International Business News

Global economy in 'tough spot' despite higher growth: IMF

AFP, *Washington*

The IMF on Thursday lifted growth forecasts modestly for the world including the United States but said the global economy is in a "tough spot" due to rising inflation amid a slowdown.

Global output is expected to climb 4.1 percent in 2008, up from its April projection of 3.7 percent, the International Monetary Fund said in an update of its April World Economic Outlook.

But the report also dramatically boosted the inflation outlook.

For 2009, the forecast calls for 3.9 percent global growth, up a notch from its earlier call of 3.8 percent.

IMF chief economist Simon Johnson said there is still "a chance of a global recession," which many economists define by global growth below 3.0 percent.

Johnson said the overall growth picture is "roughly" the same as in April but the situation has become more complicated since April because of the inflation problem."

The IMF made modest upward revisions for the United States, the eurozone, Japan and China, but suggested that the small gains in output still reflect a slowing from 2007 levels and may be overshadowed by inflation pressures.

Sri Lanka's trade gap narrows

AFP, *Colombo*

Sri Lanka's trade deficit narrowed to more than two billion dollars in the first five months of the year, despite spiralling crude oil and food import bills, the central bank said Friday.

Imports from January to May rose to 5.81 billion dollars, up from 4.31 billion dollars in the corresponding period last year, the bank said.

Exports grew moderately to 3.23 billion dollars, up from 2.87 billion dollars.

The trade balance, which had been doubling in the past four months, dipped to 79.3 percent, but the overall balance of payments recorded a surplus of 292 million dollars, largely from increased remittances from Sri Lankans overseas.

Sri Lanka, which produces no oil of its own, bought 1.45 billion dollars of crude oil in the first five months of this year, up 75.7 percent from 826.7 million dollars in the same period a year earlier.

Indian software firms cautious despite strong Q1 results

AFP, *Bangalore*

Two of India's key software exporters, Wipro and Satyam Computer, posted better-than-expected first quarter results Friday, but gave cautious outlooks amid uncertain US economic conditions.

The results come after the country's top two software firms, TCS and Infosys, also reported net profit jumps for the first quarter.

However, the country's software companies announced cautious full-year revenue forecasts this week, with several US-based clients in the midst of a tough business cycle.

The United States is the major market for India's software exports and the economic slowdown there has raised concerns about how they will fare in future, despite expanding to Europe, Latin America and the Middle East.

AFP

Chief Operating Officer (COO) of Italian firm Fiat Silverio Bonfiglioli, poses with the new Fiat 500 motorcar during its launch in Mumbai on Friday. The car will be available in India in both diesel and petrol variants with a starting price of Indian Rupees 1,482,500 (USD 34,476).

Vodafone takeover of Ghana Telecom delayed by opposition

AFP, *Accra*

Opposition lawmakers in Ghana's parliament on Friday blocked approval of the sale of a majority stake in state-owned Ghana Telecom to Britain's Vodafone.

With the chamber going into the summer recess, Vodafone and the Ghanaian government will have to wait until October when deputies return.

"It gives an opportunity for a rethinking, reassessment and reworking of what is going on," the opposition National Democratic Congress' spokesman on finance, Benjamin Kumbuor, said.

Deputy Communications Minister, Opare Ansah, told AFP that there is nothing wrong with the agreement.

The government's announcement that a 70-percent stake in Ghana Telecom was to be sold to the British firm has provoked stern opposition from some politicians who think that the proposed deal, which values Ghana Telecom at 1.3 billion dollars (over 800 million euros), is not in the national interest.

ECONOMY

US banking sector faces fresh test

AFP, *Washington*

A rebound in the beleaguered banking sector faced a fresh test Thursday as two key financial firms prepared to release quarterly results.

Banking titan JPMorgan Chase was expected to report a profit while investment giant Merrill Lynch was set to report a loss, in results that will be closely scrutinized by financial markets for signs of health of the sector.

The results come a day after a sizzling Wall Street rally that saw a wide banking sector index jumping 16 percent, fueled by a strong earnings report from Wells Fargo and positive comments from Fed chairman Ben Bernanke on mortgage finance giants Fannie Mae and Freddie Mac.

Bernanke said ailing Fannie Mae and Freddie Mac are "in no danger of failing."

Bernanke's comments in Congress coincided with a sharp rebound in shares of the beleaguered mortgage-finance titans and a snapback in the banking sector as fears faded about a meltdown in the global financial system from mounting losses on US real estate.

Shares in Fannie Mae leapt 31 percent to 9.25 dollars and Freddie Mac climbed 29.8 percent to 6.83 on Wednesday. Yet both are down more than 75 percent for the year.

The turmoil of the past week appeared to ease as markets assessed the outlook for the banking system and the portfolios of Fannie and Freddie, shareholder-owned government-sponsored enterprises (GSEs) which underpin some five trillion dollars in mortgages.

"The GSEs are adequately capitalized. They are in no danger of failing," Bernanke told lawmakers of the House of Representatives in a second day of testimony to Congress on the central bank's semiannual economic report.

"However, the weakness in market confidence, this is having real effects as their stock prices fall, (and) it's difficult for them to raise capital."

Bernanke said the loss of confidence could prompt higher rates on bonds of the two firms, and accordingly increase their borrowing costs.

The crisis has prompted the Fed to open up its discount window to the two firms and President George W. Bush's administration has proposed other steps to help shore up confidence.

Fears of a banking crisis had mounted since the failure last week of California-based IndyMac.

But Wells Fargo, another California-based bank, reported Wednesday a stronger-than-expected quarterly profit of 1.8 billion dollars and boosted its dividend, propelling other banking shares higher.

Fred Dickson, a market analyst at DA Davidson and Co., said a new emergency rule ordered by stock market regulators to curb some speculative "short sales" of key financial firms could help steady the market.

"The moves ...should eliminate some of the huge market volatility in these issues thus restore some stability to the overall market," Davidson said.

The Securities and Exchange Commission, in issuing its new rule, stated: "False rumors can lead to a loss of confidence in our markets."

The SEC said a loss of confidence "can lead to panic selling, which may be further exacerbated by 'naked' short selling" that would prompt an accelerated decline.

The SEC said this situation worsened the situation for investment giant Bear Stearns before its near collapse in March, forcing a sale to JPMorgan Chase.

As financial markets appeared to steady, the Fed released minutes from its June policy meeting showing ongoing uncertainty about the economic outlook.

But policymakers agreed at their meeting last month that their next move on interest rates would probably be an increase, after a series of easing moves, the minutes showed.

"With increased upside risks to inflation and inflation expectations, members believed that the next change in the stance of policy could well be an increase in the funds rate," the minutes said.

"Indeed, one member thought that policy should be firmed at this meeting. However, in the view of most members, the outlook for both economic activity and price pressures remained very uncertain, and thus the timing and magnitude of future policy actions was quite unclear."

AFP

A file photo shows Merrill Lynch offices in New York City. Merrill Lynch lost another $4.9 billion while posting its fourth-straight quarterly loss with gigantic writedowns.

COLUMN

HABIBULLAH N KARIM

The IT song and dance routine in Bangladesh

A former commerce minister used to often say that Information Technology (IT) is a national buzzword and in every town and village-market and people talk about it all the time. Another former Science and Information and Communications Technology (ICT) minister once narrated a story that after a severe flood in a rural town, one family appealed to him only for replacing their damaged home personal computer (PC).

The euphoria around IT over the course of the last ten years raised tremendous hopes that the country would move on riding on the back of this mystical beauty that remained as elusive as the mythical unicorn of folklore. But beyond the mysticism and tech gadget savvy 'addas' of young crowds in coffee shops, IT is not yet recognised as a mover of the economy either in exports or local productivity. There is no dearth of seminars, workshops, conferences and studies on IT though and the wheels of the buzz-machine are whirring faster than ever.

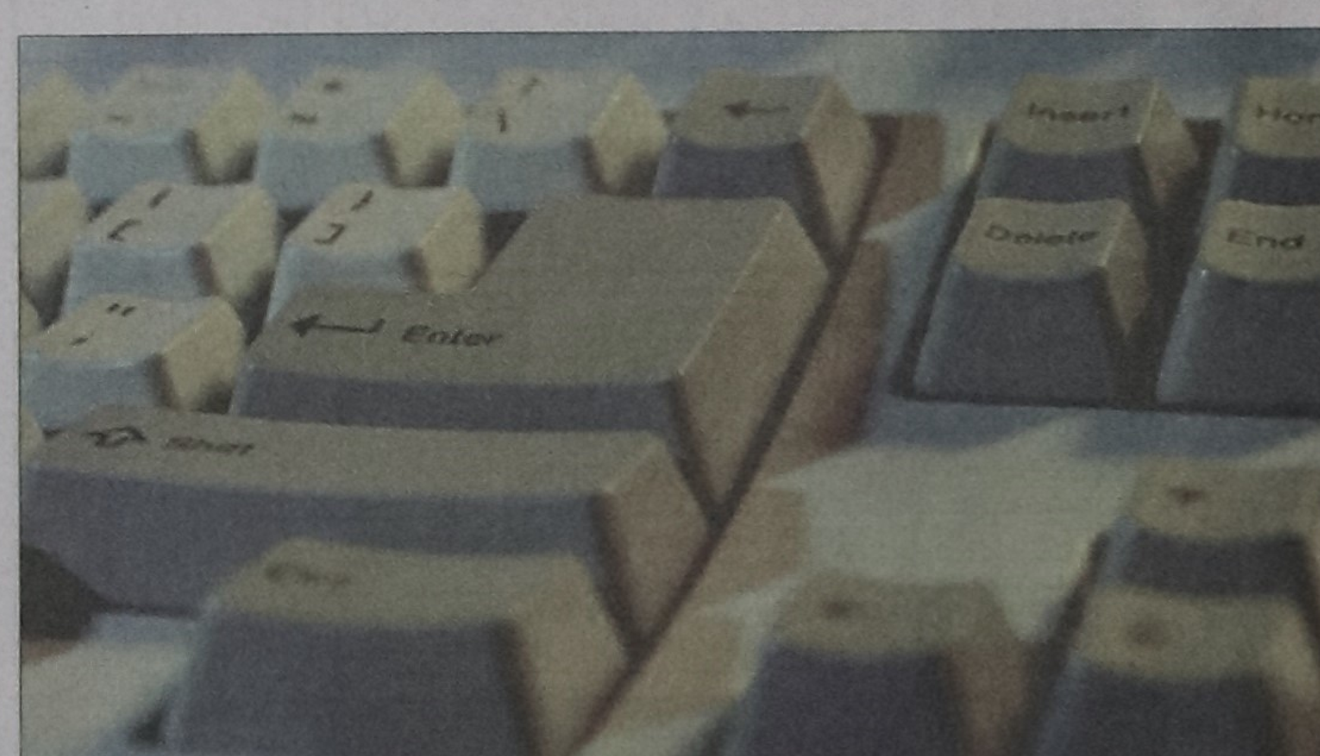
The telecom industry, however, caught on with the buzzing spirit of the nation and five mobile and even a larger number of landline phone operators in the private sector are ringing up revenues of more than ten thousand crore taka, an amount that rivals the annual education budget of the nation.

Of course we are taking pride in the fact that in the last ten years our telecom penetration rate has gone up from under 1 per 100 people to 28 per 100 people as of last month. This nearly forty-fold increase in our telecom density has put us on the map as one of the fastest growing telecom markets in the world. While this development has lowered the communication and information-sharing costs across the nation in ways that was unfathomable before, cynics point out that this industry plays to the talkative instinct of our people. This instinct has been attractive enough to bring in more than $ 2 billion worth of foreign investments giving away more than 90 percent of our market to the overseas fortune hunters.

When we contrast this to the less than $ 10 million worth of Foreign Direct Investment (FDI) in the IT industry including software and IT enabled service industry of the country, we can see how anemic is the FDI flow to a sector that is a close cousin of telecoms industry. Whatever investments we have in IT is overwhelmingly by the local IT entrepreneurs whose passion and dedication has given us a foothold in the global IT services market as well as some measure of progress in the adoption of IT in domestic industries and government.

The growth prospects of IT notwithstanding, we are far behind in the growth curve this industry has chalked up in India for many years and in China, Pakistan, Philippines, Sri Lanka and Vietnam of late. For us IT has remained a slithering invertebrate and no matter how much we sung and danced, the supine industry never stood up and showed its true colours. With our network readiness ranking among the bottom five nations, according to the World Economic Forum, and our external marketing efforts lacking the punch of competing countries, it's not difficult to see why.

These days, however, many prefer to include telecoms with IT in the bigger acronym called ICT, in the name of convergence. While convergence may be inevitable from a regulatory perspective, from the perspective of the economy, IT and telecoms are distinctly two different industries. The former primarily home-grown and having the potential of multi-billion-dollar export revenues while the latter is primarily foreign investment led (at least thus far) and generating only domestic revenues but creating long-term foreign-currency liabilities resulting in huge pressures on our forex reserves.



In the human development index, Bangladesh fares better than many neighbouring countries despite endless challenges on many fronts and this has been possible due to many home-grown solutions. Some of them are being replicated in other countries in open adulation of our ideas that has worked wonders such as collateral-free credit to the ultra-poor, non-coercive family planning among religious conservatives and reducing infant mortality through infomercials.

It gives us hope that we can also take charge of our destiny in IT by combining the efforts from the industry, government and academia in a monolithic fashion with a razor-sharp focus on the deliverables. Some of the deliverables are the white-collar job-creation by Small and Medium Enterprises (all knowledge/IT workers are white-collar in nature), homogeneous internet access throughout the country (e.g. today a 512 Kbps internet connection costs Tk 18,000 in Dhaka city but the same costs Tk 168,000 in a town like Rangpur or Bagerhat), creation of knowledge-based industry clusters around all major universities of the country and projection of the Bangladesh IT capabilities and success stories in international marketing forums repeatedly.

Song and dance routines in the cultural arena have gone through a remarkable makeover in recent years by combining global skills with local motifs. It is about time the IT song and dance routine also undergoes a makeover in form and content so that the industry, government and academia sing in tune and dance in step all the way to bank in no time.

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