Japan's debt mountain: How is it sustainable?

AFP, *Tokyo*

Already the global leader in accumulating debt, Japan is adding nearly $2 trillion to its mountain this fiscal year with record stimulus packages to cushion the impact of coronavirus.

With debt levels around two and a half times the size of its economy, Japan manages to keep government bond yields ultra low and investor confidence high that it can avoid default.

Whichever way you look at it, Japan's debt is unfathomably large. According to the Bank of Japan (BoJ), at the end of 2019, it stood at 1,328,000,000,000,000 yen.

This is equivalent to around $12.2 trillion, just over half the total amount of US debt in absolute terms but by far the biggest pile when measured against the size of even Japan's mighty economy (around 240 percent of gross domestic product).

Japan's debt began to swell in the 1990s when its finance and real estate bubble burst to disastrous effect.

With stimulus packages and a rapidly ageing population that pushes up healthcare and social security costs, Japan's debt first breached the 100-percent-of-GDP mark at the end of the 1990s. It hit 200 percent in 2010 and is now around 240 percent of GDP, according to the International Monetary Fund.

On Wednesday, Japan's parliament agreed anti-coronavirus measures worth 117 trillion yen -- which is likely to push the GDP ratio well above 250 percent.

To finance this debt, the Japanese government issues bonds known as JGBs.

These are snapped up in enormous volumes by the BoJ, the country's central bank that is officially independent but in practice closely co-ordinates economic policy with the government.

As part of anti-virus measures, the bank has removed its self-imposed ceiling on buying JGBs, giving itself unlimited purchasing firepower. It holds more than half of all JGBs.

These purchases support the price of the JGBs in the debt market and keep the yield on the bonds low (prices and yields move in opposite directions). This means that in effect, the government is being financed by the central bank at an ultra-low (or even negative) interest rate, making it more sustainable.

"The ultra-low rate conditions created by very much accommodative monetary policy by BoJ can be one of the reasons" that Japan's mountain is less problematic than for other high-debt countries around the world, said Takashi Miwa, an economist at Nomura bank.

Risk-averse private and institutional investors also have a healthy appetite for JGBs because they see them as a safe place to put their money, burned by a history of stock market bubbles.

"A large portion of wealth is held by seniors who lack financial literacy and prioritise stability rather than return," said Shigeto Nagai, from Oxford Economics.

"With limited investment and lending opportunities domestically, banks, insurance companies and pension funds still need the JGB to place their vast amount of excess savings," Nagai told AFP.

The bonds are denominated in yen, still seen as a safe haven in troubled economic times and the proportion held by foreign institutions is very low -- making Japan less vulnerable to external pressure.

China's factory goods prices slump on virus shock

AFP, *Beijing*

China's factory-gate prices remained at four-year lows in May, official data showed Wednesday, as the demand shock from the coronavirus continued to take a toll on the world's second-largest economy.

The producer price index (PPI), which measures the cost of goods at the factory gate, deepened its contraction last month, shrinking 3.7 percent on-year.

Analysts said subdued demand and declining global commodity prices were key factors behind the fall.

The PPI figure was worse than the 3.2 percent drop expected by analysts in a Bloomberg survey, and was deeper than April's 3.1 percent contraction -- underscoring the stress faced by manufacturers as China's economy churns back to life after pandemic lockdowns.

China's consumer price index (CPI) rose 2.4 percent in May, said the National Bureau of Statistics, easing from 3.3 percent a month earlier on falling food prices.

The country has been working to bounce back from a historic contraction in growth in the first three months as the coronavirus outbreak brought activity to a near-standstill while authorities worked to curb its spread.

But the march of the virus around the world, hammering the global economy, has depressed demand across many of China's key trading partners, forcing companies to charge less for their products.

Dong Lijuan, senior statistician at the statistics bureau, said Wednesday the PPI drop was influenced by a fall in prices in the oil industry and other major commodities.

Another key factor behind the easing of consumer prices is China's slowing food price inflation, added Dong, with more fresh produce entering the market and an increase in pork supply.

Martin Rasmussen of Capital Economics noted the PPI change was driven by "an across-the-board decline in raw materials, manufactured goods and consumer goods price inflation".

Consumer inflation had remained close to eight-year highs in the earlier part of 2020, and pork prices have been soaring after the country's herds were ravaged by African swine fever that saw millions of pigs culled.

Emirates lays off thousands of pilots, cabin crew, plans more job cuts

REUTERS, *Dubai*

Emirates, one of the world's biggest long-haul airlines, laid off hundreds of pilots and thousands of cabin crew on Tuesday as it manages a cash crunch caused by the coronavirus pandemic, and more job cuts are planned, five company sources said.

Aviation is one of the industries worst hit by the fallout from the virus outbreak, with airlines forced to lay off staff and seek government bailouts.

More redundancies were expected at Emirates this week including both Airbus A380 and Boeing 777 pilots, the sources said on the condition of anonymity.

The workforce of 4,300 pilots and nearly 22,000 cabin crew could shrink by almost a third from its pre-coronavirus levels, three of the sources said.

Without giving further details, an airline spokeswoman told Reuters some employees had been laid off.

"Given the significant impact that the pandemic has had on our business, we simply cannot sustain excess resources and have to right size our workforce in line with our reduced operations," she said.

A promise by the Dubai government to provide Emirates with new equity would allow it to "preserve its skilled workforce," the state airline said on May 10.

It has since laid off employees, which sources previously told Reuters were trainee pilots and cabin crew.

Outgoing President Tim Clark has said it could take four years for the airline to resume flying to all of the 157 international destinations it served before the pandemic. It has a fleet of 270 A380 and 777 jets.

The airline has operated limited, mostly outbound services from the United Arab Emirates since grounding passenger flights in March but is due to restart some connecting flights after the UAE last week lifted a suspension.

Emirates has also extended pay cuts until September, and in some cases deepened the reduction to 50%, according to an internal email on Sunday.

Pakistan's budget to target growth recovery

REUTERS, *Islamabad*

Pakistan will target growth of 2.3 per cent in fiscal year 2020-21, according to government officials and documents seen by Reuters that said the economic landscape would depend mainly on the country's ability to control the coronavirus pandemic.

Prime Minister Imran Khan's government is set to present its 2020-21 budget on Friday, in a parliamentary session that only 25 per cent of lawmakers will attend due to pandemic restrictions.

"The GDP growth for 2020-21 is targeted at 2.3 percent with contributions from agriculture (2.9 percent), industry (0.1 percent) and services (2.8 percent)," a planning commission working paper seen by Reuters said.

That forecast is much rosier than the 0.2 per cent contraction in 2020-21 projected by the World Bank earlier in June. The multilateral lender sees growth of -2.6 per cent this fiscal year, ending June 30, while the government expects a 0.4 per cent contraction.