GLOBAL RECESSION WATCH

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AFRICA:

IMF Lending to Africa Set to Double

Lending by the International Monetary Fund to Africa is set to double this year as the region is gripped by the global economic crisis and more countries need aid, senior IMF officials said on Monday.The IMF has seen a sharp rise in demand for its loans from African countries this year as their balance of payments are hit by a sharp drop in revenue from exports, volatile commodity prices and falling foreign investment. In the first five months of this year the IMF has committed about $1.6 billion to Africa, compared to $1.1 billion for 2008 and $200 million in 2007.

"For the remainder of 2009 it is likely that the stock of our lending in Africa will double relative to where it stood at the end of 2008," said Roger Nord, mission chief to Tanzania and a senior advisor in the IMF's Africa Department. "This is clearly a reflection of what is happening in the world economy, but it is also a reflection of the IMF's conscious policy to scale up our assistance to Africa," he added. The increase is not only new lending for countries that graduated from IMF assistance during the decade of high economic growth but also increases in existing loan programs, said Nord.

Last week, the IMF approved a combined $545 million in emergency funding for Kenya and Tanzania, an example of countries that have followed sound economic policies but have been unable to escape the effects of the crisis. The IMF financing is designed to cushion falling currency reserves, while at the same time allowing countries to continue spending on vital infrastructure projects.

"We hope with this support and strong policies it will be able to weather this storm without any further damage," said Nord.

So far this year, the IMF approved financing to Ethiopia, Sao Tome and Principe, Ivory Coast, and Zambia. Others such as Ghana, Mozambique and the Democratic Republic of Congo have indicated they also plan to request IMF support. The IMF has sought to be more flexible in its bid to help low-income countries, doubling limits on its loans and streamlining conditions, including allowing for wider fiscal deficits in countries that can afford it. The IMF is also currently designing new lending instruments for its poorest borrowers, including a new precautionary program in which governments would not need to immediately tap the money.

"Where there is room the IMF has supported allowing fiscal deficits to widen. By our account that will be the case in close to 80 percent of our programs in Africa. But where there is no room this is not going to be possible." Nord told a conference call with reporters.

Michael Atingi Ego, an adviser in the IMF Africa Department and mission chief to Kenya, said foreign direct investment in many parts of Africa was either being put on hold or is slowing, especially related to the collapse in commodity prices .

Source: Reuters.com, June 2, 2009

Highlights

- Africa: IMF Lending to Africa Set to Double
- Middle East: Global Financial Crisis may Speed up Structural Shift in Dubai Economy
- Asia: Dollar Weakens Against Yen, Euro as Stocks Reverse Decline
- America: Morgan Stanley, JPMorgan, American Express Sell $7.7 Billion
- Europe: Bank of England Should Regain Oversight Powers Says Lawmakers

MIDDLE EAST:

Global Financial Crisis may Speed up Structural Shift in Dubai Economy

The composition of Dubai's economy will undergo a structural shift over the next few years toward sustainable long-term sectors such as transportation, healthcare, education, tourism and financial services. The global financial crisis has speeded up this process, Dr Omar Bin Sulaiman, Governor of the Dubai International Financial Centre (DIFC), told members of the Dubai Chamber of Commerce and Industry. The high- growth industries such as real estate will continue to be integral to the make- up of Dubai's economy.

Despite these shifts, trade remain a significant contributor to the emirate's gross domestic product (GDP), especially given the substantial investment in Dubai's transport and logistics infrastructure and the more than 200 destinations served by its seaports and airports.

With regard to the financial services sector, Bin Sulaiman said company applications to DIFC's regulator, the Dubai Financial Services Authority, are to date running higher in 2009 than over the same period in 2008. This means that the DIFC will continue to be a major driver of growth in the number of high-end professionals working in Dubai for both today and in the future.

Among many steps the government is taking in its primary role as infrastructure provider and business enabler is support for the skilled workers already in Dubai, through flexibility regarding Visas of those who have lost their jobs. Dubai's economy is witnessing the first signs of recovery and showing more confidence. According to the latest findings and figures profit rates in the banking sector have only dropped by four percent while assets increased by two percent.

Gulf News: June 2, 2009

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ASIA:

Dollar Weakens Against Yen, Euro as Stocks Reverse Decline

The dollar fell to its lowest level against the euro this year as stocks rallied and investor demand for the U.S. currency as a refuge waned.

The dollar also declined versus the yen as the MSCI World Index rose 0.4 percent and a spokeswoman for Russian President Dmitry Medvedev said emerging-market leaders may discuss the idea of a supranational currency. The euro weakened against the yen after Europe's jobless rate jumped to the highest level in almost 10 years. The pound strengthened to $1.65 for the first time since October.

The dollar depreciated 0.6 percent to $1.4240 per euro in New York, from $1.4159 yesterday. It touched $1.4283, the weakest level since Dec. 29. The dollar fell to 95.68 yen, from 96.59. The yen strengthened 0.4 percent to 136.23 per euro, from 136.78. The pound advanced to $1.65 for the first time since Oct.30, before trading at $1.6444, compared with $1.6443.

"Despite the more comforting words we've had from the Chinese to the U.S. overnight, it does seem that the world's reserve managers are still concerned about exposure to the dollar," said Ian Stannard, a foreign-exchange strategist in London at BNP Paribus SA.

Treasury Secretary Timothy Geithner, on a visit to China, said there will be demand for the record amount of debt the U.S. is selling.

The dollar stopped tracking 10-year yields because "supply factors due to the heavy issuance schedule of U.S. Treasuries may have distorted the term structure in a way that no longer reflected the likely path of monetary policy," Stolper wrote.

The Dollar Index fell 8.4 percent since April 20, when it reached a one-month high. Libor for 12-month loans in dollars dropped 35 basis points, or 0.35 percentage point, to 1.59 percent in the period.

The euro fell versus the yen after Europe's unemployment rate jumped to 9.2 percent in April, from 8.9 percent the previous month, more than the 9.1 percent predicted by the median estimate in a Bloomberg News survey of economists.

Signs that the 16-nation economy won't recover from the recession any time soon will give the European Central Bank more cause to reduce the main refinancing rate when it meets in two days' time, said Satoru Ogasawara at Credit Suisse Group AG.

Source: Bloomberg.com, June 2, 2009

AMERICA:

Morgan Stanley, JPMorgan, American Express Sell $7.7 Billion

Morgan Stanley, JP Morgan Chase & Co. and American Express Co. raised at least $7.7 billion after the Federal Reserve imposed additional capital requirements on firms seeking to repay U.S. rescue funds. Morgan Stanley, the sixth-largest U.S. bank by assets, sold $2.2 billion of common stock, the New York-based company said today in a statement. JPMorgan, the second-largest U.S. bank, sold $5 billion, and American Express, the top U.S. credit-card company, sold $500 million.

JPMorgan and American Express, which got aid from the Troubled Asset Relief Program, were among nine of 19 firms subjected to stress tests that were deemed to have no need for more capital. The stock sales help the companies comply with a rule that they show they can tap equity investors. Morgan Stanley, which last month raised $4.57 billion after regulators said it needed $1.8 billion, was told to raise more. None of the companies have yet won approval to repay U.S. rescue funds. JPMorgan Chief Executive Officer Jamie Dimon said on a conference call yesterday he would be "very surprised" if the bank isn't able to refund the government in full by the end of this month. Morgan Stanley said it also expects its share sale to enable the bank to repay TARP by the end of June.

JPMorgan sold 142 million shares for $35.25 each today, 2.4 percent less than yesterday's closing price, according to Bloomberg data. Morgan Stanley's 80.2 million shares were priced at $27.44 apiece, or 8.2 percent below yesterday's close on the New York Stock Exchange. American Express sold 19.8 million shares at $25.25, compared to $25.99 yesterday. Morgan Stanley said China Investment Corp. agreed to buy 44.7 million of the new shares and Mitsubishi UFJ Financial Group Inc. agreed to buy 16 million. JPMorgan, Goldman Sachs Group Inc. and Morgan Stanley have applied to refund a combined $45 billion of government investments, a step that would mark the biggest reimbursement to taxpayers since the $700 billion bank bailout program began in October. American Express will use money raised in its stock sale to partially repurchase $3.4 billion of preferred shares from the government. The company issued the shares to the Treasury's Capital Purchase Program, which is part of the TARP rescue plan. Bank of America Corp., the biggest U.S. bank by assets, said today it has raised almost $33 billion toward the $33.9 billion capital buffer the Fed said it needed to raise after the stress tests. It said it expects to "comfortably" exceed the capital target

Source: Bloomberg.com, June 2, 2009

RESPONSIBILITY FOR RAISING THE ALARM ON POTENTIAL CRISES SHOULD RETURN TO THE BANK OF ENGLAND,

EUROPE:

a) Bank of England Should Regain Oversight Powers Says Lawmakers

Rules created by U.K. Prime Minister Gordon Brown in 1997 to police the financial system have failed and contributed to the most recent crisis, lawmakers said. Responsibility for raising the alarm on potential crises should return to the Bank of England, the House of Lords Economic Affairs Committee said in a report today. Currently, there is an "inadequate definition of roles" between the central bank, the Treasury and the financial regulator, it said. "The tripartite regime in the U.K. was unable to fulfill principal purposes, namely financial stability," Lord Ian Vallance, chairman of the committee that scrutinizes Treasury policy in the upper chamber of Parliament, told reporters in London.

The report adds to criticism of Brown's decision as finance minister to strip the Bank of England of its supervisory role and hand it to a newly created regulator. That body, the Financial Regulatory Authority, showed a "lack of rigor" during the crisis that started in 2007, Lord Vallance said. The opposition Conservative Party has proposed restoring oversight powers to the central bank. The Treasury said Chancellor of the Exchequer Alistair Darling is studying proposals to overhaul supervision and will put out his recommendations by the time Parliament begins its summer recess on July 21. The government has already handed some power to the central bank with a new Banking Act introduced earlier this year.

The Lords' proposals would leave central bankers to decide whether to use public money to bail out a troubled institution. They leave open the role for elected politicians at the Treasury during a crisis. The report says the central bank's Financial Stability Committee, chaired by Governor Mervyn King, should lead the way in monitoring the health of the banking sector as a whole. It said top officials from the Treasury and FSA should sit on the panel. The committee "should now be given quite unambiguous control of macro prudential supervision to complement the bank's recently enhanced role for financial stability," Vallance said. Lords called for an increase in capital requirements for banks, central reporting and clearing for credit default swaps and greater oversight of the U.K. offices of foreign banks .

Source: Bloomberg.com, June 2, 2009

EUROPE Contd.

b) Latvian Adviser Says Country Will Devalue Currency

"...WE HAVE MOVED BEYOND THE QUESTION OF WHETHER THERE WILL BE A DEVALUATION AND SHOULD INSTEAD FOCUS ON HOW IT WILL BE CARRIED OUT"

Bengt Dennis, a former Swedish central bank governor and an adviser to the Latvian government on how to cope with the economic crisis, said the Baltic country will need to devalue its currency. "No one knows if there will be a devaluation tomorrow or in a few months -- the timeframe is always uncertain -- but we have moved beyond the question of whether there will be a devaluation and should instead focus on how it will be carried out," Dennis told Swedish state television SVT last night.

Latvia's economy shrank an annual 18 percent last quarter, the steepest slump in the European Union, as domestic demand collapsed and property values slumped the most in the world. The government is struggling to cut budget spending so it can continue to receive its international bailout, the terms of which assume an economic contraction of 12 percent this year.

Justice Minister Mareks Seglins said yesterday the government should debate a devaluation of the lats, the Baltic News Service reported. Seglins wants the central bank and the Finance Ministry to create estimates for possible gains or losses from a change in the value of the currency, Seglins said, according to the Riga-based newswire. "I am not calling for the devaluation of the lats, but there must be a debate," he said. Latvia in April appointed a group comprising Nordic and European economists and advisers to help the country cope with the crisis. The group also includes Sirkka Haemaelaeinen, a former Finnish board member of the European Central Bank.

Dennis was governor of Sweden's Riksbank during the Nordic country's banking crisis of the early 1990s. In 1992, he raised the repo rate to 500 percent for a few days to defend the the krona. The plan failed and Sweden was forced to abandon the krona's peg to the European Currency Unit, a basket of currencies of European Community member states. Dennis has also worked for SEB AB, the second-largest bank in the Baltics.

Source: Bloomberg.com, June 3, 2009

Table 1: 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	29-May-09	YTD % Change
OECD COUNTRIES	ICELAND	Krona	62.00000	123.26000	-49.70
	JAPAN	Yen	112.25000	96.50000	16.32
	KOREA	Won	938.20000	1,272.90000	-26.29
	MEXICO	Peso	10.91570	13.16670	-17.10
	NEW ZEALAND	Dollar	1.29190	1.60462	-19.49
	POLAND	Zloty	2.43500	3.18120	-23.46
	SWEDEN	Krona	6.44150	7.66000	-15.91
	TURKEY	Lira	1.17780	1.54185	-23.61
	UNITED KINGDOM	Pound Sterling	0.49920	0.61908	-19.36
NON-OECD COUNTRIES	RUSSIA	Ruble	24.54620	30.98430	-20.78
	INDIA	Rupee	39.41000	47.29000	-16.66
	ARGENTINA	Peso	3.15003	3.79799	-17.06
	KAZAKHSTAN	Tenge	120.30000	150.39000	-20.01
AFRICAN COUNTRIES	KENYA	Shilling	63.97007	78.50000	-18.51
	ZAMBIA	Kwacha	3,900.15000	5,198.58000	-24.98
	GHANA	New Cedi	0.99620	1.47504	-32.46
	NIGERIA	Naira	117.80000	148.16700	-20.50

Sources: 1. IMF International Financial Statistics http://www.imf.org/external/np/fin/data/rms_mth.asp

2. Exchange-rates.org: http://exchange-rates.org/currentRates/A/USD

3. Google Country Currency Converter: http://www.oanda.com/convert/fxdaily

4. TED, CBN:

Notes: 1.Depreciation (-). Appreciation (+)

2.*Euro Area:- Recorded 12.15% depreciation

3. **UEMOA Countires:- Recorded 10.05% depreciation