

## China restricts lending as inflation hits 5.5pc

AFP, Beijing

China said Tuesday its politically sensitive inflation rate hit its highest level in nearly three years in May, prompting Beijing to further restrict bank lending to stem a flood of capital.

The consumer price index jumped to 5.5 percent year-on-year in May -- far above the official annual target of 4.0 percent -- as food costs soared on power shortages and crippling droughts in some areas.

It was the highest rate since July 2008, when the index rose 6.3 percent.

While the data underlined concerns over rising costs, it met forecasts and sent Asian stock markets higher. Many nations in the region rely heavily on the world's second-biggest economy to help drive their own growth.

The People's Bank of China said after the data release that it would increase the reserve requirement ratio by 50 basis points, effectively limiting the amount of money banks can lend, in the latest move to tame consumer costs.

The move will come into effect on June 20, the central bank said in a statement.

The data fuelled expectations for even further monetary tightening in the coming weeks as authorities -- anxious about inflation's potential to spark social unrest -- try to hold back an avalanche of credit

# Nokia wins rare victory as Apple settles legal row

REUTERS, Helsinki

Nokia notched up a rare victory against arch-rival Apple as the iPhone maker agreed to settle a long-running row over patents.

Nokia said on Tuesday the deal would boost second-quarter earnings, having warned at the end of May that it would miss targets.

Shares in the struggling cellphone maker rose 3 percent. Analysts welcomed the news and said

it would help Nokia concentrate on core business at a time when it faces huge challenges.

"This is the first positive news from Nokia for a long time. They can both focus on their businesses now, and the dispute was settled to Nokia's advantage," said Mikael Rautanen, analyst at Inders in Helsinki.

Analysts said Nokia could be estimated to get between 1 and 2 percent of iPhone revenues, which are seen at around \$43 billion this year according to a Reuters poll.

The figures demonstrate that while Nokia may have won a legal victory, it still faces a daunting task to catch up with Apple in the high end of the smartphone market, where it has fallen behind both Apple's iPhone and Google Inc's Android devices.

Earlier this week Nomura forecast Nokia would lose its position as the world's largest smartphone maker this quarter to Samsung Electronics and that Apple would surpass it next quarter.

Apple and Nokia have been locked in a legal tussle since



REUTERS

An employee shows a Nokia phone to a customer at a Nokia showroom in Colombo.

October 2009, when Nokia sued Apple in the United States, arguing the iPhone-maker was getting a "free ride" on technologies patented by Nokia.

"The deal structure -- a one-time payment as well as running royalties -- suggests a fairly good outcome for Nokia," said Florian Mueller, independent specialist and blogger on patent battles.

"Maybe Nokia could have continued to play hardball and got an even better deal if it didn't face the challenges it undoubtedly has. But this looks like a fairly important victory," Mueller said.

An Apple spokesman confirmed the deal on Tuesday.

"We're glad to put this behind us and get back to focusing on our respective businesses," he said.

By 0914 GMT, Nokia shares were up 3.3 percent in Helsinki. Apple shares traded in Frankfurt were up 0.4 percent in low volumes.

Nokia said the deal -- which settles all litigation between the two and means both sides will withdraw complaints to the US International Trade Commission -- would boost its second-quarter earnings, but said details were confidential.

"It is clear that Apple will be the payer here, and the sums will be significant," said Swedbank analyst Jari Honko.

Nokia warned on second-quarter sales and profits at the end of May, abandoning hope of meeting key targets just weeks after setting them and raising questions over whether new CEO Stephen Elop can deliver on the turnaround he promised.

Following the warning analysts have slashed their estimates and expect the firm to report losses this quarter and next.

Legal battles have become increasingly common in the cellphone industry since Apple

and Google carved out a large chunk of the lucrative and quickly expanding smartphone market at the expense of older players.

Nokia, which has said it will be more aggressive in licensing its patents, flagged further legal battles were ahead.

"This settlement .... enables us to focus on further licensing opportunities in the mobile communications market," CEO Elop said in a statement.

Analysts said makers of Google Android phones were the next likely target.

"Emerging victorious from such a war, Nokia is in a strong position to collect royalties from other industry players, particularly from makers of Android-based devices," Mueller said.

However, analysts warned the company still had a long way to go toward any recovery.

"This (the Apple deal) could change the stock to have a bit of a relief rally today, but does very little to address the stark reality that the company is facing," said Richard Windsor, analyst at Nomura.

"Hence we see no reason to remain anything other than negative on the stock."

Technical analysts said Nokia shares had been in oversold territory since late May and momentum indicators had been signalling that it was ripe for at least a short-term, technical rebound.

The shares are still down about 25 percent since May 30, representing a 5.5 billion-euro wipeout in market capitalisation for one of Europe's biggest technology companies.

## Fischer regrets IMF disqualification on age

AFP, Jerusalem

Israeli central bank governor Stanley Fischer expressed "regret" on Tuesday that age limits disqualified him for a run at the IMF's top job, saying the restrictions were "not relevant today."

In a statement released by the Israeli central bank, 67-year-old Fischer said he was informed on Monday night that the IMF would not consider him for the top post because the rules require applicants to be younger than 65.

"I think the age restriction, which was set in the past at 65, is not relevant today," he said.

"I was hoping that the IMF board of directors would change its regulations, not only for the sake of my candidacy, but also for the sake of future candidates for the position of managing director."

Fischer had been regarded as a particularly well qualified candidate for the post vacated by Dominique Strauss-Kahn, who resigned after facing sexual assault charges in New York.

Fischer has won widespread praise for his handling of the Israeli central bank, and he has worked at both the World Bank and IMF, as well as in the private sector.

But observers noted early on that his age would pose a problem unless the IMF was willing to revise its regulations.

As an American citizen, Fischer also faced another hurdle, as the IMF top post usually goes to a European, with the World Bank chief's position going to an American.

Despite the obstacles, Fischer was regarded as a strong candidate, and even a potential consensus option if the IMF found itself divided between the two other frontrunners, French Finance Minister Christine Lagarde and Mexico's central bank governor Agustín Carstens.

"I have no regrets for having submitted my candidacy. I do regret the fact that I was not given the opportunity to demonstrate my capabilities and my experience to the IMF Board of Directors," Fischer said.

Still, Fischer can rely on a warm reception in Israel, where an economic newspaper recently ran an article on him headlined "Please don't go."

# BoJ holds rates, expands growth-sector lending

AFP, Tokyo

The Bank of Japan on Tuesday said it would expand a programme of lending to companies in growth areas with a new \$6 billion credit line to support the post-quake economy.

The BoJ's policy panel voted unanimously after a two-day meeting to keep its key rate unchanged between zero and 0.1 percent, and expand last June's 3 trillion yen (\$37.4 billion) lending facility to encourage banks to channel funds into sectors such as renewable energy and medicine.

The central bank will offer a new credit line of up to 500 billion yen under a new facility designed to make it easier for smaller firms to access cash from banks without using traditional real estate collateral.

Each bank can borrow up to 50 billion yen at 0.1 percent annual interest for up to four years.

"With a view to further encourage financial institutions' efforts, the bank deems it appropriate to focus on supporting their provision of equity-like funds and loans without conventional collateral or guarantees," the central bank said in a statement.

"The BoJ seems to have a clear vision of what it needs to do," said Okasan Securities strategist Hideyuki Ishiguro.

The central bank also slightly upgraded its assessment of the economy, which "continues to face downward pressure, mainly on the production side due to the effects of the earthquake disaster but is showing some signs of picking up."

The BoJ said the Japanese economy was likely to return to "a moderate recovery path" in the second half of the year.

The world's third-largest economy plunged back into recession in January-March, contracting on the impact of the nation's biggest



AFP

Bank of Japan Governor Masaaki Shirakawa answers questions during a press conference at BOJ headquarters in Tokyo yesterday. The Japanese central bank left its key rate unchanged at between zero and 0.1 percent and said it would expand a programme of lending to companies in growth areas to support the post-quake economy.

recorded earthquake, a tsunami and a nuclear emergency that sent Japan into its worst post-war crisis.

In the aftermath of the earthquake, the BoJ injected a record amount of cash into the banking system and doubled an asset purchase fund to 10 trillion yen, a key policy tool it kept unchanged Tuesday.

It also set up a separate lending scheme for banks in quake-hit areas to ensure financial institutions in disaster-hit areas can meet demand for post-quake reconstruction funds.

The 9.0-magnitude earthquake and a tsunami on March 11 destroyed entire towns and left more than 23,000 dead or missing while crippling the Fukushima Daiichi nuclear plant, leading to radiation leaks and power shortages.

Many of Japan's biggest firms

were forced to suspend plants and slow output due to the quake's impact on supply chains and power supply, which heavily disrupted production.

Sentiment among large Japanese companies tumbled to its lowest in two years during April-June, a government survey showed Tuesday, after the impact of the March 11 disasters.

The index measuring the mood among big companies stood at minus 22.0 in the second quarter compared with minus 1.1 in the previous three months, a joint survey by the Finance Ministry and the Cabinet Office showed.

It was the lowest reading since minus 22.4 in April-June 2009, when Japan's economy was struggling amid the global financial crisis.

Tokyo shares closed 1.05 percent higher on Tuesday after the BoJ announcement.

## India's inflation above 9pc in May

AFP, Mumbai

India's annual inflation accelerated above market forecasts to 9.06 percent in May, official data showed on Tuesday, increasing pressure on the central bank to raise interest rates further.

The rise in the wholesale price index -- the government's preferred measure of the cost of living -- was lower in April at a provisional 8.66 percent, the ministry of commerce said.

Economists had forecast inflation in May to be 8.70 percent.

Inflation is one of the biggest problems for India's government and is the highest among all major Asian economies.

India's central bank, the Reserve Bank of India (RBI), has been among the most hawkish in the region, having increased key rates nine times in the past 16 months.

It is expected to raise interest rates at its next monetary policy meeting on Thursday.

Rising commodity prices and costlier fuel are likely to keep inflation well above the bank's comfort level of between 5.0 to 6.0 percent, economists say.

The ministry also revised upwards the inflation rate for March to 9.86 percent from the provisional 9.04 percent reported earlier.

The RBI expects the cost of living to remain at elevated levels through the first half of the year before moderating.

# Eurozone ministers meet to tackle Greek bailout row

AFP, Brussels

Eurozone ministers meet in Brussels on Tuesday in a bid to resolve a damaging row over the extent to which banks and other private investors may be forced to contribute to a second Greece bailout.

Finance ministers from the 17-member Eurogroup starts talks from 4:00 pm (1400 GMT), before ministers from the other 10 European Union states join in for a session formally dedicated to closer cross-border economic policy coordination.

But nine days from a crunch summit of EU leaders, at which Athens is looking for clear backing for a second multi-billion-euro bailout in just over a year, the precise shape of the financial aid for Greece remains unclear.

Belgian finance minister Didier Reynders, invariably a reliable guide during negotiations, said at the weekend it should run to more than 80 billion euros (\$115 billion), 25 billion of which could be funded by the private sector.

The remainder, diplomats have said, would come through loans from eurozone partners and the International Monetary Fund, and receipts from Greek state sell-

offs, another part of the equation that remains uncertain.

EU economy commissioner Olli Rehn told German daily Sueddeutsche Zeitung on Tuesday that "we are not as far from reaching a solution as some think."

He stressed that the European Commission is still working on a plan which would see banks agree to "hold onto their bonds for longer, and on a voluntary basis."

The German government wants private investors to pick up more of the tab after last year's 110-billion-euro financial rescue was mounted solely at taxpayer expense.

The European Central Bank is deeply uneasy with that idea. It is sitting on a pile of Greek debt, either bought to help unfreeze credit markets accepted as collateral for lending to private banks.

Any move towards a "rescheduling" or "reprofiling" of Greece's 350-billion-euro (\$500 billion) debt mountain risks unleashing what is termed "a credit event" or de facto default, which the ECB fears could unleash chaos even beyond Europe.

A credit event is considered to be a modification of initial borrowing conditions and usually triggers downgrades if not a default rating by credit agencies.



AFP

An Indian pedestrian walks past a hoarding of a multi-brand store offering free gifts on purchases in Mumbai yesterday. India's annual inflation has accelerated above market forecasts to 9.06 percent in May, official data showed, piling pressure on the central bank to raise interest rates further. Inflation is one of the biggest problems for India's government and is the highest among all major Asian economies.