American Chamber of Commerce in Egypt
Business Studies & Analysis Center - BSAC

Research Note

Impacts of COVID-19 on Egypt's Economy

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COVID-19 and the Global Economy

As of May 6, there were 3.8 million confirmed cases of COVID-19 globally, affecting nearly every country and territory in the world. The exponential spread of the coronavirus has pushed many countries to impose unprecedented restrictions on their citizens and businesses, which in turn has caused mass disruptions to supply chains and consumer activity. The performance of financial markets and most other economic sectors has fallen accordingly. GDP forecasts have been revised significantly downwards, even after major economies deployed major stimulus packages to avoid a recession. In mid-March, the United Nations Conference on Trade and Development (UNCTAD) downgraded its GDP growth forecasts to below 2.5% (the recessionary threshold for the global economy).[1] According to the International Monetary Fund (IMF)'s April 2020 forecasts, the global economy will contract by 3% in 2020 for the first time since at least 1988, as output losses exceed those seen during the 2008-09 Global Financial Crisis.[2]

UNCTAD also forecasts global foreign direct investment (FDI) flows may hit their lowest levels since the 2008-09 global financial crisis if the pandemic continues through the year, possibly shrinking by up to 35%.[3] Given their heavy reliance on FDI, the automotive, aviation and energy sectors could see the biggest FDI outflows. Before the pandemic, UNCTAD had projected global FDI would grow 5% through 2020-2021.

Egypt's Exposure to COVID-19

Egypt reported its first case of COVID-19 on March 8, when a 60-year old German tourist tested positive. Two months later, as of May 6, the Ministry of Health had reported 7,588 confirmed cases, of which 1,815 patients have recovered and 469 died of the disease. As with the global economy, the coronavirus is impacting Egypt on multiple economic fronts.

According to the latest Fitch Ratings report (March 2020), a solid base of international reserves and the government's fiscal reforms will cushion the blow on Egypt's credit position. The report predicts the current levels of foreign currency liquidity can fill in for capital outflows over the short run, but warns reserves may rapidly fall if outflows persist. Egypt's foreign reserves dropped by USD 8.5 billion over two consecutive months to USD 37 billion at April's end, after the Central Bank of Egypt (CBE) dipped into savings to cover portfolio outflows, fund imports of strategic commodities and repay a eurobond worth USD 1 billion. This is the first time international reserves have declined since January 2019. Net import coverage still remains at about 6.7 months.[4]

Egypt is the MENA region's only economy that the IMF forecasted would expand in 2020. The fund now projects GDP will grow 2% in 2020 (compared to pre-crisis forecasts of 5.8% for the year) and 2.8% in 2021. According to the Ministry of Planning and Economic Development, GDP growth for Q3 2019/20 has slowed to 4.5% and is expected to fall to 1% in the final quarter (April-June).

Government Measures Taken to Mitigate Impact

Prior to the COVID-19 outbreak, Egypt's economy had made considerable improvements in its macroeconomic position. To preserve this progress as much as possible and minimize the coronavirus' impact on the economy, the government has taken a number of measures. On March 26, the

[1] UNCTAD. Trade and Development Report Update. March 2020
[2] IMF. World Economic Outlook Report. April 2020
[3] UNCTAD. Investment Trends Monitor (revised analysis). March 2020
[4] Calculations based on FY 2018/19 import payments.

government rolled out a wide-ranging economic stimulus package worth EGP 100 billion (1.6% of GDP) to absorb the demand and supply shocks of the pandemic. Another EGP 10 billion extension, allocated from the FY 2019/20 budget, was approved by the House of Representatives on April 21. A work in progress, the stimulus package has grown to encompass a wide array of policy responses.

Fiscal Policy

As of April 30, fiscal measures to support the economy and the financial market include:

- **Lowering the price of electricity** for industrial use by 10 piasters per kilowatt hour (kWh) for the medium, high and ultra-high usage tiers, and freezing rates for the next 3-5 years. Government sources estimate the electricity price cuts could cost around EGP 6 billion.
- **Relaxing real estate tax payment settlements** for corporates by giving them a three-month tax extension. Companies will also be allowed to settle existing real estate tax liabilities in monthly installments until September 2020.
- **Reducing the stamp tax on EGX transactions** to 0.125% (from 0.15%) for foreign investors and 0.05% (down from 0.15%) for local investors. All spot transactions on the EGX will also be exempt from the stamp tax.
- **Postponing the capital gains tax** on stock market transactions until further notice and permanently exempting foreign investors from the duty.
- **Slashing tax on dividends** by 50%: investors will now pay a withholding tax of 5% (down from 10%) on dividend payouts from listed companies.
- **Fast-tracking payouts from the Export Subsidy Fund**, which will see EGP 1 billion in arrears fully paid out by April's end and 10% in cash payments for new obligations during June.
- **Expanding the Social Security and Pension Act's realm** by disbursing EGP 27.6 billion in funds to 2.4 million families (encompassing a total 10 million beneficiaries), raising pensions by 14% starting 2021 and adding 100,000 families to the Takaful and Karama programs.
- **Disbursing three-month stipends of EGP 500 for irregular/temporary workers** who register online with the Ministry of Manpower until June 2020. This segment is estimated at 12-14 million people;[5] around 1.5 million laborers received the first stipend in mid-April. In support of this program, the Egyptian Cabinet decided to deduct 20% from their own salaries.
- **Extending the suspension of tax on agricultural land** for two more years and allocating a total of EGP 15 billion for the purchase of local wheat since the beginning of the harvest season.
- **Extending the deadline for corporate and individual income tax filings to June 30,** and waiving e-payment fees for online payments. Companies can now pay in installments: 20% of dues by April's end, 30% by May's end and the remaining 50% by June 30. Eligible sectors include aviation, tourism (including restaurants, hotels and cafes), journalism and media, telecommunications and IT (except landline and mobile network operators), sports, public transportation, automotive sales, healthcare provision and manufacturing (excluding food, medical supplies and detergents).
- **Raising the personal income tax exemption limit** from EGP 8,000 to EGP 15,000 and revising the tax brackets and rates for all low-middle-income groups, via new amendments to the Income Tax Law 91/2005.
- **Fast-tracking VAT rebates** for exporting companies to allow them to claim 65% of their VAT drawbacks before tax return assessments are conducted. Eligibility for VAT drawbacks is based on the 2016 VAT Tax Act.
- **Increasing development fees to help ease fiscal pressures** as per amendments to Law 147/1984. On May 3, the Parliament approved increased fees on mobile phones and accessories, commercial internet bills, pet food, concerts and other entertainment events,

[5] Egyptian Trade Union Federation.

foreign/local athletes and coach contracts, raw tobacco, manufactured tobacco products and shisha tobacco and imported steel products.

Monetary Policy

Along with 39 other central banks around the world, the CBE's Monetary Policy Committee (MPC) slashed interest rates by 300 basis points at an emergency meeting on March 16. As of May 5, the overnight deposit and lending rates stand at 9.25% and 10.25%, respectively. While high interest rates have been among the CBE's strategies to draw in foreign liquidity, the latest cuts are meant to encourage industrial sector growth and capital expenditure lending, help shrink the budget deficit (given the new expansionary fiscal measures) and stimulate foreign investments on the stock market. The rate cut is expected to lead to a rise in inflation, especially with Ramadan, which typically sees higher household spending activity. Other expansionary measures include:

- **Postponing all bank loan payments for businesses and retail clients for a six-month period,** including SMEs, corporations and individual borrowers.
- **Launching a debt relief initiative for individual borrowers** where marginal interest on debt under EGP 1 million will be waived for borrowers at risk of default. Eligible customers will have to pay 50% the original debt up front and arrange a payment plan with their creditor bank; they will then be removed from the CBE's and i-Score's blacklists and have restrictions on their assets lifted. The Financial Regulatory Authority (FRA) has allowed mortgage finance, factoring and leasing companies to also give their clients a six-month extension to repay debts.
- **Cutting discount rates for three CBE financing initiatives**—the factories, mortgages and tourism finance programs—to 8%, in accordance with the MPC's decision.
    - The factories initiative allocates EGP 100 billion for medium-sized factories to access subsidized loans at 10% interest.
    - The mortgage initiative allocates EGP 50 billion for mortgages with interest rates of 10% for middle-income households. (This is a follow-on program of the CBE's EGP 10 billion initiative that ran from 2014 to 2019.)
    - The tourism initiative allocates EGP 50 billion for tourism companies to pay down their debts at subsidized interest rates of 10%.
- **Extending another EGP 50 billion in financing for middle-income housing,** to be disbursed through local banks.
- **Relaxing credit card limits, ATM and point-of-sale transaction fees and commissions** to improve businesses' access to working capital and streamline consumers' access to credit. The daily limit on electronic payments increased to EGP 20,000 for individuals and EGP 40,000 for companies; monthly limits are now EGP 100,000 for individuals and EGP 200,000 for companies.
- **Adjusting cash withdrawal limits** to minimize traffic at ATMs, decrease M2 liquidity, control inflation and banking outflows. On April 22, the CBE raised the cap on individual daily withdrawals to EGP 20,000 from ATMs and EGP 50,000 for in-branch transactions during Ramadan, up from the EGP 5,000 limit in effect before the holiday.
- **Launching a debt relief program** for farmers and ranchers, with loan payments postponed until September 2020.
- **Allocating EGP 10 billion for the purchase of non-financial assets** to boost government spending.
  Offering one-year, EGP-denominated certificates with 15% yield via public sector banks to lure in liquidity and discourage dollarization. As of April's end, the certificates had drawn over EGP 100 billion.

Macroeconomic Impacts

External Accounts

The IMF forecasts Egypt's current account deficit will widen to 4.3% of GDP by year's end and 4.5% in 2021 due to notable drops in foreign currency receipts, which may also weigh on the country's borrowing needs.[6] According to Moody's April 2020 credit opinion, lower foreign receipts are also expected to counterbalance the positive effects of lower oil prices on Egypt's balance of payments (BOP) and the Egyptian pound's value. The negative impacts on key foreign currency receipts include:

Remittances

The World Bank predicts global remittances will see their sharpest decline in recent history due to the pandemic, with the MENA region expected to see inflows drop 20% in 2020, before slightly growing 2% in 2021.[7] Egypt will likely bear the brunt of the expected drop in transfers, being the fifth largest recipient of remittances worldwide.[8] Expatriate worker remittances are Egypt's biggest source of hard currency, accounting for about 20% of GDP and bringing in USD 27 billion annually from about 5 million expats in 2019. During the first two months of 2020, workers remittances grew 33% to USD 5.2 billion, up from USD 3.9 billion in January and February 2019.

Most of these funds are transferred from Egyptian expats in the Gulf countries; should those employers scale back on projects and/or lay off employees (especially in light of lower oil prices), household purchasing power in Egypt will likely weaken, particularly for families reliant on transfers from abroad. A March 2020 study by the Egyptian Center for Economic Studies (ECES) assessed three scenarios and found that the decline in remittances would raise Egypt's unemployment and inflation rates as well as lower GDP growth.[9] Notable declines in remittances may start to be visible by June 2020.

COVID-19 Potential Impacts on Remittances

	Magnitude of impact	Forecasted decline in remittances (FY 2019/20)	Forecasted decline in remittances (FY 2020/21)
Best-case scenario	Low	10% (USD 2.6 billion)	8% (USD 1.8 billion)
Moderate scenario	Moderate	12.5% (USD 3.2 billion)	13.5% (USD 3.0 billion)
Worst-case scenario	Major	15% (USD 3.8 billion)	15+% (USD 3.3+ billion)

Source: The Egyptian Center for Economic Studies (ECES)

Tourism receipts

After recovering from post-2011 events, the tourism sector is Egypt's second highest source of foreign currency, drawing in USD 13 billion in 2019 (5% of GDP) and over 50% of service receipts. The suspension of all air traffic (excluding cargo), imposed on March 19 for an undetermined period, has driven down inbound tourist reservations by 80% compared to H1 2019. Revenues from international tourists had helped build up foreign currency liquidity over the past few years and considerably improved Egypt's current account. With experts estimating tourism receipts could fall to USD 7 billion by year's end (versus the government's initial forecast of USD 16 billion), this will take a big toll on foreign currency liquidity, the exchange rate and Egypt's BOP.

[6] IMF. World Economic Outlook Report. April 2020
[7] World Bank. Migration and Development Brief. April 2020
[8] World Bank. Migration Data Portal
[9] ECES. Views on the Crisis: Impact on Remittances from Egyptians Abroad. March 2020

Suez Canal receipts

With the crisis hitting global trade hard, international trade corridors have seen notable decreases in traffic and revenues. Egypt's Suez Canal, which drew in USD 5.8 billion during 2019, is also expected to feel the impact. In February, the number of container ships passing through the canal fell by 7.3%, while the number of passenger and cargo ships decreased 22.2% and 1.3%, respectively.[10] For Q1 2020, however, the Suez Canal Authority reported moderate year-on-year growth in traffic, with the number of passing vessels up 8.4% and net tonnage up 8.5%. Government officials credited the growth to the agricultural export season and shipping backlogs from long-term contracts, which helped keep activity up. This may not be the case over the medium term as backlogs are cleared and export season ends. Fewer ships transiting the Canal means fewer tolls paid, which will eat into Egypt's foreign currency liquidity, add to its current account deficit and negatively affect the EGP-USD exchange rate. During 2019, Suez Canal receipts accounted for 7% of current account inflows and 23% of service receipts.

Portfolio inflows

As of mid-April, emerging market (EM) debt and equity outflows had hit USD 100 billion (roughly 0.4% of EM GDP) since January 21, with investors rushing to invest in safe-haven assets.[11] The International Institute of Finance's portfolio tracker shows unprecedented outflows in Q1 2020 compared to the 2008-09 global financial crisis.[12] This may pose a major risk to Egypt's international investment position. Since the pound's float, Egypt had attracted significant foreign investment in its debt instruments, considerably boosting its capital and financial accounts. Net portfolio inflows during 2019 amounted to USD 10.4 billion (against a net outflow of USD 61 million), accounting for 23% of foreign reserves (as of 2019's end) and 80% of the capital and financial account surplus. Citi Research estimates that USD 12 billion in portfolio investments have exited the Egyptian market as of February (about 50% of net foreign assets and 30% of current foreign reserves).[13] CBE officials estimated outflows had increased to USD 14-15 billion by the first week of May. According to CBE figures, foreign holdings of treasury bills decreased 50% month-on-month to USD 9.5 billion by March's end, from USD 19.9 billion in February.

Egypt's Key Foreign Currency Earners

	H1 2019/20 (USD million)	**Share of current account**
Worker remittances	13,676.5	33%
Non-oil exports	9,206.1	22%
Tourism receipts	7,249.7	17%
Oil exports	5,044.9	12%
Suez Canal revenue	3,032.1	7%
		Share of financial account
Net FDI	4,958.5	93%
Net portfolio inflows	273.6	5%
Net portfolio outflows	106.4	2%

Source: CBE

[10] Suez Canal Authority.
[11] IMF. COVID-19 Crisis Poses Threat to Financial Stability. April 2020.
[12] IIF. Capital Flows Report. April 2020.
[13] Citi Research. North Africa Forecasts for 2020. April 2020

Exchange Rate

Amid improving foreign currency liquidity, the EGP had been appreciating since the start of 2020, reaching a three-year high of EGP 15.6 by mid-February. Thus far, the pandemic has had only a slight impact on the currency. Since mid-February, the pound has depreciated against the USD by 1.2% to EGP 15.79 as of April's end. However, in its April 2020 Global Markets Research report, the Japanese financial services firm Nomura placed Egypt at the top of its list of EMs at high risk for exchange rate volatility.[14] Nomura scored EMs based on eight indicators—import coverage, short-term external debt, exports, foreign reserves, broad money, short-term real interest rates, cumulative non-FDI gross inflows (minus changes in reserves), fiscal and current account balances and the real effective exchange rate—to assess how prone they are to exchange rate crises. Egypt was not on Nomura's list in its July 2019 evaluation. The consensus forecast, which aggregates predictions of the world's top investment banks including Goldman Sachs, Citigroup, Morgan Stanley and other renowned institutes, sees the pound ending 2020 at EGP 16.55 per USD before depreciating by another 4% to EGP 17.20 by 2021's end.

Depleting foreign currency receipts also raise the risk of a reemerging parallel market that the EGP float dissolved in November 2016. According to a March Naeem Brokerage research note, banks and exchange bureaus were offering EGP 15.75 to the USD in March's third week, while unofficial trades saw the dollar sold at EGP 16.10-16.15.[15] A resurgent parallel market could further impact remittance inflows as expats look to convert their earnings at higher rates for their families. According to Naeem, "Banks have begun rationing their [foreign currency] inventories (prioritizing on the imports of necessities) [and] adjusting to the drop in inflows from tourism and hot money outflows […] With interbank (foreign exchange) liquidity expected to dry up further in the coming months, we expect the CBE to intermittently plug the deficit by selling USD to the banks."

The CBE is working to limit dollarization by cutting bank interest on USD deposits to 1% above the London interbank rate (LIBOR), down from 1.5%. A number of banks, including Banque Misr and the National Bank of Egypt (NBE), have also reduced the returns on their USD-backed saving certificates to encourage investors to park savings in EGP-backed instruments.

Foreign Trade

Egypt's top trading partners are the European Union, the United States, Italy, Spain, China, Turkey, United Arab Emirates and Saudi Arabia, which are among the economies hardest hit by COVID-19. Trying to contain the spread of the disease, these countries have all but halted their industrial and manufacturing activity, which will have direct negative impacts on two-way trade.

Experts forecast export proceeds for Egypt may decline by 25% throughout 2020 as the movement of Egyptian goods to the EU (specifically Italy) and U.S. face internal and external delays, which will also weigh on the country's external accounts. The U.S. remains Egypt's top export market, followed by Germany and Spain. Similarly, Egypt is likely to import lower volumes, as overseas suppliers focus on domestic markets; this will affect Egypt-based manufacturers—especially in the electrical appliance, electronic devices and textiles sectors—that rely heavily on imported production inputs. Exports of ready-made garments, which account for the bulk of Egypt's textile exports, decreased 8% year-on-year in Q1 2020 to USD 372 million.[16]

During Q1 2020, Egypt's non-oil import bill fell 24% year-on-year to USD 13.8 billion, compared to USD 18.2 billion in Q1 2019; non-oil exports, however, slightly went up 2% to USD 6.7 billion from USD 6.6 billion.[17] A number of analysts attribute the narrowed trade deficit to Egypt's agricultural export season, which will continue to drive export activity through at least Q2 2020.

[14] Nomura. Global Markets Research. April 2020
[15] Naeem Brokerage. March 2020
[16] General Organization for Export and Import Control (GOEIC).
[17] GOEIC.

Egypt is a net importer of food commodities including raw materials including wheat, maize, rice and raw cane sugar as well as finished goods such as dairy products, vegetable oils and fats, and preserved meat and poultry. With the bulk of imports coming from highly impacted economies such as Russia, Romania, Brazil, France, the U.S. and India, this poses risks to Egypt's food security as global trade slows and source markets temporarily restrict outbound shipments. To address these issues, Egypt has placed temporary export bans on key food commodities to ensure local demand is met, granted curfew exemptions for food production and transportation to ensure on-shelf stocks are maintained, and fast-tracked projects to increase its strategic commodity reserves.

International Investment Position

Egypt's credit ratings have considerably improved in line with its structural reform program. Two out of the three global credit agencies upgraded or affirmed Egypt's credit rating throughout 2019 on the back of solid improvements in macroeconomic fundamentals, external finances and fiscal accounts. Going forward, this may change if the government looks to shield the economy from COVID-19 shocks through increased debt financing.

On April 18, S&P affirmed Egypt's credit rating at B with a "stable" outlook despite a forecasted sharp decline in economic activity and foreign reserves by year's end.[18] The credit agency predicts reserves will fall to USD 37 billion by December 2020, providing import coverage of 5-6 months. However, the rating is at risk if the crisis puts prolonged pressure on foreign reserves and reduces the country's ability to service its debt. Rating pressure could also emerge if the government's plan to reduce the debt-to-GDP ratio is derailed by fiscal slippages, higher borrowing costs or more pronounced currency depreciation than expected. Moody's April 2020 credit opinion also pointed to weak debt affordability as a key pressure point leaving Egypt's credit profile vulnerable to tight financing conditions.[19] Social pressures from unemployment and inflation also pose credit challenges, which may drive up the cost of government debt. That said, both credit agencies see Egypt is still at a strong point due to its wide funding base, liquid banking system and positive macroeconomic outlook compared to regional and emerging peers.

Stock Market

The pandemic has severely impacted global financial markets, with key indices recording double-digit retractions since the beginning of February. During the last week of February, worldwide bourses reported their biggest one-week declines since 2008. The EGX began feeling the full effects of the global turbulence in the first week of March, erasing all the gains it made since the beginning of 2020. On March 1, it suffered its largest one-day trading loss since 2012 with the benchmark EGX 30 tumbling north of 6%, triggering the circuit breaker to pause trading for the first time since September 2019 (when a brief weekend of protests sparked uncertainty). Circuit breakers were triggered five times during March. In a bid to support falling shares, a number of companies filed for buybacks of treasury stocks, including Palm Hills Developments, GB Auto, Orascom Development Egypt, Madinet Nasr Housing & Development, Eastern Company and Sidi Kerir Petrochemicals Company (SIDPEC), among others.

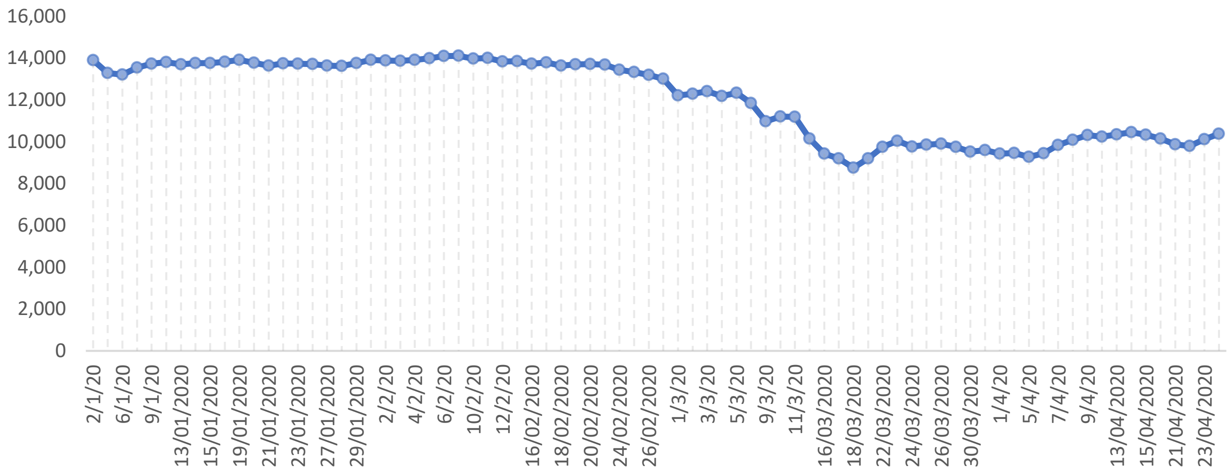
Following the significant losses, state-owned NBE and Banque Misr injected a combined EGP 3 billion in the market on March 19. The CBE followed on March 23, buying EGP 20 billion worth of equities—about 5% of the EGX 100's market capitalization—to support asset prices amid uncontained market volatility. The market reacted positively to the intervention, reversing its downward trend for three consecutive sessions. According to Bloomberg, the EGX 30 index was listed as third best world performer for the March 23 session. By the end of Q1 2020, the EGX had lost EGP 134 billion to market

[18] S&P. April 2020

[19] Moody's Credit Opinion. April 2020

exits and stock price falls. As of April 26, the benchmark index had retracted by 25.3% since the beginning of the year.

Benchmark Index -EGX30- Movements



Source: EGX

The state's IPO program has been officially put on hold until global equity markets stabilize. According to the Ministry of Public Enterprise Sector, the government will disclose its new plans for the program in May 2020.

Impacts on Commercial Activity and Workplace Operations

Government Services and the Public Sector

On March 15, the Prime Minister (PM) issued a decree to reduce the number of civil servants at government offices during working hours for 15 days. The decree also stipulated:

- Exemptions for vital employees in the fields of transportation, hospitals, ambulances, sanitation services and electricity;
- Granting exceptional leaves for employees with chronic illnesses, pregnant employees and those caring for children younger than 12;
- Granting employees who had recently returned from abroad a 15-day paid leave from their return date (or permission to telework).

On April 26, the PM relaxed some restrictions ahead of Ramadan, as follows:

- Real estate registry offices to reopen for a limited number of unspecified services;
- Traffic departments to resume car license issuances. Citizens are required to wear a face mask while at the department;
- Family courts to resume inheritance sessions.

On April 29, Parliament started holding virtual sessions, using facial recognition software to verify the identity of the members of parliament ahead of sessions.

The Private Sector

Local and multinational businesses have adopted new policies to preserve their staffs' health and welfare while maintaining operations at minimal losses. These include teleworking, reduced staffing on premises and paid sick leave. Companies that need workers physically present, such as factories and other production-oriented ventures, are implementing social distancing strategies by reducing shift hours and work weeks, reducing the number of shifts, and replacing onsite meal services with cash stipends. However, a number of employers have reported layoffs and unpaid mandatory leaves due to a severe shortage in cash flows, especially among smaller companies.

Mobile network operators, banks and other businesses with front-end services are directing clients to online services and limiting the number of clients allowed in branches to 1-4 people at a time. These include F&B outlets, grocery stores, pharmacies and other retail stores. Banks have also reduced business hours and the EGX has shortened its trading day. Other corporate measures include:

- Suspension of fingerprint biometric attendance
- Closing onsite food outlets and banning external delivery services
- Banning external visitors and meetings
- Rescheduling in-person meetings, training, etc. or resorting to digital alternatives

On March 25, the government imposed a nightly curfew from 7 pm to 6 am, requiring retail outlets to close by 5 pm on weekdays and stay closed on Fridays and Saturday. Food outlets could not provide onsite service but could provide delivery until 7 pm. Recreational outlets such clubs, casinos, gyms and others were completely shut down. Supermarkets and other foodstuff sellers, pharmacies and healthcare providers are exempt from the curfew.

The curfew and restrictions have been renewed with modifications every two weeks. The latest amendments, per the April 26 Prime Minister’s decree, include:

- Allowing retail outlets, malls and food outlets (for takeaway orders only) to open until 5 pm on weekdays and weekends;
- Changing curfew hours for residents to 9 pm-6 am (from 8 pm-6 am set on April 8)

Impacts on Key Sectors

Aviation

According to the International Air Transport Association (IATA), global revenue losses for passenger airlines are forecasted to reach between USD 63 billion (in the case COVID-19 is contained by the end of the year) and USD 113 billion (should the pandemic extend beyond 2020).[20] IATA sees Egyptian airlines’ revenues decline by USD 1.6 billion and passenger volumes drop by 9.5 million through 2020, which could translate into USD 2.4 billion in GDP losses (0.85% of GDP).[21] This contraction threatens 205,000 direct and indirect jobs in the sector. Private operators are also severely hit and have switched to cargo operations to offset losses from passenger flight suspensions.[22]

Measures taken:

- Several private carriers are in talks with the Ministry of Civil Aviation for funding to help cover cash shortages caused by the suspension of air traffic.
- Private airlines are also in negotiations with state-owned banks for zero-interest loans.
- The oil and tourism ministries will give airlines a USD 0.10 per gallon discount on fuel when air traffic resumes to boost inbound and domestic tourism.
- Egypt’s Sovereign Wealth Fund may intervene through stake purchases in private airline companies.
- On April 7, President Abdel Fattah El Sisi announced a bailout for aviation was in the works, including a possible bailout for state-owned Egypt Air. Privately-owned carriers are also in line for government support.

[20] IATA. Updates on COVID-19 Financial Impacts. March 2020
[21] IATA. April 2020
[22] The airlines are awaiting approvals from the Egyptian Civil Aviation Authority and aircraft manufacturers to repurpose their aircraft to haul goods.

Construction and Real Estate

Virus containment measures and delays in imported building materials are affecting schedules across all subsectors of construction and real estate. Companies based in Italy and China, which have both been epicenters of the pandemic, are big players in Egypt's construction sector as project investors and building material suppliers. Egypt is also heavily reliant on foreign funding for construction and infrastructure projects, which may face slowdowns. Meanwhile, demand for real estate is being slowed by economic uncertainty and the availability of high-yielding banking certificates as an investment alternative. The sector's annual contribution to GDP ranges between 10-15%, and it employs about 15% of the labor force, making it one of the hardest hit by the pandemic. The industry faces threats from disrupted global supply chains, rising unemployment (limiting its consumer base), and potential bankruptcies within the sector. The government has delayed its inauguration of a number of national mega projects to 2021. However, construction remains underway and national transportation projects are also continuing as a state priority.

Measures taken:

- The Ministry of Housing, Utilities and Urban Communities has promised to disburse EGP 3.8 billion in arrears to contractors to expedite construction, specifically in national projects and help contractors pay their workers.
- Contractors have been granted six-month extensions to finish construction in government projects.

Education

On March 15, schools and universities closed for an initial two-week period, which was subsequently extended until further notice. Standardized exams such as the International Baccalaureate (IB), SATs and the British Council's IELTS and IGSCE have been cancelled or postponed. Private universities' end-of-term exams have been cancelled, while final exams may also be postponed.

Measures taken:

- The government is sterilizing all educational facilities, and the **public school system**'s Thanaweya Amma exams and its middle school equivalent are expected to proceed as scheduled in sterilized test rooms with masks and other protective equipment distributed to students. Final exams for the primary and preparatory levels have been cancelled.
- The Ministry of Planning and Economic Development announced a 104% increase in public investments for the higher education sector in FY 2020/21, directed towards university expansions and automating and equipping university hospitals with better tools.
- **Private schools and universities** are continuing classes via online and distance learning platforms. Some private schools are also employing other tools besides exams to assess students on e-learning modules.
- The Ministry of Education and Technical Education launched its online teaching platform, Edmodo, to provide students real-time and pre-recorded access to lessons.
- The Supreme Council of Universities announced that in-person oral and written university exams will be replaced by either research papers or online exams for the second term.

Entertainment, Recreation, Cultural and Sports Activities

The government has banned all large public gatherings including cultural events and conferences, and closed venues such as cinemas, popular markets, gyms and zoos. All team and communal sports activities—including football games and competitions—have also been halted, and all sporting clubs and youth centers remain closed. All religious institutions have suspended mosque and church services, weddings and other ceremonies. Mosques will remain closed until there are no more reported cases of COVID-19, and mass iftars and other collective social activities have been banned during Ramadan. According to Google's Community Mobility Report for Egypt, which uses location data from smart devices, traffic to restaurants, coffee shops, shopping centers, museums, libraries and cinemas witnessed a 50% drop by the end of March 2020. Egypt also saw a 24% drop in traffic to groceries and pharmacies as well as a 40% drop in visits to national parks, shores, and public gardens.

FMCG, Manufacturing and Other Commerce

The pandemic has spurred excessive demand for food commodities amid consumer fears of being unable to access stores. This has predictably translated into stock reductions at mass grocery outlets and also impacted businesses in the fast-moving consumer goods (FMCG,) retail and other commercial sectors. Manufacturers have been operating at less than full capacity in their plants, which impacts retail outlet stocks and prices. Businesses that import production inputs have been hit by shipment delays, also reflecting on final product availability at retail outlets.

Measures taken:

- The General Authority for Investment and Free Zones (GAFI) will provide temporary six-month operating licenses for new and existing businesses in investment zones, especially those focused on medical supplies and food commodities. A three-month grace period will be granted for insurance payments and the deadline for investors to provide letters of guarantee to reserve units in the zones.
- GAFI is permitting free zone companies to sell 50% of their products in the local market for a six-month period. Industrial manufacturers are also permitted to sell 20% of their raw materials locally.
- The government has reduced the price of natural gas for industry to USD 4.5 per million British thermal unit (mmbtu) to stimulate production. This translates into a 25% price cut for cement companies, which were paying USD 6.00 per mmbtu, and an 18% cut for metallurgy and ceramic manufacturers, which were paying USD 5.50 per mmbtu.
- In light of lower oil prices, the government is considering further cuts in natural gas prices to boost local manufacturing.

Healthcare and Pharmaceuticals

According to the United Nations Economic Commission for Africa, the pandemic will drive global health spending up to USD 10.6 billion.[23] Soaring demand for surgical masks, disinfectants, ethyl alcohol and ethanol in Egypt has resulted in significant price increases and dwindling supplies.

Measures taken:

- The PM's March 24 decree exempts hospital and medical facilities from the partial curfew.
- The Ministry of Trade and Industry has banned exports of surgical masks, disinfectants and medical alcohol for three months to ensure that Egypt can cover local needs.
- In addition to its network of 21 ministry and university hospital laboratories, the Ministry of Health and Population is looking into having other major hospitals conduct the PCR test used to diagnose COVID-19.
- The Ministry of Social Solidarity has supplied around 6,185 beds for quarantine facilities at a cost of EGP 25 million at university dormitories, youth centers and hostels across Egypt.
- The government plans to dedicate 69% of its investments in FY 2020/21 to healthcare and increase the number of intensive care unit beds in government hospitals.
- The Ministry of Finance has allocated EGP 256.8 billion for health sector spending in the state's FY 2020/21 draft budget, including a 75% bump in wages and bonuses for medical workers.

[23] United Nations Economic Commission for Africa (UNECA). Economic Impact of the COVID-19 on Africa. March 2020

- Parliament's Health Affairs Committee approved draft amendments to the Infectious Diseases Law 137 of 1958. The amendments impose fines and jail time for disrupting COVID-19 related burials, and allows health officials to require citizens to wear face masks and other protective equipment. Citizens who do not comply will face fines of up to EGP 5,000.
- The health ministry launched a mobile application to raise awareness about avoiding COVID-19 infections, dealing with suspected symptoms and reporting suspected cases. The application facilitates contact tracing by alerting users when they approach the location of reported COVID-19 cases. The ministry also launched a WhatsApp hotline to address frequently asked questions.
- The Ministry of Communications and Information Technology (MCIT)'s Relay Center for People with Disabilities launched the Wasel mobile application to provide accessible health services for persons with disabilities who show symptoms of the virus.
- The government provided the healthcare sector with an additional EGP 3.8 billion over the month of April.
- The health ministry set up two hotlines for citizens suffering from mental issues resulting from COVID-19.
- With the World Health Organization, Egypt's health ministry launched Facebook initiative to spread awareness about the risks of COVID-19.

ICT

Due to measures taken to limit the spread of COVID-19, an increasing number of people are home and online for work, school and social activities throughout the day. This has created an overload on ICT services and exposed the need to develop the infrastructural capacity.

According to a National Telecom Regulatory Authority (NTRA) report, there has been a notable increase in ICT activity from the second week of March to the second week of April:

- 40% increase in traffic from year-to-date[24];
- Home internet use is up by 87%, while mobile internet use is up by 18%;
- International voice calls are up by 15%, while local voice calls are up by 3%;
- Web browsing has increased by 131%;
- The peak hours for the usage of internet services and applications doubled to 15 hours per day, spanning 12 pm to 3 am.

Measures taken:

- Since April 16, MCIT's Information Technology Industry Development Agency (ITIDA) has disbursed more than EGP 5 million in export subsidies to 25 IT firms and MSMEs.
- MCIT has increased the capacity of international gateways, which route data to and from global websites, by 50%.
- The government is ramping up its fiber optic installation program to increase internet access to 75% of population in 2020 for both mobile and fixed internet. MCIT aims to add 1 million new homes to the fiber optic network.
- Egypt's mobile network operators (MNOs) are boosting signal reach in Cairo and Giza to ensure proper connectivity indoors, and accommodating increase in traffic by having their respective teams on standby.
- Egypt's average internet speeds have quadrupled, rising to 27.09 MB/s in February, compared to 6.63 MB/s in February 2019.
- To accommodate e-learning, all four MNOs and Telecom Egypt announced that they would increase the internet bundle download quotas by 20% at no charge for all its customers. The initiative came at a cost of EGP 200 million collectively for the sector.

[24] April 20 at the time of the publication of NTRA's report

- MCIT has also adopted a no-charge policy for internet access and data to hospital staff.
- MCIT has been operating online education platforms being used by public school students. In cooperation with MNOs, the ministry provides free digital platforms to provide scientific materials and lectures for school and university students.

Petroleum and Mineral Resources

The pandemic has led to a decline in global demand for energy despite the decrease in both oil and natural gas prices. The Saudi-Russia oil war triggered in part by the COVID-19's spread has stifled oil markets, driving global oil and gas companies to cut back on spending and projects.[25] Lower Brent crude oil prices will likely have a positive impact on Egypt's hydrocarbon bill. In FY 2018/19, Egypt's petroleum imports were at USD 12.1 billion when oil prices were in the range of USD 60 per barrel. If oil prices remain depressed over the coming period (USD 25.17 per barrel at time of publishing), the import bill is likely to decline by half.

Measures taken:

- Ministry of Petroleum and Mineral Resources facilities have reduced their workforces, rotating employees at field and production sites in shifts to keep production at the same levels.
- Due to global travel restrictions, the ministry set up an online platform to allow foreign companies to participate in its gold exploration tender, which is accepting bids until July 15.
- In FY 2020/21, the Ministry of Finance is allocating EGP 28.1 billion for petroleum product subsidies, a stark 47% decline from FY 2019/20's projections.
- On April 11, under Egypt's fuel pricing indexation mechanism, fuel prices were cut by EGP 0.25 per liter and mazut prices decreased by 8.2% to EGP 3,900 per ton, while diesel prices remain unchanged.

Tourism

Effective as of March 19, the government suspended all air traffic (excluding cargo) in and out of Egypt for an undisclosed period. Experts estimate the travel suspension could cost airlines north of EGP 2.3 billion each month. The government also initially halted domestic tourism in the Red Sea and South Sinai areas in mid-March, ordered the evacuation of tourists from hotels and locked down workers for a 14-day quarantine period. Occupancy rates have accordingly plummeted and new bookings through Q4 2020 have retracted by 80%.[26] According to the Minister of Antiquities and Tourism, the lockdown could result in monthly losses of USD 1 billion to the tourism industry, and even more if hospitality is accounted for. Tourism companies, many of which were still trying to recover from post-2011 effects, are now struggling with cancelled reservations, cash flow shortages and outstanding debts. The sector is also severely impacted by layoffs due to the standstill.

Measures taken:

- Granting rent holidays for restaurants and shops at state-controlled tourism sites until they resume operations.
- Giving a six-month holiday for debt and utility payments for tourism companies, hotels and private airlines. Payments will resume in October 2020.
- Providing two-year soft loans to tourism companies to pay wages, commitments to suppliers, and maintenance as part of the EGP 50 billion tourism initiative launched in 2019. Hotels, tour operators, restaurants and tourism transport companies can now also access short-term soft loans. At the end of April, CBE cut interest rates on these loans from 8% to 5%.

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[25] International Energy Agency (IEA). Fuel Report. March 2020

[26] The Egyptian Travel Agents Association.

- On April 15, the government created an emergency fund headed by the Ministry of Tourism and Antiquities to help cover the tourism sector's near-term payrolls and prevent mass layoffs. In early May, the Labor Emergency Fund disbursed more than EGP 60 million to workers in 197 tourism establishments, including hotels, travel agencies, restaurants and diving centers. A total of 3,800 establishments have so far applied for aid.
- On May 3, the PM announced that domestic tourism (including internal flights) could resume starting May 15, with hotel occupancy restricted to 25% at first, then increasing to 50% by month's end. Hotels and tourism companies are required to accept only online bookings; have sterilization equipment, doctors and a designated quarantine area for suspected COVID-19 cases onsite; and screen guests and workers for fever upon before entering resorts. Hotels and resorts are not allowed to offer shisha or host weddings and entertainment events.

International Support

A number of international finance organizations have set up programs to help countries weather the economic shocks of the pandemic, which Egypt may tap into to help support its economy.

African Export-Import Bank (Afreximbank)

Afreximbank announced a USD 3 billion package to help manage the economic and health impacts of the pandemic. It will support member states (including Egypt) and other financial institutions in meeting commercial loan obligations and support foreign currency reserves in states' central banks.

European Bank for Reconstruction and Development (EBRD)

The EBRD launched a EUR 4 billion solidarity package over two phases for its existing clients. Phase one provides three-year, short-term support while phase two offers infrastructure support with the amount to be scaled up if necessary. The package will include working capital facilities of up to two years for energy developers and other corporates as well as balance sheet restructuring and short-term liquidity support for municipal, energy and infrastructure clients.

In Egypt, EBRD is collaborating with five local banks—including NBE, Banque Misr, National Bank of Kuwait - Egypt and Qatar National Bank (QNB) Al Ahli—on a package worth EUR 850 million, with EUR 500 million earmarked for SMEs and EUR 350 million for trade finance. Egypt has been the largest recipient of EBRD investments since 2018.

European Investment Bank (EIB)

EIB has offered EUR 2 billion for Egypt and its neighboring countries, with EUR 1.5 billion to support SMEs and EUR 500 million to support the public sector. EIB will also provide additional financing for necessary medical supplies and equipment.

International Monetary Fund (IMF)

The IMF has allocated USD 50 billion for developing countries to be directed toward emergency financing, debt relief grants for most vulnerable economies and new loans under existing standard facilities. On April 26, Egypt began negotiations for a funding package tapping the IMF's Rapid Financing Instrument (RFI) and a stand-by Arrangement (SBA). On May 11, the government is expected to receive the first tranche worth USD 2.7 billion. The facilities' total value remains undisclosed.

United States Agency for International Development (USAID)

As of May 5, USAID has pledged a total of USD 653 million for the global response to COVID-19, with USD 215 million of that sum obligated by May 1. Concurrently, USAID has obligated nearly USD 10 million to support COVID-19 prevention and response activities in the MENA region, including technical assistance; capacity building; infection, prevention and control (IPC) services; and health and water, sanitation and hygiene (WASH) services.[27]

World Bank Group (WBG)

The World Bank Group has set aside USD 160 billion over the next 15 months to support COVID-19 measures that will help countries respond to immediate health consequences of the pandemic and bolster economic recovery. So far, USD 1.9 billion has been disbursed to 25 countries in existing projects.

International Finance Corporation (IFC)

The International Finance Corporation (IFC) has received USD 8 billion out of the WBG's total to support private businesses. Out of that amount, USD 2 billion will be used to support IFC's existing clients in sectors including manufacturing, agribusiness and healthcare; USD 2 billion will be used to encourage cross-border trade; and USD 4 billion will be given to emerging-market banks to help them in lending to businesses. In mid-April, the IFC allocated USD 20 million to Egypt and North Africa-focused private equity fund SPE AIF 1 to help accelerate growth in MENA. The fund, managed by SPE Capital Partners, invests in manufacturing, healthcare and education across Egypt, Tunisia and Morocco.

World Bank

On March 20, the World Bank initiated the Contingency Emergency Response Component, under the Transforming Egypt's Healthcare System Project, worth USD 7.9 million to fund emergency response activities.

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[27] USAID. May 2020