

## Business

## Bank of Italy cuts discount rate by 0.5 pc

ROME, Sept 10: As the Cabinet deliberated on spending cuts and tax increases to hold down the 1994 budget deficit, the Bank of Italy on Thursday cut the discount rate by 0.5 per cent to spur investment, reports AP.

The cut to 8.5 per cent, effective Friday, had been long urged by the powerful private-sector manufacturers association, Confindustria, as a way to fight recession and growing unemployment.

According to figures released Thursday, employment in industrial companies with over 500 workers fell 5.8 per cent for June 1993 from a year earlier. It was down 0.2 per cent from May.

Thursday's cut — the sixth decided by Italy's central bank this year — brought the discount rate to its lowest level since February 1976.

The central bank stressed that the rate reduction was in line with the decision of the German Bundesbank, "which confirmed the downward trend of international interest rates."

The Bundesbank said it was cutting the discount rate, the cheapest rate for loans to commercial banks, from 6.75 per cent to 6.25 per cent. The Lombard rate, at which banks can borrow emergency funds from the central bank, was cut from 7.75 per cent to 7.25 per cent.

Meanwhile, Italy's inflation rate steadied at 4.4 per cent in August, unchanged from July.

A cabinet meeting Thursday discussed a 31 trillion lire (19.3 billion dollar) package in taxes and cuts proposed by Premier Carlo Ciampi, including a freeze of salaries in the public sector and changes in the health and pension systems.

# GATT world trade negotiations inching forward towards solution

PARIS, Sept 10: French officials said yesterday that talks among France, Germany and the European Commission to break a deadlock on farm reforms blocking GATT world trade negotiations were inching forward towards a possible solution, reports Reuter.

President François Mitterrand said in an interview with South Korean media that France hoped for a GATT agreement by the December 15 deadline but stressed it must be more acceptable to Paris than

the current "unjust" terms.

"While I wish the agreements to be signed by the deadline, I am not sure as long as the other side is obstinately refusing France its rights," Mitterrand said.

French officials said French, German and EC experts were hoping to find terms acceptable to France without formally renegotiating the so-called Blair House draft agreement between the EC and the United States, which Paris has rejected.

Things seem to be moving,

a French official close to the negotiations told Reuters. "On the German side, they are inching forward, but only on details such as (exempting) food aid and existing stocks [from limits on subsidised farm exports]."

Agriculture Minister Jean Puech said in a radio interview:

"We see that our partners, notably the Germans, are evolving and the Franco-German couple is coming back together on this difficult issue after we were really far apart, so I think we have made a significant step."

France has threatened to veto the Blair House accord, negotiated last November, unless it achieves better terms and has called a special meeting of EC foreign and agriculture ministers for September 20 to discuss the issue.

The commission was also moving to accommodate some of France's concerns after a meeting between French Industry and Trade Minister Gerard Longuet and External Economic Relations Commissioner Sir Leon Brittan on

Tuesday, he said.

Brittan is ready to make concessions, the official said. "He saw that a French blocking position could lead to an impasse on September 20 if nothing moved."

Diplomats said the French government was likely to wait until after planned national protests next Wednesday, in which radical farmers have vowed to blockade access roads to Paris, before accepting any compromise on agricultural trade.

## PLO to seek \$11.6b aid from donors for uplift of W Bank, Gaza

AMMAN, Sept 10: The PLO will propose to international donors an 11.6 billion dollar development plan for the West Bank and Gaza detailing an economic blueprint for a future Palestinian state, official said, reports Reuter.

The PLO's "Palestinian Development Programme 1994-2000" sets out a two-stage, five-year economic rehabilitation plan focusing on using Palestinian expertise which helped form the backbone of many Arab economies to build their own modern economy.

Israel and the PLO today agreed to mutual recognition, paving the way for a deal on Palestinian interim self-rule.

The plan underlines the importance of tapping the Palestinian human capital and accumulated experience in the export of skills... over the last

decades especially their role in modern nation-building in the oil-rich gulf states," Yusef Sayegh, project coordinator, told Reuters recently.

Officials said the PLO position in a World Bank meeting in Washington this month will be based on the plan drawn up by a team of the PLO's economic department over the past two years.

"Our plan which covers the whole of the occupied territories is now ready for implementation the moment we assume authority," said Javad Naji, head of Economic Affairs and Planning.

The first stage for 1994-95 aims to correct economic imbalances sparked by 26 years of military occupation by re-activating sectors capable of quickly generating hard currency, especially tourism.

The World Bank has invited Israelis and Arabs to Washington this month to discuss

construction programmes including 175,000 new houses, training in high-technology, engineering, health, and public administration and measures to boost export-generating sectors. The PLO's outlook is closest to the model of the geographically small dynamic Asian states of Hong Kong and Singapore with human wealth channelled into high skill technologies and industry.

Sayegh said 2.5 billion dollar would be initially needed in working capital to get the economy on its feet.

The issue of funding during the interim period is not expected to be a major problem as international aid agencies have already expressed readiness to contribute," Naji said.

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that about 20 billion dollar in assets outside the territories.



RUSSIA: A giant statue of Valdimir Lenin watches over the first international weapons fair in Nizhny Novgorod Wednesday. The fair that was sponsored by the Russian Defence Industries Committee was arranged to show that Russia is still able to produce world class military weapons and to find new buyers for their military equipment. — AFP photo

## EC foreign ministers face gathering trade crisis

BRUSSELS, Sept 10: A gathering trade crisis over agricultural subsidies confronts European Community foreign ministers when they hold their six-monthly global review at a Belgian Chateau on Saturday and Sunday, reports AFP.

They will be trying to end a stand-off between France and the United States over an agreement to slash agricultural subsidies and whittle down huge EC farm surpluses that have distorted markets around the world.

France is threatening to veto the accord, reached last November between the United States and the EC's executive European Commission.

The French say the so-called "Blair House" subsidy accord is unacceptable because it will hurt French farmers too much, cost them world markets and drive them off the land.

"I do not imagine it will be a cozy fireside chat," said one diplomat.

Neither France nor Washington have indicated a way out of the deadlock. So the EC foreign ministers will be trying to find inducements that will make French farmers swallow the agricultural subsidies reductions.

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Employers group warns

## Tax rise in UK budget may hamper economic recovery

LONDON, Sept 10: The head of Britain's employers' group has warned Prime Minister John Major's government that any significant tax rises in the November 30 budget could hamper economic recovery, reports Reuter.

Howard Davies, Director-General of the Confederation of British Industry (CBI), was joining a debate about taxation that is causing deep rifts in the conservative party.

"If the government choose to impose further significant tax increases then I think there will be a risk for recovery because although the recovery is satisfactory it is still somewhat fragile," Davies said in an interview with Reuters. Davies said that the government should opt instead to cut spending, by 10

billion pound (15.38 billion dollar) over a three-year period.

The British government, facing a public deficit of 50 billion pound (77 billion dollar) in 1993-4 alone, is having to balance the need to restore its finances to health with the danger of hurting a fledgling economic recovery. But tax rises in the budget look increasingly likely.

In an interview with the Daily Telegraph published on Thursday, chancellor of the exchequer Kenneth Clarke refused to rule out further tax increases and said it was unrealistic to expect economic recovery alone to wipe out the deficit.

He said the CBI would publish a report in the next month or two which would recommend giving the bank more independence in the implementation of monetary policy.

Davies said that if spending cuts were made "the budget could be neutral from a business point of view and allow us

to maintain relatively low interest rates and not be a threat to recovery."

He said the recovery was currently proceeding well, and the economy was set to grow 1.75 per cent this year and 3.0 per cent in 1993.

In the wide-ranging interview late on Wednesday, Davies also urged the government to give the Bank of England independence over monetary policy, to fill the missing link in the new policy framework set out after sterling left the European Exchange Rate Mechanism last September.

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## Indian envoy denies food shortages in North Korea

SEOUL, Sept 10: India's ambassador to North Korea said in an interview published Wednesday that Pyongyang's Communist leadership shows no sign of cracks despite an international controversy over its secretive nuclear programme, reports Reuter.

President Bill Clinton invited leaders of the 15-nation Asia Pacific Economic Cooperation (APEC) forum to an informal Seattle summit on November 18-19, to try to upgrade the trade group.

Nancy Adams, US Trade Representative for Asia and the

Pacific, told a seminar here a

draft accord opening up world commerce under the General Agreement on Tariffs and Trade (GATT) could well be discussed.

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SEoul, Sept 10: India's ambassador to North Korea said in an interview published Wednesday that Pyongyang's Communist leadership shows no sign of cracks despite an international controversy over its secretive nuclear programme, reports Reuter.

Kip Jen, in Seoul accompanying Indian Prime Minister Narasimha Rao on an official visit, also said reports of food shortages and riots in the hard-line Communist North appear unfounded, said the national news agency Yonhap.

"I don't know the situation outside of Pyongyang, but in Pyongyang where I stay, there is no sign of food shortages or riots," he added.

The embassy said the ambassador was unavailable for confirmation of the remarks or further comment.

## US inflation may stay low even with economic boom

WASHINGTON, Sept 10: The US economy, which has barely moved so far this year, is about to pick up speed but the accelerated growth will not be accompanied by higher inflation, forecasters say, reports AP.

If they are correct, that will mean that interest rates, which are already at their lowest levels in more than two decades, should stay low for some time to come.

The latest look at inflation was scheduled Friday when the government released its August report on wholesale prices.

In advance of the report, many economists were predicting a modest increase in the Producer Price Index of perhaps 0.2 per cent.

That would mark the first gain since April. So far this year, wholesale prices have been rising at an annual rate of just 1.8 per cent, little changed from last year's 1.6 per cent increase.

"Inflation is one of the best economic stories of the year," said Bruce Steinberg, economist at Merrill Lynch in New York.

For much of the year, the explanation for low inflation has been extremely weak demand and slack labour markets.

The overall economy, as measured by the gross domestic product, grew at an annual rate of just 1.3 per cent in the first six months.

But economists are forecasting that growth rate will more than double in the last half of the year, perhaps averaging three per cent.

They insist that the upturn

will not be accompanied by higher inflation because there is still plenty of slack in the economy following four long years of sub-par activity.

"We don't see any signs of an imminent acceleration of inflation," said David Wyss, an economist at DRI-McGraw Hill Inc. in Lexington, Mass.

If anything, underlying inflation both at the wholesale and consumer levels should be lower next year than this year, Wyss said.

While Federal Reserve Chairman Alan Greenspan warned Congress in July that the central bank will have to start pushing interest rates higher to combat inflation, he did not give any hints about when those increases would occur.

Because of the good news on inflation, many analysts believe the Fed's first rate hikes will not come before next year.

Germany's powerful central bank announced Thursday that it was cutting two key interest rates by one-half percentage point in a move that was quickly matched by central banks in Belgium, Italy, Spain and Austria.

The Clinton administration and Germany's European allies had been pressuring the German central bank for months to cut rates further to help spur demand in Europe and pull the continent out of a severe recession.

With America's major overseas markets in recession, US exports have suffered this year.

## India terms trade union strike a flop

NEW DELHI, Sept 10: The Indian government today dismissed as a flop a nationwide general strike against economic reform that unions had billed as the biggest-ever show of labour strength, reports AFP.

Labour Minister P.A. Sangma said in a statement here that Thursday's strike, which communist and centrist trade unions claimed took some 20 million workers off the job, had no more than a marginal impact.

He said labour had largely ignored the strike call and showed up at work with enthusiasm and showing a dedication to their basic work culture, the statement contradicted union claims that the strike was a grand success.

The workers have rightly understood that changes in the economic scenario are necessary

to meet the emerging needs of the country in the fast-changing world, Sangma said.

He said labour had responded positively to the structural adjustments being carried out in the industrial sector.

The strike was the third organised on a nationwide scale against the pro-market economic reforms launched in 1991 by the congress (I) party government of Prime Minister P.V. Narasimha Rao.

The government said the workers' stoppage was politically motivated. Work at public and private sector factories, banks and insurance companies, sugar and textile mills, coal mines, chemical and engineering companies, post and telegraph, defence installations and Indian Airlines was disrupted.

But normal life was unaffected in large parts of the country as a result of the strike.

## Y'slav airline hopes to resume int'l operations

BELGRADE, Sept 10: At Belgrade airport, packs of stray dogs pant on the deserted tarmac, sniffing around two dozen airliners, their cockpits covered by aluminum foil for protection from the blazing sun, reports AP.

The tranquility is occasionally shattered as mechanics test the planes' engines — kept operational in hopes that sanctions will be lifted and that JAT, or Jugoslovenski Aerotransport, will take to the skies again.

"Pilots are forever training to handle systems failures and shutdowns in the air. But none of us was prepared to handle what befell us — an almost total shutdown of aviation," said Bratislav Radovic, a Boeing 737 captain.

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