



# 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:

### **Botswana gets \$1.5 bn budget support from African Development Bank**

Botswana will receive a loan of \$1.5 billion from the African Development Bank (AfDB) for budget support to help the country recover from the global economic crisis, the AfDB said on Wednesday, June 03, 2009. The loan was to help Botswana fund a budget deficit estimated at 13.5 percent of GDP caused by falling commodity prices, particularly diamonds, which the southern African nation relies on for much of its budget revenue.

"The case of Botswana illustrates the impact that the financial crisis is hav-

ing on even the best managed economies in Africa," Donald Kaberuka, president of the AfDB, said in a statement.

The global economic slowdown has hit Botswana hard, slashing demand for its main produce, diamonds, and prompting the suspension and closure of some mines. Ratings agencies have warned that the economy faces deep contraction over the next two years. President Seretse Khama Ian Khama said on Tuesday that Botswana would seek World Bank and

AfDB funds to help ease the impact of the economic crisis. In their 2009 outlook, the AfDB and Organization for Economic Cooperation and Development forecast Botswana's economic growth as slowing to 2.6 percent in 2009 and 2.9 percent in 2010, from 3.9 percent in 2008.

The budget support loan is the largest facility of its kind granted by the AfDB and is the first of such borrowing by Botswana in 17 years.

*Source: Reuters.com, June 3, 2009*

## MIDDLE EAST:

### **U.A.E. April Inflation Slows To 1.9 % on Housing Cost**

Inflation in the United Arab Emirates, the Arab world's second-largest economy, slowed to 1.9 percent in April as the cost of housing eased.

Inflation across the Gulf is easing after reaching more than 10 percent in five of six countries in the region last year. Falling commodity and real

estate prices and a stronger dollar, to which the U.A.E. currency is pegged, have helped slow consumer price-growth.

The U.A.E.'s M1 measure of money supply fell 2 percent in April from March, the central bank said. The M3 money supply gained 1.9 percent over the same period.

Authorities need to maintain the policy of "injecting liquidity into the system if deflation is to be avoided or short-lived, and to maintain broadly stimulatory policies overall.

*Source: Bloomberg.com, June 3, 2009*

## HIGHLIGHTS

- ◆ **Africa:** Botswana gets \$1.5 bn budget support from African Development Bank
- ◆ **Middle East:** United Arab Emirates Plans To Ease Monetary Policy Further
- ◆ **Asia:** Japan's Economy No Longer in Freefall- Board Member
- ◆ **America:** Fed Said to Raise Requirements for Banks to Repay TARP Funds
- ◆ **Europe:** U.K. Consumer Confidence Increases to Six-Months High
- ◆ **BRIC:** Russian Currency Plan May Spur Financial System



**ASIA:*****Japan's Economy No Longer in Freefall- Board Member***

Bank of Japan Board member, Hidetoshi Kamezaki, said the world's second-largest economy is no longer in freefall and a recovery will soon take hold. He observed that the recovery could be undone if exports don't pick up, and highlighted the risk that deflation could arise if consumers start to expect prices to fall. He also observed that the pace of Japan's recovery will depend on how much exports improve once companies restock and whether spending at home holds up after the stimulus is exhausted. Prime Minister Taro Aso has pledged to spend 25 trillion yen (\$261 billion) to prop up the economy.

"Japan and Asian nations are seeing big rebounds in production ahead of the rest of the world," said Ryutaro Kono, chief economist at BNP Paribas SA in Tokyo. Still, "the revival is only being driven by inventory adjust-

ments, and it's not a sign that demand is beginning to surge. Factory output climbed 5.2 percent in April from March, the biggest increase in 56 years, as companies replaced stockpiles they managed to run down during the worst of the export collapse. Production is still only about two-thirds of last year's level and Kamezaki observed that it would take "considerable time" before output and sales fully recover.

"There's fair chance the Japanese economy could start declining again if the global recovery is weak and fails to provide much support for exports," said Kamezaki, who joined the policy board in April 2007. Job prospects and incomes are likely to deteriorate further, weakening household spending, and businesses will cut spending because of the "severe" profit outlook, he said.

Konica Minolta Holdings Inc., a maker of films used liquid-crystal displays, said yesterday that it will eliminate jobs and reduce spending on research to help save 33 billion yen (\$345 million) in costs this year. Japan's unemployment rate climbed to a five-year high of 5 percent in April and household spending slid for a record 14th month.

The central bank should be prepared to implement policies "in a proactive, swift manner" to bolster the economy if needed, Kamezaki said. Since lowering the overnight lending rate to 0.1 percent in December, the Bank of Japan began buying corporate debt from lenders to channel cash to companies and expanded its purchases of government bonds.

*Source: Bloomberg.com, June 3, 2009*

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**AMERICA:*****Fed Said to Raise Requirements for Banks to Repay TARP Funds***

Federal Reserve officials surprised bankers in the past week by demanding they raise specific amounts of new capital before repaying taxpayer funds, applying a more stringent assessment than the stress tests in May. JP Morgan Chase & Co and American Express Co. were told they need to boost common equity, less than four weeks after being informed they had enough to withstand a deeper economic slump. Morgan Stanley was directed to raise more funds after already selling stock to cover its stress-

test shortfall.

The central bank's further scrutiny signals concern at the political and economic dangers of having a bank boomerang back to government aid once it leaves the program. "The Fed doesn't want to be criticized for allowing people to repay this and then having the banks say we just don't have the capital to make loans now," said Lawrence Kaplan, a former attorney at the Office of Thrift Supervision who now works at law firm Paul, Hastings, Janofsky & Walker LLP in Washington.

"It's an exercise to make sure that no one is going to get criticized for allowing these redemptions."

The Fed's demands also partly reflect the biggest three-month rally in U.S. financial shares in at least two decades, which has made it easier for banks to raise the funds. The central bank said in a June 1 statement that the biggest 19 lenders "must successfully demonstrate access to public equity markets" before repaying TARP money.

## EUROPE:

### *U.K. Consumer Confidence Increases to Six-Months High*

U.K. consumer confidence increased in May to the highest level in six months as shoppers became more hopeful that the economy will emerge from recession, Nationwide Building Society said. An index of sentiment rose 2 points to 53, Britain's biggest customer-owned lender said in a statement today. It based the report on a survey of 1,001 people taken from April 20 to May 17.

A gauge of consumers' expectations for the future rose 5 points to 76, while a measure of their willingness to make a major purchase climbed by 1 point to 101, Nationwide said.

The index of attitudes on the present situation fell to 17 from 21. Shoppers were more willing to add debts on their credit cards in April, raising net consumer credit by six times from the previous month to 314 million pounds (\$519 million), the Bank of England said yesterday. It also said that banks granted 43,201 home loans in April, up from 40,038 in March.

Other data have signaled improvement in the housing market. Hometrack Ltd. said on June 1 that its survey of real-estate agents showed average house prices in England and Wales held at

155,600 pounds in May after falling 0.3 percent in April. A Nationwide report last week showed home values jumped by the most since 2007. The labour market shrank at a slower pace in May, KPMG and the Recruitment and Employment Federation said in a separate report. A measure of permanent staff appointments by job consultants increased to 41.7, the highest in 10 months, from 37.3 in April. Results below 50 indicated contraction

*Source: Bloomberg.com, May 13, 2009*

U.K. CONSUMER  
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### *Contd. from page 2. Dollar Falls to Seven-Week Low ...*

Goldman Sachs Group Inc. hasn't been required to seek any more funds since the firm raised \$5.75 billion by selling shares in April. The firm sold \$1.91 billion of stock in Industrial & Commercial Bank of China Ltd. this week, of which about half is owned by funds managed by Goldman Sachs. That sale was unrelated to any capital raising requirements, the person said.

JPMorgan Chase & Co. Chief Financial Officer Michael Cavanagh told analysts on a conference call June 1 that the New York-based bank was informed by regulators it needed to raise \$5 billion in common equity. JPMorgan announced it would sell that

amount. Morgan Stanley, JPMorgan and American Express raised at least \$7.7 billion this week as they learned of the new hurdles to leave the TARP. Morgan Stanley was judged in last month's stress tests to need an additional capital buffer of \$1.8 billion. The New York-based bank then raised \$4.6 billion in common equity, only to be told this week it needed \$2.2 billion more to repay TARP.

The 19 largest U.S. banks have more than \$200 billion of preferred equity shares owned by the Treasury. The TARP program became a stigma for banks after the government set compensation limits and began criticizing the expenses of

companies receiving aid. If banks repay TARP funds next week, "politically, the administration can claim a victory," said Dinos Kos, managing director at Portales Partners LLC and a former New York Fed executive vice president. "They can claim TARP is working, we're getting our money back and making a profit. But there are more shoes to drop in commercial and industrial loans, leveraged loans, and real estate."

*Source: Bloomberg.com, June 3, 2009*

**BRIC:**

**a) Russian Currency Plan May Spur Financial System**

Russia's proposal to create a new supranational currency may lay the foundation for a future financial system and reduce global vulnerability to movements in the dollar, President Dmitry Medvedev said.

Medvedev has proposed regional reserve currencies as part of the drive to address the global financial crisis. Russia's submissions to the Group of 20 meeting in London in April included studying the establishment of a supranational currency.

A "precursor" to such a currency already exists in form of the International Monetary Fund's Special Drawing Rights overdraft facility, Medvedev said. The G-20 did not discuss the proposal, because it was a matter "for the future" and may have rattled currency markets, he said.

"This is unrealistic," said Elina Ribakova, Moscow-based chief economist at Citigroup Inc. "A supranational currency could make sense for countries with international economies and business cy-

cles and clearly this is not the case for the BRIC. What we are seeing is a public expression of discontent over the dollar, yet nobody knows what needs to be done specifically."

A new world currency may be on the agenda when Medvedev meets his counterparts from Brazil, India and China on June 16 at a summit in the Ural Mountains city of Yekaterinburg, the Kremlin said.

*Source: Bloomberg.com, June 3, 2009*

**b) Indian Rupee Climbs to Seven-Month High as Capital Inflows Rise**

India's rupee rose to a seven-month high as overseas funds added to their biggest monthly investment in the nation's stocks since October 2007. The currency gained against the dollar for the fifth time in six days on optimism signs the global recession is abating will boost investor appetite in emerging-market assets. India's Bombay Stock Exchange Sensitive Index of shares has jumped 53 percent so far this quarter.

The rupee strengthened as much as 0.5 percent to 46.775 per dollar, the highest level since Nov. 5 and traded at 46.782 as of 10 a.m. in Mumbai, according to data compiled by Bloomberg. The currency is up 8.4 percent this quarter, the third-best per-

formance among the 10 most-traded Asian currencies.

Offshore contracts indicate bets the rupee will trade at 46.94 to the dollar in a month, compared with expectations of 47.17 yesterday. Forwards are agreements in which assets are bought and sold at current prices for future delivery. Non-deliverable contracts are settled in dollars rather than the local currency. The rupee will rise from an 18-month high versus the yuan as the South Asian nation's limited reliance on exports helps it weather the global economic slump, Standard Chartered Plc said.

The Indian currency climbed 6.2 percent against the yuan in May, the biggest monthly gain

in at least a decade, as India's trade deficit narrowed by 49 percent since November, while China's surplus fell by 67 percent. Exports are equivalent to 15 percent of the Indian economy, compared with more than 60 percent in China. The rupee gained 0.7 percent this week to 6.861 per yuan and has risen 11 percent from a record low of 7.628 on March 3, partly driven by the victory of India's ruling Congress party in May elections. Standard Chartered forecasts the rupee will climb 4 percent to 6.63 by the end of the year .

*Source: Bloomberg.com, May 13, 2009*

A NEW WORLD  
CURRENCY MAY BE ON  
THE AGENDA WHEN  
MEDVEDEV MEETS HIS  
COUNTERPARTS

Table 1: DEPRECIATION OF EXCHANGE RATES VIS A VIS US DOLLAR (END-PERIODS) - % CHANGE &gt; 15%

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

CATEGORY	COUNTRY	CURRENCY	31-Dec-07	2-June-09	YTD % Change
OECD COUNTRIES	ICELAND	Krona	62.00000	121.10000	-48.80
	JAPAN	Yen	112.25000	96.30000	16.56
	KOREA	Won	938.20000	1,248.70000	-24.87
	MEXICO	Peso	10.91570	13.26090	-17.69
	NEW ZEALAND	Dollar	1.29190	1.54178	-16.21
	POLAND	Zloty	2.43500	3.17890	-23.40
	TURKEY	Lira	1.17780	1.52364	-22.70
	UNITED KINGDOM	Pound Sterling	0.49920	0.60783	-17.87
NON-OECD COUNTRIES	RUSSIA	Ruble	24.54620	30.73210	-20.13
	INDIA	Rupee	39.41000	47.14000	-16.40
	ARGENTINA	Peso	3.15003	3.80162	-17.14
	KAZAKHSTAN	Tenge	120.30000	150.22000	-19.92
AFRICAN COUNTRIES	KENYA	Shilling	63.97007	78.21110	-18.21
	ZAMBIA	Kwacha	3,900.15000	5,030.00000	-22.46
	SOUTH AFRICA	Rand	6.81000	8.06500	-15.56
	GHANA	New Cedi	0.99620	1.47627	-32.52
	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](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 Countries:- Recorded 10.05% depreciation