

DECODING THE ECONOMICS OF COVID-19

IN THE KNOW

A monthly economic update

MBC	LJH	MJB	PON	NFR	UGH	OMJ
3,605 (+210)	9,542 (-128)	2,609 (+35)	7,654 (+169)	6,522 (+122)	1,632 (-54)	3,652 (+182)
YBV	QMN	MMJ	IIT	KLM	CCX	EMH
3,204 (-33)	5,211 (+156)	7,100 (-60)	7,150 (-150)	782 (+74)	1,901 (+101)	3,280 (-120)
MBB	WFF	HJM	QLC	LSB	SDH	GHS
3,320 (-120)	712 (-12)	134 (+5)	2,022 (-18)	631 (+40)	6,287 (-57)	12,630 (+330)

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In this issue...



[01. KEY ECONOMIC UPDATES](#)



[02. WORLD ECONOMIC OUTLOOK: JUNE'S ISSUE](#)



[03. ANNUAL HEADLINE INFLATION IN MAY 2020](#)



[04. COVID-19 IMPACT ON SPENDING: CAPMAS SURVEY](#)



[05. VALUE ADDED TAX AMENDMENTS](#)



[06. OTHER NEWS HIGHLIGHTS](#)

01. KEY ECONOMIC UPDATES

Since the beginning of the outbreak

On the real sector

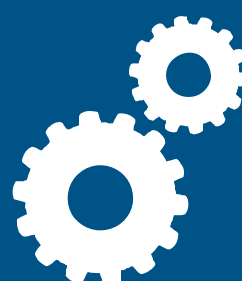


44.6

After plummeting to a **record low of 29.7 in April 2020**, Egypt's Purchasing Managers' Index (PMI)* rebounded to reach 44.6 in June (up from 40.7 in May) as sub-indices for output and new orders rose to four-month highs despite job losses accelerating to their quickest pace in four years.

*Index measures business activity in the non-oil private sector; Below 50 = contraction.

Source: IHS Markit



111.17

In March 2020, Egypt's industrial production index* recorded 111.17 compared to 114.97 in February 2020 (**-3.31% monthly change**) and 128.29 in March 2019 (**-13.3% y-o-y change**).

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



9.2%

The official unemployment rate increased from 7.7% in March 2020 to **9.2% in April** as a result of the COVID-19 pandemic and containment measures thereof.

Source: CAPMAS

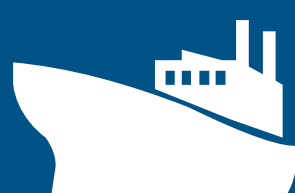
On the external sector (current account)



-32.3%

Egypt's total exports declined by **32.3% during April 2020** to record USD 1.8 bn, down from USD 2.7 bn a year earlier. Underpinning this fall is a **24.1% decline in non-oil exports** and **73.3% decline in oil exports**.

Source: CAPMAS



-12%

Suez Canal revenues fell by **12% in May 2020** driven by **10% decline in net tonnage** compared to the same month a year earlier.

Source: Suez Canal Authority (SCA)



-40.1%

Egypt's total imports declined by **40.1% during April 2020** to record USD 4.2 bn, down from USD 7.0 bn a year earlier. Underpinning this fall is a **35.2% decline in non-oil imports** and **76.7% decline in oil imports**.

Source: CAPMAS

01. KEY ECONOMIC UPDATES

Since the beginning of the outbreak (cont'd)

On the capital & financial account



An **outflow** of USD 17 bn of foreign investments in Gov't securities took place during March & April. Dcode EFC estimates the remaining balance to be around USD 8-10 bn.

Source: Ministry of Finance (MoF)



The Central Bank of Egypt (CBE) used USD 7 bn & USD 3.5 bn of **foreign reserves of CBE & commercial banks***, respectively, to finance net outflows.

Source: Central Bank of Egypt (CBE)
*CBE reserves till end of June, bank reserves till end of May (latest available data)



In addition to the use of reserves, Egypt received a total of **USD 4.8 bn*** from the IMF in May and June as well as **USD 5 bn Eurobond issuance** in May.

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

Dcode EFC's View

- As projected in Dcode EFC's 'Egypt's Economic Outlook' report published in May 2020, most of the pressure on the FX emanated from the exit of foreigners from government securities (bills and bonds market).
- Current account outflows exerted a less pronounced pressure on the currency. As illustrated in page 3, the decline in commodity exports was more than offset by a drop of higher magnitude in imports.
- While the aforementioned imports and exports data published by CAPMAS can slightly differ in magnitude from the CBE's soon-to-be-published balance of payments data, we expect the direction to be the same.
- In our view, the CBE's decision to shore up bank reserves by USD 5.7 bn in May on a net basis (as deduced from the data) was the main factor that helped in supporting the EGP.
- FX liquidity at banks was availed through foreign borrowing including:
 - USD 2.8 bn IMF Rapid Financial Instrument (RFI) disbursed in May
 - USD 5 bn Eurobond issuance in May
 - USD 2 bn tranche (of the IMF's USD 5.2 bn SBA arrangement) approved in June
- Going forward, as covered in Dcode EFC's outlook, a downward currency risk is mainly emanating from continued capital flight from the fixed income market should turbulences in international markets emerge.
- Last but not least, the decline in imports, though supporting the currency, comes at the expense of economic growth.

01. KEY ECONOMIC UPDATES

Since the beginning of the outbreak (cont'd)

Other indicators



16.2

After having been broadly stable at EGP 15.75 per USD from mid-March till mid-May, the EGP has recently seen some volatility to average **EGP 16.2 per USD in June** as a result of the aforementioned factors.

Source: Central Bank of Egypt (CBE)



40.2

Global Brent crude oil price has partly recovered to **USD 40.2 per barrel in June 2020** after having plummeted to USD 18.4 per barrel in April due to lower demand, OPEC+ price war and overwhelmed storage capacity.

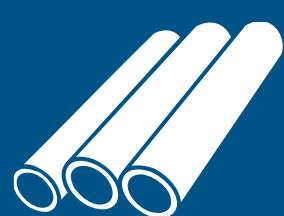
Source: Energy Information Association (EIA)



4.7%

Annual headline inflation declined to a six-month low of **4.7% in May 2020**, down from 5.9% in April, mainly driven by lower F&B prices (due to a favourable base effect and relatively lower aggregate demand).

Source: CAPMAS



-11.3%

In March 2020, sales of reinforcement steel in Egypt declined by 11.3% on a monthly bases compared to February 2020 to record 604.5K tons despite an annual improvement of 14.5%.

Source: Central Bank of Egypt (CBE)



+15.8%

In March 2020, sales of cement in Egypt increased by 15.8% on a monthly bases compared to February 2020 to record 4.5 mn tons (annual improvement of 18.7%).

Source: Central Bank of Egypt (CBE)



13.1%

Weighted-average interest rate on one-year treasury bills recorded **13.1% on June 25th**, compared to 12.5% on May 26th. The CBE kept its policy rates unchanged on its latest meeting on June 25th.

Source: Ministry of Finance (MoF)

02. WORLD ECONOMIC OUTLOOK

On June 24th, the International Monetary Fund (IMF) released June's update of the 'World Economic Outlook' report, revising downwards its projections for global growth in 2020 by a further 1.9 percentage points compared to April's outlook to fall to -4.9% in 2020. Below are the main report highlights.

June 2020 Update

According to the IMF, the COVID-19 pandemic has had a more negative impact on activity in H1 2020 than anticipated, and the **recovery is projected to be more gradual** than previously forecast.

In **advanced economies**, growth is projected to record -8% in 2020, compared to April's forecast of -6.1%, with a deeper-than-anticipated hit to economic activity in H1 2020 suggesting a more gradual recovery in H2 as **fear of contagion** is likely to continue.

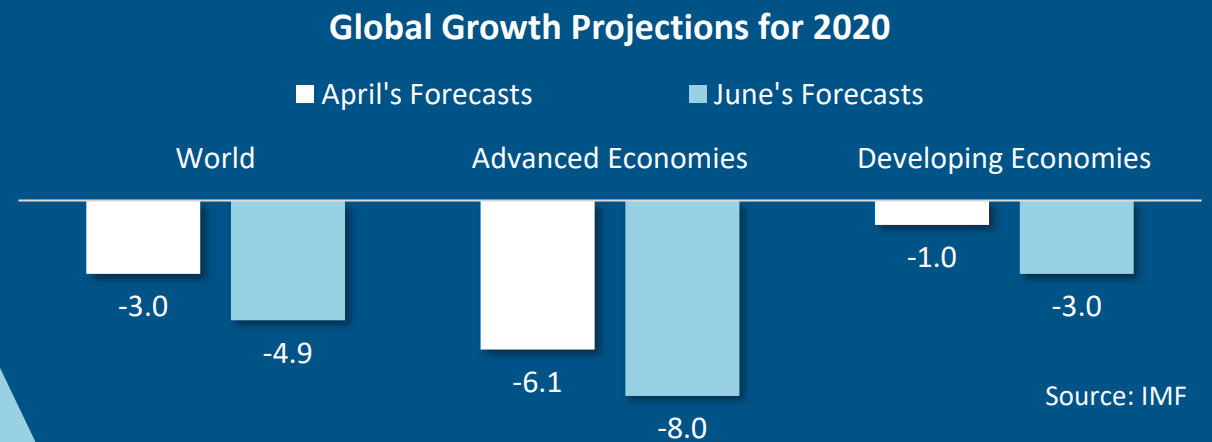
Growth in **emerging markets** and developing economies is projected to record -3% in 2020, compared to April's forecast of -1%, reflecting larger spill-overs from **weaker external demand** as well as domestic disruptions that have more than offset the improvement in financial market sentiment.

While all regions are projected to experience negative growth in 2020, **substantial differences exist across individual economies** reflecting the evolution of the pandemic, effectiveness of containment measures, dependence on severely affected sectors such as tourism and oil, reliance on external inflows including remittances, and pre-crisis growth trends.

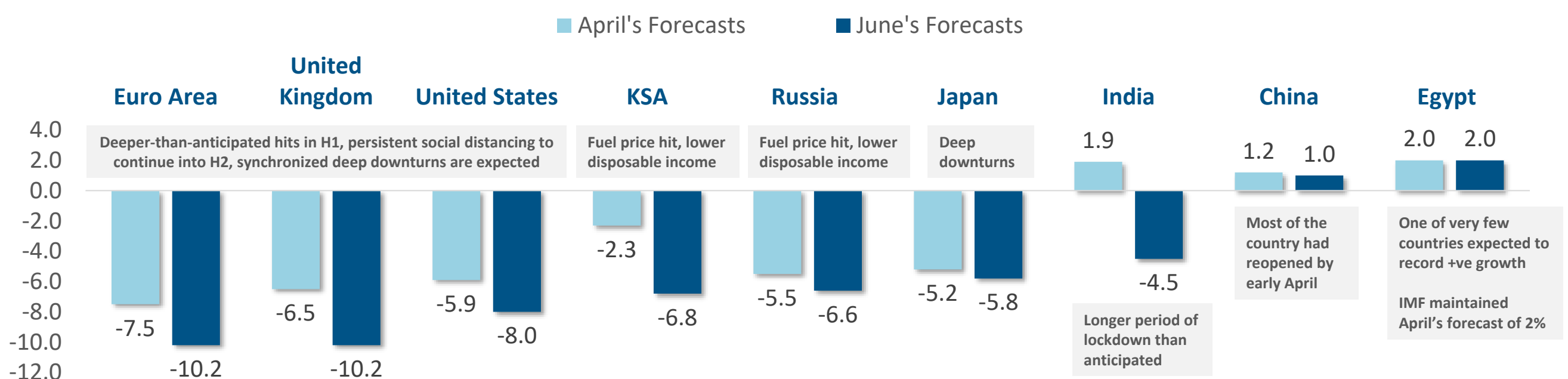
The report reiterates that there is a higher-than-usual degree of **uncertainty** around this forecast.

Other Report Highlights

- The global decline in work hours in Q1 2020 compared to Q4 2019 was equivalent to the **loss of 130 million full-time jobs**, with additional losses of more than **300 million full-time jobs** estimated in Q2.
- The adverse impact on lower income groups **jeopardizes the global poverty reduction progress** reached so far.
- **Inflation** projections have been **revised downwards** reflecting weaker growth and lower commodity prices.
- The IMF projects **global trade to decline by -11.9%** in 2020 reflecting weaker demand for goods and services including Tourism.
- Beyond pandemic-related downside risks, other risks to the outlook include:
 - a) Escalating tension between the U.S. & China
 - b) OPEC+ "frayed relationships"
 - c) Widespread social unrest
 - d) Protracted weak aggregate demand that could lead to further disinflation and debt service difficulties.



GLOBAL GROWTH PROJECTIONS FOR 2020

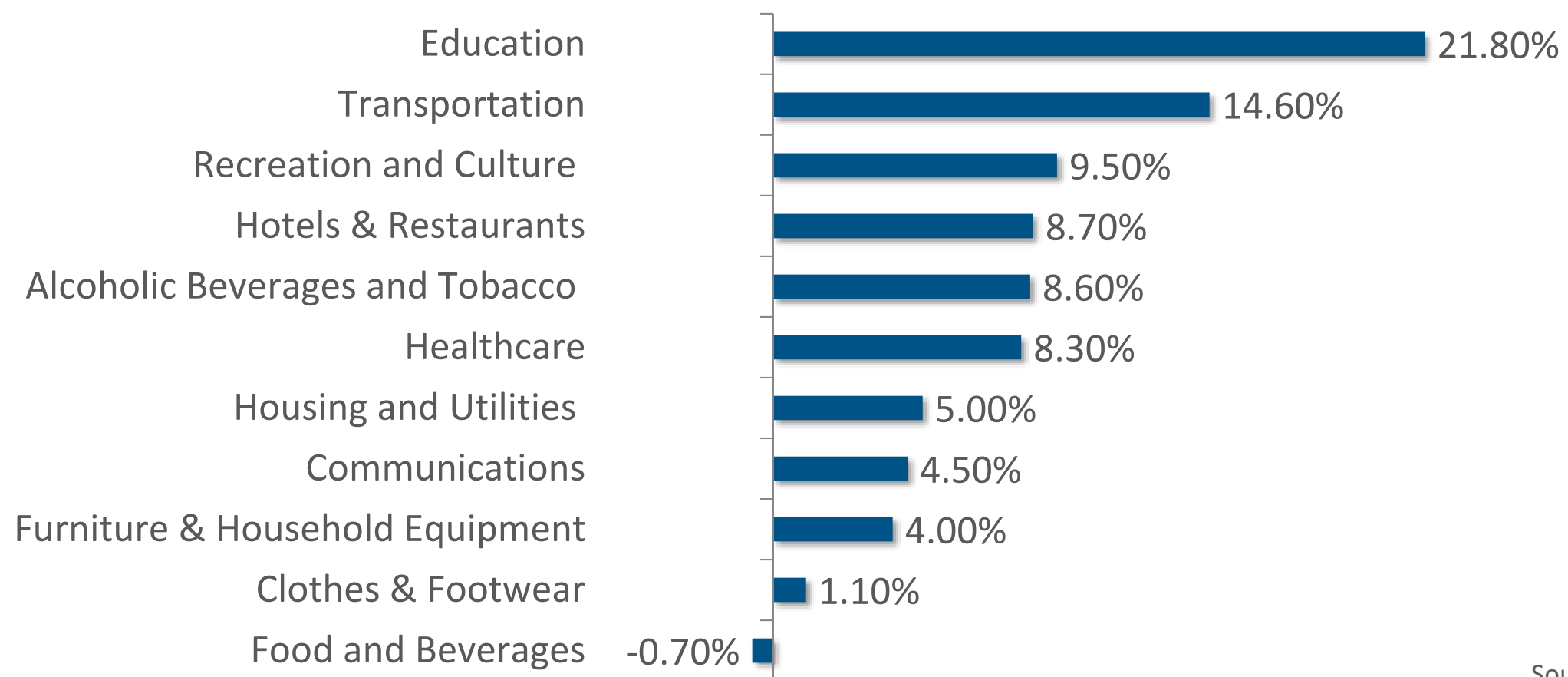


03. ANNUAL HEADLINE INFLATION IN MAY 2020

In May 2020, annual headline inflation declined by 1.2 PPT to record 4.7%, down from 5.9% in April, mainly driven by lower F&B prices (due to a favourable base effect and relatively lower aggregate demand).

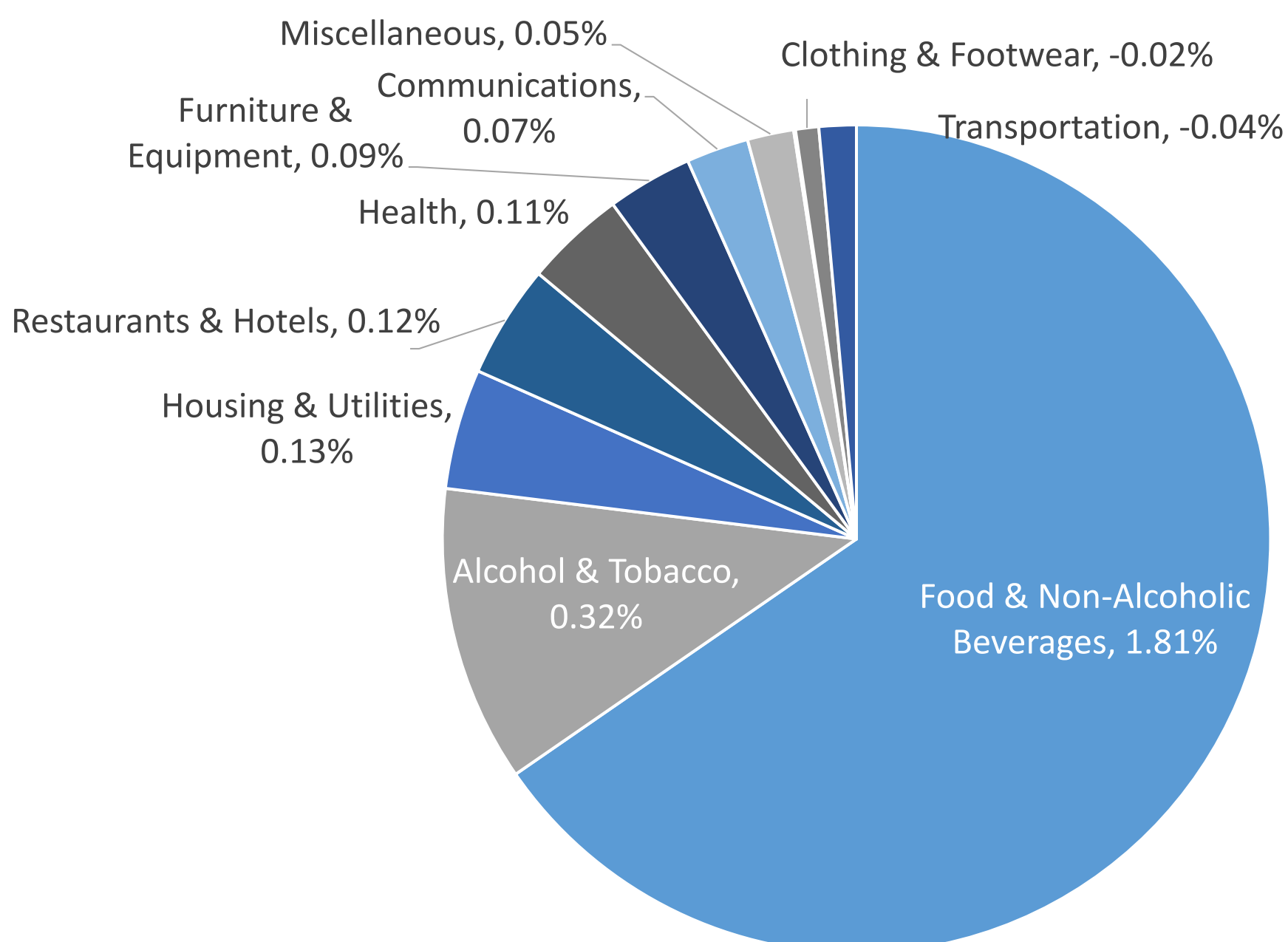
Below is the categorical breakdown thereof.

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



Source: CAPMAS

CONTRIBUTION TO HEADLINE INFLATION (JANUARY 2020 TILL MAY 2020)

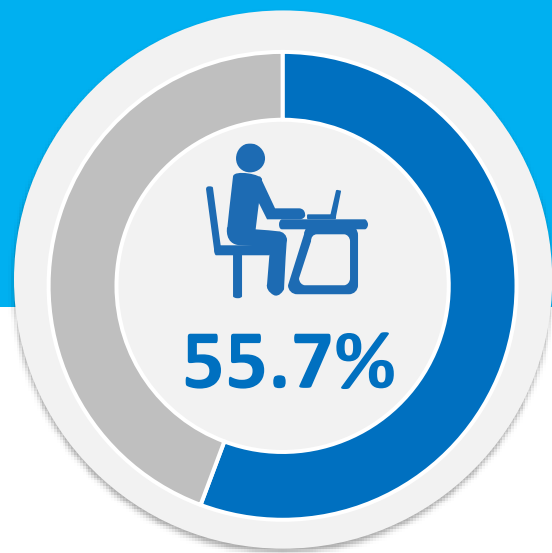


CUMULATIVE CHANGE: 2.6 PPT SINCE JAN'20

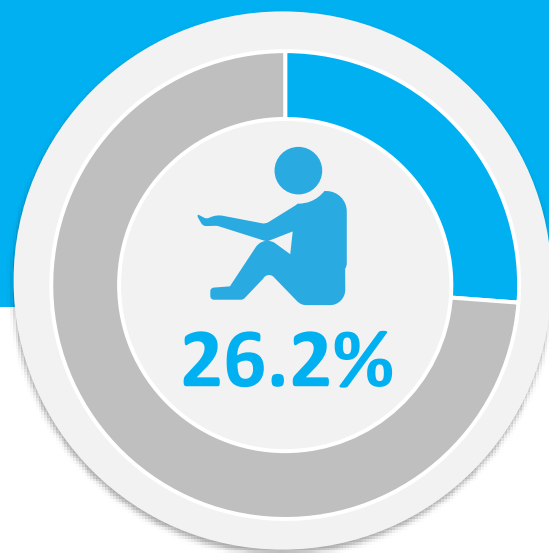
Source: CAPMAS

04. COVID-19 IMPACT ON HOUSEHOLDS

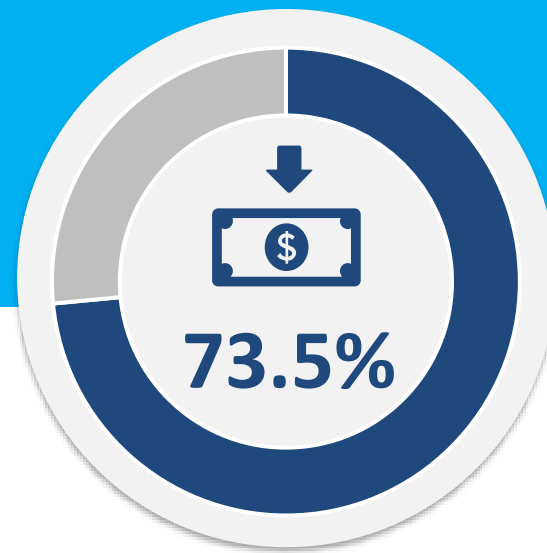
The Central Agency for Public Mobilization and Statistics (CAPMAS) has recently issued a report assessing the impact of COVID-19 on Egyptian households till the end of May 2020. Below are the main highlights.



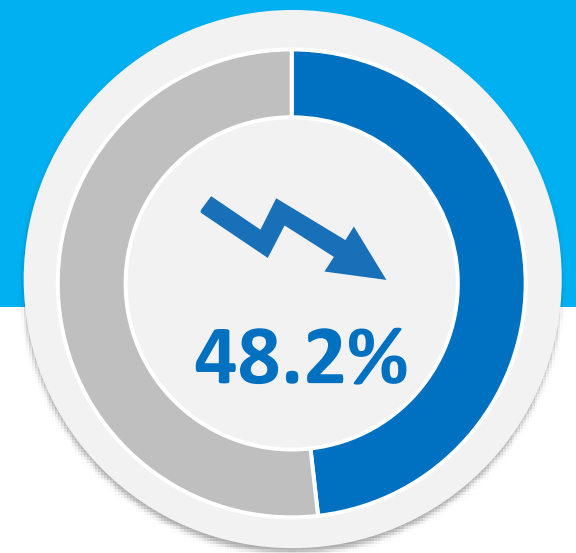
Reported less working days/ hours



Have become unemployed



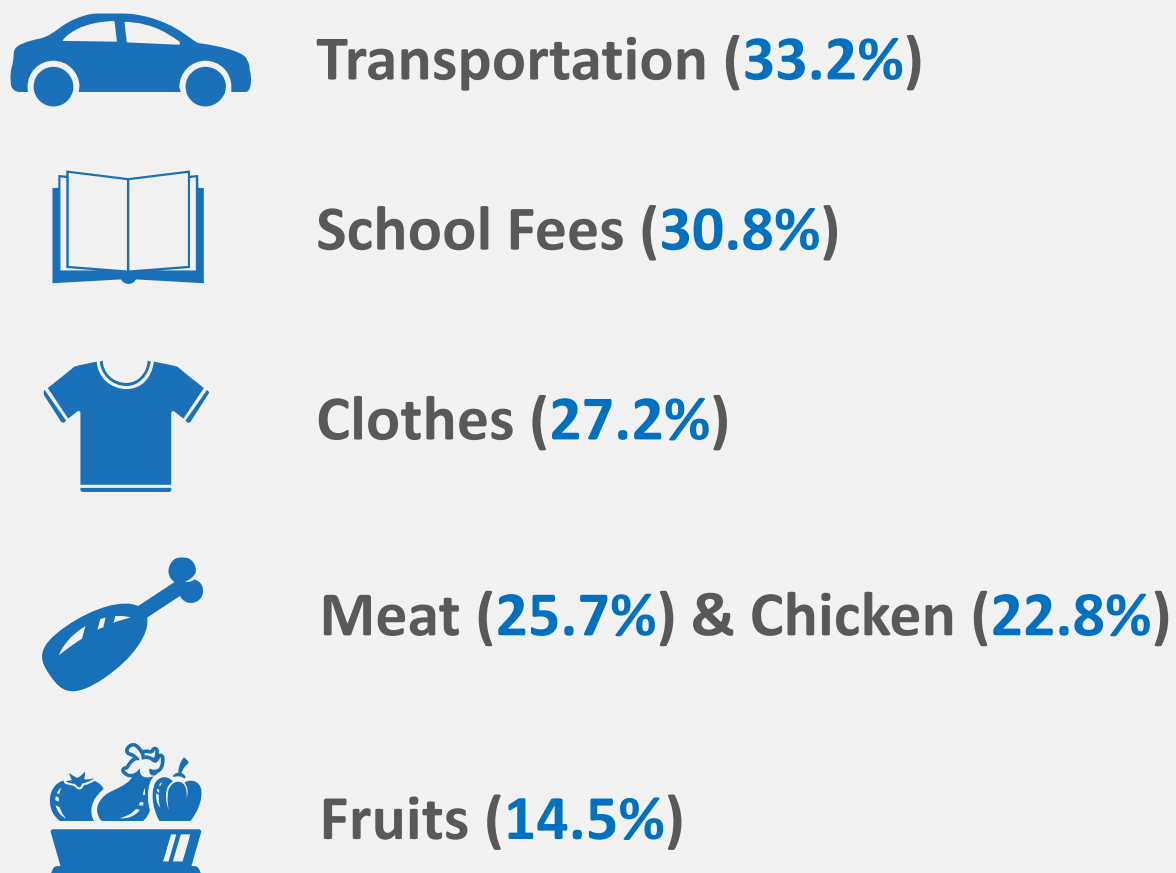
Reported a decline in income



Expect lower income over the next 3 months

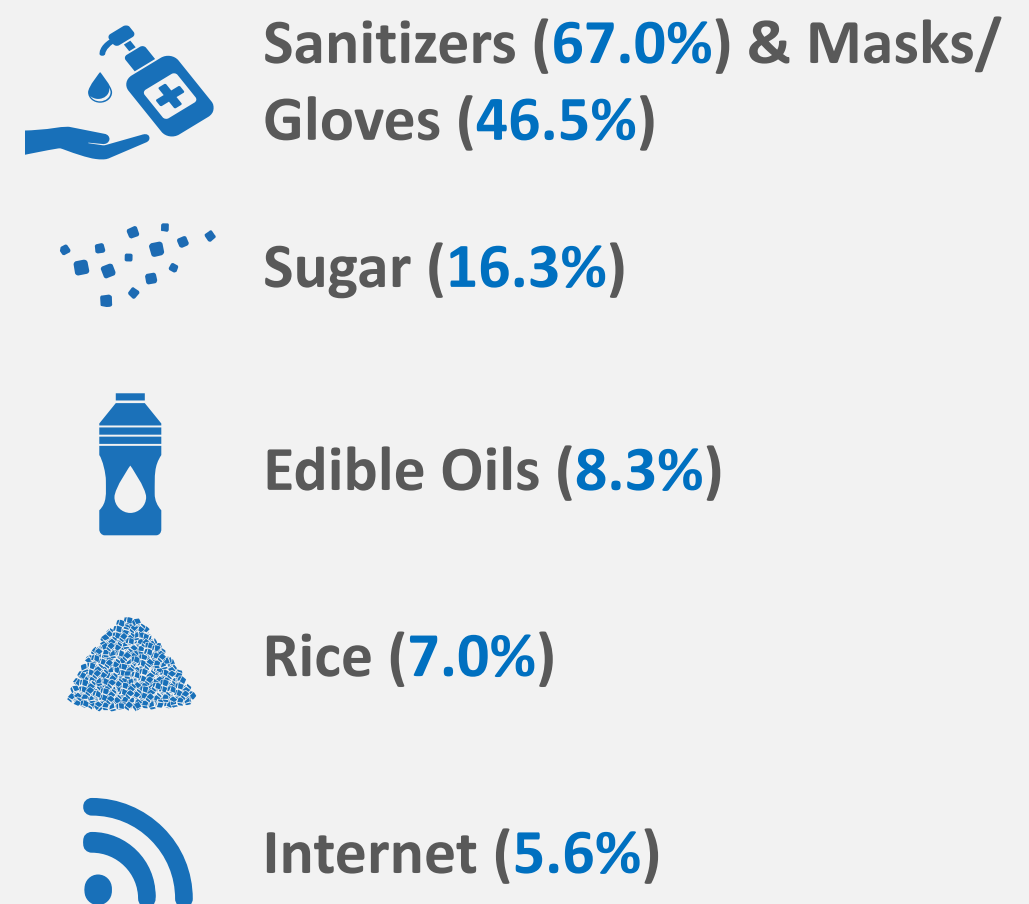
LOWER SPENDING ON

% of families who reported lower spending on each item



HIGHER SPENDING ON

% of families who reported higher spending on each item



COMPENSATING FOR LOST INCOME



Source: CAPMAS

05. SUGGESTED VAT LAW AMENDMENTS

On June 15th, Ministry of Finance completed the draft amendments to the value-added tax law No. 67 of 2016, and launched them for community dialogue. The amendments are currently undergoing public discussion and consultations with different stakeholders.

Online Declarations



Under the suggested amendments to the value-added tax law, businesses will be required to file VAT and/ or the schedule tax returns electronically every month.

Tax Filing Dates



Under the amendments, VAT returns will be due within one month from the end of the reporting period instead of 60 days. Changes to data submitted in the registration application have to be submitted within 14 days.

Special Economic Zones



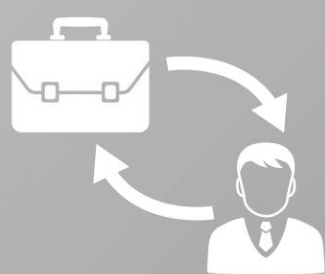
Businesses in special economic zones, including the Suez Canal Economic Zone, would not be required to remit VAT for purchased/ exported goods or services.

Tourist VAT Refunds



Departing tourists would be able to claim VAT rebates on items worth more than EGP 1.5k within 3 months instead of EGP 5k under the current system.

B2C Electronic Bills



When applying the electronic bill from companies to the consumer, the tax can be collected from the consumer and supplied immediately to the authority instead of waiting for the original deadline.*

State Service Donations



Services and goods provided as donations to the state's administrative apparatus, local administration units or public bodies can be tax exempt.

Customs Clearance



Tax authority head can temporarily release, for 3 months, goods imported for production, without extra fines resulting from the delay in releasing them from the relevant customs office.

Fines and Penalties



The amendments impose higher fees on violators of the law or the executive regulations.

Footnotes

*Amendments permit the obligation of various parties dealing directly with the final consumer to collect under the account and/or schedule taxes that are due for approval and immediate supply.

**So that all commercial shops, hotel facilities and other places governed by special laws shall be taxable.

***Moreover, importers or manufacturers of edible vegetable oils shall notify the Egyptian Tax Authority (ETA) of agencies to which oil is sold, and the disposal manner of imported oil quantities, within 15 days following the month of sale.

****Foreign suppliers who should be registered under the simplified vendor registration regime

"SCHEDULE" TAX AMENDMENTS



E-COMMERCE VAT AMENDMENTS



Source: Ministry of Finance (MoF)

06. OTHER NEWS HIGHLIGHTS

LOANS & GRANTS

AfreximBank Credit Facilities: Sources from the AfreximBank announced on June 6th that the bank was looking to extend USD 500-750 mn worth of credit facilities to local state-owned and private banks.

IBRD Grant: The Parliament approved on June 9th a USD 1.75 mn grant from the International Bank for Reconstruction and Development & the International Development Agency to develop the investment sector and EUR 122.7 mn financing from EIB for transport & sanitation.

EIB COVID-19 Support: The European Investment Bank (EIB) announced on June 11th EUR 1.9 bn to Egypt and six other non-European countries to strengthen the public healthcare response to the pandemic, EUR 3.2 bn for health, business support and elderly care, and EUR 1.5 bn for investment in clean transport projects.

USD 200K from South Korea: Finance Minister Mohamed Maait announced on June 13th that South Korea had provided Egypt with USD 200K to assist the country's emergency response to COVID-19.

EUR 15 mn from France: The Ministry of International Cooperation stated on June 15th that France would finance Egypt's acquisition of EUR 15 mn worth of medical equipment and protective gear.

EBRD Loans to SMEs: The European Bank for Reconstruction and Development (EBRD) agreed on June 15th and June 18th to provide the National Bank of Egypt and the CIB, respectively, with USD 100 mn each for on-lending to SMEs affected by COVID-19.

Healthcare Loan from World Bank: The World Bank's board signed off on June 16th on a USD 400 mn loan to support Egypt's new universal healthcare program.

Potential UAE Loan: Two unnamed sources told Reuters on June 16th that the Egyptian government was looking to raise a loan of more than USD 1 bn and had tapped lenders in the UAE (namely Emirates NBD and First Abu Dhabi Bank) to arrange the financing.

EUR 151 mn from AFD: The Ministry of International Cooperation stated on June 16th that the French Development Agency (AFD) would allocate EUR 151 mn to support Egypt's electricity and clean energy.

First Green Bond Offering: The International Finance Corporation (IFC) disclosed on June 16th that it was looking to take a position in CIB's upcoming USD 100 mn green bond program.

EUR 225 mn AfDB Loan: The Ministry of International Cooperation stated on June 17th that the African Development Bank (AfDB) had approved an EUR 225 mn loan to finance Egypt's Electricity and Green Growth Support Program.

Takaful & Karama Tranche Disbursed: Social Solidarity Minister Nivine El-Kabbag announced on June 21st that the World Bank had disbursed the first USD 325 mn tranche of a USD 500 mn facility to subsidize Egypt's Takaful and Karama cash subsidy programs.

USD 17 mn from UNICEF: The Ministry of International Cooperation stated on June 22nd that the UNICEF would provide the Egyptian government with USD 17 mn to support the fight against COVID-19.

MSME Funding: The Export Development Bank of Egypt (EBE) disclosed on June 24th that it was receiving a USD 15 mn medium-term loan from German Development Bank KfW's Sanad Fund to on-lend to MSMEs and agribusinesses.

IMF Tranche: The IMF approved on June 26th the disbursement of USD 2 bn of Egypt's USD 5.2 SBA arrangement, with the remainder to be disbursed in two tranches after staff reviews. The SBA will be used to help GoE finance its reform program and shore up social safety nets.

Tourism Funding: The European Bank for Reconstruction and Development (EBRD) stated on June 26th that Egypt is among a list of countries being considered by the bank and the UN World Tourism Organization (UNWTO) for emergency finance to support its tourism sector through the COVID-19 pandemic.

SME Grants from KSA: International Cooperation Minister Rania Al-Mashat announced on June 28th that KSA would provide EGP 200 mn to finance five new micro, small, and medium enterprises (SMEs) in Egypt.

Development Projects: The Ministry of International Cooperation stated on June 30th that USAID had agreed to provide USD 105 mn in financing for five development projects in Egypt, including digitizing government services, the planned move to the new administrative capital, and work to support women.

Source: Enterprise Press

BUSINESS INCENTIVES

'Whitelist' Extended to SMEs: The Ministry of Finance issued a decision on June 2nd enabling SMEs to join a whitelist of importers eligible for expedited customs clearance.

Natural Gas Arrears: The Cabinet approved on June 3rd an Oil Ministry proposal to waive EGP 5.3 bn-worth of natural gas arrears owed by struggling state-owned and private sector factories.

Tourism Rent Exemption: The Cabinet announced on June 8th a 3-month rent holiday for restaurants at touristic and cultural sites.

Export Subsidies: The Cabinet stated on June 11th that the Export Subsidy Fund dispensed around EGP 3 bn in overdue export subsidies in April and May.

Economic Zones Incentives: Suez Canal Zone head Yehia Zaki announced on June 14th that officials from the zone were working with the government to introduce new incentives for investors including a mixture of non-tax incentives and custom breaks.

SMEs Initiative Extended to Farmers: The Central Bank of Egypt (CBE) approved on June 16th a request from the Agriculture Minister to allow small-scale growers and livestock breeders to access the SMEs lending initiative at a subsidized 5% interest rate.

Mortgage Lending: State-owned Banque Misr and the Federation of Egyptian Industries' real estate division signed on June 17th a cooperation agreement to expand mortgage lending to middle-income families through a CBE-backed EGP 50 bn package and Banque Misr's own real estate financing products.

Bank Transfer Fees: The Central Bank of Egypt (CBE) extended on June 21st its decision to exempt EGP-denominated transfers between local banks from fees and commissions until September 15th.

Suez Canal Discounts Renewed: The Suez Canal Authority (SCA) renewed on June 23rd discounts on container ships and bulk carriers crossing the Suez Canal that had been introduced in January 2018 until the end of the year.

GOV'T REVENUES

Lost Income: The Ministry of Finance stated on June 8th that the COVID-19 pandemic had cost the Egyptian economy EGP 130 bn in lost income and that the government had seen an EGP 124 bn shortfall in tax and non-tax revenues since March.

Electricity Prices: The Ministry of Electricity announced on June 9th new electricity prices for FY 2020/21 raising prices for household use by an average of 19.1% while reducing the price for manufacturing plants by 10 piasters for high, medium and high voltage consumption.

Approved Budget: The House of Representatives approved on June 17th the state's budget for FY 2020/21 with a 43% y-o-y increase in health and education allocations. The budget is due to be revised by the end of September 2020.

Individual Income Tax Filing: The Ministry of Finance (MoF) issued on June 17th a decree stating that individual taxpayers would have to file their taxes electronically as of January 2021.

Development Fees Approved: The President ratified on June 23rd a bill introducing new/ higher development fees on a list of goods and services, such as mobile phones, commercial internet bills, pet food and raw tobacco that had been approved by the Parliament in May.

GLOBAL FORECASTS

Global FDIs: The United Nations Conference on Trade and Development (UNCTAD) released on June 16th its World Investment Report stating that Egypt had remained the largest FDI recipient in Africa in 2019. UNCTAD expects global FDI to shrink by 40% in 2020.

TRADE/ COMMODITIES

White Sugar Imports Banned: The Trade and Industry Ministry announced on June 4th a ban on the imports of white sugar for 3 months, with the exception of imports for pharma manufacturing.

Poultry Exports: The Ministry of Agriculture stated on June 14th that Egypt would resume poultry exports for the first time in 14 years after having been added to a World Organization for Animal Health list of countries with avian flu-free facilities.

Wheat Imports: The General Authority for Supply Commodities (GASC) purchased on June 17th 240K tons of wheat from Russia, Romania and Ukraine, bringing GASC's total wheat imports to 840K tons, exceeding its 800K ton target for the local harvest season.

MINERAL RESOURCES

Oil & Gas Agreements: The Cabinet ratified on June 21st twelve oil and gas agreements that were signed in February with international companies that would invest more than USD 1 bn in concession areas in the Mediterranean, the Red Sea, and the Western Desert.

Gold Discovery: The Ministry of Oil stated on June 30th that a gold deposit estimated to hold over 1 mn ounces was discovered in the Eastern Desert's Iqat region.

MISCELLANEOUS

Passenger Car Sales Down: The Automotive Information Council reported that passenger car sales dropped 26% y-o-y in April to 5,852 vehicles, whereas truck sales dropped 41.7% to 1,467 units. Furthermore, in May 2020, passenger car and truck sales dropped by 17% y-o-y to stand at 8,091 vehicles and 2,176 trucks.

Source: Enterprise Press

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