المركز المصري للدراسات الاقتصادية
The Egyptian Center for Economic Studies

Our Economy and The World

The Weekly Report

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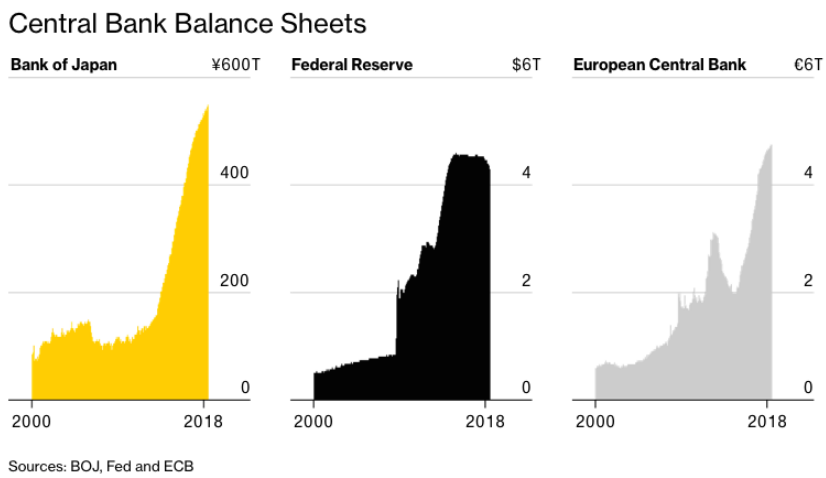
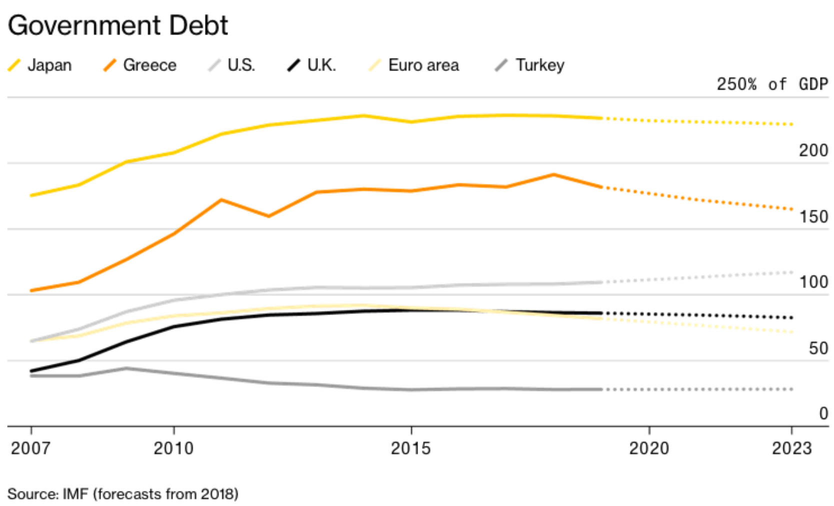
This week's issue of "Our Economy and the World" includes:

Key Global and Regional Developments over the Past Week

Bloomberg: The global economy is still feeling the Lehman fallout 10 years later

The collapse of Lehman Brothers and subsequent global financial crisis sent shockwaves through the world economy, many of which still reverberate a decade later. The deepest international recession since the Great Depression prompted central banks to deliver massive and unorthodox monetary stimulus, while governments either eased fiscal policy or delivered austerity depending on the country.





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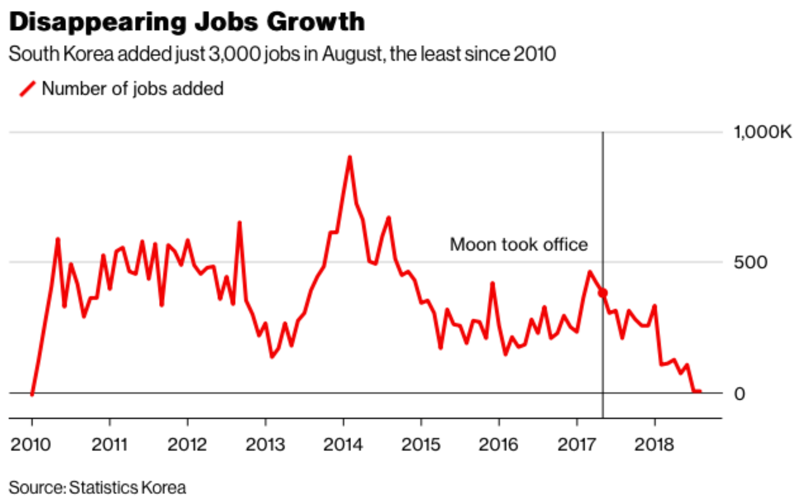
Bloomberg: Vanishing jobs growth spells deep trouble for Korean president

Unemployment and jobs growth in South Korea haven't looked so bad since the wake of the global financial crisis, undermining President Moon Jae-in's economic agenda. Data released Wednesday show the unemployment rate jumping to 4.2 percent, the highest since early 2010, and much greater than any economists forecast. Jobs growth slumped to just 3,000 last month, also the worst figure in more than eight years.



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Bloomberg: Saudi wealth fund prepares to sign $11 billion loan

Saudi Arabia's sovereign wealth fund will sign an $11 billion loan this week, marking its first-ever borrowing, according to people familiar with the matter. Some of the biggest global lenders including Goldman Sachs Group Inc., HSBC Holdings Plc and JPMorgan Chase & Co. are providing the loan that's priced at 75 basis points over Libor, or just shy of 90 basis points including fees, said the people, asking not to be identified because the information is private. London-based boutique Verus Partners is advising the Public Investment Fund on the talks, the people said.
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Reuters: Despite reforms, Qatar's migrant workers still fear exploitation

As a migrant worker from Bangladesh, Sharif should be happy about Qatar's labor reforms, put in place to protect people like him. Instead, he feels the system still allows his employer to get round rules designed to stop them exploiting him.
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Special Analysis: IMF
2018 External Sector Report

Overall global current account surpluses and deficits remained broadly unchanged, at about 31⁄4 percent of world GDP in 2017, with growing concentration in advanced economies. About 40-50 percent of last year's global current account balances were deemed excessive (that is, not explained by countries' fundamentals and desirable policies). *Higher-than-desirable* balances prevailed in the euro area (driven by Germany and the Netherlands), other advanced economies (Korea, Singapore, Sweden), and China, with their contributions to excess global imbalances depending both on the size of their economies and their own imbalances. *Lower-than-desirable* balances remained concentrated in the United States, the United Kingdom, some euro area debtor countries, and a few vulnerable emerging market economies (Argentina, Turkey).

Large and sustained excess external imbalances in the world's key economies—amid policy actions detrimental to external balances—pose risks to global stability. The fiscal easing currently underway in the United States is leading to a tightening in monetary conditions, a stronger US dollar, and a larger US current account deficit. In the near term, these trends risk aggravating trade tensions, and the resulting faster tightening of global financing conditions, which could prove even more disruptive for emerging market economies, especially those with weak external positions. Over the medium term, sustained deficits, leading to widening debtor positions in key economies, could constrain global growth and possibly result in sharp and disruptive currency and asset price adjustments. Meanwhile, asymmetries in competitiveness among euro area members, if unaddressed, pose risks to the currency bloc and the global economy; while persistent unbalanced domestic demand in China could result in an abrupt growth slowdown and a resurgence of its excess external imbalances.

With limited policy space and normalizing cyclical conditions, policies need to be carefully sequenced and calibrated to achieve domestic and external objectives. In countries with weaker-than-warranted external positions and full employment, actions to strengthen public and private sector balance sheets should take priority, while monetary normalization proceeds gradually. In economies with stronger-than-warranted external positions and fiscal space, a less-restrictive fiscal stance would help promote external rebalancing. In the euro area, where accommodative monetary conditions remain necessary to support the return of area-wide inflation to its target, further banking, fiscal, and capital markets integration would also help to boost investment and reduce the currency area's excess external imbalance. As cyclical policies are unwound gradually and policy space is rebuilt, well-tailored structural policies will need to play a more prominent role in tackling excess global imbalances. In general, reforms that encourage investment and discourage excessive saving (for example, through reduced entry barriers and stronger social safety nets) are necessary in excess surplus countries, while focus on reforms that reduce labor costs and improve competitiveness are more appropriate in excess deficit countries.

Finally, protectionist policies should be avoided as they are likely to have significant deleterious effects on domestic and global growth, while limited impact on external imbalances. Surplus and deficit countries alike should work toward reviving liberalization efforts and strengthening the multilateral trading system—particularly to promote trade in services, where gains from trade are substantial but barriers remain high.

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Recent Developments in Financial and Commodity Markets

Reuters: Saudi Arabia targets $2 billion with new Islamic bonds

Saudi Arabia has started marketing U.S. dollar-denominated sukuk, or Islamic bonds, with the issue expected to be around $2 billion in size, a document showed on Wednesday. It would be the kingdom's second international sale of sukuk after a $9 billion transaction last year. The exercise completes Saudi Arabia's external funding requirements for 2018, according to the document.

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Reuters: Oil prices rise on declining U.S. crude stockpiles, looming Iran sanctions

Oil prices rose on Wednesday after a report of a decline in U.S. crude inventories and looming sanctions against Iran raised expectations of tightening supply, while top producer Russia warned of a fragile global market. U.S. West Texas Intermediate (WTI) crude futures CLc1 were at $69.93 per barrel at 0646 GMT, up 68 cents, or 1 percent, from their last settlement. WTI futures gained 2.5 percent in the previous session.

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Reuters: Steel, raw materials extend slump in China as flexible cuts eyed

Prices of steel and its raw materials fell sharply in China for a second session on Wednesday, hitting multi-week lows, as more investors liquidated positions with oversupply risks rising as Beijing mulls a flexible implementation of its output curbs.

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