

International Business News

Rough ride still ahead for economy: Merkel

AFP, Berlin
German Chancellor Angela Merkel warned that the country's worst post-war recession would drag into 2010, in a New Year's television address to be broadcast Thursday.

"I tell you very openly: We cannot expect the economic downturn to be over quickly," she said according to a manuscript released by her office.

"Some things will initially be more difficult next year before they can improve."

She said Europe's biggest economy would continue to fight for new international rules for financial markets "so that the massing-together of excess and irresponsibility can in future be prevented in time."

2010 will be the crucial year that decides how Germany emerges from the crisis, and whether it lays the groundwork to avert a similar debacle, she said.

Merkel, 55, said her centre-right government would work with business leaders and banks to ensure companies, particularly small and medium-sized firms, can get past a nagging credit crunch.

She said that although the economic slowdown had created severe problems for the world's developed nations, it must not prevent them from confronting climate change after the failure of this month's Copenhagen summit.

"The global crisis must not serve as an excuse to brush aside other challenges facing humanity," Merkel said.

"Industry and environmental protection are not in opposition, they rely on each other, now more than ever. We must not let ourselves be put off by setbacks such as the climate conference in Copenhagen."

Eyeing 2010 polls, British PM says worst is over

AFP, London
Prime Minister Gordon Brown said Wednesday that Britain is over the worst of the economic slowdown, in an upbeat New Year's message months ahead of general elections.

But Brown, who polls forecast is set to lose power in an election due by June, warned that opposition Conservative leader David Cameron could wreck the recovery if he wins power.

"There are some who say we must plan for a decade of austerity and unfairness where the majority lose out while the privileged few protect themselves," he said.

But he insisted: "I am confident that, if we continue with the tough decisions we have made, unemployment will start to drop this year, and more small businesses will open and flourish."

"That wasn't inevitable; it was the change we chose. And so my message today is simple: don't wreck the recovery," he added, in a clear reference to Labour charges that the Tories will slash spending mercilessly once in power.

Brown has struggled all year to convince British voters he is the right man for the top job -- Labour has been lagging Cameron's Conservatives by double digits in most polls, although the gap has recently narrowed.



AFP
Hanging ornaments featuring Peking Opera masks are sold at a shop selling a mixture of trinkets and holiday decorations from the east and west in Beijing yesterday. China's central bank governor said on the last day of the year that 2010 would be a key year in the nation's battle to overcome the financial crisis and pledged a relaxed credit policy to boost economic recovery.

HOUSING

A quiet year for real estate

KAWSAR KHAN

Apartment sales in the first half of 2009 were caught up by the global financial crisis, but later the budgetary provision of allowing unquestioned black money investment in real estate brought smiles to the sector people.

A good number of the flat buyers are either overseas wage earners or export-oriented businesspeople. And so the global recession kept these people away from buying apartments.

"Most of the buyers in the expatriate Bangladeshi segment are white-collar professionals who were affected by the global crisis and were not in a position to spend in real estate," said Shaikh Aftab Ahmed, chief operating officer of Shanta Properties Ltd.

About the overall performance of the sector, Tanveerul Haque Probal, president of Real Estate and Housing Association of Bangladesh (REHAB), said apartment sales increased around 15 percent after the government had allowed investment of black money in the sector in June.

It helped the sector stage a comeback amid global recession, he added.

"We expect to make up for the losses we incurred in the first half through the upcoming annual REHAB housing fair this month."

Probal said the REHAB fair of 2009 will be held in January, as it was not possible to organise it in December for unavailability of a venue. Generally apartment sales go up during and after the show,

according to the sector people.

Some sector people said the decision of allowing black money investment mainly helped boost the sales of high-end and luxury apartments.

However, they said turnover in the sector was higher in 2009 compared to the previous two years when an anticorruption drive had restricted many potential buyers from spending on flat or land.

"At the beginning of 2009, the sector just started recovering its two-year losses. But global recession held back its natural growth," said Toufiq M Seraj, managing director of Sheltech (Pvt) Ltd.

Apartment prices increased due to a rise in land prices, he said, adding that construction cost is also going up, which will ultimately limit the purchasing capacity of the buyers.

In the budget for fiscal 2009-10, the government pledged to develop 22,800 plots and construct 26,000 apartments within three years.

About the government decision to ease the chronic housing problem through public-private partnership, people concerned said they are yet to get any signal from the government.

The government needs to work fast to implement its plan, said Probal, also managing director of Building for Future Ltd.

About the price hike of apartments in the capital, the sector people blamed the higher prices of land, which they said would keep the middle-class bracket at bay.

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AMRAN HOSSAIN
Real estate was caught in the early gloom of 2009, but apartment sales slightly rose toward the end of the year.

COLUMN

A new world order

GERARD LYONS

Policy works. Recovery happens. But there is a price to be paid. That may turn out to be the message of 2010.

One key underlying theme is shaping the world economy. That is the shift in the balance of economic and financial power. The countries that succeed in this shift will fit into one of three categories. They will have the financial resources, such as China or, say, Qatar. They will have natural resources, including water, energy and commodities and will include the likes of Brazil, Canada, and many countries across Africa. The third group will be those that have the ability to adapt and change and, in my view, will include the US and the UK.

Whilst this is the longer-term shift we should be aware of, there are more immediate factors also impacting the 2010 outlook: the impact of debt and deleveraging in the West; and exit strategies following the huge policy stimulus unveiled over the last year. Thus the outcome in 2010 depends on the interaction between the fundamentals, policy and confidence. Of these, confidence is the hardest to call. It may well turn out more positive.

The fundamentals and policy

issues are more clear-cut. The crisis was triggered by both a systemic failure in the financial system and by an imbalanced global economy. Both need to be fixed. Rebalancing implies the West becomes relatively poorer, spending less and saving more, and that high-surplus regions such as the Middle East and East Asia do the opposite, spending more and saving less. The trouble is, in many cases, this is not the natural response to a crisis. Indeed, across Asia, saving more -- not less -- is the natural reaction to a crisis. Hence, there is a need for Asia to deepen its social safety nets, provide help to small and medium-sized firms, and deepen and broaden its bond markets. All of these are possible, but take time.

Guessing whether the shape of the recovery will be a U, V or W, whilst important, overlooks a key point. Levels matter. The world economy is \$61 trillion in size, with the US \$14.4 trillion, Japan \$4.7 trillion and China \$4.4 trillion. The West accounts for two-thirds of the world economy. If the West is not booming the world will not boom. And there is no way the West is going to boom. The old model is broken. Savings will not flow uphill from Asia and the Middle East to fuel debt-binges in the West. This spells change. The US consumer

faces sluggish wages, high unemployment, house prices well off their peak and worries about pensions and will no longer drive the world economy.

As a result, it will be an insipid recovery in the West and we expect the global economy to grow 2.7 per cent in 2010, after a 1.9 per cent fall in 2009. This is a modest recovery particularly when one thinks how much has been thrown at the problem. But within this, the strongest growth rates will be seen across emerging economies, particularly Asia, Africa and the Middle East. The pace and scale of change, and the catch up potential is huge. Moreover, Western firms and savers are continuing to look to invest in these faster growing, lower cost economies. We forecast Asian growth accelerating to 7.0 per cent in 2010 from 4.5 per cent in 2009, with domestic demand-driven economies such as China, India and Indonesia growing by 10.0 per cent, 7.5 per cent and 5.5 per cent, respectively.

But there are challenges, particularly on policy which has driven much of the rebound over the last year. The global policy stimulus has been sizeable, synchronised and successful. However, low interest rates mean that, as in the boom, financial markets are not

pricing for risk. Meanwhile, huge fiscal stimulus has added to worries about the implications. Thus there are already calls for policy to be tightened.

In the West, policymakers need to tread carefully. Premature policy tightening would be disastrous. For them inflation is not the problem. Low interest rates need to remain in place for some time. Across the emerging world the challenges are different. Some countries are seeing asset price inflation and fear the consequences of rising commodity prices. But there is a policy dilemma for many countries. If emerging economies such as India or South Korea raise rates then they are likely to see capital inflows, fuelling domestic asset prices. But if they do not raise rates then domestic asset prices, particularly equity and property prices will rise anyway. Eventually those economies seeing stronger domestically-driven growth will raise rates. A key lesson is the need to set monetary policy to suit domestic needs.

The last leg of the policy and rebalancing debate is currencies. Expect to see more countries increase their currency reserves, both as a precautionary measure in case there is another crisis, and also because of intervention to

ensure competitiveness. Although countries are worried about the dollar they are reluctant to sell it aggressively, lest it triggers the crisis they fear. I call it passive diversification. As reserves rise, expect to see less and less allocated to the dollar. The dollar is not a one-way bet, although the longer-term trend is weaker. The key in 2010 will be the Chinese yuan. Gradualism dictates China's currency policy. From this spring we expect to see appreciation, albeit at a gradual pace. As China moves, others will follow.

A salient lesson of recent years for all economies is that the fundamentals matter. Whether it was the financial crisis itself, or the recent problems in Dubai, one lesson is that if something does not happen immediately, this does not mean that it will not happen at all. Markets that are out of line with long-term trends or economies that appear imbalanced should send alarm bells ringing. In 2010, it would not be a surprise if there were further shocks. But, whatever happens, it is important not to lose sight of the longer-term shift in the balance of power. This has already begun. It has a long way to go.

The writer is the chief economist at Standard Chartered Bank

US ECONOMY

Seeking silver lining in 2010

AP, Washington

The bank account is thin, but the future looks pretty good.

That, oddly enough, is the view of many Americans who predict 2010 will be a better year than this one, even if they fear that the US economy and their own financial circumstances won't improve.

A whopping 82 percent are optimistic about what the new year will bring for their families, according to the latest AP-GfK poll. That sunny outlook seems at odds with other findings.

Nearly two-thirds think their family finances will worsen or stay about the same next year. And fewer than half think the nation's economy will improve in 2010, even though Americans rated 2009 as a huge downer.

Mari Flanigan of South Milwaukee, Wisconsin, is one of those who feel fairly optimistic that things will go better at a personal level in 2010 even though her financial situation might grow worse.

Flanigan, 36, is unemployed after selling a family business that faced increasing competition.

"Financially, I'm scared," she said in an interview.

The poll found that nearly three-fourths of Americans think 2009 was a bad year for the country, which was rocked by job losses, home foreclosures and economic sickness. Forty-two percent rated it "very bad."

That's clearly worse than in 2006, the last time a similar poll was taken. The survey that year found that 58 percent of Americans felt the nation had suffered a bad year, and 39 percent considered it a good year.

Fewer than half as many people, 16 percent, said their family had a "very good year" in 2009 as said that in 2006.

Behind the gloominess, however, are more hopeful views that seem to reflect Americans' traditional optimism or, perhaps, wishful thinking.

Three in five Americans said their own family had a good year in 2009.

Some 72 percent of Americans said they're optimistic about what 2010 will bring for the country. Even more are hopeful about what the year will bring for their families.

The AP-GfK Poll was conducted Dec 10-14 by GfK Roper Public Affairs and Media and involved landline and cell phone interviews of 1,001 adults nationwide. It has a margin of error of 3.1 percentage points.

Let memory get old & New year get newer...

HAPPY NEW YEAR 2010

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