# BOJ believes Japan in recession, stands pat on policy

REUTERS, *Tokyo*

The Bank of Japan kept monetary policy unchanged on Thursday even as it lowered growth forecasts and estimated the economy tipped into recession early this year, disappointing analysts who felt the grim readings after last month's earthquake called for more policy easing.

Japan's recovery from the quake would accelerate from October, the BOJ said in its twice-yearly outlook report on the economy. At the same time, it revised up economic forecasts for the year ending in March 2013 and raised its estimate for core consumer price inflation in the current fiscal year.

BOJ Governor Masaaki Shirakawa said the central bank still needed time to examine the effects on the economy of its monetary easing last month.

But he added that he was well aware of uncertainty in the outlook and stressed that the BOJ would take further action if needed.

"For the time being, we need to focus on downside risks to the economy from the quake's impact," Shirakawa told a news conference after the policy meeting.

Deputy Governor Kiyohiko Nishimura surprised the markets by proposing at Thursday's meeting that the BOJ expand its asset purchases by 5 trillion yen ($61 billion). The idea was voted down but encouraged views in the markets that the bank may ease as early as in May.

AFP

**Governor of the Bank of Japan Masaaki Shirakawa delivers his speech during his regular press conference at its headquarters in Tokyo yesterday.**

"Nishimura probably sees the medium- and long-term risks from the quake as bigger than other board members," said Naomi Hasegawa, senior fixed-income strategist at Mitsubishi UFJ Morgan Stanley Securities.

"The May rate review will be closely watched for whether the BOJ will ease monetary policy further. There is a possibility it may lean toward expanding the asset-buying scheme."

Not only is it unusual for the BOJ board to reject proposals from a governor or a deputy governor, the meeting also came alongside the release of a spate of bleak data.

Industrial output fell at a record monthly pace in March, Japanese household spending declined at a record annual rate and another private survey showed manufacturing activity languishing at a two-year low.

"I think the BOJ's view that a rebound is expected in the autumn is reasonable as fundamentals were recovering before the March quake," said Yoshito Sakakibara, an economist at JPMorgan Chase Management in Tokyo.

"But market participants are still concerned about the status of supply chains as right now it is difficult to accurately predict how much progress companies will make over the next few months."

RATES ON HOLD

Supply chain disruptions, power outages and damage to sentiment from a nuclear plant crisis have hit factory output and household spending.

The auto sector has been particularly badly hit, and Japan's largest companies are likely to paint a bleak picture for this year's profits when they start announcing earnings this week.

Honda Motor Co's chief financial officer said its results for the April-June quarter were likely to be very tough and the next quarter perhaps even tougher as it struggles to repair quake-damaged plant and equipment.

But the BOJ feels it acted pre-emptively on such shocks to the economy by easing policy just days after the quake.

As widely expected, the nine-member board voted unanimously on Thursday to keep the policy rate unchanged at a range of zero to 0.1 percent and held off on additional monetary easing steps.

It also announced details of a 1 trillion yen loan scheme previously unveiled for banks in the quake-hit region, saying applications for loans would be accepted until October.

In its first forecasts since the crisis, the BOJ estimated GDP growth in the year that ended in March at 2.8 percent, down from 3.3 percent forecast in January and implying the economy contracted in the two final quarters of the past fiscal year.

The central bank cut its GDP growth forecast for the current fiscal year to 0.6 percent, down from a 1.6 percent projection issued three months ago, but expects growth to accelerate to 2.9 percent in the following year as the economy heals after the quake.

As expected, and possibly owing to the upward pressure on energy prices, it forecast core consumer price inflation at 0.7 percent in the year ending in March 2012, up from 0.3 percent forecast in January.

"The BOJ probably wants to take actions in accordance with the government's compilation of extra budgets. But it will take time for the government to find financial resources to fund extra budgets for the disaster," said Susumu Kato, chief economist at Credit Agricole Securities.

# Capital flows to Asia key concern: IMF

AFP, *Hong Kong*

The International Monetary Fund on Thursday warned that capital flows into Asia's surging economies remain a "key concern" for policymakers in a region already battling rising inflation.

Those flows are "extraordinarily large" in some countries, including China, Indonesia and the Philippines, the IMF said, as it released its latest regional economic outlook for Asia and the Pacific.

The region's economies were expected to grow nearly seven percent this year and again in 2012, leading the global economic recovery, the IMF said.

Several countries -- including South Korea, Indonesia and India -- have tightened policy to try to head off huge inflows of foreign capital from investors seeking better returns on their money than in the sluggish West.

"Capital is expected to continue flowing into Asia in 2011 and 2012, attracted by the region's strong growth prospects and fuelled by abundant global liquidity and risk appetite," the report said, adding that the inflows remained a "key concern of policymakers."

But the flows have "generally moderated" since October and remain below levels seen in previous peaks in terms of their share of Gross Domestic Product, such as before the 1997 Asian Financial Crisis, the IMF said.

"The challenge is to ensure this surge remains sustainable," Anoop Singh, director of the IMF's Asia and Pacific Department, told a press briefing in Hong Kong Thursday.

"We need to expect capital flows (into Asia) to continue."

Singh added that regional inflation also remained a concern with signs of "overheating" across the region amid soaring food and energy prices.

Chinese inflation should "peak shortly" before falling closer to four or 4.5 percent later in the year, in line with Beijing's target range, he added.

Earlier this month, China said its consumer price index rose 5.4 percent in March from the year-ago level -- the highest annual rate since July 2008 -- and 5.0 percent in the first quarter of 2011.

The region's overall inflation should peak in 2011 before falling "later this year or early next year," Singh said.

# Emerging firms raise foreign investment to record high: UN

AFP, *Geneva*

Companies from emerging and developing economies raised their global direct investment abroad to record levels last year, a UN economic think tank said on Wednesday.

"The BRICs are the leaders," said James Zhan, the director of the investment division at the UN Conference on Trade and Development (UNCTAD), referring to emerging nations Brazil, Russia, India and China.

UNCTAD said in its latest Global Investment Trends monitor that global flows of outward foreign direct investment reached $1.3 trillion in 2010, an increase of 13 percent.

Although it marked the latest stage in a three-year recovery, the amount was still 10 percent below the pre-crisis average and 40 percent short of the 2007 peak for outward foreign direct investment flows.

However, UNCTAD underlined a shift in the pattern of investment abroad with a more dynamic economic recovery in Asia and Latin America than in developed Western economies and a strong Russian corporate presence abroad.

"Outward FDI from developing and transition economies has reached a record high both in absolute terms and as a share of the global total," Zhan told journalists.

Corporations based in developing and emerging economies accounted for $377 billion or 28 percent of the global total, an increase of 23 percent over last year and twice as big a share as in 2007.

In 2010, 70 percent of FDI projects, including new factories, in developing countries came from other developing nations, according to the agency.

Developed economies experienced a patchy recovery, especially in Europe.

US firms, traditionally the largest foreign investors, increased their investment abroad by nearly a third to $325.5 billion, while foreign investments from companies in the high performing German and Swiss economies also revived.

However, UNCTAD found that outflows from Britain, traditionally one of the largest sources of foreign investment, fell by 44 percent in 2010 back to levels last seen 18 years ago.

Zhan said major companies were generally cash rich at the beginning of 2011 but reluctant to invest because of the uncertain economic climate, debt crises, and volatile financial and foreign exchange markets.

However, ongoing corporate and industrial resturcturing as well as a "new wave of privatisation" amid stalled public finance provided fresh opportunities for foreign investors.

"We see the investment recovery is continuing although it is still far away from the pre-crisis height," said Zhan.

AFP

**An office worker collects her package of items she bought on the internet, from a delivery man outside an office building in Beijing on Wednesday. Practically anything can be bought or sold online due to the Chinese zeal for a bargain and the country's huge internet market -- its online users are estimated at more than 450 million.**

# China's economic ascent not a threat

AFP, *Kuala Lumpur*

Prime Minister Wen Jiabao on Thursday said China's economic progress will benefit all its trade partners and its economic ascent should not be regarded as a threat.

"China's development presents opportunities to Malaysia and other regional countries. It does not pose a challenge neither is it a threat," he told a gathering of industry leaders in the Malaysian capital Kuala Lumpur.

China has leapfrogged Japan to become the world's second largest economy.

Earlier Malaysia and China signed a slew of economic agreements, reinforcing an uptick in relations and a bid to identify new areas of regional economic cooperation.

The deals, witnessed by Malaysian premier Najib Razak and his counterpart Wen, will see the setting up of power plants and an aluminium smelter as well as other infrastructure projects in Malaysia.

"Today's signing to expand and deepen economic and trade cooperation signifies a deep commitment between the two governments to identify new areas of economic collaboration that should stimulate more trade and investment between both countries," Najib said after meetings with Wen.

"We are very confident that given (Wen's) strong leadership that China will continue to grow and provide strong impetus for global economic growth," he added.

Wen arrived Wednesday for a two-day visit and will head to neighbouring Indonesia later Thursday.

The Chinese premier said that "the development of an equal and beneficial relationship would bring greater benefit to both countries."

"China appreciates Malaysia's role in enhancing the ties of China with other ASEAN (Association of Southeast Asian Nations) countries," he added.

"China agrees it will continue to import palm oil and will also import frozen durians (from Malaysia)."


AFP

**Chinese Premier Wen Jiabao delivers his keynote address during the Malaysia-China economic, trade and investment cooperation forum in Kuala Lumpur yesterday.**

Najib, who is also the finance minister, announced that the central Bank Negara Malaysia will establish a representative office in Beijing to facilitate trade in local currencies.

It has offices in London and New York.

Yeah Kim Leng, group chief economist with RAM Holdings Bhd told AFP that the setting up of the central bank office in China will boost trade and investment.

"It will bolster economic ties and remove currency risk in respect of the unstable US dollar. It will allow two-way trade to be settled in each other's currencies," he said.

Thursday's agreements follow the signing of a joint action plan on strategic cooperation by Najib during a trip to China in 2009.

Wen's trip follows a visit by China's President Hu Jintao in 2009.

The visits have resulted in the signing of a several deals which saw Malaysia issue a commercial banking licence to Industrial and Commercial Bank of China (ICBC) in late 2009.

Last January, China's leading power grid operator SGCC and Malaysian development fund 1MDB announced plans to establish hydropower plants and a massive aluminium smelter worth $11 billion in Sarawak state on resource-rich Borneo, an island split between Malaysia and Indonesia.

China was Malaysia's largest trading partner last year with trade worth $45.66 billion, making the economic powerhouse Kuala Lumpur's second largest export destination and largest source of imports.

Malaysia has been China's largest trading partner in ASEAN since 2008.