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EU follows China in pump priming

Rate cuts reflect alarm in Beijing as growth slows

By Keith Bradsher

HONG KONG: China's central bank cut interest rates by more than a full percentage point Wednesday, the largest Chinese rate reduction since the Asian financial crisis of a decade ago and the latest sign of worries in Beijing about the slowing of the Chinese economy.

The cuts came the day after a violent protest by hundreds of jobless workers near Hong Kong, and five days after top Chinese officials warned that the economy was still deteriorating and that dissent and threats to social stability would be crushed.

The Chinese Communist Party has based its legitimacy to a considerable extent in recent years on its ability to deliver strong economic growth. The party has watched with alarm this autumn as growth has slowed sharply, mainly because of a deceleration in exports and a downturn in the real estate market.

The People's Bank of China, the central bank, announced Wednesday that it was lowering by 1.08 percentage points the one-year lending and deposit rates that banks are allowed to charge, effective Thursday. The new lending rate is 5.58 percent and the new deposit rate is 2.52 percent.

The central bank had already cut the benchmark lending rate three times since Sept. 16 and the benchmark deposit rate twice, by 0.27 percentage point each time.

The one-year lending rate is important because banks use it to calculate many other interest rates in China, based on the maturity of the loan and the creditworthiness of the borrower. The reduction announced Wednesday was the largest since the central bank cut the rate by 1.44 percentage points in October 1997, at the height of the Asian financial crisis.

Interest rates on many outstanding loans are adjusted at the start of each year. So reducing rates now will soon leave businesses and consumers with lower interest payments and more money left over to spend.

The central bank announced its decision in a brief statement that did little to explain the thinking behind the move. "In order to implement a flexible monetary policy, to ensure the fluidity of the banking system, to ensure stable growth of credit and to demonstrate the positive role that monetary policy plays in the support of economic growth, the People's Bank of China has decided to make downward adjustments" in interest rates and reserve requirements, it said.

It also reduced the percentage of assets that large banks must hold as reserves by one percentage point, and cut the reserve requirement by two percentage points for smaller banks. That freed banks to lend more of their assets to consumers and businesses. While demand for residential mortgages has

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€200 billion plan risks running into national resistance

By Stephen Castle and David Jolly

BRUSSELS: The European Commission on Wednesday outlined a €200 billion wish list of measures for Europe to spend its way out of recession, and gave national capitals permission to temporarily break budget deficit ceilings if needed.

The stimulus package, if fully implemented, would represent around 1.5 percent of the 27-nation bloc's gross domestic product. That was larger than had been expected, but its success depends on the willingness of larger European countries to inject big sums into their economies.

The French president, Nicolas Sarkozy, has already announced his intention to introduce what he called a "massive" new stimulus package next week, including help for the auto and construction industries. But Germany has so far resisted adding to its plan, announced this month, which has been criticized by the government's own economic advisers as too little.

"We should not get into a race for billions," the German chancellor, Angela Merkel, told the Bundestag, the lower house of Parliament, on Wednesday.

Still, EU officials said the European Commission president, José Manuel Barroso, consulted with the French, German and British leaders before he decided on the ambitious target in his plan, the equivalent of $257 billion.

"Exceptional times call for exceptional measures," Barroso said. "The jobs and well-being of our citizens are at stake. Europe needs to extend to the real economy its unprecedented coordination over financial markets. This recovery plan is big and bold, yet strategic and sustainable."

Just Tuesday, the Organization for Economic Cooperation and Development predicted that the economies of the 15 countries of the euro zone would contract next year by a combined 0.6 percent, and economists have begun speaking of 2009 as a "lost year."

The European Commission, which serves as the European Union's executive arm, has been criticized by some for playing only a peripheral role in the financial crisis, despite its power to propose new regulations. The plan Wednesday is an even bigger gamble because Barroso has little power to make the package a reality: The big money remains in the hands of member states.

Most of the new spending in the

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EU offers €200 billion plan to stimulate grow

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commission's proposal — about €170 billion — would come from member governments, some of which has already been announced. The remaining €30 billion would come from the budgets of the EU itself and the European Investment Bank.

Daniel Gros, director of the Center for European Policy Studies in Brussels, called the package "mostly a PR exercise."

"I think the numbers are completely misleading and useless," Gros said. "The only meat would have been telling Germany, for example, that it needs to do more and what it needs to do. But they have avoided telling specific countries what to do."

Even the proposal to bring forward €6.3 billion in planned EU spending, and to use a further €5 billion budget surplus, requires approval from national governments and, some cases, the European Parliament.

The commission said, however, that providing a framework to coordinate national spending moves is vital if confidence is to be restored.

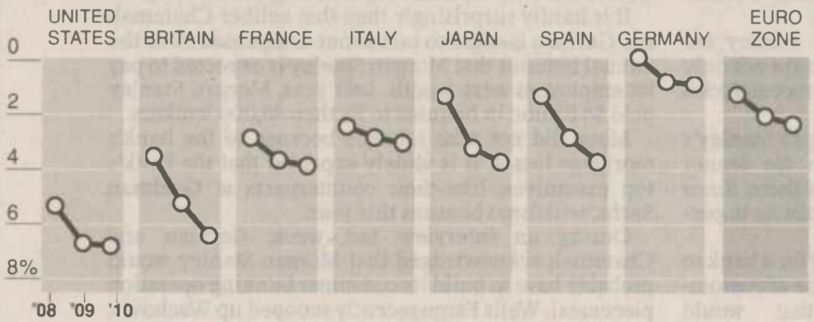
In compiling his proposal, Barroso rejected calls for direct aid for the automotive industry, although it may benefit from loans from the European Investment Bank. He also resisted pressure from Germany to insist that each country should make an equal effort to stimulate the economy, regardless of its economic position.

"We're not going to ask countries that are under programs of the IMF to increase their spending," he said, referring to Hungary, which in October worked out a $25 billion aid package

Deficit spending on the rise

In response to the economic downturn, the European Union has said that its rules that limit deficit spending to 3 percent of GDP will be applied with greater flexibility. U.S. deficits are expected to far exceed levels of other major economies.

GOVERNMENT BUDGET DEFICITS AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT



Source: Organization for Economic Cooperation and Development

with the International Monetary Fund.

Barroso also shied away from suggesting which countries should be required to inject more spending. One plan had been to place each of the 27 member states into one of three categories relative to their budgetary positions. But that was scrapped after complaints from national governments, including Britain's.

"On the face of it, it's more ambitious than the 1 percent of GDP that had been expected," said Gilles Moëc, senior economist in London for Bank of America. But with only €30 billion of the total package coming from European institutions, "I'm a bit circumspect in the absence of tangible commitments from national governments."

After meeting Monday in Paris, Merkel and Sarkozy rejected a coordinated cut in sales, or value-added, taxes, as Britain had just done.

Germany's €23 billion package is intended to prompt investments of up to €50 billion over the next two years.

"We assume the current package will be sufficient," Thomas Steg, a spokesman for Merkel, said at a regular news conference in Berlin. He said there would be another look at the situation in January.

Sarkozy has yet to put a figure on his plan. No equivalent measures have yet been produced by the United States since a $100 billion in tax rebates last summer, although one is expected soon after President-elect Barack Obama takes office in January.

Johannes Laitenberger, spokesman for the European Commission, said that EU governments would be asked to sign up to the general objective of percent stimulus, but that no e would be made to bind countries specific targets. "They will be askec endorse this and we are confident tl this figure will be attained or even e ceeded," Laitenberger said.

Meanwhile the EU monetary affai commissioner, Joaquín Almunia, sai that countries that breached the defici ceiling of 3 percent of GDP would stil face official reprimands, but would be given longer than usual to bring their budgets back into balance because of the exceptional circumstances.

"Corrective action will have to be taken in time frames consistent with the recovery of the economy," the commission proposal said.

When it was created, the rule book for the euro envisaged fining nations that broke the deficit cap. In 2005 it was reformed to give national governments more flexibility — something which will now be exploited to the full.

But formal suspension of the pact was ruled out by Barroso, who said the euro had protected some economies from the worst effects of the financial crisis. It was, he added, vital to retain the credibility of the currency.

The proposed measures include accelerating the payment of €6.3 billion in European Commission financing for regional aid projects.

There is a further plan to spend, in 2009 and 2010, €5 billion already in the EU budget but which has not been used. This would go on energy infrastructure and broadband communications.

David Jolly reported from Paris. Judy Dempsey contributed reporting from Berlin.

EU raids pharmaceutical companies

By James Kanter

BRUSSELS: European Union regulators have conducted a second round of raids on pharmaceutical companies this week, days before findings from a broad investigation into allegations of anti-competitive practices in the sector is to be released.

The EU competition commissioner, Neelie Kroes, began the investigation in January with a series of raids on major drug companies, including GlaxoSmithKline, Pfizer and Sanofi-Aventis, on suspicion that they and other companies were slowing the availability of generics and new medicines.

On Monday and Tuesday, her office conducted another round of raids on drug companies, including Teva, an Israeli company specialized in generic medicines, which was among those raided in January.

A spokesman for Teva said that its offices in Britain had been visited and that the company was cooperating fully with EU authorities.

Servier, a French pharmaceutical company, was also among those raided this week. Servier said it had received inspectors at its offices in Britain and at the company's headquarters in Paris, according to Reuters.

Neither company gave further details.

The new raids come as Kroes prepares to outline on Friday her preliminary conclusions on the pharmaceutical sector, which has sales of about €200 billion annually in Europe. It is not yet known whether Kroes will identify particular companies.

A determination that companies that make and sell medicines are using unfair practices could lead to large fines, as happened already to AstraZeneca in 2005. Kroes could also recommend changes to the way the industry operates.

A spokesman for Kroes, Jonathan Todd, would not identify the companies that were raided this week. He said they were "separate and distinct" from the larger inquiry but may have stemmed from knowledge gathered in it.

Generics makers in Europe have broadly supported the inquiry begun in January. They are trying to get rules changed to make it easier for generics companies to place their products on the market as soon as patents expire, and to raise the hurdles for big pharmaceutical companies to sue makers of generics drugs for suspected patent violations. Such lawsuits can delay the introduction of cheaper generic drugs, even if they turn out to be unfounded.

Yet EU investigators also appear to be turning their sights on generics companies, too, asking whether they have accepted payments from brand-name drug makers as part of patent litigation, perhaps in exchange for introducing a medicine later than intended.

In the United States, the Federal Trade Commission has said these so-called reverse payments violate antitrust law by dividing up the market.

Generics makers maintain that the practice is less widespread in Europe.

The inquiry is one of the biggest ever undertaken by EU antitrust regulators. They also have had assistance from the European Patent Office, which is based in Munich and operates separately from the European Commission.

Over all, EU investigators have questioned several dozen companies and medical organizations, including associations of doctors, patients and pharmacies, and government agencies that set the prices of prescription drugs in Europe.

Yves Herman/Reuters

Neelie Kroes will outline preliminary conclusions on the drug sector on Friday.

China rate cuts reflect alarm in Beijing

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weakened as the real estate market has slowed, many small and midsize businesses have been eagerly seeking more loans to help tide them over as sales fall.

To give banks an extra incentive to lend, instead of hoarding reserves, the central bank also cut, by 0.27 percentage point, the interest rate that it pays banks for reserves deposited with it.

"The degree of benefit realized from China's monetary stimulus will hinge on whether banks increase their lending to the most troubled sectors of the economy," said Jing Ulrich at JPMorgan Chase.

Qu Hongbin, the chief China economist at HSBC, said in a research note that he expected the central bank to reduce interest rates by an additional two to 2.5 percentage points by next June, and the reserve requirement by an additional four points. The decision was announced after the close of stock market trading in Shanghai, where the A share index rose 0.48 percent.

In the latest sign of the intermittent labor unrest in export-dependent southeastern China, one of the best-known toy companies in Hong Kong, Kader Group, said Wednesday that workers had damaged computers Tuesday at its factory in nearby Dongguan and taken a small amount of cash after their employment contracts expired and were not renewed.

The Guangzhou Daily newspaper reported Wednesday that 500 workers who lost their jobs at a toy factory had rushed into the plant's administrative offices Tuesday night, smashing windows and breaking computers. Three men and two women were wounded and five police vehicles were damaged, the newspaper said. In a possible hint that the incident might have been even larger, the newspaper said that an additional 2,000 people were "watching" the protest. All newspapers in China are subject to censorship, but Guangzhou newspapers have been more willing than most to test the limits of what they are allowed to report.

Xinhua, the official news agency, reported Wednesday that Kader Group had agreed to reinstate some senior employees and to pay more compensation and bonuses to those employees who were not asked to rejoin the work force, in keeping with a new national labor law that makes it harder to dismiss contract workers. Both of Kader's spokeswomen had left their offices by the time the Xinhua report came out, and they did not answer calls to their cellphones.