



EGYPT TOMORROW ECONOMIC FORUM
Video Interviews

THE CORONA ECONOMY: CRISIS & OPPORTUNITIES

**EPISODE TWO: MONETARY AND FISCAL POLICIES
TO ADDRESS CURRENT ECONOMIC CHALLENGES**

Interview with Hany Tawfik, Economic Expert

*Interview conducted by Seif ElKhawanky, CIPE Egypt Program Officer,
on March 28, 2020*

CIPE: *We continue our dialogue on the Corona Economy: Crisis and Opportunities. We are experiencing globally challenging economic repercussions due to the virus's spread and its impact on Egypt in particular. How can we react to the crisis and identify the potential opportunities for the post-Corona world? Today, Mr. H. Tany Tawfik is CIPE's featured guest—a long time CIPE partner who has led several initiatives in the last 20 years. Mr. Tawfik is genuinely sincere, accurate, progressive, and offers creative solutions drawn from his expertise and in-depth knowledge.*

H. Tawfik: Thank you Seif, for your kind introduction.

CIPE: *Today, we will try to explore the impact of the Corona virus on the Egyptian economy, the impact of the global and local shutdowns, and the Egyptian market depression. How can we identify potential opportunities out of this crisis and move on? We need to shed light on all stakeholders and policies, monetary and financial. Is Egypt on the right track? Are the measures being taken by the government enough, or is more needed? We would appreciate your take on the monetary and financial policies.*

H. Tawfik: *As I have been writing lately, given the situation at the moment, it is still too early to measure the impact of the Corona crisis on any country, not only Egypt. The unknown variables are enormous and make it difficult to measure the economic consequences. However, there are general features of the impact of the Corona crisis.*

For Egypt, there will be extremely weak production/productivity and a depression resulting from the sharp decline in supply and demand. As you see, malls and stores are shut down. Consequently, several factories halted production or closed; supply chains for imports from China and other countries stopped. On the other hand, demand has been impacted due to the curfew, businesses being shut down, and the number of layoffs. All this will cause severe economic deterioration, a large balance of payments deficit, and severe budget deficits. As for the Egyptian balance of payments, all US Dollar income from tourism and the Suez Canal slowed down, as well as remittances from Egyptians abroad, as a considerable number of Egyptians abroad have returned. All these factors will be reflected on devaluation of Egyptian currency against the dollar, and the foreign reserves.

If we talk about the financial and monetary policies that should apply during this kind of situation, the Central Bank of Egypt has made groundbreaking moves in monetary policy—applying much-needed new policies and regulations. By decreasing the interest rates, the Central Bank has made sure that the real interest rate at the moment is almost zero, because the nominal interest rate is almost equal to inflation with a variance of approximately 1% maximum. Thus, the measures taken on the interest rates were the best that could be done.

CIPE: *Do you think the impact of decreasing the interest rate will be reflected in the long, medium or short terms? This step might be right in a normal situation—in the current situation, what will its impact be?*

H. Tawfik: *Because it is an abnormal situation, the decreased interest rate was also unusual. The expected impact of reducing the interest rate would be to reduce the burden on debtors; and at the top of the list of debtors is the Ministry of Finance (MoF) and the internal public debt. Every 1% reduction of the interest rate equals 45 billion EGP. This means that the 3% reduction in interest rates totals to an approximately 130-140 billion EGP reduction in the budget deficit. I would have preferred to allocate this fund directly to the population segment who are most affected by the crisis. We have around 6 to 7 million families below the poverty line and it is expected that the number has increased as a result of the current crisis and number of workers laid off from the tourism sector specifically, and the commercial sector closures. Thus, I would prefer that the MoF support these 6-7 million families, and directly pay them around 2,500 EGP per family in unemployment wages or subsidy. This economic recovery plan would equal 140-150 billion EGP. It would benefit those who are suffering the most rather than subsidizing the Egyptian Stock Exchange by injecting funds and buying stocks, driving traders to exit with high gains while the price of the dollar was quite low; as you know most of the stock traders are foreign institutions, so they are the ones that benefitted from the subsidy and from exiting the market at a low price for the dollar. This was a mistake! I would have preferred to have the fund go directly to the negatively affected families, to contain the situation from a humanitarian perspective on one hand and a security standpoint on the other hand.*

CIPE: *On the implementation front; how could this targeted segment, who would be eligible for the subsidy, be identified given the size of the informal sector? Also, when can we say it is over, draw the line, and go back to normal?*

H. Tawfik: *As I mentioned earlier, it is still premature to know when life will be back to normal. Economic recovery plans have three shapes. The first is a V shape; this has to do with strong economies like the USA and Britain – the British Prime Minister declared yesterday that the British recovery will take a V shape. Some other countries, with weaker economies will take a U shape i.e., the economy will remain for a while on the slope then start to rise. Some other countries with fragile economies which are easily affected will take an L shape i.e., they will remain at the bottom point for a longer time. As for Egypt, I assume we are between the U shape and the L shape. All depends on research and the discovery of a medicine or a vaccine for the Coronavirus. We have not yet seen the worst-case scenario, still the pandemic is spreading, as published, in countries like the USA, Italy and China, which is not the case in Egypt; I hope we pass through the coming weeks safely. In short, the shorter the crisis continues, Egypt is more likely to be in the U shape; the longer it goes on, Egypt is more likely to be in the L shape. Now, Egypt has not reached the bottom of the U shape; we are still in a partial lock down, unlike countries where exponential increase is happening, hopefully we do not reach this before a medicine is found. The opportunity in this situation for Egypt is to integrate the informal into the formal sector and restrict the informal sector. When in a crisis, people will submit their personal information and IDs and will declare how they earn their living. Hence, we will be able to build a database after the crisis is over, so this is the only opportunity that I can see.*

CIPE: *Do you foresee that this situation will accelerate the transformation to a cashless economy? You have been strongly involved with CIPE, the Federation of Egyptian Industries, and the Federation of Egyptian Banks, in the project on transformation towards a cashless economy since 2014. So, as the government will pay this subsidy directly, would it be able to mandate the use of cashless tools?*

H. Tawfik: *I supported this idea until the National Bank of Egypt and Banque Misr released certificates for a 15% interest rate; that's at a time when the interest rate was decreased within a corridor of 10% on all banks. As a result, people withdrew their money from the banks and the Egypt Post, which has 40 branches, and hurried to buy the 15% certificates from the two banks. The mechanism for distributing the subsidy was disrupted; instead, they could have used the Egypt Post offices, where the majority of Egyptians save their money, and which was supposedly the avenue to rely on when disbursing the subsidy and forcing people to use the cashless tools. It could have been more beneficial to set conditions on the 15% interest certificates and dedicate them to those who live on their savings interest rate, for example, people over 60 years old, and put a minimum saving amount, be it 500 thousand EGP or a million EGP. What happened resulted in the withdrawal of over 30 billion EGP from the banks and created obstacles for other procedures and opportunities, like digitization. It also caused a shortage in liquidity for the banks. This is considered one of the pitfalls in the applied monetary policy which I reluctantly point out.*

CIPE: *Regardless of the flaws, the overall fiscal and monetary policies were good at addressing the crisis. This takes us to the post-Corona phase—what can Egypt do to start building a better future? How can we improve Egypt’s economic position globally after the crisis, and is there a possibility to build modern institutions? Or is it only firefighting efforts?*

H. Tawfik: *On the firefighting front, I would add that the government should start rescheduling its debts. The dollar black market has re-emerged and there will also be a lot of pressure on dollar resources, since the state debt has reached around 110 billion dollars. We must restructure these debts in the long term so we can pass through the coming period. Even Gulf countries like Saudi Arabia and the UAE are facing a real problem. Anyone who will give a prescription today to benefit the future and facilitate recovery (we might not recover at all by the way!!) would not make a lot of sense. I am saying “may God protect us” but I don’t want to deceive the viewers. We also need to restructure our entire economy. The parliament is surprisingly absent while Egypt is executing new policy packages everywhere!! I can’t recall the parliament discussing or agreeing to any of these decisions. Where is the budget coming from? Where is the budget deficit going and how will it impact us? Already, loans and interest are consuming 90% of the taxes. We will not collect taxes in the coming period. So, we have infinite problems. I can’t talk about any prospects for the future before the overall image becomes clearer. We need to either discover a treatment for the virus, or somehow the virus fades away from the world.*

CIPE: *On the technology front, the role of technology is becoming dominant and the awareness of the digital tools has increased. While we are waiting for a treatment and engaged in firefighting, is there a space for building digital tools now that can benefit us in the future? For example, the tunnels that were built in Europe during the World Wars were used afterwards as metro tunnels?*

H. Tawfik: *I agree subsidies should be channeled through digital tools... It is not expected now that someone will go to receive cash. We must persuade the Egyptian citizen to create a bank account or online wallet if he needs the subsidy. We should connect recipients of the subsidy to a digital database, so the government knows who it is supporting. Post-crisis then, we will see a reduction in the informal sector, and excessive cash transactions. This is the opportunity that I can see now. But which economic sectors we shall support or make more competitive globally is not something that I can predict right now*

CIPE: *We have been discussing the role of the government and the state in general, including the Central Bank. What about the private sector? Today, there are many problems emerging, like the labor crisis. You mentioned earlier that there should be a kind of social cohesion. We have always been talking about corporate citizenship where the private sector has rights and duties. An important part of private sector rights is what you mentioned earlier regarding facilitation. But what about the duties, what is the role of the private sector in the current crisis, especially for small and medium enterprises?*

H. Tawfik: *Of course, SMEs are facing many challenges even before the crisis. For example, there is the problem of liquidity. Most of the liquidity was directed to either treasury bonds or to the real estate sector. Therefore, everyone has been suffering. One point that does not reflect favorably on the government was postponing taxes for some troubled companies; the owners of these companies were not going to pay taxes anyway!! The government should have bailed them out directly. We are currently thinking to establish a fund to support companies that were affected by the current crisis; and this is considered a CSR [corporate social responsibility] act. We will support these companies by injecting capital. This money will go first to pay salaries. In this way, we will be supporting the company with liquidity and can restructure it; at the same time, we are securing salaries for at least the coming six months until we see an end to the Corona crisis. It is not about exempting companies from taxes and loans; but we need to reach the suffering laborers. If you go to shopping malls, you will realize the number of laborers without work. The retail sector doesn't work, the factories don't produce. The domino effect is obvious, and everyone is affected. We should inject money into the companies not only exempt companies from taxes.*

Talking about printing money, today the US is printing money (2 trillion dollars yesterday); the US can tolerate such action, but we still have to deal with temporary inflation. We will bail out companies and allow people to work. We can procrastinate dealing with inflation for now. We can't leave people without money because this is inhumane and will have grave human and security consequences.

CIPE: *On printing money, don't you think it has big consequences?*

H. Tawfik: *It is a must. All countries around the world are doing quantitative easing through injecting money into society. However, there should be a committee that identifies priority areas to inject money. Don't put this money in the stock exchange. The priority is production. The priority is paying salaries and wages of the laborer (even if you pay 50% of it). The industrial supply chain is another priority. China has closed; We have to look for other supply resources. We have to keep the economy going and moving forward, even at the expense of some inflation, which is not as dangerous as stagnation and recession.*

CIPE:*The central banks around the world have utilized all the known monetary tools to mitigate the effect of the crisis. On the other hand, the digital economy and technology allows people to communicate and work online and across borders. My question is, if we consider all these tools in one hand, and the cross-border communication on another, do you think the role of central banks will lag in favor of the new technologies like blockchains and digital currencies. Will a shift take place in the forms of money transactions?*

H. Tawfik: *You know my thoughts on this. Before the current situation, many constituencies in different countries were already discussing digital currencies, and of course central banks stood against this trend, as it means cutting off banks' incomes, commissions, and their other business. This is not my concern. What I care about are the controls over these kinds of currencies. There is no currency without a central bank to control it or put some regulations on the market—the inflation rate, when to issue money, when to withdraw from the market, regulate liquidity, etc. These are all*

long-term risks. This includes bitcoin or the digital currencies in general, if not backed by federal reserves or gold reserves, like the GLD fund that issues shares 100% backed by physical gold, so when we buy and sell GLD, it means there is actual gold for this value. Currencies that are floating in the cloud or are not backed are extremely risky.

CIPE: Now, to the real estate market, which is quite a controversial issue, what do you expect investments in this market in the short term to be, let's say in the coming year?

H. Tawfik: Cash is now king. The real estate market is in the same situation as SMEs, they were suffering from stagnation and low demand, and shortage of liquidity before the crisis. Currently, real estate is offered by sellers, not at low prices, but at any price. No one is buying. People are worried their cash might go for good. The real estate market was already suffering, now it suffers even more and will take time after the crisis ends to recover, much longer than other sectors. Both the demand and supply are high, yet they don't intersect because of the low purchasing power in a society where real estate is offered at extremely high prices. The real estate sector in my view is always a "dead-end economy", that's because once the construction is over and people live in the house, no labor is involved, no trade, no import nor export, so neither the labor nor the trade are sustainable. If I were a policy and decision maker, I would not make the real estate sector my priority. There are other sectors such as agriculture and fish farms for example. Egypt is the largest exporter of oranges. We need to think of education, of producing goods to export, investments that ensure sustainable employment, productions, and exports. But, to allocate the already limited resources to a sector that is not selling, was suffering before the crisis, that faces challenges of shortage in demand, and over-supply—reasons irrelevant to the crisis—would be totally wrong. The state can intervene later in this sector, reduce part of the debt or add capital for long term investment, to help urban developers and builders to float or cover their checks, but this is not an immediate priority. It can be in a later phase. The government will look at this possibility for a big sector such as real estate, a sector that reaches 22% of the GDP.

CIPE: We see all the current policies have some degree of government interference in the market. In countries with market-based economies, such as the US for example, the government interfered, but they have well-established market economy institutions and accountability tools. In developing economies, the private sector is already facing excessive government intervention. Where are the limits here and what are the exit strategies?

H. Tawfik: Before this pandemic, we used to request the state not to compete with the private sector and limit its role to strategic sectors like defense-related industries that are not the competency of the private sector. The private sector in Egypt is already discussing a mega fund to support businesses in crisis that have growth potential. This fund will help businesses to avoid bankruptcy, and to help workers to get their jobs back. What sectors and sizes of enterprises will benefit from this fund is an issue being discussed and yet to be decided.

CIPE: Thank you so much for this interview, much appreciated.

H. Tawfik: Best of luck!



Throughout his career, **Mr. Hany Tawfik** has been working in the field of Financial Investments, both as academican (1978-1972 as a university lecturer of economics and finance in Egypt and in the USA with 2 Master degrees from Egypt “1976” and university of California “1978”), and as a practitioner thereafter.

During the last 42 years Mr. Tawfik has been an active player in the Egyptian Capital Market activities. He played a pivotal role in establishing, developing, and managing of EFG-Hermes investment bank (1997-1982), Egycap Investment (2001-1997), and Naeem holding (2009-2007). He was and still the Chairman and/or Board member of several other companies in the fields of Securities Brokerage, Asset Management, Corporate Finance, Private Equity, Banking, Forex and Commodities Exchange, and Venture Capital. He has also participated in tens of Privatization and Public and Private Offering activities in Egypt.

Mr. Tawfik founded and was the founder, Secretary General/ Vice Chairman of the Egyptian Capital Market Association (ECMA), In 2005, he founded and became the chairman of the Arab Private Equity and Venture Capital Association. He is also a founder and the former Chairman of the Egyptian Private Equity Association. Mr. Tawfik also is a member of the board of the Faculty of Economics & Political sciences – Cairo University.