Global recession watch

MARCH 31, 2009

A daily monitor of developments of the global economic recession prepared by the Monetary Policy Department, Central Bank of Nigeria

AFRICA:

Zain Africa to Outsource, Lays Off 141 Workers in Kenya

Kuwaiti mobile phone giant Zain will cut 141 jobs in Kenya as part of a pre-planned restructuring it hopes will help it weather the global economic downturn, its Africa chief executive officer said on Monday, March 30, 2009. Chris Gabriel said the operator was introducing a new business model, first rolled out in Saudi Arabia in 2007, and outsourcing some functions. "It will enhance and assist our position as we navigate through the crisis," Gabriel said, adding that the timing of the implementation had been planned before the financial crisis. Gabriel said it was too early to work out what the programme would cost or save Zain adding that studies would be carried out in other countries where Zain operates to determine whether more job cuts were required. "Kenya is the first and we are looking at all the operations progressively," he said.

The telecom firm which is majority-owned by Kuwait's sovereign wealth fund aims to be a top 10 global operator with 110 million customers by 2011. But in Kenya Zain has lagged behind its chief competitor Safaricom with about 3 million subscribers compared with Safaricom's 13.3 million, which represents 77 percent of the market share. Gabriel identified services to be outsourced to include network building, operations and information technology systems. He noted that Zain planned to spend $1–$2 billion on its 16 operations in Africa, adding that they were constantly looking for new acquisitions. "We still see Africa as the growth market of the world. We see continuous opportunities," Gabriel told reporters, citing the continent's low rate of mobile phone usage, which is estimated at about 30 percent of the population.

Source: Bloomberg.com, March 31, 2009

MIDDLE EAST:

Cuts in Share Prices of United Arab Emirates’ Telecommunications Firms on Economic Slowdown

Emirates Telecommunications Corp. and Emirates Integrated Telecommunications Co., the United Arab Emirates' two phone companies, had their share-price estimates reduced at Al Mal Capital, citing the global economic slowdown. "The result of this crisis could lead to a reduction in population growth for the U.A.E., which has been one of the key drivers for increased subscriber numbers over the last few years," Al Mal analysts observed today, March 31, 2009. "We project the U.A.E. population could ease by 4.2 percent in 2009 and by a further 1.2 percent in 2010 before resuming growth by 3 percent in 2011." Al Mal cut the price estimate for Etisalat to 18.68 dirhams and for Du to 2.84 dirhams, while maintaining the "outperform" recommendations on both stocks. Etisalat closed up 0.4 percent at 13.8 dirhams yesterday and Du declined 0.9 percent to 2.26 dirhams.

Source: Bloomberg.com, March 31, 2009

Highlights

♦ Africa: Zain Africa to Outsource, Lays Off 141 Workers in Kenya
♦ Middle East: Cuts in Share Prices of United Arab Emirates’ Telecommunications Firms on Economic Slowdown
♦ Asia: Japan’s Unemployment Rate Rises to a Three-Year High, Wage Tumbles
♦ America: Federal Reserve Leads ‘Stress Tests’ of U.S. Banks
♦ Europe: Brown, Taking a Pay Freeze, Says U.K. Must Not Reward Failure
♦ BRIC Countries: Russia’s Stocks Gain, Extending Best Monthly Rally in Nine Years
Japan’s recession deepened as the unemployment rate surged to a three-year high, wages fell and job openings plunged at the fastest pace in three decades. The unemployment rate rose to 4.4 percent last month from 4.1 percent in January, the statistics bureau reported today in Tokyo. The ratio of jobs available to each applicant tumbled to 0.59 from 0.67, the biggest drop since 1974, the Labor Ministry said.

Companies from Toyota Motor Corp. are laying-off thousands of workers, increasing pressure on the government to give more assistance to the nation’s jobless, most of whom don’t receive benefit. Finance Minister Kaoru Yasano said the government plans to unveil a stimulus package in mid-April 2009 that will include aid for the unemployed. “We don’t think this is the ceiling for the unemployment rate,” said Kyohei Morita, chief economist at Barclays Capital in Tokyo, who expects it to reach a record 5.7 percent this year.

Prime Minister Taro Aso will explain his newest stimulus package to the press in Tokyo today (Tuesday, March 31, 2009), before heading to the Group of 20 summit in London, Chief Cabinet Secretary Takeo Kawamura said. Since he took office in September, Aso has announced stimulus measures in two plans totaling 10 trillion yen ($102 billion). “We want to compile it as soon as possible,” Yosano told reporters in Tokyo after meeting with Aso. Measures “should prevent the economy from falling apart and will focus on alleviating concern about job security.” Some 77 percent of jobless people aren’t getting unemployment benefits, the highest figure among Group of Seven nations except Italy, whose data weren’t available, the International Labour Organization said in a report last week. “The policy response has been pretty slow in creating a safety net for unemployment, which is putting downward pressure on the whole economy,” said Noriaki Matsuoka, an economist at Daiwa Asset Management Co. in Tokyo.

Wages slid 2.7 percent as a record slump in exports forced manufacturers to slash production and overtime. Household spending fell 3.5 percent, a 12 month decline, indicating domestic demand is unlikely to make up for the collapse in exports. Purchases by consumers account for more than half of the economy.

Japan is heading for its worst recession since World War II as demand for its cars and electronics evaporates. Exports fell an unprecedented 49.4 percent in February from a year earlier. Factory output slid 9.4 percent from January, when it declined a record 10.2 percent, a report showed yesterday (Monday, March 30, 2009). Suzuki Motors Corp., Japan’s fourth-largest automaker, announced yesterday that it would shut some domestic factories for up to seven days next month to get rid of inventories. Overtime compensation dropped an unprecedented 18.5 percent last month as manufacturers cut extra working hours by a record 47.7 percent, today’s Labor Ministry report showed.

The unemployment rate will reach a postwar high of 5.5 percent in the first quarter of next year, according to the median estimate of 14 economists surveyed by Bloomberg News. Toyota, the world’s largest automaker, this month said it will almost halve recruitment of graduates in Japan to the lowest in 14 years after forecasting its loss in almost six decades. NEC, Japan’s largest personal computer maker, said its plans to cut new hires by almost 90 percent to 100 people. NEC reported in January that it will eliminate 20,000 jobs worldwide and Toyota plans to trim its workforce by at least 3,000.

Source: Bloomberg.com, March 31, 2009
The US Federal Reserve has taken the primary role in determining how much new capital the nation’s biggest banks need to weather the economic slump. Senior government officials have reported that putting the Fed in charge may help ease concern that different assessments by different agencies would lead to some firms being judged less strictly than others. Treasury Secretary, Timothy Geithner stated that he anticipates the results, due by the end of April, will result in “large” capital needs for some companies, offering investors a way of differentiating between weaker and stronger lenders.

Fed examiners are deployed alongside counterparts from three other agencies that oversee parts of the 19 banks that are involved in the so-called stress tests. “You could argue this is a systemic risk issue and it is good to have another regulator step in and assert a uniform set of standards,” said Kevin Fitzsimmons, analyst at Sandler O’Neill & Partners LP in New York, and a former bank examiner at the Federal Reserve Bank of Boston. “The Fed has its hands on every institution that is a holding company.”

All 19 of the firms under scrutiny, from American Express Co. and GMAC LLC to SunTrust Banks Inc. and Citigroup Inc., are bank holding companies, giving the Fed an overarching role.

The tests are designed to mesh with the administration’s effort to remove distressed mortgage assets from banks’ balance sheets, which have hampered lending to consumers and businesses. Officials aim to have the first purchases of the toxic assets by private investors financed by the government within weeks of the conclusion of the capital-need assessments. In an interview on March 29, 2009, Geithner disclosed that “Banks are going to have an incentive” to sell their devalued assets because they want to “go raise private capital from the markets”. However, it’s unclear whether most of the big banks will be willing to sell loans and securities at prices that may be below the current valuations on their balance sheets.

The economic projections by regulators’ assessments are based on two scenarios for the economy. The “baseline” forecast projected a 2 percent economic contraction and an 8.4 percent jobless rate in 2009, followed by 2.1 percent growth and 8.8 percent unemployment in 2010. The “alternative more adverse” scenario had a 3.3 percent contraction in 2009, accompanied by 8.9 percent unemployment, followed by 0.5 percent growth and 10.3 percent jobless in 2010.

The Treasury estimates it has about $135 billion left in the $700 billion financial-rescue fund enacted in October, 2008. Banks that already received government funding could also get a capital boost if the Treasury agrees to convert its preferred shares into common equity. The US Administration officials have not disclosed when they may need more rescue money and ask for congressional authorization.

Source: Bloomberg, March 31, 2009
a) Brown, Takes a Pay Freeze, Says U.K. Must Not Reward Failure

British Prime Minister Gordon Brown, who pledged to freeze his own salary last night, will today advise that U.K. companies should not award big bonuses to executives whose efforts have backfired. “Most people who have worked hard to build up their firm or shop don’t understand why any company would give rewards for failure or how some people have grown fabulously wealthy making failed bets with other people’s money,” Brown will advise religious leaders at St. Paul’s Cathedral in London.

The comments are aimed at quelling growing public anger about how much bankers are paid and laying the groundwork for a summit of leaders from the Group of 20 nations, which Brown hosts on April 1. Brown ordered a pay freeze for himself and fellow ministers as the government prepares to set pay for senior military officials, judges and other civil servants. Members of Parliament will get a 2.3 percent rise this year, taking their basic pay to 64,766 pounds ($91,858) a year. The government will respond to recommendations from a pay review commission today and must call an election no later than the middle of 2010. “We raise our children to work hard and to do their best and do their bit,” Brown will say, according to excerpts of the remarks released by his office. “We don’t reward them for taking risks that would put them or others in danger and we don’t encourage them to seek short-term gratification at the expense of long-term value.”

The Treasury has taken on more than 1 trillion pounds in liabilities and pledged 40 billion pounds to support the British banking system. Brown has also offered guarantees for another 585 billion pounds of toxic assets.

Source: Bloomberg, March 31, 2009

b) Italian Power and Gas Rates to Come Down as Oil Prices

Italy will cut electricity and gas rates for households following a drop in the price of oil. Petroleum in July surged to a record $147.27 a barrel in New York before plummeting to $32.40 amid a global economic slump, which reduced consumer demand. Most of Italy’s power plants run on fuel oil and natural gas. The Italian energy regulator’s benchmark price for natural gas, published to help customers choose suppliers, will drop 7.5 percent next quarter, the Milan-based Electricity and Gas Authority disclosed yesterday. Electricity tariffs will fall 2 percent.

The price reductions mean the average Italian family will spend 90 euros ($119) less a year on electricity and gas, the authority said. Enel SpA is Italy’s biggest power company. Most of the country’s natural gas is supplied by Eni SpA.

Source: Bloomberg.com, March 31, 2009
a) Brazil Sees Taxes As Economic Relief

As U.S. policy makers debate the best tonic to cure the country's ailing economy, Brazilians think they have figured it out: taxes. Brazil said Monday it is extending a tax break on auto sales and cutting taxes on building materials to help stimulate the economy. Finance Minister Guido Mantega also said the government is increasing taxes on cigarettes to bring in more revenue, and will exempt companies in the paper and pulp industry from paying income taxes.

The plan was not well received, as observers saw the moves as band-aid solutions to bigger problems. "I wouldn't expect this to have any major impact on Brazil's economy," said Paul Biszko, senior emerging markets strategist at RBC Capital Markets in Toronto. "They don't want to run up any fiscal deficits and they don't have the war chest that China does to be able to inject such stimulus." Biszko said Brazil's decision to start cutting interest rates later than other ailing countries, and its inability to inject meaningful amounts of money into the domestic economy, means it will lag behind in any meaningful recovery.

Brazil, which passed a fiscal responsibility law in 2000, has managed to lure investors by agreeing not to take on large deficits. While this has helped propel the country in investing terms, it seems now to be hindering its ability to kick-start its economy. In addition to the tax moves, Brazilian officials said they are counting on the domestic market to help the economy avert a recession through internal demand for goods.

Brazil, which passed a fiscal responsibility law in 2000, has managed to lure investors by agreeing not to take on large deficits. While this has helped propel the country in investing terms, it seems now to be hindering its ability to kick-start its economy. In addition to the tax moves, Brazilian officials said they are counting on the domestic market to help the economy avert a recession through internal demand for goods. The announcement comes as the Central Bank lowered its growth forecast to 1.2% this year, down from its December estimate of 3.2%. A weekly Central Bank survey of private economists is forecasting zero growth.

Earlier this month, Brazil's national statistics agency said in Rio de Janeiro Tuesday that the country's GDP fell 3.6% in the fourth quarter compared with the year-earlier period. The country blamed its companies, who have cut output and jobs in response to the global credit crisis.

Source: The Associated Press March 31, 2009

b) Russia’s Stocks Gain, Extending Best Monthly Rally in Nine Years

Russia stocks climbed, extending the biggest monthly gain for the benchmark RTS in nine years, as higher oil prices lifted energy producers and the government’s pledge to back financial firms buoyed banks. The 50-stock RTS rose 1.6 percent to 693.65 in Moscow, extending this month’s advance to 27 percent, its biggest gain since March 2000. The MSCI Emerging Markets Index of 23 developing countries has surged 14 percent in March, headed for its best month since 1993, even after a 6.4 percent slump in the previous two days.

OAO Rosneft, the biggest oil producer, rallied 5 percent. OAO Sberbank jumped 3.7 percent as Finance Minister Alexei Kudrin said Russia would spend up to 3 percent of its gross domestic product on support for banks. Oil, the nation’s main export earner, is set for the biggest monthly gain since June on speculation governments’ widening stimulus plans will boost the global economy and fuel demand. Crude advanced 1 percent to $48.87 a barrel in New York, helping lift the Micex Oil & Gas Index 3.6 percent today. “Today the picture looks better than for the past two trading sessions,” said Chris Weafer, chief strategist at UralSib Financial Corp. in Moscow. “It is the end of the quarter, and that will encourage some window-dressing buying, or selling restraint.”

Oil has risen 9.6 percent this month after U.S. Treasury Secretary Timothy Geithner unveiled a plan to remove toxic assets from banks. Oil sank 7.6 percent yesterday, the most in four weeks. The ruble-denominated Micex Index rose 2.8 percent to 784.53, and is up 18 percent this month. The ruble today advanced 0.5 percent to 33.8139 against the dollar. “Two days of sharp losses in global markets could attract some buyers back in,” said Marina Akopian, manager of the Hexam EMEA Absolute Return Fund in London. “It is a chance for those who missed the recent rally to enter the market at more attractive levels.”

Source: Bloomberg, March 31, 2009
The Indian banking system can easily weather a doubling of bad loans or a sudden spike in interest rates that can send bond yields soaring, a stress test of the system by a panel of top RBI and finance ministry officials reveals, highlighting the relative strength of banks in the country amid the turmoil in the global financial sector. The high-level committee on financial sector assessment headed by RBI deputy governor Rakesh Mohan also forecast economic growth at 8% in the medium term, as it concluded that India's banking sector was an oasis of stability in a global financial sector strewn with skeleton of once-mighty international banking.

The panel also suggested that the regulation of housing finance companies be transferred to RBI whose permission should be sought before any change in strategic shareholding.

The panel, which explored varying so-called "stress test" scenarios, said most Indian banks had raised enough capital and could easily cope with a steep jump in bad loans. If bad loans rise by 150% — in its worst case scenario — the panel concluded that the overall capital adequacy position of Indian banks falls to 10.6% in September '08 as against 11% in March '08. "Even under the worst case scenario, capital remained comfortably above the regulatory minimum," said the panel in its report released on Monday.

The other stress test involved an interest-rate shock and the committee noted that an overnight impact of a 244-basis point increase in bond yields resulted in an erosion of 19.5% of a bank's capital and reserves. "The capital-to-risk-weighted assets (CRAR) would reduce from 13% to 10.9% for a 244-basis point shock," it said, adding that only in case of 20 banks, which account for 36% of total assets, would the CRAR slip below the regulatory 9%.

The report, however, stated the increased dependence by several banks on wholesale funds was a problem area and suggested that these banks set aside additional capital if their dependence on borrowed funds does not decline.

Another cause of worry was the increase in the dependence on bulk deposits by some banks to fund credit growth. This could have liquidity and profitability implications, the report said, as it suggested considering a specific regulatory capital charge if dependence on "purchased liquidity" exceeded a defined threshold. The committee also noted that some public sector banks lacked the leeway to raise fresh equity capital, as they could breach their minimum prescribed government shareholding of 51%, and suggested mergers between state-run banks as the way out. "One option would be for the government to consider merging banks that are on the borderline of 51% state-ownership with banks where government holding is significantly higher," the report said. Until now, consolidation activity in the state-run banking sector has typically involved RBI forcing weak private banks to merge with stronger banks.

The panel warned that this flexibility enjoyed by RBI to force such mergers could be lost under the new competition act, which requires a 210-day wait period before such mergers can be brought into effect. The panel, jointly constituted by the government and the RBI in 2006, was half way through its report when the global financial crisis broke, forcing it to take a hard look at India's financial sector. In its approach to financial sector assessment, the committee has taken a three-pronged approach. The first objective was to assess financial sector stability. The second was to focus on developmental issues in the financial sector and the third was to look at how India was doing with regard to implementation of various international financial standards.

Source: economictimes.indiatimes.com, 31 Mar 2009
d) China Stimulus Won’t Offset Job Losses, ADB Says

China’s 4 trillion yuan ($585 billion) fiscal stimulus spending won’t create enough jobs, making unemployment the nation’s “most pressing issue,” the Asian Development Bank said. “Investment projects in the stimulus package will generate jobs, but not enough to absorb the growing labor surplus,” the ADB said. “Infrastructure projects are generally less labor-intensive than export-oriented manufacturing.” The ADB cut its forecast for China’s economic growth this year to 7 percent from 9.5 percent in a report released in Hong Kong today.

Central bank Governor, Zhou Xiachuan, said last week that “leading economic indicators are pointing to a recovery of economic growth” as stimulus spending kicks in. A collapse in exports because of the global recession has dragged growth to the weakest pace in seven years and cost the jobs of 20 million migrant workers. “The economy is reacting positively to the stimulus,” stated Robert Wihtol, the ADB’s Beijing-based country director. “Recent economic data suggest that fixed-asset investment, the most important driver of China’s economic growth, is robust.”

Growth will slow to “about 6 percent” this quarter from 6.8 percent in the fourth quarter and 9 percent for all of 2008, the ADB stated. Exports will fall about 4 percent this year because of the “dismal outlook for external demand” it disclosed. Still, stimulus spending will stabilize the economy in the second half and next year growth will rise to 8 percent, Wihtol said.

China will find it more difficult to create jobs than it has in the past, the ADB stated. Between 2000 and 2007, 13.6 million non-farm jobs were created each year as growth averaged 10.2 percent a year, the ADB disclosed. “Employment generation on this scale will be more difficult in the future because employment elasticity -- the rate of employment growth to GDP growth -- has declined in recent years,” the ADB disclosed. About 9 million jobs may be created this year by stimulus spending with growth in the region of 7 percent, said Wihtol. With 20 million migrant workers already jobless, that still leaves “quite a significant gap,” he added.

A report by the government-backed Chinese Academy of Social Sciences in December estimated that 1.5 million of 5.6 million graduates would not find jobs by the end of last year. The government should strengthen the country’s social protection programs, especially for migrant workers, the ADB stated. A better social safety net for welfare, retirement and education may encourage private investment “by reducing people’s precautionary saving,” the ADB disclosed. A stronger social safety net would help China rebalance its economy away from an emphasis on capital spending and exports, the lender said.

The government’s effort to rebalance the economy is “lagging in several areas” and it should hasten reforms, the report stated. Household consumption as a share of GDP was 36.3 percent in 2007, “one of the lowest ratios in the world,” the lender said. Stimulus spending will add as much as 4 percentage points of growth this year. Because this is concentrated on investment projects “it is unlikely to shift the growth pattern to one driven more by consumption, the ADB disclosed. The nation’s world record $1.9 trillion of currency reserves are forecast to rise to $2.2 trillion this year and to $2.5 trillion next year, the lender stated.

Source: Bloomberg, March 31, 2009