WB: Inflation piles pressure on growth in developing world

REUTERS, *Washington*

The World Bank on Tuesday revised up its growth forecast for the developing world and warned that higher food and fuel prices were causing inflationary pressures to build up.

In its updated Global Economic Prospects report, the World Bank said the pace of growth in the world's developing countries should average 6.3 percent over the next three years through to 2013, which is down from 7.3 percent in 2010.

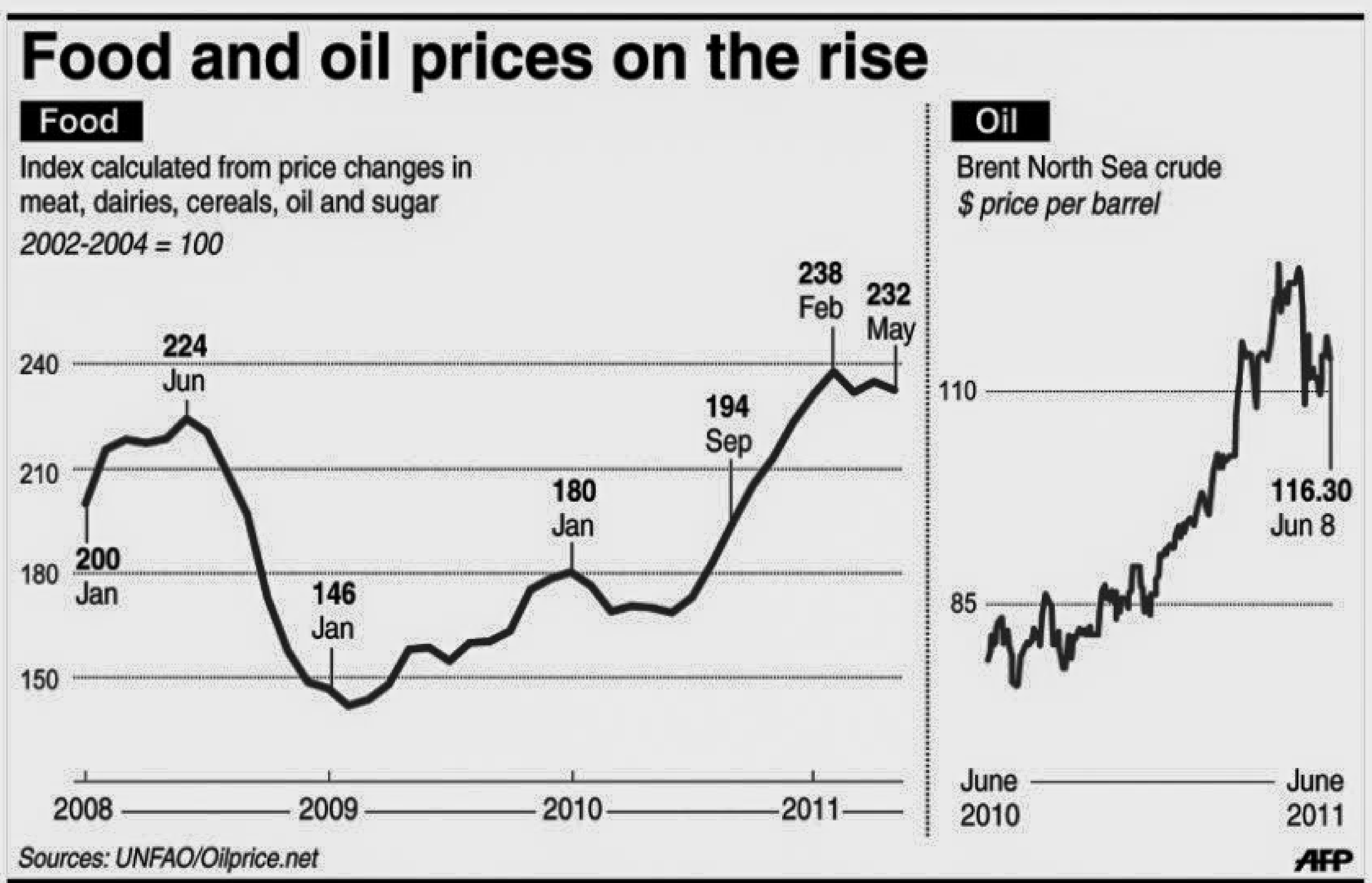
It revised up its forecast for growth in developing countries to 6.3 percent in 2011 versus 6.0 in a January report, and to 6.2 percent from 6.1 percent for 2012.

The majority of developing economies have, or are close to, full capacity activity levels while advanced economies still struggle with the effects of the global financial crisis, the World Bank said.

Low and middle-income countries were responsible for 46 percent of global growth in 2010, the report noted.

"Developing countries are at a point where they have put the crisis-fighting stage behind them and they now need to be reorienting themselves towards establishing conditions that are going to allow them to have strong growth in the years to come," said World Bank economist Andrew Burns.

Developing countries need to hone in on difficult domestic policies that will ensure lasting, strong economic growth, he said. Countries may need to tighten both monetary and fiscal policy more quickly to curb inflationary pressures, Burns added.



Rising commodity prices have pushed headline Inflation rates higher, which are close to, or have breached the upper limits of central banks' targeted bands in many countries, the report said. Food inflation exceeded 9 percent by February 2011 in developing countries, it added.

"Headline (consumer price inflation) suggests that inflation will accelerate further in most developing regions," the World Bank said, noting that the biggest rise will be in South Asia, Africa and the Middle East.

Burns said the recent spate of weak economic data pointed to a pause or slowing of growth in the U.S. economy. He dismissed the possibility of a double-dip recession.

Meanwhile, the recovery in Europe faced substantial headwinds from uncertainty over a debt crisis in Greece, Portugal and Ireland, the report said.

While the World Bank forecast is for solid growth in developing countries, the report highlighted risks from costlier food and fuel, possible further price spikes in oil and nagging post-crisis problems in advanced economies.

Pressures from a surge in private capital flows into emerging economies, which was a key concern for the World Bank in January, had now eased significantly, Burns said.

"Those strong, short-term capital inflows that dominated our concerns have eased substantially," Burns told a news conference.

He said countries had dealt with the effects of the "hot money" by tightening fiscal and monetary policy, which in the bank's opinion had eased some of the pressures.

"Our baseline forecast is one where there is a smooth landing, a smooth resolution of those pressures but they are still there," Burns added.

TEMPEST IN THE MIDDLE EAST

The World Bank report warned that political turmoil and unrest in the Middle East and North Africa could derail global growth if oil prices rose sharply, which would reduce economic output by around 0.5 percentage points.

Turmoil has raged across the Middle East since January, starting in Tunisia and Egypt. Since then it has spread to Syria, Jordan, Morocco, Bahrain, Yemen, Saudi Arabia, while NATO kept up its bombing campaign in Libya.

The World Bank said a large and sustained drop in global oil supply due to the turmoil in the Middle East could push global oil prices as high as $200 a barrel.

The bank said higher global oil prices were a major factor behind the rise in world food prices, just three years after the last food price crisis in 2008.

More expensive oil feeds into food prices through the rise in fertilizer prices, transport costs to ferry food to markets, and through increased use of corn for biofuel production.

The Bank noted that the rise in global food prices has been mitigated by healthy local harvests in some regions of the developing world.

World Bank simulations suggest that if the June 2011/May2012 crop year is normal, then globally-traded grain prices should decline in 2012. However, if the crop is poor then wheat prices could rise by a further 3.5 percent.

IMF cuts Japan forecast, calls for debt measures

AFP, *Tokyo*

The International Monetary Fund on Wednesday lowered its 2011 growth forecast for Japan and called on the world's third largest economy to adopt "more ambitious" measures to tackle its huge debt.

The IMF cut its growth forecast for Japan in 2011 to minus 0.7 percent from the plus 1.4 percent it had predicted in April after the country was hit by its biggest recorded earthquake and a devastating tsunami.

However, the fund said it expected Japan to stage a rebound after the summer and upped its 2012 GDP growth forecast to 2.9 percent from an earlier estimate of 2.1 percent.

"Japan's economy continues to face headwinds from the earthquake but should start to recover strongly in the second half of the year," the IMF said in a statement.

"The initial shock of the disaster was severe, but swift and decisive action by the government and the Bank of Japan helped to limit its impact on the economy," it said.

The impact of the earthquake, tsunami and a subsequent nuclear emergency at the crippled Fukushima Daiichi nuclear plant plunged Japan into its worst crisis since World War II, with nearly 24,000 people dead or missing.

The economy slipped into a technical recession, after many of Japan's biggest firms faced massive production disruption amid power shortages and broken supply chains.

The government last month passed an emergency reconstruction budget. In the aftermath of the disasters, the BoJ injected a record amount of cash into the banking system, and set up a lending scheme for banks in disaster-hit areas.

Power infrastructure must be fully restored to ensure stable production and economic activities, IMF officials said, as companies scramble to devise ways to save on energy use.

Analysts have meanwhile warned that the costs of reconstruction threaten to further pressure a public debt that, at around 200 percent of GDP, is the industrialised world's highest.

Singapore leaps Hong Kong for expat costs

AFP, *Singapore*

Singapore has overtaken Hong Kong to become the third costliest economy in Asia for expatriates' daily needs because of its strengthening currency, human resource firm ECA International said Wednesday.

It said the Singapore dollar, which has surged by more than 10 percent against the greenback, pushed the city-state to third place above Hong Kong, with Japan and South Korea remaining the two most expensive countries.

ECA International carries out a survey twice a year by measuring a basket of common items purchased by expatriates in more than 400 locations globally, such as dairy produce, vegetables, clothing and meals out.

The survey does not include housing, utilities, car and school expenses as these items can make a significant difference to costs but, the firm says, are often compensated for separately in expatriate packages.

"While we are seeing price increases in a number of Asian locations, the main reason for Singapore's rise in our ranking over the past 12 months is the strength of the currency," says Lee Quane, the firm's regional director.

He said allowances paid to protect the purchasing power of employees on long-term assignment in Singapore are now higher than those paid to international executives posted in many other

Trade, output data point to slower eurozone growth ahead

AFP, *Frankfurt*

Trade between eurozone powerhouses Germany and France and the rest of the world produced mixed results in April, official data showed Wednesday, underscoring forecasts for moderating growth this year.

German exports and imports both fell as the world's second biggest exporter after China posted a seasonally-corrected trade surplus of 12 billion euros ($17.6 billion) --down sharply from 15.1 billion euros in March.

France, the second-biggest eurozone economy, saw a record deficit of 7.14 billion euros in April, much worse than the March shortfall of 5.91 billion euros.

French exports declined by 2.0 percent while imports gained 3.6 percent, mainly owing to the purchase of two big Boeing aircraft from the United States and a jump in purchases of refined oil products.

"The weakening in cyclical, especially production, indicators has been visible across developed and emerging market economies," Barclays Capital analysts said in a research note.

That was highlighted by German economy ministry data which showed that industrial output fell 0.6 percent in April, the first fall since December, following a revised gain of 1.2 percent in March.

After enjoying a very strong first quarter, the German economy, Europe's biggest, is forecast to slow a bit in coming months but still post a strong annual growth rate of around 3.0 percent, according to private economists.

Falling unemployment should boost domestic consumption, a pillar of growth that has been less reliable than exports in the past.

"Today's numbers show that the period of a roaring German growth engine might be over. However, the engine is not stuttering, it is rather purring," ING senior economist Carsten Brzeski said.

For Capital Economics chief European economist Johathan Loynes, however, the German data meant that "growth in the currency union and its biggest economy is likely to slow quite sharply in the second quarter."

Berenberg Bank counterpart Christian Schulz noted that "disruptions from the Great Japan earthquake in March probably caused much of the decline" in German industrial output.

AFP

Soon Kwon, managing director of LG Electronics, *centre*, DP Kim, *left*, group marketing head, and Hemendu Singh, LG business head, display new products from LG Electronics in New Delhi on Tuesday. LG business solutions marked their entry into the everyday lives of people with the launch of highly integrated technology solutions for Indian business verticals.

Renault makes 'fresh start' in India to scale up sales

AFP, *New Delhi*

After a false start, French carmaker Renault is making an ambitious reentry into India's fast-growing auto market where it plans to introduce a slew of new models and rapidly scale up sales.

Marketing itself with billboards announcing "Bonjour India. We are Renault," the company last month launched a luxury sedan in the country called the Fluence and aims to sell four more models by the end of 2012.

"We really have just launched the brand (Renault). It didn't exist in India," Renault India managing director Marc Nassif told AFP. "It's a fresh start for us."

Last year, Renault abandoned its previous attempt to crack the Indian market -- an unhappy tie-up with India's top sports utility vehicle maker Mahindra and Mahindra that resulted in the Logan, a dated-looking car that never took off.

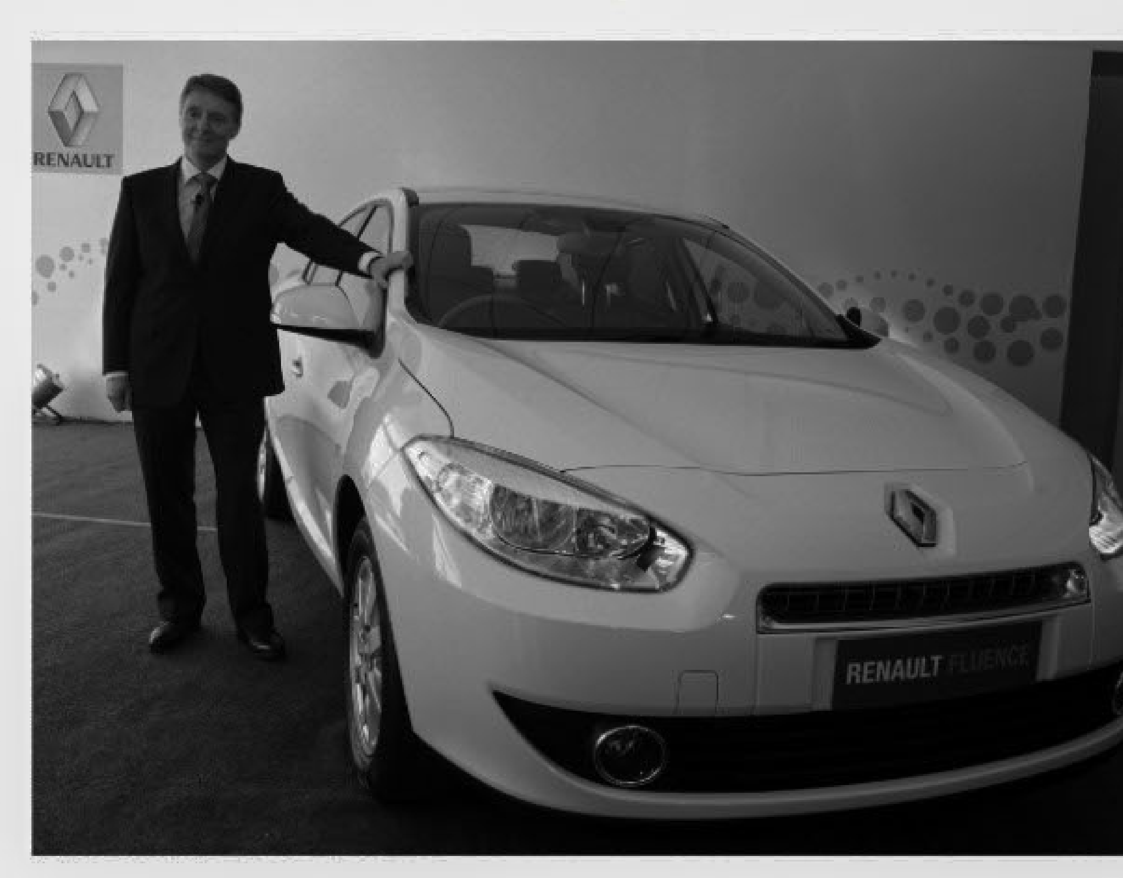
The French manufacturer, battling to overcome an embarrassing bogus industrial espionage case at home, has designated India, Brazil and Russia as its top three strategic markets for international expansion.

The partially state-owned group is eyeing a 2.5 percent share of the Indian car market by 2013 and five percent in the longer term.

It marks a big goal for Renault, which is doubling capacity to 400,000 units a year at its new $1-billion manufacturing plant in the southern Indian port city of Chennai, as "we have zero sales right now," Nassif said.

The Fluence, the first Renault car to be assembled in India, is to be followed by a high-end sports utility vehicle this year, the Koleos, and three cars next year, including a lower-cost hatchback.

The carmaker is attacking the market from the top down, launching in the luxury segment even though most domestic car sales are in the small-car segment.



AFP

French automobile maker Renault's India Sales and Marketing Vice President Len Curran poses during the launch of Renault 'Fluence' at a new showroom in Ahmedabad, India.

Nassif said Renault aims to produce a low-cost car for the Indian market, but a major question mark hangs over a proposed tie-up to produce a car to challenge India's Nano, the world's cheapest auto, made by the Tata group.

He said Renault and its Japanese partner Nissan will only move ahead with the project with Bajaj, a motorbike and rickshaw maker, if the quality of the product "matches our DNA."

If the product does not meet Renault's standards, "we will do something different, we will have our opportunities," he said, adding: "It's not a joint venture and we haven't made any investments."

Renault is driving into the Indian market, still overwhelmingly dominated by the Japanese-Indian group Maruti Suzuki, after other foreign auto makers such as General Motors and Toyota have established a presence.

Despite its latecomer status, Nassif believes there is still big potential for the group.

Car sales clocked 30 percent growth last year to hit nearly two million units, buoyed by increasing affluence in an economy growing by around eight percent per year.

While Indian car sales are expected to slow slightly this year due to higher financing costs, growth is still expected to be up to 16 percent, according to the Society of Indian Automobile Manufacturers.

"When you look at that growth and you have a newcomer entering at this stage, this is still a land of huge opportunity," Nassif said.

"India's middle classes total more than 350 million people, all of whom are potential buyers, and their numbers are continuing to grow," he added.

"We can take part of the cake."

Renault is aiming to move swiftly, opening 40 dealerships by year end, from 14 now in 14 cities, and ramping the number up to 100 in 55 cities by the end of 2012.

The group also aims to export components worth 100 million euros ($147 million) in 2012, up from 35 million euros in 2010, following the lead of other global automakers which are making India a production hub, attracted by cheaper labour costs.