



المركز المصري للدراسات الاقتصادية  
The Egyptian Center for Economic Studies



# Our Economy and The World

The Weekly Report

Issue: 79 Date: 19<sup>th</sup> November 2017

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

- [Key Global and Regional Developments over the Past Week](#)
- [Special Analysis: World Economic Forum – Global Financial Development Report 2017/2018](#)
- [Recent Developments in Financial and Commodity Markets](#)

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## Our Economy and The World

### The Weekly Report

# Key Global and Regional Developments over the Past Week

#### **[The Wall Street Journal: White House considers former Pimco CEO Mohamed El-Erian for Fed Vice Chairman post](#)**

The White House is considering economist Mohamed El-Erian as one of several candidates to serve as the Federal Reserve's vice chairman, according to a person familiar with the matter. The process of selecting the central bank's No. 2 official began this month after President Donald Trump nominated Fed governor Jerome Powell to succeed Fed Chairwoman Janet Yellen when her term expires next February, and the search was described by people familiar with the process as still in its early stages.

[Read the full article](#)

#### **[Reuters: China's economy cools as government curbs hit factories, property and retailers](#)**

China's economy cooled further last month, with industrial output, fixed asset investment and retail sales missing expectations as the government extended a crackdown on debt risks and factory pollution. Beijing is already in the second year of a campaign to reduce high levels of debt as authorities worry that riskier lending practices, especially in the real estate sector, could imperil the economy. Data on Tuesday suggested policy makers are making progress in defusing financial risks by weaning China off its years-long addiction to cheap credit, and signaled moderating growth over the next few quarters.

[Read the full article](#)

#### **[Bloomberg: Egypt signs expanded \\$3.2 billion financing deal with lenders](#)**

Egypt signed an expanded \$3.2 billion financing deal with foreign banks, the central bank governor said, as it continues to bolster foreign reserves and prepare for about \$14 billion of foreign debt repayments in 2018. The repurchase transaction, signed in November 2016 for one year, was increased from \$2 billion, Tarek Amer said on Monday in an interview, without saying whether the duration of the deal has changed. Under the arrangement, Egypt's Finance Ministry issued \$4 billion in bonds on the Irish Stock Exchange last year, with the central bank buying them to use partly as collateral for the repurchase agreement.

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### Bloomberg: Euro economy is heading towards a golden period

Europe is no longer the sick man of the world economy. The 19-nation euro-zone bloc is already enjoying the strongest growth in a decade and now economists at Credit Suisse Group AG and Oxford Economics are declaring that it's heading toward a golden period of low-inflationary expansion. The turnaround is striking for a region that plunged from the global financial crisis into its own sovereign debt turmoil, record unemployment and near-deflation that threatened the very survival of the currency union. While still to make up most of the ground lost in the dark years, and with productivity still weak, the upturn at least holds out the hope that some scars will start to heal.



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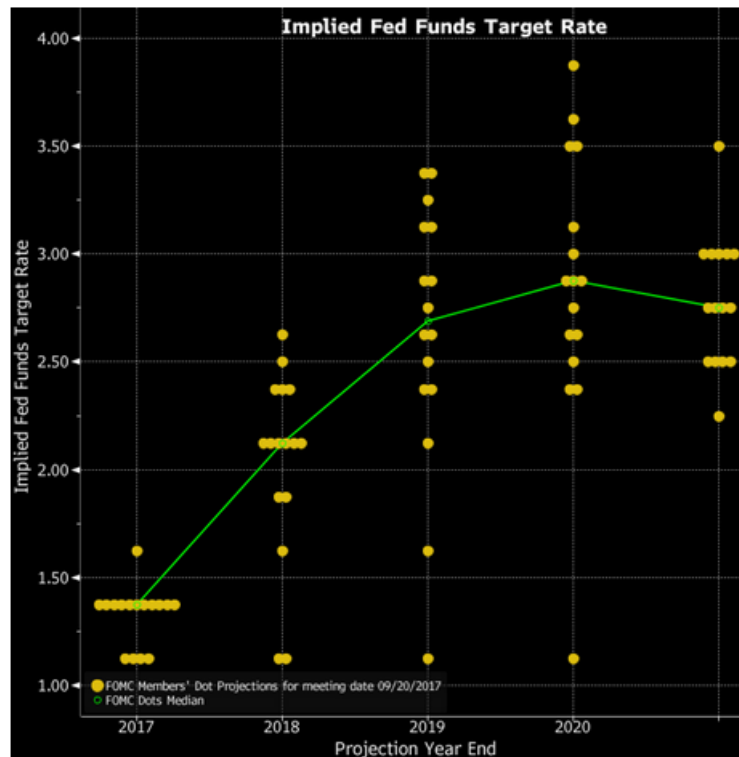


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### Bloomberg: Powell wants to change how the Fed communicates

Federal Reserve Chair nominee Jerome Powell has likened central bank communication to a popular Far Side cartoon: A man chides his dog Ginger about rooting through the trash, but all the dog hears is “Blah, blah, Ginger, blah, blah blah.” In the Fed’s case, investors focus on what policy makers say will happen with interest rates at their next meeting, and not on much else, he told a conference last November. While Powell is widely seen as hewing to the Fed’s current strategy of gradually raising interest rates if he is confirmed by the Senate to take over the central bank’s top spot in February, he could push for changes in how it gets its message across, especially in the so-called dot plot that sets out officials’ projections of where policy is headed.



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## Our Economy and The World

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### Special Analysis

## World Economic Forum – Global Financial Development Report 2017/2018: Bankers without Borders

#### Main Messages of this Report

Following a decade of increased globalization, international banking suffered a setback after the global financial crisis. There have been large reductions in cross-border flows, and less foreign bank entry. The trends in foreign bank entry differ across countries, however. While developed country banks retrenched, developing country banks continued to invest abroad, both through cross-border and brick-and-mortar operations, leading to a more regionalized banking system with greater South–South presence. Hence, international bank lending remains an important source of finance for developing countries, although its composition has changed since the crisis. And although regulatory barriers to foreign banking increased over this period, large international banks continued to become larger. Remaining open despite rising protectionism is important for countries to continue to benefit from global flows of funds, knowledge, and opportunity. International banking activities have the potential to improve the degree of competition in the local banking sector, help upgrade skills, and improve the efficiency of resource allocation. Risks can be shared and diversified. Through the threat of exit, international banking can also discipline domestic financial policies, regulations, and supervisory practices and can weaken the political entrenchment between domestic financial institutions and governments. Overall, more capital and increased efficiency of allocation will promote faster economic development and greater financial stability.

However, international banking is no panacea for guaranteeing financial development and stability. Openness also introduces more volatility and exposes countries to foreign exchange risks, foreign monetary policy shocks, and other mismatches. In weak institutional environments with poor information, inadequate contract enforcement, and weak regulation and supervision, global finance may lead to destabilizing boom-bust cycles; and competition from foreign banks may drive out domestic banks and reduce access to finance and inclusion. Moreover, risk sharing also has a downside. International banks that export risks will also import them. And international banking can magnify distortions in domestic bank policy, regulation, and safety nets.

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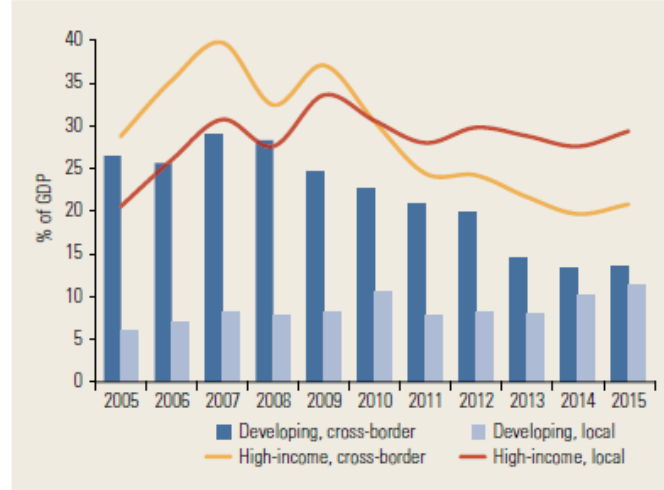
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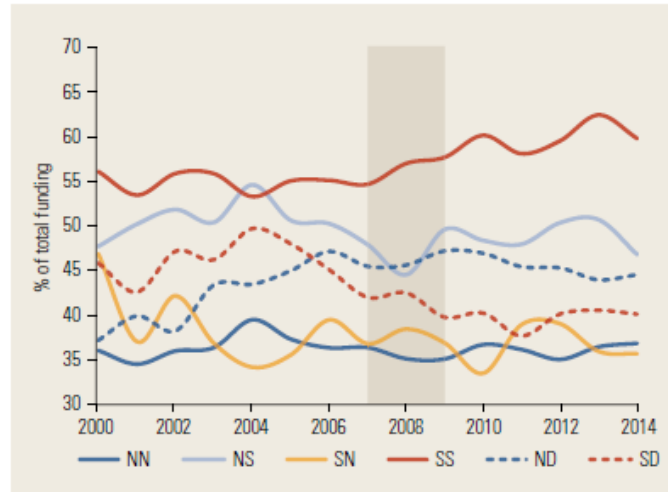
## The Weekly Report

**FIGURE 0.1** Cross-Border and Local Claims by Foreign Banks, 2005–15



Source: Consolidated Banking Statistics (Ultimate Risk Basis), Bank for International Settlements.  
Note: Figures are country-level averages by income level of the borrowing countries over the period 2005–15. Borrowing countries are categorized as high-income and developing countries according to the World Bank's country classifications as of 2017. Cross-border claims refer to those extended by foreign bank offices outside the borrower's jurisdiction. Local claims refer to those extended by foreign bank offices within the borrower's jurisdiction. Total ratios of outstanding values to gross domestic product are provided in each case.

**FIGURE 0.10** Contribution of Local Deposits to Banks' Total Funding



Source: Calculations based on Bertay, Demirgüç-Kunt, and Huizinga 2017.  
Notes: NN corresponds to bank subsidiaries from developed countries operating in developed countries. NS corresponds to bank subsidiaries from developed countries operating in developing countries. SN corresponds to bank subsidiaries from developing countries operating in developed countries. SS corresponds to subsidiaries from developing countries operating in developing countries. ND corresponds to domestic banks in developed countries. SD corresponds to domestic banks in developing countries.

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# Recent Developments in Financial and Commodity Markets

### Reuters: Oil markets cautious on Middle East tensions, increase U.S. drilling

Oil trading was cautious on Monday amid ongoing tensions in the Middle East and after a rising rig count in the United States suggested producers there are preparing to increase output. Brent crude futures LCOc1 were at \$63.55 per barrel at 0614 GMT, up 3 cents from their last close. U.S. West Texas Intermediate (WTI) crude CLc1 was at \$56.79 per barrel, up 5 cents.

[Read the full article](#)

### Bloomberg: Bitcoin tumble erases as much as \$38 billion while rivals gain

Bitcoin extended a two-day slump as the cancellation of a technology upgrade prompted some users to switch out of the cryptocurrency, spooking speculators in an asset that's surged more than 500 percent this year. While the cryptocurrency earlier plunged as much as 15 percent from Friday, it pared its drop to just 1.5 percent at 11:06 a.m. in London, as evidence emerged that bearish investors started to cover their short positions. Bitcoin cash, a rival that split from the original bitcoin in August, has jumped about 22 percent since Friday, according to data compiled by Coinmarketcap.com.



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