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Our Economy and the World

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Our Economy and the World

Key Global and Regional Developments over the Past Week

[BBC: Fitch downgrades US credit rating from AAA to AA+](#)

The US government's credit rating has been downgraded following concerns over the state of the country's finances and its debt burden. Fitch, one of three major independent agencies that assess creditworthiness, cut the rating from the top level of AAA to a notch lower at AA+. Fitch said it had noted a "steady deterioration" in governance over the last 20 years. US Treasury Secretary Janet Yellen called the downgrade "arbitrary".

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[Bloomberg: South Africa says BRICS will move forward on expansion at summit](#)

A planned announcement on the expansion of BRICS at a forthcoming summit in South Africa will mark a significant change in the global order, the nation's ambassador to the five-nation bloc said, even as some of its members push back against new admissions. Heads of state from Brazil, Russia, India, China and South Africa will make a pronouncement on the enlargement of the group when they meet Aug. 22-24, Anil Sooklal said in a lecture at the University of KwaZulu-Natal on Wednesday. Twenty-two nations have asked formally to become full-time members of the group, and more than 20 others have submitted informal requests.

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[BBC: Eurozone interest rates reach joint record high](#)

The European Central Bank (ECB) has raised interest rates in the eurozone once again, taking its key rate to a record high last seen in late 2000. The bank raised the deposit rate in the 20-nation bloc for the ninth time in a row - to 3.75%, up from 3.5%. The ECB said inflation continued to ease, but was still expected to remain "too high for too long".

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[CNN: China tries to boost consumer spending as factory sector contracts for fourth month](#)

China unveiled a series of measures to boost domestic consumption Monday after more gloomy data about the health of the economy. But it stopped short of announcing a major package of new spending or tax cuts. The official Purchasing Managers' Index (PMI), which measures activity in the manufacturing sector at mainly larger business and state-owned firms, came in at 49.3 in July, according to data released by the National Bureau of Statistics on Monday. That result was slightly up compared with 49 in June but the industry has now contracted each month since April. A PMI reading above 50 indicates expansion, while anything below that level shows contraction.

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Special Analysis

IMF: Near-Term Resilience, Persistent Challenges

Global growth is projected to fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024. While the forecast for 2023 is modestly higher than predicted in the April 2023 World Economic Outlook (WEO), it remains weak by historical standards. The rise in central bank policy rates to fight inflation continues to weigh on economic activity. Global headline inflation is expected to fall from 8.7 percent in 2022 to 6.8 percent in 2023 and 5.2 percent in 2024. Underlying (core) inflation is projected to decline more gradually, and forecasts for inflation in 2024 have been revised upward.

The recent resolution of the US debt ceiling standoff and, earlier this year, strong action by authorities to contain turbulence in US and Swiss banking reduced the immediate risks of financial sector turmoil. This moderated adverse risks to the outlook. However, the balance of risks to global growth remains tilted to the downside. Inflation could remain high and even rise if further shocks occur, including those from an intensification of the war in Ukraine and extreme weather-related events, triggering more restrictive monetary policy. Financial sector turbulence could resume as markets adjust to further policy tightening by central banks. China's recovery could slow, in part as a result of unresolved real estate problems, with negative cross-border spillovers. Sovereign debt distress could spread to a wider group of economies. On the upside, inflation could fall faster than expected, reducing the need for tight monetary policy, and domestic demand could again prove more resilient.

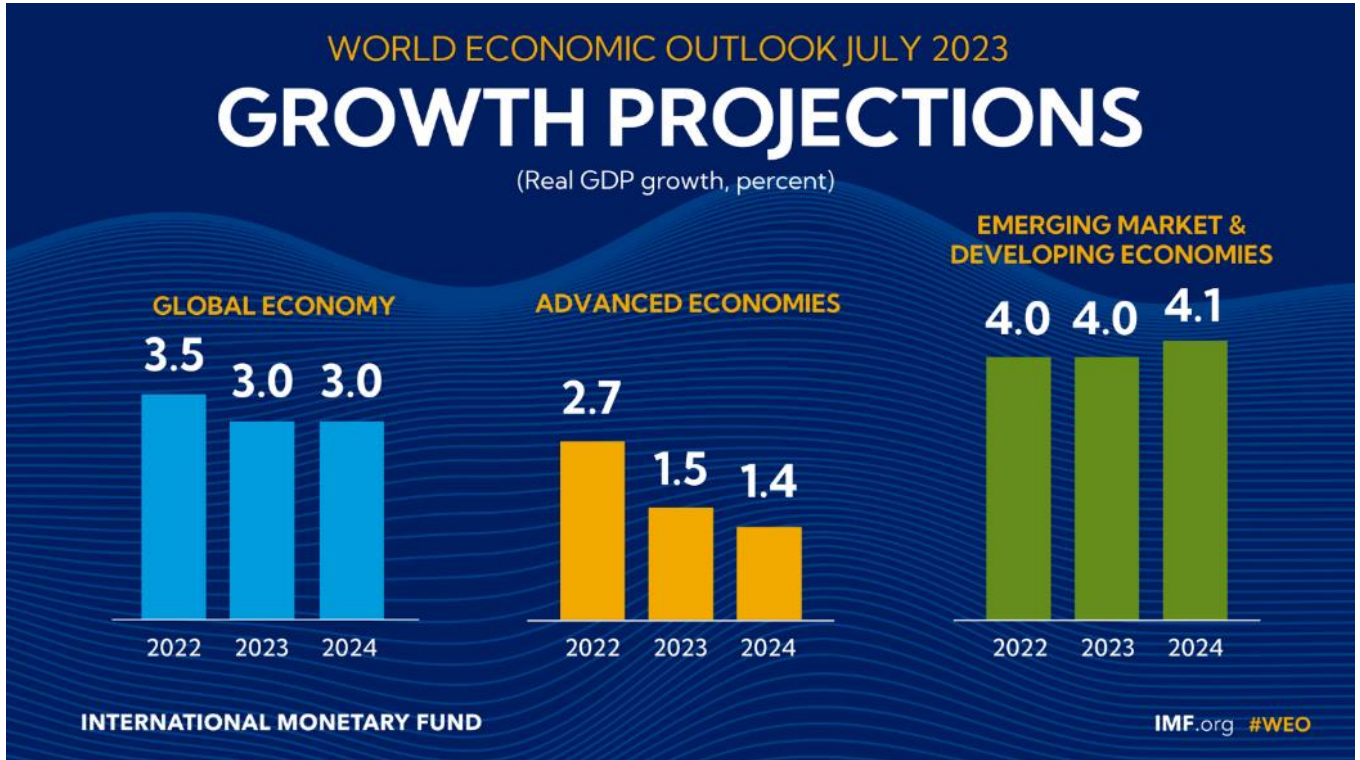
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Developments in Financial and Commodity Markets in the Past Week

[Reuters: Markets calm after Fitch downgrade, but investors see long-term worries](#)

Even as markets on Wednesday largely brushed off Fitch's downgrade of U.S. debt, investors said they expected long-term market unease about the country's debt position, political polarization and the global standing of the U.S. dollar. U.S. stocks, bonds and the dollar were largely calm the day after Fitch unexpectedly stripped the U.S. of its top credit rating, saying expected fiscal deterioration over the next three years and repeated debt ceiling disputes threaten the government's ability to pay its bills.

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[Reuters: Oil settle lower despite record US crude stock drawdown](#)

Oil prices settled down 2% on Wednesday despite a historic drop in U.S. crude stocks, as traders de-risk following the downgrade of the U.S. government's top credit by a major ratings agency. U.S. crude stocks fell in the week by 17 million barrels, the largest drop in U.S. crude inventories according to records dating back to 1982, the Energy Information Administration said on Wednesday. The draw was driven by increased refinery runs and strong crude exports

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