

## Ukraine's economy plunges 20.3% in Q1

**KIEV (AFP)** — Ukraine's economy shrank 20.3 percent in the first three months of this year, official data showed on Tuesday, making Ukraine one of the world's worst hit countries in the global economic crisis.

The National Statistics office data, based on a comparison with the first quarter of 2008, showed the construction sector was hardest hit, declining 54 percent over the 12 months while industry went down 36.5 percent.

The energy sector also fell 19 percent but farming and financial services instead showed growth of 1.3 percent and 27 percent respectively.

President Viktor Yushchenko warned earlier that first quarter gross domestic product (GDP) would shrink by more than 20 percent in ex-Soviet Ukraine.

The steep recession comes after a prolonged period of economic growth.



An elderly homeless woman drags her belongings as she walks in the center of western Ukrainian city of Lviv on June 16, 2009.

(AFP/File/Yuriy Dyachyshyn)

The Ukrainian economy grew at an average of seven percent per year between 2000 and 2007. GDP has since shrunk because of the economy's reliance on metals and chemical exports whose prices have plunged on world markets in the crisis.

The International Monetary Fund has forecast that Ukraine's economy will shrink by 8.0 percent over the whole of 2009, while the World Bank says the fall will be more than 9.0 percent.

## U.S. mortgage applications fall to 7-month low

**NEW YORK (Reuters)** — U.S. mortgage applications plunged to a seven-month low last week as demand for home refinancing loans tumbled 30 percent, data from an industry group showed on Wednesday.

The drop does not bode well for the hard-hit U.S. housing market, which has been showing some signs of stabilization, with sales rising and home price declines moderating in many regions of the country.

The Mortgage Bankers Association said its seasonally adjusted index of mortgage applications, which includes both purchase and refinance loans, for the week ended June 26 decreased 18.9 percent to 444.8, the lowest reading since the week ended November 21, 2008.

Kenneth Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley, said mortgage rates are just one factor driving potential borrowers.

"Rising unemployment, concerns about job security, potential buyers' inability to sell their existing homes and problems with appraisals coming in too low are all weighing on demand," he said.

"The government needs to take more aggressive action to bring mortgage rates back down to below 5 percent as that seems to be a key level for the market," he said.

# Iran, Afghanistan sign trade MOU



Afghan Minister for Commerce Wahidullah Shahrani (L) talks to Iranian Vice-President Parviz Davoudi during a meeting in Tehran July 1, 2009.

(Mehr/ Rauf Mohseni)

*Tehran Times Economic Desk*

**TEHRAN** — Commerce ministers of Iran and Afghanistan here on Tuesday signed a 17-article memorandum of understanding to promote bilateral trade.

IRIB reported Iranian Commerce Minister Masoud Mirkazemi and his Afghan counterpart Wahidullah Shahrani inked the MOU to streamline two-way trade and expand commercial ties.

Formation of joint commissions of trade and transportation, establishing Kabul-Chababhar-Dubai airway, issuing business cards for the two sides' tradesmen, establishing Afghanistan-Iran joint chamber of commerce in Kabul, signing a preferential trade agreement, exchanging trade delegations, and participating in the other side's trade exhibitions are some of the MOU's topics.

IRNA quoted Chairman of Afghanistan

Chamber of Commerce and Industries Mohammad Qorban Haqju as saying that Iran's exports to Afghanistan stood at \$800 million in 2008.

Iran imported \$4 million worth of products like fresh and dried fruits, minerals, precious stones, and spices from the neighboring country. He said that Iran exported oil products, cement, construction material, carpets, home appliances, and detergents.

## Iran, Syria hold economic cooperation meeting

*Tehran Times Economic Desk*

**TEHRAN** — A committee meeting for the follow-up and development of Iran and Syria economic cooperation ended in Damascus on Tuesday.

This committee pursued the implementation of previously signed deals and reviewed new avenues for cooperation.

In this two-day meeting, Iranian Housing and Urban Development Minister Mohammad Saeidikia and Syrian Economic and Trade Minister Amer Husni Lutfi examined ways to boost bilateral economic ties, IRIB reported on Wednesday.

Saeideikia accentuated the establishment of an Iran-Syria joint bank which could prepare the grounds for the enhancement of annual trade between the two countries which is currently at \$350 million.

He also called for the expansion of cooperation between the region's countries especially among Iran, Syria, Turkey, and Iraq, noting that connecting electric power networks, establishing gas and oil pipelines, creating rail and road transporta-



Amer Husni Lutfi



Mohammad Saeidikia

tion networks, and signing free trade MOUs between the regional countries could promote the areas economic growth.

The Iranian technical and engineering services companies in Syria have implemented 11 large economic projects worth more than \$1.3 billion in their 10 years of presence in Syria.

In recent years, Syria and Iran have made plans to enhance their already significant financial cooperation.

According to Ali-Akbar Mehrabian, the Iranian minister of industries and mines, Syria and Iran already cooperate in \$1.3 billion worth of industry projects with an additional \$3 billion planned for the future. He explained that "our specialists have already inaugurated car production lines, cement production plants, electricity power plants, water canals, and silos in Syria," the official explained.

Syrian and Iranian cooperation also extends to the banking sector. In July 2008, the two agreed to establish a joint bank in Damascus with assets initially worth \$30 million.

## Russia bans all gambling and shuts casinos

**MOSCOW (Reuters)** — Russia closed down its casinos overnight as gambling was banned nationwide, a move the industry says could throw a third of a million people out of work.

The July 1 ban shut gaming halls, from gaudy casinos crowned by extravagant neon structures to dingy dwellings containing a handful of slot machines.

"I feel terrible. We just let 1,000 people go," said Yuri Boyev, general director at Metelitsa, an upmarket casino where billionaires rolled the dice and Russia's gas giant Gazprom held a lavish Christmas party.

Vladimir Putin, now prime minister, came up with the idea in 2006 when he was president after the Interior Ministry linked several gaming operations in Moscow to Georgian organized crime.

The Kremlin plans to restrict gambling to Las Vegas-style gaming zones in four rarely visited regions deemed to need investment, including one near the North Korea border, but nothing has been built and critics say the zones will fail.

Though gaming establishments knew the shutdown date for at least a year, few thought the government would go through



A man carries a chair out of a shut down casino hall in central Moscow on June 30. Gaming centres have been closed across Russia as a new law takes effect that imposes sweeping new restrictions on the industry.

(AFP/Alexey Sazonov)

with it, but officials moved in overnight to close them down.

The industry says the ban will axe at least 300,000 jobs but officials in Moscow put the national figure at only 11,500.

Rows of slot machines, usually blinking around the clock in smoky, crowded halls, lay dormant and wrapped in cellophane.

Moscow deputy mayor Sergei Baidakov, watching men dismantle poker tables and lay roulette wheels on the floor, said the state was ready to thwart any big to move gambling underground.

"We are confident we will control the situation," he said.

He said the ban was to protect the health of society. Many critics in the gambling industry say it has more to do with Russia's poor ties with Georgia. Georgians are thought to run many Russian gaming halls.

City police stood on guard in case of protests by disgruntled former workers in the popular gaming halls that have sprouted since the Soviet Union collapsed in 1991 and now pepper Russia's cities.

## IDRO quarterly car output reaches 278,000

*Tehran Times Economic Desk*

**TEHRAN** — The Iranian carmakers Iran Khodro and Saipa, affiliated to the Industrial Development and Renovation Organization (IDRO), have manufactured over 278,000 cars in the three months period to June 21, 2009.

The figure shows 11 percent growth in comparison with the output for the same period last year, reported ISNA.

Saipa produced 148,334 and Iran Khodro produced 130,300 cars of different types, indicating a 7 percent and 16 percent



rise respectively in the mentioned period.

IDRO was established in 1967 to develop the industry sector and to accelerate the industrialization process of the country.

Promotion of local and foreign investments, restructuring the existing industries, development of general contracting activities, rendering consultancy and support services to foreign investors, and privatization of the existing subsidiaries are IDRO's main areas of activity.

## Debt is capitalism's dirty little secret

By Ben Funnell

Just why is there so much debt in the Anglo-Saxon world? Bankers and regulators know well that it is in nobody's long-term interests to have allowed borrowing to escalate to a position where the U.S. now owes far more, as a multiple of the economy, than at the start of the Great Depression.

The answer is capitalism's dirty little secret: excessive lending was the only way to maintain the living standards of the vast bulk of the population at a time when wealth was being concentrated in the hands of an elite.

The amount by which the elite has benefited is startling, and illustrates the problem with lightly regulated free markets: the rich get much richer while the rest do not get richer at all. According to Société Générale economists, the inflation-adjusted income of the highest-paid fifth of U.S. earners has risen by 60 percent since 1970, while it has fallen by more than 10 percent for the rest. As was recently pointed out in the New York Review of Books, the Walton family, of Wal-Mart fame, is wealthier than the bottom third of the U.S. population put together — about 100m people. These are staggering statistics, confirmed by measures such as the U.S. and UK's ever-rising Gini coefficients, which estimate income disparity. Another way of putting this is that the share of profits in gross domestic product is at a 100-year high, or was until very recently.

Put simply, the benefits of economic growth have gone into the pockets of plutocrats rather than the bulk of the population. So why has there been no revolution? Because there was a solution: debt. If you couldn't earn it, you could borrow it. Cheap financing was made widely available. Financial innovations such as the asset-backed securities market aided this process, as did government-sponsored agencies such as Fannie Mae and Freddie Mac. Regulators welcomed it all while perhaps taking insufficient account of the moral hazard problem it posed: that ever-increasing leverage meant the authorities had to keep interest rates low, otherwise the debt burden would cripple consumption. This prompted more leverage, which exacerbated the problem.

A walk in any low-income area in the UK confirms this. There are BMWs in the driveways, satellite dishes on the roofs and furniture delivery vans on the streets. In both Britain and America the jobless were encouraged to buy their own homes. No one begrudges anyone else the right to own a home or buy luxury goods. The problem is that the luxuries need to be paid for out of earnings and the houses out of equity topped up with an affordable amount of debt.

The question is whether the debt load — total U.S. credit market debt outstanding was \$53,000bn (£38,000bn, £32,000bn) at the end of March, or 3.7 times GDP — is at all sustainable and, if not, how it can be lowered without sinking the economy. Those pushing extra debt in an effort to boost the economy via increased consumption point to the scale of assets backing the debt. The net worth of U.S. households, including their houses and after counting debt, was \$50,000bn in March, according to the Fed. Not a bad tally for 306m people: \$165,000 each. However, the cost of servicing this debt as a proportion of income, even with record low rates, is at a 30-year high, above 15 percent, as incomes have stagnated and the total level of debt has risen.

The debt burden has to come down, which means more saving and lower economic growth for many years to come. Along the way inflation is likely to return, probably sooner and more violently than most expect, which will prompt investors to demand a higher return and make it even harder for governments to tackle the debt. At best the debt will fall slowly over many cycles and simply trim otherwise resilient growth. At worst it could cause growth to lurch upwards before tumbling again, with all the attendant uncertainty that entails. At this point, no one can know which is more likely. I incline to the more benign view because of the size of household assets but, if the dollar's reserve currency status should come under serious attack, rates would have to rise to defend it and that could itself cause a consumption crisis.

What can be done? First, although it is not ideal, we should not be too hasty about abandoning the capitalist model. It is less bad than any other system yet invented. But we should redouble our efforts to increase productivity through innovation and creating new markets; simply squeezing lower-income workers is a bad option, which helped get U.S. into this mess in the first place. This requires investment in education and research. Second, we have to learn to live within our means. This means spending less than we earn, perhaps doing without the BMWs, flat-screen television sets and leather sofas. Third, we should be careful in distributing the higher tax burden that we will inevitably have to bear over the coming decade. Very high marginal tax rates did not work in the 1970s and will not work now. That said, income disparity at current levels is a political time-bomb that needs to be dealt with. Finally, we should all come to terms with the fact that these are structural issues needing structural solutions; they need to be enforced over a longer time period than any one government's term. So we need a new political consensus, one aimed at reducing overall debt levels while reducing inequality by encouraging education, entrepreneurship and investment in innovation.

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(Source: Financial Times)