

UN EGYPT COVID-19 INSIGHTS SERIES

IMPACT OF COVID-19 ON THE MANUFACTURING SECTOR IN EGYPT

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1. Overview

This note aims at analyzing impact of COVID-19 on the manufacturing sector in Egypt and highlighting UNIDO contributions and suggested policy recommendations towards mitigating the negative effects of the outbreak.

2. Key vulnerable groups or sectors in focus

Manufacturing Sector is the focus of this note. The manufacturing value added in Egypt is estimated at 16.2% (World Bank, 2018). This sector employs 3.3 million, of which 90% is male and 10% is female (ILO, 2018). The total non-petroleum exports reached USD 24.9 billion (GOEIC, 2018).

3. Key insights from the knowledge product

- Despite the consistent growth achieved in the last two years, GDP growth in Egypt will suffer the consequences of the COVID-19 crisis. The expected impact might be driven mainly by a reduction of household consumption, which was the main growth driver of the GDP in 2019, sharing 82.9% of total GDP¹. Patterns of household consumption has been changed dramatically since government's decision to close shopping centers and restaurants early and imposing night curfew. At the same time, private sector investment, which was the second largest contributor to the GDP growth with 17.7%, will fall significantly. The private sector will not inject new investments during this uncertainty status.
- Unemployment rate might be particularly affected due to negative effects of COVID-19 on major economic sectors. Manufacturing, construction, wholesale & retail and transportation sectors represent 46.6% of employment in Egypt. Activities of these sectors might decline dramatically, leading to harmful consequences on employees as well as on their families and dependents, especially those under informal employment including seasonal, temporary and uninsured workers. A realistic picture of this upcoming landscape predicts thousands of workers of the informal economy losing their jobs and particularly affected socio-economically by a recession.
- COVID-19 is expected to have a severe impact on the manufacturing sector in Egypt. The crisis obliged all manufacturing sectors to slow down their production, with some exceptions of specific food and medical industries. This will negatively influence manufacturing value added growth rate and its contribution to the GDP, which were 4.7% and 16.2% in 2018, respectively. The expected recession in the global economy, resulting from the decline in international trade patterns and the travel restrictions that were applied in more than 100 countries, would negatively impact Egyptian exports. Current expectations provide a landscape in which Egypt might not be able to maintain its high growth rate in

¹ Source: Egyptian Ministry of Planning & Economic Development

exports, which reached 10% at USD 24.9 billion in 2018. In this landscape, exporting firms could respond to the global crisis by cutting working hours, laying workers on temporary rather than permanent jobs, and might consider cutting staff and non-essential jobs.

4. Policy Implications

The Government of Egypt is adopting solid industrial policy measures aiming at mitigating the impacts of COVID-19 on the manufacturing sector. In support to the efforts of the Government of Egypt, the note outlines a set of complementary measures for potential consideration:

Short Term (three months):

- Continue assessing the impact of COVID-19 on the economy, including sustainability of economic growth, fiscal pressures, trade, monetary and exchange rate challenges;
- Pursue fiscal stimulus measures for the private sector, such as the Export Rebate Program, wage subsidies and tax deferrals;
- Adopt supportive monetary measures aiming at lessening burden on defaulted industrial companies as well as offering credit lines with preferential interest rate geared towards industrial investment;
- Provide unemployment allowances through direct cash transfers to people, who lost their jobs including self-employed;
- Raise awareness of business owners and workers about safety and health measures at working places;
- Coordinate between the Ministry of Trade and Industry and the Ministry of Information and Communication Technology to promote digital platforms, virtual market places and ERP applications with special focus on SMEs;
- Map & assess imported raw material and identify either local alternatives or new sourcing countries to avoid any shortage in the supply chain.

Medium Term (six months):

- Embark on the public procurement as a key opportunity for the manufacturing sector. Priorities should be given to SMEs in public tenders. New cities and urban communities under construction would play a vital role in overcoming the recession in local and international markets.
- Promote domestic production and find innovative solution to maximize and optimize it.
- Promote sustainable and resilience of private sector through coupling economic recovery efforts with continuous interventions to greening the industry.
- Support MSMEs to increase their resilience and leverage their ability to innovate and adapt to changing market dynamics.
- Identify alternative marketing segments for companies supplying touristic facilities especially for domestic producers of food, textiles, detergence, and personal care products.
- Establish short food supply chain for promoting local food to local market.

- Sustain and continue investment in Mega Industrial Projects fostered by the government support and in partnership with private sector. These projects should cover strategic commodities production and overcome value chains gaps.
- Implement strong country export promotion plans to facilitate and accelerate Egyptian firms access to foreign markets and expand international market share, after end of the pandemic, with specific focus on countries that started its recovery.

5. Programmatic relevance

- Development of PPE producers in accordance to quality and production optimization, as well as raising awareness about related standards and products' specifications.
- Support to the food processing sector with focus on food security and safety.
- Promotion of clusters of local food producers and enhance their access to the local market.
- Mainstreaming Industry 4.0 in Egypt

6. Partners and Donors

UNIDO

7. Link to the full knowledge product:

Attached

8. Name and email address of a focal point for the knowledge product

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**COVID-19
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