Federal Reserve ready to lie low as tax overhaul kicks in

Consumer pull or investment push ?

PHILADELPHIA: US Federal Reserve policymakers have come to view Donald Trump's tax overhaul as a short-term economic boost that will neither permanently supercharge the economy, as the president says, or cause an immediate disruption that would require a central bank response, as some analysts have warned. That view emerged in recent interviews with four central bankers across the policy spectrum, from those eager to keep interest rates low, to those more inclined to raise rates as a guard against asset bubbles or any unexpected inflation jolt.

The interviews offer the most detailed look yet at a key issue-whether the changes in the tax code might prompt the Fed to raise rates more quickly and thus blunt the new law's impact. The issue has divided analysts, with even staff at Congress' Joint Committee on Taxation assuming an "aggressive" Fed reaction to the new law.

But all four of those interviewed by Reuters shared a common conclusion that the law would provide some short-term benefit without raising any near-term risks.

They predict that the combination of corporate and household tax cuts will raise growth by up to half a percentage point annually for the next couple of years, and help keep unemployment at near record lows and thus perhaps raise wages. In addition, depending on how companies respond in terms of increased investment, the plan might raise long-run potential growth by a small amount.

4 central bankers warn of possible asset bubbles

What they do not see is any great risk that the tax stimulus will fuel inflation or a run-up in asset prices that would prompt the Fed to raise interest rates any faster than it already plans. Though not an endorsement of the legislation, it is an important sign the Fed will not stand in its way.

"I don't feel any urgency to do something preemptively," Federal Reserve Bank of Cleveland President Loretta Mester said in an interview with Reuters on the sidelines of the American Economic Association annual conference in Philadelphia.

Mester has been among those more inclined to lift rates from crisis-era levels, but sees no reason to rush because of the tax overhaul, which she predicts will raise annual growth as much as a half a percentage point for the next few years. The Federal Reserve's most recent economic projections forecast three interest rate rises in 2018. Market pricing currently indicates two.

Some private-sector economists recently penciled in four rises, partly because of the tax plan's impact and how it might affect the Fed. Central bankers, however, seem poised to stick with their current plans, confident that inflation will stay tame and that the recent record run on US stock markets is largely the result of economic fundamentals, not dangerous speculation.

The view is not universal, with some officials cautioning that the corporate tax cut in particular may be funneled into share buybacks or other financial maneuvers that could drive asset prices to unreasonable levels. The increase in the deficit is also a long-term concern. But the overall wait-and-see stance was implicit in the policy statement and economic projections the Fed issued in December after it raised its target interest rate. Policymakers upped their forecast for economic growth at the time but held steady their expectation on rate rises.

New Fed chair

The tax cuts will kick in just as the Federal Reserve transitions to a new leadership, with former banker Jerome Powell taking over from Janet Yellen, who over four years as Fed chair focused on lowering the jobless rate in hopes of healing household finances after the 2007-2009 financial crisis and recession. With the fiscal stimulus, some policymakers say the unemployment rate could now drop as low as 3.5 percent next year, in what World Bank Chief Economist Paul Romer said amounts to an important "experiment" in determining just how low unemployment can go in a post-crisis, low-inflation world.

"The balance of risks right now suggests that it would be a good idea to experiment with pushing employment a lot harder," Romer said in Philadelphia.

The unemployment rate is currently 4.1 percent, well below the 4.5 percent to 5 percent level that standard economic models say should lead to higher inflation. But so far, inflation remains tame. "We keep our powder dry," said Philadelphia Fed President Patrick Harker, who, far from accelerating the pace of rate hikes, on Friday indicated he was ready to slow them down because wage growth remained weak. The tax cuts are split between a deep reduction to 21 percent on corporate profits, changes in the personal income tax that will shave what many households pay, and an increase in the value of the child tax credit, among other changes.

The US Federal Reserve in Washington, DC

How that affects the economy will depend on the degree to which it fuels consumption by putting more money in people's pockets, versus "supply side" changes that could cause companies to invest more as a result of the lower tax rates. Policymakers like St. Louis Fed President James Bullard and John Williams of the San Francisco Fed said in interviews those changes would raise short-term growth and could possibly raise longer-term potential - though not by as much as the Trump administration expects.

"You're doing it in an environment where you have very low inflation already so you probably don't have to worry as much about the monetary policy push-back that you would get in other environments," Williams told Reuters.

Bullard noted the tax cut "is actually not that big in the big scheme," parceling out to about $150 billion a year in a more than $18 trillion economy.

The more important effect, he said, may only become apparent over the long term if it does in fact raise potential, or "trend," growth. If that happens by increasing productivity, for example, and compounding over time, "even a couple tenths means a lot," he said. —Reuters

Sri Lanka to raise $500m via bonds, divesting state hotels amid debt

COLOMBO: Sri Lanka aims to raise $500 million this month via development bonds and is in the process of divesting two state-owned hotels, the central bank and a ministry said yesterday, as the government faces unprecedented debt repayment this year.

President Maithripala Sirisenea's administration must repay an estimated 1.97 trillion rupees ($12.85 billion) in 2018 - a record high - including $2.9 billion of foreign loans, and a total of $5.36 billion of interest. The central bank announced plans to raise $500 million in 2-year, 3-year, 4-year, and 5-year Sri Lanka Development Bonds (SLDB) out of planned $3 billion for this year at both fixed and floating rate arrangement, the central bank said in a posting on its website.

The cabinet last week approved plans to borrow some $5 billion in 2018, including $2 billion of sovereign bond sales and $3 billion of development bonds to refinance big debts that fall due this year.

A total of about $2.5 billion worth of SLDBs mature this year. The government has also called for a request for proposal (RFP) to find investors for 45 billion rupees ($293 million) worth of Grand Hyatt Colombo property that includes a 458-room, 5-star hotel and 100 apartments.

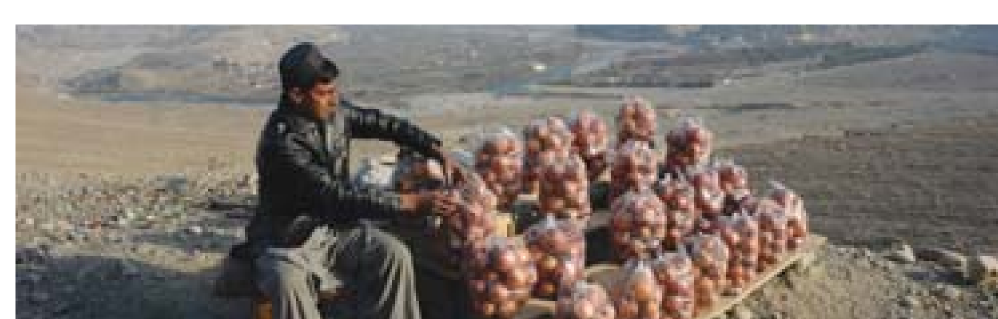
The government has offered 100 percent shares in Grand Hyatt Colombo property and said an investor would be selected through a competitive process, the Ministry of Public Enterprise Development said in a posting on its website. The government has entered into a 20-year management contract with the Hyatt Group to run the hotel, which is due to be completed and to begin operations this year.

The government also said it was seeking investors for a 51 percent controlling stake in a 350-room 5-star hotel in the heart of the capital, Colombo, which Hilton International runs under a management contract. The ministry said Hilton International had indicated its desire to renew the contract after the current one ends in 2019. The divestment of state-owned hotels comes as the repayment of expensive infrastructure foreign loans starts this year, which has left the island nation facing a debt crisis. —Reuters

Pension crisis looms as Afghanistan grapples to fix public finances

KABUL: In a country not short of problems, a looming pensions crisis that could cripple Afghanistan's budget in coming years is a new headache for a government dependent on increasingly war-weary foreign donors. Pension liabilities - set to swallow the equivalent of a third of the current $5 billion budget within 15 years unless something is done - typify accumulated problems the government is now trying to tackle. "Previously, they kicked the can down the road and it's snowballing right now and needs to be fixed," said Deputy Finance Minister Khalid Payenda.

Many countries face pension problems but it is especially unwelcome in Afghanistan, struggling to restore an economy shattered by four decades of war. Provisions that award government workers with service of 40 years benefits equivalent to full final salary were originally introduced to compensate for low pay. Many pensioners, who complain that actual benefits are meager and often paid late, would be surprised to hear the system described as generous. But with no separate pension fund to generate investment income and benefits paid directly from the Treasury, payments are set to spiral out of control as more of almost 900,000 government workers retire over coming years.



KABUL: This photograph shows an Afghan vendor displaying onion harvest for sale along the Kabul-Jalalabad highway on the outskirts of Kabul. —AFP

"The economics of it doesn't work. It's not sustainable and at a certain point it will explode," Payenda said from his office in the ministry, where he is overseeing a drive to make the budget more transparent and spending more efficient. "It's the start of a process but it will take a few years," he said, adding that it was vital that foreign donors showed "understanding" and do not cut off funds abruptly.

'Leakages, bloated structures'

Although down since most international troops withdrew in 2014, foreign aid still accounts for 54 percent of the budget. But donor willingness is not eternal and most funding pledges run only to 2020. While progress has been made in increasing revenues, preparing for a reduction in aid is urgent, especially given likely disruption around presidential elections next year. As in each of the past eight years, parliament is wrangling over budget approval, an opaque process that has encouraged backroom deals, waste and corruption. "There are leakages, bloated structures and there is unnecessary expenditure on conspicuous items," Payenda said. "We want to see where there are problems and fix them."

As long as security accounts for 40 percent of spending, Afghanistan's public finances will be unbalanced and the room for investment to boost revenue in areas like mining or agriculture limited. But there are many areas where improvements are possible. Due to weak administrative capacity, funds assigned to ministries are often not fully used, with unspent amounts carried over to following years, reducing accountability and making it harder to track real spending. In future, the government plans a "use it or lose it" approach. —Reuters

EXCHANGE RATES

Al-Muzaini Exchange Co.

ASIAN COUNTRIES	
Japanese Yen	2.683
Indian Rupees	4.26
Pakistani Rupees	2.737
Srilankan Rupees	1.968
Nepali Rupees	2.970
Singapore Dollar	227.860
Hongkong Dollar	38.683
Bangladesh Taka	3.638
Philippine Peso	6.056
Thai Baht	9.323
GCC COUNTRIES	
Saudi Riyal	80.654
Qatari Riyal	83.070
Omani Riyal	785.473
Bahraini Dinar	803.110
UAE Dirham	82.366
ARAB COUNTRIES	
Egyptian Pound - Cash	20.000
Egyptian Pound - Transfer	16.992
Yemen Riyal/for 1000	1.214
Tunisian Dinar	123.700
Jordanian Dinar	426.420
Lebanese Lira/for 1000	2.015
Syrian Lira	0.000
Morocco Dirham	32.500
EUROPEAN & AMERICAN COUNTRIES	
US Dollar Transfer	302.250
Euro	365.120
Sterling Pound	410.610
Canadian dollar	242.280
Turkish lira	80.710
Swiss Franc	312.400
Australian Dollar	238.630
US Dollar Buying	301.500
GOLD	
20 Gram	249.070
10 Gram	127.450
5 Gram	64.570

Dollarco Exchange Co. Ltd

Rate for Transfer	Selling Rate
US Dollar	301.900
Canadian Dollar	241.565
Sterling Pound	409.475
Euro	364.345
Swiss Frank	295.590
Bahrain Dinar	801.265
UAE Dirhams	82.585
Qatari Riyals	83.410
Saudi Riyals	81.365
Jordanian Dinar	427.090
Egyptian Pound	17.059
Sri Lankan Rupees	1.969
Indian Rupees	4.742
Pakistani Rupees	2.734
Bangladesh Taka	3.662
Philippines Pesso	6.078
Cyprus pound	17.965
Japanese Yen	3.675
Syrian Pound	1.585
Nepalese Rupees	2.967
Malaysian Ringgit	75.265
Chinese Yuan Renminbi	46.885
Thai Bhat	10.280
Turkish Lira	80.265

Bahrain Exchange Company

CURRENCY	BUY	SELL
	Europe	
British Pound	0.405259	0.412759
Czech Korune	0.006285	0.015585
Danish Krone	0.044942	0.049942
Euro	0. 358669	0.366169
Georgian Lari	0.134621	0.134621
Hungarian 0.001139	0.001329	
Norwegian Krone	0.033560	0.038760
Romanian Leu	0.064650	0.081500
Russian ruble	0.005300	0.005300
Slovakia	0.009000	0.019000
Swedish Krona	0.032118	0.038118
Swiss Franc	0.303918	0.314918
	Australasia	
Australian Dollar	0.229772	0.241772
New Zealand Dollar	0.210814	0.220314
	America	
Canadian Dollar	0.238480	0.247480
US Dollars	0.298150	0.302570
US Dollars Mint	0.298650	0.302570
	Asia	
Bangladesh Taka	0.003284	0.003868
Chinese Yuan	0.044864	0.048464
Hong Kong Dollar	0.036760	0.039510
Indian Rupee	0.004138	0.004779
Indonesian Rupiah	0.000018	0.000024
Japanese Yen	0.002596	0.002776
Korean Won	0.000274	0.000289
Malaysian Ringgit	0.071671	0.077671
Nepalese Rupee	0.003016	0.003186
Pakistan Rupee	0.002559	0.002849
Philippine Peso	0.005952	0.006252
Singapore Dollar	0.222585	0.232585
Sri Lankan Rupee	0.001734	0.002314
Taiwan	0.010370	0.010550
Thai Baht	0.009046	0.009596
	Arab	
Bahraini Dinar	0.794943	0.803443
Egyptian Pound	0.014704	0.020422
Iranian Riyal	0.000084	0.000085
Iraqi Dinar	0.000185	0.000245
Jordanian Dinar	0.421693	0.430693
Kuwaiti Dinar	1.000000	1.000000
Lebanese Pound	0.000155	0.000255
Moroccan Dirhams	0.022073	0.046073
Omani Riyal	0.778747	0.784427
Qatar Riyal	0.078731	0.083671
Saudi Riyal	0.079513	0.080813
Syrian Pound	0.001281	0.001501
Tunisian Dinar	0.117831	0.125831
Turkish Lira	0.075810	0.086110
UAE Dirhams	0.080866	0.082566
Yemeni Riyal	0.000982	0.001062