

Soaring trade surplus highlights China's 'lopsided' economy

AFP, Beijing

China's inflation stayed low in April, while the trade surplus more than doubled, showing how hard it is to make the economy depend less on exports and rely more on consumption, analysts said Friday.

The statistics underlined the basic challenge policy makers face as they strive to make the nation's

1.3 billion people spend more and have domestic spending account for a larger share of growth in Asia's second-largest economy, analysts argued.

"Investment is the largest growth engine, and the second engine is exports. Consumption is just a follower, not a driver," said Chen Xingdong, chief China economist with BNP Paribas Peregrine in

Beijing.

"It's not easy for the government to change. Consumption is determined by consumers, not determined by the government," he said.

China's gross domestic product expanded by 10.2 percent in the first quarter of the year, making it the world's fastest growing major economy, but that is not the only thing that puts the country in a league of

its own.

The consumer price index, the main inflation gauge, rose just 1.2 percent last month from a year earlier, the National Bureau of Statistics said Friday.

To some economists, who looked at the figures against the backdrop of double-digit growth, it sounded odd, bordering on the unbelievable.

"It begs the question whether these figures are accurate, are they really reflecting what's going on in the economy?" said Tai Hui, a Hong Kong-based economist with Standard Chartered.

In sharp contrast to the low-inflation environment, the April trade surplus soared 128 percent from a year earlier to 10.5 billion dollars, customs authorities said Friday.

Exports in April were up 23.9 percent to 76.9 billion dollars, while imports were up by a more moderate 15.3 percent to 66.5 billion dollars, the customs authorities said.

According to observers, the data did not necessarily reflect a Chinese export juggernaut rolling on, crushing everything in its path. The interesting figure to look at was the relatively slow growth in imports.

It was, they said, a case of China's own industries, some of them with considerable excess capacity after years of investment, turning their attention to making products that have so far been imported from abroad.

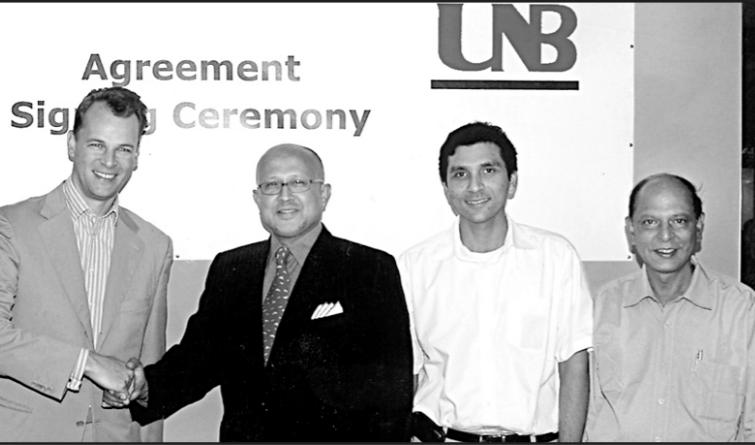


PHOTO: BANGLALINK

Lars P Reichelt, chief executive officer of mobile phone operator Banglalink, and Enayetullah Khan, editor-in-chief and chief executive of United News of Bangladesh (UNB) Ltd, shake hands after signing an agreement recently. Under the deal, the news agency has become a corporate client of Banglalink. Amanullah Khan, UNB chairman, and other senior officials from both the sides were also present at the signing ceremony.



PHOTO: EBL

Ali Reza Iftekhar, acting managing director of Eastern Bank Ltd (EBL), and S Prabagar, chief operating officer of Commercial Bank of Ceylon Ltd, pose for photographs at a master repurchase agreement signing ceremony on Wednesday in Dhaka. Under the deal, both the banks will be able to enter into Repo and Reverse Repo agreements between themselves against their government securities. Other senior officials from both the sides are also seen.



PHOTO: LANKABANGLA FINANCE
MA Hasan, vice president of Premier Bank Ltd, and AKM Anwarul Kabir, executive vice president of LankaBangla Finance Ltd, pose for photographs at an agreement signing ceremony recently. Under the deal, the bank will extend credit facility to LankaBangla to finance the latter's business activities. Abu Hanif Khan, managing director of the bank, and A Malek Shamsher, managing director of the financial institution, among others, were present.



PHOTO: ISLAMI BANK BANGLADESH
Mominul Islam Patwary, chairman of executive committee of Islami Bank Bangladesh Ltd, speaks at the inaugural session of an 'Orientation Course for Probationary Officers' of the bank recently. Other senior officials were also present.

Weekly Currency Roundup

May 07-May 10, 2006

Local FX Market

Demand for US dollar was stable in this week and USD remained almost unchanged against Bangladeshi taka.

Money Market

In the Treasury bill auction held on Sunday, bid for BDT 5,964.00 million was accepted, compared with total of BDT 4,398.00 million in the previous week's bid. Weighted average yield was unchanged.

Overnight money market was more or less steady throughout the week. The call money rate ranged between 11.00 and 13.00 percent.

International FX Market

The dollar fell over the weekend and in the beginning of the week, hit a one-year low against the euro and sterling and a near eight-month low versus the yen on Monday. The dollar has been under pressure since the Group of Seven finance ministers last month called on China and other emerging Asian economies to allow greater currency flexibility to help redress global imbalances. The yen was the biggest mover on the day, rallying by more than one percent against the dollar.

In the middle of the week, the dollar steadied against major rivals, but the outlook stayed shaky, with investors awaiting the US Federal Reserve's rate decision on Wednesday. Although the Fed was widely expected to lift its funds rates, investors were however uncertain about the Fed's action beyond that. The yen hit a six-week high against the euro after a media report stocked expectations the Bank of Japan will raise interest rates as soon as July. Several other major events were scheduled for this week, including euro zone growth figures on Thursday and US trade data at week's end.

By the end of the week, the dollar fell again, hitting one year lows against the euro, sterling, Swiss franc and an index of currencies as investors speculated the US Federal Reserve will hint at a pause in rate rises at its meeting later. The Fed is widely expected to raise overnight rates by 25 basis points for the 16th straight time at Wednesday's meeting, taking the key rate to 5 percent. The USD has also been pressured this week by a Chinese newspaper report that economists have urged Beijing to quadruple the amount of gold held in its foreign reserves, the largest in the world. Increasing its gold portfolio could require China to reduce its Treasury holdings, which would lead to dollar selling. The yen jumped to an 8-month peak against the greenback as speculation that the Bank of Japan could start raising overnight rates as soon as June sparked a self-off in Japanese government bonds that drove two-year yields to their highest in more than seven years.

- Standard Chartered Bank

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