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Interview with **HE Dr. Ahmed Nazif (AN)**, Prime Minister, Arab Republic of Egypt by **Richard Ensor (RE)**, Managing Director, Euromoney Institutional Investor PLC

AN: It is a great pleasure to be here. This year is a special year for Egypt, with the global financial crisis and its implications on the world. Egypt has weathered the financial crisis very well, whilst many others suffered more. At the end of the day I believe that with the support of the government Egypt will maintain its course. We have seen growth, over the past two years. During the crisis Egypt attracted 15 million USD in FDI. This is a good indication of how our image will be perceived by the rest of the world. Global sources are coming from abroad. There is not a single sector in the economy that shrunk during the crisis. Today we are seeing positive change. Tourism is well ahead. All the numbers are around 80% of what they were before the crisis. This is a rebound of 30%, a real rebound. The benefits of Egyptians abroad have been record, at around 9 million USD. Industry has grown about 4% picking up to 6% and other sectors have been pulling us ahead too; such as construction, IT, services and others. This encourages us to do more. Growth is a priority; we have an expanding population and workforce. Even in the crisis we have managed to keep inflation at bay, but prices are still high. We have a stable currency and a healthy foreign reserve. These are all good markers but there are challenges still there; but opportunities too. We have a very good plan in place, to double exports by 2013. In the last five years we have doubled exports, and we are going to do it again in the next three years. We are seeing competitiveness improving. The main resources pushing the economy are the ever growing local market and human resource capital, as well as infrastructure; through transportation and energy. We are enlarging investment loans; internal trade which the government is focusing on; especially IT, tourism and services, with a big addition this year, involving the role of the private sector partnering with public investments. We signed our first PPP contract in 2009 to build water treatment stations. A list of multisectoral companies are available for PPP investors in Egypt, this will help widen the scope of investments. All in all, we still have a very healthy growth role ahead of us. The government will continue to create reform and maintain growth.

RE: You mentioned reform. The perception abroad is that this has slowed in the last years. What's happened with basic reform?

AN: I don't agree basic reform has been steady, but when you have a crisis of course this slows. Last year we introduced the new pension law. It has its implications on finance. Reforms of SME's have also gone ahead, helping support the establishment and finance of these businesses. Now privatization is a story. My definition is different. People think of the private sector being about the government selling its assets or homes, but it's more than that, it covers all sectors. We are seeing a more vibrant private sector, in the banking sector, the industry sector, and many more. We still have state owned companies that need reform or privatization, but that is less important because these companies represent a small fraction of the GDP.

RE: But isn't that because the public sector grows more slowly?

AN: We still have a couple of big banks that are government owned but we have reformed and consolidated them and they will be shared with the private sector in the future.

RE: The Egyptian public seems to think reform has slowed. Is this reflective of the political situation or related to the presidential elections?

AN: Reforms have not slowed; the PPP unit was established in May of this year, despite the fact that this is an election year. We will continue with whatever reform is needed. We will continue talking about reform of the public sector and involving the private sector in infrastructure investments.

RE: Egypt managed the economic crisis very well, and maintained growth, but inflation is not down. Doesn't this hurt the poor?

AN: Inflation is abstract it doesn't take into account the large subsidy program for the poor. Wealth distribution is not as even as we would like it to be, but this is what you see when countries are in the midst of a transformation. It doesn't take into account for example, the fact that a gallon of gas is about 10% of that against the Euro. New indicators on Egypt's ranking, place Egypt in a much better place.

RE: Talking about subsidizes, the government said they would cut back on this policy, but it seems the reverse has happened. Aren't you distorting the market?

AN: We will never get rid of subsidies, what we will do is reform them. We have 11 million family that need support and we are seeing who needs support and to what extent. We are creating a program to ratify the way we provide subsidies. We have a track record for subsidy reforms. Food subsidies were moved to the card system and improved efficiency by about 30% and we can build on this. Butane gas is provided at less than 5% of its value. There is improvement.

RE: Food is important. Should food be treated differently from other imported goods? Do you want to be dependent?

AN: We need to improve food safety. Wheat is a problem for us but we have doubled productivity over the last two decades, despite this, dependency is still at 50%. We have to look at exports and imports in a diversified way.

RE: Food is just one element. The service sector is a huge. Why don't you let Egypt focus on sectors it is good at?

AN: We are and we should. Wherever we invest we should look at the jobs we create.

RE: Tourism creates lots of jobs

AN: Yes and construction too. Industry still accounts for 6% of the GDP. It's important locally and internationally.

RE: Shouldn't you be trying to correct the deficit?

AN: We have a plan to improve our exports sector.

RE: 50 billion EGP is to be spent on Egypt's infrastructure. Is that sufficient?

AN: To grow over the next year, this will be sufficient, but we have to look at reinvesting. The government is also spending around 30-40 billion EGP a year in infrastructure investments.

RE: The responsibilities of the Ministry of Investment were transferred temporarily to the Ministry of Trade and Industry. Is that the end of Mohieldin?

AN: When you have this kind of change there is opportunity for fresh ideas for the future. We created a Ministry of Investment. We will keep all its functions; we have done a good job in developing a base for growth. GAFI is still working with us to promote investments. It's still very important that we work to create new opportunities. GAFI also works as a watchdog for the investment environment. Ownership of public assets, current holding companies and those managing Egypt's income, banks, airlines, and telecom, those that are owned by the government today, will eventually be independent, taking away the political aspect of these public companies, so that they can compete with the private sector and be marketed on the stock exchange. We intend to have the structural and legislative environment needed to make this happen.

RE: The IMF would say this is not the right way to run industry.

AN: It has worked before, and will work again. There will always be certain companies and parts of the market owned by the government.

RE: Sixteen million people are still working in the informal sector. This is a huge problem. How do we fix it?

AN: The health insurance law will come into effect next year this, along with other reforms and legislation; will encourage people to join the formal sector.

RE: There is a divergence between the rich and poor. Isn't social tension a problem?

NA: The national average is improving. The whole scale is moving towards the creation of more jobs. We need to create jobs in the right places, where the people who need employment are. This is why we are focusing on Fayyoub, Beni Seuf and of course the Red Sea.

RE: Should you have done more to constrain the fertility rate?

NA: We are educating people. We have a new plan and hopefully we will see positive results from our family planning program. We need to be more assertive. We are targeting the villages in Upper Egypt, a total of 181 villages. We will be sending people to these villages. Advertising campaigns are not enough. This is an investment of 150 million EGP.

RE: You have spent a lot of money on education, but the literacy level in Egypt is the same as Korea's was 50 years ago. It doesn't seem you're spending very efficiently.

NA: There is demand for better education and private education. We will be encouraging private investment at all levels. School fees range anywhere from 1,000 to 11,000 EGP per year, there is a great difference between private and public education costs. We still have a public base for education though.

RE: Can you change the education system quickly?

AN: If we start attracting investors then yes. I see opportunities for NGO's to invest too. If we look at higher education, many of the public universities are attracting partnerships with private universities and foreign universities as well; to build new campuses.

RE: Technological and the digital revolution in Egypt seems very slow. You're not really the leader in the Middle East are you?

AN: Egypt is ranked 6th in outsourcing. We are developing human capital. We rank better than any country in the MENA region. The size of the country slows you down a bit and if you look at India they started in 1970, long before us, and we are catching up.

RE: What's the succession plan?

AN: Succession is always an issue because of political stability. My argument is the country is 7,000 years old we have seen so many transitions and yet maintained a steady course. We are better off than we were in 1981. The constitution tells you what to do in a case of succession or the abrupt end of a presidential term. We have strong leadership and we have strong human capital. We have built up other countries in the world; this is not even a real issue to me.

RE: But you don't want to be placed in the North Korea category, and the presidential elections are getting close.

AN: We have a multi candidate and party system. In the next four months we will see each party canvassing their candidate. We will see a multi candidate election. We will show the world we can handle this kind of reform.

RE: In the past the media scene has been very open, but now we feel the media is being squeezed.

AN: I disagree; we have not seen this kind of openness in media, on the internet, or amongst bloggers, in years. It's not fair to take single incidents and say the media is being squeezed. If anything the media is squeezing the government. We should not take a specific case as an indicator of the media scene.

Q&A

1) Have you taken on contingency plans to allow new laws like the PPP law and the pension law to move ahead without getting tangled up in the bureaucratic snags we have seen in the past?

AN: With any new law, there is the law and then there is the implementation. Both the executive arm and organization of the implementation of these laws need to be monitored, for these changes to take place. For the PPP unit we used expertise from the UK to develop the concept. This is a learning experience. The PPP unit for public schools didn't get through, but others did. The commitment is there. The tax law gave a two year period for implementation, taking into consideration the mechanisms needed for implementation.

2) Regarding real estate, we are hearing about problems with real estate developers, the Medinaty issue being one of these. There is news about other problems with real estate laws being published every day. Could you elaborate on this issue? Secondly we are in a transition period at the moment; with the parliament and presidential elections coming up. What assurances do we have that reforms will continue?

AN: The issue of land is related to growth at large. Everyone needs land. We are using very little of our land. It's a management issue that we need to deal with. Madinaty is a side issue and an administrative dispute. We are sending clear messages to investors that we will protect their investments. The issue was resolved within ten days. We will continue to remedy gaps that appeared in the past. Since 2006, we have been implementing different ways of allocating land, a system that is very transparent. These issues have triggered new initiatives for the creation of comprehensive transparent systems so that investors can see how land is dealt with. Clarity is being improved, and will be improved by new legislation for every single agency that deals with land. How they acquire land and what their rights are will become clear. This will help in creating market stability and encouraging an attractive investment environment. Our government and the NDP, being the ruling party, have a clear program for reform, one that has been in place since 2004 and one which we will continue to implement. We will go into the elections with a program. We will have a new presidential election system. We will be able to deliver the program better than anyone expected.

4) The privatization of companies will force down our exports.

AN: If you double your exports in four years, this is a great achievement. We have today, removed a lot of trade barriers and access to markets that weren't available to us before, are now there. We are very well positioned and in terms of real growth, we stand at 4% per year. Clearly, the Egyptian private sector is strong. In this sector, 70% of investments come from Egyptians, 20% from the Middle East and only 10% from the international community, so we don't have to worry about selling Egypt to foreigners.

5) Regarding succession, many people believe this has impacted flows of FDI and many say it's because of the uncertainty over the President's successor. Don't you think it's better for the NDP to take a clear stance?

AN: We have a constitutional process and it's clear. Parties announce their candidates sixty days before presidential campaigns are launched. This is what you should expect. We have a capable president and leader. It is our right to wait for the president to take a decision and if he wants another term we will support him and we will wait before we consider other options. There is no reason to hurry and no reason to worry.