



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.

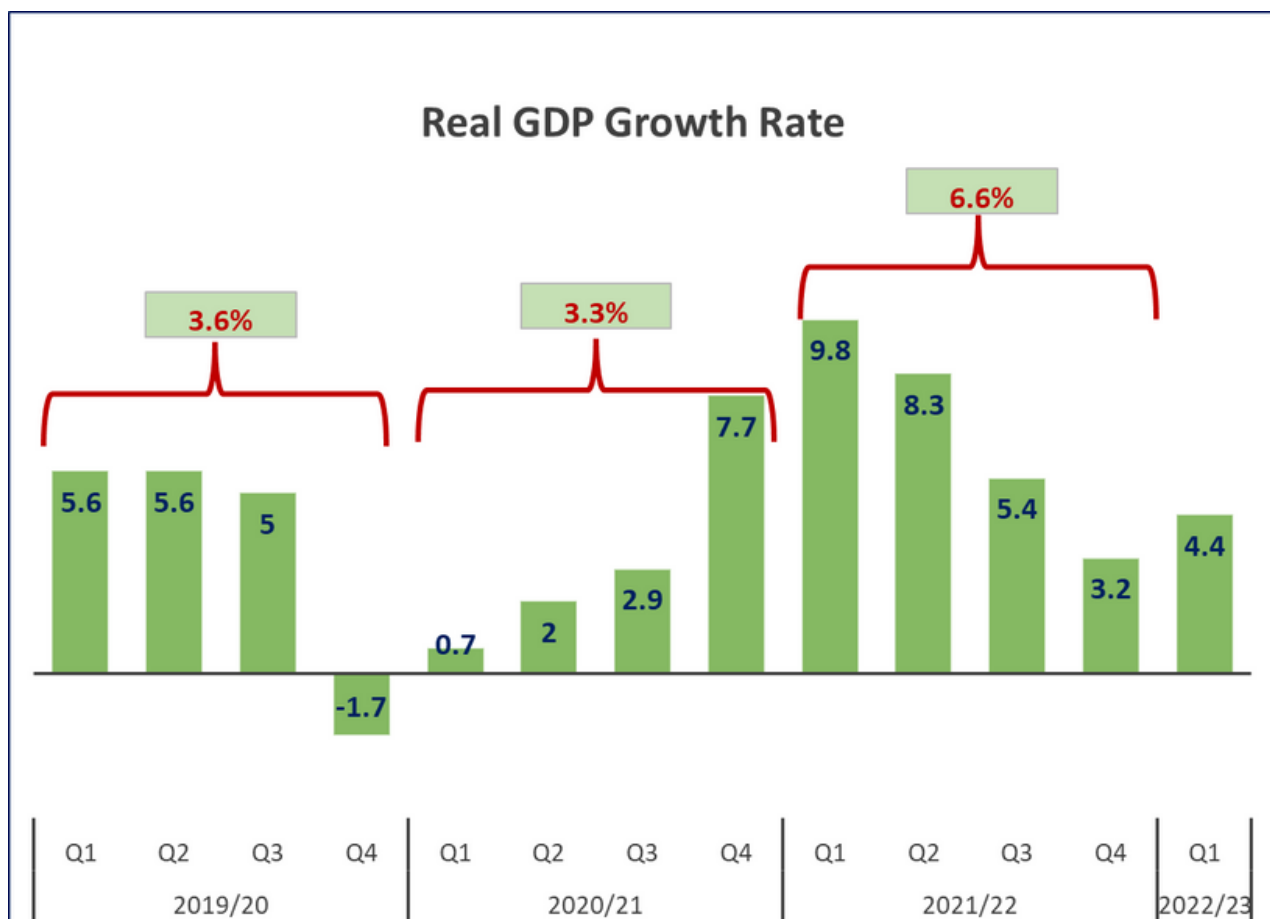
NOVEMBER'S HIGHLIGHT

- Real GDP growth rate softened during Q1 FY 2022/23 to record 4.2% and 4.4% at factor cost and market price, respectively, down from a record high of 9.8% a year earlier, that was partially affected by a favorable base effect from previous year. The main three contributors to growth during this quarter are agriculture, wholesale & retail sale and hotels & restaurants sectors. Meanwhile, extractions sector witnessed contraction during the same period.
- Core inflation registered a record high in five years surging to 19.2% in October. The monthly dynamics for the period January-October 2022, indicates that core inflation is still on the upward trajectory since last April, to record 3.0% in October, up from 1.6% a month earlier, with a monthly record high during the current month. Worth noting, all the four components have contributed positively to monthly core inflation. Both implied inflation (inflation expectations) along with the seasonal factors had the major impact.
- An in-house analysis shows that there exists a positive relationship between the REER movements and the real GDP growth rates over the last three fiscal years. This implies that whenever the EGP appreciates vis-à-vis basket of currencies, the economic activity improves in Egypt and vice-versa.



REAL SECTOR DYNAMICS

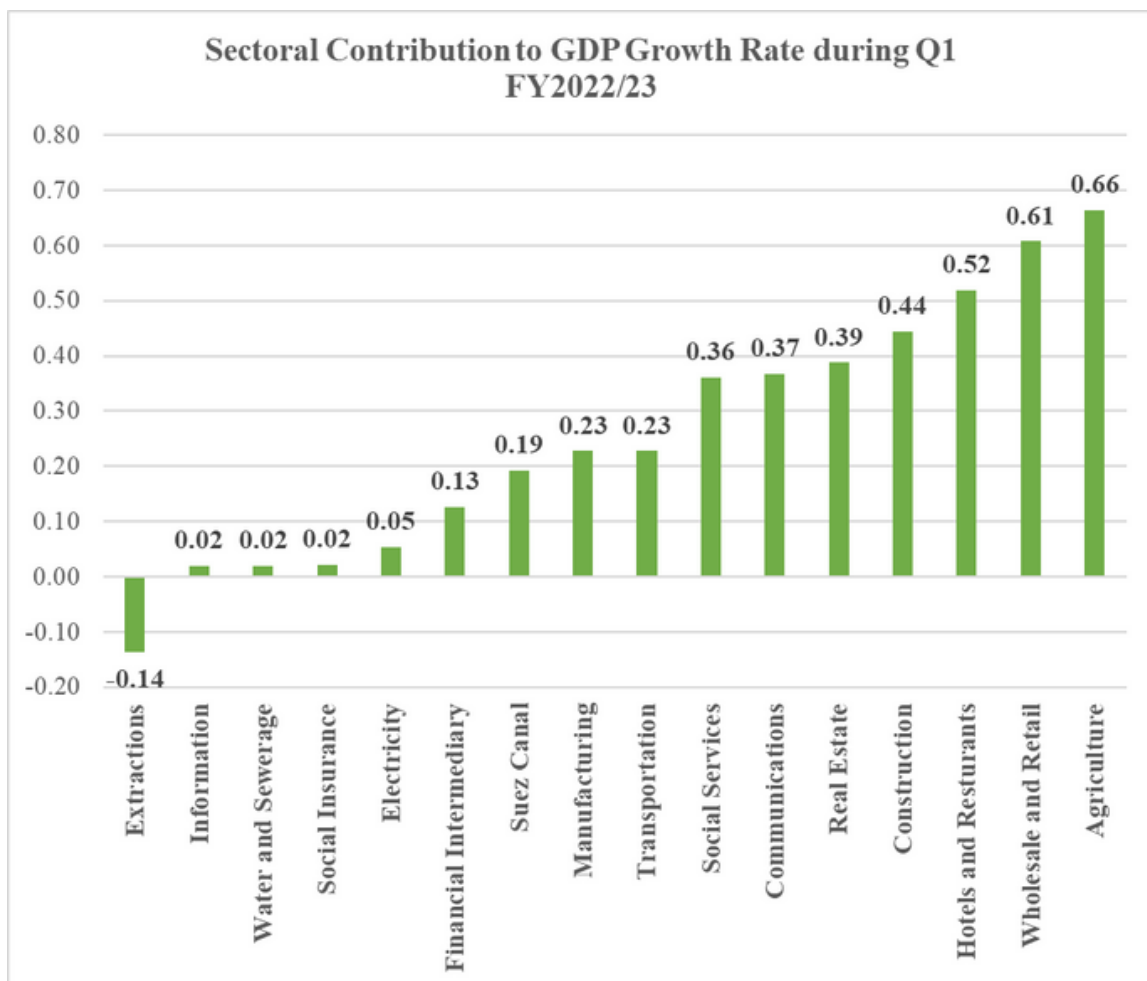
- Real GDP at factor cost growth rate registered 4.2% during Q1 FY2022/23, down from 9.3% a year earlier. The latter rate is partially affected from a favorable base effect from previous year wherein Real GDP at factor cost recorded -1.4% in the aftermath of the economy's hit by the Global Pandemic. Meanwhile, Real GDP at market price declined to 4.4% during Q1 FY2022/23 -albeit with a positive rate- down from 9.8% during the corresponding quarter of FY2021/22.



Source: Ministry of Planning and Economic Development.

REAL SECTOR DYNAMICS

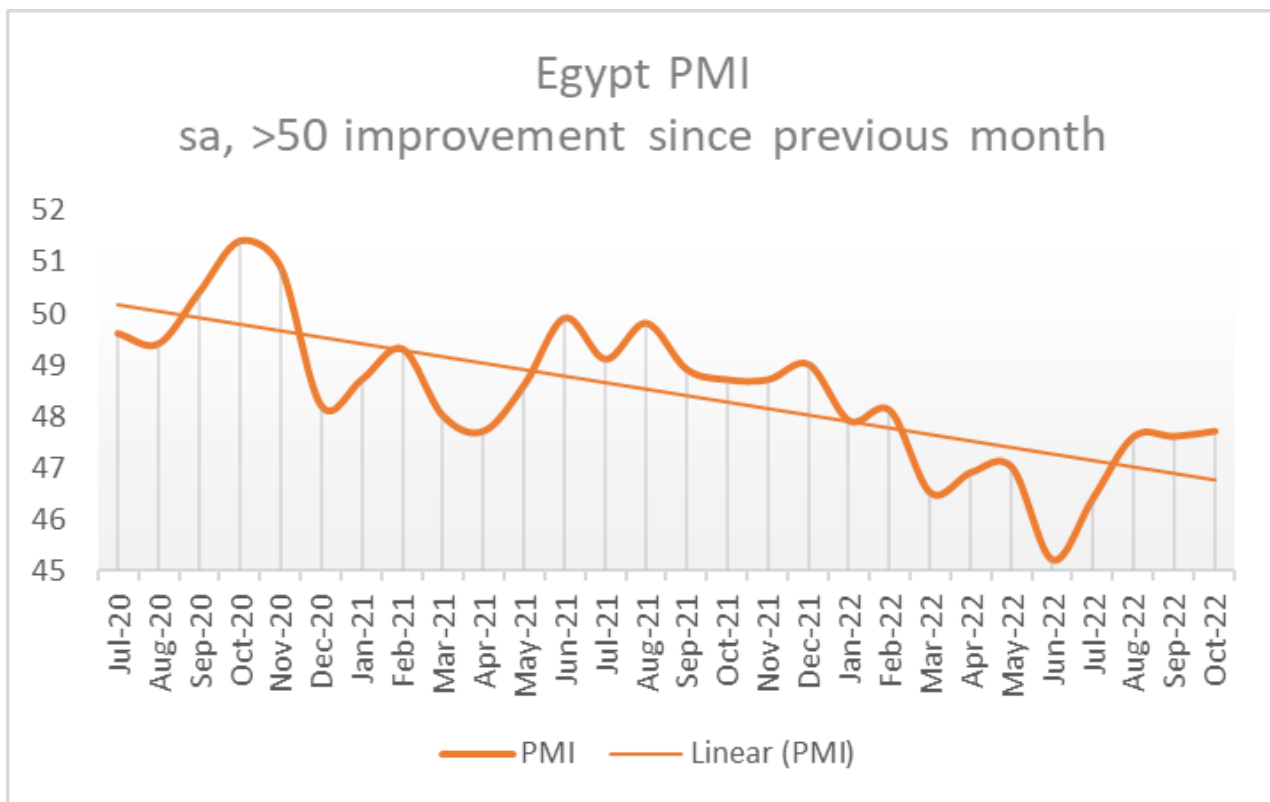
- Worth to mention, the best three contributors to Real GDP growth this quarter are mainly Agriculture, wholesale & retail sale and hotels & restaurants sectors contributing by 0.66, 0.61 and 0.52 percentage points. In the meantime, extractions sector contracted the real GDP growth rate by 0.14 percentage points during Q1 FY2022/23.



Source: Ministry of Planning and Economic Development.

REAL SECTOR DYNAMICS

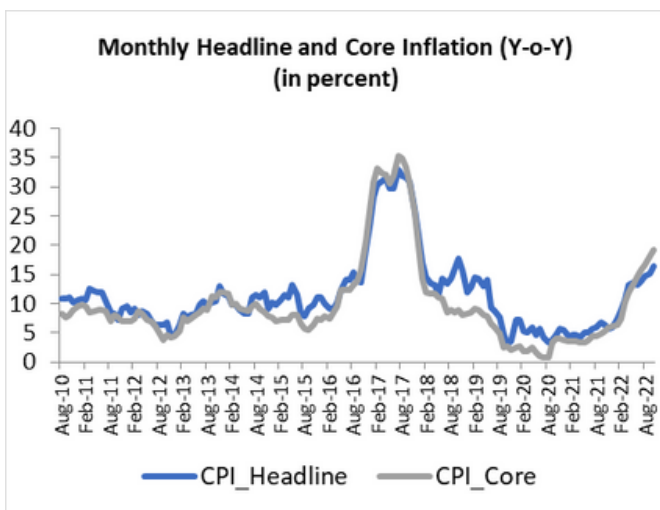
- Also, the manufacturing sector had a modest performance this quarter contributing by only 0.23 percentage points, which can approximately reflect the business conditions of the non-oil private sector proxied by the Purchasing Managers Index (PMI) which is still below the 50-points threshold in October, registering 47.7.



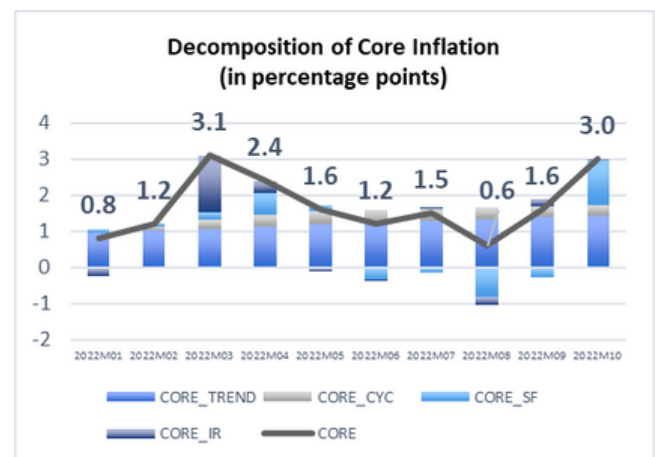
Source: IHS Markit, Standard and Poor's.

INFLATION DYNAMICS: HEADLINE AND CORE

- Urban headline inflation (Y-o-Y) increased in October to 16.2% up from 15.0% a month earlier. The monthly dynamics has been also upticks by 2.6% in October up from 1.5% during the corresponding month of 2021. Meanwhile, core inflation continues on surging upward to 19.2% in October compared to 18.0% a month earlier. This has been accompanied by a doubled monthly rate of 3.0% in October up from 1.6% a month earlier.
- The monthly dynamics for the period January-October 2022, indicates that core inflation is still on the upward trajectory since last April, to record 3.0% in October, up from 1.6% a month earlier, with a monthly record high during the current month. Worth noting, all the four components have contributed positively to monthly core inflation. Both implied inflation (inflation expectations) along with the seasonal factors had the major impact due to the build-up of inflation expectations on one hand and the schools season on the other.



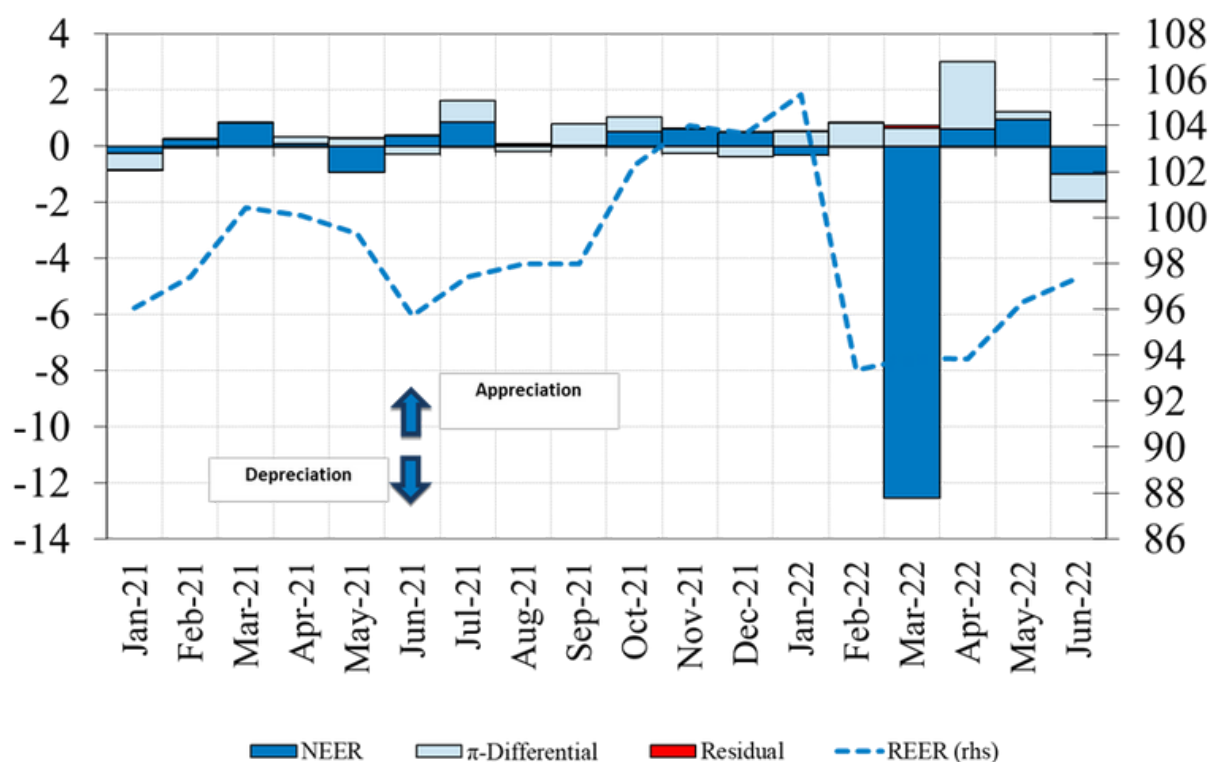
Source: CAPMAS and CBE.



Source: MAP's Estimates, MPED.

REAL EFFECTIVE EXCHANGE RATE (REER) AND GROWTH DYNAMICS

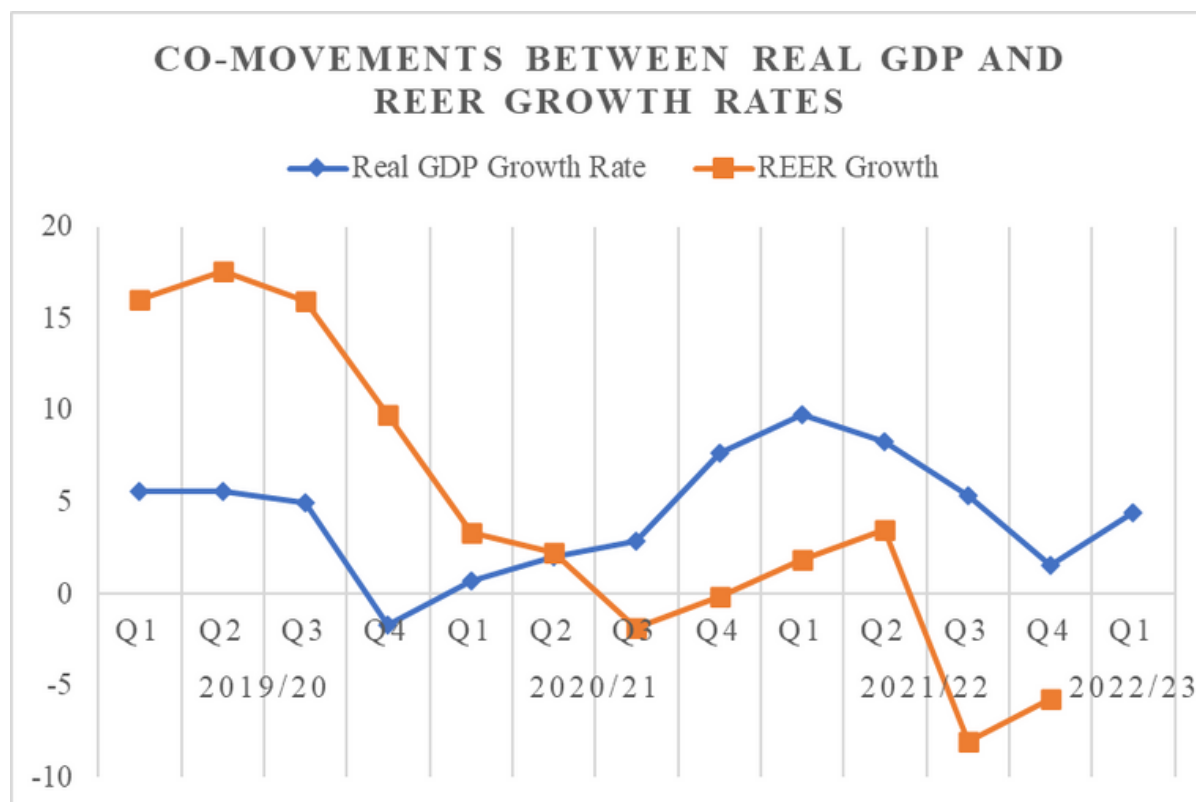
- According to Real Effective Exchange Rate (REER) estimates, there was a huge drop in last March on the back of partial floatation measure that took place on the same month accounting for a nominal depreciation in the EGP against a basket of currencies by 12.5%, that was partially offset by the inflation differential that was not in favor of the Egyptian economy. Since then, it experienced a relative stability before the decision of the full free-floated exchange rate adopted in last October.



Source: MAP's Estimates, MPED.

REAL EFFECTIVE EXCHANGE RATE (REER) AND GROWTH DYNAMICS

- Against this background, a positive relationship is observed between the REER movements and the real GDP growth rates over the last three fiscal years. This implies that whenever the EGP appreciates vis-à-vis basket of currencies, the economic activity improves in Egypt and vice-versa.



Source: MAP's Estimates, MPED.