Global recession watch

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

AFRICA:

Namibia and Angola to build $7 billion power plant

Namibia and Angola plan to build a joint $7 billion hydro power plant on a river that runs along their common border to produce 400 megawatts of electricity, a senior government official said on Tuesday, April, 21, 2009. Daniel Zaire, the deputy director for electricity at the Namibian ministry of mines and energy, told Reuters the construction of the project on the Kunene river would start by next March, and would be carried out by Brazilian companies.The plant would be built on a 50/50 basis by the two countries despite the financial crisis, Zaire stated.

"The construction will take between five to eight years, and may kick off in March next year once all feasibility are completed," Zaire remarked on the sidelines of an Africa power conference in Johannesburg. "The project will be financed by the two governments, development agencies and some banks in South Africa," he said. He observed that reliance on imports from South Africa's state utility Eskom had put Namibia in a vulnerable position, and it wanted to widen its power supply alternatives.

Namibia, a producer of gold, diamonds, uranium and copper, faces a shortfall of power and imports electricity from neighbouring South Africa, itself beset by power shortages. Across the border, Angola, which rivals Nigeria as Africa's biggest oil producer and depends on oil exports for 90 percent of its income, suffers frequent power blackouts. Namibian power officials noted the country was expanding its power supply, but development of its big Kudu gas-to-power project, has again been delayed, partly due to disagreement over commercial terms, as well as technical difficulties in piping the gas from the ocean. The original plan was for Kudu to supply 800 MW of power under a joint development agreement with Eskom.

Bertholdt Mbuere, chief operating officer at Namibia's state utility NamPower, expects a decision to be reached on Kudu by August and noted that the parties involved would decide whether to have Eskom as part of the project, or whether Kudu would generate half its capacity to supply Namibia only. Mbuere observed that power expansion costs had risen, but he was confident that with government support, international funding and its own healthy balance sheet, NamPower would fund the projects.

"The crisis (which had seen power demand fall) is our window of opportunity to expand our generation capacity, bring up those projects which were in the pipeline, expedite them and bring them on-stream as soon as possible," he told Reuters. The country has rolled out a 13.9 billion Namibian dollar investment by 2013 to increase capacity, and expand its transmission network to cope with rising electricity demand from mine expansions in the country.

Source: Reuters.com, April 22, 2009

Highlights

- Africa: Namibia and Angola to build $7 Billion Power Plant
- Middle East: Gulf Banks Performance in the Financial Market
- Asia: Japan Export Slide Slows in Sign Recession May Ease
- America: US Government to Push Credit-Card Issuers to End Deceptive Policies
- Europe: Poland's Central Bank May 'Hold Off' on Rate Cut
- BRIC: Brazil Faces Growing Pressures

MIDDLE EAST:

Gulf Banks Performance in the Financial Market

Gulf banks led stocks higher, with Oman's benchmark index posting the world's second-biggest gain. Bank Muscat SAOG, Oman's biggest bank, appreciated by 8.5 percent, the most in three days. Dubai Islamic Bank, the United Arab Emirates' largest Islamic bank, rose to 4.4 percent.

Oman's Muscat Securities Market 30 Index rose 4 percent in Dubai. Abu Dhabi's ADX General Index gained 0.9 percent and Dubai's DFM General Index advanced 1.4 percent.

Currently, the vast majority of banks have more capital than they need to be considered well capitalized by their regulators.

The injection of much needed liquidity into Dubai coupled with the support from the federal government was cheered by the investor community and might have been responsible for the stock gains. Qatar and Saudi underperformed mainly due to negative news from Western world and participation of retail investors in the market. Despite the initiative by the Qatar government to purchase the investment portfolios of the local banks, market actively remained subdued.

Kuwait markets ended down despite strong action from the local government to support banks and rescue the economy. It would be recalled that Kuwait's Central Bank guaranteed 50 percent of new loans extended by local banks to investment firms in 2009 and 2010. This was in addition to rescue bill by the Kuwait cabinet which focused on providing urgent loans to companies facing cash flow crisis.

Source: Bloomberg.com, April 22, 2009

ASIA:

Japan Export Slide Slows in Sign Recession May Ease

Japan's export slump slowed in March, ending a four-month streak of records drops and adding to signs the recession may have started to ease. Overseas shipments slumped 45.6 percent from a year earlier, compared with February's unprecedented 49.4 percent plunge, the finance ministry announced today (Wednesday, April 22, 2009) in Tokyo.

Economists predicted a 46.4 percent drop. The drop in shipments to the U.S. and China, Japan's two largest markets, slowed. Federal Reserve Chairman Ben S. Bernanke stated last week the "sharp decline" in the U.S may be slowing. Goldman Sachs Group Inc. today raised its economic growth forecast for China to 8.3 percent this year from 6 percent previously, citing Premier Wen Jiabao's 4 trillion yen ($ 585 billion) stimulus package. "It would be premature to celebrate," stated David Cohen, director of Asian economic forecasting at action economics in Singapore. "There's no denying the Japanese economy is in its most severe recession since World War II, but at least it's not spiraling down any more."

Shipments to China sank 31.5 percent in March compared with a year earlier, after falling 39.7 percent in the previous month. Exports to the U.S fell 51.4 percent after dropping 58.4 in February. On a seasonally adjusted basis, exports rose 2.2 percent from February, the first increase since May. Reports from the U.S. also suggest that world trade may have bottomed. Shipments from the California ports of Los Angeles and long beach, which together handles about 40 percent of U.S. container traffic, grew on a month-to-month basis in February and March.

Japanese manufacturers' survey by the trade ministry last month indicated they plan to increase output in March and April, putting an end to five-month slump in output, after drawing down stockpiles at an unprecedented pace. Companies have been running down inventories at a faster pace than sales declines. Vehicles exports in the first three months of the year fell 63 percent, while demand dropped only 20 percent, according to Richard Jerram, chief economist at Macquarie securities in Tokyo.

Further reports have also indicated the recession is abating: confidence among consumers, merchants and small businesses all rose in March. "We're seeing that the ground is being built for the economy to hit bottom by the end of this year," said Hiroaki muto, a senior economist at Sumitomo Mitsui Asset Co. in Tokyo. "The pace of the recovery will be very moderate." Gross domestic product may have contracted at an annual 10.9 percent pace in the first quarter, economists surveyed by Bloomberg predict. The economy shrank 12.1 percent in the previous three months, the steepest drop since 1974.

Source: Bloomberg.com, April 22, 2009

"THERE'S NO DENYING THE JAPANESE ECONOMY IS IN ITS MOST SEVERE RECESSION SINCE WORLD WAR II, BUT AT LEAST IT'S NOT SPIRALING DOWN ANY MORE."

AMERICA:

a) US Government to Push Credit-Card Issuers to End Deceptive Policies

Executives from credit-card issuers including Bank of America Corp. and American Express Co. are set to meet with President Barack Obama in their fight against new limits on fees and interest rates. They are not likely to make much headway as Obama is pressing for consumer protections that go beyond proposals approved by a U.S. House committee and rules issued last year by the Federal Reserve.

As unemployment and unpaid credit-card bills rise, card issuers are under fire for policies that impose large late fees and boost interest rates on delinquent customers. Banks, reeling from the recession and credit crunch, say proposed restrictions will raise consumer costs, limit credit availability, and ultimately hurt more borrowers than they help. "It means less credit available to vast numbers of Americans at the very wrong time," said Ken Clayton, senior vice president of card policy at the American Bankers Association.

Industry leaders sought the White House meeting as they confront an outpouring of anger from cardholders and Congress. The executives are likely to hear from Obama about "some of the deceptive practices that we've seen," White House spokesman Robert Gibbs said. On April 22, the House Financial Services Committee voted 48- 19 to support a package of new restrictions including fee and rate limits. The full House could vote on the measure as soon as next week, and the Senate is considering a similar bill.

"It is time to put the government on the side of consumers," Representative Luis Gutierrez, an Illinois Democrat, stated. Treasury Secretary Timothy Geithner and economic adviser Lawrence Summers are to join Obama at the meeting in the Roosevelt Room of the White House. "The President believes new rules of the road for the credit-card industry are needed," senior White House adviser Valerie Jarrett said in a written statement. "We are also working with Congress on legislation that will promote simplicity, require transparency, demand fairness and ensure accountability."

Source: Bloomberg.com, April 22, 2009

BANKS, REELING FROM THE RECESSION AND CREDIT CRUNCH, SAY PROPOSED RESTRICTIONS WILL RAISE CONSUMER COSTS, LIMIT CREDIT AVAILABILITY, AND ULTIMATELY HURT MORE BORROWERS THAN THEY HELP.

b) Uruguay May Sell $600 Million in Local, Foreign Bonds

Uruguay plans to sell as much as $600 million in local and overseas bonds by 2010 to help finance a growing budget deficit, Deputy Economy and Finance Minister Andres Masoller disclosed. The South American country is looking to sell $300 million in local bonds this year and as much as $300 million in international bonds by 2010, Masoller stated in a telephone interview.

The foreign bonds may be denominated in dollars or yen. "This is going to help us cover a deficit that is growing more than expected," Masoller uttered. "We've had offers from a number of banks to sell our international bonds in yens, but this isn't decided yet".

The government forecasts the global slowdown will push Uruguay's budget deficit to 2 percent of gross domestic product, up from about 1.3 percent last year. Uruguay's $23 billion economy has been hurt by lower prices for commodity exports, including soybeans, and slumping industrial production.

Legislators with Uruguay's ruling Frente Amplio coalition agreed yesterday to back an increase in the country's debt ceiling by $100 million to $350 million this year and want the government to be able to exceed that limit by 100 percent. The measure still needs to be approved by congress, where allies of President Tabare Vazquez have a majority.

Source: Bloomberg.com, April 22, 2009

EUROPE:

Poland's Central Bank May 'Hold Off' on Rate Cut

Poland's central bank may refrain from a sixth consecutive reduction in the benchmark interest rate next week because the economy isn't "as bad as it seemed," policy maker Jan Czekaj said. "We have been cutting rates for a few meetings already and maybe the time has come to watch the consequences of previous reductions," Czekaj said in an interview in Warsaw on April 21, 2009. March economic reports provided grounds for "some holding off, but we have to wait for the full picture and the March retail sales figures will be of significant importance."

The Narodowy Bank Polski cut the seven-day reference rate to a record 3.75 percent last month, bringing the total reduction in borrowing costs to 2.25 percentage points since November. The string of reductions was triggered by evidence that the economy was slowing more than expected as its main trading partners in the European Union fell into a recession. The bank has more than halved its gross domestic product forecast for this year to 1.1 percent and the government has said its 1.7 percent expansion estimate, initially its worst-case scenario, is now the best-case outcome. Some analysts have predicted the economy may contract on an annual basis for the first time since Poland abandoned communism 20 years ago.

At last month's rate-setting meeting, Czekaj was the only one of 10 policy makers to say he feared a recession. Since then he's become "moderately optimistic," he said, as better-than- expected wage-growth figures in March and a slower-than-forecast drop in industrial production may be "positive indicators for coming months." The economy may grow about 1 percent, he said. The bank will hold its next meeting on rates on April 28-29, the day after retail sales data are released, an indicator Czekaj has described as key to gauging consumer demand. Czekaj expects second-quarter and third-quarter economic growth to be below zero, before the economy starts to recover.

Source: Bloomberg.com, April 22, 2009

"WE HAVE BEEN CUTTING RATES FOR A FEW MEETINGS ALREADY AND MAYBE THE TIME HAS COME TO WATCH THE CONSEQUENCES OF PREVIOUS REDUCTIONS,"

BRIC:

a) Brazil Faces Growing Pressures

As in the other emerging regions, financial sector stress and deleveraging in advanced economies are raising borrowing costs and reducing capital inflows across Latin America and the Caribbean. In addition, the decline in commodity prices is pounding large economies in the region including Brazil, which is among the world's major exporters of primary products.

Moreover, the economic slump in advanced economies— especially the United States, the region's largest trading partner—is depressing external demand and lowering revenues from exports, tourism, and remittances. Hence, the region is suffering from the same trifecta of shocks (the financial turbulence, which has greatly curtailed access to external funding; slumping demand from advanced economies; and the related fall in commodity prices, notably for energy) as the CIS economies.

In contrast, however, public and private balance sheets were relatively strong at the outset of the crisis in these economies, which were also less financially linked to advanced economies' banking systems. Thus, the decline in growth is generally projected to be less extreme than in the CIS or emerging European economies.

Domestic currencies have depreciated sharply and local banks' funding costs have increased, particularly for small and medium-size banks. The cost of external borrowing has also risen, since higher spreads on sovereign and corporate debt have been only partially offset by lower yields on U.S. Treasury bills, and capital flows to the region dwindled in the last quarter of 2008.

Source: Bloomberg.com, April 22, 2009

“THE SHARP DECELERATION OF WHOLESALE PRICE GROWTH IS A CLEAR INDICATION THAT INFLATIONARY PRESSURES HAVE EVAPORATED AND THE RESERVE BANK SHOULD NOW FOCUS MORE ON REVIVING ECONOMIC GROWTH,”

BRIC Contd.

b) India Wholesale-Inflation Rate Holds near 27-Year Low

India’s inflation held near a 27-year low, suggesting the central bank’s six interest-rate cuts since October may help spur growth without rekindling inflation. Wholesale prices rose 0.26 percent in the week to April 11 from a year earlier after gaining 0.18 percent the previous week, the commerce ministry said in New Delhi today. That was more than 0.10 percent increased expected by 21 economists in a Bloomberg News survey.

The wholesale price index may turn negative in the next few months though that shouldn’t be interpreted as deflation as consumer-price gains continue to run at near double-digits, according to central bank Governor Duvvuri Subbarao. The Reserve Bank of India this week cut borrowing costs to a record low to bolster an economy growing at the weakest pace since 2003. “The sharp deceleration of wholesale price growth is a clear indication that inflationary pressures have evaporated and the Reserve Bank should now focus more on reviving economic growth,” said Sherman Chan, an economist at Moody’s Economy.com in Sydney. “I expect the central bank to maintain a loosening bias in the coming months. .

Source: Bloomberg.com, April 21, 2009

Table 2: DEPRECIATION OF EXCHANGE RATES VIS A VIS US DOLLAR (END-PERIODS) - % CHANGE > 15%

COMPARATIVE EXCHANGE RATES (Currency Units Per US$) - % Change

CATEGORY	COUNTRY	CURRENCY	31-Dec-07	21-Apr-09	YTD % Change
OECD COUNTRIES	AUSTRALIA	Dollar	1.13430	1.42369	-20.33
	CANADA	Dollar	0.98810	1.23580	-20.04
	HUNGARY	Forint	172.91800	230.59000	-25.01
	ICELAND	Krona	62.00000	129.48000	-52.12
	KOREA	Won	938.20000	1,340.60000	-30.02
	MEXICO	Peso	10.91570	13.17500	-17.15
	NEW ZEALAND	Dollar	1.29190	1.80505	-28.43
	NORWAY	Krone	5.41100	6.80020	-20.43
	POLAND	Zloty	2.43500	3.41960	-28.79
	SWEDEN	Krona	6.44150	8.66250	-25.64
	TURKEY	Lira	1.17780	1.63943	-28.16
	UNITED KINGDOM	Pound Sterling	0.49920	0.68790	-27.43
NON-OECD COUNTRIES	RUSSIA	Ruble	24.54620	34.10430	-28.03
	BRAZIL	Reals	1.77050	2.23999	-20.96
	INDIA	Rupee	39.41000	50.36000	-21.74
	ARGENTINA	Peso	3.15003	3.72790	-15.50
	KAZAKHSTAN	Tenge	120.30000	150.33000	-19.98
AFRICAN COUNTRIES	KENYA	Shilling	63.97007	79.50000	-19.53
	ZAMBIA	Kwacha	3,900.15000	5,680.00000	-31.34
	SOUTH AFRICA	Rand	6.81000	8.95507	-23.95
	BOTSWANA	Pula	6.28472	7.57576	-17.04
	GHANA	New Cedi	0.99620	1.42851	-30.26
	MAURITIUS	Rupee	28.21620	34.07510	-17.19
	NIGERIA	**Naira**	**117.80000**	**147.47010**	**-20.12**

Sources: 1. IMF International Financial Statistics
2. Exchange-rates.org
3. Google Country Currency Converter
4. TED, CBN

Notes: 1.Depreciation (-). Appreciation (+)
2.*Euro Area:- Recorded less than 15% depreciation
3. **UEMOA Countires:- Recorded less than 15% depreciation