Issue: 53

Date : 9 April 2017

ECES
The Egyptian Center for Economic Studies

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: Fears that Finland becomes the "Greece" of northern Europe**
- **Special Analysis: Mobilizing the Middle East and North Africa Diaspora for Economic Integration and Entrepreneurship**
- **An Analysis of Global Financial Market Performance and Changes in Prices of Goods and Raw Materials**

Key Global Developments

U.S. oil producers increased investment in fourth quarter of 2016

Argaam

Capital expenditure for 44 U.S. onshore-focused oil production companies increased $4.9 billion (72%) between the fourth quarter of 2016 compared to the fourth quarter of 2015 based on their public quarterly financial statements. This increase in investment spending was the largest year-over-year increase for any quarter by these 44 companies since at least the first quarter of 2012.

Lower investment levels over the previous two years likely contributed to a reduction in cash from operations for these 44 companies by $475 million in the fourth quarter of 2016.

Reflecting the gradual growth of capital expenditures, the number of active oil rigs in the U.S. increased to 662 on March 31, 2017, up from 525 at the end of 2016.

Russia And China Join Forces against US Dollar

Kuwaiti Al-Watan

Moscow and Beijing are taking effective steps to curb the dominance of the US currency over the world, and move to the mutual use of national currencies in trade between the two countries. According to Contra Magazin, close economic and financial cooperation between Russia and China could contribute to the creation of new global standards and taking the US dollar out of the global game.

On March 14, the Russian central bank opened a branch in China, its first overseas representation, as part of a cooperation agreement between Russia and China aimed at boosting economic ties between the two countries.

Moscow and Beijing are moving to facilitate their gold importation procedures in a move to increase their reserves of the precious metal. According to analysts as quoted by Contra Magazin Beijing's large gold reserves boost its global currency and limit the role of the dollar globally.

Contra Magazin asserts that the US currency is being attacked at various levels. If other countries join Russia and China, it will cut "oxygen for the dollar" and limit Washington's role on the global geopolitical level.

IMF: Global productivity slowdown risks social turmoil

Al-Youm Al-Sabe’

Christine Lagarde, the IMF's managing director, said that global living standards would be seriously undermined unless governments make urgent moves to increase productivity. She called on world governments to to invest more in education, research and development and elimination of bureaucracy in order to improve living standards and overcome the negative repercussions of the global financial crisis.

She added that global productivity rates were very low over the past three years. The global tendency to increase productivity before the global financial crisis would have led to a 5 percent increase in GDP in the advanced economies if the governments of these economies continued this tendency during the years following the financial crisis.

"Another decade of weak productivity growth would seriously undermine the rise in global living standards. Slower growth could also jeopardize the financial and social stability of some countries by making it more difficult to reduce excessive inequality and sustain private debt and public obligations," she added.

Lagarde noted that relaxation and waiting for creative industrial solutions to stimulate productivity is simply not on the table. Education and training are key factors for improving productivity and reducing inequality," Lagarde said.

South Africa's credit rating has been cut to junk status

Mubasher

South Africa's credit rating has been cut to junk status by the ratings agency S&P Global.

The agency cut South Africa's foreign currency rating to BB+ with a negative outlook, as it sees that political risks high in 2017.

The agency reduced South Africa's credit rating in the local currency to (-BB) from (BBB). Last week, South African President Jacob Zuma dismissed the popular finance minister, Breven Jordhan, and his deputy

ECB official: Get ready for higher interest rates

Argaam

A member of the ECB's board of directors said the bank did not discuss suspension of the quantitative easing program, but governments and the financial sector need to get ready for higher interest rates.

At a Paris conference, ECB Executive Board member Benoit Coeure said that France's presidential election candidates should be particularly cautious not to set economic programs for the coming five years based on low interest rates.

Coeure added that the financial sector, and other economic actors and especially governments in the Eurozone must prepare for higher interest rates. Banks' sensitivity to interest rates will be the main topic of ECB endurance tests this year. He noted that negative interest rates were very effective, but they should not last for long, as this would damage the banking sector.

U.S. backs out of Latam development fund in sign of policy shift

Reuters

The United States, historically a major backer of multilateral lending institutions, will not renew its contribution to Inter-American Development Bank fund that supports pilot development projects, the head of the Washington-based organization said.
In a news conference at the IDB's annual board of governors meeting in Paraguay's capital, Asuncion, President Luis Alberto Moreno linked the U.S. decision to a policy shift since Republican President Donald Trump took office in January.
"On this occasion, the United States, for various domestic reasons, did not want to participate," Moreno said. He added that the U.S. delegation had indicated at an October 2016 meeting that it was willing to contribute, "but that it all depended on the result of the election."
The IDB provides loans to governments and businesses to finance projects ranging from large-scale infrastructure to small businesses. Founded in 1959, it says it is the leading source of development financing for Latin America, lending $11.3 billion and $13.8 billion in 2015 and 2016, respectively.
The Multilateral Investment Fund, or MIF, created in 1993, was instrumental in the development of microfinance and provides technical assistance to small projects aimed at providing economic opportunity to the poor.
It was a brainchild of former U.S. President George H.W. Bush, and the United States has historically been its largest donor, the IDB said in a statement.
IDB member countries pledge to renew the fund's coffers every several years. At the October meeting, the IDB governors agreed to provide an additional $300 million to keep the fund running from 2019 to 2023.

Global debt hits $215 trillion in 2016

Argaam

Global debt rose to 325 percent of the world's gross domestic product in 2016, totaling $215 trillion, an Institute for International Finance report showed.
Global debt grew by $7.6 trillion in 2016 compared with the prior year. Issuance rose from 320 percent of GDP in 2015.
Emerging markets have raised nearly $40 trillion of new debt between 2006 and 2016, a significant acceleration from the roughly $9 trillion added between 1996 and 2006, according to the report.
Emerging market debt is now $55 trillion, equal to 215 percent of their GDP. The majority of the increase in emerging market indebtedness has been in local currency, which was more than $48.5 trillion. Developed market countries' debt rose $32 trillion to $160 trillion, or 390 percent of those markets' combined GDP.

Implications for Egypt

The current trends in global economy affirm the fact that the economic growth based primarily on the export of raw materials and commodities is on its way to collapse over the coming few years in favor of innovation, manufacturing, maximized value added and effective investment of economic resources. The decline in the production cost of solar energy and wind power threatens that excessive reliance on oil and gas will remain as the sole means of generating energy. This requires Egypt to continue increasing investment in the new and renewable energy sector and increase manufacturing to contribute to the transformation of Egypt into an industrial hub for the Arab region, using available raw materials in the Arab Gulf region.

Egypt must realize that the emergence of an economic war now is no surprise, but raises old economic fears that the use of monetary instruments will be an alternative to addressing the economic crises resulting from excessive consumption of natural resources, ongoing decades-old trade wars and the change in economic models. Such models now require a drastic review not only in the short term, but also through radical shifts in underlying fundamentals. Everybody needs to know now that changing monetary policy as a reliever may represent a catalyst for growth in the short term, but will not address countries' economic problems, especially that monetary policies alone have not succeeded in addressing economic problems.

We have an opportunity now to attract investments that have flowed out of global and regional markets; especially that Egypt now avails real locomotives of growth and development, such as major national projects. However, this requires not only speeding up the amendment of laws or introducing new regulations, but also putting an end to administrative and other regulatory problems afflicting the Egyptian economy and hindering investment.

Issue: 53

Date : 9 April 2017

Our Economy

& the World

From the International Press

Fears that Finland becomes the "Greece" of northern Europe

Al-Hayat

Switzerland's security and economy experts are very concerned about the situation in Finland, which could see a mass exodus of workers to other European countries, including Switzerland and Luxembourg because of the deteriorating economic situation. The Finnish economy is experiencing a severe recession despite a very modest economic recovery after the country experienced financial problems for three years. Unemployment is currently 9.4 percent, compared with that of Sweden, which fell to historic levels of 4.1 percent

In parallel to rising production costs, the Finnish consumer confidence index is down. Zurich experts conclude that Finland, the only Scandinavian country in the EU bloc with an anti-euro and anti-immigrant political line, is a candidate to become the Greece of Northern Europe because of its poor economic conditions. Finnish unemployment targets elder workers in traditional production lines, and has also turned into a devastating wave of young workers and youth dreams. Nokia is no longer commercially viable around the world, as Apple, Huawei and Samsung have stolen its share in cell phone markets.

Today there are two commercial realities in Finland. The first is known as the "LIBOR INTENSIVE", which includes workers in the declining classic production sector. The other is known as "Capital Intensive" that embraces companies operating in the Internet sector and able to make quick profits, but with very few employees.

It seems that Finland needs to become a modern global player that embraces companies such as Volvo, Sab Aviation and others, as in Sweden, or be able to establish companies similar to LEGO and DONG in Denmark's wind power sector. Finland also severely lacks creative initiatives similar to those in Norway, which has turned into an ecological state, or Iceland, which emerged from its financial crisis between 2008 and 2009 thanks to eco-tourism, clean energy and the technology it bought from China.

Finland's reluctance to seek other commercial and creative alternatives may be in conflict with increased production costs in key sectors, from 2.4 percent to 3.9 percent. Swiss analysts point out that Finland's participation in the euro bloc is "symbolic" and is reverberated with electric shocks from time to time through austerity measures. The Government of Helsinki is also trying to isolate labor unions, with a view to reducing both employee pensions and production costs.

The Bernese government fears that Finland's failing labor policies will ignite the migration of workers to other countries, of which Switzerland is a major destination

Implications for Egypt:

According to political analysts and previous reports, the EU is not only facing a Greek crisis but also a crisis in its structures. Greek events have shown how far a currency union without a financial union can lead to a conflict in Europe. The Eurozone consists of 19 democracies, each with its own national interests, priorities and limitations, and each actor is forced to pursue its own goals, which is always constrained by domestic politics.

The Greek government has promised to end austerity and stay in the Eurozone and to get rid of debt, which proved to be a difficult promise. The German government needs to protect its export markets, and hence the currency union, while ensuring that the money of taxpayers is not wasted.

Previous analyses and reports show that both the French and Italian governments want to lead Mediterranean Europe while protecting their political ties with Germany. Countries that have already received bailouts, such as Spain, Portugal and Ireland, fear that loosening with Greece will strengthen anti-austerity political forces.

North and Baltic small nations, where the economic recession was severe particularly during the early stages of the economic crisis, reject the idea of having to endanger their national wealth in order to help a country on the other side of the continent.

Observers point out that things would have been easier if Europe had been a federation, but this was impossible by history and geography.

What has begun as a technical debate about the general financial situation of a country at the end of Europe escalated into a conflict that sheds light on the structural weaknesses of the European Union. Egypt should pay attention to this, especially that the European Union is a strategic ally and Egypt's largest economic and trade partner.

Issue: 53

Date : 9 April 2017

ECES
The Egyptian Center for Economic Studies

Our Economy & the World

Special Analysis

Mobilizing the Middle East and North Africa Diaspora for Economic Integration and Entrepreneurship

World Bank/Al-Mal

Diaspora from the Middle East and North Africa (MENA) can be critical to fostering regional integration, entrepreneurship and economic growth, and can help countries in the region become major players in the global economy, says a new World Bank Group paper released recently.

The new paper, *Mobilizing the Middle East and North Africa Diaspora for Economic Integration and Entrepreneurship,* provides evidence that MENA diaspora have the potential to foster trade, investment, and technology transfer in the region. But it says governments and international development organizations must do more to strengthen their connections and partnership with the diaspora.

"*There are more than 20 million people from the Middle East and North Africa living abroad, but we fail to think of them beyond remittances*," said Hafez Ghanem, World Bank Vice President for the Middle East and North Africa. "*This diaspora is a potential goldmine of knowledge, skills and business networks which, given the right circumstances, could be tapped to address some of the region's current challenges, such as lackluster investment and high youth unemployment*."

Using data gathered from an online survey and interviews of about 1,000 MENA diaspora that live around the world, the paper shows that those living outside of their home countries want to help and remain engaged, but also express deep concerns about the quality of their countries' business environments.

The results showed that giving back to the diaspora's country of origin is a priority for 85 percent of the respondents; 87 percent of the respondents are willing to invest time in mentoring individuals in their home country; and 68 percent of the respondents are willing to invest capital and trade with their country of origin.

However, more than 54 percent of the respondents agreed that weak business environments are the main factor reducing their appetite to invest back home, while 62 percent mentioned the lack of transparency regarding regulations and business opportunities as the main obstacle to investment.

Additionally, there was an almost unanimous consensus amongst the participants that if their respective governments treated them as partners and actors rather than a source of remittances, their engagement with their home country would significantly increase.

The paper notes that in spite of their doubts, diaspora remain more willing than foreign investors to invest in their home country during turbulent times, as they have more awareness of the business environment and local practice.

"*Through these surveys, we understand better that if capitalized upon effectively, the MENA diaspora can be an indispensable vehicle to enhance trade, boost countries' competitiveness and foster knowledge transfer*," said Anabel

Gonzalez, Senior Director of the World Bank Group's Trade & Competitiveness Global Practice. "*Establishing trade ties, enhancing innovation and promoting investment opportunities are a few of the many benefits the diaspora community can provide to the region's business environment*."

MENA diaspora is particularly important to the region in light of its current refugee crisis. The Syrian diaspora, for example, can make a real difference to the livelihoods of refugees now in Jordan and other host countries.

According to the paper, diaspora communities also see international development organizations, such as the World Bank Group, as important to helping them engage with their home countries, with 84 percent of survey respondents saying that the Bank Group can play a critical role in supporting the MENA diaspora.

Diaspora's top three requests of development organizations, the paper notes, are establishing matching grant programs; technical assistance for pilot programs; and capacity building for associations, diaspora members, and networking.

The paper provides recommendations on diaspora-related policies and government engagements and says that to be effective they need to be tailored to each country's economy and diaspora community.

Implications for Egypt:

The government faces the important challenge of how to increase savings relying on Egyptian expatriates with a view to achieving the growth target, which requires an appropriate level of liquidity. Therefore, it is necessary to offer attractive saving certificates in US dollars or other foreign currencies to Egyptians working abroad. It is also important that Egyptian banks expand by opening branches abroad or concluding contracts with major banks in countries with large Egyptian communities, whether for transfers, promoting saving instruments, or offering banking products to Egyptian workers abroad such as personal loans, car loans or mortgages in Egyptian pounds to be paid in foreign currency through banking agreements.

This requires a greater move from the banking system to pool small savings that presently do not enter the banking sector, issue investment certificates of various categories, and launch a campaign to raise awareness of the importance of saving no matter how small the value is. It is also important to speed up availing "Beit Al-Watan" lands to Egyptians working abroad.

On the other hand, it is important to connect Egyptian experts abroad with the process of economic development and reform through adoption of ideas and initiatives, transfer of experiences and providing insights and studies. This would enhance the development capabilities of the state and raise the real growth target. The Ministry of Immigration and Egyptian Expatriate Affairs has recently adopted this approach, although more efforts are needed to further link this approach to Egyptian decision-making circles.

Global Financial Market Performance

Reuters/ Argaam

Japanese stocks rose from a four-month low, driven by gains from energy companies and despite appreciation of the yen against the dollar, coinciding with rising expectations of inflation in consumer prices.

At the end of the session, Japan's Nikkei rose 0.35 percent to 18664 points, but recorded a weekly loss of 1.3 percent, while the TOPIX index rose 0.65 percent to 1,489 points

A survey by the Bank of Japan showed an improvement in consumer price inflation for the first time in almost two years in the first quarter, with 67 percent of respondents expecting a rise in prices next year, compared to 64.7 percent in the fourth quarter of 2016.

Japanese stocks hit their lowest level since early December on Thursday, pressured by investor fears about US economic plans.

US stocks stabilized at the end of Friday trading after a volatile session that witnessed a rise in the shares of arms manufacturers after the missile strike in Syria, but the main indexes recorded weekly losses.

The Dow Jones Industrial Average fell 7 points to 20,656 points after a gain of about 60 points. The Nasdaq index fell one point to 5878 points, while the Standard & Poor's 500 index dropped 2 points to 2,355.5 points.

On a weekly basis, the Dow Jones suffered a marginal loss, while Nasdaq recorded 0.6 percent in losses, and the broader S & P 500 posted weekly losses of 0.3 percent.

In European markets, the STOXX Europe 600 index rose 0.1 percent, or 0.5 points, to 381 points, after recording 0.3 percent in losses.

The British FTSE 100 rose 46 points to 7349 points, the French CAC rose 14 points to 5135 points, while Germany's DAX fell 6 points to 12,225 points.

On the other hand, gold futures for June delivery settled up 0.3 percent or $4 to $1257.30 an ounce. The precious metal posted weekly gains of 0.5 percent.

In the oil markets, the US NYMEX rose 1% or 54 cents to close at $52.24 a barrel, the highest closing since March 7, and posted a weekly gain of 3.2 percent. The Brent benchmark rose 0.6 percent or 35 cents and closed at $55.24 a barrel, making weekly gains of 3.2 percent.

In terms of economic data, the US economy added 98,000 jobs last month, compared to expectations of adding 185,000, while the unemployment rate fell to 4.5 percent from 4.7 percent.

Monthly Employment Situation				
	Outlook	Previous	Current	Change
Number of jobs (thousand)	**185**	**219**	**98**	**(121)**
Unemployment rate (%)	**4.7**	**4.7**	**4.5**	**0.2%**
Average hourly wage ($)	**--**	**26.09**	**26.14**	**0.5**
Number of working hours per week	**--**	**34.4**	**34.3**	**0.1**

Implications for Egypt:

Global financial markets are still in a state of alertness due to recent developments in Trump's economic plans, especially after failing to pass the bill to cancel Obamacare, and the official triggering of Article 50 for the UK exit from the EU.

The US dollar remains affected by Trump's policy and his implementation ability; and whether concord between Trump and the Fed would continue. If Trump's promise is not kept, the US dollar can continue its bullish path in line with economic indicators, raising interest.

Meanwhile, President Abdel Fattah Al Sisi's visit to the US has recently cast a positive light on the EGX indices in last week's trading, continuing their rise for the fourth week in a row supported by Arab and foreign purchases.

Market capitalization increased by EGP 9.3 billion—an increase of 1 percent—to reach EGP 664.222 billion, while market capitalization of shares listed on the main index rose by 0.3 percent.

The total value of trading during the week amounted to EGP 7 billion, while the volume of trading amounted to 1.3 billion securities executed through 164 thousand operations, compared to a total value of trading of 5.8 billion pounds, and volume of trading of 1.2 billion securities executed through 149 thousand operations in the previous week.

The performance of the three market indices edged higher, with the EGX30 rising 48 points, up by 0.8 percent, to 13,099 points. The EGX70 index, which measures the performance of small and medium-sized stocks, rose 3 percent. The broader EGX 100 index, which includes firms of both EGX30 and EGX70, increased by 1.9 percent.

Trading by Egyptians accounted for 72 percent of total market trading, while trading by foreigners accounted for 23 percent, with net purchases of EGP 468 million. Arabs accounted for 6 percent of trading, with net purchases of EGP 12 million. Institutions accounted for 35 percent of the transactions, with net purchases of EGP 158 billion.