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

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Key Global Developments

IMF, WTO argue for open trade

Reuters

Global trade has brought benefits from increased productivity to lower prices but governments have not adequately helped workers and communities hit hard by imports, the world's top multilateral economic institutions said.

In a report that serves as their answer to the Trump administration's more protectionist trade stance, the International Monetary Fund, World Trade Organization and World Bank said that an open trading system based on well-enforced rules was critical to world prosperity.

The institutions, which have promoted free trade for decades, cited research showing that manufacturing regions that were more exposed to imports from China since about 2000 saw "significant and persistent losses in jobs and earnings, falling most heavily on low-skilled workers."

It described what U.S. President Donald Trump has called the "forgotten Americans" that he wants to serve with his "America First" trade policies.

"Workers displaced from manufacturing tend to be older, less educated and longer-tenured in the lost job than workers displaced from other sectors, and in turn tend to take longer to return to work," the groups said in the report.

The report recommended more active government policies beyond traditional unemployment income benefits to retrain and redeploy workers idled by imports, including programs to encourage more worker mobility.

But the report argued in favor of maintaining an open trading system that is bound by enforceable rules, saying that trade liberalization has boosted productivity and improved living standards.

The reports cited research showing that a one percentage point increase in trade openness raised productivity by 1.23 percent in the long run, and a Canadian study showed that a U.S. free trade deal in the 1980s increased Canadian labor productivity in the most impacted export-oriented industries by 14 percent and the most import-competing industries by 15 percent.

Economists generally view higher productivity as important to supporting wage growth and higher living standards in advanced economies.

FAO forecasts a boom in world cereal output this year

Al-Hayat

According to the Food and Agriculture Organization of the United Nations (F.A.O.), global food prices fell in March. The F.A.O. Food Price Index averaged nearly 171 points in March, marking a 2.8 percent drop from the previous month while remaining 13.4 perent above its level a year earlier.

The agency also released its first world cereal supply and demand outlook for the year ahead, expecting it to be "another season of relative market tranquility" with grain inventories remaining at near-record levels.

The F.A.O. Cereal Price Index declined 1.8 percent from February, led down by wheat and maize. It is now roughly par with its March 2016 level. The F.A.O. Vegetable Oil Price Index was 6.2 percent lower on the month.

The index dropped by 10.9 percent for sugar prices amid shrinking demand and forecasts of a surge in Brazilian supply in world markets due to increased production and low local consumption of bioethanol output.

In the dairy sector, the surge in milk supplies led to a monthly decline of 2.3 percent in the dairy prices, but still far above its price in the same month last year. While the meat price index rose 0.7 percent, due to strong demand for meat in Asia

Global cereal utilization is expected to grow 2.597 billion tonnes in 2017, 9 million tonnes lower than the record figure in 2016, according to the latest report in cereal supply and demand. The initial estimates for this season relied on climate conditions over the coming months and farmers' decisions relevant to crop selection, which depend heavily on prices. "The slight decline from 2016 is due to anticipated reduction in global wheat production — now expected to fall 2.7 percent in 2017 to 740 million tonnes — mostly on price-induced planting cuts in Australia, Canada and the United States," the F.A.O. said.

Euro zone recovery on track despite political uncertainty: ECB's Draghi

Reuters

The recovery of the euro zone's economy will stay on track this year although heightened political uncertainty around the globe is likely to persist, the president of the European Central Bank said in its annual report.

"Political uncertainty is likely to persist into 2017. But we remain confident that the economic recovery, buoyed by our monetary policy, will continue," Mario Draghi wrote in the report published.

The ECB has cut its main policy rate to zero and has purchased bonds worth trillions of euros in the aftermath of the 2007-09 financial crisis.

.The central bank has to decide later this year if it wants to wind down its money-printing from January, a policy action its critics - mainly in the bloc's powerhouse Germany - have long been asking for.

Draghi gave no hints about the ECB's future monetary policy steps in the annual report, but repeated that the central bank would stick to its mandate to maintain price stability in the 19-member currency union.

Inflation in the UK surges to its highest level since September 201

Argaam

Annual inflation in the UK stabilized at 2.3 percent, the highest level since September 2013. Year on year headline inflation dropped to 1.8 per cent in February. Official data showed a 0.4 percent increase in inflation on a monthly basis in March

According to separate data from the National Bureau of Statistics, house prices in the UK rose by 5.8 percent in the year ending in February, compared to expectations of 6.1 percent.

These data show a rise from 5.3% in January though below the average of 7.3 percent in 2016 .

Trump promises Business Leaders to revamp Wall Street reform rules

Reuters

President Donald Trump told a group of chief executives that his administration was reducing regulations and revamping the Wall Street reform law known as Dodd-Frank, which might be eliminated and replaced with "something else."

“We're going to reduce taxes, we're going to eliminate wasteful regulations," Trump said at a meeting attended by corporate leaders and members of his cabinet

Earlier this year, Trump ordered reviews of the major banking rules that were put in place after the 2008 financial crisis and last week he said officials were planning a "major haircut" for the regulations.

"For the bankers in the room, they'll be very happy because we're really doing a major streamlining and, perhaps, elimination, and replacing it with something else," Trump said. "That will be the minimum. But we're doing a major elimination of the horrendous Dodd-Frank regulations, keeping some obviously, but getting rid of many."

Participants in the meeting included chief executives of Wal-Mart Stores; IBM; General Electric; PepsiCo; and Boeing.

The business leaders are part of Trump's "Strategy and Policy Forum" that last met with him in February.

Trump also reiterated his criticism of the North Atlantic Free Trade Agreement between the United States, Canada and Mexico.

"NAFTA is a disaster. It's been a disaster from the day it was devised. And we're going to have some very pleasant surprises for you on NAFTA, that I can tell you," he said.

Eurozone Industrial Output Falls Unexpectedly In February

Argaam

Eurozone industrial production declined unexpectedly in February compared to January, due to declined energy production.

Industrial output, including factories, mines and service utilities, in the Eurozone dropped 0.3 percent month-over-month but rose 1.2 percent year on year compared with forecasts of a 0.2 percent rise.

This decline raises doubts about whether recovery of economic growth in the Eurozone is moving rabidly as indicated by optimistic morale.

Eurozone economic growth has been accelerating modestly since mid 2013, maintaining an unemployment rate of about 10 percent and recording weak wage growth.

Implications for Egypt:

These developments affect the opportunities to increase the volume of fair trade around the world, which calls on Egypt to pay strong attention to what is happening globally and take serious action in this regard. However, it must be taken into account that a lot of measures that increase the cost of foreign trade transactions to Egypt, especially in export, are still in effect. It is necessary to address these measures to stimulate export growth rates, by facilitating licensing, customs clearance procedures and taxation in addition to the cost of financing transactions and reducing the number of procedural and approvals requirements.

In light of recent actions, whether taken by the government or by the Central Bank of Egypt, it became necessary to carry out a thorough sensitivity analysis of the effect of changes in exchange rates on export indicators and the cost of imports, which did not fully appear so far, especially that it is likely that the recent changes in the exchange rate will improve the commercial competitiveness of Egypt. A sensitivity analysis of the detailed impact of changes in the dollar on exports and imports from the different sectors should also be conducted, making it easier to develop policies to increase exports and reduce imports.

From the International Press

Criminal organizations and international terrorism use digital currency in their operations

Al-Hayat

Harms caused by digital currencies, notably "*Bitcoin*", to the economy and combating money laundry, organized gangs and international terrorism are a bright fact, although it is the latest cry in the business world, according to Swiss experts.

The Swiss report is in line with the findings of Fatf, independent international organization, which is engaged in designing and generalizing financial policies to protect the financial system from money laundering and terrorist financing.

Swiss experts, together with their colleagues at Fatf, agree that digital currencies, especially Bitcoin, will be the future wave of payment systems for millions of consumers. At the same time, these currencies will provide an open space for criminal organizations, terrorists and tax evaders to recycle and conceal illegal funds that are impossible to be reached under the international law. Created in 2009, Bitcoin is the first virtual currency not issued by any central bank in the world or any government financial institution. It is the first cryptographic currency.

The number of operators using Bitcoin is increasing even in Switzerland. An account similar to the classic bank account can be opened but for the Bitcoin. Notably, these operators are not in the list of operators working under anti-money laundering laws, which means that digital currency operators in general do not have to comply with any international control mechanism that urge them to verify customers' identity and save their information to report to the local authorities for any dubious transactions. Since the identity of dealers in digital currency trade and customers is unknown, international financial observers can only remain "idle" as their goal remains anonymous. Bitcoin can be purchased by Euro, Dollar or any other hard currency or even other digital currencies. The sale is done in the same way.

As for the spread of Bitcoin around the world, experts estimate its total number at 21 million in April 2014, with a market value of approximately $5.5 billion. According to sources in the city of Luzern, the financing of international terrorism via digital currencies has turned from dream to reality because of advanced technology. Since Bitcoin is appealing to the financiers of international terrorism, it can be said that Switzerland is trying to avoid this cryptographic currency on its territory, given the dangers to the security of the country. In recent years, new websites related to terrorist organizations such as ISIS were created. These websites instructs their visitors on how to use Bitcoin to circumvent surveillance systems in order to finance international terrorist networks. Trading in Bitcoin does not only include the financing of international terrorism, but also other sectors, including the sale of medicines, weapons, forged passports and other goods and services, as well as drug trafficking, money laundering and information activities. It should be noted that these activities are carried out in full secrecy by concluding large financial transactions using Bitcoin.

In the old continent, people in the world of fraud are trying to adopt payment systems similar to those adopted by the US Skyl Rod, which the US authorities have been closing down. The US authorities put their hands on about 174 thousand Bitcoins in that company, totaling $34 million. By introducing and marketing all illegal goods and services, the company generated $1.2 billion in annual revenues or a total of 9.5 million Bitcoins. In exchange for the sale of these goods, the company charges a commission, ranging between 8 and 15 percent of the value of sales. There is no doubt that the smart people engaged in illegal trade seek to activate the concept of Skyl Rod in Europe.

Financial security observers in Geneva said that exchanging information between security agencies, including the INTERPOL in the old continent has contributed to halting the increase in illegal trading using Bitcoin in a partial or even modest way. To counter these illegal operations, government technology must be stronger than those used by criminal and terrorist organizations around the world to extend its financial influence in various ways.

It is true that the digital currencies currently available on the market are not issued by government and official entities. But the situation will change radically when European central banks issue official digital currencies that allow everyone to trade in them legally similar to banknotes.

Implications for Egypt:

The phenomenon of virtual currency has recently spread in the global economy, most notably bitcoin, which is an encrypted digital currency that is decentralized and is controlled by users only. Bitcoin is not subject to censors such as the government or central bank like other currencies in the world, it is not tangible because it cannot be printed, and it is considered an outlet for money laundering.

Central Bank of Egypt (CBE) Law No. 88/ 2003 did not allow the use of any virtual currency in the country, but it did not explicitly stipulate its prohibition. It has been noticed recently that many Egyptians use virtual currencies. However, we believe that users of such currencies become subject to fraud due to these unsecured online payments, although CBE requires all banks operating in the country, including foreign banks, not to allow payments in virtual currencies or ATMs, otherwise they will be held accountable. But these transactions are actually carried out outside the banking sector.

The CBE should issue a decree banning the use of all virtual currencies in the country, notably Bitcoin, in order to protect dealers from fraud, especially that it is the authority concerned with enforcing the law of foreign exchange in Egypt.

Special Analysis

World Bank Presents Map for Reforming Investment

WAM

The best method to achieve sustainable development through Foreign Direct Investment (FDI) was the crux of a report issued by the World Bank Group (WBG) and discussed at the Annual Investment Meeting 2017, held in Dubai.

Initially, the report wondered how FDI could contribute to development, stressing that the world is currently facing interesting contradictions, including that the number of people in the world living in extreme poverty – that is, on less than $1.25 per day-- has decreased dramatically in the past three decades. However, the gap between the richest and poorest countries in the world is increasing.

Part of the answer, the report noted, lies in knowledge, diversification and composition of exports—areas where FDI plays an important role.

The WBG has observed, said the report, three key steps in a developed logical framework in the complex process of investment policy making, as follows: - To assist governments to "connect the dots" among the numerous variables at different levels affecting how developing countries insert themselves into the international economy; - Within that broad vision, to enable policy makers to design and set priorities for a domestic reform agenda; - To help translate the country's investment vision and reform agenda into implementation of concrete actions.

The report noted that the process through which countries can apply the logical framework to achieve the three objectives could be called the "investment reform map."

The report called on policymakers to take into account three essential points when a modern investment vision for development is identified in the era of globalization. The first point is that investment and development policy is concerned with linking domestic and foreign investments. Second, investment, especially direct investment, is not a homogenous phenomenon. Third, investments are not just financial operations, but require relations at several stages among different stakeholders.

The report noted that the investment classification framework could help countries distinguish between benefits, challenges and impacts of different investment patterns, as multinational schemes usually enter or expand in foreign lands with one or more objectives, such as looking for natural resources, markets, sources of strategic wealth, and "effectiveness."

It pointed out that investment in natural resources creates largely low-skill jobs; and the more the State moves towards investments that tilt towards effectiveness and sources of strategic wealth, the more it creates jobs related to knowledge and high skills.

The report added that in the global economy now, companies have broad choices of location, and governments must make efforts to attract investments that will bring about the most appropriate growth benefits. In many economies, the lion's share of FDI inflows per year go to investors located mainly in the host country.

The report stressed that positive views from investors who are located mainly in the host country are one of the best means of promoting new foreign direct investment. Satisfied investors tend to diversify their operations in host countries to develop from low value-added activities to ones with higher value-added.

However, the study noted that the political risk outlook affects the ability of countries to maintain investment. Investment decisions are not affected by the cost of regulatory compliance only but also by risks arising from the investment climate.

The report elaborated that there is a clear connection between investor protection on one hand, and maintaining and expanding investment on the other. It stressed that the World Bank Group is working to improve the legal framework and to help governments implement reforms and identify a set of tools and activities that help assess the quality of the institutional, regulatory and legal framework, its applications, objectives and impact on businesses.

The WBG said in its report that it provides assistance to more than 80 countries in framing investment reform proposals and improving their investment competitiveness, concluding that the benefits of FDI go well beyond providing additional capital to include potential productivity improvements, export upgrading, knowledge generation and wage increases.

The report calls for building an investment climate conducive to increasing countries' competitiveness for FDI, while bearing in mind that different types of FDI can generate different economic, social and other benefits over the short and long-terms.

An investment policy formulation requires on the one hand, a framework sophisticated enough to differentiate between the various kinds of FDI and their potential challenges and benefits for development, and on the other be simple enough to enable governments to clearly start organising and prioritizing the multiple and complex variables affecting the maximization of benefits of investment, according to the study.

Implications for Egypt:

The legislative system related to the investment climate in Egypt needs a comprehensive review. It is important to establish a system of electronic establishment of firms and lower the establishment time required and its procedures. In addition, legislations should be amended with respect to company establishment and its procedures, governance, contracting, land allocation mechanism, utility connections, the tax system, the market exit system, and bankruptcy. In addition, an effective mechanism for settling investment disputes should be put in place.

It should be borne in mind that the process of encouraging investment in Egypt should go beyond its traditional framework to benefit from the experiences of other countries. The roles of different parties should be defined clearly to ensure harmony and achieve the objective of this systemic adjustment.

A strategy and a clear investment map of opportunities in Egypt should be in place to reflect the vision of the State with regard to the role of foreign direct investment in the Egyptian economy. The map should highlight the most important economic sectors that require foreign investments, especially those with high technology content. This requires a review of the law of intellectual property rights in Egypt, and increasing the links between foreign and domestic investments through encouraging the formation of partnerships, especially with small and medium enterprises, in a way that contributes to transfer of technology to local companies, including the latest technical practices.

Global Financial Market Performance

Reuters/ Argaam/ Al-Mal Newspaper

Chinese equity indexes stabilized at the end of trading, but they posted large weekly losses after they came under heavy pressure due to the regulatory audits and the campaign led by the authorities against speculations.

At the end of the session, the Shanghai Composite Index rose by one point to 3,173 points, but recorded a 2.3 percent loss this week, the largest since mid-December.

The China Securities Regulatory Commission (CSRC) stressed the tone of criticism of what it called "turbulent trade behavior." Liu Shiyu, Chairman of CSRC board said over the weekend that the country's stock exchanges must punish violators relentlessly.

Analysts believe that the downward trend will continue as regulators are likely to continue tightening their positions on markets and follow the financial audit, and the market can barely avoid the effects of government policies.

Japanese stocks rose at the end of the session, and recorded weekly gains for the first time in about a month and a half, driven by investors' optimism about US tax reforms, and following remarks by the Governor of the Bank of Japan.

At the end of the session, Japan's Nikkei rose 1.05 percent to 18620 points, recording weekly gains of 1.6 percent after five consecutive weeks of losses. The Topix index rose 1.05 percent to 1,488 points.

The Nikkei index of service purchasing managers rose to 52.8 in April from 52.4 in March.

US Treasury Secretary Steve Mnuchin said in a statement that progress was being made in the US tax reform plans, which helped ease investor anxiety over Trump's financial plans.

Bank of Japan Governor Haruhiko Kuroda said that while the Japanese economy is performing better than expected, the country's inflation rate is still very slow, adding that he would keep his easing policies unchanged.

US stocks fell marginally on Friday as the energy sector fell and investors watched the first round of the French presidential election, but the main indexes made their biggest weekly gain in two months.

The Dow Jones industrial average fell 31 points to 2,054 points, while the Nasdaq index fell 6 points to 5,910 points, and the broader S & P 500 index fell 7 points to 2,348 points.

In the European markets, the Stoxx Europe 600 Index rose by less than 0.1 percent or 0.1 points to 378 points.

The DAX index rose+ 21 points to 12048 points, while the FTSE 100 fell 4 points to 7114 points and the French CAC index fell 18 points to 5059 points.

On the other hand, gold futures for June delivery settled up 0.4 percent or $5.30 to $1289.10 an ounce. The precious metal posted weekly gains of less than 0.1 percent.

In the oil markets, the US Nymex fell 2.2 percent or $1.09 to close at $49.62 a barrel, the first close below $50 in a month, and recorded a weekly loss of 7.4 percent. Brent fell 1.9 percent or $1.03 and closed at $51.96 a barrel, recording a weekly loss of 7 percent.

In terms of economic data, existing home sales in America rose 4.4 percent to 5.71 million units, the highest pace since February 2007.

US stocks received support from President Donald Trump's comments unveiling a plan to cut taxes on individuals and companies next week.

World markets are closely watching the first round of presidential elections in France amid progress for candidates Emmanuel Macron and Marianne Le Pen.

Implications for Egypt

A report by the Office of Strategic Studies at ADS Securities noted that the lack of clarity in the economic landscape is putting pressure on global financial markets and is causing fluctuations in all directions. Investors have been uncertain as they waited for a clarification of the US position regarding the dollar, the consequences of the snap elections in the UK as well as the results of the first round of French elections to be held today, April 23, 2017.

Meanwhile, horizontal movements with a downward trend dominated the Egyptian Stock Exchange during the last week due to the holiday period, amid negative performance of the leading stocks, reflecting on the trading volume, which fell by LE 3 billion. Market capitalization remained at the previous week’s level at LE 663 billion pounds.

The EGX30 index closed lower by 0.47 percent to close at 12,906 points, while the EGX70 index of small and medium-sized shares rose slightly by 0.09 percent to close at 591 points only.

Trading over the last week posted only LE 3 billion compared to LE 5.8 billion in the previous week. Shares accounted for 87.35 percent of the value of trading inside the exchange, while bond trading amounted to 12.65 percent, with a value of LE 377 million, representing approximately 365 thousand bond.

Egyptians accounted for a larger share of transactions at 70.55 percent of total transactions, while foreign investors accounted for 19.68 percent with a net purchase of LE 257.5 million. The share of Arabs was 9.76 percent, with net sales of LE 83.5 million, after excluding deals. Individuals and institutions were almost equal, accounting for 51.33 percent and 48.67 percent, respectively. Institutions posted net purchases of LE 40.96 million after excluding deals.

The Egyptian Stock Exchange is looking forward to the start of Parliamentary discussions on amendments to the Capital Market Law and the Tax Law during the coming period, which would influence trading in the coming period.