IMF wants new Pak govt to continue reforms

REUTERS, *Karachi*

The International Monetary Fund has praised Pakistan for reforms conducted under three years of military rule, but said the process needed to continue under a new civilian government to attract much-needed investment.

The statement came late on Wednesday after a review by a six-member visiting team, and followed on the heels of the release of $115 million by the IMF as the fourth tranche of a $1.31 billion loan.

"A main challenge ahead is to continue governance reforms and thus create the institutional environment that will give domestic and foreign investors the confidence needed to generate more jobs and higher growth," it said.

The IMF statement came just before parliament met to elect a civilian prime minister to run the country after three years of military rule.

A candidate from the pro-military Pakistan Muslim League, Mir Zafarullah Khan Jamali, won the vote and is expected to form a government to continue President Pervez Musharraf's economic and foreign policies.

General Musharraf, who seized power in a 1999 coup, will remain as president for a further five years with the power to dismiss parliament. Musharraf says he will ensure the reforms started under his rule are continued.

The IMF approved the three-year loan in December to help Pakistan battle poverty and offset the impact on its economy from the war in neighbouring Afghanistan.

The successful completion of the current review would pave the way for the release of a fifth tranche of $114 million, the Fund said.

Musharraf's government has had some success in curbing high-level corruption, and succeeded in building the country's foreign exchange reserves as well as cutting its foreign debt.

It has also embarked on the privatisation of state-run enterprises, and presided over a gradual economic recovery, but foreign investment remained a concern.

Pakistan has won foreign aid after throwing its weight behind the US-led war on terror, but many foreign investors have shied away because of law and order problems and attacks on Christian and Western targets in the last year blamed on Muslim militants.

Foreign direct investment rose to $170.2 million in the first quarter of the 2002/03 fiscal year (July/June), up from $69.1 million in the corresponding period last year. But it may fall short of a full-year target of $1.0 billion.

In its review, the IMF commended Pakistan for boosting economic activity and keeping inflation low, projecting real gross domestic product growth of 4.5 per cent in 2002/03. Finance Minister Shaukat Aziz had said Pakistan's target for GDP of 4.5 per cent for the July-June fiscal year could be surpassed.

After expressing some concerns in previous reviews about tax collection, the IMF noted that revenues were now on target.

"Against this background, the State Bank of Pakistan was able to lower the discount rate. Structural reforms have continued, including in the banking sector and tax administration," it said.

The central bank lowered its discount rate to 7.5 per cent from 9.0 per cent last Saturday, a larger-than-expected cut that bankers said would boost credit demand and fuel a surging stock market.

Business leaders pin hope on prospect

AFP, *Karachi*

Business leaders in Pakistan's commercial capital hailed the election of the first civilian prime minister in three years, voicing the hope that he would push on with the economic reforms of President Pervez Musharraf's regime.

Mir Zafarullah Khan Jamali, who heads the pro-Musharraf party holding the largest number of seats in the national assembly, was elected Thursday by a narrow margin in a parliamentary vote.

"I am hopeful that Jamali will continue ongoing fiscal and economic policies, especially development works focusing on Karachi, the heart of the country's economy," former Karachi Chamber of Commerce and Industry (KCCI) president Zubair Motiwala told AFP.

The port city of Karachi is Pakistan's largest, with 14 million people.

The managing director of the Karachi Stock Exchange Moeen Fudda said he foresaw a rise in foreign investment with the new prime minister installed.

"There is certainly hope of a sizeable inflow of foreign portfolio investment after a democratic government takes over."

He urged the new prime minister to push on with Musharraf's privatisation policy, which has state-owned enterprises in the energy, banking, and telecommunication sectors slated to be sold-off by the first quarter of 2003.

"The continuation of economic as well as privatisation policies would determine an upward trend of foreign inflows. The country's privatisation plan is a good attraction for investors," he said.

Good relations with multilateral donors were another key concern of business leaders, who want to see long-term agreements with the International Monetary Fund and World Bank honoured.

Sri Lanka cuts rates as inflation, int'l rates dip

REUTERS, *Colombo*

Sri Lanka's central bank cut key interest rates Thursday, citing declining inflation and lower international interest rates, and said the move would also support an economic recovery in the war-battered island.

The overnight repurchase rate was cut by 75 basis points to 9.75 per cent, and the reverse repo rate was cut by 100 basis points to 11.75 per cent, after local markets, which were anticipating a rate cut, had closed.

The central bank last cut both rates by 100 basis points on July 26.

In a statement, the central bank said the rate cuts were made "considering the continued stability in money and foreign exchange markets, further moderation in inflation and the decline in international market interest rates."

Sri Lanka's economy is expected to grow about three per cent this year after its worst-ever contraction of 1.4 per cent last year due to an escalated war with Tamil Tiger guerillas, a power crisis and weak agriculture and manufacturing sectors.

Weekly Currency Roundup

November 16 November 21, 2002

Local FX Market

US Dollar remained steady against Taka (BDT) throughout the week. Matched demand-supply of the greenback kept it steady against BDT. The USD/BDT rate remained range-bound between 58.90 and 59.05 throughout the week. Taka ended the week at 58.95/59.05, almost unchanged from the beginning of the week.

Money Market:

Bangladesh Bank borrowed BDT 10,773 million by the Treasury bill auction held on Sunday. Weighted average yield of T-bills increased to some extent from the last week. Weighted average yield of 28-D T-bills increased by 21 bps to 7.49 per cent.

The call money market remained range bound in this week. The call money rate ranged between 6.75 and 7.00 per cent in the beginning of the week. The rate dropped slightly to 6.00-7.00 per cent, but ended the week at 6.50-7.00 per cent.

International FX Market:

The yen fell against other majors in Asian Market in the beginning of the week, due to a fall in Tokyo share prices on worries about banks and financial scandals outweighing the clouded outlook for the U.S. economy and threat of war in Iraq. The Euro became little stronger against the dollar at 1.0102, compared with 1.0095 in late U.S. trade. But it remained difficult to set a clear direction now since there are continuing worries about a possible war and the U.S. economic outlook.

The dollar ended broadly firmer in the middle of the week, capitalizing on signs of turmoil in Japan's banking sector and bouncing back from one-week lows against the Euro after fears deepened about the health of German banks. Fears by investors that Japan was lurching close to a banking crisis tumbled the yen to three-year lows against the Euro and nearly two-week lows against the dollar. But the dollar edged lower by late trading on Wednesday as a recovery in Japanese banking shares prompted profit-taking. Tokyo's Nikkei average rose as much as two per cent on Wednesday as overall sentiment improved after mega-banks such as Mizuho Holing Inc bounced back from lifetime lows. Elsewhere Swiss Franc managed to keep a firm tone, as the bearish Euro appeared to lack sufficient strength to maintain its hold above parity versus the dollar.

The dollar ended near two-week highs against the Euro and the yen on Wednesday, as fears about Germany and Japan outweighed the latest indication that the US economy's recovery from recession may be faltering. Dollar was pulled down against the Euro by the news that US construction had an unexpectedly large drop of 11.4 per cent. But economists attributed the fall more to do with last month's heavy rain than the health of the sector. The dollar also failed to maintain a three-week high against the yen on Thursday as a rise in Tokyo shares gave the Japanese currency some relief and eased worries about a financial crunch. The greenback rose to 122.78 yen, the highest since November 1 in Tokyo morning trade but was soon pushed back on selling from profit-takers and Japanese exporters.

At 1445 hours on Thursday, Euro was traded at 1.0024/26, GBP at 1.5735/40 and yen at 122.01/04 against the dollar. **-- Standard Chartered Bank**

US jobless claims tumble

AFP, *Washington*

The number of people making new claims for US unemployment benefits slumped unexpectedly to a near four-month low last week, government figures showed.

The number of initial claims for unemployment benefits tumbled 25,000 to a seasonally adjusted 376,000 in the week to November 16, the lowest level since July 20, the Labor Department said.

Wall Street economists had expected the number of new jobless claims to rise 14,000 to 402,000.

A four-week average of new claims dropped 4,500 to 395,750, the lowest number since August 24.

In raw figures, new claims fell 59,287 to 367,732 for the week. There were 420,261 claims in the comparable week of 2001.

The number of people in the jobless pool, those claiming benefits for two weeks or morel, fell 61,000 to 3.58 million in the week to November 9, the latest date for which those figures are available.

PHOTO: IBBL

The 8th general meeting of the Central Shariah Board for Islamic Banks of Bangladesh was held at Islami Bank Bangladesh Ltd office in the city on Tuesday. Ubaidul Huq, chairman of the Board, presided over the meeting.

India to rationalise 50 labour laws

AFP, *New Delhi*

Indian Labour Minister Sahib Singh Verma said Friday the government would introduce key legislation in the ongoing session of parliament to overhaul and rationalise around 50 labour laws.

"We are in the process of rationalising over 50 laws relating to my ministry. These laws will be passed in the budget session of parliament this winter," Verma told a national management convention.

"We are in the process of soliciting responses from as many people as possible for restructuring the labour laws. Naturally, we require inputs from management personnel to carry out this crucial exercise," he added.

Indian Power Secretary R.V. Shahi added that "key amendments" in India's labour laws were being drafted to spur industrial growth.

"The present labour laws are simply not conducive to the growth of industry. We need to embrace a new work culture which emphasises performance," he said.

"Indian industry, by and large, is just not well-prepared enough to face global competition although the automobile, aviation and telecom sectors are showing signs of bracing for stiff competition in terms of quality, pricing and customer services."

India's low labour cost advantage is being whittled away by the fact that a strong trade union movement in the country makes it next to impossible to retrench workers on a large scale.

In February this year, the cabinet gave its approval for amendments of a 54-year-old industrial employment law giving employers the right to dismiss workers without government approval.

Industrial establishments employing less than 1,000 workers can now lay off staff or carry out closures without prior government permission, raising the threshold from 100 workers.

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