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Greenspan Warns That U.S. Deficits Pose Risk to Dollar

By MARK LANDLER

FRANKFURT, Nov. 19 - Alan Greenspan came to the home of the euro today and warned anxious Europeans to expect little relief from the relentless decline of the dollar against their currency.

In a speech to a banking congress here, Mr. Greenspan, the chairman of the Federal Reserve, said the United States' persistently high current-account deficit in world trade posed a risk to the dollar's value, since foreign investors would eventually resist buying more American assets.

"It seems persuasive that, given the size of the U.S. current-account deficit, a diminished appetite for adding to dollar balances must occur at some point," he said. "But when, through what channels, and from what level of the dollar? Regrettably, no answer to these questions is convincing."

Mr. Greenspan likened predicting the dollar's path to "forecasting the outcome of a coin toss."

But the implication of the speech was clear to this audience of European bankers, who laughed nervously at his metaphor: The dollar, which has fallen to record lows against the euro this week - giving fits to European politicians and business executives - is likely to fall further still.

Currency traders reacted swiftly, driving the dollar down near its record low against the euro and to a four-and-a-half year low against the Japanese yen. The euro was quoted at \$1.3019 in New York trading this afternoon, versus \$1.2968 late Thursday. The dollar was also trading at 103.08 yen, down from 104.09 yen.

Mr. Greenspan's comments came two days after Treasury Secretary John W. Snow appeared to rule out helping the European Central Bank or any other central bank stem the decline of the dollar. Mr. Snow, speaking in London, prodded European leaders to tackle their home-grown economic problems.

Taken together, the two speeches have sent an unmistakable message that the Bush administration, on the heels of its re-election, is prepared to tolerate a weaker dollar for the foreseeable future.

That could aggravate tensions between the United States and Europe, which is increasingly worried that the rise of the euro is choking off its tenuous recovery. In France and Germany, economic growth in the third quarter dropped to 0.1 percent, as the countries' exports dried up.

European leaders are hoisting distress flags. Germany's minister for economics, Wolfgang Clement, urged the United States, Europe and Asia to take coordinated action to stop the dollar's slide. The president of the European Central Bank, Jean-Claude Trichet, has called the exchange-rate shifts "brutal."

Mr. Trichet, who traveled a few blocks from the headquarters of the European Central Bank to appear on the same panel as Mr. Greenspan, pointedly declined to repeat that characterization.

Both central bankers later flew to Berlin for a meeting of the Group of 20, which includes the Group of 7 industrialized countries, as well as economically emerging countries. The downward path of the dollar is likely to be high on the agenda, but there is little hope of a concerted response.

Analysts said Mr. Greenspan's speech made it clear that the Federal Reserve v

fluence the process, either

"It was an either/or message," said Thomas Mayer, the chief European econor
deficit comes down. Or the market will do it, but at a cost to the dollar. Will tl
to its mandate."

either the current-account
Probably not. It will stick

Speaking on a panel that also included the deputy governor of the Bank of Jap
of his remarks to the effect that American fiscal policy has on global markets.

Greenspan devoted much

"Current account imbalances, per se, need not be a problem," he said in a characteristically technical speech, "but cumulative deficits, which result in a marked decline of a country's net international position - as is occurring in the United States - raise more complicated issues."

Mr. Greenspan said foreign investors, who finance the American deficit by buying Treasury bills and other dollar-denominated assets, would eventually become reluctant to take on more such assets.

"This situation suggests that international investors will eventually adjust their accumulation of dollars assets or, alternatively, seek higher dollar returns to offset concentration risk," he said.

This is not the first time Mr. Greenspan has warned about the risks of a spiraling current-account deficit. In testimony before Congress last February, he said "foreign investors, both private and official, may become less willing to absorb ever-growing claims on U.S. residents."

As he did last winter, Mr. Greenspan said today that his preferred remedy would be for the Bush administration to bring down both the current-account and budget deficits. That would encourage household savings in the United States, which are also at extraordinarily low levels.

But analysts did not interpret Mr. Greenspan's remarks as a rebuke of the White House, which has indicated it will seek to make the deep tax cuts of its first term permanent. If anything, they said, his speech had a laissez-faire tone - leaving events in the hands of the market.

That will be cold comfort to many Europeans, who believe their currency is absorbing the bulk of the pressure from the declining dollar, since Japan and other Asian countries have intervened aggressively in the market to prevent their currencies from rising against the dollar.

Mr. Greenspan took issue with that suggestion, saying that, based on his review of recent statistics, Asia's "very large" central bank interventions had had only a "moderate" effect on exchange rates.

For his part, Mr. Trichet seemed determined not to breathe another word about the dangers of a rising euro. Describing his previous comments on the subject as "poetry," he turned aside questions about the exchange rate.

Mr. Mayer of Deutsche Bank said Mr. Trichet's silence suggested his earlier efforts to talk down the currency had fallen short. "They are basically seeing that there is very little they can do about it," he said. "They are not in a position to change interest-rate policy to address it."

Even Mr. Greenspan, who was welcomed like a rock star in this financial city, seemed to give the euro short shrift. Asked how he felt the currency had performed in its short history, he said, "surprisingly good."