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Tuesday 28 September 2010

Panel I: Investment Priorities, the Macroeconomic Context, and Visions for the Competitiveness of the Nation

Moderator: **Richard Banks (RB)**, Director, Middle East Euromoney Conferences

Panelists: **Lahcen Achy (LA)**, Senior Economist, Carnegie Middle East Center, **Florence Eid (FE)**, Chief Executive Officer, Arabia Monitor and Member of the Board of Directors of Arab Banking Corporation International Bank, **Amr El Kadi (AK)**, Head of Investor Relations, Citadel Capital **Taher Helmy (TH)**, Senior Partner, Helmy, Hamza & Partners, **Omar Mandour (OM)**, General Manager of The Coca-Cola Company in Egypt, Libya and Sudan, **Marios Maraftheftis (MM)**, Head of Research for the Western Hemisphere, Standard Chartered Bank, **Ania Thiemann (AT)**, Senior Economist and Project Manager, MENA-OECD Investment Programme, Private Sector Development Division, Organisation for Economic Cooperation and Development (OECD)

The opening panel will give a top-down view on the strategic direction of Egypt's economy in 2010 and 2011. We'll start with a review of 2010 so far – the high points and the low ones – considering both broad economic indicators and shorter-term benchmarks such as EGX30 and overnight interest rates. The next stage of the panel will discuss some of the key challenges – unemployment, low interest loan and deposit ratios, lack of institutional investors and more. We'll try to sketch some solutions to these challenges too – in dialogue with the audience. The closing part of the panel will look at the vision for Egypt's economic place in the world – who are its competitors and peers? What can we learn from analyzing these nations? What lessons can be learned and what can Egypt teach others?

RB: Both Dr. Youssef Boutros-Ghali and Dr. Mahmoud Mohieldin have great hopes for Egypt in the future, do you share their positivity or are there some areas of concern you would like to mention?

TH: I think what Dr. Youssef said this morning is probably what we have done well in the past 7 years but I think we are going a step back this year. The emphasis will be more on social equity, in order to benefit the sectors of society that have not had our attention in the past. The government now has taken turn into tide to social equity and distribution of income. Encouraging entrepreneurship, the example of Madinaty is a good one of how we need to continue working on our legislation. We have long way to go in order to have a solid exit mechanism.

RB: The perceptions (two streams, foreign sector and business sector) seem to be: perception among poorer in society that there hasn't been benefits. Where is the real impact of the actual developments? The bottom layer of society doesn't necessarily feel those benefits.

TH: The widening gap is a reality. There is a middle class that is growing though. We have not done enough to advocate the policies that the government is supporting to the public.

RB: Omar, do you feel like the public sector looks at you as a foreign company coming in?

OM: Going forward, the focus will be on infrastructure, taxes and policies need to be tackled head on. This will take us to the next level. For an industry like ours, the quality of education is important together with second tier, tax reform/restructuring, so we are able to put more cash back into the business. Efficiency is very crucial in those who execute the policies... we need them to understand.

RB: As a global investor, what is your responsibility towards education, do you feel you have a role, in CSR?

OM: Yes, we do have a role, and we employ 11,000 people. In the beverage industry, I believe it will double. We try to enhance the efficiency of our own employees and we do get involved in education in the local communities. Yes, we do, and it all starts with the basic level of education and quality of training.

AT: Human capital is an important point. In assessing the business climate, the lowest scoring category was human capital. The income gap has widened this. The upper class has benefitted, but due to the absence of quality in the primary education, large numbers of population don't have access or means to educate themselves.

RB: Florence,

FE: I have had the pleasure of encouraging hedge funds and investors to invest in Egypt and I was right about my recommendations in the success of Egyptian growth. The question is, we have had 5 years of reform in Egypt, How do we compare what Egypt has done and what it can do going forward, in comparison to Turkey and Brazil? For example, in Brazil, stronger head start, back in 1994, stabilizing currency, after 10 years of reform, Egypt has posted double the growth rate than Brazil. Turkey had similar figures from the late 90s until 2005. Egypt had easier pre existing conditions; it didn't start after a crisis. Today Egypt is at crossroads, the advantage that Brazil and Turkey had, longer initial period of reform. The social inequalities are the same in Egypt as in Brazil when they started the reform.

RB: Did you look at how income inequality has changed? Do you know the exact comparisons?

FE: Trickle down is something that happens and it takes longer than 4 or 5 years. International Trade takes time, also, it is important to keep in mind that policies take a while to be implemented and those who are best prepared to take advantage from the change in policies are the ones that are already the best off. Those at the helm of private business and equity will see benefits first. So, at first you have a wider spread of income distribution but then it tends to even out when the benefits reach those in the lower levels.

LA: There are structural issues and different issues across different countries. I believe South America has different patterns of inequality than the Middle East and North Africa and policies need to be addressed and adjusted according to needs of each specific region.

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RB: I don't think the MENA area is a unified region, the size/structure/economies are all very different/ populations are all so diverse. How are these comparisons done?

LA: The oil countries are what I am talking about. It is true that we need to compare Egypt globally.

RB: How do you see the future for Africa and the Middle East?

MM: Egypt's name always comes up when it comes to investment. Hedge Funds, investors, projects, Egypt is growing younger, not older. The population is growing tremendously. What concerns me is the fact that Foreign Direct Investment flows go to oil and gas sector. It is capital intensive, not labor intensive investments that need to touch other sectors. We are unbalanced world, but Egypt isn't attracting enough investment from Asia. I think this should change soon with new projects with China. Trickle down education is paramount, improving quality of education. The banking sector needs to be developed, on the other hand, the quality of institutions are relatively quite good. The availability of technology is also paramount. Finally see the trickle down to reach the youth of Egypt.

AK: Egypt is good springboard for rest of region, there are similarities between Algeria, Libya and Syria. Egypt is leading in the reform, so, if you can do it in Egypt, you can implement it in Syria or Libya.

RB: Going back, as a major company in Egypt, do you feel the responsibility to be a part of the trickledown effect? Is that part of your corporate mission?

AK: In our business, the trickledown thing is part and parcel to doing business. You are automatically employing more people and adding something that was not previously there. Being able to set up new companies and bring in new business to Egypt and other developing countries. As for CSR, we have a foundation that funds young brilliant Egyptians' education abroad and then come back, like scholarships. We fund tuition fees of the Faculty of Engineering at the AUC for young Egyptians.

AT: I think we need to look at the future; we have discussed where Egypt is today, but let's look forward. The speeches this morning were upbeat and it is crucial to address the long-term risk of high rates of inflation. The government says it is bringing it down, but this year - unless a strong signal is sent out to investors that the government is sticking to its policies - one might lose confidence. One pillar addressing few macro planning facilities that remain and two, to revitalize the policy agendas. Access to markets and the size of the informal sector, that if dealt with would help build confidence in foreign investment.

FE: High inflation comes with the development of a nation; the important thing is price stability. The system here has done a great job in doing this in the past 7 years.

RB: Any time you could have food prices rising 200%, how do you react to that?

FE: You can't be complacent and I don't think the government has been complacent. Such a period must come to an end eventually (from the Arabic version)

MM: Brazil and Turkey were starting with higher inflation rates but evened out eventually. Investors couldn't have touched it back then, but in time, it stabilizes. The poorer you are, the more of your income is spent on food.

AT: There are huge inflows of capital into the economy but the private sector isn't managing it well.

OM: It takes the average Egyptian, 45 minutes of work to buy a 1 EGP product. We are the lowest for entry level products and it is bad that it takes someone 45min to buy that entry level product. Inflation is destined, but if you look at real level of inflation, from the 35-40% increase in average household incomes, you could see that the inflation rate decreased. (from Arabic text)

(not in the Arabic text!)

Q&A

OM: My wish list from the government would be education benefits. Half of the population is under 30; we need skilled population to attract Foreign Direct Investments. We are competing with India and China... In Corporate CC, I have to compete with Brazil, China and India. Training beyond university education is essential, professional training is crucial. In the 70s we were the biggest outsourcer of educated professionals. That is not the case anymore.

TH: The government can improve the tax laws.

MM: Legal framework, education and reduce size of government deficit (it crowds out private sector) Small & Medium Enterprises have huge role in job creation and promoting private sector, and finally attention to poverty

AT: Disciplined the informal sector. There are taxes, standards and norms and regulations that need to be replaced and will benefit the overall atmosphere, with more cash flow to public sector with taxes and higher level of quality.

LA: Small & Medium Enterprises

1. Should Egypt be issuing more foreign debt to fuel growth like Turkey did?

FE: The debt ratio in Egypt is reasonable and has come down. Issuing debt to finance domestic investment is a desirable thing. There is no yes or no answer. It is better not to build up too much debt unless necessary.

AT: The debt ratio is at 80% right now. The deficit widened last year so the share payments are going up. There are advantages right now with the low interest rates.

MM: International investors ask who holds the debt and if you say, foreigner, that would cause some concern.

TH: We are concerned about the growing debt; the banks are flushed with cash, if it goes to the government, then that effects the private sector. The government shouldn't be absorbing the liquidity of the banks, there needs to be a balance. There should be incentive policies for lending to SMEs and increasing the bank loans to the private sector.