ECB warns against rise of populism in Europe

FRANKFURT: The rise of populist parties across Europe should act as a wake-up call for governments to finally get their economies in order, a top European Central Bank official said yesterday. "The rise of populism should be a wake-up call," the ECB's chief economist Peter Praet told the financial daily Boersen-Zeitung in a wide-ranging interview. "The governments have to give priority to difficult political decisions and follow through with the much-needed reforms."

Praet's comments came as Greece is preparing for snap elections with a far-left anti-austerity party Syriza leading opinion polls. Syriza pledges to reverse Athens' reform commitments and even eventually take Greece out of the eurozone. "Populist parties in some countries promise quick solutions - but they offer only recipes for disaster," Praet warned. "Nobody should be under the illusion that you only need to return to the old system and everything will be better," he argued.

Countries had signed up to the single currency because the old system of constant devaluation was not working. "What is needed now is to make the much needed structural adjustments. A devaluation policy doesn't solve structural problems," Praet said. There were institutional flaws in Europe which had to be resolved, the economist argued. "We have a monetary union with a very strong central bank - but the other institutions have been too weak," he said.

Ready to Act

During the long years of crisis, the ECB has been seen as the only European institution capable of action and has repeatedly had to charge to the eurozone's rescue. "In the past we have had the unfortunate situation in which the ECB was seen as 'the only game in town'. But I think this is changing," Praet said. "In France, the government for the first time is taking real political risks to improve the labour market. In Italy there is also significant progress at least in policy intentions," he said. "The authorities have recognised that muddle-through will not make it. But what is important now is implementation. Now is the moment of truth: there is a need for concrete results. Monetary policy alone will not solve our structural problems," Praet insisted.

After a raft of different measures last year to stimulate the eurozone's moribund economy, the ECB is widely expected to take more action again early in 2015, this time in the form of "quantitative easing" or QE - the large-scale purchase of sovereign bonds. Praet confirmed that such measures were being considered. "We have always emphasised that there are two contingencies for further action: first, our measures taken so far have not been enough to have the intended effect... and second, the inflation outlook itself has deteriorated since we decided on the measures we took in the past. Now we have a little bit of both," he said.

There are many critics of QE - not least the mighty German central bank or Bundesbank - who see it as a licence to print money to get governments out of debt, which the ECB is strictly forbidden from doing under its statutes. Nevertheless, most observers believe the question is not "if" but "when" such a program will be announced, possibly as early as the ECB's first policy meeting of the year on Jan 22 or the subsequent meeting on March 5. — AFP

Ex-Soviet republics hit by Russian economic crisis

TBILISI: Russia's economic turmoil has sent shock waves across former Soviet republics as the ruble's collapse pushes the crisis into the region with strong ties to Moscow, analysts said. Under the pressure of falling oil prices and Western sanctions over the Ukraine conflict, the ruble this year plunged by 40 percent against the dollar and the euro, pulling the currencies of many ex-Soviet countries to the bottom. "Russia is dragging ex-Soviet countries into an economic crisis," said Igor Nikolayev, the director of the FBK Strategic Analysis Institute. "Their trade with Russia and remittances by migrants working in Russia shrink as the ruble weakens."

Besides the economic fallout, the impact of the Russian crisis on its ex-Soviet neighbours is likely to have a geopolitical dimension as well. On Jan 1, the Russia-led Eurasian Customs Union which also includes Belarus, Kazakhstan and Armenia is to morph into the Eurasian Economic Union (EEU). But the fate of the project - championed by President Vladimir Putin to reassert Moscow's influence over its Soviet-era vassals - now looks uncertain, said Nikolayev. Belarusssian President Alexander Lukashenko has already demanded that trade between the EEU countries be carried out in dollars instead of national currencies. "The Eurasian Union is exposed to a very big risk" because of the Russia crisis, said Kazakh leader Nursultan Nazarbayev.

'A Very Sad Picture'

Moscow's closest allies in the post-Soviet era, the Customs Union member countries were the first to feel the aftershocks of Russia's shaken economy, which shrank in November for the first time since October 2009. Lukashenko has admitted Belarus - with around 40 percent of its exports bound for Russia - has been hit hard by Moscow's troubles. In December, Belarussians rushed to convert their savings to dollars and euros, fearing devaluation of their currency, which has so far fallen more than 13 percent against the greenback. The panic forced the country's central bank to introduce a 30-percent tax on all foreign currency purchases and raise interest rates to encourage citizens to keep their money in the bank. Energy-rich Kazakhstan faces an uphill battle to protect the national industry as exports to the Customs Union countries fell this year by more than 12 percent and the domestic market was flooded with cheap Russian goods as the ruble collapsed.

Russia's economic crisis "poses the risk of declining demand for our exports and subsequently of an economic slowdown," Kazakhstan's Finance Minister Bakhyt Sultanov said last week. The Central Asian nation had already devalued its currency, the tenge, by 19 percent in February and allocated $15 billion for infrastructure projects over three years from its sovereign wealth fund. In Armenia, "the Russian economic crisis translates into shrinking exports to Russia and falling dollar remittances by migrant workers", economy analyst Ashot Aramyan told AFP.

According to the impoverished country's central bank, dollar remittances from Russia fell in October by around 19 percent year-on-year and its dram currency has lost more than 11 percent against the dollar this year. Armenia's 2014 economic growth projection has revised down to 3.3 percent from 4.1 percent. "Our economy is tied to Russia. There are 1,200 Russian-owned enterprises in Armenia that control strategic sectors - energy, railroad, communications," Aramyan said. "Developments in Russia's economy shape the economic situation in Armenia."

Manvel Gasparyan, who owns a shoe factory that used to export up to 90 percent of its production to Russia, said he was forced to cut by five the volume of his Russia exports. "In Russia, the prices of our goods are rising as a result of the ruble's devaluation, while people's incomes are shrinking. The demand fell dramatically. A very sad picture."

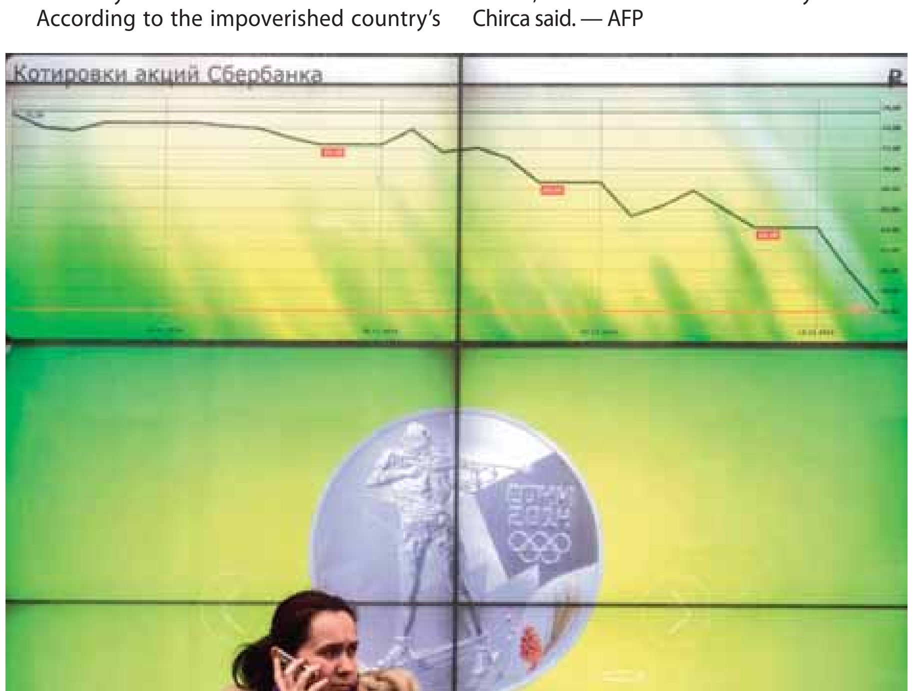
Severe Blow

Kyrgyzstan and Tajikistan - the ex-Soviet states in Central Asia with large numbers of migrant workers in Russia - have also been buffeted. Since January, the Kyrgyz som has lost more than 17 percent to the dollar, and Tajikistan's somon nearly 14 percent, according to official data. "As a result of Russia's crisis, Kyrgyzstan has lost up to 70 percent of dollar remittances by migrant workers," independent analyst Aleksey Krasin told AFP.

"The (Russian) crisis could deal a severe blow to our economy," Kyrgyzstan's central bank governor, Toktogul Abdygulov, told journalists this month. He added that the bank, with its scarce foreign currency reserves, "can't keep the som afloat for long". After the ruble's collapse, "the Tajik migrant workers can't afford to send money to their families in Tajikistan. We will be forced to return to our country," Karomat Sharipov, the leader of the Tajik Migrant Workers Movement in Moscow, told the openrussia.org website last week.

However, with their huge oil and natural gas resources, the economies of Azerbaijan and Turkmenistan have so far withstood the pressures of a weak ruble and continue to expand. Poorer Moldova and Georgia - the pro-Western ex-Soviet republics which have worked hard to reduce their dependence on Moscow and signed this year free-trade agreements with the European Union - have suffered some side effects from Russia's economic distress.

In both countries shrinking dollar remittances from Russia were "just an additional factor behind the economic setback in 2014. Internal factors played a primary role," Roman Gotsiridze, the president of Tbilisi-based Economic Development Centre, told AFP. The Georgian lari has weakened by nearly nine percent this year against the dollar, "mainly due to the widening current account deficit and limited foreign direct investments," Gotsiridze said. In Moldova, the central bank has deliberately devalued the national currency, the leu, by 20 percent "to stimulate exports to the European Union," Moldovan economic analyst Roman Chirca said. — AFP



MOSCOW: A file picture taken on Dec 16, 2014 shows a woman speaking on her mobile phone in front of a screen displaying Sberbank's - the largest state-owned bank in Russia - share quotations. Russia's economic woes have sent shockwaves across the former Soviet space, analysts said, as the ruble's collapse turns into a full-blown economic crisis. — AFP

VILNIUS: Bank staff fill a cash machine with euros on Tuesday as preparations continue for the currency swap-over. — AP

As Lithuania joins euro, concern over emigration

Busy farmer's village a ghost town now

VILNIUS, Lithuania: When Antanas Zubavicius turns the light on in his run-down house, it's the only light for miles. He is the last man in Dumbliuneliai, a once busy farmers' village in Lithuania that has gradually been abandoned as its residents emigrated in search of better jobs. "I'm not going anywhere. This is my land," the 60-year-old says, waving at the abandoned, shuttered houses around him. "When I am gone this village is gone too".

As Lithuania prepares to adopt the euro on Jan 1, it is hoping that membership in the European Union's official currency will bring a rise in investment and trade. But the Baltic country's increasing integration with richer European countries is also having a pernicious side-effect: a wave of emigration that is emptying towns and causing worker shortages. Emigration has been on the rise since 2004, when this country of 3 million people joined the EU, whose membership guarantees freedom of movement.

During the 2008-2011 financial crisis, more than 80,000 people - almost 3 percent of the population - left every year, mainly to Germany, Britain and other richer economies to earn salaries many times higher. Experts forecast that trend to continue, or even increase. In the field of construction, business owners complain it is impossible to keep hold of workers, even with massive annual wage increases of 10 to 20 percent. The problem is not confined to rural villages. Most shopping malls, restaurants and businesses in once busy urban areas are increasingly short of labor.

"There's simply no more skilled people left here," says Arvydas Avulis, CEO of Hanner, a leading real estate investor and developer that specializes in high-rise construction. A quick look at wage figures shows why. A manual worker in Lithuania can expect to earn Ä1.80 ($2.20) an hour compared with Ä4.30 ($5.24) in Spain and Ä8.60 ($10.50) in Ireland, according to the EU statistics agency.

In the more skilled sectors like computing, medicine or the services industry, where Lithuania's educational system produces highly qualified graduates, wage differences are even greater. Euro membership is expected to help Lithuania's economy, even though the currency bloc is struggling to grow. Having the same currency as 18 other richer economies will facilitate commerce and reduce investment risks for foreigners. The central bank estimates the government's borrowing rate would drop by almost 1 percentage point, which would filter down to the private sector.

Bloc's Poorest Member

The problem is that Lithuania is the bloc's poorest member and even though its economy is growing at a stronger pace than most EU countries, it has a long way to develop before it can hope to offer wages on a par with other EU states. Unsurprisingly, most Lithuanians are in favor of joining the euro, as it will cement the country's ties with the West and keep those richer labor markets open to them. In a Nov 26 survey by Berent Research Baltic, 53 percent of respondents said they back euro membership, up from 47 percent in September. Some 39 were opposed, down from 49 percent. A total of 1,002 people were interviewed for the poll, which had a margin of error of 2.5 percentage points.

Skeptics worry about the euro's recent problems with government debt and economic stagnation. Pranciskus Sliuzas, a journalist and anti-euro activist, describes joining the euro as "one of the most stupid things of all time." He laments the fact that Lithuania is giving up some national powers, such as the ability to determine its interest rates or budget deficit. For others, such economic arguments are of secondary concern to issues like national security - in particular the fear of an increasingly aggressive Russia. Along with neighbors Latvia and Estonia, Lithuania was occupied by the Soviet Union for almost five decades.

"I think it would be a good thing to get closer to the rest of Europe as the only other option is to become friends with (Russian President Vladimir) Putin," said Janina Gailiene, a retired primary school teacher in Vilnius. For all the potential economic and security benefits, that means business leaders like Avulis will continue to struggle with a shortage of workers as Lithuania's economy integrates further with the West.

One solution businesses are lobbying for is to facilitate immigration from countries that have even lower wages - Ukraine, Belarus and even China. There has been little progress by the government on that front, however. Sarmite Mikulioniene, sociology professor at Mykolas Romeris University, warns that in time, worker shortages will hurt the economy, threatening the gains made in the first place by joining the EU and euro. "There will simply be no one left to do simple jobs here in 10 or 15 years," she said. — AP

Quiet craft of cheesemaking in war-torn east DR Congo

KILOLIRWE, DR Congo: Better known for war and bloodshed, the lush hills of eastern Democratic Republic of Congo are also home to a surprising, successful craft that has survived decades of violence: cheesemaking. Though not part of the traditional diet, the cheese - a mild-tasting hard variety with a yellowish-brown rind - has managed to win favour across the nation.

But the way up has not been easy. "The history of cheesemaking goes hand in hand with the land disputes" and conflicts that have shaken the Masisi territory for more than eight decades, said Fidel Bafilemba, a researcher with Enough Project, a non-governmental organisation working in the region. Variously confiscated, pillaged, destroyed then reclaimed and pressed back into production, the rudimentary farms today provide a living for many locals - in a country where more than 70 percent live below the poverty line.

At first glance, Masisi, in the south of volatile North Kivu province, looks like a land of plenty whose verdant landscape hints little at its troubled past. In the 1930s, the "Banyarwanda", ethnic Hutus and Tutsis from tiny, populous neighbouring Rwanda, starting challenging the native Hunde community in their search for space. By the 1970s, the Tutsis, who control today's cheesemaking, were winning, at the expense of native Hundes. Further ethnic and political conflicts exploded in 1993 into massacres that claimed thousands of lives.

The village of Kilolirwe, at 2,000 m in altitude and 50 km - or two and a half hours by car - from the North Kivu capital of Goma, is still picture-postcard with small wooden farms dotting mountain paths. Cows - both African Ndama and Zebi varieties and European Friesians and Brown Swiss cows - graze languidly on steep pastures bordered by eucalyptus trees and neatly cultivated fields.

European Oddity

Typical is Ernest Kakwiki. After his morning milking - by hand - he and some 15 other farmers cart the liquid from their cows to the dairy of Innocent Ntwalabakiga, where it is poured into a huge old tub. All sport the cowboy-like hat typical of Tutsis. Ntwalabakiga already has a wood fire heating up water, which, with whey, will be added to convert the milk into cheese. His production chief, James Hakizi, has no modern equipment and total confidence about his savoir-faire. I only have to plunge my arm into the mixture "to know if the temperature is ready" and conditions right to form curds, separate them from the whey and set the milk into moulds, he said.

Final ripening takes about three weeks before the pressed, one-kilogram rounds are ready for market. Producers sell the Kivu or Masisi, as it is called, for about $3 a cheese. Goma shops charge a little more, at $4-5, while across the country in the capital Kinshasa it costs three or four times that amount - a luxury price for most Congolese. Farmer Kakwiki got involved in 1971, tending the region's abundant cows as a 13-year-old. At the time, he said, "milk was only for drinking, at home with the family."

Cheese was a "foreign" oddity, brought in by Europeans and produced at three Italian-owned local farms. But all three left when late dictator Mobutu Sese Seko seized power in 1965 and confiscated foreign enterprises, said Kakwiki. Kilolirwe locals started producing cheese themselves between 1975 and 1980, he recalled, with help from a Catholic Belgian missionary, Father Roger Carbonez, who had founded an agricultural school named Lushebere shortly after independence in 1960. Kakwiki took to the craft, prospered and came to own 35 cows.

But worse was to come: between 1996 and 2003, the east was the scene of two major wars that ravaged Kivu and saw the Tutsis flee to Rwanda. Despite the presence of 20,000 UN peacekeepers, a host of armed local and foreign groups are still active in the region. Like many farms, Lushebere was looted and its 2,000 cows killed. Father Benjamin Barumi, the treasurer at the Goma diocese, said Father Carbonez, back in Belgium for his final years, died of shock when he heard the news.—AFP

Indonesia scraps gasoline subsidy

JAKARTA: Indonesia's government will scrap its gasoline subsidy from Jan 1 to free up more funds to boost the slowing economy, a senior minister said yesterday. The prices of gasoline and diesel in Southeast Asia's biggest economy will float following the market price and will be reviewed monthly, Chief Economic Minister Sofyan Djalil said. Djalil said he hoped the move would help accustom Indonesians to price fluctuations after decades of being insulated by hefty fuel subsidies.

In January, the price of gasoline will fall in line with declining global oil prices to 7,600 rupiah (61 cents) a litre, from 8,500 rupiah. Diesel will also be lowered to 7,250 rupiah, from 7,500 rupiah a litre. The government also fixed its diesel subsidy at 1,000 rupiah a litre for 2015. "Diesel fuel is still subsidised because it is used for economic activities and the government deems it necessary to subsidise it," Djalil told reporters.

Previous subsidy cuts have sparked violent protests and stone-throwing youths clashed with police in Makassar, a protest hotspot on Sulawesi island, when the new government hiked fuel prices by more than 30 percent in November. Scrapping fuel subsidies is seen as an urgently needed move to boost an economy that is expanding at its slowest pace in five years, with growth slipping to 5.01 percent on-year in the third quarter. In the past the payouts had gobbled up 20 percent of the state budget. — AFP