Summary Notes on the Roundtable Discussion entitled

" Recent Global Economic Developments and their Impact on Egypt's Economic Outlook"

Sunday 21st October 2018, Egyptian Center for Economic Studies
from 10:00 am to 12:00 noon

Participants:

- **Mr. Mohamed Abo Basha** – Head of Macro Economic Analysis, EFG Hermes
- **Dr. Yasmin Abdel Razek** – Head of Strategic Planning, EG Bank
- **Mr. Omar El-Shenety** – Managing Director, Multiples Group
- **Dr. Diaa Noureldin** – Associate Dean for Graduate Studies and Research, School of Business, The American University in Cairo
- **Dr. Abla Abdel Latif** – Executive Director and Director of Research, ECES

Chair:

- **Mr. Alaa Hashim** – Chairman, Transendium and ECES Treasurer

The Main points addressed by the speakers:

Recent global developments

- Recent global developments include the crisis in emerging markets, increase in advanced economies' interest rates, higher oil price, trade war between the U.S. and China, Brexit and cryptocurrencies.
- **There are five global forces shaping the economies nowadays**: the fourth industrial revolution; inclusive growth; demographic changes; climate change and the rise of economies in the east.
- **Crisis in emerging markets, most significantly Turkey and Argentina.** Turkey is currently facing high inflation, high interest rates, current account deficit, high foreign denominated debt, political tension with the U.S., reliance on capital inflows to fund the private sector, focus on the construction sector, low investments in education as well as R&D. Another example of an emerging market in crisis is Argentina, which witnessed significant currency depreciation due to investors' lack of confidence in government's ability to curb inflation, higher interest rates, high foreign denominated debt, high dependence on external debt, and is currently seeking a loan from the IMF that amounts to $50 billion.
- **Debt is becoming a major problem globally.** Christine Lagarde emphasized this issue in the last IMF meeting, stating that "the bottom line is that high debt burdens have left many governments more vulnerable to a sudden tightening of global financial conditions and higher interest costs. For emerging market and frontier economies, concerns about debt levels in

this environment could contribute to market corrections, sharp exchange rate movements, and further weakening of capital flows."

Highest global risk factors for Egypt

- **Egypt is an emerging economy and hence its ability to have an impact on the global economy is limited and its propensity to be affected is very high. Egypt introduced bold reforms since 2016**, including subsidy reforms, flexible exchange rate, mega projects to upgrade infrastructure to increase FDI, tight monetary policy, regulatory reforms to improve the investment climate (e.g., investment law and Bankruptcy law). All of these are significant developments. Also, growth has regained momentum, but remains primarily dependent on government expenditure.
- **Egypt increased its reliance on foreign borrowings.** Egypt issued debt in different currencies the question is: does Egypt have enough foreign currency receipts to service the debt? Many of Egypt's finance sources are exogenous variables, like the Suez Canal and tourism, which are dependent on regional stability and world trade. Another issue is contingent liabilities that may be realized at any time.
- **Global business cycle is now in the contractionary part**. We are unlucky because we began when interest rates and oil prices were very low, but now interest is increasing globally. Even the Gulf countries that have kind of isolated economies increased the interest rates with the FED's raising of the interest rate.
- Egypt is affected by higher interest rates and oil prices.
- **Lower net foreign direct investment in line with the flight of capital from emerging to advanced economies.** FDI is lower this year than the previous one due to problems in emerging markets (i.e., the **dollar is strengthening and interest rates are rising),** and also demand is lower as local consumption is no longer the same due to inflation. FDI is very important for reserves and economic growth. And since FDI is globally declining, we need to reconsider the sources of growth. We have not witnessed or stuck to any production or industrial strategy that is clear and concise.
- **The other factor is the increase in oil prices**. This has significant implications for oil importers. Oil prices have a direct impact on Egypt as it is currently liberalizing energy prices according to its commitments with the IMF by mid-2019. Prices have ranged between $55 to $60 dollars a barrel in the past 6 months; now it is above $80. **High oil prices usually have both a positive and a negative impact**. The positive is remittances, loans, and grants from the Gulf, while the negative lies in its direct impact on the government budget deficit. Nowadays, the positive side is not certain. The Gulf has other priorities than supporting Egypt. Nationalization programs mean that job opportunities for Egyptians are on a decline, hence the negative impacts are currently much higher.

- **The direct impact of both variables is that we expected to have policy easing that recent developments won't allow**. The government was out of luck as it approached policy easing in tandem with the increase in both interest rates and oil prices. This will affect the growth of the private sector over the coming period.
- **A consistent policy framework and certainty about policy actions give confidence in outcomes**. Our currency is tied to the USD with a trade share of 11 percent, while Europe's trade share is 30 percent. Our trading partners are experiencing currency fluctuation that is affecting Egypt. The room for fiscal maneuvering is limited. In a stress testing exercise on the government budget, three factors can severely affect it: interest rates, exchange rates, and oil prices. While our monetary policy was contractionary in 2017, with the increase in the interest rates, fiscal policy in 2017 was expansionary. Therefore, the macroeconomic policy framework lacks consistency.
- **A forward-looking policy is needed for the coming five to seven years to see the implications of decisions**. Macroeconomic stability is a necessary but not a sufficient condition. Structural adjustment is needed. The savings rate in Egypt is one of the slowest in the world. Households and companies do all the saving. The private sector gets 22-25 percent from the savings, with the rest going to the public sector.
- **The best scenario is to promote the private sector to be the driver of growth**. We need sustainable growth. When we meet foreign investors, they still have a positive outlook about the Egyptian economy. The stock market had experienced a decline, but interestingly enough, since May the net buyers are foreigners, which means they believe that Egypt will be less affected by what's happening globally compared to other countries. Macro-stabilization will end sooner or later, and we will be faced with important questions like the nature of the Government's industrial policy. In Doing Business indicators, one investment obstacle is interest rates. However, a decline in the rates will affect the ranking of the obstacles in Egypt, but won't increase investments. That is because even though interest rates decreased, other core obstacles are still present. We don't need to create new incentives for investors, we simply need to remove the existing obstacles.
- **Real economic reform is needed to have sustainable development**: this includes solving problems in industry, agriculture, .. etc. Floatation of the currency and reduction of subsidies are merely a cog in the machine. In order to increase investments in Egypt, obstacles facing investors should be removed. Egypt's market is big and attractive to investors. However, contradicting decisions convey a lack of clear vision or strategy, which discourages investors. Not only foreign investors are important but local investors as well, because they give confidence to foreign investors. Policy transparency and flexibility are key factors in the upcoming period.