



THE COVID-19 CRISIS IN EGYPT

20 April 2020

COVID-19 update

- *Health measures:* The government recently has announced 1 billion EGP (USD 63.5 million) in extra funding for its health services and applied various measures to increase the country's capacity to absorb the sudden increase of critical patients that the outbreak might bring.
- [The Ministry of Industry and Trade](#) issued two decrees banning for a period of three months the export of infection prevention supplies, including face masks and alcohol as well as its derivatives.

Economic impact

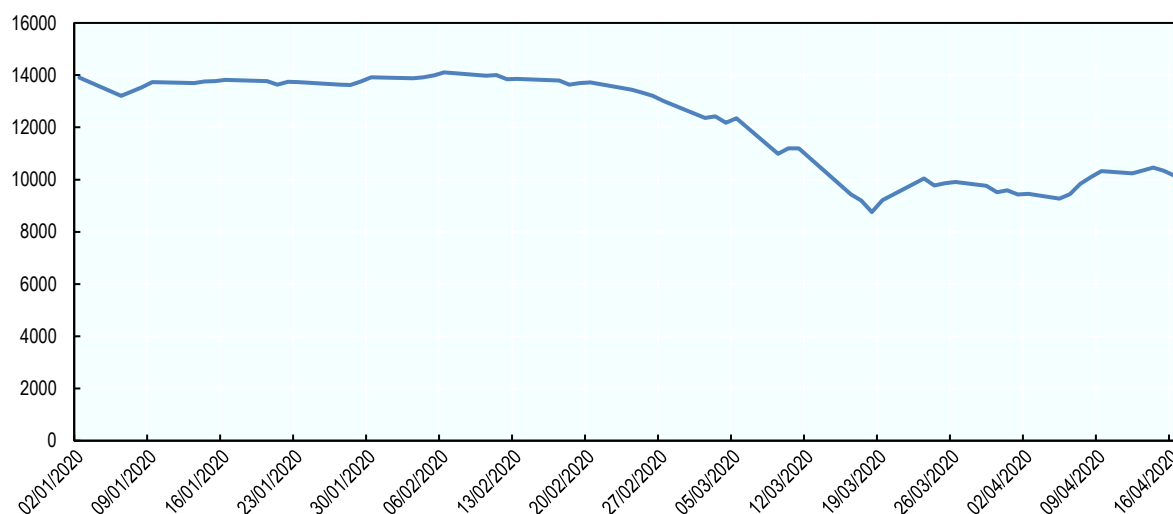
Extent of containment measures

- *Containment:* The government has closed all schools and universities, monuments, in-dining restaurants, churches, mosques and their attachments, cancelled cultural events and touristic trips, and banned religious prayers in public gatherings as well as other large public gatherings. A night-time curfew between 8pm and 6am local time has been introduced. All airports are closed and air travel, including international flights has been suspended. The government has also reduced by half the number of public sector employees coming to work. Supermarkets, bakeries and pharmacies remain open.

Short-term indicators of the economic impact

- The IHS Markit [Egypt Purchasing Managers' Index](#) for non-oil private sector activity is the lowest since January 2017, after having decreased to 42.2 in March 2020 from 48.2 in December 2019, indicating deteriorating business conditions in the country in the first quarter of 2020.
- *Tourism:* The government estimates at around [1 billion USD monthly loss](#) of income from tourism, which is a USD 12.5 billion/year industry, and contributes to 12% of GDP. Tourist cancellations have already reached 80% in mid-March compared to the corresponding period in 2019, with an initial 138,000 job estimated at risk. The [negative repercussions](#) of the crisis on the tourism sector are expected to further affect at least 1.4 million people employed by the sector (latest available data is for 2014). The tourism sector represents 10% of total employment and is the [third](#) largest source of revenue after remittances and non-oil exports.
- *Remittances:* Egypt is the fifth-largest recipient of remittances in the world, reaching USD 26.8 billion in 2019 and nearly 10% of GDP. While the value of remittances during January-March is around the usual average of USD 6 billion, a decrease by [USD 2.3 billion](#) is expected during April-June 2020.
- *Financial markets:* The main index of the Egyptian Stock Exchange (EGX30) has declined by 39% since the peak on 9 February, reaching EGP 10 154 on 16 April 2020.

Figure 1. EXG 30 stock market since 1st January 2020



Source: [Bloomberg](#), Egyptian Exchange EGX 30 Price Index

Policy reactions

Borders

- All borders are closed, remaining open for cargo only. Domestic and international flights are also suspended and airports are closed.

Monetary policy

- Egypt's Central Bank cut interest rates to [historic lows](#): it reduced the overnight deposit rate by 300 basis points to 9.25% and the lending rate to 10.25%.
- On 29 March, the Central Bank announced a series of [new limits on cash withdrawals and deposits](#) to avoid overcrowding, in particular during payroll and pension disbursement. A daily limit of 10,000 Egyptian pounds (around 630 USD) for individuals and 50,000 (around 3180 USD) for businesses is applied until further notice, while fees on electronic transactions have been lifted for six months to encourage people to rely on electronic payment methods and bank transfers instead of using cash.

Fiscal policy

- President Al-Sisi announced the allocation of [100 billion EGP](#) (USD 6.4 billion equivalent to 2% of GDP) to fund a comprehensive plan to combat the coronavirus. Half of the budget is allocated to the tourism sector while the rest will support poor families and the stock market through a stock purchase programme.
- *Tax policy measures*: The Government has announced various tax measures covering both people and companies (subject to the issuance of the law).
- *Stamp duty*: the cost of transactions in the EGX will be reduced from 0.15% to 0.125% and from 0.15% to 0.05% for non-residents and Egyptian residents, respectively. All spot transactions on EGX will be exempt from stamp duty.
- *Tax administration*: the Ministry of Finance lifted the Administrative detention for taxpayers in return for payment of 10% of the tax due and to settle the outstanding tax due through the Dispute

Resolution Committee. The Egyptian Tax Authority has also lifted the means of payment to allow cash or cheque payment of taxes due for fiscal year 2019/2020.

.People-specific measures

- The Ministry of Workforce has allocated [EGP 50 million](#) (USD 2.9 million) for irregular workers, including women, who lost their job due to the coronavirus. Around 300,000 beneficiaries will receive EGP 500 (around USD 32) in cash.
- The government increased [payments to women community leaders](#) in rural areas from EGP 350 to EGP 900 per month to ensure gender equity.
- Expansion of the Takaful and Karama social protection programmes to an additional 60,000 households, where women already represent [88%](#) of the programmes' beneficiaries
- The government also introduced a six-month extension for credit repayments targeting all individuals and businesses, and the cancellation of the ATM withdrawal fees.
- *Tax return filing*: extension of the individuals' annual tax return filing deadline to 16 April instead of 31 March. Exemption of the tax returns online filing subscription fee for the use of the Egyptian Tax Authority online filing portal.
- *Personal income tax*: introducing a progressive system instead of the current credit system, where income is subject to progressive income tax rates between 2.5% to 25% with additional rules applied to individuals who earn a higher income.

Company-specific measures

- [The price of natural gas and electricity](#) has been reduced for industrial use. Natural gas for industrial use will be priced at USD 4.50 for mmbtu (one million British thermal units), down from USD 5.50, while electricity for heavy industry will be priced at 0.10 EGP (USD 0.0064) per kilowatt hour, down from 1.10 EGP. The price of electricity for other industries will be kept stable for three to five years. The government also postponed repayment of loans for SMEs.
- The Central Bank introduced [credit lines for tourism enterprises](#) to facilitate paying of salaries and financial dues for suppliers. Such credit lines can be paid over a maximum of two years with a six-month grace period.
- The National Bank of Egypt and Bank Misr announced a one-year deposit program with a 15% interest rate.
- The Export Subsidy Fund will pay out the entire EGP 1 billion in arrears in March and April 2020, plus 10% in cash payments to exporters in June 2020.
- The Financial Regulatory Agency (FRA) announced a set of [measures to aid micro-finance activity](#), including introducing free financial services for regular clients, postponing 50% of payments with no penalty, and reducing the administrative fees for current finances.
- The FRA announced an extension to 15 June 2020 for the EGX listed companies to submit their financial statements for 4Q 2019 (original deadline 30 April). The FRA requested mortgage lenders, factoring and leasing companies to grant six-month grace period upon request by clients.
- *Capital Gains*: the extension of the suspension from the taxation of Capital Gains on securities listed on the EGX for Egyptian residents until 1 January 2022 which was originally due to expire in 17 May 2020. The exemption from the taxation of Capital Gains on securities listed on the EGX for non-residents will be permanent.
- *Dividends*: withholding tax on dividends paid by listed companies in EGX will be reduced from 10% to 5%.
- *Property tax*: three months extension for the payment of property taxes for companies in the industrial and tourism sector. The property taxes shall be payable in monthly instalments over the following six months.

Other measures

- Allocation of USD 1.3 billion by the Egyptian Central Bank to support the country's stock exchange through a [stock purchase program](#). It has cut [tax on dividends](#) for companies listed on its stock exchange by half to 5% and it lowered the stamp duty tax on stock market transactions.
- The EGX developed [electronic trading support systems](#) allowing remote access to several platforms, including customer coding, electronic membership system, financial solvency, and OMNI accounts.
- Brokerage firms are allowed by the [EGX](#) to receive orders via e-mail or mobile text messages.
- The Egypt for Information Dissemination Company (EGID), a subsidiary of EGX, developed an electronic voting system called ([E-Magles](#)) enabling board members of a listed company to vote remotely.

Gender gap and informality

- *Women's economic empowerment:* The economic slowdown resulting from the containment measures risks further increasing the vulnerability of women in the labour force in Egypt. Women make up [23.8%](#) of the Egyptian labour force and are most likely to work in the informal sector. According to the [World Bank](#), approximately half of working women in Egypt are informally employed with minimal wages and limited or no access to social protection mechanisms. This situation makes women and other fragile groups increasingly vulnerable to poverty in the COVID-19 context of reduced activity.
- *Gender gap:* As schools closed and children have been at home since 15 March, Egyptian women are shouldering the additional burden of home-schooling, which risks further deepening the gender gap in unpaid domestic work. Women in Egypt bear the burden of the majority of unpaid care work. According to the World Bank, around [91% of women spend time on unpaid domestic activities](#) as opposed to only 26% for men. Girls may be asked to contribute to household activities more than boys at the expense of their home-based learning. In addition, isolation at home may lead to a heightened risk of domestic violence against women.
- *Informal sector:* The short and medium-term impacts of the pandemic are expected to be particularly severe for people and enterprises in the informal sector, which represents [63% of the total employment in all sectors](#) and between 30-40% of GDP. Informal enterprises also represent around 90% of all micro and small enterprises in Egypt. With the informal sector lacking health and social insurance, as well as paid leave, the containment measures taken across the country may cause around [1.6 million people](#) in the informal sector to lose their jobs by the third quarter of 2020. This will lead to a rise in poverty rates, causing around 12% of people to fall from poverty into extreme poverty and driving 44.4% (12.9 million workers) below the poverty line.
- *Women in decision-making:* The Egyptian government has undertaken important efforts to integrate the specific needs of women in its COVID-19 response plan. The National Council for Women (NCW) will be part, along with other state institutions, of the committee in charge of designing additional tailored measures to mitigate the impact of the crisis on informal sector workers. Its recent [policy brief](#) outlines the pillars of Egypt's response to women's situation during the outbreak, including immediate and medium-term policy suggestions to mainstream the needs of women in health, social protection and economic measures. It also recently launched a [policy tracker](#) to monitor the policy measures taken by the government to respond to women's needs in the context of the COVID-19 outbreak.

Outlook

- *Situation prior to COVID-19:* According to the International Monetary Fund, Egypt was experiencing a positive economic trend prior to the outbreak, with a GDP growth rate of 5.5% in 2018/2019 and more positive estimations of 5.9% for 2019/2020 and 6.0% for 2020/2021 were expected. The country had an unemployment rate falling to 8.8% during 2018/2019 (its lowest in over a decade), a reduction in the inflationary pressure, and a budget under control. Although the debt-to-GDP ratio fell from 103.2% in 2016/2017 to 85.2% in 2018/2019, Egypt remains the [largest](#) borrower in the region.
- *Moving forward:* In the latest forecast from the IMF's World Economic Outlook, Egypt is projected to be the only country in the MENA region to witness positive economic growth in 2020, estimated at 1.95%, while all other economies in the region are expected to contract. Estimates from the Egyptian Center for Economic Studies indicate that the effects of Covid-19 on the Egyptian economy are likely to be felt up to [June 2021](#) due to declining travel and tourism, lower domestic consumption, capital outflows, and reduced remittances. Weaker global trade is also expected to reduce Egypt's exports and earnings from the Suez Canal. Foreign direct investment is also expected to decrease and only gradually increase to the pre-crisis levels by June 2021.

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