

International Business News

Japan to offer \$38.4b to Asian forex reserve pool

AFP, Nusa Dua, Indonesia

Japan will contribute 38.4 billion dollars to an Asian emergency currency pool to bolster state finances amid the global economic slump, Finance and Economy Minister Kaoru Yosano said Sunday.

He made the announcement after meeting the finance ministers of China and South Korea on the Indonesian island of Bali, where the Asian Development Bank is holding its annual governors' meeting.

The pool known as the Chiang Mai Initiative aims to create a network of bilateral swap arrangements among the countries of the Association of Southeast Asian Nations (Asean) as well as China, Japan and South Korea, or Asean+3.

Yosano said China would also offer 38.4 billion dollars to the initiative, of which the "basic idea is that Japan, China and Korea cooperate to provide support to Asean nations."

The Asean+3 nations have decided that Asean's 10 member states would contribute 20 percent to the initiative worth 120 billion dollars while Japan, China and South Korea would supply the rest.

Fiat boss to discuss Opel bid with German ministers

AFP, Berlin

Fiat boss Sergio Marchionne is to have talks with top German ministers in Berlin Monday amid reports of a bid for Opel after taking a stake in US auto company Chrysler, the government said Saturday.

Marchionne will be meeting Economy Minister Karl-Theodor zu Guttenberg and Foreign Minister Frank-Walter Steinmeier, their departments said.

Fiat earlier denied it was already in negotiations to buy Opel but said it would look into a deal with the firm, a German-based unit of struggling US auto giant General Motors which has said it will cede its majority stake.

"Now we have to concentrate on Opel: it's our ideal partner," Marchionne told La Stampa newspaper Friday after returning from the United States, where he negotiated a global alliance with Chrysler announced on Thursday.

Under that deal, Fiat will take a 20-percent equity stake in the new Chrysler following its bankruptcy. It can increase this to a 51-percent controlling stake from 2013 as long as Chrysler pays back massive state loans.

According to IG Metall trade union official Armin Schild, a member of Opel's supervisory board, Fiat has already prepared an offer for Opel, of less than 750 million euros (990 million dollars).



AFP

Motorists are caught in a traffic jam along a highway in Tokyo yesterday. Japan introduced highway toll discounts for holidaymakers to stimulate domestic economy. Major railroad stations, airports and highways were crowded with travellers heading for resorts and hometowns for the week-long Golden Week holidays in Japan.

ECB set for final rate cut, analysts say

AFP, Frankfurt

The European Central Bank will unveil record low interest rates and other ways to pull eurozone members from their worst recession in six decades at a landmark meeting here this week, analysts say.

"The May meeting of the ECB promises to be a key signpost in monetary policy, as least for the current year," said chief eurozone economist Aurelio Maccario from the Italian bank UniCredit.

"The ECB Council is seldom likely to make as many decisions as it will at the meeting next Thursday," added Michael Schubert at Commerzbank, with the rate cut probably its last in this cycle.

In addition to lowering the bank's benchmark lending rate by a quarter point to an all-time low of 1.0 percent and pledging to keep it there for a while, analysts think the ECB will extend the length of its unlimited loans to banks from six months to one year.

The central bank will have cut its main rate by 3.25 percentage points in seven stages since October, and several ECB governors have indicated that 1.0 percent is as low as they are prepared to go.

Markets expect more bailouts after bank stress tests

AFP, New York

US banking regulators and the Federal Reserve are set to release Thursday results from stress tests of the country's 19 biggest banks and estimates for further public aid to help boost the ailing economy.

The tests, which measure the banks' financial stability, will cap a period of suspense that began when President Barack Obama's administration in February unveiled its overhaul of the bank bailout in a bid to restore stability to the financial system of the world's largest economy.

Bank-specific details will be unveiled Thursday, according to a government official.

Although specifics about the tests have not yet been released, critics have questioned the relevance and the motivations behind the process.

"Some have found that the criteria were not severe enough, others that the tests are based on overly pessimistic economic forecasts, with an estimated 3.3 percent contraction of the economy this year," said Gregory Volokhine of Meeschaert New York.

INTERVIEW

Reaching out to the poor

New BB boss shares his thoughts with The Daily Star

SAJJADUR RAHMAN

It is not very common to hear of a central bank governor promising to visit the poorest of the poor, extending support where no bank or NGO has made their mark.

Before taking the reins of Bangladesh Bank as its chief, Dr Atiur Rahman had visited farmers in charlands and seen their lives up close.

Rahman promises to hold on to what he did earlier.

"I will keep visiting these remote places and help these marginal people to come into the mainstream economy," Rahman says. He has wide experience in dealing with those on the margins of society.

Rahman shared his plans with The Daily Star in an interview at his nongovernmental Unnayan Shamunnay office where he had worked before taking over as the Bangladesh Bank governor.

"I will be a people's banker, not a conventional one."

Rahman took office as the central bank governor yesterday for a four-year term, replacing Dr Salehuddin Ahmed.

He vows to pressurise commercial banks to expand their operations to rural areas to help the country decentralise economic activities and for job creation.

"I will compel private and foreign banks to expand their services to low-income entrepreneurs at rural growth-centres," says Rahman.

He questions why all the economic pressures are Dhaka-centric.

The country's 30 private commercial banks (PCBs) have over 70 percent of their branches in urban areas. Nine foreign commercial banks (FCBs) have no presence in rural areas. Also, the state-owned banks have gradually been limiting their operations to non-urban areas.

The new governor is asking banks to rethink their strategies in view of the operations of some NGOs in the rural areas.

"If banks go for rural banking, it will create more jobs," says Rahman.

SMEs are the heart of the economy, generating more employment than any other sector, he says. "Hassle-free and collateral-free loans have to be extended to the sectors that carry potential," he says.

"Banks will be offered extra incentives to encourage them to lend in greater proportions to the SMEs," says the new regulator of the country's financial sector. Banks can also be tagged with the NGOs, to better lend to the rural regions, he suggests.

The new governor also focuses on areas, such as budget preparation for the next year, challenges of the ongoing economic crisis, public expenditure, domestic demand creation, revenue collection, lending rate and dealing with the International Monetary Fund. Controlling inflation will be another area that needs major work.

He says the upcoming budget's main challenge would be to tackle fallout from the global financial crisis.

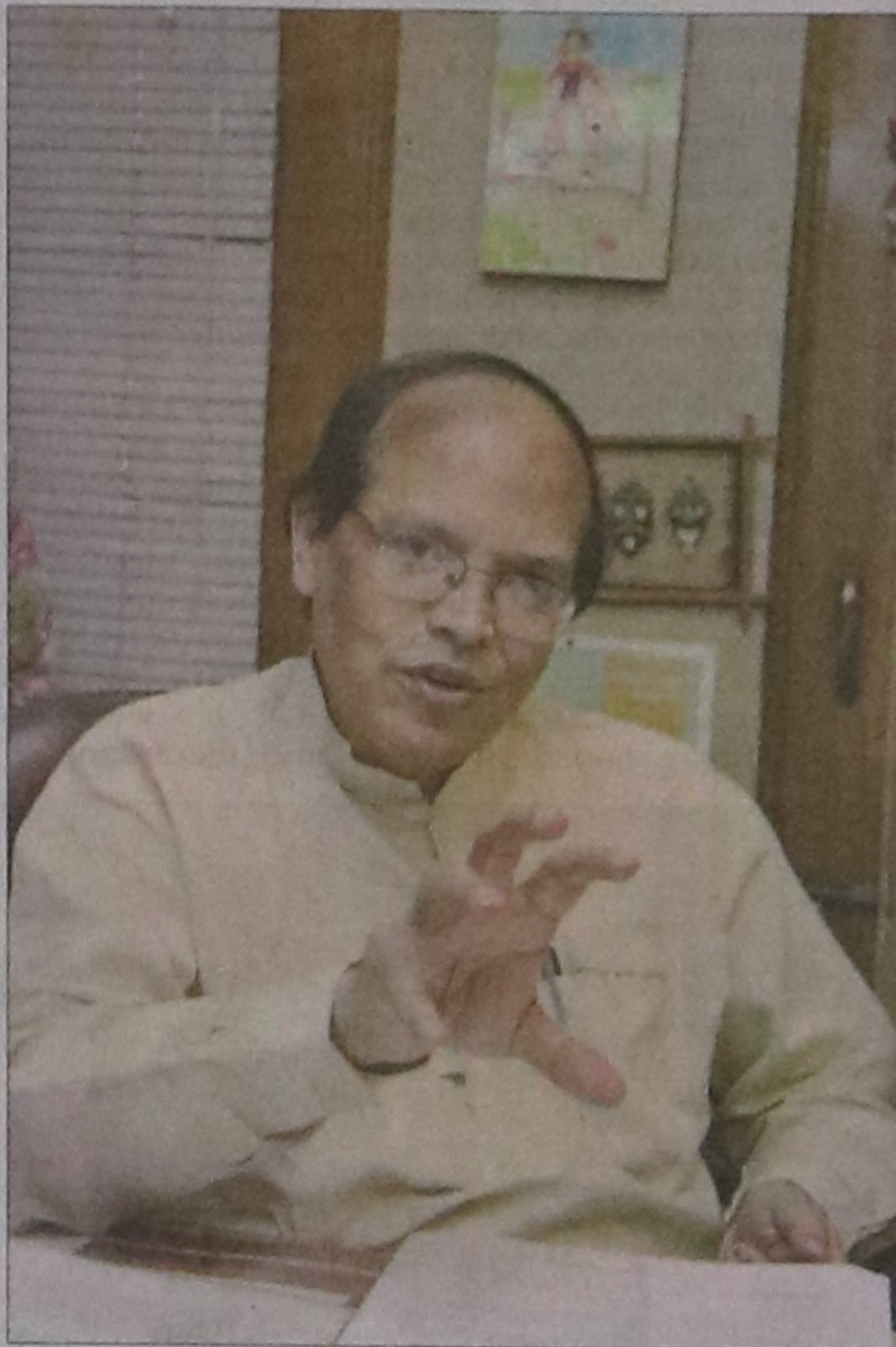
"The budget will focus more on how to combat the crisis and its impact on different sectors," says Rahman.

He says the budget must focus on increasing internal demand. A reduction in demand may affect the economy negatively, he says.

The annual development outlay must be implemented in a way that helps keep domestic demand up, Rahman emphasises.

The budget has to address the constraints on infrastructure, like the power crisis, with urgency, he adds.

Rahman also feels the need for better coordination



Dr Atiur Rahman

between the monetary and fiscal measures. He says revenue collection would also be a challenge in the next budget.

"Public expenditure must be reduced."

Rahman supports his predecessor's policy to cut the lending rate, and promises to broaden the reduced rate to other areas. Recently, BB capped the lending rate at 13 percent.

To deal with the International Monetary Fund (IMF), he says, the government and the central bank could hire experts from outside for negotiations with the multilateral lending agency.

He also believes IMF would increase its assistance to the poor countries this year, amid the global economic crisis.

Rahman believes the Bangladesh economy enjoys inherent strengths, like the widespread activities of several NGOs and other grassroots initiatives.

"This is the reason Bangladesh will achieve around 6 percent growth this year, despite a slump in neighbouring and global economies."

Rahman, who has more experience in the micro-sector than macro, says he will not face any problems managing the country's macro-economy.

"I have chaired the operations of a state-run bank for three and a half years and I was in the board of another for one year and a half."

sajjad@thedailystar.net

ANALYSIS

Swine flu could worsen global recession

AFP, Singapore

The swine flu outbreak could shatter fragile signs of a global economic rebound, but the gravity of its impact depends on the death toll it inflicts and the panic it generates, analysts said.

For Asia, where some countries are in recession, the crisis has revived memories of the severe acute respiratory syndrome (SARS) outbreak in 2003 that killed hundreds, halted travel and sent economies reeling.

Asia's first case of the A(H1N1) virus was confirmed in Hong Kong Friday, the epicentre of the 2003 SARS outbreak when close to 300 people died.

"The global economy faces yet another huge challenge," research firm Moody's Economy.com said in a market analysis.

"The recent outbreak of swine flu in Mexico and its rapid spread to other countries could interrupt trade and investment, exacerbating the worldwide recession for an uncertain period."

The World Health Organization has raised its flu alert level to five out of six, signalling a pandemic was "imminent" as more nations announced cases.

At least 19 confirmed deaths from the virus have been reported in Mexico and one death in the United States.

If the swine flu outbreak is similar to SARS, the impact will be sharp but would last only for several months, economists said.

"The risk here is if swine flu is actually more lethal than SARS and containment measures are not effective," Leong Wai Ho, a Singapore-based regional economist with Barclays Capital, told AFP.

"Under that scenario, the impact is likely to be prolonged and more profound."

Song Seng Wun, a regional economist with CIMB-GK Research, said swine flu could stamp out any tentative signs of recovery from the worst global



This photo taken on April 27 shows visitors queuing at the immigration counter after passing through health screening at the Changi International Airport in Singapore. The swine flu outbreak could shatter fragile signs of a global economic bounce, but the gravity of its impact depends on whether the virus will cause widespread deaths and panic.

economic crisis since the Great Depression.

"If it stays as a flu bug... perhaps it may not do too much damage to the current signs of stabilisation," he said. "But if things were to take a turn for the worse, the early shoots of recovery may be snuffed out."

Song said business confidence has begun to show signs of revival after governments worldwide rolled out stimulus packages to fight the recession and some companies were starting to receive more orders.

"If there's any knock to the fragile business confidence at this point, it may easily die out again," he warned.

Swiss banking giant Credit

Suisse said the economies most vulnerable to a fallout from swine flu would be "those having sizeable tourism, retail and transportation sectors" like Hong Kong, Malaysia, Singapore and Thailand.

Moody's said the world's poorer nations, where infections might be harder to detect and treatment may not be readily available, will bear the brunt of the impact should the outbreak escalate into a pandemic.

This could affect efforts to reduce poverty, Moody's said.

For more developed economies like Singapore, Hong Kong and Taiwan, "weak confidence may be a bigger threat than the disease itself," it added.

Private consumption, a key economic growth driver after exports have fallen, could suffer if swine flu forces people to stay indoors.

This could hinder an economic rebound in the same way as SARS, which came as the region recovered from the impact of the technology crash in 2001 and the Bali bombings in 2002, analysts said.

"The economic effects of consumers and travellers staying at home will most likely be larger than the costs of fighting the virus," Moody's said.

Economists said that Asia and other major economies such as the United States and European nations are better prepared now to

tackle the threat.

"For a start, swine flu appears to respond well to treatment using existing drugs," said London-based Capital Economics, noting that most of the deaths have been in Mexico where the health care system is relatively poor.

"Secondly, the world is now much better prepared to deal with these sorts of crises, thanks to the experience of SARS and persistent threat of avian flu," the research consultancy said.

It noted that the main economic damage so far "has typically come from panic measures to control a potential pandemic rather than the impact of the disease itself."