Finance ministers meet in Washington today

G7 won't discuss jt economic stimulus package: Germany

AFP, *Berlin*

The Group of Seven (G7) finance ministers will not discuss a joint package of measures to stimulate the global economy when they meet in Washington on Saturday, German Finance Minister Hans Eichel said on Friday.

A joint economic stimulus programme was "definitely not" on the agenda of G7 finance ministers and central bank governors.

"Generally, such programmes do not bring much," Eichel told journalists at a briefing here.

The US is keen for its G7 partners to help lift the economy, shell-shocked by the deadly terrorist attacks in New York and Washington on September 11.

President George W. Bush has asked Congress to pass an extra 60-75 billion dollars in economic stimulus to limit a downward spiral, which threatens to have a damaging global impact.

And US Treasury Secretary Paul O'Neill said the United States was asking its G7 partners and the rest of the world to do their bit, too.

"This needs to be a worldwide recovery. The US economy has been carrying most of the rest of the world, especially in the last year or so, and Japan has been at a very low growth rate for a decade," O'Neill said on Thursday.

The question for G7 talks was "what can other governments around the world including especially the G7 countries do to be supportive to make sure that their economies are doing everything that they can."

But German politicians and monetary officials remain unconvinced that such stimulus programmes are actually beneficial at all.

A spokeswoman for the German finance ministry argued on Thursday that the US was in a different position.

"We've already made it clear several times that there is no point in drawing up national economic stimulus programmes when the financial markets are so globalised," spokeswoman Maria Heider said.

Neither was EU-wide action likely because governments were committed to keep spending down under the European growth and stability pact, she added.

While US has a budget surplus, the euro-zone countries do not. And officials on this side of the Atlantic are concerned that if governments loosened their purse strings now, economic growth in the region could jeopardised in future.

German Chancellor Gerhard Schroeder said on Thursday that Europe should not deviate from the commitments of the growth and stability pact which obliges member countries to bring their budgets into balance or surplus in the medium term.

US Congress agrees on $80b economic stimulus package

AFP, *Washington*

US Congress leaders on Thursday said they were ready to spend up to 80 billion dollars to stimulate an economy staggering under the impact of last month's terrorist attacks.

President George W. Bush had asked Congress Wednesday to approve 60-75 billion dollars in economic stimulus to boost consumer confidence and limit the downward spiral.

Stressing the urgency of the situation, the lawmakers said they hoped to pass the bill within three to four weeks, impacting the economy within six months.

"Almost all that money has to be spent now to generate growth in the economy," said Senate Budget Committee chairman Kent Conrad.

They did not provide any details of the spending plan, as these still have to be worked out in the appropriate committees, but did indicate most of the stimulus would be in tax reductions and direct expenditures.

The leadership of the Senate and House Budget committees also developed a set of principles to guide Congress and the administration to assess the short-term and long-term impact of an economic stimulus package.

"Just as the president is putting forward a battle plan against terrorism, we need a battle plan for the economy," said House Budget Committee chairman Jim Nussle.

Overall, the package is based on the recognition that long-term fiscal discipline is essential to sustained economic growth and that measures to stimulate the economy should be limited in time to avoid turning the cyclical deficit into a structural deficit.

"The stimulus package should be enough to give a lift to the economy but we don't want it to be so big that it pushes up interest rates," said Conrad.

All economic stimulus proposals, the leaders agreed, should sunset within one year, to the extent practicable.

They also said the stimulus should be broad-based rather than industry-specific and should be directed at individuals "most likely to spend the additional after-tax income and businesses most likely to increase investment spending and employment."

US economy weak before attacks: Fed

AFP, *Washington*

Federal Reserve policymakers believed the US economy was weak with no clear sign of recovery even before the terrorist attacks, minutes of their August 21 meeting showed Thursday.

"The economy had continued to be weak -- indeed, weaker than many had expected -- and data and anecdotal reports from around the country had yet to point to persuasive signs of a turnaround," the minutes said.

"The monetary and fiscal policy stimulus already in train seemed adequate to promote and support an eventual appreciable rise in the growth of business activity to a pace near that of the economy's potential," they added.

"But the strength and timing of the pickup remained uncertain and further weakness was a distinct threat in the nearer term."

PHOTO: AFP

Y.S. Kim, Managing Director of Hyundai, arranges himself on the hood of the new Hyundai Accent Tornado before posing for a photo in New Delhi Friday. Hyundai, the second largest car manufacturer in Asia, is launching a new variant of its best-selling mid-sized machine called Accent Tornado.

Afghan crisis hits Pak privatisation programme

REUTERS, *Islamabad*

Pakistan said Thursday that 70 per cent of a privatisation programme that was to raise $1 billion by the end of this year has been put on hold because of the Afghan crisis.

Privatisation minister Altaf Saleem said the prospect of a US attack on neighbouring Afghanistan meant potential foreign bidders were unable to continue carrying out due diligence on major state assets that were due for sale by the end of December.

"Our total programme is about $3 billion and one third of that was planned for the period of October to December 2001," Saleem told Reuters in an interview. "Thirty per cent of that may go ahead but 70 per cent has to wait till the situation is more clear."

The delay means a planned sale of nine oil and gas fields plus a 26 per cent stake, with management control, in national telecoms operator Pakistan Telecommunications Company Ltd PTCA. KA cannot proceed.

The United States has threatened to attack Afghanistan's Taliban rulers unless they hand over Osama bin Laden, the Saudi born militant considered the prime suspect behind the September 11 attacks on Washington and New York.

That has caused an exodus of foreigners from Pakistan and a lack of new visitors, especially with many airlines cancelling flights to the country.

The delay in the privatisation programme which is designed to reduce the country's foreign debt of nearly $40 billion as well as to draw new investment into key industries is another economic blow from the crisis.

A senior official in the state Export Promotion Bureau said on Wednesday that Pakistan could lose up to $1.5 billion from cancelled or delayed export orders because of the crisis.

But Pakistan has also enjoyed strong longer-term benefits as the United States and other countries have moved quickly to reward military ruler General Pervez Musharraf for his backing of the US global campaign against "terrorism" despite little domestic enthusiasm.

Washington has waived a series of sanctions imposed on Pakistan for its nuclear programme and is now finding a way to bypass restrictions on aid imposed for Musharraf's 1999 overthrow of the elected government.

The United States and Japan have together rescheduled nearly $1 billion in bilateral foreign debt, easing the balance of payments problems Pakistan would have faced in the next few years.

Foreign lenders to Pakistan had been critical of the slow pace of privatisation but are unlikely to complain of the new delays.

Not only is the situation beyond Pakistan's control, but Washington has been anxious to provide financial assistance to military ruler General Pervez Musharraf in return for his backing in the Afghan crisis.

Saleem said the privatisation of some $300 million in state assets that was continuing this year involved mainly small, domestic sales. They include the National Investment Trust, the country's largest investment body.

Attacks in US, global slowdown pushing Indian fiscal deficit up

AFP, *Bombay*

India's year to March 2002 fiscal deficit is seen rising to five per cent of gross domestic product (GDP) as a result of the terrorist attacks in the United States and a worldwide economic slowdown, dealers said Friday.

Finance Minister Yashwant Sinha had targeted a fiscal deficit at 4.7 per cent of GDP in the budget to March.

Analysts said the increased fiscal deficit was due to an expected rise in oil prices, a falling rupee, volatile stock markets and an overall slowdown in the global and local economies.

The government was likely to increase public spending, raising the fiscal deficit, to beat these factors, they said.

"I see the fiscal deficit at five per cent of GDP for the year to March. It will definitely overshoot the 4.7 per cent target projected by the finance minister," Gujarat Ambuja chief finance controller Anil Singhvi said.

"Even if there are a lot of ifs and buts involved over the possible impact of a US-Afghanistan war, domestic economic turnaround will now happen only after December based on good agricultural output," he said.

India already experienced a slowdown in GDP growth for the three months to June at 4.4 per cent against 6.1 per cent a year earlier.

Analysts said the government was in a tight situation with falling tax collections and pressure to increase expenditure to trigger growth.

While oil prices were currently low, US military action against suspected terrorist camps in Afghanistan in response to the September 11 attacks in the New York and Washington might change that.

Every dollar increase on a barrel of crude oil would increase India's import bill by five billion rupees (100 million dollars), estimated HSBC Securities economist Vinay Patel.

"Oil is the single most concern on the government's agenda and on every economist's mind," Patel said. "If... the war starts and lasts for a few months, we have a critical problem on hand."

To combat a possible economic crisis, India's central bank has already announced a cut in interest rates for loans offered to exporters and a special financial package for six valuable commodities including pharmaceuticals, iron and steel.

Analysts expect the Reserve Bank of India to cut interest rates across-the-board to boost credit offtake by companies and kick-start the economy.

Stock dealers also believe a reprieve may come from an economic stimulus package under consideration in the US valued at up to 75 billion dollars.

"US companies hit by the attack will outsource some requirements from developing nations such as India. Local exporters can stand to benefit from these initiatives of the US," RK Chary Stock Broking director Venkat Iyer said.

"What is urgently required is a change of sentiment. War or no war. Whatever it is has to happen fast. The ongoing delay and uncertainty will only aggravate India's problem further as consumer sentiment hits rock bottom," Iyer added.

US Senate panel approves anti-money laundering bill

REUTERS, *Washington*

The Senate Banking Committee Thursday unanimously approved legislation to toughen US anti-money laundering laws as part of an accelerating effort to target the financial networks that may have supported last month's devastating attacks on New York and Washington.

The full Senate is now expected to take up the measure next week and a similar bill introduced in the House of Representatives on Wednesday is on the fast track there. The Bush administration has expressed support for the efforts.

"We're trying to move quickly," said Banking Committee Chairman Paul Sarbanes, a Maryland Democrat. "We've been presented with a major challenge and we need to treat it that way."

Money laundering involves moving illicit funds which may be linked to terrorism, drug trafficking or organized crime through a series of financial institutions or accounts to disguise their origin, ownership or ultimate purpose.

In the changed political climate after the Sept. 11 attacks on the World Trade Center and the Pentagon, the legislation resurrects a number of controversial proposals that had been unsuccessfully advanced in Congress for years. Committee aides worked through the night on Wednesday to craft the changes needed to secure bipartisan support.

Seoul eases curbs on conglomerates

AFP, *Seoul*

South Korea's government on Friday eased restrictions on large businesses owning banks, triggering criticism that it is giving up its reform crusade against powerful conglomerates.

The Ministry of Finance and Economy and the ruling Millennium Democratic Party raised the ceiling on the ownership of banks, allowing each investor to own up to 10 per cent, up from the current four per cent.

"We originally planned to curb the ceiling at four per cent but raised it to 10 per cent to allow industries to acquire more stakes in banks for investment purposes, not for managerial control," a ministry official said.

Large firms and other investors will be restricted in exercising voting rights during shareholder meetings with newly increased shares beyond the four per cent ceiling, the ministry said.

The measure came after a statement by the Fair Trade Commission (FTC) that the controversial "investment ceiling" would be scrapped in a bid to stimulate investment.

Under the investment ceiling system, units of the conglomerates, or chaebols, are barred from investing more than a quarter of their net assets in sister companies.

This ceiling is aimed at easing the control on units of conglomerates by their founding families and their associates.

FTC chairman Lee Nam-Ki said the commission, however, would not allow chaebols to exercise voting rights with their newly acquired shares beyond the established 25 per cent ceiling.

Critics said the two back-to-back measures signalled that the government was backsliding in its reform drive in the face of economic doldrums and the approaching election season next year.

"This is a declaration that the government has now abandoned its attempt to force reform of chaebols," Lee Phil-Sang an economist at Korea University said.

"The government is giving in to pressure from chaebols amid criticism that its policy toward chaebols largely failed to fix the problems and hurt the competitive edge of chaebols," he said.

Microsoft unveils new operating system

AFP, *San Francisco*

Microsoft took aim anew Thursday at the handheld computer market long dominated by Palm, unveiling a new operating system it hopes will grab more market share.

At a kickoff in San Francisco, Microsoft president Steve Ballmer showed off the company's new Pocket PC 2002 software, the operating system on new devices being sold by Hewlett-Packard, Compaq, Toshiba, NEC, Samsung and others.

This new version of Microsoft's handheld software will beef up the portable computers' ability to surf the Internet, send and receive e-mail, and play music and video clips.

"Pocket PC 2002 makes a great mobile platform even better," Ballmer said in a statement. "Pocket PC 2002 offers users more ways to communicate with friends and co-workers and really makes the Pocket PC an essential business tool."

Pocket PC is just the latest in a number of Microsoft forays into the handheld market, all of which have failed to topple sector-leading Palm from the number one spot. Palm sells both devices and operating systems, but the company has been on the ropes financially.

The Microsoft announcement comes just 48 hours after influential technology market research firm IDC released figures showing that demand for the portable computers was stagnating across the globe.

IDC predicts US sales of the devices could be flat this year, with sales hovering around 5.3 million units. Worldwide, IDC said unit sales will increase by only 10 to 20 per cent over last year's 10.4 million units. That's a sharp drop from the 50 per cent growth IDC had predicted previously.

Last month's terrorist attacks on New York's World Trade Center and the Pentagon sent shock waves through corporations, slowing down already sluggish spending on technology. The corporate embrace of handheld computers is key, analysts say, to reviving the market.

Meanwhile, Palm appears to be hanging onto its lead position despite its woes. IDC reported this week that the company to continue to hold onto 70 per cent of the handheld computing market, with Microsoft garnering 25 per cent and miscellaneous companies taking up the rest of the pie.

ECB has room for further rate cuts: Germany

AFP, *Berlin*

The European Central Bank still has further "room for manoeuvre" regarding possible rate cuts, a high-ranking German official said on Friday.

"Slowing inflation and falling oil prices open up additional room for manoeuvre to cut rates," the official said.

The ECB has cut its rates three times so far this year, lowering euro-zone borrowing costs by a full percentage point in all.

The latest move was a surprise half-point cut on September 17 to boost market confidence in the aftershock of the terrorist attacks in the US a week earlier.

It brought the ECB's central "refi" refinancing rate down to 3.75 per cent.

Top ECB officials have recently been keen to stress the exceptional nature of the move, and have said the bank would now return to business as normal when setting interest rates for the single currency area.

Nevertheless, most ECB watchers are predicting further monetary easing in Europe, possibly as soon as next week, as area-wide inflation slows and the growth outlook continues to darken.

In contrast to the ECB, the US Federal Reserve has been taking a much more aggressive stance in monetary policy, slashing its key rates by four full percentage points in a total nine cuts so far this year in an attempt to prevent the US economy from lurching into recession.

Weekly Currency Roundup

September 30 to October 4, 2001

Last week the local foreign exchange market was active. Demand for dollar was steady in the interbank market.

The weekly Treasury bill auction was held on Sunday. Bangladesh Bank accepted treasury bills worth of BDT 0.955 billion against a maturity of BDT 9.635 billion. Bangladesh Bank accepted treasury bills worth of BDT 710 million for 28 days at 6.05 per cent BDT 10 million for 91 days at 6.60 per cent BDT 50 million at 6.95 per cent, BDT 75 million for 364 days at 7.17 per cent and BDT 110 million for 2 years at 7.97 per cent. Demand for overnight borrowing at call was steady during the week. The call money rate ranged between 6.25 and 6.60 per cent; closing the weekly average at 6.5 per cent.

In the early part of the week, dollar remained strong against yen as US Federal Reserve trimmed short-term interest rate by 50 basis point. The new borrowing rate of 2.5 per cent is expected to cushion the weakened US economy against an imminent recession through sparking up more investment. Although dollar gained against most currencies due to the interest rate cut, Fed's action underlined the precarious state of US economy. It is believed that Fed's rate cut, if unmatched by European Central Bank (ECB), may lead to a slump in the demand of US bonds. This may occur if foreign investors are lured away to European bonds due to the escalating interest rate differential.

In the last part of the week dollar drifted lower against yen, unable to sustain the recent gains on account of interest rate cut by US. Federal Reserve and anticipation of further intervention by Bank of Japan. Dealers refrained from active trading wary of the US jobs data due out on Friday and Group of Seven (G7) meeting at the Weekend. Euro was supported to a level of 110 yen in anticipation that Japanese institutional investors would buy European bonds in the new fiscal half-year. However, some dealers opined euro was undermined as index for US non-manufacturing activity NAPM (National Association of Purchasing Management) showed an increase over the previous month. In addition, euro suffered more due to a report indicating lower (Reuters) euro zone business activity index showing a contraction in the euro zone service sector for the first time in its there-year history.

At 1500 hrs on Thursday, euro traded at 0.9154/58, pound sterling at 1.4713/15 against dollar and Japanese yen was at 120.41/51 against US dollar.

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