



وزارة التخطيط والتنمية الاقتصادية  
Ministry of Planning and Economic Development

# MACRO ANALYSIS POLICY UNIT (MAP)

# MONTHLY ECONOMIC REVIEW



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The Monthly Economic Review is produced by MAP Unit. It highlights the most critical economic updates. It 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.

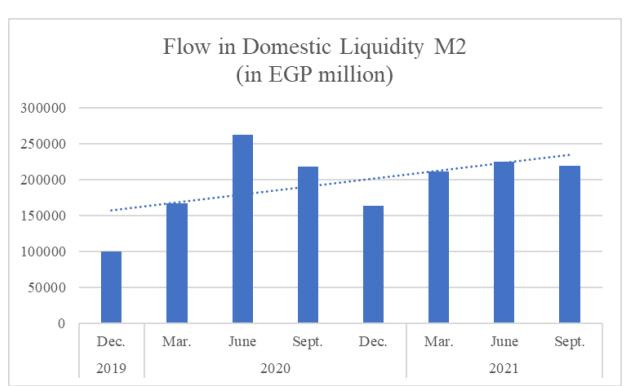
## DECEMBER'S HIGHLIGHT

- Domestic liquidity M2 growth stabilized at 17% during September 2021, slightly down from 18% in June 2021.
- Urban headline inflation (Y-o-Y) decelerated to register 5.6% in November, compared to 6.3% a month earlier.
- Meanwhile, core inflation accelerated in November to record 5.8% (Y-o-Y) compared to 5.2% in October.
- Overall deficit (% of GDP) widened to 2.4% during Q1 of FY2021/22 up from 2.1% during Q1 of the previous year.
- Primary deficit increased to 0.1% during Q1 of FY2021/22 up from 0% a year earlier.

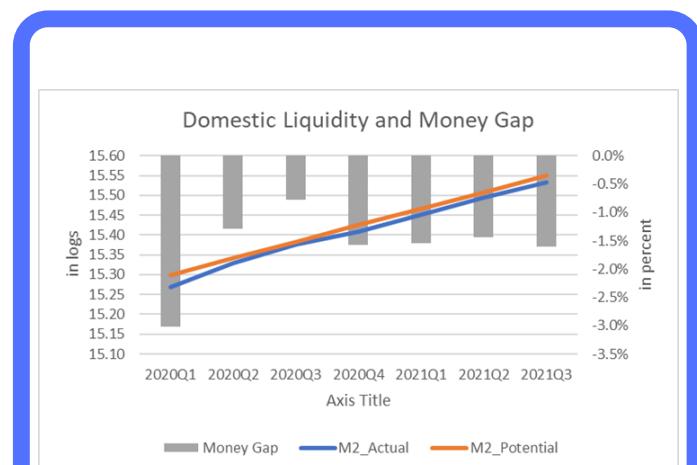


# MONETARY SECTOR: DOMESTIC LIQUIDITY GROWTH

- Growth in domestic liquidity M2 stabilized at 17% during September 2021, slightly down from 18% in June 2021. This current level is below the long-term trend.
- Estimated potential money balances indicated that they are above the actual levels for seven consecutive quarters. This implies unlikely existence of underlying inflationary pressure in the near future from the demand-side and the business cycle.
- As such, these dynamics would put downside risks for the Central Bank and would encourage it to fix interest rate in the upcoming MPC meetings. Adding to the above, the supply shock related to the raised fuel and energy prices, which took place last month and started to materialize in July's figure, began to tame out during November and December.



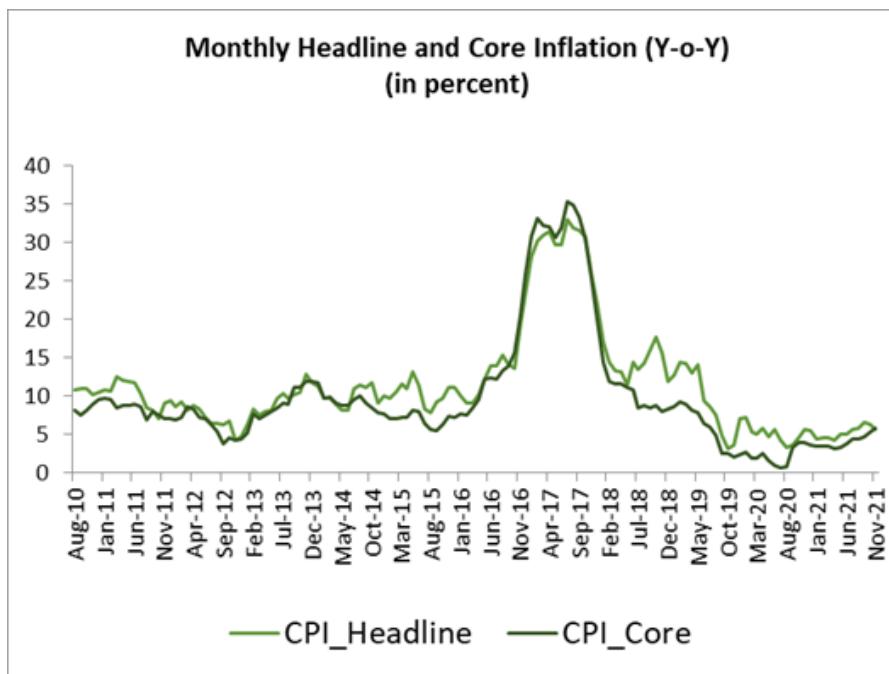
Source: Central Bank of Egypt (CBE).



Source: MAP's Estimates and CBE.

# MONETARY SECTOR: INFLATION RATES DYNAMICS

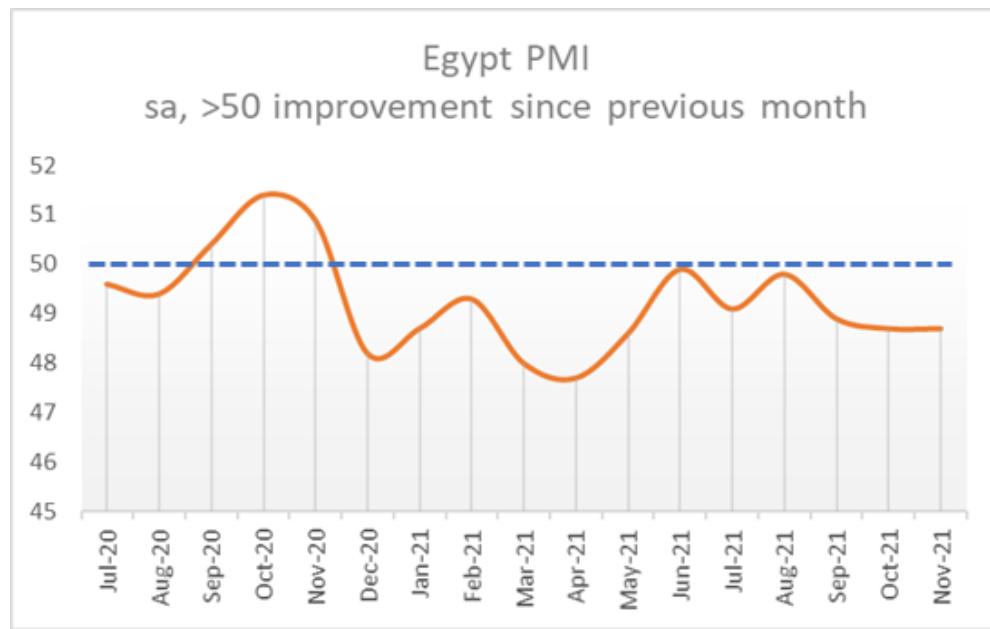
- According to the inflation dynamics, urban headline inflation (Y-o-Y) decelerated to register 5.6% in November, compared to 6.3% a month earlier. The decline is driven primarily by the monthly developments accounted for 0.1% in November 2021, compared to 0.8% in November 2020. Meanwhile, core inflation accelerated in November to record 5.8% (Y-o-Y) compared to 5.2% in October. This is due to the high m-o-m rate of 0.5% in November 2021, compared to 0% in November 2020.
- On another front, the annual headline nationwide inflation rate stabilized at 6.2% in November 2021 compared to 6.3% a month earlier. This relative stability stemmed from the balance between increases and decreases of the CPI main groups as shown in the figure below. It is worth to note that food and non-alcoholic beverages group witnessed a monthly deceleration of 0.8% in November 2021.



Source: CAPMAS and CBE.

## PMI DEVELOPMENTS AND PRICES DYNAMICS

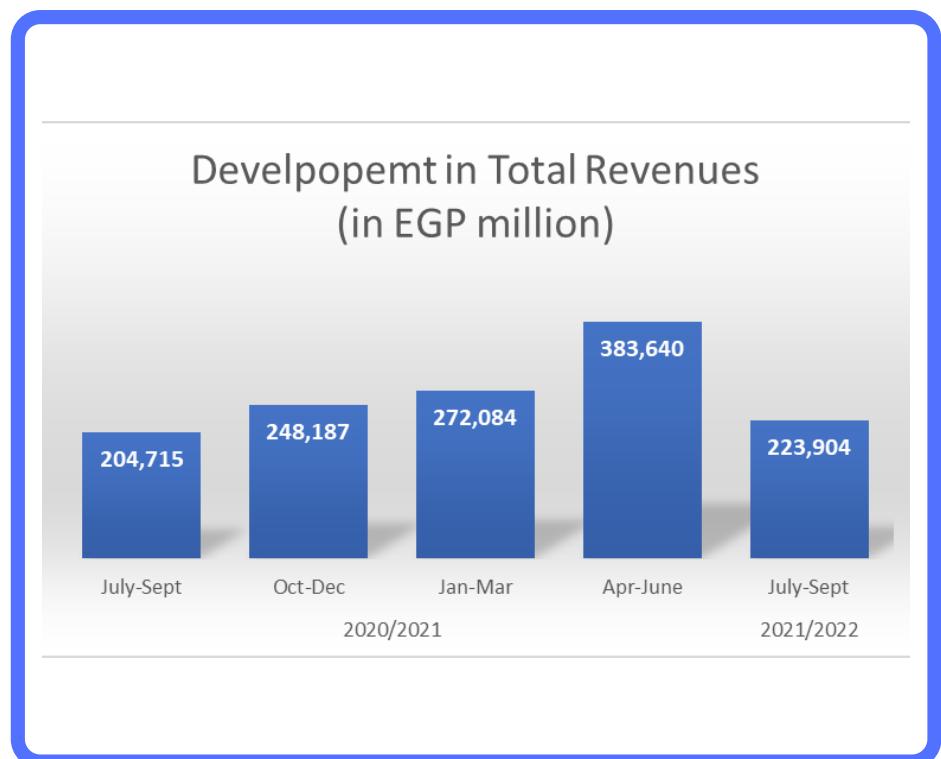
- IHS Markit's Purchasing Managers' Index (PMI) came in at 48.7, which is below the 50.0 threshold that separates growth from contraction, and it is unchanged from October 2021. A sharp rise in business costs continued to drive to higher selling prices and lower demand across the Egyptian non-oil economy during November. The input cost inflation sub-index recorded 63.7, which comes in the second place during the previous three years, after October's record of 64.5. A loss of client demand and slowdowns due to global supply chain issues were often behind the downturn. Companies noted that higher selling prices often deterred customer spending in the domestic market.
- Low demand in the domestic economy was due to higher selling prices fueled the negative money gaps. Such dynamics suggest that inflationary pressures will be muted during the short- to medium-terms.



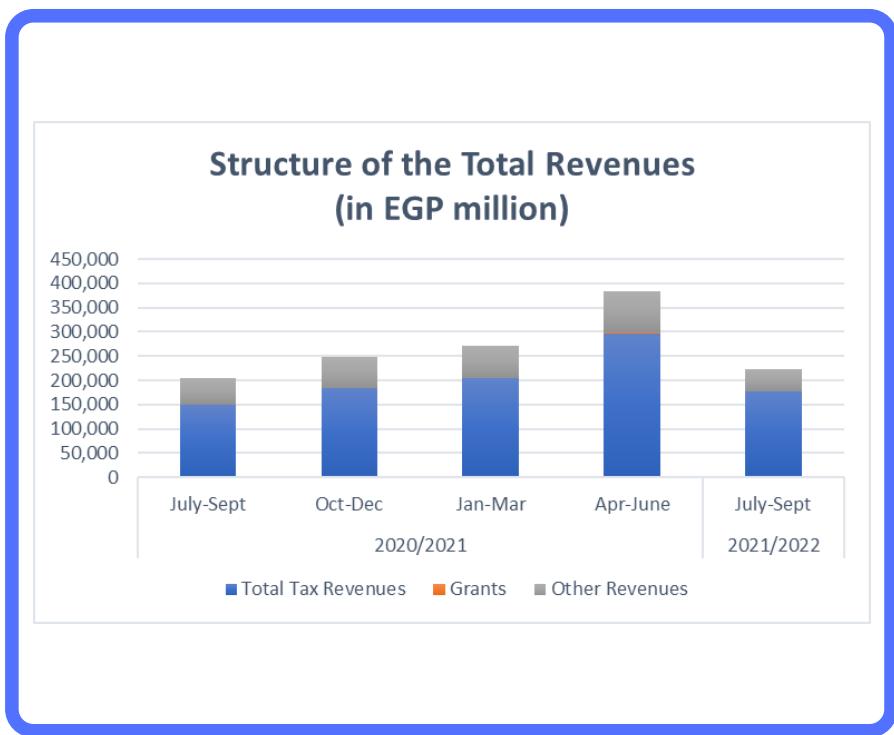
Source: IHS Markit.

# FISCAL SECTOR

- Total revenues increased to record about EGP 223.9 billion during Q1 of the FY2021/22 up from EGP 204.7 billion during Q1 of FY 2020/2021. This is attributed to the increase in the total tax revenues by 17% during the same period.



- As for the expenditure, total expenditures inched up to reach EGP 391.3 billion during Q1 of FY 2021/22 up from EGP 336.8 billion a year earlier. This was due to a higher rate of purchases of goods and services and other expenditures. Each one increased by 43%, followed by interest payments which increased by 19%.

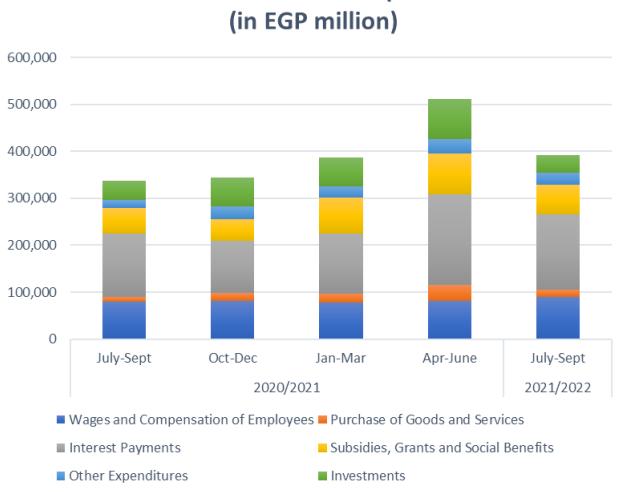


Source: Ministry of Finance.

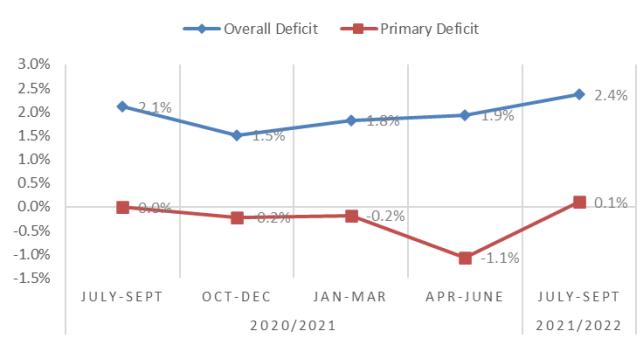
# FISCAL SECTOR

- Overall deficit (% of GDP) widened to reach 2.4% during Q1 of FY2021/22 up from 2.1% during Q1 of the previous year. Also, primary deficit increased to 0.1% during Q1 of FY2021/22 up from 0% a year earlier. It is worth to note that primary deficit widened after it registered a primary surplus for three consecutive quarters spanning from Q2-Q4 of FY2020/21.
- This deficit was emerged from a high overall deficit and high interest payments that accounted for EGP 168 billion and EGP 160.8 billion respectively during Q1 of FY 2021/22, up from EGP 134.9 billion and EGP 135 billion during Q1 of FY 2020/21.

**Structure of the Total Expenditures  
(in EGP million)**



**Deficit as a Percentage of GDP**

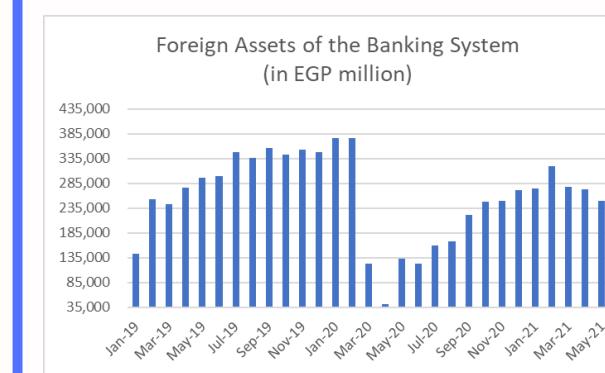
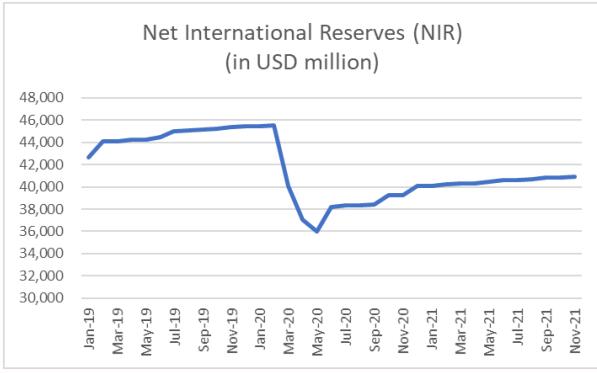


**Source: Ministry of Finance.**

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# EXTERNAL SECTOR

- Net international reserves registered USD 40.9 bn in November 2021, slightly up from USD 40.8 bn a month earlier. This came as a steady increase since May 2020, which is associating the stability witnessed in the FOREX market. In September 2021, foreign reserves were 6.6 months of imports.
- The improvement in NIR is accompanied by a better performance in the net foreign assets of EGP 248.7 million in May 2021. The accumulation of the foreign assets reflects more confidence in the Egyptian economy.



Source: Central Bank of Egypt.

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# **SUMMARY AND FUTURE PROSPECTS**

- Domestically, the Egyptian economy shows relative resilience. On the monetary front, inflation started to decelerate during November. This was emerged from the retreated seasonal factors attributed to decelerated prices of food items other than fruits and vegetables that usually occur during that time of the year. This was in addition to the favorable pass-through effect from the stable FOREX market. In the meantime, disrupted supply chains in the global economy coupled with surging oil prices' repercussions on the domestic level started to be muted.
- Regarding the external sector, net international reserves (NIR) increased steadily in November 2021 to record USD 40.9 billion, reflecting relative strong fundamental economic conditions. This was associated with stable FOREX market, which is considered the mirror for the economic performance, and accompanied by better foreign assets accumulations.
- On the monetary policy front, Monetary Policy Committee (MPC), at the CBE, decided in December's meeting to fix interest rates. The decision broadly came in line with most of the economists' expectations. It came as a supportive step in stabilizing the economy and strengthening the ability of anchoring inflation expectations. The Central Bank is taking a pause amid lower-than-expected inflation reading for November which gives a breathing room. The decision is broadly reasonable given the fact that potential money balances are above the money supply for seven months in a row, implying that there is low probability of underlying inflationary pressures.

**LOOKING AHEAD, THE EGYPTIAN ECONOMY REMAINS COMPETITIVE AND SUPPORTED BY WELL-SEQUENCED AND COORDINATED STRUCTURAL REFORMS DESPITE THE REMAINING RISKS OF GLOBAL COVID-19 UNCERTAINTY. FISCAL AND MONETARY POLICIES WILL CONTINUE TO SUPPORT THE RECOVERY WHILE PRESERVING MACROECONOMIC STABILITY. STRUCTURAL REFORMS WILL ADDRESS POST-PANDEMIC CHALLENGES, STRENGTHEN BUFFERS, MEET THE FINANCING NEEDS AND BOOST THE REAL SECTOR, AND CREATE MORE RESILIENT AND DIVERSIFIED ECONOMY.**