International Business News

Debt-plagued EU companies face refinancing test

AFP, *Brussels*

Although the global credit crunch has shown signs of easing recently, many European companies face a make-or-break year as they struggle with debt levels higher than their US competitors.

With corporate profits evaporating fast, troubles rolling over debt could threaten the very viability of some companies, putting more pressure on recession-hit European economies, economists and business leaders warned.

"We really need to concentrate attention on this ... because at some point we might lack financing and the companies stop (and go) bankrupt," said Ernest-Antoine Seilliere, president of the BusinessEurope employers association.

Although US households are much more heavily indebted than their European counterparts, the same cannot be said of European companies.

According to the EU's Eurostat statistics agency, non-financial sector liabilities excluding shares and other equity stood at 128 percent of gross domestic product in the euro area just before the credit crisis reached its worst point last fall.

US Federal Reserve data show that at the same time liabilities of non-farm, non-financial corporate US businesses excluding equity stood at 94 percent of GDP.

BNP Paribas executives forgo bonuses

AFP, *Paris*

Executives at the helm of French bank BNP Paribas have agreed to forgo their 2008 bonuses following conditions President Nicolas Sarkozy set for state aid this week, an official said Saturday.

BNP Paribas president Michel Pebereau and CEO Baudouin Prot told their board of directors they would not take their "variable income" for 2008, a spokeswoman for the bank told AFP.

The last bonuses Pebereau and Prot took amounted to 875,000 and 2.3 million euros (1.2 and 3 million dollars) respectively, according to BNP Paribas.

Sarkozy told banking executives Thursday they must forgo any 2008 results-related bonuses in exchange for state aid promised to support the sector.

The president warned he would seek legislation to regulate executive pay unless business leaders' associations put in place their own voluntary controls by the end of the first quarter of 2009.

"We have to bring to an end the practices that have rightly angered the French people," he said.

The government would study a new package of state support, but this would depend on banks financing certain projects, limiting dividends to shareholders and restraining executive pay, Sarkozy said.

AFP

A clerk of a shopping mall displays shopping vouchers she collected from consumers in Taipei yesterday. Taiwan started handing out shopping vouchers to each of the island's residents as part of a $2.5 billion scheme aimed at boosting the island's flagging economy.

Fresh EU forecasts to shed new light on depth of recession

AFP, *Brussels*

The EU economy faces a new round of bad news on Monday when the European Commission issues new forecasts against the backdrop of a worsening recession and spiralling public deficits.

The European Union's executive arm will shed new light on Europe's clouded economic outlook with fresh forecasts of just how deep the economy has slumped into recession.

In the wake of the new estimates, European finance ministers will also meet on Monday and Tuesday for talks focused on whether EU governments are doing enough to keep the recession from getting deeper.

Economic data have only gone from bad to worse since the European Commission forecast in November that the eurozone economy would eke out growth of 0.2 percent this year.

Therefore, there are few doubts that the commission will sharply reduce its estimate with most private sector economists already expecting a deep contraction this year.

Chinese banks report sharp drop in non-performing loans

AFP, *Beijing*

Chinese commercial banks reported a sharp drop in non-performing loans last year despite the impact of the global financial crisis, state media said Sunday.

Non-performing loans accounted for 2.45 percent of all loans at the end of December, a drop from 6.16 percent a year earlier, the Xinhua news agency reported, citing the China Banking Regulatory Commission.

The five main state-owned commercial banks reported a non-performing loan ratio of 2.81 percent by the end of 2008, down from 8.05 percent at the end of 2007, according to the commission.

The commission did not immediately give a reason for the improvement.

It took place alongside growing signs that China's economy is being severely impacted by the global financial crisis.

US ECONOMY

Obama stimulus not sure bet

AP, *Washington*

Barack Obama and his congressional allies are gambling that the largest public spending program since World War II and a new round of tax cuts will pry the economy from the recession's iron grip and avert another Depression.

But what if they're wrong?

Some conservative economists say that additional stimulus may only prolong the grief at best, triggering runaway inflation down the road and resulting in an even more bloated federal bureaucracy.

"I think the economy will recover regardless of what Washington does. But the long-term effect here will be to reduce the standard of living of the next generation because they will be saddled with all this debt," said Chris Edwards of the libertarian-leaning Cato Institute.

Even without the new spending proposed by Obama, the U.S. has a $1.2 trillion budget deficit this year, he noted. "If that isn't already enough of a Keynesian stimulus, what is?"

Early 20th-century British economist John Maynard Keynes argued that the government should intervene to avoid depressions by increasing its own spending and controlling interest rates. President Franklin D. Roosevelt based many of his New Deal spending initiatives on Keynesian theory.

But not all economists and politicians subscribe to that world view.

While there is broad support for some kind of major stimulus, the skeptics offer this as Exhibit A: The trillions hurled at the problem last year by Congress, the Bush administration and the Federal Reserve have yet to yield many tangible results.

Unemployment continues to climb, reaching a 16-year high of 7.2 percent in December and is expected to keep on rising through 2009. U.S. manufacturing remains in a serious slump. The decline in consumer spending in late 2008 is expected to continue.

Home values keep eroding. For many people, loans are hard or impossible to obtain. Millions of retirement accounts have been slammed by sharp stock market losses. Financial collapses, bailouts, rescue plans, foreclosures and profit reversals litter the landscape.

"What in September began as an emergency response to stabilize our financial markets has morphed before our very eyes into a string of taxpayer funded bailouts," said Rep. Spencer Bachus of Alabama, the senior Republican on the House Financial Services Committee. "Trillions of dollars in taxpayer backed guarantees and loans have been extended."

In short order last week, Congress cleared the way for a new $350 billion installment of bailout cash for the financial industry while House Democrats rolled out details of a $825 billion two-year stimulus package incorporating most of Obama's priorities. About one-third of it would go to tax breaks, with the rest to government spending. The plan could reach $1 trillion by the time Congress sends it to Obama's desk.

Allen Sinai, president of Decision Economics, a Boston-area financial consulting firm, said that even with Obama's aggressive spending program, the economy seems unlikely to show a true recovery this year in terms of sustainable gains by consumers and businesses.

"There are forces going on that are 1930s-like," Sinai said. "There is incredible asset deflation, a huge loss in wealth by households. In the '30s, even when funds became available from the financial system to borrow, the pessimism by consumers and businesses was so great that no one wanted to spend." Sinai wouldn't rule out a repeat of that mind-set.

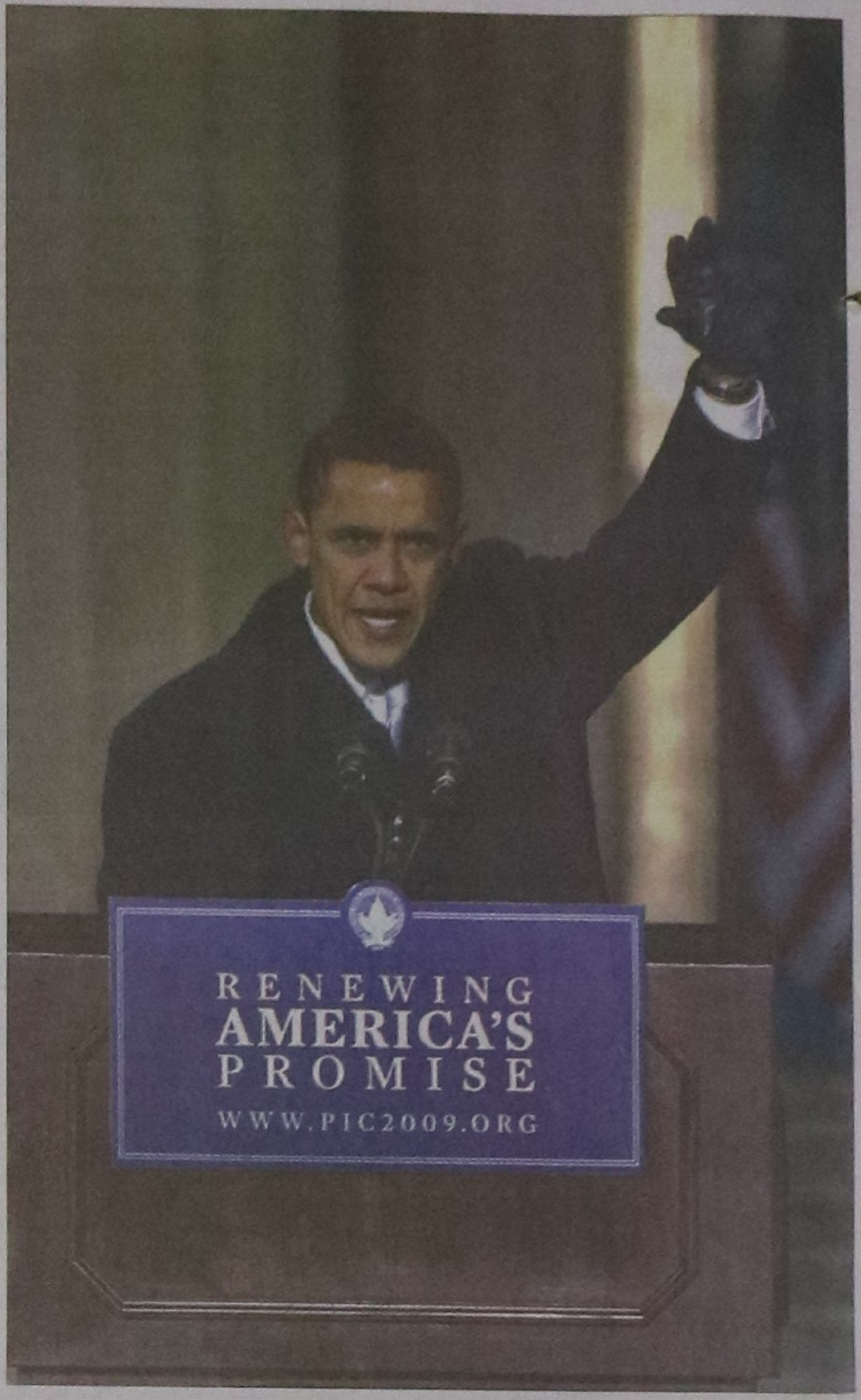
Some economists who are not fans of Keynesian economics or stimulus packages argue that FDR's vaunted New Deal programs, highly touted today as a model for job creation, did little to spur a U.S. recovery.

"It was finally World War II that finally ended the Great Depression," said Bruce Bartlett, a White House economist in the Reagan administration and a top Treasury official in the first Bush administration. Bartlett is author of a study showing that nearly all postwar stimulus packages passed by Congress came too late to be of much help, and just increased the deficit and fueled inflation.

Obama shrugs off expressions of skepticism and casts his stimulus package as the right formula for creating long-lasting, well-paying jobs, despite its big cost.

"It's not too late to change course - but only if we take dramatic action as soon as possible," Obama said in Ohio on Friday just days before taking office.

Mark Zandi, chief economist of Moody's Economy.com, said the economy could stabilize by year's end under a big stimulus package, government steps to reduce the number of foreclosures and continued monetary easing by the Fed.



"But many things could go wrong," Zandi added. "The financial system is still obviously under extreme pressure. It's not hard to paint a dark picture. Global investors could panic and stop buying the bonds we issue and send interest rates higher. Oil prices could spike again for whatever reason. It's not hard at all to be pessimistic."

UTILITY

How is gas crisis affecting Europe?

AFP, *Vienna*

Russian Prime Minister Vladimir Putin and Ukrainian Premier Yulia Tymoshenko met Saturday in Moscow for crunch talks that the EU described as the "last and best chance" to resolve the gas dispute.

The complete halt in Russian gas deliveries to Europe via Ukraine has been ongoing for 10 days. Here is where various affected European countries stood on Saturday:

BOSNIA: Bosnia, which was hit especially hard in the early days of the gas cut, extended Friday a gas supply deal with German gas company E.ON for another seven days, Bosnian importer BH-Gas said. Bosnia receives 1.5 million cubic metres of gas per day from E.ON.

BULGARIA: Bulgaria could start receiving gas from Greece and Turkey. Economy and Energy Minister Petar Dimitrov said Friday night that Bulgaria was hoping to import about two million cubic meters of gas per day from Greece starting as early as next week. Turkey has also offered to deliver 500,000 cubic meters of gas per day, but the details of a deal had yet to be worked out. Meanwhile, Bulgarian electricity provider CEZ reported small power failures in Sofia as electrical heating appliances overloaded the grid.

CROATIA: Croatian oil and gas company INA extended until Tuesday an emergency supply deal with Germany's E.ON, which was supposed to run out on Friday. Under this deal, Croatia receives about 42,000 cubic metres of gas per hour. INA also signed a contract with France's GDF Suez for 40,000 cubic metres of gas per hour until Tuesday. Zagreb says it has enough reserves for about two weeks. It also receives about 30,000 cubic metres of gas per hour from Italy's ENI.

GERMANY: German energy agency Dena warned Germany could start running out of reserves in three to four weeks, if the cold weather persists and Russian gas supplies do not resume, according to the daily Bild. Reserves have already fallen to 59 percent and could drop below 50 percent this week, the newspaper FTD also reported.

AFP

Russian President Dmitry Medvedev gives a speech at a gas summit in Moscow on Saturday.

MOLDOVA: The poorest country in Europe and one of the hardest hit by the gas crisis, Moldova started receiving a trickle of gas from Ukraine's own stocks this week. But supplies for the region were still far below normal levels at just 600,000 cubic metres per day compared to eight million cubic metres usually.

ROMANIA: Authorities have increased supplies to industry users who have requested it, said Economy Minister Adriean Videanu. "We have met every single request," he said. Consumption for industrial users was restricted immediately after Russian gas deliveries were halted.

SERBIA: Germany and Hungary have agreed to continue supplying 4.7 million cubic metres of gas daily to Serbia until January 24. Serbia was also conducting talks to receive an additional one million cubic metres of gas per day to help industrial users. According to the association of employers, 59 companies have had to halt or cut down production due to the gas shortage and were totalling losses of about 2.9 million euros daily.

SLOVAKIA: Czech gas company RWE Transgas will start delivering German gas to Slovakia, in the amount of 6.3 million cubic metres per day, on Sunday. Restrictions on gas usage by companies will also be lifted on Monday, allowing them to resume production after a 10-day halt.

Russia asserts clout in Ukraine

AFP, *Moscow*

In forcing Ukraine to accept a fast shift to market prices for its gas, Russia has managed to remind all in stark terms that it still has considerable influence on its ex-Soviet neighbour, analysts say.

Yet the pricing accord between the two countries announced in the early hours of Sunday is a pyrrhic victory at best for Russia, capping a dispute that has only heightened international suspicion of Moscow.

While Russia appears to have obtained many of the immediate economic goals it sought publicly, and probably some deeper political objectives it privately hoped to achieve, it has done so at a high cost to its own reputation.

"On the face of it, the Kremlin has won," said Vladimir Pribylovsky, an expert on Russian policy with the Moscow-based Panorama think tank.

"But in the abstract, it has not pursued a particularly good policy and it could ultimately lose" more than it gains from its gas conflict with Ukraine, he said.

He said that in addition to putting Ukraine on a fast-track to paying market rates for gas, Moscow had also managed to undermine President Viktor Yushchenko and his policy of integrating Ukraine in NATO and other Western institutions.

"Russia has tried to discredit Yushchenko completely" during the gas dispute in recent weeks, said Pribylovsky.

"This has been successful, to some extent at least. They have discredited not just Yushchenko but the nationalist forces in Ukraine. Just how successful this has been will become more clear in the next elections."

Russia has long argued that as an independent, sovereign state Ukraine must begin paying market rates for Russian gas just as other European countries, including for example the ex-Soviet Baltic states, have done for years.

Under the gas deal outlined by Russian Prime Minister Vladimir Putin and his Ukrainian counterpart Yulia Tymoshenko, that is exactly what Kiev has agreed to do, despite previously rejecting this unless other conditions were met.

Putin and Tymoshenko said Ukraine would pay full market rates from January 1 next year and, until then, would buy gas from Russia at market rates but with a 20-percent discount for the remainder of the year.

Russia meanwhile will pay Ukraine full market rates from the start of 2010 for transit of its gas to Europe, but will continue paying the substantially lower 2008