



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 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.

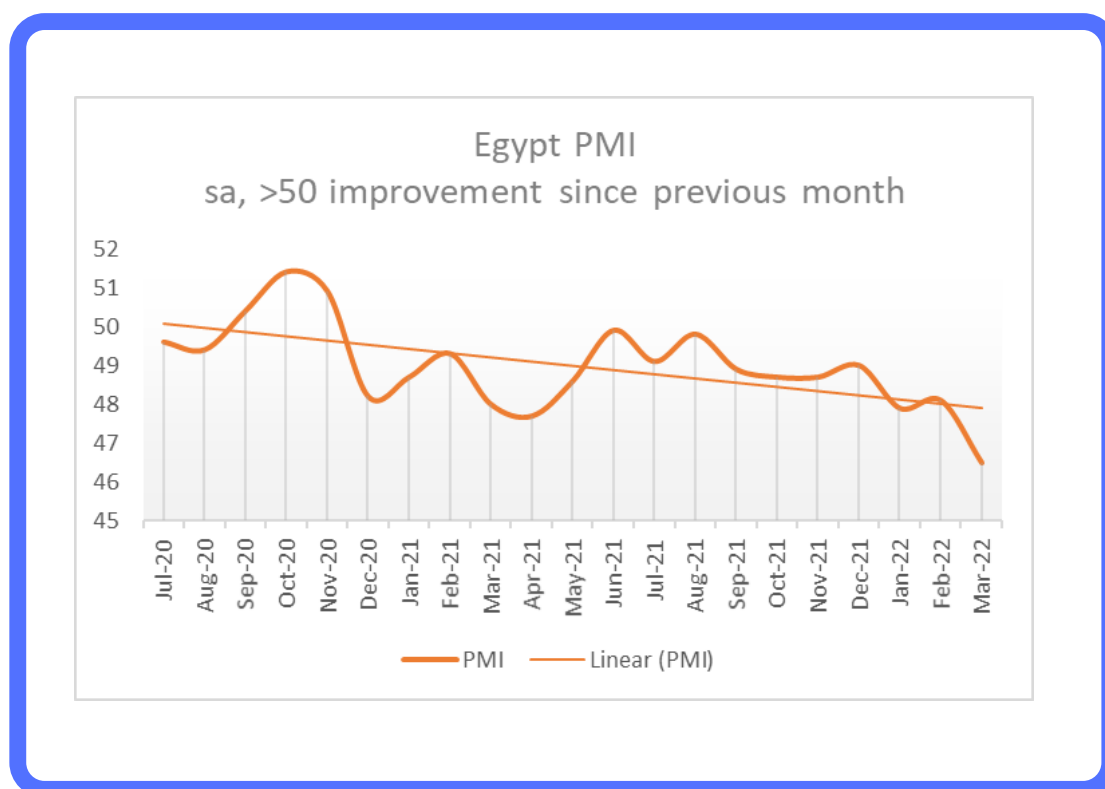
APRIL'S HIGHLIGHT

- In March 2022, urban headline inflation (Y-o-Y) registered a leap and reached 10.5% in March, compared to 8.8% a month earlier. The monthly dynamics showed an increase of 2.2% in March compared to 1.6% in the previous month. Meanwhile, core inflation accelerated in March to record 10.1% (Y-o-Y) compared to 7.3% a month earlier. This came on the back of higher m-o-m rate of 3.1% in March 2022, compared to 1.2% a month earlier.
- Purchasing Managers' Index (PMI), which measures business activity in the non-oil private sector fell to a 21-month low of 46.5, down from February's 48.1. Consequently, the index dropped further below the 50-threshold, where it has remained for the past 16 months, revealing some deterioration in business conditions compared to the prior month.
- Nevertheless, the IMF expects that the Egyptian economy will expand at a 5.9% clip in FY 2021-2022, up 0.3 percentage points from its previous forecast in January. Egypt is being "A BRIGHT SPOT FOR GROWTH".



PMI DEVELOPMENTS

- The S&P Global Purchasing Managers' Index (PMI), which measures business activity in the non-oil private sector fell to a 21-month low of 46.5, down from February's 48.1. Consequently, the index dropped further below the 50-threshold, where it has remained for the past 16 months, revealing some deterioration in business conditions compared to the prior month.
- March's deterioration was due to the sharp decline of output, new orders and stocks of purchases at the quickest rates since the outbreak of Covid-19. The downturn was brought about by supply worries, which further elevated prices, especially for energy, fuel, food, and raw materials and dragged on demand in turn. Additionally, the 21 March weakening of the Egyptian pound by the Central Bank led to higher import costs. Firms' sentiment plunged to their lowest levels in the series' history in March, weighed on by a downbeat growth outlook due to the war in Ukraine. Consequently, businesses cut staffing levels for the fifth month running.

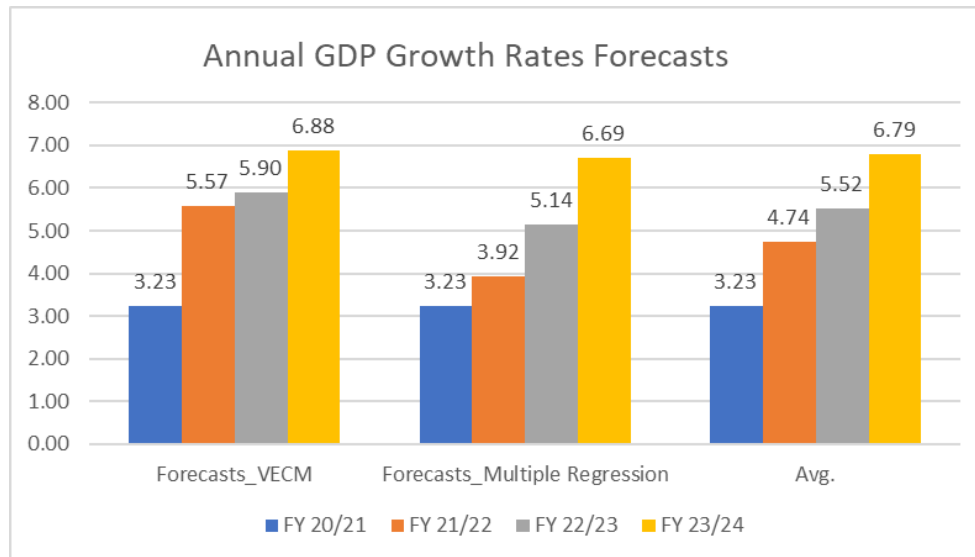


Source: IHS Markit.

IMF OUTLOOK FOR GLOBAL AND EGYPT'S GDP GROWTH RATE

- The IMF has cut its global GDP forecast for this year and the next as surging inflation and economic fallout from the war in Ukraine hit growth prospects. The Fund revised downwards its growth projections for 2022 and 2023 to 3.6% in its latest World Economic Outlook — that's 0.8 percentage points lower for this year (and 0.2 ppt less for next year) than in its last forecast in January.
- The revision marks a “significant slowdown in global growth” as the Russia-Ukraine war continues to cause “worldwide spillovers through commodity markets, trade, and financial channels.”
- **EGYPT IS A BRIGHT SPOT FOR GROWTH:** Egypt seems set to buck the trend this year: The lender revised upwards Egypt's growth for the current fiscal year despite soaring food and energy prices threatening to weigh on economic activity.
- The IMF expects that the Egyptian economy will expand at a 5.9% clip in FY 2021-2022, up 0.3 percentage points from its previous forecast in January. This is the second time the IMF has upgraded Egypt's growth forecast this year.
- The government recently lowered its growth outlook for the current fiscal year to 5.7% from 6.2-6.5% due to the economic impact of the war in Ukraine.

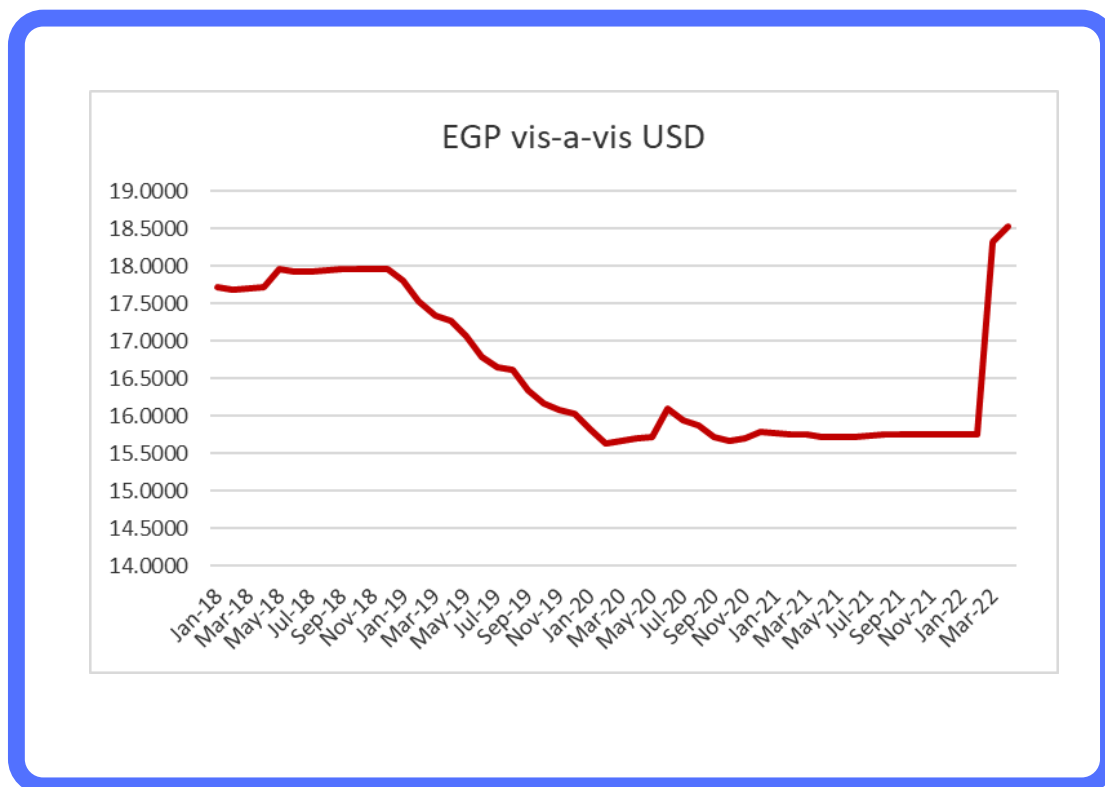
IMF OUTLOOK FOR GLOBAL AND EGYPT'S GDP GROWTH RATE



Source: MAPs Estimates, MPED

EGP FOREX DYNAMICS

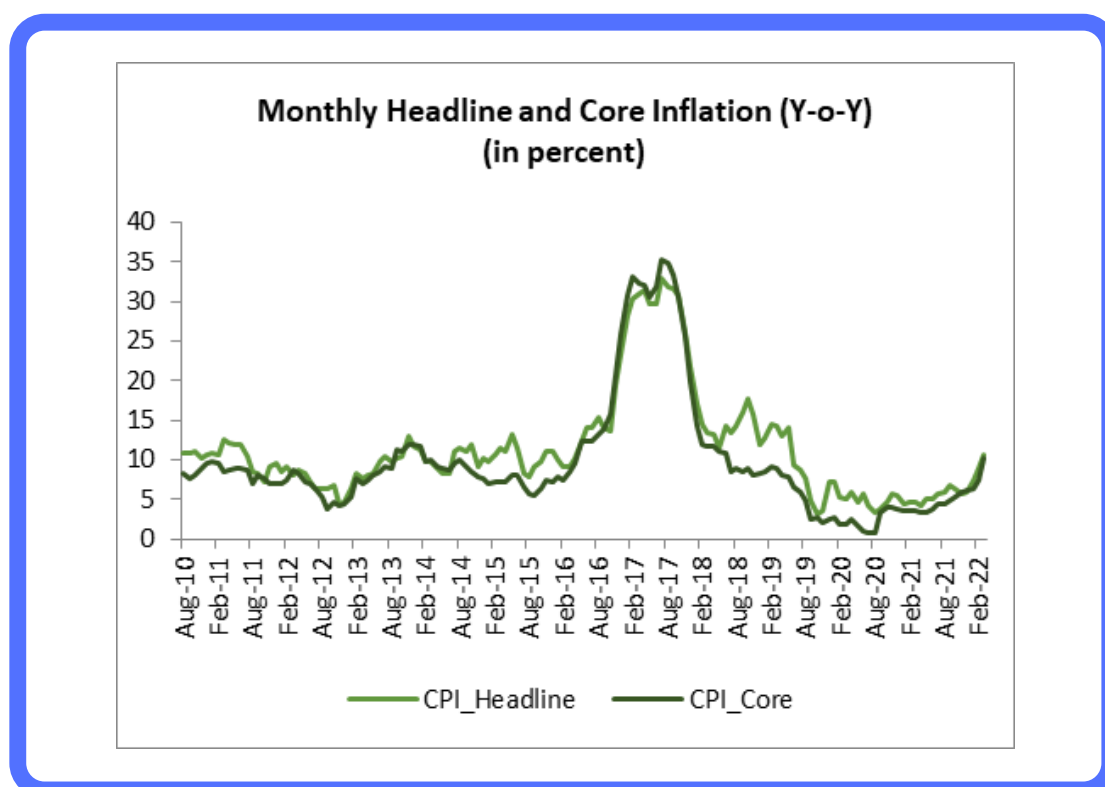
- Egypt devalued its pound by 14% after Russia's invasion of Ukraine, prompted foreign investors to pull billions of dollars out of Egyptian treasury markets, putting some pressure on the currency.
- The pound dropped to EGP 18.17-18.27 against the dollar, reaching now EGP 18.53, after having traded at around EGP 15.7 pounds to the dollar since November 2020.
- The central bank also hiked overnight interest rates by 100 basis points in an exceptional monetary policy meeting. As per Egypt's central bank governor, the pound had undergone a "correction" that reflected world and local developments. The correction would make exports competitive and help preserve foreign currency liquidity.



Source: Central Bank of Egypt.

PRICES DYNAMICS

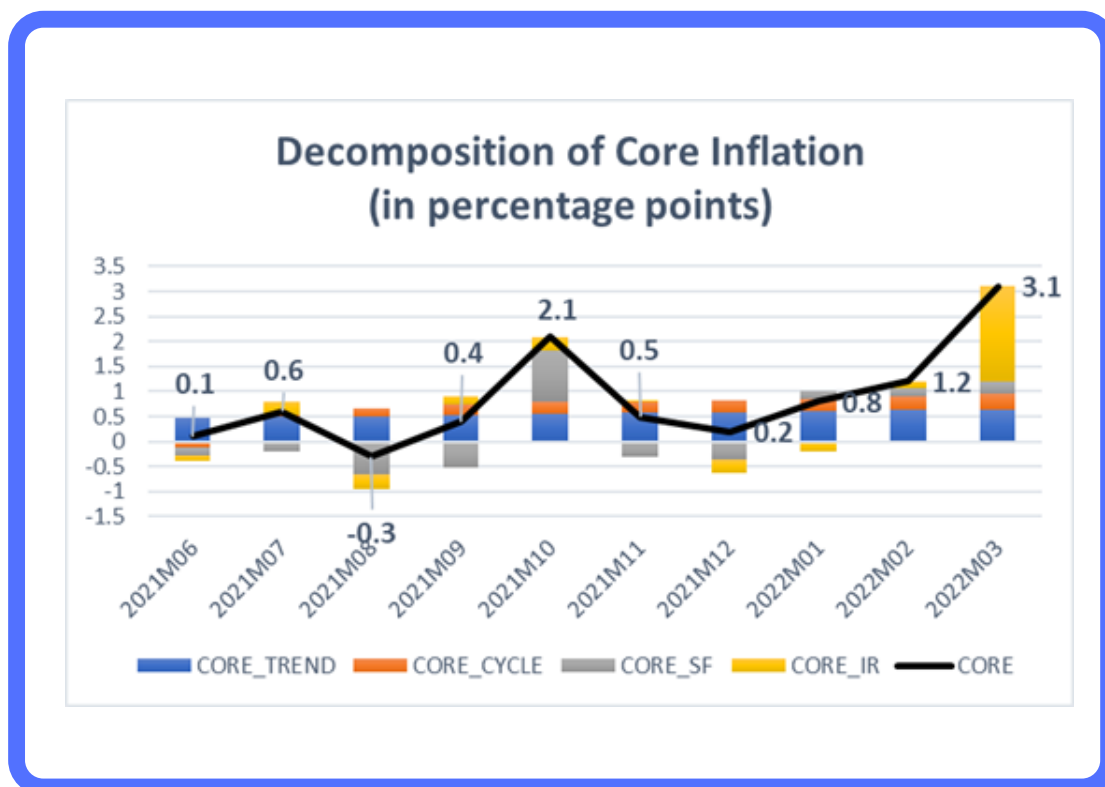
- Urban headline inflation (Y-o-Y) registered a leap and reached 10.5% in March, compared to 8.8% a month earlier. The monthly dynamics showed an increase of 2.2% in March compared to 1.6% in the previous month. Meanwhile, core inflation accelerated in March to record 10.1% (Y-o-Y) compared to 7.3% a month earlier. This came on the back of higher m-o-m rate of 3.1% in March 2022, compared to 1.2% a month earlier.
- March dynamics indicate that monthly core inflation is on the upward trajectory. This is primarily attributed to higher irregular factor, which reversed from negative to positive for the second month in a row, reflecting unfavorable pass-through effect, contributing by 1.9 percentage points.



Source: CAPMAS and CBE.

PRICES DYNAMICS

- This is coupled with the positive contribution of implied inflation reflecting higher inflation expectations recording 0.65 percentage points.
- Both factors led the monthly demand-driven inflation to a six-month peak of 3.1% increasing for four months in a row after it registered 1.2% a month earlier and compared to 0.8% during January 2022.



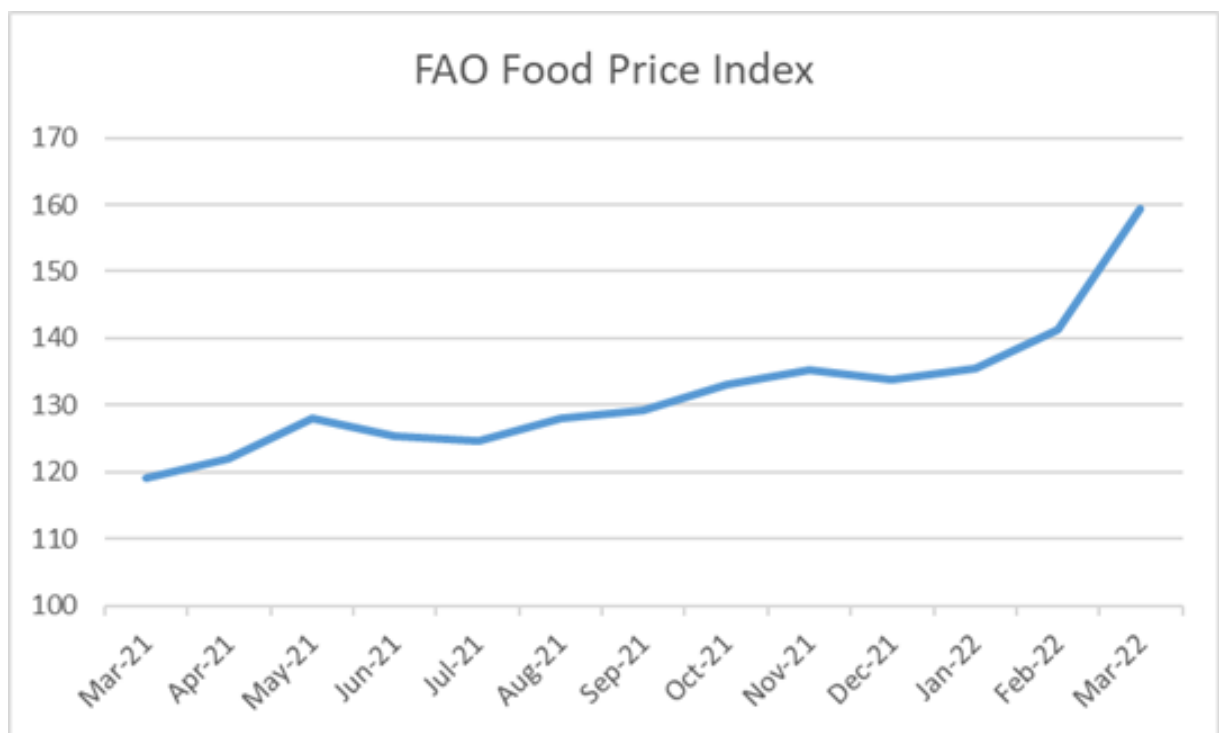
Source: MAPs Estimates, MPED.

PRICES DYNAMICS

- The recent devaluation of the Egyptian Pound by 17% had its anticipated repercussions on the domestic inflation due to unfavorable pass-through effect, that has not been fully manifested during March figure. Rather, it is expected this 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.
- The FAO Food Price Index (FFPI) averaged 159.3 points in March 2022, up 17.9 points (12.6 percent) from February, making a giant leap to a new highest level since its inception in 1990. The latest increase reflects new all-time highs for vegetable oils, cereals and meat sub-indices, while those of sugar and dairy products also rose significantly.

PRICES DYNAMICS

- On another note, the oil price rally has really cooled down during March, with oil prices declining to levels last seen prior to Russia's invasion of Ukraine. Brent oil prices fell by about 2% to trade below \$100/barrel, while the price for a barrel of Brent for June 2022 delivery has fallen from \$127/barrel one month ago to \$99/barrel. Pandemic-related lockdowns in Shanghai, slowing U.S. oil demand growth, and a historic strategic petroleum reserve release have all contributed to the selloff.
- Interestingly, medium-term prices have hardly budged as near-term oil prices have fallen by over 20%, indicating a still-bullish longer-term outlook.



Source: FAO.

SUMMARY AND FUTURE PROSPECTS

- Although that Egypt's economic fundamentals are indicating a relative resilient status-quo, the growing international developments and the Russian-Ukrainian conflict still possess sizable challenges to the world, including Egypt.
- The Government of Egypt is making a great effort to meet the citizens' needs through set of measures that guarantee the social protection. As such, the recent measures taken to expand targeted social protection and to implement exchange rate flexibility are essential steps to mitigate the repercussions of the international dynamics. Continued exchange rate flexibility will be essential to absorb external shocks and eliminate any potential imbalances.
- Headline inflation has accelerated to its highest level in nearly three years, registering 10.5% last month and breached the upper limit of the central bank's 5-9% target range. The central bank cited global inflationary pressures amplified by the war in Ukraine for its hike in rates, which lifted the overnight lending rate to 10.25% and its overnight deposit rate to 9.25%.
- State-owned Banque Misr and National Bank of Egypt offered certificates of deposit with a yield of 18% as an essential step to absorb unneeded liquidity.
- The Ministry of Finance will allocate EGP 130 billion "to mitigate the repercussions of global economic challenges". The package includes fixing the import customs exchange rate for basic commodities and production requirements at EGP 16 to the dollar and reducing the capital gains on initial public share offerings.

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 AND THE RUSSIAN-UKRAINIAN CONFLICT. 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.