



MONTHLY ECONOMIC REVIEW

MACRO ANALYSIS POLICY UNIT (MAP)

SEPTEMBER 2020

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.

Executive summary

Real Sector

**Real GDP Growth and induced GDP gap “Expenditure Side”
Economic Activities and Induced GDP gap “Sectoral Side”
Unemployment
Purchasing Managers Index (PMI)
Business Barometer**

Fiscal Sector

**Total Revenues and Expenditures
Budget Deficit**

Monetary Sector

**Headline and Core Inflation
Interest Rates
Financial Soundness
Induced money Gap**

External Sector

**Net International Reserves
Exchange Rate
International Portfolio
Balance of Payment**

Challenges and Prospects

I. Executive Summary:

GDP Growth Rate



3.57%

The MPED expected the economic growth rate to reach an average of 4% $\pm 0.3\%$ by the end of the FY 2019-2020

Investment



-2.3%

Investments of private sector both domestic and foreign, contribution to GDP in Q3 of 2019-2020 declined to -2.3%.

IPI



104.7

Egypt's industrial production index recorded 104.7 in June 2020, compared to 86.6 in May 2020.

PMI



49.4

Purchasing Managers Index (PMI) stood at 49.4 in August 2020, down fractionally from 49.6 in July 2020. The headline index has risen nearly 20 points from its significant decline in April. Such an increase reflects restoring back the normal levels.

Unemployment



9.6%

The monthly unemployment rate recorded 8.9% during June 2020. The rate reached 9.6 % in 2020 Q2, compared to 7.7% in Q1.

The Fiscal Sector:

FY 2020-2021 budget targets overall deficit

Increase in total
revenues by

13.6%

6.3%
of GDP

supported by

Increase total ex-
penditures by

8.8%.



The Monetary Sector:

Inflation



3.4%

The annual urban headline inflation rate dipped to 3.4% in August 2020, down from 4.2% in July 2020 and 5.6% in June 2020, due to a favourable base effect. Such dynamics reflect partially an economic slowdown.

Interest rate

%

-3.5%

In light of the COVID-19 global Pandemic, the CBE took pre-emptive measures, including the reduction of 350 basis points during 2020

The External Sector:

NIR



38.4 bn

The NIR increased by around 51 Million USD during August 2020, to reach 38.366 Billion USD, compared to 38.315 Billion USD in July 2020.

Suez Canal



8.2%

Revenues of Suez Canal increased by 8.2% in July 2020. Navigation traffic witnessed an increase of 4.4% during the first half of 2020, compared to the same period in 2019.

FX



15.79

The Egyptian Pound averaged EGP 15.79 per USD in September 2020 and 15.9 per USD during August 2020 compared to EGP 16.0 per USD in July 2020.

Remittances



27.6%

Remittances continued to preserve high levels in the Q3 of FY 2019-2020, increasing by 27.6% to reach \$7.9 bn, compared to \$6.2 bn during the same quarter of 2018/19.

Trade Deficit



-11%

Trade deficit narrowed by 11%. This improvement was mainly due to decreasing imports by 6.3% and increasing exports by 1% during Q3 of FY 2019-2020.

Export Flows



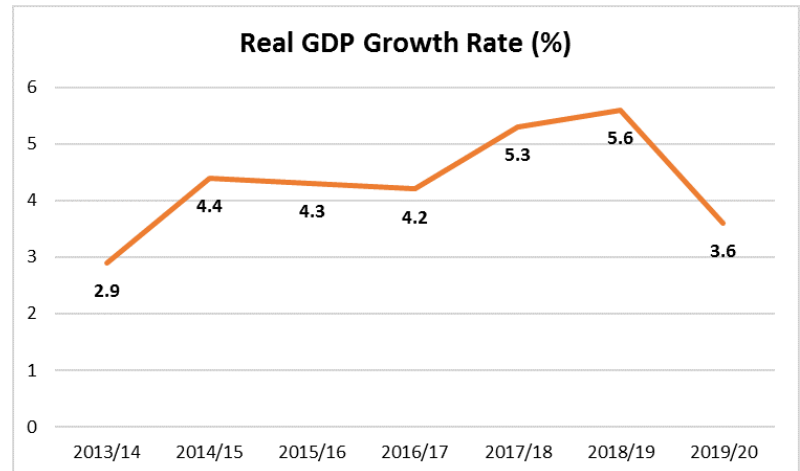
-5.3%

Exports of non-petroleum increased by 5.4%, while petroleum exports decreased by 18.5%. Thus, total revenues from exports declined by 5.3% during Q3 of 2019-2020

II. Real Sector

i. Real GDP growth

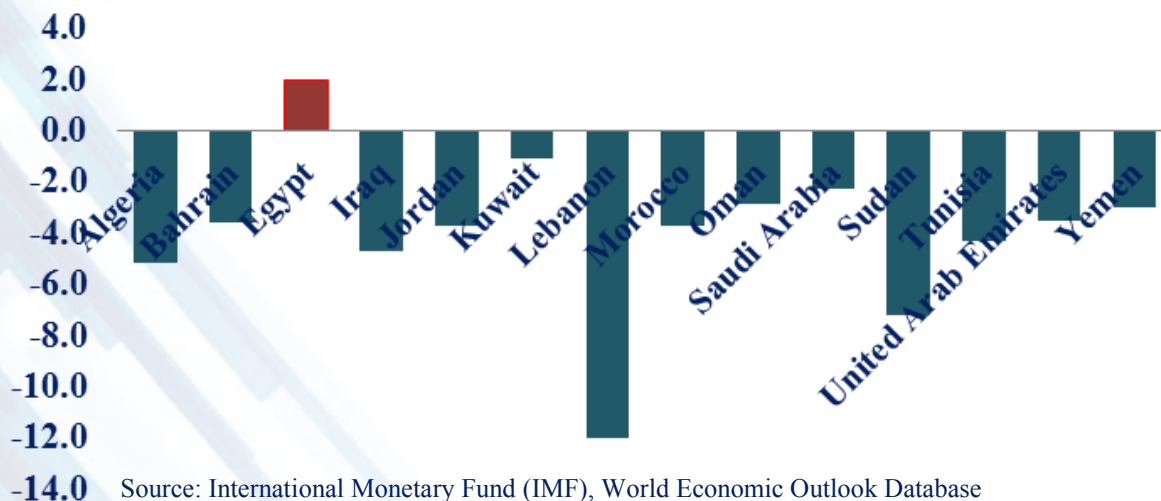
On the back of COVID-19 crisis, the expected losses in the GDP during the FY 2019-2020 is anticipated by around 2.0% to 2.2%, compared to the FY 2018-2019. Noteworthy, the economic growth was projected to record 5.8% for 2019-2020, but the outbreak of COVID-19 crisis resulted in lowering this expectation.



Source: Ministry of Planning and Economic Development (MPED) – Preliminary figures

The MPED expected the economic growth rate to reach about 3.6% by the end of the FY 2019-2020, supported by the expansionary fiscal and monetary policies which were swiftly taken by the government to mitigate the negative impacts of the COVID-19 crisis. Without these decisive policies, the economic growth rate might have reached to around 2%.

2020 Projections of GDP Economic Growth in MENA Region

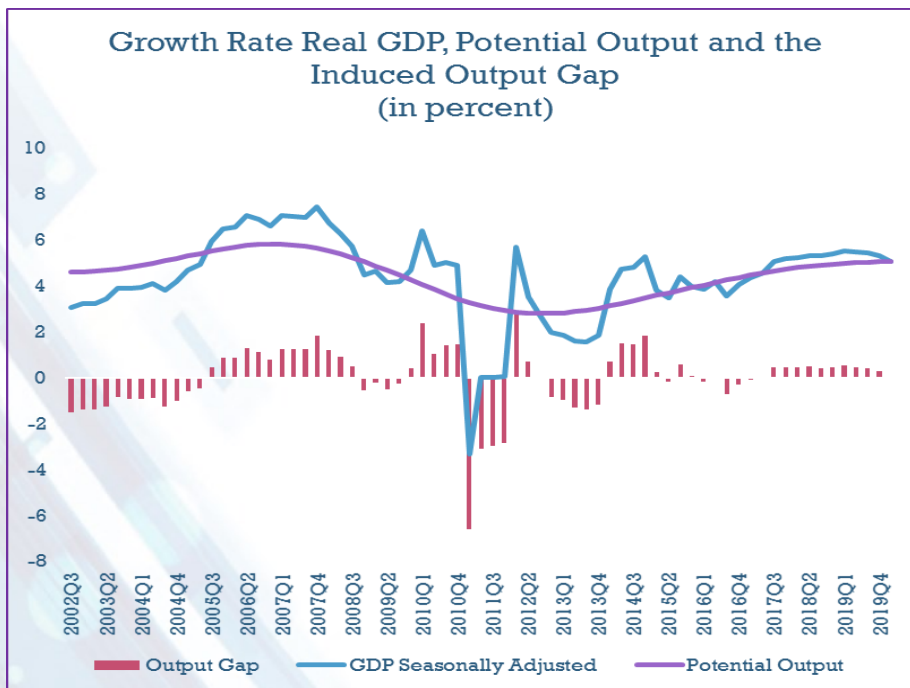


Source: International Monetary Fund (IMF), World Economic Outlook Database

Worth noting, the International financial institutions and credit rating agencies anticipated the Egyptian economy to be the only in the MENA region that wouldn't go through recession over 2020. This projection came in light of Egypt's successful economic reform programme and the well-sequenced structural reforms implemented.

INDUCED OUTPUT GAP – DEMAND SIDE “EXPENDITURE REPRESENTATION”:

- Recent data for the growth in real GDP and potential output indicate a closed output gap, suggesting that the economy is currently operating almost at its potential level of 5 percent growth rate on average.
- One implication is that the inflationary pressures from the demand side are totally contained during the current period.
- We recommend that maintaining a closed output gap is a economic good sign, nevertheless, sources of growth should be non-inflationary supported primarily by capital formation growth and favorable net exports balance and not the consumption growth.



Source: MAP's Estimations.



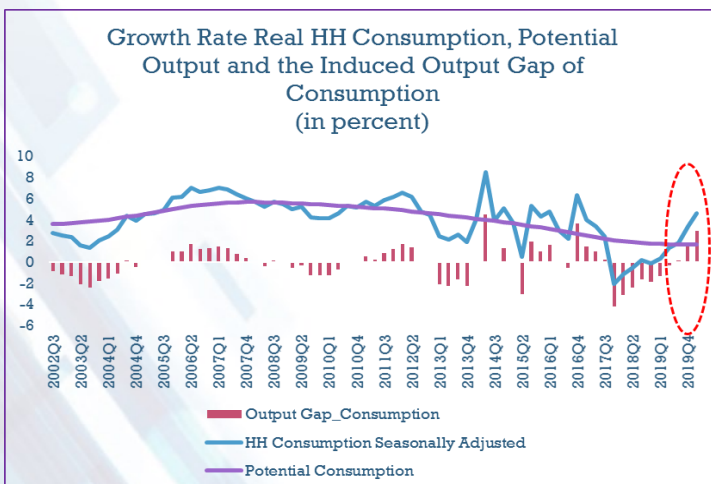
Output Gap during FY 2019/2020 (in percent)

	GDP	Consumption	Capital Formation	Exports	Imports
2019Q3	0.40166	0.111154037	0.064324	-23.8318	-18.5781
2019Q4	0.269244	1.651659588	-4.11845	-28.7197	-19.0445
2020Q1	0.002694	2.964771265	-11.944	-31.2575	-24.2411

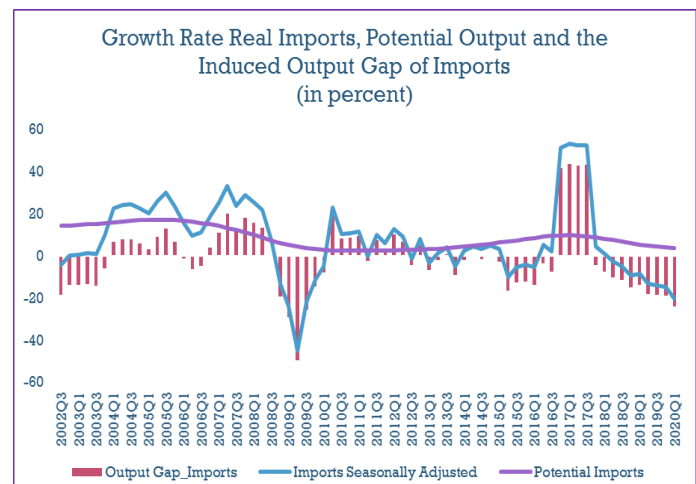
Source: MAP's Estimations.

INDUCED OUTPUT GAP – DEMAND SIDE “EXPENDITURE REPRESENTATION”:

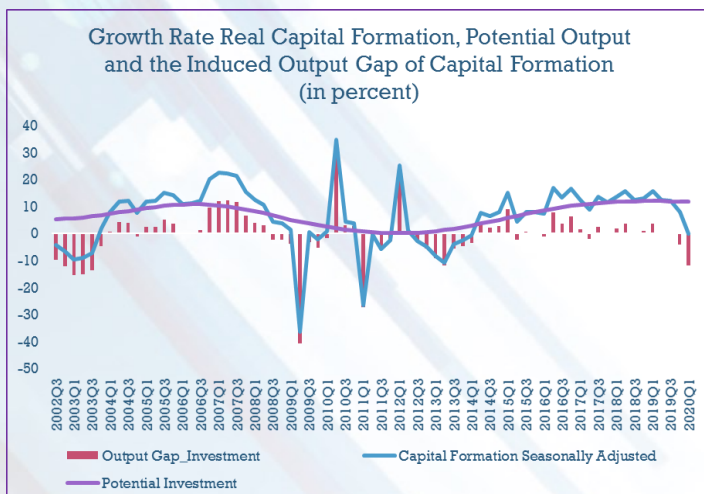
- Nonetheless, detailed analysis for the components of real GDP shows that HH consumption started to show some rebound during the last two quarters: December 2019 and March 2020. This could put some pressures on future inflation, unless offset by growth of other components of real GDP.
- Moreover, imports operate below their potential level which gives a negative gap during recent quarters. Such dynamics could have a boosting effect on real GDP growth rate and consequently could lead to a positive output gap.
- The offsetting effect came from the deterioration in the growth rate of capital formation and exports estimated at a gap of 11 percent and 31 percent, respectively during March 2020.



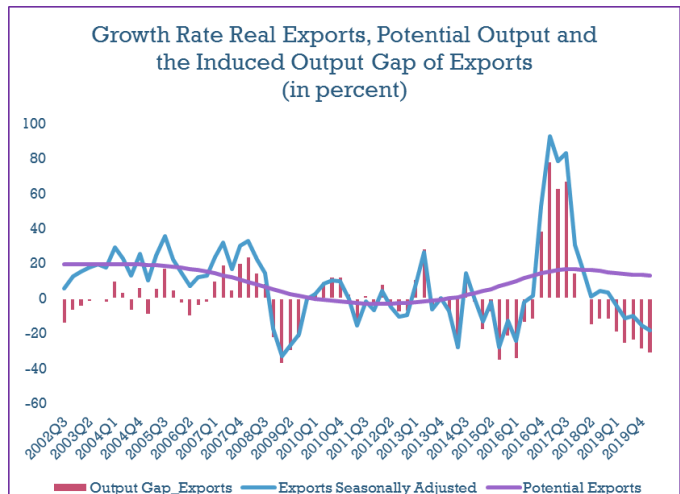
Source: MAP's Estimations.



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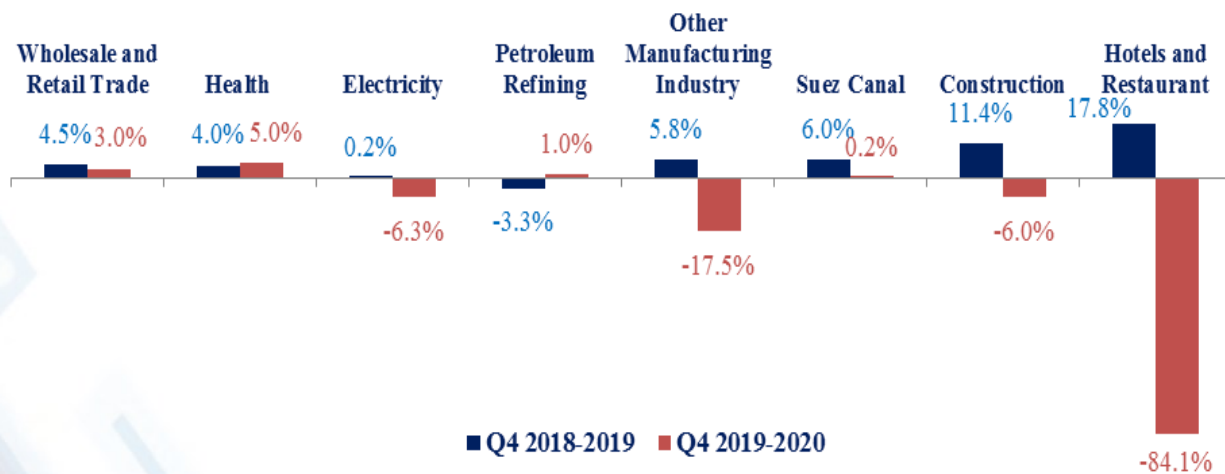
Source: MAP's Estimations.



Source: MAP's Estimations.

ii. Economic Activities

The preliminary figures of Q4 2019-2020 showed slower growth of economic sectors in particular **tourism (hotels and restaurants) and manufacturing**. Remarkable contraction in economic activities in those sectors due to the containment and preventive measures implemented across the world to suppress the fast-spreading of the COVID-19; among these measures temporarily halting air travel, and a night-time curfew, temporarily closing places of worship, parks, and entertainment places (i.e. Cinema, restaurants and cafes ..etc.), in addition to social distancing, distance learning for schools and universities, ban of public gatherings.



Source: Ministry of Planning and Economic Development (MPED) – Preliminary figures



85,000 Tourists

The number of tourists arrival in the cities of Hurghada and Sharm el-Sheikh since early last July, within a month and a half.

Revenues declined by

11.5%

in Q3 2019/2020

Tourism related activities adversely impacted amid the COVID-19 outbreak, shrinking by around 84.1% in Q4 of 2019-2020. It is worth mentioning; tourism started rebounding since its partial reopening in July 2020 and also, the domestic demand is stimulated through Government's Consumer spending initiative launched in the end of July. Thus, it is anticipated the temporary contraction would ease in the following quarters. Noting that the said initiative would help to stimulate local manufacturing and boost domestic demand.



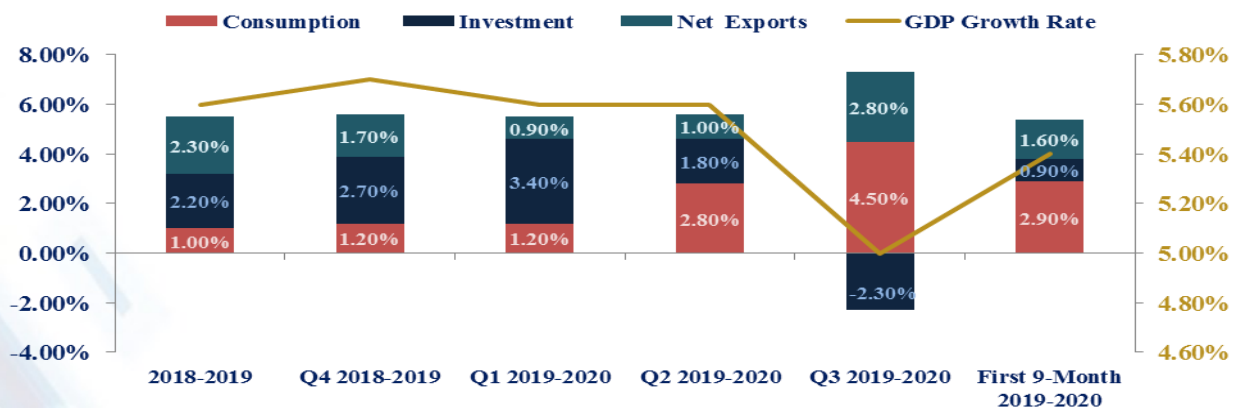
\$ 440.1
Mn

The revenues of the Suez Canal increased by 8.2% in July.

Suez Canal, Navigation traffic witnessed an increase of

4.4% during the first half of 2020, compared to the same period in 2019, despite the Corona pandemic out-break.

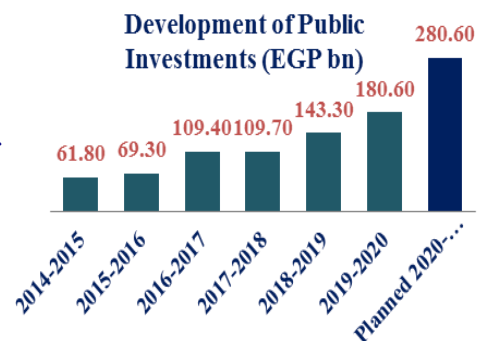
Suez Canal recorded positive growth of 0.2% in spite of lower movement in the international trade that resulted from lower external demand and contracted global growth rate.



Source: Ministry of Planning and Economic Development (MPED)

In light of monitoring the performance of main contributors to growth, it was noted a remarkable decline in the contribution of investment to GDP growth, While the net exports witnessed improvement. The uncertainties in the beginning of the COVID-19 outbreak adversely impacted investment of private sector both domestic and foreign investment, resulting in declining the contribution of investment to GDP in Q3 of 2019-2020 recording -2.3%. Meanwhile, net exports positively contributed to achieving positive growth amid the crisis, leading to declining trade deficit by around 5%. In addition, private consumption increased.

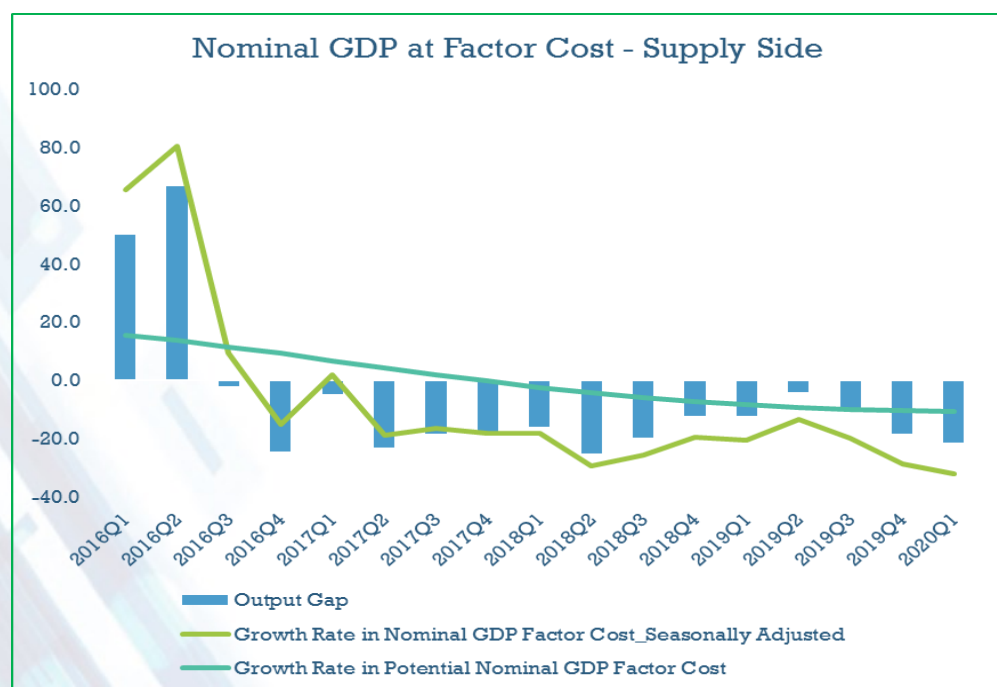
On the other side, the volume of nominal public investments witnessed a remarkable increase in FY 2019-2020. The implemented public investments during FY 2019-2020 increased by 26% in the aim of promoting infrastructure; health, education and bolster investment in human capital. These investments positively contributed to sustaining economic development and promote economic growth amid the negative consequences of COVID-19 crisis. In addition, the government planned to increase allocation towards public investment in FY 2020-2021



Source: Ministry of Planning and Economic Development

INDUCED OUTPUT GAP – SUPPLY SIDE “SECTORAL REPRESENTATION”:

- Worth noting, the analysis for the supply side was applied on the nominal figures and not the real figures due to basing issues.
- It can be noticed that sectoral aggregate output gap started to show negative figures since Q4 2016 till latest statistics, driven by the hike in headline inflation rates, which led to inhibited supply of output due to the absence of effective demand, and higher input prices which represent an adverse business climate for supply.



Source: MAP's Estimations.



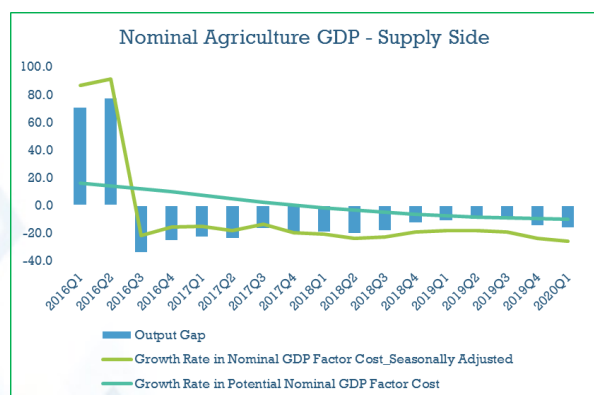
Output Gap during FY 2019/2020 (in percent)

	GDP_Factor Cost	Agriculture	Extractions	Manufacturing	Construction	Tourism
2019Q3	-9.8	-10.4	-17.6	-10.9	-14.5	-2.0
2019Q4	-18.3	-14.2	-41.0	-16.3	-19.5	-41.0
2020Q1	-21.5	-15.9	-37.9	-16.3	-21.3	-55.3

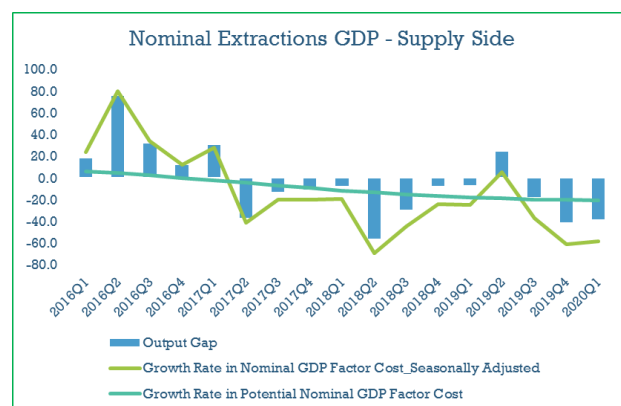
Source: MAP's Estimations.

INDUCED OUTPUT GAP – SUPPLY SIDE “SECTORAL REPRESENTATION”:

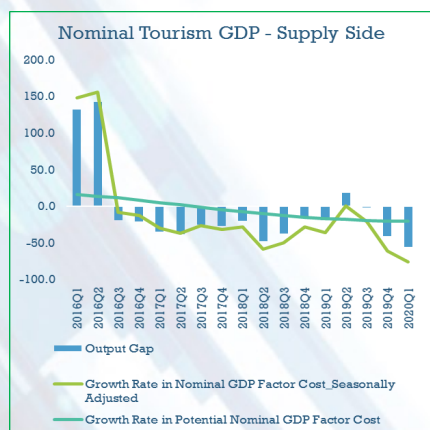
- The deteriorated picture of the supply side is broad-based to most of the leading sectors primarily tourism and extractions (these sectors are highly vulnerable to the geopolitical risks facing the region), along with agriculture, construction and manufacturing (affected primarily from domestic circumstances). These dynamics are alarming because the diminished supply could pose some pressures on inflation in case demand is re-boostered.



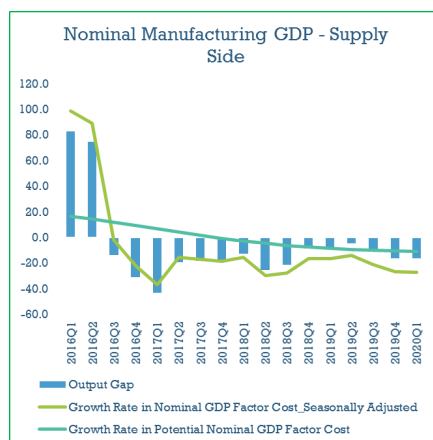
Source: MAP's Estimations.



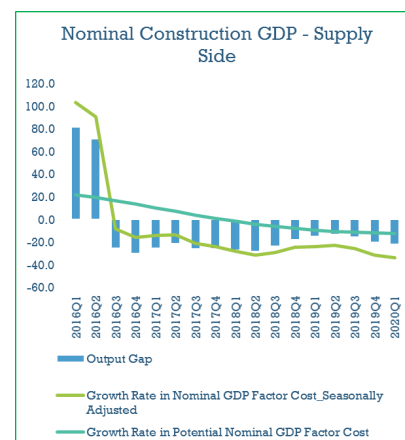
Source: MAP's Estimations.



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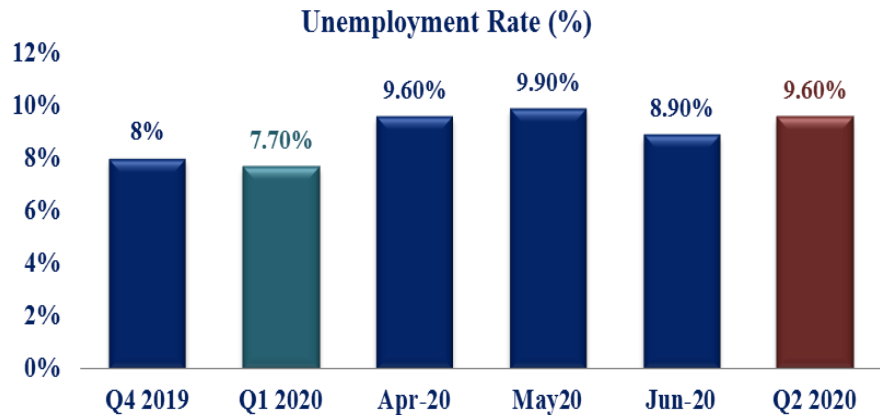
Source: MAP's Estimations.



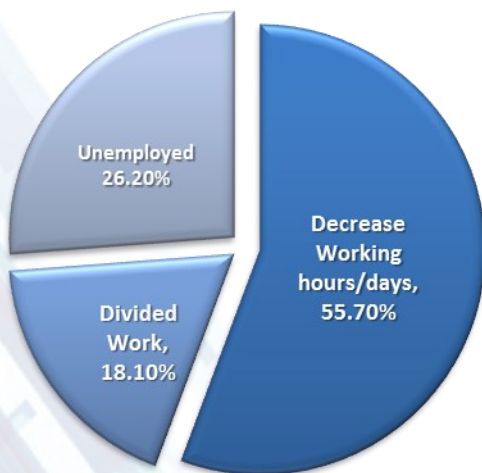
Source: MAP's Estimations.

iii. Unemployment Rate

The monthly unemployment rate recorded 8.9% during June 2020. The rate reached 9.6 % in 2020 Q2, compared to 7.7% and 8.0 % in 2020 Q1 and 2019 Q4, respectively. Noteworthy, unemployment rate is the lowest in 20 years during 2020 Q1.



Source: Central Agency for Public Mobilization and Statistics (CAPMAS) and MAP Unit



The COVID-19 crisis partially impacted the status of employment for employees. With reference to CAPMAS survey of June 2020, it was noted the total percentage of nationwide employees who left their jobs is 26.2%. Nationwide employees who decreased their working work hours/days reached 55.7% and 18.1% started to working partially or on divided -basis.

The number of unemployed people recorded **2.574 million**, (1,934 million males, 640,000 females), representing **9.6%** of the total work-force, with an increase of 338,000 unemployed or 15.1% up from Q1 2020, and an increase of 480,000 unemployed from the corresponding quarter of the previous year.

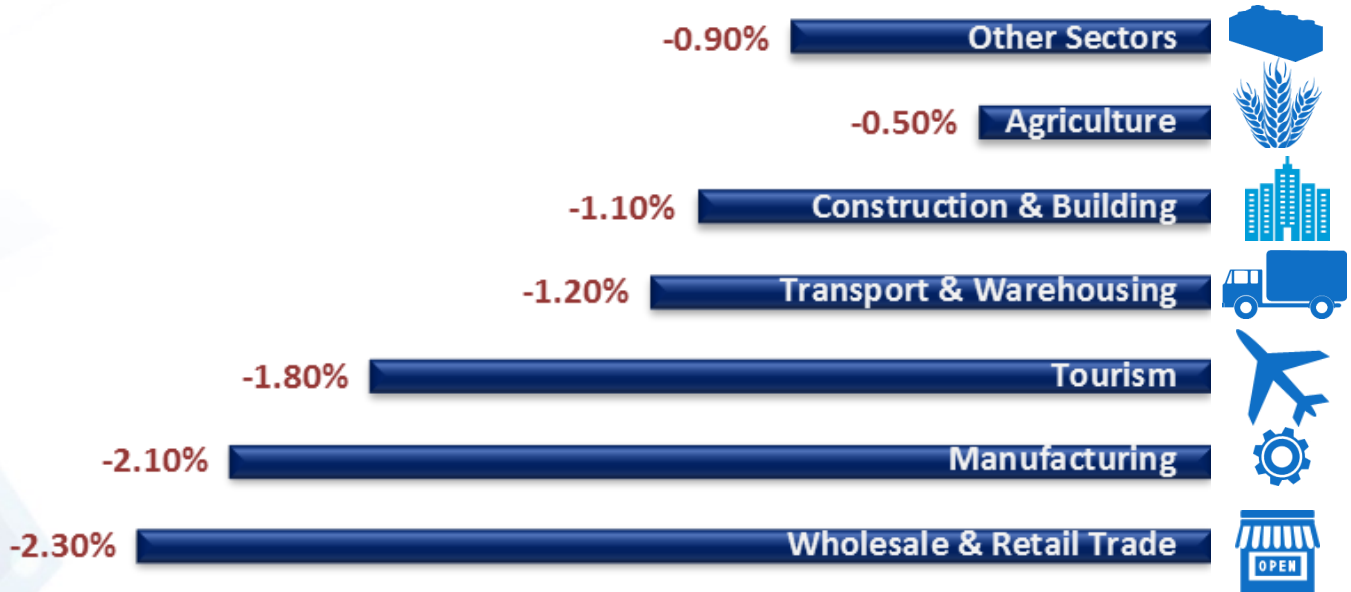
1,934,000,000



640,000



Job Losses by Sector during April-June 2020



Contribution to Job Losses during Q2 2020 (Total losses = 2.7 mn, equivalent to 9.9% of total employment)

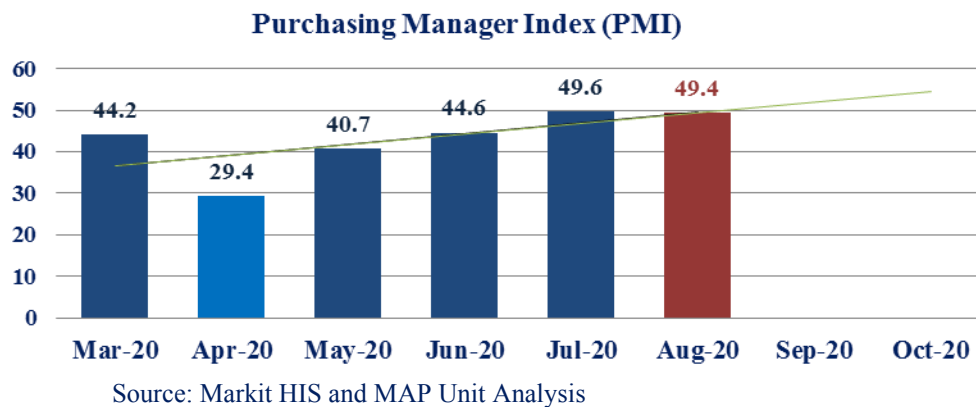
The recent slight increase in the unemployment rate was expected amidst the outbreak of COVID-19 and the containment measures imposed. Unemployment rate increased in April and May 2020, to reach the highest level in May 2020 9.9%. However, the rate decreased in June 2020 to record 8.9%, this monthly decline gave positive signals that resulted from reopening economic activities in particular services sector (i.e. reopening of restaurants and commercial stores).

The MPED anticipated the unemployment rate to dip to 8.5% by end of 2020-2021 in case COVID-19 crisis ended during FY 2019-2020. Noting that Egypt vision 2030 aims to reduce unemployment rate to 4%.

The general improvement in employment levels was mainly due to the implementation of mega-projects, the improvement in business environment, accompanied by expanding facilities and loans to micro, small and medium enterprises. Egypt sought to provide about 750,000 job opportunities in 2018/2019 to improve the absorptive capacity of the labor market and to gradually provide 870,000 opportunities in 2021/2022. Additionally, the recent gradual re-opening of economic activities would greatly help to regain employability.

iv. Purchasing Managers Index (PMI)

Business activity still preserves its resilience Purchasing Managers' Index (PMI®) signalled growth in activity and demand in non-oil economy for the second month in a row. However, employment continued to fall across the non-oil private sector economy in August, acting as the main drag on the headline index. While non-oil companies marked further increases in both output and new orders during the month of August 2020. **Accordingly, PMI stood at 49.4 in August 2020, down fractionally from 49.6 in July 2020.** Noteworthy, the headline index has risen nearly 20 points from its significant decline in April at the height of the COVID-19 pandemic.



Sequencing remarkable improvement after the month of July 2020 ... Higher economic activity was registered as businesses witnessed a rise in new orders and contract requests, although the rate of expansion was mild and softer than in the previous month. Notably, demand from foreign customers increased at the quickest pace in nearly three years. This was partly due to the reopening of tourist sites, which spurred increased tourist arrivals. In addition, firms achieved a rise in export contracts due to the external demand on exports enhanced, spurring gradual increase in export revenues.

The outlook signals that Egypt is on the way to go to return to pre-COVID levels of activity and demand. Considerably, businesses environment remains competitive, supported by well-sequenced and coordinated structural reforms. These continued reforms would help to boost the real sector of the economy, creating more resilient and diversified economy, limiting the negative impacts of external and domestic shocks.

v. Business Barometer (BB): Evaluation and Outlook

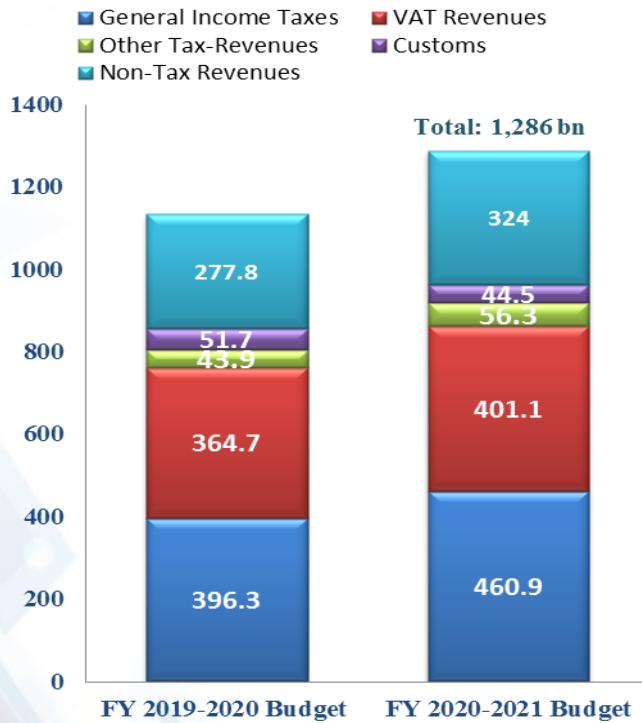


- The latest BB presents the evaluation period for large firm and SMEs for the period April-June 2020, and the outlook period July-Sept 2020.
- During the evaluation period, BB indicated that the overall index falls to its lowest level in 10 years due to the repercussions of COVID-19, standing at 36, compared to 50s as the normal level.
- As such, firms reported a notable decline for both domestic sales and exports. Both indices of production and capacity utilization have been adversely affected, where the SMEs were more hit compared to large firms.
- On the sectoral level, although all sectors have been damaged by the implications of the crisis, the magnitude differs among different sector. The BB indicated that tourism sector was the severest.
- Likewise, manufacturing sector has been also hit due to the imbalance in the supply of imported production inputs as a result of slow trade and difficulty of customs clearance procedures at ports. Moreover, construction sector was also affected due to stagnant demand for real estate and the decision to suspend building permits.
- On another note, prices of inputs and raw materials showed higher levels for both large firms and SMEs likewise. Nonetheless, most of private sector firms decided to lower the prices of final products to overcome the recession and lowered effective demand.
- In line with the latest dynamics in real GDP, on the macro-level, capital formation declined substantially which can be explained on the micro-level by the diminishment of investment index for both large and SMEs.
- This has occurred despite all initiatives taken by the government to encourage investment, including the expansionary monetary policy, postponement of all loan repayments and payment of taxes and insurance.
- For the BB outlook, in general the business and investment sentiments show some optimism for the period July-Sept 2020, albeit the weak performance during the previous quarter.
- The optimistic outlook is across the board for all business aspects, including: production ,sales, exports and production capacity. This has been accompanied by reduced precautionary measures and gradual reopening of most economic activities.
- Worth noting, the manufacturing sector is the most appealing sector for the upcoming quarter July-Sept 2020. This is supported by policies and measures taken by the government to specifically support that sector among which is granting credit facilities at reduced interest rate, reduced energy prices and postponing tax obligations.

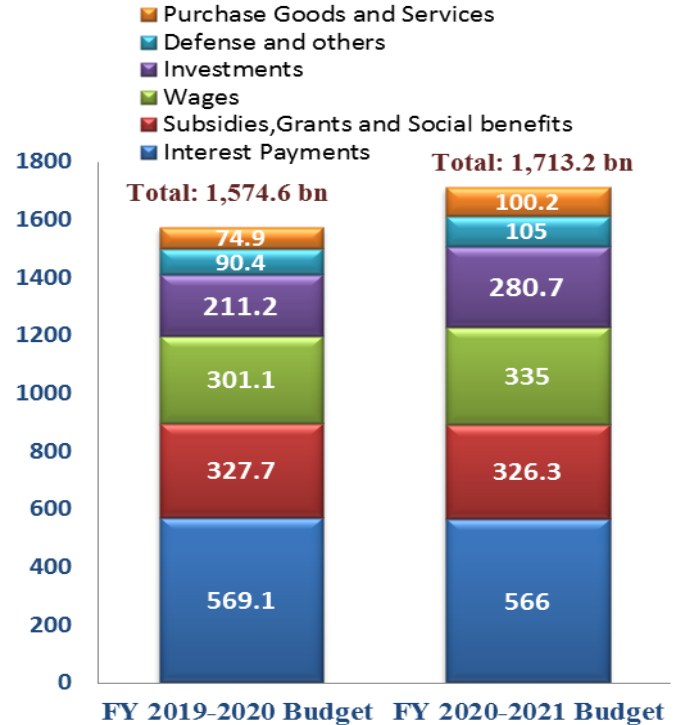
III. Fiscal Sector

i. Total Revenues and Expenditures

Revenues (EGP bn)



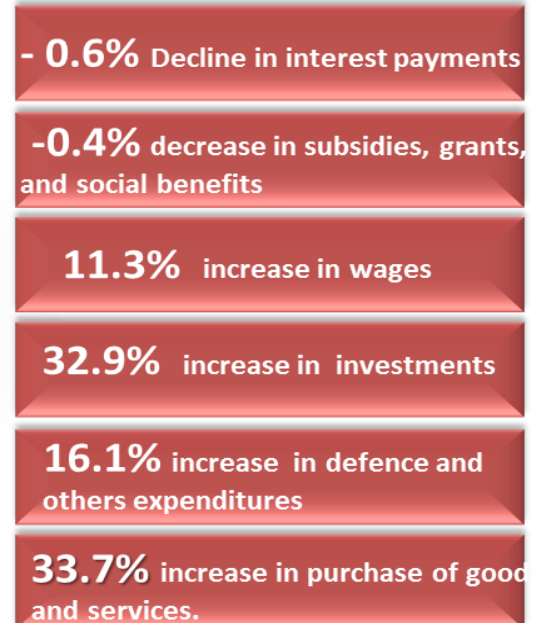
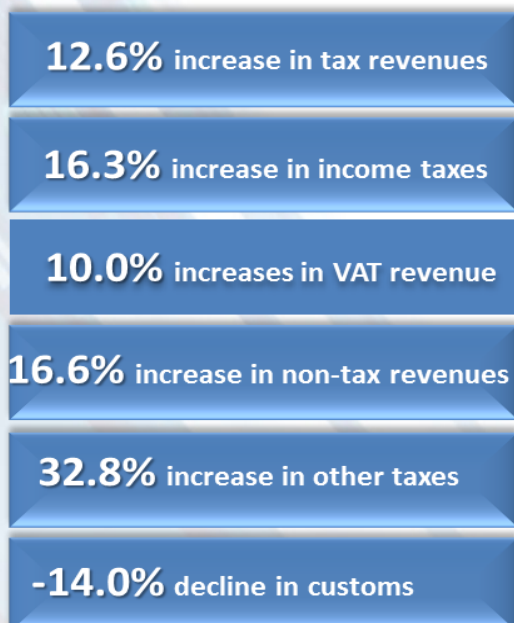
Expenditures (EGP bn)



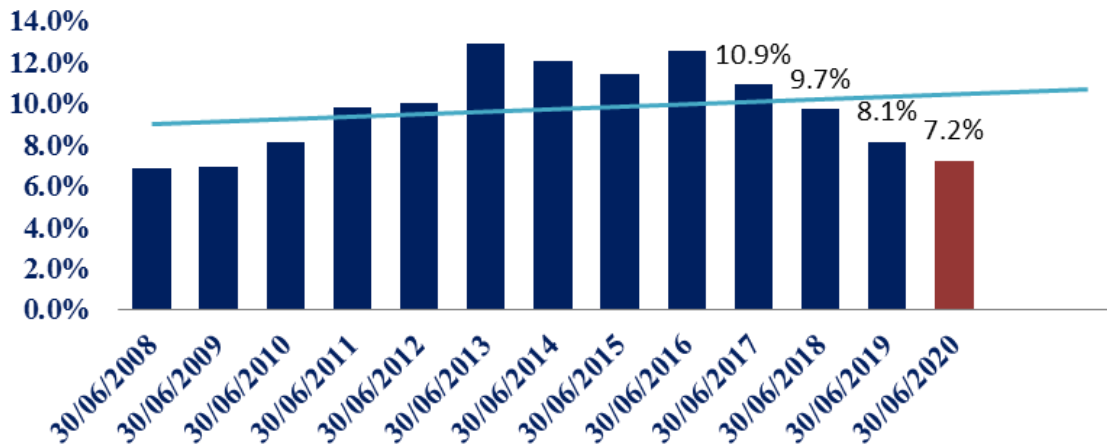
Source: Ministry of Finance (MoF)

ii. Budget deficit

FY 2020-2021 budget targets overall deficit



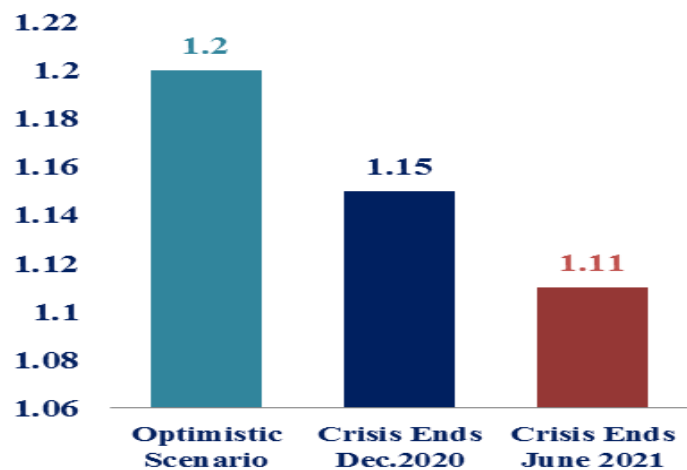
supported by an increase in total revenues by **13.6%** and total expenditures by **8.8%**.



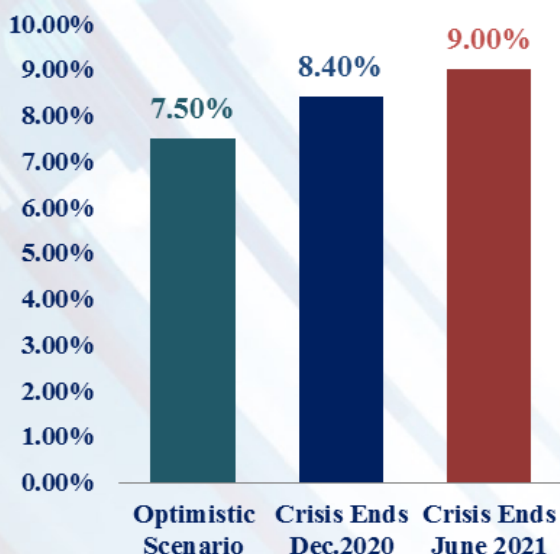
Source: Ministry of Finance (MoF) and MAP Unit

According to the ministry of finance, there are three scenarios for budget revenues and the overall deficit as % of GDP based on the development of the COVID-19 crisis.

Total Revenues (Trillion EGP)



Overall Budget % of GDP



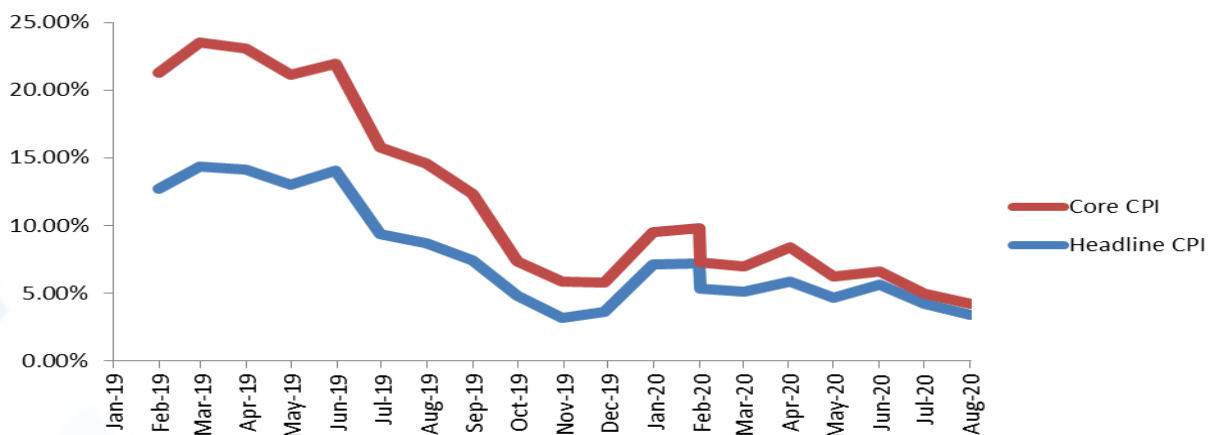
The budget of FY2020/2021 which begins this month is recognised to be the largest at EGP 2.2 trillion due to the increase in spending to reach EGP 1.7 trillion, more than the FY2019/2020 budget by EGP 138.6 billion. The new budget includes an a 26.4 percent increase in investments that are financed by the public treasury, to reach EGP 177 billion, compared to EGP 140 billion in FY2019/2020. This increase would be directed at accelerating the national economy process and providing new job opportunities. **Worth noting, the governmental-locations of spending conducted in accordance with a commitment to apply public spending rationalisation rules;** considering public spending reprioritising amid the COVID-19 crisis and maintaining the economic reform programme's gains.

IV. Monetary Sector

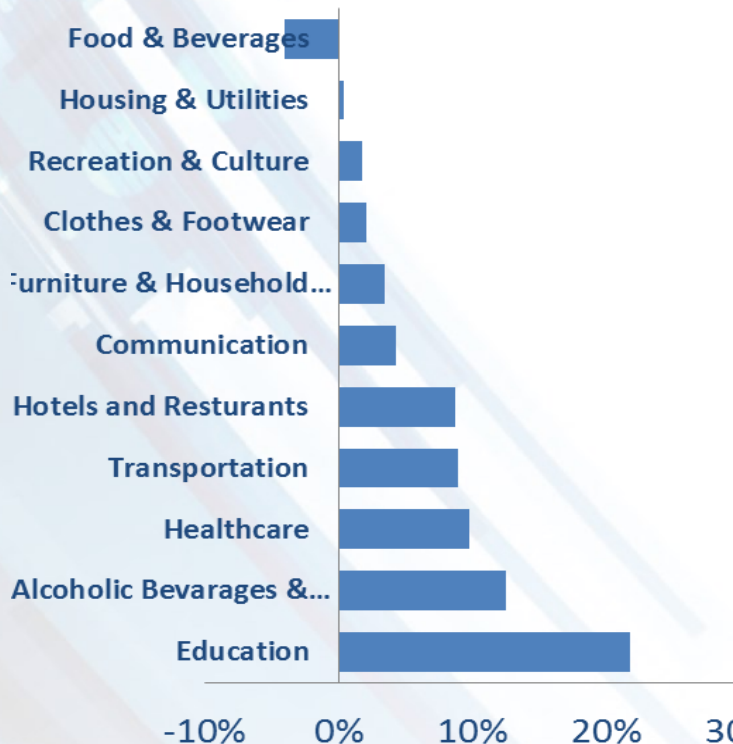
i. Headline and Core Inflation

3.4%

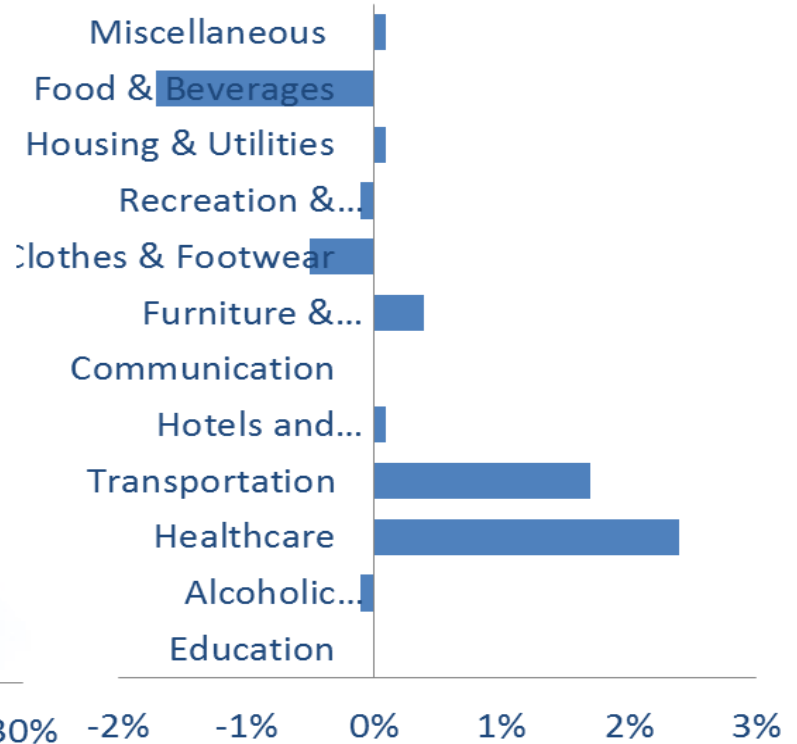
Inflation still preserves moderate levels within the Central Bank of Egypt's (CBE) target range of 9 %, (± 3 percentage points). The annual urban headline inflation rate dipped to 3.4 % in August 2020, down from 4.2% in July 2020 and 5.6% in June 2020, due to a favourable base effect. After the CBE excluded the one-off price changes to compute the Core CPI, the annual core inflation rate recorded 0.8 percent in August 2020, compared to 0.7 percent in July 2020 and 1.0 % in June 2020.



Annual Headline Inflation August 2019 (Y-O-Y Change)

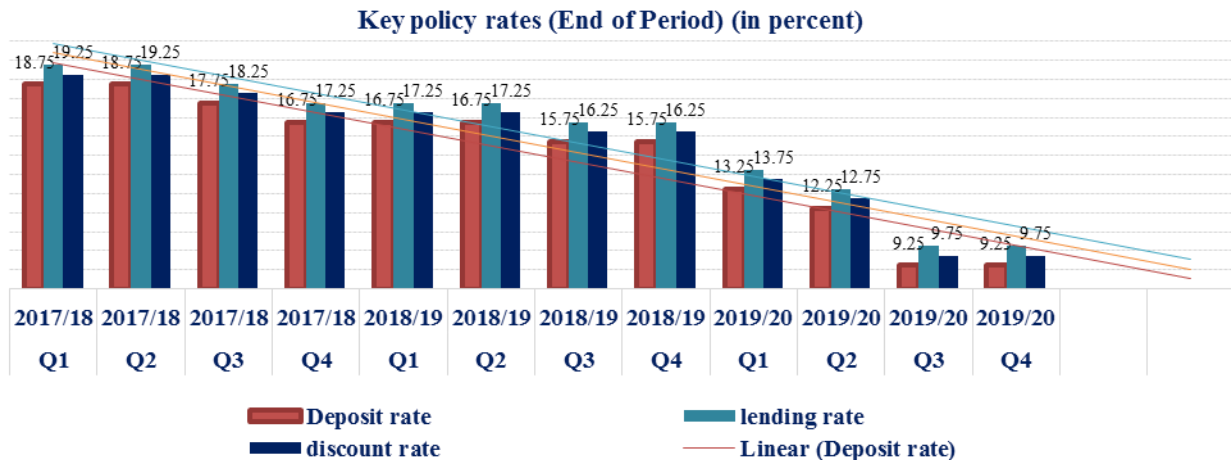


Annual Headline Inflation August 2020 (Y-O-Y Change)



ii. Interest Rates

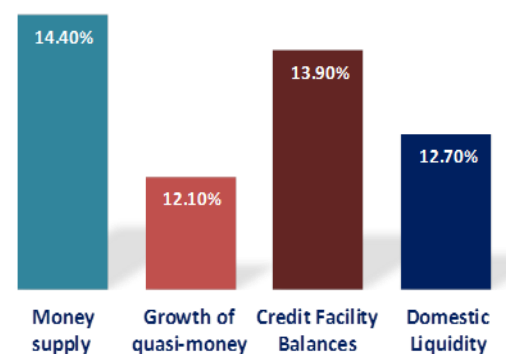
On September 24, 2020, the Monetary Policy Committee (MPC) decided to cut interest rates by 50 bps for the first time in four consecutive meeting. The CBE reduced borrowing costs by a combined 450 basis points last year and another 300 basis points at a March 16 emergency meeting. The CBE's overnight deposit rate is at 8.75% and the lending rate is at 9.75%.



Source: Central Bank of Egypt (CBE) and MAP Unit Analysis

In light of the COVID-19 global Pandemic, the CBE took pre-emptive measures, including the reduction of 300 basis points during the unscheduled meeting of monetary policy committee (MPC) on March 16, 2020, the MPC decided to cut key policy rates will remain consistent with achieving the inflation target of 9 percent (± 3 percentage points) in 2020 Q4 and price stability over the medium term.

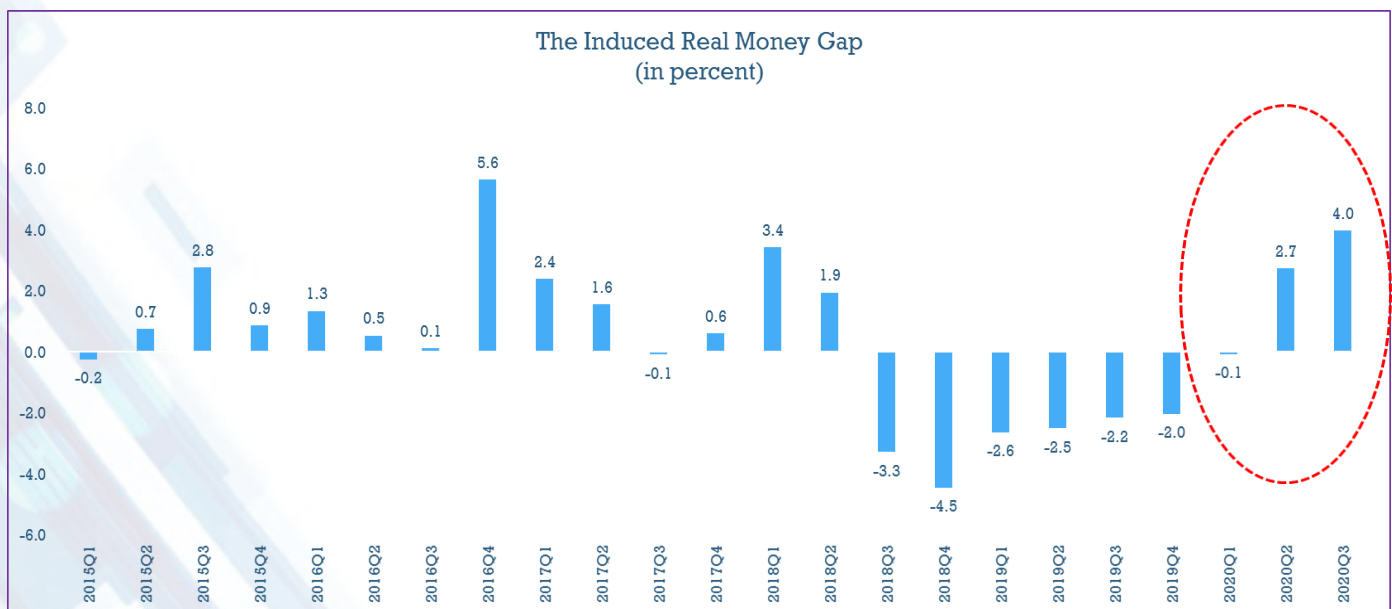
In mid of July 2020, The CBE has announced an increase in bank deposits by around EGP 92 billion by the end of April 2020 to reach LE 4.518 trillion against LE 4.426 trillion in March. The credit facility balances for clients in banks rose by around LE 258.1 billion, with an increase of 13.9% in July-April of the 2019/2020 fiscal year. Noting that the credit facilities issued to the government reached LE 101 billion at a rate of 16.8%. As stated, the non-governmental credit facilities increased to LE 157.1 billion at an average of 12 %. The surge in non-governmental credit facilities was due to the rise in balances in local currency by LE 170.2 billion and the decline in balances in foreign currency by LE 13.1 billion.



Source: Central Bank of Egypt (CBE) and MAP Unit

The domestic liquidity rose by LE 489.4, with an increase of 12.7 % in July-April of the 2019/2020 fiscal year. **The increase in domestic liquidity was reflected in the growth of quasi-money** that rose by LE 356.9 billion at a rate of 12.1 % and the rise in money supply by LE 132.5 billion at a rate of 14.4%. **The increase in quasi-money** came as a result of the rise in non-current deposits in local currency by LE 430 billion at an average of 19.3 % , and the decrease of deposits in foreign currency by LE 73.1 billion at a rate of 10.2% . **The increase in money supply** to the rise in current deposits in local currency by LE 38.3 billion, at an average rate of 8.8% .

CONSUMPTION INDICATORS: DOMESTIC LIQUIDITY "M2" & MONEY GAP CALCULATIONS



Source: MAP's Estimations.

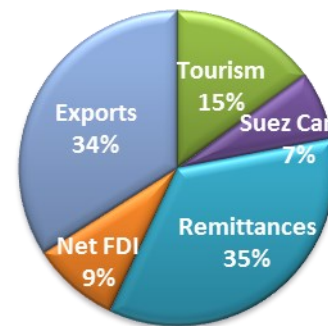
- The induced money gap indicates that the pandemic has a nonnegligible impact on the supply and demand of money, which appeared vividly during the first three quarters of 2020.
- In detail, the money gap was negative during the fiscal year 2018/19 and during the first half of 2019/20, before the economy was hit by COVID-19.
- 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.

V. External Sector

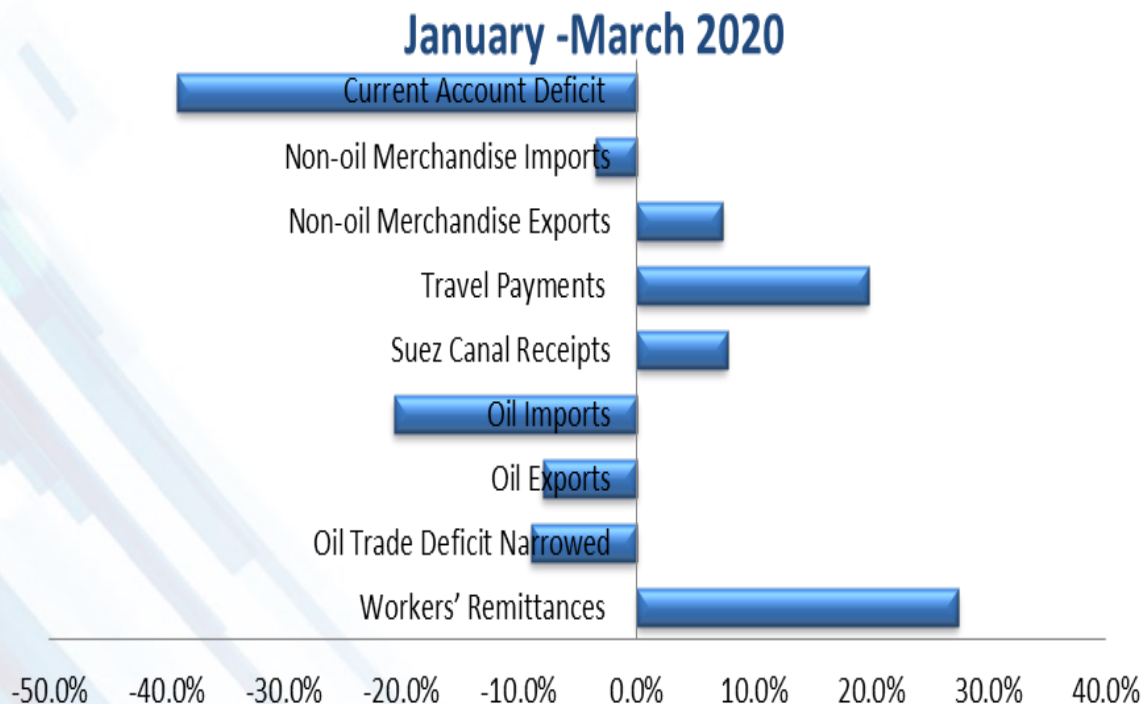
i. Balance of Payments

The soundness of the balance of payments deemed to be well-backed by the economic reforms launched in 2016. The current and capital accounts showed resilience in absorbing the external shocks resulted from the COVID-19 crisis. Revenues from remittances and exports constituted around 70% of foreign reserves during the first nine months of FY 2019-2020.

Sources of Foreign Reserves during first 9-month
FY2019-2020



By the end of July 2020, the CBE has announced that the current account deficit continued to improve for the third consecutive quarter. The remarkable improvement is recognized during the period of January – March 2020, recording 39.2% decline in the deficit. Accordingly the cumulative period of July-March 2019/2020 marked improvement of 25.2%. The improvement in the current account was mainly due to enhancement in the non-oil trade balance deficit and the increase in remittances.

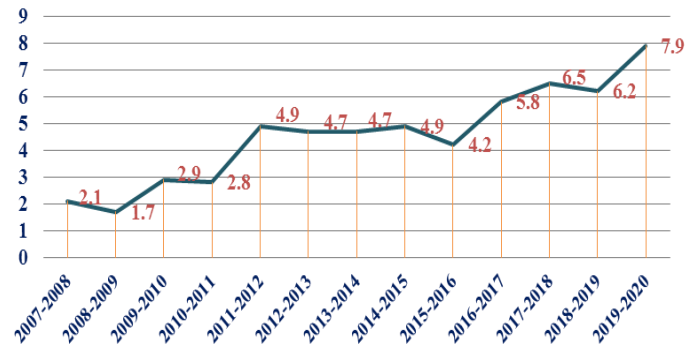


Source: Central Bank of Egypt (CBE), and MAP Unit Analysis

Among the most significant recent development during the period of January-March 2020;

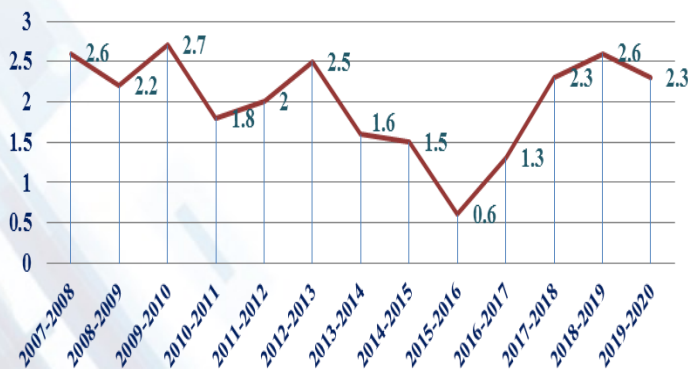
Revenues from remittances continued to preserve high levels in the Q3 of FY 2019-2020, increasing by 27.6% to reach 7.9 billion USD. However, it is expected to decline during the current year due to the implication of the COVID-19 crisis on all countries across the world in particular GCC countries, where around 3 millions of Egyptian workers.

Remittances (USD bn) Q3-FY



Source: Central Bank of Egypt (CBE), and MAP Unit Analysis

Tourism (USD bn) Q3-FY

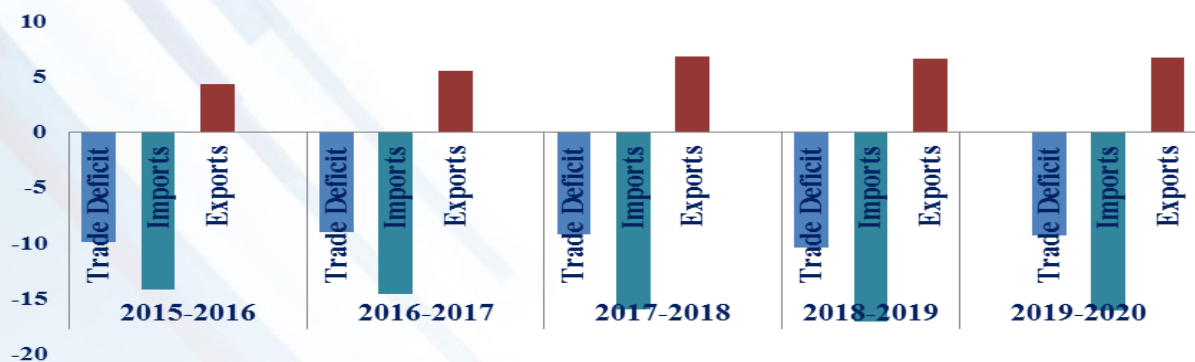


Revenues from tourism declined by 11.5% and it is expected to realise further decline in Q4 of FY 2019-2020 as the preliminary figures of GDP showed contraction of tourism sector, given the negative consequences of containment measures imposed since March 2020. However, these negative consequences are temporary and the tourism sector started rebounding since July 2020 on the back of gradual reopening the economy.

Revenues from exports of non-petroleum increased by 5.4%, while petroleum exports decreased by 18.5%. Thus, total revenues from exports declined by 5.3% during Q3 of 2019-2020.

Trade balance improved amid the COVID-19 crisis; trade deficit narrowed by 11%. This improvement was mainly due to decreasing imports by 6.3% and increasing exports by 1% during Q3 of FY 2019-2020.

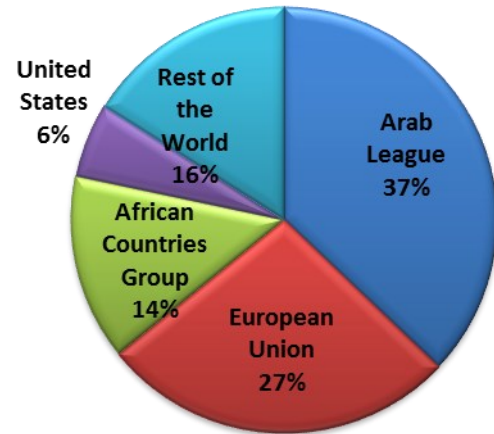
Trade Balance Q3 - FY 2019-2020



Source: Central Bank of Egypt (CBE), and MAP Unit Analysis

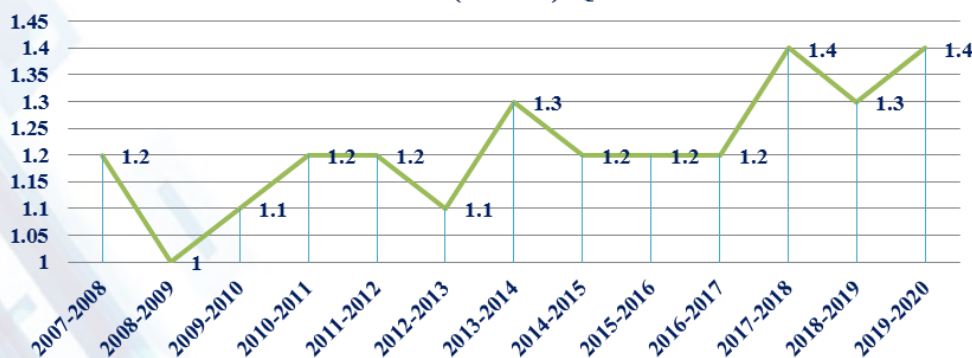
The performance of non-petroleum exports remains strong; witnessing progress in spite of the weak external demand resulted from the global COVID-19 pandemic. The General Organization for Export and Import Control (GOEIC) announced that the non-petroleum exports increased to record 12,319 billion USD during the H1 2020, highlighting that the exports to the Arab countries have contained the lion share of this increase. The total value of non-petroleum exports increased by 1 % in June 2020 to record 2,021 billion USD, compared to 2,005 in June 2019 remarking an increase of 16 million USD according to the monthly report published by GOEIC in July 2020.

Non- Petroleum Exports in H1 2020



Source: GOEIC, July 2020

Suez Canal (USD bn) Q3-FY

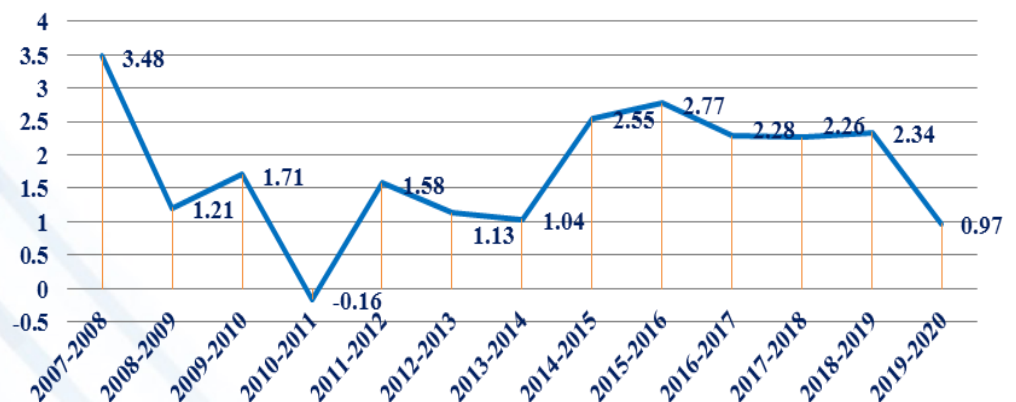


Source: Central Bank of Egypt (CBE), and MAP Unit Analysis

Suez Canal revenues continued to increase, recording 1.4 billion USD compare to 1.3 billion USD in the previous year.

Foreign direct investment (FDI) adversely impacted by uncertainties surrounded the COVID-19 crisis. FDI decreased by 58.5% to reach 940 million USD in Q3 of FY 2019-2020, compared to 2.34 billion USD in the corresponding period of pervious year.

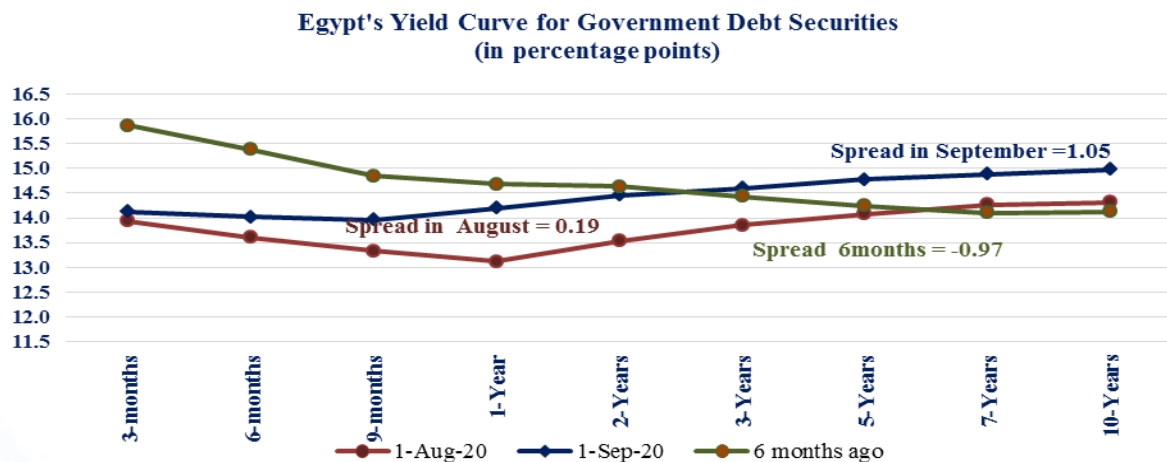
Net FDI (USD bn) Q3-FY



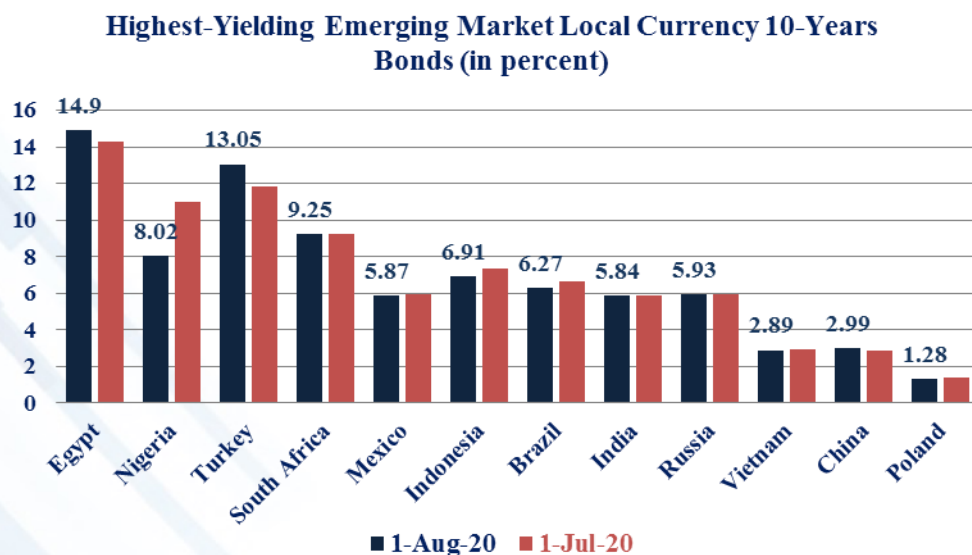
Source: Central Bank of Egypt (CBE), and MAP Unit Analysis

ii. International Portfolio Investments

The international portfolios keeps momentum in the Egyptian market with confidence in the strength of the Egyptian economy, economic policies and the future of the economy, accompanied by a positive vision by international credit rating institutions and major financial institutions. Egypt's Yield Curve is Still Positive; the Latest statistics for yield to maturities for the government securities in the secondary market revealed that September's yield curve has still normal convexity in long-term vs short term maturities. Economically, this means that markets are anticipating less interest rate cuts in the medium-term, increased economic activity and higher inflation.



Egypt ranked first highest yield among Emerging economies, thus further supporting the value of the EGP. According to 10-year bonds yields, Egypt is still ranked the first among comparator economies, with a yield standing at approximately 15.16% at September, 01st 2020. The closest to Egypt is Turkey and South-Africa with yields accounted for 13.98 % and 9.17% respectively giving room for more interest cuts in the future without risking the carry-trade in an almost interest-free world. However, giving the negative impact of the crisis, along with the increased global uncertainty, the value of the Egyptian Pound is at risk to be affected, however, it is relatively stable recording an average of 15.9 in August against the USD. Hence, the CBE has decided to fix policy rates unchanged for the third month in a

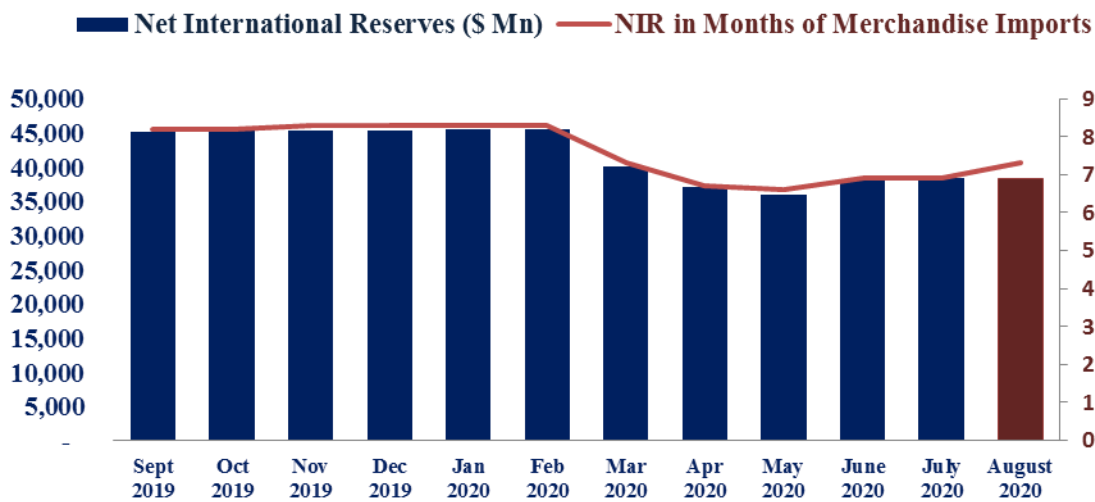


iii. Net International Reserves (NIR)



Net International Reserves (NIR) keep maintaining adequate external buffers..... On September 7, 2020, the Central Bank of Egypt (CBE) has announced that the NIR increased by around 51 Million USD during August 2020, to reach 38.366 Billion USD, compared to 38.315 Billion USD in July 2020.

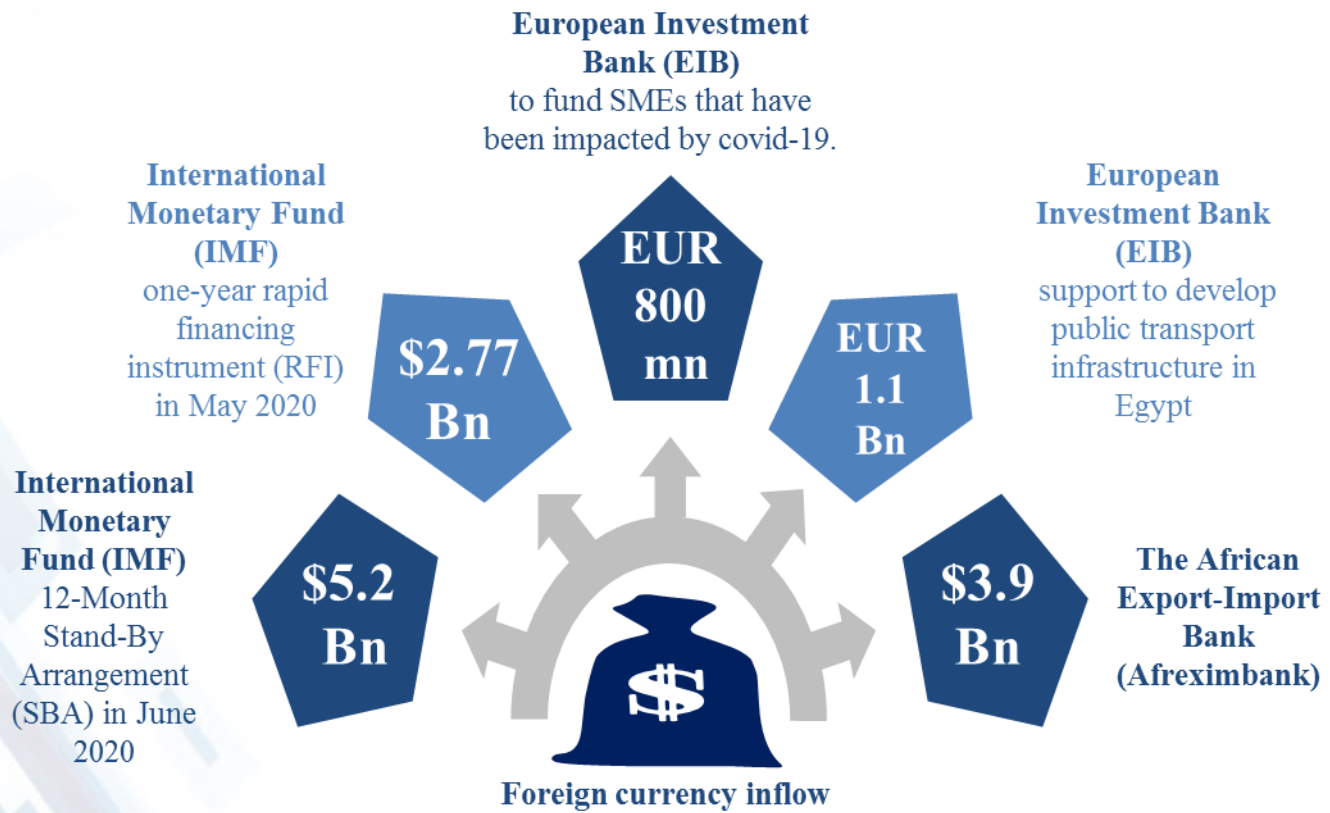
The continued recovery assures the mandate of monetary policy towards maintaining moderate inflation rate within the target range of 9%, (± 3 percentage points), supported by rebuilding a solid buffer of foreign reserves. The precautionary measures taken by the monetary policy committee (MPC) greatly contributed to cushioning the negative financial and economic impacts of the global COVID-19 crisis; bolstering domestic economic activities, keeping price stability mandate over the medium term.



Source: Central Bank of Egypt (CBE) and MAP Unit

Building on the increasing trend of accumulative buffer of foreign reserves since June 2020, the current average of foreign reserves still preserves the coverage of around 7 to 8 months of imports, which is considered higher than the global average of about 3 months of commodity imports. This increasing trend was mainly attributed to the enhancements in the external demand and the gradual reopening of the economy since July 2020, leading to a gradual increase foreign financing earnings from exports, remittances, and services in particular Suez Canal and tourism as well as flows of remittances. In addition, the foreign cash inflows have been increasing since June 2020. These have now acquired more than 10% of the Egyptian treasury bills offerings. **Importantly**, the foreign flows received from the International Monetary Fund (IMF) a 12-Month 5.2 Billion USD Stand-By Arrangement (SBA) in June 2020 and 2.77 Billion USD one-year rapid financing instrument (RFI) in May 2020, helped positively to boost foreign reserves buffers amidst the outbreak of the COVID-19 pandemic. **Noteworthy**, the NIR had recorded unprecedented level during 2019, as it picked up by about 3 Billion USD to 45.419 Billion USD at the end of last year. This compares to the 42.61 Billion USD recorded in January 2019. In the wake of the external shocks stemmed from the global COVID-19 pandemic, foreign reserves declined between March and May 2020, but rose again during June, July, and August 2020.

Additionally, the Monetary Policy Committee (MPC) on August 13, 2020 decided to keep the Central Bank of Egypt's (CBE) policy rates unchanged for the fourth time in a row as well as the main operations and discount rate at 9.75 % , 10.25 % and 9.25 % for discount rate, lending rate and deposit rate respectively to support the Egyptian Pound against any possible imported inflation. This decision aligned with achieving the inflation target of 9 percent (± 3 percentage points) in 2020 Q4 and positively impacted the rise in capital inflows, bolstering the foreign financing flows.

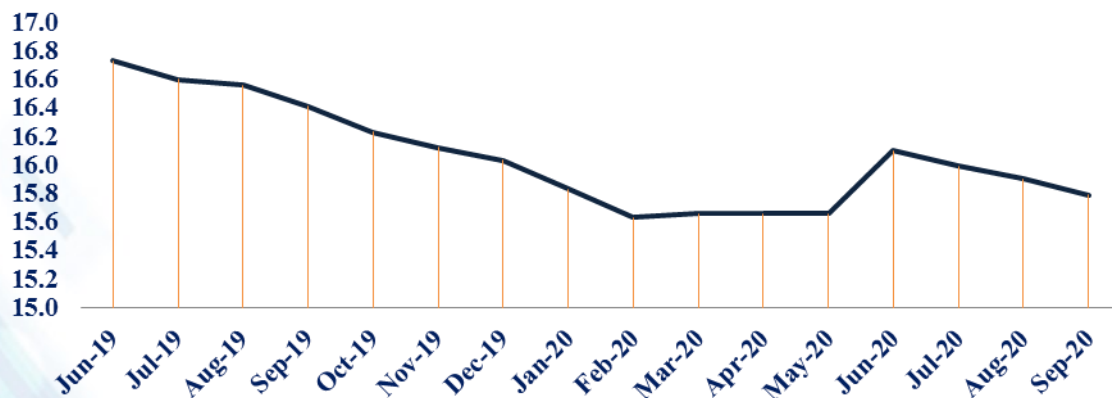


iv. Exchange Rate

The Egyptian pound's continued position as one of the best emerging market currencies against the US dollar.... Higher foreign reserves effectively contributed to boosting the stability of the currency exchange rate. The continued accumulative increase in foreign reserves positively boost the Egyptian Pound, whilst fulfilling the external debt obligations, and guaranteeing imports of basic commodities for several months. In this regard, the value of the Egyptian pound has increased by 0.66% against the US dollar since the beginning of 2020. The Egyptian Pound has also been the least depreciated against the US dollar since the beginning of the COVID-19 crisis.

Since the beginning of August 2020, the dollar prices witnessed a depreciation of about 10 piasters against the local currency. Noting the Egyptian Pound recorded around 15.79 against US dollar on September 09, 2020, relative to 16.1 in June 2020 and 16.8 a year earlier. The strength of the local currency has been driven by the improvement of foreign exchange sources, and continued its strong performance in 2019 before the onset of the COVID-19 crisis.

Exchange Rate (LE/USD)- End of Period



Source: Central Bank of Egypt (CBE)

The position of local currency's strength indicates that the restored confidence in the availability of foreign currency will contribute to attracting foreign investors, especially with the onset of 2022.

Worth noting, The Economist had praised Egypt's stability of net international reserves in June 2020, stressing that this has led to an improvement in the local currency's performance against the dollar. In addition, Fitch recently highlighted that the Egyptian pound was among the best performing emerging market currencies, anticipating that the local currency will remain relatively stable until the end of 2020, despite the sharp decline in emerging market currencies.

Egypt's External position still preserves resilience... J.P. Morgan affirmed that Egypt is the only country in the Middle East and Africa that has successfully concluded the annual cycle of reviewing the credit rating. The Egyptian economy is the only one to maintain investors' confidence in the region amidst COVID-19 pandemic, given the stable outlook of the Egyptian economy. In July 2020, Fitch Ratings affirmed Egypt's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'B+' with a Stable Outlook.

VI. Challenges and Prospects

The Egyptian economy showed success in weathering the global COVID-19 crisis; moving on the way to pre-COVID levels of activity and demand. Swift policies responses taken to curb inflationary pressures and to promote the resilience of external exchange market and to boost the domestic activities, cushioning the negative impacts of domestic containment measures implemented and the external shocks stemmed from the crisis.

Real GDP growth keeps maintaining its momentum, given the preemptive measures taken by the government. These measures aim to boost domestic economic activities and to bolster domestic demand as well as investments. Noteworthy, the economic growth is anticipated to be mainly driven by domestic demand, investments, and exports in particular exports of agricultural crops, and products as well as other non-petroleum exports. Additionally, Egypt is considered as a regional gas hub, following the discovery of giant gas fields, which would effectively contribute to increasing both the volume and quantities of gas exports, maintaining the competitiveness of LNG production.

Maintaining inflation targeting since April 2020 until August 2020 could give positive insights on the effectiveness of economic response towards policies implemented. The decline in inflation rates was mainly attributed to the decrease in food prices during the course of period.

In addition, the improvement in the inflation performance over the last 14-year assured the commitment of monetary policy towards inflation targeting and maintaining lower level of prices amidst downturns of economy. In tandem, the government provided initiatives to stimulate domestic demand and supply through bolstering the local manufacturing and domestic products; boosting the internal trade movement; covering consumers' demands at suitable prices.

Additionally, Egypt's strong external position helped greatly in containing the inflationary pressures resulted from the global COVID-19 pandemic. Bearing in mind, the performance of the Egyptian currency against the US dollar recognized the strongest among other emerging markets amid the COVID-19 outbreak.

International Prices deemed to recover gradually on the back of improvement in the economic sentiment, supported by declining the number of COVID-19 cases and partial reopening, enhancing the global demand. Notably, the current positive sentiment shows the economies are going to continue to recover, demand is going to push back to pre-pandemic levels and the supply chains would be adequate enough to stabilize market conditions as well as prices. **Bearing in mind,** the international oil prices still remains range-bound due to uncertainties resulted from the COVID-19 pandemic and the possibility of increasing number of cases, re-imposing lockdown measures.

Furthermore, the stability in foreign exchange market and the expected appreciation of the Egyptian pound, given the increase in foreign reserves. But, keep promoting well-diversified sources of foreign reserves is a critical to transmit a positive impact on curbing inflationary pressures. Considerably, future dynamics in inflation partially depend on how the exchange rate will perform, given the global uncertainties over the magnitude and duration of COVID-19, which may lead to upside risks to inflation, through the exchange rate channel.

Noteworthy, the Economist has recently announced an expected improvement in the Egyptian pound's performance against the dollar in the next five years. The local currency's performance is expected to improve by 4.5%, bringing the US dollar to EGP 16.06 in 2020, and 4.3% to reach EGP 16.10 in 2021.

In light of the ministry economic recovery tracker economic activities gradually rebounds particularly tourism, and Information and communications technology (ICT) sector activities. The economic recovery tracker gives an insightful view towards the success of policy responses to cushion the impact of the COVID-19 pandemic. The recovery indicators showed the responsiveness of the economy towards the policies implemented, ensuring that the government is moving on the right track towards accomplishing a successful recovery. Accordingly, the ministry keeps monitoring the updates and repercussions of COVID-19 crisis on the global level and domestic levels, with micro focus on both policy response tracker and economic recovery tracker.

Last but not least, the ministry is working on updating Egypt SDG's Vision 2030 for sustainable development to cope with the socio-economic consequences of the global COVID-19 pandemic, stressing on the third and fourth goals of Vision 2030 to boost knowledge, innovation and to build more competitive and sustainable economy, and use digital technologies to innovate businesses process, industrialization, and skills of workforce to meet market requirements at both the international and domestic levels.