وزارة التخطيط والتنمية الاقتصادية
Ministry of Planning and Economic Development

MACRO ANALYSIS
POLICY UNIT (MAP)

MONTHLY ECONOMIC REVIEW

2022 | MAY

MONTHLY ECONOMIC REVIEW

The Monthly Economic Review is produced by MAP Unit. It highlights the most critical economic updates and aims at tracking the main developments in the real, fiscal, monetary and external sectors. In addition, the Monthly Economic Review helps to monitor the economic response and recovery in light of COVID-19 crisis, considering different challenges and future prospects as well.

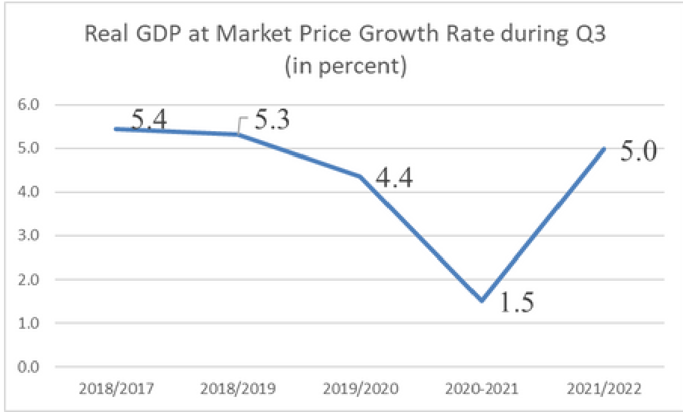
MAY'S HIGHLIGHT

- Real GDP growth rate (at market price) inched up to 5% during Q3 of FY2021/22 up from 1.5% during the corresponding quarter of the FY2020/21. Nevertheless, the IMF expects that the Egyptian economy will expand at 5.9% in FY2021-2022, up 0.3 percentage points from its previous forecast in January.

- Unemployment rate decreased to 7.2% in Q1 2022 down from 7.4% in Q4 2021. However, it declined by 0.5 percentage point compared to Q1 2020. As an aftereffect of the repercussions of the Russian-Ukrainian conflict, the non-oil private sector employment rate retreated accordingly.

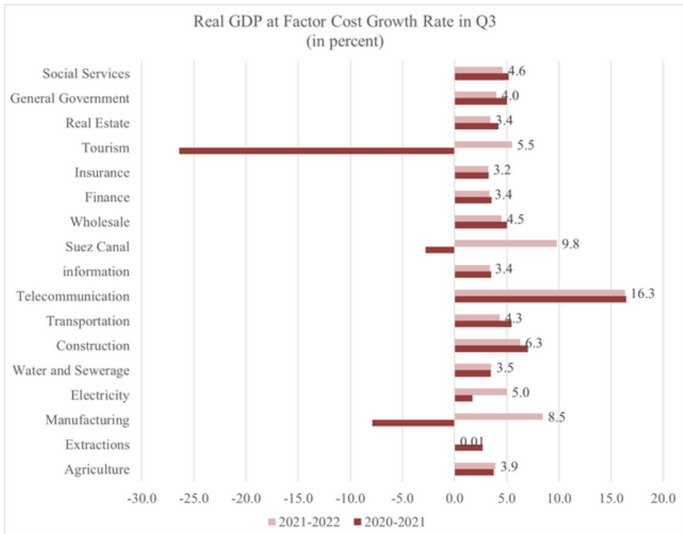
REAL GDP RECENT DEVELOPMENTS

- Real GDP growth rate (at market price) inched up to 5% during Q3 of FY 2021/22 up from 1.5% during the corresponding quarter of the FY 2020/21. It is worth to note that this increase came after that the GDP growth was on the downward trajectory during Q3 FY2017/18 through Q3 FY2020/21.



Source: Ministry of Planning and Economic Development.

- Sources of growth by sector emerged primarily from tourism which has reversed from negative growth to grow at 5.5%. This is supported by the growth in three leading sectors: manufacturing, Suez Canal and Telecommunications which grew at 5.5%, 8.5%, 9.8% and 16.3%, respectively during Q3 of FY 2021/22.



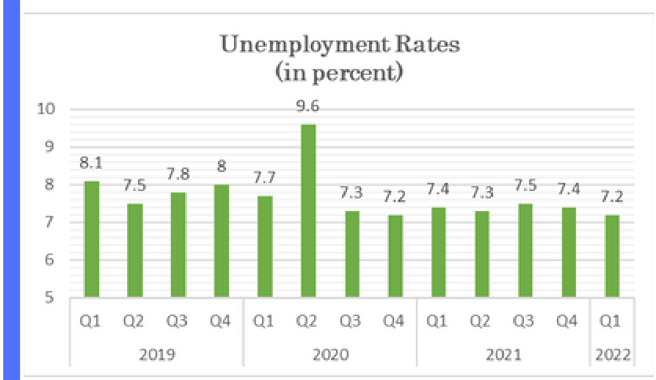
Source: Ministry of Planning and Economic Development.

UNEMPLOYMENT DEVELOPMENTS

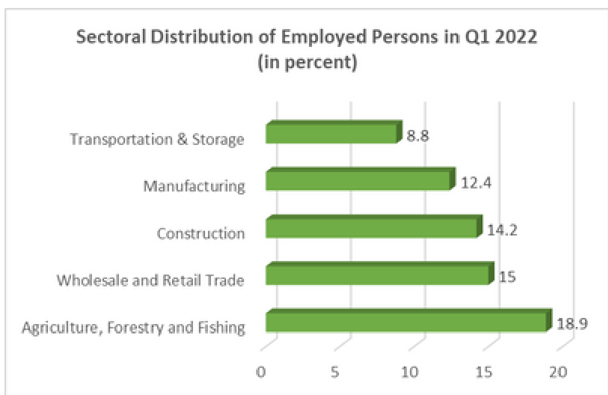
- Latest unemployment figures for Q1 2022 showed a decrease, registering 7.2% down from 7.4% in Q4 2021. However, it declined by 0.5 percentage point compared to Q1 2020. Female unemployment rate recorded 17.7%, up from 15.9% in Q1 2021, while the males unemployment rate dropped to just 4.9% compared to 5.6% in Q1 2021.

- During Q1 2022, three sectors mainly participated in the creation of new jobs. The construction sector was in the lead, intaking 165 thousand workers. The agricultural sector came in second place with approximately 81 thousand workers followed by the manufacturing sector with 65 thousand workers.

- On another note, the sectoral employment distribution in Q1 2022 is similar to the previous quarter. The agriculture, forestry, and fishing sector remains in the lead, having the major employment proportion with a share of about 19% followed by the wholesale and retail sector accounting for 15%. It's worth to mention that the construction sector's employment share increased to reach 14.2% after registering 13.8% in Q4 2021.



Source: CAPMAS.



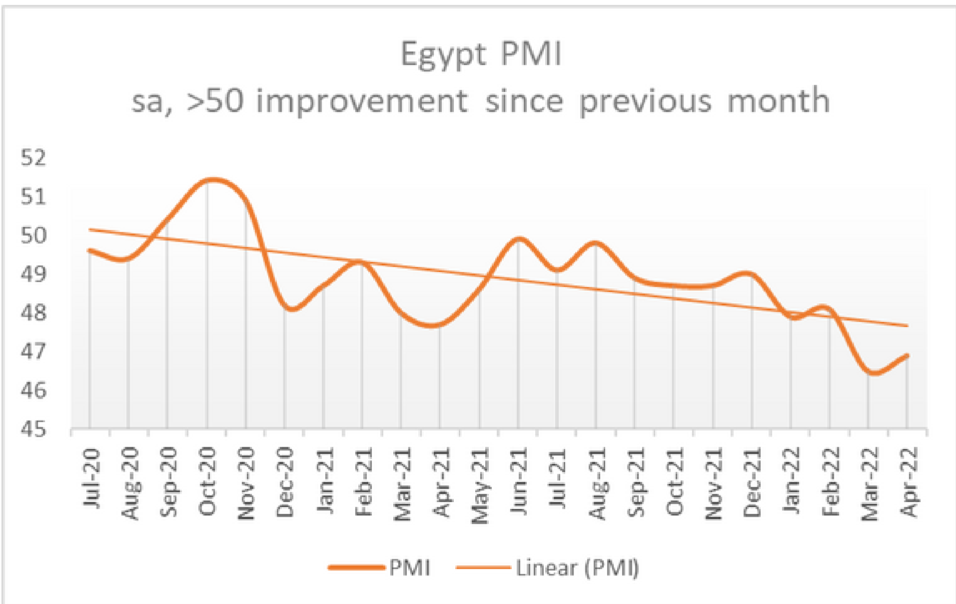
Source: CAPMAS.

PMI DEVELOPMENTS

- Egypt PMI came in at 46.9 in April, up marginally from March's 21-month low of 46.5. As a result, the index moved closer to, but remained below the 50.0 no-change threshold, where it has remained for the past 17 months, signaling a continued deterioration in business conditions from the previous month.

- The continued buildup of price pressures, which are denting on consumers' purchasing power, led to yet another decline in demand and new orders in turn. Raw material scarcity and high energy prices, partly due to the war in Ukraine, coupled with the recent Central Bank move, which allowed the pound to depreciate led to high inflation, weighing on output.

- In a bid to try to cut down costs, employment levels decreased once again in April, with jobs being shed at the quickest pace in one year. More positively, business sentiment improved from March survey record low, although it still remained downbeat due to expectations of elevated price pressures, supply disruptions and geopolitical tensions ahead.



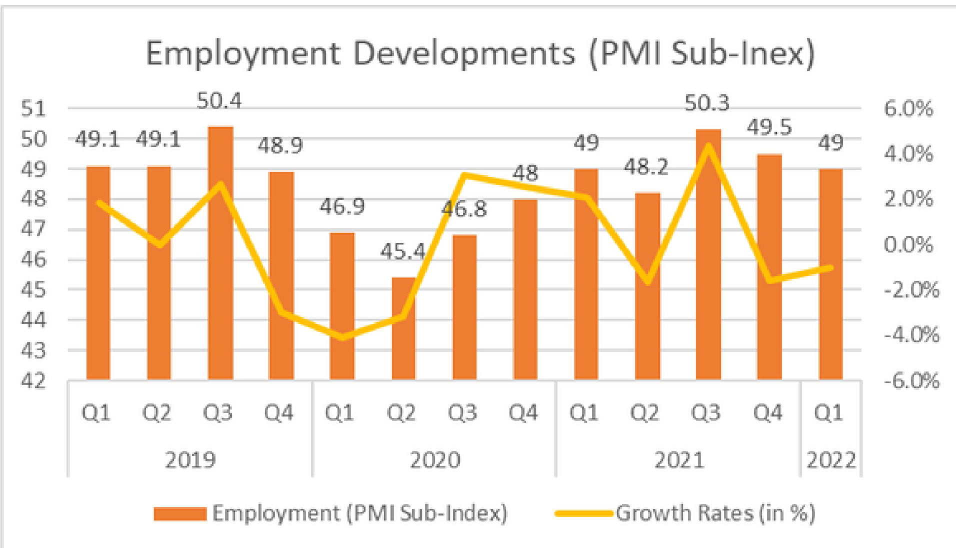
Source: IHS Markit.

PMI DEVELOPMENTS

- As an aftereffect of the repercussions of the Russian-Ukrainian conflict, the non-oil private sector employment rate retreated accordingly.

- By the time that the employment conditions in the non-oil private sector have relatively recovered from the negative impact of the pandemic outbreak, a new crisis has followed with the Russian invasion of Ukraine. The employment index was gradually decreasing from 50.3 in Q3 2021 to 49 during Q1 2022, as illustrated in the graph below.

- Given the current global and regional economic situation, manufacturing production, investments, and trade flows were severely affected, and the state of uncertainty surged. This was reflected in April 2022 results, where the employment index dropped to 47.9, with a decline of about -1.7% from the previous month.

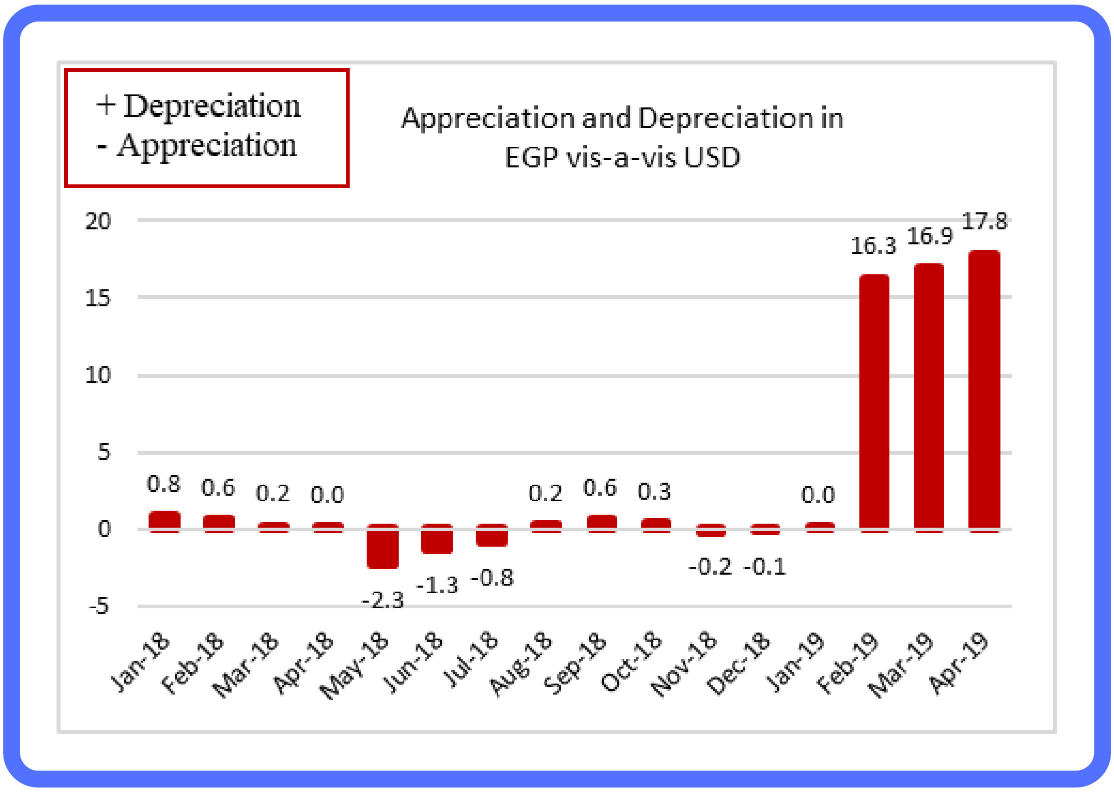


Source: IHS Markit and Ministry of Finance.

EGP FOREX DYNAMICS

- The recent devaluation of the Egyptian Pound by 17.8% in April, had its anticipated repercussions on the domestic inflation due to unfavorable pass-through effect, that has been fully manifested during April figure. Rather, it is expected this to be reflected during the next couple of months in higher inflation rates.

- Nonetheless, the inflationary pressures are relatively tamed out due to the CBE's decision to hike policy interest rates by 100 basis points in its exceptional meeting that was held on March 21st and the 200 basis points implemented in its meeting on May 19th.

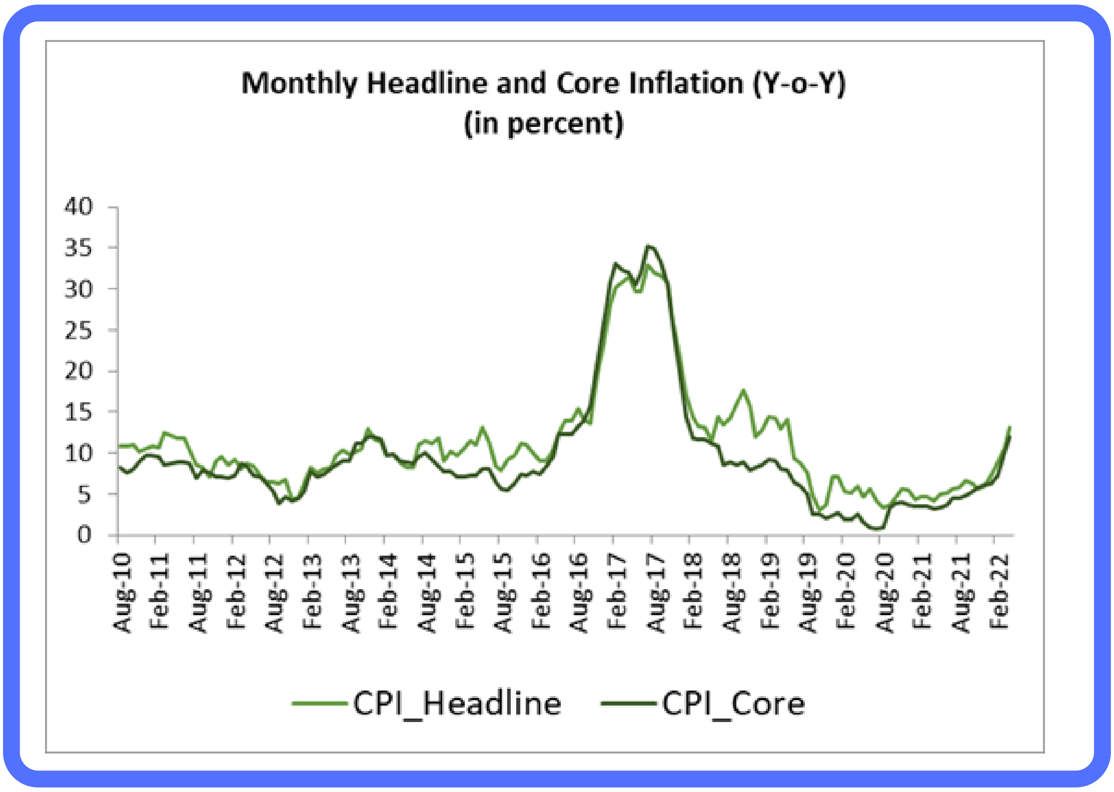


Source: Central Bank of Egypt.

PRICES DYNAMICS

- Urban headline inflation (Y-o-Y) jumped for the second month in a row to record 13.1% in April, compared to 10.5% a month earlier. The monthly dynamics showed an increase of 3.3% in April compared to 2.2% in the previous month.

- Meanwhile, core inflation accelerated in April to record 11.9% (Y-o-Y) compared to 10.1% a month earlier. This came on the back of higher m-o-m rate of 2.4% in April 2022, compared to 3.1% a month earlier.

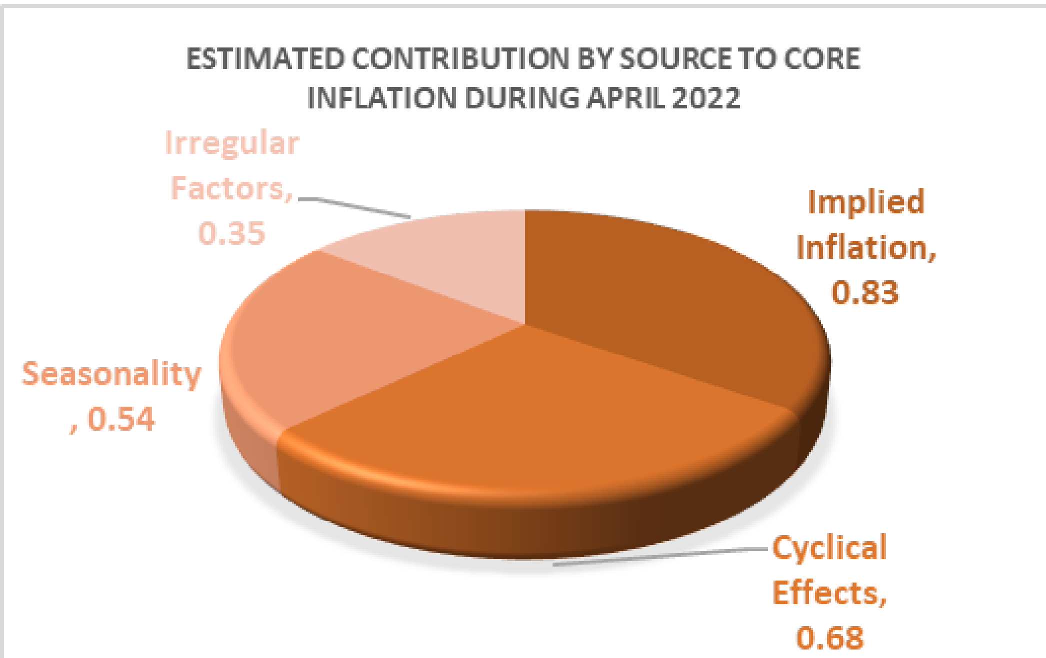


Source: CAPMAS and CBE.

PRICES DYNAMICS

Sources of demand-driven inflation ...

- The April readings analysis indicated that monthly core inflation has relatively softened to register 2.4% compared to 3.1% a month earlier. This can be primarily attributed to the cyclical factor related to the supply-push effects contributing by 0.68 percentage points, driven by higher international food and energy prices that emerged from the recent conflict in Ukraine and had its spillover on the Egyptian Economy.
- This is coupled with a positive and significant contribution of implied inflation reflecting higher inflation expectations recording 0.83 percentage points. Worth to mention, this is a record high since May 2018.
- Moreover, irregular factors that are related to unfavorable pass-through effect emerging from the recent EGP devaluation contributed by 0.35 percentage points.



Source: MAPs Estimates, MPED.

SUMMARY AND FUTURE PROSPECTS

- Prior to the external shocks that triggered the different policy measures taken, economic conditions were rebounding strongly from COVID-19 spillovers, although inflation was on the rise (resulted from supply-side pressures from international sources) and pressures on external accounts were building (due to expansionary fiscal policy represented in the stimulus packages undertook by the GOE to face the global pandemic).
- The adverse global developments were reflected in surging international prices especially of food and fuel, the international tightening cycle for financial conditions, retreated and sluggish demand, on top of that the geopolitical conflict taking place between Russia and Ukraine in facing the global dynamics. In light of these crises, Egypt implemented some proactive steps, represented in some monetary and fiscal measures including exchange rate and others to mitigate its negative effects.
- Despite all these exogenous pressures, Egypt is still on track to achieve higher growth in FY2021/22 projected at 4.5% as announced by the GOE, nevertheless, economic activity in the foreseeable future will be first affected by the spillovers of the war in Ukraine, as well as phasing-out base effects. Moreover, in case of a worst-case scenario, in which the war would continue for some time, GDP growth is expected to be hovering around the negative territory in the medium term.

SUMMARY AND FUTURE PROSPECTS

To mitigate these adverse repercussions on the Egyptian economy, the Government of Egypt embarked on the newly launched National Structural Reform Program (NSRP) (FY2021/2022–FY2023/2024) in order to undertake more structural "second wave" reforms, to enhance the pre-pandemic stabilization reforms. This program aims at improving the standards of living and service delivery to all Egyptians without discrimination. It seeks to implement a package of structural policies to address existing imbalances, strengthen and better target social safety nets and develop human capital.