

# DECODING THE ECONOMICS OF COVID-19

## IN THE KNOW (2)

A monthly economic update



# JULY 2020

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# 01. KEY ECONOMIC UPDATES

## On the real sector



44.6

Egypt's Purchasing Managers' Index (PMI)\* improved to reach **49.6 in July** up from 44.6 in June as **output** and **new orders** both expanded for first time in 12 months. New business also expanded as **export conditions** improved, leading to **slower declines** in employment and inventories.

\*Index measures business activity in the non-oil private sector; Below 50 = contraction, 50= neutral  
Source: IHS Markit



667

In May 2020, the number of **newly-established companies** fell to 667 compared to 1,704 in May 2019 (**60.9% y-o-y decline**) despite having improved by 171% on a monthly basis.

Source: CAPMAS



9.6%

The official unemployment rate increased from 7.7% in March 2020 to **9.6% in June** as a result of the COVID-19 pandemic and containment measures thereof.

Source: CAPMAS

## On the external sector (current account)

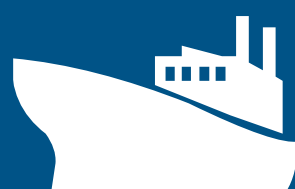


-3.8%

Egypt's total exports **declined by 3.8% on annual basis during July-May 2019/20** to record USD 26.5 bn, down from USD 27.5 bn a year earlier. Underpinning this fall is a **1.9% decline in non-oil exports** as well as 24.9% and 4.7% decline in exports of crude oil and petroleum products, respectively.\*

Source: CAPMAS

\*While imports and exports data published by CAPMAS can differ in magnitude from the CBE's BoP data (yet to be published), we expect the direction to be the same.



-0.5%

Suez Canal revenue **fell by 0.5% in FY 2019/20** ending in June. It is worth noting that revenues **had fallen by 12% in May 2020** driven by a 10% decline in net tonnage compared to the same month a year earlier.

Source: Suez Canal Authority (SCA)



-13.9%

Egypt's total imports **declined by 13.9% on annual basis during July-May 2019/20** to record USD 65.2 bn, down from USD 75.7 bn a year earlier. Underpinning this fall is an **11.1% decline in non-oil imports** as well as 47.2% decline in imports of petroleum products despite a 1.5% increase in crude oil imports.

Source: CAPMAS

# 01. KEY ECONOMIC UPDATES

## On the capital & financial account



An **outflow** of **USD 17.5 bn** of foreign investments in Gov't securities took place until May. However, **capital outflows have recently started to reverse**, with portfolio inflows totalling around USD 3 bn in June. Inflows have **further accelerated in July**, but the exact official figure is yet to be released.

Source: Ministry of Finance (MoF) & Enterprise press



To finance net outflows of foreign currency, USD 7.3 bn & USD 6.3 bn of **foreign reserves of CBE & commercial banks**, respectively, were used till the end of June. In **July 2020**, CBE reserves increased marginally by USD 113 mn to stand at USD 38.3 bn.

Source: Central Bank of Egypt (CBE)



In addition to the use of reserves, foreign borrowing included **USD 4.8 bn\*** from the **IMF** in May and June as well as **USD 5 bn Eurobond issuance** in May. More details about recent loans and grants in page 16.

Source: IMF & MoF

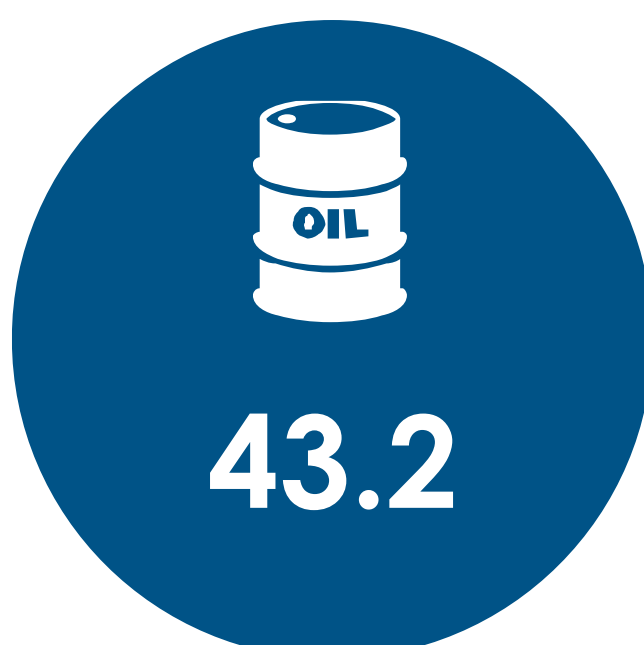
\*Disbursement of the 2.8 bn RFI arrangement approved in May and a USD 2 bn tranche (of the USD 5.2 bn SBA arrangement) approved in June

## Other indicators



The Egyptian Pound averaged **EGP 16.0 per USD** in July 2020 compared to EGP 16.2 per USD in June.

Source: Central Bank of Egypt (CBE)



Global Brent crude oil price rose to **USD 43.2 per barrel in July 2020** up from USD 40.2 per barrel in June- an increase of 7%.

Source: Energy Information Association



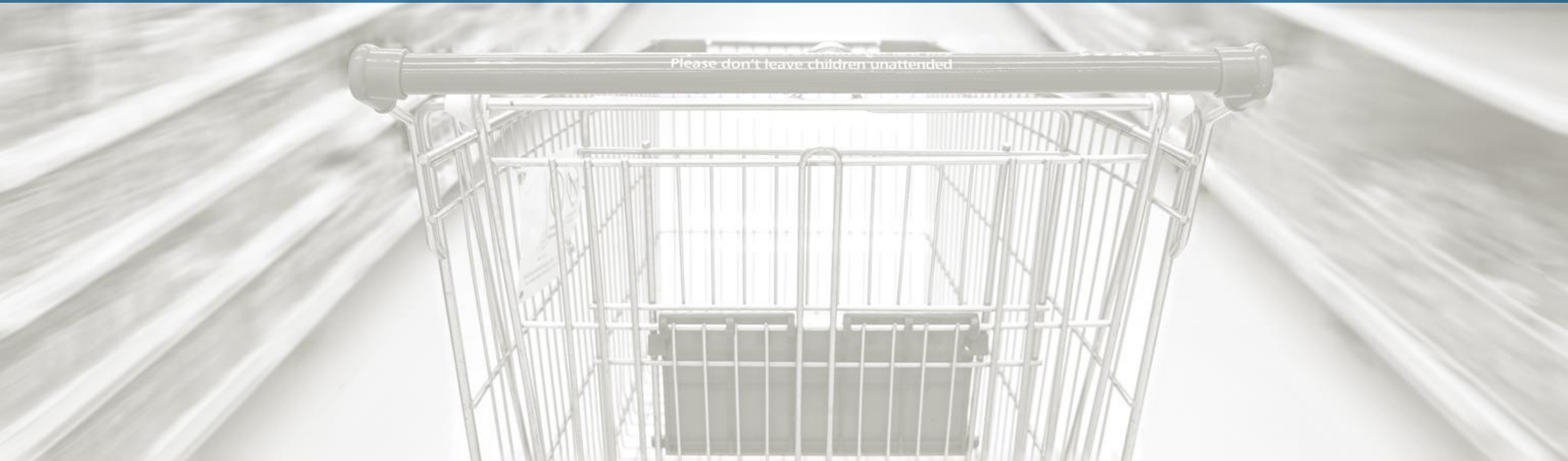
Annual headline inflation increased by 0.9 PPT to record **5.6% in June 2020**, up from 4.7% in May, mainly driven by higher education, utilities and transportation prices (y-o-y). Accordingly, **FY 2019/20** closed at an **average inflation of 5.7%** compared to 13.9% in FY 2018/19.

Source: CAPMAS



# 02. GOVERNMENT'S CONSUMER SPENDING INITIATIVE

On July 12<sup>th</sup>, Planning Minister Hala El-Said announced an initiative by the government to stimulate private consumption by offering discount rates of up to 25% for citizens buying durable goods and food commodities.



## GOAL

- The goal of the initiative is to stimulate EGP 125 bn worth of consumer spending from the end of July until January 2021 (equivalent to around 3% of private consumption as per FY 2018/19 figures).
- Though originally planned to run for 3 months, the initiative could run further into 2021 if proven to be successful.
- It will initially cover durable goods and food items.
- Stimulating consumption will help partly mitigate the negative effects of COVID-19 on GDP.
- The initiative also aims at increasing the production rate at factories and encouraging financial inclusion.
- As of July 26<sup>th</sup>, almost 1,200 manufacturers joined the initiative and agreed to offer an average of 20% discounts on about 4,200 products.
- The government will spend more than EGP 12 bn to subsidize an extra 10% discount for ration card holders who will get an extra EGP 200 per family member on a ration card with a maximum of EGP 1,000 per family in the program.
- Some banks and finance companies joined the initiative and will provide low-interest loans for consumers who want to buy goods covered by the initiative. This will also help increase financial inclusion in Egypt.

## HOW?

- The initiative officially started on July 26<sup>th</sup> 2020.
- Consumers can buy durable goods including electronics, appliances, clothes, leather products and furniture through a website set up by the government or buy the same products on sale in stores.
- There is no limit to the number of discounted goods an individual can buy.
- Agreeing with manufacturers and merchants to offer 15-25% discount on consumer goods for all citizens, especially durable goods and food commodities.

## CASH BALANCE

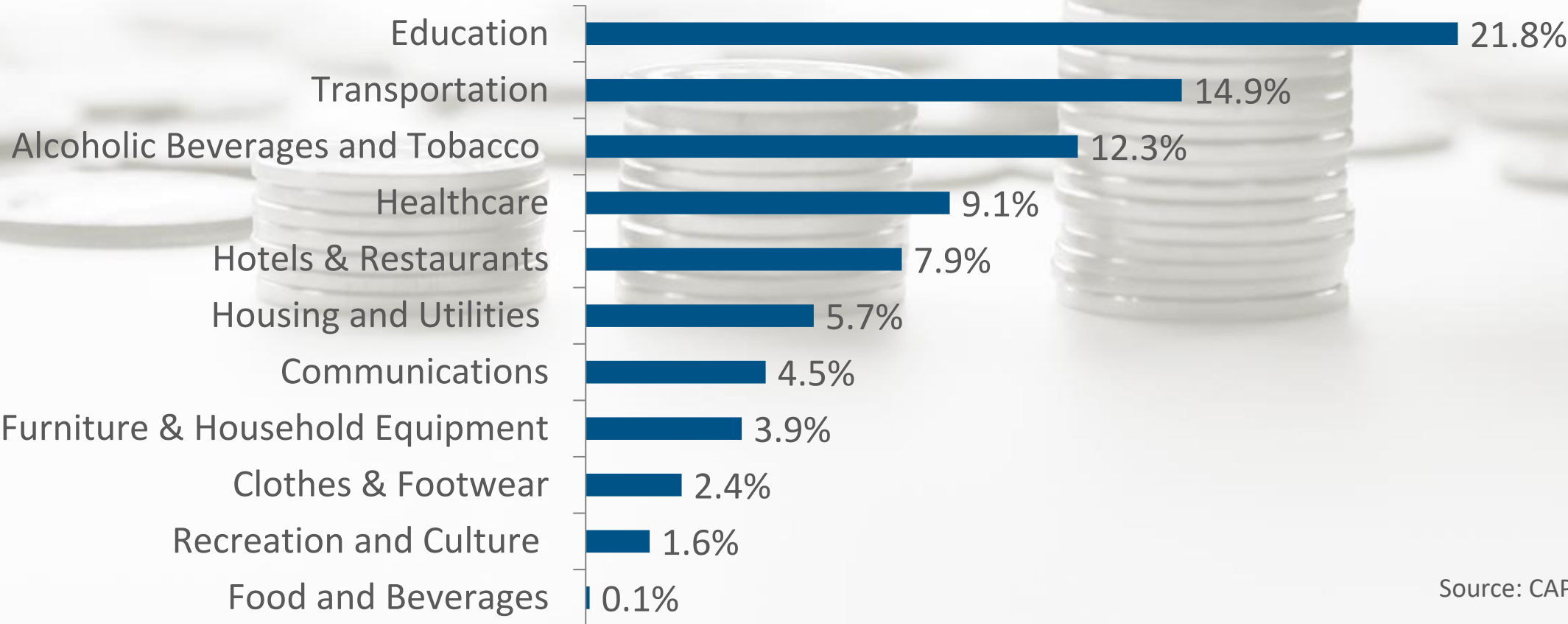
- Finance Minister Mohamed Maaait announced on August 5<sup>th</sup> that starting August, ration card holders would be able to use the unused cash balance and bread points on their cards to buy durable and non-durable goods from merchants involved in the initiative.

# 03. ANNUAL HEADLINE INFLATION IN JUNE 2020

Annual headline inflation increased by 0.9 PPT to record 5.6% in June 2020, up from 4.7% in May, mainly driven by higher education, utilities and transportation prices (y-o-y).

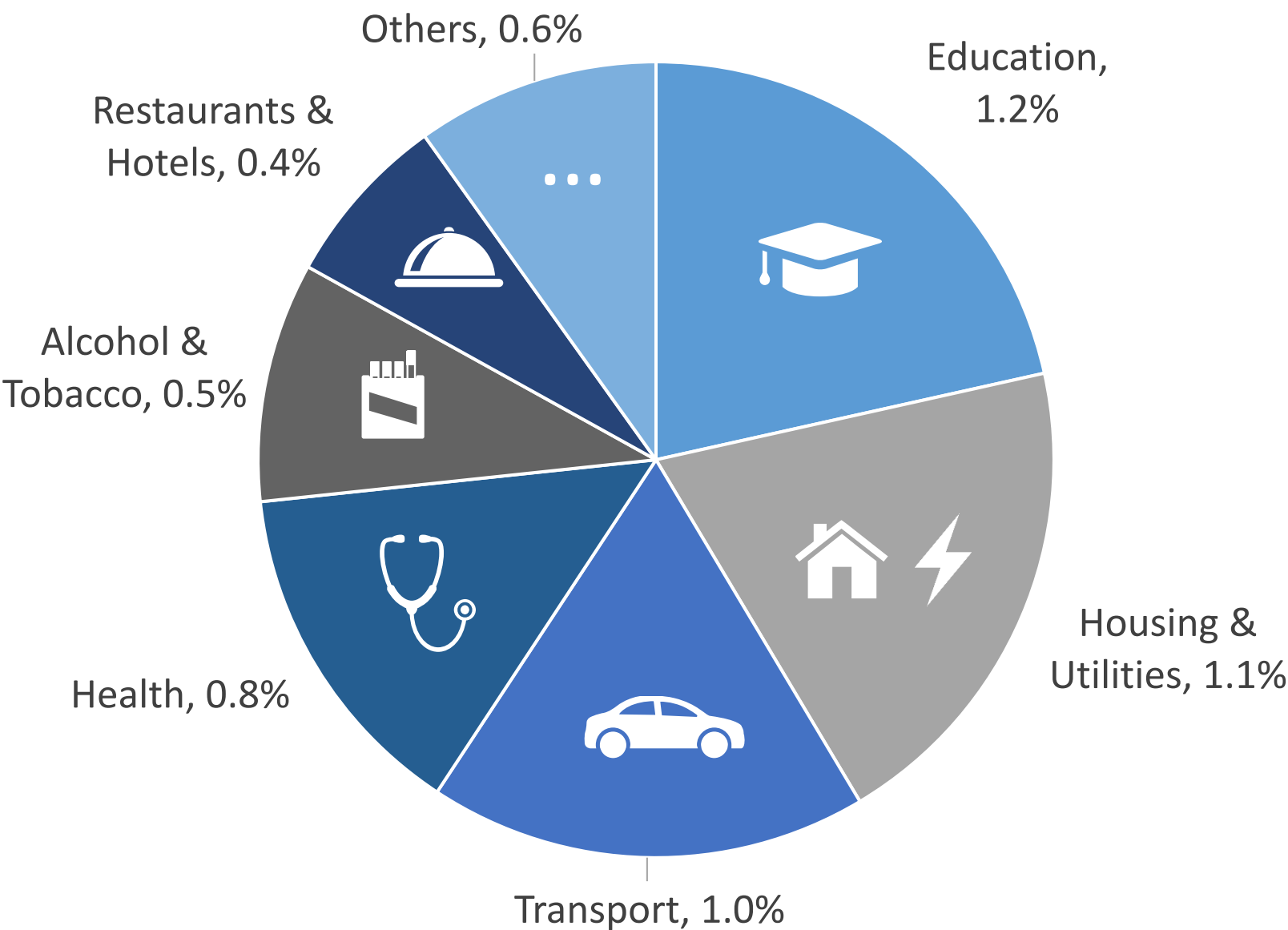
Below is the categorical breakdown thereof.

ANNUAL HEADLINE INFLATION BY CATEGORY IN JUNE 2020  
(Y-O-Y CHANGE)



Source: CAPMAS

CONTRIBUTION\* TO ANNUAL HEADLINE INFLATION  
IN JUNE 2020

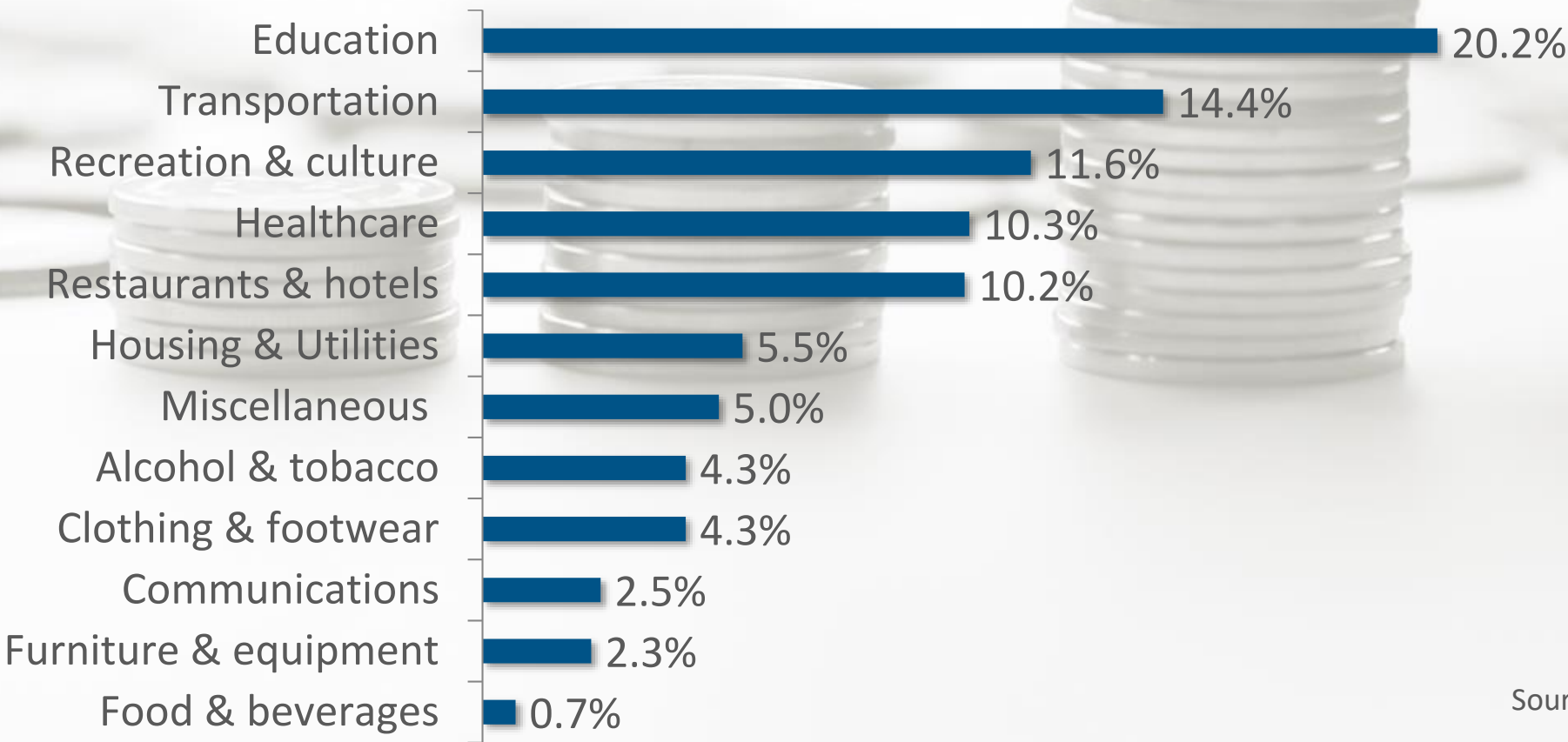


\*Annual increase multiplied by share in CPI basket of goods  
Source: CAPMAS & Dcode EFC calculations

# 03. ANNUAL HEADLINE INFLATION IN FY 2019/20

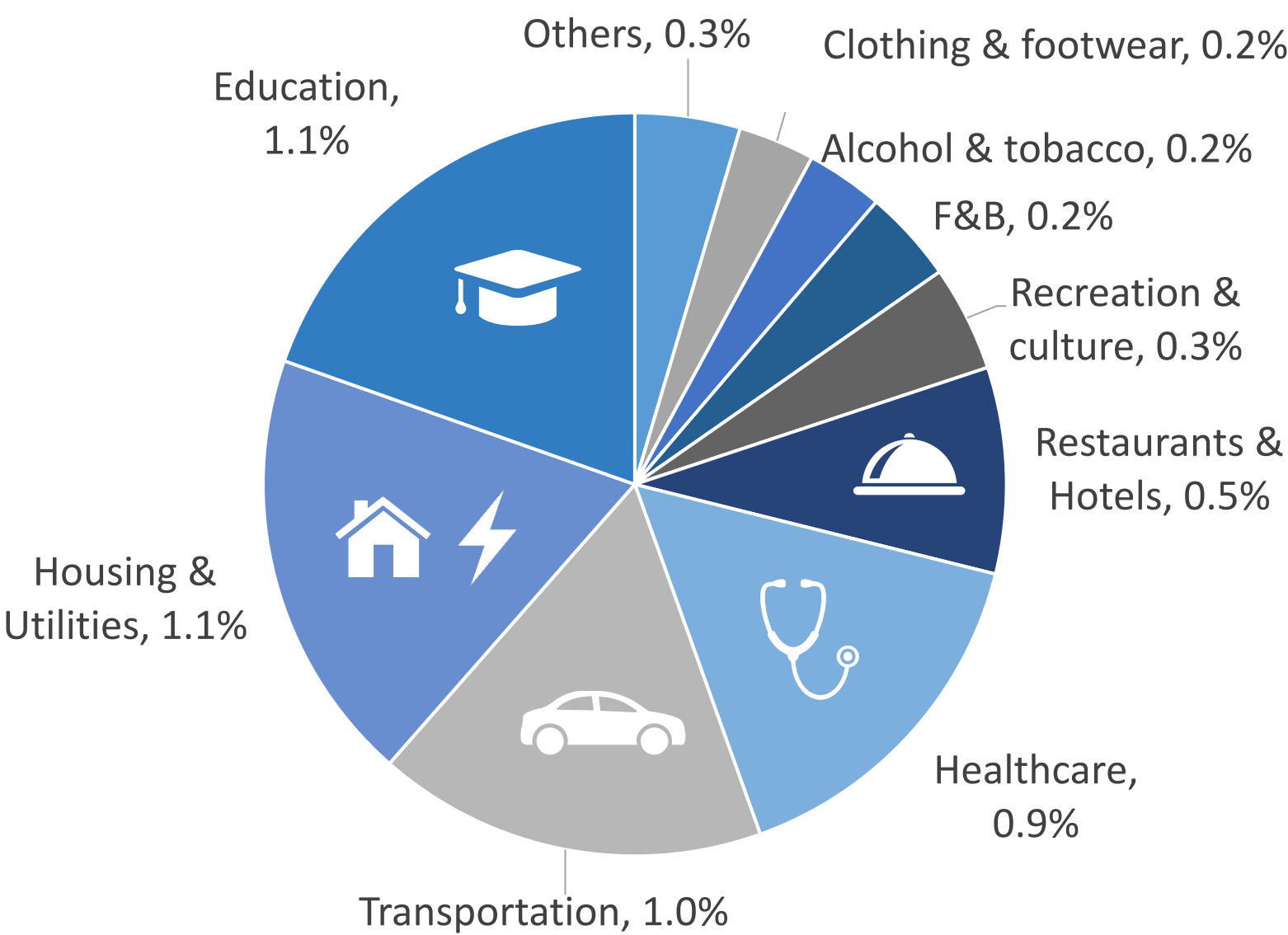
Accordingly, FY 2019/20 closed at an average inflation rate of 5.7% compared to 13.9% in FY 2018/19 as per the below breakdown:

ANNUAL HEADLINE INFLATION BY CATEGORY IN FY 2019/20 (Y-O-Y CHANGE)



Source: CAPMAS

CONTRIBUTION\* TO ANNUAL HEADLINE INFLATION IN FY 2019/20



\*Annual increase multiplied by share in CPI basket of goods  
Source: CAPMAS & Dcode EFC calculations

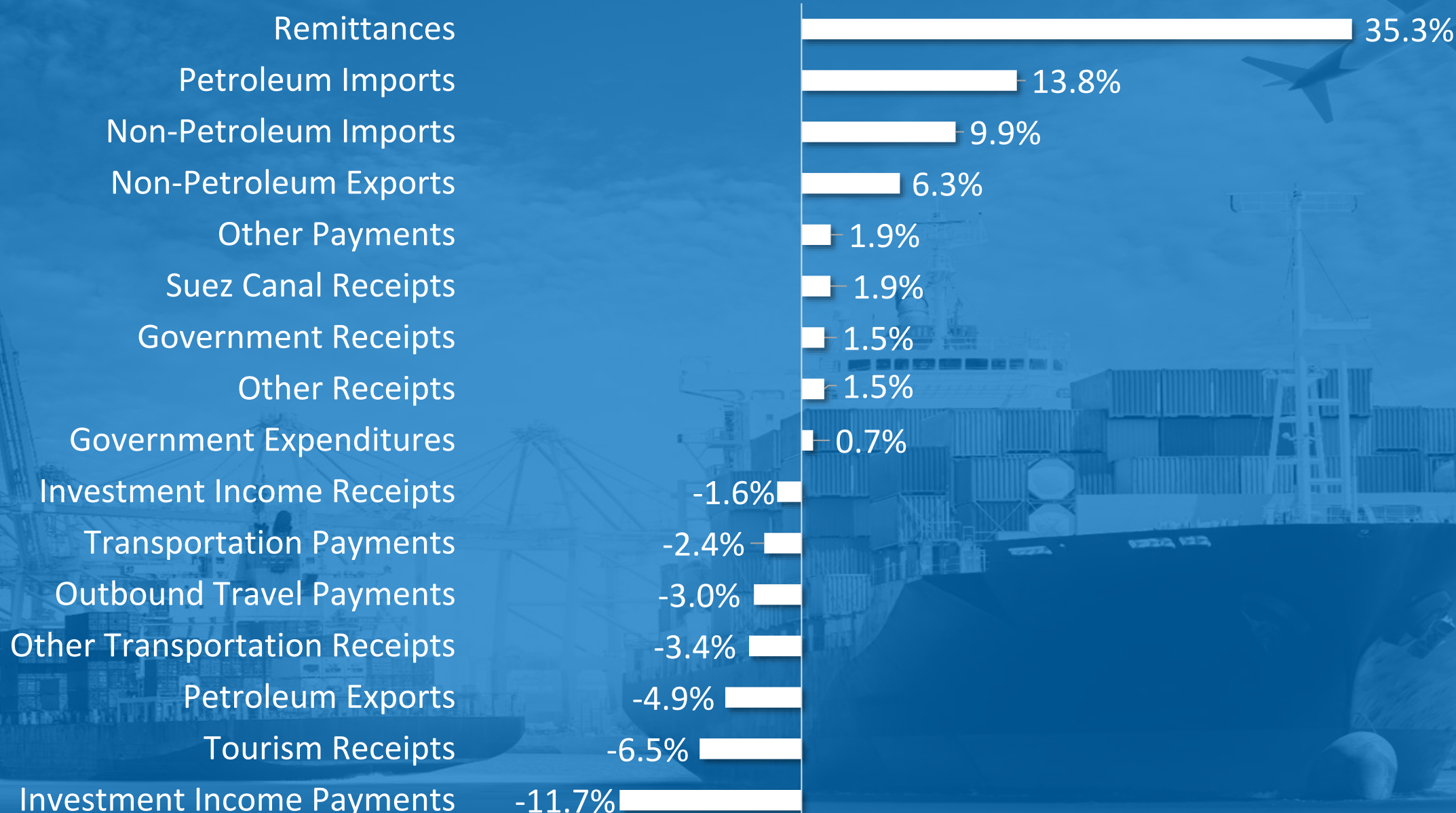


# 04. BALANCE OF PAYMENTS PERFORMANCE DURING Q1 2020

According to the Central Bank of Egypt (CBE), Egypt's overall Balance of Payments recorded an **outflow** of USD 5.5 bn during Q3 2019/20 (Jan-Mar. 2019/20) compared to an inflow of USD 1.4 bn during the same period a year earlier (Jan-Mar. 2018/19). On one hand, the **Capital and Financial Account** witnessed an **outflow** of USD 1.1 bn compared to an inflow of USD 6.5 bn a year earlier as both foreign direct and portfolio investments have plummeted in the wake of the COVID-19 pandemic and the worsening of global investment sentiment.

The **Current Account deficit**, on the other hand, **narrowed** (improved) by 39.2% to record USD 2.8 bn down from USD 4.5 bn a year earlier, mainly driven by an **improvement in workers' remittances** and a **reduction in import payments** –as expected in Dcode EFC's Economic Outlook report published in May 2020– that came as a result of lower oil prices as well as lower demand on non-petroleum imports- a byproduct of slower economic activity.

## Contribution to Current Account Deficit Reduction during Jan-Mar. 2020 (Total Improvement: 39.2%)\*



\*Chart represents the contribution of different items to the improvement in current account (annual change multiplied by share in current account)  
Source: CBE & Dcode EFC calculations

More details in Dcode EFC's Balance of Payments report published in July 2020.



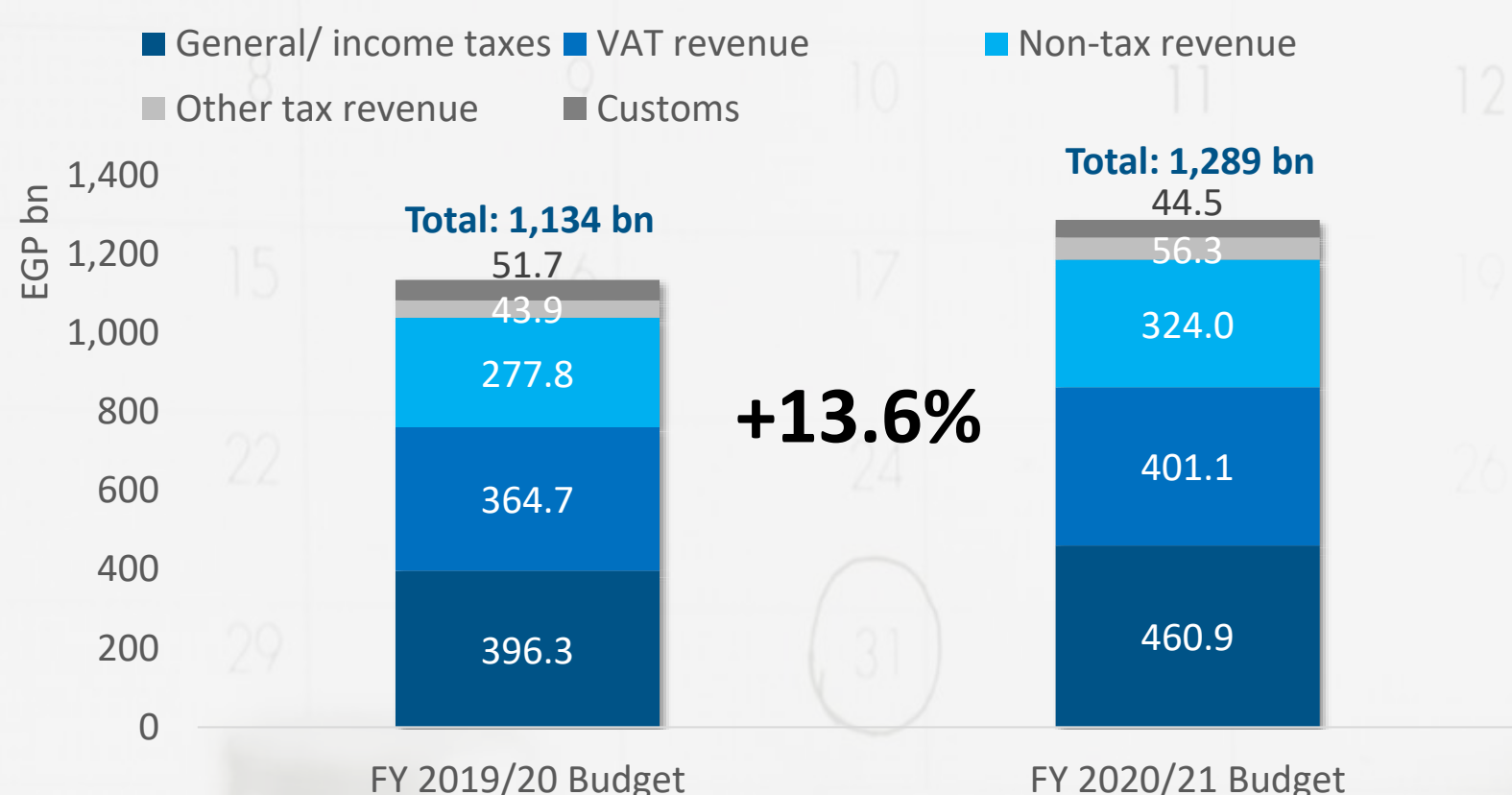
# 05. KEY TAKE-AWAYS OF FY 2020/21 BUDGET

Egypt's budget for FY 2020/21 came into force on July 1<sup>st</sup> targeting an overall deficit of 6.3% of GDP.

The budget is set to be revised by the end of Q1 2020/21 with the Ministry of Finance (MoF) planning to adjust key assumptions to account for recent developments caused by the COVID-19 pandemic.

MoF had opted to move forward with assumptions set prior to the COVID-19 outbreak to meet the constitutional deadline for submitting the budget.

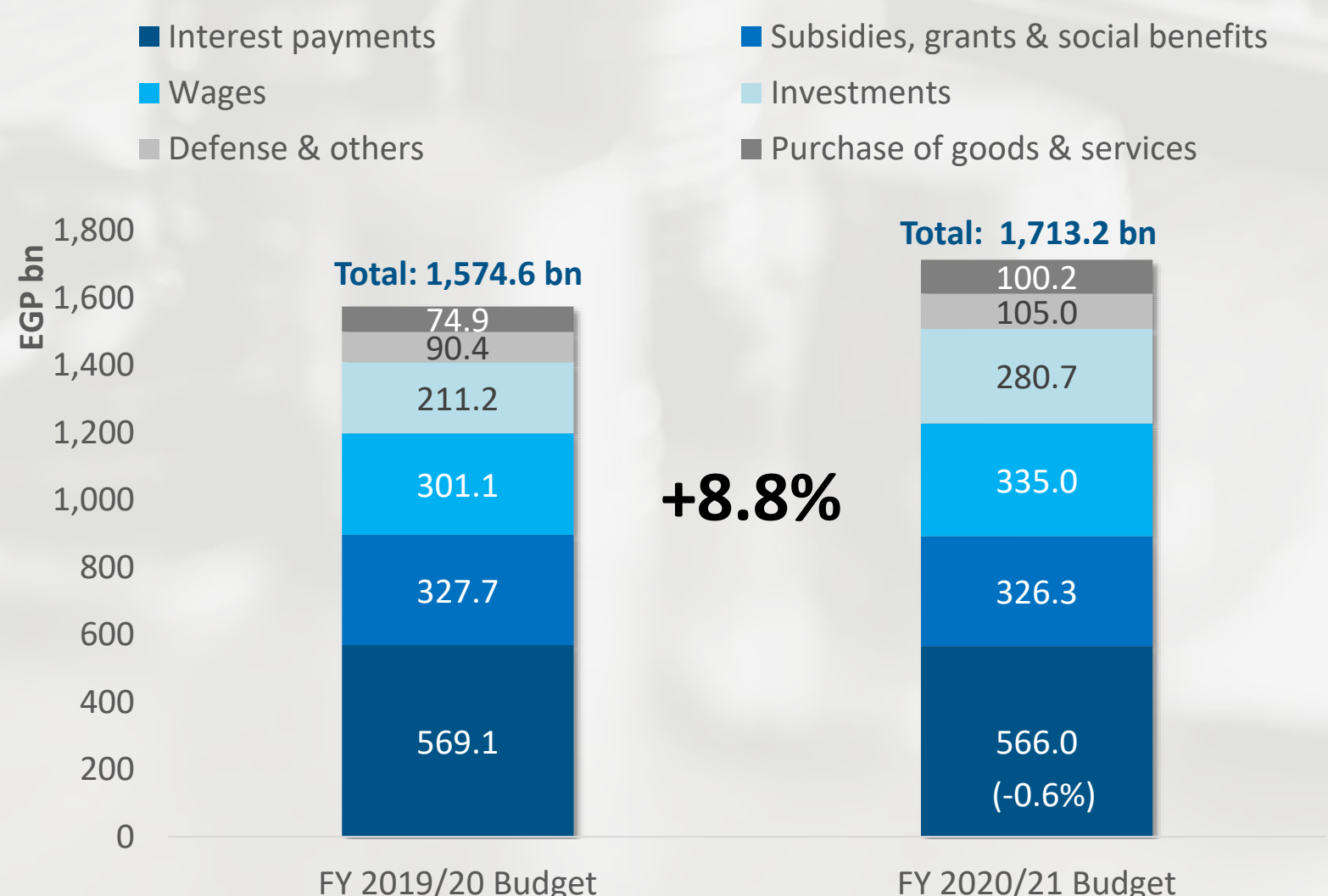
## Revenues (EGP bn)



## ON THE REVENUE SIDE..

- **13.6% increase in total revenue**
- **12.6% increase in tax revenue**
- **16.3% increase in income taxes**
- **10.0% increase in VAT revenue**
- **16.6% increase in non-tax revenue**
- **32.8% increase in other taxes**
- **-14.0% decline in customs**

## Expenditures (EGP bn)



## ON THE EXPENDITURE SIDE..

- **8.8% increase in total expenditures**
- **-0.6% decline in interest payments**
- **-0.4% decline in subsidies, grants & social benefits**
- **11.3% increase in wages**
- **32.9% increase in investments**
- **16.1% increase in defense & others**
- **33.7% increase in purchases of goods & services**

Source: Ministry of Finance (MoF)

# 05. KEY TAKE-AWAYS OF FY 2020/21 BUDGET (CONT'D)

## THREE SCENARIOS

In June 2020, Finance Minister Mohamed Maait announced 3 different scenarios for budget revenues and the overall deficit (as % of GDP) based on how the pandemic will play out as follows:



Source: Ministry of Finance (MoF)

## Dcode EFC's View

- The government will try to limit the fiscal impact of the crisis through **controlling expenditure**. This will be supported by lower oil prices and lower interest rates.
- We also expect a slowdown in budgeted government investments to try and contain the budget deficit.
- We project the budget deficit to reach **at least 8% of GDP** in FY 2020/21.

More details in Dcode EFC's Economic Outlook report published in May 2020.

To subscribe to the report and know more about our offerings, contact us on: <https://dcodeefc.com/contact-us>



# 06. KEY POLICIES & STRUCTURAL BENCHMARKS

UNDER THE IMF'S SBA ARRANGEMENT

On August 10<sup>th</sup>, the IMF published Egypt's Country Report No. 20/266, maintaining its 2% growth forecast for the current fiscal year (2020/21). In this section we focus on key policies and structural benchmarks that will be used to assess the SBA program implementation and approve upcoming tranches.

## A. Key Policies



Easing fiscal policy to support crisis spending on health & targeted support for most-affected groups.



Maintaining inflation within the CBE's target range of 9 ( $\pm 3$ ) percent.



FX flexibility, with intervention limited to "disorderly market conditions".



Safeguarding financial stability while supporting heavily-affected borrowers.



Reducing gross financing needs & mobilizing additional revenues.



Continuing structural reforms to support private sector development & improve governance.

Source: IMF Country Report No. 20/266

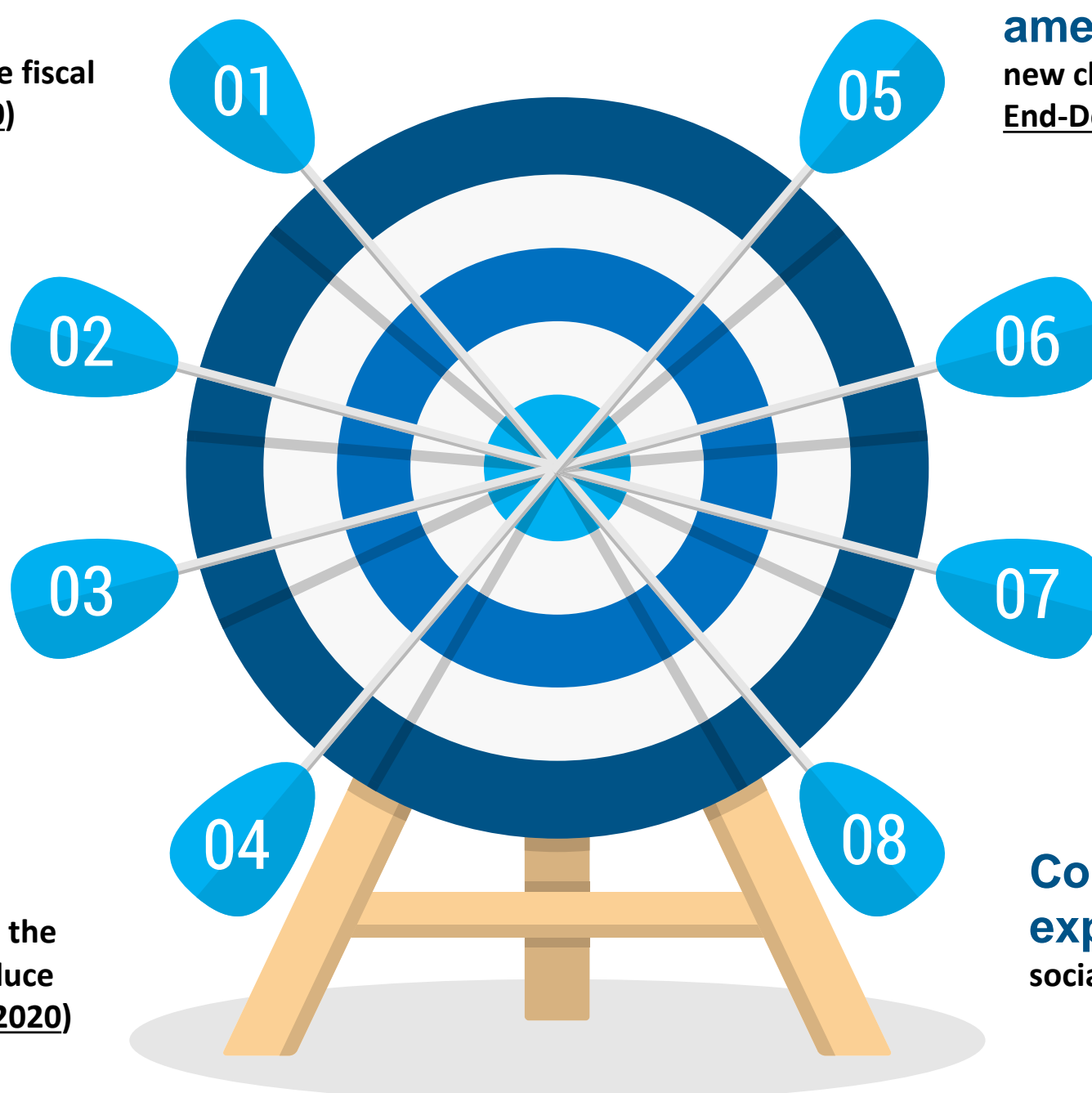
## B. Structural Benchmarks

**Publishing an updated SOE\* report** to include detailed financial information for FY 2018/19 and ensure fiscal transparency (by End-September 2020)

**Approving the Medium-Term Revenue Strategy** to increase tax revenue (by End-December 2020)

**Submitting the revised PFM\*\* law** to the Parliament to strengthen the entire budget process and improve governance (by End-December 2020)

**Updating the debt management strategy** with the focus on lengthening maturities to reduce debt vulnerability (by end-December 2020)



**Submitting competition law amendments** to the Parliament to add a new chapter on mergers and acquisitions (by End-December 2020)

**Developing a reform plan for NIB** (National Investment Bank) to strengthen public finances (by End-January 2021)

**Passing the draft customs law** that streamlines customs procedures to enhance the business climate (by End-March 2021)

**Completing public expenditure review** to enhance social protection (by End-April 2021)

\* State-Owned Enterprises \*\*Public Financial Management  
Source: IMF Country Report No. 20/266

# 07. MSME DEVELOPMENT LAW

On July 15<sup>th</sup>, MSME Development Law No. 152 of 2020 was published in the official gazette, replacing the previous Small Enterprises Law No. 141 of 2004 and widening its scope.


## MSMES: DEFINITION\*

	Annual Turnover (EGP)	Newly Established Enterprise** Capital (EGP) Manufacturing Sector	Newly Established Enterprise** Capital (EGP) Non-Manufacturing Sector
Micro	< 1 mn	< 50 K	< 50 K
Small	1 mn - < 50 mn	50 K - < 5 mn	50 K - < 3 mn
Medium	50 mn - < 200 mn	5 mn - < 15 mn	3 mn - < 5 mn


\* Flexible amendment of thresholds by a Prime Ministerial Decree.

\*\*Established, registered or started operations for 2 years.


## ENTERPRISES ELIGIBLE FOR INCENTIVES




Informal enterprises applying to formalize




Manufacturing enterprises that are increasing local components or renovating production technology




Entrepreneurial enterprises (Innovative enterprises operating for < 7 years\*)



Serving agricultural and animal production



IT or related sectors, digital transformation and AI



New and renewable energy

\* MSMEDA Board of Directors is to issue clarification.

## NON-TAX FINANCIAL INCENTIVES\*



Free, discounted or partial cost reimbursement for allocation of land.



Financial incentives from the State Budget (up to 0.3% of GDP, min. of EGP 1.5 bn annually).



Partial or total reimbursement of the cost of participation in exhibitions.



Full or partial reimbursement or postponed payment of infrastructure cost (utilities installation).



Facilitated financing against allocated property.



Conditional financial incentives to NBFIs investing in entrepreneurial enterprises.



Cost-sharing of workers' technical training.



Facilitation of social security procedures, costs and commercial registration.\*\*



Exemption of patent registration fees.

\* Some incentives are applicable to incubators and accelerators and MSME support institutions establishing industrial, production, vocational or service parks with slots for MSEs.

\*\* Micro enterprises only.



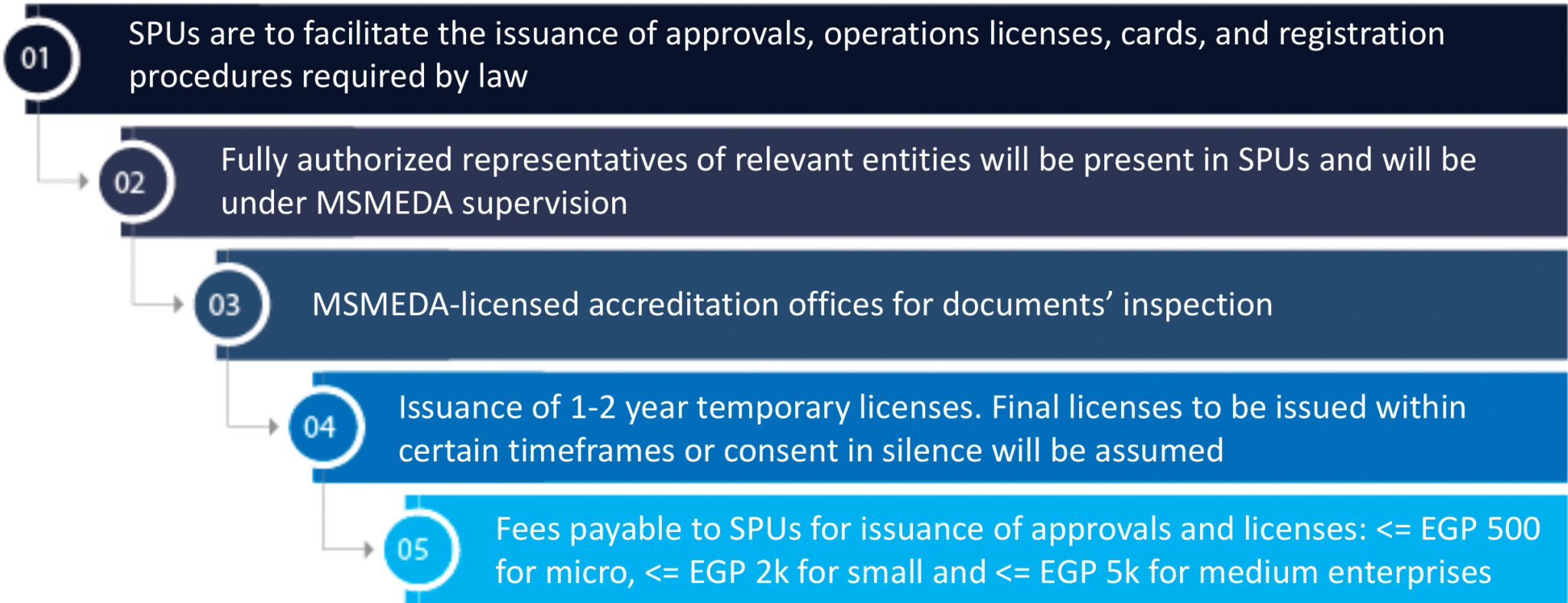
TAX INCENTIVES

 Simplified income tax regime and bookkeeping rules	 MSMEs can opt out of this tax regime if they have realized losses	 Dividends distribution in one-person companies is not subject to income tax	Turnover (EGP)	Income Tax
 Unified custom duty rate of 2% on imported machinery required for establishment	 Tax exemption of capital gains resulting from sale of assets/ machinery*	 Possible partial or full exemption of property tax on buildings**	< 250 k	EGP 1 K
			250 k - < 500 k	EGP 2.5 K
			500 k - < 1 mn	EGP 5 K
			1 mn - < 2 mn	0.50% of turnover
			2 mn - < 3 mn	0.75% of turnover
			3 mn - < 10 mn	1% of turnover***


\*If the proceeds are used to purchase new production machinery or equipment within a year  
\*\*For MSEs only, for a defined period of time  
\*\*\* For 5 years.

NON-FINANCIAL INCENTIVES


A. Establishment of MSME Service Provision Units (SPUs) in MSMEDA and GAFI offices




B. Land Allocation




30% of unutilized land in industrial zones among others\* shall be allocated to MSMEs



Pertinent authorities shall be responsible for the land utilities and planning




Information and maps on available land shall be made available at SPUs




Allowing industrial parks serving agri. & animal production on agricultural land



If land is purchased by MSEs, price should be limited to utilities' installation cost



Usufruct contracts against an annual charge of 5% of the estimated buying cost



Facilitation of payment for the land allocation (e.g. installments...etc)

\*In addition to touristic areas, urban communities, agricultural reclamation lands (as relevant).

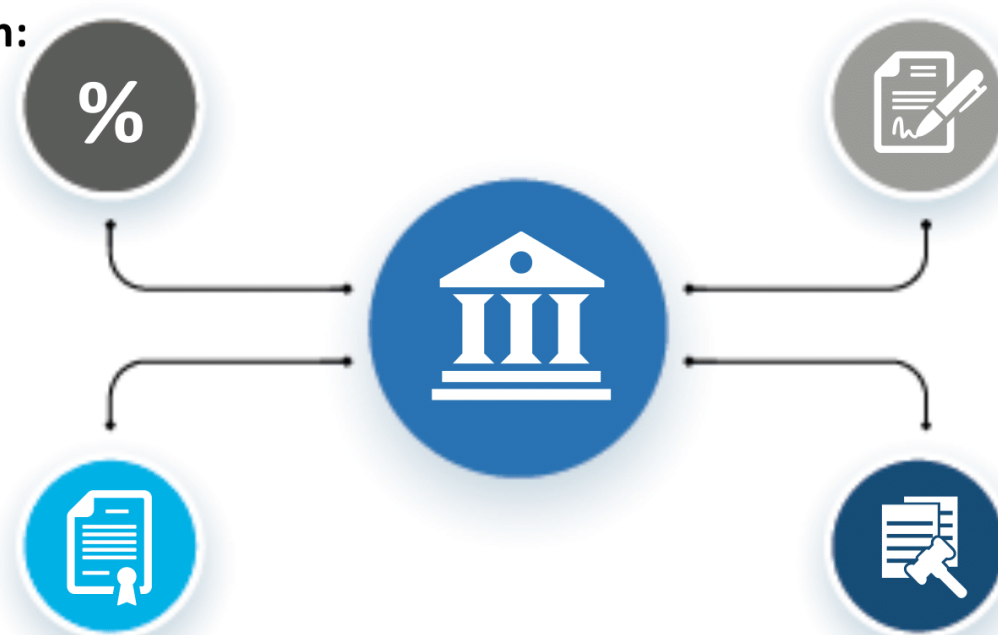


## NON-FINANCIAL INCENTIVES (CONT'D)

### C. Public Procurement

Public entities' contracts allocation:

- No less than 20% to medium enterprises, and
- No less than 20% to MSEs



Contracts include purchase of goods, services, works, consultancies and art works

Preferential contracts with MSMEs can be used

Certain tenders can be exclusive for MSEs

## INFORMAL SECTOR

### A. Licensing

Temporary 5-year license to operating informal enterprises\* applying to formalize\*\*



Temporary license fees: ≤ EGP 1k for micro, ≤ EGP 5k for small and ≤ EGP 10k for medium enterprises

\*With the exception of informal enterprises with major health, safety, security or environment hazards

\*\*Applying to formalize within one year of the law enforcement; a period extendible by the MSMEDA and the Prime Minister.

### B. Incentives to formalize



Facilitated allocation of property (land or premises)

Facilitated social security procedures, costs\* & commercial registration

Current lawsuits & penalties against informal enterprises shall be put on hold\*\*

Applying the MSME income tax rates for formalizing enterprises\*\*\*

5-Year exemption of stamp duty & notarization fees for registering contracts

No retroactive application of taxes

\* MSEs only.

\*\*During the temporary license period, excluding tax evasion felonies for tax registered enterprises.

\*\*\*That are not already tax registered.



## MSME DEVELOPMENT AGENCY (MSMEDA)



Direct reporting to the  
Prime Minister



Flexible  
administrative rules



Registering MSMEs &  
issuing incentives  
certificates



Must be consulted  
when drafting relevant  
laws

## MSMEDA SERVICES

### Financing



- MSMEs
- Certain financial institutions
- Incubators and accelerators



### Information



- Investment opportunities in governorates
- Enterprise risk
- Production techniques
- Marketing
- Franchising
- Service providers

### Support



- Preliminary feasibility studies
- Consulting on sourcing equipment, machinery and supplies.
- Simplified guidelines on dealing with public entities
- Participation in exhibitions
- Provision of training
- Preserving heritage

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# 07. OTHER NEWS HIGHLIGHTS

## LOANS & GRANTS

**EU Grant for Renewable Energy:** The EBRD stated in a press release on June 30<sup>th</sup> that the EU would provide EUR 24.8 mn grant to expand the EBRD's Green Energy Financing Facility (GEFF) which it launched to help Egyptian businesses invest in renewable energy.

**USD 105 mn from USAID:** The Ministry of International Cooperation stated on June 30<sup>th</sup> that the USAID had agreed to provide USD 105 mn in financing for five development projects in Egypt, including digitizing governmental services, and supporting women economically and socially.

**AECID Grant for Female Empowerment:** During its weekly meeting on July 1<sup>st</sup>, the Cabinet signed off on an agreement with the Spanish Agency for International Development Cooperation (AECID) to receive EUR 200K grant for a female empowerment initiative in Upper Egypt.

**KWD 75 mn from AFESD:** During the same meeting, the Cabinet also signed off an agreement to receive KWD 75 mn from the Arab Fund for Economic and Social Development to fund the construction of the USD 1 bn Bahr El Baqar water treatment system.

**USD 90 mn Grant from US:** According to a Cabinet statement on July 9<sup>th</sup>, the International Cooperation Ministry signed six agreements worth a total of USD 90 mn with USAID to fund education, scientific research, health, trade and investment, and agriculture.

**CAD 14 mn from Canada:** According to a Cabinet statement on July 11<sup>th</sup>, the International Cooperation Ministry inked two agreements worth a combined CAD 14 mn with the Canadian embassy focused on the socio-economic empowerment of women.

**USD 95 mn from the OPEC Fund:** The Cabinet stated on July 15<sup>th</sup> that it had approved a USD 95 mn facility from the OPEC Fund for International Development to support SMEs.

**USD 50 mn from the IBRD:** The Cabinet also announced on July 15<sup>th</sup> the approval of a USD 50 mn facility from the International Bank for Reconstruction and Development to support the state's efforts to combat the COVID-19 pandemic.

**EUR 150k grant from Spain:** On the same day, the Cabinet also approved EUR 150k grant from Spain to finance creating job opportunities for young people through training for employment and establishing companies as well as evaluating projects, consulting, organizing conferences and establishing networks.

**USD 3.9 bn Loans and Grants from Afreximbank:** On July 15<sup>th</sup>, the African Export-Import Bank said in a press release that the bank earmarked USD 3.9 bn for Egypt to mitigate the COVID-19 fallout and stimulate trade with the rest of the continent. The Bank also signed off on a USD 250k grant to the government to support COVID-19 relief efforts.

**A USD 9 mn grant from Japan:** According to a statement by the Ministry of International Cooperation on July 18<sup>th</sup>, Japan is providing a USD 9 mn grant for medical equipment to Egypt's Ministry of Health.

**Total EUR 1.9 bn loan agreed with EIB:** International Cooperation Minister Rania Al Mashat stated on July 19<sup>th</sup> that Egypt had reached an agreement with the European Investment Bank (EIB) to receive a loan that includes EUR 800 mn for "COVID-19 related business investment" and another EUR 1.1 bn for public transportation infrastructure development.

Source: Enterprise Press



**EGP 1.5 bn Loan from EBRD:** The European Bank for Reconstruction and Development announced in a statement on July 21<sup>st</sup> that it would invest EGP 1.5 bn in the New Urban Communities Authority's (NUCA). This brings the lender's total investments in NUCA's bond program to EGP 3 bn.

**USD 500 mn Loan from IBRD:** On the July 22<sup>nd</sup>, the Cabinet ratified a USD 500 mn extension to a World Bank facility to improve access to low-income housing and bolster the state's Social Housing Mortgage Finance Fund.

**KfW Bank donates EUR 15 mn:** According to a press release on July 27<sup>th</sup>, the United Nations World Food Program in Egypt will receive EUR 15 mn contribution from the German KfW Development Bank to launch a new two-year program to support 136k low income families in rural areas providing them with their food, school meals, educational support, and income-generating programs for women and youth.

**National Railways Authority to borrow EUR 100 mn:** The National Railways Authority will sign EUR 100 mn syndicated loan with a consortium of local banks to pay Siemens to develop railway lines, according to unnamed sources on July 26<sup>th</sup>. The loan will carry a tenor of 3-5 years and will be guaranteed by the Ministry of Finance (MoF).

**Germany lends Slum Development Fund EUR 24 mn:** According to an announcement by the Slum Development Fund Head on July 27<sup>th</sup>, the fund is negotiating EUR 24 mn grant from an unspecified German government donor to "eliminate unsafe areas". He added that the fund had earlier received EUR 31 mn grant from the European Investment Bank.

**USD 639 mn Loan from Arab Monetary Fund:** The Arab Monetary Fund announced on July 29<sup>th</sup> that Egypt had signed a USD 639 mn loan with the fund to support reform efforts and measures taken to help limit the economic and financial repercussions of COVID-19.

## BUSINESS INCENTIVES

**Economic Zones Incentives:** Suez Canal Authority announced in a circular dated June 28<sup>th</sup> that it is offering 8% rebate for ships launching from northwest Europe and then travelling directly from Spain's Santander Port to the Port of Singapore.

**Banks dole out EGP 69 bn to local industry:** Egyptian banking sources announced on July 5<sup>th</sup> that banks have handed out EGP 69 bn in loans to over 4k businesses under the CBE's EGP 100 bn subsidized loan initiative.

**The Government backstop up to EGP 2 bn loans:** According to Finance Minister Mohamed Maait on July 12<sup>th</sup>, the government will set aside EGP 2 bn from the state budget in a dedicated holding fund that would guarantee mortgages and consumer loans in an effort to stimulate lending and support consumer spending.

**Agricultural Land Tax Suspension:** The President ratified on July 14<sup>th</sup> a two-year suspension of the 14% agricultural land tax, extending a three-year suspension that began in 2017 until 2022.

**Export Subsidies:** The Cabinet stated on July 20<sup>th</sup> that the Export Subsidy Fund had doled out a total of EGP 6 bn to 1,667 companies in FY 2019/20. The government has also earmarked another EGP 7 bn in its FY 2020/21 budget.

**“Advice  
is judged by results,  
not intentions”**