Deflation fears may start rate cut spree in Asia

REUTERS, *Singapore*

The risk of deflation could force Asian central banks to further slash interest rates after the lastest round of Federal Reserve-inspired cuts, economists said Thursday.

Hot on the heels of the Fed's latest 50 basis point rate cut on Tuesday, Hong Kong banks and Taiwan's central bank have snipped their interest rates as well, although more cautiously.

The Philippine central bank joined in on Thursday, slicing off 50 basis points from its overnight rates. Inflation, rather than deflation, has been the problem in the Philippines.

Bank of Korea's monetary board decided earlier in the day not to touch interest rates this month, though analysts predict it will lower its key overnight call rate, now at four per cent, by at least another 25 basis points soon.

While those Asian central banks that have cut rates this year have primarily done so to boost domestic confidence and economic growth, analysts said in future they might be forced to do so to keep real interest rates low as prices continue to fall.

"We think there is a risk that deflation could spread beyond China Hong Kong.... which raises the likelihood of more rate cuts," said Rob Subbaraman, regional economist at Lehman Brothers in Tokyo.

"What central banks tend to focus on is not the nominal interest rates but research the real interest rates, or the inflation adjusted interest rates. If inflation continues to decline, that means that just to keep the real interest rates constant, you've got to continue to cut rates," he said.

Recent HSBC indicates the spreads between real interest rates in Asia and the United States show more room for easing. For instance, before the latest rate cut, Taiwan's nominal spread over the US stood at 58 basis points while the real spread was 373 basis points.

But some economists question the conventional wisdom that deflation is rearing its head in Asia, particularly North Asia.

Michael Spencer, head of economic research at Deutsche Bank, argues deflation in Asia is not merely a structural problem, but also cyclical, meaning it won't be as bad in the long run.

That is, given the downturn in the exports cycle and particularly the electronics cycle with tech-dependent economies like Taiwan, it's not surprise that firms have had to cut their prices and people are tightening their belts.

"What we're seeing is operating margins and profits of these local companies are getting crushed, output prices are falling heavily and there's no real pressure on employment. So there's no pricing power domestically," he said.

PHOTO: ICCB

ICC Bangladesh President Mahbubur Rahman shakes hands with Antonio de Souza Menezes, out-going Ambassador of the European Commission to Bangladesh when he called on the ICC President at the ICC, B Secretariat recently.

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Japan to lift safeguard tariffs on Chinese farm products

AFP, *Tokyo*

The Japanese government will lift an emergency tariff on certain Chinese farm products Friday, but may impose longer-term safeguard measures in December to protect domestic farmers from cheap imports, officials said.

"The temporary measure will end today. It will go back to the way it was before the safeguard was imposed starting tomorrow," an official from the Ministry of Economy, Trade and Industry (METI) said on Thursday.

In April, Japan invoked emergency import restrictions on three farm products -- spring onions, shiitake mushrooms and rushes used in traditional tatami mats. The measure was taken on fears the cheap imports, mostly from China, were hurting Japanese producers.

Outraged by the move, Beijing retaliated in June by imposing 100 per cent punitive tariffs on imports of Japanese motor vehicles, air conditioners and mobile phones.

The METI said Tokyo would continue to study the effect of cheap Chinese imports on Japanese farmers until December 21.

"If the study concludes that Japanese farmers are not affected by the Chinese imports, we won't impose further safeguards measures," an official said. "But if it does, then we will, starting as early as December 21."

Government officials as well as representatives from business from both countries met in Tokyo on Wednesday and Thursday in bid to resolve the trade row but both sides failed to reach an agreement, METI said.

"We proposed that we start a new round of talks as early as next week. The Chinese side said they would take the matter back to Beijing first and then decide when to start a new round of talks," an official said.

But private businesses from Japan and China proposed to find common ground in adjusting trading volumes of the affected products in a bid to side-step government intervention, news reports said.

Chief Cabinet Secretary Yasuo Fukuda, the government's top spokesman, said Tokyo hoped the dialogues would eventually resolve the deadlock.

"We have been holding discussions at different levels of the two governments. I am hopeful that those discussions will result in a solution," Fukuda told reporters.

The size of a new long-term tariff, its length, and other details would be decided at that time, he added.

A spokesman for the Keidanren, Japan's biggest association of businesses, said the group urged Tokyo not to impose extra safeguard measures which could

Pakistan gets $ 265m loan from Abu Dhabi Fund

REUTERS, *Islamabad*

Pakistan signed an agreement for a $265 million concessional loan from the Abu Dhabi Fund for Development Tuesday, Finance Minister Shaukat Aziz said.

"We signed an agreement for a $265 million facility with the Abu Dhabi Fund for Development .... These are concessional grant-like facilities," Aziz told a news conference after signing the agreement.

He said the loan covered six development projects, three of which were hydro-power projects, two water and one for construction of a dam in the North West Frontier Province.

Moeen Qurshi, secretary general finance, told reporters that the interest rate on the loan was two per cent with a five-year grace period and repayment in 20 years.

Pakistan has been extended financial and other help by a number of countries. This has included the lifting of sanctions by Washington in the wake of the September 11 attacks on the United States.

On Monday, the Asian Development Bank said it planned to raise economic assistance to Pakistan this year $950 million from a planned $626 million because of the impact of the Afghan war.

Of that $350 million was on concessional terms and rest were normal ADB loans.

Aziz said Pakistan was trying to shore up fiscal support, revival of export credit and export insurance, market access and debt relief in talks with foreign governments.

Pakistan's external debt stood at $38 billion as of June 2001 and the government wants to slowly reduce this through debt retirement and rescheduling.

Aziz said final discussions on debt relief will be held in the second week of December under the Paris Club of bilateral creditors.

Philippines trims rates following US move

AFP, *Manila*

Philippine monetary authorities cut key interest rates by 50 basis points Thursday after a similar move by the United States Federal Reserve.

Effective Friday, overnight borrowing would fall to 8.25 per cent while the lending rate would be reduced to 10.5 per cent, the Central Bank of the Philippines said.

This brings the cumulative reduction in policy rates to 675 basis points since December last year, it said.

The bank said its policy-making monetary board decided to cut the rates amid indications of "reduced inflationary expectations" over the near term.

The government expects the inflation rate to be around 6.0-7.0 per cent this year.

Year-on-year inflation slowed to 5.4 per cent in October, compared to 6.1 per cent in September, on a slower rise of prices in all commodity groups, the National Statistics Office reported on Monday.

Average inflation for the 10 months to October was 6.5 per cent, which was well within the government's full-year target.

The Federal Reserve's decision Tuesday for a 50 basis point cut in US interest rates to revive the ailing US economy also "provided scope for additional relaxation of monetary policy" in the Philippines to help spur domestic demand, the bank said.

Brig Gen Abul Hashim Khan inaugurates the extension project of SK Fabrics, a unit of Sena Kalyan Sangstha, recently.

PHOTO: CITY BANK

The newly-decorated Principal Office of the City Bank Limited was inaugurated by bank Chairman Anwar Hossain recently. Among others, Vice Chairman of the bank Mohammad Shoeb, Directors Deen Mohammad, Z H Chowdhury, Aziz Al-Kaiser, Azizul Haque Chowdhury, Manwar Hossain, Managing Director Abbas Uddin Ahmed and Deputy Managing Director A H M Nazmul Quadir were present.

Singapore employers say more drastic pay, staff cuts on way

AFP, *Singapore*

Singaporean workers, many already receiving shrinking pay packets, can expect more drastic cuts next year as the republic spirals into its deepest recession in more than 30 years, according to a poll published Thursday.

The survey of 174 companies, including multi-nationals, revealed more than half expect conditions to worsen in the next six months.

Although Singapore employers and unions favour wage cuts to save jobs, an expected 40,000 retrenchments are expected this year and next.

The survey by Singapore-based researcher Remuneration Data Specialists (RDS), conducted in late October, found 14 per cent of companies had retrenchment plans in place.

About 18 per cent froze wages this year, and another 26 per cent would do so next year, while four per cent of companies had either cut pay or planned to do so.

Wage increases for those lucky enough to get one, were likely to average 3.6 per cent this year, falling to 2.1 per cent in 2002.

Four in ten employers were also forcing their staff to accept shorter work weeks while three per cent had cut or planned to cut overtime pay. An overwhelming 68 per cent said they had imposed a recruitment freeze or would do so soon.

The survey was released on the day port operator PSA Corp. announced wage cuts of five per cent for lower income earners, rising to 11 per cent for senior management.

It followed other major companies including Singapore Airlines, DBS Bank and stockbroker GK Goh in slashing wages on a sliding scale. At GK Goh the cuts go as high as 30 per cent for senior executives.

"Most companies are cautious and are waiting for year-end results before making drastic cuts," said RDS managing consultant Peter Lee.

He added many were banking on the economy to turn around in the second quarter of 2002 and currently preferred to downsize operations and reduce staff by attrition, instead of retrenching.

"They're paying heed to the government's call to cut wages than cut staff... unless the business is not viable anymore, companies are still holding on to their staff," he said.

More than two-thirds of the companies polled will still ay bonuses this year, averaging 1.1 month's salary, although this is expected to be trimmed to 0.8 of a month next year.

Prime Minister Goh Chok Tong last week warned Singaporeans to brace for lower wages, job losses and a fall in living standards as the economy is projected to contract by 3.0 per cent this year compared with last year's 9.9 per cent growth.

The trade-dependent island, one of Asia's most affluent societies, has fallen victim to the severe slump in global demand for electronics, particularly from the United States, its biggest export market.

Int'l Leasing Board meets

A meeting of the Board of Directors of International Leasing and Financial Services Limited held at its office in the city recently, says a press release.

Mahbub Jamil, Chairman of the Board of Directors' of the company presided over the meeting.

M Matiul Islam, Rezaur Rahman, Jamal Uddin Ahmad, C M Alam, Masud Hussain, S Javed Iqbal and Mafizuddin Sarker, attended the meeting.

The board approved the inclusion of two Directors nominated by Industrial Promotion and Development Company of Bangladesh Limited.

It may be noted that recently IPDC became a shareholder of the company by acquiring 30 per cent shares.

The board reviewed the activities for the year 2001 and took decisions on certain administrative and operational aspects of the company.

US labour productivity grows at 2.7pc

AFP, *Washington*

Business productivity grew at a 2.7 per cent rate in the third quarter as companies adapted to lower output levels and fewer workers, the Labor Department said Wednesday.

The rate of productivity grew from 2.2 per cent in the second quarter and was the biggest rise in productivity since the second quarter of last year. Year on year, nonfarm labor productivity was up 1.8 per cent.

The acceleration in productivity came as output fell, but hours worked fell even further, leaving the output-per-hour higher in the quarter.

The figures reflect a 1.0 per cent decline in output, and a 3.6 per cent fall in hours worked. This is the biggest drop in output since the first quarter of 1993, and the steepest decline in hours worked since the first quarter of 1991.

Analysts said the report was encouraging because it showed companies were able to operate more efficiently despite the economic slowdown.

"When an economy slows, productivity usually falters as it is difficult to reduce payrolls and hours worked as quickly as production is cut back," said Joel Naroff of Naroff Economic Advisors.

"Third quarter productivity was quite impressive given that firms had to deal with first a growing economic malaise and then the events of September 11."

"The recent productivity performance is far better than historical experience," said Citibank economist Melanie Jani.

Unit labor costs, a figure closely followed for signs of inflation pressures, rose 1.8 per cent in the third quarter, after increasing 2.6 per cent in the second quarter. Year on year, unit labor costs rose 3.9 per cent.

PHOTO: ICFS

Mahbub Jamil, Chairman of the Board of Directors of International Leasing and Financial Services Limited, presides over a meeting of the Board in the city recently.

Corporate civil war erupts at HP over Compaq deal

AFP, *San Francisco*

The corporate civil war over the multibillion dollar Hewlett-Packard merger with Compaq escalated Wednesday as another family shareholder opposed the deal.

David Packard, son of HP co-founder Dave Packard, told the San Jose Mercury News he opposed the merger plan, castigating the deal for its potential to render thousands jobless. He said his father and co-founder William Hewlett would not have accepted the plan.

"Bill and Dave never developed a premeditated business strategy that treated HP employees as expendable," he said.

On Tuesday, the surviving members of William Hewlett publicly slammed the merger of HP with computer giant Compaq.

"I believe that Hewlett-Packard can create greater value for stockholders as a stand-alone company than as a company combined with Compaq," Hewlett heir Walter Hewlett declared in a statement.

The statements from the family members cast a cloud over the merger plan.

Though the two are now dead, the Hewlett and Packard legacy continues to have a hold over the sprawling company. Their perfectly preserved adjoining offices, located in what is now HP Labs, are considered sacred ground in Silicon Valley, as is the ramshackle one-car garage where they began the company with 1939.

"It was like the company itself sat up, dusted itself off, and said 'no way' to the Compaq deal" said one longtime HP employee, who asked not to be named.