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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

## Poll: Rising U.S. shale to rein in oil below $60 despite OPEC cuts

Argaam

Oil may struggle to rise beyond about $60 a barrel by the end of 2017, even if OPEC extends its supply cuts and global demand continues to improve, as U.S. shale production ramps up, according to a poll by Reuters.

Brent crude futures LCOc1 are expected to average $57.52 a barrel in 2017. The current forecast is slightly lower than the $58.01 forecast in the previous survey.

However, analysts participating in the poll feel a revival in U.S. shale production will keep a lid on any major price recovery. U.S. drillers rose to 602, the most rigs since October 2015.

Crude demand is expected to grow by about 1.3 million bpd in 2017, according to most analysts and this will partially offset the growth in U.S. crude output. The poll forecasts that NYMEX average price will reach $55.66 in 2017, and $6068 in 2018 compared to its current average of $53.

## Brexit means Germany will have to pay more into EU budget – Oettinger

Reuters

Germany and other net contributors to the joint European Union budget will have to pay out more once Britain leaves the bloc, European Commissioner Guenther Oettinger said in comments published on Monday.

Britain's net contribution of some 9 billion euros ($9.55 billion) could not be offset totally through future budget cuts, he told Handelsblatt business daily in an interview.

Germany, Europe's largest economy, makes the largest net contribution to the EU budget each year at more than 15 billion euros.

According to an internal Finance Ministry report in September, Germany may have to contribute an extra 4.5 billion euros in 2019 and 2020, after Britain leaves.

Senior German government officials have said the EU budget must shrink if Britain's contribution falls away.

## U.S. trade gap widens in January as Americans snap up imports

Argaam

The U.S. trade deficit for goods widened in January, as Americans snapped up consumer goods made abroad. The so-called advance look at the trade deficit widened 7.6 percent to $69.2 billion, the Commerce Department reported. Imports widened by $4.4 billion while exports fell by $400 million.

Imports of consumer goods jumped 4.8 percent in January and climbed 7.8 percent over 12 months.

The new Trump administration has focused on the trade deficit as a major political talking point.

## Mexico threatens to exit «NAFTA»

AFP

Mexico could pull out of the North American Free Trade Agreement if a renegotiation of its terms does not benefit Latin America's second-largest economy, Economy Minister Ildefonso Guajardo said.

Guajardo said that if the US imposes a 20 percent tax on Mexico manufactured cars, he would immediately pull out of negotiations.

This statement represents a more severe tone by Mexico, which threatens to boycott renegotiations of the agreement signed between the US and Mexico in 1994, if Trump insists on his stance.

Trump criticized the agreement severely, and considered it disastrous for the US because it only serves Mexican interests.

Immediately after assuming presidency of the US, he launched a project to build a wall on the borders, promising that the south neighbor will fund its construction, even if he had to cut funds from Mexicans' remittances to Mexico.

## Industrial growth in the Eurozone below initial estimates

Argaam

Though industrial activity growth in the Eurozone boosted last month, the highest pace in six years, it was slower than indicated by initial estimates.

According to Markit, the manufacturing PMI in the Eurozone rose to 55.4 points in February from 55.2 points in January, compared to an initial estimate of 55.5 points.

These data come in line with other indicators that reflect economic growth recovery in the Eurozone early this year, in spite of growing political uncertainty ahead of a number of important elections in key countries.

The manufacturing activity in the Netherlands reached its highest level in 70 months in February, while the country prepares for legislative elections the middle of this month, which may result in the extreme right assuming power.

## Why Europe's Major Stock Exchange Merger Is About to Collapse

Reuters

The London Stock Exchange has all but ended a planned merger with Deutsche Boerse to create Europe's biggest stock exchange by ruling out a European antitrust demand, saying it has strong prospects alone.

In a bid to create a European trading powerhouse that would better compete against U.S. rivals making inroads on their home turf, the two exchanges struck a 29 billion euro ($30.1 billion) deal just over a year ago.

In a highly unusual step, the London Stock Exchange (LSE) on Sunday preempted a European Commission antitrust decision, saying it was unlikely to give clearance for the merger after the London bourse had refused to sell an electronic trading platform in Italy.

A deal would now only be possible if the Commission, which declined to comment, were to change its demands—an outcome that is unlikely given its approach in other mergers.

German politicians demand that Frankfurt be the headquarters of the new group rather than London because of Britain's separation from the trading bloc.

Deutsche Börse said that a Commission decision is expected by the end of this month.

The LSE had said in a statement that the Commission had asked it to sell its 60 percent stake in MTS to satisfy antitrust concerns over the merger of Europe's two largest market operators.

Calling the request "disproportionate," the British exchange said it believed that it would struggle to sell MTS and that such a sale would be detrimental to its business. "Based on the commission's current position, LSE believes that the Commission is unlikely to provide clearance for the merger," it said.

The exchanges had already agreed to sell part of LSE's clearing business, LCH SA, in order to satisfy antitrust requirements.

## Implications or Egypt:

The global economic situation has been recently moving towards fluctuation, awaiting certainty about the new economic policies advocated by US President Trump in his speech to the Congress. Trump said that he is the president of the United States not the world, which confirms the intention to revitalize the US economy, probably at the expense of other economies.

The global economic situation indicates rising investment in risk assets. This allows for greater challenges ranging from possible transmission of the global volatility to regional markets to changes in domestic currencies, particularly those pegged to the dollar, and oil price volatility (ups and downs) that may be reflected on the investment attractiveness of the emerging economies in particular.

The latest figures in Egypt show early signs of the impact of the economic reform program, indicating a positive short-term progress, considering the numerous variables surrounding the program and the structural measures associated with it. The current challenges are acceptable and have been apparent for long. Their impacts have been assessed since the preparation of the program, which requires continuing to correct public finances and using integrated policies to stimulate investment in order to drive economic growth and increase foreign inflows. This should coincide with strengthening social safety nets and restructuring the internal trade system to reduce the impact on low-income people**.**

# From the International Press

## Possible Debt Bubble in the US

Asharq Al-Awsat

Experts warned that debt in the United States will return to worrying levels reminding of the 2008 crisis causes, when the mortgages bubble burst into a global financial crisis.

According to a recent Deutsche Bank report, the quality of certain US loans is worsening, warning against the possible impact resulting from rising interest rates on credit portfolios.

According to a New York banker, there are two contradicting logics now. That of president Donald Trump, who wants to ease restrictions to increase lending, and that of the Federal Reserve, which is heading towards raising the interest rate, indirectly aiming to relatively restraint borrowing. The first logic is extensive, while the second is more conservative.

Official statistics show that US households' debt is registering disturbing successive record highs. The proportion of car non-performing loans began to rise.

The total of these loans amounted to about $ 1.1 trillion end of 2016, compared with $698 billion in 2010, an average annual growth of over 10 percent. This made the Consumer Protection Office ring an alarm because the number of borrowers with belated payments has been rising significantly for at least two years. Average car loan amounts to $30 thousand at an interest rate of 11 percent and an average monthly premium of $ 500 for a period of 5 years.

Student loans stood at $1.4 trillion, compared with $521 billion in 2005, doubling 3 times in 10 years.

Most of these loans are granted by the government at an interest rate of 3.74 percent for 10 years and an average monthly premium of $300.

Facilities for university students came among a stimulus policy pursued by former President Barack Obama. However, that policy stimulated universities to increase premiums significantly, maximizing the need for more loans and increased average loans by 100 percent to $ 32000, compared to 16 thousand only in 2005.

The total number of loans increased in 10 years from 11 to 40 million college loans.

A financial source says that the problem now lies in the desire of President Trump to restore this role to banks and funding institutions instead of government lending. However, the interest rate on student loans in the private financial sector amounts up to 13.76 percent compared to the government's 3.74 percent.

Credit card loans (overdraft up to certain limits), amounted to $995 billion, and are slowing due to banks' constraints out of fear of overspending through credit cards.

The Federal Reserve confirms that household loans in 2016 saw the biggest growth in 10 years, and are moving in 2017 to reach a level of risk similar to that on the eve of the outbreak of the 2008 crisis.

Contrarily, another banker pro easing restrictions says that the ratio of total loans to nominal output is currently 67 percent, compared with 85 percent in 2008. Household debt formation in 2017 differs from what it was on the eve of the crisis, because housing and mortgage loans are more controlled, falling between 2008 and 2013, to stabilize returning to rational and thoughtful growth in 2015 and 2016, standing now at about $8.5 trillion, taking seven years to be able to reach the levels of 2009.

Though the percentage of non-performing loans is slightly rising, it doesn't exceed 4.8 percent of current total credit portfolios versus 8.5 percent in 2008, according to the Federal Reserve.

On the other hand, credit experts warn against Trump's tendency to ease banking restrictions to enable banks to increase lending, because in their opinion his diagnosis differs from reality, which indicates the existence of other bubbles.

At the commercial property level, the Great Street Advisor Index has risen 107 percent since 2009, after the sector benefited from the return of economic growth, measures to solve the 2008 crisis, and low interest rates. A boom in projects occurred and prices stepped up unprecedentedly, and the sector volume amounted to $11 thousand dollars by the end of 2016. However, signs of «tiredness» began to show on the sector.

Last year, for the first time since the crisis, demand fell by 11 percent, according to Real Capital Analytics Foundation. Non-leased spaces increased after the demand for office spaces dropped by 13.5 percent according to the Bureau of Specialist Studies. Returns fell more than 13.5 percent in 2015 to 9.2 percent in 2016, according to the National Council of Real Estate, Investment and Credit.

Moody's, the credit rating agency, warned against another bubble formed by the accumulation of bonds of companies classified as very low (Junk Bonds) that are now worth a trillion dollars, and are successively due until 2021.

This balance is another record in this type of unfortunate issuances, after the numbers witnessed during the 2008 crisis.

Another official US indicator shows a drop in return on investment in general (the average of all sectors) to 5.7 percent, down several points compared to the beginning of 2016.

With the beginning of raising interest rate cycle as promised by the Federal Reserve, returns will increase, and borrowers will face higher cost of funding. Then, it will be clear whether borrowers will take heed of the new bubble or will expand it more.

## Implications for Egypt:

Banking indicators confirm that the Central Bank of Egypt (CBE) continues to implement its previously disclosed strategy to strengthen the financial positions of banks, reform the monetary policy and strengthen its integration with the fiscal and monetary policies as well as increasing coordination between them, particularly with the establishment and activation of the Coordinating Council of Fiscal and Monetary Policies. The council is currently playing a structural role in regulating the economic process and leading sectoral basic reforms to reduce imports and increase the development rates of domestic resources, increase investment and exports.

The implementation of CBE's recent decision to strengthen the financial position of banks is positive, because it protects against public or private crises. The financial strength of banks over the recent years maintained their position compared to other financial institutions. We believe that bank earnings will not be affected by applying CBE's buffer; because of their annual increase. Also, after setting aside the buffer value, earnings will probably be equivalent to the previous year's, which will not affect shareholders, while increased reserves increases banking units when evaluated.

Current banking policies should include developing a program to address the financial tumbling caused by banking measures, which started after the global financial crisis in 2009 and increased in the wake of the January 25 revolution. This will unlock new economic and developmental capabilities and revive economic growth rates through re-operating complex capital and investment assets, especially that the various estimates of stalled investments clearly indicate the magnitude of the impact on economic growth, if the monetary and economic policies are supported to end the current state of financial tumbling.

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Our Economy & the World

# Special Analysis

## These are the Places where Corporations Pay the Least Tax

World Economic Forum

International charity Oxfam has compiled a list of countries, which it says allow companies to pay too little tax. Their new research looks at the various schemes run by governments to enable large corporations to avoid paying tax, such as low corporate tax rates and tax incentives. It has also looked at how well the country cooperates with international efforts against tax avoidance.

Four on the list are under the sovereignty of the UK, including the two worst offenders; Bermuda, in first place, and the Cayman Islands, in second. Further down is Jersey, in 12th place, and the British Virgin Islands in 15th place.

Bermuda and the Cayman Islands top the list because they have 0% corporate income tax, 0% withholding taxes, and they don't participate in trying to clamp down on tax avoidance schemes.

In addition, Oxfam found evidence of large-scale profit shifting—where the company makes a profit in one area and moves it to another with much more favorable tax schemes.

A further five on the list are European countries: the Netherlands (3rd), Switzerland (4th), Ireland (6th), Luxembourg (7th) and Cyprus (10th).

**The places where corporations pay the least tax**

Based on Oxfam 2016 rankings

| |
|---|
| 1. Bermuda |
| 2. Cayman Islands |
| 3. Netherlands |
| 4. Switzerland |
| 5. Singapore |
| 6. Ireland |
| 7. Luxembourg |
| 8. Curaçao |
| 9. Hong Kong, China |
| 10. Cyprus |
| 11. Bahamas |
| 12. Jersey |
| 13. Barbados |
| 14. Mauritius |
| 15. British Virgin Islands |

Source: Oxfam, 2016

The research reveals that some of the places where corporations can pay the least tax are countries with reasonable nominal corporate tax rates, including the Netherlands, Luxembourg, Singapore and Hong Kong. However, tax incentives lower how much the companies actually pay.

Oxfam found that corporate tax rates are indeed going down; falling from an average of 27.5% just 10 years ago to 23.6% today.

Meanwhile, over the last 30 years, net profits posted by the world's largest companies more than tripled in real terms, from $2 trillion in 1980 to $7.2 trillion by 2013. This trend, the report says, has not been matched by a rise in corporate income tax contributions, and this is partly a result of tax incentives. Oxfam's analysis found that 90% of the world's biggest companies had a presence in at least one tax haven.

**The Blacklists**

A key point that the report makes is that, although some world leaders, including the EU and the G20, are themselves compiling tax avoidance "blacklists," they use criteria which is not objective or comprehensive enough.

For example, the EU is only looking at countries outside of the EU, which means that some of the countries on Oxfam's list would not be assessed.

The list being compiled by the G20 focuses on financial transparency, says Oxfam, and ignores many key tax policies that facilitate corporate tax dodging, including zero corporate tax rates.

**The Inequality Crisis**

Oxfam's problem with corporations not paying full tax is that this is a key contributor to the inequality crisis. According to previous Oxfam research, just 62 people control the same wealth as the poorest 3.6 billion people. This sort of inequality is often blamed for undermining economic growth and the fight against poverty.

"When corporations pay the right tax, it raises more income for national budgets, and when this revenue is invested in public services, it reduces inequality because it redistributes the income by putting 'virtual income' in the pockets of poor people. This equips people with the essential tools and skills to escape poverty, such as good health care and education," says the report.

"When they don't, governments have to cut back on the essential spending needed to reduce inequality and poverty; or to make up the shortfall by levying higher taxes, such as value-added tax (VAT), on other, less wealthy sections of society," it adds.

This matters more in poorer countries, says the report, because corporation tax makes up a higher proportion of taxes than in richer countries. The report estimates that developing countries lose around $100bn annually as a result of corporate tax avoidance schemes, enough to educate all of the 124 million children currently out of school, and to save the lives of six million children.

**The Solution**

Oxfam concludes that governments should launch a new generation of comprehensive international tax reforms, including making tax practices more transparent and stopping unfair and unproductive tax incentives.
"Everyone must pay their fair share of taxes, and should not be allowed to escape their obligations to the societies in which they operate and where they generate their wealth," concludes the report.

## Implications for Egypt:

The Egyptian tax system needs radical and comprehensive amendments, including planning the tax policy, development of new foundations for tax litigation, putting together tax plans for the informal sector and the taxation of professional businesses. This requires integration with parallel plans aimed at reforming Egypt's "cash" system, consolidating an invoicing system that limits sales outside the system, along with preparing the tax administration for reforms in conjunction with the increased reliance on indirect taxation as a principal source of revenue. There is also a dire need to develop a unified tax law and the establishment of specialized tax courts in line with the international experience in this respect.

We also recommend revising the tax policy for SMEs, so that a system of privileged tax treatment can be applied for a specific period as an alternative to the relative tax on income or profits, according to rules to be set by the tax authority. For example, a lump sum tax could be applied to encourage these entities them to join the formal system. In other words, modifying the tax system would be one of the main catalysts for incorporating the informal economy into the formal system in addition to incentives granted to SMEs and low-cost financing.

Egypt should be aware that tax revenue growth is still less than desirable in the absence of drastic change in revenue development mechanisms, as no instruments or innovative methods have yet been used to attract new non-tax revenue or restructure the tax system to increase revenues.

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# Global Financial Market Performance

Reuters/ Argaam

Chinese stock indices fell at the close of trading for the second session in a row, recording a weekly loss after data that showed a slowdown in the services sector growth for the second month in a row.

At the end of the session, the "Shanghai" composite index fell by 0.35 percent to 3218 points, and recorded a weekly loss of 1.1 percent.

Data showed a decline in the "Caixin" Services PMI to 52.6 points in February from 53.1 points in January. In addition to the fact that this is the second consecutive decline, the index reading over the past month was the slowest in four months.

This data comes in line with official data pointing to a slowdown in the growth of non-industrial activities, which includes both services and construction sectors, in February.

Markets are awaiting the National People's Congress next week, where the Prime Minister is scheduled to announce the targeted growth rate, the budget and government plans for the current year.

Japanese stocks fell at the close of trading, driven by losses of the banking sector and exporter companies, coinciding with the rising value of the yen against the dollar, despite the release of positive economic data.

At the end of trading, the Japanese "Nikki" index fell by 0.50 percent to 19,469 points, while the "TOPIX" index fell by 0.40 percent to 1558 points.

Companies' losses were driven by appreciation of the yen, which posed pressure on their shares, as it makes their products more expensive in overseas markets and wastes one of their competitive advantage.

Official data showed a rise in core consumer price index of 0.1 percent in January after falling 0.2 percent in December. This is the first rise in more than a year.

The unemployment rate fell from 3.1 percent to 3 percent, while household spending fell by 1.2 percent compared to what it was during the same month a year ago, the 11th decline in a row.

US stocks stabilized during Friday trading amid calm trading, and maintained their stability after statements of the Chair of the Federal Reserve about interest rates. Major indexes achieved a weekly gain.

The Dow Jones' industrial average rose 2.7 points to 21,005.7 points, the broader S & P 500 index rose one point to 2383 points, while the Nasdaq index rose (9.5 points) to 5870.7 points.

On the weekly level, the "Dow Jones" industrial index was up 0.9 percent, "Nasdaq" index gained 0.4 percent, while the S & P 500 index made a weekly gain of 0.7 percent.

In the European markets, "Stoxx Europe 600" fell by less than one point to 375.2 points, but was able to achieve a weekly gain of 1.4 percent.

The German "DAX" index dropped (- 32 points) to 12,027 points, the British "FTSE 100" index declined (- 8 points) to 7374 points, while the French "CAC" rose (+31 points) to 4995 points.

On the other hand, Gold futures for April delivery settled down 0.5 percent, or $6.40 to $1226.50 an ounce, the lowest close in two weeks and a half. The precious metal scored a weekly loss of 2.5 percent.

In the oil markets, the US "NYMEX" rose 1.3 percent or 72 cents to close at $53.33 a barrel, but made weekly losses of 1.2 percent. "Brent" rose by 1.5 percent or 82 cents to close at $55.90 a barrel, and recorded weekly losses of 0.2 percent.

With regard to economic data, US services PMI rose to 57.6 points in February, compared with 56.5 points in January, according to the Institute for Supply Management (ISM).

In her speech on Friday in Chicago, Yellen said that the Federal Reserve members will assess employment and inflation data. If improvement in the existing economic conditions continued, raising the interest rate in the next meeting would be appropriate.

## Implications for Egypt:

Early indicators suggest the global markets are in anticipation of the US Federal Reserve's decision regarding interest rates and developments in US economic policy, especially that the global markets are still witnessing incidental movements.

The main Egyptian stock market index EGX 30 increased during the week by 0.57 percent, or 69.96 points, to reach 12,310.5 points, supported by gains in Thursday's session, in conjunction with the announcement of the Ministry of Finance of a proposal to cut the stamp tax to LE 1.25 per thousand in the first year of implementation.

The value of trading of the index registered around LE 4.1 billion through trading of 937.2 million shares. Market capitalization increased by about 2.8 billion pounds, to close at 603.1 billion pounds, compared with last week's close at LE 600.3 billion.

EGX70 fell by 1.38 percent to 477.01 points, EGX100 fell by 0.98 percent to 1151.87 points, and the EGX50 equal weights index declined by 2.68 percent to 1875.57 points.

Selling dominated foreigners' trading at LE 222.6 million on a net basis, compared with a buying trend by Egyptians and Arabs at LE 177.9 million and LE 44.7 million, respectively. Trading by Egyptians accounted for 72 percent of total trading during the week, while trading by foreigners and Arabs accounted for 16.8 percent and 11.2 percent, respectively. Trading by institutions was in favor of selling, registering a net of LE 189.4 million pounds during the week, compared to a buying tendency by individuals. Individuals dominated trading during the week at 63.9 percent of total trading, while institutions accounted for 36.1 percent.

We see a need for new stimulus measures for the Egyptian Stock Exchange to enhance financial depth and investment flexibility through completing the required legislative amendments and taking faster steps towards offering new companies and financial instruments in the stock exchange, and resolving the situation regarding the imposition of a stamp duty on transactions.