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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: After India's decision to cancel 500 and 1000 notes ..The Financial Times: war against tax evasion**
- **Special Analysis: Why Did IMF Freeze the Second Tranche of the Loan for Tunisia?**
- **An Analysis of Global Financial Market Performance and Changes in Prices of Goods and Raw Materials**

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ECES
The Egyptian Center for Economic Studies

Our Economy & the World

Key Global Developments

Banks paid $321 billion in fines since financial crisis: Report

Argaam

Banks across the world have paid about $321 billion in fines since the 2008 financial crisis as regulators stepped up scrutiny, according to a note by the Boston Consulting Group.
According to the study, this figure could increase over the coming years with European regulators attempting to keep in pace with their stricter US counterparts, as US regulators have imposed most of these most of these penalties so far.
Banks paid $42 billion in penalties in 2016, an increase of 68 percent from the previous year.
Almost ten years since the financial crisis, the banking industry has not completely recovered, according to the report.

IEA warns of oil 'supply crunch' by 2020 with no capex renaissance

Reuters

Global oil supply may struggle to match demand after 2020, when the pinch of a two-year decline in investment in new production could leave spare capacity at a 14-year low and send prices sharply higher, the International Energy Agency said.
Investors generally are not betting on a sharp rise in the price of crude oil any time soon, but the contraction in global spending in 2015 and 2016 and growing global demand means the world could well face a "supply crunch" if new projects are not soon given the go-ahead, the IEA said in its five-year "Oil 2017" market analysis and forecast report.
Most supply growth is expected to come from the United States, where the IEA said shale, or light tight output (LTO), will grow by 1.4 million barrels per day by 2022 even if prices remain close to current levels $60 a barrel and the response from the production side could be stronger still if prices rise.
"The United States responds more rapidly to price signals than other producers. If prices climb to $80 a barrel, U.S. LTO production could grow by 3 million bpd in five years," the IEA said.
If prices remain closer to $50, shale output could fall from the early party of the next decade.
"We are witnessing the start of a second wave of U.S. supply growth, and its size will depend on where prices go," said Fatih Birol, executive director of the IEA. "But this is no time for complacency. We don't see a peak in oil demand any time soon. And unless investments globally rebound sharply, a new period of price volatility looms on the horizon."
Investment in the U.S. shale basin is picking up already, and there is evidence of growth in supply from Canada and Brazil, but the IEA said early indications of global spending this year were "not encouraging".

China Objects to EU tariffs on steel products

Asharq Al-Awsat

China confirmed its objection to tariffs imposed by the European Union (EU) on steel products from China, calling for an end to such unfair and expensive measures.
Wang Hejun, head of the Ministry of Commerce (MOC)'s trade remedy and investigation bureau, said China is highly concerned about the EU's protectionist tendencies regarding Chinese steel products.
He said the European Commission investigation disregarded facts and materials provided by Chinese companies and continued to use the "unfair and unreasonable" surrogate country approach, seriously affecting Chinese companies' interests.
He urged the EU to fulfil its obligations under the World Trade Organization (WTO) and apply a justified and non-discriminatory approach toward Chinese companies.

Sales of dollar and euro denominated bonds rising to record highs in emerging markets

Argaam

Borrowers' bond sales in emerging-market accelerated at an unprecedented pace during January and February, prior to potential raising of US interest rates, which is likely to occur this month, according to "Bloomberg".
Kuwait selected a number of banks to complete the process of selling $9.5 billion in bonds, to coincide with other sales in Oman, Slovakia and Nigeria.
In general, emerging markets' issuances of dollar and euro denominated bonds amounted to $100 billion during the first two months of 2017, the highest level ever and higher by about 20 percent than the previous record level during the same period of 2014.
It was cheaper for borrowers to raise funds in emerging markets since the announcement of the US presidential election results, as bond yields fell about 50 basis points.
However, the situation is no longer likely to continue so, as the Federal Reserve officials tend to raise US interest rates gradually, which may be starting this month.

World food prices rise slightly in February – FAO

Reuters

World food prices rose slightly in February, boosted in particular by cereals, the United Nations food agency said.
The Food and Agriculture Organization's food price index, which measures monthly changes for a basket of cereals, oilseeds, dairy products, meat and sugar, averaged 175.5 points in February, up 0.5 percent from January levels.

The increase pushed food prices on international markets to their highest level since February 2015. They were some 17.2 percent above their levels in the same month last year.
Global cereals output is now expected to reach 2.6 billion tonnes in the 2016 season, up 0.3 percent on previous forecasts, FAO said.
FAO said its first forecast of global wheat production in 2017 stood at 744.5 million tonnes, a 1.8 percent decline from the 2016 record level but above the last five-year average.

Morgan Stanley Expects Fed to Hike in March

Argaam

Morgan Stanley economists said they expected the Federal Reserve will raise U.S. interest rates by a quarter point to a range of 0.75-1.00 percent at its upcoming policy meeting in less than two weeks.
The U.S. central bank would increase its interest rate target range two more times later in 2017 after a possible hike later this month, they said in a research note.
They forecast four rate hikes in 2018.

Implications for Egypt:

Recent global economic volatility points to escalating pressures on global economic growth opportunities. This requires Egypt to enhance measures taken to increase economic growth, such as the promotion of domestic production, especially among SMEs, in light of the expected recession in Britain and shifts in movement of global investment flows worldwide as well as the emergence of an escalating trade war between the US and China amid slow global economic growth. Against this backdrop, Egypt has to move more quickly to encourage domestic consumption while supporting its presence in the Arab and African regional markets in order to capture larger market shares in the medium term and to benefit from trade agreements with these countries.
Egypt should start activating reforms performed through economic program packages, which focus on consolidating government spending, rationalizing consumption, focusing on specific productive sectors, and reviving some investment economic sectors that are all capable of reducing deficits and improving the ability of economies.
Attention should be also be given to the Gulf-Egyptian economic and commercial relations, which are strategic. This requires developing the concept of integration and going beyond the status quo. The establishment of joint economic zones, expanding the scope of bilateral trade agreements and the introduction of new sectors therein such as services, and the establishment of joint industries that are directed to import substitution and dependent on Gulf-Egyptian raw materials will be a basis for developing trade and economic relations over the coming period.

From the International Press

After India's decision to cancel 500 and 1000 notes ..The Financial Times: war against tax evasion

Al-Youm Al-Sabe'

Narendra Modi, the prime minister of India, announced last November that the Rs500 and Rs1,000 notes (worth about $7.50 and $15 respectively) would be demonetised with immediate effect. This act cancelled 86 percent of the value of cash in circulation. Moreover, the cancelled notes had to be deposited in banks by December 30 with restrictions on withdrawals, and the Reserve Bank of India imposed restrictions on cash withdrawals.

Martin Wolf, chief economics commentator at the British Financial Times, said that in its boldness, this move by the democratically elected leader of so vast a country makes everything that US President Donald Trump has done so far look trivial. Should one regard it as a decisive action in India's war against tax evasion, the black economy and pervasive corruption? Or is it a damagingly arbitrary act by an illiberal democrat? Today, it seems a bit of both. In the long run, it depends on what happens next.

He considered that for a politically and economically stable country suddenly to impose so unexpected and radical demonetisation is unprecedented. Why would any elected government inflict such a shock, particularly since India's economy is so dependent on transactions in cash?

As a lower-middle-income country, India still contains a huge number of people who are outside the formal financial system. Moreover, India is also relatively cash-dependent even for such a country: one estimate is that cash still accounts for 78 per cent of consumer payments, according to Financial Times estimates.

According to the finance ministry's Economic Survey 2016-17, the policy's aim was fourfold: "To curb corruption, counterfeiting, the use of high denomination notes for terrorist activities, and especially the accumulation of 'black money', generated by income that has not been declared to the tax authorities." These goals are popular with many Indians, who have tolerated the upheaval surprisingly calmly, in the hope that crooks would get their deserts. These are also reasonable objectives. Few would deny India suffers from corruption and tax avoidance on a large scale. Yet the action might also sow permanent distrust of government promises. The disease might be bad, yet the cure is costly. How costly might it be and how beneficial?

The short-run costs are evident. As the Economic Survey puts it laconically, these costs have taken the form of "inconvenience and hardship", especially for those in the "informal and cash-intensive sectors of the economy". Since hundreds of millions of Indians are very poor, this is not to be trivialised.

In analysing short-run costs, the analysis emphasises three shocks: to aggregate demand, due to the decline in cash and the permanent loss of wealth for those who chose not to declare their cash holdings; to aggregate supply, due to the role of cash as an input into production (in agriculture, for example), and via enhanced uncertainty.

Overall, it concludes, demonetisation might have lowered gross domestic product, temporarily, via its effect on the money supply, by between a quarter and a half a percentage point, relative to a baseline of about 7 percent annual growth.

Yet even in the short run, there will also be benefits. Some of the ill-gotten wealth will have vanished and some will have been taxed. This is so because holders had to declare unaccounted wealth and pay penal taxes, lose it, or launder it. Overall, that policy allowed the government to tax black money, at least as a one-off and possibly permanently, given the enhanced risks of holding cash.

Overall, there is a transfer of wealth from criminals to the government. It is hard to be sorry for these victims.

Furthermore, significant long-run benefits should also emerge. The shock should, above all, accelerate the movement of liquid wealth into the financial system and so enhance honesty, transparency and efficiency in the economy.

A significant result might be increased "digitalisation" of finance, though this would require complementary reforms, notably ones that make it easy for Indians without smartphones to make digital payments.

Implications for Egypt:

Egypt has recently taken serious steps to address the escalating problems of the cash economy and its role in reducing growth opportunities. President Abdel Fattah El-Sisi issued Presidential Decree No. 89/ 2017 establishing the National Council for Payments, which is considered a great leap towards the activation of a clear strategy to formalize the informal economy, as well as reducing high liquidity circulation outside the banking system.

There is an extreme need to set regulations for circulating Egyptian exchange outside the banking sector, which requires several steps, on top of which:

- Issuance of a decree by the Ministry of Finance represented by the Taxation Authority stipulating that for any transactions exceeding a certain amount (to be identified), any cash transactions carried out by entities registered in the Taxation Authority will only be recognized if they are made through the banking system.
- Preventing government entities from receiving dues, fees or any other form of cash transactions exceeding LE 1000 unless through the bank accounts of these government entities. This applies also to any government purchases exceeding the set amount.
- Any pensions, salaries, bonuses, incentives, allowances or the like that are paid to workers in the State's administrative system should be only through banks.
- Activating the Central Bank's decree concerning the establishment of small bank branches in governorates and remote areas. It is also necessary to reduce the fees and current measures applied to open bank accounts in order to encourage citizens to open accounts with banks.
- Assigning the Central Bank to cooperate with the banking system to consider providing an incentive for citizens and traders for transactions made through electronic cards. These incentives or benefits will be the main driver of the transition from the cash economy.

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Special Analysis

Why Did IMF Freeze the Second Tranche of the Loan for Tunisia?

Al-Yome Al-Sabei

It seems that the economic reforms that began in Tunisia since 2013 are no longer convincing enough to the IMF, which suspended the second tranche of the credit facility extended with a total value of $2.8 billion, approved in May.

Tunisia is struggling to stimulate its economy, which has been hit hard since the revolution that toppled former President Zine El Abidine Ben Ali, due to the unrest and declining tourism as a result of terrorist attacks.

The country that sparked the Arab Spring revolutions hopes that the IMF program would boost economic growth, support the private sector, and create jobs for the youth.

The Tunisian government succeeded in meeting the Fund's terms and conditions of the first agreement signed in 2013 in exchange for providing a line of credit of $1.7 billion over two years. However, the bill of the second agreement appears will not be easy, as the Fund requires the implementation of bold reforms that may cause social unrest before releasing the second tranche.

Tunisia is likely to sell stakes in three state-owned banks this year and cut up to 10,000 public sector jobs as part of reforms demanded by the IMF, which has postponed the payment of the second tranche of a loan, finance minister Laia Zribi said.

Last June, the IMF released the first tranche of a loan worth $320 million; Tunisia was supposed to receive the second tranche last December had it not for lack of progress in reforms, including public sector wage bill, the public finances and state banks.

The mission of the IMF, which visited Tunisia in February to assess progress of the economic reform program, concluded that the Tunisian economy remained strong in a difficult international environment. It expected economic growth to rise to 2.5 percent in 2017 against 1.3 percent in 2016, supported by improved confidence after the success of "Tunisia 2020" last November, and the adoption of important legislations related to the private sector.

However, the mission noted significant challenges at the macro level in light of the continuing rise in public debt that reached more than 60 percent of GDP in 2016, according to the mission’s statement posted on the Fund's website.

The mission said that the measures taken by the Tunisian authorities in the framework of the Finance Act of 2017, would lead to a limited reduction in the overall fiscal deficit to 5.6 percent of GDP against 6 percent in 2016, which is higher than the target due to lower growth and irregularities in public finance.

The mission suggested the need to reduce the public sector wage bill as a percentage of GDP, which is one of the highest in the world, pointing out that the external current account deficit remains high.

The mission and the government agreed on the need to take urgent measures to safeguard the integrity of public finances, increase public investment, and accelerate progress in the conduct of the overdue structural reforms.
But it seems that efforts to modernize the civil service and ensure the soundness of public banks and state-owned enterprises have not yet been deemed enough by the IMF to release of the second tranche of the loan. The IMF hopes the Tunisian government would deliver on promises to increase tax revenues in a fair and efficient manner, rationalize the public sector wage bill to create more space for public investment, and implement the fuel price adjustment mechanism.
Other important priorities include the need for Tunisia to establish a sustainable social security system. These actions are of paramount importance as the Tunisian economy moves towards higher growth, creation of more jobs, and availing an appropriate level of basic services to citizens.

Implications for Egypt:

Egypt's conclusion of the IMF loan represents a major boost for Egypt internationally, and sends a positive message to foreign lenders and donors that the Egyptian economy is recovering and has the ability to grow, despite the difficult economic conditions following the January revolution. It also alleviates the burden on government when managing its resources for emergency needs.
However, it must be emphasized that the success of this agreement is directly linked to the implementation of a comprehensive reform program that contributes to supporting economic growth, easing pressure on the state budget, and increasing development rates. It should also contribute to reducing unemployment and inflation in addition to maintaining the stability of the foreign exchange market and encouraging investments inflows.
It is clear that there is a common understanding between the Egyptian government and the IMF on the need to address the short-term challenges facing the economy, and on the need to promote reforms that help achieve higher and more inclusive growth over the coming period. The aim is to promote stability and restore confidence to encourage investors to invest, create jobs, and reduce the financial burden associated with high financing terms. Egypt should provide an enabling environment for investment to attract more capital inflows from abroad.

Global Financial Market Performance

Reuters/ Argaam

Japanese stock indexes ended trading high, and boosted weekly gains, supported by depreciation of the yen against the dollar, and with the start of intense selling of global bonds.

At the end of the session, the Japanese "Nikki" index rose by 1.5 percent to 19604 points and achieved a weekly gain of 0.7 percent. The "TOPIX" index rose by 1.25 percent to 1574 points.

The pace of bond sales accelerated in global markets after the European Central Bank President, "Mario Draghi," pointed out that it is unlikely to take further stimulus measures.

Observers believe that European bond yields are on their way to rise in light of growing signs showing that the rate of inflation in the Eurozone is closer to the desired level.

At the end of trading, the "Toshiba" share rose 1.70 percent to 208.3 yen, having fallen by more than 4 percent in earlier trade, against the backdrop of reports pointing to possible bankruptcy of the company's nuclear business unit in the United States.

Chinese stocks also fell marginally at the close of trading, driven by losses of energy companies and the banking sector, thus recording losses for the second week in a row.

At the end of the session, the "Shanghai" Composite Index declined 0.10 percent to 3212 points, and recorded a weekly loss of 0.2 percent.

Official data showed that, after the end of trading, new loans fell to 1.17 trillion yuan in February from 2.03 trillion yuan in January.

For his part, Governor of the People's Bank of China (the central bank), Zhou Xiaochuan, said that the yuan exchange rate will be relatively stable this year despite fluctuations due to expected raising of the US interest rate, noting that investors are becoming more confident in the Chinese economy.

US stocks rose during Friday trading after the monthly situation data showed growing confidence in the US economy, which comes in favor of the possibility that the Federal Reserve will raise interest rates in its next meeting.

The "Dow Jones" Industrial Average rose 45 points to 20,903 points, and the broader "S & P 500" index rose (+8 points) to 2372 points, while the "Nasdaq" index rose (+ 23 points) to 5861 points.

On the weekly level, the "Dow Jones" industrial recorded losses of 0.5 percent, the "Nasdaq" Index recorded a loss of 0.2 percent, while "S & P 500" index recorded a weekly loss of 0.4 percent.

In the European markets, "Stoxx Europe 600" benchmark rose less than 0.1 percent, or 0.3 points, to 373.23 points, but scored a weekly loss of 0.5 percent.

The German "DAX" index dropped (-15 points) to 11963 points, while the French "CAC" index rose (+12 points) to 4993 points, and the British "FTSE 100" index rose (+ 28 points) to 7343 points.

On the other hand, Gold futures for April delivery settled down 0.2 percent, or $1.8 to $1201.40 an ounce. The yellow metal posted 2 percent in weekly losses.

In the oil markets, the US "NYMEX" fell by 1.6 percent or 79 cents to close at $48.49 a barrel and recorded a weekly loss of 9.1 percent, while the "Brent" index fell by 1.6 percent or 82 cents to close at $51.37 a barrel, and recorded a weekly loss of 8.1 percent.

The monthly situation report showed the addition of 235 thousand jobs in February, and that the unemployment rate fell to 4.7 percent from 4.8 percent in January.

These data strengthen the chances of raising the interest rate during the Federal Reserve meeting, which is scheduled next week.

US Monthly Situation Report

	Outlook	Previous	Current	Change
Number of jobs (thousand)	200.00	238.00	235.00	(3)
Unemployment Rate (Percent)	4.7	4.8	4.7	(%0.1)
Average hourly wage ($)	--	26.0	26.09	0.1
Average hourly wage	--	34.4	34.4	--

Implications for Egypt:

Throughout the week, global markets were affected by fluctuations in economic indicators, and by anticipation of the Fed's decision regarding interest rates, with expectations of an increase thereof, which will affect the attractiveness of global stock markets.

With respect to indices of Egypt's stock market, EGX30 rose during the week to close at 12.853 points, registering a rise of 4.41 percent. While medium-sized firms' stocks tended upward, with EGX70 rising by 8.73 percent to close at 519 points. The EGX 100 index registered a rise of about 7.21 percent to close at 1.253 points.

According to the weekly report of the Egyptian Stock Exchange, the total value of trading this week reached about 12.5 billion pounds, while total volume reached 1.635 million securities executed over 161 thousand transactions. Stocks accounted for 99.97 percent of the total value of stocks traded inside the exchange. Bonds' trading accounted for around 0.03 percent during the week.

Trading by Egyptians accounted for 76.72 percent of total trading during the week, while trading by non-Arab foreigners accounted for 16.83 percent, with Arabs accounting for the rest. Non-Arab foreigners accounted for net purchases of LE 220.86 million this week, while Arabs recorded net sales of LE 45.14 million during the week, after excluding deals.

This relative improvement comes after the stabilization of the situation with respect to the stamp tax, which will be discussed soon by the Cabinet.