



VIEWPOINT

The G7 leaders are all set to gather in Munich next week with a sizeable agenda before them, but Dr Gerard Lyons issues a warning to the optimists

Don't expect too much from Munich

LEADERS of the world's major industrialised countries meet next week in Munich. Should we care? Although the world economy is in trouble there is a risk that this Munich summit will provide nothing more than bland statements and photo calls.

John Major and Norman Lamont will be joined by their counterparts from the US, Japan, Germany, France, Canada and Italy. The Group of Seven (G7) countries needs to address key issues. There is a need to boost world growth and to ensure that economic collapse in the former Soviet Union is avoided.

Hopes should not be raised ahead of these meetings. They have proved successful only when it has been in all the participating countries' self-interest to act together. When, their goals are the same, the major countries tend to co-ordinate policies.

This was the case in the late 1980s. Then, G7 meetings at the Plaza Hotel, New York and the Louvre resulted successfully in attempts to force the dollar down and the yen up. The aim was to prevent currency movements getting out of line with trade imbalances.

It is difficult to see next week's meeting having the same success. Recent summits have failed to prevent the present global economic downturn. But not all of the participants can be blamed. In recent years, the three major economies have pursued domestically orientated policies.

The US and Japan have successfully cut interest rates to prevent their economies from experiencing deep recessions. Meanwhile, Germany has raised interest rates to limit the inflationary cost of unification.

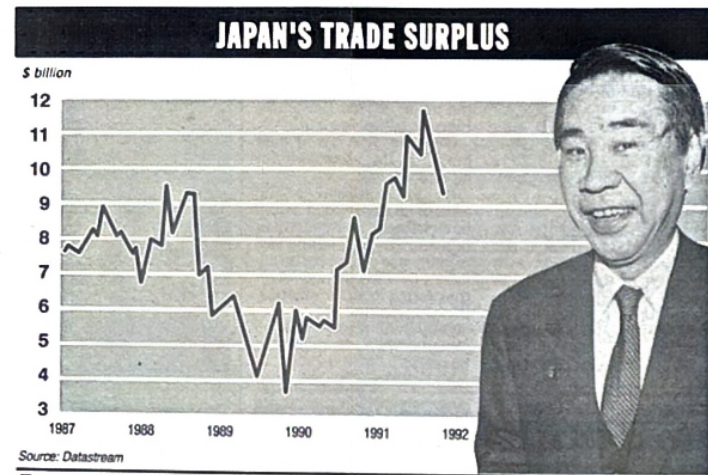
It is hardly surprising that the US, Germany and Japan have been doing their own thing. But now their biggest concern should be the weakness of the world economy.

The US recovery has lost momentum. Japan is heading for a possible recession. Meanwhile, European economies face a period of below-trend growth and high

PS AS the cold winds of recession howl down the corridors of power, those in the hot seat of responsibility are finding their positions rather uncomfortable.

As times get tougher, there is increasing friction about how to run companies. PS hears of fistcuffs in the boardroom, slanging matches in company cars and knuckle sandwiches in top dining rooms.

But shareholders and the



Tsutomu Hata: the man with a huge trade surplus and the most to offer

unemployment as the exchange rate mechanism forces European interest rates to remain high, because of Germany's tight monetary policy.

With Germany worried about inflation, an early cut in European interest rates is unlikely but, with the exception of Germany, inflation is falling everywhere. Canada has had the most dramatic performance recently, with inflation now down to 1.3% from 6.8% at the start of last year.

However, this should not overshadow the dramatic improvement seen in Britain's inflation trend. It has more than halved over the last 18 months.

But the skill is not getting inflation down at the expense of growth but keeping it down when demand is recovering. All the countries at the Munich Summit will commit themselves to the aim of non-inflationary growth.

Yet the fear of allowing a resurgence in inflation often causes policy makers to be

over cautious. And that certainly is the case now, and not just in the UK. With inflation subdued, now is the time for the G7 countries to relax policy in order to ensure steady world growth.

The problem at next week's meeting is that many of the participants have little room for manoeuvre. Unless they are brave, Britain, France and Italy cannot cut interest rates on account of the exchange rate mechanism.

The US cannot spend more because of its huge deficit and there is an outside chance that it will agree with the Japanese to cut interest rates to cut interest rates one final time, in response to financial difficulties and sluggish monetary growth.

In fact, Japan's Finance Minister, Tsutomu Hata, is likely to have most to bring to the G7 meeting. Although his country's economy is weak and the stock market continues to fall, Japan's trade with the rest of the world continues to rise.

This huge trade surplus is

a direct consequence of Japan's high rate of savings and investment, and it will allow the Japanese government to play an important role at the Summit.

The combination of a large trade surplus and weak domestic demand means that the Japanese government should boost spending by a sizeable amount. In fact, it could raise spending by as much as 1.5% of gross national product. Of course, if Japan does nothing, there is a strong possibility of protectionist pressures resurfacing.

Unfortunately, the UK will have little impact on the policy outcome in Munich. We are in a policy straitjacket. Our room for manoeuvre on interest rates is limited by sterling's vulnerability in the ERM.

Meanwhile, the Government's large budget deficit and the need to meet Maastricht's convergence criteria limits the room for fiscal manoeuvre.

The obvious solution for the European countries is for politicians to swallow their pride and allow a re-valuation of the mark. But this will not even be discussed in Munich.

Alternatively, we could be

able to do it far better without the restraint of these non-executive directors.

"In the best interests of the company" — all the board hate me but they have promised that if I go quietly, I'll get a huge payoff.

"For health reasons" — I am about to have a nervous breakdown.

"Will become a consultant" — The only way I can leave with any pride left.

"Will be released from duties" — I've been fired.

'Now is the time to relax policy in order to ensure steady world growth'

with my family" — my marriage has been on the rocks for years but my wife has just found herself a hot-shot lawyer who knows every way to fleece a husband. I reckon that if I put in the hours I can persuade her not to file for the decree absolute.

"For personal reasons" — as above, but there are complications with the kids and the girlfriend as well.

"To pursue other projects" — I am not making nearly enough money at this job and I will

patient and hope the policy dilemma will be eased by the year-end. By then the Germans may be prepared to lower interest rates.

Perhaps we should be more optimistic about some agreement on the former Soviet Union, as it is in everyone's interest to sort out this problem. The amount of money being pumped into eastern Germany gives us some idea of the funds needed for the task.

But perhaps the scale of the problem is too large for anyone to solve. Another Marshall Aid plan is needed. But Western governments do not have the necessary spare capital and, even if they did, providing it now could be like pouring money down a big hole.

Private-sector capital needs to be attracted to the former Soviet bloc. Thus convertibility of the rouble is a necessity. Only then can we expect the private-sector capital to realise the potential offered by the low asset prices and low wages there.

It is important for the G7 to meet and discuss major issues, but we should not expect too much. Team spirit is hardly the name of the game. And when it comes down to the effectiveness of policy perhaps only the US, Japan and Germany need to be there.

● Dr Gerard Lyons is Chief Economist of DKB International, the London-based subsidiary of the Dai-ichi Kangyo Bank, the world's largest bank.

Biotech to raise £30m for research

by Michael Foster

EMERGING pharmaceutical group British Biotechnology is set to raise £30 million, £10 million less than original expectations, through an offer-for-sale of its shares at 42.5p each. The company's prospective market value is £151.8 million.

It plans to issue 7.06 million shares through the offer, which amounts to 19.8% of the company's enlarged equity. Underwriters are being given an option to subscribe for an additional 1.06 million, worth £4.5 million.

Since confirmation of British Biotechnology's market debut emerged last May, pharmaceutical and biotechnology new issues in the US have taken a dive.

The company is the first emerging pharmaceutical company to be listed on the London Stock Exchange, so investors will pay a great deal of attention to attitudes to such stocks in America.

But the company is confident about prospects for its research and development in four areas: inflammation diseases such as asthma; cancer; vascular illnesses and viral complaints, particularly AIDS. Two of its potential products are now undergoing human clinical trials.

British Biotechnology expects to use the proceeds from the issue to fund further research and development. The company, founded in 1986, is based in Oxford and employs 260 staff. It has already raised £73 million from previous placings.

The offer is expected to close tomorrow week, with unconditional dealings in the shares due to start that afternoon.

The adviser to the issue in the UK is Kleinwort Benson, with Morgan Stanley handling the US side.

Evening Standard

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