

AFRICA RISK CONSULTING

Egypt Briefing July 2020

Egypt Summary 28 July 2020

Egypt's parliament votes to unanimously approve the deployment of Egyptian troops to Libya as tensions escalate on the Western border. Economists surveyed in a Reuters poll forecast Egypt's growth to drop to 3.1% in FY2020-2021 amid coronavirus slowdown, but Egypt will still be one of the few economies achieving growth in the region. Ethiopia heightens tension with Egypt and Sudan after beginning to fill the controversial Grand Ethiopian Renaissance Dam without reaching a prior agreement with either nation.

Egypt contemplates military intervention in Libya

Egypt's parliament voted on 20 July to unanimously approve the deployment of Egyptian troops to **Libya**.¹ In a closed session, the House voted to authorise the president to send the troops across the border to counter what they described as “armed criminal militias” and “foreign terrorist elements”.²

The vote came days after President **Abdel Fattah El Sisi** (2014-present) said he would protect tribal leaders in the east of the country if **Turkish** forces loyal to the **Government of National Accord (GNA)** in Libya's capital, **Tripoli**, try to seize the strategic city of **Sirte**, which sits close to Egypt's western border.³ Eastern lawmakers allied with **Libyan National Army (LNA)** rebel commander **Khalifa Haftar** (backed by Egypt, the **United Arab Emirates, Russia and France**) called on Sisi this month to intervene after Turkey helped forces loyal to Tripoli make battlefield gains (see *ARC Briefing Egypt June 2020*). Sisi has previously warned the Turkish-backed government against trying to take Sirte, the gateway to Libya's oil triangle.⁴

The move marks a further escalation. With Sisi having already called Sirte a “red line”, the chances of military intervention have been raised. Sources were conflicted over what form an intervention would take, but there was consensus that Egypt is concerned primarily with holding the line on the Turkish, who are the regional enemy of **Cairo** and pushing for a ceasefire. Based on that assessment, there could be deployment of ground troops to push Turkish forces back and limited use of airstrikes, with all sources agreeing that Egypt is reluctant to engage in operations that would see lasting troop deployments or casualties. Talk of an all-out conflict has already ruffled business circles in Cairo, with the stock market trending downward with each new news story about troop movements on the border.

*“We are preparing ourselves for the likelihood of a conflict as we move closer to an Egyptian intervention each day. The big fear is the damage this will do to the economy, which before **Covid-19**, was just starting to gain ground after the reform programme and the increase in investor confidence. A war with Turkey could cause far bigger disruption and closures than the pandemic. Between that and the dam talks we are feeling like we can't catch a breath.”⁵*

A bloody 14-month offensive by **Haftar** against the capital, Tripoli, which collapsed in May, pushed Libya into its worst violence since the **North Atlantic Treaty Organization (NATO)**-backed ouster of former Libyan leader **Muammar Qaddafi** (1969-2011) in 2011.⁶ Tripoli-based forces (GNA), with

¹ Ahram Gate 21 Jul 2020

² Arab News, 20 Jul 2020.

³ Al Masry Al Youm 16 Jul 2020

⁴ Associated Press 20 Jul 2020

⁵ Source, investment banker, Cairo

⁶ Bloomberg, 24 Jun 2020.

support from Turkey, gained the upper hand in the war earlier in June after retaking Tripoli’s airport and all entry points to the city. Turkey has also sent **Syrian** militias to fight for the Tripoli government.⁷

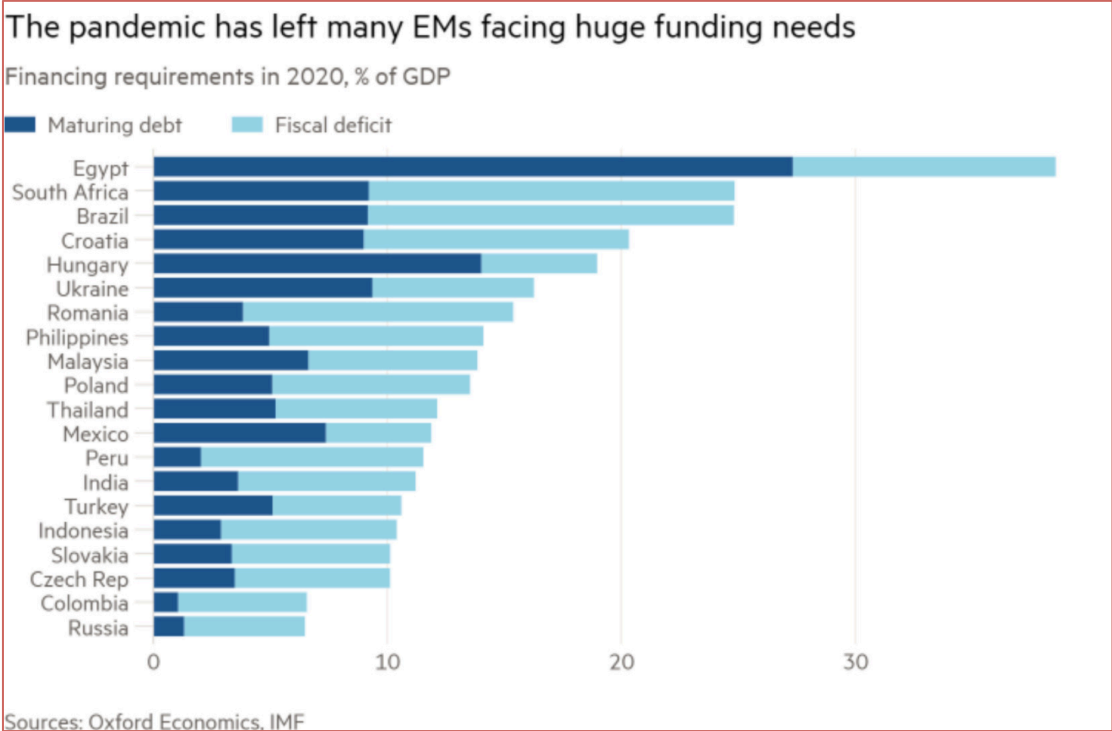
Egypt has repeatedly called for Turkey to step aside and support a ceasefire that would oblige all foreign parties to withdraw foreign mercenaries from Libya and lead to the dissolution of local militias.⁸

Economists see growth forecast contract amid coronavirus fallout

Economists surveyed in a **Reuters** poll conducted in July see Egypt’s economy growing at 3.1% in FY2020-2021, down from 3.5% in a similar survey done in April.⁹ The lowered expectations of growth come as the economic fallout from Covid-19, including a halt in tourism due to flight suspensions, reduced remittance inflows from **Gulf**-based workers, and lacking foreign direct investment continues to weigh on the economy. However, the poll shows Egypt on track to be one of the only countries in the region to grow its economy in the current fiscal year.¹⁰

International Monetary Fund (IMF) mission chief for Egypt **Uma Ramakrishnan** commented in a recent interview that despite the disruptions associated with coronavirus, Egypt entered the crisis in a relatively stronger position with the reform programme making it easier for the government to access emergency funding from the IMF to aid it through the crisis.¹¹ The fund has approved more than \$8 billion in new loans for Egypt since March.

The finance ministry was expecting growth of 3.5% in the fiscal year 2020/21, as per its last budget forecast made in November, but growth could slow to 2% if the coronavirus crisis continues until the end of the year.¹²



⁷ Bloomberg, 24 Jun 2020.
⁸ Egypt Independent, 6 Jun 2020.
⁹ Reuters economic poll, 20 Jul 2020.
¹⁰ Reuters economic poll, 20 Jul 2020.
¹¹ DMC TV, 8 Jul 2020.
¹² Al Mal, 16 Jul 2020.

Emerging markets focused investment bank **Renaissance Capital** analysts, however, believe that Egypt was better positioned to bounce back and achieve growth rate closer to the previous financial year. Unlike emerging markets such as **India**, which imposed a lengthy full lockdown, the Egyptian government chose not to impose a shutdown, setting the economy up to bounce back faster having incurred significantly fewer job losses.¹³

However, Egypt was cited as one of three emerging economies with the greatest risk of defaulting on sovereign external debt in the next year, in research by **United Kingdom**-headquartered **Absolute Strategy Research**.

*"Out of the 20 EM economies with the largest financing requirements in 2020, Egypt leads the pack with the ratio of its maturing debt and fiscal deficit to GDP nearing 40%, according to Oxford Economics and [International Monetary Fund] IMF figures."*¹⁴

The report argued that countries like Egypt will be forced to choose between cutting back spending in the coming years, as their budget deficits have soared in the wake of public spending increases since the onset of the pandemic. Egypt has deployed close to \$1 billion to offset the impact of Covid-19 since March.¹⁵

Egypt criticises Ethiopia for unilateral dam filling as talks re commence

Egypt and **Sudan** have criticised **Ethiopia** for what they call unilateral filling of its **Grand Ethiopian Renaissance Dam (GERD)** at a new round of talks mediated by the **African Union (AU)** that kicked off on 27 July to regulate the flow of water from the controversial mega project.¹⁶ Ethiopia surprised Egypt and Sudan last week by announcing that the initial filling of the dam's reservoir had already taken place without reaching an agreement. The country had previously stated in June it would go ahead with the filling even if an agreement was not reached (see *ARC Briefing Egypt June 2020*).¹⁷

*"The Ethiopian unilateral action of filling the dam overshadowed the meeting and raised multiple questions about the benefits of the current path of negotiations to reach a fair agreement on filling and operating the GERD."*¹⁸

Following this week's talks ending without an agreement, the Ethiopian foreign ministry said that Ethiopia wants a guiding agreement on the GERD that is non-binding.¹⁹ Sudan's prime minister, **Abdalla Hamdok**, met with Egypt's intelligence chief, **Abbas Kamel**, on 28 July.²⁰ No details were given on the day-long meeting, which was labelled as *"in the framework of bilateral relations"*.²¹

In comments to reporters on the same day President Sisi called the negotiations *"difficult"* but dismissed the potential for a stalemate to turn into a military confrontation despite past hints from both sides about the potential of a military conflict.

*"Egyptians are worried, and I say that your concerns are legitimate, and that I am with you. We are negotiating, and this is a battle that will take time, because we will not sign anything that isn't in our interest."*²²

The latest negotiations with the AU come months after talks stalled in February during **United States (US)**-mediated meetings in **Washington** that Egypt had hoped would solve the issue once and for all. The US, along with the **World Bank**, stepped in to host negotiations that began in November and lasted till February after years-long negotiations between the three countries failed to reach an

¹³ Renaissance Capital, Jul Report 2020.

¹⁴ Financial Times, 20 Jul 2020.

¹⁵ Al Borsa, 20 Jul 2020.

¹⁶ Reuters, 27 Jul 2020.

¹⁷ Ahram Gate, 27 Jul 2020

¹⁸ Press statement, 27 Jul 2020

¹⁹ Youm7, 27 Jul 2020.

²⁰ Associated Press, 28 Jul 2020.

²¹ Associated Press, 28 Jul 2020.

²² Al Masry Al Youm 28 Jul 2020.

agreement.²³ But Ethiopia refused to back proposals mediated by the US. Egypt then appealed to the **United Nations Security Council** in May to intervene after Ethiopia said publicly that a deal was not a prerequisite.²⁴ The Security Council held a session on the dam in June, urging the three countries to avoid adopting any unilateral actions and to conduct talks based on mutual understanding.²⁵

Planner

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

Chronology

28 Jul 2020 **Cairo (Egypt)** *Associated Press*. **Sudan's** prime minister, **Abdalla Hamdok**, and Egypt's intelligence chief, **Abbas Kamel**, meet amid tensions over the **Grand Ethiopian Renaissance Dam**;

28 Jul 2020 **Cairo (Egypt)** *Egypt Independent*. **Egypt** and **Sudan** voice concerns over **Ethiopia's** unilateral filling of the **Grand Ethiopian Renaissance Dam** at the start of second round of **African Union**-mediated talks;

26 Jul 2020 **Cairo (Egypt)** *Enterprise*. The **European Bank for Reconstruction and Development (EBRD)** has invested €459m (\$538m) in Egypt during the first six months of 2020 — nearly triple the €166m it spent in the previous year;

22 Jul 2020 **Cairo (Egypt)** *Al Borsa*. The **New Urban Communities Authority** has closed its three-tranche, EGP 10 billion (\$625.9m) securitised bond issuance, the largest of its kind in Egypt;

22 Jul 2020 **Adis Ababa (Ethiopia)** *Associated Press*. Ethiopia's leader, **Abiy Ahmed**, hails the first filling of the disputed **Grand Ethiopian Renaissance Dam**;

20 Jul 2020 **Cairo (Egypt)** *Arab News*. Parliament authorises the deployment of **Egyptian Armed Forces** on combat missions outside the country after President **Abdel Fattah El Sisi** threatens military action against **Turkish**-backed forces in neighboring **Libya**;

20 Jul 2020 **Cairo (Egypt)** *MEMOM*. **European Investment Bank** approves €1.9 billion (\$2.2 billion) of new financing for business investments in **Egypt**, including transport projects, as well as others related to **covid-19**;

19 Jul 2020 **Cairo (Egypt)** *Al Masry Al Youm*. Some 74% of Egyptians have seen their incomes shrink since the **covid-19** pandemic;

16 Jul 2020 **Cairo (Egypt)** *BBC*. **Egypt's** foreign ministry demands "urgent clarification" from **Ethiopia** after conflicting reports on whether it has started filling the reservoir of its giant dam on the **Blue Nile** river, and **Sudan's** foreign ministry blasts Ethiopia for its "unilateral" move;

13 Jul 2020 **Cairo (Egypt)** *Associated Press*. Veteran reporter **Mohamed Mounir**, jailed in Egypt, dies from **coronavirus**;

6 Jul 2020 **Cairo (Egypt)** *Egypt Independent*. State military production minister **Mohamed al-Assar**, one of the country's most prominent government and military figures, dies aged 74 after a long illness;

5 Jul 2020 **Cairo (Egypt)** *Hapi Journal*. Billionaire **Naguib Sawiris** expects to close talks on state-owned **Shalateen Mining** purchase within weeks;

²³ Al Masy Al Youm, 27 Jul 2020.

²⁴ Al Ahram, 3 Jun 2020.

²⁵ Ahram Gate, 27 Jul 2020.

4 Jul 2020 **Cairo (Egypt)** *Associated Press*. Egypt's top **Court of Cassation** upholds a 15-year-sentence for activist **Ahmed Douma** who led the 2011 revolution;

1 Jul 2020 **Cairo (Egypt)** *Egypt Today*. Foreign minister **Sameh Shoukry** says Egypt has handed a draft resolution on the **Grand Ethiopian Renaissance Dam** to the **United Nations Security Council**;

1 Jul 2020 **Cairo (Egypt)** *Egypt Independent*. **Egypt** welcomes its first international tourist flight after a hiatus of more than three months caused by the **coronavirus** pandemic.

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