

DECODING THE ECONOMICS OF COVID-19

IN THE KNOW (3)
A monthly economic update

SEP-2020

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01. KEY ECONOMIC UPDATES

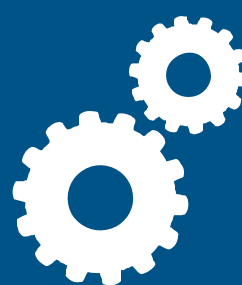
On the real sector



49.4

After reaching a 12-month high of 49.6 in July, Egypt's Purchasing Managers' Index (PMI)* witnessed a downtick to record **49.4 in August** as employment dropped for the 10th month and **consumer demand remained weak**, despite increases in output and new orders.

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



104.7

In June 2020, Egypt's industrial production index* recorded 104.7 compared to 86.6 in May 2020 (**20.9% m-o-m improvement**) and 107.8 in June 2019 (**2.9% y-o-y deterioration**).

*Based on CAPMAS' field survey that is conducted for 401 companies that cover 60% of the manufacturing activity in Egypt.



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. Wholesale & retail trade sector witnessed the biggest decline in employment, followed by manufacturing and tourism.

Source: CAPMAS (More details in page 5)

On the external sector (current account)

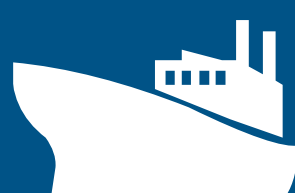


-3.8%

Egypt's total exports declined by **3.8% on annual basis during FY 2019/20** to record USD 28.8 bn, down from USD 30.0 bn a year earlier. Underpinning this fall is an **18.4% decline in oil exports**, including a 1.0% decline in non-oil exports.

Source: CAPMAS

Note: 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 **13.3% in June 2020** driven by a 14% decline in net tonnage compared to the same month a year earlier.

Source: Statements by Suez Canal Authority



-12.6%

Egypt's total imports declined by **12.6% on annual basis during FY 2019/20** to record USD 71.4 bn, down from USD 81.8 bn a year earlier. Underpinning this fall is a **32.3% decline in oil imports** as well as 9.4% decline in non-oil imports.

Source: CAPMAS

01. KEY ECONOMIC UPDATES

On the capital & financial account



After witnessing an **outflow** of around **USD 17.5 bn** of foreign investments in Gov't securities from March till May, **capital outflows started to reverse thereafter**, with portfolio inflows totalling around **USD 6.4 bn** in June and July. The total stock stood at **USD 14 bn** by the end of July (including bills and bonds).

Source: Bloomberg



To finance net outflows of foreign currency, **USD 7.3 bn & USD 6.3 bn of foreign reserves of CBE and commercial banks, respectively, were used till the end of June.**

In July, gross foreign reserves of CBE and banks increased by **USD 0.1 bn and 0.7 bn, respectively.**

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 14.

Source: IMF & MoF

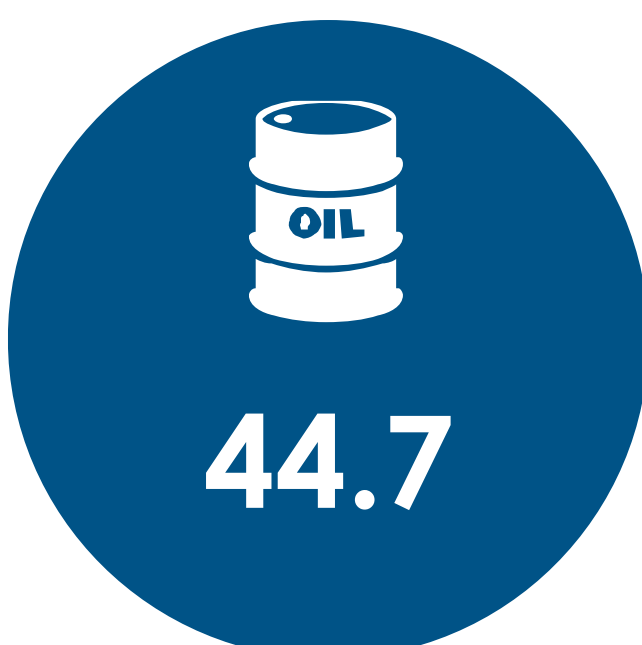
*Disbursement of the 2.8 bn RFI arrangement approved in May and a USD 2 bn tranche (of the USD 5.2 bn SBA arrangement) approved in June

Other indicators



The Egyptian Pound averaged **EGP 15.9 per USD** during August 2020 compared to **EGP 16.0 per USD** in July.

Source: Central Bank of Egypt (CBE)



Global Brent crude oil price rose to **USD 44.7 per barrel in August 2020** up from **USD 43.2 per barrel in July**- an increase of **3.5%**.

Source: Energy Information Association



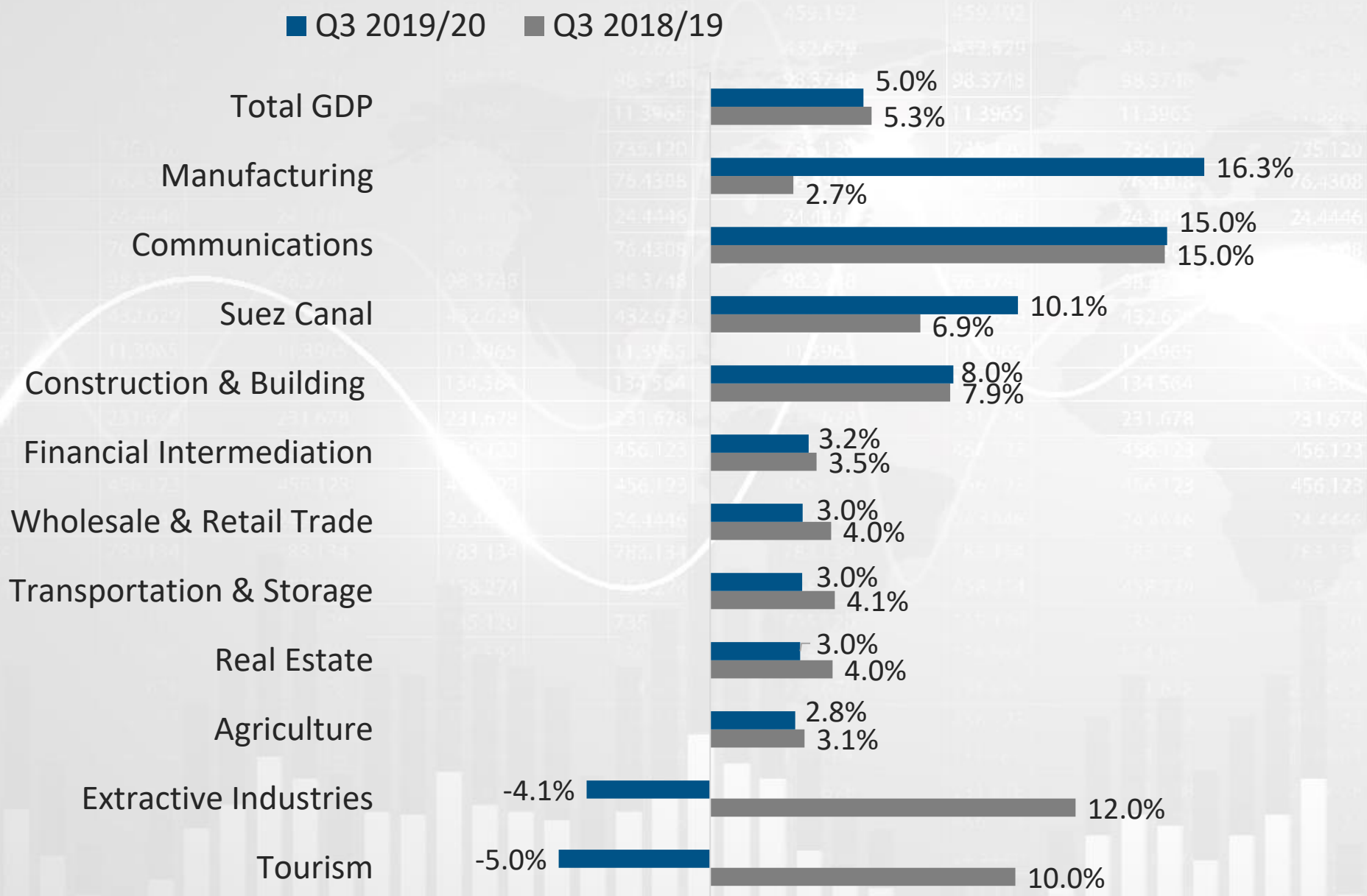
Annual headline inflation decreased by **0.8 PPT** to record **3.4%** in August 2020, down from **4.2%** in July, **mainly driven by 4.1% y-o-y decline in prices of food and beverages.**

Source: CAPMAS

01. KEY ECONOMIC UPDATES (CONT'D)

Recent Sectoral Indicators

SECTORS' PERFORMANCE DURING JAN-MARCH 2020



Source: Central Bank of Egypt (CBE)

- According to recent data published by the CBE, Manufacturing sector recorded the highest expansion among all sectors during Q3 2019/20 (16.3%) followed by Communications sector (15.0%). Tourism and extractive industries sectors contracted by 5.0% and 4.1%, respectively, during that quarter, affected by the COVID-19 pandemic and lower oil demand. It is worth noting that this quarter does not capture the full impact of the COVID-19 outbreak.

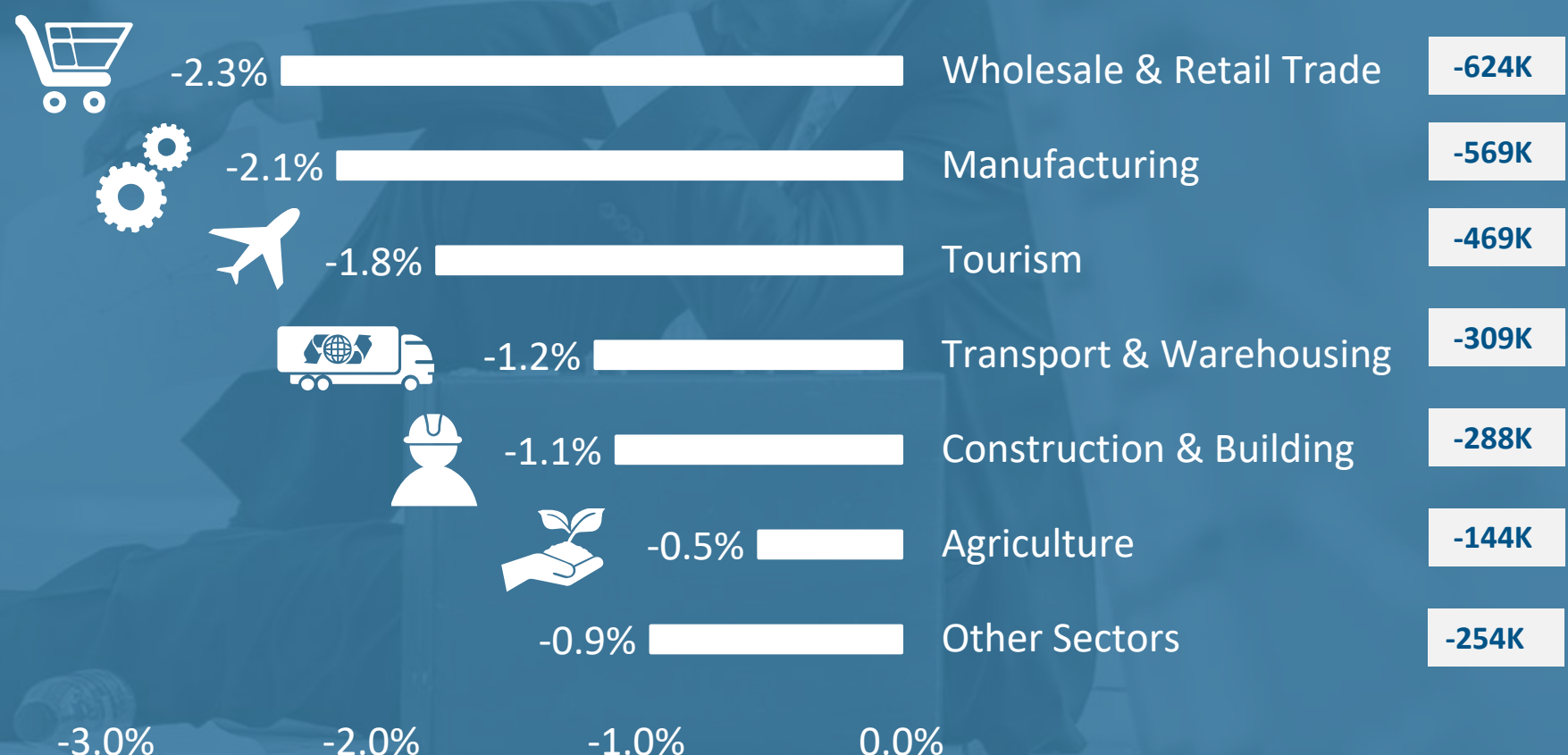
- More analysis about projected sectoral performance in the current fiscal year is covered in Dcode EFC's Economic Outlook report. To subscribe and know more about our offerings: <https://dcodeefc.com/contact-us>

JOB LOSSES BY SECTOR DURING APRIL-JUNE 2020

- The official unemployment rate increased from 7.7% in March 2020 to 9.6% in June due to the COVID-19 pandemic and the containment measures thereof as the number of unemployed individuals increased to 2.6 mn in June 2020 up from 2.2 mn in March (an increase of 338K).

- An additional 2.3 mn individuals have left the labor force during that quarter and are therefore no longer counted within the labor force as they have either lost their ability or willingness to look for a job, according to CAPMAS. Including them in the work force would bring the unemployment rate up to **16.9%**.

Contribution to Job Losses during Q2 2020*
(Total losses = **2.7 mn**, equivalent to **9.9%** of total employment)



*Decline in employment multiplied by share in total employment
Source: CAPMAS & Dcode EFC calculations

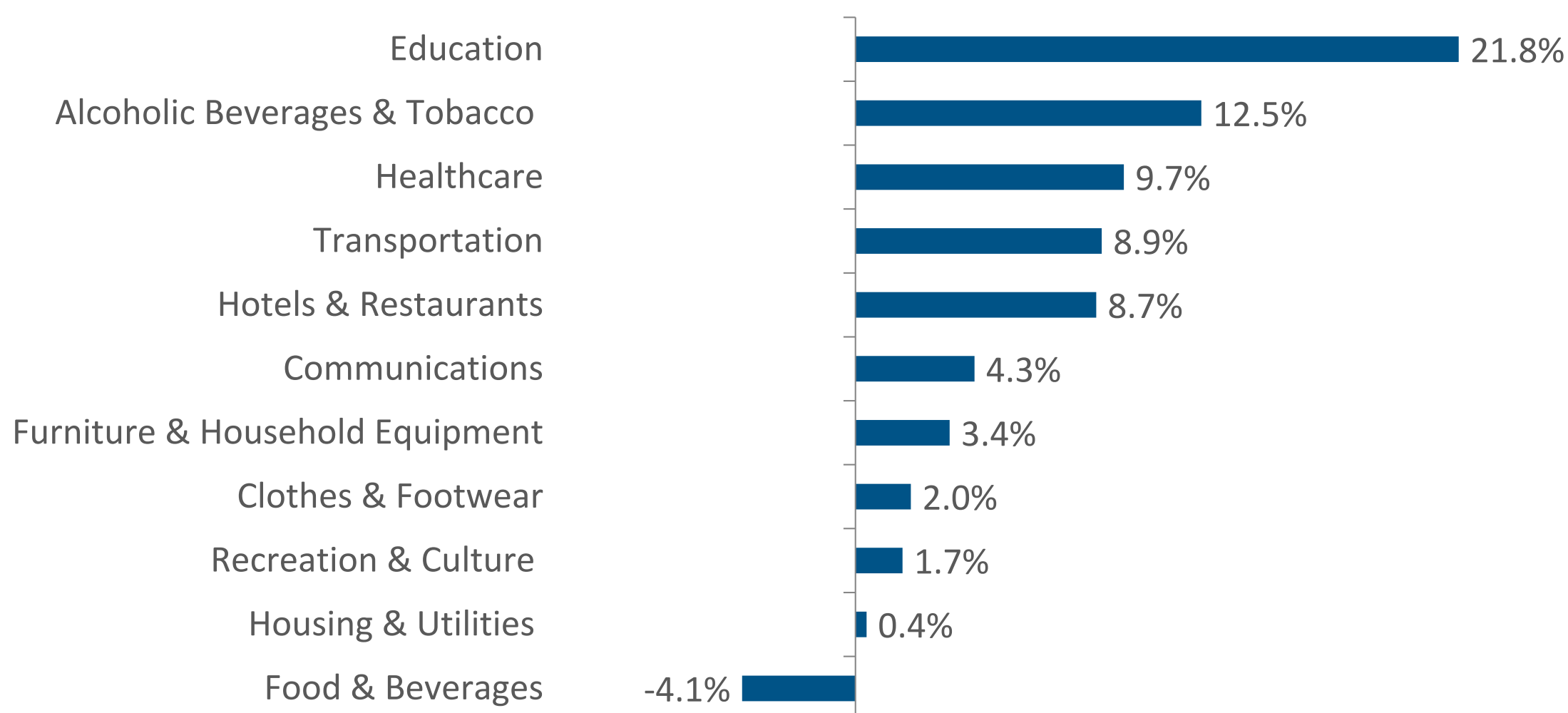
01. KEY ECONOMIC UPDATES (CONT'D)

Annual headline inflation decreased by 0.8 PPT to record 3.4% in August 2020, down from 4.2% in July, mainly driven by 4.1% y-o-y decline in prices of food and beverages.

Meanwhile, the month-on-month inflation rate recorded -0.2% in August, down from 0.4% in July, mainly driven by 1.7% monthly decline in prices of food and beverages.

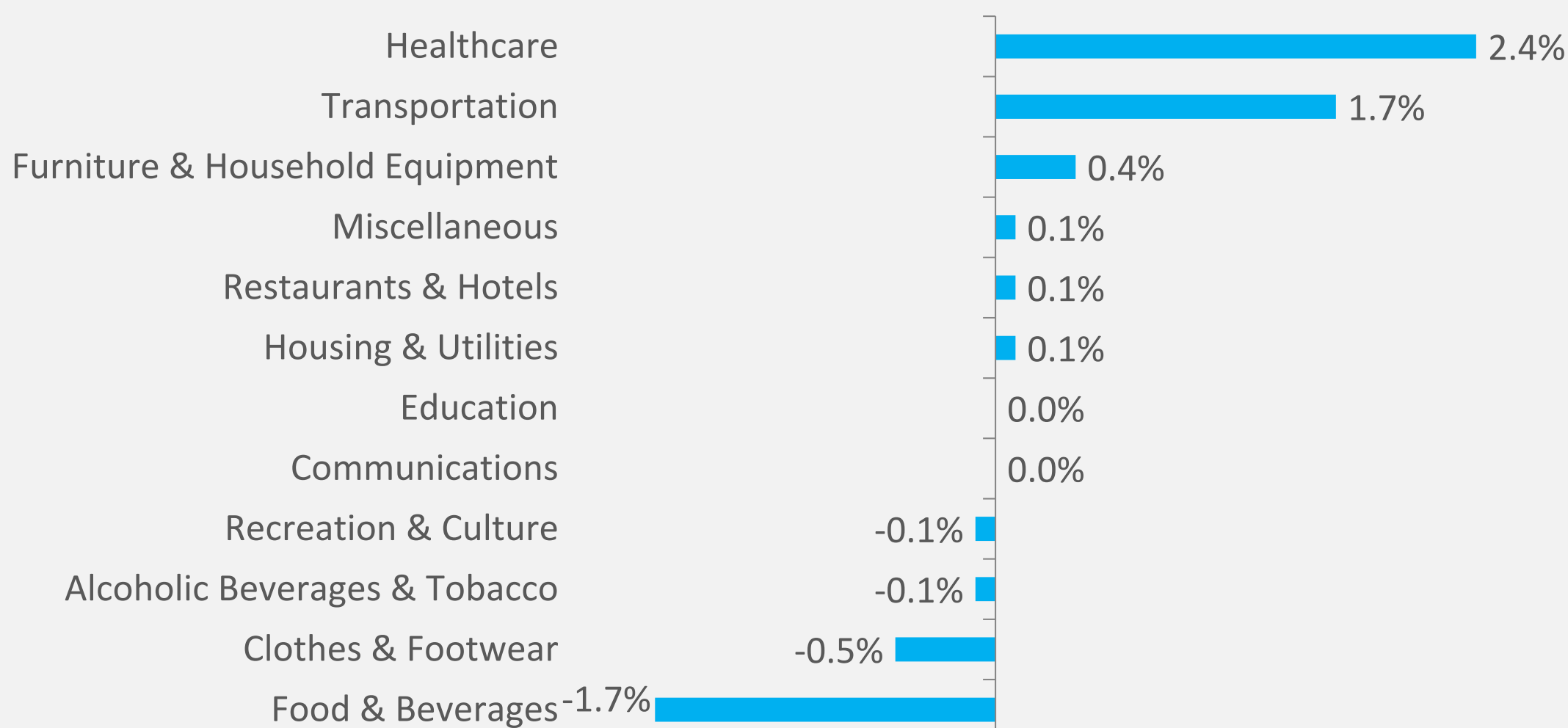
Headline Inflation in August 2020

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



Source: CAPMAS

MONTHLY HEADLINE INFLATION BY CATEGORY IN AUGUST 2020 (M-O-M CHANGE)



Source: CAPMAS

02. BUILDING VIOLATIONS RECONCILIATION

- Despite the issuance of the construction violations reconciliation law in April 2019, the proceeds of reconciliation (what was actually collected till August) did not exceed 10% of total expected proceeds, according to a presidential statement on August 29th.
- GoE has taken some measures to ensure abidance by the building violations code and to accelerate the collection of the “seriousness of reconciliation” fees in August and September, giving violators until September to pay the reconciliation fees.

HOW MUCH DO VIOLATORS HAVE TO PAY?

A. INSPECTION FEES

- Amount ranging between EGP 125 and EGP 5,000 depending on the total area of violation and the location thereof (urban/rural areas).

B. RECONCILIATION

- Range of 5% to 100% of the value of the meter of the land depending on the type of violation*.
- 25% to be paid in 60 days and the rest in quarterly instalments over 3 yrs.

C. “SERIOUSNESS” FEE

- Amount ranging between EGP 20K and EGP 250K depending on the location and type of violation.
- To be paid in September and deducted from the final violation fees.



PROGRESS SO FAR

- By mid September, **1.1 mn** reconciliation requests have been submitted, and total proceeds amounted to **EGP 6.9 bn**.

DEADLINE

- **September 30th** for reconciliation applications and paying the “seriousness of reconciliation” fee.

INCENTIVES TO PAY

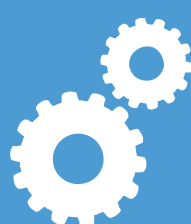
- On September 11th, GoE announced reduced fines by **10-70%** in 23 governorates.
- Those who settle their fines immediately could benefit from an additional **25% discount**.

*To access the full report for more details, contact us on <https://dcodeefc.com/contact-us>

03. EGYPT'S NEW CUSTOMS ACT

On August 24th, the Parliament approved the new Customs Act which allows for expedited clearance, expands the powers of customs clearance agents and increases penalties for customs evasion.

MAIN HIGHLIGHTS OF THE LAW



Customs of heavy machinery and other capital goods can be paid in instalments



New licensing requirements for customs clearance offices



Following international guidelines for customs simplification and harmonization



Setting a ceiling for the service fees payable to the Customs Authority



Exempting transit goods from laws that ban trade of certain goods



Ensuring that goods do not pile up at ports



Cutting the length of time certain goods are given temporary customs clearance



Applying stricter penalties for customs evasion



Regulating the dispute resolution process

Source: Enterprise.press

04. RECENT FACTORS AFFECTING CONSUMER SPENDING

Consumption projections are covered in Dcode EFC's Economic Outlook report. To subscribe and know more about our offerings: <https://dcodeefc.com/contact-us>

On the negative side...



On the positive side...



05. WATER SITUATION IN EGYPT

FY 2018/19 Update

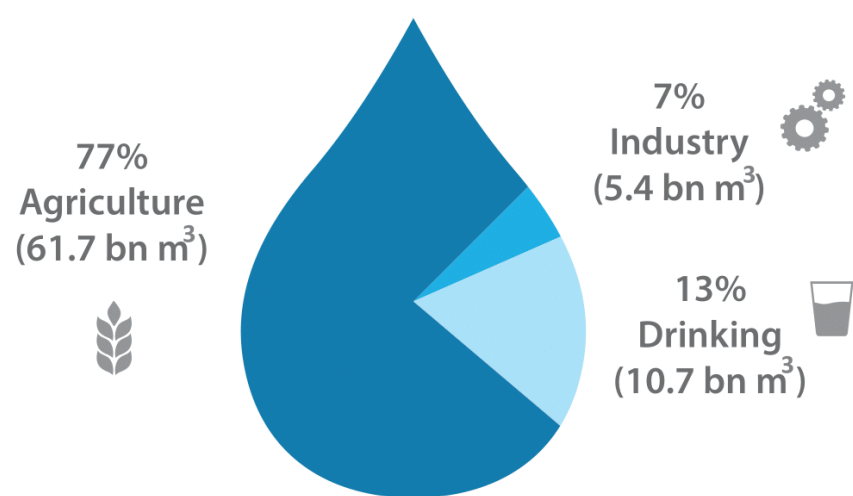
Annual Water Resources Balance

Total resources: 80.3 bn* m³, of which:



*Source: CAPMAS. Data as of FY 2018/19
 **Source: Statement by Deputy Minister of Water Resources and Irrigation in October 2019

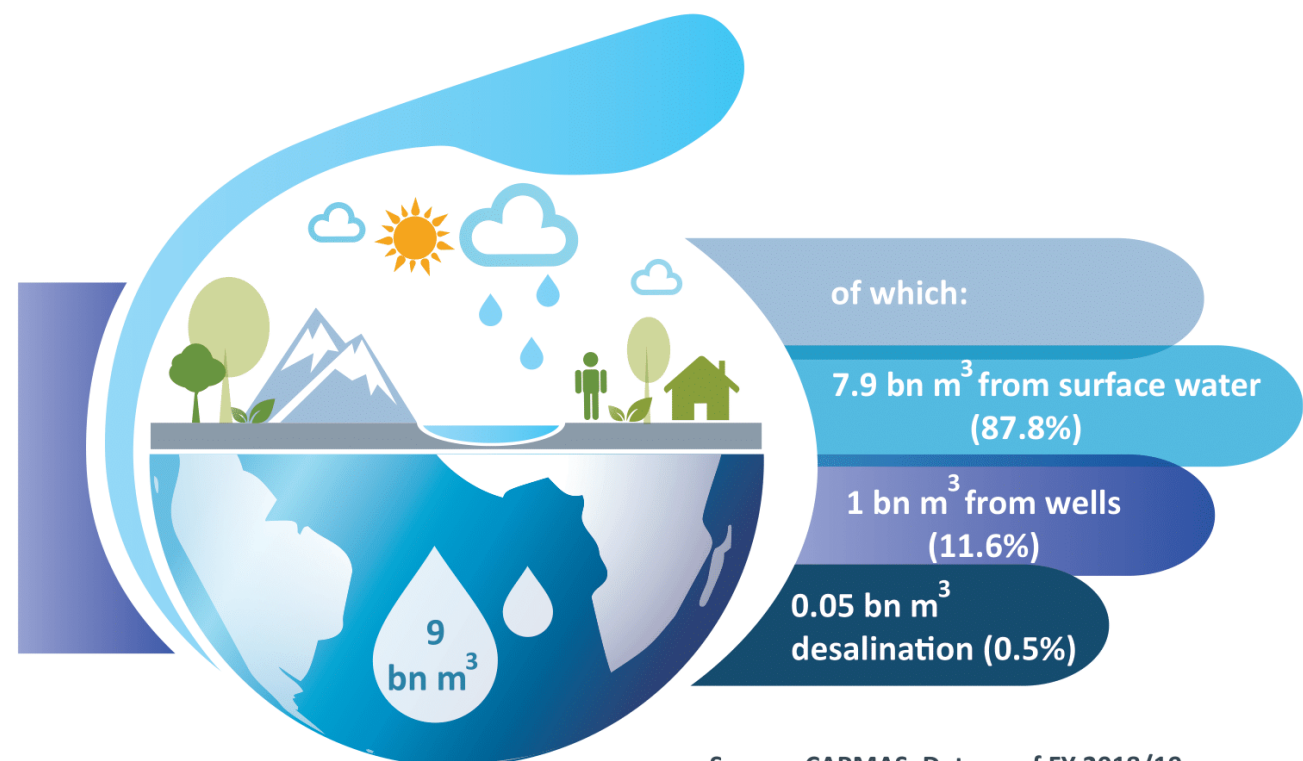
Water Consumption by Use (%)



In addition to 3% (2.5 bn m³) quantity lost by evaporation

Source: CAPMAS. Data as of FY 2018/19

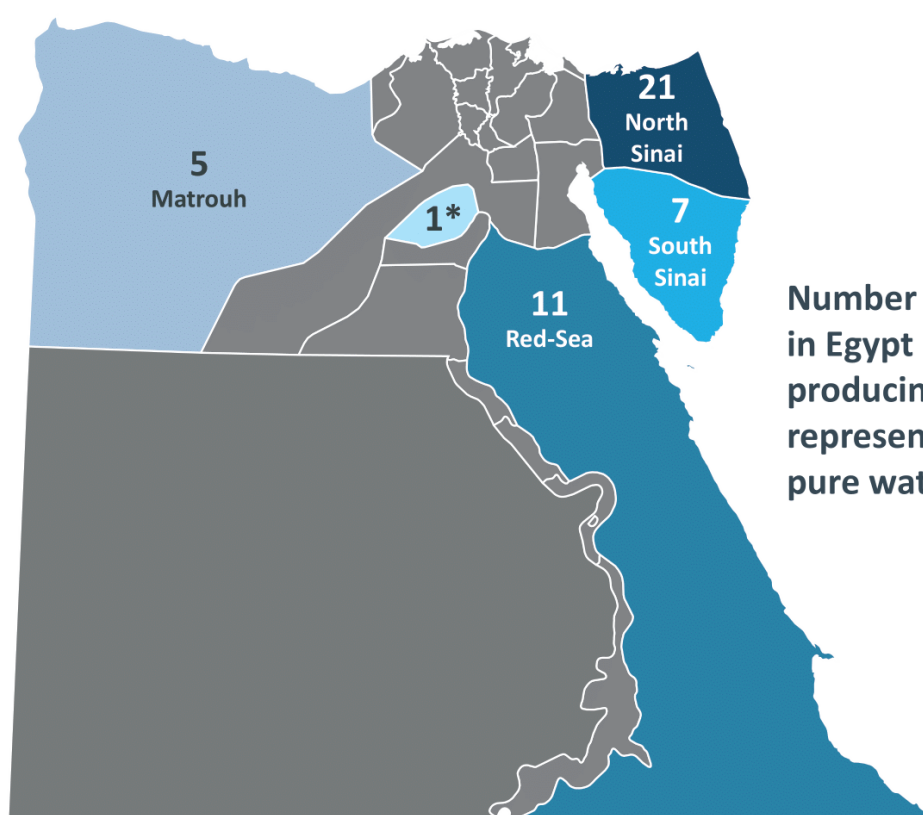
Total Pure Water Produced by Stations



Source: CAPMAS, Data as of FY 2018/19

Pure Water Stations

Number of Desalination Stations



Number of desalination stations in Egypt in FY 2018/19, together producing 0.05 bn m³ of water, representing only 0.5% of total pure water production.

*Fayyoun
 Source: CAPMAS, Data as of FY 2018/19



1,073

Number of surface water stations in 2018/19 (producing 87.8% of total pure water production)

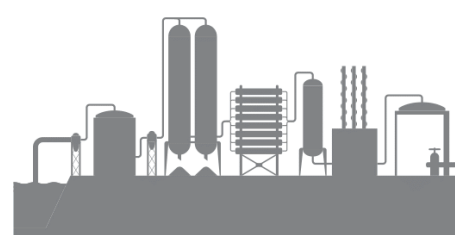


1,562

Number of well water stations in 2018/19 (producing 11.6% of total pure water production)

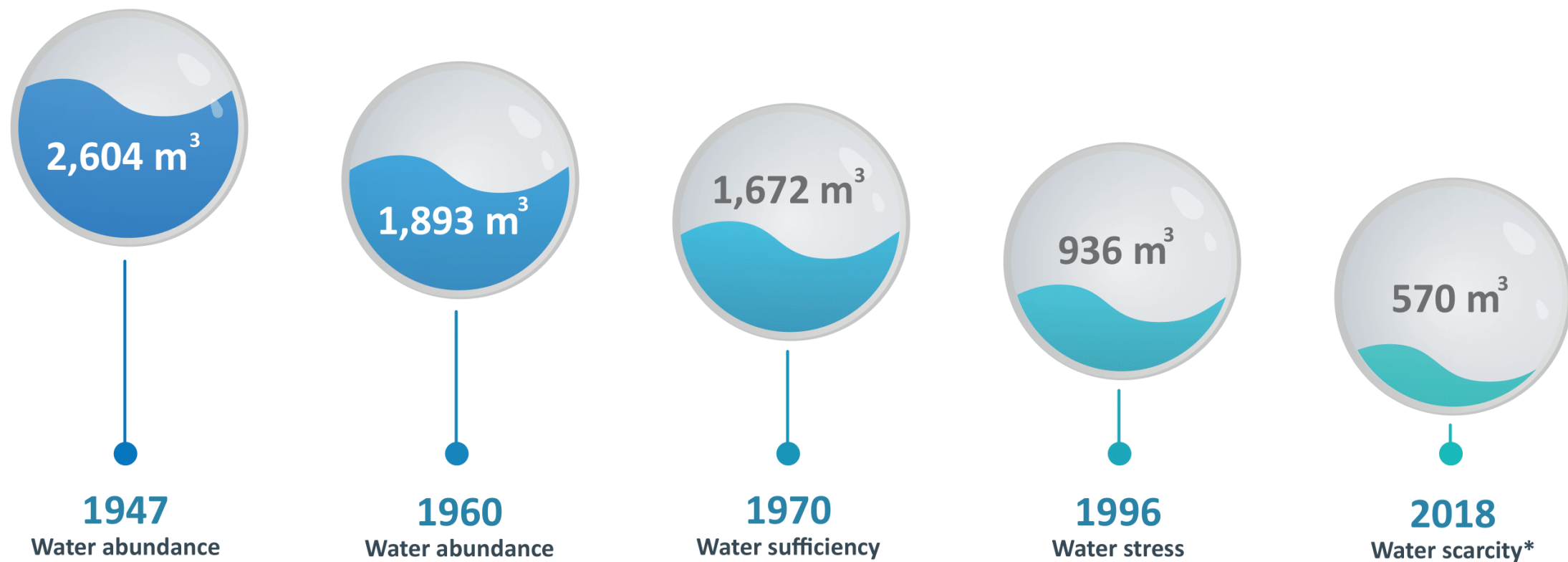
Source: CAPMAS, Data as of FY 2018/19

Pipeline Desalination Projects



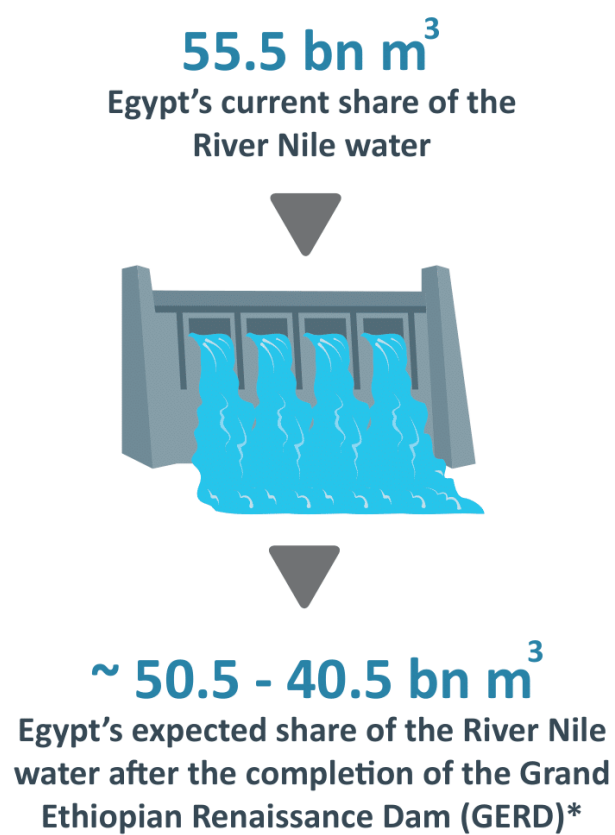
Within 18 months, 19 desalination plants with total daily production of 550,000 cubic meters will be inaugurated as part of the Ministry of Water Resources' 2050 strategy to increase Egypt's water resources and secure water for irrigation.

Per Capita Annual Share of Water Developments

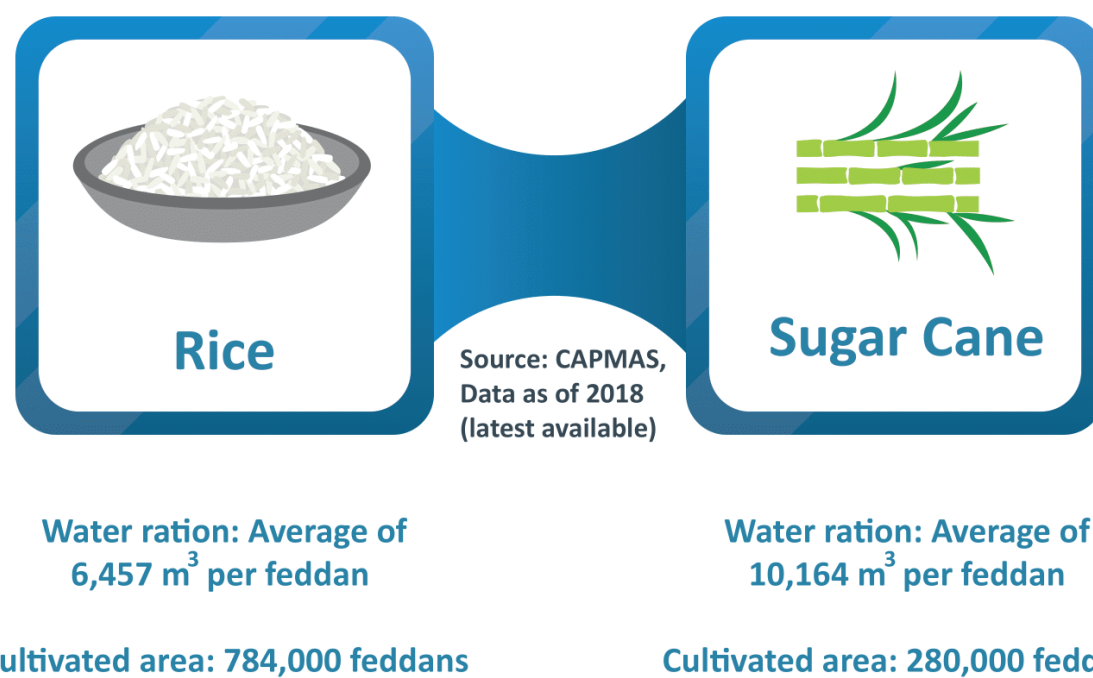


*According to the Food and Agriculture Organization of the United Nations (FAO) definitions
Source: CAPMAS (various reports)

The GERD Effect



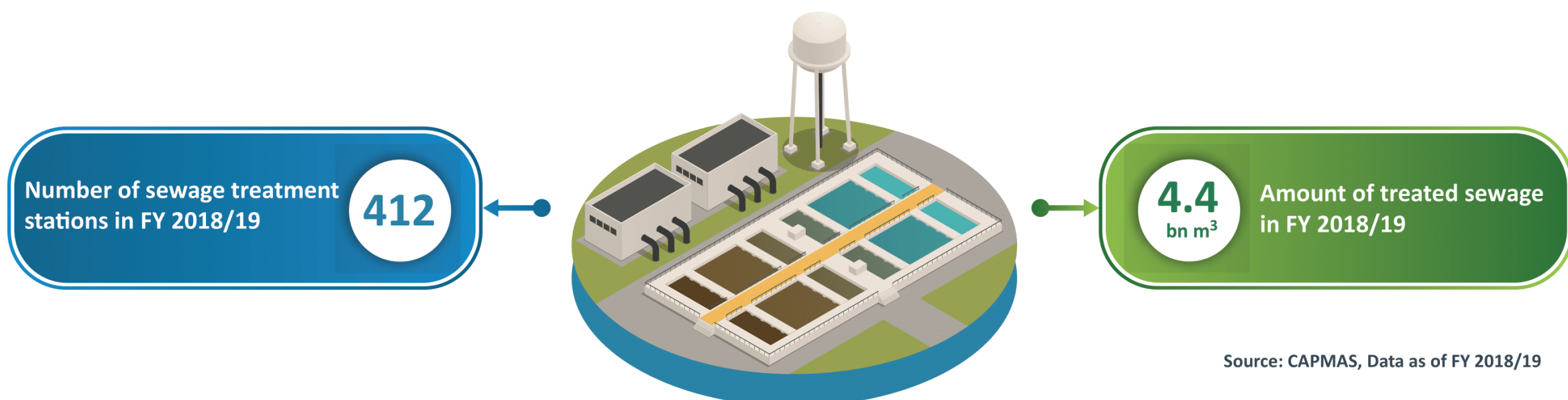
Most Water-Intensive Crops



In May 2018, amendments to the Agriculture Law No. 53 of 1966 were passed according to which the government determines the areas to cultivate certain water-intensive crops such as rice -which constitutes around 25% of total water consumption in Egypt- and sugarcane.

*Source: Statement by Dr. Mahmoud Abu-Zeid, President of the Arab Water Council and former Minister of Water Resources and Irrigation of Egypt in September 2019

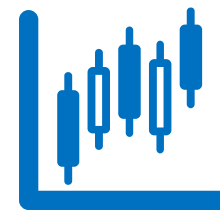
Sewage Treatment



06. OTHER TOPICS



SOVEREIGN FUND OF EGYPT (SFE)



EGYPT'S COMMODITY EXCHANGE

DEFINITION

- A state-owned investment fund that can invest in real and financial assets such as stocks, bonds, real estate, precious metals, or private equity/ hedge funds.

- A regulated exchange which brings together merchants, stores, sellers and buyers, in an organized market for trading storable goods.

PURPOSE

- Attracting private investments
- Co-investing in state-owned assets to maximize their value and efficiency*

- Encouraging small traders to join the organized trade system
- Increasing supply of key goods
- Achieving price competitiveness

COVERAGE

- The fund has recently set up sub funds covering financial services, healthcare, tourism, real estate and infrastructure.

- The exchange will initially provide basic commodities, such as oil, wheat, sugar and rice and then expand trading to include gold, steel and cotton**

STATUS

- Established in 2018
- Currently owns assets worth USD 12 bn
- Authorized capital: Up to EGP 1 tn

- Held organizational and administrative meetings
- Trading to start in H1 2021
- Company capital: EGP 91 mn

*Source: Sovereign Fund of Egypt Website

**Source: Statement by commodity exchange boss Ibrahim Ashmawy



07. NEWS HIGHLIGHTS

CONSUMER SPENDING

Online Groceries: Majid Al Futtaim Holding CEO Alain Bejjani announced on August 4th that Carrefour Egypt has seen a 747% surge in online demand for groceries since January. Saudi Arabia saw the biggest demand increase of 917%.

1% Salaries Tax Approved: On August 13th, the Official Gazette issued Law No. 170 of 2020 that requires private and public companies to deduct 1% from all employees' net monthly salaries for 12 months. Pensioners will also have 0.5% deducted from their monthly allowance during the same period, with all proceeds placed in a special "epidemics and natural disasters" account at the CBE.

Metro Tickets Price Hikes: Metro ticket prices were raised on August 17th whereby commuters whose journeys only cover lines 1 and 2 will be charged EGP 5 for the first nine stops (up from EGP 3), EGP 7 for up to 16 stops (up from EGP 5), and EGP 10 for more than 16 stops (up from EGP 7). Those who use line 3 will be charged EGP 7, 10 & 12, respectively.

E-Payment: Visa stated on August 22nd that there has been a 78% increase in contactless payment users in Egypt since the COVID-19 outbreak, and a 44% increase in QR code users. At the same time, there has been an 80% increase in the number of consumers who shop via the Internet, and a 20% increase in the number of consumers who pay online through cards and e-wallets.

Seasonal Workers Support: The Cabinet stated on August 27th that, since April, authorities have disbursed EGP 2.4 bn of COVID-19 financial assistance to some 1.6 mn individuals who don't have stable jobs. Seasonal workers were each given EGP 1,500 over three instalments.

Car Sales Recovery: Figures released by the Automotive Marketing Information Council (AMIC) on August 29th showed sales rising 14.4% y-o-y in July to reach 18.3k vehicles, compared to 16k vehicles a year earlier.

Ride-Hailing Demand: Uber Egypt's general manager Ahmed Khalil stated on September 5th that Uber has seen demand for ride-hailing reach 65% of its pre-COVID level.

Internet Usage: The National Telecom Regulatory Authority (NTRA) reported on September 6th that home internet usage in Egypt has gone up 92% y-o-y between June and August, while mobile internet usage was up 12% y-o-y over the same period last year.

Consumer Good Discounts: Finance Minister Mohamed Maait announced on September 7th that ration card holders will receive a 14% discount on goods covered by the government's consumer spending initiative, up from 10%.

BUSINESS INCENTIVES

Tourism Tax Holiday Extension: On August 19th, the Cabinet extended the six-month tax holiday granted to the Tourism sector earlier this year as part of a stimulus package until December.

Subsidized Loans Initiative Doubled: CBE Governor Tarek Amer announced on September 9th that the CBE's EGP 100 bn subsidized loan initiative (8% interest) will be increased to EGP 200 bn. It includes manufacturers, agriculture companies and contractors.

GOVERNMENT FINANCES

MoF Long-Term Targets: Finance Minister Mohamed Maait announced in an interview with Oxford Business Group that GoE eyes 4.6% budget deficit by 2023 through widening the tax base and improving tax collection.

Oil Arrears: Oil Minister Tarek El Molla stated on July 29th that Egypt's arrears to international oil companies fell to USD 850 mn at the end of June, down from USD 900 mn a year earlier.

Budget Overdraft: The President ratified on August 13th an EGP 80 bn overdraft for FY 2019/20 state budget approved by the House in July. The overdraft, which will pay off the debt of state bodies, among other things, will not affect the deficit.

Suez Canal Revenues: The Cabinet reported on August 14th that Suez Canal revenues inched down slightly in FY 2019/20 to USD 5.7 bn, compared to USD 5.8 bn a year earlier.

Closing a Tax Loophole: The Tax Authority announced on August 18th that the state treasury expects to net as much as EGP 34 bn in additional income from a draft bill that would, if passed, tax previously-exempt institutions on returns from their investments in treasury bonds and bills.

Unified Tax Procedures: The Parliament announced on August 24th its preliminary approval of the Unified Tax Procedures Law which sets forth the unified procedural rules applicable to the VAT, income tax, stamp tax and state development fees while maintaining the remaining substantive rules and regulations governing each tax. The law introduces a unified electronic tax system.

Source: Enterprise.press

LAWS/ REGULATIONS

Online Tax Filing: Finance Minister Mohamed Maait stated on August 4th that 134 companies will have to start filing taxes electronically as of November. The Customs Authority will also see 90% of exports and imports processed electronically by the end of December.

Bank Stakes Limit: On August 6th, the CBE lifted a cap that limited banks' holdings in payment-processing companies at 40%.

Transactions with Subsidiaries: The Cabinet approved on August 12th the exemption of companies from a requirement in the Unified Tax Act to give the Tax Authority a detailed breakdown of its transactions with a subsidiary or related party abroad if these transactions are worth less than EGP 8 mn.

Gov't Contractors Taxes: The Cabinet stated on August 20th that all government bodies will now deduct 20% of the VAT (which is currently at 14%) and the entirety of the "schedule tax" from the value of any contract they have with private sector vendors before paying out the contractor, and automatically funnelling the tax money to the Tax Authority within a month.

Cashless Payments: The Ministry of Finance announced on September 10th that private sector companies and government bodies have been given six months to install electronic payment terminals on-site, putting limits for cash payments for education, transportation, utilities, communication, rentals, loan instalments, plane tickets and property sales.

Public Enterprises Act: The Official Gazette published on September 13th amendments to the Public Enterprises Act aiming to streamline the public sector, promote financial stability within state-owned enterprises and improve accountability.

LOANS/ GRANTS

Renewable Energy Investments: Egypt manager of impact investor Finance in Motion, Mohamed Morsy, stated on August 4th that the Sanad Fund and the Green for Growth Fund (GGF) have earmarked USD 250 mn worth of investments for Egyptian SMEs and renewable energy projects in 2021.

Approved Funding from AMF, USAID: The Cabinet approved on August 6th a USD 630 mn facility from the **Arab Monetary Fund** to help fund government reforms as well as a USD 15 mn education grant from **USAID**. Another USD 4 mn was also earmarked for scientific cooperation between Egypt and the US, in addition to USD 10 mn to support family planning, and USD 4.4 mn to create agriculture jobs.

Wind Power Plant Loan: The EBRD approved on August 7th a USD 50 mn long-term loan to help finance a USD 560 mn, 500 MW wind power plant in Suez Gulf.

EBRD Lending to SMEs: The European Bank for Reconstruction and Development (EBRD) has approved two USD 100 mn facility to Banque Misr on August 11th & 12th for on-lending to SMEs impacted by COVID-19 and to increase an existing trade finance limit at the bank.

Spinning & Weaving Loan: Public Enterprises Minister Hisham Tawfik stated on August 16th that State-owned Holding Company for Spinning and Weaving is expected to receive by the end of September an EUR 540 mn loan that the National Bank of Egypt had arranged from two Italian and Swiss banks.

COVID-19 Financing: The House Health Committee approved on August 17th a USD 50 mn emergency loan from the International Development Association and a KD 1 mn grant from the Arab Fund for Economic and Social Development to help prevent and treat COVID-19.

USD 510 mn FAB Loan: The House signed off on August 18th on a USD 510 mn loan from First Abu Dhabi Bank (FAB) to the government.

Agribusiness Funding: International Cooperation Minister Rania Al Mashat announced on August 19th that the EBRD had provided Egypt and four other countries with USD 200 mn loan to strengthen agribusinesses and help local farmers adopt climate-smart agriculture practices.

MSMEs Grant: UNDP stated on August 25th that Egypt is getting a USD 2.73 mn grant to expand a development support program for MSMEs operating in the retail and handcraft sectors.

USD 2 bn Loan from UAE Banks: Finance Minister Mohamed Maait announced on August 31st that Egypt has closed a USD 2 bn financing package with regional and international banks to plug budget shortfalls of which USD 1.5 bn offered on conventional terms and a USD 500 mn Islamic financing tranche.

SME Financing from EIB: The Cabinet stated on September 4th that the National Bank of Egypt had signed an EUR 800 mn financing agreement with the European Investment Bank (EIB) to fund SMEs impacted by COVID-19.

Electricity Loan from AfDB: The Cabinet approved on September 9th an EUR 225 mn financing agreement with the African Development Bank (AfDB) to support electricity infrastructure development.

FOREIGN TRADE

Food Exports: Export Council for Food Industries Head Hani Berzi stated on August 4th that Egypt's food exports increased 2.2% y-o-y in H1 2020 to reach USD 1.8 bn.

Economic Zone Agreement: Egypt and Greece's Prime Ministers announced at a press conference in Cairo on August 5th the signing of an agreement creating a joint exclusive economic zone in the eastern Mediterranean.

Crude Oil Imports: Egypt renewed on August 17th an agreement with Iraq to import 12 mn bbl of crude oil over a six-month period.

Sugar Import Ban Renewed: Ministry of Trade and Industry renewed on September 8th its ban on imports of white sugar for three additional months and imposed a new ban on raw sugar imports for the same period.

Number of Tourists: Tourism Minister Khaled El Anany stated on August 24th that some 126k tourists have visited Sharm El Sheikh, Hurghada, and Matrouh since Egypt started direct flights to the seaside resorts on July 1st.

IMF Praises Egypt's COVID-19 Response: The International Monetary Fund (IMF) issued a staff report on September 1st on the one-year USD 2.8 bn Rapid Financing Instrument (RFI) to Egypt to help "targeted and temporary" spending. The report praised GoE's fiscal and monetary response to the COVID-19 crisis, yet warned that lack of clarity on when the pandemic will end remains a challenge.

Resilient Credit Profile: Moody's Investors Service reported on September 2nd that indicators that measure Egypt's credit worthiness have proven "broadly resilient" to external financing shocks despite high exposure. The report maintained Egypt's credit rating of B2 with a stable outlook.

MISCELLANEOUS

CBE Maintains Interest Rates: The CBE kept on August 13th the overnight deposit rate, overnight lending rate, and the rate of the main operation unchanged at 9.25%, 10.25%, and 9.75%, respectively.

Transitioning to Natural Gas: The Cabinet stated on August 17th that the Trade and Industry Ministry, the Central Bank of Egypt (CBE), and the MSME Development Agency are setting up a financing program through the country's banks to extend EGP 1.2 bn in low-interest loans for car owners to convert their vehicles to run on dual-fuel engines.

Electricity Sector Privatization: The Cabinet stated on September 3rd that it has extended by two years the timeline of the state's transition from sole player in the electricity market to a regulator, while separating power generation from transmission and distribution.

Water Risk: Fitch Ratings stated on September 3rd that Egypt's sovereign credit rating is "particularly" exposed to water stress risk which is likely to become a more important sovereign rating driver over the medium term.

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