

## PREPARING FOR CHANGE

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# ANTICIPATING THE FUTURE OF EGYPT'S ECONOMY AND FINANCIAL INDUSTRY

Events in Egypt have moved quickly and continue to do so, but the major change that protesters had demanded – Hosni Mubarak stepping down as President – has finally occurred, a very important step towards the country's future economic stabilization.



**E**conomic issues, such as high unemployment among young people, inequality and rising food prices, are part of what initially caused Egyptians to protest. What remains to be seen is how the uprising will ultimately impact Egypt itself. Egyptian banks must be prepared to anticipate the changes a new regime may bring and how they will affect the country's economic development, which, prior to the protests, was on the right track toward a speedy recovery from the global financial crisis.

## IMMEDIATE CONSEQUENCES

The political upheaval has had a serious impact on the economy and will continue to do so. The economic standstill is costing the economy at least \$310 million a day, according to a Feb. 4 report by Crédit Agricole, in which the investment bank also revised its Egypt GDP forecast for 2011 from 5.3 percent to 3.7 percent. However, the announcement of Mubarak's exit on Feb. 11 led Egypt's five-year credit default swaps to fall 24 basis points to 313 basis points, according to CMA data, an indication

of investors' positive view of developments. The Market Vectors Egypt Index ETF rose about 4.3 percent to \$18.52 after climbing almost 6.7 percent immediately after the announcement of Mubarak's resignation. While the global stock market fell sharply at the first signs of unrest in Egypt, the market has since rebounded.

However, the opening of the stock market that was planned for Feb. 13 would be delayed until at least Feb. 20, officials said on

Feb. 14. The delay came as thousands of public and private-sector workers went on strike and employers moved to meet demands. After Egyptian banks re-opened on Feb. 6, and Mahmoud Abdellatif, head of the Bank of Alexandria, told Deutsche Press-Agentur that initial bank business was better than expected, with deposits greater than withdrawals, disproving previous reports that a "run" on banking could occur. However, the Egyptian pound continued to fall, dropping to 5.88 to the U.S. dollar as of Feb. 11, with thin and volatile trading.

On Feb. 10, Egypt's Central Bank launched an auction for 3.5 billion Egyptian pounds in Treasury bills, the second of three planned auctions to be held in under a week. The first such auction on Feb. 7 was oversubscribed, but only domestic banks took part as international investors watched from the sidelines to see how events would develop.

While remittances from Egyptians living abroad should not suffer too much from the current upheaval, investment, both domestic and international, will certainly decrease until the situation provides more certainty. Unfortunately, the Egyptian situation will affect not only Egypt, but the whole region. Foreigners have withdrawn more than 1 billion riyals from Saudi Arabia's markets since the unrest began, Reuters has reported, and Saudi stock market shares have remained unsteady since they fell by 6.4 percent on Jan. 29.

## ECONOMIC REFORM

In terms of capital flows, consumer confidence and trade, the key to Egypt's recovery lies in restoring economic activity back to normal as quickly as possible and continuing to institute reforms that started in recent years to stimulate further growth.

Economics are integral to the political aims of the current unrest. While Egyptians are protesting for political and social freedom and an end to repression, they are also looking for economic opportunities and the chance to raise their standards of living. According to an International Monetary Fund presentation, "Challenges for Egypt in a Post Crisis World" given Jan. 23 at the Egyptian Center for Economic Studies, youth unemployment in Egypt as of 2008 stood at well over 25 percent, higher than other MENA oil-importing countries, except for Tunisia, whose youth unemployment rate was more than 30 percent.

Reforms that have been instituted over the past several years have been successful and further macroeconomic and structural reforms are going to be needed to sustain the rapid expansion necessary to lift the country out of its high unemployment. The government will most likely increase public spending to address high prices and show the people that it is doing something about their situation. For example, the government has already announced that it plans to raise its employees' salaries by 15 percent. Worker strikes in many sectors may mean even more concessions, a double-edged sword as more spending is sure to raise the budget deficit past 8.1 percent of GDP.

### FINANCIAL STABILITY

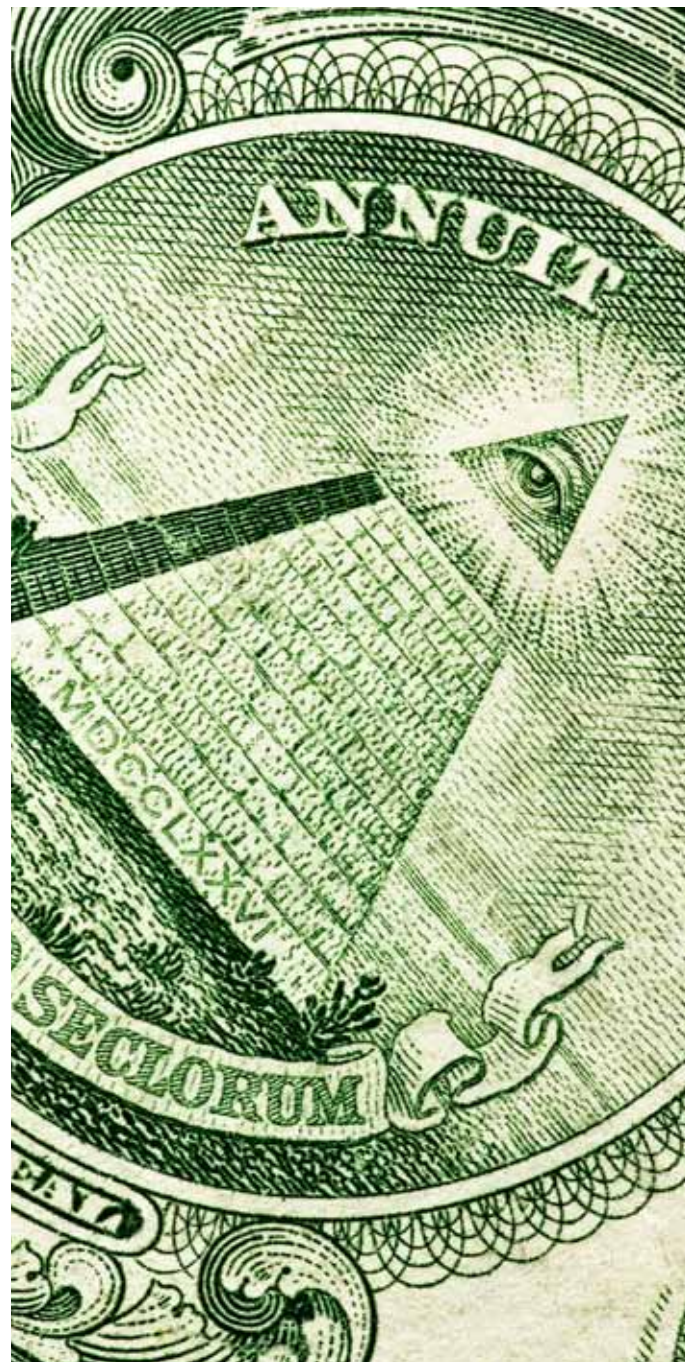
Before the current unrest in Egypt, the country's economy was improving its financial image. Its financial system was sound and capital flows to Egypt had been rebounding since they plummeted at the height of the financial crisis, with market conditions easing. The International Monetary Fund (IMF) projected 5.8 percent growth in real GDP for Egypt for 2011, higher than that projected for advanced economies as a whole (2.2 percent) and MENA as a whole (5.1 percent).

Egyptian banks may not be able to restore Egypt's economic stability, but they can help to improve its financial image by instilling confidence in their customers and following the highest banking standards. To accomplish this, Egyptian banks must be seen as modern, dependable and above reproach. They should train their staff to be compliant, keep them up to date on the latest finance techniques and streamline customer service procedures to ensure that consumers know that they are ready to do business in a "new Egypt" that is innovative, corruption-free and responsive to the public. Even in times of uncertainty, Egyptians must feel that they can trust their bank to take care of their changing financial needs, as well as their money.

### FINAL WORD

Until the situation in Egypt stabilizes, it is difficult to predict what the long-term effects will be. It is likely that investors will be cautious and consumers will not be going on spending sprees while the country is still in transition. But the opportunities that existed in Egypt before the demonstrations started are still there. Egyptian banks must be ready to anticipate the changes that a new regime will have on the country's financial industry, as well as its economy. If a regime is instituted that

gives the Egyptian people a sense of hope and optimism, more opportunities will avail themselves, ultimately leading to stronger finances and an even stronger economy.



### ABOUT THE AUTHOR

Mohamed Elbanna is Chief Compliance Officer for Galaxia International Service, a money services business serving the Middle East region. Elbanna has more than 20 years of experience in the financial services industry in compliance, accounting and operations management, with his current focus being compliance and anti money laundering. He serves as a special advisor for Middle Eastern banking to The Edcomm Group Banker's Academy.