International Business News

India inflation hits 10-month high, surprises analysts

AFP, *New Delhi*

India's inflation rate jumped to its highest level in 10 months, according to official data Monday, increasing pressure on the central bank to begin reversing aggressive interest rate cuts.

The wholesale inflation rate, India's closest watched inflation measure, increased by 4.78 percent in November from a year earlier after rising by 1.34 percent in October, fuelled by soaring food prices.

The year-on-year rise in the Wholesale Price Index, or WPI, which is compiled monthly, outpaced market projections of a 4.2 percent rise.

Inflation has been resurging in Asia's third-largest economy as food prices have leapt on lower agricultural output following the worst monsoon in nearly four decades.

The cost of food items climbed by 16.71 percent in November from a year earlier, the government data showed. Prices of staples such as potatoes doubled while the cost of pulses climbed by 35.22 percent.

A reviving economy has stoked inflationary pressures. The manufacturing products index, in the new inflation data, rose by 3.99 percent.

Gulf summit to tackle economic crisis, conflicts

AFP, *Kuwait City*

Gulf states opened a two-day annual summit in Kuwait City on Monday with the global recession's impact on their energy-dependent economies and regional conflicts high on the agenda.

Leaders of the six-nation Gulf Cooperation Council (GCC) will explore ways to boost their economies, which have also suffered from the knock-on effect of Dubai's debt crisis.

Kuwait's Finance Minister Mustafa al-Shamali on Sunday urged his GCC counterparts to work together in order to contain ongoing fallout from the financial crisis, although he made no explicit reference to Dubai.

"Global economic indicators in the second half of the current year require us to work together to avert any additional consequences of the crisis," Shamali told a meeting of the region's finance ministers.

The economies of GCC nations, which boast 45 percent of the world's proven oil reserves and a quarter of global gas resources, have been hit hard by the sharp drop in oil revenues after years of major cash flow.

AFP

A woman walks past a luggage shop with sales signs in Tokyo yesterday. Japan's business confidence has improved for a third straight quarter but firms plan to slash investment to cope with the fallout of the worst recession in decades, the central bank announced.

France to borrow 35b euros for investment: Sarkozy

AFP, *Paris*

President Nicolas Sarkozy on Monday unveiled details of a 35-billion-euro national loan to fund a capital investment spending spree aimed at boosting economic growth in France.

"Today, we must prepare France for the challenges of tomorrow so that our country can fully benefit from the recovery, so that it is stronger, more competitive, so that it creates more jobs," he said.

Sarkozy argued in a speech at the Elysee palace that by borrowing and spending 35 billion euros (52 billion dollars), the French state could generate 60 billion euros' worth of state and private investments.

Higher education, training, research, industry and small businesses will be targeted, Sarkozy said.

"We have constantly sacrificed investment. That is a mistake," he lamented.

In December, Sarkozy unveiled a 26-billion-euro stimulus plan that propped up the car industry and helped fund large-scale infrastructure projects such as new high-speed TGV rail lines.

One million fewer in work across EU in third quarter

AFP, *Brussels*

More than one million fewer people were classed as working across the European Union in the third quarter of 2009 compared to the previous three-month period, Brussels said on Monday.

Total numbers employed across the 27 EU countries fell by 0.5 percent, or 1.019 million people, according to seasonally-adjusted national accounts estimates published by the Eurostat data agency.

In the core 16 countries that use the euro currency, the fall was also 0.5 percent which amounted to 712,000 fewer people in work.

The rate was slightly less than the decline in the second quarter, which was 0.6 percent for the 27 EU countries and 0.5 percent across the eurozone.

MONETARY POLICY

Rate cuts powerful new signs

Says Goldman Sachs report

STAR BUSINESS DESK

AFP

Indian office goers eat from a stall on a street of New Delhi on Friday. Indian food prices have accelerated by 19 percent in a year, figures showed. The country like many other emerging economies has cut its interest rate by 425 basis points over the past year, mainly to adopt a better monetary policy amid global financial crisis.

Interest rates in the BRICs (Brazil, Russia, India and China) and N-11 have declined dramatically over the past year in line with other developing and advanced economies, which are powerful new signs in terms of monetary policy, finds a research.

In many places, the rates stand at all-time lows. Brazil has cut its policy rate by 500 basis points (bp) over the past year, while Russia saw 400bp of cuts and India 425bp, US investment bank Goldman Sachs says in a report styled "Long-Term Outlook for the BRICs and N-11 Post Crisis".

Policy rate reductions in China were less aggressive, but currency and other unconventional measures played a bigger role in the easing of financial conditions in the country, as it did in many parts of Asia.

Within the N-11 (Next Eleven), Turkey has undertaken the most aggressive easing, cutting its policy rate by 1,025bp since the fourth quarter of 2008 -- the steepest absolute decline globally.

The countries that constitute N-11 as dubbed by Goldman Sachs are Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam.

Vietnam and Nigeria also saw significant moves, cutting their rates by 600bp and 425bp, respectively. Compared with past crises, South Korea and Mexico also stand out. They have eased by 375bp and 325bp, respectively, bringing policy rates to their lowest levels historically.

"This general easing episode marks the first time in history that many of the developing economies have been able to cut their policy rates in response to adverse external shocks," says the research report released on December 4.

Previously, during such crises capital outflows from emerging markets generally meant that local central banks had to hike rates to maintain financial stability.

"Such counter-cyclical monetary policy often put even more pressure on local economies, thus aggravating the original crisis."

Since the crises in the 1990s, a number of BRIC and N-11 economies, as well as some other countries in the developing universe, have managed to strengthen their external balances and put in place healthy policy frameworks that have ensured more credible conditions.

This healthy structural backdrop has allowed these countries, in particular Brazil and Turkey, to ease financial conditions aggressively, without the risk of capital flight.

"Combined with the lack of major banking crises in most of the BRICs and N-11 (with the notable exception of Russia), this has assisted the recovery process," the report says.

"Despite much criticism, strong reserve accumulation appears to have been beneficial."

The crisis reinforced the notion that reserves are a 'good thing' for these countries. While Russia and Korea saw big drawdowns, their large 'war chests' allowed them to maintain policy independence. Brazil did better than Mexico, partly due to the better perceived reserve cover.

Taking a longer-term perspective over the past few years, the BRIC and N-11 stock market performance still looks impressive, despite the sell-off during the credit crisis. BRICs equity indices are still much higher than in 2003, and have increased by around 6 times in Brazil, 5 times in India, almost 4 times in Russia and twice in China.

BRIC and N-11 equity markets sold off substantially during the crisis, with particularly sharp falls throughout 2008. BRICs markets on average saw deeper falls than the N-11 markets. Among the BRICs, Russia's decline was the most dramatic: Its equity index lost over three-quarters of its value. China's index fell by almost two-thirds and India's Sensex more than halved. Brazil's Bovespa lost around a third of its value.

Within the N-11 (nine of which have functioning equity markets), stock performance was very dispersed. Vietnam, Pakistan and Egypt underperformed significantly, with around two-thirds of their equity index values erased over the course of 2008. Stock markets in Mexico, Korea and Bangladesh declined notably less.

"Since the rebound in equity markets, some markets have recovered substantially," according to the research findings.

Brazil and Mexico are almost back to their previous peaks. Bangladesh has recovered all its losses. China and Russia have only regained around half of their respective all-time highs.

The N-11 markets that fell furthest during the sell-off still seem to be struggling on a relative basis, having recovered to around two-thirds their previous peaks.

Since 2003 the BRIC markets have risen from around 2 percent of global market capitalisation to 9 percent currently, completely recovering their pre-crisis levels.

"Our long-term projections suggest that the BRICs could account for almost 50 percent of global equity markets by 2050. In this context, this would suggest the rally in 2009 is nowhere near being a bubble," says Goldman Sachs.

MIDDLE EAST ECONOMY

Dubai gets $10b from Abu Dhabi to cover debt

AFP, *Dubai, United Arab Emirates*

Dubai got a $10 billion lifeline from oil-rich Abu Dhabi on Monday, securing a last-minute cash infusion aimed at preventing a default that risked sparking broader fears about the city-state's shaky finances.

Abu Dhabi's bailout offered the clearest indication in months that it was willing to at least partially back its glitzy neighbour. The $60 billion in debts shouldered by Dubai's chief state-owned conglomerate, Dubai World, and the city-state's unwillingness to fully stand behind the company has seriously tainted the emirate's creditworthiness.

Dubai World had been up against a Monday deadline to repay a pile of loans from its Nakheel property division. Some $4.1 billion of the bailout money will be used to pay off those bills. The news sent Dubai's main stock market soaring.

"We are here today to reassure investors, financial and trade creditors, employees and our citizens that our government will act at all times in accordance with market principles and internationally accepted business practices," Sheik Ahmed bin Saeed Al Maktoum, chairman of the Dubai supreme fiscal committee, said in a statement. "Our best days are yet to come."

Dubai, which owes lenders more than $80 billion including Dubai World's debts, said the rest of the funds provided by Abu Dhabi will be used to cover the conglomerate's interest expenses and general business needs through the end of April, and to pay bills owed to "existing trade creditors and contractors."

Bankers said the last-minute cash injection from the UAE's richest sheikdom signalled that the seven-member federation was taking a nationwide approach to tackling Dubai's problems rather than leaving the struggling emirate to fend for itself.

Dubai is the second-richest of the UAE's semiautonomous city-states, but Abu Dhabi holds nearly all the country's oil wealth and controls the federation's presidency. Dubai's ruler is the UAE's vice president and prime minister.

"This is a very significant development," said Marios Maratheftis, head of regional research at Standard Chartered Bank. "It shows once again there is a one-country approach in dealing with the crisis, which is positive."

Investors cheered the news, which provided some clarity in a crisis that erupted late last month when the conglomerate unexpectedly said it was seeking new terms on repaying roughly $26 billion of its debts.

The Dubai Financial Market's main index shot up 10.4 percent by early afternoon. Abu Dhabi's stock market jumped 7.8 percent. Stocks in Asia rebounded from earlier losses after Dubai's announcement.

Fahd Iqbal, a Dubai-based analyst at Middle East investment bank EFG-Hermes, said the rally was to be expected but urged caution.

"This announcement constitutes a specific bailout of Nakheel, suggesting that as an entity (it) was deemed to be 'too big to fail,'" he said. "It does not, however, constitute a bailout of Dubai Inc. or Dubai World as a whole and this is important to highlight."

Nakheel is a property developer and hotel operator best known for building manmade islands in the shape of palm trees and a map of the world off Dubai's coast.

Dubai World said in a separate statement it welcomed the financial support, which will provide "funding and a stable basis" for a restructuring the company announced last month.

AFP

Emirati men chat as they follow the stock market activity at the Dubai Financial Market in the Gulf emirate yesterday. Dubai's stock market rose 10.13 percent in early trade after the government said it would pay $4.1 billion to cover maturing Islamic bonds issued by its Nakheel property developer.

The company said it is pushing ahead with talks to convince lenders to agree to a "standstill" -- effectively a delay -- on repaying some of its debt.

"As long as a standstill is successfully negotiated, Dubai World has assurances that the government of Dubai ... will provide financial support to cover working capital and interest expenses to ensure the continuity of key projects," the company said.

Dubai created Dubai World - whose sprawling holdings range from ports to real estate and luxury retail - to diversify its economy and boost its international clout. Much of the growth was fuelled by cheap loans. As the bills came due, Dubai struggled to repay as its economy was battered by the global economic downturn.

In another move aimed at bolstering investor confidence, Dubai's government said the UAE's central bank, based Abu Dhabi, is prepared to provide support to local banks.

Dubai also said it plans to introduce a reorganisation law that could be used in case Dubai World is "unable to achieve an acceptable restructuring of its remaining obligations."

A person close to the Dubai government said the new law provided a legal framework for addressing corporate debt, though it did not mean a bankruptcy filing by state-owned companies was certain.

"The current bankruptcy law is untested," the person said. "Dubai World needed a legal process to go through. The government was very focused on creating something that would be fair and transparent to everybody."

He insisted on anonymity as a condition for briefing reporters on a conference call.

It was not immediately clear what, if anything, Abu Dhabi would expect in exchange for Monday's funding. Analysts had said an Abu Dhabi bailout could result in the oil-rich emirate exerting greater influence on its neighbour going forward.

But the individual close to the Dubai government said the money came with no strings attached.