International Business News

India's inflation falls to 0.18pc

AFP, *New Delhi*

India's inflation rate slipped closer to zero, official data showed Thursday, giving the central bank more room to cut interest rates to bolster a flagging economy.

Annual inflation eased to 0.18 percent for the week ended April 4 from 0.26 percent for the previous week, according to the Wholesale Price Index, India's most watched cost-of-living barometer.

Inflation peaked at close to 13 percent eight months ago, and food prices look to be a major issue in India's month-long general elections that started Thursday.

Manmohan Singh, who is standing again as prime minister, has said recent low inflation has given headroom for "further moderation" in interest rates to lift India's economy, which has been growing at its slowest pace in six years.

The central bank holds its next monetary policy meeting on April 21.

The bank has slashed its key short-term lending rate to commercial banks by 400 basis points since October to a record low of five percent as it tries to jumpstart loan activity and consumer demand.

The inflation rate has slid from a 13-year high of 12.91 percent last August due to the tumble in oil and other global commodity prices as well as the effects of the worldwide economic slowdown.

Analysts expect the wholesale price index, which measures producer prices, to turn negative within weeks.

China posts slowest economic growth in 10 years

AFP, *Beijing*

China announced its slowest economic growth in at least a decade on Thursday, but analysts said there were some signs that the worst could be over for the Asian giant.

The world's third-biggest economy posted growth of 6.1 percent in the first quarter of the year, down from 6.8 percent in the final three months of 2008, underlining the impact of the global crisis on the export-dependent nation.

"The national economy is confronted with the pressure of a slowdown," Li Xiaochao, spokesman for the National Bureau of Statistics, told reporters.

"The foundation is still not solid and we still have a daunting task in the coming period."

He said problems included a decline in exports, a drop in corporate profits and unemployment.

The figure follows nine percent growth for all of 2008, reinforcing concerns that China this year will experience its slowest economic expansion in 19 years.

Officials have stressed that China's economy needs to grow by about 8.0 percent this year in order to prevent social unrest triggered by widescale unemployment.

AFP

Former employees of PT Inkosindo Sukses hold a protest in front of the Singaporean embassy in Jakarta yesterday. Hundreds of former employees of PT Inkosindo Sukses demanded their rights to severance pay after losing their jobs as the company run by Singaporeans, which produced apparels for internationally renowned brands, filed for bankruptcy in early January 2009 and laid off around 1,300 employees.

European car sales fell 9pc in March

AFP, *Brussels*

Sales of new cars in Europe fell 9.0 percent in March on a 12-month basis, a smaller decline than in previous months due to government subsidies to encourage buying, industry association ACEA said Thursday.

"Declining for the eleventh consecutive month, passenger car registrations in Europe fell by 9.0 percent in March," the European Automobile Manufacturers' Association said.

In the first quarter, sales were down by 17.2 percent compared with the same quarter last year.

In March, sales rose 39.9 percent year-on-year in Germany because of a government scheme to subsidise consumers who trade in their old cars for a new model.

Similar incentives have been put in place in France and Italy, where sales also rose, but by a smaller amount. Sales in Britain and Spain fell sharply, down 30.5 and 38.7 percent respectively.

The auto industry is one of the largest and worst-hit industrial sectors in Europe, where the recession resulted in the weakest sales in 15 years in 2008, with new car registrations plunging eight percent.

Seychelles wins debt relief from Paris Club: Creditors

AFP, *Paris*

The Club of Paris, a group of rich creditor nations, said Thursday it had agreed to cancel 45 percent of the Seychelles' debt of 163 million dollars (215 million euros).

"The representatives of the creditor countries, aware of the exceptional situation of the Republic of Seychelles and of its limited repayment capacity over the coming years, agreed on a debt treatment to ensure its long-term debt sustainability," a statement said from the group.

A total of 45 percent of the debt would be cancelled, with the remainder to be rescheduled over the next 18 years. The Indian Ocean archipelago also won a five-year grace period.

The tiny country, a haven for tourists with its palm-fringed islands and sandy beaches, has a total external debt estimated at 760 million dollars which represents nearly 175 percent of gross domestic product.

RECESSION

IMF hits right note in credit lines

AFP, *Washington*

After a first failed attempt, the International Monetary Fund appears to have found a way of providing a badly-needed cash lifeline to countries hit by the global economic crisis.

Its newly created Flexible Credit Line (FCL) attracted its second customer on Tuesday -- Poland -- and the hope is other nations such as South Korea or Singapore may be drawn into considering the offer in the coming weeks.

Four weeks after it was launched, the new measure is already been lauded as a success, turning the page on the IMF's earlier failed attempt to help countries caught in the credit squeeze -- dubbed the "short-term liquidity facility."

"The IMF has succeeded in making the short-term instrument highly attractive. The stigma of coming to this IMF window has been substantially reduced," said Desmond Lachman, a researcher with the American Enterprise Institute.

Mexico became the first country to take up the offer on April 1, asking for a 47-billion-dollar credit line. It was followed by Poland on Tuesday who requested 20 billion dollars.

But the ingenuity of the new scheme lies in its detail. Neither country may end up actually using the funds, and if they do the interest rates will be minimal.

Under the former IMF scheme set up in October and which failed to attract a single taker in five months, countries had to take up the credit and pay it back as quickly as possible -- something which put off many potential candidates.

Global markets have reacted positively to the new credit line measure showing that it is seen as a sign of consolidation not of distress. Both the Mexican peso and the Polish zloty rallied after the announcement.

"In the current environment it is a positive instrument," said Daniel Bradlow, a professor at the American University in Washington.

"Emerging markets, or at least some of them, are having difficulty accessing financing for reasons beyond their control, and this addresses that problem."

COURTESY OF WWW.IMF.ORG

The picture shows the IMF headquarters in Washington. The lending agency appears to have found a way of providing a cash lifeline to countries hit by the global economic crisis.

The IMF, which is extending the facility only to those nations which it considers are well managed, is delighted with the results so far.

Polish Finance Minister Jan Rostowski said Tuesday that Warsaw had asked the International Monetary Fund to open the credit line saying: "This will increase the reserves of the Polish central bank by one third."

The move would "immunize Poland against the virus of the crisis and the attacks of speculators," Rostowski said, insisting: "This isn't emergency funding."

IMF head Dominique Strauss-Kahn welcomed Poland's move, noting its "economic fundamentals and policy framework are strong, and the Polish authorities have demonstrated a commitment to maintaining this solid record."

Neither Poland nor Mexico are seen as at risk of defaulting on the loan, nor are they likely to see a rapid loss of investor confidence such as was felt by Iceland and Ukraine.

Mexico's decision to seek a helping hand from the IMF shows just how cautiously some countries are managing their budgets amid the economic crisis.

Mexico, which still has large reserves of foreign currency, has always been reluctant to turn to help in Washington.

Lachman believes there are plenty of other potential candidates for an IMF credit line, including such countries as Brazil, Chile, Colombia, South Korea, the Czech Republic and Singapore.

But economists at Merrill Lynch believe the IMF also wanted "to create a mechanism to support some industrialized countries.

"In Europe, Ireland must be at the top of policymakers' concerns, but Spain and Greece are also on the radar screen," they said in a statement.

"The IMF is now picking off the low lying fruit -- i.e. the easy cases," said economics professor Bradlow.

"The real test will come either when a country whose situation is less clear applies to access the facility or when one of these countries tries to use the facility."

Those countries seen as well-run by the IMF are indeed those which have not radically changed their economic policies.

But that is not the case for everyone.

Turkey has been in negotiations for months, hoping to secure a loan under the tried and tested "stand-by agreement" process.

More expensive and more rigorous, it calls on the borrower to cut its budget deficit and undertake serious reforms which many governments eschew.

COLUMN

IFTY ISLAM

SMEs have potential to fuel economy

Small and medium enterprises (SMEs) have long been considered as the principal driving force of Bangladesh's economy. Along with stimulating private ownership and entrepreneurial skills, SMEs are flexible and can adapt quickly to changing market demand and supply, generate employment, help diversify economic activity, and make a significant contribution to exports and trade.

Although in Bangladesh the SME Foundation and IFC-SEDF's efforts to create awareness among the banks and NBFIs to be more focused on SMEs are laudable, the sector still needs greater support from both financial institutions and the government.

Especially at a time such as now, when the impact of the global crisis is becoming more evident, in terms of declining export orders and remittance inflow, boosting the SME sector, the economy's thrust sector, should be an imperative.

Financial constraints

The biggest impediment to SMEs is the lack of sufficient capital needed to operate business. Most businesses often have to start with their own savings or by borrowing from friends and relatives, with bank financing coming later. Banks remain extremely reluctant to lend to small scale entrepreneurs who do not have any startup equity, despite sound business models.

It is very difficult for SMEs to raise fixed and working capital from commercial banks, as banks are unwilling to issue small loans due to the high monitoring and supervision costs, considering SMEs to be high risk borrowers because of their low capitalisation, insufficient assets, and high mortality rates. SMEs are usually also charged very high interest rates. Bank procedures are also prohibitive - project evaluation processes and the requirement for undocumented payments to bank officials often make it difficult for small entrepreneurs to comply with.

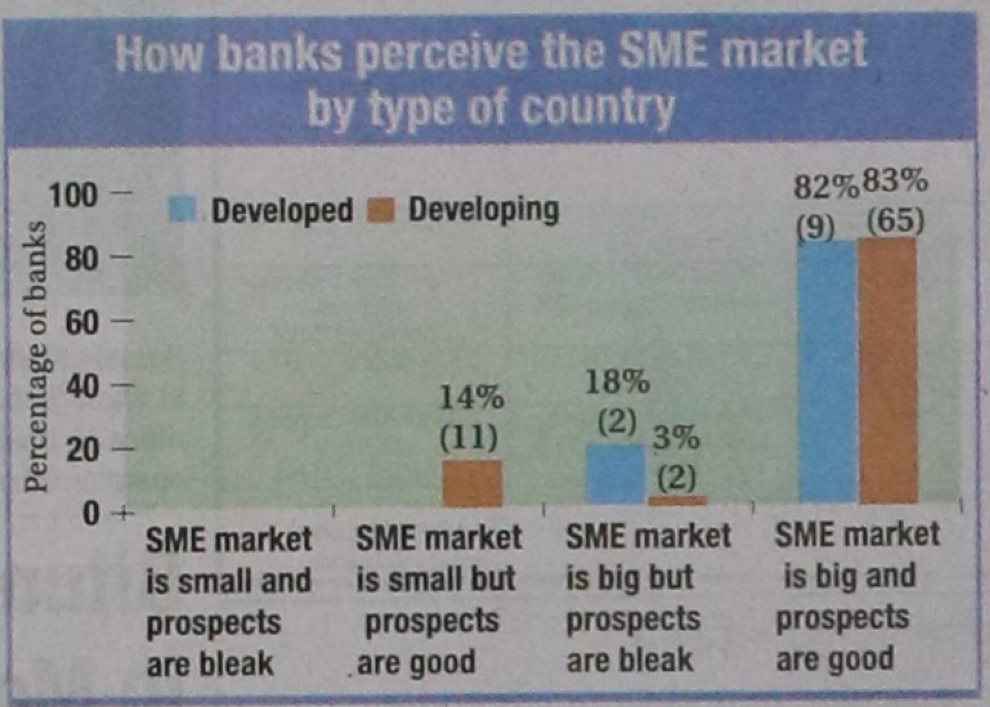
A World Bank (WB) paper titled "Bank financing for SMEs around the world", which used data from 91 banks from 45 countries, reports banks are less exposed and charge higher interest rates and fees to SMEs relative to large firms. A number of studies using firm-level survey data have shown that SMEs not only perceive access to finance and the cost of credit to be greater obstacles than large firms do, but these factors also constrain SME performance more than in large firms.

However, the WB found through its survey of banks that most banks (80 percent or more), independent of where they operate and of ownership type, perceive the SME segment to be large with good prospects.

The impact of the global crisis on SMEs

The global recession has directly affected Bangladesh's remittance inflow and exports. However the knock on effects of declining exports and remittance inflows on SMEs is also of great concern. Since workers' remittances traditionally help finance consumption and SME investment, the declining inflow of remittances poses a potential threat to the SME sector. The global crisis has exacerbated conditions for SMEs, especially in terms of access to finance and credit availability.

Most SMEs around the world are suffering from falling demand. Credit tightening has been severe in spite of the drastic easing of monetary conditions by central banks. Interest rate spreads have risen to unprecedented levels, thereby partially offsetting the effects of the easing of monetary policy. A concerted effort is needed to support SMEs to revive growth and job creation in developing countries.



SMEs in developed countries have also been hit hard by the global crisis. During the 'Turin Roundtable' held in Italy in March 2009, various stakeholders including governments, representatives of SMEs and financial and international institutions, attested that SMEs have been suffering due to the crisis.

Given the importance of SMEs in Bangladesh's economy, I would suggest a number of recommendations put forward during the Turin meeting, which could also be applicable to developing countries:

Resolving the problem of insufficient working capital

The most widely used measure has been the extension of SME loans and loan guarantees. What was learned from previous crises was that capital injections into banks were not sufficient to increase lending and that government guarantees were also required. In countries where SMEs are export-oriented, governments are also expanding export credit guarantees. To deal with cash flow problems, countries reported a number of temporary tax measures they had undertaken such as tax cuts and deferrals. It was suggested that governments give priority to reducing taxes that are profit insensitive, that is, taxes that are paid regardless of whether the SME is making a profit, like payroll taxes.

Assisting innovative start-ups and high-growth SMEs

There was a general consensus that it is necessary to ensure that innovative start-ups and high-growth SMEs have access to adequate funding at times of economic recession. Some governments are stimulating the provision of private risk capital through co-investment and are also reducing or eliminating taxes on capital gains for investment in SMEs by venture capital funds.

Improving the SME and entrepreneurship financial environment in the long term: As SMEs often lack face-to-face contact with bank managers due to the impersonal structure of the modern banking system, banks could consider balancing their scoring approach to SME worthiness assessment with adequate room being left for 'relationship banking'.

To some extent, decision making on SME loans to local branches could help in cases where circumstances and viability of individual businesses need to be better accounted for.

In conclusion we need to develop an effective strategy to support a key engine of economic development and employment.

First and foremost, a standard definition of SME needs to be established by the government, in consultation with different stakeholders including donor agencies, NGOs, and private sector entrepreneurs the current opacity remains a barrier to targeted action. Given the constraints in the traditional banking system, limitations in the provision of finance needs to be addressed creatively - the government should provide grants, perhaps in coordination with donor agencies, to provide financial support to selected SMEs which have good potential and wide linkages.

More SME development funds may be created to subsidise projects and venture capital SME investments should be encouraged. The tax and VAT regime should be reviewed to be less prohibitive to SME growth.

Finally, technical support is critical for SMEs to grow and evolve through sector specific business support incubators and funding for collaboration with technical universities and vocational colleges.

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