IMF threat to pull out of Greek bailout challenges Germany

REUTERS, Brussels

THE International Monetary Fund's threat to pull out of bailouts for Greece unless European partners grant Athens massive debt relief poses a stark challenge to Germany, the biggest creditor, which insists on IMF involvement in any future rescue.

The global lender has made itself unpopular with both sides in the Greek debt saga by playing its role as a teller of inconvenient truths without excessive diplomacy.

Its latest intervention, saying in essence that Greece will never be able to repay its debt mountain, is bound to sharpen debate when the German parliament meets on Friday to decide whether to authorise negotiations on a third bailout for Greece since 2010 that could cost an extra 85 billion euros.

It sharpens an unadmitted rift between Chancellor Angela Merkel, who wants to hold the euro zone together, and Finance Minister Wolfgang Schaeuble, who thinks Greece needs to leave the currency area, at least temporarily.

Merkel can count on a big majority in favor of opening loan talks with Athens due to her grand coalition's near monopoly of seats, although she may face an embarrassing revolt among her own conservatives.

But the IMF's debt sustainability analysis may force her within months to choose between two far more unpalatable options: grant massive debt relief or see the IMF walk away.

The report's conclusion that Greece needs debt relief "on a scale that would need to go well beyond what has been under consideration to date" makes it harder for her to argue that Germany will ever get much of its 57 billion euro exposure back.

The IMF released its findings late on Tuesday after Reuters had reported exclusively the study showing Greek debt rising to 200 percent of economic output in the next two years and staying at "highly unsustainable" levels for decades.

To avoid big writedowns - "deep upfront haircuts" in IMF-speak - Greece would have to be given either a 30-year grace period before it starts servicing or repaying all European loans, present and future, or large fiscal transfers by the euro zone.

REUTERS/FILE

The International Monetary Fund logo is seen at the IMF headquarters building during the Spring Meeting of the IMF and World Bank in Washington on April 18, 2013.

The European Commission issued its own, less stark forecast on Wednesday, which said the Greek debt-to-GDP ratio would be 165 percent in 2020 and 150 percent in 2022 if Athens made reforms.

It accepted that Greece needs "a very substantial re-profiling, such as a long extension of maturities of existing and new loans, interest deferral and financing at AAA rates", but gave no figures.

Commission Vice-President Valdis Dombrovskis, presenting the EU executive's study, said what mattered was not the size of the debt stock but the annual debt service cost, which is already lower in Greece than in most euro zone countries because of an existing 10-year holiday on most interest payments.

Germany is by no means alone in opposing any outright write-off of Greek debt to European governments. Countries like Spain, Portugal and Ireland that went through their own programs successfully and paid towards Greece's bailout do not want to take any loss.

Slovakia and the Baltic states, which carried out wrenching fiscal adjustments, are just as tough, as are the Netherlands and Finland under pressure from anti-bailout Euroskeptics.

Merkel has stated publicly that there cannot be a "classic haircut" because that would be illegal under the EU treaty.

By adding the adjective "classic", she may have been preparing Germans for a gradual acceptance of the inevitable - the money won't be coming home in her lifetime or theirs.

True to her "step by step" mantra, after Monday's last-ditch agreement with Greece in Brussels, the chancellor played down the euro zone's pledge to look at lengthening loan maturities, already extended to 30 years on most European loans.

The statement merely repeated a 2012 commitment by Eurogroup finance ministers, she said, and would be considered only once Greece passed a first quarterly review by bailout monitors of its compliance with a new program.

Her easiest course would be to salami-slice the issue, giving a little loan extension at a time in return for strict conditionality, so no one in Germany could spot the moment when a "Schuldenschnitt" (debt cut) actually happened.

But the IMF is signaling that more drastic debt relief is needed, and Merkel is desperate to keep the Fund involved, both to retain parliamentary confidence in the program and because she doesn't trust the Commission to be tough enough on Greece.

Enter Schaeuble with a much simpler-sounding solution: Greece takes "time-out" from the euro zone for, say, five years initially; its debt to euro zone countries gets a real haircut, which by now looks likely to be a short-back-and-sides; and a healthier Greek economy returns eventually to the currency area.

EU officials say that would be illegal. Many economists say it would be impractical, not least because the billions of euros in cash stashed under Greek mattresses would drive out any new currency.

The finance ministry plan which Schaeuble said on Tuesday that several cabinet ministers in Berlin still saw as the best solution for Greece shows he is seriously thinking about the need to write off large amounts of Greek debt.

Stepping back from an earlier comment that a debt reprofiling must not lower the net present value of the European loans, Schaeuble's spokesman said on Wednesday that the value should not be reduced by too much, otherwise it would be a haircut via the backdoor. Each day the goalposts shift a little.

Merkel's strategy, which debt-restructuring lawyers often call "extend and pretend", seems likely to prevail for now.

Bank of Japan cuts growth forecast

AFP, Tokyo

Japan's central bank on Wednesday cut its annual growth and inflation forecasts for the world's third-largest economy, with analysts warning weaknesses remained and the downgrade hinted at a disappointing second quarter.

After a two-day policy meeting, the Bank of Japan (BoJ) said Japan's economy would expand 1.7 percent in the fiscal year to March 2016 while inflation would come in at 0.7 percent.

That was down from 2.0 percent and 0.8 percent, respectively, estimated earlier this year.

While the bank kept up its view that Japan's economy was "expected to continue recovering moderately", it acknowledged that a pick-up in exports and industrial production had seen "some fluctuations".

Hideo Kumano, senior economist at Dai-ichi Life Research Institute, said trimming the growth forecasts "probably means growth in the April-June quarter was not very good". Official second-quarter GDP data are due next month.

BoJ policymakers have been scaling back their expectations and governor Haruhiko Kuroda has conceded that an ambitious 2.0 percent inflation target was still some way off.

Kuroda will hold a regular post-meeting news briefing later Wednesday. The economy expanded 1.0 percent in January-March after limping out of recession in the last three months of 2014, and business confidence remains strong.

But consumer spending has struggled after a sales tax rise last year and economists widely expect the BoJ to ramp up its easing programme, likely later this year, to bring Japan closer to its inflation target.

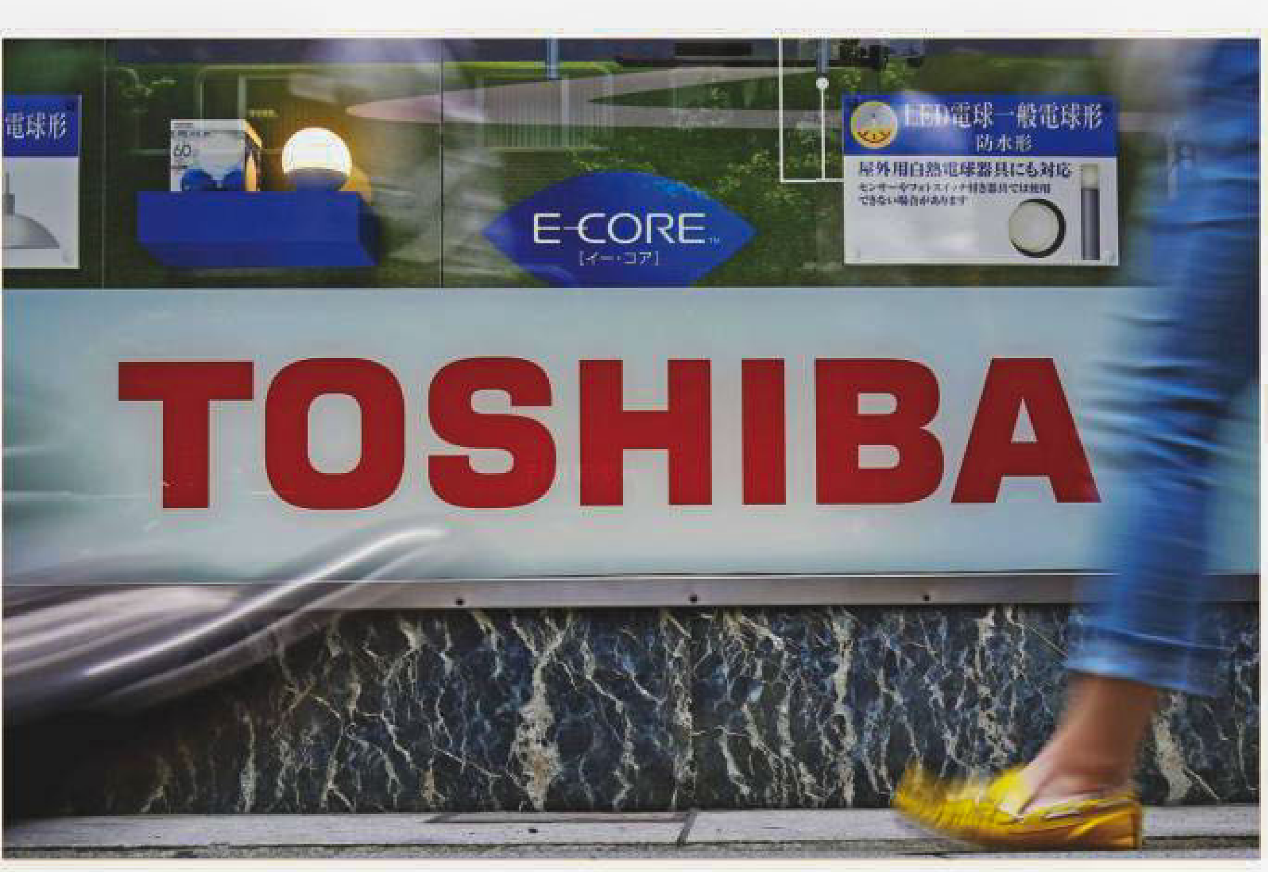
The target is a cornerstone of Prime Minister Shinzo Abe's drive to conquer years of stagnant or falling prices and revive the economy.

On Wednesday, the BoJ stood pat on its record asset-purchase programme, which is pumping about 80 trillion yen ($648 billion) into the financial system annually in a bid to jack up prices and kickstart growth.

"The Bank's view on the economy remains too optimistic. Economic activity weakened sharply in the second quarter, and business surveys suggest that output will not rebound rapidly in coming months," Marcel Thieliant from Capital Economics said in a commentary. "Price pressures are unlikely to strengthen as quickly as policymakers hope."

While a weak yen has boosted the bottom line for many Japanese exporters, Tokyo's bid to resuscitate the economy has struggled as it tries to rid Japanese consumers of the idea that prices will not rise much.

Deflation may sound good for shoppers, but it means people tend to put off buying because they do not expect prices to rise and hope they might even get goods cheaper down the line.



REUTERS/FILE

Pedestrians walk past a logo of Toshiba Corp outside an electronics retailer in Tokyo.

Toshiba CEO to quit in accounting scandal

REUTERS, Tokyo

Toshiba Corp expects 300-400 billion yen ($2.4-3.2 billion) in charges related to improper accounting in an expanding probe that is set to force Chief Executive Hisao Tanaka to step down, sources familiar with the matter said on Wednesday.

The Japanese conglomerate has hired a third-party committee to investigate past book-keeping practices which sources say led to profits being overstated by more than 170 billion yen. That's more than triple Toshiba's initial estimate of around 50 billion yen.

The charges include six years of overstated profits uncovered by the committee, as well as various writedowns, the people told Reuters.

The company has been unable to finalize its accounts for the past financial year and suspended its year-end dividend payout due to the investigation. It was not clear how much of the charges would be booked in the last year. Its net income in the last fiscal year through March 2014 was 51 billion yen.

Other sources with knowledge of the probe have said investigators were looking into the role that top officials played in the irregularities, focusing on whether they had knowingly encouraged wrongdoing. The committee is expected to release its findings next week.

The scandal is a reminder that Japan Inc is still in the early stages of a campaign backed by Prime Minister Shinzo Abe to improve corporate governance. Toshiba's shares have slumped around 27 percent in Tokyo since April when the company first disclosed irregularities in its books.

The independent committee is likely to say Toshiba needs a governance overhaul, and more than half of its board including Vice Chairman Norio Sasaki will likely be replaced along with Tanaka at the next shareholders' meeting in September, sources said on Wednesday. The sources declined to be identified because they were not authorized to speak with media.

A Toshiba spokeswoman said the company had not yet made any decision on the matter and was waiting for the third-party committee to release its findings.

The laptops-to-nuclear conglomerate first disclosed accounting irregularities in early April, two months after financial regulators ordered a report on past book-keeping.

Sources said previously that one theory investigators were looking into was that executives, worried about the impact of the 2011 Fukushima disaster on its nuclear unit, set overly aggressive targets in new businesses such as smart meters and electronic toll booths, encouraging the understating of costs and overestimating of revenue.

Oil prices fall back after Iran-fuelled gains

AFP, London

Oil futures slid Wednesday as markets started to price in the impact on supplies of Iran's historic deal with Western powers regarding the Islamic republic's suspected nuclear ambitions.

Traders were keeping a watch also on US commercial oil inventories ahead of a weekly report Wednesday, and digesting upbeat Chinese economic growth data.

Brent North Sea crude for delivery in August shed 38 cents to stand at $58.13 a barrel in London midday deals.

US benchmark West Texas Intermediate for August dropped 35 cents to $52.69 compared with Tuesday's closing level.

The oil market had risen Tuesday as investors were confident it would take time for Iran to start exporting more crude to a market awash with supplies.

"It is gradually dawning on market participants that Iran will not be making any rapid return to the oil market even after the historic agreement," Commerzbank analysts said in a research note to clients.

"The agreement first has to be ratified by the UN and by the US Congress. Then Iran has to implement the conditions set out in the agreement, and the International Atomic Energy Agency has to confirm this in a report. Only then will sanctions be eased."

Iran and major world powers on Tuesday reached a deal to monitor Tehran's nuclear programme, which the West says will curb its efforts to build a nuclear bomb.

Yellen sticks to 2015 timeline for first US rate hike

AFP, Washington

FEDERAL Reserve Chair Janet Yellen stuck to her forecast for an increase in the Fed's key interest rate later this year on Wednesday, predicting a pickup in the US economy.

But Yellen also warned that continued turbulence from Greece and China poses risks to the US growth picture. In prepared testimony to Congress, Yellen said that the labour market still showed "some" slack, suggesting accommodative monetary policy from the US central bank was still merited despite the unemployment rate falling to 5.3 percent.

"Too many people are not searching for a job but would like to do so if the labour market was stronger," she said. "And, although there are tentative signs that wage growth has picked up, it continues to be relatively subdued, consistent with other indications of slack."

Even so, she said, prospects are for more improvement in the coming months that would support the Fed moving toward its first rate increase since 2006.

And, she allowed, the economy "also might snap back more quickly" than generally expected as the drag from the slow first half of the year dissipates.

The Fed has kept markets on edge for a raise in the federal funds rate, which has been locked extraordinarily at zero since the end of 2008 to pull the economy back from the Great Recession.

Since early last year, the first rate increase was flagged for around mid-2015. But with economic growth stalling in the first quarter -- mostly due to "transitory factors", the Fed says -- the path toward the initial hike and a series of slow increases toward a "normal" rate has remained in question. Analysts until recently were expecting the Fed to act in its September policy meeting.

However, some weaker data, including a poor report on consumer spending released on Tuesday, and worries about eurozone fragility due to the Greek debt crisis and China's market meltdown, now have some economists expecting a move in December at the earlier, and possibly not until next year.

Yellen, in semi-annual testimony to the Financial Services Committee of the House of Representatives, stuck to the position of the last meeting of the Federal Open Market Committee.

"If the economy evolves as we expect, economic conditions likely would make it appropriate at some point this year to raise the federal funds rate target, thereby beginning to normalize the stance of monetary policy," she said. She stressed though that the decision remains dependent on what data tells the Fed, and noted "uncertainties" clouding the picture.

REUTERS

Federal Reserve Board Chairwoman Janet Yellen arrives to testify before a House Financial Services committee hearing on "Monetary Policy and the State of the Economy" on Capitol Hill in Washington yesterday.

British unemployment in surprise rise

AFP, London

Britain's unemployment rate climbed to 5.6 percent in the quarter ending in May, with the number of jobless up for the first time in over two years, data showed Wednesday.

Unemployment edged up from 5.5 percent in the quarter ending in February, the Office for National Statistics said in a statement.

The number of unemployed rose by 15,000 to 1.85 million, the first quarterly increase since March 2013, the ONS added.

"It's possible that the rate of improvement in the labour market that we have seen over the last three years may have eased off, though it is too early to be certain," said ONS statistician Nick Palmer.

Analysts said the data could see the Bank of England wait a little longer before raising its main interest rate for the first time in several years, despite governor Mark Carney on Tuesday saying that the time for a hike is moving closer.

"The rise in unemployment and the fact that earnings growth edged lower in May itself may slightly temper increasing belief that the Bank of England could hike interest rates before the end of this year," said Howard Archer, chief UK economist at IHS Global Insight.