IMF countries try to bridge economic policy rift

REUTERS, *Washington*

International Monetary Fund member countries sought to bridge sharp differences over the global economy, acknowledging that rising inflation in emerging markets poses a risk to rich countries too.

Addressing one of their biggest challenges, the 187 IMF nations on Saturday recognized the alarm among developing countries about huge inflows of speculative cash that are stoking their growth but also their inflation rates.

"When inflation goes up in emerging markets, it's not just an emerging market problem, it's a global inflation and possibly interest rate problem," said Singapore Finance Minister Tharman Shanmugaratnam, who chairs the IMF's steering committee.

Top finance officials, in Washington for a twice-yearly meeting of the IMF, argued over the dangers posed by high government debt and super-low interest rates in sluggish, rich countries and the risk of overheating in developing economies.

"It's one of the most difficult policy moments, one of the most complex challenges I've ever seen, certainly in my lifetime," Angel Gurria, head of the Organization for Economic Cooperation and Development, told Reuters.

The increased focus on the pitfalls in the policies of wealthy nations is part of a shift at the IMF to be more attentive to increasingly influential emerging powers.

Countries such as Brazil have struggled to cope with waves of yield-chasing "hot money" which pushes up inflation.

AFP

A view of the International Monetary and Financial Committee meeting at the IMF headquarters building in Washington on Saturday.

World Bank President Robert Zoellick called rising food prices "the biggest threat to the world's poor."

The World Bank estimates another 10 percent rise in the food price index could add 10 million more people to the 44 million already thrust into poverty over the last year. "We risk losing a generation," Zoellick said.

Aware of stiff opposition in some emerging countries to any limits on how they manage the inflows that drive up prices, IMF members said the policies that lead investors to chase higher returns in other emerging economies also need oversight.

Tharman said inflation in the developing world, if unchecked, could spread to rich economies already shouldering large deficits. That would push up borrowing costs and threaten the recovery from the worst global recession in decades.

"We have learned from painful experience in the last few years that nothing is isolated and that risk in one region.... rapidly gets transmitted to the rest of the world," he said.

The IMF committee said the global economy was strengthening but that policy action was needed given "significant risks."

It also sought proposals to strengthen IMF surveillance of "countries that pose the largest systemic risks."

The Group of 20 developed and emerging economies on Friday delayed a decision on contentious guidelines for when countries may use capital controls.

French Finance Minister Christine Lagarde said "it seems vital to have a common set of rules."

France chairs the G20 this year and is seeking a deal on capital controls in time for a G20 leaders summit in November.

The G20 did agree on Friday to a plan that could put more pressure on the United States to fix its deficits as well as push other leading economies, including China, to address their own shortcomings.

Gurria said "sometime in the fall or this time next year, maybe inflation will have a higher profile" in G20 talks.

The IMF this month endorsed use of capital controls, once considered anathema to its free-market philosophy. Advanced countries want to establish a framework to monitor their use, an approach emerging markets oppose.

"Ironically, some of the countries that are responsible for the deepest crisis since the Great Depression and have yet to solve their own problems are eager to prescribe codes of conduct to the rest of the world," Brazilian Finance Minister Guido Mantega said.

Brazil, with one of world's highest official interest rates at 11.75 percent, is among the countries that have used taxes and other measures to curb inflows. But rate hikes designed to cool growth end up attracting still more money from abroad.

US and other rich countries have long argued that emerging countries can combat inflows and price pressures by allowing their currencies to strengthen against the dollar.

China, the world's biggest exporter, has rebuffed acute U.S. pressure to let the yuan rise more rapidly, though Premier Wen Jiabao this week said the country should resort to more exchange rate flexibility to combat rapidly rising prices.

Glencore worth up to $69b

REUTERS, *London*

Glencore is already worth as much as $69 billion, with its earnings set to double in two years, according to research from two banks underwriting the commodity trader's potentially record-breaking listing.

Glencore's banks are distributing research to potential investors to help convince them to back the previously insular trader as it seeks to raise as much as $12.1 billion.

Research from Barclays Capital and Credit Suisse -- not distributed to the media but seen by Reuters -- also forecasts rapid growth in key measures of profitability, such as earnings before interest, tax, depreciation and amortization (EBITDA).

Barclays says Glencore's equity is now worth $52.5 billion to $69.2 billion, while Credit Suisse values the Swiss firm, led by former coal trader Ivan Glasenberg, at $53 billion to $68.6 billion.

Pre-flotation research typically excludes funds raised by selling new shares, in this case up to $8.8 billion.

If that is the situation here, it would mean the banks think that Glencore could ultimately be worth as much as $78 billion after a listing -- even more than the top of the $45-$73 billion range implied by Glencore's own figures.

The banks declined to comment.

Valuation is a challenge for a complex business that is part trader, part miner, and part investor -- a 34.5-percent stake in Xstrata Plc is Glencore's biggest listed holding.

Glencore is aiming to sell a 15 to 20 percent stake worth $9 to $11 billion, including $2.2 billion of existing shares and the option to sell an extra 10 percent.

Barclays says earnings will hit $8.86 billion in 2012 -- or more than double last year, when net profit was $3.8 billion.

Glencore's EBITDA will also far surpass 2007's record $7.7 billion by 2012, the duo forecast.

In the next two years, Barclays says it will more than double to hit $12.9 billion, while Credit Suisse predicts it will touch $11.76 billion. The rise far outstrips analysts' average forecast of a 48-percent rise at Xstrata.

Spain warns of record five million jobless

AFP, *Madrid*

The number of unemployed in Spain, which has the highest jobless rate among developed countries, could reach a record of more than five million, the labour minister warned in an interview published Saturday.

"Whether or not we exceed five million unemployed will depend on the active population," Valeriano Gomez told the business daily Expansion, referring to a possible rise in the working-age population.

"It must be said that in Spain during the crisis, the workforce has been very erratic."

Spain's booming construction industry drew millions of unskilled immigrant workers and generated high levels of economic growth in the decade to 2008.

But the collapse of the property bubble, compounded by the global financial crisis, left many people out of work, especially immigrants and youths.

The unemployment rate soared to 20.33 percent at the end of 2010, the highest in the industrialised world.

The government this month revised upwards its forecast for 2011 to 19.8 percent from 19.3 percent, but said the rate will ease to 18.5 percent in 2012.

The labour ministry said on April 4 that the number of Spaniards out of work rose for a third consecutive month in March, up 0.8 percent from February to 4.33 million for the highest level since records began in 1996.

Japan nuclear firm sees cold shutdown in 6-9 months

AFP, *Tokyo*

The operator of Japan's tsunami-hit nuclear plant said Sunday it aims to reduce radiation leaks within three months and to achieve a "cold shutdown" within six to nine months.

Japan's embattled Tokyo Electric Power Company (TEPCO) offered the timeline more than five weeks after a giant quake and tsunami knocked out cooling systems at its six-reactor Fukushima Daiichi atomic power station.

The damage sent atomic core temperatures soaring in partial fuel rod meltdowns, in what became the world's worst nuclear crisis in 25 years. It has also left the country facing crippling power shortages.

Radiation has leaked into the air, soil and sea from the coastal plant northeast of Tokyo, as emergency crews have doused overheating reactors and fuel rod pools to prevent full meltdowns of volatile fuel rods.

TEPCO's chairman Tsunehisa Katsumata said at a press conference that the utility aims to cool reactors and start substantially reducing radiation from the explosion-charred facilities within three months.

Within six to nine months, TEPCO said in a statement, it expects to achieve "cold shutdowns" of all the six reactors, a stable condition in which temperatures drop and radiation leaks fall dramatically.

"As the short-term targets, we have set two steps," said Katsumata. "Step one is to steadily reduce the amount of radiation.

"In step two, we aim to control the release of radioactive substances and greatly control the amount of radiation."

"There are various risks ahead," he cautioned. "But we aim to complete step one in about three months and step two in another three to six months."

TEPCO also said it would put special covers on the heavily damaged reactor one, three and four outer buildings.

The company said that an initial focus would be on preventing new hydrogen explosions in reactors by injecting nitrogen, and on avoiding further releases of radioactive water into the environment.

China calls on Europe to beef up fiscal consolidation

AFP, *Washington*

China said on Saturday that Europe needs to reduce sovereign debt risks and "beef up" fiscal consolidation in its weaker economies.

"At the current stage, the European sovereign debt crisis remains severe," said Yi Gang, deputy governor of the People's Bank of China.

"The various countries concerned need to seek political consensus, beef up fiscal consolidation efforts, and make intraregional cooperation mechanisms more effective so as to dispel market mistrust and enable stabilizers to play their role."

Yi made the remarks in a statement at the opening of the International Monetary Fund-World Bank spring meetings in Washington.

The Chinese official noted the IMF had advised advanced countries to reduce their debt to a pre-crisis average of 60 percent of gross domestic product by 2030.

He urged them to strive to reach the debt target "to address global imbalances from its root cause," clearly absolving China from widespread criticism that its artificially weak yuan currency is in part to blame for excessive trade surpluses and deficits.

Taking a broad swipe at the big advanced countries, without naming the United States and others, Yi called on them to get their finances in order to address the dangerous imbalances.

According to IMF forecasts, the US debt ratio is expected to rise to 99.5 percent this year and to 105.6 percent by 2013.

Asia, Europe point to mounting inflation risks

REUTERS, *Beijing*

China and India reported higher-than-expected inflation readings on Friday, giving fresh ammunition to central bankers and investors alike who are worried about mounting price pressures in the global economy.

Consumer prices in the euro zone also picked up more than expected, while figures due later in the day from the United States are expected to show a similar trend, with the inflation rate still moderate but steadily rising, not least because of higher food and energy costs.

Prices of oil and grain, in turn, are climbing in part because of strong growth in China, India and other emerging economies, which have shown the developed world a clean pair of heels since the global financial crisis.

"The weakness in markets this week is expected after the smart comeback we have seen recently, with inflationary concerns again coming to the forefront," said Jan Lambregts, global head of financial markets research at Rabobank.

Consumer price inflation in China quickened to 5.4 percent in the year to March, the fastest rate since July 2008, from 4.9 percent in the first two months of the year.

In India, the Wholesale Price Index, the main inflation gauge, rose 8.98 percent in the year to March, up from 8.31 percent in the 12 months to February and beating market projections of an 8.36 percent reading.

Economists expect the central banks of both countries to tighten monetary policy further in short order to dampen inflationary pressure.

A rise in the proportion of deposits that Chinese banks must hold in reserve, rather than lend out, could be imminent after Premier Wen Jiabao in midweek reaffirmed his determination to keep a lid on prices.

Core inflation, excluding food and energy, was the highest in China in a decade. In India, too, a sharp upward revision to figures for January has led some economists to the conclusion that underlying price pressures are greater than they had thought.

REUTERS

A vegetable seller waits for customers at a market in Ahmedabad, India.

"It seems that inflation trajectory has changed. The expected decline in inflation is just not happening and looks like we have underestimated the underlying pressure on prices," said Ashutosh Datar, an economist at IIFL in Mumbai.

"More monetary tightening is inevitable after today's data and the case for a 50 basis point hike in May is strengthened," he added.

Final March figures for the euro zone showed inflation jumped to 2.7 percent from 2.4 percent in February, slightly more than a preliminary forecast and the fourth month it has been above the European Central Bank's target of 2 percent.

The ECB was the first of the three major Western central banks to raise rates last week and it is expected to move again by July despite concern over the damage higher rates will do to economies like Portugal and Ireland struggling with high debt.

"The big news in these numbers is that core inflation rose noticeably," said ABN Amro analyst Nick Kounis. "Although we expect a rate increase at the July meeting, the balance of risks is tilted towards an earlier move."

The People's Bank of China, the central bank, has increased benchmark interest rates four times since last October and has required the country's big lenders to freeze a record 20 percent of their deposits.

Dong Tao, the chief China economist for Credit Suisse, expects tightening to resume in the second half of the year nad the rate banks offer on one-year deposits to rise another 1.5 percentage points by the end of the year.

"In our view, China is by no means near the end of the current tightening cycle. Food inflation is transitory, but service inflation and wage inflation are structural," he said.

That bodes ill for Western economies that are big buyers of manufactured goods assembled in China. If imported inflation keeps climbing, central bankers will have to press down domestically generated prices if they want to hit their overall inflation targets.