G7 to talk currencies, deficits as risks cloud global recovery

AFP, *Dubai*

Finance ministers from the world's seven richest nations meet in Dubai from Saturday amid growing optimism over the state of the world economy, but with concerns about exchange rates and high deficits casting a shadow over the nascent recovery.

The meeting of economic leaders from the G7 group of most industrialised nations comes after the IMF gave a relatively upbeat assessment of the world economy in its World Economic Outlook released here this week, but warned the upturn was only fragile and remained exposed to numerous risks.

The International Monetary Fund raised its growth forecasts for the United States and Japan, but slashed its predictions for Europe, whose economic recovery has so far proved far less robust than in the other major global economies.

The G7 leaders will have to examine the dangers to the world economic upturn from the colossal US current account deficit as well as the effects of a recovery that is looking severely uneven across the world.

"There is a serious risk that the emerging global recovery could harbour the seeds of its own demise and be short-circuited in the next 12 to 18 months," said Charles Dallara of the Institute of International Finance.

Western nations and institutions are also making increasingly vocal calls for Asian countries, especially China and Japan, to allow their undervalued currencies to appreciate and thus give competing economies a better chance to find export markets.

They fear that the currency issue could impede the global recovery in the medium term and create massive problems for Europe, whose battered economy is already lagging well behind its more resurgent competitors.

One source told AFP Friday that the question of exchange rates would certainly be on the agenda, with one delegation pushing for a mention of the dollar's value in the final communique.

But the G7 was most likely to call for "flexibility" in exchange rates, rather than make any explicit reference to the rate of the dollar against Asian currencies in the statement, the source said.

US manufacturers claim that China's yuan -- which has been pegged at around 8.3 to the dollar for the past decade -- is undervalued by about 15 per cent, clobbering US exports.

The US administration has argued forcefully that China should change its currency peg, but Treasury Secretary John Snow failed to persuade Beijing to give ground on a recent trip to the region.

Europe has also backed the US position, albeit less assertively, with European Central Bank chief Wim Duisenberg complaining the burden from a fall in the dollar is landing exclusively on the shoulders of the euro.

ECB officials said Duisenberg would meet with his Chinese counterpart Zhou Xiaochuan in Dubai.

China, which is not a member of the elite G7 group (Britain, Canada, France, Germany, Italy, Japan and the United States), is by no means the only Asian country expected to come under pressure for its currency policies.

Japan is also in the sights of its partners for intervening in the foreign exchange markets to curb the strength of the yen and boost the competitiveness of its own exporters.

Meanwhile, the simmering row over the European Union's budget policy should also be apparent, with France and Germany explaining why have once again broken the bloc's rule of not running deficits over 3 per cent of GDP.

French Finance Minister Francis Mer will however not be attending the meeting because of the crisis over French engineering group Alstom.

IMF sees US deficits as greater worry than EU's

AFP, *Dubai*

As debate rages in the European Union over member states' high budget deficits, the International Monetary Fund appears far more concerned by twin US budget and current account deficits, which it warns are a looming menace for the health of the global economy.

IMF chief economist Kenneth Rogoff has highlighted the long-term effects of the massive US budget deficit, but played down the repeated violations to Europe's Stability and Growth Pact, which oversees budget policy in the euro zone.

The US budget gap is expected to reach a record 480 billion dollars in 2004, creating a looming problem for the world economy along with a current account deficit that amounted to 138.7 billion dollars in the second quarter this year.

"The US is just charging ahead. The United States has the best recovery that money can buy," Rogoff said Thursday ahead of the IMF/World Bank annual meeting here on September 23-24.

"It has very high fiscal stimulus, a huge current account deficit. It is borrowing a great deal in order to sustain this very high recovery," he added.

PHOTO: LOYEDS INS

Fazlur Rahman, chairman, The Loyeds Insurance Company Ltd, addresses the 3rd annual general meeting of the company held in Dhaka on Thursday. Sponsor Director Mohammad Masum, Managing Director Mosleh Uddin Ahmad and Adviser M Ahsanullah are also seen in the picture.

PHOTO: DHAKA STOCK EXCHANGE

A six-member delegation of Australian Marketing and Development Company Limited led by Tim Bennett, managing director of Managed Growth Group, met Dhaka Stock Exchange (DSE) Chairman Ahmed Iqbal Hasan in Dhaka on Thursday. DSE Vice-chairman Abdullah Bokhari, Councillor Saiful Islam, CEO Salahuddin Ahmed Khan and IT head ASM Khairuzzaman were also present.

Weekly Currency Roundup

September 13-September 18, 2003

Local FX Market

The US dollar was stable against Bangladeshi taka in the beginning of the week as demand for import was offset by boosted supply by remittances. Later in the week, dollar was slightly upward.

Money Market:

Bangladesh Bank borrowed BDT 11,700 million by the treasury bill auction held on Sunday, compared with BDT 8,751 million in the previous week's bid. The weighed average yield of 28-D t-bill was down by 66 bps from the previous rate to 5.33 per cent. The yield 5-Y t-bills dropped by 4 bps to 8.95 per cent.

The call money rate remained stable this week. In the beginning the week the rate ranged between 2.75 and 3.00 per cent. The rate remained slightly lower at 2.50-2.75 per cent by the end of the week.

International FX Market

The euro pulled back from Friday's four-week peak against the dollar on Monday as traders questioned whether a "no" vote in Sweden's euro referendum would hamper this month's rebound in the single currency. By 0735 GMT the euro was 0.15 per cent down from late Friday's levels at $1.1275 having hit a four-week high of $1.1324 when weaker than expected US retail sales and consumer confidence data undermined the dollar. The Swedish crown hit a two-week low at 9.2043 per euro as European traders reacted to the result of the vote. A holiday in Tokyo made for thin market conditions and the dollar held in a narrow range around 117.40 yen although the market remained wary that Japanese officials could intervene at any moment to cap any export-damaging gains in the yen.

In the middle of the week, the yen rose to one-week highs on the euro and held near two-week peaks on the dollar, helped again by another solid performance on Tokyo's stock market that took Nikkei to a 15-month closing high. Sterling gained against the dollar and the euro after minutes from the Bank of England's rate meeting in early September showed some policymakers starting to look for an interest rate rise.

At the end of the week, the yen hit four-month highs against the US dollar as markets tested the Japanese monetary authorities' resolve to cap its strength ahead of a meeting of Group of Seven industrialised nations this weekend. Markets were weary of yen-selling intervention by Japanese authorities to protect their country's fragile exported recovery.

The Japanese currency also rose against the euro to 130.56. Euro was steady at $1.1275, slightly below the New York close.

At 1430 hours on Thursday, euro was at 1.1272/75, GBP at 1.6134/40 and yen at 115.83/88 against dollar.

-- Standard Chartered Bank

PHOTO: ISLAMI BANK

Shah Abdul Hannan, chairman of Islami Bank Bangladesh Ltd, presides over the 20th annual general meeting of the bank yesterday in Dhaka.

PHOTO: NATIONAL BANK

Zainul Haque Sikder, chairman of National Bank Ltd, presides over the 20th annual general meeting and 15th extra ordinary general meeting of the bank on Thursday at the BDR Darbar Hall in Dhaka. M A Mazid Khan, managing director of the bank, was also present.

Citibank wins approval to buy stake in Chinese bank

AFP, *Shanghai*

Chinese officials said Friday Citigroup has won approval to complete a minority acquisition in Shanghai Pudong Development Bank (SPDB) as the US-based lender expands its business by breaking into the mainland's growing credit card business.

Citibank's 600 million-yuan (72 million-dollar), or 4.62 per cent, purchase of non-tradeable stock will make it SPDB's fourth largest shareholder.

"The agreement won approval from state asset regulators both in Shanghai and at the central government," SPDB said in a statement published in the China Securities Journal.

EU plans to fight against disputed US trade law

REUTERS, *Brussels*

The European Union is planning to fight back against an old but contested US anti-dumping law, officials said on Thursday, as the world's top two commerce blocs head into an autumn of trade discontent.

The European Commission wants to let EU firms take up the issue in US in courts if they are prosecuted under a 1916 US anti-dumping law, which the World Trade Organisation (WTO) ruled illegal in September 2000.

The move comes as transatlantic disputes over US steel tariffs and US export tax breaks are set to resurface, both potentially involving EU trade sanctions on American goods.

"The time has come to do something so that European companies will not be negatively affected by this (US) legislation," said Arancha Gonzalez, spokeswoman for European Trade Commissioner Pascal Lamy.

She spoke after the Commission on Wednesday proposed a law to stop EU courts recognising and enforcing US decisions under the 1916 act, which is more draconian than standard anti-dumping rules as it allows fines and imprisonment for those convicted.

The EU executive took the decision three days after world trade talks broke down in acrimony in Cancun, Mexico, raising fears of a global trade free-for-all.

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