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ECES
The Egyptian Center for Economic Studies

Our Economy & the World

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

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Key Global Developments

US New Home Sales Near Eight-and-a-Half-Year High
Reuters

U.S. consumer confidence held steady in July and new single-family home sales hit their highest level in nearly 8-1/2 years in June, suggesting sustained momentum in the economy that could allow the Federal Reserve to raise interest rates this year.

The Commerce Department said new home sales increased 3.5 percent to a seasonally adjusted annual rate of 592,000 units last month, the highest level since February 2008.

The housing market is gaining speed with a report last week showing home resales vaulted to near a 9-1/2-year high in June. At the same time, single-family housing starts increased solidly in June.

China Leaders Vow to Keep Growth Steady, Push Reforms
Reuters

China's top leaders pledged to keep economic growth steady in the second half of the year, while creating favorable conditions for supply-side reforms, state media reported.

The government will use a combination of policies to "strive to maintain stable economic development trends," the Xinhua news agency said, citing a meeting of the Politburo, a top decision-making body of the ruling Communist Party.

The downward pressure on the economy is still relatively large and we must attach great importance to some potential risks," Xinhua cited those at the meeting as saying.

The government will be flexible in adjusting policies to help create a favorable environment for supply-side structural reforms; Xinhua cited the meeting, chaired by President Xi Jinping, as saying.

Authorities will continue to implement a proactive fiscal policy and a prudent monetary policy, Xinhua said.

Did British Banks Introduce Negative Interest Rates?
Reuters

State-backed Royal Bank of Scotland (RBS) has told more than a million business customers that it may have to impose charges on deposits, potentially becoming the first British bank to introduce negative interest rates.

The Bank of England is expected to cut interest rates to a record low next week, prompting RBS to write to about 1.3 million business customers this month with the warning that they may have to pay the bank to look after their money if the base rate slips below zero.

An RBS spokesman said that the bank had no plans to impose such charges but could take action if the base rate enters negative territory.

Six of the world's central banks have introduced negative interest rates, most notably the Bank of Japan and the European Central Bank.

Brexit Move Raises Risks to US Financial Stability
AFP

Britain's decision to exit the European Union has elevated the risks to U.S. financial stability, due to its close ties with the US, U.S. Treasury Department experts say.

The report issued by Treasury's Office of Financial Research, which is assigned to monitor the financial risks, said that the shockwaves of Britain's "Brexit" can raise risks to the US financial stability.

In its biannual update on U.S. stability, the Office of Financial Research said that the public debt crisis in Europe (2010-2012) did not disturb the US financial stability. But the case may not be the same with Brexit. The current situation, however, is not guaranteed to continue in the future.

The main danger is the result of tough negotiations that Britain is preparing to hold with the EU to start settlements to leave the bloc, according to the results of the referendum held on June 23rd.

According to the report, larger shocks to confidence are possible as those deliberations and negotiations play out, and may reflect on the US.

The office said that US money at risk in the United Kingdom amount to $2100 billion, or 11.3 percent of the US gross domestic product, and can turn into losses if the currency declines or large fluctuations occur.

On the other hand, if Britain experiences an economic recession, the demand for US exports will decline, which may lead to a slight growth slowdown in the United States.

The report continued that the increasing financial uncertainty in Britain could damage world investor confidence permanently.

The office noted that the vote to exit the EU led to a decline in US T-bills yields to historic lows, which encouraged investors to borrow excessively and take risks.

Climate Change Increases the Risk of War
AFP

The heatwaves, droughts and other natural disasters expected to increase because of global warming are helping to push countries into armed conflict, according to a recent study published in the US.

Researchers of the study, which was published in American Academy of Sciences, based their findings on the fact that most wars that broke out during the past 70 years were between ethnic groups. Some 23 percent of the armed conflicts broke out in the most ethnically diverse countries, such as Somalia and Afghanistan, between 1980 and 2010, in conjunction with the occurrence of a number of natural disasters.

The study showed that climatic disasters are not directly responsible for conflicts, but they enhance the risk of their outbreak, according to a researcher at the German Potsdam Institute for Climate Impact Research.

The severity and frequency of climatic disasters in the world are increasing due to climate warming caused by greenhouse gas emissions, especially carbon dioxide resulting from industrial activities.

Institute Director, Hans Schellnhuber, said that added to what we already know about the impact of climate change, this observation can help us have an idea of the policies that should be adopted. Researchers believe that taking action to reduce greenhouse gas emissions causing global warming, or directing farmers to crops resistant to heat and drought can reduce the likelihood of wars in countries with internal divisions.

Japanese PM Announces a Plan With 266 Billion Dollar to Revive the Economy
Agencies

Japanese Prime Minister Shinzo Abe announced plans for more than 28 trillion yen ($265 billion) in economic stimulus in an effort to prop up the nation’s economy.

The value of the plan, which he announced in his speech given in the city of Fukuoka, southwest of Tokyo, is that it includes budget expenses, and loans for investments of cooperative groups and institutions.

The Japanese news agency, "JiJi Press," said that Abe did not disclose plan details, saying only that it includes a reference to the 13 trillion yen government spending.

Brexit Heightens Uncertainty in Global Economy, says G20
AFP

The finance ministers and central bank governors of the G20 warned that Britain's decision to exit the European Union would increase dangers threatening to destabilize the global economy. But they were careful in their meetings, which concluded in the city of Chengdu in southwest China, to send a reassuring message. They affirmed in the final statement that the EU countries are in a good position to address effectively any economic and financial consequences of this decision. They considered that the result of the referendum increases uncertainty surrounding the global economy.

The participants pointed out in the Chengdu meeting that Britain's decision to exit the EU came on top of worrying topics, specifically pending questions about the form of Britain's relationship with Europe after their separation. British Minister of Finance, Philip Hammond, said in a meeting with journalists, that the subject was discussed intensively, without excluding that uncertainty would continue until end of negotiations. He revealed that Britain may probably announce an economic recovery plan next autumn, to address the significant deterioration of the economy because of Brexit decision. He said “we have the choice to respond through the budget, which is what we will do according to our schedule in the autumn statement,” i.e., the revised budget introduced by the government.

He added that statistics, which will be available at that time, will enable London to make appropriate conclusions about the need to adopt a recovery plan for the budget. He refused to discuss the possible measures to increase public expenditure. The minister confirmed that a new budget framework will be revealed this autumn to provide clarity for investors.

The International Monetary Fund (IMF) cut its forecast for global economic growth for this year and next year, warning that continuing uncertainty for a long time may lead to a further economic slowdown.

There are other challenges threatening global growth, especially the slowing Chinese economy, terrorist attacks and the attempted coup in Turkey. The G20 statement said that severe risks remain, apart from the British issue, noting that the volatility in the financial situation remains severe, while geopolitical conflicts, terrorism and the wave of immigrants are further complicating the economic environment. The statement described the economic recovery as weaker than we had hoped for.

Countries and organizations such as the IMF stressed that the extremely flexible monetary policy pursued by big central banks is not sufficient, and called on countries to increase public spending if they have the necessary resources to support the fragile growth. The IMF urged some countries, particularly Germany and the US, to increase public spending, which was opposed by Germany. The G20 requested in the final statement to use all available tools to revive economic activity and to promote spending on infrastructure.

Implications for Egypt:

In light of financial and economic volatilities that the world is currently going through, and growing recession fears, Egypt has to take more robust actions to enhance growth, especially that downside risks are rising in the absence of decisive actions. Recovery from the global crisis is still very slow and fragile, while risks to ongoing recovery are increasing.

In spite of the increased pace of US economic growth, entities such as the IMF warned that growth in Europe and Japan was very disappointing. Slowing growth in China harmed the oil sector and commodity exporters, including Brazil and Russia. Therefore, Egypt has to accelerate structural economic reforms, increase financial support, and maintain its easy monetary policy. Also, there is a need for more fiscal consolidation in light of the current public domestic debt situation. These reforms should be associated with supply-side measures for fiscal stimulus to boost demand in the near term and absorb adverse shocks, especially that emerging markets, according to several international reports, will adapt better towards the recent wave of capital outflows thanks to increased reserves, lower foreign currency debts, and adopting more flexible interest rates.

Egypt should start undertaking reform measures that focus on consolidating government spending, rationalizing consumption, paying particular attention to specific economic production sectors. It should also revive certain marginalized economic sectors. All these measures are capable of reducing the deficit and improving the economy**.**

From the International Press

First Sign of Deteriorating Economic Conditions in the UK … The Government is Waiting until Autumn for Reform

Asharq Al-Awsat

The British economy is deteriorating in the wake of Brexit with a severe decline in private sector activities that is the strongest since the financial crisis, according to a study expected by the concerned authorities.

Markit's flash PMI readings for the UK's economy showed that composite output fell to its lowest level since March 2009, during the tail end of the global financial crisis.

The PMI scored 47.4, down from 52.3 in June. When the figure is above 50 points that means activity progress.

Markit's chief economist, Chris Williamson, said: "July saw a dramatic deterioration in the economy, with business activity slumping at the fastest rate since the height of the global financial crisis in early-2009.

"The downturn, whether manifesting itself in order book cancellations, a lack of new orders or the postponement or halting of projects, was most commonly attributed in one way or another to 'Brexit."

The PMI sub-index for services, a sector that the British economy relies on heavily dropped to 47.7 percent, from 52.4 in June, the lowest level in seven years. Data was collected between July 12 and July 21, and is not final. Markit will publish the final indicators early August.

Economists are impatiently waiting for these indicators; as they give an initial accurate picture of the status of the British economy since the referendum on June 23 in favor of Brexit. They have to wait for weeks or even months for the reflections of Brexit to show on the official statistics published by the Office for National Statistics.

Economist Samuel Tombs of Pantheon Macroeconomics said: "The collapse in the composite PMI to its lowest level since April 2009 provides the first major evidence that the U.K. is entering a sharp downturn."

Economists are now wondering whether Britain can avoid the recession caused by contracted GDP for two consecutive quarters.

The International Monetary Fund cut its forecasts significantly for the UK economic growth by 0.9 percent to 1.3 percent next year.

Maurice Obstfeld, IMF Chief Economist and Economic Counsellor, said: “Brexit has thrown a spanner in the works”

Britain’s new Prime Minister, Theresa May, said that she does not want to process Brexit before end of 2016. The British government has not determined yet the relationship it wants with the EU, which comprises 27 countries. Meanwhile, British families as well as firms are cautious in their movements.

The only positive point is the improvement in exports thanks to the decline in the pound against other currencies, which makes British goods relatively less expensive abroad. It seems increasingly likely that the Bank of England will attempt to rescue the economy with new support measures in August, after it chose to keep the easing policies unchanged as they were in in June.

Philip Hammond, the UK’s newly appointed chancellor of the exchequer, said at the start of his trip to China that new measures can be taken in the adjusted statement in autumn.

The BBC quoted Mr. Hammond: "Over the medium term we will have the opportunity with our Autumn Statement, our regular late year fiscal event, to reset fiscal policy if we deem it necessary to do so in the light of the data that will emerge over the coming months, which will show us exactly what is happening to the economy after the referendum.” He added that his country may reset its fiscal policy if it deems that necessary in the wake of the British vote for Brexit. That was Hammond’s strongest statements to date regarding policy changes after the historical decision to exit the EU.

Hammond's statement did not explain the nature of the financial measures he may think of at a time when markets are concerned about how the economy would adapt to the post-Brexit period.

Britain has the necessary tools to respond to the market turbulence sparked by last month's vote to leave the European Union, Chancellor Philip Hammond told a meeting of business leaders in Beijing. In a TV clip aired by Sky News in Britain, Hammond said the Bank of England would also be using the monetary tools at its disposal.

“Of course we understand that the decision and particularly the unexpected nature of the decision on June 23 has caused some turbulence in markets," he said. "We have the tools necessary to respond to that in the short term, and our colleagues at the Bank of England will be using the monetary tools at their disposal."

The Minister said he will support economy following Brexit vote, but cannot say what form support will take.

Hammond told “Sky News” in an interview during his visit to China “how the framework will look like exactly will depend on the status of the economy at the time of the autumn statement, the data that we will see over the next three months or so will be very important in determining the nature of our actions.”

Hammond also undermined the importance of the business managers’ survey, which is watched closely, and showed a sharp decline in corporate activities.

Implications for Egypt:

Many sources see that the impact of Brexit will not stop at the borders of Europe, but will undoubtedly reach many countries in the world including Egypt, which has a trade partnership agreement with the EU. However, this effect remains unassessed for Egyptian economy. There are questions about the position of various countries' exports - including Egypt – to the EU, and the extent of Britain's compliance with the international agreements concluded in the framework of the EU; most importantly, the European Partnership Agreement, and whether the exit will take effect immediately after the referendum or postponed.

Therefore, there is a need to review Egyptian export items to European markets and to see the possibility of substituting them with cheaper items. Also, there are opportunities to export Egyptian goods and services in place of the British goods and services that enjoyed the preferential advantage of Britain's presence in the EU. In addition, there is a need for the Egyptian Stock Exchange to closely monitor transactions at the current period, especially that there are Egyptian shares listed on the London Stock Exchange. In particular, there is a need to prepare quick alternatives to deal with any possible trouble that may result from the Brexit decision with a view to reducing its effects on the Egyptian Stock Exchange.

The Brexit decision could drive investments out of Britain to search for safe havens, including Gulf investments. Such investments may be available to Egypt if it prepares an emergency plan to attract them, noting that the widening inflationary gap between Egypt and its major trading partners in the EU's would lead to further rise in real effective exchange rate. As a result, commodity exports would be undermined. So, it is important to take economic measures to significantly improve the investment climate.

It must taken into account that a recession in world trade is expected after Brexit. This means a decrease in trade revenues, whether from exports or traffic. Therefore, we must study these trends and expectations and attempt to find alternatives. Gulf investments are now the largest source of investment in Egypt, with Britain being in second place. Currently, with Gulf investments exiting Britain, Egypt should have a plan to attract part of those investments, something that requires a conducive the business environment.

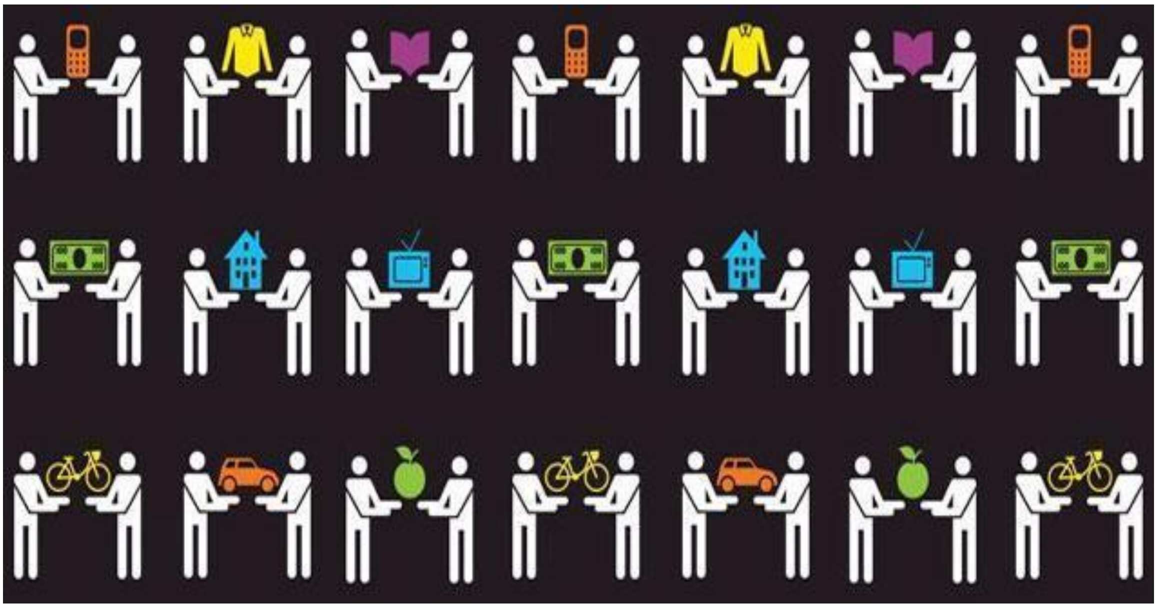
Special Analysis

How the Cooperative Economy is Growing in the Region?
Argaam

The term cooperative or sharing economy refers to sharing people's skills or property without barriers, i.e., consumers will seek to obtain what they need among themselves instead of going to organizations and entities.

This includes goods such as toys and bridal dresses, and services such as delivery and shared workspaces, as well as buying and selling used items.

The cooperative economy benefits mainly from the information technology, which allows for the distribution, exchange and re-use of surplus goods and services, and facilitates communication between sellers and buyers of goods and services.

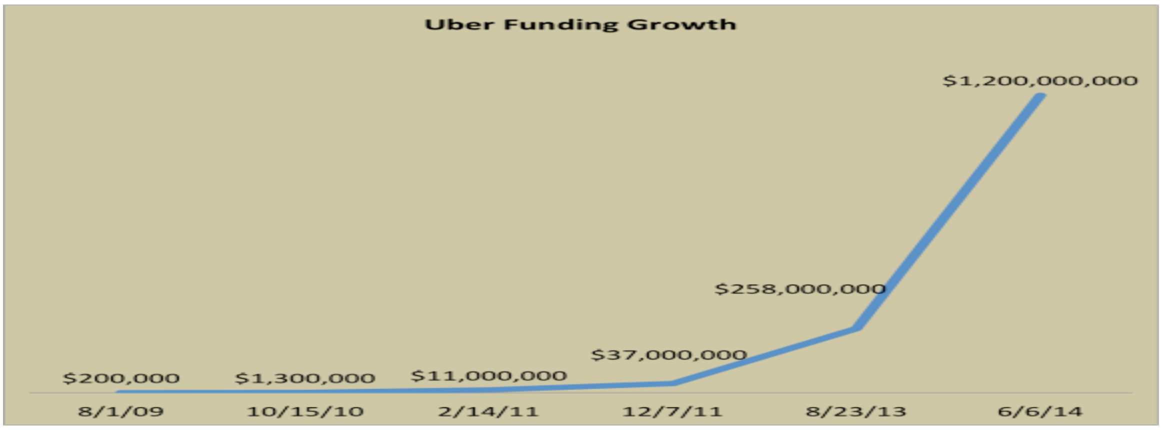


Global Cooperative Economy Models

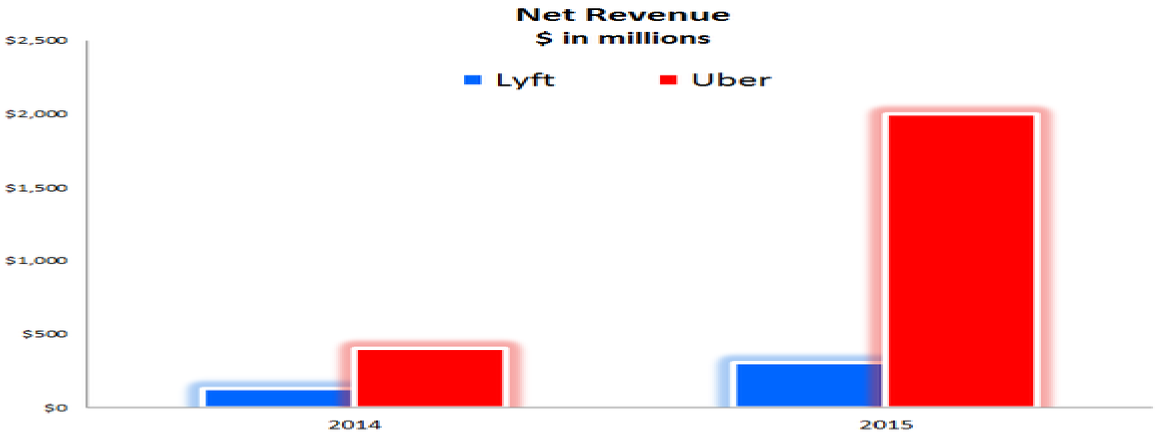
There are many leading companies in cooperative economy in the world including:
- "RelayRides," which changed its brand end of last year to "Turo." It is the first world electronic market for ride-sharing. It enables individuals to rent cars from their neighbors by the hour or day.

- "TaskRabbit," which links those who want to complete a task, and the person who can do such a task for a fee. Tasks include shopping, scholarly research, and so on.

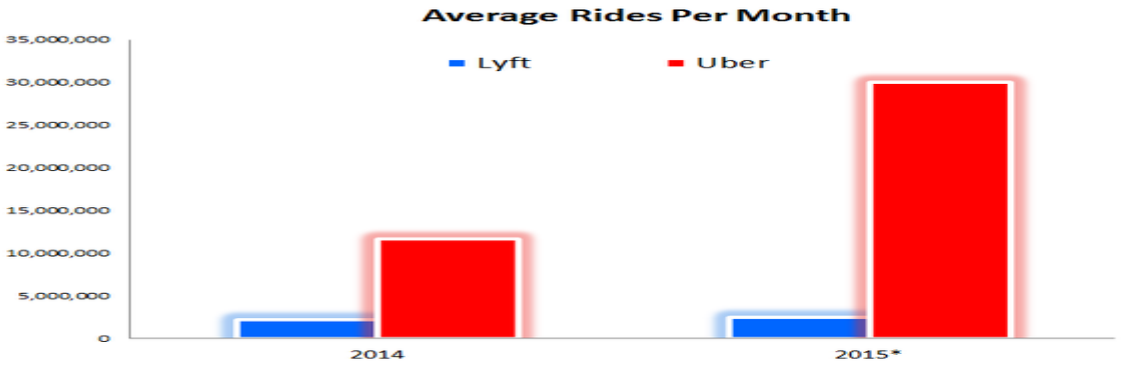
- "Uber" is an outstanding example of the rapid spread of the cooperative economy, globally and regionally. Uber investments increased by 6,000 percent in five years. Its funding growth rose from $200,000 in 2009 to $1.2 billion in 2014. The company attracted $3.5 billion in investments last month from the Saudi public investment fund.



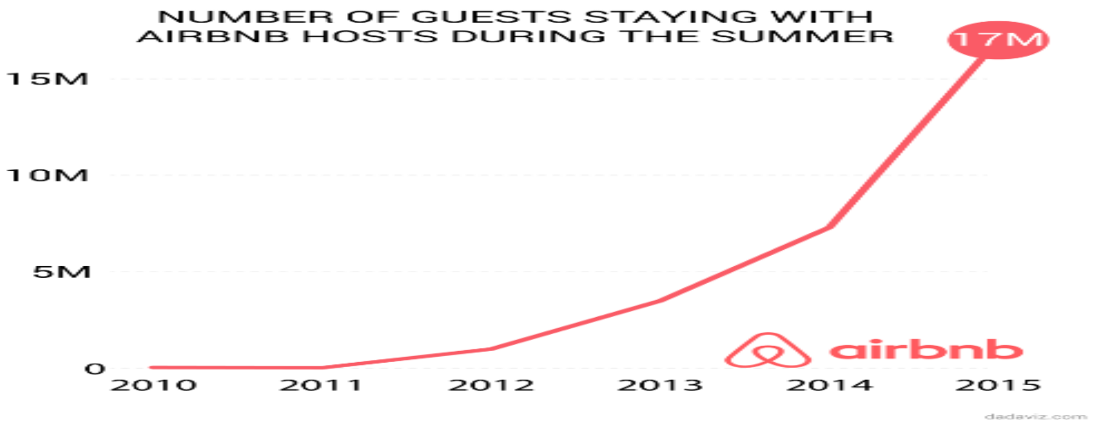
- Though Lyft is Uber's rival, but the latter's revenues exceed Lyft's revenues. The following chart shows the difference between the revenues of both companies in 2014 and 2015.



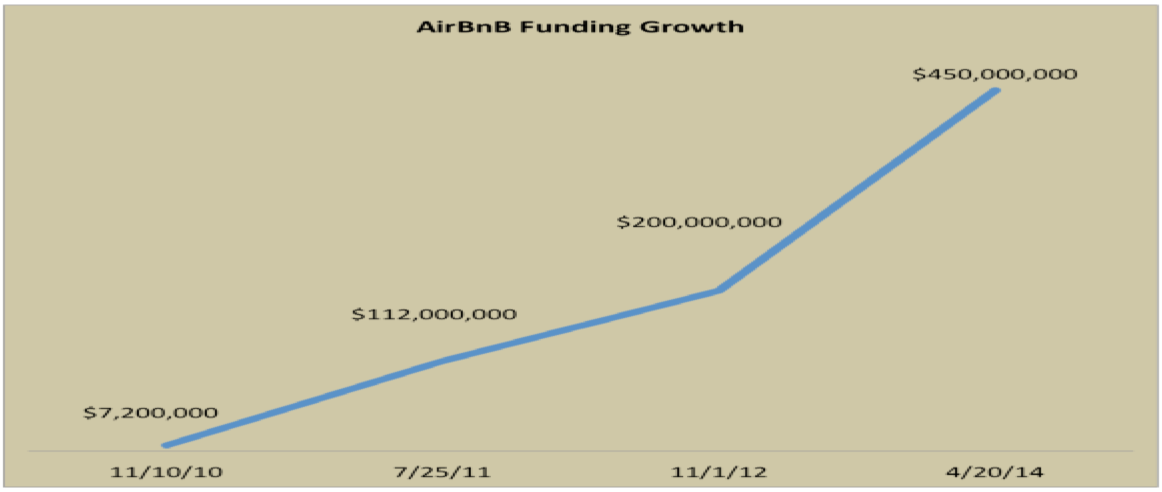
The following chart shows the difference between both companies in terms of average monthly service use in 2014 and 2015.



"Airbnb" in San Francisco is one of the most prominent examples of how the cooperative economy around the world is rising and spreading. According to the "Economist," the number of users of Airbnb's website, which provides leasing and renting services of 250,000 rooms in 30,000 cities in 192 countries around the world, rose from 47,000 people in 2010 to 17 million in 2015.



Airbnb growth increased by 750 percent since 2009, with a funding increase from $7,200,000 in 2010 to $450 million in 2014, bringing the company's valuation to $10 billion.



Disclaimer

Forms of Cooperative Economy in the Region

Cooperative economy initiatives and projects have been spreading in the region over the past three years, including online sale of handmade products and homemade foods, on websites such as "Ananasa," and other platforms and forums. This approach helped create jobs for women who find it difficult to enter the labor market.

"ArabRooms," which provides booking services for apartments and hotel rooms, is another example of cooperative economy in the region.

Additionally, shared workspaces provide an ideal solution for entrepreneurs and owners of small and medium enterprises (SMEs), providing an alternative for renting an expensive headquarters, like 'The Work Hub," and "Kayan Space" in KSA.

The Reasons for Cooperative Economy Growth in the Region

There are three basic factors behind cooperative economy growth in the Arab world, slightly similar to what is happening in global consumer markets, as follows:

- A generic leap in the sense of product ownership: Product value is determined by its use, rather than just owning it in general, as is the case in traditional consumer models.

- Increasing acceptance of the idea of buying second-hand products, partly due to the popularity of online sale of second-hand goods between users directly without intermediation, such as "Dubizzle," which was acquired by OLX group of companies last year.

- People now follow the so-called cooperative lifestyles, which do not depend on sharing products only, but also on sharing time, place and experience. Examples of cooperative consumption include ride-sharing with strangers, which is the model that Uber proved its success and effectiveness.

What Does the Cooperative Economy Provide?

The cooperative economy may contribute to solving four basic problems in the Arab world:

- **Poverty**: According to a recent World Bank report, Arab household consumption amounts to 44 percent of the region's economy. This can be solved by sharing products to reduce consumer costs.

- **Unemployment**: Around 30 percent of Arab youth want to start their own businesses, because of the high unemployment rate of 25 percent.

- **Hunger**: Arab countries rely heavily on food imports. Although 50 percent of Arabs live in rural areas, agriculture accounts for less than 15 percent of regional GDP. This problem can be solved by sharing land, where owners of unused lands can lease their lands to people for agricultural purposes.

- **Traffic and pollution**: five of the world's most polluted cities are located in the Middle East, because of the large number of cars and the resulting emissions. This problem can be solved by ride-sharing to reduce the number of used cars, improve traffic, and reduce carbon emissions.

Implications for Egypt:

The cooperative economy is spreading around the world and is growing significantly in the Arab region. This requires developing the Egyptian economic environment to create an enabling investment climate by encouraging innovation and developing a streamlined licensing system for cooperative projects. An integrated and simplified taxation system is also needed to encourage such projects.

The Egyptian sectors that can better accommodate cooperative projects include agriculture, and manufacturing of value chain components, which are now in short supply in the production system in Egypt.

Finally, for such an economy to contribute to solving the problems cited in the report requires adopting new technologies and changing traditional thinking via launching national initiatives. Therefore, Egypt must have an investment strategy that reflects the state's vision regarding cooperative investment. The strategy should include the key economic sectors that desire to attract cooperative investments, especially in high-tech fields. This requires revisiting the current intellectual property protection law, and increasing linkages between cooperative, domestic and foreign investments by encouraging partnerships, especially with SMEs, in a way that helps transfer technology to local firms, including modern administrative practices.

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Global Financial Market Performance

Reuters/ Argaam

Chinese stocks fell at the end of the Friday trading session due to a decline in shares of oil companies and producers of raw materials.

Despite the decline in China's stock market, the main index posted its largest monthly gain since March, with the decline in fears about the weakness of the yuan, and the declaration of good economic data.

Chinese stocks recorded the biggest drop in six weeks on Thursday, over concerns about the regulatory authorities' restrictions on investment in the stock market and wealth management. The "Shanghai" Composite Index fell 0.5 percent to 2,979 points at closing, but rose by 1.7 percent in July.

Japanese stocks also ended Friday session higher after strong volatilities during the session in light of investors' assessment of the Bank of Japan decisions.

Japan's central bank decided to raise its annual purchases of exchange-traded funds (ETFs) to 6 trillion yen ($57 billion) from the current level of 3.3 trillion yen, while it kept the targeted asset purchases and the key interest rate unchanged.

The rise of the Japanese stock market came despite the strong rise recorded by the yen following the Central Bank's monetary policy decision, after it came below analysts' expectations for more robust stimulus measures to support growth and inflation.

The Japanese "Nikki" index rose by 0.6 percent to 16,569 points, but scored a weekly loss of about 0.4 percent, and the "TOPIX" index rose about 1.2 percent to 1,322 points.

The majority of US stocks stabilized during Friday trading as investors assessed the second quarter's disappointing economic growth data and the release of more quarterly corporate business results. However, major indices posted strong gains in July.

The "Dow Jones' industrial average declined by 24 points to 18,432 points, while the "Nasdaq" index rose +7 points to 5,162 points, and the S&P 500 index rose 3.5 points to 2173.6 points, near to its benchmark highest close.

On a weekly level, the Dow Jones posted losses of 0.8 percent, and the NASDAQ index achieved gains of 1.2 percent, while the S&P 500 stabilized near its previous Friday close.

In July, the Dow Jones Industrial index gained 2.8 percent, the S&P 500 rose by 3.6 percent, while the NASDAQ index posted monthly gains of 6.6 percent, the largest since March.

In European markets, the "Stoxx Europe 600" rose by 0.7 percent or by 2.4 points to 341.9 points, and achieved weekly gains of 0.5 percent, and monthly gains of 3.6 percent in July, the best since October 2015.

The British "FTSE 100" index rose 3.37 points to 6,724.4 points, the German "DAX" index rose 62.5 points to 10,337.5 points, and the French "CAC" index rose 19.2 points to 4439.8 points.

On the other hand, gold futures for December delivery settled higher by 1.2 percent or by $16.3 to $1,357.5 an ounce. The precious metal has also achieved monthly gains of 2.8 percent in July.

In the oil markets, the US crude "NYMEX" rose by 1.1 percent, or by 46 cents and closed at $41.6 a barrel, recording a weekly loss of 5.9 percent and a monthly loss of about 14 percent, the largest since July 2015. Brent crude fell by 0.6 percent or 24 cents and closed at $42.46 a barrel, posting more than 12 percent monthly losses.

Concerning economic data, the US Commerce Department announced that gross domestic product grew by 1.2 percent in the second quarter of this year compared to projections of 2.5 percent growth.

Implications for Egypt:

The Egyptian Stock Exchange (EGX) rebounded last week, recording one of its biggest increases since the beginning of the year. This is a result of internal factors related mainly to the exchange rate and the beginning of discussions on obtaining the IMF loan as part of a $21 billion financial package. The impact of global markets on the EGX has been limited thanks to relative stability in those markets in the absence of fundamental changes. In other words, EGX has continued to react more to its internal conditions in light of the strength of internal variables, along with the emergence of positive developments in global markets that led to price cohesion and offsetting previous losses. This presents a positive opportunity for the introduction of new instruments or developing new trading systems in the Egyptian stock market, especially that external variables are now exercising less pressure on the performance of the local market. This will contribute to increasing the prospects of attracting foreign investments in the stock market over the coming period if conditions continue as they are.

We reaffirm that the country’s current approach in considering the sale of company quotas in the Egyptian stock exchange or global markets requires deliberate study of its timing and pricing mechanisms. Its chances of success should also be studied in the light of the current situation in most global markets, to ensure the success of these planned placements as part of the financial package announced by the government last week.