



COVID-19 IMPACT ON **EGYPT'S** CONSTRUCTION SECTOR

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In the blink of an eye, Coronavirus has wreaked havoc on the world. Like a whipsaw, a domino effect of closures began grinding the local and international markets to a halt, impacting every facet of Egyptian life. As the outbreak cripples a myriad of industries to varying degrees, it also delivers a harsher wallop to the construction industry, which is linked to more than 200 subsectors, from cement and ready-mixed concrete to bricks and machinery, and a large share of domestic employment.

Prior to the COVID-19 calamity, leading data and analytics company GlobalData had foreseen an acceleration in the pace of growth in the global construction industry, but given the severe disruption in China and other leading economies worldwide following the outbreak, the forecast for growth has now been revised down to 0.5% in 2020 (from 3.1% previously).

Further exacerbating the situation is the fact that this crisis will hit global construction harder than the 2008 economic collapse, whereas production may shrink by more than 15%, according to the Economic Institute for the Building Industry (EIB).

Case in point: Construction work of Italy, the worst-affected nation in terms of COVID-related deaths, is in a dire state. In the country's worst affected region, Lombardy, all work on building sites has been paralyzed, apart from those carrying out hospitals, roads, and railways.

Egypt is no exception. As measures to curb the virus spread are put in place nationwide, operations of building businesses got hammered out, including schedule delays, workforce disruptions, equipment and supply chain disruptions, reduced productivity due to on-site health and safety protocols (i.e. social distancing, staggering of work, enhanced sanitation, etc.), restrictions on new permits, and financial shortfalls or cash flow stagnations, according to the AmCham Egypt's recent research note, dubbed "Impacts of COVID-19 on Egypt's Economy."

Nevertheless, in response to the current circumstances, the Egyptian government has overdue the inauguration of a number of national megaprojects and new cities to 2021, instead of this June.

However, work remains underway for both public and private developments, not to mention that national transport and infrastructure projects are also proceeding as a state priority. In the New Administrative Capital (NAC), for example, construction is spurring forward in full swing, with work being stretched over two shifts and a 70% labor force present on-site, according to Reuters.

Aside from ensuring productivity, Egypt is looking at safeguarding local construction activities, which employ more than 10 mn workers and produce almost 6% of the country's total economic output. This is because the North African nation depends heavily on foreign funding for construction and infrastructure projects, which can be pressured on the back of the current circumstances.

In fact, the virus is already causing slight turmoil in the Egyptian economy, where the Gross Domestic Product (GDP) growth rate hit 5% in Q3 2019/20, down from the targeted average of almost 6%. Construction, among other sectors, contributed to about 50% of the gains, Minister of Planning and Economic Development Hala El Saeed officially confirmed in a recent meeting.

Equally noteworthy to mention that the demand for real estate, which is heavily associated with the building industry, was hit hard due to the outbreak, which created a case of economic uncertainty, taking into consideration that the sector's annual contribution to GDP ranges between 10-15%.

On the brighter side, despite the drawbacks, many Egypt-based developers and contractors spared no effort in standing strong in the face of Coronavirus and did not postpone project deliveries. This comes alongside the strict adoption of the health and safety precautions issued by the government to protect the workforce, while also handing over planned developments in due time.

Policies to Combat the Pandemic

Speaking of decision-making under conditions of uncertainty, a slew of government-dictated policies and measures are coming into focus to help cushion the blow to businesses in Egypt, specifically for the construction sector.

After cutting/postponing tax payments and slashing interest rates by 300 basis points, the state, along with the Central Bank of Egypt (CBE), has earmarked over EGP 100 bn in the efforts to reinforce the economy, encourage private sector and industrial growth, and reduce cost pressure hitting various sectors. More significantly, the initiative's base of beneficiaries has recently been broadened to include contractors with an annual turnover of at least EGP 50 mn.

Furthermore, Ministry of Housing, Utilities, and Urban Communities has promised to disburse EGP 3.8 bn in arrears to contractors to help pay salaries and expedite construction, specifically in national projects. The jurisdiction also granted a six-month extension for contractors to finish the ongoing construction of national and government projects across the country.

Other shelter-in-place measures include the extension of an EGP 500 monthly grant to irregular workers, with 1.6 mn people benefiting from the first batch. Besides, pensioners will get five overdue bonuses at a rate of 80% of the basic salary, in addition to a 14% annual bonus starting from FY 2020/21, as highlighted in an earlier official statement.

Real Imprint on Contractors

Being under the wave of the pandemic, the construction chunk of the property sector is affected in a way or another. Digging deep in the influence extent, Invest-Gate R&A team recently surveyed 18 construction companies in Egypt to gauge the extent to which they have been subject to the impact of Coronavirus.

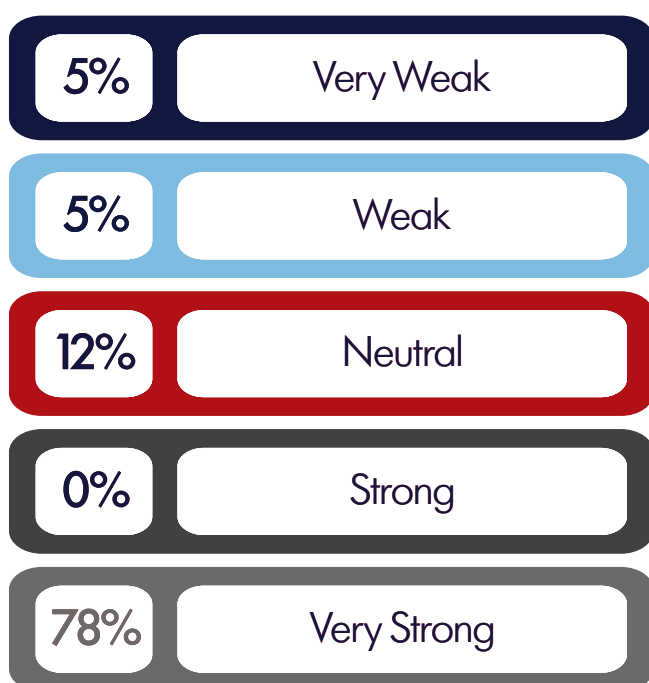
General Outlook

Given delays to fulfill the governments' social distancing and safety requirements, some negative consequences have been triggered across the Egyptian construction scene.

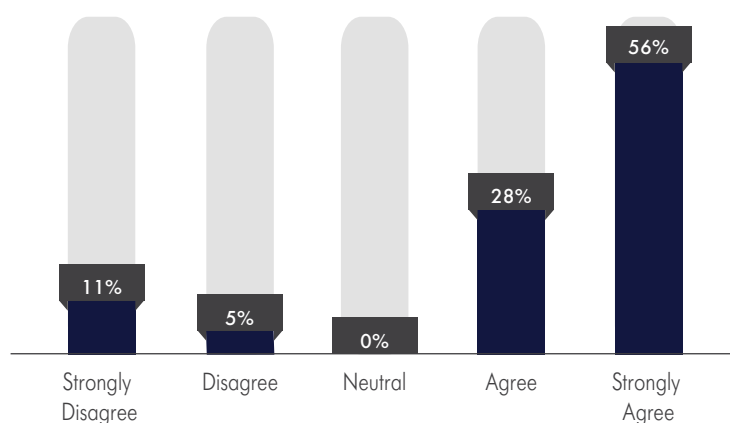
Notably, 78% of respondents assume that the crisis has negatively affected construction activity to a great extent. Therefore, 56% of contractors are experiencing delays or disruptions related to the outbreaks, making it difficult to stay on the dot.



NEGATIVE IMPACT OF COVID-19 ON CONSTRUCTION MARKET



PROJECT DELAYS DUE TO COVID-19 OUTBREAK

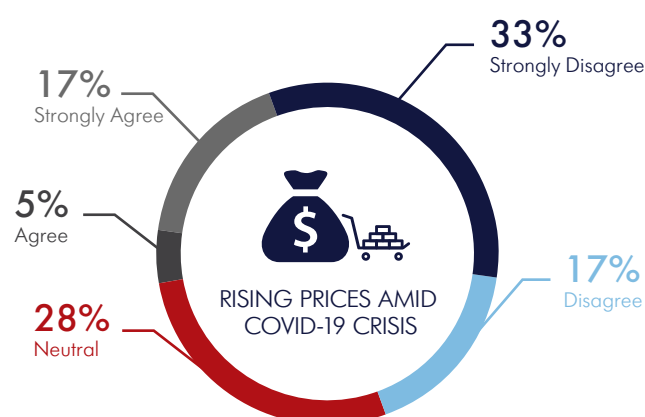


Construction Woes

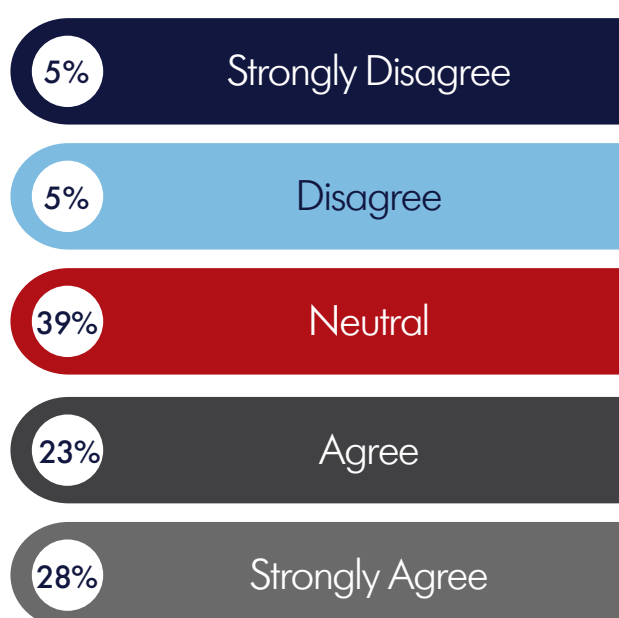
While the situation is changing at a frenetic pace, it is crucial to consider the impact of COVID-19 on various aspects of building and construction activities. Based on Invest-Gate's study, below are the immediate issues that are emerging for the construction industry to navigate.

Raw Materials

When it comes to raw materials, a major level of resilience is acknowledged, as 33% of the responding companies claim that this emergency situation will not cause any fluctuations in building materials prices. Conversely, 28% of those surveyed see that since the virus has spread throughout the globe, disruptions are likely to arise from foreign suppliers from which Egypt imports machinery and equipment, iron and steel, drywall, cement, and other components.



RAW MATERIALS IMPORTS SHRINK DUE TO COVID-19

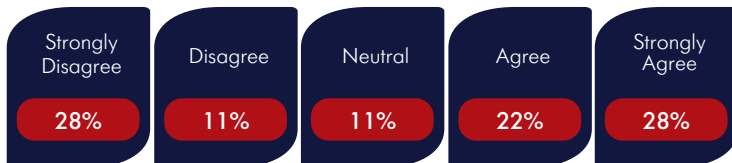


Workers & Working Hours

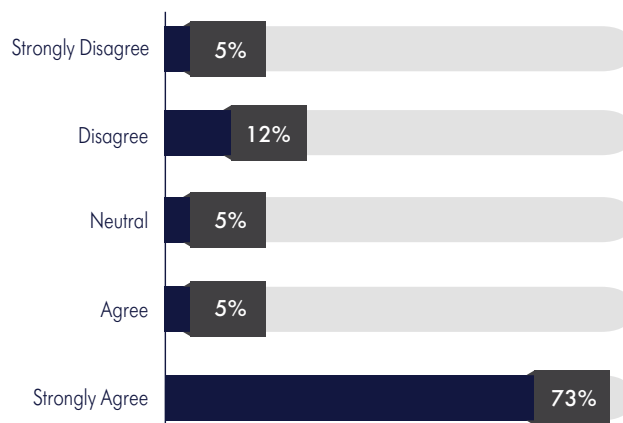
Due to social distancing and safety/health requirements, 28% of respondents strongly agreed that Coronavirus forced the reduction of site workers. Meanwhile, another 73% indicated that curfew-imposed restrictions necessitated the operation on reduced schedules, hence cutting working hours.



HIGH CORONAVIRUS-RELATED LAYOFFS (CONSTRUCTION WORKERS)



RESTRICTED HOURS FOR CONSTRUCTION AMID COVID-19



The surveyed construction firms stressed on the cruciality of implementing the government procedures in combating the infection of personnel on-site.

According to Invest-Gate's research, 62% believe in the importance of these emergency policies in aggravating the negative impact of the pandemic on business operations, stimulating the economy and import volumes, and most importantly, salvage the construction sector.



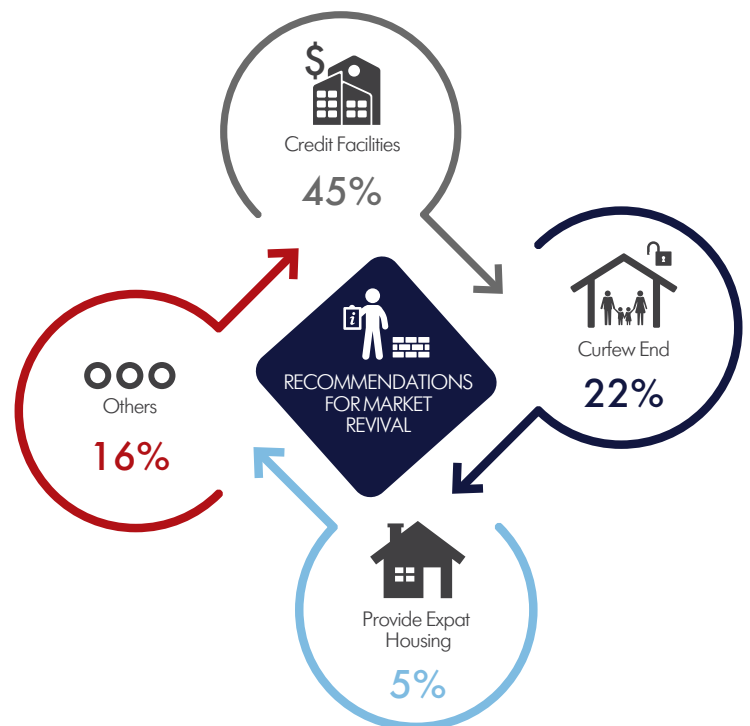
Road to Recovery

In spite of the steps taken to curtail the impacts of the COVID-19 outbreak, many international institutions, including S&P Global, International Monetary Fund (IMF), World Bank, and Fitch Solutions, believe that Egypt marks one of the least affected economies and will be able to maintain a positive economic growth rate despite the pandemic. Thus, the IMF approved Egypt's request for USD 2.772 bn in financial aid to address the urgent balance of payment needs stemming from the current emergency situation.

Thanks to the guidelines composed to help the building market forge ahead, 39% of the surveyed contractors anticipate that the Egyptian construction market needs around six months for recovery. Adding to the government procedures, contractors have proposed their recommendations to help revive the building industry.



PROSPECTS FOR CONSTRUCTION MARKET RECOVERY



As things stand, Invest-Gate concludes that the novel Coronavirus has left a significant imprint on the construction sector, particularly causing delays in the execution of a plethora of ongoing projects. Consequently, it is important to follow the requirements enacted to help the construction market, together with other sectors as well, combat the pandemic, organize response plans, adapt to the new normal, and help the market revive.