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Our Economy & the World

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

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Key Global Developments

U.S. CBO says Budget Deficit to Reach $590 Billion for Fiscal 2016

Reuters

The U.S. budget deficit is expected to grow to $590 billion in fiscal year 2016 due to slower than expected growth in revenues and higher spending for programs including Social Security and Medicare, the Congressional Budget Office said.

The estimate, which is $56 billion larger than CBO's forecast in March, shows the deficit increasing in relation to economic output for the first time since 2009.

CBO said the deficit is expected to be $152 billion higher than in 2015 and will equal 3.2 percent of economic output.

The 2016 federal fiscal year ends Sept. 30.

Moody's: Oil Price Rise to Help Ease Down GCC Budgets

Alarabiya Net

According to Moody's, all GCC countries will face some near-term relief from higher oil prices, which will reduce deficit in the budgets and current accounts.

Kuwait, Qatar and Oman will realize the largest benefits in the region given their higher dependence on oil.

Moody's forecasts the fiscal deficit to reach 3 percent of GDP in Kuwait, and 5.5 percent in Qatar and about 15 percent in Oman in 2016.

Recent volatility in oil prices will not have a significant impact on the credit ratings of the Gulf countries, which will remain under pressure.

IFC: Only 10% of Very Micro Projects in the Region can Obtain Financing

Alborsa News

According to results of a report by the International Finance Corporation (IFC) in collaboration with Sanabel, the Microfinance Network of Arab Countries, only 10 percent of very small enterprises can receive financing in the Arab region.

According to a statement obtained by "Alborsa news," the study found that although very small enterprises (VSEs) represent a substantial market opportunity for microfinance institutions and a strong driving force for economic development, current lending efforts remain inadequate.

The report, based on a survey administered in conjunction with Sanabel, the Microfinance Network of Arab Countries, highlights efforts carried out thus far to serve the VSE segment, and the challenges that hinder microfinance institutions, as well as others in the region, from supporting the segment.
“Our findings show that very small enterprises represent a substantial market opportunity for banks and microfinance institutions who have long shied away from financing them, due to a lack of internal capacity on how to assess credit risks, and limited knowledge about their financial needs,” said Sahar Tieby, Executive Director of Sanabel. “This has ultimately led to a culture of adaptation rather than innovation of products for the VSE market."

Very small enterprises generally have 2-10 employees and in some cases as many as 20 employees, unlike micro-enterprises, which are generally run by a sole entrepreneur. There are over 5 million VSEs in the Arab World, but only 10 percent of these are able to access the financing they need, leading to an estimated credit gap of $13.5 billion. The figure does not include informal VSEs.

“ ‘VSEs’ ability to spur growth and foster job creation is limited by their ability to find adequate finance,” said Mohammed Khaled, IFC Senior Microfinance Operations Officer in MENA. “To close the financing gap, drive economic growth and boost job creation, governments, banks, microfinance institutions, and other private sector actors should all intervene.”

Globally, IFC invested $633 million in microfinance projects in fiscal year 2016, and launched 61 projects with microfinance institutions.

The report marks the second in a series of studies on the microfinance sector currently being developed by IFC and Sanabel. The initiative is part of IFC’s wider efforts in MENA to expand access to finance and support for micro, small, and medium enterprises, and create jobs.

El-Erian Says Fed Risks Instability, Excess by Keeping Rates Low

Argaam

Allianz SE’s Mohamed El-Erian said that Federal Reserve officials need to consider the costs of keeping interest rates low, even as the U.S. economy is pressured by diminished worker productivity.

“There is also the risk of financial instability down the road,” because of extraordinary monetary policy, El-Erian, Allianz’s chief economic adviser, said. “And that, I think, is the strongest argument for trying to slowly normalize rates, because otherwise you contribute to excessive risk taking.”

The Fed cut its benchmark interest rate to near zero in 2008, and has raised it only once since then, in December. Central bankers were split about the timing of another rate increase and some have expressed concerns about geopolitical disruptions such as the U.K.'s vote to leave the European Union.

Chair of the Federal Reserve *Janet Yellen is expected to speak about latest monetary policy developments.*

Paris Tourism Chiefs Demand Rescue Plan as Attacks Scare off Visitors

Reuters

Islamist attacks have scared off thousands of tourists from Paris and its top attractions, helping rob the French capital of about 750 million euros ($850 million) in revenues, officials said.

Strikes and floods have also taken their toll, overshadowing a boost from the Euro 2016 soccer championships and leaving the tourism industry in need of massive new investment and a rescue package, representatives of the sector said.

"It's time to realize that the tourism sector is going through an industrial disaster," the head of the Paris region tourist board, Frederic Valletoux, said in a statement.

Visitors to the Arc de Triomphe fell more than a third in the first half of 2016 from the same period a year earlier, the tourist board said.

The Grand Palais museum reported a 43.9 percent slump and the Palace of Versailles just short of 20 percent.

"Hotels are already laying off staff though they're not saying it. This industry is on its knees and it needs relief measures now. Hoteliers need the weapons to fight back," Georges Panayotis, head of hotel research firm MKG group, told Reuters.

Hotel revenues were down 15 percent this summer in the Paris region, he said. Wealthier tourists in particular were staying away, with high-end hotels reporting declines of between 30 and 40 percent.

Tourism typically provides more than 7 percent of France's gross domestic product.

World Economic Forum: A Large Percentage of the Youth all over the World are Frustrated by the Spread of Corruption

KUNA

The WEF's Global Shapers said that a large proportion of young people around the world are frustrated by the spread of corruption and the negative impacts of climate changes as well as lack of employment opportunities.

The WEF said in its periodic report on youth trends and ambitions that the majority of young people are cautiously optimistic about the future, and concerned about lack of employment and education opportunities in countries around the world, and lack of legal accountability at the government and international levels, in addition to the spread of religious conflicts and poverty.

The report said that 26 percent of young people can solve these problems and are confident that international organizations can help overcome difficulties. However, 20 percent think that only governments can solve their problems.
The report added that 17 percent of young people are confident that civil society organizations can solve these problems, while 20 percent of them believe that they can help solve their problems.

On the other hand, the report noted that 36 percent of young people think they are global citizens, while national affiliation is of great significance to about 22 percent. Nine percent of them believe that religious affiliation is the basic identity, especially among youth in the Middle East and South Asia.

Though young people embrace digital technologies in their daily lives, 86 percent of them stressed that they cut traditional employment opportunities, but at the same time will be a key driver of modifying some of the labor market concepts and will benefit certain key sectors such as education and health care.

The report is based on a poll that was taken by half a million young people from 181 countries aged between 18 and 35 years as part of the World Economic Forum initiative known as world shapers community.

The initiative aims to identify the views of young people from different geographical regions of the world regarding international and regional issues and their vision of how to deal with these issues being the powers of the future.

Emerging Markets Portfolio Allocations Highest Since Aug. 2015: IIF

Reuters

Emerging markets assets have seen net inflows of $13.2 billion since late July, outpacing net inflows to developed markets in investors' portfolios and reaching the highest level of representation in global mutual funds and ETFs in more than a year, a recent survey found.

A report from the Institute of International Finance showed the share of emerging markets assets in the portfolios of global mutual fund and ETF investors reached 11.7 percent as of Aug. 17, its highest level since August 2015.

Over the past three weeks, emerging markets bond portfolios saw average inflows of $870 million. That was up dramatically from the first half of the year, during which emerging market bonds saw an average of just $85 million of weekly inflows.

“Bond yields in EMs are even more attractive now relative to their mature peers," said Emre Tiftik, deputy director of global capital markets at IIF. "Given institutional investors - pension funds, insurers - hunt for yield in low interest rate environment, their interest in EM bonds have been striking."

The turnaround in emerging markets equities was even more pronounced. Over the past three weeks, emerging markets equities have seen $930 million of inflows per week versus an average of $250 million per week of outflows in the first half of 2016.

The numbers are partly a reflection of the fundamental turnaround in many emerging markets. IIF projects GDP growth in emerging markets to outpace developed markets in the near term. Additionally, emerging markets have benefited from stabilizing data from China, rebounding commodity prices and expectations of a slower pace at the U.S. Federal Reserve in raising short-term interest rates.

The numbers also reflect investors' search for yield in the low-interest-rate environment in which more than $10 trillion in sovereign debt now carries negative interest rates, IIF said.

Emerging markets bond funds saw net inflows of $6 billion, while emerging markets equity funds saw inflows of $7.2 billion.

Moody's Expects Oil Prices to Range between $40-60 per Barrel in the Medium Term

Argaam

The international ratings agency Moody's Investors Service expects oil prices to remain low, moving within a $40-$60 per barrel range over the medium term.

The agency expects in its recent report that the GCC countries will remain under pressure during oil price fluctuations, particularly with respect to credit conditions. Despite expectations for an oil rise above estimates soon, it is unlikely that fluctuations will have a significant impact on the GCC sovereign creditworthiness.

Moody's noted that government reforms to tackle structural problems, coupled with a significant decline in oil prices, will remain the main determinant of sovereign creditworthiness of these countries.

It expects the economic, financial and external challenges faced by the Gulf countries to continue.
However, it noted that the GCC countries will witness a relief related to the shrinking fiscal and current account deficit more than expected due to higher oil prices. Kuwait, Qatar and Oman will be the largest beneficiaries of rising oil prices in the near term, given their heavy dependence on oil revenues.

The agency expects Kuwait, Qatar and Oman to witness a deficit of up to 3.0 percent, 5.5 percent and 15.1 percent of GDP, respectively, in 2016.

Implications for Egypt:

The above news points out the emerging signs of a temporary decrease in oil market crises, with most reports noting that oil prices are tending to stabilize at better levels in light of growing demand. This would reduce the budget deficit in GCC states and would avail Egypt better opportunities to attract Gulf investments along with continued short-term Gulf support.

The news also reflects growing problems globally with the funding of small and medium enterprises, which requires speeding up the establishment of an integrated entity to revitalize this sector, not only financially, but also with respect to organization, planning and formulation of a future vision. This would translate into higher rates of economic growth over the coming period.

In addition, the news indicates that a large number of countries around the world, especially the US, are considering increasing interest rates. This may lead to higher cost of funding for such enterprises unless Egypt adopts a financial and development model that ultimately leads to improved economic performance and revitalization of this sector.

The news also reflects Egypt's slow success in promoting tourism, which led to the loss of rare opportunities, especially with the decline of tourism in a number of major markets such as France. This requires revisiting the tourism promotion program currently in use in Egypt.

From the International Press

OPEC Deal a Tough Task, as Oil Output Freeze Expectations Rise

Reuters

OPEC will probably revive talks on freezing oil output levels when it meets non-OPEC nations next month as top exporter Saudi Arabia appears to want higher prices, according to OPEC sources, although Iran, Iraq and Russia present obstacles to a deal.

Riyadh sharply raised expectations for a global production deal when Energy Minister Khalid al-Falih said Saudi Arabia will work with OPEC and non-OPEC producers to help stabilize oil markets.

"The comments by the Saudi energy minister give a positive indication that they are willing to go for a freeze deal but the question remains: on what level?" said an OPEC source from a key Middle Eastern producer.

"Will the freeze be at January levels? And what about Iran?And then there is Nigeria, which has lost a lot of production since January," the source added.

Only days after Falih's remarks, Russia’s Energy Minister Alexander Novak was quoted as saying Russia is consulting with Saudi Arabia and other producers to achieve oil market stability, adding that the door is still open for more discussions on output freeze, if needed.

Saudi Arabia, together with Russia and the United States a rival for the position of the world's top oil producer, boosted output to 10.67 million barrels per day in July from 10.2 million in January, when the freeze idea first emerged.

Since 2014, Saudi Arabia, OPEC's de facto leader, has been raising output to drive higher cost producers out of the market and win back share from rivals such as the United States, where output soared on the back of the high oil price of the past decade.

As a result, oil prices collapsed to $27 per barrel in January from as high as $115 in mid-2014, capping output of the United States but also hitting hard Saudi Arabia's budget and resulting in a record fiscal deficit for Riyadh.

A previous attempt to freeze output at January levels to support prices collapsed in April after Saudi Arabia said it wanted all producers, including regional rival Iran, to join the initiative.

Tehran argues it needs to regain market share lost during years of Western sanctions, which have been only softened in January.

Over the past few months, Iran, OPEC's third biggest producer, has boosted output close to pre-sanctions levels and has repeatedly signaled it has no plans to join the freeze initiative.

"I do not see any real chance," a source familiar with Iranian oil thinking said in reference to the prospect of a freeze deal in September.

OPEC members will meet on the sidelines of the International Energy Forum (IEF), which groups producers and consumers, in Algeria on Sept. 26-28.

"However, if prices go down further, some OPEC members will try to send positive signals to the market to keep prices at least at current levels," the source added.

Iraq Output Gains

Iranian oil minister Bijan Zanganeh said in parliament he wanted to take the country's output to 4.6 million bpd within 5 years - much above the current 3.6 million bpd and pre-sanction levels of 3.8-4.0 million bpd.

Iraq, OPEC's second largest producer, which in April was saying it would support the deal, has since agreed with oil majors on new contract terms to develop its massive fields, which will allow output to rise further next year by up to 350,000 bpd.

Nigeria and Libya could present further complicating factors, delegates said. Nigeria's output hit its lowest in over two decades this year due to attacks on oil sites and Libya is pumping a fraction of the pre-conflict level - raising the question of what level they should limit supplies at.

While Nigeria supported April's freeze initiative, Libya declined to join the talks.

Russia, which back in April was ready to freeze production in the first coordinated action with OPEC since 2001, also signaled it was no longer very keen on a dialogue and would continue boosting output.

Its output currently hovers near an all-time high of 10.85 and Russian officials expect it to edge up further next year.

Even Saudi Arabia itself has raised its output to record levels in July, which Falih has explained was due to rising seasonal domestic demand and customers asking for more oil worldwide.

These increases arise as countries, which usually do not join any global actions such as North American producers are expected to add more barrels. The International Energy Agency expects non-OPEC output to rise by 300,000 bpd next year after a decline of 900,000 bpd in 2015 as North American output stabilizes.

Hence, persuading countries such as Iran, Iraq and Russia to return to output controls will be a difficult task for Riyadh but a worst option would be to raise expectations of a deal that doesn't happen, like in April.

"No agreement will collapse the market, and OPEC," said the first OPEC source.

Implications for Egypt:

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.

Despite this benefit, there are other concerns, including pressure from foreign companies operating in Egypt in the energy sector, after the decline of their profits recently, which may drive them to exercise pressure on the Egyptian government, claiming their arrears. Add to this the position of foreign investment inflows from the Gulf countries, the status of Egyptian workers, and their transmittances.

The decline of oil prices over the past two years led to a decline of oil and gas revenues in total revenues of countries in the region, particularly in the Gulf, albeit oil continues to be the highest source of budget revenues. This also led to a reduction in government spending in the GCC and the emergence of a deficit after years of equilibrium or surplus. GCC countries that peg their currencies to the US dollar have to develop independent monetary policies that are at arms' length from the US monetary policy. They should not follow in the footsteps of the US monetary policy, as it does not favor economic diversification—a policy pursued vigorously by the Gulf States.

In a nutshell, oil markets are currently more concerned about the oil glut, expansion of production at deeper levels in the oceans, and the shale oil boom in the US, which makes it a future export competitor. Add to this increased production from countries such as Canada, Brazil, Iraq, Kenya, Uganda, and the decline of consumption by European countries due to improved vehicle fuel efficiency, especially the development of environmentally friendly technologies.

In light of these developments, the Egyptian government has to revisit the basis on which it set the price of oil at $40 per barrel in its new budget for 2016-2017. This price may be exceeded if an agreement is reached between oil producers.

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Special Analysis

Will China Change the Global Economic Map?
The yuan to join the top 5 global currencies as of October 1st on its way to competing with the USD

Al-Yome Al-Sabei

By October 1st, the world will witness a change, the biggest in 36 years, in the global economic map, with the Chinese yuan becoming an international reserve currency among the internationally approved basket of major currencies.

The inclusion of the yuan is the first major change in the world's currency authority since 1980, when the basket of currencies was reduced from 16 to 5 currencies, namely, the US dollar, the sterling, the Japanese yen, the German mark and the French franc. The latter two currencies were later replaced with the euro in 1999.

Why did the IMF choose the Chinese currency?

In November 2015, the Executive Board of the IMF decided to add the Chinese yuan as a fifth currency in the basket of special drawing rights besides the dollar, the euro, the yen and the sterling. The yuan will become a freely usable currency starting October 1st.

The Executive Board chose the yuan in the context of revising the composition of the SDR basket, which takes place every five years. The revision focused on an important benchmark, namely, the currencies of countries or monetary unions with the greatest value of exports over five years.

The IMF said in its report that China is the third largest exporter in the world ahead of Japan and the UK, noting the large increase in the use and circulation of the yuan on the international level since the previous revision. The Board agreed to consider the yuan as a widely used currency in international transactions, and widely circulated in the major foreign exchange markets. It saw that it is appropriate to expand the basket of currencies to five currencies.

What does the internationally approved basket of currencies mean?

After a period of the world's dependence on gold, banknotes appeared in the beginning as a note indicating its owner will pay a said amount against it. Each issued currency was backed by gold to ensure monetary stability.

With the evolution of the global system, countries used to increase their share of gold until 1970 by resorting to the US, requesting the replacement of their US dollars with gold, which the US has the world's largest stock of, and its second highest producer. The dollar was the only currency that could be exchanged with gold globally before President Nixon issued a decision restricting its convertibility into gold.

This was motivated before 1970 by the following question: "should countries keep gold, under the risk of theft, earthquakes, floods, or replace it with US dollars and shift the responsibility of its safekeeping to US banks, and even receive interest thereon.

However, the IMF—established in 1944 with the mission of monitoring global currencies through helping to maintain an orderly system of payments between all countries—decided at the end of the sixties to establish the so-called special drawing right as an international reserve asset complementing the international reserves of member countries. The number of reserve currencies were then 16, later reduced in 1960 to 5 currencies. In 1999, the German mark and the French franc were replaced with the euro.

What is the weight "of the Chinese yuan" in the basket of currencies?

According to the decision of the IMF, The revised SDR basket will be based on the following weights: 41.73 percent for the U.S. dollar; 30.93 percent for the euro; 10.92 percent for the Chinese yuan; 8.33 percent for the Japanese yen, and 8.09 percent for the British pound.

The dollar and the euro represent the biggest weights in the SDR basket, with the weight of each currency in the revised basket calculated based on currency exchange rates during the three months prior to October 1st. The IMF will issue a press release with that effect on Sept. 30, and the first interest rate on SDR will be determined on October 7th. Implementation will begin on October 10.

What will change with inclusion of the Chinese yuan in the basket of currencies?

The Chinese yuan will take a large formal step toward competing with the dollar. Although it is just one step on a long road, as the dollar cannot be budged easily, it is a step that allows central banks to pay their international debts via this currency, which would provide another alternative to the euro and the dollar, and thus add to the strength of China's economy.

Also, countries worldwide will have the right to add the yuan to its monetary cover. In other words, governments will have the choice of constituting its monetary cover, besides gold and securities, from five currencies, namely, the US dollar, sterling, the euro, the Japanese yen, and the Chinese yuan.

Why has China sought to add its currency to the global basket of currencies?

Despite the recent slowdown in the Chinese economy, a recent IMF report noted that China contributed one-third of total global economic growth in 2015, with its considerable influence in moving the world market. However, the US still dominates the world economy, thanks to the dollar and strong economy whose size is about $72 trillion compared to about $22 trillion for China.

The US has the largest quota in the IMF, and alone has the right of veto, and the right to approve or deny any loan for any country. China, working diligently toward the top of the world economy, aims for its currency to have a larger value and effect worldwide. In particular, the world agreed after the global crisis in 2008 to recognize a greater role for China and India in IMF decision-making. China's voting quota became 6.1 percent, the third after the US (16.6 percent), Japan (6.2 percent), and before Germany, Britain and France.

China is looking forward to a wider use of SDRs compared to the dollar in central bank reserves.

Recently, the People's Bank of China announced that a unit of the World Bank Group will issue SDR-denominated bonds in the interbank bond market in China, and that the International Bank for Reconstruction and Development will issue bonds worth 2 billion units of SDR ($2.79 billion).

The purchase of SDR-denominated bank debts—indexed to major foreign currencies, including the US dollar, the euro, the sterling and the yen—will allow domestic Chinese investors to increase their exposure to foreign currencies in the local bond market in the second largest economy in the world.

Implications for Egypt:

The ascendency of the yuan as a currency of international trade is a structural shift in the global economic system. This entails close monitoring by the government and the Central Bank of Egypt of the changes that would result from this move to ensure a speedy Egyptian reaction amid fears China would reduce the value of its currency on the eve of joining the international basket of currencies in October.

However, in light of shifts in world trade it has become necessary to add the Chinese currency (the yuan) to the basket of currencies in which the Suez Canal Authority collects its receipts, which will strengthen the proceeds of the basket of currencies and encourage Chinese ships to avail of Suez Canal services.

On the other hand, the idea of signing a currency exchange agreement with China will be faced with a critical barrier, namely, the Egyptian balance of trade deficit in favor of China, especially in terms of goods. This requires Egypt to bridge the gap first by various means, including encouraging Chinese tourism to Egypt, and tightening quality standards on imported goods to ensure safety and consider the environmental impact. A trade agreement needs to be concluded that includes time-bound programs to reduce the trade balance gap, including an agreement to swap Egyptian exports with Chinese imports with the same value.

Accordingly, Egypt needs to start considering the yuan as an international reserve currency in addition to the possibility of using the yuan and the Egyptian pound in conducting goods and services exchange.

Global Financial Market Performance

Reuters / Argaam

Chinese stock indices stabilized at the end of Friday trading, but posted weekly losses, amid fears of government intervention to counter speculation in the financial markets.

Real estate stocks came under downward pressure over the past week, in line with the efforts of local governments in Shanghai, Beijing and Tianjin to set new standards of house prices and calm their strong rising pace.

The "Shanghai" authorities are looking to impose further restrictions that might include real estate loans and loans to developers, to counter the rising prices, which jumped by 27 percent in July.

At the end of trading, the "Shanghai" index stood at 3,070.3 points, but posted a weekly loss of 1.2 percent.

Japanese stock indices closed Friday's trading lower, with the emergence of weak economic data and amid expectations of the dollar’s decline, and with the loss of car manufacturers.

Japan Consumer price index declined for the fifth consecutive month in July to 0.5 percent after recording a decline of 0.4 percent in the previous month.

At the end of trading, the Japanese "Nikki" Index fell by 1.2 percent to 16,360 points, while the "TOPIX" index fell by 1.3 percent to 1,287 points.

Toyota Motors' share fell by 3.4 percent to 5,911 yen ($58.87), while Honda Motors' share fell by 2.2 percent to 3,024 yen ($30.12).

Most US stock indices fell during Friday trading, giving up early gains after remarks of the Chair of the Federal Reserve, Janet Yellen, about the interest rate, despite the release of weak economic data**.**

The Dow Jones industrial average fell by 53 points to 18,395.4 points, after about 120 points in gains during the session. The S & P 500 benchmark fell by -3.4 points to 2,169 points, while the Nasdaq index rose by 6.7 points to 5,219 points.

On the weekly level, the Dow Jones recorded losses of 0.9 percent. Nasdaq fell 0.4 percent, while the broader S & P posted weekly losses of 0.7 percent.

In Europe, "Stoxx Europe 600" rose by 0.5 percent or by 1.7 points to 343.7 points, and achieved 1.1 percent in gains this week.

The British "FTSE 100" Index rose by +21 points to 6,838 points, the French "CAC" index rose by +35 points to 4,442 points, and the German "DAX" index rose by +58 points to 10,587.7 points**.**

On the other hand, gold futures for December delivery settled higher by 0.1 percent, or by $1.30, to $1,325.90 an ounce after gains of more than 1.5 percent during the session. The precious metal scored a weekly loss of 1.5 percent.

In oil markets, the US "NYMEX" rose by 0.7 percent or by 31 cents to close at $47.64 a barrel and recorded losses this week by about 3 percent. The "Brent" index rose by 0.5 percent, or by 25 cents, to close at $49.92 a barrel, recording losses this week of about 1.9 percent.

Concerning economic data, US GDP grew by 1.1 percent on an annual basis in the second reading of the second quarter compared to the initial reading, which posted a growth of 1.2 percent. Trade deficit shrank to $59.3 billion in July from $64.5 billion in June.

During the Jackson Hole summit, Chair of the Federal Reserve, Yellen, said that the current economic conditions justify an imminent raising of the interest rate in light of strong labor market and moderate economic growth. She predicted inflation would increase toward the target of 2 percent within the next few months.

Implications for Egypt:

The Egyptian Stock Exchange (EGX) continued to perform independently from global market because of internal factors related mainly to the results of agreement with the IMF and the start of economic reform measures. This created a wait and see approach, causing stock market trading to decline, with a tendency to collecting gains, contributing to a relative decline in stock indexes.

It is worth noting that with the start of implementing the program of economic reform, the stock market needs to intensify activity in the direction of attracting foreign investment, especially that the reform measures are expected to make such investment more attractive. This will make the stock market more prepared for the placements expected over the coming period along with increasing trading volumes and investment inflows.

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 Egyptian government.

The Egyptian Stock Exchange needs more government attention to complete its development, and improve its legislative institutional framework. This requires speeding up the amendment of the Capital Market Law No. 95 of 1992 as well as modifying the Presidential law governing the institutional setup of the stock market to allow more investment flexibility and strengthen the supervisory tools and increase the number of investment instruments available for trading.