SUPPORTING ECONOMIC TRANSFORMATION

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Egypt

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Key messages

- This note the key effects of the coronavirus pandemic on the Egyptian economy, and policy responses to try to the impact.
- Egypt's economy is highly reliant on tourism, the Suez Canal and remittances, all of which are highly vulnerable. The effect on tourism are already evident, although many tourist facilities are making use of time to carry out maintenance and renovations. So far there has been little impact on Suez Canal revenues and the effect on remittances is unclear.
- The Egyptian government was slow to act but has now implemented decisive monetary and fiscal policy
- Donor support has begun to materialise, though it is possible that current donors will pull out of existing commitments.

Introduction

According to official figures, Egypt has 865 COVID-19 cases, covering at least 22 of the country's 27 governorates. However, it is widely suspected that the actual number of infections is much higher. The Guardian's Egypt correspondent was forced to leave the country last week for reporting on a study from the University of Toronto that estimated there were at least 6,000 cases in early March.

Egypt imposed a night-time curfew on 25 March, and has closed schools, universities and airports. These measures are currently planned to last until 8 April. Most preventative methods have been focused on the tourism sector, including testing hundreds of tourist and tourism workers, and sanitising hotels, cruise ships and even the pyramids.

Heath spending (both domestic and external) totalled $157 per capita in 2016 (6.2% of GDP), far lower than the Middle East and North Africa average of $773 (or $469 if high-income countries are excluded). Egypt has the lowest health expenditure in the region other than Iraq, Syria and Yemen.

Economic and social impacts

Trade and production effects are most evident in the tourism sector. According to hoteliers and tour guides, the number of visits has dropped to 10% of its normal level, with some hotels reporting a zero occupancy rate. A full 80% of future reservations have been cancelled in the past few days. Egypt's economy is highly reliant on tourism revenue (12% of GDP), which rose to a record high in the financial year ending in July 2019. This means even a 50% decrease between March and June would equate to around a 2% drop in GDP growth across the year. The prime minister said aviation firms alone would lose EGP 2.25 billion ($143 million) owing to airport closures. The sector also accounts for 9.5% of employment in Egypt, meaning the income of 2.48 million people is at risk.

Concerns that a slowdown in global trade may hurt Suez Canal revenues, which account for around 10% of Egyptian GDP, have, as yet, been unfounded, with the chief of the Suez Canal Authority reporting a 4.6% year-on-year increase in the number of ships passing through, on 1 April.

The effect on Egypt's major gas exports is predicted to be fairly neutral, since its revenues are almost exactly balanced by its imports of oil. Gold exports have fallen precipitously, in particular to the US market. However, parts of the citrus industry have reported strong sales, driven mainly by domestic demand.

On 26 March, Egypt's planning minister announced a reduction in the country's GDP growth target from 5.6% to 5.1% for the financial year that ends in July. She also said that GDP growth for the following financial year could be as low as 3% if the crisis continues until December. This seems a very modest downgrade given that the International Food Policy Research Institute (IFPRI) estimates that, for each month that the COVID -19 crisis persists, Egyptian GDP could fall by between 0.7% and 0.8%.

Inflation has slowed for the first time since October. Urban consumer prices rose 5.3% in February compared with 7.2% the previous month. However, the Ministry of Planning has forecast that inflation will rise to 9.8% if the crisis continues until December.

The **financial impacts** are starting to make themselves felt in the stock market. The EGX30 index of the country's top listed stocks stood at 14,009 points on 11 February. It fell to 8,750 points on 18 March but has since recovered, following government action on 22 March, to sit at 9,425 points on 2 April.

Remittance inflows, worth $25 billion in 2019 (10% of GDP), are expected to fall if Gulf countries scale back operations, as they are the largest employers of expatriate Egyptians. The Egyptian pound, which was rising against the dollar until the end of February, has since stayed fairly constant at a value of $0.064. In addition, Egypt's high foreign currency reserves should allow them some cushion against the crisis.

The **social impacts** will likely become more evident over the coming weeks. Food prices have increased since the curfew was put in place, despite government reassurances that sufficient food has been stockpiled. IFPRI estimates Egyptian household incomes will decline by $9.70–11.40 per person per month for each month that the crisis continues (9.0–10.6% of household income), taking into account only the slowdown in tourism, remittances and international trade. This will be particularly severe for rural low-income households, which are more reliant on remittances, which are predicted to lose $6.60–8.20 (11.5–14.4% of their average income).

Monetary and financial policy

On 16 March, interest rates were cut by 300 basis points, their largest ever rate cut, taking rates to their lowest level since 2016. The overnight deposit and lending rates now stand at 9.25% and 10.25%, respectively.

The Central Bank has ordered local banks to delay repayment on both personal and business loans for six months, as well as providing loans to the tourism sector to help pay salaries and to fund maintenance work. Many hotels and museums seem to have taken the opportunity to refurbish.

Local banks were ordered to raise daily transaction limits on credit cards, as well as to cancel point of sale and ATM fees, in order to encourage electronic payment.

Fiscal policy

In **assistance for businesses**, the government has delayed payment of property taxes on factories and tourist facilities for three months. It has also created a fund of $63 million (0.025% of GDP) to help cover some of the dues of exporters.

In addition, stamp duty on equities investments has been reduced to EGP 1.25 per EGP 1,000 for non-residents and to EGP 0.5 per EGP 1,000 for residents, compared with EGP 1.5 previously. The tax rate on dividends for companies listed on the stock exchange has been halved to 5%.

Social protection measures have seen the government formulate a plan for cash payments to self-employed people and labourers, as well as a safety net for poor and vulnerable citizens. It has also implemented a debt relief initiative, waiving interest on debt less than EGP 1 million.

The price of natural gas has been reduced by $4.5 dollars per million thermal units and electricity prices have been reduced by 10 piasters per kilowatt-hour.

In the **2019/20 budget** of 14 March, the president announced an increase of the tax exemption ceiling to EGP 15,000 ($952), up from EGP 8,000 ($508), as well as an increase of 7–12% in civil service salaries.

To provide for **heath measures**, $63 million (0.025% of GDP) has been allocated, including $9.7 million for buying materials to counter the coronavirus, and $2.1 million as bonuses for those who work in quarantine. The government has also ordered manufacturers to channel medical protective equipment to public hospitals, to help with shortages.

Donor support

WHO has been providing technical support to Egypt, and has just completed a mission to understand the strengths and gaps in Egypt's current response. The World Bank announced on 3 April $7.9 million to fund emergency response activities in Egypt. Egypt has also received testing kits from the Jack Ma Foundation. Egypt may also be able to access IMF funds, following its successful completion of an IMF programme in November 2019. However, the drop in oil prices is expected to diminish the aid and investment that Egypt currently receives from the Gulf States.

Information in this note is correct as of 3 April 2020. The author is an ODI Fellow with the Ministry of Science and Higher Education, Ethiopia; this note is written in a personal capacity. Comments welcome: e.silcock.fs@odi.org.uk