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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

**Europeans ask May: Where is the give for all this take?**

**Reuters**

European leaders applauded Theresa May for providing clarity by finally outlining her plan for a clean break with the EU, but said she needed to be realistic about the price Britain would pay for leaving.

May's vision of a "global Britain" cutting itself off from European Union's single market and launching negotiations on a deep and comprehensive free trade agreement with the bloc is a form of "hard Brexit" continental leaders were prepared for.

For months Europeans expressed frustration that British officials would not accept in public that their determination to curb immigration from the continent meant Britain must leave the common market. May's speech on Monday put an end to that.

"Sad process, surrealistic times but at least more realistic announcement on Brexit," tweeted Donald Tusk, the former Polish premier who will oversee the divorce negotiations between London and the other 27 member states in the European Council.

EU leaders are keeping their negotiating powder dry until May formally launches talks in the coming months. But officials who are preparing for the process noted that May had not spelled out many downsides for Britain's economy.

"Where is the give for all the take?" asked the Czech Republic's secretary of state for EU affairs, Tomas Prouza, on Twitter. May accepted that there would have to be "give and take" and "compromises" if Britain is to keep "maximum" access for its goods and services while shedding its single market obligations, such as paying in to the Union budget, accepting rulings by EU courts and letting any EU citizen come to work in Britain.

Europeans, including German Economy Minister Sigmar Gabriel, renewed their insistence that London would not be allowed to "cherry pick" EU benefits without paying for them.

Some countries, such as Canada, have negotiated extensive access to the single market, though less than Britain now enjoys. They are generally subject to arbitration by neutral tribunals and have typically taken seven years or more to negotiate.

May stressed how free trade with Britain was in the economic interests of all -- it was "not a zero sum game", she said. Many in Europe accept that is the case, at least in the short term, and for that reason are willing to try and limit the damage.

**Moody's Forecasts Lower Fiscal Deficit in the Region**

**Al-Bayan**

The United Arab Emirates (UAE) and GCC countries will likely record relatively low fiscal deficit in 2017, according to Moody's forecasts. UAE, Qatar and Kuwait will likely record relatively low fiscal deficits of 3.0 percent to 4.0 percent of GDP in 2017.

Moody's estimates the GCC's aggregate fiscal deficit will narrow to 7.5 percent of GDP in 2017 and 4.9 percent in 2018, from 8.8 percent of GDP in 2016 and 8.7 percent of GDP in 2015, mainly as a result of higher oil prices.

Fiscal deficits will remain sizeable in Saudi Arabia, Bahrain and Oman given challenges to further consolidation from comparatively lower per capita incomes. Debt issuance volumes will be lower in 2017 and 2018 compared to 2016, helped by the expected reduction in fiscal deficits.

According to Moody's estimates, the debt-to-GDP ratio across the GCC will rise to 31.6 percent by 2018 from just 10.5 percent in 2014, adding another $154 billion in government debt in 2017 and 2018.

The debt burdens of the United Arab Emirates (UAE) and Qatar, on the other hand, are expected to stabilize in 2017.

**China unveils new plan to further open economy to foreign investment**

**Reuters**

China's cabinet issued measures to further open the world's second-largest economy to foreign investment, including easing limits on investment in banks and other financial institutions.

China will lower restrictions on foreign investment in banking, securities, investment management, futures, insurance, credit ratings and accounting sectors, the State Council said in a statement posted on its website.

No further details were provided, nor a timetable for their implementation.

The state planner had indicated at the end of last year that the government would take measures to relax foreign investment in certain sectors.

The measures come as President Xi Jinping seeks to project China as a world leader in fighting protectionism and defending globalization. China will keep its door wide open and not close it, Xi told the World Economic Forum in Davos, Switzerland.

The state council also said in a statement foreign-invested firms would be allowed to list on the Shanghai and Shenzhen exchanges as well as a New Third Board, the country's biggest over-the-counter (OTC) equity exchange.

Foreign-invested firms will also be allowed to issue various debt instruments in China including corporate bonds, enterprise bonds and convertible bonds, the council said.

The cabinet said the measures were intended to create a "fair and competitive" environment that puts "domestic and foreign companies on an equal footing"

**Chinese President in Davos: No one wins in trade wars**

**Argaam**

Chinese President Xi Jinping warned his US counterpart, Donald Trump, against isolationist economic policies that may trigger trade wars, after the latter announced in various occasions his intention to impose customs fees on imports from China.

He added in his speech at the World Economic Forum, held in the Swiss alpine town, that his country is committed to trade and investment liberalization.

Mr Xi said that no one will emerge [from a trade war] as a winner. US president elect Donald Trump had threatened several times during his election campaign to impose customs fees up to 45 percent on Chinese goods, and to impose sanctions on China for devaluating the yuan, although China is currently supporting its currency.

**IMF boosts U.S. growth forecasts on Trump spending, tax plans**

**Reuters**

The International Monetary Fund said the U.S. economy would grow faster than previously expected in 2017 and 2018 based on the incoming Trump administration's tax and spending plans, but it kept its global growth forecasts unchanged due to weakness in some emerging markets.

Updating its World Economic Outlook, the IMF forecast overall global growth at 3.4 percent for 2017 and 3.6 percent for 2018, unchanged from October. That compared to 3.1 percent in 2016, the weakest year since the 2007-2009 financial crisis.

The US will see a slight improvement of 0.1 percentage point in GDP in 2017 and a stronger increase of 0.4 percentage points in 2018 with Trump's plans for expansionary fiscal measures including tax cuts and infrastructure spending.

According to the IMF, this will push U.S. gross domestic product growth to 2.3 percent in 2017, and to 2.5 percent in 2018. The IMF noted, however, that Trump's plans also could stoke inflation in an economy already nearing full employment.

The IMF does assume a stronger dollar, firmer oil prices and "more inflationary pressure and a less-gradual normalization of U.S. monetary policy."

The IMF revised its 2017 growth forecast for China to 6.5 percent, up 0.3 percentage point from October, based on expectations for continued stimulative government policies, but left unchanged its 2018 forecast for a slowdown to 6.0 percent growth.

The IMF raised its 2017 forecasts for the euro zone and Japan by 0.1 percentage point each, largely because of stronger-than-expected results in the second half of 2016. Britain's forecast was increased 0.4 percentage point, but its 2018 growth was reduced by 0.3 percentage points.

**Allianz's El-Erian says strong U.S. dollar biggest risk in 2017**

**Argaam**

Global growth could be better than expected in 2017, though many uncertainties remain that could impact expansion, with the biggest of them being steep gains in the U.S. currency, Allianz's Mohamed A. El-Erian said.

The outlook for the global economy in 2017 will be similar to that for 2016, but with an upside risk, with the world expanding below 3 percent and the U.S. economy outperforming that with a growth of 2.5-3 percent, El-Erian added.

Chief economic adviser to Europe's largest insurer, El-Erian said that the U.S. outperformance is expected to bolster the dollar, but the currency could be lifted even further as the U.S. Federal Reserve would raise interest rates at least three times under a baseline scenario for 2017.

He added that the major risk is that the dollar gets too strong, too quickly after raising the interest rate by the Federal Reserve 3 times, which in turn, could increase the risk of default in emerging markets for businesses that have borrowed heavily in foreign currencies to benefit from record-low borrowing costs.

## Implications for Egypt:

According to international institutions' estimates, there are still opportunities for global economic growth, despite the developments that may increase risks for a number of economies, especially China due to excessive lending, which will eventually increase risks facing the Chinese economy, a main economic partner of Egypt, and lead the US to wave a trade war with China. Add to this, the implications of Brexit for the EU economy.

Over the coming period, Egypt will have to focus on developing the internal economic infrastructure and the industrial bases, while encouraging the manufacture of components by developing SMEs. In light of the global situation, volatilities are possible to occur, which requires Egypt to stimulate sustainable growth engines that are relatively less affected by the global situations, thus enhancing local economic growth.

It is also important to note that the economic conditions predicted by most international reports for the Gulf region may affect the demand for Egyptian labor in the Gulf. This calls for continuing the Egyptian economic reform programs at a faster pace to increase domestic employment opportunities and to accommodate the expected slowdown in remittances from Egyptians working abroad. Egypt has to be cautious when increasing the public debt particularly that the exacerbated sovereign debt crisis and the global shortage of funding sources pose a growing risk for the global economy.

# From the International Press

**Unemployment to rise by 3.4 million globally in 2017**

**Arabiya Net**

The global unemployment rate is expected to rise slightly from 5.7 percent to 5.8 percent in 2017, representing an increase of 3.4 million in the number of unemployed, according to a new report released by the International Labour Organization (ILO).

The report entitled "*World Employment and Social Outlook – Trends 2017*" forecasts a rise in the number of unemployed to more than 201 million people in 2017, and a further rise of 2.7 million in 2018, due to the fact that labor force growth exceeds that of job creation.

| | Number of Unemployed (million) | | | Unemployment Rate (percent) | | |
|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| World | 197.7 | 201.1 | 203.8 | 5.7 | 5.8 | 5.8 |
| Advanced countries | 38.6 | 37.9 | 38.0 | 6.3 | 6.2 | 6.2 |
| Emerging economies | 143.4 | 147.0 | 149.2 | 5.6 | 5.7 | 5.7 |
| Developing countries | 15.7 | 16.1 | 16.6 | 5.6 | 5.5 | 5.5 |
| | **Percent of vulnerable jobs** | | | **Percent of poor workers** | | |
| | **2016** | **2017** | **2018** | **2016** | **2017** | **2018** |
| World | 42.9 | 42.8 | 42.7 | 29.4 | 28.7 | 28.1 |
| Advanced countries | 10.1 | 10.1 | 10.0 | -- | -- | -- |
| Emerging economies | 46.8 | 46.5 | 46.2 | 25.0 | 24.3 | 23.7 |
| Developing countries | 78.9 | 78.7 | 78.5 | 69.0 | 67.9 | 66.7 |

Source: Unemployment trends and forecasts for the period between 2016 and 2017, ILO.

ILO director-general, Guy Ryder, said: "We are facing the twin challenge of repairing the damage caused by the global economic and social crisis and creating quality jobs for the tens of millions of new labor market entrants every year. "Economic growth continues to disappoint and underperform – both in terms of levels and the degree of inclusion. This paints a worrisome picture for the global economy and its ability to generate enough jobs, let alone quality jobs.

The report also predicts that vulnerable forms of employment, such as contributing family workers and own account workers, will stay above 42 percent of total global employment this year, accounting for 1.4 billion people worldwide.

"Almost one in two workers in emerging countries are in vulnerable forms of employment, rising to more than four in five workers in developing countries," ILO senior economist and lead report author, Steven Tobin, said.

The report shows that these challenges are particularly acute in Latin America and the Caribbean where the recent economic recession impact will remain in 2017, as well as Sub-Saharan Africa. Both regions are confronted with a strong increase in the number of people entering working age.

By contrast, unemployment should fall in 2017 among developed countries bringing their rate down to 6.2 per cent (from 6.3 per cent). But the pace of improvement is slowing and there are signs of structural unemployment. In both Europe and North America, long-term unemployment remains stubbornly high compared to pre-crisis levels, and in the case of Europe, it continues to climb despite the receding unemployment rates.

Another key trend highlighted in the report is that the reductions in working poverty are slowing which endangers the prospects of eradicating poverty as set out in the United Nations Sustainable Development Goals . The number of workers earning less than $3.10 per day is even expected to increase by more than 5 million over the next two years in developing countries.

At the same time, it warns that global uncertainty and the lack of decent jobs are, among other factors, underpinning social unrest and migration in many parts of the world. Between 2009 and 2016, the share of the working age population willing to migrate abroad has increased in almost every region of the world, except for Southern Asia, South-Eastern Asia and the Pacific. The largest rise took place in Latin America, the Caribbean and the Arab States.

Turning to policy recommendations, the authors estimate that a coordinated effort to provide fiscal stimulus and an increase in public investment that takes into account each country's fiscal space would provide an immediate jump-start to the global economy and reduce global unemployment in 2018 by close to 2 million compared to our baseline forecasts. However, such efforts should be accompanied by international cooperation.

"Boosting economic growth in an equitable and inclusive manner requires a multi-facetted policy approach that addresses the underlying causes of secular stagnation, such as income inequality, while taking into account country specificities," Tobin said.

**Implications for Egypt**

Although unemployment declined slightly in Egypt recently, it does not clearly reflect the real unemployment situation in Egypt in the absence of clear data on the informal sector. The fact that the agriculture sector leads activities, according to previous statistics, highlights the need to strengthen job growth in the industrial sector to reduce poverty and unemployment rates. Increasing unemployment among the educated reflects the need for radical changes in education policies and outputs, considering the continued structural unemployment resulting from distorted supply and demand in the Egyptian labor market, including the mismatch between available labor and labor market requirements.

The country's strategy, therefore, should include geographical distribution of developmental projects in light of the unemployment levels in rural areas, especially among females. Rising unemployment among females indicates that their economic abilities are not fully used. Therefore, projects such as your-job-near-your-house, and its entailed geographical dimension will achieve the goal of reducing unemployment and raising employment rates for females in particular.

It must be noted that SMEs, which are considered the main tool for solving the unemployment problem, need radical treatment to increase investments in this sector and raise its effectiveness by creating an integrated institutional entity according to international best practices. Such entity will be the first model in the Middle East for entrepreneurship and SMEs development, thus maximizing their role in economic development, job creation and increasing exports. These are the steps that the government said would include in a law regulating SMEs, which is currently being discussed among a package of amendments, including licensing, land allocation, SME incentives as well as establishing an integrated IT system for founding and managing SMEs following the president's initiative to fund this sector by about LE 200 billion over 4 years.

It is worth mentioning that the current CBE strategy to stimulate growth through low-interest financing and expansion of the financiers base will reduce the unemployment rate in Egypt if associated with structural amendments in the legislations of SMEs, licenses, investment, land allocation and taxes on SMEs and the informal sector.

# Special Analysis

**5 risks to the Business World in the Middle East in 2017**

Asharq Al-Awsat

"Changes in oil prices, unemployment, financial crises, internal conflicts of countries, and terrorist attacks" are the main risks threatening the business world in the Middle East and North Africa in 2017, according to Global Risks Report, issued by the World Economic Forum.

The report pointed out that economic inequality, social polarization and intensive environmental risks are the three most important trends that will shape global developments over the next ten years. The need for collaboration between world leaders will become more urgent to avoid further difficulties and fluctuations in the next decade.

Against the backdrop of rising political discontent and unrest in various parts of the world, the study concluded three main results. Continued patterns of high income and wealth disparities, and increased social polarization were ranked first and third, respectively, among the key trends that will affect global developments in the next ten years. In contrast, the majority of the surveyed sample linked high structural unemployment or shortage of labor to deep social instability.

Climate change was ranked second among the basic trends of global risks this year. For the first time in the history of the study, all five environmental risks got the evaluation of risk and possible occurrence.  Weather extremes and peculiar phenomenon topped the list as one of the most prominent global risks.

The study concluded that the society does not keep pace with the technological changes. Of the 12 emerging technologies covered by the report, experts found that artificial intelligence and robotics have the greatest ability to produce results or benefits. However, at the same time, they have the biggest potential negative impacts. They also believe that they need better governance.

Margareta Drzeniek-Hanouz, Head of Global Competitiveness and Risks at the World Economic Forum, said that there is an urgent need for leaders to make decisions identifying urgent measures to overcome political or ideological differences, and to work together to solve critical challenges. A clear example of this was seen in 2016 in addressing climate change, which gives hope that collective action at the international level aimed towards addressing other risks can be achieved.

How to deal with the most pressing risks in the world was one of the topics discussed at the annual meeting of the World Economic Forum 2017, held during 17-20 January, under the slogan of "A Responsive and Responsible leadership".

According to the report, the complex transformations experienced by the world today, from the preparation of low-carbon future and unprecedented technological change to the adaption to new global economic and geopolitical realities, require greater focus from leaders on long-term thinking, and international investment and cooperation.

On her part, Cecilia Reyes, Chief Risk Officer at Zurich Insurance Group, said that these are hard times. Technology creates challenges, and without sound governance and re-sharpening of workers' skills, it will end jobs faster than creating them.

She added that governments can no longer provide the social protection levels they used to provide before. An anti-institutional movement emerged and political leaders blame globalization for community challenges, creating a vicious circle that will reduce economic growth, and increase inequality. Cooperation is essential to avoid further deterioration of governments' financial resources, and exacerbated social unrest.

The report and the survey study pointed out that the fourth industrial revolution may increase global risks. Based on their analyses of 12 distinct emerging technologies, experts identified artificial intelligence and robotics as the worst of risks if they produce negative results. They believe that these technologies are in dire need for better governance.

## Implications for Egypt:

Egypt has been exposed to several economic shocks since 2009, negatively affecting its economic performance. However, it is reassuring that what Egypt is suffering from so far is still nothing compared to some other countries in the region. This is a good indicator of Egypt's ability to overcome the crisis, provided that the right decisions are made. Egypt cannot be isolated from the world, and to exit this economic curve is not only linked to the internal functioning of the state, but also to the global performance.

There is a consensus that Egypt has not reached an economic recession yet. Despite the economic disadvantages it went through, the Egyptian economy grew for the second year in a row. Egypt has several advantages that enable it to overcome the crisis, such as a sizable market, distinct young labor, and privileged geographical location. The country is witnessing a remarkable economic mobility, but things should go faster. The only way out of this crisis is to put challenges in their proper place rather than denying their existence.  Solving problems is possible, the vision for the future has become more entrenched, and the will for reform is what would drive us out of this economic crisis.

The Egyptian government should focus on implementing large-scale packages of fiscal reforms aimed at rationalizing public spending and enhancing revenues in order to adjust the public budget and ensure its sustainability, especially in light of the current challenges facing the fiscal policy. Tax reform should be a top priority for fiscal policy makers to enhance tax revenues and ensure the fairness and efficiency of the taxation system by revisiting the tax on income and corporate profits, as well as adopting the value-added tax and directing the taxation system to enhance SMEs and promising regions. Attention should be paid towards controlling public spending items through the rationalization of current expenditures by adjusting wage costs, moving forward in the reform of the commodity subsidy system and increasing the efficiency of investment spending. Attention should also be made to increasing the transparency and efficiency of public budget management and reducing deficits. This should be accompanied by parallel efforts to increase the efficiency of public debt management and a keenness to increase the average maturity of debt issuance and financing through sources that ensure financial sustainability.

Structural, fiscal and economic reforms must be made while taking into account sustainable growth and improved public indicators to eventually reach stable levels of economic performance. It should be taken into consideration that the poorest categories are not adversely affected by the structural reforms, which should be carried out in an integrated and balanced manner on the short and medium terms.

# Global Financial Market Performance

Reuters/ Argaam

Chinese stock indexes rose at the close of trading posting weekly gains after the release of growth data and on the back drop of news about a plan by the authorities to ease restrictions on the trading index along with separate reports indicating the reduction of the reserve ratios requirement temporarily for major banks.

At the end of Friday's session, the "Shanghai" composite index rose 0.70 percent to 3123 points, the highest pace of rise in two weeks, recording a weekly gain of 0.3 percent.

Official data showed a Chinese economic growth of 6.7 percent in 2016, thus achieving the government's target, ranging from 6.5 percent to 7 percent.

According to "Reuters", the Chinese authorities cut the reserve ratios by one percentage point for large lenders to ease liquidity pressures before the new year holiday.

According to news reports, China is seeking to ease restrictions on the trading in futures index, which led to reducing trading by 99 percent in the past.

The Japanese stock indexes rose at the close of trading for the third straight session, with gains for the insurance companies and banks, despite the appreciation of the yen against the dollar.

At the end of the session, the Japanese "*Nikkei*" index rose by 0.35 percent to 19,137 points, but scored a weekly loss of 0.8 percent, and the "TOPIX" index rose 0.35 percent to 1533 points.

The Japanese stock gains are backed by eased volatilities with the decline in the Nikkei Stock Average Volatility Index by 2.27 percent to 20.2 points.

The US stocks rose during Friday trading supported by the energy sector in conjunction with the rise in oil prices, and kept their gains after president Donald Trump's inaugural speech, but the major indexes posted weekly losses.

The "Dow Jones" Industrial Average rose 0.5 percent or 95 points to 19,827 points, while the "Nasdaq" index rose (+15 points) to 5555 points, and the broader "S&P 500" index rose (+ 7 points) to 2271 points.

On the weekly level, the "Dow Jones" recorded losses of 0.3 percent, and "Nasdaq" recorded losses of 0.3 percent, while the broader "S&P500" recorded a loss of 0.2 percent.

In the European markets, the "Stoxx Europe 600" index declined marginally by less than 0.1 percent or 0.2 points to 362.6 points, and recorded a weekly loss of 0.9 percent.

The German "DAX" index rose (+ 33 points) to 11630 points, and the French "CAC" index rose (9.5 points) to 4850 points, while the British "FTSE 100" index fell (-10 points) to 7198 points**.**

On the other hand, Gold futures for February delivery settled up at 0.3 percent or $3.40 to $1204.90 an ounce. The precious metal recorded a weekly gain of 0.7 percent.

In the oil markets, the US "NYMEX" rose by 2 percent or $1.05, closed at $52.42 a barrel and achieved a weekly gain of 0.1 percent. The "Brent" index rose by 2.5 percent or $1.33 and closed at $55.49 a barrel, posting weekly gains of less than 0.1 percent.

**Implications for Egypt:**

Global financial markets had a slight tendency towards rising under the continued state of global uncertainty in light of Trump's assuming presidency of the US and fears of possible changes in the US economic and monetary policy.

Global markets are closely anticipating Donald Trump's policies after the official inauguration. Trump said in his speech that his priority was to provide millions of jobs for citizens and address the economic challenges, declaring the "America First" approach.

The Egyptian Stock Exchange suffered during this week's trading from about LE 17.1 billion in losses. The capital market of listed companies' shares amounted to about LE 612.4 billion compared to LE 629.5 billion in the previous week (2.7 percent).

The weekly report of the Egyptian Stock Exchange indicated a collective drop in the performance of key market indicators. The Egyptian stock exchange's main "EGX 30" dropped by about 3.15 percent to 12807 points. The secondary market indicators also tended to decline. "EGX 70" index for small and medium shares recorded a decline of about 2.65 percent to close at the level of 461 points, while the broader "EGX 100" fell about 2.3 percent to reach the level of 1128 points. The EGX 20 multi-weights recorded a decline of about 5.59 percent to 12567 points.

This decline in the Egyptian Stock Exchange is attributed to corrective factors following the strong gains seen during the floatation of the Egyptian pound. However, this decline was mainly driven by the IMF announcement of its recommendation to impose a tax on the capital gains of the stock market. Despite denials from the Ministry of Finance, investors' fears pushed the stock market into a strong corrective wave at the end of the week trading.

We emphasize the need for new stimulus measures for the Egyptian Stock Exchange to increase its financial depth and investment flexibility through completing the required legislative amendments and taking faster steps towards offering companies and new financial instruments in the stock market over the coming period. It is also necessary for the State to decide its position regarding the imposition of a stamp tax on trading in the Egyptian stock Exchange.