CHAPTER 14

How did Egypt soften the impact of Covid-19?

Jamal Ibrahim Haidar[1]
The American University in Cairo and Harvard University

The Covid-19 pandemic has drastically disrupted people's lives, livelihoods, and economic conditions around the world. The global shock has resulted in a tourism standstill (Djankov 2020), significant capital flight (Djankov and Panizza 2020), and a slowdown in remittances (Nonvide 2020), resulting in an urgent balance-of-payments need. Egypt responded to the crisis with a comprehensive package aimed at tackling the health emergency and supporting economic activity. The Ministry of Finance acted swiftly to allocate resources to the health sector, provide targeted support to the most severely impacted sectors, and expand social safety net programmes to protect the most vulnerable. Similarly, the Central Bank of Egypt adopted a broad set of measures, including lowering the policy rate and postponing repayments of existing credit facilities. The next section highlights the experience of firms in Egypt following these policies.

THE ECONOMIC OUTLOOK AND FIRM EXPERIENCE

The Egyptian economy proved resilient to the immense human and financial costs caused by the global Covid-19 pandemic. This resilience may be explained by the implementation of the economic reform programme since 2016 that provided more fiscal space to withstand the adverse impact of the Covid-19 crisis. However, that Egyptian economy is holding up is also due to the rapid response to limit the impact of the virus that were implemented by the Egyptian government since early 2020. These actions enabled the country to avoid a full lockdown policy in 2020.

1 The author would like to thank Haya Anis for outstanding research assistance.

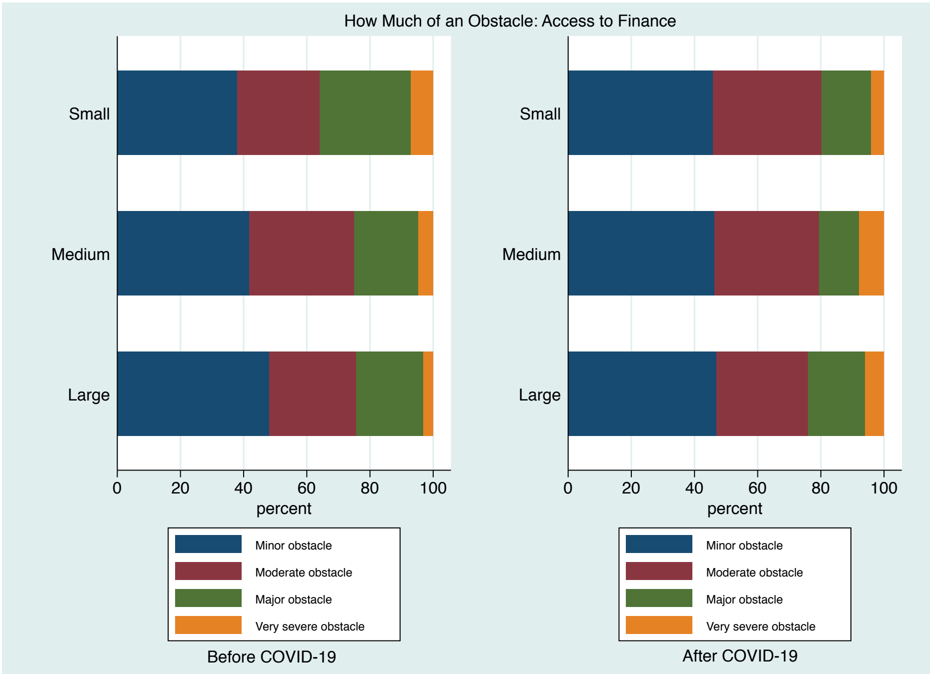
The World Bank Enterprise Surveys[2] data show that private sector firms in Egypt did not express financial concerns due to Covid-19. Figure 1a shows that, in assessing the degree to which access to finance was an obstacle, around two-fifths of small firms surveyed before Covid-19 considered it a minor obstacle; around a fifth considered it a moderate obstacle; around a fifth considered it a major obstacle; and around 10% considered it to be a very severe obstacle. This distribution of sentiment more or less held for medium-sized and large firms surveyed before Covid-19, albeit with some adjustments to reflect progressively positive sentiments as firm size increases from medium to large. After Covid-19, firms seemed to adjust their attitudes such that small, medium-sized, and large firms were all equally as likely to see access to finance as a minor or moderate obstacle.

Moreover, access to finance did not seem a major obstacle for firms before or after Covid-19 across geographic regions in Egypt. Figure 1b shows that for firms surveyed before Covid-19 and in the Greater Cairo and West Delta regions, access to finance was overwhelmingly seen as a minor or moderate obstacle. Among firms surveyed before Covid-19 and in Northern Upper Egypt and Southern Upper Egypt, less than a fifth saw access to finance as a minor obstacle, and nearly half of the firms cited access to finance as a moderate or major obstacle; this also roughly held for the Suez Region and the Middle and East Delta. Among firms surveyed after the onset of Covid-19, and in the Middle East and Delta region, nearly half cited access to finance as only a minor obstacle when surveyed after the pandemic, compared to only a fifth sharing the sentiment when surveyed before the pandemic. Firms in the Northern Upper Egypt region showed some improvements along the same lines, while firms in the Southern Upper Egypt region were much more likely to cite access to finance as a moderate obstacle when surveyed after the pandemic than before the pandemic. In general, perceptions of access to finance seemed to have improved in most regions, except for the Suez region, where perceptions of access to finance seemed to have worsened, with nearly a fifth of firms surveyed after the pandemic in the region seeing access to finance as a very severe obstacle.

For medium-sized and large firms, the median share of total annual sales paid for after delivery for firms surveyed after the onset of Covid-19 was larger than the median share for firms surveyed before the onset of Covid-19. For small firms, the medians in both time periods were fairly similar. Moreover, for small and medium-sized firms, the median share of working capital borrowed from banks for firms surveyed before the onset of the pandemic was similar to that for firms surveyed after the onset of the pandemic. For large firms, however, the median share for firms surveyed after the pandemic was nearly 10% higher than for those surveyed before the pandemic.

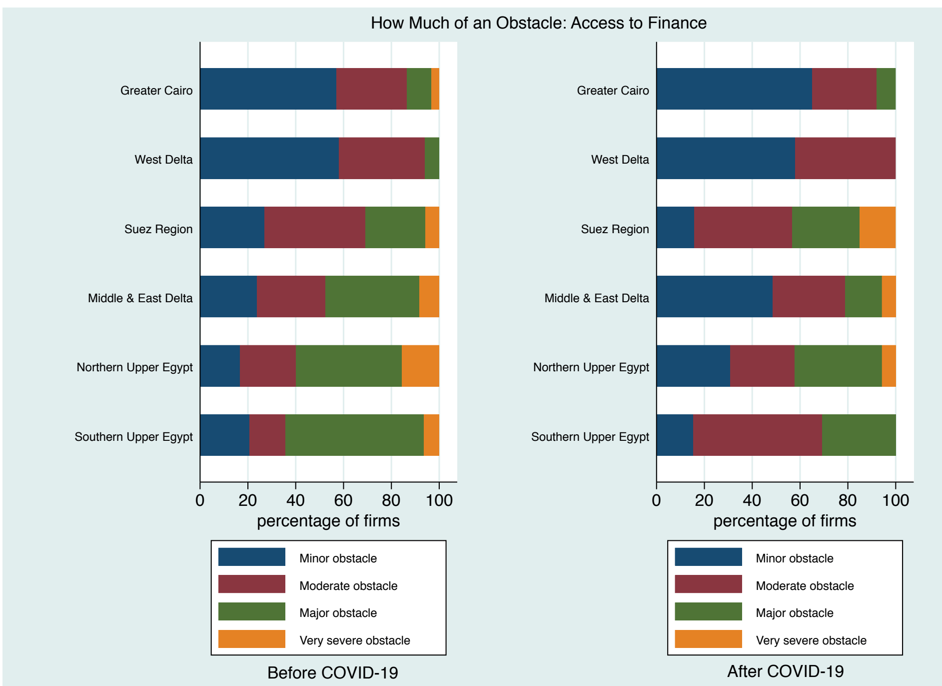
2 The World Bank Enterprise Surveys covered a total of 3,075 firms between December 2019 and July 2020 in Egypt. The survey covered seven regions in Egypt: Greater Cairo, West Delta, Suez Region, Middle and East Delta, Northern Upper Egypt, Southern Upper Egypt. It spanned firms from 15 industries: Food and Beverages; Textiles and Garments; Leather products; Chemicals and Chemical products; Petroleum products, Plastics and Rubber; Non-metallic mineral products; Basic Metals and Metal products; Machinery, Equipment, Electronics, and Vehicles; Wood products Furniture, Paper, and Publishing; Other Manufacturing; Construction; Wholesale; Retail and Automotive trade; and Hospitality and Tourism. Also, it represented small (5-19 employees), medium-sized (20-99 employees), large (100 or more employees) firms.

FIGURE 1A ACCESS TO FINANCE AS AN OBSTACLE, BY FIRM SIZE



Source: Author's calculations using World Bank Enterprise Surveys data.

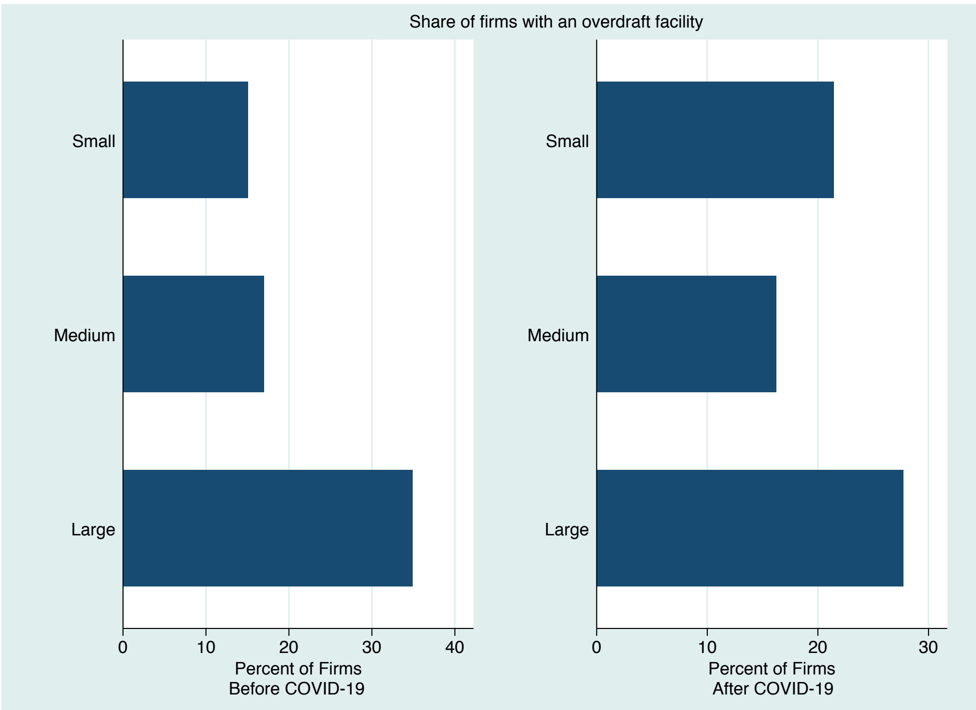
FIGURE 1B ACCESS TO FINANCE AS AN OBSTACLE, BY REGION



Source: Author's calculations using World Bank Enterprise Surveys data.

Most firms, regardless of location and time of survey, reported not having a loan or line of credit because the firm did not apply for one, not because its last application was turned down. This result did not change when dividing firms by industry or size groups. Moreover, prior to the onset of Covid-19, large firms were more likely than medium-sized firms to have overdraft facilities and, in turn, medium-sized firms were more likely than small firms to have overdraft facilities. After the onset of Covid-19, however, the share of firms having overdraft facilities increased among all firm-size groups (Figure 2).

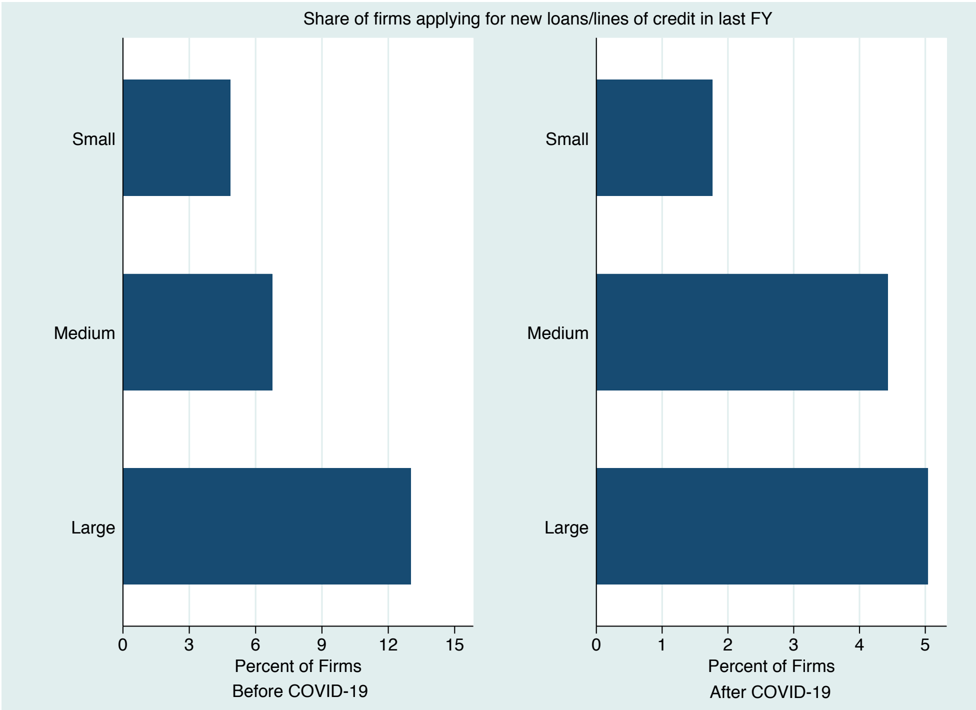
FIGURE 2 SHARE OF FIRMS WITH AN OVERDRAFT FACILITY



Source: Author's calculations using World Bank Enterprise Surveys data.

Regardless of firm size, the share of firms applying for new loans or lines of credit prior to the onset of the pandemic appeared to be modest. In general, large firms seemed to be more likely to apply for new loans and lines of credit than medium-sized firms and, in turn, medium-sized firms were more likely to apply than small firms. This pattern loosely held post-pandemic, with medium-sized firms more likely to apply for loans and new lines of credit than small firms, but equally as likely to apply as large firms (Figure 3). Most firms, regardless of size, cite the lack of need for a loan as the main reason for not applying for a new one. This sentiment held for firms surveyed before and after the onset of the pandemic.

FIGURE 3 SHARE OF FIRMS APPLYING FOR NEW LOANS/LINES OF CREDIT IN LAST FINANCIAL YEAR



Source: Author's calculations using World Bank Enterprise Surveys data.

The above statistics show that firms did not appear to experience hurdles in access to finance due to Covid-19. It is worth exploring how key international financial institutions may have contributed to this by providing financial support to Egypt. The next section looks at contributions made to Egypt by the European Bank for Reconstruction and Development (EBRD), the World Bank, and the IMF during 2020 following the pandemic.

THE CONTRIBUTION OF INTERNATIONAL FINANCIAL INSTITUTIONS

Various international financial institutions supported Egypt during the pandemic. The EBRD supported the real economy in Egypt with a US$200 million financing package to Banque Misr for trade and for on-lending to small and medium-sized enterprises (SMEs) and private businesses impacted by the Covid-19 crisis. Under this facility, the EBRD provided a $100 million loan to enable Banque Misr to provide short-term financing to private SMEs facing liquidity constraints due to a decrease in their activities and turnover caused by the Covid-19 crunch. The EBRD has increased the existing trade finance limit to Banque Misr by $100 million under the EBRD's Trade Facilitation Programme (TFP), in order to meet the increased demand for import and export transactions. This financing package was under the EBRD's Coronavirus Solidarity Package, established to meet immediate short-term financing needs to private businesses through existing EBRD partner banks.

In May 2020, the IMF provided an emergency financial assistance of $2.772 billion to Egypt under its Rapid Financing Instrument (RFI) to meet the urgent balance of payments needs stemming from the outbreak of the Covid-19 pandemic. The aim of the RFI was to help alleviate some of the most pressing financing needs, including for spending on health, social protection, and supporting the most impacted sectors and vulnerable groups. This emergency support helped limit the decline in international reserves and provides financing to the budget for targeted and temporary spending, aimed at containing and mitigating the economic impact of the pandemic. Then, Egypt also committed to full transparency and accountability on crisis-related spending including through publishing information on procurement plans and awarded contracts, as well as ex-post audits of such spending.

In addition, the International Finance Corporation (IFC) of the World Bank has extended a total of $400 million since March 2020 to support the private sector, including small and medium-sized enterprises and the health sector in Egypt. In addition, it cooperated with Egypt's Financial Regulatory Authority to issue Egypt's first of its kind green bonds. Moreover, the IFC invested a total of $307 million in Egypt during the year ending in June 2020.

The support of international financial institutions was necessary. But without complementary efforts by local policymakers, the support would not have been channelled to the real economy. The next section presents the roles that were played by the Egyptian Ministry of Finance and the Central Bank of Egypt during the pandemic.

THE ROLE OF FISCAL POLICY

The Egyptian Ministry of Finance (MoF) dedicated the fiscal year 2020/21 budget to achieving sustainable and inclusive growth while fostering human development and implementing wide-ranging structural reforms. The MoF put out a budget that was characterised by an unprecedented set of measures and a stimulus package of 100 billion Egyptian pounds (EGP), considered the largest in the history of Egypt and greater in size and measures than the package implemented in 2008/09 to face the global financial crisis. The 2020/21 stimulus package aimed to provide financial support to citizens and sectors negatively affected by the Covid-19 crisis.

In light of the challenges of Covid-19, the MoF, with the support of all national authorities, sought to capitalise on the gains of the economic reform programme undergone between 2016 and 2019. These gains allowed the fiscal space and structural flexibility to better cope with the current crisis. Although the timing of 2020/21 budget preparation coincided with the spread of the Covid-19 pandemic around the world, the programme set forth comprehensive measures to safeguard citizens, productive industries and exporters and help them overcome the crisis with the least damage in a way that enables our economy to recover rapidly.

The 2020/21 budget allocated EGP 100 billion to support the adopted comprehensive presidential plan aiming to combat the pandemic with ways to alleviate the burden on affected industries and ease the financial burden on less advantaged citizens. The Ministry of Finance announced in early May 2020 that EGP 63 billion of the 100 billion had already been allocated to cover some urgent additional social support, health and non-health expenditures, incentives to productive industries, and tax incentives. It also added additional 142,000 households to social pension and the Takaful and Karama programmes that served around 3.6 million. In addition, it allocated monthly disbursements of EGP 500 for three months, for a total of EGP 1,500, to support irregular workers. It also increased payments to women community leaders in rural areas from EGP 350 to EGP 900 per month.

Tax incentives and cost reductions have also played a key role. The 2020/21 budget increased the tax exemption limit from EGP 8,000 to EGP 15,000 annually. Employees of third parties earning an annual income of EGP 24,000 or below also received an EGP 9,000 personal tax exemption. Additionally, a new low-value (2.5%) tax bracket was introduced for those with annual income below EGP 30,000 instead of 10%.

The MoF also reduced the price of natural gas for industry to $4.5 per million thermal units to reduce factories' production costs, and reduced electricity prices for industry for the high, medium and high voltage by 10 piasters per kilowatt to reach EGP 1.08 per kilowatt. Moreover, it launched an EGP 50 billion fund for real estate financing for middle-income citizens directed at real estate financing through banks at a 10% return rate.

It is worth noting that the gains of the comprehensive economic reform programme that began in 2016 have not only allowed fiscal space and structural flexibility in the state budget, but have also increased the trust of financial institutions in Egypt's ability to overcome the crisis, which ultimately resulted in the positive credit rating given to Egypt. The MoF is now focusing on the digital transformation of budgeting, tax and customs collections and has taken a set of reform measures. In addition, it reduced the tax burden on the affected sectors by making a settlement of the tax arrears due on the investors in exchange for paying only 1–5% of the value of the tax arrears. The MoF also pumped EGP 3 billion during the period from April to June 2020 to support the Export Development Fund in providing additional liquidity to exporters. Moreover, the MoF increased public spending by an additional EGP 10 billion to pay the dues of contractors and suppliers.

THE ROLE OF MONETARY POLICY

The Central Bank of Egypt (CBE) implemented policies to reduce the financial impact of Covid-19 in Egypt. These policies included decreasing interest rates, offering the necessary credit limits to finance imports, delaying credit dues, limiting cash transactions, providing ATMs, launching an electronic acceptance initiative, supporting the replacement and renovation of hotels, financing the payroll for workers in the tourism industry and maintenance and operating expenses for six months, supporting financially stressed companies and individuals, and financing private sector firms.

The CBE lowered the overnight deposit rate, the overnight lending rate, the rate of the main operation, and the discount rate by 300 basis points to 9.25%, 10.25%, 9.75%, and 9.75%, respectively, in March 2020. The CBE reduced these rates by another 50 basis points in September 2020 and by a further 50 basis points in November 2020. Moreover, the CBE reduced the interest rates to 8% from 10% percent for (1) mortgage finance for the middle-income class; (2) industrial, agricultural, and construction private sectors initiatives; and (3) tourism sector initiatives to support financing the replacement and renovation of hotels, floating hotels and touristic transport fleets, and financing working capital and salaries. In doing so, the CBE aimed to support all sectors within the economy that were disrupted by Covid-19.

In addition, the CBE requested all banks to provide the necessary credit limits to finance imports of strategic commodities, with a special focus on food commodities to cater for the market needs. It also studied and followed-up on the sectors most affected by the Covid-19 outbreak and developed plans to support the companies operating in those sectors. Moreover, it offered necessary credit limits to finance working capital, particularly for the payment of salaries for companies' employees.

The CBE delayed all credit dues for all individuals, small and medium-sized enterprises, and corporations for a period of six months. These credit dues included retail loans as well as mortgage loans. In addition to delaying these credit dues, debtors were exempted from late interest or additional fees for late payments. As the period of deferring all customers' credit dues came to an end in September 2020 with no extension, and with the aim of supporting clients whose cash flows were negatively affected by the pandemic, banks have been guided by the CBE to (1) put the appropriate procedures in place to deal with all clients based on their ability to repay their debts and their cash flows; (2) restructure clients' debts to achieve a structure that matches their current ability to repay through offering several alternatives, with special attention to clients whose activities were affected during the previous period; (3) not consider debt restructuring as a significant increase in a client's credit risk, if the client has started to repay regularly without having financial difficulties; and (4) study and analyse the overall risks associated with the current crisis, conduct stress tests to determine the impact of the crisis on credit portfolios, and develop plans to deal with any potential losses.

Moreover, the CBE set measures to limit cash transactions and facilitate the usage of electronic payment methods. Starting in March 2020, it cancelled fees and commissions related to point-of-sale (POS) systems and cash withdrawal from ATMs and E-wallets for a period of six months. In September 2020, the CBE extended the cancellation of these fees and commissions until the end of 2020. In addition, it exempted local transfers in local currency from all commission and expenses between March and December 2020 in order to limit the use of cash transactions. Moreover, it directed banks to develop their infrastructure and to enhance their transfers departments to avoid delays and execute local transfers in local currency on the same day. The CBE also launched an 'electronic acceptance initiative' to increase the number of electronic points of acceptance available in all governorates. This initiative benefited companies and merchants who did not have POS systems. And, in light of some of the difficulties faced by citizens in cash deposit and withdrawal operations in Egypt and the need to increase the number of ATMs and ensure their proper geographical distribution across governorates to reduce the burden placed on citizens and branches of banks operating in Egypt, the CBE launched an initiative to distribute around 6,500 ATMs (as an initial stage) divided across a number of banks according to each bank's number of clients to ensure that they provide proper services to them.

The CBE provided EGP 50 billion at an interest rate of 8% over a period of 15 years to support the replacement and renovation of hotels, floating hotels and touristic transport fleets. Under this initiative, the CBE also allowed banks to finance salaries and dues to suppliers as well as maintenance expenses through granting credit facilities for a maximum period of two years, with a grace period till the end of December 2021, and capitalising the interest rate over this period.

Moreover, the CBE supported financially stressed companies and individuals. It supported companies that had bad and doubtful debts with a credit scoring of 9 or 10 and an outstanding debt balance of less than EGP 10 million, whether legal procedures were taken against them or not. If companies paid a percentage of their outstanding debt in cash or in-kind (subject to the bank's approval) according to the agreed-upon conditions with the bank and their cashflow, the CBE requested banks to (1) remove these companies from the non-performing loans list; (2) waive of all current and exchanged legal cases; and (3) release all guarantees that were held to secure the debt. Also, it supported the individuals that had a total outstanding debt with all banks of less than EGP 1 million. The CBE requested banks to (2) waive all current and exchanged legal cases; and (2) lift the ban on dealing with these clients and release the guarantees securing those debts when the client paid 50% of the net outstanding debt balance without the marginal interest during the period until 31 March 2021.

Last but not least, the CBE allocated EGP 100 billion through banks at an interest rate of 8% to finance other private sectors. This included industrial corporates and companies operating in agriculture, in addition to agricultural production and manufacturing, including export and packaging stations for agricultural commodities, refrigerators as well as fisheries, poultry, livestock, with an annual turnover of EGP 50 million or more (taking into account the total consolidated annual turnover of the client and its related parties). The initiative aimed to grant credit facilities to finance the purchase of raw materials, production supplies, machinery and equipment, and production lines (i.e. capital expenditures), in addition to workers' salaries and other utilities expenses. Construction companies with an annual turnover of EGP 50 million or more can now benefit from this initiative.

CONCLUDING REMARKS

The Covid-19 pandemic is causing the most severe global health and economic crisis for at least seven decades. In Egypt, the disruptions caused by the pandemic started in early 2020 and have interrupted a period of macroeconomic stability, characterised by relatively high growth, improved fiscal accounts, and a comfortable level of foreign reserves. The fiscal and monetary policies implemented during the first half of 2020, along with the emergency support provided by international financial institutions, are so far helping Egypt weather the shock.

This chapter has focused on highlighting these policy measures as well as how firms perceived their ease of access to finance before and after Covid-19 in 2020. More analysis is needed to understand how firms can expand and create higher quality jobs in Egypt in the face of the pandemic in the days ahead.

REFERENCES

Djankov, S (2020) "Reviving tourism in the Covid era: bungs, tax cuts and no more tour buses" LSE Blog.

Djankov, S, and U Panizza (2020), *Covid-19 in Developing Economies*, CEPR Press.

Nonvide, G (2020), "Policy for limiting the poverty impact of Covid-19 in Africa," in S Djankov, and U Panizza (eds), *Covid-19 in Developing Economies*, CEPR Press.

ABOUT THE AUTHOR

Jamal Ibrahim Haidar is an assistant professor of economics at the American University in Cairo (AUC) and a Research Associate at the Middle East Initiative, Harvard University.