MONTHLY ECONOMIC REVIEW
JANUARY 2023

وزارة التخطيط والتنمية الاقتصادية
Ministry of Planning and Economic Development

Soaring Inflation Waves and Tightening Monetary Policy

Rampant inflation came after two sharp devaluations of the Egyptian pound relative to the U.S. dollar this year (pass-through effect), as well as the higher broad money growth (domestic liquidity (M2)) and the ongoing repercussions of the Russia-Ukraine conflict. Urban headline inflation (Y-o-Y) surged in December to 21.3% up from 18.7% in the previous month. it has been accelerating in the double digits zone since the outbreak of the Russia-Ukraine war in February. where the Main upward pressure that rose the monthly inflation rate in December is attributed to the increase in the prices of basic commodities. Prices of food and beverages rose by 4%, fruit groups by 7.6 %, dairy products (cheese and eggs) by 6.4 % and sugar by 2.5 %. Furthermore, the price of other commodities, including grains and bread, increased by 5%, meat and poultry by 2.8 %, and fish and seafood elevated by 3.1 %. Nevertheless, core inflation continued its rapid acceleration to register a double-digit since last March to reach 24.4% compared to 21.5% a month earlier.

As a consequence, the Central Bank of Egypt (CBE) has raised the interest rate on December 2022 by 300 basis points to contain surging inflation and absorb the liquidity available on the market.

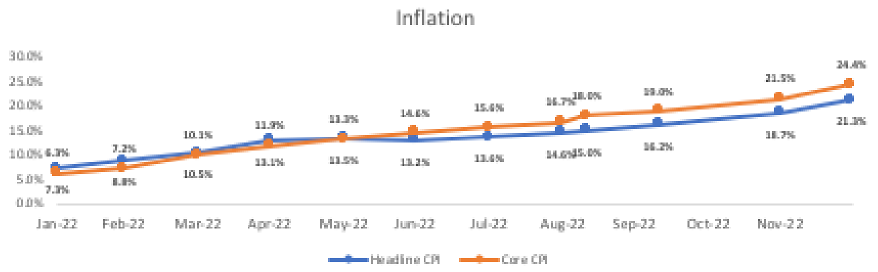


Figure 1

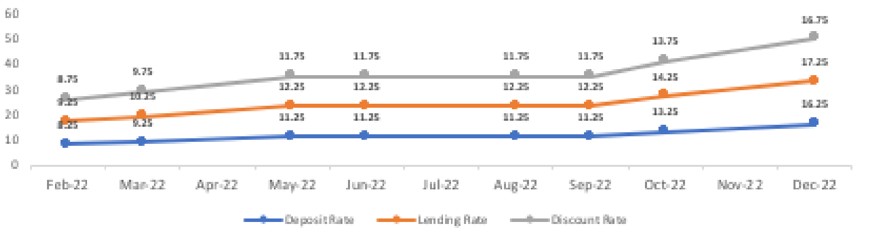


Figure 2

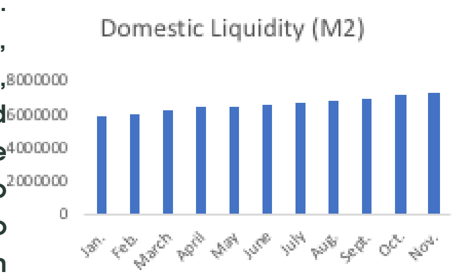


Figure 3

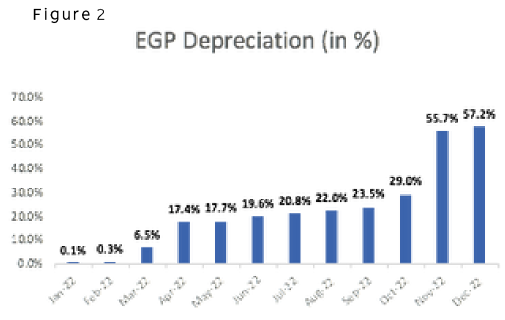


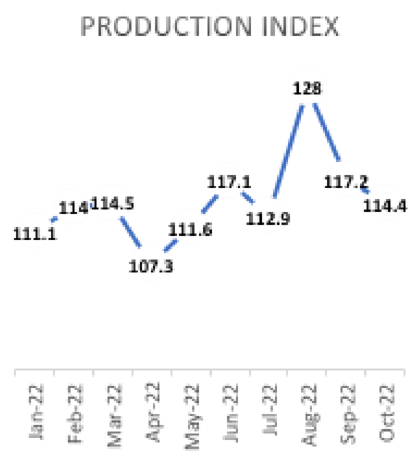
Figure 6

Source:MAP calculations/CBE

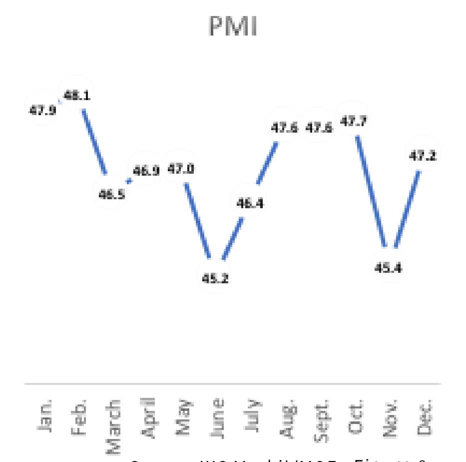
Source:CBE

The Performance of the Non-oil Private Sector

Despite the slight improvement of Egypt PMI in December but it is still below the pre-crisis level, the non-oil private sector has contracted for 25 months in a row due to concerns about soaring inflation, currency devaluation, ongoing import restrictions, high input prices due to currency and supply issues. Along with Increasing borrowing costs as depicted in the obvious hike in the lending rates as an upshot of the tightening monetary policy of the CBE. Due to the aforementioned circumstances there is a declining trend in the production index as well.

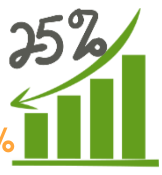


Source:MPED Figure 7

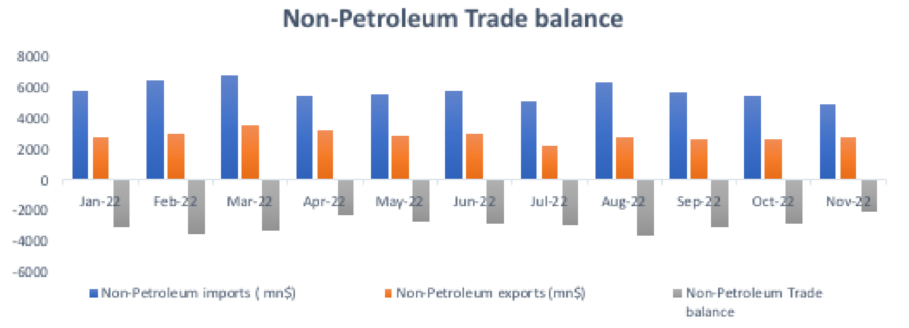


Source:IHS Markit/MOF Figure 8

On monthly basis the non-petroleum trade balance deficit decreased by 25.4%



The non-petroleum trade balance deficit reached $2055mn during November 2022, versus $2754mn for the previous month a decrease of 25.4%.the value of exports increased by 6%, reaching $2833mn, up from $2669mn in October 2022 due to the increased value of some commodities such as chemical products and fertilizers which rose by 21% and it's worthy to mention that they contribute with the largest share to the value of total non-petroleum exports by around 24%.Meanwhile, the value of some exports, such as agriculture crops decreased by 16%.Additionally, the value of non-petroleum imports decreased by 9.9%, reaching $4888mn down from $5423mn in October 2022 due to the value of some commodities decreasing, as depicted in (figure13).



Source:MPED/GOEIC/MTI Figure 9

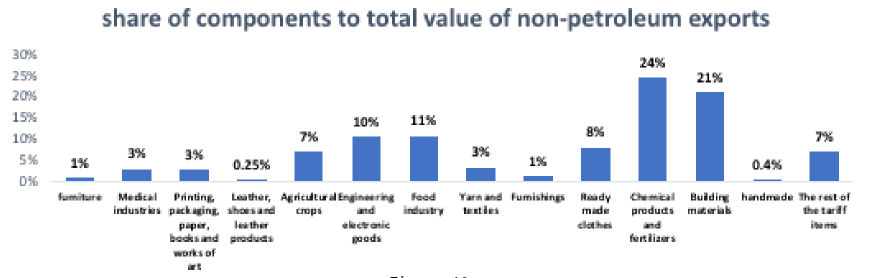


Figure 10

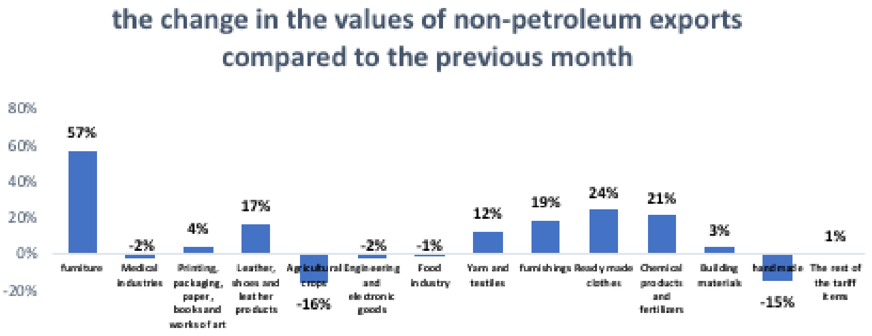


Figure 11

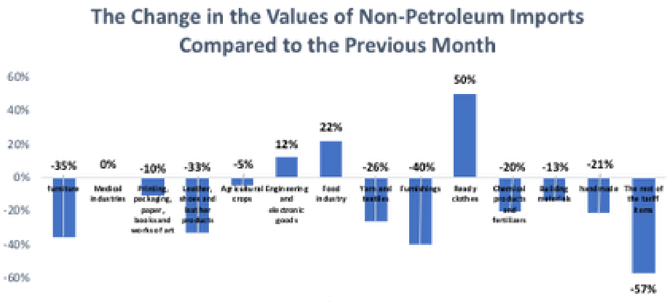


Figure 13

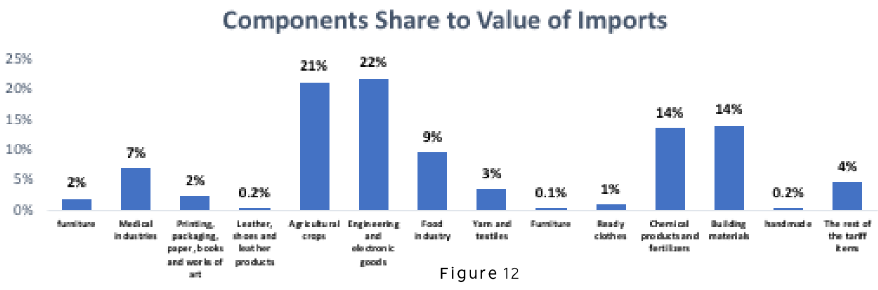


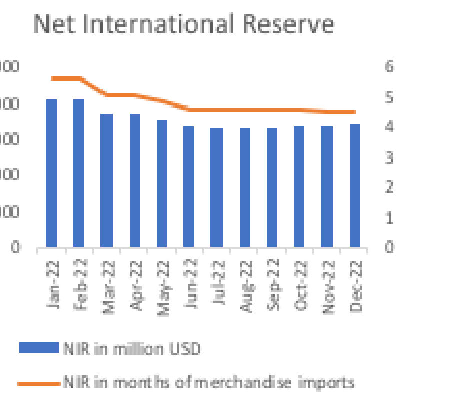
Figure 12

Source:MPED/GOEIC/MTI/MAP calculations

External Sector

Egypt's net international reserves increased by $0.5 billion, bringing the total to $34 billion by the end of December 2022. This is the most significant monthly increase since December 2020. This is the fourth month in a row that reserves have increased, reinforcing the Egyptian economy's stability. While this was a significant increase, net international reserves have yet to fully recover to their pre-December 2021 level of $40.9 billion. The hope is that as Egypt navigates the economic landscape, the reserves will continue to grow and reach a more stable level.

NIR covers roughly 4.5 months of imported goods and 3.8 months of imported goods and services. The NIR coverage has decreased significantly from more than 7 months in December 2021 to around 4 months in December 2022, owing to a decline in net international reserves, with the most affecting factor being the super increase in global inflation caused by the Russian-Ukraine war, combined with supply-chain disruption.



Source:CBE Figure 14