

A microscopic view of a coronavirus particle, showing its characteristic spherical shape and surface covered in small protrusions (spikes). The image is in shades of blue and white, with a soft focus effect.

COVID-19 OUTBREAK ECONOMICS

POWERED BY

INVESTIGATE
RESEARCH & ANALYSIS

COVID-19 OUTBREAK ECONOMICS

In late December 2019, the Chinese authorities announced a new outbreak known as coronavirus or COVID-19, which was derived from a virus known as severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), appeared in Wuhan, China. The economic impact of COVID-19 is yet to be unfolded.

The virus that typically causes human flu-like symptoms, took its toll on travel movement, world stocks and oil prices with estimates that, in case of turning into a pandemic, could cause an average annual economic loss of 0.7% of the global gross domestic product (GDP) — or USD 570 bn in 2020, according to the World Economic Forum's (WEF), on March 4.

According to a situation report published by the World Health Organization (WHO) on March 23, the disease has spread virtually to more than 180 countries, territories, and areas, where 332,930 cases around the world were infected with the disease.

The WHO assessed the global risk situation as "very high", and described the virus as a pandemic for the first time since its spread across more than 110 countries, the WHO declared in a press conference on March 11. Global panic has been increasing since then due to the rise of COVID-19 outside mainland China.

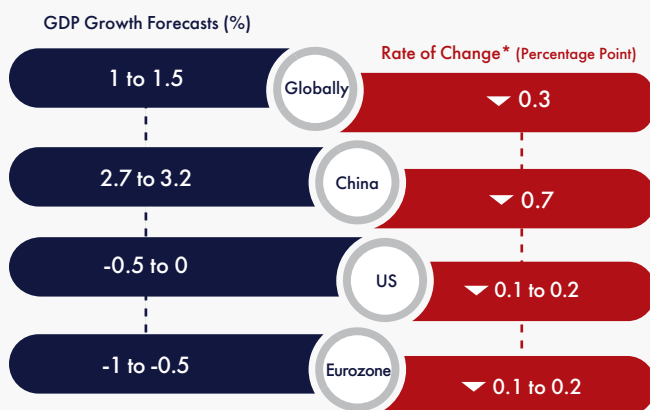
Accordingly, this report sheds the light on the most important effects of COVID-19 on the international and national economic indicators.



IMPACT ON GLOBAL ECONOMY



THE IMPACT ON THE BASELINE GDP GROWTH RATE IN 2020



*The rate of change between the forecasted GDP growth rates



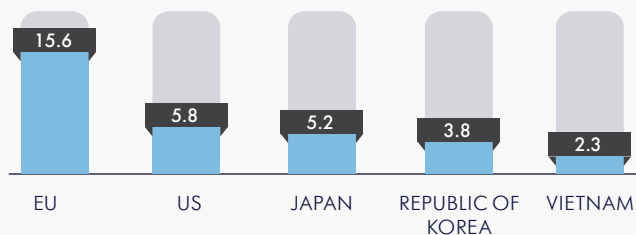
THE IMPACT ON INTERNATIONAL TRADE



*On March 4, 2020



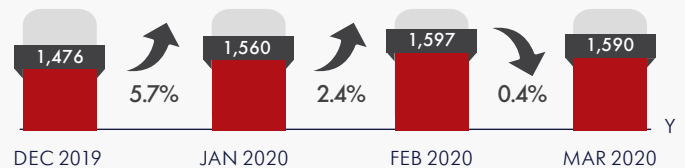
TRADE IMPACT (USD BN) (MARCH 4)



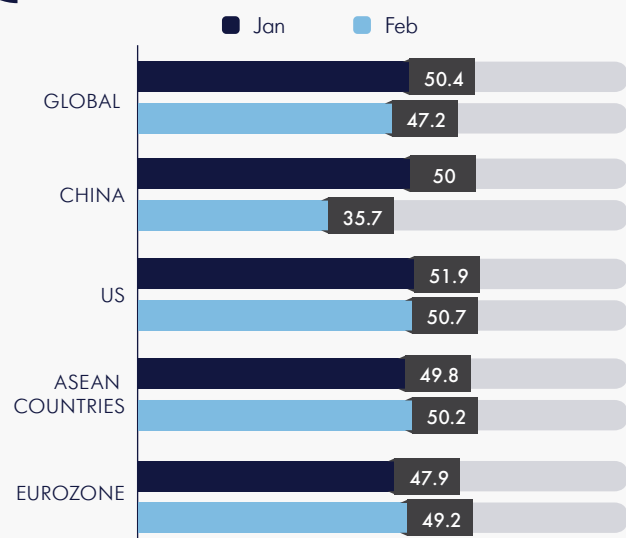
CHANGES IN INTERNATIONAL STOCK MARKET (%) (FROM 18-23 MARCH)



GOLD REFERENCE PRICE (USD/TROY OUNCE)



EFFECTS ON MANUFACTURING PMI (POINT)



**The figures were last updated on March 29, 2020 and they may differ due to the dynamics of the outbreak.

Sources : S&P Ratings, UNCTAD, The Telegraph, GoldHub, IHS Markit & National Bureau of Statistics of China



IMPACT ON EGYPTIAN ECONOMY

Aftermath the Coronavirus outbreak, it is foreseen that the economic sphere is probably lose around EGP 100 bn during Q1. Accordingly, the economy's various sectors will be deeply affected. However, the most affected sectors are tourism and aviation. According to the Egyptian Cabinet, these two sectors would be buffeted by losses estimated at USD 1 bn and USD 143 mn respectively. One of the main reasons for such damage is the flight suspension imposed by the Egyptian government until March 31 to combat the virus outbreak. Not only that, but the retail sector will be hit hard as well.

As a result of halting trade relations with China, it is anticipated that the retail sector might face damages from April after the stocks run out. Accordingly, retailers could increase prices by up to 5-7% to overcome supply disruptions.

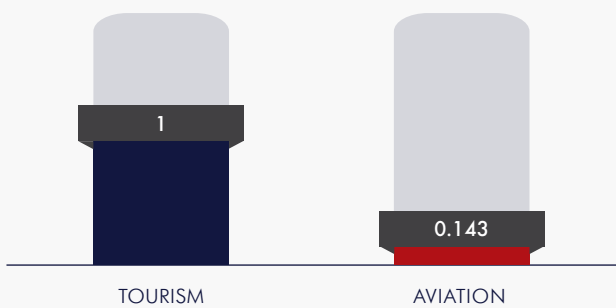
Moreover, the economy is forecasted to face negative effects on other several aspects including capital market indicators, a drop in remittances after hitting around USD 6.7 bn in Q1 2019/20, as well as a decline in global trade. In addition to that, Suez Canal revenues might decline after hitting around USD 5.7 bn in 2019



The estimated cost of COVID-19 is **USD 6.4 bn (EGP 100 bn)**



ESTIMATED MONTHLY LOSS IN TOURISM & AVIATION SECTORS IN 2020 (USD BN)



EFFECTS ON SUEZ CANAL REVENUES



*Expected



EFFECTS ON RETAIL SECTOR



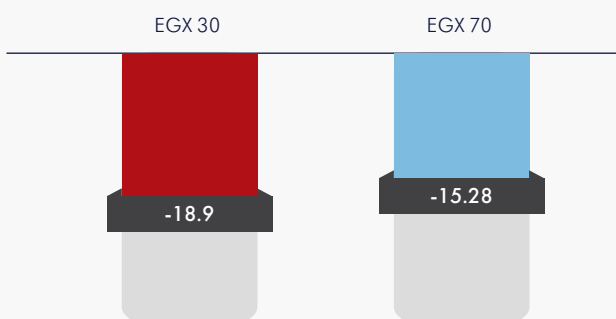
EFFECTS ON REMITTANCES FROM EGYPTIANS ABROAD



*Expected



CHANGES IN CAPITAL MARKET INDICATORS FROM 1-26 MARCH (%)



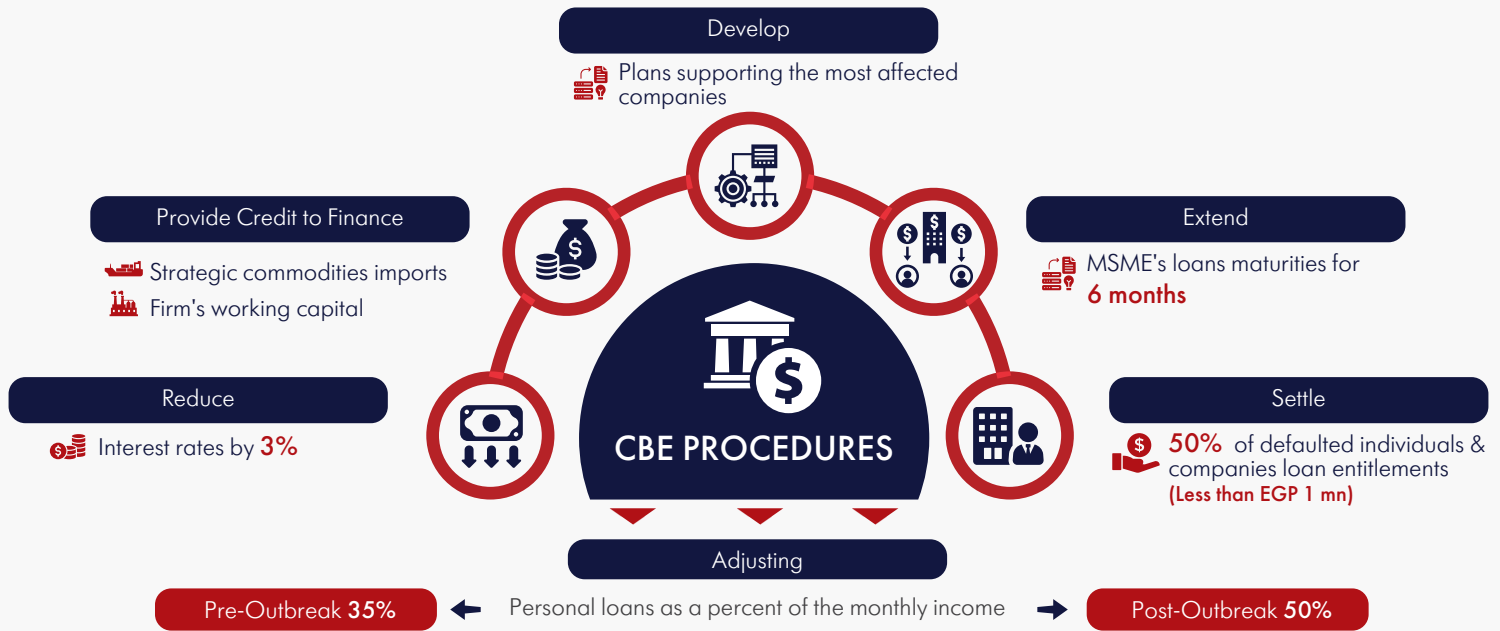
The capital market lost **EGP 127 bn** from 1-26 March.



ECONOMIC PROCEDURES TAKEN BY EGYPTIAN GOVERNMENT TO COMBAT COVID-19



EGP100 bn was allocated to finance a plan to face the COVID-19 outbreak.



CABINET PROCEDURES

Trade
Allocating EGP 1 bn for exporters in March-April to pay back debts

Labor Force
Allocating EGP 500 payment for 120,000 seasonal workers
Monthly payment for female leaders (EGP)
Pre-Outbreak 300 | Post-Outbreak 900

Industrial
Lowering Prices
Natural gas to USD 4.50 per mmBtu | Electricity by 0.1
Postponing property tax on factories & tourist facilities for 3 months

Stock Market
Allocating EGP 20 bn to support EGX
Lowering transaction costs
Cutting tax on dividends for companies listed to 5%

| | Pre-Outbreak | Foreign | Local |
|----------------------------|--------------|---------|-------|
| Stamp duty (EGP/EGP 1,000) | | 1.5 | 1.25 |
| | | 1.5 | 0.5 |

Canceling the suspension mechanism for stocks whose prices soar +5% cap

GOVERNMENT FINANCING INITIATIVES

Real Estate for Middle-Income Citizens

| | | |
|---------------------|------------------------------|-----------------------|
| Amount EGP 50 bn | Repayment Period 20 years | Rate of Return 10% |
|---------------------|------------------------------|-----------------------|

Tourism

| | |
|---------------------|--------------------|
| Amount EGP 50 bn | Lending Cost 8% |
|---------------------|--------------------|

Private Industrial Sector

| | | |
|---|----------------------|-----------------------|
| Target Private manufactures with EGP 50 mn - 1 bn annual revenue | Amount EGP 100 bn | Rate of Return 10% |
|---|----------------------|-----------------------|

Sources: The Egyptian Cabinet & CBE

IMPACT OF COVID-19 ON EGYPT'S REAL ESTATE

BY **DINA EL BEHIRY & NOURAN MEDHAT**

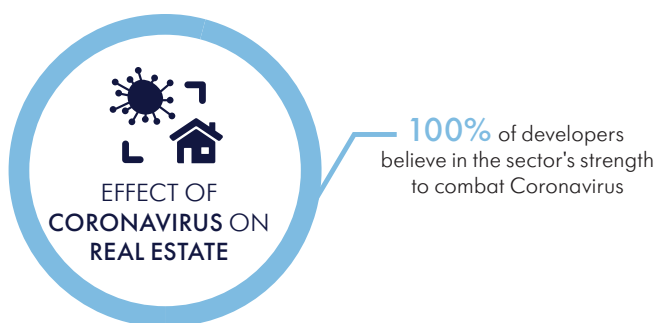
In the wake of the Coronavirus outbreak, the Egyptian Cabinet imposed a curfew on citizens, transportation, as well as closing all commercial and entertainment centers from 7:00 pm to 6:00 am as of mid-March, keeping essential goods outlets and service providers open like pharmacies, supermarkets (even inside the malls), bakeries, and grocery shops. Accordingly, the real estate sector has been hit hard by these decisions, leading to hurdling business.

TO CONTAIN CORONAVIRUS, EGYPTIAN CABINET CLOSED



To anticipate the real estate sector after the outbreak and how it will bounce back, Invest-Gate Research and Analysis (R&A) reached out to 15 real estate market leaders to evaluate the COVID-19 effect on the real estate market and their private business.

Most agreed on the fact that the COVID-19 outbreak will hit the property market hard; but at the same time, due to the belief of its stability, they all state that the real estate sector is solid enough to combat the virus and handle the situation.

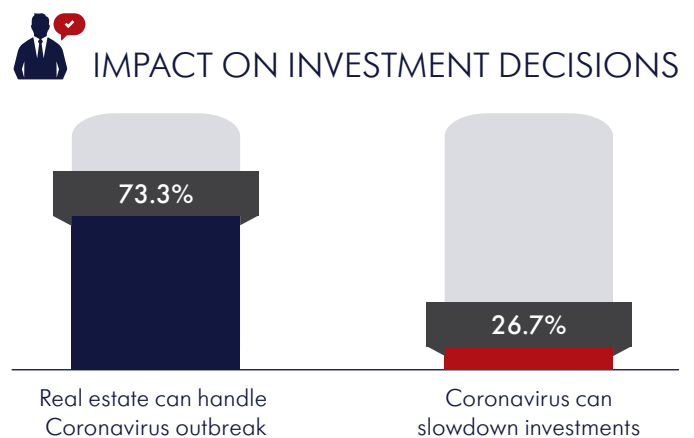


Almost half of our participants asserted that the pandemic Coronavirus will take a toll on all sectors, including real estate.

For the real estate market to recover, key market players suggest:

- Prepare business plans
- Anticipate risks to deal with the situation flexibly
- Focus on long-term impacts instead of the short-term ones
- Guarantee market sustainability

A quarter of our participants see that the Coronavirus outbreak will slowdown investment decisions due to the current market instability. They stressed on the market's agility to handle crises, such as the instability and uncertainty that was prevailed in many fields since the Egyptian pound devaluation in late 2016. Thus, they believe that the real estate sector will continue to offer significant returns.



One expert pointed out that the Coronavirus outbreak is looming in the real estate market especially during its traditionally busy time, the Spring. Besides, he agreed with Lawrence Yun, NAR Chief Economist, who predicted that seasonal home sales could tumble about 10% because of the Coronavirus and anticipates that the same will happen in Egypt.

To overcome many obstacles that might hinder the short-term development, some developers resorted to localize their supply chain to reduce the number of risks on their projects. Some currently rely on 95% of the locally produced sources. Thus, the risk of disrupting the supply chain is less than in other sectors.

OVERCOMING SHORT-TERM HINDRANCES



Speaking of the demand side, three of the 15 developers see that the real estate industry will not be influenced by the Coronavirus outbreak on a large scale despite canceling and postponing many international and local events. This is mainly because the sector's largest share of sales mainly depends on local demand.

Sales and Construction

When anticipating the aftermath, we saw a division between those who will resort to other means of marketing and sales to avoid any impact on their businesses and those who see that the COVID-19 outbreak would significantly jeopardize their plans for 2020.

Nearly half of them confirmed that despite all harsh circumstances the market is facing, they will do their best to avoid any delays either to meet their sales targets, construction plans, or in satisfying their targeted customers. In addition to that, they supported launching digital initiatives to ensure that their work progress will not be affected.

Supporting this point of view, one participant added that the length of their delivery cycle will help avoid any delays in executing their plans.

However, the remaining number of participants agreed that the pandemic Coronavirus might hinder their sales and construction plans because of canceling and postponing many significant real estate events, especially Cityscape. Moreover, the virus outbreak made the consumers uncertain about the future; thus, they will not make any long-term investments. To handle this issue, they began marketing campaigns with attractive offers and flexible payment plans.

Furthermore, one participant remarked that the current circumstances resulted in increasing the prices of construction materials, which accordingly affected operations costs.

Building on the above-mentioned points, another noted that it is crucial to keep monitoring the market situation to avoid any negative impacts that may affect their plans.

IMPACT ON SALES & CONSTRUCTION



DEVELOPERS BEGAN LAUNCHING



digital initiatives



attractive offers



flexible payment plans

Minimizing the negative consequences of the Coronavirus outbreak has become a priority to both the Egyptian government and the private sector.

From the real estate developers' perspective, they believe that all procedures taken by the government will have a positive impact on the market. These initiatives will help the developers to combat the Coronavirus crisis, stick to their plans, and deliver on their projects on-time.

ACKNOWLEDGMENT

On behalf of the Invest-Gate R&A team, we want to thank key market players and business partners for their continuous support and their best cooperation in fulfilling this analysis and providing us with their significant insights on the real estate industry following the outbreak and its effects on its near future.

Thus, a special thank you to:

Eng. Ahmed Elattal
Chairman



Mr. Ahmed El Tayebi
Chairman & Managing Director



Eng. Ahmed Mansour
CEO



Mr. Ali El-Shorbany
CEO



Eng. Amin Serag
CEO



Eng. Amr Soliman
Chairman



Eng. Amr Sultan
Managing Director



Eng. Ashraf Boulos
CEO



Mr. Edrees Mohamed
Founder & CCO



Eng. Maged Salah
CEO



Eng. Magued Sherif
CEO & Managing Director



Eng. Mohamed Hany El Assal
CEO



Mr. Mohamed Mohamed Farid Khamis
Owner



Mr. Mohamed Salem
Senior Commercial & Operations Director



Eng. Waleed Mokhtar
CEO



Additionally, a special thank you to:

Aliaa Elesaki
Senior Research Analyst
B2B

Mahmoud Gad
Financial Analyst
Arab African International Bank (AAIB)