

CURRENCY

Chinese rejects U.S. push to let yuan appreciate

WASHINGTON — Chinese President Hu Jintao urged an end to a “zero-sum” Cold War relationship with the United States and proposed new cooperation but resisted U.S. arguments that China should let its currency strengthen.

Hu, who will visit Washington this week, struck an overall upbeat tone about ties with the United States in a rare written interview with two U.S. newspapers, the *Wall Street Journal* and the *Washington Post*.

“We should abandon the zero-sum Cold War mentality,” he declared, and “respect each other’s choice of development path.”

Hu suggested cooperation with the United States in areas such as energy, infrastructure development, aviation and space. He was reassuring about the outlook for resolving tensions on the Korean Peninsula, an area of concern to both Washington and Beijing.

But he also indicated he does not accept U.S. arguments for Beijing to let its currency appreciate. Critics say China’s undervaluing of the yuan gives it an unfair price advantage in international trade.

Last week, U.S. Treasury Secretary Timothy Geithner said China would be better off letting its currency strengthen to cap inflation.

But Hu said China is fighting inflation with a whole range of policies, including interest-rate increases, and “inflation can hardly be the main factor in determining the exchange rate policy.”

He also suggested that inflation was not a big headache, saying prices were “on the whole moderate and controllable.”

“We have the confidence, conditions and ability to stabilize the overall price level,” Hu said.

U.S. lawmakers are among the biggest critics of China’s exchange-rate policy. Three Democratic senators — Charles Schumer, Debbie Stabenow and Bob Casey — said on Sunday that they would propose legislation to try to fix the problem.

The legislation would give the U.S. Treasury Department less flexibility when citing other countries for currency manipulation, and impose stiff new penalties on countries that are designated, the senators’ statement said.

Hu, however, called the U.S.-dollar-dominated international currency system a “product of the past.” He added that it would be a “fairly long process” to make China’s own currency an international one.

He also said “the liquidity of the U.S. dollar should be kept at a reasonable and stable level.”

The Chinese president responded to complaints that China does not always treat foreign companies in China fairly. “All foreign companies registered in China are Chinese enterprises,” Hu said.

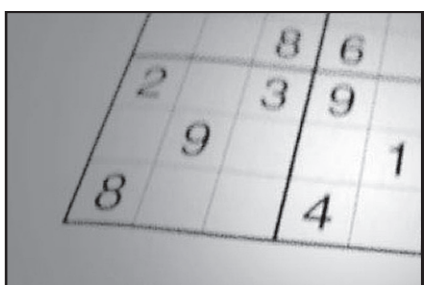
“Their innovation, production and business operations in China enjoy the same treatment as Chinese enterprises.”

Questions were submitted to Hu by the two U.S. newspapers in December, and the answers were released by the Chinese government on Sunday, the *Washington Post* said.

Hu said he sees “signs of relaxation” in tensions between North and South Korea, an issue of major concern to both Washington and Beijing.

“Thanks to joint efforts by China and other parties, there have been signs of relaxation,” Hu said. He added that he was convinced “an appropriate solution to the Korean nuclear issue” could be found, a reference to North Korea’s nuclear arms programs.

Reuters



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LENDING

Ottawa to toughen mortgage rules

Changes expected today to help lower record levels of household debt

BY PAUL VIEIRA

OTTAWA — The federal government is expected today to introduce new rules aimed at toughening up mortgage lending in a bid to curb the record household debt in Canada.

The key change Finance Minister Jim Flaherty is likely to unveil is a cut in the maximum amortization period, to 30 years from 35 years. Mortgages with amortization periods longer than 30 years will no longer qualify for government-backed mortgage insurance, which is required for buyers with less than a 20-per-cent down payment.

Government sources told the *National Post* that Flaherty also is expected to lower the maximum amount Canadians can borrow against the value of their homes, to 85 per cent from 90 per cent, and remove federal government backing of home-equity lines of credit, or so-called HELOCs.

The sources, who spoke on condition of anonymity, add the minimum down payment, at five per cent, will not be changed. Further, the government will not target condominium purchases by requiring monthly condo fees be added to the list of expenses that is measured against income to decide whether a buyer can afford a mortgage.

The changes to the country’s mortgage rules — the second in as many years — emerge amid rising concern about the record levels of household debt, which, measured as a ratio of money owed to disposable income, nears a startling 150 per cent as of the third quarter of last year.

That surpasses the level of debt held by U.S. households, whose appetite for borrowing helped stoke the financial crisis of a few years ago.

The Bank of Canada recently warned debt levels are growing faster than income, adding the risk posed by consumer indebtedness to the domestic economy would continue to escalate without a “significant change” in how consumers borrow and banks lend.

Bank of Canada governor Mark Carney said policy-makers have a “responsibility” to look at the benefits of preemptive action. Joining the chorus have been chief executives at the big banks, most notably Ed Clark at Toronto-Dominion Bank, in publicly advocating for tougher mortgage standards.

On Friday, Prime Minister Stephen Harper acknowledged his government was considering changes to the rules governing mortgages.

He said the government “remains concerned about growth in the level of household debt and will look at

taking prudent steps to moderate that growth. We will look at what steps may or may not be necessary.”

In February 2010, Flaherty moved to toughen up the mortgage rules amid worries that Canada was in the middle of a housing-market bubble.

The reforms, since introduced, compelled borrowers to meet standards for a five-year fixed-rate mortgage, even if the buyer wanted a shorter-term, variable-rate loan. The reforms also reduced the amount Canadians can borrow against their home, to 90 per cent of the property value from 95 per cent.

They further required purchasers of rental properties to issue a 20-per-cent down payment as opposed to five per cent.

The moves played a role, observers say, in slowing down real-estate activity. The new changes reduce even further the amount people can borrow against their homes, to 85 per cent.

Also, the changes target HELOCs, which Flaherty cited as a source of concern in a recent interview.

Home-equity lines of credit surged 170 per cent over the past decade, or twice the rate of mortgage growth, and now represent 12 per cent of overall household debt. With the new rules, Ottawa will no longer back the

HELOC, as it was doing up until now through mortgage insurance.

Instead, sources say, the government will signal that the banks are on the hook for any default linked to a HELOC it issued.

The cut in the amortization period, or the time required to pay off the home loan, follows a 2008 move by Ottawa to stop insuring 40-year mortgages.

Although the federal government looks to curb borrowing, economists say the Bank of Canada may have to follow by raising its key interest rate sooner rather than later. The central bank issues its latest rate statement Tuesday and it is expected to hold its benchmark rate at one per cent as signs indicate the economy may be benefiting from renewed business and consumer confidence in the United States.

Stewart Hall, economist at HSBC Securities Canada Inc., said the extraordinarily low-rate environment “provides all the incentive to consumers to borrow and spend and none of the incentive to save. You can try to [regulate] that away but that is apt to be fraught with significant frustration.”

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