المركز المصري للدراسات الاقتصادية

The Egyptian Center for Economic Studies

Our Economy and The World

The Weekly Report

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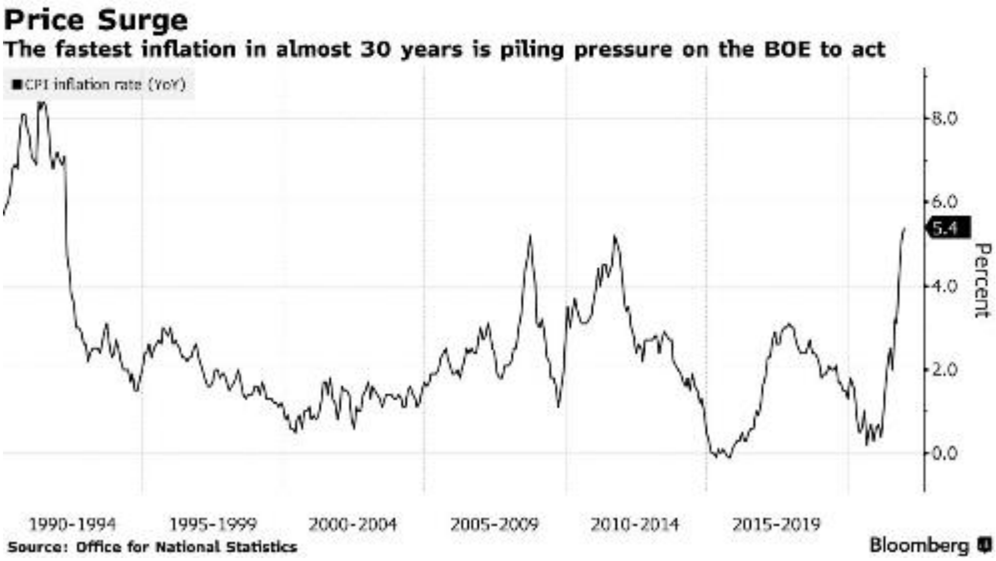
This week's issue of "Our Economy and the World" includes:

Key Global and Regional Developments over the Past Week

Bloomberg: U.K. Inflation Surprises With Jump to Highest in 30 Years

Britain's inflation rate surged unexpectedly to the highest since 1992, sharpening a squeeze on households and adding to pressure on the government and Bank of England to respond. Consumer prices rose 5.4% from a year ago in December, driven by a broad increase in the cost of food, drink, restaurant meals and furniture, the Office for National Statistics said Wednesday. Economists had expected a reading of 5.2%. Household spending power is weakening, with the price of everyday goods and services rising faster than wages. Policy makers at the central bank are weighing another increase in interest rates as early as next month, and ministers are looking at ways to soften a surge in utility bills due to hit in April.



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Financial Times: Biden Backs Fed's Shift to Monetary Tightening to Curb Inflation

Joe Biden backed the Federal Reserve's shift towards tighter monetary policy to fight inflation as the US president opened his first formal press conference in several months with a vow to rein in higher prices afflicting the economic recovery. "Given the strength of our economy and the pace of recent price increases, it is appropriate, as Fed chairman [Jay] Powell has indicated, to recalibrate the support that is now necessary," Biden said, adding that he supported the central bank's independence.

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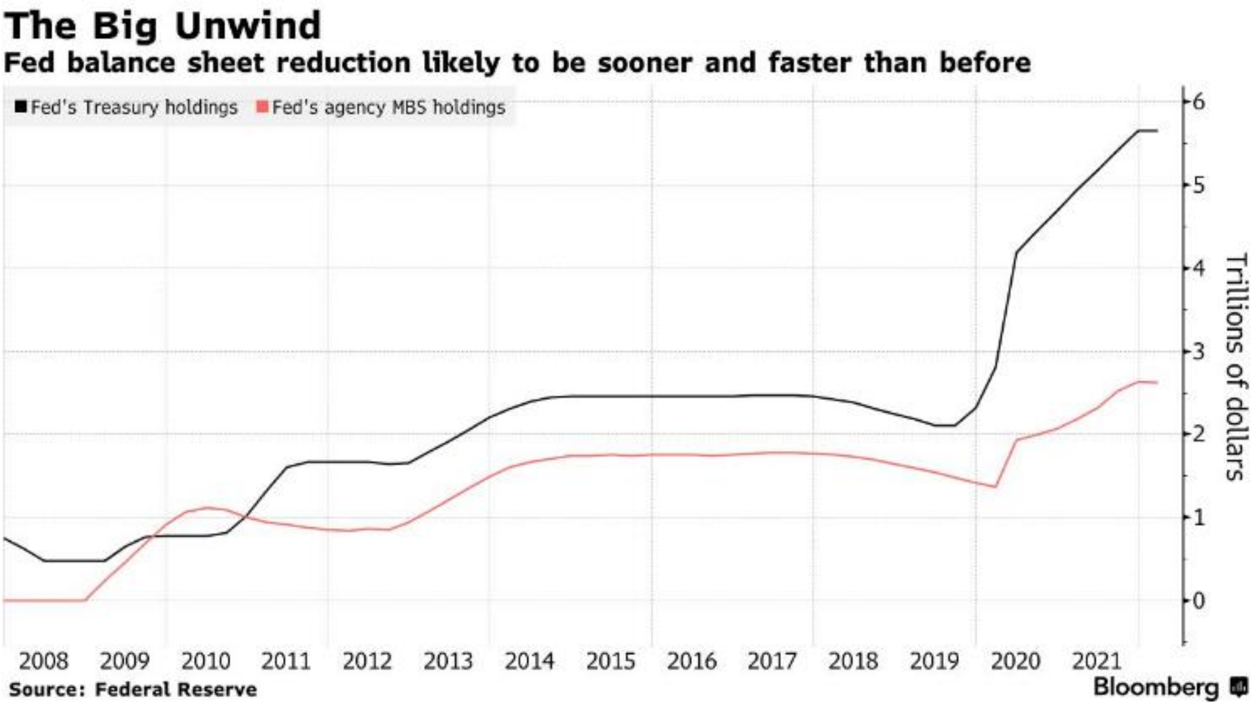
Bloomberg: Markets Tremble at Fed's Unprecedented Double-Edged Tightening

A rapid one-two punch of interest-rate hikes and balance-sheet reduction from the Federal Reserve risks unsettling bond and stock markets that have already taken a beating. The effects on markets and the economy of combining the two aspects of monetary tightening in quick succession -- something it hasn't done before -- are unknown, and investors are telegraphing their concern. The Nasdaq Composite Index slid more than 8% over the past 10 trading sessions, while Treasuries are down 2.3% this month.



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BBC: US and UK Finally Sit down on Steel Tariffs

The US and UK have begun formal negotiations over Trump-era tariffs on UK steel and aluminium exports. Trade officials in both countries said they were committed to an "expeditious outcome" that would help preserve metals manufacturers in both markets. The trade dispute has been a longstanding thorn in relations between the two allies.

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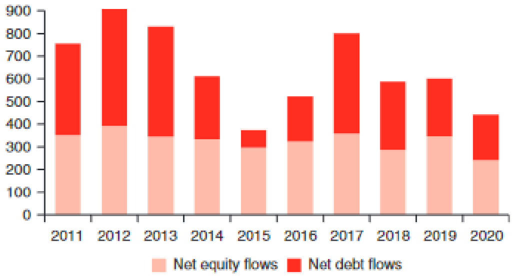
Special Analysis

World Bank: International Debt Statistics 2022

The world economy is still reeling from the once-in-a-generation crisis, the COVID-19 pandemic, that hit every part of the globe in 2020 and brought economic activity to a grinding halt. Governments around the world responded rapidly to stem both the health and economic contagion with fiscal and monetary stimulus packages. Hopes for a quick recovery were dashed when the second wave of the pandemic hit the world's major economies in October 2020. World gross domestic product (GDP) fell by an estimated 4.3 percent in 2020—the sharpest contraction of output since the Great Depression. Developed economies were most severely impacted by the pandemic, and output is estimated to have shrunk by 5.6 percent in 2020. Low- and middle-income countries experienced a relatively less severe contraction, with output estimated to have contracted by 2.5 percent in 2020. There were, however, significant differences in the size of the shock among low- and middle-income countries, with those in Latin America and the Caribbean hardest hit. Countries in East Asia and the Pacific fared better, and their output is estimated to have expanded by 1 percent in 2020, thanks to China's robust recovery.

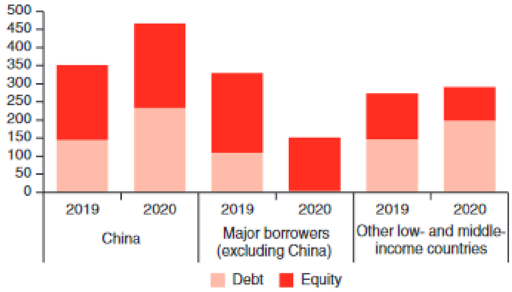
Against this unprecedented and uncertain backdrop, the development in debt stocks and financial flows to low- and middle-income countries in 2020 was a story of highs and lows. Rapid intervention and extraordinary support from multilateral institutions, led by the World Bank and the International Monetary Fund (IMF), raised net inflows from multilateral creditors to $117 billion, the highest level in a decade. The Debt Service Suspension Initiative (DSSI) was launched by Group of Twenty (G-20) countries in April 2020 to assist the poorest and most vulnerable low- and middle-income countries in managing the adverse impacts of the COVID-19 pandemic. It offered ٧٣ International Development Association (IDA)-eligible and least developed countries a temporary suspension of debt-service payments owed to official bilateral creditors. The suspension period was originally set for payments falling due from May 1 to December 31, 2020, but was subsequently extended to end-December 2021. Bond issues from low- and middle-income countries were at a record high of $457 billion in 2020, but issuance from China accounted for nearly half of this amount. Market borrowers in Sub-Saharan Africa were priced out of the bond market for much of the year, and investor retreat from domestic markets in many low- and middle-income countries' biggest borrowers led to large-scale capital flight and shrank debt inflows. Net debt inflows rose 9 percent to $435 billion, but the 26 percent increase in inflows to China masked a marginal,1 percent increase in debt inflows to other low-and middle-income countries.

Figure O.1 Aggregate Net Financial Flows to Low and Middle-Income Countries, Excluding China, 2011–20
US$ (billion)



Sources: World Bank Debtor Reporting System, International Monetary Fund, and Bank for International Settlements.

Figure O.2 Aggregate Net Financial Flows to Major Borrowers and Other Low- and Middle-Income Countries, 2019–20
US$ (billion)



Sources: World Bank Debtor Reporting System and International Monetary Fund.

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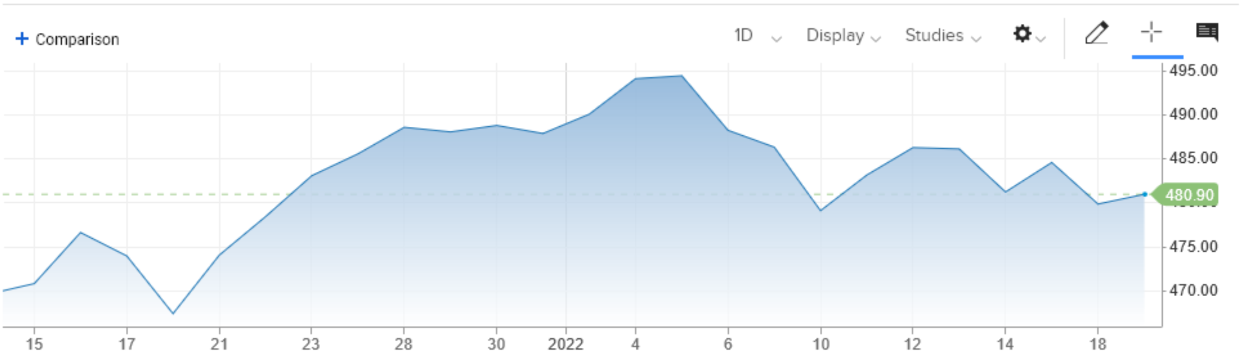
Developments in Financial and Commodity Markets over the Past Week

CNBC: European stocks close slightly higher despite rising bond yields, UK inflation

The pan-European Stoxx 600 closed up by 0.2% after initially starting the session in the red. Mining stocks led the gains, climbing 2.7%. Investors are grappling with the prospect of higher interest rates, which could knock high-growth sectors like technology.European tech stocks were among the biggest fallers Wednesday, slumping 0.9%. U.S. bond yields continued their year-to-date climb on Tuesday with the 10-year Treasury topping 1.89%, its highest level in 2 years. The 10-year yield started the year around 1.5%. Meanwhile, the 2-year rate — which reflects short-term interest rate expectations — topped 1% for the first time in two years. Bond yields move inversely to prices.



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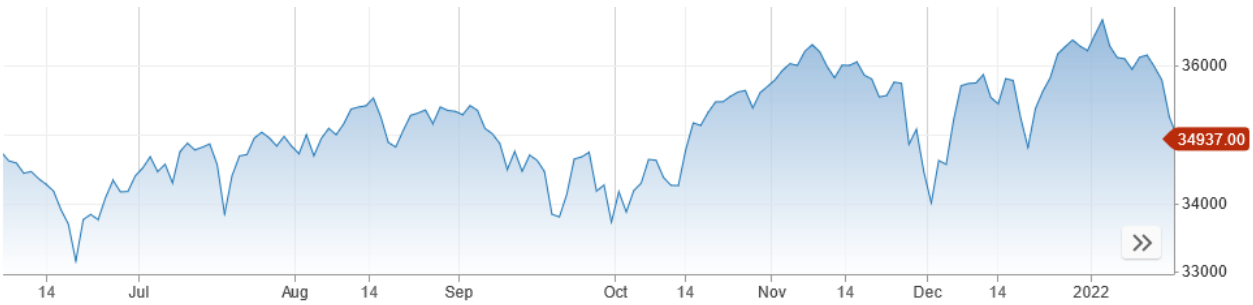
CNBC: Dow drops 540 points, Nasdaq falls 2.6% as 10-year yield rises to 2-year high

The major averages fell sharply Tuesday as government bond yields hit Covid-era highs and after Goldman Sachs reported disappointing earnings. The Dow Jones Industrial Average slipped 543.34 points, or 1.5%, to close at 35,368.47. The S&P 500 fell 1.8% to 4,577.11, and the Nasdaq Composite declined 2.6% to ١٤,٥٠٦,٩٠, hitting its lowest level in three months.



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