

ECB on High Alert

The European Central Bank will stay on high alert for many more months while keeping its main lending rates stable, analysts believe, as inflation poses a bigger threat than signs of an impending slowdown in the 15-nation eurozone economy, AFP said.



A poll of 31 economists by Thomson Financial News and Agence France-Presse found all expected the ECB to maintain the monetary status quo when its governing council meets on Thursday in Athens.

"Despite a raft of weaker economic data, the ECB will maintain its benchmark rates given persistent dangers of inflation," analyst Stefan Muetze at Helaba bank said in a summary of the market's opinion.

While the US Federal Reserve has slashed lending rates in the United States to 2.0 percent, the ECB has followed its own guidance and its main refinancing rate has been locked in at 4.0 percent since June.

The US economy is flirting with recession, while the economic situation in the eurozone is somewhat more robust, in the words of ECB president Jean-Claude Trichet.

Americans Facing Tough Times

President George W. Bush said Americans are "facing a tough economic period" after reports this week showed the economy lost jobs for a fourth straight month and economic growth was close to a standstill, Bloomberg wrote.

"My administration has been clear and candid on the state of the economy," Bush said on Saturday in his weekly radio address. "We saw the economic slowdown coming, we were up front about these concerns with the American people, and we've been taking decisive action." Payrolls shrank by 20,000 workers last month, following a revised 81,000 drop in March, the Labor Department said Friday. The same day, the Federal Reserve, seeking to prevent a deeper slowdown, announced fresh measures to coax banks into lending.

Tax rebates of \$117 billion will have a "positive effect on the economy in this quarter, and an even greater impact in the next."

The rebates to 130 million households are part of a stimulus package approved earlier this year that also includes investment incentives for companies.

The Fed on Friday boosted its biweekly sales of cash to banks, known as the Term Auction Facility, by half to \$75 billion and expanded the collateral it takes from bond dealers through loans of Treasury securities.

ADB Donors Pledge \$11.3b to Poor

The Asian Development Bank said donor countries pledged loans of \$11.3 billion over the next four years to fund infrastructure spending and fight poverty in the region's poorest countries. The replenishment to the Asian Development Fund, or ADF, is a 60 percent increase from the previous period, when donors contributed \$7 billion in low-interest loans and grants between 2005 and 2008, the lender said in a statement. The funds are available for distribution between 2009 and 2012, Bloomberg reported.



"With child malnutrition still widespread in Asia, and the global food crisis threatening to reverse the gains nations have achieved in reducing poverty, support for rural infrastructure and rural finance is critically important," ADB President Haruhiko Kuroda said.

ADB will also make "sizeable" loans to help countries in Asia and the Pacific meet the cost of higher food prices.

Syrian Salaries Rise

Syrian President Bashar Al-Assad issued a decree on Saturday increasing public sector salaries by 25 percent to compensate for rising prices, state-run SANA news agency reported. Assad also ordered a 25 percent increase for retired state employees, the agency said.

It quoted Finance Minister Mohammed Al-Hussein as saying that more than two million of the 15-million population will be affected by the monthly wage increases which will be effective from May. Syria's state employees earn an average monthly salary equivalent to \$175.

Assad's decision to increase salaries came as witnesses reported the price of heating oil had climbed by 340 percent per liter on Saturday. Over the past week the price of foodstuff including vegetables, meat, milk, cereals and cooking oil has risen by 30-60 percent, prompting the government to stop the import of certain cereals including lentils and bulgar wheat.

But cabinet ministers have repeatedly stressed that the cost of bread will not be increased.

According to unofficial estimates, inflation last year ran at more than 14 percent.

Price rises have triggered strikes and food rioting in some regional countries, including Egypt where President Hosni Mubarak has vowed to raise public sector salaries by 30 percent in 2008.

News in Brief

Shell Reduces Nigerian Output

Royal Dutch Shell shut down more of its production in Nigeria after a fresh militant attack on Saturday on a flowstation in the restive Niger Delta, where local militants have stepped up a campaign of violence.

The bombing of the Shell facilities in Nigeria's southern Bayelsa state, the fifth militant attack in just over a month, came a day after a federal court ruled that one of the leaders of the rebel Movement for the Emancipation of the Niger Delta (MEND), Henry Okah, should be tried in secret, Reuters reported.

The ruling prompted a threat of reprisals from MEND, which has already knocked 164,000 barrels a day off Shell's production in Nigeria with a pipeline bombing last month.

S. Arabia Lowering Rates

Saudi Arabia, which pegs its currency to the dollar, cut its key interest rate by a quarter of a percentage point to 2 percent, following a reduction by the US Federal Reserve. The central bank left its benchmark repo rate unchanged and raised banks' reserves requirement with the aim of slowing credit growth, said John Sfakianakis, chief economist at Saudi British Bank, Bloomberg reported.

The Saudi Arabian Monetary Agency, the central bank, does not communicate rate decisions directly to the media.

"Increasing the reserve requirements for banks means that they have to keep more money in their vaults," Sfakianakis said by telephone from Riyadh on Saturday. "So banks have less money to lend, which is an attempt to curb inflation."

Inflation is running close to 10 percent in Saudi Arabia after the US currency lost 13 percent of its value against the euro in the last 12 months, stoking record inflation in the region.

AFDB Boosts Agro Aid

The African Development Bank, which funds projects on the world's poorest continent, will add \$1 billion to its agriculture projects to help address the food crisis in Africa, Bloomberg wrote.

The lender will also seek to provide a rapid disbursement facility totaling \$250 million, Donald Kaberuka, the president of the bank said in a statement from Tunis. Vulnerable developing economies might shrink as much as 10 percent because of malnutrition and falling school attendance, a United Nations study found.

The bank urged cereals exporting countries not to suspend exports as the practice threatens about 150 million people in 12 African states.

Turkey to Loosen Budget Goals

Turkey will loosen its budget targets for this year to increase spending on dams in the mainly Kurdish southeast and job creation, Finance Minister Kemal Unakitan said.

The target for the budget surplus before interest payments this year will fall to 3.5 percent of economic output, from 5.5 percent announced in October, Unakitan said in Ankara on Saturday at a news conference to outline fiscal plans for the next five years.

The surplus will still be enough to ensure Turkey's debt declines to 30 percent of gross domestic product by 2012 from 38.8 percent at the end of 2007, he was quoted by Zaman as saying.

Gov'ts Act On Rice Prices

Rationing, subsidies, price-fixing alliances, export curbs—you name it, governments across the world are trying it out as they seek to shield their populations from the soaring price of rice.

Wary of the political risk of millions of hungry people on their doorstep, some governments—notably in Asia—are adopting new policies, or shifting their old ones, to ease the supply crunch.

For example, ASEAN trade ministers agreed Saturday to help each other during the global food crisis and to take measures to maintain the stability of rice prices and boost production.

"(ASEAN) countries will help each other in stabilizing the global (food) price and not take steps that will disrupt the price of rice," Indonesian Trade Minister Marie Elka Pangestu said on Elshinta radio. "Ensuring the stability of rice (price) is the priority," she said. Pangestu said the ministers had agreed to continue exports provided domestic needs were being met.

But there appears to be no magic one-size-fits-all formula, partly because of national factors and partly because of the nature of the market. "In Asia, most rice import and export is carried out by countries rather than by



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companies," according to Jonathan Pincus, chief economist for the UN Development Program in Vietnam.

"Producing countries are restricting exports because they're concerned about the domestic market," he told AFP. That in turn "means things just get tougher for consuming countries, which have to pay higher and higher prices."

> Price-Fixing Alliance

Last week Thailand said it had agreed in principle to form a rice price-fixing alliance—similar to the oil industry's OPEC—with neighbors Cambodia, Laos and

Myanmar, as well as Vietnam.

Thailand, the world's top rice exporter which last year shipped around 9.5 million tons overseas, insists it has no plans to curb supplies. It has said it will gradually sell off its 2.1 million tons of stockpiled rice at 20 percent below current prices to relieve shortages.

In contrast Vietnam, the world's second biggest rice exporter, has reduced this year's cap on exports from four million to 3.5 million tons to secure domestic supplies and reduce prices fuelling double-digit inflation. Hanoi has also banned new export contracts until the

end of June, although existing contracts—including shipments to the Philippines at record prices of \$1,200 per ton—are being honored.

> Exports Banned

Cambodia in late March banned rice exports to ease pressure on the domestic market after prices reached nearly a dollar a kilogram, deepening poverty in a nation where one-third of the population lives on less than 50 cents a day. But Prime Minister Hun Sen said last week that the government was mulling exporting rice again, to find markets—and revenue—for its farmers.

India has banned export of non-basmati rice and last month withdrew export incentives relating to premium basmati, although existing contracts are being honored, notably to needy countries such as Bangladesh and Sierra Leone.

Even in the United States, worries about supplies have seen panic-buying in some stores, and two big chains, Costco and Sam's Club, took measures last week to ration sales due to price hikes and uncertain deliveries.

The UN's Pincus said the price of rice was more volatile than that of maize and wheat as much less of it is traded. "Rice is mostly consumed in

the countries where it's produced, and for that reason the world market is very thin. There are not a lot of buyers and not a lot of sellers," he said.

"So what happens is that if there are some buyers who find themselves short, the international prices spike, and that's what we're seeing right now."

Japan, which imports more than half its food, wants to raise the issue of spiraling food prices when it hosts the Group of Eight summit in July.

Still, it heavily protects its own rice industry—the government strictly controls the production and price of rice and imposes high taxes on exports—and instead of curbing shipments has been trying to step up exports.

In the Philippines, one of the world's biggest rice importers, President Gloria Arroyo has ordered steps to prevent hoarding and price gouging, and to ensure supplies. The government sells subsidized rice in poor neighborhoods and is crafting a new scheme of rationing.

There is no rationing in Indonesia except where the government operates a subsidy scheme for the poor, which allows 15.5 million registered families to purchase 10 to 20 kilograms of rice a month at a third of the normal price.