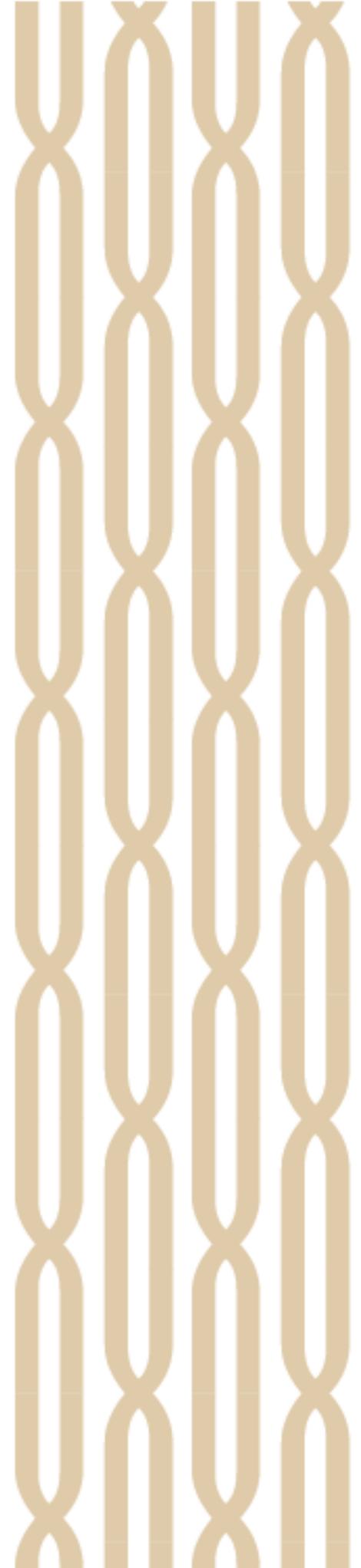




COVID-19 EGYPT UPDATE

Special Edition of the **LYNX Industry Notes**

April 10, 2020



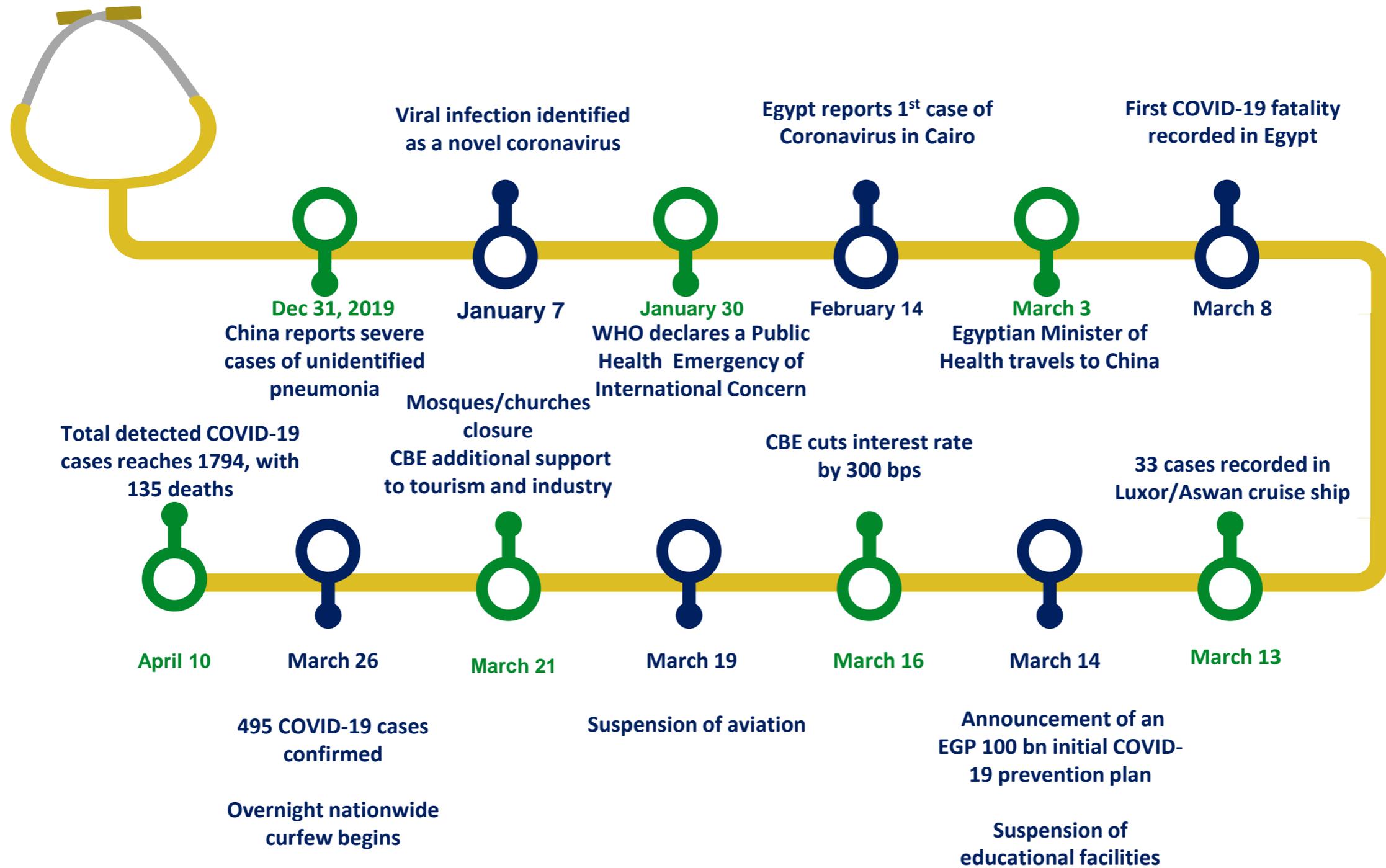
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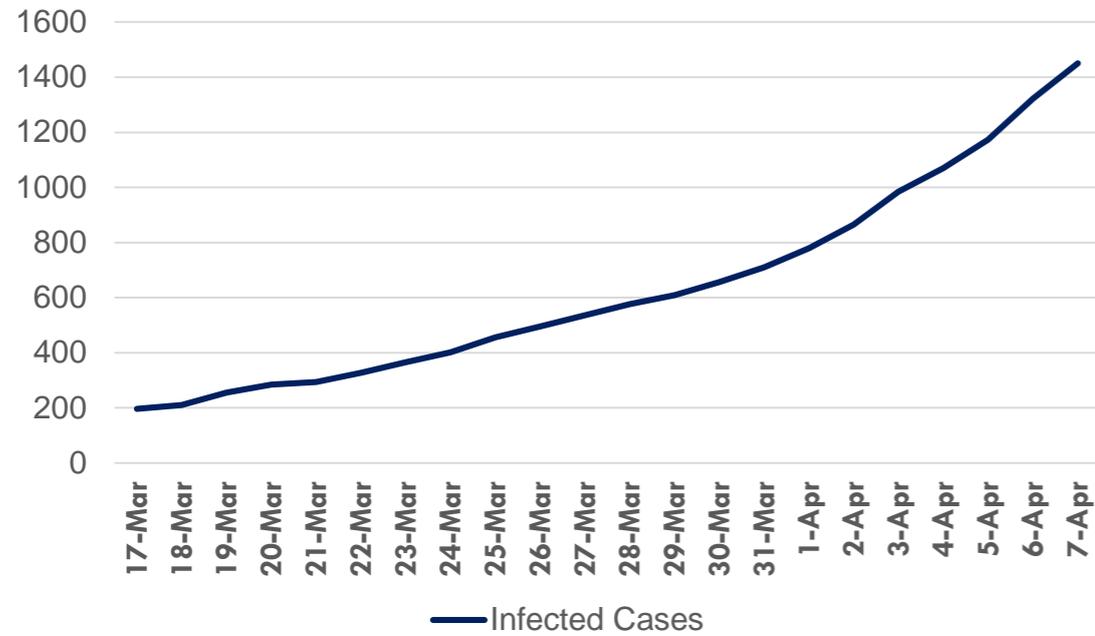
COVID-19 Timeline: Egypt

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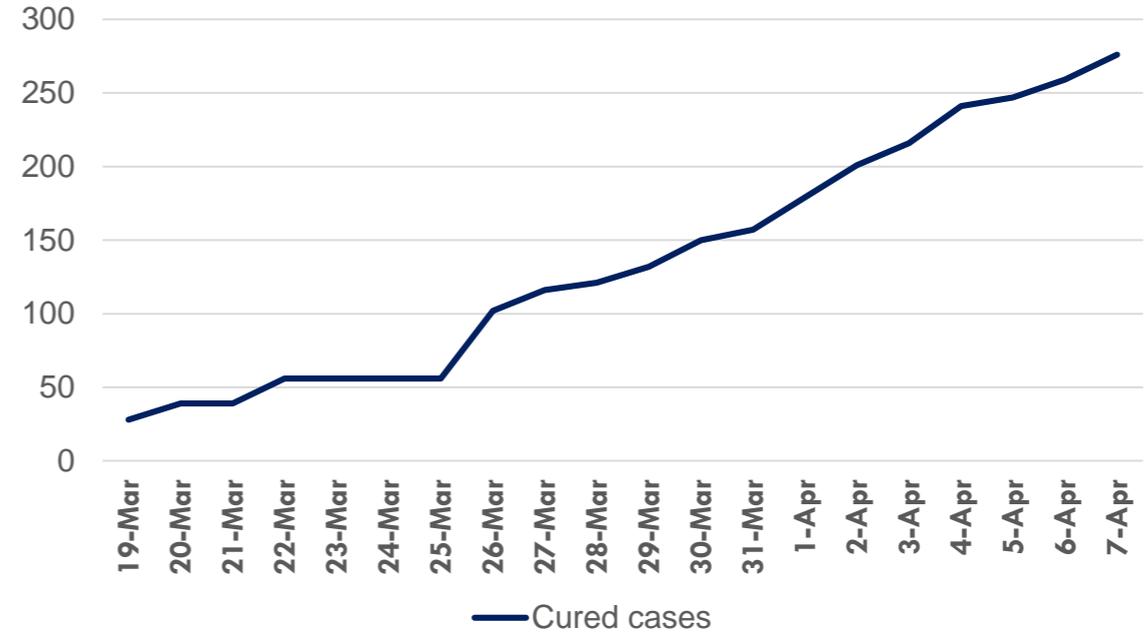


COVID-19: Egypt

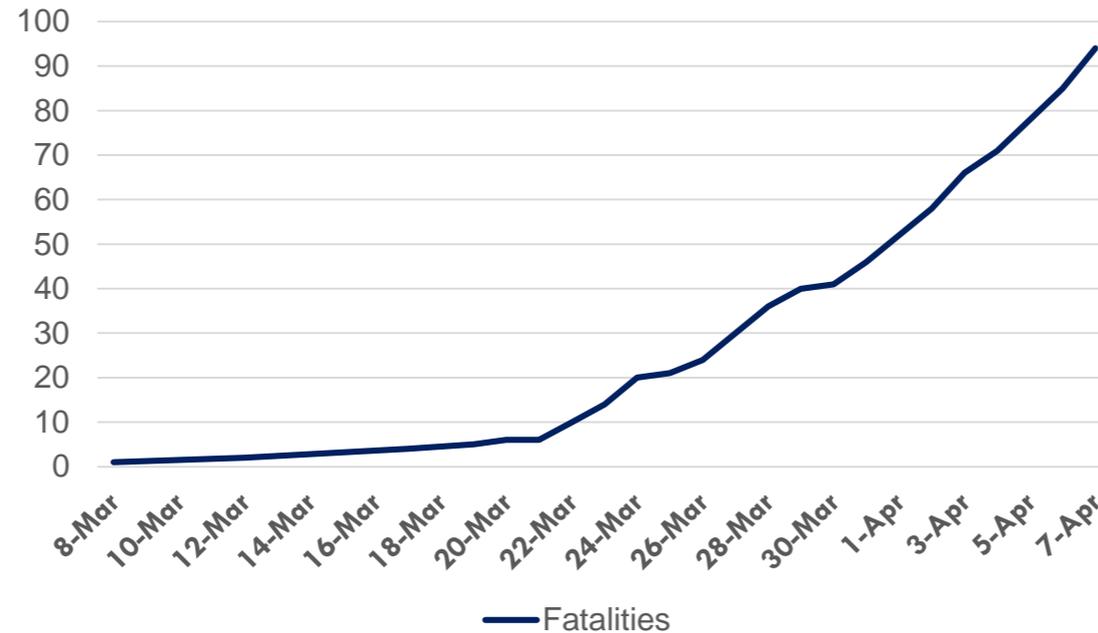
Infected Cases



Cured (Cleared) Cases



Fatalities



GoE Strategy

GoE Strategy

The Government of Egypt (GoE) has moved gradually and assertively with an integrated approach to address CoVID-19's impact on Egypt's health and business sectors. An initial budget of 100 billion Egyptian Pounds (equivalent of \$6.4 billion) was allocated for this effort. This figure is expected to double. Through these measures, the GoE is seeking to:

- Contain the spread of COVID-19 without causing a full economic lockdown
- Support the business sector to mitigate COVID-19's economic implications through sector-specific measures- rather than a broader economic rescue program- by ensuring that:
 - Employees and workers receive paychecks even in quarantine
 - Businesses, particularly SMEs, have enough cash flows to fulfil obligations and avoid bankruptcy
- Lay the groundwork for an economic surge once the dust settles.

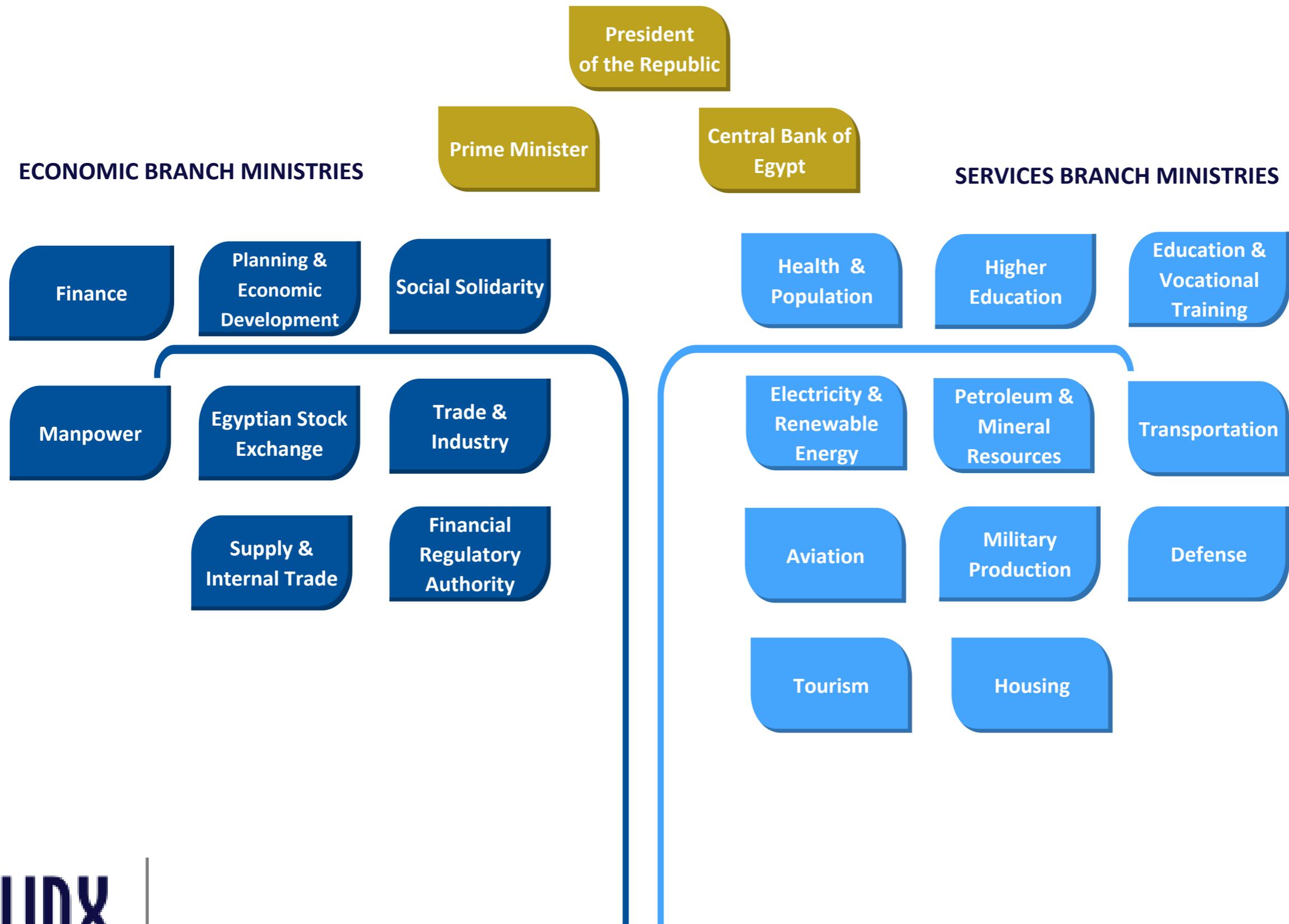
In terms of **economic impact**, the GoE recently announced the following data and projections:

- Foreign investment in T-Bills and Bonds decreased by 50%; from USD 28 to USD 14 billion USD
- State budget revenues are expected to decrease by 25% in FY20-21
- Growth for 3Q FY19-20 expected to fall to 4.5%; 4Q expected to hit 1%
- Growth for FY20-21 expected at 4.2% if the pandemic is contained by June 2020, and may reach 3% if the pandemic goes uncontained.

GoE Stakeholders

COVID-19

GoE Stakeholders



GoE Decisions

GoE Decisions by Sector

Health

- A quarantine specialized hospital (QSH) is assigned for COVID-19 cases in each governorate (27 in total).
- Self-sterilizing ambulances dispatched to transport infected patients to QSHs.
- Testing limited to Ministry of Health facilities only.
- Body temperature checkups conducted on in/outbound travelers across airports, state institutions and construction sites.
- Mandatory 14-28 day self-isolation for anyone returning to the country from foreign travel.
- University Hospitals ordered to cut non-emergency admission to free beds for potential COVID-19 patients.
- University Hospitals ordered to prepare quarantine areas and ensure supply of six-months of key equipment, medicals and disposables.
- All mild-condition/asymptomatic COVID-19 patients may be transported to pre-prepared and quarantined public university dormitories, among other locations.

“Egypt’s covid-19 outbreak is ‘not insignificant’ but remains under control, and we still have several options for how to handle the situation.” World Health Organization (WHO) Egypt representative John Jabbour on April 5, 2020

GoE Decisions by Sector

Health

- Outpatient private clinics ordered to close nation-wide. To be used for ICU operations as required.
- University Hospital outpatient clinics ordered to cut their patient intakes by 50% and create specific, isolated facilities for patients emerging with respiratory problems.
- Pharmacies permitted to dispense three-months of medical supplies for chronic illness beneficiaries of the public health care insurance program.
- Mothers benefitting from programs to expand access to baby formula also be allowed to stock up.
- Construction companies required to monitor their workers' temperatures and provide them with face masks and disinfectants as precautions against COVID-19. Ambulances will also be required to remain on sites that have more than 100 workers.
- The use of face masks by employees in other sectors is strongly encouraged.
- Smoking of water pipes (*shisha*) is prohibited in public areas.
- Enhanced coordination with the WHO on policy issues.

GoE Decisions by Sector

Central Bank of Egypt

- Interest rate was exceptionally cut by 300 bps on March 16, 2020. CBE's deposit rate fell to 9.25% from 12.15%; in single digits for the first time since March 2016. The bank's lending rate is 10.25%. The main operation and discount rates are both at 9.75%. (CBE had left rates on hold during its past two meetings, having lowered them by 450 bps between February and November 2019).
- The Governor of the CBE explained that the rate cut was “a sacrifice to the economy” and aimed to lend additional support to public and private companies, including by enabling them to preserve profits. The measure also aimed to lift the pressure on the Ministry of Finance by providing it with additional financial resources to pump in various sectors of the economy.
- CBE's Monetary Policy Committee meeting on April 2nd, scheduled to review interest rates, maintained the rate at as is.
- Egypt's foreign reserves decreased by \$5.4 billion, reaching \$40 billion by end of March 2020.

“MPC's preemptive decision provides appropriate support to domestic economic activity given the current challenging external environment, while the inflation outlook remains consistent with achieving the inflation target of 9% (+/-3%) in 4Q2020. “The MPC will continue to closely monitor all economic developments and will not hesitate to adjust its stance to achieve its price stability mandate over the medium term.”

(CBE statement on March 16, 2020)

GoE Decisions by Sector

Central Bank of Egypt

- CBE launches initiative for credit defaulters of loans less than EGP 1 million; on the condition of paying 50% of the dues, the CBE will lift defaulters from the credit probation list until March 2021. The initiative will benefit 940,000 customers with a total of EGP 11.3 billion.
- EGP 50 billion is allocated to support the tourism sector, including to support affected hotels.
- Credit facilities installments postponed for 6 months, subject to individual and corporate loans.
- All ATM withdrawal fees are waived for 6 months.
- Third party online transaction fees between local banks are waived.
- EGP 20 billion pipeline extended to the Egyptian Stock Market.
- Lending rates for tourism, industrial, and housing finance reduced from 10% to 8%.
- Further measures are enacted to decrease the use of cash, increasing limits on daily value transacted via mobile wallets to be increased to EGP 30,000 (USD 1,900), issuing near-field communication/contactless pre-paid card, improving merchant acceptance landscape by encouraging QR codes & request-to-pay method and the automatic enrollment for customers to internet banking services.

GoE Decisions by Sector

Finance

- Annual salary increase of 7-12 % for government employees. Effective June 30, 2020. Total cost of EGP 31 billion.
- Decrease of dividends tax by 50%. To reach 5%.
- Companies operating in the industrial and tourism sectors granted a three-month real estate tax holiday. Such companies will be permitted to repay existing real estate tax liabilities in monthly installments over the next six months.
- Credit probation lifted off debtors subject to a 10% payment off their dues
- Deadline for individual taxpayers to file returns extended (from March 31) to April 16, 2020. Fees for online submission of taxes for individuals and businesses lifted to encourage service usage.
- Annual allowance increase for pensions raised to 14% as of June 2020
- Pensions to immediately include 5 previously unallocated increases (between 2005-2010). Total cost of EGP 27.6 billion. To benefit 2.4 million families/ 10 million citizens
- Waiver of property tax for industrial and touristic properties for a period of 6 months
- Deadline deferred for payable dues from touristic facilities for 3 months without interest/fines

GoE Decisions by Sector

Finance

- Annual corporate tax returns on companies and establishments deferred to June 30th, and would be paid in 3 equal installments
- Payment of real estate taxes deferred for 3 months with the option of an interest/fine free installment plan
- Deferral, for 6 months, of electricity, water, and gas consumption payments, over dues from touristic facilities and private aviation companies. Payments will resume in October 2020 with the option of scheduling payments through installments.
- Government help including bailouts and tax holidays will be contingent on companies upholding employment and salaries.

GoE Decisions by Sector

Egyptian Stock Exchange

- Foreign investors to pay stamp tax on EGX transactions at reduced rate of 0.125% (instead of 0.15%.) Residents to pay 0.05% stamp tax, down from 0.15%. Spot transactions on EGX also exempt from stamp tax.
- Indefinite full exemption of capital gains tax for foreign investors
- Full exemption of capital gains tax for residents until January 2022
- EGX30 down 29.5% since the start of 2020



<https://tradingeconomics.com/egypt/stock-market>

Financial Regulatory Authority

- MSMEs granted a six-month grace period to pay insurance premiums.



GoE Decisions by Sector

Ministry of Trade & Industry

- Allocation of EGP 1 Billion for the Export Subsidy Fund (ESF) to pay arrears to exporters in March/April. Additional funds will be made available in June 2020. 30% payment of ESF dues to exporters before the end of the fiscal year (June 30) through individual transactions no less than 5 MIn EGP each.
- Banned the export of alcohol and medical masks for specific periods of time to meet local demand. Egyptian companies producing and importing medical supplies also instructed to supply their products and inventory to the Unified Medical Procurement Authority for 3 months.
- Policies to advance Egypt's local manufacturing industry are under review. Deliberations with Parliament on implementing the recently adopted automotive industry strategy are delayed.
- Fast-track the approval of SMEs law. (Parliament in recess until end of April.)
- The Ministry's SMEs Development Agency will launch an exceptional loan program for small businesses struggling during the economic downturn. Labor-intensive and industrial businesses will be given priority to apply for one-year loans of up to EGP 1 million and can apply at the Agency's branches or by calling 16733.

GoE Decisions by Sector

Ministry of Manpower

- Public sector daily workforce reduced by 50% on rotational basis. Other entities followed suit.
- A one-off unemployment benefit of EGP 500 offered to informal workers registered in the database of the Ministry through post offices. Registration, already, included approximately 1 million individuals working in construction, agriculture, fishing, plumbing etc.

Ministry of Social Solidarity

- 60,000 households were added to Takaful & Karama benefit program. An additional 100,000 will be added in FY21. Budget for the program will increase to EGP 19.3 billion, compared to EGP 18.5 billion.
- Payments to women leaders in rural areas increased to EGP 900 per month (up from EGP 350) to ensure gender equality.

GoE Decisions by Sector

Education

Higher Education

- Closure of all nurseries, K-12 educational facilities, universities, and educational centers across Egypt. Effective until April 22, 2020. Subject to renewal.
- Primary and middle school students exempted from mid-term and end of year examinations.
- Preparations for other exams are in order.
- Exams for higher education students postponed to May 30, 2020.
- Launched a new digital library available for free to every student with learning material (digital objects) extracted from EKB and sorted out/assembled for G1-G12 students in both Arabic and English.
- Ministry of Education decided to deploy a customized version of the Edmodo Learning Management System at around 55,000 schools and train teachers to create their own virtual classrooms and invite their own students.

GoE Decisions by Sector

Ministry of Petroleum

- Price of natural gas decreased to a unified rate of USD 4.5/mmBtu for industrial use. This is a 25% price cut for cement companies which were paying USD 6.00/ mmBtu, and an 18% cut for metallurgy and ceramic manufacturers which were paying USD 5.50/ mmBtu.
- Egypt's Fuel Automatic Pricing Committee decided to decrease the prices of all three types of gasoline products (80/92/95) in the local market by 25 piasters (\$0.15) per liter.

Ministry of Electricity

- Electricity price decreased by USD 0.1/KW and fix the price for the next 3-5 years.
- Price of electricity per kWh lowered by 10 piasters for medium, high and ultra-high voltages, and will be frozen for the next 3-5 years.
- Electricity price cuts could cost around EGP 6 billion.

Ministry of Housing

- Announced the expansion of social housing mega projects to include 250,000 units beside 100,000 units dedicated to inhabitants of endangered areas. Total cost of EGP 40 billion.

GoE Decisions by Sector

Ministry of Aviation

- All international aviation in/outbound Egypt is suspended, effective until April 22, 2020. Subject to a third extension. Cargo operations are not affected by the suspension.
- Loans to be provided with a two-year grace period for the industry, part of a wider bailout package.

Ministry of Transportation

- Cairo metro running on an amended schedule. Measures in place to avoid passenger crowding.
- Ongoing railway projects set to be completed on schedule, including Cairo Metro Lines 3 and 4, as well as the new administrative capital monorail.



GoE Decisions by Sector

Ministry of Tourism

- The Ministry is allowing hotels outside “tourism governorates” to host guests up to 25% of their capacity and allow up to 50% of their staff members to work.
- The decision does not apply to South Sinai, the Red Sea, Luxor, and Aswan. Remains unclear whether hotels in these governorates are required to remain vacant.
- Red Sea hotels were evacuated last month and tourism in the governorate’s hotels was suspended before Marsa Alam facilities were tapped to serve as quarantine centers for Egyptians returning home from the US.
- The inauguration of the Grand Egyptian Museum has been postponed to 2021.

Ministry of Supply

- Securing strategic goods reserve sufficient for at least 9 months

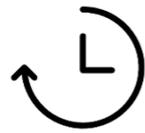
GoE Decisions by Sector

Ministry of Defense

Ministry of Military Production

- Army deployed troops from its chemical warfare units to deep clean GoE institutions, universities and metro stations. 77,000 government offices, places of worship, schools and public gathering spots have been disinfected by sanitation crews.
- Increased the preparedness of 45 military hospitals with a capacity of 12,300 hospital beds, including 1870 ICUs and 1,100 ventilators
- Dedicated 22 quarantine hospitals with a capacity of 4000 hospital beds, including 300 ICUs and 140 ventilators for the civilian sector
- Prepared 4 field mobile hospitals with a capacity of 502 hospital beds
- Dedicated 11 mobile labs with a capacity of 2,200 tests/day
- Prepared 1000 ambulances including 472 ICUs with a total evacuation capacity of 4000/day
- Expanded medical masks supply chains in military production factories to produce 100,000 medical masks/day by end of April 2020, while maintaining a strategic reserve of 5 million masks
- Military production factories began producing ethyl alcohol at 10 tonnes/day.
- Production of hazmat suits with a capacity of 1000 suit/day
- Preparing food supplies to sustain a strategic reserve in case of a full lockdown

Partial Curfew Regulations



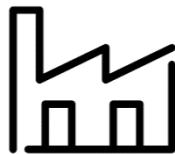
Two-week

overnight curfew from 8 PM - 6 AM ending on April 24, 2020
(subject to renewal or expansion)



Shops and retail stores,

including malls, ordered to close between 5 PM - 6 AM
on weekdays, and are required to remain closed all day Fridays
and Saturdays



Factories

allowed to continue operating at full capacity to ensure that
demand for food commodities is met



Cafes,

bars, casinos, nightclubs, and sporting clubs ordered to close



Exemptions

from curfew to: supermarkets, bakeries, grocers, and
pharmacies, (except for those inside malls), warehouses,
harbours, customs authorities, factories, construction sites,
internet and telecom operators, and delivery courier services.



Restaurants

and other food services ordered to close for table service.
May run deliveries throughout the day.



Hospitals

and all medical facilities exempted from
the curfew and will remain open.



**Media professionals, e-commerce couriers, delivery
personnel and industrial workers**
are allowed to move freely during the curfew





Banking sector

working hours: Employee working hours between 9 AM - 2 PM.
Banks are open to the public 9:30 AM - 1:30 PM.



Customs Authority

operational hours: 8 AM- 4:30 PM, prioritizing the release of food, medical supplies and other strategic products.
Running two shifts at airports.



Petrol stations

may operate during curfew
Tankers delivering petroleum products are exempt from the ban on movement



EGX

trading day shortened: 10 AM - 1:30 PM.
Price discovery will begin at 9:30 AM.



The GoE

extend decision to reduce the number of civil servants/ employees at public sector companies and institutions until April 23rd. Government services such as civil documentation, traffic department licensing and registration, and notary office services are suspended.



Penalties

for breaking the curfew: 4000 EGP fine and/or jail sentence.
Repeat offenders to face both fines and jails. First-time offenders would only get fined.

Assessment and Recommendations for Selected Sectors

Overview

- The GoE continues to act with quick and measured steps to mitigate the economic and health impact of COVID-19 crisis, issuing clear signals of a preference to **avoid a total lockdown of the economy** in order to provide ample breathing space for the economy. The GoE is expected to continue striking a careful balance between personal and economic health despite an evident drain on GoE resources, heavy capital flight, pronounced EMFX volatility, and a significant impact on various sectors and employment rates. And in parallel with extending a helping hand to the hardest hit sectors and industry players, the GoE is stepping up its demands for citizens and businesses alike to abide by strict health and sanitary measures and guidelines.
- The widespread conclusion among international experts is that “physical distancing” (often incorrectly referred to as social distancing) is an effective tool in slowing the spread of contagion. Consequently, the more the general population respects the guidelines recommended by the government and practices “physical distancing,” the more probable efforts to respond to the spread of the virus will be successful.
- With the tripling in the number of COVID-19 confirmed cases during the past two weeks, the GoE **raised the level of preparedness for the possible spread of the pandemic** to levels beyond the capacity of current medical facilities to absorb. In addition to the army’s intervention to set-up field hospitals and other medical facilities to enhance the civilian sector’s preparations for worst-case scenarios, public and military factories also began producing much needed medical products, including medical face masks. Arrangements for the maintenance and purchase of viable medical equipment, including ventilators, have also been stepped up, with notable support from the private sector.



Overview

- Yet a sustained rapid scale of GoE monitored **testing** of COVID-19, in government and non-government facilities, is needed. This is necessary to enhance the GoE and community's awareness of the gravity of the situation and alert those infected to take necessary quarantine measures. It is also important for Egypt to invest in its future needs for testing kits on a medium-long term basis as it develops its containment measures for newwaves of the pandemic, including in the fall of 2020.
- On a different note, the GoE signaled its intention to adopt a more strategic approach to enhancing Egypt's education, healthcare, and R&D sectors through a substantial increase in spending on each of these sectors in the upcoming FY20-21 budget. This is a major step forward. Spending on public wages, export subsidies pensions, and low income housing will also rise. It remains to be seen whether this shift will impact the GoE's cumbersome spending on other construction products.



The Informal Sector

- A significant challenge for the GoE is reducing the impact of the crisis on Egypt's informal sector. Despite the lack of accurate figures, it is widely believed that the informal sector currently employs over 40 % of Egypt's employed. The size of this sector has expanded despite the GoE's efforts to integrate informal workers into the formal economy. The GoE's precautionary measures, restricting the movement of consumers, led to a sharp decline in demand for products and services conducted by workers in the informal sector and small informal businesses.
- At the same time, informal employment remains the most vulnerable to infection and transmission of COVID-19. The absence of insurance coverage or paid leave limits the ability of such workers to adhere to quarantine measures. Weak compliance with health and occupational safety standards in workplaces where informal workers operate is also detrimental to the government's efforts to control the spread of the virus.
- Unfortunately, the current crisis will lead to a rise poverty rates in Egypt while the informal sector's employment slowdown negatively impacts the sources of income for millions of families.
- The GoE's initiative to grant a subsidy of EGP 500 to irregular labor is a positive step, but the speedy and innovative disbursement of these funds, and their sustainability as long as the crisis persists, is necessary. The GoE should also facilitate NGO's ability to operate and address growing social and economic needs.
- On their part, businesses need to exercise maximum restraint in dismissing workers during this delicate period, while at the same time provide adequate levels of occupational and health safety standards for all employees.



The Tourism Sector

- The tourism sector, and its associated activities including travel, hospitality and attractions is also getting hit the hardest during this time of crisis. Expected losses, at least until June 2020, will exceed EGP 80 billion.
- According to the Central Authority for Public Mobilization and Statistics (CAPMAS), the tourism sector represented 2.8% of total GDP and employed 3.1% of the total number of employees in Egypt in FY-2018-2019.
- Tourism revenues represented 16% of total current account receipts during the last financial year, making it the third highest source after remittances and non-petroleum exports, which have also witnessed a notable deterioration. Collectively, they have led to the first decline in Egypt's foreign currency reserves in many months.
- Unfortunately, the tourism industry is unlikely to see a revival in the near future due to the current travel restrictions and the lingering psychological impact of health risks associated with travel.
- The GoE's continued support to the tourism sector is much needed, including through additional extended tax reliefs and facilitated loan measures.



The Manufacturing Industry

- The impact of the COVID-19 crisis on manufacturing industries is unprecedented. The disruption in global supply chains is impacting the availability of imported primary and intermediate production inputs, which constituted 44% of total Egyptian imports in 2019.. The GoE's decisions to ban the export of certain products and equipment of strategic nature, together with the decline in global GDP growth, a local decline in production and sales, and the cancelation of hundreds of export contracts, restrictive curfew measures, have all added to the existing challenges facing Egypt's industrial sector.
- To address these challenges, the GoE has extended a lending hand to the industrial sector through various measures, including the deferral of corporate and real estate taxes. The GoE also eased restrictions on factories to the maximum extent possible under the current conditions, as reflected in the April 8th decree by the Prime Minister on curfew regulations. Supporting factories adjusting their production lines to suit current needs should also be considered.
- The **automotive sector** requires swift government intervention, having witnessed factory shutdowns and sharp declines in sales for various reasons, including the GoE's decision to suspend all licensing and registration activities during this period. Industry stakeholders have called on the GoE to resume vehicle licensing and registration measures through auto-dealers' representatives, on behalf of clients, as a precautionary physical distancing measure. Suggestions like these that provide some maneuvering ability for automotive players to keep their business alive during these challenging times, require the GoE's attention and support.



E-commerce

- Dependence on e-commerce has significantly increased, providing a major opportunity for the growth of this important sector in Egypt, both on the short and medium terms. Rising COVID-19 health concerns, accompanied by GoE-backed physical distancing measures, continue to encourage consumers to depend on online marketing sources for groceries, fresh food, hygiene products, clothes, medicine, electronics, and other products and equipment.
- While a number of factors come into play with regard to the future development of this sector, including broadband penetration, credit card accesses, strength of delivery infrastructure and numerous cultural differences, minimizing the operational impact of the GoE's mobility restrictive measures on the development of its e-commerce industry is a priority for industry stakeholders.
- The Prime Minister's decision on April 8, 2020 to exempt postal and e-commerce operations and services from curfew measures is a positive step forward and paves the way for careful consideration of additional means of enhancing Egypt's e-commerce sector. This would include, *inter alia*, further investments in Egypt's digital infrastructure, and in a geographically expanded fashion, to provide high-speed internet connectivity and services.
- The need for a clear policy and regulatory framework for e-commerce in Egypt is also imperative.



Thank you

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