International Business News

German central banker moots eurozone insolvency plan

AFP, *Berlin*

German central bank governor Axel Weber, a member of the European Central Bank governing council, stressed on Wednesday the urgency of reforming eurozone institutions, including finding a way for member countries to declare insolvency.

Eurozone countries must not "miss a chance to use the limited time at their disposal now to reform" European Union economic and monetary institutions, Weber told German lawmakers according to a text distributed to media.

In addition to reinforcing the EU's Stability and Growth Pact which is supposed to prevent eurozone countries from running up excessive deficits and debt, "the introduction of a bankruptcy procedure for states has been proposed," Weber said.

"The realisation of this proposition wourld be an important contribution to ensuring the monetary union as a stable community," he added.

Weber, an unofficial candidate to replace Jean-Claude Trichet as ECB president in late 2011, also called for "a sanction mechanism in the event of a member country not applying necessary measures within the framework of a support programme."

AFP

Argentina's President Cristina Fernandez de Kirchner attends the New Economy Forum award ceremony, organised during the Spanish rotating Presidency of the EU Tuesday, in Madrid.

France's Lagarde cautious on German trading clamp

AFP, *Paris*

French Economy Minister Christine Lagarde voiced reservations on Wednesday about a unilateral German move to curb speculative trade in EU government bonds, saying other states should have been consulted first.

The German market regulator announced the ban on "naked short-selling" of government bonds overnight, hoping to steady the markets and euro but instead plunging them into fresh turmoil as investors took positions against stocks and the single currency.

"When it comes to liquidity, it is not unhelpful (that trade in government securities) can continue without naked short selling being banned," Lagarde told a press conference.

At the same time, Lagarde, who was an eminent lawyer in international business and finance before becoming a minister, expressed regret that "states affected by the measure" had not been consulted beforehand.

Scottish bank to sell its French unit to GE Capital

AFP, *London*

State-controlled lender Royal Bank of Scotland said on Tuesday that it will sell its French factoring division to GE Capital, the financial services wing of US giant General Electric.

"The Royal Bank of Scotland Group plc has agreed the sale of RBS Factor SA to GE Capital," the bank said in a statement.

Factoring is the process whereby money is advanced to businesses, as a proportion of revenue from invoices issued. The debt is reassigned to the factoring company, which enables them to collect it.

RBS, which had sold already its German factoring division to GE Capital in March, did not disclose how much will be paid.

Both deals are subject to regulatory approval and expected to complete by the third quarter of 2010.

Hong Kong tycoon pays $233m for elite property

AFP, *Hong Kong*

One of Hong Kong's richest tycoons has paid about 233 million US dollars for a property in the city's upmarket Peak area, confounding hopes of a cool-down in the real estate market.

Henderson Land Development Chairman Lee Shau-kee paid 68,229 Hong Kong dollars (8,750 US dollars) per square foot for the site in the Peak's Barker Road at a public auction, said real-estate services firm Jones Lang LaSalle, which organised the sale on Tuesday.

The 82-year-old's son, Martin, made light of the whopping price tag for the site in one of Hong Kong's most exclusive neighbourhoods, high above the glittering financial district.

"The price is reasonable but it is not something bought for money," he was quoted as saying by the South China Morning Post.

INTERVIEW

An answer to housing crisis

Rupayan vice-chairman shares his thoughts on real estate with The Daily Star

SOHEL PARVEZ

A shabby, old building gave way to a modern high-rise off Rankin Street in Wari, a new attraction for real estate developers. A corrugated iron fence was erected to build the multi-storey structure, a common scene in Dhaka.

Over the last two decades, Dhaka has registered an upturn in real estate.

Sadat Salim, vice chairman of Rupayan Group, says it is a sign of progress. "If you look around, you will see how real estate is developing in Dhaka."

But he is not unaware of the mess created by unplanned urbanisation. The development of the sector took place with no proper planning. Buildings were built at the cost of greenery and water bodies. Now, there are not enough amenities for residents.

Salim says it affected the quality of life in the city. "The way construction (real estate) is taking place, by filling up the water bodies and destroying the greenery, Dhaka is becoming a non environment-friendly city."

Another disadvantage of the city is its population. With a population of over 1.2 crore, Dhaka is one of the most densely populated cities in the world.

Salim says the high density of population has created civic problems, like traffic congestion.

"There are not enough roads to ensure the easy movement of many people at a time. In many areas, the population density is five times greater than the optimal level."

To reduce pressures on Dhaka, the government earlier announced that it would build four satellite towns around the capital.

Lauding the initiative, Salim suggests that these towns be developed based on public private partnership (PPP) programmes to ensure that a majority of people get affordable homes outside Dhaka.

"Rajuk cannot be a developer. It can only be a regulator." Rajdhani Unnayan Kartripakkha (Rajuk) is the capital development authority for Dhaka.

"In the past, whenever Rajuk assumed the role of a developer, questions on transparency were raised. We have seen irregularities in plot allotment and nepotism, while the ruling party controlled the plot distribution process," he says.

The vice chairman of the group says PPP in the real estate sector will bring about transparency in plot allotment and enhance competition.

He suggests the government acquire land, develop infrastructure and ensure amenities, such as playgrounds and water bodies, under PPP.

Later, realtors may be able to construct buildings, through tenders or by following any other transparent procedure. "A developer will not favour nepotism in selling apartments. This will ensure transparency and faster development of townships," says Salim.

"In West Bengal, I have seen that the government allocates land to the private sector to build apartments, after developing infrastructure."

He says giving developers the task of building apartments on government land will also allow homebuyers to get competitively priced apartments.

In fiscal 2009-10, the government allocated Tk 2,500 crore for PPP initiatives in infrastructure, health and education. But the allocation remains unutilised, as the government is yet to finalise the guidelines and regulations needed for undertaking projects under the scheme.

"It will be a welcome move if housing is prioritised in the PPP guidelines for the upcoming budget," he says.

"The time has come to save Dhaka by developing townships outside the city. If we, developers, get land near Dhaka and the government covers infrastructure, we will go there."

Salim says townships will also give an opportunity to many, who were deterred due to the high prices, to own relatively cheaper homes.

"If all the required amenities, like schools, hospitals and community centres, are developed in those small towns, people will be more comfortable to live in those towns."

Salim says people should have access to low cost loans, so that the low to mid income groups of people can buys their own abodes.

"A fund should be created to provide low cost loans for lower-to-middle income groups. It will help shift a large number of people from Dhaka to those areas."

He says the government should announce an incentive package for the low-income groups so that they can own homes.

The Rupayan vice chairman says the government may offer tax-free benefits for investing a certain amount of money in housing, by slapping a ceiling on the size of apartment.

"If government announces a special incentive, it will be relief for a vast number of people who aspire to own apartments of their own."

Sadat Salim

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STOCKMARKET

US still at loss on market plunge

REUTERS, *Washington/new York*

US regulators still have not been able to pinpoint the cause of the market's recent plunge, but charged ahead with new rules to restrict trading when markets are in free-fall.

Nearly two weeks after the Dow Jones industrial average dropped some 700 points within minutes, regulators are grappling with half a dozen working hypotheses and have not ruled out anything.

No one factor was responsible for the brief market crash on May 6, the Securities and Exchange Commission and the Commodity Futures Trading Commission said in a preliminary report issued on Tuesday.

Regulators are focused on links between declines in prices of stock index products such as E-mini S&P futures contracts, the severe mismatch in liquidity and the use of stop loss market orders.

"There is still a great deal of work to do and a great deal of information to be reviewed," CFTC Chairman Gary Gensler told reporters in Washington before the report was issued.

The initial findings did nothing to calm industry concerns.

"Every day that goes by and there are no solid answers erodes confidence in the underpinning of the equities," said Jack Ablin, the chief investment officer at Harris Private Bank in Chicago.

In an at attempt to prevent a repetition of the unprecedented crash, the SEC and the major exchanges proposed new rules to curb stock trading when markets are in crisis.

The new restrictions known as circuit breakers would apply to all stocks in the Standard & Poors 500 index, and initially would exclude exchange-traded funds (ETFs).

Under the proposed rule, a circuit breaker would halt trading in a stock for five minutes if it fell more than 10 percent in 5 minutes.

The proposal needs approval from the SEC before the rules go into effect. The SEC plans to roll out the rule in a six month trial period starting around June.

The new US rules come as Germany said it would clamp down on speculative activity on European government bonds and naked short selling in the country's most important financial institutions.

The new curbs would align US markets more closely to European markets, which have more muscular safeguards. Circuit breakers at the London Stock Exchange, for example, are based on the liquidity and volatility of individual stocks.

Regulators have been analyzing data on over 19 billion shares that were executed May 6. So far, they have found no evidence of computer hacking or terrorist activity but said they could not completely rule anything out.

Chao Chen, a portfolio manager at TFS Capital, said he was sceptical of the circuit breakers. "The most important thing is to figure out what happened, because it seems to me that people are nervous in general about where the market is going," Chen said.

Circuit breakers that would halt trading across all markets are also being considered. This would give investors time to digest any news and adjust trading strategies. There are already broad index-based breakers in place, but those were not tripped when the market shot down and then recouped some of its losses in less than 20 minutes that afternoon.

Lawmakers said the breakers were an important first step and urged regulators to do more work to address the rise of high frequency traders and disparate trading rules across the dozens of markets.

"There are deeper issues that these surface solutions do not address," said Senator Ted Kaufman.

Regulators are mulling breakers that would temporarily stop trading when the broader market falls 5 percent, people familiar with the talks told Reuters. That is tighter than the minimum 10 percent threshold already in place.

People in New York pose for pictures beside the Wall Street bull, a bronze statue that symbolises a 'bull market'.

AFP