Issue: 16

Date : 12 June 2016

This week's issue of "Our Economy and the World" includes:

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Key Global Developments

World Bank Cuts 2016 Global Growth Forecast to 2.4 percent

WAM

The World Bank is downgrading its 2016 global growth forecast to 2.4 percent from the 2.9 percent pace projected in January. The move is due to sluggish growth in advanced economies, stubbornly low commodity prices, weak global trade, and diminishing capital flows.

According to the latest update of its World Economic Outlook report, commodity-exporting emerging market and developing economies have struggled to adapt to lower prices for oil and other key commodities.

Growth in these economies is projected to advance at a meager 0.4 percent pace this year, a downward revision of 1.2 percentage points from the January outlook.

Commodity-importing emerging markets and developing economies have been more resilient than exporters, although the benefits of lower prices for energy and other commodities have been slow to materialize. These economies are forecast to expand at a 5.8 percent rate in 2016, down modestly from the 5.9 percent pace estimated for 2015, as low energy prices and the modest recovery in advanced economies support economic activity.

The World Bank cut its forecast for growth in the US for 2016 by 0.8 percentage points due to a sharp decline of investments in the energy sector and the decline in exports, with the growth rate reaching 1.9 percent.

The euro zone saw a slight reduction of the growth forecast in 2016 to 1.6 percent, despite significant support from monetary policy and low energy and commodities prices.

The World Bank reduced its forecast after a similar step taken by the International Monetary Fund, which cut its growth estimate two months ago.

Among the major emerging market economies, the World Bank’s forecast for growth in China remained unchanged at 6.7 percent this year after growth of 6.9 percent in 2015.

World Oil Reserves Stable Despite Drop in Investment –BP

Reuters

The world's oil reserves were unchanged in 2015 despite a sharp drop in investment and exploration after the collapse in crude prices, BP said in its benchmark industry report.

Proven oil and gas reserves that can be technically pumped out of the ground typically fluctuate with oil prices as production becomes more or less economically viable.

But in 2015, when Brent oil prices fell by nearly 50 percent to $52 a barrel, reserves declined by only 0.1 percent to 1,698 billion barrels, according to the BP Statistical Review of World Energy, first published 65 years ago and considered an industry handbook.

Oil production last year rose by 3.2 percent to 91.67 million barrels per day, driven by increased output from U.S. shale oil production and Iraq and Saudi Arabia increasing production to record levels, the data showed.

BP estimated that the shale revolution in North America increased technically-recoverable oil and gas resources up by 15 percent. U.S. oil reserves were unchanged last year at 55 billion barrels but were nearly double 2005 levels.

Oil Exporters Must Do More to Balance Budgets:

IMF Agencies

The International Monetary Fund on Wednesday welcomed austerity measures by Middle Eastern oil exporters but warned that greater efforts were needed to plug budget deficits resulting from plunging crude prices.

The IMF said the six Gulf Cooperation Council (GCC) countries, along with Algeria, were implementing "ambitious fiscal consolidation measures" but predicted that shortfalls would continue to grow amid cheap oil.

"An additional substantial deficit reduction effort is required over the medium term to preserve fiscal sustainability," it said in a report.

For GCC states -- Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates -- further measures are also necessary to protect their currencies´ peg to the dollar, it added.

The IMF warned policymakers of "emerging signs of liquidity pressures in their financial systems and the risk of deteriorating asset quality.

"Deep structural reforms are necessary to improve medium-term prospects and facilitate much-needed diversification in order to create jobs for the growing labour force," it said.

To balance their budgets, the GCC and Algeria would need to cut current public spending by about a third, it said.

Gulf countries have had to look elsewhere for revenue sources, and are introducing new forms of taxation, mainly value-added tax (VAT), in a bid to generate income.

After using part of their huge fiscal reserves, estimated at $2.5 trillion, to absorb the oil price shock, most GCC countries have cut spending and have borrowed to meet rising deficits, the IMF said.

Although budget shortfalls will hit an average of 13 percent of gross domestic product (GDP) this year, the Fund said that Algeria and GCC members are not currently threatened with recession.

Overall government debt is projected to increase from 13 percent of GDP last year to about 45 percent by 2021, it added.

IEA Sees Slower Global Gas Demand Growth to 2021

Reuters

Growth in natural gas demand will slow to an average 1.5 percent a year globally through 2021, as stagnation in Europe and uncertainty about Chinese consumption offsets robust growth in India, the International Energy Agency (IEA) said.

After growth of 2.5 percent over the last six years, gas is facing competition from renewable energy and cheap coal, meaning the global gas market will remain over supplied.

In Europe, Russian gas export monopoly Gazprom will be challenged by the prospect of a glut of liquefied natural gas (LNG) as export capacity rises 45 percent by 2021, even as demand drops in key markets in Japan and Korea.

Growth will be led by India, at an average of 6 percent per year, while Chinese demand is likely to recover, spurred by a switch from coal to gas-fired power generation, the IEA said.

ECB: Seven EU Countries Not Fit Yet to Join Euro Area

Kuna

The European Central Bank said that all seven EU candidates to join the Eurozone do not meet the required criteria.

The Bank added in a report that Bulgaria, Romania, Croatia, Poland, Sweden, the Czech Republic and Hungary do not meet the required criteria despite the fact that these countries have taken important steps in recent years to join the zone.

The report called on these countries to make substantial efforts to join the Eurozone, noting that the results of recent studies of the European Central Bank indicate that those countries are required to do more in order to join the Eurozone.

The report noted that the seven candidate countries fell short of meeting the “stability of inflation rate, the state budget, debt and the autonomy of the central banks” criteria.

The Eurozone is made up of 19 countries, while the EU consists of 28 countries, with some seeking to complete their membership in the European Community by joining the Eurozone.

Saudi Fin Min: Nothing Decided about Income Tax on Residents

Reuters

The Saudi Arabian government has made no decision to impose an income tax on foreign residents of the kingdom, finance minister Ibrahim Alassaf told a news conference on Tuesday.

On Monday, the government published a broad economic reform plan which included instructions for the finance ministry to prepare and implement an income tax on residents other than national citizens by 2020.

On Tuesday, however, Alassaf described that part of the plan as merely a proposal. "There will be no tax on citizens. As for residents, it is a proposal and nothing has been approved yet, and it will be examined. It is an old proposal."

Mohamed El-Erian: Brexit Could Solve a Fundamental EU Problem

Argaam

A U.K. exit from the European Union may be the necessary evil that secures the future of the political bloc, even if it carries the cost of short-term volatility, according to former Pimco executive Mohamed El-Erian.

Taking what he himself labels a contrarian view of the June 23 referendum, the chief economic adviser at Allianz told money managers at the FundForum International in Berlin that a "Brexit" could resolve some key issues within the EU.

"There are two fundamental divisions of the EU: There's the British view — that it's a super free-trade zone, that it's a destination. Whereas the Germany-France view is that it's a means to something else — to an ever closer union. These are fundamentally two very different views on what the EU is about," he said.

"If the referendum [results in the U.K. remaining in the union]," El-Erian said, "we don't resolve these different views. It means we are going to have tensions over and over again, because they are pursuing two different objectives, within one institutional agreement. So, ironically, over the longer term, an exit may actually solve one of the basic inconsistencies of the European Union."

China Gives US Investment Quota to Buy Stocks, Bonds, Other Assets for First Time

Agencies

China will give the United States a 250 billion yuan ($38 billion) investment quota for the first time to buy Chinese stocks, bonds and other assets, officials said on Tuesday, deepening financial ties and interdependence between the world's two largest economies.

A central bank vice governor, Yi Gang, announced the quota at the bilateral Strategic and Economic Dialogue talks in Beijing, without providing further details such as a timeframe.

China and the United States will also each pick a qualified bank to conduct yuan clearing business in the United States, Vice Premier Wang Yang said.

The move will allow Beijing to pursue its ambition of making the yuan a more widely used global currency, while giving U.S. investors greater access to China's domestic markets.

This is first quota given to the US as part of the Renminbi Qualified Foreign Institutional Investor program, and is the biggest given to a single jurisdiction after Hong Kong. Under this scheme, US financial institutions can apply to use part of the quota.

Chinese officials also repeatedly stressed that they saw no need for sustained weakening of the yuan currency.

Implications for Egypt:

In light of the global economic conditions, Egypt should develop plans and scenarios for dealing with the current situation and its possible developments. This should be coupled with a comprehensive assessment of the map of foreign transactions in light of the changes that occur, whether at the level of oil markets or the potential for structural changes in the EU in the coming period. This would allow greater flexibility in Egypt's alternatives in dealing with any repercussions of those situations in the future.

Although Egypt is not a major oil producer but rather one of the major consumers of oil in the Middle East, the extent of being affected by oil developments is linked to its economic relations with the Gulf States. In spite of the relative improvement in oil prices over the last period against fragile hopes to reduce oil supply, oil prices are still low. Therefore, Egypt is still benefiting from the decrease in oil prices due to the reduced cost of imports of oil and derivatives, which are mainly used as production inputs. Thus, the government has an opportunity to reduce its budget deficit, and alleviate inflationary pressures. In addition, the recent drop in oil prices is in favor of the government in its pursuit to reduce the deficit in the public budget and the trade balance.

Coordinating economic and monetary policies is also essential to achieve economic stability that is manifested in continuing to achieve economic growth rates capable of facing the continuous increase in population; to create adequate jobs to absorb unemployment; and to stabilize the general level of prices.
Global fluctuations and slowing growth outlooks require Egypt to pay more attention to strengthening the domestic market and its huge consumer potentials that have never been used as a means of industrially and agriculturally developing the economy.

Special Analysis

Slowing Labor Productivity Reduces Prospects for Global Growth

Al Hayat

In folk literature, Americans are the most hardworking workers in developed economies, compared with their European counterparts, especially the French, who enjoy more vacation time and work less. But for the first time in 30 years, figures show that the US labor productivity rate will contract this year, while that of Asian countries will grow marginally.

According to the Conference Board, global labor productivity for the current year will grow by about 1.5 percent, compared to 1.2 percent last year. In its annual report, the Conference Board expected US GDP to grow at a rate of 1.7 percent, which means that labor productivity per hour would remain the same or decline slightly to record a negative percentage for the first time in three decades.

US labor productivity stood at 0.7 percent last year, i.e., a rise of 0.3 percent based on labor productivity per hour. Also, the British labor productivity growth rate was 1 percent in 2015, similar to the growth rate of European labor productivity. Japanese labor productivity rose from negative in 2014 to positive, albeit slightly, while China's labor productivity fell from 5.5 percent in 2014 to 3.3 percent last year.

The reason behind lower labor productivity is a concern for politicians, and is puzzling to experts, who geared up to offer different explanation theories, the most prominent of which is increased reliance on robots, leading to lower labor productivity in developed countries.

Experts believe that the means of measuring economic output growth in general and labor productivity in particular, are outdated and useless in measuring growth. For example, experts say that creating a page on Facebook for business or marketing purposes is not counted as part of labor productivity, though it is actually part of labor production.

A second theory about slow global productivity was expressed by a number of experts, including Larry Summers, President Emeritus of Harvard University. Summers believes that the record rise in production effectiveness due to technology and robots has created an industrial surplus greater than global consumption. This means that the slowdown will continue. He added that the "sharing economy," typified by Uber, and room rentals on "Airbnb" has exacerbated global recession.

The third reason behind decreased productivity, according to other experts, relates to the process of replacing humans by robots in production and labor. Even Uber may find itself out of competition if «Google» succeeded in developing self-driving cars, a project over which a number of major auto companies are competing.

If Amazon succeeded in developing unmanned aircraft for the delivery of ordered goods to consumers, which it is currently working on, it will contribute to more recession among the workforce in the US and around the world in general, to the extent that senior scientists such as physicist Stephen Hawkins, and businessmen such as Bill Gates and the maker of *Tesla* electric car, Elon Musk, warn of a future in which robots can control humans and their lives.

But the theory that robots would replace humans is still a subject of debate among experts. One of the most prominent European scientists, Ralf Herbrich, who is assigned to teach human information to computers, believes that robots' control over people's lives is still far off, and that machines can imitate what human beings do, but it is impossible to take the initiative or take the lead themselves, which is contrary to what is believed by Hawkins, Gates and Musk.

Until US and global labor productivity returns to its norm of annual growth, the debate about the cause of the slowdown in global production will not only remain heated, but will also present the slowdown as a political material for populist politicians such as the US presidential candidates, the republican Donald Trump and the democrat Bernie Sanders, who manipulate Americans by giving them promises to close US doors to global trade, which would reduce US GDP growth, i.e., exacerbating the slowdown in US labor productivity rather than putting it back on the growth path.

But political fascism looks for exciting populist slogans rather than logical reasons. This means that the slowdown in labor productivity around the world contributed so far to pushing an extremist right-wing speech to the political forefront in France, the US, Austria, and perhaps soon in other countries. The search for the real reason is still ongoing, however.

Implications for Egypt:

In light of this apparent change in economic models worldwide, it has become necessary for Egypt to undertake a similar change in its economic plan in key areas such as societal development and quality of life, urban planning and human capital, among others.

According to studies, there is a need to improve productivity in the economy as a whole, especially in terms of improving human capital accumulation. Egypt is moving vigorously in this direction and in determining the role of economic policy in this respect. In this respect, there are two types of determinants: macroeconomic, most importantly the exchange rate, which would affect the competitiveness of the local economy, especially in terms of its impact on the profitability of export activities, as is the case when the real exchange rate changes, or its impact on the cost of domestic production; and microeconomic determinants, which include the cost of capital.

At the microeconomic level, there are factors that determine productivity, most importantly the long-run strategy to keep energy costs below international levels. Another matter relates to easy access to low-skilled and low-cost labor that in turn contribute to low production cost and hence higher competitiveness at the global level.

Issue: 16

Date : 12 June 2016

From the International Press

Green Energy Attracts Jobs around the World

Al Itihad Newspaper based on the "Financial Times"

The number of jobs in the global renewable energy industry grew by 5 percent last year, in stark contrast to the steep losses suffered by the oil and gas sector. Solar, wind and other clean energy companies employed 8.1 million people worldwide in 2015, up from 7.7 million the previous year, according to data released by the International Renewable Energy Agency (Irena), an intergovernmental body based in Abu Dhabi.

Another 1.3 million people were working in the large hydropower industry, which Irena counts separately because numbers fluctuate so sharply from year to year.

The agency's figures reflect a global shift that has seen renewable power soar in big Asian markets and falter in older markets such as the EU, where green energy jobs fell for the fourth year amid sluggish economic growth.

While overall growth in green energy jobs has slowed from the 18 percent annual increase the agency reported last year, it still represents a brighter employment picture than in the oil and gas industry, where tumbling crude prices have exacted a heavy toll on employment.

Renewable energy jobs in the US rose 6 percent, for example, while employment in oil and gas companies fell 18 percent, according to Irena.

In China, the world's biggest renewable energy market, green power companies employed 3.5 million people in 2015 compared with 2.6 million in the oil and gas industries.

"The continued job growth in the renewable energy sector is significant because it stands in contrast to trends across the energy sector," said Irena director-general Adnan Amin.

The slower growth in renewables jobs seen in 2015 was because of market consolidation and greater mechanization in some parts of the industry, but that does not mean the agency is revising down its growth estimates for 2030.

The agency expects renewables jobs to grow in the wake of the climate change accord struck at the Climate Change Conference held in Paris in December, which requires countries to regularly spell out how they are dealing with greenhouse gas emissions.

The agency says today's 8.1 million renewable energy jobs should swell to more than 24 million by 2030, assuming the share of renewables in the global energy mix doubles. As in previous years, the solar panel industry was the biggest renewables employer worldwide last year, with 2.8 million jobs, an increase of 11 percent. It was followed by liquid biofuels, with 1.7 million jobs and wind power, which employed 1.1 million people.

Japan has seen renewables employment jump to 388,000, largely as a result of moves to encourage more solar power in the wake of the 2011 earthquake and tsunami that led to a meltdown at the Fukushima nuclear plant, forcing the country to rethink its energy policies.

But Tokyo's plans to dramatically increase coal-fired electricity generation and scale back some forms of renewables support could affect future job growth in green power.

Germany had by far the most renewables jobs in the EU, employing 355,000 people, or nearly as many as the UK, France and Italy combined.

But employment in the European solar photovoltaic industry is now just one-third of its 2011 peak, largely because of sharp reductions in manufacturing there.

Implications for Egypt:

The concept of the green economy is not new to Egypt. However, it is not activated in spite of its importance not only for creating new jobs, but also for achieving development while solving the chronic environmental problems. This requires a high coordination level among the state's different agencies that is absent now. It has become essential to increase the scale of green economy in Egypt in light of the current global shift. Green economy is a means to achieving sustainable development, not a substitute for it. Green economy facilitates the integration of the four dimensions of sustainable development, namely, the environmental, social, economic, and technical or administrative dimensions. Therefore, there is a need to adapt the green economy to national conditions and priorities, and to apply the principle of shared responsibilities between the relevant state agencies toward a voluntary shift to the green economy.

Applying the green economy enhances the pursuit of poverty alleviation, has the potential of creating additional jobs, and promotes the efficient use of resources and energy security. But there is a need to determine the general policies, goals and standards as a practical first step. Availing funding from the public and private sectors is necessary and so is the rational use of subsidies. Moreover, taking advantage of taxation and pricing means can provide opportunities for fair competition.

The requirements of a shift to a green economy in Egypt include a review and/or redesign of government policies to stimulate changes in the production, consumption and investment patterns. It also includes focusing on rural development with a view to alleviating poverty in rural areas along with increasing resources. Attention should also be paid to the water sector, such as rationalization of water consumption, and prevention of water pollution. It is also essential to increase sustainable investments in the fields of energy, take measures to increase energy efficiency, develop low-carbon strategies for industrial development, and adopt cleaner production technologies.

Global Financial Market Performance

Reuters - Argaam

Japanese shares declined at the end of Friday trading, driven by the decline in energy firms' shares after the drop in oil prices and rise of the yen value against the USD.

Japanese shares' performance was weak at the beginning of this week's sessions after release of the US employment situation report last Friday, which showed that the number of added jobs is much less than expected. However, shares' performance improved mid-week backed by the rise in oil prices, before declining again end of the week.

Investors are awaiting the Japanese Central Bank's meeting to know its conclusions regarding changes in the monetary policy, particularly with the rising value of the Japanese currency, as well as the Federal Reserve meeting.

"Nikki" index declined 0.4 percent to 16,601 points, while the "TOPIX" index rose by 0.5 percent to 1,330 points.

The US stocks fell during Friday trading amid declines in the global markets and oil prices, negatively affecting energy firms' shares, in addition to concerns regarding Brexit. Most major indices recorded weekly losses.

The "Dow Jones" industrial index fell by 119.8 points to 17,865.3 points. The "Nasdaq" index declined by -64.07 points to 4894.5 points, while the "S & P 500" benchmark declined by - 19.4 points to 2096.07 points.

At a weekly level, the "Dow Jones" recorded 0.3 percent in gains, while the "Nasdaq" recorded a loss of 1 percent, and the broader "S & P" recorded weekly losses of 0.1 percent.

In Europe, the "Stoxx Europe 600" fell by 2.4 percent or by 8.3 points to 332.9 points, the least close since May 6, and the largest daily loss since 11 February. The benchmark index scored 2.5 percent in weekly losses.

The British "FTSE 100" index dropped by -116.1 points to 6115.7 points. The German "DAX" index fell - 254.2 points to 9834.6 points, while the French "CAC" index declined by - 98.8 points to 4306.7 points.

On the other hand, gold futures for August delivery increase settled higher at 0.3 percent or by $3.20 to $1275.90 an ounce. The precious metal recorded 2.7 percent in weekly gains.

In oil markets, the US "NYMEX" dropped by 3 percent or by $1.49 to close at $49.07 a barrel, recording weekly gains of 0.9 percent. The "Brent" index fell by 2.7 percent or by $1.41 to close at $50.54 a barrel, recording weekly losses of about 1.8 percent.

With regard to economic data, the Michigan/Reuters consumer confidence index declined from 94.7 to 94.3 in June, while the US budget recorded a deficit of $53 billion in May.

Investor concerns rose after a survey by the "Independent" showed that 55 percent of citizens are pro Brexit.

Implications for Egypt:

Re-emergence of fears about Brexit and preliminary US signals to re-consider raising interest rates dominated the markets during last week's trading, in spite of the extraordinary activity that brought oil prices to the level of $50 a barrel. However, the Egyptian Stock Exchange did not benefit as much from the short-term foreign institutional investments that began to flow to many emerging market stock markets in the absence of internal incentives in the Egyptian Stock Exchange. However, market liquidity movements and foreign company activity led to a relative improvement in market performance over the week.

Estimates indicate that emerging markets, including Egypt, are in a better position in 2016 to restore part of their lost activity and investment liquidity. This requires the implementation of a development plan for the technological and legislative infrastructure and the introduction of new financial instruments to prepare the Egyptian stock exchange for more competition among the emerging markets, especially in light of the attention being paid by the government to the stock market as a primary financing platform in the coming period.