US policymakers see no quick-fix for global financial system

WASHINGTON, May 21: The two top US economic policymakers on Thursday said reforming the world financial system was an arduous task and warned there was no quick-fix, reports Reuters.

In wide-ranging testimony to US lawmakers, Federal Reserve Chairman Alan Greenspan and outgoing Treasury Secretary Robert Rubin offered few fresh ideas, instead reiterating their familiar credo that sound economic policies are ultimately the only way of restoring stability to the global economy.

"The current crisis ... has had to be addressed with ad hoc remedies," Greenspan told the House Banking Committee. "It is essential, however, that those remedies not conflict with a broader vision of how our new international financial system will function as we enter the next century."

Financial markets had eagerly awaited the hearing for any hints from Greenspan on the future of US interest rates after the Fed this week said it was leaning toward higher rates in the future. But both Greenspan and Rubin dropped few hints on the US economy, and markets largely ignored their remarks.

Rubin noted that while reforms were needed to overhaul the global economy after almost two years of turmoil, such changes should not be made at the expense of social progress.

"The international community... has made important progress so far," he said. ""There is now a broad consensus on the appropriate framework for reform, although within the framework there are a number of important issues still to be resolved."

Rubin last week announced that he will step down in early July. His deputy Lawrence Summers is slated to succeed him.

Group of Seven finance ministers will gather in Germany on June 12 for a meeting devoted largely to what has been termed the "global financial architecture" — a range of proposals aimed at preventing future crises though improved supervision and the rule of law, stronger financial systems, and the pursuit of sound fiscal and monetary policies.

The meeting will likely be Rubin's last appearance on the international stage in his more than four years at Treasury.

Rubin reiterated that at the core of each recent economic crisis was a rigid exchange rate system which ultimately had proved unworkable. The only reason for providing financial assistance to countries with currency pegs was if they were sustainable and met certain conditions, he said.

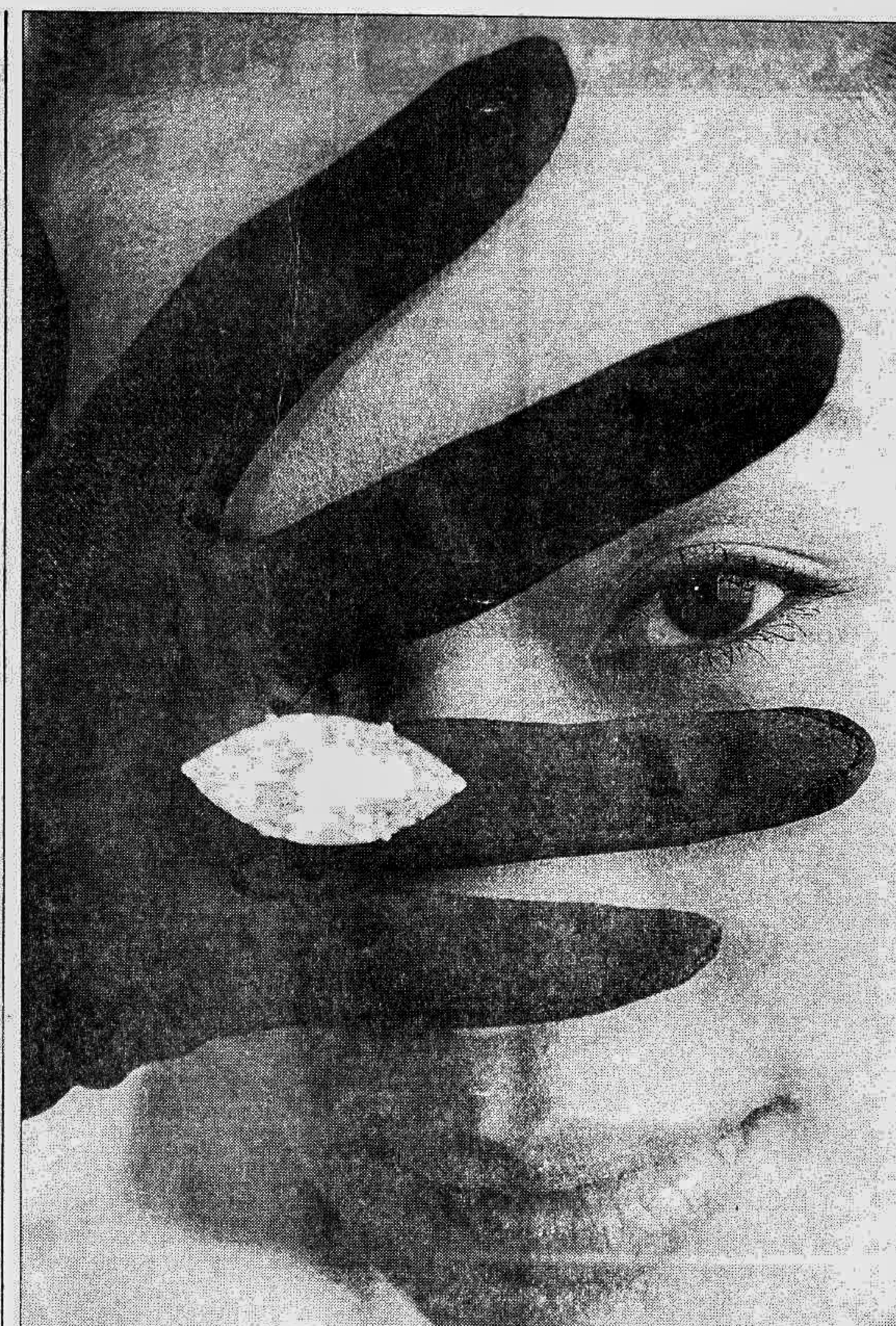
"We believe the international community should not provide exceptional, large scale official finance to countries intervening heavily to defend and exchange -rate peg, except when the peg is judge sustainable and certain exceptional conditions have been met, such as a potential systemic threat," he said.

After the hearing, he told reporters that sound policies were also the key to stabilising major world currencies, such as the dollar and the Japanese yen.

"Our view is that stability is desirable ... but that the only path to stability is good policy," he said.

Greenspan, for his art, called for better disclosure of government and central bank data as well as improved reserve management and tighter legal standards to help put emerging economies on a stronger footing.

Offering an example of how better government disclosure could help prevent crises, Greenspan cited Thailand and South Korea's reporting on reserve positions. Had both governments published data on net reserves "instead of the not very informative gross reserve positions," some speculative investing in those countries might not have occurred, he said.



A model displays a 23.8-carat diamond ring in a jewelry show sponsored by Cartier in Taipei Friday. The 3.2-million US dollar stone is one of more than 70 pieces of jewelry on sale.
— AFP photo

Govt urges lawmakers to endorse IMF demands

Russia on road to recovery

MOSCOW, May 21: The Russian economy is on the road to recovery, but may again plunge into an abyss if parliament doesn't approve economic reforms international lenders want, a top official said Thursday, reports AP.

Russia's industrial production has been growing steadily in the past few months, and was 16 per cent higher in March than in September, shortly after the latest economic crisis hit, acting Economics Minister Andrei Shapovalyants said.

He said Russia could also expect a $25 billion trade surplus this year, according to Russian news reports.

The boost in industrial output and trade surplus is mostly explained by the rouble's devaluation in August. The currency's tumble led to a sharp reduction of imports because they became for too expensive for many Russians.

Shapovalyants warned that failure to meet demands set by the International Monetary Fund for new loans would again send inflation soaring and foreign investors fleeing.

Inflation could reach 60 per cent next year, instead of the predicted 25 per cent to 30 per cent, Shapovalyants told a Cabinet meeting Thursday. Foreign investment, already reduced, would drop again, he said.

The Communist-dominated lower house of parliament, the State Duma, is to start debating the first of the IMF-mendated bills on Friday.

The Duma usually opposes Yeltsin's and IMF policies, but lawmakers have been humbled by their recent failure to impeach Yeltsin and may not be looking for a fight.

Stepashin, approved by the Duma as prime minister on Wednesday, warned that if lawmakers refuse to endorse the IMF bills, he will demand a confidence vote in his Cabinet — a development that lawmakers want to avoid because it could lead to the dissolution of the Duma.

Acting Finance Minister Mikhail Zadornov said that the loan deal with the IMF is essential to persuading creditors to reschedule some of Russia's Soviet-era debts falling due this year.

Zadornov promised that Russia will stay current on Eurobonds and other post-Soviet debts, using the Central Bank's hard currency reserves to pay them until crucial new loans come.

The payments on post-Soviet debts will require dlrs 700-800 million in June and approximately the same amount through the end of the year, Zadornov said. Russia's hard currency reserves are at $11.1 billion.

The Russian government is under international pressure to restructure the country's shaky banking system and revoke the licenses of bankrupt banks that owe billions of dollars to foreign investors.

But Central Bank chief Viktor Gerashchenko said Thursday that the government has recalled the license of only one of the 18 banks on its "black list," Interfax reported.

The 18 banks owe $2.5 billion to foreign investors, but they also owe $750 million to private Russian depositors, Gerashchenko said. The government fears social unrest could result if the banks are closed before their Russian depositors are repaid, he said.

Top Thai banks won't cut savings interest rates

BANGKOK, May 21: Fearing a backlash from a public already suffering from Thailand's economic crisis, the country's top commercial banks won't cut interest rates on passbook savings accounts, the head of the Thai Bankers' Association said Friday, reports AP.

Banthoon Lamsam, president of Thai Farmers Bank and head of the association, said the country's four largest banks would keep their interest rates at 4.5 per cent. But he didn't say for how long.

DBS Thai Danu Bank PCL has already lowered its savings rate to 4 per cent, prompting authorities to warn that there could be a decrease in deposits if savings rates drop too low.

The president of Siam Commercial Bank has also said the interest rates on savings accounts should be 4 per cent.

Depositors have watched as interest rates on passbook accounts have dropped from about 10 per cent before the crisis struck in July 1997.

Banks were hard hit and are struggling to remain stable in the face of bad loans estimated at 46 per cent of all loans extended.

The Law Society of Thailand has condemned commercial banks for taking advantage of the public by cutting the savings interest rate, the Bangkok Post reported Friday.

The Nation reported that Prime Minister Chuan Leekpai has also expressed concern about the wide spread between lending and deposit rates, saying it could hurt small-time savers.

Banthoon said that although the margins between deposit and lending rates were around 5 per cent, the banks were only making a profit on lending of about 0.2 per cent before taxes and provisions for losses.

Inflation falls in Philippines

MANILA, May21 Inflation in Philippines fell to 8.0 per cent in April as food price increases slowed and a fuel price hike had only a limited impact on consumer prices, the government said Wednesday, reports AP.

April's 8.0 per cent year-on-year inflation was considerably lower than February's 8.7 per cent and January's 9.9 per cent.

The Philippine Central Bank said the better-than-expected inflation data, coupled with the stable peso and improvements in other fundamentals, should allow further declines in interest rates.

The central bank's overnight borrowing rate, which influences other interest rates, is currently 10.25 per cent after being cut a number of times this year to help spur a resumption in bank lending.

A file photo shows a Cambodian woman planting rice with water up to her knees in a paddy field east of Phnom Penh. The Philippine-based International Rice Research Institute (IRRI) announced Friday new techniques in rice cultivation which could cut water consumption by up to 25 per cent. IRRI predicts water demand in Asia will rise by 40 to 50 per cent as cities and industries grow, forcing rice growing to become more efficient.
— AFP photo

Excess inventories – new scapegoat for European economic gloom

LONDON, May 21: After Asia, Russia and Oskar Lafontaine, meet the new scapegoat for Europe's stuttering economic performance — excess inventories, reports Reuter.

Economists said a big build-up in stocks of unsold goods meant evidence of recovering demand was not translating into higher industrial production and would continue to hole back Euroland growth until the summer.

The problem of unwanted inventories is most acute in Germany and probably explained a drop in the IFO institute's closely watched business climate survey for April, released on Thursday, said Ellen van der Gulik of JP Morgan in London.

Although expectations of future business improved, current business sentiment unexpectedly declined.

"Clearly, based on these numbers, the inventory overhang is lasting longer than we had expected, particularly because it was current conditions that showed all of the drop in the IFO index and expected output continued to improve," she said.

Julian Callow of Dresdner Kleinwort Benson, who calculates euro-zone industrial output fell by half a per cent in the first quarter, agreed that overstocking had influenced the IFO poll.

"There is a straw in the wind here to suggest the worst is over but the problem is that the current conditions are picking up the inventory overhang and that will continue to weigh down industrial output in the second quarter," he said.

In contrast to Germany, inventories in most other euro-zone countries have started to fall, economists say.

For example, in Belgium — whose inventory cycle tends to lead adjustment in Germany because it is a large producer of semi-manufactured goods for German industry — unwanted stocks have fallen sharply since November, according to JP Morgan.

Van der Gulik said the setback in the IFO index made next week's INSEE survey of French industry all the more important.

"If we see an uptick in the INSEE survey, too, on stocks, then it will be clear that the inventory correction is going to linger on for longer than we anticipated. But if we see a turnaround there, then it will show that it's only Germany that's lagging behind," she said.

Richard Reid of Donaldson Lufkin and Jenrette was reluctant to read too much into inventory figures, which he said were notoriously erratic, especially in Germany, and questioned the widespread assumption that the IFO index would soon improve.

After all, German businessmen were likely to be disappointed that new Finance Minister Hans Eichel has postponed reform of corporate taxation, Reid said.

He said Thursday's batch of economic data painted a very mixed picture of economic conditions across Europe.

Alongside an upturn in Swedish business sentiment and a 1.5 per cent rise in calendar-adjusted Spanish industrial production in March, Reid pointed to a drop of nearly five per cent in first-quarter French exports and a record 9.4 per cent drop in Italian industrial orders in February.

"Yes, we're seeing a bounce after a ghastly end to 1998 and there's evidence particularly from interest-sensitive sectors that the past fall in interest rate is helping. But it would be a mistake to extrapolate a strong recovery from that," he said.

Stronger exports to Asia help boost Aussie economy

CANBERRA, May 21 Stronger exports to Asia are helping to consolidate the Australian economy and boost the value of the Australian dollar, reports AP.

Government statistician reported Monday that Australia had chalked up a smaller trade deficit in March than most economists had expected.

The seasonally adjusted March trade deficit narrowed to 1.49 billion Australian dollars (983 million US dollars) from a record monthly deficit of 1.58 billion Australian dollars (1.04 billion US dollars in February, the Bureau of Statistics said.

The figure less than the average deficit of 1.7 billion Australian dollars (1.12 billion US dollars) that economists had been predicting.

Australia's exports rose by 3 per cent in March, while the country's imports increased by 2 per cent, on seasonally adjusted figures, the statistician reported.

Australia exports to its major Asian trading partners, including Japan and South Korea, rose by 16 per cent during the month.

Australia exports large quantities of raw materials, such as iron ore, coal, wool and meat.

WB okays $1.1b loans for Indonesia

WASHINGTON, May 21: The World Bank Thursday approved two loans totalling 1.1 billion dollars for Indonesia, after Jakarta agreed not to use the money until after June 7 elections, reports AFP.

One loan worth 600 million dollars will help strengthen the safety net in Indonesia, while the other, totalling 500 million dollars, will support economic reforms, the World Bank said in a statement.

"These two loans support the Bank's strategic objectives in Indonesia of implementing a comprehensive reform programme, while protecting the poor," the Bank said in a statement.

"This package is an essential component of the Bank's commitment to help the IMF-led programme promote a return to stability and growth," the Bank added.

The loans are part of the bank's 4.5 billion dollar contribution to the International Monetary Fund's rescue package for Indonesia agreed to in late 1997, at the start of the Asian currency crisis.

The rescue package now totals some 46 billion dollars.

Responding to concerns about misuse of the funds before June parliamentary elections, Jakarta promised on Wednesday not to use World Bank funds to finance the budget until July.

"We don't need the money immediately," said Jannes Hutagalung, the Indonesian Executive Director at the Bank.

Weekly Currency Roundup

Local Market

Last week started with low demand for US dollar, which later rose slightly mainly due to higher import payments. The demand spurred up on the last day of the week due to forward buying by some corporate clients on prospect of a devaluation.

Exporters' demand for devaluation changed the market scenario and prompted clients to remain long on dollars by forward buying. During the week, the dollar traded in a range of BDT 48.65 and BDT 48.67.

Trading was moderate in the kerb market and cash US dollar notes traded between BDT 49.50 and BDT 49.70.

Throughout the previous week, the call money rate closed lower and ranged between 6.25 and 8 per cent .

Bangladesh Bank accepted Treasury Bills worth of BDT 490.65 crore. Of them, BDT 314.50 crore for 28 days at the rate of 7.49 to 7.60 per cent, BDT 19 crore for 91 days at 8.5 to 8.65 per cent, BDT 21 crore for 182 days at 8.5 to 8.65 per cent, BDT 102 crore for 364 days at 9.46 per cent and BDT 34.15 crore for 2 years at 9.75 to 9.96 per cent were accepted.

International Market

Euro came under pressure risking a test of lifetime lows against the dollar on a continuing gloom about stagnating core European economies. Economic data for April on Thursday highlighted the contrast between US and German economies with a surprise fall in the IFO business sentiment index and a strong US Federal Index.

Widening in the long-term interest rate differentials between Europe and USA means the pressure is all down on Euro. Forex market now is watching developments in the war in Yugoslavia.

Pound dipped after the minutes of the Bank of England Monetary Policy Committee's meeting showed members were split 5:4 to keep interest rates on hold at 5:25 per cent. Meanwhile, dollar was lower against yen amid comments by Japanese Foreign Ministry officials.

— *Standard Chartered Bank.*

US business group against battle over WTO leadership

BANGKOK, May 21: A leading US business group said Tuesday the battle over who will lead the World Trade Organisation is threatening to harm American relations with Thailand and other Southeast Asian countries, reports AP.

The US ASEAN Business Council, which says it represents more than 400 major US companies doing business in Southeast Asia, expressed its "deep disappointment over the non-constructive battle in Geneva over the leadership of the WTO," in a statement received by The Associated Press.

ASEAN, or the Association of Southeast Asian nations, consists of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

The WTO is deadlocked over who will become its new director general. The candidates are Thailand's Commerce Minister Supachai Panitchpakdi and former New Zealand Prime Minister Michael Moore.

While Asia is firmly behind Supachai, the United States backs Moore.

Some Thai politicians have been fanning anti-American sentiments in Thailand because they say Washington broke a pledge not to block Supachai's bid for the post.

Akaphol Sorasuchart, the Thai government spokesman, called on Washington to explain why it was blocking Supachai's candidacy after promising not to, according to Tuesday's The Nation newspaper.

US labour unions, which have an influence on the country's politics and trade policies, oppose Supachai because of Thailand's reluctance to repeal repressive labour laws.

Moore is a former labour leader.

Thailand and some other countries feel that it is time for a representative of a developing nation to head the WTO, where disputes between developed and developing nations over trade can be highly contentious.

US stocks slip while dollar, gold and oil gain

NEW YORK, May 21: US stocks slipped yesterday as investors weighed the uncertain outlook for loan-term borrowing and Internet stocks took a beating, reports Reuters.

The dollar rose slightly against Europe's single currency while oil and gold gained.

The Dow Jone industrial average close down 20.65 points, or 0.19 per cent, at 10,866.74.

The technology-driven Nasdaq Composite Index fell 35.17 points, or 1.36 per cent, to 2542.23.

The Federal Reserve's decision Tuesday to adopt a bias toward raising interest rates kept a damper on Thursday's stock activity, traders said.

"People are sitting on sidelines, trying to figure out which ways interest rates are going to go," said James Volk, coordinator of institutional trading at DA Davidson and Co.

Breaking the monotony was eToys Inc., which shot up 56-9/16 to 76-9/16 on Nasdaq after its initial public offering — a leap that gave the online toy store a bigger market capitalization the Toys 'R Us.

Shares of Healtheon Corp, the pioneer of Internet-based health data, jumped 20-3/8 to 100-5-8 on Nasdaq after new that it would acquire the online medical resource WebMD in a $10 billion deal.

On Nasdaq, Amazon. com settle down 8-3/4 130-13/16. Late Wednesday, the Web retail said it planned to raise up to $2 billion to pay for its rapid expansion in online book retailing and other businesses.

But traders said Bellwether Tech Stock America Online Inc. also played a major role in Thursday's Internet stock rout. Shares of AOL, the leading consumer online service, fell 6-1/8 to close at 129-1/16. The drop, one trader said, reflected the lack of news from a much-anticipated company meeting on Wednesday.

And Microsoft stock ended off 7/8 at 78-7/16. Microsoft was among leading technology, consumer and health-care companies that agreed to make a $360 million investment in WebMD, which agreed to be bought by Healtheon.

Friday's "double witching" expiration of options on futures and stocks also contributed to stock volatility on Thursday, traders said.

The benchmark 30-year Treasury bond ended down almost 3/8 of a point, while its yield rose to 5.83 per cent from 5.8 per cent the previous day.

The dollar gained a bit against the euro as fresh economic data pointed to slow growth in the single currency region's two largest economies, Germany and Italy.

Currency traders appeared unfuffled by the US trade deficit, which climbed a record for the third straight month, rising to $19.7 billion in March from $19.15 billion in February, as Americans bought more foreign goods and services than ever before.

In late trading, the dollar stood at 1.0625 per euro, up modestly from 1.0660 on Wednesday. Against the yen, the dollar slipped to 124.23 from 124.27.

The dollars held at seven-month highs against the Japanese yen, but failed to stake out new ground as a senior Japanese official signalled some concern with the yen's more than 1 per cent drop against the dollar this week.

Gold prices recovered modestly Thursday after sinking a two decade low the day before in London, due in part to a report by the industry-funded World Gold Council of an improvement in demand for the 1999 first quarter, compared with the year-ago period.

On the COMEX division of the New York Mercantile Exchange, June gold settled at $274.70, up $1.20 from Wednesday's contract low close of $273.50.

In London on Wednesday, gold hit a 20-year low of $272.50 on the aftershocks of Britain's May 7 announcement that it would sell more than half of its gold reserves.

At the New York Mercantile Exchange, crude oil for June delivery settled at $17.03 a barrel, up 15 cents, in a flurry of late short covering as the contract expired. June heating oil fell 0.07 cent a gallon to 39.79 cents.

Overseas, London's FTSE 100 index surged 101.5 points, or 1.6 per cent, to end at 6368.2, and Tokyo's benchmark Nikkei 225 average rose 71.81 points, or 0.45 per cent, to 16,199.99.

Race for WTO leadership

Moore claims increasing support for his bid

WELLINGTON, May 21: Former New Zealand prime minister Mike Moore claimed increasing support Friday for his bid to head the World Trade Organisation (WTO), reports AFP.

Moore, locked in a battle with Thai deputy prime minister Supachai Panitchpakdi, said a growing number of countries were prepared to accept the recommendation of acting WTO chairman Ali Mchumo of Tanzania.

Mchumo has sought a consensus for Moore.

He has several times reported that New Zealand had the most support on three criteria — the most countries, wider geographic distribution of support, and support from four of the five largest economies, Moore said.

Downplaying the acrimony that has erupted between the rival camps since Renato Ruggiero stepped down a WTO director general in April, Moore said the process to select a WTO leader last time took nine months.

He also said that 90 countries now supported the chairman's efforts to find a consensus.

"But more importantly, a substantial number of countries have shifted, not to support me, but to support the chairman and the agreed process.

"We estimate well over 90 countries have formally announced support for the chairman's proposal."

Moore said a consensus did not mean a unanimous position, and if five or six countries blocked it then there were predictable delays.

A Thai foreign affairs official warned Thursday that ill-feeling from the dispute could spill into the Asia-Pacific Economic Cooperation (APEC) forum leaders summit in Auckland in September.