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Tuesday 29 September 2009

Opening Keynote Address:

HE Dr. Mahmoud Mohieldin, Minister of Investment, Arab Republic of Egypt

Thank you. Good morning. I have a completely different plan for this morning. As I have doing for the past five years, I was planning to sit and relax in the first session, but then I got the call from Dr. Boutros saying he was ill. So, I will be saying what I am assuming our Minister of Finance was going to say. I am glad to get the chance to speak from that perspective.

It is worse than last year, but much better than expected. For the macro-economy it is not the time to rejoice. GDP is growing and Egypt will be seen as one of the very few countries to have 4+ % growth. The projection for this year is more than 5%. We have, as well, managed to keep unemployment under control, less than 9%, better than the 11% the year before. The good news is attached to the inflation performance and which came down to a low of 8.4% from 18% or 22% in June of last year. By putting the fiscal deficit under control, below 7% of GDP, we managed to do this.

There is more than one contributor to the growth effort (not just relying on one or two sectors). The IT sector has grown 15% in the last three years, water, electricity and transportation, oil and natural gas, financial services sectors are all doing well as well. Will it be enough? It seems that growth is going to balance. In addition to the other sectors, agriculture is also doing well, 3.5-6%, and other sectors are growing at 15% as mentioned previously. Growth has to be inclusive and fair and sustainable. This deals with the question of the trickle-down effect. You cannot assume that because of having growth rates of 6% or 7% that everyone will be sharing. There has to be an effort, allowing everyone a fair opportunity to get involved with the labor market, fair access to education and the improvement of provisions for public services.

Decentralization and with the new teams of the investment authority, I'm sure they will be able to provide more services to SMEs. More than 90% of our corporations have issued capital of less than US \$1.8 million. When you are talking about SMEs, you are talking about the economy at large. Supporting SMEs can include insurance service providers to cater to the needs of SMEs, by more improvement in doing business. The ranking of Egypt in the doing business report is going up and I am very pleased. The country that was ranked 126 is now 24 in being the place to start a business, but we still have to do more effort in the exit rules and bankruptcy. We are expecting more effort in the payment of taxes. A reduction of taxes from 32% to 20% has already taken place. We just finished signing an agreement with the federation of Egyptian Industry and Chamber of Commerce for taxes. The activities of the credit bureau have also started to work. This is done not just for the large companies, but more importantly for SMEs.

We have many challenges; some are related to the problems of with the rest of the world. While the financial markets have been doing very well, but the agony and problems of the global economy are not over yet. The impact of the crisis on growth is there still. You cannot assume that it is over. First there is no going back to the pre-crisis level. After such a big crisis, you cannot talk about going back. You talk about new conditions. You have to survive not just with the crisis, but the problems associated with dealing with the crisis. The stimulus packages adopted by many of the developed countries are very much inward-looking. After the London meetings of the G-20, 17-18 of them have adopted protectionist measures, not only of a new form, but also of the classical forms as well. Many countries have budget deficits exceeding 10% of GDP. Our banking system has excess capacity. When you have these budget deficits run by the US and UK, the surplus [of global savings] is directed to the Western hemisphere. That is why we are trying to diversify the sources of our capital and we are getting very positive response (going to China, etc.). What we spent last year as a stimulus package, 13.5 billion, needs to continue for our growth efforts to continue as well.

Q&A

Richard Ensor (RE): Concerning the Reuters story on the second reflationary package, did you know it was going to happen?

HE Dr Mahmoud Mohieldin (MM): unlike some of the packages that were adopted by developed countries that had to do with recapitalization, this year we are considering further spending on infrastructure. Some of that comes from some of the projects which started last year being continued. What is required is around LE 8-9 billion. If the economy is 1 trillion EGP, then this is not that big of an amount. Budget deficit is 7-7.5% of GDP.

RE: If you look back in the past few years, the consensus was for an IMF-style reform model until the world was turned upside down, does that make you want to change the Egyptian economic model?

MM: Ours was not truly an IMF model. [For example] concerning the financial sector reforms, the IMF had nothing to do with that, we submitted suggestions on how we will be reforming the sector. But what is the model today, well it stands on a few pillars, including: Macroeconomic stability (can't have double digit inflation), pro-growth activities (more investment in human capital) and defending market-based rules of the game (markets should be regulated wisely).

RE: Have you opened the economy too much?

MM: Last year we mobilized US \$8.1 billion of FDI. If we open up our infrastructure more, natural gas and oil are also a majority of the FDI. Now, we are attracting investment for sectors that have their own demand in addition to getting more investment in infrastructure and areas that didn't have their fair share of investments, like renewables.

RE: Has the privatization boom been a wipe-out?

MM: When we started privatization, the public sector had had 35% of GDP, now it is less than 5% of GDP. In terms of employment, the public sector was one of the biggest employers; today it employs less than 1.5%. In addition to this, the value of the portfolio of the private sector was negative, with indebtedness of LE32 billion; today the debt is less than LE8 billion.

Question from floor: We would like to hear more details on how this trickle-down effect will work?

MM: I said clearly there is nothing automatic about the trickle-down effect. I think Professor Gilbert once said, "Those who believe in trickle-down effect are those who believe that feeding the horse more oats will feed the sparrows." You need to get areas that are left out of development (i.e., Suhag, Upper Egypt), you need to get them connected through infrastructure, etc. We are encouraging FDI to go more to rural parts of Egypt and to Upper Egypt.

Question from the floor: You mentioned previously the creation of investment cities, like investment zones, how far along is this plan?

MM: We came up with the idea of having investment zones to improve the quality of services provided by the local authority and we started with the Luxor Council who gave their startup approval on the effort, and we are just waiting for a couple of other departments to give their approval.

Question from the floor: What are there projections for inflation this year?

MM: Well, based on three pillars: discipline, monitoring and expectations for world inflation, we are hoping to keep this year's budget deficit under control (less than 10%). The inflation target is 6-8% in the coming months.