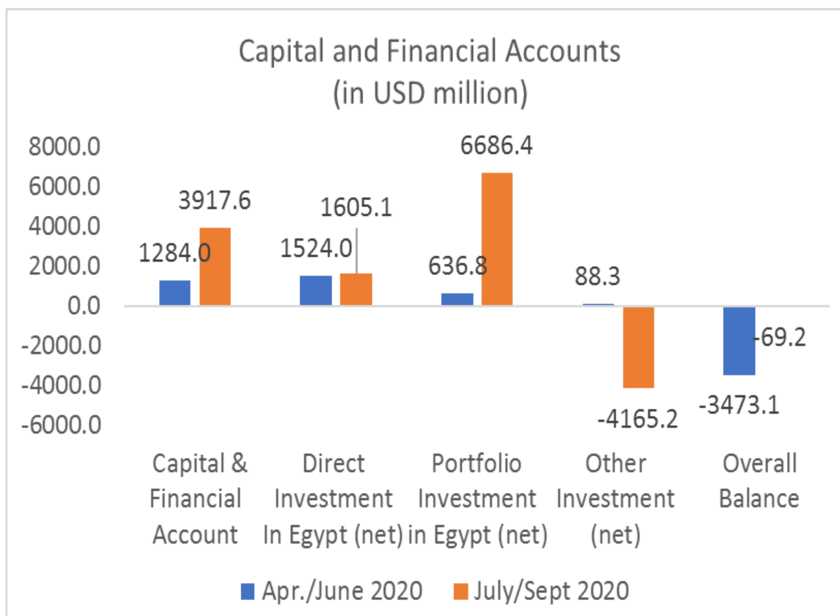
Source: Google Mobility Report.

IV. External Sector: Balance of Payments

- Egypt's current account deficit decreased to USD 2.8 bn during Q1 of the FY 2021/21 down from USD 3.8 bn a year earlier. This can be attributed to the improvement in the transfers balance to record USD 7.9 billion up from USD 6.2 billion a quarter earlier. This came primarily from the Workers Remittances which have increased to USD 8.0 billion during Q1 of the FY2020/21, up from USD 6.2 billion during Q4 of the FY2019/20.
- Also, the services balance witnessed a slight rebound to USD 876 million on the back of improved Tourism revenues which have increased to USD 801 million up from USD 305 million during Q4 of the FY 2019/20. This came despite the slight deterioration in the trade balance deficit which witnessed a n increase to USD 8.5 billion during the Q1 of the FY 2020/21 up from USD 8.4 billion during a quarter earlier. This was driven by the increase in the petroleum imports to USD 1.4 billion up from USD 800 million
- In the meantime, the current account deficit was financed by USD 3.9 billion from the financial and capital inflows. The good news is that FDI registered a slight increase to USD 1.6 billion during the Q1 of the FY 2020/21, up from USD 1.5 billion during Q4 of the FY 2019/20.
- The impact of the current crisis has triggered portfolio outflows globally, which were particularly felt in emerging markets. Egypt's Capital & financial account of the balance of payments started to rebound during Q1 of the FY2020/21witnessing a huge improvement to register an inflow of USD 6.7 billion up from an inflow of only USD 637 million during a quarter earlier.
- •As such, the overall balance closed at a limited deficit of nearly USD 69 million down from a deficit of USD 3.5 billion a quarter earlier.



Source: Central Bank of Egypt (CBE).



Source: Central Bank of Egypt (CBE).

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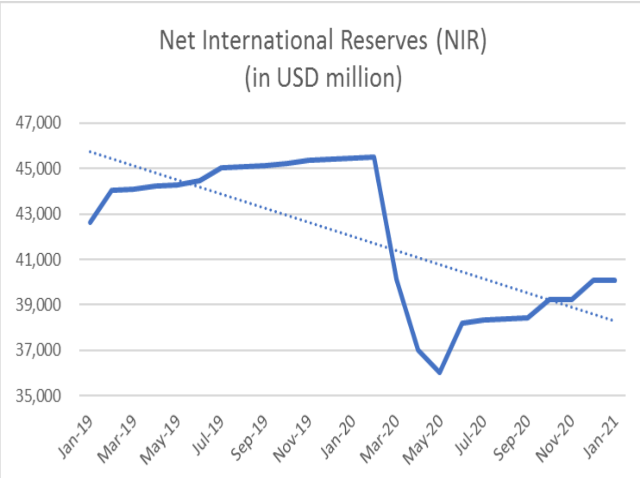
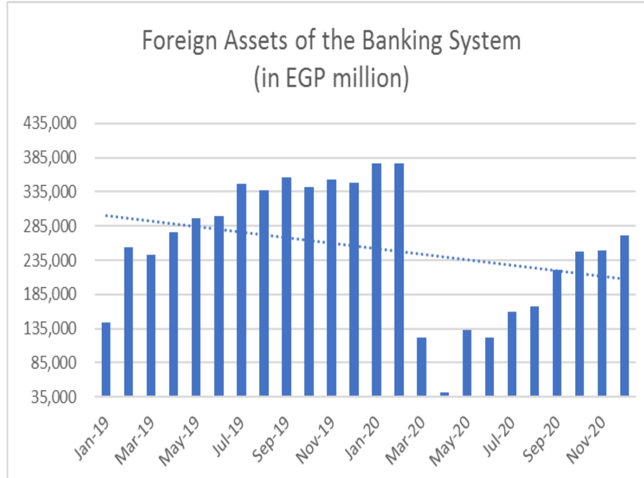
Net International Reserves:



Source: Central Bank of Egypt (CBE).



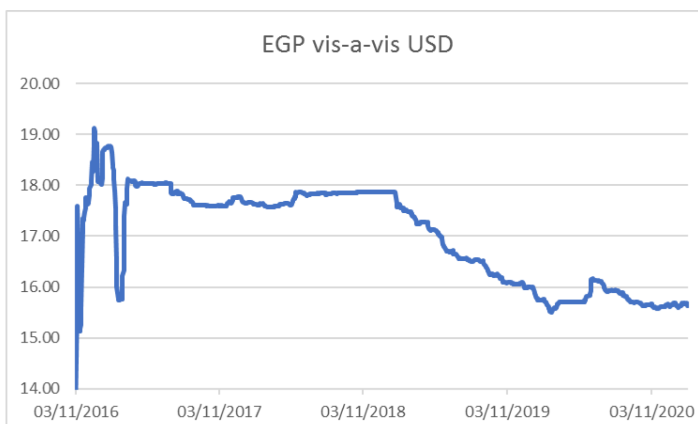
Source: Central Bank of Egypt (CBE).

•The Central Bank of Egypt (CBE) revealed that Egypt's net international reserves increased in January 2021 to USD 40.10 bn up from USD 40.06 bn during December 2020.

•Accordingly, the country's net foreign assets at banking sector started to rebound recording EGP 271 billion during December 2020, after it has plunged to EGP 41 billion in April 2020 following a deteriorated NIRs which have dropped to only USD 36.0 billion in May 2020.

Exchange Rate:

- The exchange rate of the Egyptian Pound remains resilient in front of the greenback during 2020 and expected to broadly maintain its momentum beyond this year. Such performance continues despite the presence of the second wave of the Global Pandemic. These dynamics were reflected on the net international reserves hovering around USD 40.0 billion in January. Recently the EGP/USD has restored its strength and started to hover around 15.6 in February.



Source: Central Bank of Egypt (CBE).

V. Challenges and Prospects

- It is clear from the review that recovery from the COVID-19 multi-scaled health and economic global crisis is steadily taking place.
- In addition, the results of the Business Barometer questionnaire revealed that there is a positive and optimistic outlook for the upcoming quarter (Jan -Apr 2021) in which the index would register about 51 points.
- ***This is supported by international institutions outlook for Egypt that seems positive: In its most recent January 2021 update of the World Economic Outlook, the IMF has revised its GDP growth projections for Egypt to 2.8% in 2021 and 5.5% in 2022 . This came after October's 2020 forecast, GDP growth is projected to fall further to 2.8% in 2021, after registering 3.5% during the FY 2019/20, and it will recover to 5% in 2022, subject to a post-pandemic global economic recovery.***
- ***However,*** the government is aware that this doesn't suffice and it is crucial to address the Egyptian economy's structural challenges and embark on the second wave of reforms to build a well-founded and well-structured resilient economy, enhance private sector activity, create better employment opportunities and improve the living standards of Egyptians.