IMF urges Asia to curb huge foreign exchange surplus

AFP, *Washington*

Emerging Asian economies have boosted foreign exchange reserves massively in 18 months, presenting a new menace to the global economy, the IMF warned Thursday.

Emerging Asia's reserves soared 170 billion dollars in 2002 to about one trillion dollars, according to an International Monetary Fund study in the twice-yearly World Economic Outlook report.

The buildup accelerated this year, with Chinese reserves alone leaping 60 billion dollars in the first half of 2003.

The expansion in reserves in Asia until 2002 could be explained by basic economics, including the need to cushion against shocks after the 1997 financial crisis, IMF chief economist Ken Rogoff said.

But since then the pace had sped to beyond anything warranted by the economy, resulting in a mountain of reserves, which created new risks, he told a telephone news conference.

"It is one thing to save for a rainy day, but one trillion dollars in reserve accumulation looks more like building Noah's Arc," Rogoff said.

According to the IMF study, a basic rule of thumb showed that countries' foreign exchange reserves can help shield their economies from shocks if the reserves are at least equal to short-term debt.

But in emerging Asian economies, the reserves were now more than five times the level of short-term debt.

"Some slowdown in the rate of accumulation may now be desireable," the IMF report said.

Most of the Asian reserves were held in low-interest bearing loans to industrialized nations such as US Treasury bonds.

This was "an awfully expensive insurance policy" when emerging Asian governments typically had much higher interest paying loans of their own on the markets, Rogoff said.

"Some day, Asian central banks may wake up to their massive unproductive reserve assets and begin to diversify more, out of dollars, and possibly out of cash altogether," he warned.

PHOTO: BEPZA

M Nazrul Islam, member (Investment Promotion) of Bangladesh Export Processing Zones Authority (BEPZA), and Md Nazrul Islam Mazumder, chairman of Nassa Taipei Denims Limited, sign an agreement in Dhaka on Thursday. Under the deal, a Taiwan-Bangladesh joint venture company will set up an industry in Comilla EPZ. Among others, Brig Gen (Retd) M Mofizur Rahman, executive chairman of BEPZA, Md Didarul Anwar, member (Finance), Mahbub Ul Alam, secretary, and AZM Azizur Rahman, general manager (Investment Promotion), were present.

PHOTO: PBTL

Shafiul Azam, senior vice-president of Pacific Bangladesh Telecom Limited (PBTL), the owning company of CityCell Digital, and Sadat Hossain Selim, managing director of Anwar Landmark, sign an agreement on behalf of their company in Dhaka recently. Under the deal, Anwar Group has become a corporate client of CityCell.

China expects trade surplus to plunge

REUTERS, *Beijing*

China's trade surplus, a key plank in US criticism of the yuan currency's peg to the dollar, is likely to plunge by nearly two thirds this year to just over 10 billion dollar, the official Xinhua news agency reported.

"China's trade surplus this year is expected to be far lower than the level of 30.3 billion dollar posted last year," an overnight Xinhua report quoted an unnamed government official as saying.

"The full-year trade surplus is expected to roughly exceed 10 billion dollar," it said. The agency did not elaborate.

China's trade surplus with the United States -- 103 billion dollar last year according to US estimates -- has become a hot election issue for Washington, which is pressing China to revalue what it says is an artificially cheap currency that is hurting US jobs.

China insists its surplus with the United States is much smaller. The official Financial News on Friday cited customs data as saying the United States was China's second-largest trade partner in the first eight months of 2003 with two-way trade reaching 78.53 billion dollar, up 30.4 per cent from a year earlier.

India okays privatisation of two major airports

REUTERS, *New Delhi*

India on Thursday approved a plan to privatise two of its biggest airports in the national capital New Delhi and financial centre Bombay in a bid to upgrade them to world standards.

Civil Aviation Minister Rajiv Pratap Rudy told reporters that the federal cabinet had given its consent to spinning off airports at New Delhi and Mumbai into companies and selling 74 per cent stakes in them to a private firm.

The Indian government has embarked on an ambitious privatisation drive to reform state-run enterprises and hopes to raise 132 billion rupees ($2.89 billion) through sale of equity in these companies in the year to March 2004.

But analysts say the drive may lose steam ahead of key state elections later this year and national elections in 2004.

The government has already bowed to political pressure, reversing plans to sell a 61 per cent stake in National Aluminium Company (NALCO), the country's second largest aluminium maker.

Rudy said the state-owned Airports Authority of India (AAI), the umbrella body which operates the country's 130 airports, will hold 26 per cent stakes in the privatised airports while retaining air traffic control and airports security services.

"Two separate companies will be formed with initial equal equity participation from the AAI", said Rudy.

He said there will be separate invitations for prospective bidders globally to submit expression of interest for the two projects.

The two international airports, even though shabby by world standards, are the country's busiest and most profitable with traffic growing at 5.0 to 5.5 per cent a year.

BoJ leaves monetary policy unchanged

AFP, *Tokyo*

The Bank of Japan voted Friday to leave its monetary policy unchanged following recent evidence of an economic upturn as the government upgraded its own outlook for a second successive month.

The BoJ said at the end of a regular two-day policy board meeting it would conduct money market operations to maintain an outstanding balance of current accounts held at the bank of some 27-30 trillion yen (230.8-256.4 billion dollars).

"Should there be a risk of financial market instability, such as a surge in liquidity demand, the bank will provide more liquidity irrespective of the above target," it added.

The decision had been widely anticipated in the light of Japan's positive recent economic indicators, and Masatoshi Sato, senior strategist at Mizuho Investors Securities, said monetary policy was unlikely to change in the near future.

"The Bank of Japan is likely to maintain its current stance for the time being following a series of signs of economic recovery. Attention now is being paid to how the BoJ sees the recent gains in long term interest rates," he said.

The BoJ said in a separate statement that BoJ governor Toshihiko Fukui had instructed bank staff to study the issue of extending the maturities of government securities it buys in repurchase operations.

In its monthly economic assessment in August, the central bank had already presented a scenario of domestic revovery thanks to improving growth rates overseas, even though it characterised economic activity as "virtually flat" at the time.

That was borne out to some extent by the government's revision Wednesday of its gross domestic product figures for the June quarter, showing the world's second largest economy grew a revised 1.0 per cent from the previous quarter, the highest growth rate since the end of 2000.

PHOTO: ULTRA CORPORATION

Usman Ghani, overseas representative of Black & Decker Home Appliances, inaugurates the first showroom of Black and Decker products at Hatirpool in Dhaka recently. Yahya Khondker, CEO of Ultra Corporation, distributor for Black & Decker Home Appliances in Bangladesh, and Hafizur Rahman, managing director of SAMS Corporation, the franchisee of the outlet, were also present.

Weekly Currency Roundup

September 06-September 11, 2003

Local FX Market

The US dollar became stronger against Bangladeshi taka in this week. It remained stable in the beginning of the week. But increased import demand strengthened the US dollar by the end of the week.

Money Market

Bangladesh Bank borrowed BDT 8,751 million by the Treasury bill auction held on Sunday, compared with BDT 4,073 million in the previous week's bid. The weighted average yield of 28-D t-bill was down by 41 bps from the previous rate to 5.99%. The yield 5-Y t-bills also dropped by 21 bps to 8.99%.

The call money rate remained stable this week. In the beginning the week the rate ranged between 2.50-3.00 per cent. The rate remained unchanged at 2.50-3.00 per cent by the end of the week.

International FX Market

The yen kept to its lowest level on the dollar in almost two-weeks in the middle of the week on talk that Japan might have intervened in currency markets earlier in the session to cap its strength and protect domestic exports. Euro stepped off Friday's two-week highs versus the dollar, which had been hit by disappointing labour data from the US.

In the middle of the week, the dollar limped along near a three-week low on the Euro, undermined by a weak close on Wall Street, and was hobbled in a tight range against the yen, as speculation of Japanese intervention stifled action. US dollar plunged 1-1/2 cents against the Euro on Tuesday on falls on Wall Street, falling bond yields and concern for poor jobs reading last week that the US recovery may not live up to expectations.

The dollar fell to a four-week low on the Euro on the end of the week, under pressure after a tape of Al Qaeda leader Osama bin Laden released the previous day rattled equity markets. The second anniversary of the September 11 was also weighing on the monds of the investors. US weekly jobless claims data is due at 1230 GMT, with a forecast of 400,000 new claims in the week. US trade deficit figures for July are also due at 1230 GMT.

At 1515 hours on Thursday, euro was at 1.1221/24, GBP at 1.5940/45 and yen at 117.06/11 against dollar.

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