



## A Fragile Improvement but Favorable Sentiment

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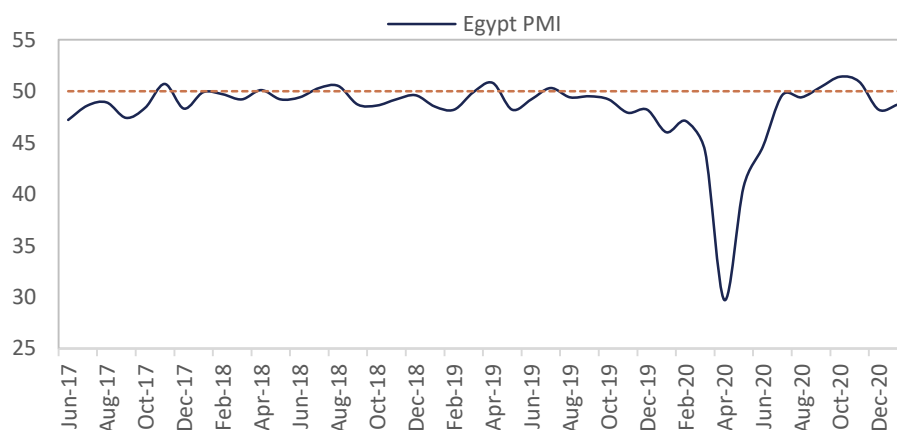
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**The PMI January reading released this morning accentuate the disrupted momentum still facing the private sector in Egypt as downwards risks dominate the scene.** The private sector PMI index began the year 2021 in the contraction territory and for the second consecutive month. However, the contraction in activity slowed down as the headline PMI index rose to 48.7 in January 2021, up from 48.2 in December 2020. The reading came at a time of growing pandemic-related uncertainties driven by a slower-than-expected pace of the vaccination roll-out process, new global targeted lockdown measures, and growing news about a new mutant variant of the virus.

**The duration of the second wave is still uncertain and the road to recover is still bumpy.** Despite its marginal improvement in January 2021 compared to December 2020, PMI sub-components fell, including output and new orders. This came to prove that the private sector strains are not eased yet. The persistence of pandemic-driven global headwinds are still hindering several sectors, including tourism and exports. Thus, we believe the effect of the pandemic shock will last throughout 2021 despite the optimism from the vaccine breakthrough. The path to post-pandemic normalization and recovery will be dominated by public-sector investments given the pandemic-related liquidity strain and low demand pressures facing the private sector. Moreover, the effect of the COVID-19 crisis on labor market dynamics is still significant given the 15-month consecutive fall in the employment index.

**We expect future PMI readings to remain in contraction during H1 2021 then improve afterwards.** While a vaccine breakthrough was hoped to set the stage for an accelerated economic recovery, the risk of a longer distribution process and the new mutant variant of the virus will keep hopes low for now. Meanwhile, both the CBE and government policies and measures should remain accommodative. We expect the CBE to cut its benchmark rate by 100-150 bps this year and the government to continue its liquidity support to exporters through export rebate program.

**Chart 1: Private sector remains in contraction**



Source: PMI Markit.



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