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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: Why the time to fix economic policy is ASAP

Policymakers from some 180 countries wrapped up the spring meeting of the International Monetary Fund and World Bank in Washington on Sunday with a warning: Take steps now, while the global economy is still strengthening, to head off escalating risks of instability looming just over the horizon. The message was reminiscent of the “yes, but” theme that dominated the same group’s annual meeting in October 2017. The consensus over the weekend was that the pace of growth had picked up in the intervening months, but so had the scale of the threats to it.
Read the full article

Bloomberg: Greece beats bailout targets again as debt-relief talks loom

The European Commission confirmed on Monday that Greece beat its bailout targets again last year, strengthening the government’s case against demands to bring forward additional tax measures originally scheduled to kick in starting 2020. Europe’s most indebted state achieved a budget surplus before interest and other one-time payments equal to 4.2 percent of its gross domestic product in 2017, more than twice the target set by its bailout auditors for a 1.75 percent of GDP surplus, the European Union’s executive arm said. Greece achieved a general government budget surplus for the second year in a row, according to the bloc’s statistical service Eurostat.
Read the full article

Bloomberg: China’s war on pollution fuels state takeover of heavy industry

President Xi Jinping’s big push to curb pollution and excess capacity in steel and other industries is also consolidating his government’s control over them. Just last year, the state’s share of steel capacity increased to 67 percent from 60 percent while aluminum smelting saw about an equal increase, J Capital Research Ltd. estimates. In coal, which began consolidating years earlier, the government now controls 80 percent of capacity compared with about 45 percent in 2010, according to the Hong Kong-based firm.
Read the full article

Bloomberg: Saudi central bank to drain liquidity to counter libor rise

Saudi Arabia's central bank plans to drain excess liquidity from the banking system to mitigate pressure on the riyal's peg to the dollar as U.S. interest rates rise, Governor Ahmed Abdulkarim Alkholifey said. The Saudi Arabian Monetary Authority, as the central bank is known, will allow some deposits placed with commercial banks in 2016 to mature without rolling them over, he said, boosting a key interbank rate for riyals that has lagged Libor, its London equivalent for dollars, and raised the prospect of capital flight.

Read the full article

Reuters: EU seeks to join U.S.-China steel dispute at WTO

The European Union asked on Monday to join a dispute brought by China to the World Trade Organization over U.S. import tariffs on steel and aluminum, just over a week before U.S. President Trump decides whether they should apply to Europe. The U.S. administration has set duties of 25 percent on steel and 10 percent on aluminum on grounds of national security, but provided a temporary exemption until May 1 for the European Union. China has taken the United States to the WTO over the measures. The first step in the WTO process involves consultations. The WTO said on Monday that the European Union had made a formal request to join the consultations as a party with a significant trade interest in the matter.

Read the full article

Special Analysis

IMF Fiscal Monitor: Capitalizing on Good Times, April 2018

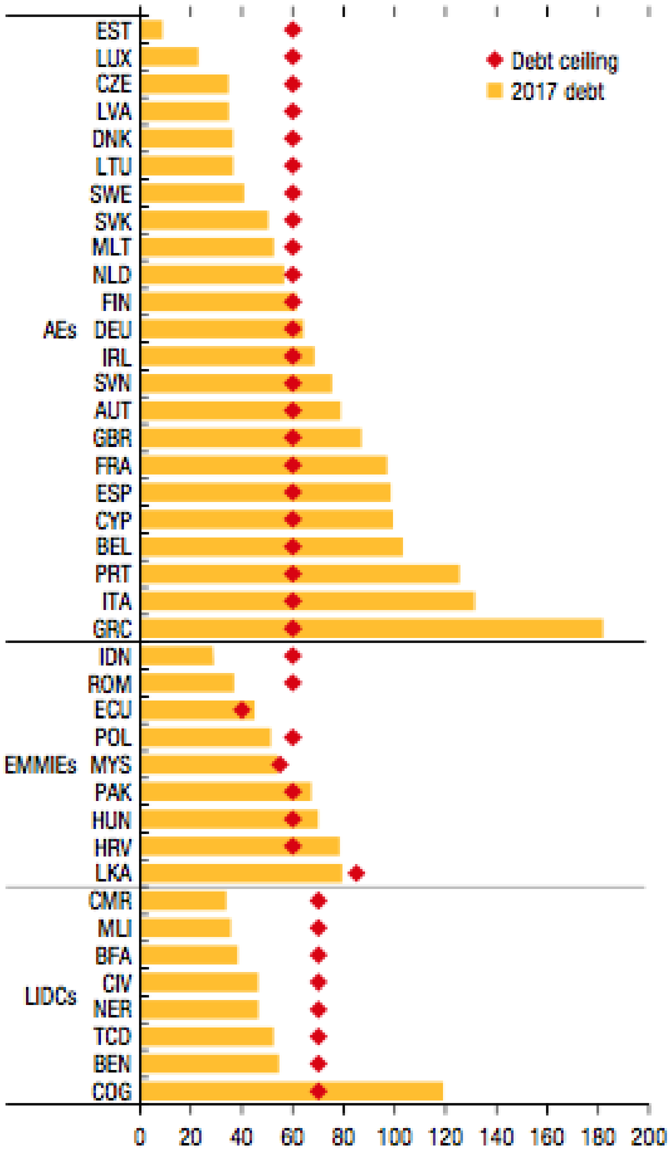
Strong and broad-based growth provides an opportunity to begin rebuilding fiscal buffers now, improve government balances, and anchor public debt. Strengthening fiscal buffers in the upswing will create room to provide fiscal support in an eventual down-turn and will prevent fiscal vulnerabilities from becoming a source of stress if financial conditions deteriorate. Global debt is at historic highs, reaching the record peak of US$164 trillion in 2016, equivalent to 225 percent of global GDP. The world is now 12 percent of GDP deeper in debt than the previous peak in 2009, with China as a driving force.

Public debt plays an important role in the surge in global debt, reflecting the economic collapse during the global financial crisis and the policy response, as well as the effects of the 2014 fall in commodity prices and rapid spending growth in the case of emerging markets and low-income developing countries. Debt in advanced economies is at 105 percent of GDP on average—levels not seen since World War II. In emerging market and middle-income economies, debt is close to 50 percent of GDP on average—levels last seen during the 1980s debt crisis. For low-income developing countries, average debt-to-GDP ratios have been climbing at a rapid pace and exceed 40 percent as of 2017. Moreover, nearly half of this debt is on non-concessional terms, which has resulted in a doubling of the interest burden as a share of tax revenues in the past 10 years. Underpinning debt dynamics for all countries are large primary deficits, which reached record levels in the case of emerging market and developing economies.

High government debt and deficits are cause for concern. Countries with elevated government debt are vulnerable to a sudden tightening of global financing conditions, which could disrupt market access and put economic activity in jeopardy. Moreover, experience shows that countries can be subject to large, unexpected shocks to public debt-to-GDP ratios, which would exacerbate rollover risks. It is important to note that large debt and deficits hinder governments' ability to implement a strong fiscal policy response to support the economy in the event of a downturn. Historical experience shows that a weak fiscal position increases the depth and duration of recession—such as in the aftermath of a financial crisis—because governments are unable to deploy sufficient fiscal policy to support growth. Building fiscal room to maneuver is especially relevant now that private sector debt is at record highs and rising. Excessive private debt in some countries puts them at risk of an abrupt and costly deleveraging process.

Figure 1.4. General Government Debt Levels in 2017 and Debt Ceilings under Fiscal Rules
(Percent of GDP)

In several countries, debt is close to or above debt ceilings defined under the fiscal rule.



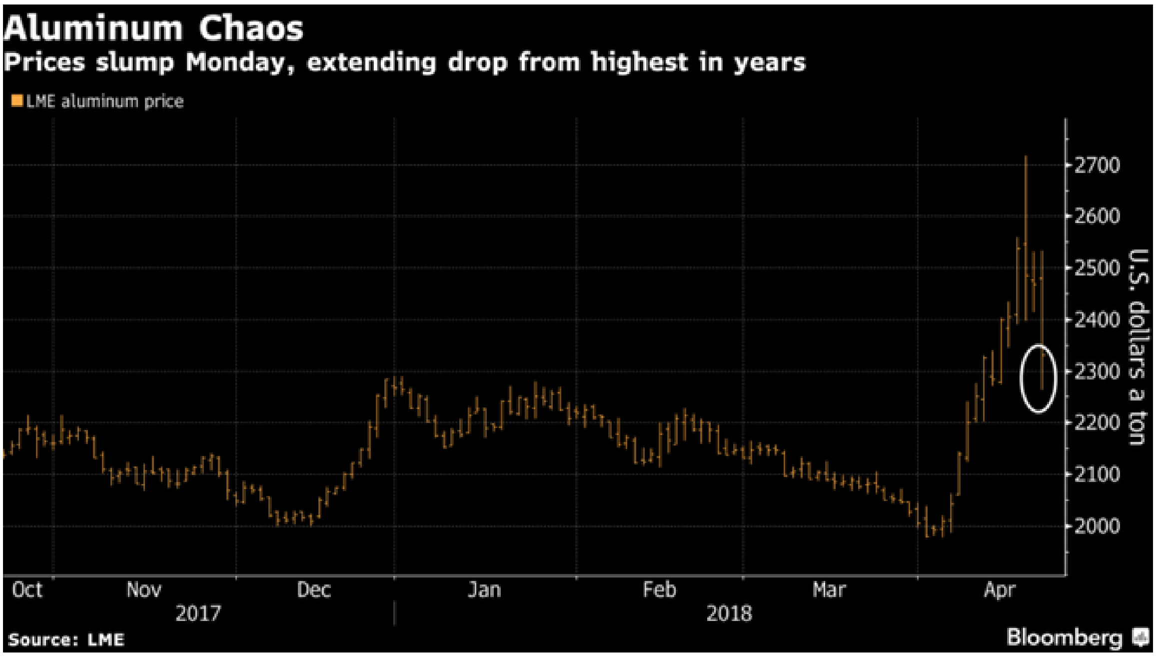
Sources: IMF, fiscal rules database; and IMF staff estimates.

[Read the full report]

Recent Developments in Financial and Commodity Markets

Bloomberg: U.S. softens sanctions on Rusal sanctions; Aluminum prices plunge

The U.S. softened its position on sanctions against Russia's United Co. Rusal, sparking a plunge in aluminum prices. The U.S. Treasury said it would provide sanctions relief to Rusal if Oleg Deripaska relinquished control, according to statement on Monday. It also extended the deadline for companies to wind down dealings with the Russian aluminum producer by almost five months. Aluminum plunged as much as 8.3 percent after the news, the biggest intraday drop since 2005. Rusal produces about 6 percent of the world's aluminum and operates mines, smelters and refineries across the world from Guinea to Ireland, Russia to Jamaica.



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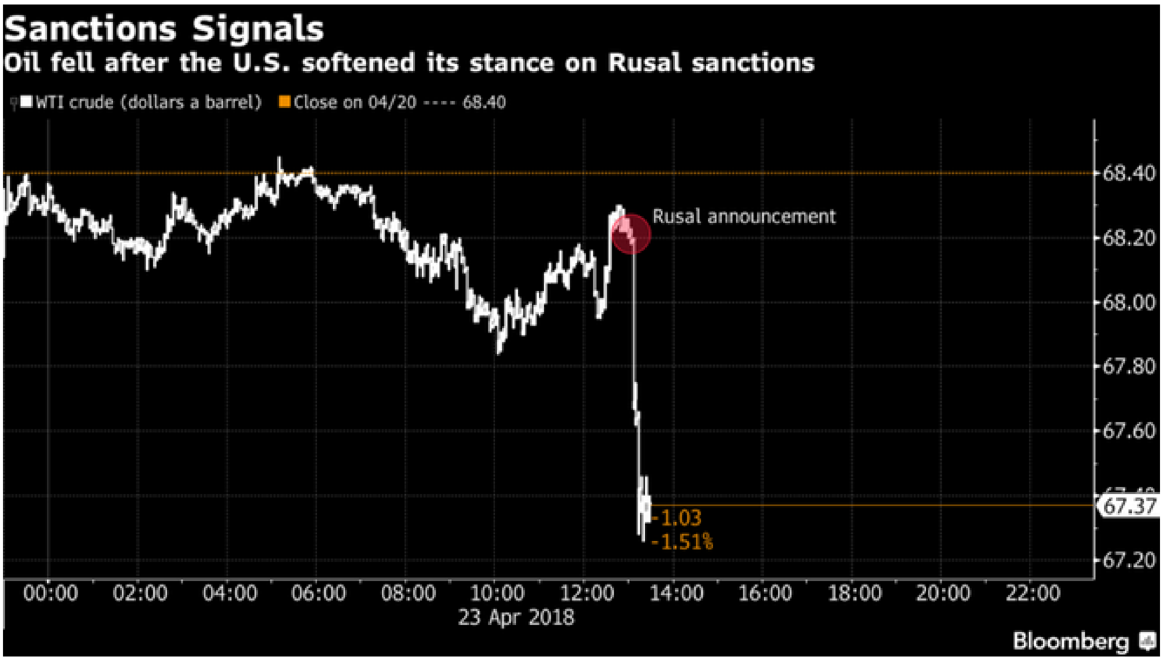
Bloomberg: Oil drops with other commodities as U.S. softens Rusal stance

Oil fell along with other commodities after the U.S. Treasury softened its stance on sanctions that crippled a giant Russian aluminum producer and disrupted the global market for the metal. Futures in New York dropped 1.5 percent. The U.S. said it will provide sanctions relief to United Co. Rusal if Oleg Deripaska relinquishes control, while also extending the deadline for companies to wind down dealings with the company. While the restrictions on Rusal didn't directly affect oil, crude traders are closely watching President Donald Trump's attitude to punitive trade measures as he considers whether to renew sanctions waivers on OPEC member Iran next month.



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