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Balkan Woes Darken Albania and Greece
Ethnic Feud Could Explode Into Another Bosnia, Involving NATO Allies

By Mark M. Nelson
Staff Reporter of The Wall Street Journal

GLENDALE, ALBANIA—Here in this fertile valley of cypresses and shepherds, where Greeks and Albanians have mingled for centuries, the talk has turned to war.

Two Albanian soldiers were killed near here by a Greek-speaking gang that fled into Greece. A colonel in the Greek reserve flew a light plane into Albania and dropped leaflets calling for the overthrow of the government. Greek nationalists, some apparently backed by the Greek Orthodox Church in northern Greece, broadcast radio demands for Greek annexation of southern Albania. Meanwhile, dozens of Greek-speaking Albanians have been arrested, often on flimsy pretenses, and some tried and imprisoned for years.

"Crazy people are doing crazy things," says Thanas Pappa, a retired shoe maker standing with a group of village elders at the door of the Orthodox church here. "They're all fanatics."

As the U.S. and Europe struggle to end the conflict in nearby Bosnia, another Balkan feud is coming to a boil here. Again, it is a quarrel about language and blood, tangled in history and current politics. It is all the more worrying because it involves Greece, a member of the North Atlantic Treaty Organization and the European Union, a country that is supposed to contribute to Europe's security rather than help spread turmoil.

A Costly Crisis

The crisis is proving economically devastating for Albania. Greece's decision to expel more than 40,000 illegal Albanian workers is costing Albania an estimated $5 million a month in foreign currency receipts, diplomats in Tirana say. Such costs could prove catastrophic for Europe's poorest country, struggling to find its way out of what was one of the world's most repressive and isolated Communist systems — so xenophobic, in fact, that it had severed relations with the rest of the world. The transition to a market economy, said a World Bank report in January, will be "a daunting task." But the most urgent need is for a new constitution, to end the conflict in nearby Bosnia. Another Balkan feud is coming to a boil here.

"There is an alarming human-rights problem," says Ekateriyi Petrit, a Balkan expert at St. Anthony's College, Oxford University. "It is all the more worrying because it involves Greece, a member of the North Atlantic Treaty Organization and the European Union, a country that is supposed to contribute to Europe's security rather than help spread turmoil."

Excuse for Intervention

An Albanian-Greek dispute is a volatile connection in the unpredictable Balkans. Not only are Serbs at war with Muslims and Croats in Bosnia, but also two million Albanians live under rigid Serbian oppression in Kosovo, creating what many experts see as the most likely location for the next conflict.

Any Serbian-Albanian Albanian clash could provide an excuse for Greece to intervene to protect its northern borders with Albania and the former Yugoslav republic of Macedonia. If that happens, Greece's traditional enemy, Turkey, could be emboldened to intervene to help its Muslim allies in Albania. The Turks ruled Albania for four centuries, until early in this century, whose very name sparks Greek ire — meaning "the land of the dolphins." Greece's recent hostile moves toward its other northern neighbor, Macedonia, whose very name sparks Greek ire, have contributed to international organizations in the Albanian crisis seriously. Greece has imposed a unilateral trade embargo and has blocked full international recognition of Macedonia because it says the name implies territorial ambitions on the northern Greek state with the same name.

"In all probability, this becomes a bigger problem," says Ekateriyi Petrit, a Balkan expert at St. Anthony's College, Oxford University. "It is all the more worrying because it involves Greece, a member of the North Atlantic Treaty Organization and the European Union, a country that is supposed to contribute to Europe's security rather than help spread turmoil."

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Fed Intervenes To Lift Dollar Around Globe

FOREIGN EXCHANGE

By Michael R. Shenk and Tim Carlinn

The U.S. moved aggressively to boost the sagging dollar in world foreign exchange markets, leaving little doubt that a further rise in short-term interest rates is just around the corner.

Changing currency dealers and investors by surprise, the Federal Reserve spent an estimated $250 million to $7 billion to support the dollar against the yen and the mark.

Treasury Secretary Lloyd Bentsen, whose commitment to strengthening the dollar has been questioned for months, issued a strongly worded statement in which he appeared to draw his line in the sand. "Continuation of recent foreign-exchange trends would be counterproductive for the United States and the world economy," he declared.

I believe that recent movements in the dollar are inconsistent with the fundamentals of a strong investment-led recovery in the United States and the greatly enhanced abilities of U.S. firms to compete around the world," the secretary said. "A stronger dollar will reduce inflation pressures, improve American living standards and promote investment."

The U.S. action, which came after the dollar had tumbled to a new post-World War II low against the yen, pushed up the value of the currency in New York trading. In late afternoon New York trading, the dollar was at 97.50 yen and 1.543 marks, compared with 96.65 yen and 1.495 marks late Tuesday. The British pound fell to $1.6203 from $1.6303 the day before, Tokyo's financial markets were closed Thursday for a public holiday.

Wayne Angel, the former governor and Bear Stearns economist, said yesterday's moves leave little doubt that the Fed will move decisively to raise rates when its policy-making Federal Open Market Committee meets on Nov. 15. "I don't believe they would have taken this kind of action unless they were looking to have a money move," he said. "Mr. Bentsen has put his signature on the dotted line."

Traders and economists said yesterday's dollar-bolstering efforts will be wasted unless they are backed by higher interest rates. They also said that the absence of European central banks in the intervention effort diluted the impact of the Fed's action.

"The markets will be unimpressed by another round of central bank intervention unless the Fed convinces investors it is being sufficiently vigilant in its fight against inflation," warned Avinash Persaud, an international economist at J.P. Morgan & Co. in London.

"If the (German) Bundesbank were seen to have joined in the intervention, that would have significantly altered sentiment toward the dollar," said Mr. Persaud. "But in their absence, the market will remain unimpressed.

"The dollar's weakness isn't resolved," said Kathleen Stephens, senior economist with Donaldson, Lufkin & Jenrette. "I still believe it's due to excessive inflation expectation that foreigners hold for the U.S. economy. For that to be corrected, we need a tighter Fed policy."

Indeed, the dollar's slide, and the administration's apparent determination to halt it, only increases the pressure for the Fed to raise interest rates for the sixth time this year. If nothing else, the Treasury's decision to shore up the dollar suggests there'll be little administration resistance to a decisive Fed move to improve the dollar.

Even before yesterday's intervention, and Mr. Bentsen's statement, an increase in short-term rates was widely expected.

"Decisive action by the Fed is going to be important in giving the market a sense of the anti-inflationary policy at the Fed," said John Lipsky, chief Salomon Brother economist, at a recent conference at the International Monetary Fund.

He and Morgan's Mr. Persaud said the Fed should raise the key federal funds interest rate, the rate at which banks lend to each other, to 5% from the current 4.5%. Others predict an increase to 5.5%, but few economists think the Fed can afford to do any less.

Noting that Japan already has spent roughly $30 billion this year in an attempt to avert the slumping U.S. currency, Mr. Persaud said yesterday: "Another round of intervention won't be seen by the market as anything special. It has raised the risk of being short dollars in a dramatic fashion."

Before the Fed purchased dollars for yen and marks and before Mr. Bentsen issued his statement, the U.S. currency fell to 96.65 yen, its lowest point since the modern exchange rate system was established following the Second World War. Its previous low was 96.37 yen, set in intraday trading on Oct. 26. Its postwar low against the mark is 1.3870, set Sept. 2, 1992.

"Without the Fed and Bentsen, the dollar would have tested the 96-yen level," said Paul Farrell, a vice president at Chase Manhattan Bank in New York. "At 96 yen there were orders to buy dollars; if they didn't stop the decline, we would have been looking at the 96 yen level." He added that, knowing about the large number of orders to purchase dollars at 96 yen, the Fed could have intervened to "persuade people to buy dollars at even higher levels than they planned to."

Bundesbank President Hans Tietmeyer and French Economics Minister Edmond Alphandary lauded the Fed's intervention effort. But, Reto Feller, chief dealer at Commerzbank AG in Frankfurt, said the dollar-support action "would be taken more seriously if there was G-7 intervention, especially in" helping to prop the dollar against the mark.

But, he added that the Fed's decision to intervene when European markets were closing suggested that concerted intervention was unlikely. Group of Seven and industrial countries comprise the U.S., Japan, Germany, France, Italy, Britain and Canada.

Traders noted that the dollar resumed its decline this week following data indicating still-weak U.S. economic growth. Specifically a rise in the National Association of Purchasing Managers' index on manufacturing activity and the Fed's "Beige Book" of U.S. economic activity.

Adding that Friday's U.S. employment report for October and congressional elections on Tuesday could add to the dollar's problems, Michael Burke, an international economist at Citibank in London, said: "The risk was that the dollar would fall all the way to the FOMC meeting. That would make the Fed's task of trying to arrest its fall "even harder," he added.

Throughout much of the year, the dollar has been undermined by a combination of economic, financial and political factors, but most of all, the dollar has been hurt by capital flows. The combination of a huge U.S. current account deficit, Japanese investors' reluctance to purchase U.S. stocks and bonds and American investors continuing large appetite for foreign securities has resulted in a glut of dollars on world markets and a shortage of yen.

Traders said they ganged up on the dollar yesterday, because they knew Japan would close for a national holiday today, and that, therefore, the Bank of Japan might be unable to prevent the U.S. currency's descent.

Despite Mr. Tietmeyer's comments. Mr. Burke said: "There's a suspicion that the Bundesbank isn't unhappy with the dollar around 1.50 marks." He noted that a strong mark offsets the inflationary impact of rising world commodity prices which are mostly denominated in dollars.

Also "we know from earlier in the year that intervention that isn't backed by policy changes -- higher interest rates in this case-doesn't work."

Adding that 96 yen could be an important psychological level but the dollar could easily get lower," Mr. Burke also predicted the dollar could fall to the low 1.40-mark area.

-Silvia Ascarelli contributed to this article.

--- Group C1, Outlook &

The Dollar's Day

Closing levels per U.S. dollar, half-hour intervals

Source: Telerate Ticker

THE WALL STREET JOURNAL, THURSDAY, NOVEMBER 3, 1994