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## Views on Crisis

### Remittances from Egyptian Workers abroad



# Introduction

While the whole world shares the broad outlines of the economic and social repercussions of the Coronavirus (COVID-19), which are unprecedented in its recent history, the implications thereof for each country are linked to the nature of each country's economic system, its ability to withstand the entailed repercussions and the speed of its recovery.

In light of the need to study the sectoral implications of these repercussions in order to address the crisis properly, the Egyptian Center for Economic Studies (ECES), in its initiative, is producing a set of daily reports entitled "Views on Crisis". The reports aim to analyze the implications of the coronavirus crisis for Egypt in relation to a number of vital production and service sectors and to key macroeconomic variables. This ECES initiative comes from the belief that the current critical conditions require directing state's efforts towards achieving two main goals: providing a decent life for Egyptians during the crisis and in the recovery phase, preserving the existing investments-especially domestic investments- and helping to overcome the crisis and prepare for a rapid launch with the gradual decline of the crisis and recovery of the global economy.

The methodology used in these reports is based on an analysis of the supply and demand shocks associated with the crisis cycle in its various stages. Given the lack of detailed data on the sectoral

impact of the crisis, the sectoral analysis is based on logical assumptions related to the nature of each sector and the degree of sector vulnerability to previous severe crises that were certainly less severe than the current crisis and different in nature. However, it is a starting point for the urgently required scientific diligence at this stage.

The reports attempt to provide a detailed perception of the magnitude and direction of crisis impact on each sector at present and until the end of the crisis. They aim to propose quick solutions to reduce the adverse impacts of the crisis in a balanced and integrated means that complement the serious efforts made by the state in this regard, and to offer other longer-term solutions to the existing institutional flaws, clearly revealed by the crisis. It is high time that these flaws are radically removed, which will improve post-crisis development efforts.

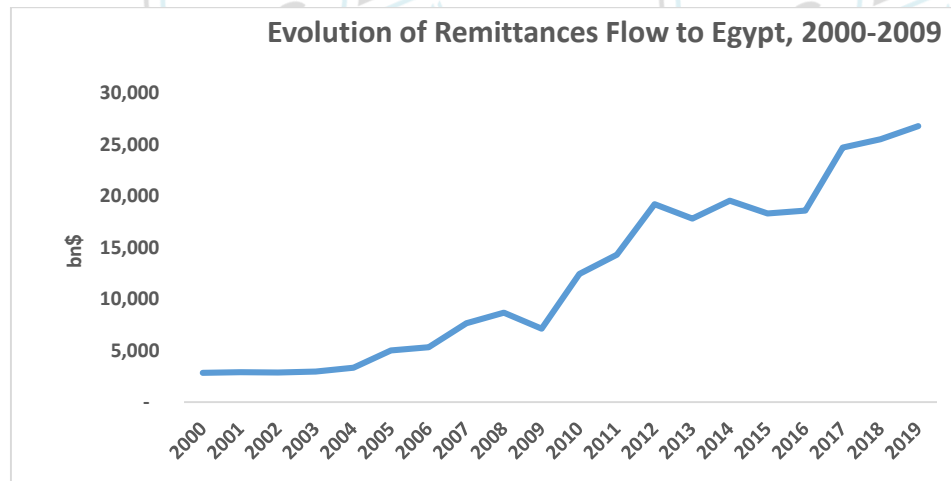
*“Only a crisis - actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.”*

**Milton Friedman**

\* Reports will be issued in Arabic on a daily basis. An English translation of each report will be sent on the day following its issuance.

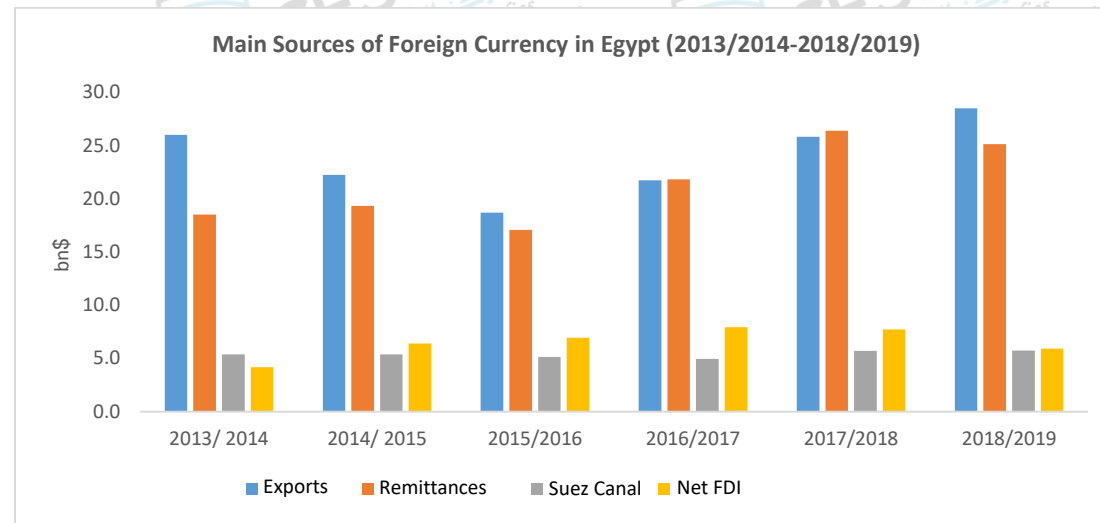
## 1. Brief description of the subject of the report:

- According to the World Bank, Egypt is the fifth largest recipient of remittances after India (\$82.2 billion), China (\$70 billion), Mexico (\$38.7 billion) and the Philippines (\$34 billion).
- The entire Middle East and North Africa region remains one of the least recipients of remittances compared to East Asia and Latin America.
- Remittances witnessed a significant increase over the past decade to reach \$26.8 billion in 2019, which represents 9-10 percent of GDP, compared to \$25.5 billion in the previous year, with a growth rate of 5 percent, as shown in the following figure:



Source: World Bank database.

- Remittances are considered one of the most important sources of foreign exchange in Egypt, with values approximating the value of exports. They represent 4-5 times the Suez Canal revenues and foreign direct investments, as shown in the following figure:



Source: Central Bank of Egypt, Monthly Statistical Bulletin, various issues.

- According to the latest available data, the value of remittances amounted to \$13.7 billion in the first half of 2019/2020, compared to 12.1 billion in the corresponding half of the previous fiscal year, an increase of 13.5 percent.
- Remittances decreased to \$25.1 billion in 2018/2019 compared to \$26.3 billion in 2017/2018, a 5 percent decrease due to the impact on remittances of the limited decline in labor demand in the Gulf states with the beginning of the war on Yemen in 2015, as well as instability in Libya and Iraq, the decline in oil prices and the impact thereof on development projects in the Gulf states in addition to fierce competition from non-Egyptian foreign workers.

- This confirms the decline in the total work permits issued by the Ministry of Interior for Egyptians to work abroad from 1.17 million permits in 2017 to 1.08 million permits in 2018, a decline of 7.7 percent, according to the latest data issued by the Central Agency for Public Mobilization and Statistics in August.
- During the past decade, remittances were affected by the global economic crisis, as remittances decreased from \$8.377 billion dollars in 2007/08 to \$7.623 billion in 2008/2009, a decline of 9-10 percent.
- There is no accurate estimate of the number of Egyptians working abroad, whether at the aggregate level or their detailed distribution and personal data, including qualifications and professions. There are some estimates with both the Ministry of Foreign Affairs and the Ministry of Immigration, except that they are aggregates for Egyptians abroad, whether for work, study, or family, not just employees.
- The Egyptian Labor Abroad Division of the Cairo Chamber of Commerce estimates that there are approximately 5 million Egyptians working abroad in 2018.
- Employment contracts for Egyptians abroad are characterized by lack of long-term sustainability (most of them are annually), especially that the upper hand in those contracts is for the employer and there is no institutional mechanism that guarantees preserving and protecting the rights of the worker in the contract in the event of arbitrary, material or moral damage inflicted by the employer.
- Sources of remittances flow to Egypt vary according to the distribution of Egyptian workers abroad. Arab countries account for approximately 80 percent of these

remittances and are concentrated in the Gulf countries, led by Saudi Arabia, followed by European countries, led by Italy and then the United States.

- Finally, transfers are seasonal and reach their highest levels before Ramadan, during holidays, and at the start of the school year.
- The cost of remittances to Egypt is high according to the World Bank, as every \$500 sent from the United States costs 6.1 percent of the total amount for Egypt compared to the cost in India of 1.7 percent. The cost of transferring the same amount from the UAE reaches 3.3 percent for Egypt against 2.3 percent to India.
- The high cost of remittances is one of the reasons why a huge amount is being channeled away from the banking system through the movement of individuals.
- Most transfers are directed for consumption purposes or for the purchase of land or real estate as a saving instrument and few are directed to productive investment.

## **2. Demand and supply shocks in the context of the crisis cycle:**

The expected effect on demand and supply relates to the stage of the crisis cycle, we can trace 5 time periods during the crisis cycle, as shown by the figure:





Source: Prepared by the Egyptian Center for Economic Studies.

Below is a brief description of each stage:

### **The first stage: Emergence of the virus**

The crisis began and aggravated in China only. The rest of the world, including Arab and European countries, were not yet been affected by the crisis.

### **The second stage: Beginning of proliferation**

The spread of the virus globally. The Arab countries began to be affected at the end of February and initiated precautionary measures to prevent the spread of the virus. European countries are greatly affected.

### **The third stage: Aggravation of the problem**

The situation in the world has worsened, tougher measures in the Arab countries, especially Saudi Arabia and the European countries, a major worsening of the crisis in



Italy, beginning of the virus's decline in China, and the beginning of its spread in the United States.

#### **Fourth stage: Crisis recedes**

The beginning of recovery from the virus globally, starting from China, which is expected to be followed by European countries, and finally, the Arab countries and the United States.

#### **Fifth stage: Recovery**

Gradual recovery for all countries, including Arab countries, although the latter's recovery is expected to be delayed due to being strongly impacted by the global economy and its weak impact on it.

In light of the different possibilities of supply and demand shocks under the following assumptions and concepts, the table below presents possible scenarios for remittances.

1. Demand shock: Decline in external demand for labor through layoffs from receiving countries and/or the non-reception of new workers.
2. Supply shock: Potential increase in Egyptians returning from abroad to the domestic labor market.
3. The base year on which all financial estimates rely is 2018/19.
4. Reference is made to what happened during the global financial crisis 2008/2009 to evaluate future estimates (despite the different nature of the crisis, it is used for reference in the analysis. As the nature of the crisis is different and its severity is

less compared to the current crisis, the same scenario of economic crisis and decline in remittances by 10 percent will be adopted in the current crisis as the most optimistic scenario)

5. Stable relative distribution of employment abroad between the two crises is assumed.

Stage	Demand and/or Supply Shock	Analysis	Impact on Remittances
<b>1- Emergence of the virus (December 2019 to January 2020)</b>	There is no shock on the supply and demand sides.	The crisis did not emerge outside China and therefore had no effect on demand for Egyptian workers abroad.	There is no negative effect on remittances. Remittances were already made during this period. Remittances during the first half of fiscal year 2019/2018, that is, the period July – December, amounted to about \$13.7 billion, according to the Central Bank of Egypt.
<b>2-The beginning of proliferation (February through mid-March 2020)</b>	- Limited demand shock - Slight increase in supply	The crisis reached the Gulf and inability of stranded Egyptian workers to return to recipient countries in light of precautionary measures.	There is no negative impact on remittances, as they were made during January and February 2020, while March remittances may decrease. Thus, the value of remittances in the quarter January - March is expected to be between the usual average of \$6 billion or less by one or two billion at the most.

<b>3- Aggravation of the problem (From mid-March to mid-May 2020)</b>	<b>The first scenario: (optimistic)</b> <ul style="list-style-type: none"> <li>- Limited demand shock</li> <li>- Slight supply shock</li> <li>- It is based on the slow change in supply and demand because it relates to the extent of spread of the virus and therefore linked to the first part of the period of problem aggravation.</li> </ul>	The inability of stranded Egyptian workers to return to recipient countries in light of precautionary measures	<ul style="list-style-type: none"> <li>- Remittances for the year 2018/19 amounted to \$25.15 billion.</li> <li>- This scenario assumes a decrease in total annual remittances for the year 2019/2020 by 10 percent, as happened in the global economic crisis 2008/2009.</li> <li>- Remittances according to this scenario are estimated at \$22.636 billion for the year 2019/2020.</li> <li>- These remittances are divided in two halves, the first (July - December 2019), are remittances that have already entered the economy and amounted to \$13.7 billion, according to the Central Bank.</li> <li>- The remaining half (January - June 2020) according to this scenario is estimated at \$8.9 billion</li> <li>- The biggest impact of the decrease in remittances will appear in the fourth quarter (April - June 2020) and is estimated according to this scenario by \$2.9 billion, with estimates for the third quarter remaining at an average of \$6 billion.</li> </ul>
	<b>The second scenario: (moderate)</b> <ul style="list-style-type: none"> <li>- Demand shock</li> <li>- Slight supply shock</li> </ul>	<ul style="list-style-type: none"> <li>- Stranded workers do not return</li> <li>- In addition to the freezing of the new work contracts, which will be suspended as a result of the emergence of the crisis</li> </ul>	<ul style="list-style-type: none"> <li>- Remittances for the year 2018/19 amounted to \$25.15 billion.</li> <li>- This scenario assumes that annual total remittances for the year 2019/2020 will decrease by 12.5 percent.</li> <li>- Remittances under this scenario are estimated at \$22 billion for the year 2019/2020.</li> <li>- These remittances are divided into two halves: the first (July - December 2019), are transfers that have already entered the economy and amounted to \$13.7 billion, according to the Central Bank.</li> </ul>

		<ul style="list-style-type: none"> <li>- Limited infections among workers and inability to work.</li> </ul>	<ul style="list-style-type: none"> <li>- The remaining half (January - June 2020), according to this scenario, is estimated at \$8 billion.</li> <li>- It is expected that the biggest effect of the decrease in remittances will appear in the fourth quarter (April - June 2020) and is estimated, according to this scenario, at \$2.3 billion, with estimates for the third quarter remaining at an average of \$6 billion.</li> </ul>
	<p><b>The third scenario: (most pessimistic)</b></p> <ul style="list-style-type: none"> <li>- Greater demand shock</li> <li>- Limited supply shock</li> </ul>	<ul style="list-style-type: none"> <li>- Stranded workers do not return.</li> <li>- In addition to the freezing of the new work contracts, which will be suspended as a result of the crisis</li> <li>- Widespread infections among workers and their inability to work, or panic over the spread of disease and the closure of workplaces, and thus a huge wave of layoffs</li> </ul>	<ul style="list-style-type: none"> <li>- Remittances for the year 2018/19 amounted to \$25.15 billion</li> <li>- This scenario assumes that annual total remittances for the year 2019/2020 will decrease by 155 percent.</li> <li>- Remittances under this scenario are estimated at \$21.4 billion for the year 2019/2020.</li> <li>- These remittances are divided into two halves: the first (July - December 2019) is remittances that have already entered the economy and amounted to \$13.7 billion, according to the Central Bank.</li> <li>- The remaining half (January - June 2020), according to this scenario, is estimated at \$8 billion.</li> <li>- It is expected that the biggest effect of the decrease in remittances will appear in the fourth quarter (April - June 2020) and is estimated, according to this scenario, at \$1.7 billion, with estimates for the third quarter remaining at an average of \$6 billion.</li> </ul>

<p><b>The crisis recedes (Mid-May-August 2020)</b></p>	<ul style="list-style-type: none"> <li>- The previous demand shock continues, like in the period of aggravation of the crisis during the fourth quarter (April - June 2020)</li> <li>- Greater supply shock</li> <li>- The beginning of recovery at the end of the period in the Arab countries during the first quarter of fiscal year 2020/2021 (July - September 2020).</li> </ul>	<ul style="list-style-type: none"> <li>- Same reasons as before</li> <li>- In addition to more layoffs</li> <li>- Recovery in the Arab countries will be gradual, following the global recovery, due to being strongly impact by the world economy.</li> <li>- High rate of unemployment in Egypt and difficulty of providing employment.</li> </ul>	<p><b>The first scenario:</b> Remittances continue to decline during the first quarter of fiscal year 2020/2021 (July - September 2020) to be estimated at about \$2 billion, as in the previous quarter.</p> <p><b>The second scenario:</b> It is expected that recovery of remittances will begin during the first quarter of fiscal year 2020/2021 (July - September 2020) by about 50 percent compared to the corresponding quarter of the previous year, to be estimated at about \$3 billion.</p>
<p><b>Recovery (As of September 2020)</b></p>	<ul style="list-style-type: none"> <li>- Demand gradually returns to normal.</li> <li>- The supply shock still continues from the previous scenario, even if gradually declining as of January 2021.</li> </ul>	<p>Return of workers who were laid off during the aggravation stage without the travel of new workers. The unemployment rate is still high.</p>	<p>In all cases, remittances remain limited, because countries will not be able to return to their normal performance before a year.</p>

Source: Prepared by the Egyptian Center for Economic Studies.

- Certainly, any decrease in remittances means a decline in one of the most important foreign exchange resources, and a deficit in the balance of payments and foreign exchange reserves, assuming that the rest of the monetary resources have not changed and this is an unrealistic assumption. Therefore, the effect is expected to be more violent in the context of interlinkages among the sectors and the expected negative effects on the rest of the other foreign exchange sources. Thus, the size of the deficit in the balance of payments and in the reserves will be greater. This means that the State should direct its efforts to maintaining exports and investments in general, which will be covered in future issues of the report.
- This is apart from the expected decline in informal remittances across the stages of the crisis, not covered in the analysis given the lack of data.
- In addition, there will be a decline in tax revenues on the income of workers abroad, a decrease in work permits and social security revenues, losses in recovering the dues of workers abroad with business owners in the form of end-of-service benefits and for health and social services, in addition to high inflation rates that are expected to accompany the huge supply shock.
- Other economic and social effects include the impact on living conditions of the families of workers abroad in terms of educational and consumer activities and even productivity.
- In addition, the economic situation in Egypt will be complicated by the return of workers in large numbers that cannot be accommodated in the absence of detailed information regarding these workers, whether in terms of qualifications, skills or jobs

they occupy, as happened during the Gulf War crisis 1990-1991.

### **3- Interventions required to mitigate the effects of the crisis:**

#### **Intervention to support workers abroad:**

- The Ministry of Immigration started advertising on its website the availability of communication with workers abroad through its page. This is commendable, but it is not sufficient.
- Intervention to support workers abroad should be permanent, so that planning to manage this file is central and engages all parties (Ministry of Foreign Affairs, Ministry of Immigration, Communications) and should not be left to each agency to manage it according to its vision.
- Implementation should be decentralized according to the role assigned to each party in light of the central work plan prepared in advance.
- The necessity of establishing an institutional mechanism, such as the unit of workers abroad at the Ministry of Immigration with participation of other ministries, particularly, the Foreign Ministry, Communications Ministry, and the Ministry of Manpower to manage this file both efficiently and effectively.
- Stressing that any cost the State will incur in order to preserve the jobs of Egyptians abroad is much less than the cost of losing their jobs.
- The nature of the intervention required varies according to the different classifications of employment as well as the governing scenario. We have five classifications:

<b>Group</b>	<b>Required Intervention</b>
Workers abroad whose working conditions are stable	The unit communicates immediately with Egyptians abroad, records their detailed data and identifies the required support aspects.
Workers abroad infected with the virus	<p>The unit communicates immediately with Egyptians abroad, records their detailed data and attempts to assist them in obtaining appropriate health care.</p> <p>Communicates with business owners to try to keep their jobs.</p>
Workers abroad who have been laid off	<p>The unit communicates immediately with Egyptians abroad and records their detailed data. Negotiating with institutions or employers in recipient countries, especially that the crisis is global, and providing any incentives in exchange for Egyptians keeping their jobs</p> <p>Assisting Egyptians who have lost jobs in finding other jobs if possible.</p> <p>Trying to provide compensation/aid for a temporary period until they return or find another job (e.g., the Philippines has allocated cash amounts to help workers abroad who have lost their jobs in the Gulf)</p>



Workers abroad on vacation in Egypt who were notified of being laid off without any obligation to return.	The unit communicates with them, registers their details and does a case study for each of them to find out their living conditions and identify aspects of assistance and the entities that can participate in this matter.
Workers abroad who are stranded and unable to return to their place of work as a result of strict precautionary measures taken by the recipient countries	The unit communicates with them and records their details. Helping them to return safely by quickly completing the required procedures. This is a trend that the Ministry of Manpower has begun implementing in cooperation with the Ministry of Immigration through organizing charter trips for those wishing to return from Saudi Arabia and Kuwait.

### **Intervention to support the families of workers abroad:**

- The Egyptians Abroad Unit, with the participation of the Ministry of Social Solidarity and civil society and any other relevant party, will communicate with the families of workers abroad and classify the required support according to each case with the need to pay attention to any productive projects that guarantee them a decent life, especially in light of the decline in remittances and their instability at best.
- Cooperating with the banking system to provide credit facilities to the families of workers, for example: raising the credit limit, providing special soft loans to complete studying.

- Spreading awareness among the families of workers abroad about the importance of their savings being under the protection of the banking system as a safe way to transfer money so that they gain confidence later on. This is especially important for the less educated groups.

#### **4. Institutional weaknesses revealed by the crisis**

The crisis revealed the existence of three institutional imbalances regarding employee remittances, namely:

**1- Lack of a database on Egyptians working abroad.** We have only some aggregate statistics issued by the Ministry of Foreign Affairs. It is not possible to take any sound policies aimed at increasing remittances without having an updated, detailed database on Egyptians working abroad, their specializations and skills. Therefore, the establishment of the aforementioned permanent unit could be one of the institutional mechanisms required to achieve this, especially that the existence of the database will serve other goals in the long run.

#### **2. High cost of remittances in Egypt: This shortcoming requires reform:**

- Take advantage of financial technology and its varied and new tools to reduce the cost of financial remittances in Egypt that exceed those in East Asia and Latin America, with the need to develop technological infrastructure to be able to do so.

- Creating new services to facilitate the transfer of remittances from the bank's nearest branch to families in remote areas. Government offices (for example, post offices) in various governorates can be used in this regard.
- Increasing the number of bank branches in the countries where Egyptian labor is concentrated and expanding bilateral agreements between domestic and foreign banks so that Egyptians abroad can transfer remittances easily and at reasonable cost.

### **3- Limited investment channels for remittances: This requires:**

- The speed of creating different saving instruments that keep these reserves within the banking system, especially that the declining interest may accelerate their flight to invest in gold and real estate. The Central Bank has previously issued dollar certificates with a fixed return of 4 percent to increase workers' remittances after the 25th of January Revolution.
- Designing policies that benefit from remittances in a variety of development areas, including education, health, social development, etc.
- Reviewing spending priorities, including national projects, to serve sustainable development activities, most importantly the current education and training system, so that it becomes at par with global standards that ensure high skill levels that keep pace with demand developments not only at the local, but regional and global levels.

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