

\$500m facilities for private sector by IDB

Tehran Times Economic Desk
TEHRAN — Islamic Corporation for the Development of the private sector (ICD), a member of the Islamic Development Bank (IDB), has allocated \$500 million facilities for private sector firms in Iran.

Hossein Salimi, advisor of Iran Chamber of Commerce, Industries and Mines, said ICD representatives have reviewed ways of granting the facility to the private sector in Iran with members of the Chamber, Islamic Republic of Iran Broadcasting reported.

He stated that IDB gives loans to the public sector while ICD offers facilities to the private sector of Islamic countries.

ICD promotes private sector investment in member countries, direct financing of projects or companies projects in technology, telecommunications, power, water and sanitation, healthcare, pharmaceutical and industrial sectors.

Transport & urban services expo

Tehran Times Economic Desk
TEHRAN — The 7th International Exhibition of Public Transportation and Urban Services was opened in Tehran with the minister of Road and Transportation in attendance.

Islamic Republic of Iran Broadcasting reported that this exhibition was established with the cooperation of the Ministry of Road and Transportation and Iranian organizations and companies related to road, rail, air and naval transportation.

In addition, representatives from 15 countries including Germany, the UK, Italy, Japan, China, France, Sweden, Denmark, Canada and other countries have taken part in the show.

This exhibit is divided into two sectors "Public Transportation" and "Urban Services and Transport".

In addition to introducing latest technology and capacities of Iranian firms and organizations, talks about the transfer of state of the art technology to Iran and preparations for foreign investment in this sector will be held at the fair.

7-month cement output up 11%

Tehran Times Economic Desk
TEHRAN — Iran has produced over 28.7 million tons of cement in the seven-month period beginning March 21, 2009.

Islamic Republic of Iran News Network quoted the Ministry of Industries and Mines' Public Relations office as reporting that the production was 11 percent higher than the figure for the same period last year.

Based on the report, some 28.7 million tons of clinker have been produced in the mentioned period, which shows 11.6 percent increase in comparison to the same period last year.

The country's cement output in the Iranian calendar month of Mehr (September 23-October 22) stood at 4.69 million tons, a 26 percent rise year on year.

Some 4.3 million tons of clinker has also been produced in the aforementioned month, up 24 percent compared to the corresponding figure in the year before.

Baghdad Intl. Fair

Tehran Times Economic Desk
BAGHDAD — The 36th Baghdad International Fair kicked off on Sunday.

Some 396 companies from 32 countries are taking part in the ten-day event, Islamic Republic of Iran News Network reported. Sixty Iranian companies are participating in the fair.

Next to Iran there are participants from Turkey, France, and Brazil with 36, 35, and 20 companies, respectively.

Persian Gulf single currency may face delay: bank chief

KUWAIT CITY (AFP) — Persian Gulf states plan to launch their monetary council, a precursor for a joint central bank, in 2010 but the planned single currency may be delayed, the Saudi central bank chief said on Sunday.

"The (Persian Gulf) monetary council will be established in 2010. It will be entrusted to complete other procedures," Mohammad al-Jasser, head of the Saudi Arabian Monetary Agency (SAMA), told reporters in Kuwait.

The "procedures," such as the launch of the single currency, "will be completed in the correct way to achieve the required results," Jasser said on the sidelines of the first Kuwait Financial Forum.

"It may be completed one year ahead or one year late. This is not important. The important thing is the success of the project."

Saudi Arabia, Kuwait, Bahrain and Qatar, members of the Persian Gulf Cooperation Council (PGCC), signed a pact in June to create a joint monetary council, which will later become the joint PGCC central bank.

The remaining two PGCC members, the United Arab Emirates (UAE) and Oman, did not sign after deciding to withdraw from the project.

The UAE was upset at the selection of the Saudi capital Riyadh to host the future PGCC central bank, while Oman withdrew from the monetary union saying it was not ready to meet the preconditions.

Jasser, however, said that he is still hopeful that the two states will join the union later.

Saudi Arabia has already ratified the pact while the three other states are expected to ratify it before the end of the year, he said.

PGCC states have agreed on a number of technical criteria for the monetary union but a number of other issues remains unresolved.

In December Kuwait is due to host the PGCC annual summit, when leaders expect to take a decision on the single currency.

At their summit in Bahrain in 2001, the PGCC leaders set 2010 as the target to launch the monetary union and single currency, but many experts have long said that target is too ambitious and unrealistic.



Saudi central bank chief and governor of the Saudi Arabian Monetary Agency (SAMA), Mohammad al-Jasser

Manufacturing grows in euro zone, UK

Manufacturing activity in the euro zone and the UK rebounded strongly in October, data showed.

The UK manufacturing Purchasing Managers Index posted its strongest growth for two years as new orders surged. It rose to 53.7 in October from 49.9 in September, according to Markit Economics and the Chartered Institute of Purchasing and Supply.

A reading above 50 indicates the sector is expanding, while a reading below 50 indicates it is contracting.

According to Markit Economics, the PMI for the euro zone's factory sector rose to 50.7 from 49.3 in September, the index's first growth since May 2008. That was the highest reading since January 2008 and was in line with expectations as economists surveyed by Dow Jones Newswires last week had expected the PMI to rise to 50.7, in line with the flash estimate published last week.

"The return to expansion in overall manufacturing activity in October indicated by the PMI supports hopes that the

euro zone economy is picking up further in the fourth quarter after a seemingly certain return to growth in the third quarter," said Howard Archer, chief euro-zone and UK economist for IHS Global Insight.

Output was strong across the three largest euro area economies, with France posting the biggest rise in nine years, Markit said.

New orders were also strong in the euro zone with much of the strength coming from France and Germany, with new orders in the latter rising to the highest level since August 2007.

"With capacity now coming into line relative to order books, and further growth of production looking likely in coming months as factories restock, conditions are set to improve further," said Chris Williamson, chief economist for Markit.

The euro-zone manufacturing PMI is based on data from Germany, France, Italy, Spain, Ireland, Austria, Greece and the Netherlands, which account for about 92% of the bloc's manufacturing activity.

Separately, the European Central

Bank said Monday that most interest rates on new loans and deposits from banks in the euro area fell again in September, as the effects of the ECB's monetary stimulus continued to feed through to the economy.

The data reflect the ECB's traditional belief that its interest rate actions take up to 18 months to have their full effect on the economy in the 16 countries that use the single currency.

Rates have fallen steadily throughout the year after the ECB cut its key refinancing rate to 1% from 3.25% in the aftermath of the global financial crisis. In addition, the ECB has stepped up liquidity provisions for the money market and initiated a special bond-purchasing program.

But, while the cost of credit is coming down, total lending volumes to the private sector were lower in September than they had been a year earlier as banks stiffened lending conditions, according to the ECB's M3 money-supply data released last week.

(Source: The WSJ)

Australia looks to faster growth and higher rates

SYDNEY (Reuters) — Australia is set for faster economic growth and shrinking budget deficits as it outperforms much of the developed world, the government said on Monday, feeding expectations for a rise in interest rates this week. The sweeping improvement in the Labor government's economic forecasts came as data showed national house prices jumped to a record high last quarter, a stark contrast to countries like the United States and Britain and another reason to pull back on stimulus.

"A quarter-point rate hike looks done and dusted for tomorrow," said Brian Redican, a senior economist at Macquarie. "The strong recovery in house prices and the government's revisions, which we see as cautious, are all grist to the mill." The Reserve Bank of Australia holds its monthly policy meeting on Tuesday and is widely expected to lift its 3.25 percent cash rate for a second month running. A Reuters poll of 21 analysts on Friday found 16 expected a rise to 3.5 percent, while four tipped a bold move to 3.75 percent.

The RBA's decision will be announced at 2:30 p.m., along with a brief statement. The central bank raised rates by 25 basis points early in October, becoming the first in the G20 to tighten since the global credit crisis blew up. Australia was almost alone among developed economies in dodging recession, thanks in part to aggressive stimulus, a sound banking system and Chinese demand for its commodities. Its relative outperformance was highlighted by the Labor government's mid-year financial review.

The government now sees economic growth of 1.5 percent for the year to end-June 2010, compared to a contraction of 0.5 percent just six months ago. It also markedly lowered its forecast for the peak in unemployment to 6.75 percent, down from 8.5 percent previously.

That in turn meant smaller budget deficits in years to come, with Treasurer Wayne Swan predicting a return to a surplus as soon as 2015/16.

The government's measure of national house prices rose 4.2

percent in the third quarter, from the previous quarter, handily topping forecasts for a 3.0 percent increase.

That left prices up 6.2 percent on the year, recovering all the losses suffered during the global credit crisis and even surpassing the previous peak from early 2008.

The central bank is not entirely pleased with this strength, however, warning that rising house prices have a social cost. It was a bubble in house prices that ultimately led the United States into its worst recession since the 1930s. "With unemployment fears easing and consumer and business confidence soaring, low interest rates in the past six months have sparked a remarkable comeback in house prices," said Spiros Papadopoulos, an economist at National Australia Bank.

"But the latest large gains are not sustainable, adding to the need for the RBA to continue on its tightening cycle."

Still, there was favourable news on inflation on Monday as a private gauge of price pressures fell to its lowest in seven years. The TD Securities-Melbourne Institute's measure dropped 0.3 percent in October, slowing the annual pace to 1.2 percent.

That was the sixth straight month under the RBA's long-term target of 2 to 3 percent.

"Purely on inflation grounds there could be a case for pausing," said TD's senior economist, Annette Beacher.

"However, as the RBA places more weight on Australia's export outperformance and strong trade links with China, a revival of house price inflation and the gradual normalising of market conditions, this means another hike to 3.5 percent remains the highest possible outcome," she added.

The RBA has said it wants to gradually remove stimulus and move rates toward neutral, which analysts tend to see as anywhere from 5 to 6 percent. Opinion is divided on how quickly it might get there, though more than a few think it could be as soon as the end of next year.

Debt mountain looms but euro zone can climb it

By Brian Love

PARIS (Reuters) — Europe faces a massive bill as it grapples with the aftermath of recession and the cost of economic stimulus steps, but the surge in government debt looks manageable for the 16 countries that enjoy the protection of euro zone membership.

Europe's monetary union has survived the toughest test since it was launched in 1999, and continues to shelter even its most fragile and indebted economies from fears of default.

When Moody's announced on Thursday that it might downgrade Greece, the most indebted euro zone country after Italy, the spread of 10-year Greek government bond yields above German debt rose to around 144 basis points from 136 bps a day earlier.

But the spread remained well below the past decade's peak of 299 bps, hit at the height of the economic crisis in February, and far below the spread for the most heavily indebted European countries outside the euro zone. The spread for Poland is now around 290 bps.

Much of the markets' calm over soaring debt in euro zone members is due directly to the single currency; membership of the strong euro has removed the danger of currency crises in indebted countries such as Greece.

Also, although the European Union does not guarantee the government debts of its members, markets see an implied guarantee — they think the EU would probably find some way to assist those countries if debt burdens became too heavy.

German finance minister Peer Steinbrueck fuelled that belief in February by saying: "If it came to a serious situation, all of the euro zone countries would have to help."

The result is a "ringfence" around the euro zone which is sheltering countries from some of the worst consequences of rising public debt, and is working better than many analysts predicted when the euro zone was created.

"The ringfence is here to stay...the challenge now will be in stopping the less fiscally responsible countries from abusing the system," said Marco Annunziata, London-based chief economist at UniCredit bank.

Demand for debt

Ultra-low interest rates, a renewed appetite for risk among cash-flush investors and the possibility that tougher capital rules for banks could boost demand for sovereign debt, are also helping governments finance their immediate needs, said Philippe Mills, head of France's debt management agency.

This buys them time to work on plans to stabilize public finances in the medium term — the next five years or so.

There is little doubt that such plans will be needed. Public spending cuts and tax rises for countries such as Greece and Ireland may need to be as drastic and painful as the package that turned Sweden's public deficit from 11.2 percent of gross domestic product in 1993 to a surplus of 3.7 percent by 2000.

Greece's new Socialist government revealed last week that it was now expecting a deficit this year of 12.5 percent, instead of the 6 percent which the last government had declared. Ireland is struggling to rein in a deficit which Dublin expects to hit about 12 percent this year, from around 7 percent in 2008.

But Jens Hendrickson, an aide to Prime Minister Goran Persson during Sweden's debt crisis, says careful policy choices can help clear up debt mountains much faster than initially predicted.

Sweden's total public debt fell from more than 80 percent of GDP in 1994 to 53 percent by 2000, despite a warning by the Organization for Economic Co-operation and Development in 1994 that it risked swelling to 128 percent.

It is possible that euro zone countries could enjoy similar improvement early next decade, partly because stricter rules for bank capital after the financial crisis could increase demand for safe, liquid investments to meet those rules, said Barclays Capital economist Laurence Boone.

New rules being suggested by Britain's Financial Services Authority could eventually raise the amount of liquid capital required of banks there from 220 billion pounds now to 600 billion, and mooted changes in the United States could lift needs from \$1.1 trillion today to as high as \$2.2 trillion within four years, Boone estimated.

"There's going to be a colossal appetite for safe, very liquid paper," she told a conference in Paris this month. "It's an appetite that's going to last...which will allow a lot of the sovereign issue load to be absorbed."

Sweden's predicament after a banking crisis, recession and fiscal expansion at the start of the 1990s was not unlike the current situation for the most indebted European countries — though OECD officials note that debt burdens in the 1990s were lightened by falling interest rates, while euro zone rates can be expected to rise in coming years as the economy strengthens.

Italy, which had a public debt to GDP ratio of 105.8 percent of 2008, spent more than 80 billion euros, or about 4.9 percent of GDP, in interest payments alone, according to OECD data.

That is twice the average for the euro zone as a whole, where debt is set to rise from 66 percent of GDP in 2007 to 77.7 percent in 2009 and 83.8 percent in 2010, according to European Commission forecasts.

The commission expects the aggregate public deficit climb to 6.5 percent from 0.6 percent of GDP over the same period.