Iran to Build Hydroelectric Power Plants in Armenia

Iranian First Vice President Eshaq Jahangiri (R) and Armenian Prime Minister Hovik Abrahamyan(L) agreed to launch joint commissions to help widen the ties and exchanges.

TEHRAN (FNA) - **Iranian First Vice President Eshaq Jahangiri announced that based on an agreement cut by Tehran and Yerevan, Iran will construct hydroelectric power plants in Armenia.**

"We have agreed to launch the third power transmission line and also build hydroelectric power plants for Armenia," Jahangiri said in a joint press conference with visiting Armenian Prime Minister Hovik Abrahamyan in Tehran on Monday.

He pointed to exchanges between Iran and Armenia in different areas, and said, "The value of exchanges between the two countries is around $300 million; we export gas to Armenia and import electricity from that country, but there are other goods for exchange purposes as well."

Jahangiri noted that the two sides have also agreed to launch joint commissions to help widen the ties and exchanges.

Also speaking in the same press conference, the Armenian prime minister pointed to the need for setting up a joint commission, and said, "We have a lot of work to do to develop and complete the joint projects of the two countries."

The Armenian prime minister arrived in Tehran on Monday morning to meet with senior Iranian officials.

Abrahamyan's visit takes place at the invitation of the Iranian first vice-president.

Iran has recently enhanced efforts to boost political, economic, security and cultural ties and cooperation with the regional and neighboring countries, specially the Central Asian states.

Iran and Armenia have taken major strides towards widening and deepening of their relations in recent years, particularly in the economic sector.

Eurozone Stagnation Is a Greater Threat Than Debt

LONDON (Financial Times) - **It would be wrong to think last week's global market gyrations signal a return of the eurozone debt crisis. Sovereign bond spreads in the eurozone did not move by much, except in Greece.**

What happened last week is something rather different. Financial markets have woken up to the possibility of a eurozone-wide economic depression with very low inflation over the next 10 to 20 years. This is what the fall in various measures of inflation expectations tells us. Investors are not worried about the solvency of a member state. That was clearly different two years ago.

But the present scenario is no less disturbing. The implications for those who live in such an economic snake pit are already visible: high unemployment; rising poverty; real and nominal wage stagnation; a debt burden that will not come down in real terms; a decline in public sector services, and in public investment. A shocking example is the decrepit state of German military hardware. Of the Luftwaffe's 254 fighter planes, 150 cannot fly.

The eurozone's stagnation will affect the rest of the world to different degrees. The UK might manage to escape the same fate, but the eurozone economy is big enough to pull Britain down with it. Hardest hit will be the parts of central and eastern Europe that do not use the euro. They are caught between an imploding Russia and a stagnating Europe. It is hard to see how the oil price can recover in an environment of permanently low growth. And it is even harder to see how Russia can live with a permanently depressed oil price.

Secular stagnation – the idea that a chronic shortfall of investment might produce a long period of weak demand – also has disturbing implications for financial investors. The recent high levels of equity prices were premised on the best possible of all scenarios: that productivity growth rates would revert to historical averages, and that the level of gross domestic product would eventually catch up with the pre-crisis economic growth trajectory. Investors have now begun to realize that neither is going to happen. GDP is still only close to the levels of 2007; growth is slow.

The share of GDP accounted for by profits cannot go much higher, either. So, if productivity growth remains low, it is hard to see how equity investments can yield large real returns. Monetary policy can boost markets in the short-run, but this cannot be sustained indefinitely. In such an environment, the yields on risk free securities will be low.

With secular stagnation comes a permanent fall in inflation to levels below the 2 per cent target. The real value of public and private-sector debt will not therefore come down as fast as it should. This in turn will make it harder for governments, companies and individuals to reduce their debt. In such an environment, expect default rates to be high. German sovereign bonds become the only asset in the eurozone that investors regard as more or less risk-free.

One would have thought that such a scenario would produce counteracting forces, for example a weaker exchange rate. Unfortunately, that is not necessarily true. The eurozone is running a current account surplus of close to 3 per cent of GDP this year. One would normally expect the currency of an economy with a persistent current account surplus to be strong. In any case, the exchange rate matters a lot more for small and medium-sized economies than for large ones such as the US and the eurozone because the share of trade in GDP tends to be smaller for large economies than for small ones.

The eurozone is a large semi-closed economy, trading most of its goods and service internally, in euros. Whatever is going to save the eurozone, it cannot be the exchange rate, unless the euro depreciates to an extreme extent.

Secular stagnation is thus a lot more dramatic than a debt crisis. With such a threat hanging over us, one would have thought every rational policy maker would want to avoid such a calamity. That would indeed be the case if the crisis occurred in a normal country. For a monetary union where policy is not co-ordinated and where policy makers take a national perspective, the risk of secular stagnation looms large. Even the European Central Bank, the only actor with a eurozone-wide remit, faces legal constraints. This may explain its reluctance to go for quantitative easing. Even as an advocate of QE, I cannot deny we are treading in a legally grey area.

Eurozone policy makers face three choices. First, they can transform the eurozone into a political union, and do whatever it takes: a eurobond, a small fiscal union, transfer mechanisms and a banking union worthy of its name. Second, they can accept secular stagnation. The final choice is a break-up of the eurozone. The second and third choices are not mutually exclusive. As the political union is firmly off the table, this leaves us with a choice between depression and failure – or both in succession.

Leading Italian Installations Company Eyeing Investment in Iran

TEHRAN (FNA) - **Managing Director of Giacomini, a global producer of underfloor and ceiling heating and cooling systems, said the company is ready to make investment in Iran.**

"Considering Iran's strategic position in the Middle-East, we are ready to make investment in transfer of technology and production of installations based on the world's highest standards," said Elia Filiberti, the Iranian Students News Agency reported.

He added that Iran stands in a good position in terms of its industrial infrastructures and human resources comparing to other regional countries, boosting foreigners' willingness to invest in the country.

He also expressed the hope that the company could find a share in Iranian market and an important exports base in the Middle East and Caspian Sea littoral states given Iran's experiences in industry, production and exports.

"Given position and capabilities of the Iranian industrial groups, we are firm to expand our cooperation with the country in producing smart equipment for heating control and energy consuming management systems," Filiberti pointed out.

Business Economists Report Solid But Slowing Growth in Third Quarter

NEW YORK (Wall St.Journal) - **Business economists reported solid but slowing growth at their companies over the summer as gauges of sales, hiring and profit margins fell slightly from the second quarter, according to survey results released Monday.**

Despite concerns about economic conditions in Europe, respondents in the quarterly survey by the National Assn. for Business Economics said they were more optimistic about overall U.S. growth than they were in July.

About 85% said they expected total economic output, or gross domestic product, to expand by more than 2% over the next year. That compared with 77% with those expectations in the last quarterly survey.

"Business conditions continued to improve during the third quarter, albeit at a marginally subdued pace from that of the second quarter, and the majority of the NABE Business Conditions Survey panelists report strong expectations for continued economic growth," John Silvia, the chief economist for Wells Fargo Securities who serves as the organization's president, said in a statement.

The findings are in line with analysts' forecasts for solid economic growth in the third quarter of the year, but a drop-off from the strong 4.6% annual rate in the previous quarter. Part of that robust second-quarter expansion was the economy catching up from a weather-induced contraction over the winter.

Sales growth at businesses slowed in the third quarter, with 49% reporting rising sales, compared with 57% in the previous quarter, the survey said.

The group's overall sales index, which includes the percentage of firms expecting unchanged and falling sales, decreased slightly to 42 from the previous quarter's 45.

Sales expectations for the next three months also were down, the survey said.

The percentage of economists reporting increased employment at their firms dropped to 32% in the third quarter, from 36% in the previous quarter, and expectations for hiring over the next three months also was down.

With several indicators running lower, the index for profit margins was off as well.

Although 30% of respondents said their companies' profit margins had increased in the third quarter, compared with 27% in the previous quarter, the percentage of economists reporting falling profit margins rose to 14, from 8.

That caused the profit margin index to drop slightly.

The economists also weighed in on their expectations for when the Federal Reserve will start raising its benchmark short-term interest rate, which has been near zero since late 2008.

About 77% said they anticipated interest rates to begin rising in the second half of next year or later. Their views are in line with Fed analysts.

IBM to Pay $1.5bn to Shed Chipmaking Business

LONDON (Financial Times) - **IBM has agreed to pay $1.5bn as part of a deal to shed its lossmaking chip manufacturing arm and avoid the billions of dollars in capital spending it was facing to upgrade its manufacturing technology.**

The deal with Global Foundries, which is owned by an Abu Dhabi sovereign wealth fund, announced in the US early on Monday, according to a person familiar with the agreement.

IBM has been searching for someone to take on its chip manufacturing arm for much of the year but has been hampered by the small number of players left in the consolidating business, giving it little bargaining power.

The huge cost of upgrading equipment and manufacturing processes for each new generation of chips, which involves shrinking the elements in a semiconductor to ever-smaller sizes, has already forced others to quit.

GlobalFoundries has already emerged as the second biggest in the foundry business after Taiwan's TSMC, making chips for other companies.

It was formed with the spin-off of AMD's manufacturing arm in 2009 and expanded with the purchase of Chartered Semiconductor a year later.

Negotiations over the deal were hampered in recent months by disagreement over how much IBM should pay Global Foundries to take on the division, as well as who should hold the intellectual property and research tied to the chip business.

IBM has sought to keep control of the design of its chips, which it considers important for future generations of its computers, while trying to shed the capital-intensive manufacturing facilities.

It said earlier this year that it would invest $3bn in chip research and design over a number of years, in an attempt to head off suggestions it was backing out of a field that has represented a core part of its technology in recent decades.

Under the deal, Global Foundries will take over IBM's main manufacturing plant in Fishkill, New York, as well as a smaller plant in Vermont, according to the person familiar with the plan. It will also assume about 5,000 IBM employees. The two have also signed a 10-year supply contract, this person said.

Both companies refused late on Sunday to comment on the news, which was first reported by Bloomberg.

ECB Starts to Buy Covered Bonds

NEW YORK (Bloomberg) - **The European Central Bank said Monday it had started buying covered bonds as part of a stimulus program to boost the eurozone's flagging economy.**

One person familiar with the matter said the ECB had been buying short-dated covered bonds from a number of different countries, in sizes up to €25 million ($32 million).

Covered bonds are backed by a pool of loans such as residential mortgages, and are widely considered as the safest type of debt that banks sell.

The ECB's covered bond program is part of a package of stimulus measures announced in September that included interest rate cuts to fresh record lows and planned purchases of asset-backed securities.

The ECB doesn't have a target amount for the purchases. But President Mario Draghi said last month the central bank was seeking to expand its balance sheet toward levels last seen in early 2012, suggesting the combined scheme—including a new bank-lending program—could be worth at least €700 billion.

It is unclear how much in total it has bought, or sought to buy, Monday. The ECB will announce its weekly purchase amounts each Monday, starting next week.

Analysts reckon the amount of covered bonds the ECB can buy will depend on how aggressively it bids for bonds.

Barclays said in early October that even though there is potentially €545 billion of covered bonds available in the secondary market, dwindling new issuance means investors may be reluctant to sell existing holdings, making it difficult for the ECB to buy bonds in large quantities.

"The ECB indicated that it would be ready to hold a share of up to 70% of individual bonds, but we believe that reaching such a high ownership rate could be achieved only when accepting a significant distortion of valuations," Barclays wrote in a note to clients.

For the ECB, the hope is that by raising the supply of money in the eurozone economy, banks will lend more to households and businesses and boost economic activity and inflation in the process. Annual inflation was 0.3% in September, far below the ECB's target of just under 2%.

This is the ECB's third covered bond program since 2009. Under the first program, the ECB purchased €60 billion of these securities. A second program fizzled, however, with the ECB buying less than half of the €40 billion it had targeted.