Lanka may post 'slightly negative' export growth this year

COLOMBO, Aug 13: Sri Lanka's exports are expected to rise by eight per cent in the second half of the year but end up "slightly negative" for the whole of 1999, a senior Central Bank official said today, reports Reuter.

"During the second half of this year we expect exports to pick up by eight per cent," RA Jayatissa, director of the bank's economic research division, told a news conference after the Central Bank unveiled new monetary measures.

He declined to forecast total export earnings for this year, but said export growth could be "slightly negative" against last year.

The Central Bank earlier said export earnings in the first six months of 1999 fell 8.9 per cent to $2.022 billion.

Jayatissa said exports in June had shown a 2.5 per cent rise after recording negative growth in the previous months of 1999.

"So this is significant. What is more important is that industrial exports are up by 10 per cent in June, with the garments sector picking up by five per cent," he said.

Industry officials have said Sri Lankan exports could face a disastrous year in 1999 and may shrink around five per cent due to stiff price competition following the Asian financial crisis.

Most key export sectors, including manufactured goods, rubber, gems, jewellery and ceramics, are expected to shrink.

Exports in 1998 grew only 2.1 per cent to $4.735 billion against 1997's more solid growth of 13.1 per cent.

Cut in bank rate, SRR requirement

Lanka adopts major monetary steps to kickstart economy

COLOMBO, Aug 13: The Central Bank of Sri Lanka cut statutory reserve requirements for commercial banks on yesterday and lowered its bank rate for the first time since 1991 in an effort to reduce interest rates and inject life into the economy, says Reuters.

It said reserve requirements will be cut to 11 per cent from 12 per cent from August 20 and the bank rate will be lowered to 16 per cent from 17 per cent from Friday.

"While reducing the cost of funds of commercial banks, the measure would also release around three billion rupees ($41.8 million) of liquidity into the market," a bank statement said, adding it would lead to a reduction in overall lending rates.

"We feel the banks should take account of this and bring down their interest rates," Central Bank Governor AS Jayawardena later told a news conference.

The Central Bank said commercial banks will be asked to maintain 90 per cent of the average daily requirement under the SRR to help maintain domestic interest rate stability.

The SRR has been slashed for both rupee and foreign currency deposits not placed abroad.

The Central Bank last cut its statutory reserve requirement in two steps in 1997 to 12 per cent from 15 per cent.

Jayawardena said it was difficult to say how much the interest rates would come down by as they were determined by individual banks.

The average prime lending rate of Sri Lanka's commercial banks was around 14.95 per cent in the week to August 6, the Central Bank has said. The average rate for this week will be released on Friday.

Rienzi Wijetilleke, chief executive officer of Hatton National Bank HNB.CM, Sri Lanka's biggest private bank, said the latest Central Bank move was welcome news for the economy.

"I see it (the cut) as a very positive move. Banks will cut their interest rates and it will help to boost lending. Investors will look at projects like infrastructure which will be a great boost to the economy in the long run," he told Reuters.

Analysts, however, gave a mixed reception to the changes, saying there was already enough liquidity in the market, but a slowing economy was curtailing demand.

"The effect of interest rates coming down in not enough as a stimulus for the economy unless confidence is also built to grow demand," said Channa Amaratunga, economist at WI Carr/Asia Securities. "... you may increase the supply side, but you should also find increased demand which won't come unless there is confidence and strong GDP growth," said Nouzab Fareeb, head of research, MMBL Phillips Securities.

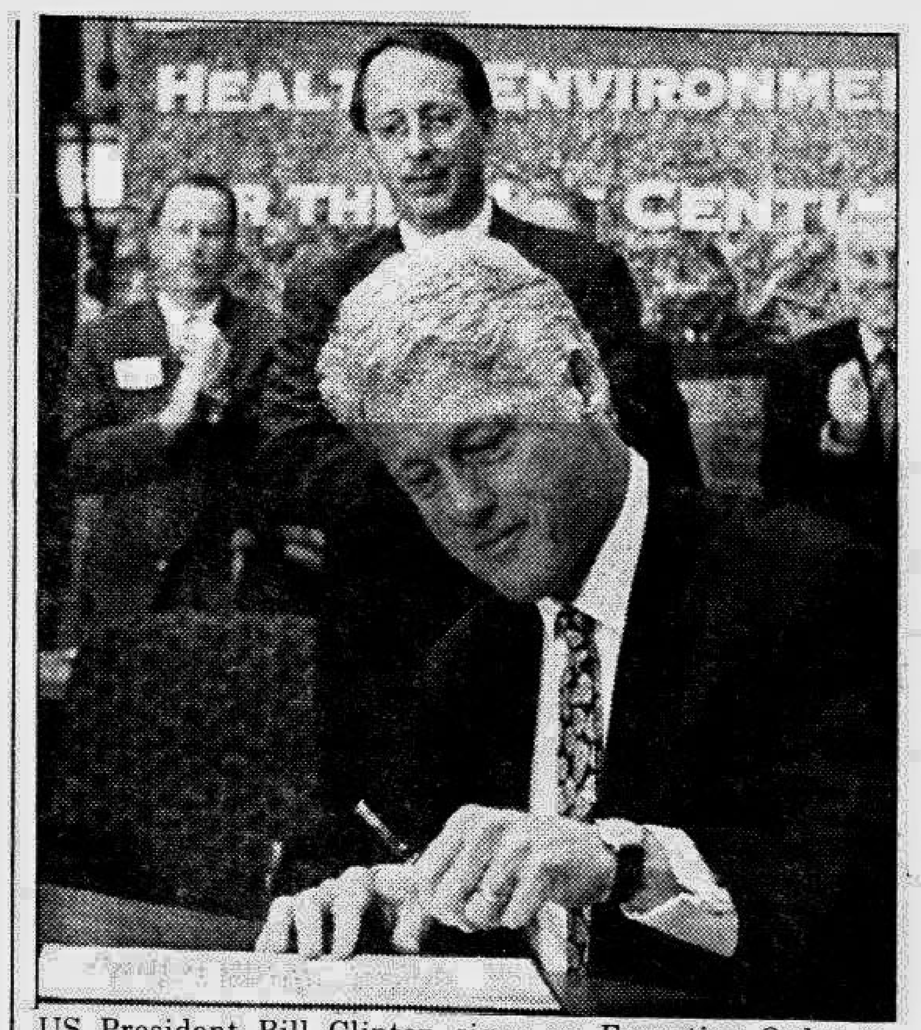
Jayawardena said he expected the GDP to grow by four per cent in 1999 against 4.7 per cent growth in 1998.

He said the government's budget deficit was expected to be at around 7.8 per cent of GDP against last year's 9.2 per cent, but added there was a need to lower it further.

"The treasury feels that the budget deficit will be contained at 7.8 per cent. They will take strong measures to control it. I am not condoning a budget deficit of 7.8 per cent," he said.

Jayawardena said he expected the annual point-to-point inflation rate to be around six per cent in 1999 against the original projection of eight per cent.

(US$1= 71.60 rupees)



US President Bill Clinton signs an Executive Order to coordinate Federal efforts to accelerate the development of 21st century bio-based industries as Dr. Bruce Dale of Michigan University looks on during a round-table event at the Agricultural Department Thursday in Washington, DC. — AFP photo

WTO talks to focus on agriculture

WASHINGTON, Aug 13: Tearing down barriers to agricultural trade will be at the heart of a new round of global trade talks starting in Seattle in late November, a senior US official said here yesterday, says AFP.

Deputy US Trade Representative Susan Esserman, in a briefing with reporters, also said the United States and its partners agreed that the new round should be completed by a three-year deadline.

"There does seem to be a shared interest that there needs to be an agenda that is concluded in a short period of time," she said.

"Businesses have emphasized the shortness of their business cycles ... and therefore the importance of having much shorter time frames in our negotiations."

One way to ensure that the round concludes within three years is to "include in the negotiations only those issues that are ripe for negotiation," she added, citing agriculture in particular.

"We will structure these negotiations in a way that is designed to ensure that there are sufficient agricultural results," Esserman said.

US hopes to strike deal with China this year

Five former Soviet states may join WTO soon

WASHINGTON, Aug 13: Several former Soviet republics are expected to win World Trade Organisation membership in the coming months, a senior US trade official said yesterday, reports Reuters.

The United States also held out hope of reaching a World Trade Organisation (WTO) pact with China this year, even though negotiations have stalled, Ambassador Susan Esserman, a deputy US Trade Representative, told reporters.

"We expect there will be a number of accessions by the time of the ministerial," she said, in referring to November WTO meetings scheduled for November in Seattle.

The likely new entrants are Georgia, Estonia and Lithuania, along with Armenia and Moldova. Russia had also hoped to join, but negotiations were not near completion.

The United States and China were close in April to reaching an agreement on Beijing's bid to join the 134-member organisation, which oversees global trade rules. The US business community is anxious to open China's vast market potential.

But the White House backed away from a deal in a bid to win further concessions on textiles, banking and anti-dumping issues.

Talks were put on hold after NATO's bombing of the Chinese embassy in Belgrade in May.

US officials said they did not expect Chinese leaders to say whether they want to restart negotiations until after their annual August retreat.

"We need to wait to hear from China," Esserman said. "We have gone a long way. We had very productive discussions in April that formed the framework, the basis for a potential agreement. There needs to be further work done, and we're going to wait to hear further from China."

To join the WTO, China must complete a series of trade agreements with individual countries that address specific market access and trade concerns.

US President Bill Clinton and Chinese President Jiang Zemin are expected to discuss the WTO issue when they meet in September in New Zealand at the Asia-Pacific Economic Cooperation forum.

China is fuming over the May 7 embassy bombing, in which three people were killed and 27 were wounded. Washington agreed to pay $4.5 million in compensation for the victims.

In October 1998 Kyrgyzstan and Latvia became the first former Soviet republics to be formally invited to join the WTO. Other former Soviet satellites in the queue to join are Azerbaijan, Belarus, Ukraine and Uzbekistan.

Sharjah to resist BCCI liquidators' claim for $465m

LONDON, Aug 13: The Emirate of Sharjah said yesterday it would resist legal action by liquidators for the Bank of Credit and Commerce International (BCCI), claiming 289 million pounds ($464.8 million) from Sharjah and its ruler Sheikh Sultan Bin Mohamed Al Qasimi, says Reuters.

Lawyers in London for Sharjah said in a statement that the legal proceedings were premature, alleged that they were without legal basis and that they were hampering the government's efforts to investigate the BCCI dealings itself.

Documents obtained by the news agency on Wednesday showed BCCI's liquidators had lodged a lawsuit claiming 289 pounds from the emirate and its ruler form a loan made by BCCI to Sharjah in 1975.

Law firm Clifford Chance said on behalf of Sharjah that the dealings with BCCI had always been conducted under United Arab Emirates (UAE) law and any legal dispute should be decided by the UAE courts.

Chance said that Sharjah had repeatedly stated it would investigate the transactions with BCCI.

"Those investigations, and the government's attempts to instigate discussions, have recently been hampered by the need to devote resource to deal with attempts by the liquidators to bring proceedings in the English courts," Clifford Chance said.

"The government will continue to oppose attempts to involve the English courts in a relationship with which they have no concern," it said.

BCCI's liquidators said BCCI lent $40.63 million to Sharjah's Electricity Department in 1975 to build a power plant. The loan was eventually rolled over several times but never paid, and the principal and accrued interest was now worth 289 million pounds, they said.

Clinton backs strong dollar

WASHINGTON, Aug 13: President Bill Clinton said yesterday he favoured a strong dollar and denied speculation the United States had changed its currency policy after the departure of Robert Rubin as treasury secretary, says Reuters.

"No, we haven't modified our policy," Clinton said in an interview on Thursday on Nightly Business Report.

"I think the United States has to be for a strong dollar," the president said and attributed recent pressure on the dollar to economic recovery in Asia and growth in Europe.

Clinton also said he had not yet spoken to Federal Reserve Board Chairman Alan Greenspan about whether Greenspan wants to serve a fourth four-year term as Fed chairman when his current term expires next June.

"I have no earthly idea what his intentions are and we haven't had a chance to talk," Clinton said.

Some Republicans have called on Clinton to go ahead and reappoint Greenspan to remove the issue from the presidential race.

Clinton said Greenspan has done a good job and at some point it will be appropriate for them to talk about his future.

Clinton said the dollar's recent weakening has been a result of an expected economic recovery in Asia, some growth in the European economy and large US trade deficits with countries like China.

"So I haven't been particularly alarmed by it, but neither am I for a weak dollar. I think the United States has to be for a strong dollar," he said.

The White House criticised Republican presidential front-runner George W Bush for saying he would have no qualms about signing a Republican $792 billion tax cut plan.

"It's very disappointing," said White House spokesman Barry Toiv as Clinton and his top economic aides met for a second straight day to discuss a budget showdown expected this fall how far to cut taxes.

"Any national leader who would — or anyone who hopes to be a national leader — who would suggest that they would sign a tax bill of this sort is someone who does not have the best interests of the US economy at heart," said Toiv.

Bush, the governor of Texas, told the Wall Street Journal on Wednesday that he would happily sign the $792 billion Republican tax plan, which Clinton has vowed to veto because it does not address his priorities on the use $2.9 trillion in projected surpluses over the next 10 years.

Bush said he would prefer to see tax legislation that gave more relief for working families with lower incomes, which Clinton himself supports.

Clinton discussed tax legislation and other budget issues during a midday meeting with Treasury Secretary Larry Summers, National Economic Council Chairman Gene Sperling and Office of Management and Budget Director Jack Lew.

In the interview, Clinton said he had not changed his mind against a broad tax cut. Clinton has said he could only support a more narrow tax cut of between $250 billion and $300 billion.

Clinton said he still wanted to use most of the surplus on increasing funding for Medicare and Social Security and paying down the US national debt, and use the rest for a modest tax cut.

Of Republican tax proposals, he said, "We can't afford to do that and take care of the American economy."

US firms tops in post-merger lay-offs

NEW YORK, Aug 13: US financial service firms, consolidating to compete in an era of Internet trading and banking, lead the pack of merger-related layoffs, accounting for nearly 40 per cent of all such job cuts through July, a leading international outplacement firm said yesterday.

A total of 49,664 merger-related job cuts have been announced since January, Challenger, Gray and Christmas, Inc. said, with 19,395 layoffs in financial services such as banks, securities firms, mortgage companies and collection agencies.

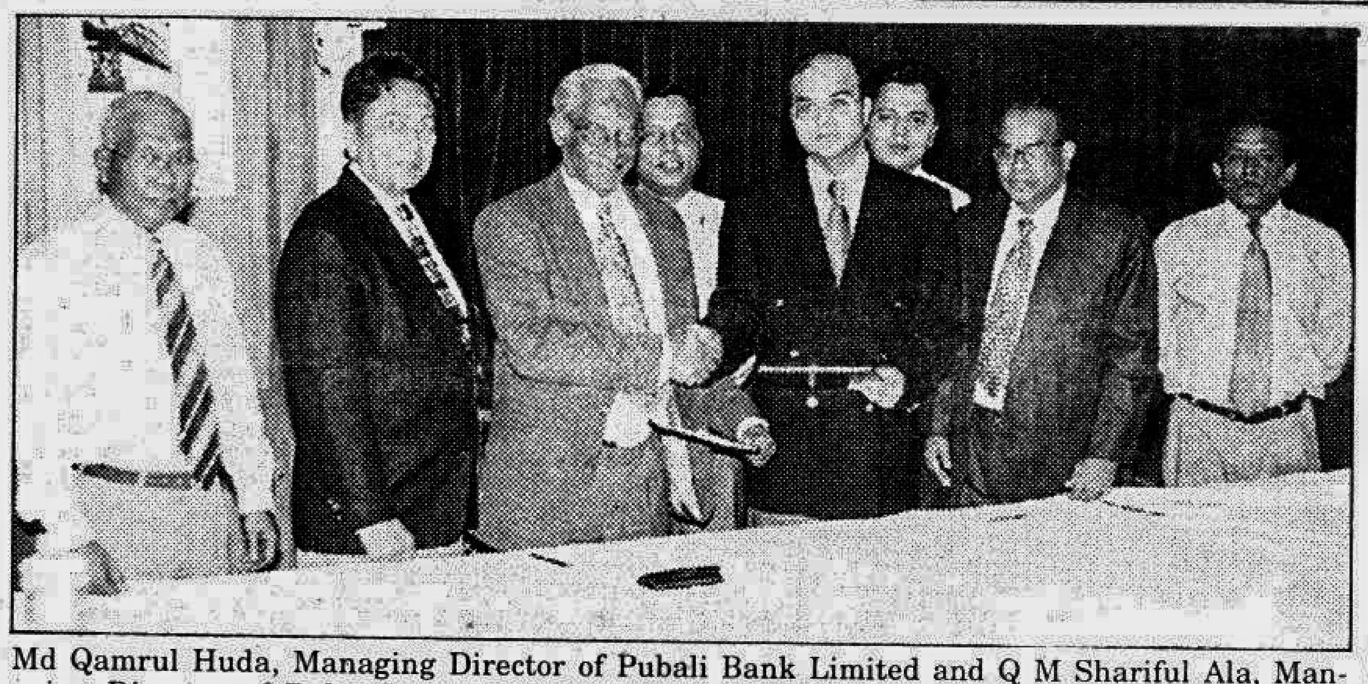
"There tends to be much more overlap of job responsibilities and more consolidation, which typically means offices or bank branches are permanently closed," said John Challenger, chief executive officer of the firm.

Employees in the financial sector have been particularly vulnerable to merger activity as financial services such as stock trading and personal banking have shifted to the Internet, Challenger added.

Estimates show some 7 million to 10 million Americans have opened online stock trading accounts over the last three years, pouring about 575,000 trades per day through the Internet in the second quarter.

Total merger-related layoffs were up 52 per cent in the first seven months of 1999 from 32,656 in the same period last year, the firm said.

The commodities industry showed the second-largest number of merger-related layoffs, totalling 9,125 cuts in the first seven months of this year. The industrial goods (5,385), aerospace/defense (4,602) and insurance (3,485) sectors round out the top five industries affected by acquisitions.



Md Qamrul Huda, Managing Director of Pubali Bank Limited and Q M Shariful Ala, Managing Director of Delta Brac Housing Finance Corp. Ltd (DBH), signed a line of credit agreement for term financing at a simple ceremony recently. The line of credit will assist DBH in the expansion of its core business of providing housing loans in the urban sector. Aziz Ahmed, Deputy Managing Director, A H Ziauddin Ahmed, General Manager, Helal Ahmed Chowdhury, General Manager, and M Habibullah Sarker, AGM of Pubali Bank Ltd., and K O Chacko and S H Aslam Habib of DBH, were also present. —DBH photo

3 Japanese failed bank executives indicted

TOKYO, Aug 13: Prosecutors indicted three former executives of Japan's failed Nippon Credit Bank on Friday on suspicion of covering up losses that led to the bank's collapse, Kyodo News agency said, reports AP.

Former NCB Chairman Hiroshi Kubota, former President Shigeoki Togo and former Vice President Tadao Iwaki are accused of hiding more than 150 billion yen ($1.30 billion) in losses, Kyodo reported.

Prosecutors refused to confirm the report.

The three allegedly conspired to classify unrecoverable loans as recoverable in the bank's March 1998 earnings statement.

The executives were arrested last month along with three other top bank officials. They were taken into custody shortly after the arrest of the three former top executives of another failed lender, the Long-Term Credit Bank of Japan Ltd.

Both banks were taken over by the government late last year after regulators determined that they were insolvent, though they were still operating.

Crude oil prices slip slightly

LONDON, Aug 13: Crude oil slipped slightly yesterday and while prices held near the 22-month high achieved the previous day some dealers thought the market was ripe for a downward correction after a recent buying frenzy, reports Reuters.

World benchmark Brent blend crude oil from the North Sea ended 14 cents lower at $20.49 a barrel, correcting slightly after achieving yet another high in a succession of 22-month peaks seen in the last two weeks.

Light crude futures on the New York market were last sold at $21.44 a barrel, eight cents below Wednesday's close of $21.52 which was the highest settlement price since October 10, 1997.

Brokers believed the market could tip lower still if speculators decide to take profits.

"The market peaked yesterday for some reason and we may be getting close to the top now," said Christopher Bellew a director at brokers Prudential Bache International in London.

He noted that both gasoline, which had underpinned the New York market with its strength recently, and gas oil, which includes heating oil and diesel, had begun to weaken and could drag the oil complex down.

"There are definite signs the bull market may be running out of steam," he added. "Some speculators might be going a bit long and if that feeling starts to filter, then a lot of liquidation could come in."

Technical analysts also pointed to the market's oversold nature though they saw a continuation of the current bull run after a minor correction.

The market's main support in the second half of the year has come from producer output cuts which came into effect on April 1, after prices sank to their lowest in 22 years in October 1998.

Increasing signs of higher compliance by Organisation of the Petroleum Exporting Countries members has convinced market players that supply will tighten further later in the year when the northern hemisphere winter kicks in and consumers dip into storage thanks.

Data released by the American Petroleum Institute (API) and the US Department of Energy (DOE) on Wednesday showed that crude oil and product stocks fell week on week in the United States, the world's biggest energy consumer.

New vice chairman of IFIC Bank

Eltheim B Kabir, Managing Director of Anfico Motors and Resource Applications, has been unanimously elected Vice Chairman of the Board of Directors of IFIC Bank Limited at the emergency 261st Board meeting held Tuesday.

Kabir is a graduate from the George Washington University, USA, and is the second son of the eminent banker, Late Khairul Kabir.

Dollar hits 2-week highs against major units

LONDON, Aug 13: The dollar hit two-week highs against the yen, euro and Swiss franc in Europe yesterday as investors in US assets absorbed the idea of a near-term tightening by the US Federal Reserve, analysts said, reports Reuters.

The greenback has reversed a weakening trend which had been fuelled by expectations of a US rate rise this month, a move which markets feared would prompt foreign investors to divest US stocks and bonds. But a rate increase was no longer seen as necessarily negative for the dollar, analysts said.

"The message is the economy is slowing down, it might need some help from the Fed to push it further," said Alfonso Prat-Gay, global head of foreign exchange strategy at JP Morgan in London.

Despite a 0.7 per cent month-on-month rise in the headline figure in US July retail sales released on Thursday, the statistics were consistent with a view the US economy was slowing down but might need a rate tightening to engineer a soft landing.

"As long as the Fed is not seen as being behind the curve, that is not necessarily bad news for the dollar," Prat-Gay said. "Because everything is under control, the Fed is the next one to move and short-run rates going up should support the dollar."

The euro was trading at $1.0631/34 at 1530 GMT, compared with a low of $1.6022 and with $1.0659/64 in late European trading on Wednesday. The dollar was at 1.5060/74 Swiss francs versus a high of 1.5079 and 1.5016/26 on Wednesday.

Gap-Prat predicted euro/dollar would be at $1.12 by the end of the year and the dollar would be at 120 yen, assuming there would be a soft landing in the US economy and a partial recovery in Japan.

The present dollar rally has enabled Japanese exporters to be priced more competitively and helped the Asian economy to expand out of a prolonged trough.

The greenback's advance pushed the yen to two-week lows to at 116.04 yen before retracing to 115.78/86 yen at 1537 GMT, versus 115.14/19 in late Wednesday trading.

Analysts expect further weakening in the Japanese currency, aided by further Bank of Japan yen-selling intervention.

"We're certainly looking for a weaker yen," currency economist Francis Breedon at Lehman Brothers said. "Up until now the Bank of Japan hasn't been aggressive enough in weakening the currency. There's potential for more weakening."

Ukraine pins hopes on forex reserve to curb crisis

KIEV, Aug 13: Ukraine has enough foreign reserves to check the current crisis in the country's financial and oil markets, which has dealt a serious blow to the faltering economy, the government said Thursday, reports Xinhua.

In a statement issued jointly with the central bank, the government said the turmoil in the financial and oil markets has affected the normal economic activities in recent months.

The government and the central bank have conducted regular consultations with the representatives from the banking and oil sectors and mapped out a series of measures to stabilise the markets, the statement said.

The government was strongly opposed to the monopolistic acts in the oil market and the speculation in the financial market and would use the monetary policy and foreign reserves to stabilise the country's currency, the hryvnia, it said.

Ukraine has been experiencing shortages of oil products since mid-July, which led to a sharp rise in fuel and food prices.

The shortages made the already-depressed economic situation even worse and seriously affected the harvest work in the rural areas.

The crisis in the oil market also prompted the people to sell the hryvnia for the US dollar, leading to a quick fall of the currency's value against the dollar.

The hryvnia has fallen 20 per cent against the dollar as of August 10, well above the upper limit of the official trading band.

Morgan Stanley sends shock waves through Asia

KUALA LUMPUR, Aug 13: Hong Kong, Singapore and South Korea will lose ground in an investment benchmark used by global fund managers when Malaysia is re-instated and Taiwan's weight is increased, reports Reuter.

But the drop in the index-weighting of the three economies does not reflect investment conditions, and Morgan Stanley Capital International Inc (MSCI) is considering phasing in the changes to ease the impact, MSCI executive director John Fildes said today.

MSCI's surprise announcement that it would re-instate Malaysia in its closely watched indices and raise Taiwan's weight drove up share prices in those two markets on Friday.

But stocks in Hong Kong, South Korea and Singapore fell on news those economies would weight less in MSCI's key regional index following the changes next February.

MSCI said on Thursday it will reinstate Malaysia in its All Country Far East Free Ex-Japan index and its Emerging Markets Free index.

It will also increase the weight of the market capitalisation of the MSCI Taiwan Index in the same two series to 100 per cent from 50. The changes are set for February.

Fildes told Reuters Television in an interview that if the changes took place today, Hong Kong would come down from its current weight in the regional index to just over 26 per cent from just under 33 per cent.

Singapore would move to around 10.5 per cent from just over 13 per cent. South Korea's weight would fall to just under 20 per cent from 25 per cent.

At 0430 GMT, Kuala Lumpur's main index was up nearly seven per cent while Taiwan's TAIEX index had jumped more than four per cent.

Hong Kong's Hang Seng index was off 1.4 per cent, while Seoul's main index was down more than three per cent. In Singapore, the Straits Times index was off two per cent.

Fildes said MSCI was not passing judgment on Hong Kong, Singapore and South Korea.

HK fears Y2K bug infection from neighbours

HONG KONG, Aug 13: Hong Kong may be ready for the Y2K bug but it risks catching the potentially damaging computer glitch from less-prepared Asian trading partners, expert Roy Ko told Reuters in an interview, says Reuters.

China, Thailand and the Philippines are viewed as vulnerable and any weakness there could mean problems for the territory, said Ko, a Year 2000 (Y2K) expert at Hong Kong's Productivity Council.

Most Hong Kong companies have rid their computers of the Y2K bug but do not have contingency plans to deal with the fallout if their offshore business partners catch it, he said this week.

The Y2K bug stems from an old programming practice of using only two digits to represent the year. Older computers could mistake 2000 for 1900 and crash at the start of the New Year.

Experts have predicted disruptions to essential services ranging from electricity and water supplies to transportation, as well as problems for accounting, inventories and insurance.

"If there are problems in Hong Kong, they would probably come externally, from our international trading partners," said Ko, head consultant of the council's Information Technology Division.

"This is the most important risk area at this stage for Hong Kong because internally we are quite well prepared. It's the external parties that we are worried about."

The council oversees Y2K readiness of some 300,000 small and medium-sized firms, which form the backbone of Hong Kong's economy.

China has tried to remedy the problem as best it can in the last year but it is lagging, Ko said. "China is probably one of the areas we need to address."

"But China is not the only one we are concerned about. Within Southeast Asia, there are other countries, like Thailand and the Philippines, which are not doing very well," he said.

Hong Kong's status as an Asian hub means trading partners must be just as efficient as the territory to ensure smooth cross-border flows of services and goods.

Painting a possible scenario for havoc, Ko said a stoppage of vital services such as electricity on mainland China would disrupt hundreds of thousands of Hong Kong-owned factories.

"We rely on the re-export of these goods to other parts of the world. If the production part can't produce the goods on time, and we cannot deliver according to our commitments, that will affect our business," he said.

"A second area relates to essential supply — food and raw material from China for example," he said.

Hong Kong's government and companies need to have contingency plans to insulate themselves form the Y2K fallout from their trading partners, Ko said.

Measures such as building up stockpiles, assessing risks of their business partners, and even going on site to check that their partners have tackled the bug, should be taken, he said.

A productivity council survey in June of 3,014 organisations — representative of all firms in Hong Kong — found 58 per cent had no such contingency plans, Ko said.

As for Hong Kong's own internal Y2K defences, the survey was reassuring: by June, 83 per cent had either completed or were in the process of completing their Y2K readiness programmes.

"Many (organisations) replaced computers and software with Y2K compliant ones," Ko said.