

Keynote Speech – H.E. Dr. Youssef Boutrous Ghali – Minister of Finance, Arab Republic of Egypt

H.E. Dr. Youssef Boutrous Ghali, Minister of Finance, Arab Republic of Egypt, gave a keynote speech on Day 1 of the Euromoney Egypt Conference 2010. Below are excerpts from the speech.

Ladies and gentlemen, good morning. As Richard said, we've been doing this for 16 years. It is unusual that a public servant spend so much time in office. Now, where are we? We are at the juncture where the world economy is important for us. Our isolation has served us reasonably well in the last international crisis, where our banking system was not terribly connected with the rest of the world. We had some fallout, but not as much as other countries, such as Turkey. Now where is the world at this stage? Remember, the crisis started because there was an imbalance. The largest economy in the world was in deficit and the second largest economy was in surplus. Now, we've gone through the crisis, we have identified the imbalance. Countries with high surplus have to rely more on domestic demand and therefore start purchasing commodities from the rest of the world. The deficit countries need to save more and export more. We need to rebalance the system.

Growth is picking up. Different areas of the world behave differently. Some budget deficits are still large, but basically they're back. But they still rely on exports. Therefore, we have not fixed the imbalance. Germany has recovered a very high growth rate, but it still relies on exports.

Europe is recovered. Growth rates are decent. Are they expected to last? Most likely. You have to applaud the courage of the governments going against the grain. They are trying to raise the pension age to 62, we have raised ours to 65.

Now, North America is recovered, though slower than expected. However, consumer confidence is not there yet. There is soft growth in North America. The world as we look at it is going to grow back. This will affect investment flows. Investment flow in Egypt reached 13 billion last year, now we are at 5-7 billion.

Now, what about the risks of the world economy? The IMF and a number of other institutions are working on it. What is the guarantee that an institution that knows that it is too big to fail will not take excessive risk? It is an important issue. It is an issue that spills over into countries. Today, we have instances of countries that thought, even though they were not that big, that they would be too big to fail. Well, they have failed. Basel III is beginning to take shape. Risk assessment has changed. Capital to risk has been changed. Therefore, we are looking at establishing an infrastructure that creates harmony across regulatory systems across the world. All this takes time and all this is important.

Again, the importance of the world economy lies on the amounts of capital it can pour into our economy. We are, despite everything, a healthy investment destination, but we need a healthy world economy.

The last element of the world economy is the reform of international financial institutions. The institution needs to evolve. It needs to look at things it did not used to look at; risk for instance. The

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voting structure of the organization needs to change; third, the internal governments of these institutions need to change.

These three issues are important to us and it is important to keep an eye on what is happening abroad and what is happening here. So where does Egypt stand. I anticipate that we will have 6% growth for the year. Where will this come from? Domestic demand. During the crisis, 4.7% of growth was due to domestic demand. This points to where the advantages of our economy are in the future. We have managed to create a growing middle class. And our plans for the future are to get this middle class to grow faster in a more integrated and organized way so that we can rely on their spending to generate jobs, skilled workers, welfare, etc. We have a local investment community that is lively. Our various balances are reasonably well under control. Deficit went from 6.9 to 8.4, outturn of the budget was 8.1. The target for this year is 7.9 and it's very likely we will end up at 7.5. Our debt-to-GDP ratio is 78 and latest is 82, down from 120. This year we are anticipating a surplus.

Now, where are we going? Are we an interesting investment destination? We are at a turning point where the nature of our policies needs to change. Basically, we've done what we needed to do. Now, we need to concentrate on two things, first income distribution (you will have an economy that will grow at 7% and hopefully 8%). We need to make sure that we have the tools to redistribute income to the poverty-stricken. Now we need to be more efficient in the use of resources. In the coming years we will bring the poverty ratio down by half, hopefully. This is going to be the main concern. Of course, we will continue to maintain an investment climate that is healthy. The specific policies of these issues are being drafted.

In the coming period we will see high growth rates. We will be looking at an economy that has a high growth rate, is addressing poverty issues, addressing education, which is at the core of our vision for the next few years and it will be at the core of our policies.