

International Business News

India unexpectedly hikes rates a quarter point

India's central bank has unexpectedly hiked key interest rates a quarter of a percentage point, as the bank tries to cool high inflation amid a faster-than-expected economic rebound.

The bank raised the benchmark repo rate - at which the central bank makes short-term loans to commercial banks - to 5 percent and raised the reverse repurchase rate - the rate at which it borrows from commercial banks - to 3.5 percent, with immediate effect.

"These measures should anchor inflationary expectations and contain inflation going forward," the Reserve Bank of India said in a statement after trading hours Friday. "As liquidity in the banking system will remain adequate, credit expansion for sustaining the recovery will not be affected."

Most economists had expected a rate hike, but not until the bank's scheduled policy meeting on April 20.

The bank said robust growth in manufacturing, a revival of investment, expanding exports and increasing bank credit gave it confidence that economic growth is consolidating.

Inflation, however, has become a growing concern. Headline Wholesale Price Index inflation for February was 9.9 percent, higher than the bank expected, and inflation is spreading from drought-induced high food prices into other sectors of the economy, like manufactured goods.

Pressure mounts over IMF role in Greek crisis

Europe split over IMF intervention for debt-ridden Greece on Friday, upping pressure on national leaders to resolve crisis plans just days from a crunch EU summit.

Germany, changing tack, said it was open to the possibility of the International Monetary Fund helping Greece while the Netherlands, Finland and Italy -- to varying degrees -- also declared themselves open to IMF involvement.

"The German government does not rule out aid from the IMF if Greece requests it," spokesman Ulrich Wilhelm said after reports that Berlin was concerned European aid for Greece could break German and EU law.

Investors reacted negatively, with Greek government bond yields -- the interest rate that Athens must pay in order to raise money on debt markets -- rising sharply. The euro weakened against the dollar, sliding to 1.3531 dollars in London trade compared to 1.3603 in New York late on Thursday.

Non-euro peers Britain and Sweden firmly back an approach to the International Monetary Fund if Athens concludes that it cannot keep up with debt repayments.



Indian labourers carry baskets of cucumbers over their heads as they head to a market in Phaphamau village on the outskirts of Allahabad yesterday. Agriculture is one of the strongholds of the Indian economy and accounts for 18.5 percent of the nation's Gross Domestic Product (GDP) providing a significant source of livelihood for the still predominantly rural 1.1 billion population.

Russian state firm to bid for US tanker contract: lawyer

Russian state-owned aerospace group United Aircraft Corporation plans to bid for a 35-billion-dollar US Air Force tanker contract, teaming up with a US partner, a lawyer representing UAC said Friday.

"They're going to announce Monday a joint venture with an American company to bid on the tanker program," attorney John Kirkland told AFP.

Kirkland did not identify the the US firm except to say its shares were publicly traded.

The Department of Defense (DoD) could not immediately confirm the apparent upcoming Russian bid.

"We've always been clear that this is a fair and open competition and we welcome all qualified bidders," said Geoff Morell, a Pentagon spokesman.

According to a source familiar with the situation, UAC will propose a tanker version of its Ilyushin IL-96.

Italy offers 300 million euros in incentives

The Italian government announced on Friday it would offer 300 million euros (400 million dollars) in incentives to aid industries having economic trouble in a "slow recovery."

"The objective of this decree is to support it (the recovery) in order to attain the growth goal for 2010," said Italy's Industry Minister Claudio Scajola at a press conference.

The government in its last forecast predicted 1.1 percent growth for the Italian economy this year.

The incentives will take the form of discounts on the price of goods such as electric scooters, houses, bicycles, agricultural machines, cranes, kitchens and appliances.

The textile industry instead will benefit from tax breaks for the production of samples of their collections.

INTERVIEW

Soul-searching after recession

President of ShoreBank International talks to The Daily Star

SOHEL PARVEZ

The global financial crisis appears to be over but the search for the root causes of the crisis and the mistakes made by traditional banks and financial institutions is still on.

The banking sector came under lens amid collapse of a number of banks and financial institutions in the USA and Europe caused mainly by subprime mortgage crisis.

Analysts say much of the crisis is the consequence of reckless and unregulated lending practices by banks and financial institutions on short-term profit motives.

"People are pausing and asking what the appropriate role of financial institutions is in strengthening communities in a sustainable way, not in a short-term way for maximising financial returns," says Laurie J Spengler, president of U S - b a s e d ShoreBank International.

ShoreBank International is advisory subsidiary of ShoreBank Corporation, headquartered in Chicago.

Spengler says ShoreBank Corporation, which claims to operate underpinning values to serve community and environment, was not impacted that way due to the crisis, as it was not involved in subprime transactions.

"We typically give loans to small businesses and affordable housing and maintain relationship with the borrowers; we did not package our loans and sell them off to other financial institutions. So we were not impacted that



Laurie J Spengler

way," she says.

But the neighbourhood it serves was hit by the financial crisis.

"The effect of the crisis is still very present in the market and community that we serve."

Spengler says recession has created questions among people, which in turn, opened scope to raise awareness on value-driven financial institution proposition among the financial institutions, regulators and investors.

"The opportunity is people are asking what went wrong and how financial institutions can be better and more responsively serve their communities," says the executive

of the \$2.4 billion company.

Being an executive of a value-based bank, Spengler says, ShoreBank, which is also a member of Global Alliance for Banking on Values (GABV), believes in delivering banking products and services to the unserved people and communities, and promotes environmental health.

"Our first question is not how we make money. The first question is whether we are responsive to the needs of the community, where we are located and where we serve."

"We think that there is an important role that banks can play in helping to deliver financial services responding to the needs

of the community," she adds.

The demand from society for such types of banks is also increasing and the global financial crisis has resulted in greater reception to such ideas.

"I think investors have also reflected on the crisis."

"I think they have asked themselves that singular pursued of financial returns can sometimes have an unintended negative consequence on society and people," observes Spengler.

She says there is a growing awareness among investors on how they can use the money in financial discipline to further support community and create a

positive impact.

The investors are now defining value more than they are doing in monetary terms and are going forward, she says.

This awareness existed before adds Spengler, talking about the investors in the value-based banks such as BRAC Bank in Bangladesh, Triodos Bank in the Netherlands and ShoreBank in the US.

All these banks are the members of GABV, which aims to promote the idea of sustainable value-based banking underpinning triple bottom lines -- people, planet and profit.

"All the banks in the alliance have investors who absolutely value financial returns and development impact."

"So it existed before but I am hopeful that financial crisis has created greater awareness and new investors who are looking for similar type of combination return for their financial investments," says Spengler.

"I believe there are more investors looking for reasonable financial returns and robust development returns," she adds.

Spengler says the mission driven bankers will need to explain to the investors about their value propositions and demonstrate development impact.

"If we can really demonstrate very effectively, which I believe we can, I think there is a growing pool of capital looking for the combination of reasonable financial returns sustainable over a long period with very powerful development returns."

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AVIATION

Strike cancels thousands of British Airways flights

AP, London

British Airways cancelled more than 1,000 flights after its cabin crew launched a three-day strike Saturday, wreaking havoc on the plans of tens of thousands of passengers just before the busy spring holiday season.

Hoping to keep as many passengers happy as possible, BA scrambled to rebook some on other services, chartered planes from rival airlines and drafted in volunteer crew. But it still had to scrap more than half of its 1,950 scheduled flights over the period.

Chief Executive Willie Walsh issued a direct apology via YouTube for the walkout, the airline's first in almost 15 years, saying it was a "terrible day for BA."

The strike, backed by some unions in the United States, Germany and Spain, also risked harm to Britain's Labour government before a tough general election expected before June.

On Saturday morning at BA's London Heathrow hub, the cavernous Terminal 5 was nearly deserted after some passengers had flown out early to avoid the strike or simply stayed away altogether. But delays were beginning to mount.

One man trying to get home to Sweden said he was already looking at a four-hour delay.

"Our flight from Dallas arrived two hours late, and now we're waiting to go to Stockholm - that flight is two hours late as well," said Bjorn Barka, a high school principal.

Michael Clements, a security director for a California-based company, was able to check in for his business trip to Amsterdam but was told it would be an hour before he could check in his heavy luggage. "Not enough people," he said with a shrug.

The Eurostar train service between London and continental Europe and Virgin's rail services between London and Scotland were expected to be busy as passengers sought alternate routes.

BA also warned that the disruption would likely last several days beyond the three-day strike, because of a knock-on effect on flights that would carry through to

the end of a second strike planned for March 27-30.

"We're in limbo land," said Susan Danby, a school worker from the northern English city of Hull. She is due to fly March 29 to Las Vegas with friends to celebrate their 50th birthdays. "This is our dream trip, we booked it last August and we've been planning it for years."

"We all want more money and better conditions, but people shouldn't ruin other people's holidays," Danby said.

As protesters were readying picket lines Saturday outside London's Heathrow international airport, analysts estimated BA has already lost more than 25 million pounds (more than \$37 million) because of cancelled tickets and contingency costs.

The two planned strikes combined could cost the airline more than the 63 million pounds (\$95 million) that Walsh is trying to save through the disputed changes to workers' pay and conditions.

BA's pilots are not part of the strike, after their union resolved a separate dispute over pay with the airline.

US, German and Spanish unions have given some support for Unite's action, but stopped short of pledges for coordinated activity that would disrupt BA's ability to refuel and service the planes it is operating during the walkout.

The US International Brotherhood of Teamsters, which represents 40,000 aviation industry workers, urged travellers to find alternatives and said it was keeping its options "open." The US Association of Professional Flight Attendants also expressed support for BA.

"Many of us have taken decisions not to pull extra flights or routes to help BA pick up the slack," said a pilot for a Chicago-based airline, who spoke on condition of anonymity for fear it could cause him repercussions with his job. "We don't want to be seen as supporting scab labour."

BA said it would handle as many as 49,000 passengers on both Saturday and Sunday. That compares with the average 75,000 for a normal weekend day in



Chief Executive Officer of British Airways Willie Walsh addresses the media after talks with the Unite Union outside the Trade Union Congress headquarters in London, on Friday. Talks aimed at preventing a strike by British Airways (BA) cabin crew have collapsed.

March. At its Heathrow base, more than 60 percent of long-haul flights will operate, but only 30 percent of short-haul. At Gatwick, all long-haul flights and more than half short-haul flights will run as normal. London City flights, including flights to New York, is operating as normal.

Aside from hurting BA financially, the strike is also an unwelcome event for Britain's governing Labour Party before the upcoming national elections.

Prime Minister Gordon Brown irritated Unite, a major political donor, by calling the union "deplorable" and saying as late as Friday night that it should call off the strike.

Britain faces even more possible travel chaos in the run-up to

the April 2-5 Easter break, as railway signal workers voted last week to join rail maintenance workers in a strike. The Rail Maritime and Transport union has not called dates for the walkout, but refused to rule out the long Easter weekend.

And over this weekend, engineering works on the London Underground were forcing closures between central London and Heathrow, though the Heathrow Express train service was operating as normal.

Opposition Conservative Party leader David Cameron criticised the stranglehold that unions such as Unite have over the Labour Party.

Cameron is seeking to evoke memories of the difficulties the Labour government, which

receives millions of pounds (dollars) in donations from unions, had in the 1970s, culminating in the mass strikes that became known as Britain's "winter of discontent" and led to the election of Conservative leader Margaret Thatcher in 1979. Unite alone has donated 11 million pounds to the Labour Party in recent years.

"Once again, under Gordon Brown the vested interests triumph and the people lose out," Cameron said Saturday. "This threatens the future of one of Britain's greatest companies along with thousands of jobs."

At a rally of thousands of striking workers in Bedford, north of London, Unite spokesman Steve Turner said BA "is effectively at war with very proud, very dedicated employees."