The Egyptian Center for Economic Studies

Our Economy and The World

The Weekly Report

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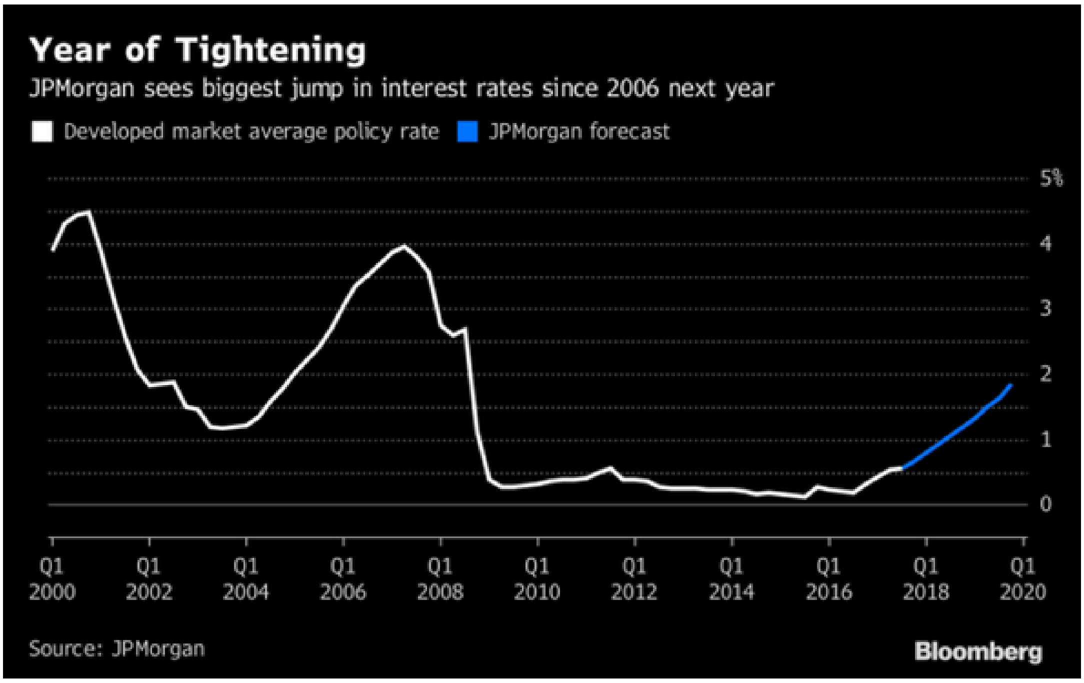
This week's issue of "Our Economy and the World" includes:

- Key Global and Regional Developments over the Past Week
- Special Analysis: OECD - Pensions at a Glance 2017
- Recent Developments in Financial and Commodity Markets

Key Global and Regional Developments over the Past Week

Bloomberg: Investors told to brace for steepest rate hikes since 2006

Wall Street economists are telling investors to brace for the biggest tightening of monetary policy in more than a decade. With the world economy heading into its strongest period since 2011, Citigroup Inc. and JPMorgan Chase & Co. predict average interest rates across advanced economies will climb to at least 1 percent next year in what would be the largest increase since 2006. As for the quantitative easing that marks its 10th anniversary in the U.S. next year, Bloomberg Economics predicts net asset purchases by the main central banks will fall to a monthly $18 billion at the end of 2018, from $126 billion in September, and turn negative during the first half of 2019.



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Central Bank of Egypt raised interest rates by 7 percentage points since October 2016 to date, settling at 18.75 percent and 19.75 percent for deposit and lending rates, respectively.

Bloomberg: Turkey's 11% economic growth fuels expectations of rate hike

Turkey's economy grew faster in the third quarter than any other of the world's 20 biggest economies as household spending and exports surged, stoking expectations that the central bank will increase borrowing costs to curb inflation. Gross domestic product expanded 11.1 percent in the three months to Sept. 30 from a year earlier, the fastest pace in more than six years, according to official data released on Monday. The median estimate of economists in a Bloomberg survey was 8.5 percent.

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Egypt's Volume of Trade with Turkey (USD Mn)

	2016/2017*
Volume of Trade	2784.7
Egypt's Imports from Turkey	1876.7
Egypt's Exports to Turkey	908

* Provisional

Source: Central Bank of Egypt, *Monthly Statistical Bulletin Oct 2017*

Bloomberg: China starts world's biggest floating solar project

A unit of China Three Gorges Corp. is building a 1 billion yuan ($151 million) floating solar power plant, the world's biggest, in the nation's eastern province of Anhui. China Three Gorges New Energy Co. started building the 150-megawatt project in July and part of the plant has connected to the grid, according to a Dec. 10 statement. The project features panels fixed to floats on the surface of a lake that formed after a coal mine collapsed, according to the unit. The entire facility is expected to come online by May 2018.

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Ahramonline: Egypt signs $653 mln Aswan solar-power deal with IFC

Egypt signed agreements on Sunday for the construction of 13 solar-power plants in the Aswan area, financed by the International Financial Corporation (IFC), which is a member of the World Bank Group, the Ministry of Investment said in a statement.

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Reuters: UK inflation hits highest in nearly six years, peak seen soon

British inflation unexpectedly rose to its highest level in nearly six years in November, tightening the post-Brexit vote squeeze on households whose spending is the main driver of the country’s economy. Consumer price inflation hit an annual rate of 3.1 percent in November, pushed up by air fares, computer games and the price of chocolate, official data showed on Tuesday, reflecting the impact of the pound’s plunge after last year’s vote to leave the European Union.

Read the full article

Bloomberg: 4 Developments to watch in global economy

Some overlooked events last week reinforced the prospects for better growth. Much of the markets' focus last week was on another round of records -- from the Dow Jones Industrial Average and S&P 500 closing Friday at new highs, to bitcoin's wild ride ahead of the formal launch of futures trading. The spotlight was also on lower implied stock volatility, with the VIX dipping below 10 and the flattening of the Treasury yield curve as two-year yields continued to move up. With all of this going on, it is little surprise that several important data points relating to economic and policy fundamentals attracted a lot less attention. Yet their implications could be quite consequential, both for 2018 and beyond.

Read the full article

Special Analysis: OECD - Pensions at a Glance 2017

Since 2015, the pace of pension reforms in OECD countries has slowed and reforms have been less widespread. Improving public finances have eased the pressure to reform pension systems. However, some countries have changed retirement ages, benefits, contributions or tax incentives. Canada, the Czech Republic, Finland, Greece and Poland took far-reaching measures, with some of them reversing previous reforms. Over the last two years, the statutory retirement age was changed in six countries. About one-third of OECD countries changed contributions and another third modified benefit levels for all or some retirees. Based on legislation, the normal retirement age will increase in about half of OECD countries, with links to life expectancy in Denmark, Finland, Italy, the Netherlands, Portugal and the Slovak Republic. On average, the normal retirement age will increase by 1.5 years for men and 2.1 years for women, reaching just under 66 years around 2060. This means that, on average, the retirement period will increase relative to people's working lives. Three countries have future retirement ages over 68 years: Denmark, Italy and the Netherlands. By contrast, the normal retirement age will remain below 65 only in France, Greece, Luxembourg, Slovenia and Turkey for full-career workers. Moreover, only Israel, Poland and Switzerland will maintain a gender gap in the retirement age.

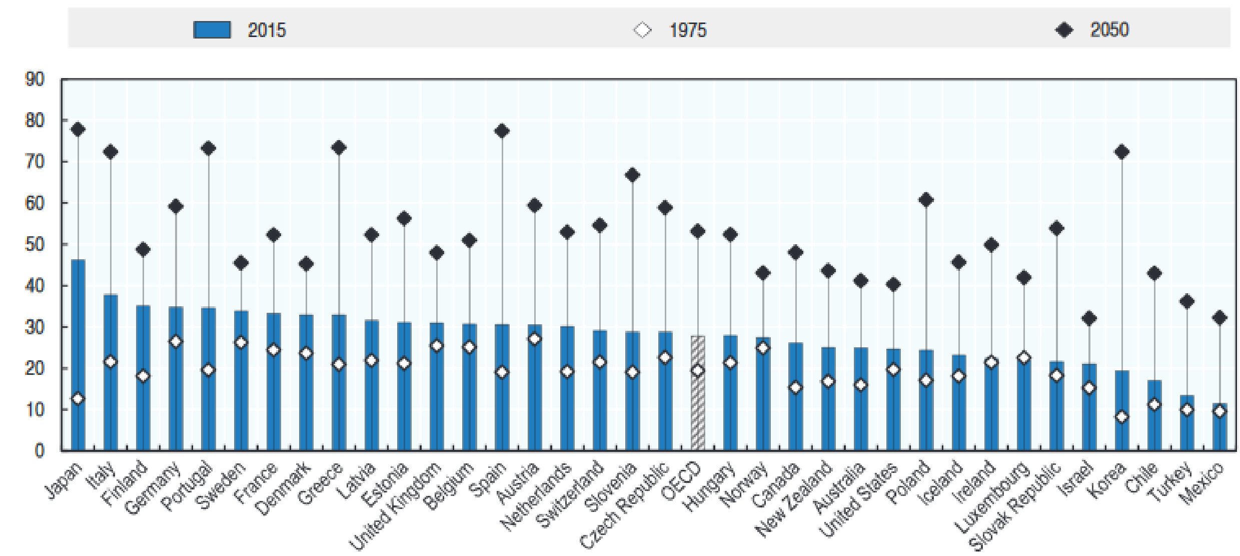
Concerns about the financial sustainability of pension systems and retirement income adequacy remain, given the projected acceleration of population ageing, higher inequality during the working age and the changing nature of work. Past reforms addressing financial sustainability will lower pension benefits in many countries. The net replacement rate from mandatory pension schemes for full-career average wage earners entering the labour market today is equal to 63%, on average in OECD countries, ranging from 29% in the United Kingdom to 102% in Turkey. Replacement rates for low-income earners are 10 points higher, on average, ranging from under 40% in Mexico and Poland, to more than 100% in Denmark, Israel and the Netherlands. In non-OECD G20 countries, South Africa has a very low projected net replacement rate, of 17% for average earners from the mandatory component. By contrast, future net replacement rates are higher than 80% in Argentina, China and India. Of these countries only Indonesia implemented a major reform over the last two years by introducing a mandatory defined benefit pension scheme.

Flexible retirement: what it means, why it matters

Flexible retirement is the ability to draw a pension – full or partial – while continuing in paid work, often with reduced working hours, or to choose when to retire. Longer lives, the increasing diversity of work trajectories and the growing desire for more autonomy in the retirement decision are motivating calls for rules that allow individuals to decide when and how to retire. Many workers want greater retirement flexibility. However, take-up rates are relatively small. In Europe, about 10% of individuals aged 60-64 or 65-69 combine work and pensions. And about 50% of workers older than 65 work part-time on average in OECD countries; this share has been stable over the past 15 years.

Figure 1.1. **The old-age dependency ratio will almost double in the next 35 years on average**

Number of people older than 65 years per 100 people of working age (20-64), 1975-2050



Note: The projected old-age dependency ratios differ based on the sources used. This report is based on UN data for comparison reasons. The largest differences are the following: according to Eurostat the old-age dependency ratio (65+/20-64) would increase by 39 and 19 percentage points between 2015 and 2050 in Spain and Austria, respectively, against 47 and 29 points with UN data. On the other hand, it would increase in Latvia by 33 points based on Eurostat against only 21 points with UN data.

Source: United Nations World Population Prospects: The 2017 Revision.

Read the full report

Article 17 of the Egyptian Constitution:

"The State shall ensure that social insurance services are provided. All citizens who do not benefit from the social insurance system have the right to social security, in a manner that ensures a decent life in the event of being incapable to provide for themselves and their families, as well as in cases of in capacity to work, old age or unemployment. In accordance with Law, the State shall strive to provide suitable pensions to small farmers, agricultural workers and fishermen, and irregular labor. The funds of social insurance and pensions are deemed private funds that enjoy all aspects and forms of protection afforded to public funds. Those funds along with their returns are the rights of their respective beneficiaries; they shall be safely invested, and shall be managed by an independent entity in accordance with the Law. The State shall guarantee social insurance and pension funds."

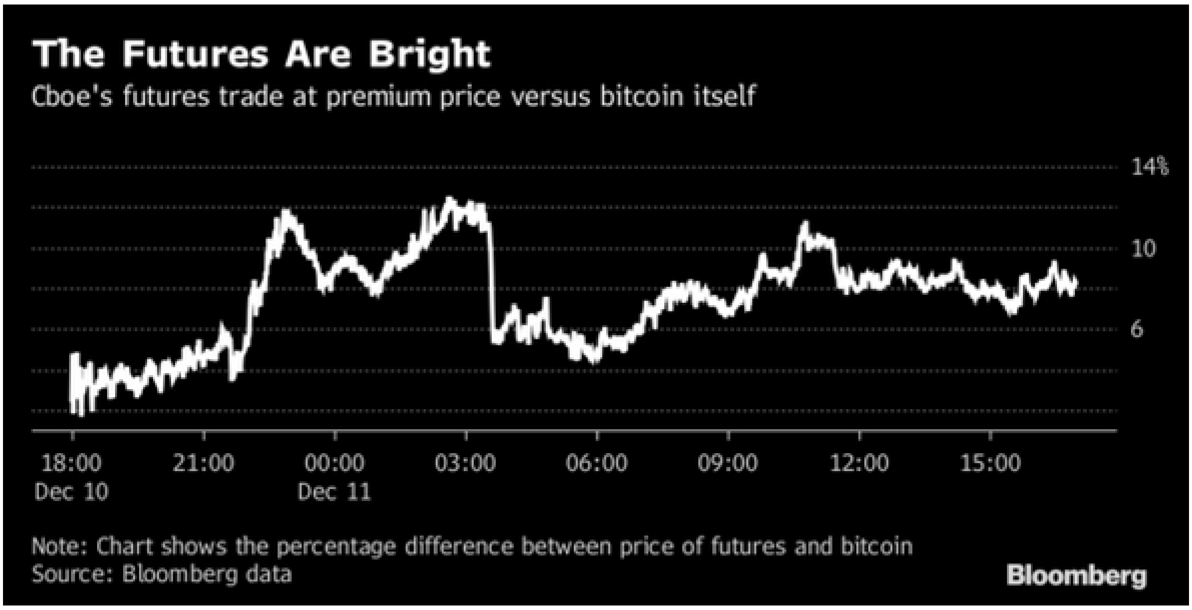
- Continuous application of the current pension law will increase debt.

Source of translation: http://www.sis.gov.eg/Newvr/Dustor-en001.pdf

Recent Developments in Financial and Commodity Markets

Bloomberg: Bitcoin's first 24 hours on Wall Street feed euphoria and doubts

Bitcoin's triumphant debut on Wall Street hasn't ended the financial industry's skepticism. The new breed of futures contracts that launched on Cboe Global Markets Inc.'s exchange late Sunday quickly became a 24-hour microcosm of bitcoin's own wild ride this year, marked by technical glitches and surging valuations. The first day left true believers cheering, yet kept many mainstream financial professionals peering uneasily from the sidelines.



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Shall Egypt revise this status given that Bitcoin is expanding in the world?

Reuters: "Egypt's central bank said in a statement it had not provided any instructions to the banking sector to start trading in Bitcoin and that a "virtual currency (is) not guaranteed by the banking sector or the central bank." Read the full article

Bloomberg: Brent oil jumps above $65 for first time since 2015

Global benchmark Brent crude jumped above $65 a barrel for the first time in 2 1/2 years after one of the most important pipelines in the world was shut because of a crack. Futures rose as much as 1.6 percent in London, set for the highest close since June 10, 2015, after advancing 2 percent Monday. It will take about two weeks to repair the small hairline crack after was it was discovered on the North Sea Forties Pipeline System during a routine inspection, according to operator Ineos. In the U.S., crude stockpiles are forecast to drop a fourth week, a Bloomberg survey showed before government data Wednesday.

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