

Economic imbalances may hit global growth: OECD chief

AFP, Tokyo

OECD Secretary General Angel Gurría said Friday that global economic imbalances were casting a shadow over an otherwise benign outlook for the world economy. Countries needed to play by the

same rules or else imbalances such as the large US trade deficit and rigid Chinese monetary policy could "unwind in an abrupt type of behavior," he said.

The former Mexican finance minister predicted a "generally a benign context of growth for this

year and next" for the world economy but said there were risks to the outlook.

"We are normally used to economies balancing out by devaluation (or) revaluation" of their currencies, he said.

"This is the normal way if every-

one is playing the same rules. But one very large player is not playing by the same rules," he told reporters, apparently referring to China.

Another concern is high oil prices, Gurría said, forecasting a doubling of energy consumption over the next 40 years.

At the same time, however, alternative energy sources and more efficient technologies meant that the world was using less oil per dollar of gross domestic product, he noted.

Gurría, on his first trip to Japan since becoming head of the Organisation for Economic Cooperation and Development on June 1, also called for greater cooperation to conclude stalled talks on a global free trade pact. **JAPAN URGED TO TACKLE WIDENING RICH-POOR GAP** Another report adds: Japan's 'classless society' is being challenged by a widening rich-poor gap, with income inequality and relative poverty now above the average for industrialised nations, the OECD said Thursday.

Relatively equal income distribution has been a hallmark of Japan's postwar development.

However, the proportion of Japanese in relative poverty, defined as having less than one-half of the median household disposable income, topped 15 percent in 2000, up from 12 percent in the mid-1980s, the Paris-based body said.

That ranked Japan fifth worst among the 30 industrialised nations belonging to the Organisation for Economic Cooperation and Development and was well above the average of 10 percent, the OECD said in a report on Japan.

Among the working age population, Japan was second worst in terms of relative poverty with a rate of 13.5 percent in 2000, exceeded only by the United States.

"Rising income inequality and relative poverty may be a concern to policymakers when they exacerbate the social exclusion of poorer persons, with negative consequences for the well being of those individuals as well as for society as a whole," the OECD report warned.

China hikes bank reserve ratio to cool economy

AFP, China

China's central bank on Friday ordered major commercial banks to set aside more money into reserves in an effort to reduce excessive lending and cool the runaway economy.

The People's Bank of China said the required deposit reserve ratio for commercial lenders would rise 0.5 percentage point to 8.5 percent on August 15 in a bid to cut the amount of money fueling a liquidity-driven investment boom.

"Investment in fixed assets is increasing too fast and credit is growing too rapidly," the bank said in a statement on its website. "The main purpose of this measure is to strengthen liquidity management and rein in too speedy growth in credit."

The required deposit ratio was raised a similar 0.5 percentage points to 8.0 percent on July 5.

At that time, the central bank

estimated liquidity would be reduced by a total of 150 billion yuan (19 billion dollars) and the impact of the new measure was likely to be of a similar magnitude.

The measure was announced at the end of a week when China announced growth figures that surprised all but the most optimistic of analysts.

The Chinese economy, already the world's fourth-largest, grew 11.3 percent year-on-year in the second quarter, the highest quarterly rate in more than a decade, the National Bureau of Statistics said Tuesday.

It was the lop-sided growth that really raised eyebrows, as investment in plants, bridges, roads and other types of fixed assets rose 30.9 percent in the second quarter. "Chinas economy is in a bad situation right now," said Sun Lijian, an economist with Fudan University in Shanghai.



PHOTO: MUTUAL TRUST BANK

Mosharrif Hossain, managing director of Mutual Trust Bank Ltd, and Abdullah Bin Ghalib, group managing director of Wall Street Exchange Centre LLC, UAE, pose for photographs while signing a remittance agreement in Abu Dhabi recently. Under the deal, Bangladeshis living in the UAE will be able to send their money home quickly through the bank.



PHOTO: GRAMEENPHONE

GH Van der Waal, country director of The Leprosy Mission Bangladesh (TLMB), and Khandaker Omar Farhan, head of Direct Sales (Business Solutions) of mobile phone operator GrameenPhone (GP) Ltd, pose for photographs at an agreement signing ceremony recently. As per the deal, GP will provide complete communication facilities under its 'Business Solutions' package for the TLMB. Senior officials from both the sides were also present.



PHOTO: AB BANK

Sajedur Seraj, vice chairman of Arab Bangladesh (AB) Bank Ltd, recently inaugurates an ATM (automated teller machine) booth on the bank's Khulna branch premises for all local and international Visa cardholders. RQM Forkan, senior executive vice president and chief operating officer, among others, was present.

Dollar slips against major rivals

AFP, London

The dollar eased against the euro and the yen on Friday as the foreign exchange market continued to bet that the US Federal Reserve will take a softer line on interest rates, dealers said.

The euro rose to 1.2671 dollars in European trade, compared with 1.2632 dollars late in New York on Thursday.

The dollar fell to 116.03 yen from 116.90 yen late on Thursday. Analysts said that minutes from the US Federal Reserve's June interest rate meeting suggested a pause to monetary tightening. The Fed has hiked rates 17 times in a row.

"The minutes from the meeting that took place on 29th June, released yesterday (Thursday), seemed to reinforce the possibility of an imminent pause," noted The Bank of Tokyo-Mitsubishi currency

economist Derek Halpenny.

While the decision to raise the fed funds rate by a quarter point to 5.25 percent was unanimous in June, at least one member indicated the move "was a close call", according to the minutes.

Halpenny added: "The probability of a rate hike at the meeting on 8th August has dropped by 20 percent since the testimony on Tuesday and is now close to a 50/50 chance."

The dollar has weakened in recent days on renewed speculation that official US lending rates may have peaked after Fed chief Ben Bernanke made dovish remarks in testimony to Congress on Wednesday.

Those comments "suggested an increasing possibility that the FOMC will pause either at the next meeting or following one further rate increase at the next meeting", Halpenny said.

Weekly Currency Roundup

July 16-July 20, 2006

Local FX Market

Demand for US dollar was stable in throughout the week and USD rose slightly against Bangladeshi taka.

Money Market

In the Treasury bill auction held on Sunday, bid for BDT 11760.00 was accepted.

Overnight money market was steady throughout the week. The call money rate remained unchanged throughout the week and ranged between 6.50 and 7.00 percent.

International FX Market

The dollar climbed on Friday against major currencies as the escalating conflict in the Middle East and a stand-off over North Korea's missile launches sent investors into the relative safety of the US currency. The dollar began the week by rising strongest level in over two weeks against the euro and yen on Monday, as investors sought safe havens as Middle East tensions escalated. The dollar was up 0.4 percent against the Swiss francs and sterling was also a third of a percent weaker. Expectations that the Bank of Japan (BOJ) would tighten monetary policy at a very slow pace undermined the yen. The BOJ on Friday ended its zero interest rate policy by raising rates for the first time in six years. The yen hit 8-year lows against sterling and the Swiss franc on Monday.

In the middle of the week, the euro fell to its lowest in almost a month against the dollar and sterling on Tuesday. Investors were waiting for US inflation data due over the next two days which should shed some light on the likelihood of an August Fed rate rise and, given the uncertainty of such a move, investors scaled back dollar positions built up the previous day on geopolitical tensions in the Middle East. The euro was down against the dollar hitting its lowest since June 23. The euro also fell a third of a percent against the pound to hit a 4-week low. The dollar homed in on three-month highs against the euro and the yen on Wednesday ahead of comments from federal Reserve Chairman Ben Bernanke that could give clues on the outlook for US interest rates. In Europe, attention was turned towards euro zone trade data that is expected to show a narrowed deficit. The yen has fallen more than 3.5 percent against the dollar since the start of last week, brushing off the Bank of Japan's first rate rise in six years to 0.25 percent on Friday.

At the end of the week, the dollar steadied on Thursday, nursing losses made after the Federal Reserve chief said US inflation was likely to ease in coming quarters, reducing expectations the Fed would raise interest rates in August. Ben Bernanke's remarks on Wednesday erased the dollar's gains made after a higher-than-expected rise in US consumer prices, pulling it down from three-month highs against the yen, euro and Swiss franc. The euro gained 0.1 percent against the dollar, having hit a three-month low on Wednesday.

- Standard Chartered Bank

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