

AFRICA RISK CONSULTING

Egypt Briefing April 2020

Egypt Summary 24 April 2020

Covid-19 cases continue to rise as Egypt begins the holy month of Ramadan amid unprecedented nationwide closures and an ongoing curfew. Business closures and the fallout for emerging markets continue as analysts reduce growth forecast for Egypt's fragile economy. Tensions continue in vexed negotiations between Egypt, Ethiopia and Sudan over the Grand Ethiopian Renaissance Dam (GERD) as Ethiopia refuses to delay filling the dam amid the Coronavirus pandemic.

Coronavirus cases continue to increase ...

President **Abdel Fattah El-Sisi** (2014-present) has warned that “tougher” and “difficult” measures will be taken if the **Covid-19** crisis escalates and citizens fail to abide by the government’s current measures.¹ Sisi’s remarks came after a video showing him visiting a construction site and chastising workers for not wearing masks went viral days earlier.² The government is struggling to balance the needs of tens of millions of impoverished informal workers against the demands of the country’s business elite who are complaining they stand to lose if large-scale sectors like mining, retail, local tourism and automotive industries continue to be affected by ongoing closures. Referring to the efforts to limit the spread of the coronavirus, President Sisi said:

“If we have achieved success during the past period, we don’t want to lose what we have done during the next few weeks.”³

Coronavirus has so far taken a relatively modest toll in Egypt, with 4,000 confirmed cases and 288 reported deaths in the **Arab** world’s most populous country (approximately 104 million people).⁴ But the curve is rising, raising fears that the worst is yet to come. Testing capacity is also severely limited; Egypt has to date tested around 55,000 people,⁵ which is the number of people that **Germany** tests every six hours. Egypt’s Covid-19 case fatality rate is also higher than the global average, with 7.6% of confirmed cases in Egypt resulting in death,⁶ **World Health Organization** Egypt representative Dr. **John Jabbour** suggested that 30% of those who died, passed away without being hospitalised.⁷

The virus has caused an uproar among Egypt’s doctors and nurses who are already undertrained, under-resourced and poorly paid. An entire department at **Ain Shams Hospital**, one of the largest teaching hospitals in **Cairo**, was shut down as a result of a sick doctor being made to continue working as he waited to be tested.⁸ Medical personnel are also facing evictions and stigmatisation in the neighbourhoods where they live.⁹ In response, the government announced on 23 April a 75% pay rise for doctors, after a previous pay rise in March.¹⁰

¹ Nile TV, 23 Apr 2020.

² Mada Masr, Apr 10 2020.

³ Nile TV, 23 Apr 2020,

⁴ Mada Masr, Apr 24 2020.

⁵ Al Masry Al Youm, 15 Apr 2020.

⁶ WHO data, 13 Apr 2020.

⁷ State Information Service, 13 Apr 2020.

⁸ Mada Masr, 15 Apr 2020.

⁹ Agence France Presse, 22 Apr 2020.

¹⁰ Al Ahram, 20 Apr 2020.

Government officials are continuing to debate how long the virus and ensuing curfew and restrictions will continue. Planning minister **Hala Said** said on 13 April that the government has modeled a number of timelines and that based on these, there is a 30% chance that the current situation will continue until December, while a scenario that sees the outbreak brought to an end by June is the least likely to happen at 20%.¹¹ Cabinet told reporters on 23 April that if the numbers continue on the same path, restrictions, presumably including curfew, will end in one month at the end of **Ramadan**.¹² Parliament has approved a draft law that would make it mandatory for all citizens to wear masks when outside their homes while the health ministry has expanded the number of dedicated quarantine hospitals and commandeered education faculties to house the sick, suggesting they are preparing for a further surge in infections in the weeks to come.¹³ The coming weeks will test the ability of the leadership to balance a public health crisis in an already fragile health system, amid growing calls by industry leaders to open up the economy, alongside the potential civil unrest should large swathes of the population become infected believing the government has failed to protect them.

... as economic forecasts lower

A **Reuters** economists' poll predicts Egypt's economy will grow at 3.5% in 2020-2021, down from 5.9% in a similar poll just three months ago. The economy expanded 5.6% in 1H2019-2020 but is expected to slow substantially in the second half of the fiscal year as the covid-19 pandemic causes widespread domestic disruption and the global economy heads towards one of the harshest economic crunches in recent history. **NKC African Economists** reports that Egypt's lower economic growth reflects "*weaker consumption, investment and exports*". NKC alone among forecasters predicted Egypt's economy would fall into recession for the whole of 2020/21, with the economy contracting by 1.7%.¹⁴

While the report noted increased productivity in the tourism and gas sectors, it also cited the risks associated with the tourism market collapsing, the price of gas dropping and worker remittances in danger with the decline of oil revenue in **Gulf** states, where millions of Egyptians are employed. It also noted non-oil private sector activity in March contracted at the fastest rate since January 2017, shortly after the country implemented **International Monetary Fund (IMF)**-backed austerity measures in return for a \$12 billion dollar bailout loan.¹⁵

Respondents also predict the **Central Bank of Egypt (CBE)** making another cut to its overnight lending rate by the end of June, bringing it down to 9.75%. The CBE left rates on hold on 2 April, fewer than three weeks after the 300 bps cut, leaving its discount rate at 9.75%.¹⁶

A report from **French** bank **BNP Paribas** backed the government's claims that they will continue to be able to pay off debt, agreeing that fiscal reforms over the past several years will enable the government to keep servicing repayments and its current account deficit, while foreign exchange reserves will support the Egyptian pound's performance and help to accommodate any temporary decline in foreign investment.¹⁷ The report praised the government's quick implementation of a stimulus package to alleviate strains on the local business community and average citizens left without work.¹⁸ The government announced loan extensions and relief on real estate and business taxes in March (see *ARC Briefing Egypt March 2020*).¹⁹

¹¹ Press release, 13 Apr 2020.

¹² Al Shorouk, 23 Apr 2020.

¹³ Al Ahram, 21 Apr 2020

¹⁴ Nasdaq, Apr 22 2020.

¹⁵ Reuters Economists poll, April 2020.

¹⁶ Al Borsa, 3 Apr 2020

¹⁷ BNP Paribas report, 22 Apr 2020.

¹⁸ BNP Paribas report, 22 Apr 2020.

¹⁹ Press release, 16 Mar 2020.

Africa dam fight continues unabated

Despite declaring a state of emergency to manage the Covid-19 pandemic, neighbouring **Ethiopia** intends to continue work on the **Grand Ethiopian Renaissance Dam (GERD)** and is sticking to its timeline for filling the dam despite the impact of the coronavirus.²⁰ The GERD has been a source of conflict between Egypt and Ethiopia for almost the entire period of its construction, which began in 2010.²¹ Egypt is concerned that filling the reservoir behind the dam too quickly could significantly reduce the amount of **Nile** water available to Egypt (see *ARC Briefing Egypt March 2020*).

The timeline for filling the dam's reservoir has been a key point of contention in GERD negotiations between Ethiopia and countries downstream of the Nile. Ethiopia has insisted, even amid the current crisis, that the dam be filled later this year but Egypt has demanded that there be a formal agreement in place fixing the filling and operating timetable before this begins. Egypt and **Sudan** agreed on 9 April to preserve the draft agreement mediated by the **United States** for the dam's filling timetable, after a meeting between the Sudanese delegation and irrigation minister **Mohamed Abdel Aty** in **Khartoum**.²² However, Ethiopia's finance minister, **Eyob Tekalign**, stated on 10 April that Ethiopia would not re-prioritise the GERD because of the Covid-19 crisis:

*"We are going to keep the timeline. We will fill the dam and start generating power."*²³

Egypt is frustrated with the lack of co-operation from Ethiopia:

*"They continue to be insistent on pushing forward on making the dam operational, even now with the current state of crisis in the world. But we have also waited, stalled and pretended to ourselves that they wouldn't go on with their plans. This is in part our fault, we have since the 90's failed to deal with countries in greater **Africa** as partners. We are paying for our isolation. The compromise we now demand is contrary to our historical policy of largely ignoring the African Basin."*²⁴

Ahmed Mufti, a prominent human rights lawyer, water expert and former member of the Sudanese delegation negotiating Nile water issues with Egypt and Ethiopia, raised concerns on the trajectory of the ongoing negotiations:

*"These are the germs of instability, and it will cause a water war. If not under this government then under another, as no population will see itself dying of thirst when they know that there is water very close by. This was my position when I quit, and every day since then I find more evidence that supports this."*²⁵

The GERD, which is already five years delayed, has been positioned as the centrepiece of Ethiopia's push to become Africa's biggest power exporter, generating more than 6,000 megawatts. Ethiopia's former leader, **Meles Zenawi** (1995-2012), argued that the dam was critical to Ethiopia's development efforts and would benefit the whole region, including Egypt, which would be able to purchase the cheap electricity the GERD would produce.²⁶ Egypt, which currently receives about 85% of its water from the Nile and is already anticipating a nationwide shortage of fresh water by 2025, considers the dam an existential threat.²⁷ Egypt has previously said that without the concessions it has asked for, it would risk losing more than one million jobs and \$1.8 billion in economic output annually, as well as electricity valued at \$300m.²⁸

²⁰ Bloomberg, 10 Apr 2020.

²¹ International Crisis Group, 16 Mar 2020.

²² Press release, 9 Apr 2020.

²³ Bloomberg, 10 Apr 2020.

²⁴ Source, Former diplomat, Cairo

²⁵ The Guardian, 23 Apr 2020.

²⁶ International Crisis Group, 16 Mar 2020.

²⁷ Quartz, 17 Sep 2019.

²⁸ Reuters, 16 Sep 2019.

Planner

2019-2020 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;

Chronology

24 Apr 2020 **Cairo (Egypt)** *Reuters*. Egypt's **coronavirus** cases top 4,000 with 201 new infections, seven new fatalities;

24 Apr 2020 **Cairo (Egypt)** *Press release*. **United States** Secretary of State **Mike Pompeo** urges Egypt to keep American prisoners safe from **coronavirus**;

24 Apr 2020 **Cairo (Egypt)** *Egypt Today*. Egypt is loosening some **coronavirus** lockdown restrictions for Ramadan;

24 Apr 2020 **Cairo (Egypt)** *Reuters*. Egypt's **Commercial International Bank (CIB)** buys 51% of **Kenya**-based **Mayfair Bank**;

23 Apr 2020 **Cairo (Egypt)** *Press release*. The finance ministry is allocating EGP 28.1 billion (\$177m) to subsidies for petroleum products in FY2020-2021, down by nearly half from 2019-2020 forecasts, as prior subsidy cuts, the collapse in global oil prices, and price hikes for electricity companies have given the government room to cut fuel subsidies while reducing energy prices for manufacturers to help them during the **Covid-19** crisis;

23 Apr 2020 **Cairo (Egypt)** *MEMO*. Parliament approves the first amendment of the assistance agreement signed between **Egypt** and the **United States** regarding the **North Sinai Development Initiative** to provide drinking water and sanitation services to around 400,000;

22 Apr 2020 **Cairo (Egypt)** *Egypt Independent*. President **Abdel Fattah El-Sisi** urges Egyptians to stick to **coronavirus** measures to avoid tougher measures;

22 Apr 2020 **Cairo (Egypt)** *Capital Economics*. Egypt's track record of economic reform commitment and strong foreign exchange reserves are expected to shield its credit rating from shocks caused by the **Covid-19** pandemic;

22 Apr 2020 **Cairo (Egypt)** *Al Ahram*. Parliament approves amendments to Egypt's emergency law that give expanded powers to the presidency and the military prosecution as authorities try to counter the new **coronavirus** outbreak;

22 Apr 2020 **Cairo (Egypt)** *MEMO*. **Central Bank of Egypt** raises individuals' cash withdrawal limit during **Ramadan** through ATM machines from 5,000 Egyptian pounds (\$318) to 20,000 Egyptian pounds (\$1,270) daily;

18 Apr 2020 **Cairo (Egypt)** *Reuters*. Egypt is considering setting up large-scale stores for strategic reserves of basic commodities, including wheat, in seven of its governorates at a cost of up to \$1.3 billion;

18 Apr 2020 **Cairo (Egypt)** *Reuters*. The number of **coronavirus** cases in Egypt passes 3,000;

18 Apr 2020 **Cairo (Egypt)** *Mada Masr*. Government adds 13 people to its terrorism list, including former leftist politician **Zyad Elelaimy** and prominent activist **Ramy Shaath**, for collaborating with the outlawed **Muslim Brotherhood**;

15 Apr 2020 **Cairo (Egypt)** *Associated Press*. Interior ministry says eight people were killed when security forces raided a "terror cell" in the capital, **Cairo**;

13 Apr 2020 **Cairo (Egypt)** *Al Masry Al Youm*. Planning ministry says **Egypt's** economic growth is expected to exceed 1% in Q2 2020;

13 Apr 2020 **Cairo (Egypt)** *Al Mal*. State-owned **Banque du Caire (BdC)** chairman **Tarek Fayed** says the bank has shelved plans to debut 20-30% of its shares on the **Egyptian Exchange**

(**EGX**) in April thanks to fallout from the **Covid-19** pandemic;

12 Apr 2020 **Cairo (Egypt)** *Bloomberg*. **Ethiopia** intends to continue work on the **Grand Ethiopian Renaissance Dam (GERD)** and is sticking to its timeline for filling the dam, despite the impact of **Covid-19**;

9 Apr 2020 **Cairo (Egypt)** *Press release*. Egypt's annual urban consumer inflation fell slightly to 5.1% in March, but prices rose on a month-on-month basis as stockpiling by households amid the **coronavirus** outbreak pushed up food prices;

7 Apr 2020 **Cairo (Egypt)** *Al Masry Al Youm*. Egypt decides to ban **Ramadan** gatherings to counter coronavirus;

6 Apr 2020 **Cairo (Egypt)** *Press release*. International cooperation minister **Rania Al Mashat** says Egypt will fast-track approvals for international financing earmarked to help the nation respond to **Covid-19**;

6 Apr 2020 **Cairo (Egypt)** *Al Arabiya*. Former **Libyan** leader **Mahmoud Jibril**, who served as Libya's prime minister following the ouster of longtime leader **Muammar Gaddafi** in 2011, dies in **Cairo** from **Covid-19** at age 68;

5 Apr 2020 **Cairo (Egypt)** *Press release*. Egypt's airlines will see their revenues contract \$1.6 billion and passenger volumes dip by \$9.5m in 2020, which could result in lost GDP of \$2.4 billion, equivalent to around 0.85% of GDP;

4 Apr 2020 **Cairo (Egypt)** *Al Ahram*. 17 medical staff have tested positive for **Covid-19** at Egypt's largest cancer hospital;

2 Apr 2020 **California (United States)** *Reuters*. **United States**-based **Twitter** removes thousands of accounts linked to **Egypt**, **Saudi Arabia** and several other countries for either taking directions from governments or promoting pro-government content; Twitter said it has taken down 2,541 accounts in the Egypt-based **El Fagr** network because it created "*inauthentic accounts to amplify messaging critical of Iran, Qatar and Turkey*";

2 Apr 2020 **Cairo (Egypt)** *Bloomberg*. **Central Bank of Egypt's** monetary policy committee holds the deposit rate at 9.25% and the lending rate at 10.25%, after authorities slashed 300 basis points at an emergency meeting on 16 March;

31 Mar 2020 **Cairo (Egypt)** *Reuters*. **Egyptian** billionaire **Naguib Sawiris** threatens to commit suicide if measures to combat the spread of **Covid-19** are not rescinded after two weeks;

29 Mar 2020 **Cairo (Egypt)** *Al Mal*. **Central Bank of Egypt** instructs banks to impose temporary limits on withdrawals and deposits to control inflation and stockpiling as concern grow over **Covid-19**;

27 March 2020 **Cairo (Egypt)** *Press release*. The **Financial Regulatory Authority (FRA)** has extended by nine months the deadline for companies that have listed their shares on the **Egyptian Exchange (EGX)** but have yet to begin trading due to market conditions;

24 Mar 2020 **Cairo (Egypt)** *Egypt Independent*. Prime minister **Mostafa Madbouly** imposes a two-week nationwide night-time curfew beginning 25 March and extends school closures by an additional two weeks;

23 March 2020 **Cairo (Egypt)** *Enterprise*. President **Abdel Fattah El-Sisi** announces a stimulus and bailout package worth nearly EGP 100 billion (\$160 billion) as Egypt manages the fallout from the global and domestic spread of the **Covid-19** virus.

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