IMF's scheme to resolve debt crisis gets little support

Agenda for April 12-13 meetings of IMF, WB supplanted by war

AFP, *Washington*

The International Monetary Fund said Thursday its scheme to help stricken nations resolve debt crises with less volatility had failed to win enough backing, at least for now.

More than a year after the IMF deputy managing director Anne Krueger proposed a new type of bankruptcy system for nations, it had insufficient support for the required legal changes.

The so-called sovereign debt restructuring mechanism (SDRM) was to have been at the centre of April 12-13 spring meetings of the IMF and World Bank, until it was supplanted by the war in Iraq.

It was supposed to act like a bankruptcy court, providing for a country with an unsustainable debt to restructure with the agreement of a set majority of creditors.

But the SDRM plan, outlined in November 2001, never won more than lukewarm support from the United States and drew outright opposition from private sector creditors who feared having their rights diluted.

To be implemented, 85 per cent of the weighted voting power in the IMF would have had to approve a change to the governing articles of the Fund, IMF spokesman Thomas Dawson said.

"That is a fairly high bar," he said.

Even with 70 per cent support, the measure could not lead to a change in the articles, he said.

"That is the context in which it should be viewed," Dawson said.

"It certainly would indicate that one would not expect coming out of this meeting that a proposal would be submited by the board of directors to the board of governors for the appropriate action," he added.

"But that does not mean it will not be discussed at this meeting and the meeting itself still will have to determine the nature of how this work is carried forward."

Krueger herself admitted she had insufficient support in a private address March 27 to the Harvard University Business School's Finance Club, of which a transcript was released Thursday.

"It is perhaps no surprise that we do not yet have the very high level of support that would be required for an amendment to the Fund's articles. So this will not be the end of the story," she said.

SARS likely to hit global economy

REUTERS, *Singapore*

Even as a U.S. advance on Baghdad raised hopes of a quick end to war, faltering growth in the United States and Europe and Asia's deadly virus suggested things could get worse for a fragile world economy.

Concern was fanned by a report on Friday showing export growth from the Philippines was slowing sharply and a statement by Moody's Investors Service that Hong Kong's gaping budget deficit may widen due to the virus scare.

The U.S. employment report for March due later in the day will be a pivotal release for global markets, with a weak report expected to spark speculation that the U.S. Federal Reserve may quickly cut interest rates -- already at four decade lows.

"If payroll employment falls for the fifth time in seven months, I'll be sitting here over the next week watching the screens and thinking that an inter-meeting cut of 50 basis points is a genuine prospect," Macquarie Bank strategist Rory Robertson said.

A Reuters poll of analysts found an average expected fall of 29,000 in payrolls in March after February's plunge of 308,000. Data on Thursday showed a jump in weekly U.S. jobless claims and a fall in service sector activity to its lowest level since October 2001.

"Optimism of a quick war was undermined by the economic gloom faced by the U.S. economy amidst low ammunition on the monetary front and burgeoning fiscal deficits," said Jimmy Koh, head of treasury research at Singapore's UOB.

PHOTO: LGED

The new Country Director of the World Bank in Bangladesh, Christine Wallich, visited the Local Government Engineering Department (LGED) headquarters on Thursday. She was apprised of LGED's development activities and the World Bank-assisted projects that are being implemented under LGED. Md Shahidul Hassan, chief engineer of LGED, acknowledged the World Bank's continued contribution towards infrastructure development in both rural and urban areas.

Weekly Currency Roundup

March 29-April 3, 2003

Local FX Market

US dollar was more or less steady against Bangladeshi Taka in this week. Matched demand supply of the greenback kept the market at balance for most of the week. Though at the end of the week dollar became weaker as demand for the dollar fell in the market combined with increased supply.

Money Market:

Bangladesh Bank borrowed BDT 8,024 million by the Treasury bill auction held on Sunday, which was lower than the previous week. Weighted average yield of 28-D bill and 5-yr bill was up by 1 bps to 7.85 per cent and 11.49 per cent respectively.

The call money rate was comparatively higher at 8.00-9.00 per cent in the beginning of the week. But call money rate eased due to improved liquidity in the market. Call rate fell to 7.75-8.25 per cent by the middle but ended the week at 8.00-8.25 per cent.

International FX Market

In the beginning of the week, US dollar tumbled one per cent against the euro, yen and Swiss franc on Monday, extending the previous week's losses, as concern grew that the US-led war on Iraq would be prolonged, complicated and costly. Dollar sentiment was also hurt by worries that the conflict could escalate after Washington warned Syria on Sunday to abandon its support for "terrorist groups" and Palestinian group Islamic Jihad said that suicide bombers had been sent to support Iraq fighters.

The dollar soared nearly a cent against the euro and one per cent against the Swiss franc in the middle of the week, as news that US troops were advancing on Baghdad re-ignited market hopes for a short war. Dollar executed a rapid about-turn from two-week lows on the yen and euro on concerns that the US-British campaign to oust Iraqi President Saddam Hussein would drag on. It also rose against Swiss franc while the franc hit a one-year low against the euro after the Swiss National Bank set its repo rate two basis points lower. The Swiss authorities have cut interest rates and threatened intervention in recent weeks in an attempt to curb the strength of the Swiss currency, which has risen as a result of safe haven flow.

By the end of the week, US dollar raised against most of the currencies after the news that US forces were closing in on Baghdad. It jumped around a quarter yen against the Japanese currency and also rose a quarter of a cent against the euro. News spread that US troops were just 10 km from the southern edge of Baghdad. Dollar rose to its highest since Monday at 119.25 yen. It also strengthened beyond $1.0730 per euro. Earlier dollar paused for a breath after heady gains the previous session.

At 1540 hours on Thursday, euro was at 1.0714/19, GBP at 1.5620/22 and yen at 119.36/38 against the dollar.

--Standard Chartered Bank

European labour laws cost millions of jobs: IMF

REUTERS, *Frankfurt*

Europe's tough labour protection laws mean millions of extra unemployed, the International Monetary Fund said Thursday in a new report measuring what the region's rules mean for jobs and growth.

Scalerotic European labour markets are a long-standing IMF hobby horse, but the Fund said that it was presenting fresh evidence of how high the economic costs have climbed.

"Reform in labour and product markets can have a profound impact on raising consumption and investment and on lowering unemployment in Europe," said IMF chief economist Ken Rogoff.

Europe knows it has a labour market problem and EU leaders want to make changes, not least in Germany, where data on Thursday showed unemployment hit a five-year high last month.

But they are all battling to roll back worker-friendly laws, forged over the years with powerful unions which have helped to reduce strikes, but at the cost of new job creation.

To strengthen their hand the Fund, in an early-released chapter of its upcoming semi-annual World Economic Outlook, said it had calculated that well-designed labour reforms could lift output by five per cent and cut jobless numbers by 3.5 per cent.

"Moreover, if European product markets were similarly brought to US levels of competitiveness, the gain in Europe would double to roughly 10 per cent of income per year," Rogoff told reporters.

PHOTO: AL-ARAFAH ISLAMI BANK

A workshop on money laundering for officers of Al-Arafah Islami Bank Limited was held on Tuesday at the training academy of the bank. Harunur Rashed Chowdhury, general manager of Bangladesh Bank (Anti Money Laundering Department), inaugurated the workshop as chief guest.

Al-Arafah Bank holds workshop on money laundering

A workshop on money laundering for the executives and officers on different categories of Al-Arafah Islami Bank Ltd was held on Tuesday at the training academy of the bank, says a press release.

Harunur Rashed Chowdhury, general manager of Bangladesh Bank's Anti-Money Laundering Department, formally inaugurated the workshop as chief guest. Md Yousuf Ali Howlader, managing director of Al-Arafah Islami Bank, was present.

China may miss lucrative deals in post-war Iraq

ANN/CHINA DAILY, *Hong Kong*

Export losses caused by the war in Iraq will deal a US$4 billion blow to mainland China.

The forecast takes into account the value of total foreign trade and potential loss of contracts related to rebuilding Iraq following the war.

A foreign trade expert estimates that the country's exports to Iraq and its neighbours is worth about US$12 billion.

Mei Xinyu, a researcher with the Academy of Foreign Trade and Economic Co-operation under the Ministry of Commerce, said China's potential economic losses are related to trade with Iraq, engineering contracts and debts.

This is the first time the mainland has disclosed data on potential economic losses.

In an article in the 21st Century Business Herald, Mei said the estimated economic losses were partly based on exports of US$420 million to Iraq last year.

The losses may also include Iraqi debts to China of US$466 million in trade and US$880 million in labour exports as well as US$2.7 billion in potential labour exports and project contracts.

If the war drags on, Mei noted, China's foreign trade with Iraq's six neighbouring nations - Iran, Turkey, Syria, Jordan, Kuwait and Saudi Arabia - would be adversely affected.

Last year, the mainland's trade with the six countries amounted to US$11.683 billion, including exports of US$5.082 billion and imports of US$6.601 billion.

The conflict has already hit exporters. Overseas orders have fallen and transport and insurance costs have increased.

In the first two months of this year, Shanghai's exports to Iraq were nil compared with US$2.08 million for the corresponding period of last year, according to statistics from local customs administration.