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Our Economy & the World

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

- **Key Global Developments Over the Past Week**
- **From the International Press: The Global Economy … Between the Prey and the Hunter**
- **Special Analysis: The Arab Spring Protest Movement has Cost the Region $614 bn in Lost Growth**
- **An Analysis of Global Financial Market Performance and Changes in Prices of Goods and Raw Materials**

Key Global Developments

Merkel 'Not Happy' about Possible Demise of Trans-Pacific Pact

Argaam

German Chancellor Angela Merkel said that she's not happy about the possible demise of the Trans-Pacific Partnership (TPP) trade agreement, which President-elect Donald Trump wants to pull the U.S. out of.

Ms. Merkel didn't mention Mr. Trump directly in a speech to the German Parliament in which she called for nations to take a multilateral approach to solving global problems.

"I will tell you honestly. I am not happy that the trans-Pacific agreement now will probably not become reality," she said. "I don't know who will benefit from that I want to hold back with forecasts," she added.

"I know only one thing — there will be other trade agreements, and they won't have the standards that this agreement and the hoped-for TTIP agreement have.

She was referring to the planned Trans-Atlantic Trade and Investment Partnership between the U.S. and the European Union.

As Trump disses TPP, China says to 'Play Role' in Asia-Pacific Integration

Reuters

China will "play its role" in promoting economic integration in the Asia-Pacific, the foreign ministry said, after U.S. President-elect Donald Trump said he would kill an ambitious regional trade pact.

Trump's statement appeared to open the way for China to assume the United States' leadership mantle on trade and diplomacy in Asia. The Republican termed the Trans Pacific Partnership (TPP) "a potential disaster for our country."

China, Japan and South Korea are already in the initial stages of discussing a trilateral trade deal, and Beijing has been pushing its own limited Asian regional trade pact that excludes Washington for the past five years.

Asked whether China would be a beneficiary of the U.S. withdrawal from TPP, Foreign Ministry spokesman Geng Shuang said China had an open attitude towards any arrangement that promoted regional free trade.

China is willing, with other parties, to promote the economic integration process in the Asia-Pacific for the benefit of the peoples of the region, he told a daily news briefing.

"I think that in this process, China will make its own contribution and play its own role," Geng added, without elaborating.

Japan and Australia, Washington's closest allies in Asia, pledged after Trump's announcement to push ahead without the United States, although removing the largest market for goods and services would shrink it dramatically.

The British Government Expects Lower Growth and a Decline in Investments next year

Argaam

The British government expects the UK economy to grow by 2.1 percent this year compared to previous estimates of 2.0 percent, according to the Office for Budget Responsibility (OBR).

The government lowered its growth prospects for 2017 from 2.2 percent to 1.4 percent due to lower investments and increased inflation following depreciation of the sterling pound.

Speaking before the House of Representatives, Philip Hammond hailed the strength and flexibility of the British economy that confused observers following the vote for Brexit.

Despite lower growth prospects for next year, Hammond said that the growth prospects for 2017 are similar to the expected estimates in Germany and exceed those in France and Italy.

The OBR pointed out that the potential growth in the UK will be less by 2.4 percent than it should be due to the vote for Brexit.

British PM Wants to Cut Corporation Tax - Daily Telegraph

Reuters

British Prime Minister Theresa May will tell business leaders that she wants to cut corporation tax to the lowest among the world's 20 largest economies, the Daily Telegraph newspaper reported.

The newspaper said May could cut corporation tax to lower than the 15 percent rate promised by Donald Trump before the U.S. presidential election.

Cutting corporation tax from the 20 percent headline rate could attract companies away from other parts of the European Union to Britain and challenge Ireland's preeminence as Europe's low tax home for large international companies.

CFA: Gulf Countries will Suffer from a 10 percent Budget Deficit

Bahraini Al-Ayam

CFA Institute said the new low level of oil prices suggests challenges for the GCC countries' budgets, and re-fuels chronic controversy over the ability of their long-term policies of pegging their currencies to foreign exchange rates to hold on.

For further clarification, it is expected that the GCC countries will suffer a fiscal deficit of 10.1 percent, and a current account deficit of about 5 percent in 2016, according to World Bank projections, compared with the surpluses achieved in the past.

An article by a CFA member and member of CFA Society in Bahrain, Deepak Moussa, said that despite the drop in oil revenues and widening financial deficits, the GCC central banks succeeded to uphold pegging their exchange rates, supported by their accumulated huge foreign reserves. However, those reserves are being drained continuously to finance their budget deficits, which will eventually lead to more pressure on the ability of central banks to continue pegging their exchange rates to foreign currencies.

Saudi Arabia's foreign reserves, which stood at $562 billion in August, fell by 15 percent per annum, and by about 25 percent over the past two years. This is primarily due to financing budget deficits, according a report published by Bloomberg, which is fueling market expectations that the relatively weaker GCC economies will unpeg their exchange rates to ease the fiscal deficit pressures and eroding foreign reserves.

However, the declared desire of the GCC governments and their ability to hold on to pegging their exchange rate reduce the impact of unpegging over the short and medium terms. There are five strong reasons pointing out that the GCC countries will continue pegging their exchange rates.

The first reason is that these countries succeeded to uphold pegging their exchange rates over several decades during periods of high or low oil prices, which ensured the stability of their monetary policies. As a result, these countries did not develop monetary policies that would allow them to float their exchange rates. In addition, any expectation of adjusting the peg could expose their exchange rates to speculator attacks.

The second reason suggests that depreciation in exchange rates resulting from any potential unpegging may cause a sudden jump in inflation, due to the effects of rising import costs and stages of change in exchange rates. Given that 90 percent of the GCC imports are foods, the depreciation will have negative impacts on the population.

$5 billion in M&A Deals in the Middle East

El-Itihad, UAE

According to an EY report on M&A activity, the Middle East and North Africa region reported a slowdown in activity during the third quarter 2016, recording 74 deals amounting to $5 billion, compared to 98 deals amounting to $6 billion in the third quarter of 2015. The GCC dominated deals in the third quarter, representing 92 percent of total deal value and 77 percent of total deal activity.

The report showed lower activity during the third quarter of the year in all kinds of deals. The number of inbound deals fell by 42 percent, while the outbound deals fell by 24 percent. The number of domestic deals fell by 10 percent compared to the same period in 2015. The UAE was the most attractive destination for mergers and acquisitions in the region. It topped all countries of the region in terms of deal value, by about $17.1 million from 14 deals.

The UAE has seen the biggest deal in the region during the third quarter, with the Chinese Investor Group's acquisition of Media.Net Advertising Ltd. at a value of $900 million. With respect to targeted sectors, media and entertainment, real estate, and aviation companies ranked the top three in terms of deal value in the third quarter of 2016.

Increasing Credit threatens a Financial Crisis in China

Al-Mal

The adjusted loan-to-deposit ratio climbed to 80 percent as of June 30, signaling a warning of possible financial crisis, according to a Bloomberg report. For some smaller lenders, the ratio has already topped 100 percent, according to Global S&P Ratings.

S&P's adjusted measure is rising much faster than the official loan-to-deposit ratio as Chinese banks pile into off-balance sheet lending, sidestepping government efforts to rein in credit.

At the current pace, overall credit could surpass deposits on an adjusted basis within a few years, S&P says.

"The next two to three years is a crucial window for China to rein in the ratio, or we will be in serious trouble," said S&P's Beijing-based director Liao Qiang. "Reaching 100 percent doesn't mean a crisis will ensue immediately, but it shows China's entire deposit base is used up and any loss of confidence from savers will severely destabilize the banking system."

Implications for Egypt:

It is worth noting that several changes have been occurring on the international scene that raise concerns about the global economic situation. The transformations happening in many economically important regions pose threats of financial developments in the absence of efforts to address problems, not only by individual countries but also collectively. The new US political and economic directions indicate its desire to exit international blocs, which calls for the need to formulate other blocs and alliances to address imbalances and deficiencies in global economic growth rates in light of slowing global trade.

Egypt should work harder to activate economic alliances at the Arab, Middle Eastern, African, and Islamic fronts. The aim is to achieve higher rates of trade that would help accelerate domestic growth rates. This would also enhance economic resilience in the face of a possible global crisis. To this end, Egypt needs to implement a stimulating program that includes increasing industrialization and the local content, improving the investment climate, and promoting service exports, which would boost Egypt's benefits from participating in international blocs.

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Our Economy & the World

From the International Press

The Global Economy .. Between the Prey and the Hunter

Asharq Al-Awsat

Daily developments in the global economy are beneficial for the business community and its actors. The worst thing that could happen to a community is that it remains unchanged. Some actors have special skills in hunting for deals, especially in a market where the wealth of each of these actors changes constantly, either down for the prey, or upward for the clever hunter.

You can either be a prey or a hunter; that is what the billionaire Trump, the father, taught his son, Donald. For him, these principles rule the free market economy. However, the global economy is currently experiencing rapid and extensive change that drove some actors out of the "game," while others are unable to make decisions, and some lost millions. Only the clever hunter remained profitable, because he did not give others a chance to make him a prey. Rather, he reached the presidency.

No sooner the world had overcome aftermath of the 2008 global financial crisis than Brexit occurred followed by Donald Trump's winning of the presidency of the largest economy in the world.

It seems that the world is heading towards a tough period of screening so that the market remains only for the strong, until further notice. As long as uncertainty about the future of the economy increases gradually, with the failure to take quick decisions outside the box, even a clever hunter will remain amazed and surprised when he pulls his empty rod from the sea due to slowing global economy, and increased global debts to over $152 trillion at the end of last year amid countries' increased borrowing to overcome budget deficits or solve a liquidity crisis. Moreover, some central banks around the world have been adopting negative interest rates in an attempt to raise inflation, reducing the appeal of risky assets.

All of this may lead to the worst thing that could happen in an economy for the business community, i.e., recession.

Al-Sharq Al-Awsat is reviewing the global economy before Donald Trump assumes office as president of the world's largest economy that is involved in various trade agreements with most countries of the world, amid expectations of many changes in economic policies and agreements, according to statements made by Trump during his election campaign.

The Global Economy

The global economy suffers from a legacy of tremendous challenges that made some countries lower their bank interest rates to zero, and negative in other countries. About 7 central banks around the world charge negative interest rates, and seem incapable of providing effective solutions to the economic crisis, especially in Europe and Japan. Most governments resorted to the quantitative easing program (asset purchase programs) as an easy measure to inject fresh liquidity in the markets. Sovereign debts also rose around the world due to increased returns on bonds and treasury bills. Moreover, most countries also increased their borrowing to attract new liquidity.

Accordingly, risks to the global financial stability increased. The growth prospects for developed and emerging economies declined, resulting in a liquidity crisis in some markets and a drop in asset values to levels not commensurate with macroeconomic fundamentals.

The global economy is slowing due to these accumulated indicators starting from the global financial crisis through other developments such as the decline in oil and commodity prices, which caused a decline in inflation to levels less than those targeted in some countries such as the US and the Euro zone. Moreover, world poverty increased, the ratio of middle class members dropped, while the number of the rich (hunters) increased with a decline in the value of their wealth, as a result of current fiscal and monetary policies.

Global Debts

Recently countries increased their reliance on loans, bonds, securitization and treasury bills, out of governments' desire to increase growth rates in the light of the 2008 global financial crisis repercussions. This led to a rise in global debts to $152 trillion, representing 225 percent of global economic output last year. The main reason for rising global debt is that most countries adopted the economic principle that debt trading is better than the use of own capital due to the lower cost. This increased debt in light of the current global economic slowdown, which forced the IMF to reconsider its monetary policy and call on central banks to revisit their monetary policies, with the rise in poverty rates around the world.

The IMF recently said that the world is floating in $152 trillion in debts at the end of last year. However, this record level did not prevent the IMF from encouraging some countries to increase spending in order to boost growth.

An IMF report said that global public and private debt amounted to 225 percent of global economic output last year, up from about 200 percent in 2002. About two thirds of total debts in 2015, or about $100 billion, are owed by private sector borrowers. The report warned against rising private debt levels, which usually leads to financial crises.

According to the Institute of International Finance (IIF), global debts—whether consumer or government or those of financial and non-financial companies—increased by more than $10 trillion in the first half of this year, exceeding $216 trillion (equivalent to 327 percent of global economic output).

The increase was particularly significant in non-financial companies, as debts increased by $3.3 trillion to more than $63 trillion, and in the government sector, where issuances also increased by $3.3 trillion to $59 trillion.

Debts of developed markets are rapidly approaching 400 percent of GDP. Total debt issuances in various sectors of the developed markets increased by $8 trillion to more than $163 trillion in the first half of the year. Thus, the debt level reached 393 percent of economic output in developed markets, up by more than 50 percentage points compared with ten years ago.

Despite a clear warning from the IMF about the emergence of financial crises, IMF Managing Director Christine Lagarde recently urged governments that are capable of borrowing and spending more to do that in order to boost growth, which is persistently weak.

China

If major economies fail to coordinate among one other to pull the global economy from its slowdown, especially the two largest economies in the world, the US and China, a recession is certainly on its way. But the risk of lack of coordination emerged following the announcement of Trump's winning of the presidency. The Chinese Yuan fell against the dollar to below 6.8 yuan in overseas markets for the first time in more than six years because of fears that the US president-elect Donald Trump may apply the trade protectionism policy he had talked about throughout his campaign.

In addition, China suffers from high debt. China's outstanding foreign debt amounted to nearly $1.39 trillion at the end of the second quarter of this year, compared with $1.36 trillion at the end of March.

According to the regulator of the foreign exchange market in China, foreign short-term debt amounted to $867.3 billion by the end of June, up from $849.1 billion by the end of the first quarter, and represented 62 percent of GDP by the end of the second quarter. Medium- and long- term debts accounted for 38 percent of the total. These debts pose risks that become more apparent the greater the financial pressure is on China.

Currencies

Member states renewed their pledge to refrain from competitive devaluation and from targeting a competitive exchange rate, and to clearly disclose their policies. However, China devalued its currency at the beginning of this year, with expectations of an appreciating US dollar, to be followed by countries that peg their currencies to the dollar.

Some central banks around the world are engaged in a so-called "currency war," whose repercussions appeared on their decisions to reduce or raise interest rates.

This strengthens the role of international financial institutions, which are keen on reviving the global economy and pushing it towards stability.

Implications for Egypt:

A new sharing economic model that is commensurate with current challenges in the global markets can alter the economic equation and give new perspectives to economies, provided the the world does not continue to rely on the current monetary and fiscal policies in light of the current developments. The expansionary monetary policy adopted by central banks around the world did not produce the desired results in terms of raising growth rates and countering economic contraction. This is similar to the case of Japan in the 1990s, where a policy of quantitative easing and interest rate cuts was adopted to counter the economic recession. The policy was successful in reducing the losses resulting from lower national income, but failed so far to find an effective formula for a return to growth.

Global debts should be reduced, because higher debt levels usually increase the probability of a financial crisis, which is usually coupled with an economic slowdown that is deeper and longer than that accompanying usual recessions. Risks are not limited to private debt, as the emergence of a financial crisis with high public debt exacerbates its repercussions, which happens more in emerging markets than in the developed economies.

Special Analysis

The Arab Spring Protest Movement has Cost the Region $614bn in Lost Growth

Al-Hayat

Real average GDP growth in the Arab region posted 0.9 percent in 2015, unchanged from 2014, and is expected to grow by 1.5 percent this year, according to an annual report launched by ESCWA in Beirut about economic and social developments in the Arab region, covering both 2015 and 2016.

The report noted that economic and political uncertainty in the Arab region after the transformations and turmoil of 2011 still inhibit prospects for growth, employment and stability. It continues to curb economic growth, while global oil prices, which are witnessing a continuous decline, are increasing the burden on the regional economy and impose restrictions on growth and financial balances in those countries, which once performed well thanks to energy exports.

The report predicted the slowdown in economic growth in the GCC would continue, as further cuts in public spending are expected. The survey showed that conflicts in the region have led to a net loss in economic activity of $613.8 billion, and to a deficit in public finances of $ 243.1 billion. The report added that these conflicts led to aggravation of other economic and social indicators, such as debt, unemployment, corruption and poverty.

Mohamed Mokhtar El Hacene, Director, Economic Development and Integration Division, ESCWA, said oil revenues to Arab countries declined sharply by 46 percent in 2015 . He noted that the expansion of Arab economies was still inhibited, pointing out that the Arab economies in the East and the West and least developed countries face a balance of payment challenge, due to the rapid change in the international financial environment (i.e., the effect of raising US interest rates, with another increase expected end of this year). He said it was difficult for non-Gulf Arab economies to maintain the level of public and private investment, necessary to put these economies on a sustainable growth path, without external financial assistance.

Hadi Bashir, head of economic modeling and forecasting at ESCWA, says that the number of refugees in the world reached 60 million end of last year, while the internally displaced recorded 7.6 million people in Syria with more than 4 million externally displaced.

The number of internally displaced in Yemen registered 130 thousand since 2015, in addition to those who have fled abroad, and the number of displaced Libyans registered 434 thousand at end of last year. Europe has seen an increase in refugee flows by 74.3 percent. Turkey is the largest recipient of refugees (1.6 million end of 2014), while Lebanon hosts the largest number as a percentage of the population (up to 25 percent).

Bashir spoke about Syria, revealing that total losses ranged between $169 billion and $259 billion of lost output, and $89 billion of a loss in physical capital. He explained that 49 percent of the capital was lost due to damage, 34 percent due to net investment loss, and 17 percent because of being idle. As for unemployment, it rose from 15 percent in 2011 to 48 percent in 2014, with more than 80 percent of the Syrian people living below the poverty line—mainly concentrated in intense combat zones.

About the reconstruction of Syria, Bashir said that the national agenda required an investment of $183.5 billion. Lebanon, he added, has been particularly affected by the Syrian crisis, saying that the large number of refugee inflows would lead to doubling unemployment to more than 20 percent and driving 170 thousand Lebanese to poverty. He said that recent estimates indicate that the number of Lebanese at risk is equal to the number of Syrian refugees (1.5 million), in addition to 300 thousand Palestinian refugees and 42 thousand fleeing from Syria. In other words, more than 3.3 million people are in need of help from a total population of 5.9 million.

He revealed that 52 percent of displaced Syrians and 10 percent of the Lebanese suffer from extreme poverty, meaning that they are living on less than $2.40 a day.

He also mentioned the increased demand on utilities and government services, leading to an increase in spending on public services of $1.1 billion to meet the needs of the refugees, causing a worsening of the budget deficit by about $2.6 billion in 2012-2014. The Syrian crisis has also resulted in closing a business route for one fifth of Lebanese exports to the world, leading to an increase in the cost of trade.

According to Bashir, the report stressed the importance of securing stronger international support, referring to a total needed funding of up to $2.5 billion to return services to the pre-conflict level. Nathalie Khaled, an official of economic affairs at ESCWA, said that women in the Arab region have been suffering from inequality on all levels. She added that the Arab region ranked last in the Gender Gap Index in 2015, with little progress from the previous year, closing only 60 percent of the gap.

Implications for Egypt:

Egypt should pay attention to the impact of slow growth and high inflation on conflicts in the region. This would require an integrated economic strategy that aims not only to boost economic growth in Egypt, but also to attract the investments fleeing other markets.

It is worth noting that low foreign direct investment in Egypt is not attributed to geopolitical factors in the region or to the global financial crisis looming on the horizon alone. They can be explained also by internal factors related to managing the investment climate, addressing its obstacles and eliminating administrative overlaps as well as the length of licensing procedures and approvals regardless of the reform efforts undertaken in this respect.

Therefore, the legislative system related to the investment climate in Egypt needs a comprehensive review. It is important to establish a system of electronic incorporation of firms and lower the incorporation time spent and its procedures. Legislations should also be amended concerning company incorporation and its procedures, governance, contracting, land allocation mechanism, utility connections, the tax system, the market exit system, and bankruptcy. In addition, an effective mechanism for settling investment disputes should be put in place. The current investment law needs a review to reflect the country's vision for investment and avoid the flaws that appeared in implementation following the amendments in March 2015, which did not produce the expected effects so far, especially in the absence of a clear investment map.

The country' strategy should include further geographic distribution of developmental projects based on the unemployment levels in the rural areas, especially among females. Rising unemployment rates among females indicate that their economic potentials are not properly utilized. Projects like "your job near your home" will achieve the goal of reducing unemployment and raise employment rates among females in particular.

Global Financial Market Performance

Reuters/ Argaam

Japanese stocks rose at the close of Friday trading, posting gains for the third consecutive week, despite data showing weaker consumer prices in October.

During trading, the Nikkei index rose by 8 percent to touch its highest level in 10 months, coinciding with the decline in the yen against the dollar, but the stocks pared its gains after the inflation data and the Japanese currency getting rid of its losses.

The government data showed that the core CPI fell 0.4 percent last month, compared to the same period a year ago, continuing its decline for the eighth consecutive month**.**

Nevertheless, the Topix index rose for the 11th session in a row, marking the longest series of gains since the middle of last year.

At the end of trading, the Japanese Nikkei index rose by 0.25 percent to 18,381 points, while the TOPIX index rose by 0.3 percent to 1,464 points. Both indices achieved weekly gains of 2.9 percent.

Chinese stock indices also rose at the close of trading, recording weekly gains, supported by gains of real estate companies and the banking sector.

Shares traded on the Hong Kong Stock Exchange received support from renewed Chinese investor interest given the decline of the local currency against the dollar.

The Chinese central bank cut its indicative price of the yuan by 0.26 percent against the US dollar, to push the yuan in Shanghai trading to its lowest level in eight years.

Chinese investors are looking for safe havens in light of depreciation of the local currency. Usually the most prominent of these havens is the Hong Kong shares. This demand is expected to increase with the launch of the program linking the Shenzhen Stock Exchange with the Hong Kong Stock Exchange.

At the end of trading, the Shanghai Composite Index rose 0.62 percent to 3,261 points, recording a weekly gain of 2.2 percent**.**

US stocks rose during Friday trading, amid a quiet short session after the Thanksgiving holiday, which saw strong sales. Major indices registered record closing levels.

The "Dow Jones" Industrial Average rose 69 points to 19,152 points. The Nasdaq index rose 18 points to 5,399 points, while the S&P 500 index increased 8.6 points to 2,213 points.

On the weekly level, the Dow Jones index posted 1.5 percent in gains, the Nasdaq index posted a gain of 1.5 percent, while the S&P 500 recorded weekly gains of 1.4 percent.

In the European markets, Stoxx Europe 600 benchmark index rose 0.2 percent, or 0.6 points, to 342.4 points.

The British FTSE 100 index also rose 11.5 points to 6,840.7 points, the French CAC index rose 7.7 points to 4,550 points, while the German DAX index rose 10 points to 10,699 points.

On the other hand, gold futures for December delivery settled down 0.8 percent, or $9.90, to $1,179.50 an ounce, and scored losses of 2.3 percent this week.

In the oil markets, the US NYMEX fell by 4.2 percent or $2.02 and closed at $45.93 a barrel, but achieved a weekly gain of 0.5 percent, while the Brent crude index fell by 3.9 percent or $1.92 and closed at $47.08 a barrel.

With regard to economic data, the US service PMI stabilized, recording 54.8 in November, the same reading recorded in October.

Implications for Egypt:

The global financial market performance is still experiencing volatility with an upward tendency against the backdrop of conflicting data regarding expectations of global economic performance, especially with respect to the EU and Britain. Meanwhile, China introduced a new reduction in the value of its currency, which reflected positively on the performance of the stock market, despite continuing concerns about China's financial and economic situation. Likewise, the Tokyo Stock Exchange benefited from the depreciation of the yen against the dollar. Liquidity-related activity was obvious in most global stock markets.

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 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.