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From:
To:
Sent: Tuesday, August 26, 2008 9:55 PM
Subject: Worst of financial crisis is still to come?

Telegraph.co.uk

Worst of financial crisis is still to come?

"We're not just going to see mid-sized banks go under in the next few months, we're going to see a whopper, we're going to see a big one, one of the big investment banks or big banks."

By Malcolm Moore in Shanghai

Last Updated: 12:42pm BST 19/08/2008 http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2008/08/19/bcnken119.xml

Rogoff on banks: 'We're going to see a whopper go under'

Banking shares across the world were hit after a stark warning from the IMF's (International Monetary Fund) former chief economist Kenneth Rogoff that "the worst of the credit crisis is yet to come".

Kenneth Rogoff, chief economist to the International Monetary Fund between 2001 and 2004, told an audience in Singapore that "the financial crisis is at the halfway point, perhaps."

Now an economics professor at Harvard University, (add: in 2008) Mr Rogoff said. **"We're not just going to see mid-sized banks go under in the next few**

months, we're going to see a whopper, we're going to see a big one, one of the big investment banks or big banks."

He added that efforts by Asian sovereign wealth funds to bail out US banks were not the solution. "The financial system has become very bloated in size and needed to shrink," he said.

Mr Rogoff also touched on the spectre of global inflation, warning that the need to cut interest rates and stimulate the US economy **is "going to lead to a lot of inflation in the next few years".**

Mr Rogoff's comments came as fears that the global economic slowdown and persistent inflation has infected Asia increased, sending stock markets in Japan and Hong Kong tumbling.

Japan's Nikkei dragged down by banks

Shares in Barclays were down 4pc in early afternoon trading as were shares in Societe Generale, France's second-biggest bank. The weak performance of bank shares earlier dragged down markets across Asia.

His outlook was echoed by Masaaki Shirakawa, the governor of the Bank of Japan, who said he would be watching inflation "closely". Mindful of the threat, the central bank today left interest rates unchanged at 0.5pc, despite a set of data which showed last week that the Japanese economy had contracted by 0.6pc in the second quarter.

Tehmina Khan, an economist at Capital Economics, said the current economic downturn in Japan would be "relatively short-lived" and that many people believe high food prices will push inflation upwards.

Japan's consumer confidence survey showed that nearly 44pc of the country's households, a record number, believe inflation will rise from its current rate of 1.9pc in June to over 5pc during the coming year.

The worries about the American economy and looming inflation sent the Hong Kong Hang Seng index down by 446.30 points or 2.1pc to close at 20,484.37, a 12-month low. The Nikkei index in Japan slumped by 300.40, or 2.3pc, to close at 12,865.05. "At the moment cash is king.

Nobody wants to invest in the stock market," said Tony Tong, an analyst at China

Everbright Securities.

However, the Shanghai market bucked the trend, making back some ground after a more-than-5pc plunge on Monday. The benchmark Shanghai Composite Index closed up 24.6pts, or 1.06pc, at 2,344.47.

Chinese investors were buoyed by the latest statement from China's central bank, which stopped referring to monetary policy as "tight". The new report toned down the need to "curb inflation and implement a tight monetary policy" and instead said economic growth should be "stable and relatively fast".

Recent inflation data has shown China is edging away from serious inflation.

China's Ministry of Finance also revealed that it had allocated 66.75 billion RMB (£5.3bn) for the rebuilding effort in the wake of the Sichuan earthquake. Over a million temporary homes have already been built.

Resources:

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Sideline: Could this be the Federal Reserve Bank? High rising long-term interest rates cause more long term inflation (by de-valuing of our dollar more and for a longer time). Higher rates make things cost more, short-term low rates are only a temporary fix. There is a big variance now between the two (of 2-4% and climbing)...we should all be wary. Also remember that, printing more money causes inflation. Currently our US dollar is worth about 12-15 cents (since 1950; and our huge US growth after WWII)...the US has over $3 Trillion dollars in debt and is still climbing. We will be going to war again before years end, and our national debt will climb ever more. What does this mean for our dollar value and inflation? Things will cost much more!db