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Wednesday 30 September 2009

Interview

HE Dr. Ahmed Nazif, Prime Minister, Arab Republic of Egypt

Richard Ensor (RE): It is a great honor to introduce his Excellency, who has been instrumental in the last 5 years. The world economic crisis, is it over?

Dr. Ahmed Nazif (AN): It's on its way in that direction but we are not there yet. We still have to take further steps to improve the situation. Egypt has suffered much less than other countries, but we have not reached a pre-crisis level yet.

RE: What precautions are you taking to recede back to your original economic situation?

AN: Developing countries should not take what has happened as a setback. We need confidence to return to investors and consumers.

RE: Your reliance on the economy seems to be your Achilles heel; will you change the economic structure going forward?

AN: No, what is happening is very normal. We see clearly, where the blow came from to get us down from 7% to 4%.

RE: You have been very reliant on foreign investments in the past. Just because of this exposure, should you not be saying we don't want to be reliant?

AN: No, I think the challenge is vis-a-vis integration. But I think this is a good thing.

RE: Multinationals, you don't have as many as before, is that not a problem?

AN: Look at the last 5 years, and compare it to a year of crisis where we attracted \$10 billion. I think we have to look forward to find new trends. There is a shift in the market. We have to align with the interests of investors entering the market. Our growth is not driven by investment in only one area.

RE: Telecoms have produced very good returns, unlike transport. If you put more into telecom you can't put the same amount into transport.

AN: That's right but transport is a very new market and as such, it is still attracting minimal foreign investments. We don't want a bottle neck.

RE: There are a huge number of foreign investors, why Egypt?

AN: Firstly, we weathered the crisis very well, financially. It is up to investors, but I wouldn't underestimate the private sectors capability in bringing in foreign partners.

RE: Do you think the mix of investors will change, moving away from the Gulf?

AN: We have to branch out and look at new places, like China. There are many different factors, and Egypt could definitely be an investment hub. Look at what China is doing with the Suez Canal. I think it's healthy, for us to move away from only one source of investment, we don't want to be tied to one area. 60-70% of our investments are coming from local investors.

RE: In the last couple of years, 50% of Egypt's financing has been coming in from the FDI, which won't bring the skills you want.

AN: True, but we are getting a lot of investments in labor intensive areas.

RE: During the last conference you talked about the importance of the IT sector, but Egypt is not the same as Bangalore?

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AN: Well, they started in the 70's. This sector has been growing faster than any other, at a rate of 15% a year and we are amongst the top 10 outsourcers in the world. We still have challenges, but the infrastructure is growing.

RE: Do you still think it's feasible, that you can compete with Bangalore in 5 years?

AN: Bangalore is much larger than us, but we will definitely be on a better footing to compete with them.

RE: You will have seen the debate about how socially useful stock brokering and insurance are, does it compare to IT?

AN: I think that in the pension industry there is a lot of room for growth. There is potential for growth in this area as it is very labor intensive.

RE: The FSA has just been introduced. The system has been changed. Was that the right move?

AN: We have one financial institution for all industries and, one for banks. What we are doing here is good for Egypt and the Minister of Investment studied several models to see which would be best for us. It is still too early to evaluate this system.

RE: Everyone is impressed by the 4.5% achieved this year but this is quite a way off 7%. With the deficit, and the slow in the economy, how will you get back on track?

AN: I can clearly see that consumer consumption is growing in the local market, but we can't ignore, that if the global market doesn't start picking up faster, this number will not be achieved. Things will pick up again, but we cannot avoid the fact that we are in part, tied to the global economy.

RE: So you have to suffer until then?

AN: We are taking measures. The affect on unemployment is not as high as in other countries. There is more than one reason for unemployment because people with skills are lacking, but we have had fewer layoffs this year than most countries.

RE: The Egyptian pound is really quite strong against the dollar this will affect tourism and investment. Do you think you need to do something to change this?

AN: I don't think we should interfere. The market force should decide on how strong the Egyptian pound should be.

RE: This proceeds growth rate, Egypt has not been very successful in distributing it to the margin elements of society. Why is that?

AN: I don't believe that growth in the last 5 years has not targeted the low income sector. If you look at their incomes they have increased even with inflation. You can see this clearly in the levels of consumption.

RE: It seems that the rich are richer. We see more and more people driving flashy cars.

AN: These cars are bought by the middle class, which shows that more of the middle class can afford cars. The main basis for distributing wealth is based on the trickle-down effect that comes from increasing jobs in the market.

RE: There is less money in the economy and government, with elections coming up, is there less desire to continue with reform?

AN: Not at all. Over the last years, we have delivered. People resist change but they know that these changes have made positive changes in their lives and we need to continue to educate them about this. Even with the economic crisis, the issues that have come from it, were imposed on us by others, rather than being created by us.

RE: What reforms would you like to see before the election?

AN: One, is the health insurance package, it has economic implications, but also social implications.

RE: There were a list of companies we were told being privatized but this hasn't happened. Wasn't this one of the spearheads of your reform program?

AN: I don't agree, politically it's been seen as an issue, but remember, we have never talked about privatization in the sense of getting rid of assets, what we talked about, was managing them. If you look at our portfolios, many of them were indebted and losing money, now they are making money. Management is in place and it's not just about moving them to the private sector.

RE: Well, are they not better off in the private sector?

AN: Well, it depends. This has to be decided on a case by case basis and depends on who can best manage these investment portfolios. Talking about privatization, there has been massive growth in the privatizations share of the market.

RE: Talking about education. It seems that reforms have been slow. Have these been pushed aside?

AN: No. 1 to 8 year olds have already seen major changes in their curriculums, and primary schools and high schools can expect to see the same changes next year. Remember we have a huge young population.

RE: So youth are a key part of your economy?

AN: They are our most important resource. Before we were just aligning with the job market, but today, we are fixing the education system. We have to do the same in other sectors, like the banking industry, and this will happen when we develop the human sector.

RE: What about bureaucracy? It seems to still be slowing things down?

AN: It has changed, but we have a very large bureaucracy, so we have to prioritize. A good example of this is the investment industry.

RE: Is this not because taxes were simplified?

AN: Yes, and we are doing this in more areas, too. I think we are amongst the top 30, in the world, in terms of creating new companies, but in other areas there are still challenges. There are good models being implemented on a smaller scale and these can be copied.

RE: If you had to prioritize, what would the most important industries be?

AN: Health, education, transport and energy.

RE: What aspect of energy?

AN: Well we need more of it. One of the good effects of the crisis has been that it has allowed us to catch up.

RE: Isn't one of your biggest issues reducing subsidizes?

AN: Changes will happen but they won't impact the lower classes. We have an inefficient system that if changed, will help the lower classes more.

RE: But how can you do that? If you have a system of social services won't people cheat?

AN: The key point is to sell at the right price, and then give this money to the poor.

RE: Do you see progress in the Israeli- Palestine peace process?

AN: Now, no. We have always played a big role in encouraging the peace process, and we are working with the different factions to get them to take the tough decisions needed to get them talking.

RE: Who needs to adjust their position?

AN: Both sides.

RE: You have a good relationship with the US...

AN: I like think that we are an important nation to the US.

RE: How have you benefited from this relationship?

AN: Egypt is a regional power, and as such, we were invited by the US, to be part of the global process.

RE: It's not a cohesive region. How do you make it cohesive?

AN: You have to listen to everyone. There are always 2 sides to a story. We have to be open and transparent and be even handed when dealing with issues.

RE: The general elections are coming up. One criticism has been that there are no effective oppositions. How do you create effective opposition?

AN: I don't think we should be the ones providing this advice, but opposition need to stop focusing on criticizing the government and instead focus on providing their own solutions.

RE: There is an extreme alternative, but wouldn't it be nice to have 2 or 3 choices?

AN: I would agree. It's a citizen's right to choose, but if the alternatives offered are just titles, then there really is no choice available. As long as the opposition does not focus on providing solutions they will not be able to create a base of support.

RE: Should the president appoint a vice president?

AN: It is the constitutional right of the president to decide whether or not to appoint a vice president or not. We have changed the constitution, so that today there will be a way for succession to take place through multiparty elections. So it's up to parties to field their candidates.

RE: Should Mubarak be elected, will someone be earmarked for succession?

AN: Well, how democratic is that. If you have a system that has lasted and has been stable, why challenge it.

RE: I think it gives certainty...

AN: History doesn't prove that. Look at the last 3 presidents. None of them were earmarked as the successor of their predecessors.

Q&A

Floor: Is it better to push consumption or to finance investors and businessmen?

AN: The two, are not mutually exclusive they must both be pushed. We have to make sure the investment environment is attractive enough though.

Floor: How long will it take for a complete recovery from the crisis?

AN: It will take some time.

Floor: The party will hold its annual meeting soon. Will it announce its candidate?

AN: It's too early for say.

Floor: Where do you see the government's vision going from here?

AN: The world has been challenged by the financial and economic crisis. The economic crisis has not changed our vision, however, and we will continue to reform.

Floor: How much has the vision changed?

AN: We are continuously reevaluating. One of our main focuses is on managing our investments portfolios. We will continue to change.

Floor: There was a report, that the minister will be producing swine flu vaccines. Can you elaborate?

AN: We will be pursuing this, but I don't have a concrete answer regarding the details yet.

Floor: The people on the street don't seem optimistic about the economic crisis. What can you tell these people to make them more optimistic?

AN: Look at the alternative which is not doing anything. If we had not started reforming in 2004, the ordinary person would have been much worse off.

Floor: Regarding student numbers in classrooms and schools in general, I heard that we will be reducing the number of students per class because of swine flu. I think we should continue do this even after swine flu.

AN: We can't do much when we have 2 million students entering schools each year. This means we need a lot of new schools, which is something we are working on. We are building about 500 a year.

Floor: We have heard many times that we need to lift the emergency law and determine succession if we are to attract investors.

AN: Egypt has and will continue to be a stable country and investors are interested in Egypt so our stability is clear.

Floor: What will the government do for the local investors and how will you increase these numbers?

AN: We need to continue to support entrepreneurship in Egypt. We need to work on SME's and social funding. We are creating young, small businesses.

RE: What is the biggest opportunity you have missed?

AN: Seeing what we were able to do, in terms of avoiding the economic crisis, is one of my proudest achievements. I am not the type of person who regrets.