ECB sticks to easy money as bond-buying squeeze nears

FRANKFURT AM MAIN: The European Central Bank left interest rates and its mass bond-buying program unchanged yesterday, confirming expectations it would play for time as it charts a way out of easy-money policy. Governors kept the bank's main refinancing rate at 0.0 percent, the marginal lending rate at 0.25 percent, and the deposit facility rate at -0.4 percent, meaning banks have to pay to park their cash with the ECB, a spokesman said. Neither did policymakers adjust the ECB's "quantitative easing" program of 60 billion euros ($72 billion) per month of government and corporate bond purchases.

Along with low interest rates and cheap loans to banks, the ECB's bond purchases are designed to encourage growth in the 19-nation eurozone, pushing inflation towards its target of just below 2.0 percent. As a self-imposed deadline at the end of December approaches, two major factors are squeezing the ECB: a stronger euro and still-sluggish inflation could justify prolonging QE, but it is approaching the legal limits of the scheme and may be forced to wind it down. The euro rose to just shy of $1.20 before the announcement, and has since pulled back slightly.

Central bank observers and currency and bond traders will all be watching President Mario Draghi's 2:30 pm press conference closely for clues about the bank's next steps, as well as the latest economic forecasts from ECB staff. While many analysts expect the growth outlook to be upgraded after strong performance in the first half of 2017, inflation expectations are likely to further undershoot the 2.0-percent target in the coming years. In June, central bank economists predicted 1.5 percent inflation this year and 1.3 percent in 2018 — both already lowered from March's forecasts.

One reason for weak inflation is that the euro has appreciated against other currencies as the recovery gathers pace, braking price growth as imports become cheaper. "The ECB's press statement seems to confirm that it will not unveil its plans for QE beyond December today," Capital Economics analyst Jennifer McKeown said. But "since the economy is growing at a fair clip and the bank is approaching limits on its asset holdings, we expect to hear further hints that a taper will come next year," she said. "Mr Draghi may even indicate that plans will be published in October."

Welcome to the limit

Following July's meeting of the governing council Draghi emphasized the need to be "persistent and patient" in the face of unresponsive inflation, suggesting that an end to QE will be drawn out. Policymakers still see slack in the eurozone economy, and have pointed to slow wage growth linked to still-high unemployment and underemployment in some member countries as the biggest factor holding back inflation. Prolonging the ECB's intervention could support growth and inflation for longer, making a smooth withdrawal more certain.

But the bank is running up against the limits set in its own rules and insisted on by European and German courts, which bar it from buying more than 33 percent of any one country's debt. Coveted German bonds have also become scarce on the market, making it difficult for the ECB to buy in proportion to the "capital key", or the share of its capital contributed by each eurozone nation. "It appears the lone viable option is to accept the legal limits and gradually scale back the purchases next year," Commerzbank chief economist Joerg Kraemer said. —AFP

FRANKFURT AM MAIN: The European Central Bank (ECB) is pictured in Frankfurt am Main, Germany. — AFP

OSLO: Norway's Prime Minister and leader of the Conservative Party, Erna Solberg, center, speaks on the phone after an election campaign event in Oslo, Norway. — AFP

Norway's wealth fund, a jumbo piggy bank to be used prudently

Norwegians could reap benefits of oil through financial gains

OSLO: Norway, which holds legislative elections on Monday, has the world's largest sovereign wealth fund, a piggy bank of nearly $1 trillion to be saved for rainy days, but also to help finance today's election promises. How did a nation of 5.3 million people end up with the world's largest sovereign wealth fund?

Much can be learned from Aesop's fable, The Ant and the Grasshopper, about the benefits of planning for the future. The idea is that oil is a fortuitous natural resource that belongs to all Norwegians, benefitting both current and future generations by financing the expenses of the welfare state. When Norway's oil wells one day run dry, Norwegians will still be able to reap the benefits of the oil through the financial gains made by the Government Pension Fund Global (GPFG), as it is officially known.

Set up in 1990, the Norwegian government made its first deposit into the fund in May 1996 with a modest cheque of less than two billion kroner (about $305 million). Today, all of the state's oil revenues are placed in the fund: taxes, profits from the state's holdings in oil and gas fields, and dividends from Statoil, owned 67 percent by the state.

Is it 'open bar' for politicians?

Absolutely not. In 2001, Norway decided that governments could tap the fund to balance the budget, but within a strictly-defined framework. The government is only allowed to use the fund's estimated returns, not the capital itself, to prevent the fund from being depleted. The fund's estimated return was originally set at four percent (after inflation and management costs), but was slashed this year to three percent by the outgoing right-wing government.

Norway's political parties have generally supported this figure and consider it more realistic for future financial investments. Last year, for the first time, the government began withdrawing more from the fund than it put in, as oil revenues slumped due to the tumbling price of crude. Even though this means Oslo has de facto stopped saving, the fund has continued to grow thanks to the yield on investments and the sometimes favorable exchange rate.

How do you manage so much money?

The Norwegian central bank manages the fund, which mainly invests in stocks (accounting for 65.1 percent of the portfolio at the end of the second quarter). With stakes in nearly 9,000 companies, the fund owns 1.3 percent of the world's market capitalization, and 2.3 percent in Europe. It also invests in bonds (32.4 percent of its portfolio) and is gradually increasing its real estate holdings (2.5 percent). All investments are made outside Norway to avoid destabilizing the country's economy.

The fund follows strict ethical guidelines set by authorities. It is barred from investing in companies accused of serious violations of human rights, child labor or serious environmental damage, as well as manufacturers of "particularly inhumane" arms and tobacco firms, and companies which derive a large part of their activities from coal. More than 130 groups, including giants like Airbus, Boeing, British American Tobacco and Wal Mart, have therefore been blacklisted by the fund, and a dozen others have been placed under observation. — AFP

Nokia announces nearly 600 job cuts in France

PARIS: Finnish telecoms giant Nokia said yesterday it planned to cut around 600 jobs in France as it seeks to make cost-savings and refocus its loss-making businesses. The group said it planned to reduce its headcount in France by 597, a little over 10 percent of its total workforce in the country, with French trade unions calling the move "unacceptable." Nokia, which no longer makes handsets having sold that business to Microsoft, bought French-American telecoms equipment maker Alcatel-Lucent in 2015 in a deal that was expected to lead to savings.

The cuts in France will be focused on administrative and support services and will not effect research and development as it refocuses on high-speed 5G telecom networks, cybersecurity and internet-linked appliances, the group said. Nokia is aiming to make 1.2 billion euros in total cost savings by the end of 2018 following net losses of 766 million euros last year. —AFP