

Pak indicators show slowdown Sept 11 attacks hit economy: Central bank

AFP, Karachi

Fallout from the September 11 terrorist attacks on the US and its effect on neighbouring Afghanistan hit Pakistan's economy in the third quarter of 2001, the central State Bank said Friday.

In its report for the July-September quarter, the bank said the full impact of the crisis had yet to be measured.

"The country's major economic indicators are showing a lag reflecting the uncertainty following the events of September 11," it said.

Growth in large-scale manufacturing in the quarter slipped by 5.3 per cent year-on-year compared to 8.1 per cent previously.

Exports in the quarter registered a mere 1.8 per cent growth to 2.26 billion dollars as against the robust growth of 14.6 per cent in the corresponding quarter in 2000.

The figure represented a shortfall of 2.52 billion dollars in projected export earnings, the report said, warning: "Pakistan may continue to lose export markets in the (near) future."

Imports were down by 8.3 per cent to 2.50 billion dollars compared to 2.73 billion dollars in the previous year.

The bank said, however, the September 11 attacks on New York and Washington had had a favourable impact on cash remittances overseas, due to increased scrutiny of the Hundi system -- the illegal transfer of money -- following a clampdown by US authorities on cash flows that could be going to terrorist organisations.

Remittances dropped slightly to 325 million dollars during the quarter, from 351 million dollars in the corresponding quarter in 2000.

Foreign investment in the country slumped significantly to 16 million dollars from a previous 27 million dollars.

The State Bank said, however, there had been some positive spin-offs from the September 11 atrocities, after the Pakistani government, despite violent opposition at home, decided to throw in its lot with the US-led international coalition against terrorism.

The European Union, it said, dropped duties on a range of products exported from Pakistan while at the same granted a 15-per cent increase in quotas effective January 2002.

The bank said it was not optimistic full advantage could be taken of the quotas due to a global recession which is hurting Pakistan's main export markets.

"In effect, the degree of market access that Pakistani exporters are expecting may not materialise," it said.

"The uncertainty following the events of September 11 has still not been resolved."

Credit rating agency Standard and Poor's said in a report Thursday that Pakistan faced heightened political risks in the light of the collapse in Afghanistan of the Taliban regime, which on Friday handed over its last bastion of Kandahar in the south to US-backed opposition forces.

But strained relations with major creditors, particularly the US, had been repaired by Islamabad's support for the anti-terrorism campaign, the agency said.

International Monetary Fund directors Thursday approved a three-year, 1.3 billion-dollar support program for Pakistan, a spokesman for the fund said. The decision allows Pakistan to draw 109 million dollars immediately.

The last IMF program for Pakistan, worth 600 million dollars, expired in September when the fund disbursed a final tranche of 135 million dollars for the debt-ridden country.

IMF okays \$1.3b for Pakistan

AFP, Washington

International Monetary Fund directors Thursday approved a three-year, 1.3-billion-dollar support program for Pakistan, a spokesman for the fund said.

"The executive board of the International Monetary Fund today approved a three-year arrangement for Pakistan under the poverty reduction and growth facility totaling ... about 1.309 billion dollars," IMF spokesman William Murray said.

The decision allows Pakistan to draw 109 million dollars immediately under the arrangement, he said.

Loans extended under the IMF's anti-poverty program carry an interest rate of 0.5 per cent and grant a grace period on principal payments of five and a half years.

The last IMF program for Pakistan, worth 600 million dollars, expired in September when the fund disbursed a final tranche of 135 million dollars for the country.

At the time, the IMF urged Islamabad to pursue economic reforms, especially in the light of uncertainty sparked by the

September 11 suicide attacks against the United States.

It advised Pakistan to hold the course on the 2001-2002 budget despite weaknesses in tax revenue collection and a weaker-than-expected global economy.

The United States decided in September to waive sanctions imposed on India and Pakistan for conducting nuclear weapons tests in 1998.

But even with US and IMF help, the country still faces formidable economic challenges.

Pakistan has a net public sector debt equal to 120 per cent of annual gross domestic product and a net public external debt equal to 230 per cent of annual exports, Standard and Poor's said in a report Thursday.

"Fiscal structure is rigid, with general government revenue stuck at 18 per cent of GDP while interest payments and disclosed defense spending consume 48 per cent and 24 per cent of revenues, respectively," it said.

Pakistan was to meet with Paris Club state creditors in the week starting December 10 to finalize a new debt rescheduling accord, said

the analysis by Chih Wai Liew in Singapore and Joydeep Mukherji in New York.

This was likely to lead to "significant debt relief" -- probably through an extension of the payment period and a reduction in interest rates on its 12 billion dollars of outstanding Paris Club debt.

But the country also faced heightened political risks, the credit rating agency said.

"With the anti-Taliban Northern Alliance likely to assume a significant role in the new Afghanistan administration, Pakistan's relations with Afghanistan could deteriorate because of its past support for the Taliban," it warned.

"Coupled with its historical animosity with India, regional tension might rise."

On the brighter side, strained relations with major creditors, particularly the United States, had been repaired by Islamabad's support for the anti-terrorism campaign, the agency said.

Pakistan's eight per cent inflation rate also compared favourably with other countries that had been assigned speculative credit ratings, it said.

Cathay to resume flights to Karachi in January

AFP, Hong Kong

Cathay Pacific Airways Ltd. said Friday it would resume flights from Hong Kong to the Pakistani city of Karachi starting next month.

In a statement, Cathay said it would resume the three-times-a-week return service to Karachi, via Bangkok, from January 9, 2002.

The airline said the service had been suspended since October 28 due to the softening of the global economy and its impact on the airline industry.

In addition, the airline said it would introduce two additional direct flights from Hong Kong to Dubai from January 16 next year.

Cathay said in November it was cutting flight frequencies to Bangkok, Kuala Lumpur, Manila, Los Angeles and Vancouver as part of a review of its network.

The global airline industry has been crippled by sky-high insurance premiums and slumping demand since hijacked airliners were slammed into the World Trade Center and Pentagon buildings on September 11.

German inflation slows to 1.7pc

AFP, Frankfurt

Inflation in Germany, the biggest economy in the 12-country euro zone, slowed significantly in November, falling below the key level of 2.0 per cent, final data published by the Federal Statistics Office on Friday showed.

The pan-German consumer price index (CPI) rose by 1.7 per cent in November on a 12-month basis, comfortably below the 2.0-per cent level recorded in October and viewed by the European Central Bank as the maximum tolerable level of inflation.

The last time German inflation was around this level was in August 2000.

The final figures confirmed preliminary November inflation data published on November 23.

The office attributed the slowdown to falling heating oil and fuel prices, excluding which CPI would have risen by 2.4 per cent on a 12-month basis.

The development therefore paved the way for further cuts in euro-zone interest rates, especially because German inflation, as measured by the European harmonised index for consumer prices (HICP), showed an annual rate of increase of just 1.5 per cent last month.

S'pore recovery to be delayed: economists

AFP, Singapore

Singapore's recession-hit economy is not expected to start recovering until the second half of 2002, the de facto central bank said Friday following a survey of top economists.

However, the upturn will be dependent on a recovery in the US economy -- Singapore's biggest market -- and the state of the global electronics industry, the Monetary Authority of Singapore (MAS) said in its latest quarterly survey.

"Most respondents now expect a postponement in recovery till the second half of 2002, predicated on an upturn in both the US economy and the global electronics industry," the MAS said in a report.

"This compares with the previous survey where the expectation was for a recovery by end-2001 or early 2002," it said in releasing results of the survey of economists from banks, securities houses and research and management institutions.

MAS noted a "considerable uncertainty in the outlook for GDP (gross domestic product) growth in 2002 as manifested by the wide range in the probability distribution attached to the forecasts."

Some of the economists highlighted further downside risks such as a weaker economic recovery in the United States, an increase in oil prices, and new terrorist attacks, MAS said.



PHOTO: AFP

An Afghan money changer counts afghanis, the currency of Afghanistan, in a currency market in the northwestern Pakistani city of Peshawar yesterday. The afghani currency plunged on the day as the Taliban began the surrender of their southern heartland Kandhar, even though money dealers in Kabul were swamped with people wanting to convert treasured US dollars.

House grants Bush wide trade negotiating powers

AFP, Washington

The US House of Representatives Thursday narrowly granted President George W. Bush the sweeping trade negotiating powers he had sought to bolster the US case in world trade talks.

Bush immediately commended the House for passing legislation that "will restore our nation's authority to negotiate trade agreements."

"Trade Promotion Authority will give me the flexibility I need to secure the greatest possible trade opportunities ... (and) will help us pursue and complete trade agreements, including the global trade negotiations launched last month in Doha, Qatar."

Bush and supporters had lobbied hard for the bill which took on added importance in the economic fallout of the September 11 terror attacks which battered key industries here and pushed up the number of unemployed.

Lawmakers had been expected to vote strongly along party lines on the bill, but ended up by winning by only one vote 215-214 as more than 40 lawmakers switched sides.

The nail-biting victory moves Congress one step closer to being bound to a yes-or-no vote on any trade deal Bush signs, surrendering its constitutional right to have any role in the negotiations.

The Senate has yet to pronounce itself on the measure.

Before the vote, House Democrats made it clear they were not ready to give up the power to negotiate deals affecting key issues like labor and the environment, a sentiment shared by a core of Republicans who voted against the bill.

"We cannot be rubbers stamps or silent partners," said Representative Sandy Levin just moments before the vote. "We must be active participants."

Lawmakers, particularly

Republicans, had come under considerable White House pressure to fall in line behind the president, a campaign led by Bush himself.

"The president is working the issue hard," White House spokesman Ari Fleischer said earlier in the day.

Former US president Bill Clinton's administration was the last to benefit from the trade negotiating powers, formerly known as "fast-track" authority, which expired in 1994. Congress rejected two subsequent attempts to revive fast-track authority in 1997 and 1998.

The House vote on the authority was seen as critical because the Senate, where the Democrats hold a slim majority, is more favorable to free trade initiatives.

A pleased US Chamber of Commerce hailed the vote as a "significant victory for American businesses and workers."

SAP to cut 300 jobs in US

AFP, Walldorf, Germany

SAP, a leading maker of business software, is to cut around 300 jobs in the United States, a spokesman said on Friday.

The spokesman was responding to a report in the Financial Times on Friday which said that Europe's biggest software company was to cut jobs for the first time by reducing its 4,500-strong US workforce by around 300.

He declined to provide an exact number but said that the figure contained in the newspaper report was "in the right range."

FT said that jobs would be made through the reorganisation of SAP's US business from 21 industry groups into 12 "key clusters".

Jobs would be lost mainly in groups that had been hit by the economic downturn, such as telecommunications, banks and financial services, the newspaper continued.

US backs speedy end to farm export subsidies

AFP, Geneva

The United States called Thursday for the speedy abolition of agricultural export subsidies but acknowledged that not all its trading partners are as eager as it to get rid of them.

US negotiator James Gruelf, addressing a press briefing here, recalled that the World Trade Organization at a ministerial conference in Qatar last month backed negotiations on the abolition of

export subsidies.

The conference was held in the Qatari capital Doha to approve an agenda for a new round of multilateral negotiations aimed at lowering global trade barriers.

"It is very clear to us from the language (adopted in Doha) that ministers committed to phasing out, ending, terminating -- however you want to call it, the phrasing in the text is 'phasing out' -- export subsidies," Gruelf said.

"As for precisely when that happens, that is obviously a matter for negotiations. We would like to see that happen sooner rather than later, of course."

"Obviously ... not all our negotiating partners have that view, so that will be something left for negotiations," said Gruelf, who is assistant deputy administrator for international trade at the US Department of Agriculture.

Donors focus on Vietnam reforms

AFP, Hanoi

Vietnam's human rights record took a back seat Friday as international donors focussed on the communist state's economic reforms, hailing a significant quickening in the transition to a market economy.

Delegates to an annual review meeting said they expected donors to maintain or even increase their large aid programmes here amid a "generally very positive attitude" about the achievements of the past 12 months.

"It's been a remarkable year," World Bank country director Andrew Steer told donor representatives in his opening address, pointing to the conclusion of a landmark trade deal with the United States and a large support package from the International Monetary Fund.

After years of pressing for progress on key structural reforms of the state sector and banking system, the international financial institutions had been "very impressed with the government's decisions."

Vietnam was keeping to the agreed timetable on all its major reform programmes, except for state sector rationalization, he said, adding that some slippage was to be expected.

"If you look around the region .. there are not many countries that you can say are on track."

Deputy Prime Minister Nguyen Manh Cam vowed that the commu-

nist authorities would maintain the reform momentum and even "accelerate the economic restructuring."

The government would "reform the banking system and rearrange state-owned enterprises" including through privatization, he said.

Steer told donors that the communist authorities needed their support as Vietnam was "facing a very hostile world economy as it starts to implement a very difficult reform agenda."

Global trade was experiencing its worst downturn in three decades and worldwide foreign direct investment was expected to fall by 40 per cent this year.

Speaking to reporters later, he acknowledged the headline dollar figure for donor pledges was likely to be down from last year's colossal 2.4 billion, if only because of the strength of the greenback.

But he stressed that this was not because of any lack of support on the part of donor governments.

"I do not expect an increase, not because in their own currencies there won't be an increase," he told reporters.

Steer acknowledged that despite repeated calls from watchdogs angry over the detention of a string of religious dissidents and ethnic minority protesters in the past 12 months, human rights was "not formally on the agenda" for the donors' meeting.