Statement by Stanley Fischer
First Deputy Managing Director
of the International Monetary Fund

at the

Middle East/North Africa Economic Conference

Cairo, Egypt

November 12-14, 1996

I am delighted to be here and to have the honor of addressing this conference on behalf of the IMF. The Cairo conference represents an important step on the path of economic development of the Middle East and North Africa region. The conferences in Casablanca and Amman took place at times of considerable optimism about the peace process. Unfortunately, as we meet today, that optimism has dimmed. But the peace process continues, and many people are working hard to reinvigorate it.

At the same time, it is critical for the future of the people of the Middle East and North Africa that the economic reform process that is unfolding in this region continues. And the fact that this conference is taking place -- and with such an impressive turnout of business and financial leaders, as well as policy makers -- is an important indication of the emphasis that political and business leaders in the region place on economic progress.

In my remarks on the economic climate in this region, on policies to create an investor friendly environment, I would like to make three points:

- First, the economic climate in the region is improving, although at different rates in different countries;
- Second, further reforms are needed in all countries; and
- Third, the International Monetary Fund is committed to this region and will continue to work to support sound economic policies in all MENA countries.

I. Recent progress

For a decade or more, the growth performance of MENA as a whole has been disappointing, as many countries in the region failed to integrate sufficiently with the world economy. Real per capita income declined between 1985 and 1995, a period in which developing countries as a whole saw a 40 percent increase in their real per capita GDP. Unemployment failed to decline in most MENA countries -- and with labor forces growing typically by 3 percent or more, the creation of gainful employment has become, for many countries in the region, the central social and economic priority.

While the region has been beset by a host of exogenous shocks, its poor economic performance can be traced largely to poor economic policies. However in recent years, several countries have begun major reform programs -- among them Algeria, Jordan, Morocco, Tunisia, and, of course, our host country, Egypt. I will have more to say about Egypt in a moment.

These policy changes, together with a more favorable external environment, lie behind the improvement in the region's economic and financial conditions this year. In 1996, the region's growth rate will be 4 percent -- the highest in several years, the average inflation rate will decline to 12 percent -- the lowest in the decade, and the balance of payments has improved.

II. What needs doing?

There is no great mystery about what needs to be done to improve growth further. The first requirement is the maintenance of macroeconomic stability. The second is the implementation of structural reforms to increase the efficiency of the domestic economy and integrate it into the world economy.

These structural reforms have been widely analyzed and discussed -- not only in this region, but all over the world. There is now a strong -- virtually universal -- consensus on what is needed. In pursuit of further consensus, the IMF has prepared a study for this Conference, presenting evidence on growth in MENA, and focussing on key areas of reform.

Growth in this region will not reach its potential until the rate of investment rises from its average of around 20 percent of GDP towards 25 percent of GDP, closer to the 30 percent plus common in East Asia. Accordingly, a key challenge for the region is to improve the environment for private sector investment. It is common to emphasize the need to make a country attractive for foreign investment. That is indeed critical, for three reasons: first, because foreign investment increases capital accumulation; second, because foreign investment brings in new technology and business methods; but most importantly, because the policies needed to make investment attractive for foreigners are precisely the policies that will make investment attractive for domestic residents.

What does this mean in practice? It means further progress in trade liberalization, in financial sector reforms, and in reform of the regulatory and judicial regimes. It also means re-orienting the role of government in the economy through privatization, through reducing the government's pre-emptive claim on resources, through the promotion of a resilient revenue structure, and through improvements in the quality of expenditure. The issue is not whether the government has an important role to play in the economy. It has -- in protecting the poor, especially from the costs of adjustment, and in protecting social spending, in particular spending on health and education. Such spending is not only a matter of social justice, but also, if efficiently implemented, a sound investment in growth. The government should also help the private sector adjust to globalization, by striking the right regulatory balance and providing for appropriate market discipline. It should also ensure the availability of comprehensive and timely economic data to allow the private sector to make well-informed decisions.

These formulae have been repeated so often by the Bretton Woods institutions, the IMF and the World Bank, that they must begin to sound like mantras. They are not that at all. Rather, they are summary descriptions of a set of policy changes that, if implemented, will help increase economic growth -- as has been demonstrated all over the world. They need to be repeated, both because some doubters remain, and because some of these changes are difficult to implement. But as they are implemented, with due attention to the circumstances of each country, the number of doubters diminishes.

The adjustment process benefits from the policy involvement of an informed and forward-looking private sector, as it has in Egypt. It takes statesmanship and vision for businessmen who have thrived in a protected and highly-regulated economy to press for liberalization -- for it is far from self-evident that it is in the self-interest of the domestic business community to promote greater competition in local markets, including through easier access by foreign suppliers. However the costs of adjustment facing the business community in the short-run are greatly offset by the longer-term benefits, including the ability to compete forcefully on international markets. The sheer size of the international markets provides scope for growth and enrichment that goes well beyond anything the local markets could ever offer. The business community in the dynamic Asian economies knows this, and their impressive results are well-known. That recognition is spreading in this region, not least in Egypt.

III. The role of the IMF

The IMF will continue to support countries in the region in their formulation and implementation of growth-oriented adjustment and reform programs. Countries can count on our support, in three main ways:

- First, we will continue our in-depth discussions and reviews of economic policy with member countries, particularly in the context of our annual Article IV consultation with each government.
- Second, we will maintain an intensive program of technical assistance, including to the Palestinians.
- And third, where needed, we will provide financial support to countries undertaking stabilization and reform programs.

Our host country, Egypt, presents a good illustration of the Fund's role and activities in the region. A month ago, our Executive Board approved a two-year stand-by arrangement for Egypt, in support of the Egyptian government's program of reform. This program -- and it is the program of the Egyptian government -- aims to build on Egypt's progress toward macroeconomic stabilization and to set the country securely on the path of outward-oriented growth and transformation to a full market economy.

The Egyptian reform program is wide-ranging, involving an ambitious privatization program, financial sector reform, deregulation and trade liberalization, and a further strengthening in the public finances. The program is being supported by wide-ranging technical assistance from the Fund and a continuous, vigorous, and friendly policy dialogue.

The full implementation of this reform program promises to be a turning point in Egypt's economic development. Investors have already responded enthusiastically to the first stages of the reform program, particularly the ambitious privatizations carried out this year carried out under Dr. Ebeid's leadership this year.

There is more reform to come, and the IMF will be there, to do what it can to help ensure the success of Egypt's economic reforms,insha-Allah.

Where does this leave us? There is a palpable feeling of change and progress in the air. This change is in large part a result of the important reforms begun during the last two years by several countries in the region. The early results are coming in, and that is why this is a time of economic hope -- the hope that the potential in this region that has for too long been unfulfilled, will be realized. And economic well-being too promotes the cause of peace.

Thank you.