
by Hussein Suleiman

1. Summary

The COVID19 pandemic has severe economic and social implications in Egypt. The resulting economic crisis is having its toll on income, employment, and poverty, and is exacerbating the hardships already faced by households and vulnerable groups in Egypt during the last 3 years. These years witnessed harsh measures as part of an economic reform and liberalization program, which was completed only few months prior to the COVID19 pandemic.

This policy brief examines the implications of the COVID19 crisis on households and vulnerable groups in Egypt, and highlights relevant measures and policies taken by the government so far, which are limited by falling public revenues and mixed priorities. The brief concludes with recommendations over the short and longer terms in order to support households, including boosting transfers to vulnerable groups during the crisis, redistributing the response package, scaling up public investment in education, improving the business environment, and accelerating efforts towards digital transformation.

2. Channels of Impact on Households

Since the global spread of the COVID-19 pandemic, the Egyptian government has adopted mild lockdown measures, in order to avoid an economic meltdown, with severe socioeconomic implications, and has already removed most of these measures starting from July. However, despite the fact that the domestic supply chains have been working as usual in most sectors, with minimum restrictions, the falling demand, both domestic and global, has caused a powerful shock to the Egyptian economy. Consequently, households and vulnerable groups, who have already suffered the implications of the 2016-2019 economic reform program, are facing further challenges and dire conditions during the pandemic.

GDP growth in Egypt is expected to decrease from 5.6% in 2019, to 2% in 2020,[1] mainly due to the pandemic effect on the tourism sector, Suez Canal revenues, and remittances, which altogether amount to almost 15% of Egyptian GDP.[2] The tourism sector is the most affected, due to the global suspension of international flights for months. The sector’s revenues peaked last fiscal year at 12.6 billion dollars, and contributed with 10% of total employment in the
country\textsuperscript{31}. According to officials, it is estimated that the sector is losing almost 1 billion dollars per month during the global lockdown\textsuperscript{41}. Suez Canal revenues as well, which amounted to 5.7 billion dollars in the last fiscal year\textsuperscript{51}, have been falling due to sluggish global trade and re-routing of global shipping after oil prices fell. The revenues have already decreased by 4.8% in the first 8 months of 2020\textsuperscript{65}, compared to the same period last year, and are expected to decrease in the following months as well, according to the Suez Canal’s authority\textsuperscript{77}. Meanwhile, remittances from Egyptians working abroad, especially in the oil rich gulf countries, are expected to fall as workers suffer from layoffs or wage cuts. Remittances peaked in 2019 with 26.8 billion dollars, and are projected to fall by 21.5%, or by 5.8 billion US dollars, in 2020\textsuperscript{88}.

Other sectors as well have been affected by the falling domestic and global demand, even if less severely. Manufacturing sector (less fuel) for example, has seen its monthly production index fall from a value of 121.9 in January, to 86.86 in May, before bouncing back to 97.39 in July\textsuperscript{59}. This reflects the decrease in the sector’s exports, in the first 6 months of 2020, by 3.2% compared to the same period last year. Agricultural exports as well, have fallen by 7.1% in the first half of the year, compared to last year’s\textsuperscript{59}. Both sectors were spared domestic supply shocks as no measures were implemented that disrupted production or labor movement related to their activities.

3. Implications on Households and Vulnerable Groups Between the Reform Program and COVID19 Crisis

The pandemic crisis comes at a time when Egypt has just completed, by the end of 2019, a 3-year economic reform and liberalization program in collaboration with the IMF. The program, which is the most radical amongst Egypt’s economic reform attempts, lifted most of subsidies on energy for households, and free floated the Egyptian pound, causing it to depreciate by more than 50% in few weeks\textsuperscript{59}, leading to record annual inflation that exceeded 20% on average, for 2 consecutive years, which was naturally accompanied by record hikes in interest rates as well\textsuperscript{12}. These measures, accompanied by inadequate social safety packages, caused a record surge in poverty in Egypt. Percentage of people living in poverty increased from 27.9% in 2015, to 32.5% in 2018, the latest available data, and those living in extreme poverty, and are unable to secure basic food needs, increased from 5.3% to 6.2%\textsuperscript{13}. In addition, the percentage of workers with no social security schemes, an indicator of informal workers, increased from 51% in 2016, to 55% in 2019\textsuperscript{44}. Female employment was specifically affected, as females tend more to work in the formal sector. Thus, with lack of adequate formal job opportunities, especially with the program’s measures to decrease the number of public employees, female labour participation rate dropped from 22.9% in 2016, to 15.6% in 2019\textsuperscript{15}, as the number of female workers decreased from 7 million in 2016, to less than 5 million by the end of 2019. This means that more than 2 million female workers dropped out of the workforce altogether during the reform program years, which created an inaccurate illusion of falling unemployment and growth in job creation during the reform years.

This shows that the pandemic, and the resulting economic crisis, come at a challenging time for Egypt since households and vulnerable groups have already been facing hardships for the last 3 years. The pandemic’s effect on tourism and recreational activities in specific is affecting millions of workers in Egypt. This is exacerbated by the decline in remittances, a significant source of direct income to households, that boosts domestic demand, growth, and employment. Thus, the contractionary effects of the decline of tourism revenues and remittances will extend far beyond the direct recipients and beneficiaries, and could push additional hundreds of thousands of vulnerable Egyptians below the poverty line in a very short period. Official estimates already show that by May, the crisis has affected the employment conditions of 61.9% of all working individuals in Egypt. Among the affected individuals, 26.2% have become completely unemployed, while 18.1% have been working irregularly, and 55.7% have been working less days or hours. And as expected, female workers have been disproportionately affected by the crisis. Among the affected working females, 29.9% have become unemployed, compared to 25.5% of affected working males, whose change is more in the form of a shift to irregular or less work\textsuperscript{56}. 
This means that by May, additional 4.2 million working individuals have become unemployed in Egypt, because of the pandemic and its resulting crisis. When added to the already unemployed 2.2 million individuals at the beginning of 2020[17], then the total unemployment by May has soared to 6.4 million people, which is equivalent to a total unemployment rate of 22.6%.

Youth in specific have been more vulnerable to loss of employment. Among the affected working individuals, 31.2% of working 15-24 years old individuals have become unemployed, while the rate shrinks as the age groups increases. Consequently, a higher group of working youth faced loss of income, than any other group. About 87.9% of working 15-24 years old individuals have received less income because of the crisis, higher than any other age group. And by large, 73.5% of all working Egyptians have had their income fall during the months of the crisis. The income effect of the crisis is aggravating inequality; a higher percentage of workers lost income during the COVID crisis, at lower levels of education than highly educated ones; while only 48.7% of workers with a university degree or higher witnessed their income decline, the percentage increases gradually with lower educational levels, to the point where 85.1% of illiterate workers had their income decrease during the crisis. The main reasons for income loss are the precautionary measures, followed by loss of jobs, then falling demand, and cutting wages by employers[18].

![Relative Distribution of Affected Individuals According to How Their Employment Status Changed Since COVID-19 Pandemic](image1)

![Relative Distribution of Working Individuals According to the Change in Income Since the COVID-19 Pandemic](image2)
During this crisis, that is causing jobs losses, less working hours/days, irregular work, and falling income, a specifically vulnerable group is the one of informal workers, who are estimated to constitute at least 50% of all non-agricultural workers in Egypt. They lack any sort of safety nets, and are predominantly living hand to mouth with no savings, and in widespread poverty. It is estimated that at least 43.1% of all individuals working in the private sector outside establishments, which mostly refers to informality, are poor. This is the highest percentage of poverty among working individuals compared to any other sector, whether the public or the formal private sectors.

This lack of safety nets for the most vulnerable groups to the crisis, explains why half of all households rely on borrowing, mostly from their social circles, to cover costs during the current slowdown, while 17.3% rely on charity in order to survive this crisis.


Only 5.4% of households reported in May that they depend on the government emergency cash support for irregular workers, to help them cover the costs of their basic needs during the crisis. This monthly cash grant, of 500 Egyptian pounds for 3 months, was announced by the government for irregular workers, as a part of its measures to contain the economic implications of the pandemic.

The government dedicated a 100 billion Egyptian pounds (5.5 billion EUR), nearly 1.8% of GDP, as a stimulus package. The majority of the package is directed to the business sector, with 50% of the package dedicated to the tourism industry alone, through low cost loans and grants, in addition to lowering energy prices and providing tax relief for several sectors. The government also cancelled 5.3 billion pounds of manufacturing sector debt, that was owed for energy supplies. It also cut taxes on dividends by 50%, and temporarily exempted some sectors from real state and value added taxes as well.

In addition, the central bank dedicated additional 100 billion pounds of subsidized loans to the manufacturing, agriculture, and construction sectors, which targeted companies with annual sales volume of less than a billion pounds, before removing this condition, and extending the coverage to large and mega corporations as well. The central bank also reduced its policy rate by 350bps, from 12.75% to 9.25% to stimulate the economy, and cut the preferential interest rate to certain business sectors and public housing as well from 10% to 8%.

A smaller share of the government’s 100-billion-pound stimulus package is dedicated to households. Besides the aforementioned irregular workers emergency grant, 331.5 million pounds were dispensed to 288.7 thousand regular workers in the tourism sector and textile industry by the end of July, as a cash support to compensate for lost wages, which is roughly equal to a 1200 pounds per recipient. In addition, all pensions were raised by 14% starting from July, while public employees’ wages were raised by 7% to 12%, and the exemption limit for income tax was raised as well. The government has also launched campaigns to distribute food supplies to hundreds of thousands of vulnerable individuals in some of the poorest villages, in collaboration with civil society organizations.

However, in order to finance the response measures, during a period of falling public revenues, the government has been reluctant to run a high necessary budget deficit, especially since the main achievement of the harsh economic reform program, was reaching a primary surplus for the last couple of budgets, even if at a high social cost. Instead, the government is increasingly relying on external loans to finance the balance of payments needs, and the overall budget deficit. Egypt has applied for additional assistance from the IMF, and is receiving a 2.772 billion US dollars in emergency financial assistance to meet liquidity and foreign currency needs, in addition to a 5.2 billion US dollars loan as a part of a new 12-month structural reform program with the fund. Egypt also raised 5 billion US dollars from the international bond markets by mid-year.
The new IMF program lists “avoiding an excessive build-up of public debt” as its first priority. The program even still aims to achieve a primary fiscal surplus ranging between 0.5% and 1.4% of GDP during the COVID-19 crisis, which would increase to the pre-COVID level of 2% as the recovery begins in 2021, according to its projections[30].

To achieve these ambitious fiscal targets during the crisis, the Egyptian government has targeted households for measures that aim at raising public revenues, which means that these measures will offset part of the benefits of the crisis mitigating measures for households.

For instance, while the government has cut energy prices for businesses, especially the industrial sector, to support it, it announced price hikes for electricity to households, starting from July. The price per kWh of electricity will increase for the lowest consumption bracket, targeting the poorest electricity consumers, by 26.7%, followed by a 20% increase for the next bracket, and varying increase rates for the rest of the higher brackets, which are now charged more per kWh of electricity than the industrial sector businesses[31].

The government also announced that starting from July, it would deduct a monthly 1% of the net income of all public and private employees, and 0.5% of all pensions, to be deposited in a fund, dedicated to financing the containment measures of the pandemic and its economic and social implications[32].

In addition, the government imposed in June, extra fees on several goods and services, in order to ‘increase public resources’ as the official announcement stated. The products include gasoline and diesel fuels, cell phones, and tobacco, while the services include recreational activities in the tourism sector, and issuance of official licenses and documents[33].

Thus, in its efforts to contain the economic implications of the COVID-19 pandemic, the Egyptian government is mostly prioritizing businesses over households and vulnerable groups. For example, the main and most significant measure targeting vulnerable groups, which is the cash grant to irregular workers, is certainly inadequate. The grant is roughly equal to the individual extreme poverty line of 2017/2018, which has most likely increased since then due to inflation. Thus, it is certainly insufficient to support families of irregular workers, who might have no other source of income during the current crisis. And in total, by the end of the first half, the fiscal cost of the response measures to COVID-19 were roughly 0.756% of GDP, with only 0.052% of GDP in direct support to households, while the rest was support to businesses. Meanwhile, the additional revenue measures plan to raise at least 0.549% of GDP, which is almost entirely targeting households[34].

This is perhaps a continuation of the measures and priorities set during the 3 years of the economic reform program, which witnessed the fastest GDP growth in a decade, but with the highest increase in poverty as well. It appears that, not only is the government directing most of its stimulus package to the business sector, but it is increasingly burdening households, during the crisis, with financing the packages to businesses.

Comparing the Egyptian measures, with those of neighboring countries who face similar challenges and economic circumstances, highlights how their governments utilize relatively similar resources during the crisis, but with different priorities in mind.

In Morocco for example, which has dedicated a package equivalent to 3% of GDP to mitigate the crisis, households were at the receiving end of several benefits. By April, almost 1 million temporarily idle workers from businesses with less than 500 workers, were eligible for a 2000 dirham grant a month. In addition, households benefiting from the non-contributory health insurance received mobile payments, while other households could claim support by registering online. By April, 85% of all eligible households in the informal
sector were already covered by transfers. Simultaneously, the government cancelled capitalized interests on mortgages and consumer loans, accrued between March and June, up to a limit, for all households experiencing income loss.

In Tunisia as well, which is facing similar challenges due to loss of significant tourism revenues, the government has passed a stimulus package equivalent to 1.8% of GDP, the same as Egypt’s. However, 30% of the Tunisian package is direct transfers to households and vulnerable groups, including cash grants for low income households, disabled and homeless people, and people who lost their jobs.

5. Managing the Crisis Implications on Households Over the Short and Long Terms

The Egyptian government had lifted nearly all the lockdown measures by the first of July, and simultaneously stopped introducing mitigating measures for households as the economy is re-open. However, it might take some time for both the domestic and global demand to recover, and for the affected sectors to restore their pre-crisis output and employment. And with the severe impact of the crisis so far, with millions becoming unemployed and losing income, it is of outmost significance that the government scales up its immediate support measures for households and vulnerable groups.

**On the short term**, simply increasing transfers to affected households and vulnerable groups will be key to supporting them. Both the number of recipients, and the amount per recipient should be increased, with a focus on women, especially in rural areas, informal labour, and workers in the most affected sectors. The government should also support small and micro loans to self-employed individuals, in addition to low-cost consumer loans with delayed installments. Such transfers to households would in turn help boosting the falling domestic spending and demand during the crisis, and would thus stimulate the business sector, and help it to recover sooner, while awaiting the global recovery, and the much-needed surge in external demand.

In order to finance this necessary surge in the households support measures, the government should be prepared to run a higher fiscal deficit, taking in consideration the urgent and temporary nature of the current situation; It should refrain from trying to balance the budget by raising more revenues either from the households or the businesses during the current crisis, which is counterproductive and neutralizing the expansionary and mitigating effects of the support measures. Simultaneously, the government should review the distribution of its scarce stimulus resources, and redistribute parts of it away from businesses that are in no need of urgent support towards households and vulnerable groups.

**On a longer term**, more radical solutions would be needed to address the surge in poverty and informality, and the fall of real income and female employment, that were highlighted by the economic reform program, and exacerbated by the COVID19 crisis.

There will be a need for more public investment in education, a main tool for boosting inclusive growth and fighting poverty. Public spending on education in Egypt was merely 2.1% of GDP for the last fiscal budget 2019/2020, which is one of the lowest in the world. The quality and content of education as well should be reconsidered, with special focus on new technologies and digital skills, that have emerged during the COVID crisis as necessary for the present labour market and the future trends in employment and production. Soft and organizational skills as well should be early developed to cope with the changing nature of work, with increasing important of distant work and self-employment, which would give rise to new modes of integration with colleagues and tasks.

The government should also work on integrating informal labour in permanent insurance schemes, in order to protect them against future shocks, and to improve their living conditions. One of the few perks of
the current crisis is that the emergency grant for irregular labour could help the government create a comprehensive database for informal workers as they apply to receive the cash support; this database could be the cornerstone for future efforts to extend social security coverage to informal workers and their families.

A critical task for the government and legislators as well, would be reforming the domestic business environment and regulations, especially since the state is withdrawing gradually from economic activities and allowing private businesses a greater role, as a part of the economic reform and liberalization efforts. A healthy and transparent business environment would not only stimulate economic growth and job creation, but would also encourage formalization, since complicated regulations, corruption, and difficulty of establishing businesses are main motives for informality. The growth of business and labour formalization would boost productivity and income as formal businesses have more access to finance, energy, markets, and technical assistance. In addition, more formalization would positively affect the worrisomely falling female employment in specific, as women in Egypt tend to prefer formal work, and were not able to find adequate jobs during the last couple of years, with the decline in public employment, and slow growth of formal private jobs.

The government should also set a clear agenda for digital transformation, which is increasingly proving essential, especially during the pandemic. The digital infrastructure and use in Egypt are underdeveloped even compared to its neighbors in the Middle East and North Africa. Egypt scores 0.468 in the telecommunications infrastructure index, part of the UN E-Government Development Index, which is one of the lowest scores in the MENA region. There is only, 6.69 fixed broadband subscriptions and 53.9 mobile broadband subscriptions per 100 inhabitants, which leads to only 46.9% of the population in 2020 using the internet. This is the lowest percentage in the region, except for the civil war-torn countries of Libya, Syria, and Yemen\[^{37}\].

Despite the inadequate infrastructure and coverage, digital technology has helped mitigate the lockdown and crisis effects on education, healthcare, retail sector, entertainment, public sector services, and other sectors in Egypt. This could encourage the government to pay more attention to the digital sector, and to increase its investments in the digital infrastructure and reach, in order to achieve a quick recovery, and long-term growth. The government has already relied on digital technologies for educational purposes during the crisis, and is planning to expand its use during the soon-starting academic year. In addition, the government has provided several services through digital platforms during the lockdown, including payment of fees, issuance of documents, public banking services, and is aiming to provide more services digitally in the following months.

The pandemic has accelerated the global digital transformation, and highlighted the potential of digital technologies and activities. This could perhaps encourage Egypt and countries in the Middle East and North Africa to seek more digital integration among themselves, and their neighbors in the Mediterranean or sub-Saharan Africa regions. Regional digital markets, like the ones developing in the EU, Asia Pacific, and Latin America\[^{38}\], could mitigate the effects of slowing global demand and integration, and could enable both businesses and households in the region to reap the benefits of the new technologies, which could improve their welfare and living standards, and help creating jobs, boosting income, and fighting poverty.

Notes

3. Ibid.
22. Ibid.
25. Ibid.
30. Ibid.
The recent coronavirus crisis threatens the health, economies and societies of all countries, regardless of level of development. In the South Mediterranean countries the fight against the pandemic is even more complicated. It must be done with limited health and economic resources compared to other regions. In addition, it takes place in a unique social and geopolitical context.

Cooperation and EU-Med strategies in key sectors are needed. Therefore, CMI and FEMISE have decided to join forces and launch this series of Policy Briefs to pave the way for thematic analyses and prescriptions, which will be explored throughout this series.