وزارة التخطيط والتنمية الاقتصادية
Ministry of Planning and Economic Development

MACRO ANALYSIS
POLICY UNIT (MAP)

MONTHLY ECONOMIC REVIEW

2022 | FEBRUARY

MONTHLY ECONOMIC REVIEW

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.

FEBRUARY'S HIGHLIGHT

- In January 2022, urban headline inflation (Y-o-Y) inched up to register 7.3%, compared to 5.9% a month earlier. Meanwhile, core inflation accelerated to record 6.3% (Y-o-Y) compared to 6.0% in December 2021. This was due to the high m-o-m rate of 0.8% in January 2022, compared to 0.5% in January 2021.

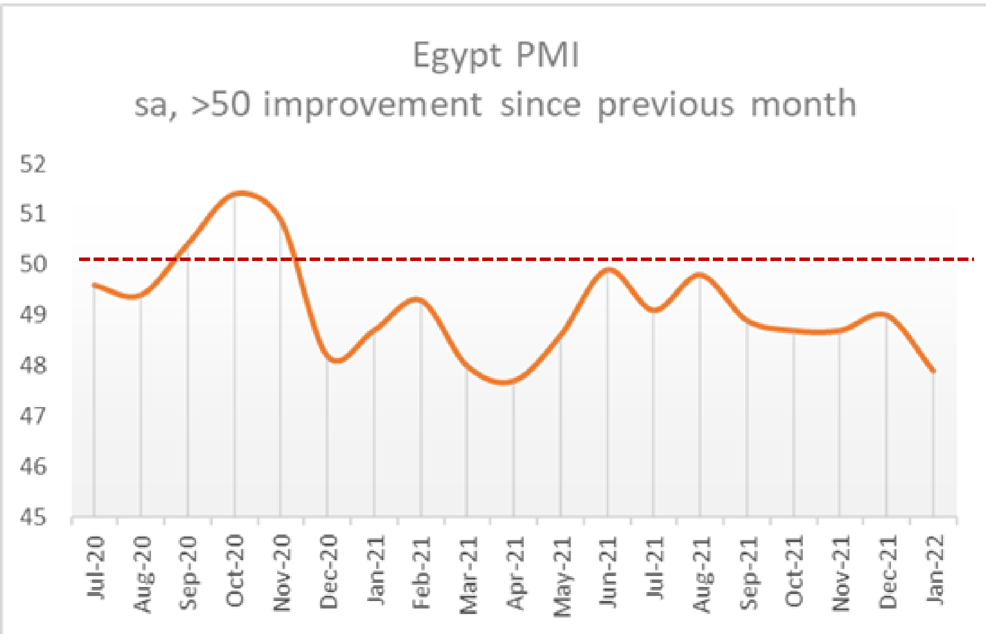
- PMI dropped to nine-month low of 47.9 in January, down from December's 49.0. January's decline was mainly due to the output decrease at the sharpest pace since June 2020. This was in addition to a significant drop in new orders, due to higher prices of goods and services, and supply chain disruption caused by COVID-19 pandemic.

- Balance of Payment (BOP) data showed positive signals about its performance during Q1 FY21/22. The overall BOP registered a surplus of USD 311.4 million, compared to a deficit of USD 69.2 million in the corresponding quarter.

PMI DEVELOPMENTS AND PRICES DYNAMICS

- The IHS Markit Purchasing Managers' Index (PMI), which measures the business activity in the non-oil private sector, dropped to nine-month low of 47.9 in January, down from December's 49.0. Consequently, the index moved below the 50-threshold, where it has been for the past 14 months, showing a deterioration in the business operating conditions.

- January's decline was mainly due to the output decrease at the sharpest pace since June 2020. This was in addition to a significant drop in new orders, due to higher prices of goods and services, and supply chain disruption caused by COVID-19 pandemic. Regarding input prices, raw materials, components and transport costs continued to increase in January, although firms only partially passed on the extra burden to clients.



Source: IHS Markit.

MONETARY SECTOR:
INFLATION RATES DYNAMICS

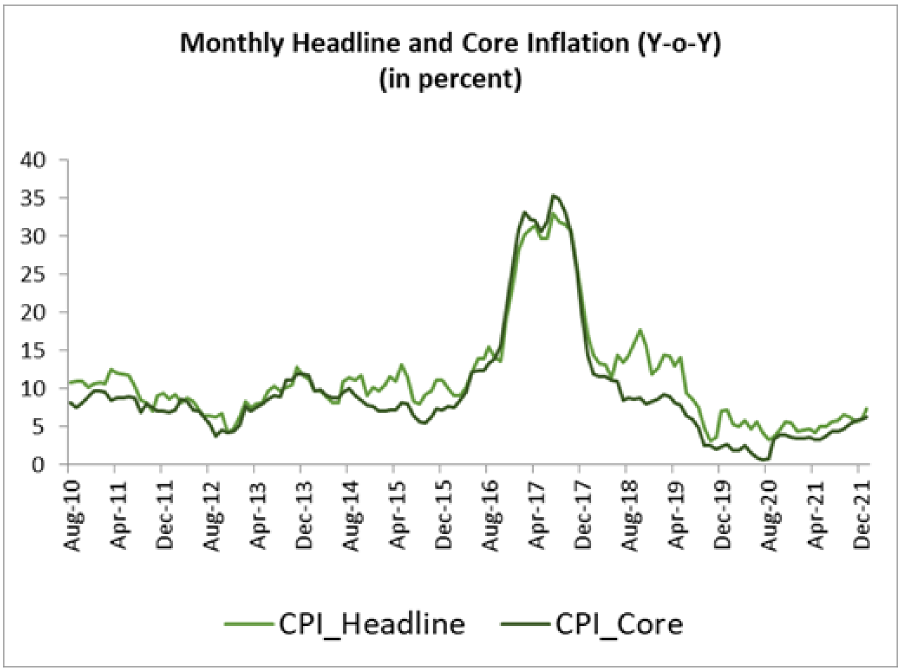
- Urban headline inflation (Y-o-Y) inched up to register 7.3% in January, compared to 5.9% a month earlier. January 2022's dynamics showed an increase of 0.9% compared to -0.4% in January 2021 and -0.1% in December 2021.

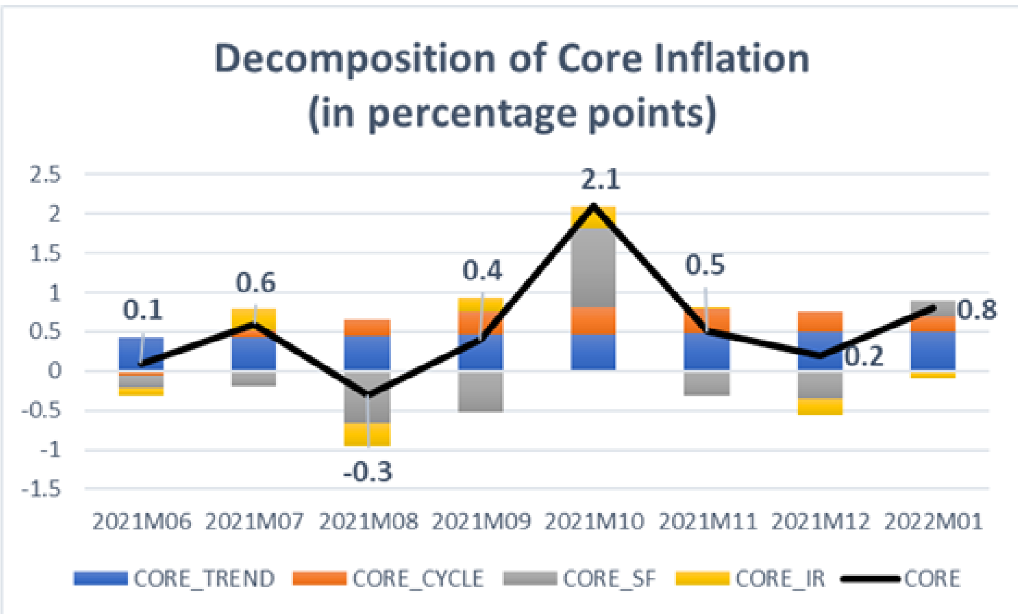
- Meanwhile, core inflation accelerated to record 6.3% (Y-o-Y) compared to 6.0% in December 2021. This was due to the high m-o-m rate of 0.8% in January 2022, compared to 0.5% in January 2021.

- The monthly core inflation acceleration was emerged from seasonal factors as the increase in food items prices, other than fruits and vegetables, in addition to a slight increase in implied inflation.

- The decomposed series indicated that irregular factors, supported by the exchange rate pass-through effect, have marginally pulled up the core inflation during January 2021. This is coupled with the positive contribution of both inflation expectations and cyclical factors accounting for 0.50 and 0.18 percentage points, respectively.

MONETARY SECTOR:
INFLATION RATES DYNAMICS





Source: CAPMAS and CBE.

BALANCE OF PAYMENTS DEVELOPMENTS

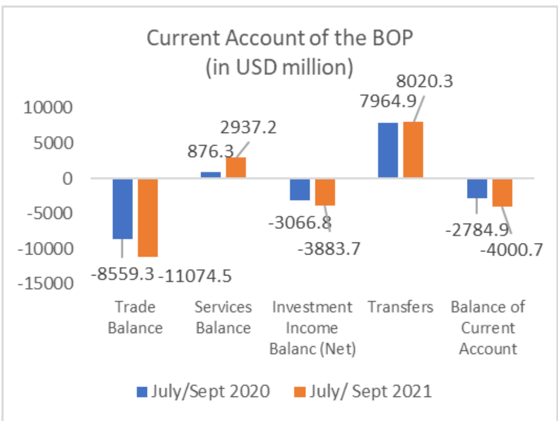
- Latest data released for the Balance of Payment (BOP) showed positive signals about its performance during Q1 FY21/22. The overall BOP registered a surplus of USD 311.4 million, compared to a deficit of USD 69.2 million in the corresponding quarter (July/Sept. 2021).

- This improvement emerged mainly from the Capital and Financial Accounts (C&F accounts) surplus, which witnessed an improvement compared to the corresponding quarter. It registered USD 6.0 billion, compared to USD 3.9 billion. These improvements are due to the rebound in other investments (net) account. This occurs despite the retreatment observed in the portfolio account, which declined to USD 3.6 billion during Q1 FY2021/22 down from USD 6.7 billion during Q1 FY2020/21.

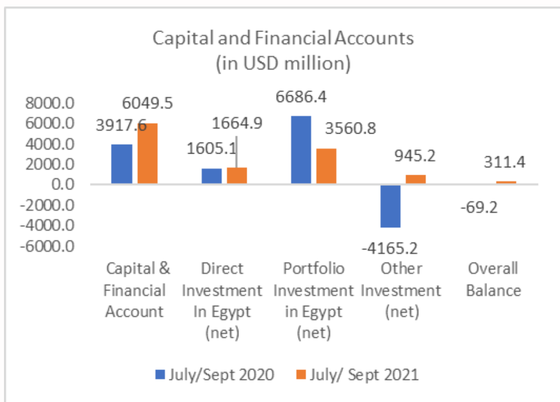
- This improvement has been partially offset by the deterioration in the current account balance, which registered a deficit of USD 4.0 billion during Q1 FY2021/22 up from a deficit of USD 2.8 billion during the corresponding quarter of FY2020/21.

BALANCE OF PAYMENTS DEVELOPMENTS

- The export proceeds recorded a growth rate of 41% compared to 34% of imports' growth during Q1 FY2021/22. Meanwhile, non-petroleum export proceeds registered USD 5.9 billion in Q1 FY2021/22, compared to USD 4.7 billion in the corresponding quarter. Accordingly, the non-petroleum exports rebounded to the pre-crisis levels. Nevertheless, this has been partially offset by the deteriorated non-petroleum imports payments to reach USD 16.9 billion compared to USD 13.4 billion during the same period of comparison.



Source: Central Bank of Egypt.



Source: Central Bank of Egypt.

EXTERNAL DEBT DYNAMICS

- The stock of external debt is on the upward trajectory, registering about USD 145.5 billion at the end of December 2021, compared to USD 137.4 billion a quarter earlier, up by USD 8.0 billion. This increase is due to the rise in net disbursements of loans and facilities by USD 6.0 billion from Saudi Arabia and United Arab Emirates, in addition to USD 2.2 billion from the African Export Import Bank.

- Despite the large debt repayments obligations during the next five years covering from FY2021/22 to FY2025/26, the external debt portfolio is characterized by its diversified sources of finance which avoid the risk of limited sources. As such, 38% of the external debt is financed by credit facilities provided by international and regional organizations, 21.7% from Eurobonds, 16% deposits by Arab countries and the rest comes from other sources.

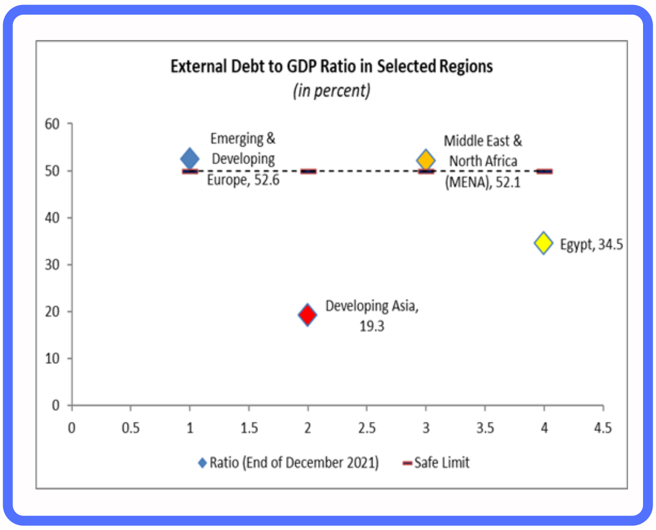
- Sustainability is measured according to liquidity and financial strength of the Central Bank's indicators. The results revealed that reserves to short-term debt ratio has inched up in December 2021 to reach 140.4% up from 134.7% a quarter earlier. In the meantime, total external debt (as a percentage of reserves) has also increased to record 355.6% in December 2021 up from 336.6%, yet it is still within the safe limits.

EXTERNAL DEBT DYNAMICS

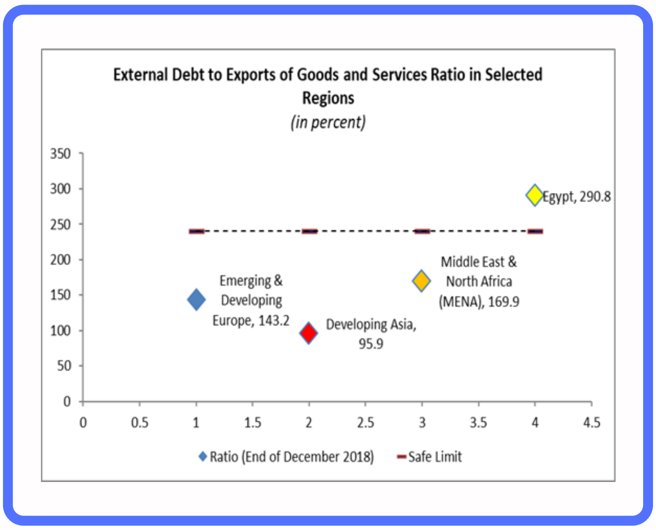
- According to the financial strength indicators, debt to GDP ratio is within the safe limits, accounted for 34.5%, being below 50% threshold.

- Meanwhile, Egypt's debt indicators breach the safe boundaries for both debt service to exports of goods and services, and debt to exports of goods and services, registering 43.5% and 290.8%, respectively. As such, they are well above the safe thresholds of 21% and 240%, respectively. This mandates a prompt action towards increasing and deepening the exports proceeds from goods and services that are characterized by high value added.

- Moreover, comparing Egypt's debt indicators to other regions, it can be noticed that the country's financial position is relatively at risk especially for external debt to exports of goods and services.



Source: Central Bank of Egypt.



Source: Central Bank of Egypt.

SUMMARY AND FUTURE PROSPECTS

- It is expected that in FY2021/22, urban headline inflation will be maintained at a single digit, whereas it will increase to reach 6.3%. This would be attributed to the favorable pass-through effect from stable FOREX market. Moreover, inflation expectations are broadly managed as noticed from the decomposed core figures, accounted for only 0.50 percentage points of January monthly inflation rate. In addition, output gaps and money gaps showed downside risks to inflation during the upcoming quarters, especially over the short-term.

- On a positive note, after that Egypt's economy grew by 9.8% in Q1 FY2021/22, it is expected to resume pre-pandemic growth in FY2021/22 under the baseline scenario that COVID- 19 situation will gradually improve. Further advancement of structural reforms is critical to sustain recovery, drive productivity growth, and generate high-earning job opportunities. In this context, it is expected that there will be an increase in FY2021/22 growth rate that exceeds the international institutions expectations, including the World Bank and the International Monetary Fund (IMF).

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, BOOST THE REAL SECTOR, AND CREATE MORE RESILIENT AND DIVERSIFIED ECONOMY.