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Our Economy and the World

Issue: 315

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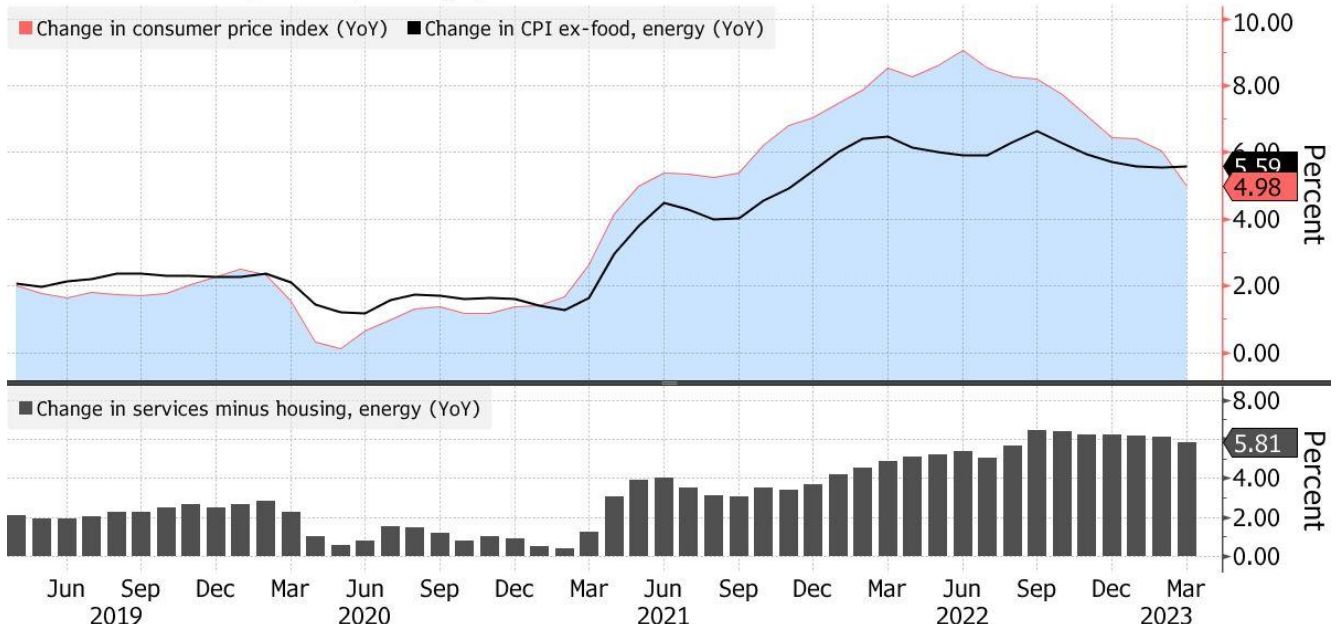
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Key Global and Regional Developments over the Past Week

[Bloomberg: US core inflation slows only a bit, keeping Fed on track to hike](#)

A key measure of US inflation showed hints of moderating in March, but likely not by enough to dissuade the Federal Reserve from raising interest rates again next month. The core consumer price index— which excludes food and energy and is closely watched by the Fed—rose 0.4% from the prior month following a 0.5% gain, in line with economists’ estimates. Yet key measures of housing costs posted the smallest monthly increases in about a year and grocery prices dropped, the report from the Bureau of Labor Statistics showed.

Underlying Inflation Elevated With Some Signs of Moderation Core consumer prices pick up yet core services costs slowest in seven months



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[CNBC: IMF says U.S-China tensions could cost the world about 2% of its output](#)

The International Monetary Fund said in a Wednesday report that global tensions could disrupt overseas investment and eventually lead to a long-term loss of 2% of the world's gross domestic product. Companies and policymakers across the globe are exploring ways to make their supply chains more resilient by “moving production home or to trusted countries,” the IMF warned in its report, adding that this will lead to fragmenting foreign direct investment.

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[Bloomberg: China, World Bank exploring solutions to debt-distress deadlock](#)

China and the World Bank are exploring compromises over how to restructure billions of dollars of debt held by poor nations, seeking a long-sought breakthrough that could unlock desperately needed aid. Discussions on Wednesday in Washington, during the World Bank and International Monetary Fund's Spring Meetings, are aimed at ending a deadlock among the world's biggest creditor nations on how to renegotiate several poorer nations' debt, which had become unsustainable amid surging inflation and a stronger dollar.

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[Reuters: Japan to channel 40% of IMF SDR allocation to needier countries, doubling pledge](#)

Japan has pledged to double the percentage of International Monetary Fund Special Drawing Rights monetary reserves that it will reallocate to poorer countries to 40%, Japanese Finance Minister Shunichi Suzuki said on Wednesday. Suzuki told a news conference that he made the pledge to a meeting

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of G7 finance ministers and central bank governors on Wednesday. Previously, Japan had said it would channel 20% of the SDRs it received in a 2021 general allocation to needier countries via IMF trust funds.

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Eye on Egypt

Fitch Solutions: Egypt Country Risk Report

We have increased our growth forecast for Egypt in FY2022/23 (July 2022-June 2023) from 3.0% to 3.4% after Q1 GDP data came stronger than we had expected. This still represents a significant slowdown from a 14-year high of 6.6% in FY2021/22. Tighter monetary policy, elevated inflation and shortages of foreign currency weigh on the economy in the coming quarters. At the same time, we have also reduced our growth forecast for FY2023/24 from 5.2% to 4.3% as stronger-for-longer inflation and tighter monetary policy will have a more pronounced impact on private consumption. Foreign direct investment and a resilient tourism sector will prevent a more pronounced slowdown in growth. As the currency has lost nearly 20.0% of its value so far in 2023 and the January inflation reached a multi-year high of 25.8%, we now expect that inflation will average 25.9% in 2023. Higher inflation and the need to support the currency will encourage the Central Bank of Egypt (CBE) to hike its overnight deposit and lending rates by a cumulative 250 basis points in H123 to 18.75% and 19.75% respectively. We expect that the current account deficit will narrow from 4.1% of GDP in FY2021/22 to 3.6% in FY2022/23 due to import suppressions and lower global commodity prices, together with a resilient tourism sector and robust receipts from the Suez Canal. While we expect that the IMF programme and Gulf Cooperation Council (GCC) support would help ease financing pressures, risks persist as authorities still need to make progress on their privatisation to make GCC support materialise. We expect that the Egyptian pound will continue to weaken from a spot rate of EGP30.53/USD to around EGP33/USD in H123 due to FX shortages in the market. In H223, we believe that the pound will pare back some of the losses in values, ending the year around EGP30/USD.

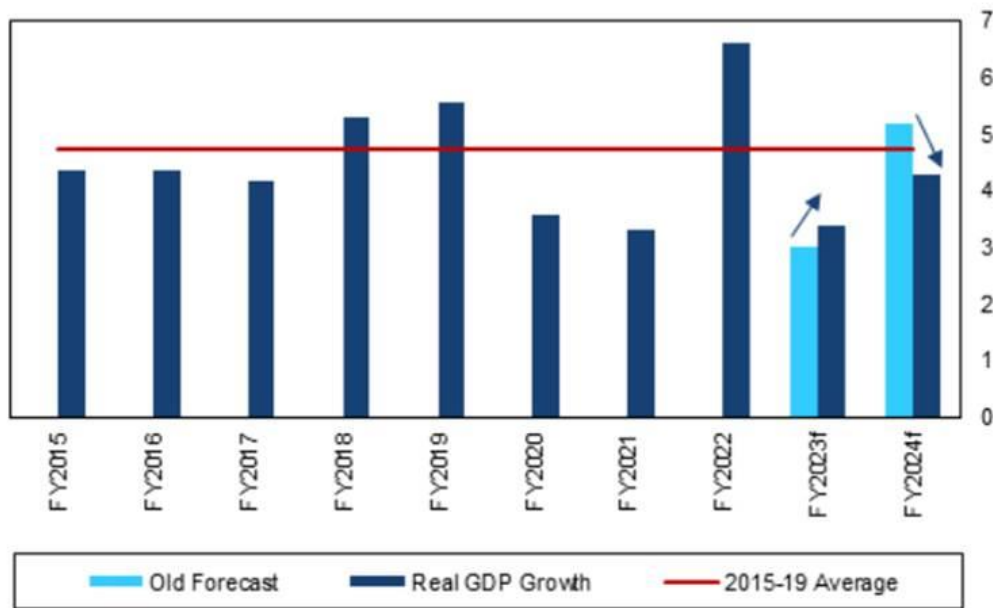
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Growth In FY2023/24 Will Also Be Below Trend
 Egypt - Real GDP Growth, %



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Special Analysis

World Bank: Altered Destinies: The Long-Term Effects of Rising Prices and Food Insecurity in the Middle East and North Africa

Growth is forecasted to slow down for the Middle East and North Africa region. The war in Ukraine in 2022 exacerbated inflationary pressures as the world recovered from the COVID 19 pandemic induced recession. The response by central banks to raise rates to curb inflation is slowing economic activity, while rising food prices are making it difficult for families to put meals on the table. Inflation, when it stems from food prices, hits the poor harder than the rich, thus compounding food insecurity in MENA that had been rising over decades. The immediate effects of food insecurity can be a devastating loss of life, but even temporary increases in food prices can cause long-term irreversible damages, especially to children. The rise in food prices due to the war in Ukraine may have altered the destinies of hundreds of thousands of children in the region, setting them on paths to limited prosperity. Food insecurity imposes challenges to a region where the state of child nutrition and health were inadequate before the shocks from the COVID-19 pandemic. The report discusses policy options and highlights the need for data to guide effective decision making.

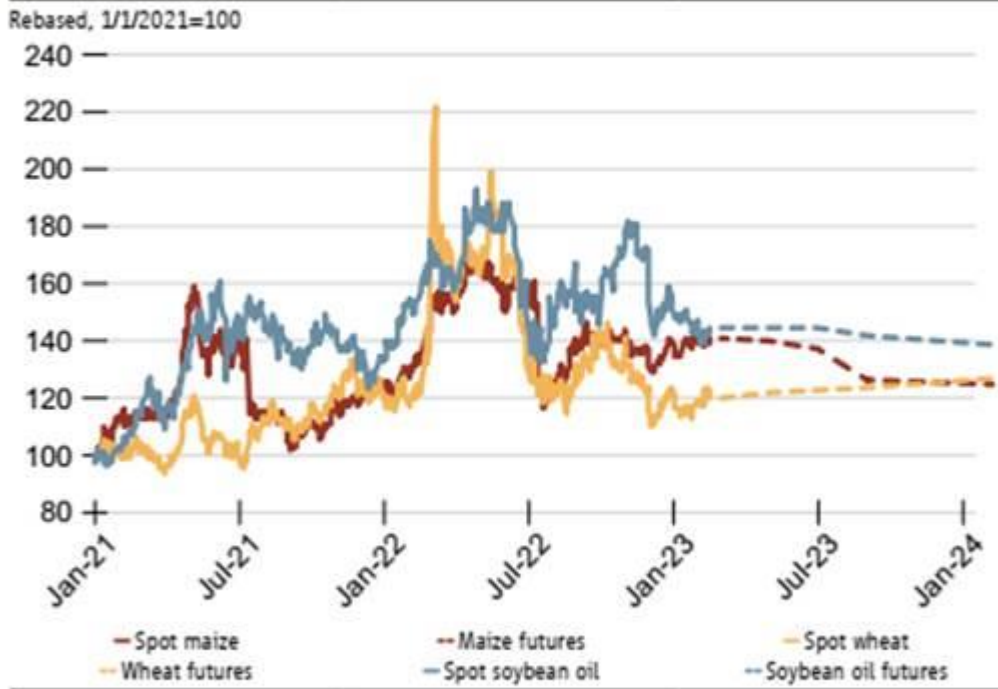
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Figure I.2: Agricultural Prices



Sources: World Bank MNA Chief Economist Office; and Investing.com.

Note: The solid lines indicate spot price per commodity; the dotted lines show futures prices as of February 15, 2023.

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Developments in Financial and Commodity Markets in the Past Week

[Reuters: Oil rises 2% on lower-than-expected US inflation data](#)

Oil prices rose 2% on Wednesday to their highest in more than a month as cooling U.S. inflation data spurred hopes that the Federal Reserve is getting closer to ending its cycle of interest-rate hikes and cushioned the impact of a small build in U.S. crude oil stocks. Brent crude settled up \$1.72, or 2.01%, at \$87.33 a barrel, its highest since late January, while U.S. West Texas Intermediate closed up \$1.73, or 2.1%, to \$83.26, its highest in five months. Prices rose about 2% on Tuesday.

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[CNBC: European stocks close slightly higher after key U.S. inflation data](#)

European markets closed slightly higher on Wednesday as investors digested key inflation data from the U.S. The pan-European Stoxx 600 index provisionally closed up 0.11%, trimming earlier gains. Sectors were mixed, with media and industrial stocks both up around 0.75%, while travel and leisure stocks fell 1.9% and tech stocks shed 0.88%.

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Europe Stoxx 600 (.STOXX:STOXX)

EUR
Last | 3:50 PM GMT
462.38 +0.59 (0.13%
1 Month



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