

# Egypt returns \$2 billion to Qatar in sign of growing tensions: Reuters analysis

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Relations between both Arab states Egypt and Qatar are souring in the wake of crackdown on Muslim Brotherhood in the North African country



Egypt has returned \$2 billion that Qatar had deposited with its central bank, after talks to convert the funds into three-year bonds broke down, central bank Governor Hisham Ramez said on Thursday.

Egypt authorities have also refused a Qatari request to increase the number of flights between the two states, according to Egyptian airport sources, in a further sign of rising tension between the two Arab Muslim states.

Cairo's relations with Qatar deteriorated after the Egyptian army deposed Islamist President Mohamed Morsi on July 3 following massive uprisings flocked to the streets nationwide demanded the Islamist President to leave.

Qatar had been a firm backer of Morsi's Muslim Brotherhood and lent or gave Egypt \$7.5 billion during the year he was in power.

Qatar had sent Egypt \$3 billion in May, of which it converted \$1 billion into three-year bonds.

Ramez told Reuters in a telephone interview that the Qatari authorities had agreed to convert the entire remaining \$2 billion but then changed their minds.

"They wanted to postpone it, then they said they would do it like they announced last time, and then they came back with some amendments, doing part and postponing the other part for a time, which we found not suitable for us," he said.

"So we just repaid the deposit."

On July 1, Egypt converted the \$1 billion into three-year bonds at 3.5 percent interest and in May it converted another \$2.5 billion of Qatari loans into 18-month bonds at 4.25 percent interest. The bonds were listed on the Irish stock exchange.

Since Morsi's ouster, Saudi Arabia, Kuwait and the United Arab Emirates have pledged Egypt \$12 billion in grants and interest-free loans.

"I would assume they are fairly relaxed about their short-term finances and they can rely on aid from other Arab countries," said Simon Kitchen, a Cairo-based strategist with EFG Hermes.

Egyptian officials have said that the loss of the Qatari funds would not affect the country's financial situation during the budgetary year that began on July 1.

An official in the Qatari finance ministry said it respected Egypt's decision, according to the state news agency. It also said negotiations had failed after Egypt asked for the full amount to be changed into bonds in one move while Qatar wanted this to be done in stages.

#### Egyptian-Qatari relations

Egypt's refusal on Thursday to increase the number of flights between the two states "came in reaction to the recent escalations between Egypt and Qatar after Egypt returned the \$2 billion deposit of Qatar," one airport official said.

The official said that during Morsi's rule the Qatari airlines had run more flights but not EgyptAir, harming the Egyptian company's profits.

"This deal is expected to be scrapped soon as well," the source added.

Qatar condemned last month's attack by Egyptian security forces on Muslim Brotherhood supporters camps in Cairo in which hundreds were killed and has asked for the release of jailed Muslim Brotherhood leaders. At least 2,000 Islamist activists, mostly from the Brotherhood, have been arrested in the past two months.

Egypt called Qatar's pro-Morsi comments clear interference in its affairs. Local media accused Qatar of seeking to take over Egypt's historic regional leadership role.

Egyptian authorities have closed the Cairo offices of Qatar's Al Jazeera news channel, accusing it of siding with Morsi, and two Al Jazeera journalists have been detained for over a month.

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