

ADB chief warns on inflation, capital flows

AFP, Hanoi

Asian governments must keep a tight rein on inflation and may need to consider controls on capital flooding into the region, the Asian Development Bank (ADB) chief said Tuesday.

"Inflation will need to be carefully managed using a mix of policy measures -- especially given the harder impact of inflation on the poor, which in Asia still number in the hundreds of millions," ADB president Haruhiko Kuroda told a news conference at the start of the bank's annual meeting in Vietnam.

The Manila-based bank, which aims to reduce regional poverty, said last week that governments had already moved to soften the impact of food inflation through measures including tax cuts for food, setting price controls and introducing subsidies.

But it said in a report that more needed to be done in the region, which has rebounded rapidly from the 2008 global economic crisis.

The bank warned that soaring global food prices threaten to push tens of millions of Asians into extreme poverty and cut the region's economic growth this year.

Domestic food inflation in developing Asian nations hit 10 percent at the start of this year, with double-digit rises in the price of wheat, corn, sugar, edible oils, dairy products and meat.



Asian Development Bank (ADB) president Haruhiko Kuroda addresses the Vietnam Business Forum in Hanoi yesterday on the sidelines of the ADB's 44th annual meeting of board of governors. The ADB is set to begin four-day annual meetings and seminars with regional finance ministers and experts.

At the same time, global oil prices have also soared.

"Rising food and oil prices have been stoked by the unexpected upheaval in the Middle East and North Africa, while the devastating earthquake and tsunami in Japan have created further global unease," Kuroda said.

While battling inflation, Asia's governments are also dealing with inflows of capital which Kuroda said might need

to be controlled "in some cases, in some countries, in some occasions."

But he said such controls should not be a regular policy instrument.

"Capital controls are really complicated policy tools, not so easy to implement, and in the long run capital controls could create distortions in the capital market," Kuroda said.

The International Monetary Fund (IMF) last week said flows

of money into Asia's surging economies remain a "key concern" for policymakers already battling inflation.

Those flows are "extraordinarily large" in some countries, including China, Indonesia and the Philippines, the IMF said.

Several countries -- including South Korea, Indonesia and India -- have tightened monetary policy to try to head off huge inflows of capital from investors seeking better returns

on their money than in the sluggish West.

The incoming funds have boosted the values of many Asian currencies.

"Currency fluctuation has been a serious problem," Kuroda said.

Finance ministers of the 10-member Association of South-east Asian Nations (ASEAN) last month expressed concern about the surge in capital flows, much of which has been in the form of portfolio funds that can be withdrawn just as fast as they are injected.

The ASEAN ministers are to meet again Wednesday on the sidelines of the ADB talks, with their counterparts from South Korea, China and Japan.

"I'm confident that they will continue to discuss and in the future will cooperate more concretely in exchange rate issues," which affect trade and investment relationships, Kuroda said.

"Regional cooperation on financial and monetary matters would become even more important in coming years."

Kuroda added the global economic crisis made clear the need for a well-built world financial system that can withstand shocks.

"Asia can play a vital role in this process by strengthening its own financial systems," he said.

The ADB forecasts 7.8 percent growth in Asia's developing countries this year, down from last year's nine percent but "still respectable," Kuroda said.

TEPCO may face \$25b in liabilities

REUTERS, Tokyo

Tokyo Electric Power may be asked to shoulder half of an estimated \$49 billion in total compensation for damages stemming from its crippled nuclear power plant with other power firms to bear the rest, a Japanese newspaper reported on Tuesday.

Officials from the government, Tokyo Electric, and creditor banks have been scrambling to craft a scheme that would allow the utility to cope with the bill of compensating those displaced by the crisis at its Fukushima Daiichi plant, while continuing to operate as a private firm.

The draft government plan reported by the Asahi newspaper could mark a significant development in those efforts because it puts a ballpark figure on the total cost at 4 trillion yen (\$49.2 billion) and suggests a cap on Tokyo Electric's burden.

Uncertainty over the likely cost of compensation as well as the prospect of unlimited liability for Tokyo Electric, commonly known as TEPCO, has unnerved investors since the crisis, triggered a widening of corporate bond spreads.

The plan calls for TEPCO to pay 2 trillion yen in compensation over 10 years. Of the 200 billion yen in annual payments, half would come from a roughly 16 percent increase in electricity prices, the newspaper reported.

"The 2 trillion yen figure would be positive in the sense that it helps erase some uncertainties hanging over Japan's utilities sector," said Ariel Hsiao, manager of HSBC Global Power & Resources Equity Fund in Taipei, which sold its entire holding of Tepco shares after the March 11 disaster.

The other half of the 400 billion yen annual bill would come from Kansai Electric Power and seven other nuclear plant operators, which will put money into the fund in proportion to their electricity output, the Asahi said.

To shore up TEPCO's finances and prevent debilitating credit ratings cuts, the fund will buy 1.6 trillion yen worth of preferred shares in the utility, whose market value has shrunk by three-fourths since the crisis to about \$8 billion.

India hikes key interest rates more than forecast

AFP, Mumbai

India's central bank hiked interest rates Tuesday by a bigger-than-expected 50 basis points, saying short-term economic growth may have to be sacrificed in the fight against inflation.

It was the ninth rate increase in 15 months and pushed the stock market down by 2.44 percent or 463.33 points to 18,534.69.

"Reining in inflation should gain priority over growth, even if it creates some short-term shocks like lower growth," Reserve Bank of India (RBI) governor Duvvuri Subbarao said.

The central bank projected India's economy, the second fastest-growing in the world after China, would expand by "around" eight percent this fiscal year after it accelerated by 8.6 percent last year.

Its forecast contrasted with the government's upbeat expectation of nine percent growth but was in line with many economists' views.

"Current elevated rates of inflation pose significant risks to future growth. Bringing them down, therefore, even at the cost of some growth in the short run, should take precedence," Subbarao said.

The latest rate increase followed data showing annual inflation had unexpectedly risen to 8.98 percent in March from 8.31 percent the previous month.

"We expect inflation to remain at elevated levels through the first half of the year before it starts to moderate," Subbarao said.

Controlling prices has emerged as an overriding political priority for the Congress-led government even as higher economic growth is seen as key to tackling crushing poverty in the nation of 1.2 billion people.

"This move was necessary. Inflationary pressures are still very high," Finance Minister Pranab Mukerjee told reporters.

Asian economies such as South Korea, Indonesia, Taiwan and China are all battling inflation, which has become a major headache for Indian Prime Minister Manmohan Singh's coalition government -- already reeling from a string of corruption scandals.

Poorer households, the backbone of the ruling Congress party's support, have been especially hard-hit by food and fuel price rises.

The country's repo rate -- at which it lends to commercial banks -- now stands at 7.25 percent after the 50-point rise while its reverse repo -- the rate it pays banks for deposits -- is 6.25 percent.

Business reacted with dismay to the RBI increase.

"The rise will have an adverse impact on investments and on growth," said Chandrajit Banerjee, director general of the Confederation of Indian Industry, a leading business lobby.



Security personnel stand near the Reserve Bank of India logo in Mumbai yesterday. India's central bank raised lending rates by a bigger-than-expected 50 basis points, its ninth hike in 15 months to curb inflation, and warned that the move could slow economic growth.

But economists praised the bank's strong move and said further rate increases were in store.

"We think the Reserve Bank has acted decisively to stem inflationary risks, and will continue to do so," said Goldman Sachs economist Tushar Poddar, projecting a further 75 basis points in hikes.

The Reserve Bank had previously hiked rates in gradual, quarter-point steps to minimise the impact on growth.

"This was a more aggressive stance than expected. But what is important to note is that inflation has been too high for too long," said Siddhartha Sanyal, chief India economist at Barclays Capital.

Separately, the central bank announced it would operate with only one benchmark rate -- the short-term repo.

It said the reverse repo, which it uses to mop up excess money in the banking system, would automatically be pegged at one percentage point below the repo rate.

Hong Kong's retail sales soar 26pc in March

AFP, Hong Kong

Hong Kong's retail sales soared 26 percent in March on the back of strong domestic and tourist spending, with "little discernible impact" from Japan's earthquake, the government said Tuesday.

Total sales for the month reached HK\$31.2 billion (\$4.01 billion), marking a year-on-year increase well above the 18 percent rise forecast of six economists surveyed by Dow Jones Newswires.

For the first three months of the year, the southern Chinese financial hub's retail sales were 21 percent higher than in the same quarter last year, according to the Census and Statistics Department.

The March gains were led by an 85.9 percent increase in sales of consumer durable goods, followed by jewellery and watches (42.3 percent), motor vehicles and auto parts (32.3 percent) and apparel (23.3 percent).

The figures come after Hong Kong said last month that its unemployment rate had fallen to 3.4 percent, its lowest level since before the global financial crisis pounded the city's export-oriented economy in 2008.

"Looking ahead, sanguine consumer sentiments amid improving job and income conditions, together with vibrant inbound tourism, should remain favourable to the retail business," a government spokesman said.

"The Japan incident had little discernible impact on the overall performance of retail sales in March," he added.

Saab obtains €150m funding in China

AFP, Stockholm

Saab and its owner Dutch carmaker Spyker have raised 150 million euros through a strategic partnership deal in China, Spyker said on Tuesday amid a financial crisis for the Swedish-Dutch firm.

The partnership with the Hawtai Motor Group followed an announcement on Monday that Saab had secured short-term cash of 30 million euros (\$44.6 million dollars) to restart production within a week.

"Spyker and Saab signed an agreement with Hawtai Motor Group Limited. This agreement conditionally secures medium-term funding," Spyker said in a press release.

"It includes financing in the form of subscription agreements to the amount of 150 million euros as well as a strategic alliance for China including joint ventures in manufacturing, technology and distribution," it said.

Hawtai will invest 120 million euro for a maximum equity stake of 29.9 percent in Spyker on a fully diluted basis.

"The remaining 30 million euro will be in the form of a convertible loan agreement with a six-month maturity, an

interest rate of seven percent per annum and a conversion price of 4.88 euros per share," the company added.

Saab was rescued at the last minute in January 2010 by Spyker, which bought it for 400 million dollars from GM and vowed to preserve the carmaker.

But sales did not reach expectations, losses ballooned, and the company announced on April 6 this year it was stopping production "until further notice" because unpaid suppliers had halted deliveries.

The Hawtai deal was subject to approval and conditions including the consent of Chinese government agencies, the European Investment Bank and the Swedish National Debt office, Spyker said.

"The partnership with Hawtai allows Saab on the one hand to continue executing its business plan since we secured mid-term funding subject to meeting certain conditions," said Victor Muller, Spyker's CEO and chairman of Saab Automobile.

"On the other, it allows Saab Automobile to enter the Chinese car market and establish a technology partnership with a strong Chinese manufacturer," he added.



People take pictures of the view from the 102nd floor of the Ritz-Carlton hotel in Hong Kong yesterday. Towering some 490 metres (1,600 feet) above the bustling, chaotic streets of the Southern Chinese city, the Ritz-Carlton Hotel, which opened for business in March but held a "grand opening" yesterday, is making a comeback after temporarily closing in 2008.