

COVID-19 EGYPT UPDATE

Special Edition of the **LYNX Industry Notes**

March 26, 2020

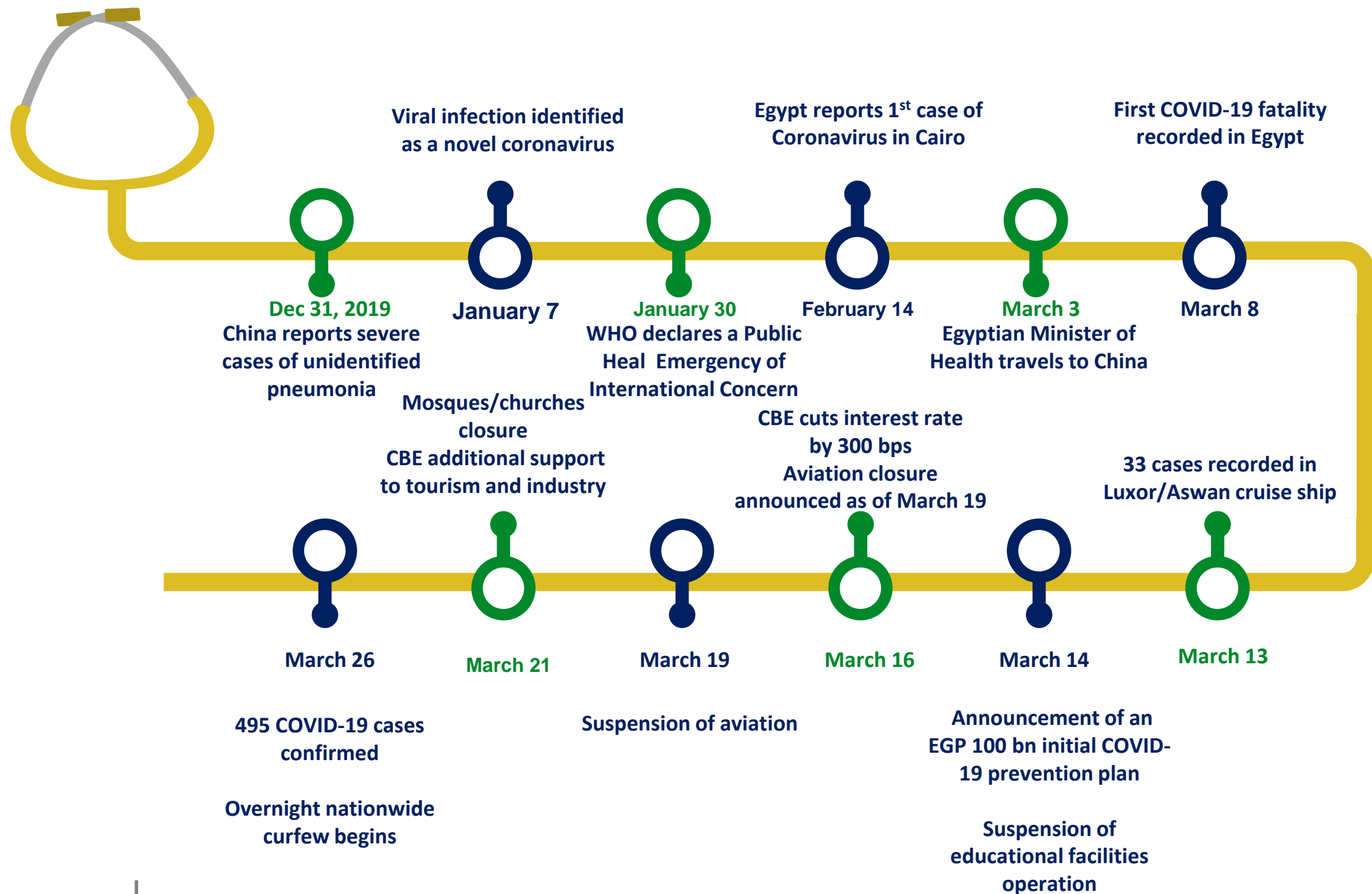
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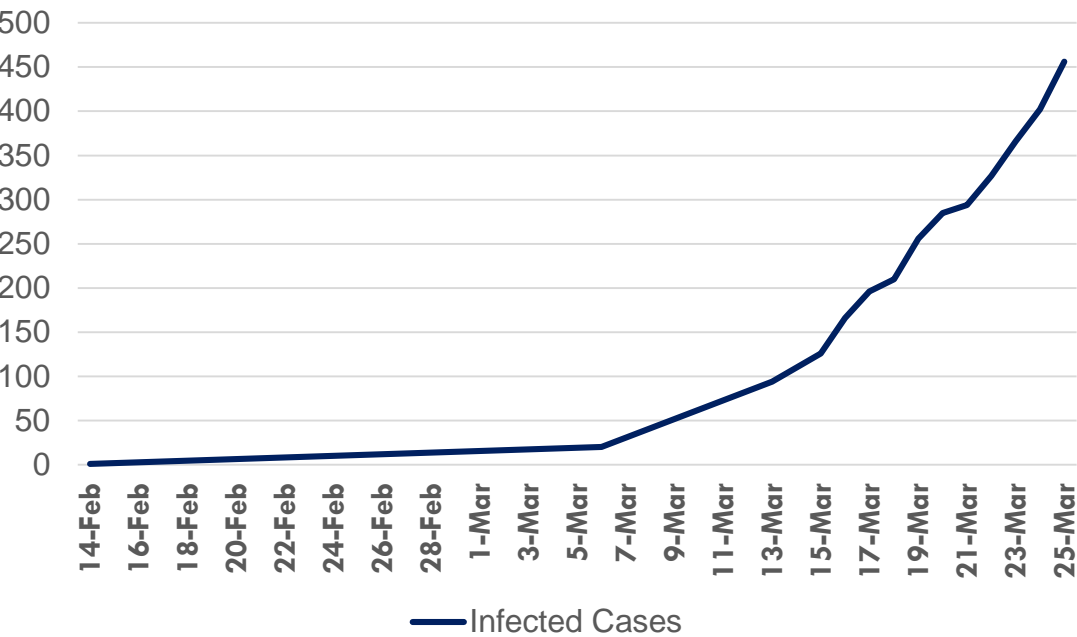
COVID-19 Timeline: Egypt

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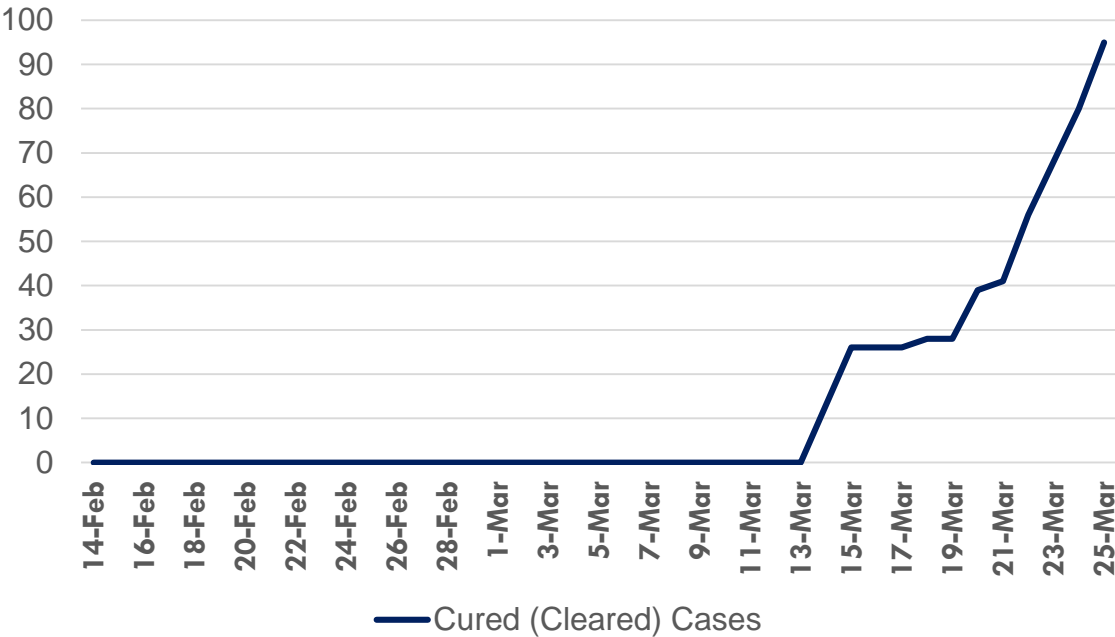


COVID-19: Egypt

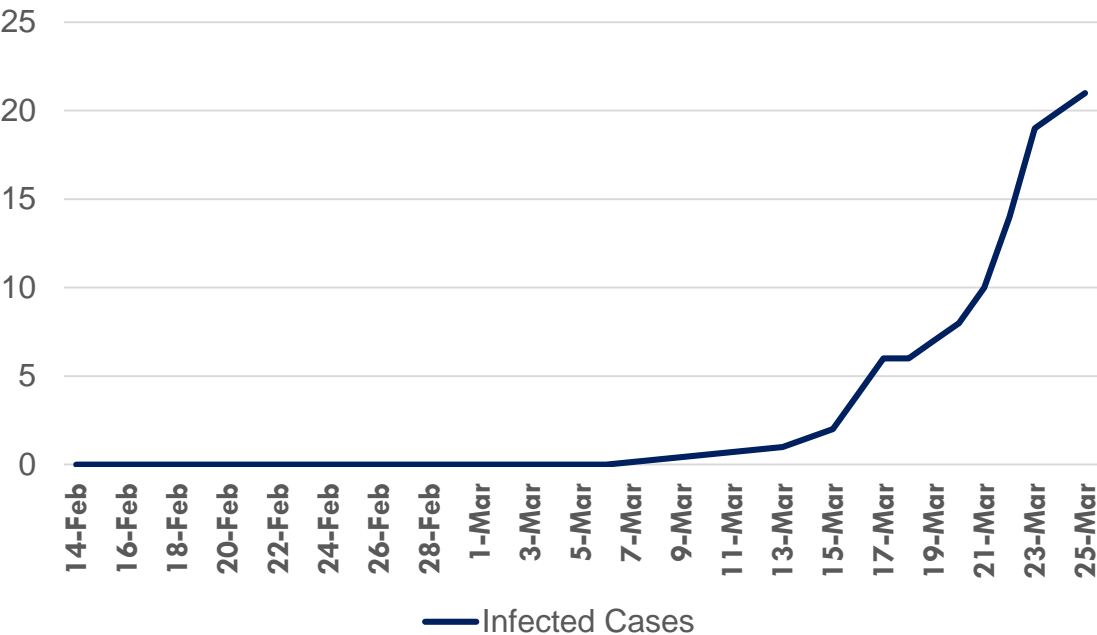
Infected Cases



Cured (Cleared) Cases



Fatalities



GoE Objectives

GoE Objectives

The Government of Egypt (GoE) has moved gradually, assertively and transparently 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.

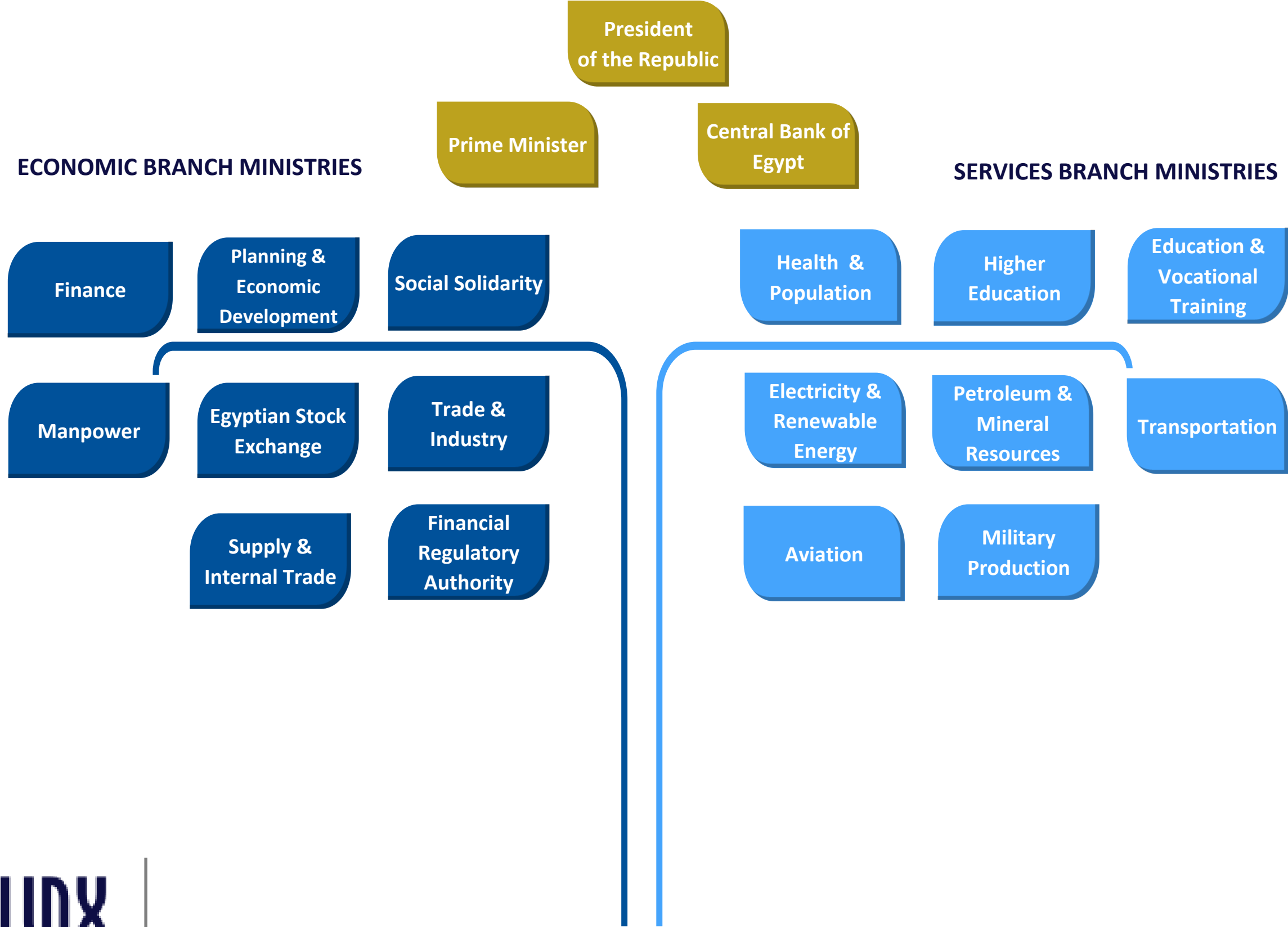
Through these measures, the GoE is seeking to:

- Contain the spread of COVID-19 without causing nation-wide panic
- 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 or if temporarily laid off
 - Businesses, particularly small and medium enterprises, have enough cash flows to fulfil obligations and avoid bankruptcy
- Lay the groundwork for an economic surge once the dust settles.

GoE Stakeholders

COVID-19

GoE Stakeholders



GoE Decisions

GoE Decisions by Sector

Health

- A quarantine specialized hospital (QSH) is assigned in each governorate (27 in total).
- Testing limited to Ministry of Health facilities only. Currently 21 state labs testing for the virus that causes COVID-19.
- Self-sterilizing ambulances dispatched to transport infected patients to QSHs.
- Body temperature checkups conducted on all in/outbound travelers across airports.
- Mandatory 14-day self-isolation for anyone returning to the country from foreign travel.
- General health doctors are training (on-the ground/ online) on operating as intensive care doctors at ICU units.
- University Hospitals ordered to cut non-emergency admission by 70% to free beds for potential COVID-19 patients.
- University hospitals ordered to prepare at least 30-bed quarantine areas and ensure supply of six-months of key equipment, medicals and disposables.

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.
- GoE considering converting some schools into hospitals if number of cases rises above 1000.
- 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 are required to monitor their workers' temperatures and provide them with masks and disinfectants as precautions against COVID-19. Ambulances will also be required to remain on sites that have more than 100 workers.
- Smoking of water pipes (*shisha*) is prohibited in public areas.
- Enhanced coordination with the WHO on policy issues.

Central Bank of Egypt

- Interest rate is cut by 300 bps. 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).
- CBE's Monetary Policy Committee (MPC) will meet on April 2, 2020 to review interest rates. Experts are predicting an additional cut of around 150-225 bps.

"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 eliminated 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%.

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 9, 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.

GoE Decisions by Sector

Egyptian Stock Exchange

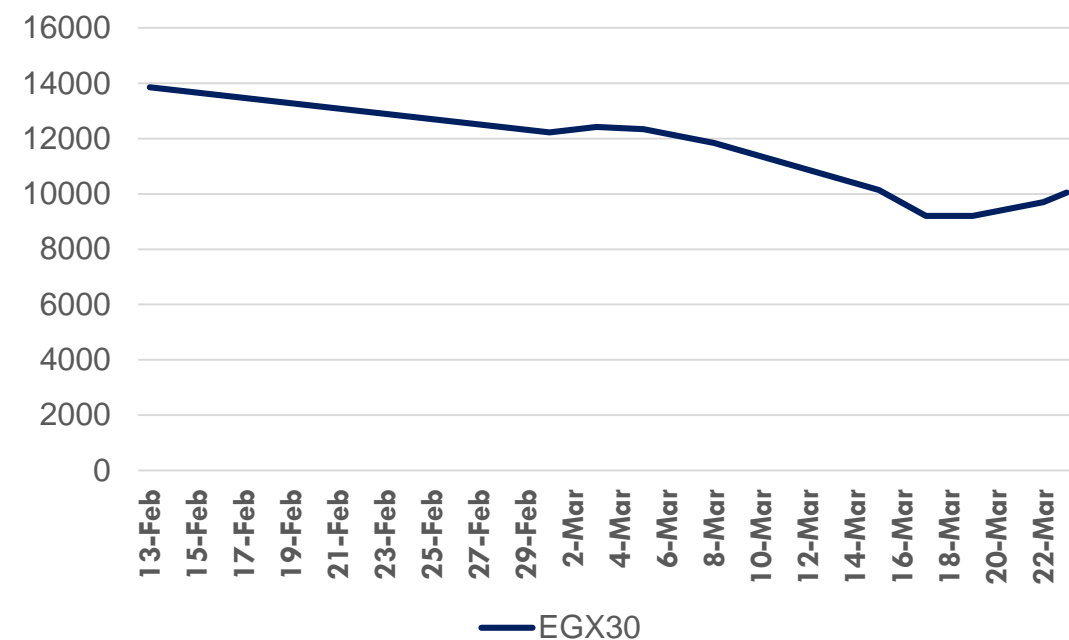
- Foreign investors to pay stamp tax on EGX transactions at a reduced rate of 0.125% (instead of 0.15%.) Residents will pay 0.05% stamp tax, down from 0.15%. All spot transactions on the EGX are also exempt from stamp tax.
- Indefinite full exemption of capital gains tax for foreign investors
- Full exemption of capital gains tax for residents until January 2022

Financial Regulatory Authority

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



EGX Performance



GoE Decisions by Sector

Ministry of Trade & Industry

- Allocation of EGP 1 Billion for the Export Subsidy Fund to pay arrears to exporters in March/April. Additional funds will be made available in June 2020.
- Policies to advance Egypt's local manufacturing industry are under review. Deliberations with Parliament on implementing the recently adopted automotive industry strategy are planned.

Ministry of Military Production

- Military Production factories will expand their production of clinical masks to 40,000 masks/day. Expected to increase to 100,000 masks/day by the end of April 2020.
- Military Production factories began producing ethyl alcohol at 10 tonnes/day.

GoE Decisions by Sector

Ministry of Manpower

- Public sector daily workforce reduced by 50% on rotational basis. Other entities followed suit.

Ministry of Social Solidarity

- Low-income/ non-contractual workers to earn an EGP 500 cash assistance. 150,000 workers were registered during the first 3 days of the initiative.
- An additional 60,000 families were added to the Ministry's Takaful and Karama benefit programs.
- Payments to women leaders in rural areas increased to EGP 900 per month (up from EGP 350).
- Considering enrolling alcohol-based sanitizers and medical masks on subsidy cards.

Ministry of Supply

- Securing strategic goods reserve sufficient for at least 9 months.

GoE Decisions by Sector

Education

Higher Education

- Closure of all nurseries, K-12 educational facilities, universities, and educational centers across Egypt. Effective until April 14, 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.
- An Educational Virtual Platform is launched for students. Challenges remain.

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.

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.

GoE Decisions by Sector

Ministry of Aviation

- All international aviation in/outbound Egypt is suspended, effective until April 14, 2020.
- Cargo operations are not affected by the suspension.

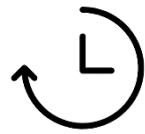
Ministry of Transportation

- Cairo metro are running on an amended schedule.

Ministry of Defense

- Army deployed troops from its chemical warfare units to deep clean GoE institutions, universities and metro stations.

Partial Curfew Regulations



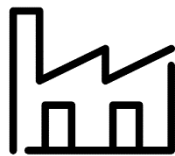
Two-week

overnight curfew from 7 PM - 6 AM ending on April 8, 2020
(subject to renewal or expansion)



Shops and retail stores,

including malls, ordered to close between 5 PM - 6 PM
on weekdays, and are required to remain closed all day Friday
and Saturday.



Food manufacturers

allowed to continue operating at full capacity despite the
curfew to ensure that demand for food commodities is met.



Cafes,

bars, casinos, and nightclubs ordered to close for the
two-week period. All gyms and sporting clubs also closed



Exemptions

from curfew to: supermarkets, bakeries, grocers, and
pharmacies (except for those inside malls)



Restaurants

and other food services ordered to close for table service.
May only run delivery service from 6 AM - 7 PM.



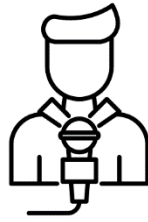
Hospitals

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

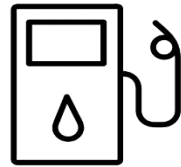


Citizens

may be permitted to leave the house for emergency medical
treatment but need to head straight to a treatment facility.



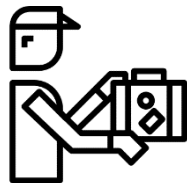
Journalists and media professionals
are allowed to move freely during the curfew



Petrol stations
may operate during curfew, including to receive deliveries.
Tankers delivering petroleum products
are exempt from the ban on movement.



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.



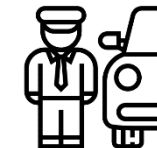
EGX
trading day shortened: 10 AM - 1:30 PM.
Price discovery will begin at 9:30 AM.



The GoE
will also extend for 15 days its previous decision to cut down on
the number of civil servants and employees at public sector
companies and institutions. This extension will be applied as of
April 1st, when the initial decision was set to expire.



Sporting clubs
and facilities, youth centres, and gyms are closed.
All sports matches 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

Assessment

- Public trust in GoE policies has increased; yet more work remains to be done.
- Situation will remain fluid for some time. Real impact of the crisis may become clearer within 6-12 weeks.
- Egypt's external position seems better than most regional countries, but could see its economy contract 1.3% in 2020 on the back of the COVID-19 outbreak.
- Businesses facing real risks, varying from dynamics of supply chains undergoing fundamental changes, to employment challenges, to large drops in supply/demand, to lack of cash liquidity to fulfil commitments
- Uncertainties remain about the progress of virus' spread, the economic policies that can mitigate the damage, and its impact on employment (particularly non-permanent workers' ability to maintain their income in affected industries such as manufacturing, construction and hospitality).
- Curfew-driven productivity has driven up prices of some commodities.
- Air freight costs have more than doubled since the suspension of air traffic at Egypt's airports.

Assessment

- Global occupation with COVID-19 is stalling Egypt's efforts to resolve the Grand Ethiopian Renaissance Dam issue. The filling process of the dam may begin in July 2020, further complicating Egypt's national security interests.
- Depending on the spread of the virus, and the community's compliance with social distancing measures, GoE may take further measures that include:
 - Deeper nation-wide curfew measures
 - Limitation of inter-city travel
 - Further incentives to businesses, including on tax collections, customs acceleration, loans facilitation to companies
 - Further interest rate reductions
 - Additional cash disbursements to workers
 - Contingency plans for medical facilities to prepare for worst-case scenarios.

Recommendations

Containing the COVID-19 Spread

- Given the existing capacity of health care systems, COVID-19 suppression measures remain the only practical option to contain the COVID-19 spread in the short term.
- The GoE should continue to consult the medical community on virus containment measures.



Testing

- Consider a more rapid scale of GoE monitored testing of COVID-19, in government and non-government facilities.
- Provide readily available tests to raise alertness of those infected and encourage them to take quicker quarantine measures (e.g. free with doctor prescription, available privately but reimbursed by the government if possible, monitor the infected through government app).
- Invest, from now, in testing kits and expansion of supply, with an eye on containment measures during the second peak in the fall of 2020.



Promote Remote Working

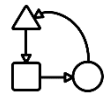
- Call on businesses to increase acceptance of remote work going forward
- Unblock apps that use voice over IP to help employees work remotely.

Containing the COVID-19 Spread



Business Guidelines

- Call on businesses to issue guidelines to mitigate risks to employees.
- Guidelines should focus on enhancing health and safety, social distancing, ensuring business continuity, active stakeholder engagement, and clear communication with clients and employees.



Prepare for Worst-Case Scenarios

- Put in place a worst-case medical contingency plan, utilizing all available medical facilities and personnel to address, God forbid, a nation-wide virus spread.

Additional Support to Businesses



Enhanced GoE/private sector dialogue

- Engage in a constructive dialogue with the private sector to exchange experiences on crisis management (consult on needed tax rebates and incentives, setting up remote medical centers, converting civilian facilities to hospitals, etc.), digitalizing services, handling logistics and supply
- Encourage businesses to maintain their positive cash flow by making their operations as efficient as possible, manage costs and avoid unnecessary spending



General support for businesses

- Defer payments on social insurance and taxes.
- Consider extending deadlines for tax return submissions for FY 2019 (due April 2020) to June 30.
- Settle pending export rebate arrears to businesses.
- Instruct customs authorities to accelerate the release of production requirements and basic commodities in Egyptian ports, to maximum 72 hours if possible.
- Consider additional reductions to the price of natural gas for all industries.
- Pay close attention to the construction and tourism sectors as they constitute a significant portion of today's labor market. Accelerate payments to suppliers.

Additional Support to Businesses



Additional SME support

- Take further steps to promote small and medium-sized enterprise lending by issuing additional facilitated procedural, technical rules and standards for lending.
- Open a facilitated credit line and measured emergency loans for SMEs to enable them to fulfil wages and other commitments.

Prepare for a Post-crisis Action Plan

- Adopt aggressive investment facilitation measures.
- Re-define the role of the state in the economy without eliminating it.
- Review spending priorities, including on national projects, by shifting gradually from housing and construction to serve sustainable development activities, most importantly education, health, and financial services infrastructure.
- Develop measures for serious confrontation of tax evasion.
- Simplify export procedures at all levels.
- Promote a (CBE-led) initiative on low-cost financing for the purchase of capital machinery and equipment to modernize Egypt's production capacities.
- Consider untapped productive capacities for locally manufactured intermediate goods that could benefit from global supply chain changes.
- Develop a policy and regulatory framework for Egypt's e-commerce industry.
- Put in place a favorable policy and regulatory framework to enhance business R&D investments.
- Adopt effective investment dispute resolution mechanisms.
- Further enhance GoE/private sector trust and build sustainable communication channels.

Thank you

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