

Searching for Lost Momentum

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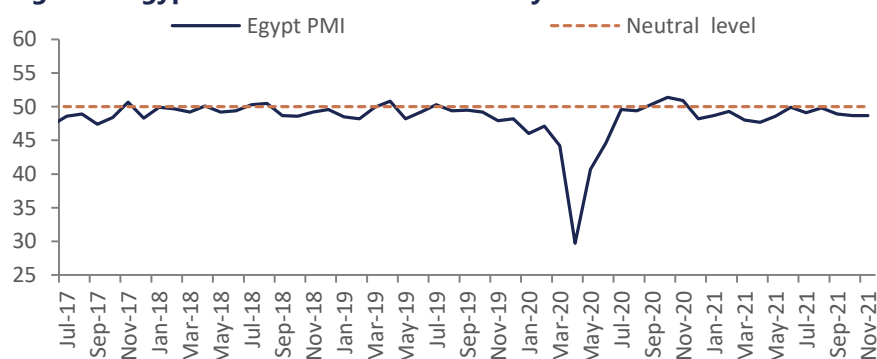
Supply logjam and soaring commodity prices still fueling the

contraction forces: Egypt's PMI index was caught again between the rock and a hard place as imported inflation pressures constrained the firms' ability to secure their adequate margins without depressing the fragile demand recovery. Egypt's PMI remained at 48.7 (the same reading in October vs. 48.9 in September), having been in the contraction territory for a year. The survey also raised concerns about the trajectory of labor market recovery as the employment index, which had been in expansion for the last four months, reversed its expansion trend and fell into contraction territory, falling from 50.5 in October to 48.5 in November. Moreover, the downturn in output and new order volumes continued in November, with the latter showing the fastest rate of decline since May 2021. On the positive side, foreign demand picked up for the first time in three months, which alleviated the pressures on the headline PMI index.

It's not a puzzle; it's just the base-year effect: Despite the fact that the country's official data showed that the annual growth rate increased sharply by 7.7% y/y in Q4 FY21 and 9.8% y/y in Q1 FY22, Egypt's PMI is likely to end 2021 without a single expansion reading. Yet, as we have reiterated before, we must read the annual figures in 2021 with caution because of the base-year effect. Growth figures only indicate that the economy has started to restore what had been lost during the peak of the COVID-19 crisis, while the PMI monthly data track the speed and strength of that recovery. Moreover, let's not forget that the government investments were a crucial element in supporting economic growth over the past few years.

Time to focus on long-term impediments to private-sector activity: We expect the private sector to be pressured by global supply-driven distortions and the pandemic trajectory on the ground over the short term. However, the outlook for 2022 carries more potential for a private-sector recovery as the country plans to go ahead with its structural reform program aimed at tackling long-term impediments to promote competition for the private sector to lead growth. This includes state withdrawal from certain sectors and offering strategic partnerships with the private sector in others. Meanwhile, the current limited fiscal space will keep the role the Central Bank of Egypt (CBE) essential to balance between the need to support growth and keep inflation anchored around its target.

Figure 1: Egypt's PMI in contraction for a year



Source: PMI Markit.

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