وزارة التخطيط والتنمية الاقتصادية
Ministry of Planning and Economic Development

MACRO ANALYSIS
POLICY UNIT (MAP)

# MONTHLY ECONOMIC REVIEW

2022 | JANUARY

# 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.

# JANUARY'S HIGHLIGHT

- Estimated potential output revealed that they are relatively above the actual levels for six consecutive quarters. This implies the unlikely existence of underlying inflationary pressure in the near future from the demand-side and the business cycle.

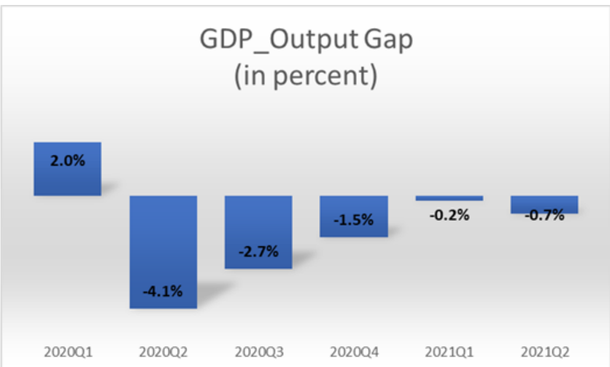
- Urban headline inflation (Y-o-Y) inched up to register 5.9% in December, compared to 5.6% a month earlier. The increase is attributed primarily to unfavorable base effect from previous year.

- Meanwhile, core inflation accelerated in December to record 6.0% (Y-o-Y) compared to 5.8% a month earlier.

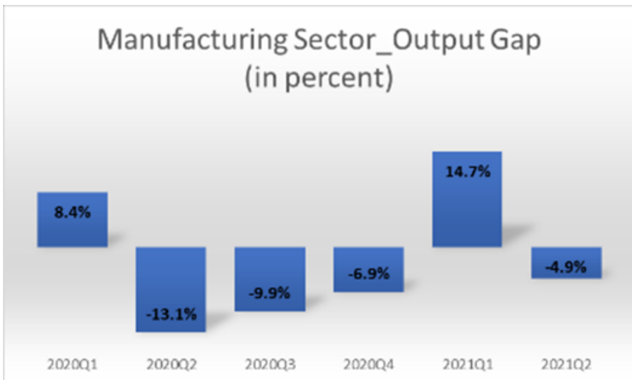
- PMI inched up to a four-month high of 49.0 in December compared to November's record of 48.7.

# GDP GROWTH AND OUTPUT GAPS

- Real GDP at factor cost surged to 9.3% during Q1 of FY 2021/22 compared to negative 1.3% during the same period of FY 2020/21.
- The sources of growth emerged from the uptick in the hotels and restaurants sector by 182% during Q1 FY 2021/22, compared to negative 66.5 a year earlier.
- The manufacturing, construction, communications, and extractions sectors showed a resilient performance during the analysis period. However, manufacturing and extractions sectors are still operating below their potential levels.




**Source: MAP's Estimates and MOPED.**

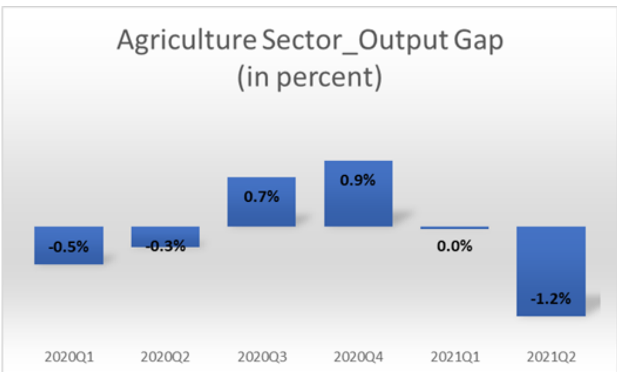



**Source: MAP's Estimates and MOPED.**

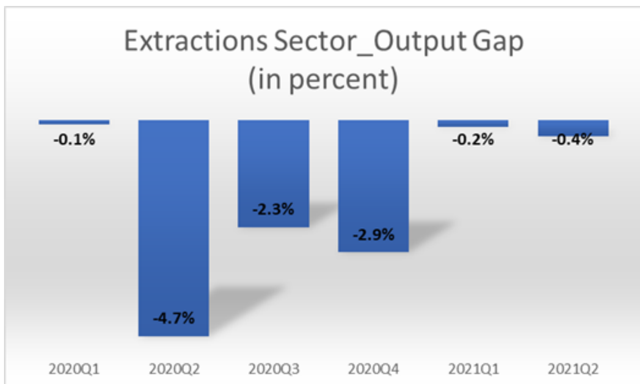
# GDP GROWTH AND OUTPUT GAPS

- Estimated potential output, after excluding the end-points bias, revealed that they are relatively above the actual levels for six consecutive quarters. This implies the unlikely existence of underlying inflationary pressure in the near future from the demand-side and the business cycle.

- The main sectors, as presented in the charts below, constitute about 50% of the total GDP and present a slowing pace of the actual figures that are below the potential levels. In other words, they show negative output gaps over 2020 and the first half of 2021. This is backed by the repercussions of COVID-19 and the economic slowdown that accompanied the pandemic.




**Source: MAP's Estimates and MOPED.**

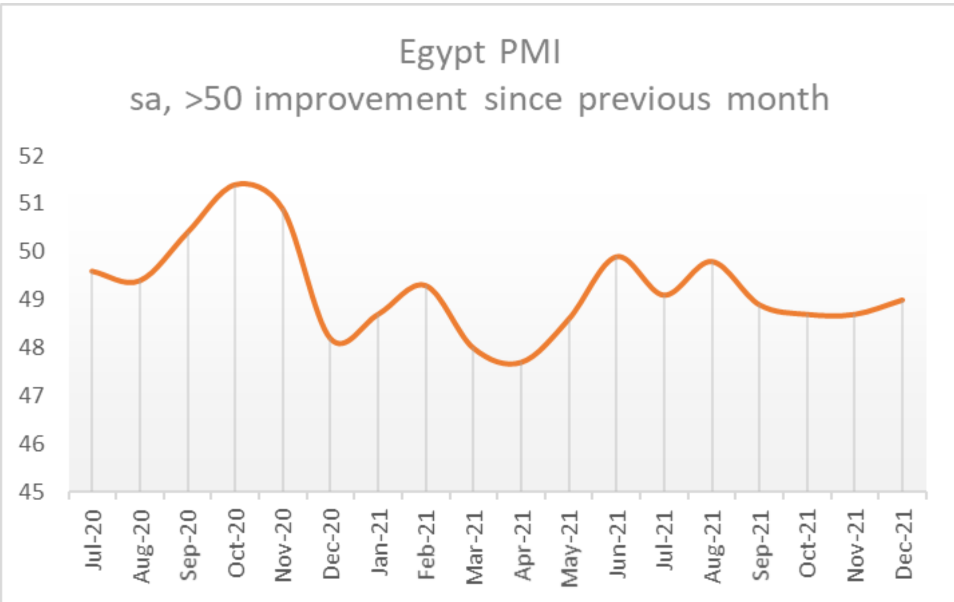



**Source: MAP's Estimates and MOPED.**

# PMI DEVELOPMENTS AND PRICES DYNAMICS

- The IHS Markit Purchasing Managers' Index (PMI), which measures business activity in the non-oil private sector, inched up to a four-month high of 49.0 in December compared to November's record of 48.7. Consequently, the index remained below the 50-threshold, where it has been for the past 13 months, signaling a continued but moderate deterioration in business operating conditions from the previous month.

- December's upturn was largely due to both output and new orders decrease at the softest pace in three months. The demand remained weak, partly due to the increasing selling prices. However, the improvement in the tourism numbers supported new business, and export sales expanded at the quickest rate since February. Input costs remained high, what pushed the firms to increase their selling charges.




**Source: IHS Markit.**

# MONETARY SECTOR: INFLATION RATES DYNAMICS

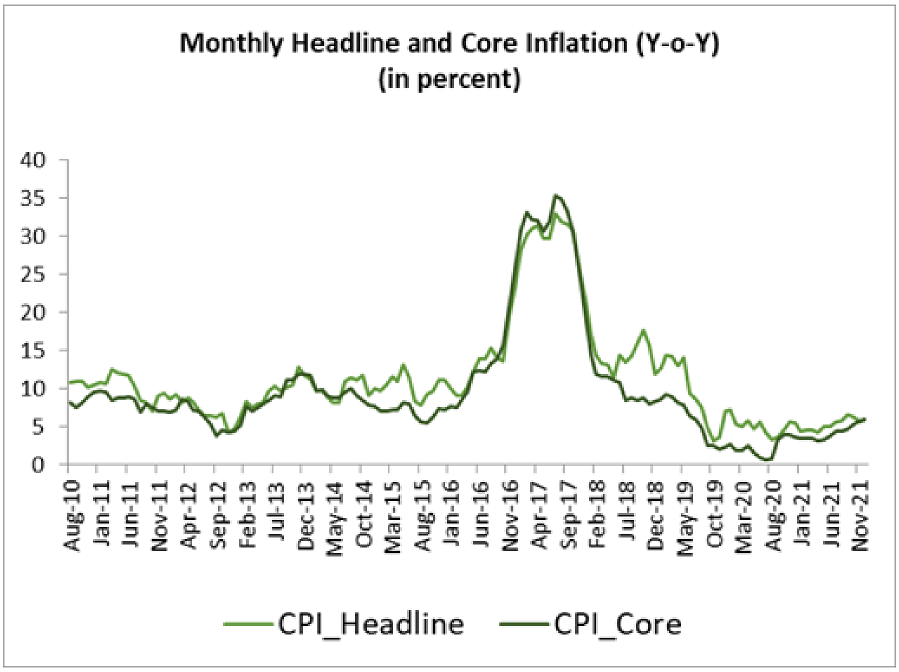
- Urban headline inflation (Y-o-Y) inched up to register 5.9% in December, compared to 5.6% a month earlier. The increase is attributed primarily to the unfavorable base effect from previous year. The monthly dynamics showed a decline of 0.1% in December 2021 compared to a positive figure of 0.1% in November 2021 and compared to negative 0.4% in December 2020.

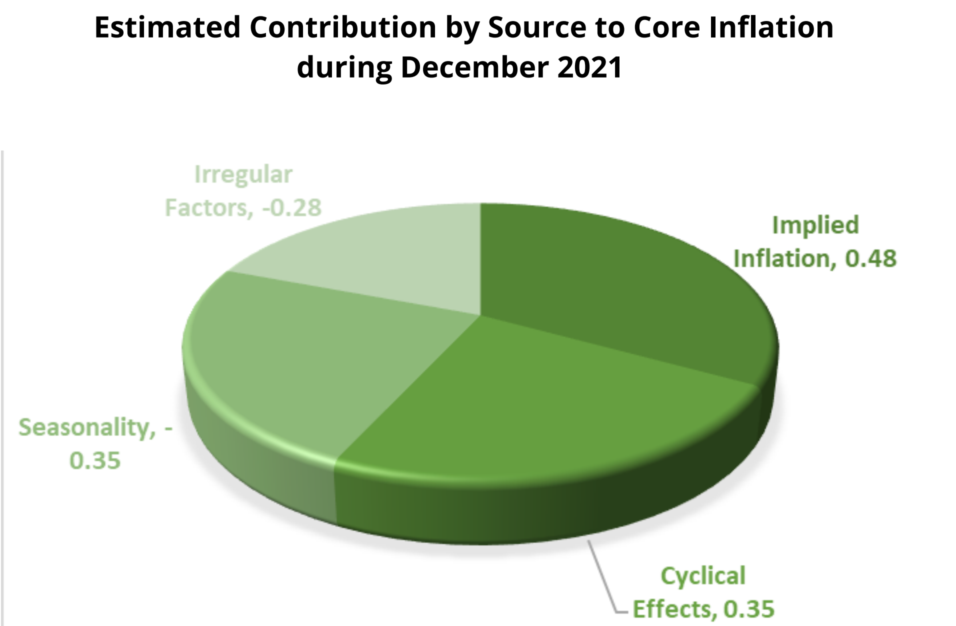
- Meanwhile, core inflation accelerated in December to record 6.0% (Y-o-Y) compared to 5.8% a month earlier. This came on the back of a high m-o-m rate of 0.2% in December 2021, compared to 0% during the same month a year earlier.

- December's dynamics are similar to November. The deceleration in the monthly core inflation emerged from retreated seasonal factors. This was attributed to the decelerated prices of food items, other than fruits and vegetables, that usually occur during that time of the year, in addition to a favorable pass-through effect from the stable FOREX market.

- The decomposed series indicated that both seasonal and irregular factors have led to the decline of the core inflation during December 2021. This occurred despite the positive contribution of both inflation expectations and the cyclical factors accounting for 0.48 and 0.38 percentage points, respectively.

# MONETARY SECTOR:
# INFLATION RATES DYNAMICS



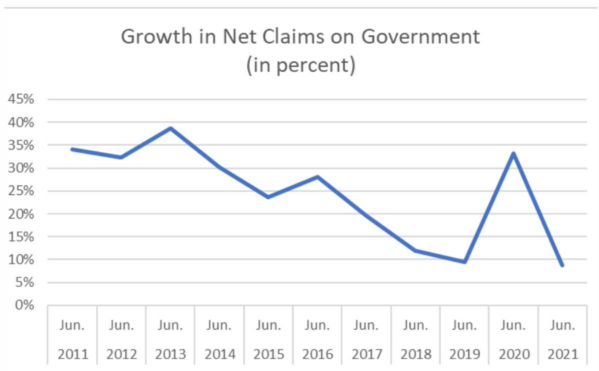




Source: CAPMAS and CBE.

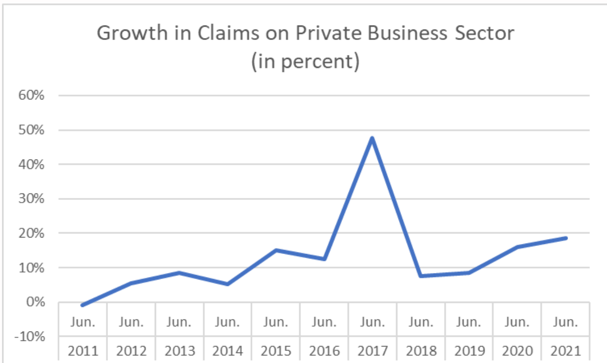
# MONETARY SECTOR
# DOMESTIC CREDIT

- Net claims on government increased to reach EGP 3.5 trillion in June 2021, down from EGP 3.2 trillion in June 2020, registering a growth rate of only 9% compared to 33% a year earlier.

- This has allowed the credit provided to the private sector to increase and reach EGP 1.2 trillion up from EGP 1.0 trillion a year earlier, with a growth rate of 18% up from 16% in June 2020.




**Source: Central Bank of Egypt.**

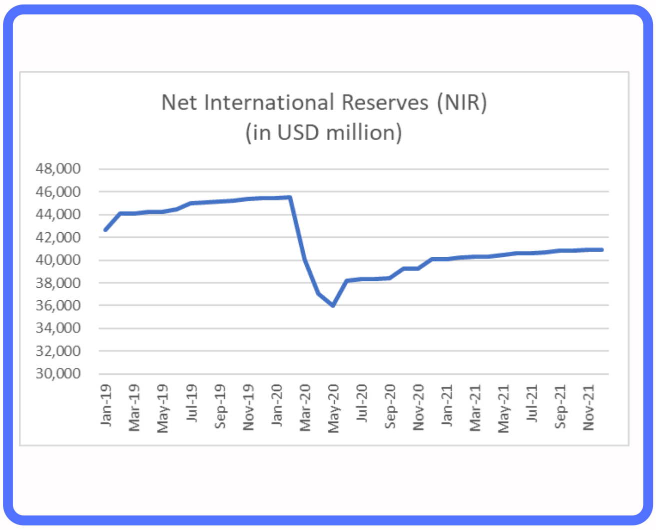



**Source: Central Bank of Egypt.**

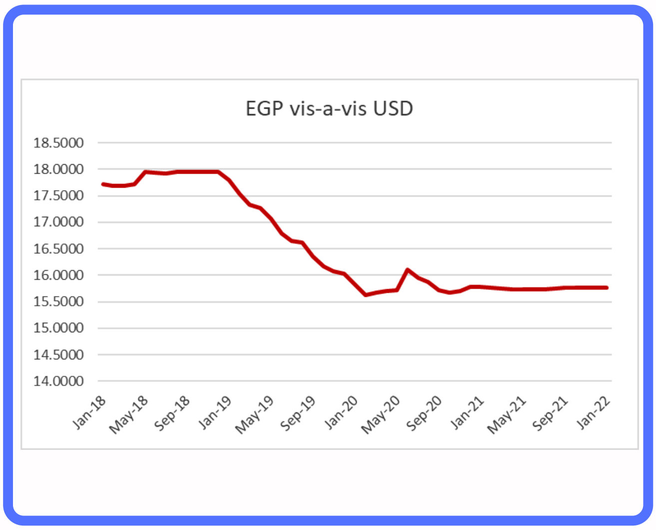
# EXTERNAL SECTOR

- Egypt's net foreign reserves increased by approximately USD 24 million in December to record USD 40.935 billion up from USD 40.909 billion a month earlier. This is accompanied by a relative stability in the FOREX market which reflects healthy economic conditions.

- In its report, the IMF expected that Egypt's net international reserves would recover thanks to the growth of the main sources of FX to record levels. It expected that the net international reserves will record USD 44.1bn in 2021/22, USD 47.6bn in 2022/23, USD 51.8bn in 2023/24, and $55.1bn in 2024/25.




**Source: Central Bank of Egypt.**




**Source: Central Bank of Egypt.**

# SUMMARY AND FUTURE PROSPECTS

- **Despite all the challenges in 2021, the rise in the monetary reserves is considered a real achievement of the CBE's management of the monetary policy. It managed to keep the reserves at a level above USD 40bn while fulfilling all foreign obligations on time.**

- **The net uses of Egypt's FX reserves are utilized in a positive manner by the CBE. In addition, there are good flows from all the sources of foreign exchange to Egypt, including remittances from Egyptians abroad. Moreover, Egypt's tendency to issue bonds in the international markets easily has improved the Egyptian economy and helped it to be more favorable to the different investors.**

- **Egypt has net foreign cash reserves that cover approximately seven months of Egypt's import needs from abroad. This is considered an outperformance for Egypt that exceeded the global average of four months. It is important to highlight that the main goal is not to increase the balance of net foreign exchange reserves, but it is to maintain the average number of months covered by net reserves.**

**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.**