India most at risk as higher oil bites Asia

REUTERS, *Taipei*

If crude oil prices stay high for an extended time -- and that remains a big if -- Asian countries from China to India might not be able to sustain the growth pace that has driven the global economy.

While projections based on uncertainties such as oil prices and the Middle East's future must come with big caveats, in some worst-case scenarios inflation could double and growth rates halve in parts of Asia. That would deprive the world of a growth driver just as developed countries start to get back on track.

If high prices persist, "Without a doubt, Asia could take a hit. It faces a big problem -- and that will be a problem for everybody," said Sanjay Mathur, an Asia economist in Singapore for RBS.

In a report, Mathur and RBS economist Erik Lueth estimated that at $120 a barrel, the oil price would shave off 1.5 percentage points off growth this year for Asia ex-Japan. Their baseline, with $80 a barrel oil, is for 8.2 percent growth, which drops to 6.7 percent for $120 a barrel.

On Monday, New York crude reached its highest level since September 2008. At 0645 GMT, it was up $2.02 to $106.44 a barrel.

If oil stays around $120 a barrel this year, RBS predicts that South Korea's growth rate could fall to 1.6 percent from the projected 4.2 percent. China's growth, meteoric in recent years, would be cut to 8.8 percent from 10 percent while India would have 6.0 percent growth rather than 8.1 percent. Taiwan could see only 1.3 percent growth rather than the 4 percent that RBS forecast based on $80 oil.

RBS said India could see 2011 inflation double to 14 percent from the currently predicted 7.2 percent, while Indonesia's could hit 13.9 percent from a forecast 6.3 percent.

In 2008, when oil spiked to above $100 for the first time, inflation rose in Asia while some governments pretended the increase was just a blip. RBS said that inflation was 6.5 percent regionally.

"We would need to see an average Brent oil price of around $120-125 a barrel in 2011 for the magnitude of the oil shock for Asia to reach 2008 proportions," Citi said.

Costly oil should not be a devastating blow To Asia, and the effects would vary in a region with both oil producers and importers. Also, Asian economies have differing rates of energy efficiency and oil usage, as well as varying susceptibilities to inflation and capabilities to battle it.

Broadly, high oil prices pose several risks for Asia. They could spawn slower global growth that cuts demand for the region's exports. If consumers in developed economies, already dealing with government austerity programmes, reduce their purchases, Asian exporters will feel some pain, as could consumers in the region.

"US consumers, faced with another shock at the pump, will cut back on trips to the mall. Therefore, it all circles back to Asia eventually," wrote HSBC economists Frederic Neumann and Sherman Chan.

Also, consumer spending in Asia could be hit as its households face higher inflation and also spend more on fuel.

Some governments such as Malaysia and Indonesia have strong enough fiscal positions to help lower-income citizens cope with higher food and energy costs. But others, such as India and the Philippines, cannot maintain or increase subsidies. Higher oil prices indirectly can exacerbate cost problems, for instance by pushing up the price of fertilisers.

Although there currently are threats to Asia's growth, the HSBC economists said there was "no need to panic: the spike in crude prices in itself is not going to knock out Asia overnight."

While high fuel costs would slow domestic consumption in Asia, there may be ameliorating factors. In China, for example, wage rises might cover any increases in fuel prices. Also, the country is a large coal user, which contains its oil usage.

Capital Economics has said that in Malaysia, Thailand and Indonesia, fuel accounts for 10 percent or more of the consumer price basket, and passing on the current year-on-year oil price rise in full would add four percentage points to the headline inflation rate.

HSBC sees China, India, the Philippines, Thailand, Taiwan and Vietnam as at risk from inflation given their high correlation between energy prices and core CPI. However, some of those countries have fuel subsidies that shield the consumer from price rises.

The Indian government would be forced to deregulate diesel prices if global crude touches $150 to $160 a barrel, Kaushik Basu, chief economic adviser in the ministry of finance said on March 3.

AFP

An employee counts currency at a fuel station in Mumbai. The global economic growth drivers -- India and China -- are doubtful to sustain their pace of growth if the crude oil prices stay high for a longer period.

British budget must have 'relentless focus' on growth: CBI

AFP, *London*

The British government's annual budget, due in just over two weeks, must have a "relentless focus" on economic growth and job creation, the Confederation of British Industry said on Monday.

The nation's biggest employers' organisation said it had written to finance minister, Chancellor of the Exchequer George Osborne, ahead of his annual budget due March 23, to request measures that help strengthen the recovery.

"The CBI today (Monday) called on the chancellor to focus his March budget on areas that do most to boost economic growth and job creation," it said in a statement.

The powerful lobby group "is calling on the government to focus on three critical areas: boosting export performance, unleashing domestic investment spending, and removing barriers for high-growth firms".

The CBI represents about 240,000 companies, which together employ about one third of the workforce in the private sector.

"This budget must demonstrate a relentless focus on growth to help get the UK working again. We need an all-action budget which boosts exports, investment and jobs," added new CBI Director-General John Cridland.

The CBI also repeated its backing for the British coalition government's plans to slash public expenditure.

"The government has been right to stay the course on its fiscal consolidation plans to bring the current budget deficit back to balance by 2015," said chief economic adviser Ian McCafferty.

"As spending cuts put household spending under ever greater pressure, the budget must create the right conditions for businesses to invest and grow."

He added that the government's UK Trade and Industry (UKTI) department would play a "crucial" role in helping lift exports.

The Conservative-Liberal Democrat coalition, led by Prime Minister David Cameron, is seeking to slash a record public deficit which it inherited from the previous Labour government.

Philippines tax campaign reins in budget deficit

AFP, *Manila*

A high-profile name-and-shame campaign against tax cheats helped the Philippines keep its 2010 budget deficit from spinning out of control, Finance Minister Cesar Purisima said Monday.

The government said last year's funding gap was limited to 314.4 billion pesos ($7.25 billion), due to improved customs and income tax collection.

"Collections in both (customs and internal revenue) agencies have benefitted from the vigorous implementation of the Run After Tax Evaders and Run After The Smugglers programmes," Purisima said in a statement.

The ministry has been aggressively filing tax suits every week against high-profile individuals and companies in its bid to improve the government's wafer-thin revenue base.

The campaign is part of new President Benigno Aquino's reform agenda, which won him a landslide in last year's elections.

The internal revenue bureau says just five million Filipinos pay their income taxes, compared with an estimated 20 million-plus evaders.

The 2010 deficit figure was equivalent to 3.7 percent of gross domestic product (GDP), lower than the forecast 3.9 percent. In 2009 the deficit also reached 3.9 percent of GDP.

Revenues rose 7.5 percent to 1.2 trillion pesos, while spending grew by a slower 7.1 percent to 1.5 trillion pesos, nearly 100 billion pesos less than programmed.

Foreign carmakers go into high gear in Russia

AFP

A man walks past a wall showing the electric car system at the French carmaker Renault's booth during a motor show. Foreign groups are going into high gear in Russia after the encouraging rebound of the country's automobile market.

AFP, *Moscow*

Russia's car market is again tempting the appetites of foreign carmakers lured by the country's vast potential and a rebound from the global downturn.

Several alliances to produce cars in Russia have been announced by foreign and Russian enterprises in the space of just a few weeks.

In early February, US giant General Motors said it had signed an agreement with Russia's GAZ, controlled by oligarch Oleg Deripaska, to assemble the new model Chevrolet Aveo at the Russian group's factory in Nizhny Novgorod.

On February 18, Russia's Sollers announced the creation of a joint venture with Ford to produce Ford vehicles at two jointly-owned factories in Russia's Leningrad and Tatarstan regions.

And GAZ said it inked a deal with Germany's Volkswagen to manufacture at its plant at least 100,000 Volkswagen and Skoda cars per year.

Renault-Nissan said in November it could take control of Russia's AvtoVAZ, in which Renault currently holds 25 percent of the capital.

Foreign groups have decided to go into high gear in Russia after the encouraging rebound of the country's automobile market, which -- thanks to the Russian government's support -- saw a 30 percent increase in sales in 2010 after a drop of 49 percent in 2009.

"Now there are some 15 main global players that have already come to the Russian market and are interested in its further growth," said Stanley Root, an analyst from the Russian branch of the consulting company PricewaterhouseCoopers.

Especially as many analysts agree that Russia is about to become one of major world markets for years to come. Root said the volume of Russia's automotive market "could double in five years."

"If the market continues to regain the growth rate it had (before the global crisis), we could see sales increasing from 1.9-2.5 million (cars) this year to 3.0 million and perhaps beyond," he said.

"The (car) fleet (in Russia) is aging," said Ivan Bontshev of Ernst and Young, adding that, compared to other countries, in Russia relatively fewer people have cars.

Aware of these encouraging prospects, the authorities have decided not to miss the chance to boost the industry.

"The government realizes that it is really important to keep core industries that employ large numbers of highly skilled engineers," who may participate in the modernization of Russia's economy, Root said.

All the more so since the car industry is a big employer, both directly and indirectly.

Moreover, the authorities know that Russian manufacturers can not survive in a highly competitive international market unless they develop alliances with major foreign manufacturers, Root added.

In this context, they undertook a series of provisions to push major global groups to ally with Russian partners, such as tax reductions on machine parts' import in case at least 300,000 cars are manufactured per year.

Moody's downgrade tips Greece closer to brink

REUTERS, *Athens/London*

Moody's slashed Greece's credit rating by three notches on Monday, raising the spectre that the distressed euro zone sovereign may be forced to restructure its debt, perhaps even before 2013.

The move increased pressure on European leaders to ease repayment terms on bailout loans to Greece, just as Germany and its allies appear to have turned their backs on radical steps to help Athens reduce its debt through bond purchases or buy-backs.

Moody's Investors Service downgraded Greek debt to B1 from Ba1 and said it may cut further, citing significant risks to the government's fiscal consolidation programme from a revenue shortfall and difficulties in reforming healthcare and state-owned companies.

"The sheer magnitude of the task becomes ever more apparent," Sarah Carlson, Moody's lead analyst on Greece, said.

The downgrade sent a ripple of concern around credit markets, raising the price of insuring Greek, Portuguese and Spanish debt against default and the risk premium on holding Greek bonds rather than benchmark German bunds.

Greece signed a 110 billion euros ($154 billion) rescue package with the EU and IMF last May to avoid default in exchange for draconian austerity measures which it has begun to implement. But many see the repayment terms as too onerous.

Even if it fulfils the entire three-year adjustment programme, its debt is projected to reach 158 percent of gross domestic product in 2013, a level widely seen as unsustainable.

"There is a risk that conditions attached to any kind of continuing support after 2013 could take solvency criteria into account that the country may not be able to satisfy, and therefore could result in a restructuring of existing debt," Carlson told Reuters.

Moody's was the first of the three major ratings agencies to classify Greek debt as "highly speculative", rating it lower than Egypt, and drew an indignant protest from Athens.

The Greek Finance Ministry said Moody's had ignored progress in implementing its fiscal consolidation plan, including an improvement in revenue collection.

"The rating downgrade announced by Moody's today is completely unjustified," it said in a statement.

AFP

Christopher Emerson, Airbus's senior vice president and head of market strategy and market forecast, speaks at a press conference in Hong Kong yesterday. Asia-Pacific airlines are expected to take delivery of around 8,500 new aircraft over the next 20 years according to European aircraft manufacturers Airbus.