

Staff beefed up, missions being sent to member states

IMF, WB put post-crisis spotlight on banks

WASHINGTON, Aug 5: International lenders, stung by complaints that they missed the early signs of Asia's financial storm, are taking a closer look at the problems of banking systems around the world, reports Reuters.

The World Bank and the International Monetary Fund, often at odds on policy proposals, are working together in the new ventures, a direct response to the problems which brought down Asia's tiger economies and then spread to Russia and Brazil.

Both institutions have increased the number of staff looking at banking issues and they are sending joint missions to investigate the financial sector of member countries.

A dozen countries — developed nations and developing ones — have been singled out for special review, although it is not clear if the results of these surveys will be published.

"There are three main sources of instability in the financial world, other than temporary things like Y2K," said Manuel Conthe, a former Spanish finance ministry official.

Loan write-off makes dent in HSBC profits

HONG KONG, Aug 5: Hong Kong's International Bank of Asia Ltd said on Wednesday that its first half earnings plunged by 56.5 per cent as its debt provisions jumped more than three-fold, reports AP.

IBA said its net profit slumped to 72.4 million Hong Kong dollars (US \$9.3 million) from 166.4 million Hong Kong dollars (US \$21 million) in the first half of 1998. Interest income fell 25 per cent to 930.3 million Hong Kong dollars (US \$119 million) from 1.2 billion Hong Kong dollars (US \$154 million).

The bank, known as IBA, wrote off 164.6 million Hong Kong dollars (US \$21 million) in bad loans.

Bad loans in China dealt a big blow to IBA last year when its debt provisions jumped six-fold and its annual earnings plummeted by 80 per cent.

In the first half of this year, the bank made "prudent provisions" to take into account the delinquencies which could occur in the next six months, IBA said in a statement.

A number of its mainland Chinese customers are performing satisfactorily and the majority are paying interest payments on time.

Barshefsky sees US benefit in trade with Vietnam

WASHINGTON, Aug 5: US officials began laying the groundwork yesterday to persuade Congress to normalise trade relations with former enemy Vietnam, says Reuters.

US Trade Representative Charlene Barshefsky and the US ambassador to Vietnam, Douglas "Pete" Peterson, told a Senate panel that completing a trade agreement and normalising trade relations with Hanoi would help support economic reforms in the communist-ruled country.

"At the most basic level, it will do more to open markets for our goods and services by reducing trade barriers, ensuring national treatment and promoting transparency," Barshefsky told the Senate Foreign Relations subcommittee on economic policy and Asian affairs.

"Beyond this, however, it will serve goals we share with the Vietnamese government: promoting economic reform and sustainable growth within the Vietnamese economy; helping Vietnam integrate securely with the regional economy; and creating a stronger foundation for Vietnam's WTO (World Trade Organisation) entry," she said.

The United States and Vietnam last month reached preliminary agreement on a trade pact that will clear the way for Washington to grant Hanoi Normal Trade Relations (NTR), formerly called Most Favoured Nation (MFN) trade status.

US Y2K picture improves

WASHINGTON, Aug 5: US computer systems, including those of the federal government, will be ready for the Year 2000 conversion, said the council had a "high degree of confidence" in the Y2K-compatibility of US financial, electric power, telecommunications, air travel and federal government systems.

"The federal government will be ready for the date change," he said. Y2K readiness means updating computer code to recognise the "00" in two-digit date fields as 2000 and not 1900. It also includes contingency planning.

cial who joined the World Bank this year as vice president leading the bank's work in the financial sector.

"You have budget deficits and exchange rate pegs, and then probably as important as the two other, you have the financial sector, and particularly the banks," Conthe told Reuters.

The Y2K computer glitch is casting a shadow over finances amid fears that computers could confuse the date or seize up when 2000 rolls around. Few US banks expect to be affected, but it is less clear what will happen in the developing world.

Analysts agree that Asia's problems, which started in Thailand just over two years ago, had different causes from previous international crisis which demanded IMF support.

The past focus on taxes, budgets and overspending meant that IMF officials said half-seriously that their initials should actually stand for "It's Mostly Fiscal."

The new problems centred on private and public sector debt and on crashing currencies which exposed fragile banking systems. South Korea was days

from default when the IMF stepped in with a \$58 billion rescue package at the end of 1997. Painful austerity moves cut employment and angry South Korean workers said the initials IMF now stood for "I'M Fired."

"It is not just banks," said Conthe. "We need to focus as much on strengthening commercial banks as on sound debt management, which can clearly be a source of vulnerability."

IMF officials responsible for monitoring financial sectors said their role had increased since the crisis broke, and bank experts now formed part of the IMF teams carrying out annual Article Four reviews of economies of member states.

"The traditional Article Four dealt with macroeconomic issues," said Stefan Ingves, head of the IMF's monetary and exchange affairs department. "We are now adding special studies on assessment of financial sector stability."

The full report, which recommends a closer look at regional issues rather than at ones facing individual countries, is likely to be published in the coming weeks, after a final review by the IMF board.

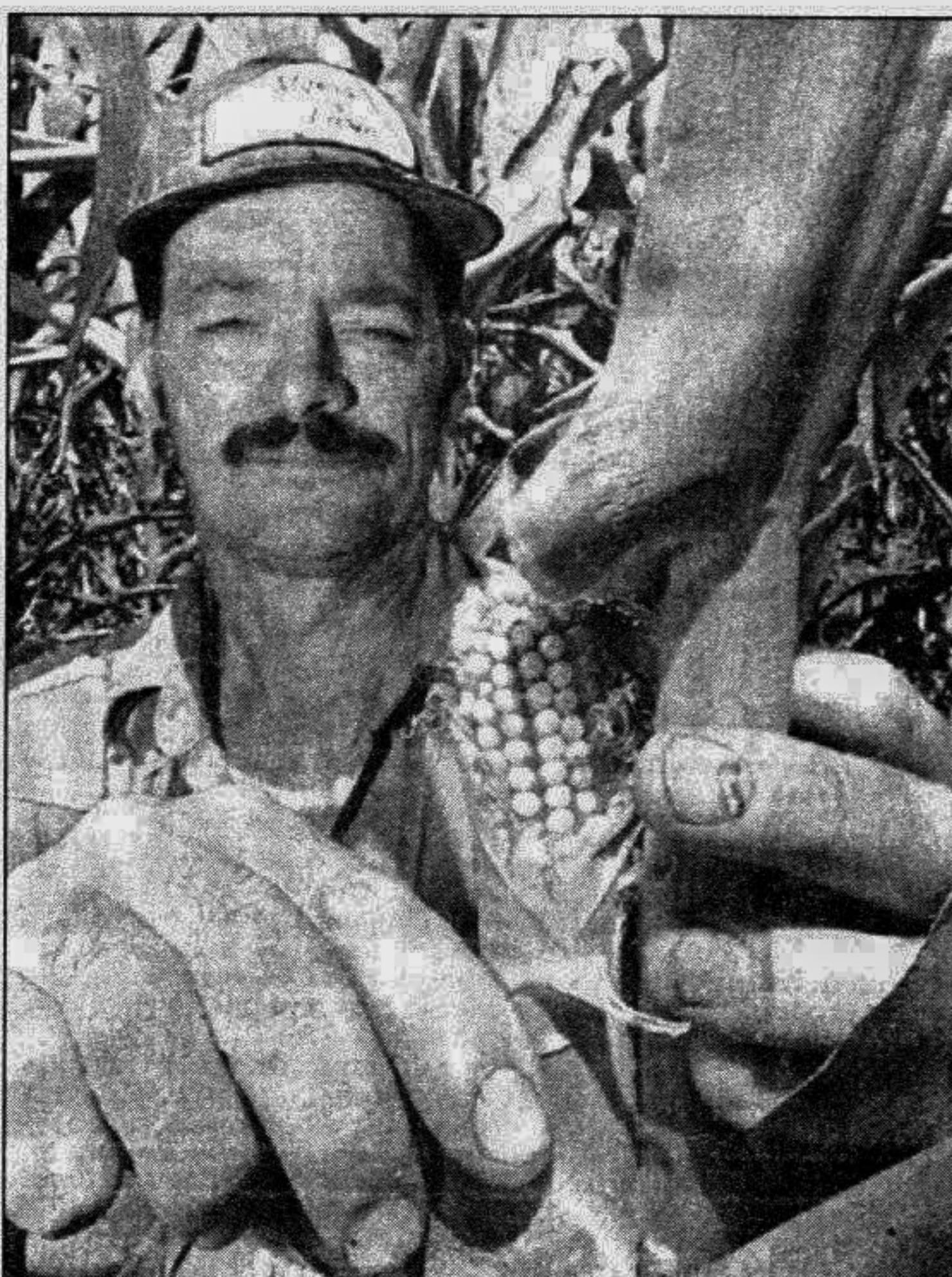
Ingres, who joined the IMF from the Swedish central bank, said the IMF's focus was on "the plumbing" of financial systems, ensuring that the right framework was in place.

"It's a good thing to have the proper rules and regulation and the proper laws in place," he said. "It does not exclude difficulties in the financial sector, but it lessens the probability. If you put your house in order it lessens the probability of these things happening."

Sweden went through its own banking crisis in the early 1990s, evidence that developed economies are not immune from problems in their financial sectors.

Monetary sources say a recently completed external report on IMF surveillance asks whether pre-Asia assessments were far enough or identified the right problems.

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Farmer John Myers inspects some of his 700 acres (280 hectares) of number 2 yellow corn growing on his Leesburg, VA, farm Wednesday that is underdeveloped with little chance of ever reaching maturity due to drought conditions that have struck farmers across the US. Myers said that even if it rained heavily now, fifty per cent of his crop is certainly lost.

— AFP photo

BOJ intervention fears evaporate

Yen, euro keep on rising as dollar loses lustre

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HONG KONG, Aug 5: The yen continued its upward march against the dollar yesterday as fears of Bank of Japan intervention evaporated, while the euro got a boost from positive French economic figures, says AFP.

In late London trading, the euro was quoted at 1.0765 dollars, compared with 1.0678 dollars on Tuesday evening. The European currency even flirted with the key 1.08 level in early trading, its highest level since May 10.

The yen climbed to 114.20 yen compared with 115.13 yen the day before.

Positive economic news coming out of the euro zone has helped to boost the euro for the past two weeks, with French figures released on Wednesday evening giving a further push, Barclays Capital strategist Jane Foley said.

According to a French household confidence survey, consumer optimism, already at a high level, increased even fur-

ther in July — reverting to historic highs seen at the beginning of the year.

For its part, the dollar is suffering as investors shun US assets on fears of a rise in US interest rates.

"Investor uncertainty on US interest rates will continue until Aug 24, the date of the next meeting of the policy-making body of the US federal reserve."

The yen resumed its strong climb on Wednesday, after a setback Tuesday on hints of joint US/Japan intervention to prevent rapid fluctuations in the exchange rate.

"Investors are sceptical as to whether the Bank of Japan and the Fed have the will for coordinated intervention," the London analyst said.

As a result, dealers decided to sell down the dollars, with persistent rumours of a new fiscal stimulus package in Japan also helping the yen.

The pound also gained against the dollar ahead of a monetary policy meeting by the

Bank of England on UK interest rates.

"The Bank of England should leave rates unchanged at 5.0 per cent," Foley said. Most analysts agree there will be no change.

Sterling was also helped Wednesday by the biggest jump in retail sales in 18 months in July, according to the Confederation of British Industry.

The data is the latest sign pointing to a strong recovery in the economy and hence to an end to interest rate cuts.

The euro was being traded at 1.0765 dollars from 1.0678, 122.93 yen from 122.93, 0.6643 pounds (0.6600), 1.6010 Swiss francs (1.5989).

The dollar was being traded at 114.20 yen (115.13), 1.4855 Swiss francs (1.4976).

Sterling was being traded at 1.6200 dollars (1.6160), 1.85.02 yen (186.18) and 2.4082 Swiss francs (2.4219).

The gold spot price rose to 257.05 dollars an ounce from 256.45 dollars.



The members of the new committee of Bangladesh Employers' Federation led by its new president, A S M Quasem, called on Labour and Employment Minister Abdul Mannan at his office Thursday to discuss a number of issues.

— BEF photo

IMF gold sales in limbo as US mulls options

WASHINGTON, Aug 5: The United States appears to be backing off from a controversial plan to allow the International Monetary Fund to sell its gold reserves on the open market, lawmakers and other sources said yesterday, reports Reuters.

Alabama Representative Spencer Bachus, who attended a meeting on Wednesday with US Treasury Secretary Lawrence Summers, told Reuters the issue of IMF gold sales, which hit a wall of opposition in Congress and elsewhere, was no longer being considered as a viable option by the administration.

Jim Leach, chairman of the powerful House Banking Committee said the meeting produced "mutual understandings" that the gold sales issue would be removed as an obstacle to debt relief for poor countries.

Bachus said Treasury was readying a final plan which would be in place within weeks and should muster better support from lawmakers than the original proposal of gold sales.

"Within a week or two Treasury will have a proposal," Bachus said. "I feel confident they will come out with something that will not bring opposition from Congress or from the gold mining states."

A Treasury spokesman confirmed the meeting but said only that the administration was considering which was the best option to fund debt relief.

Other sources familiar with the talks said Treasury had now shelved the initial plan of selling gold on the open market and has dismissed proposals put forward by some lawmakers that the IMF gold be repatriated to the donor countries which contributed it in the first place.

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The plan faced stiff opposition from US lawmakers who would have to approve any such

nish debt relief.

"Mutual understandings were made clear and both secretary Summers and the House members present expressed a deep commitment to develop a substantial debt forgiveness approach under the understanding that the obstacle ... (of) the gold sales issue had to be overcome," Leach told Reuters in an interview. He said the administration and Congress were now working together on the issue.

Bachus was more forthright in his interpretation of the meeting: "There are not going to be any open-market gold sales," Bachus from Alabama, said. "That's an obstacle to getting debt relief done and an obstacle to implementing the Cognac plan."

The gold sales plan was put forward by the Group of Seven nations after a meeting earlier this year in Cologne. Under the plan, the interest generated by investing funds from the gold sales would then finance the IMF's obligations under a plan to relieve debts of 41 of the world's poorest nations.

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gold sale. Critics, including the gold-producing US western states and others, argued that the plan would pressure the price of gold lower and therefore hurt countries who rely on gold exports for much of their revenue. Of the 41 countries targeted for relief, 36 are gold producers.

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