Falling oil prices pull India's budget out of the fire

REUTERS, *New Delhi*

Falling oil prices have been a major windfall for India: Just weeks ago it faced failing to meet fiscal deficit targets, but can now expect a budget that not only hits its targets, but also provides extra cash to support reform.

The coming budget for fiscal 2015/16 (April-March), which will be unveiled on Feb. 28, is widely seen as a test of Indian Prime Minister Narendra Modi's ability to lead economic reform.

Fortunately for Modi, the economic climate has handed him a chance to pass that test with flying colours: Budget planners are optimistic that he will set Asia's third-largest economy on a path for growth of 7 percent to 8 percent over the next two years.

"The situation is far better now than in December," said one finance ministry official, who spoke to Reuters despite a ban on contact with the media in the secrecy-shrouded run-up to the presentation of the annual budget. "The budget will deliver on Modi's promise of better days for the economy."

The halving of global oil prices since mid-2014 has allowed the Modi government to raise diesel and petrol fuel taxes and cut diesel prices by 25-30 percent – a windfall gain for households as well as businesses, and dampening inflationary pressures in the economy.

REUTERS

India's Finance Minister Arun Jaitley gestures during the session 'India's Next Decade' in the Swiss mountain resort of Davos on January 23.

The government has pocketed nearly $3.5 billion from repeated hikes in tax on fuel while the central bank cut interest rates by 25 basis points last month, and has hinted at further rate cuts if inflation declines.

Modi was elected last May on pledges that he would create jobs and rejuvenate the sagging economy, but investors and economists were disappointed by his first interim budget in July and a distinct lack of early progress in fixing structural economic problems, so the slide in oil prices has been a boon for one of the world's top crude importers - and Modi's administration.

"Let's accept that I am lucky, but you have saved money. If Modi's luck is benefiting the people, what can be more fortunate?" Modi said in a speech last weekend.

Officials say lower fuel subsidies along with recent diesel tax hikes could together add almost 1.1 trillion rupees ($18 billion) to the 2015/16 budget, and they plan to spend about 500 billion ($8 billion) of that on Modi's flagship infrastructure and manufacturing initiatives.

With more money flowing into India's stock market after the European Central Bank unveiled an estimated 1.1 trillion euro stimulus, the government is ramping up its programme of selling stakes in state companies. It raised $3.65 billion from a 10 percent stake in Coal India last week and is moving fast to line up others.

As finance ministry officials work feverishly to have the budget presentation ready on time, investors appear to be upbeat.

The benchmark BSE share index has risen more than 5 percent this year, making India one of the best-performing markets. Foreign investors have placed about $5.5 billion in India's debt and equity markets.

The fall in oil prices has given Finance Minister Arun Jaitley headroom for subsidy reforms that would rein in spending on cooking gas, fertilisers and food subsidies and reduce the fiscal deficit to 3.6 percent of GDP from an estimated 4.1 percent for the current financial year.

Jaitley is also likely to unveil tax reforms, such as a goods and service tax that would absorb most federal, state and local taxes by April 2016, ease tax rules on transfer pricing, and address some overseas investors' concerns.

To be sure, problems in the economy remain, and Modi is under pressure to implement measures to revive consumer demand and give corporate India the confidence to invest. "Everyone knows that the honeymoon period for government will not continue forever, we have to speed up reforms before it is too late," said another official, who has direct knowledge of onging budget discussions.

The budget will support Modi's "Make in India" drive with tax incentives for the manufacturing sector, lower import taxes on production inputs and higher duties on final products, officials said. Taxes on gold imports could also be reduced following a sharp decline in the current account deficit.

REUTERS

Alibaba Group Chairman Jack Ma gestures as he speaks to young entrepreneurs during a talk by Our Hong Kong Foundation in Hong Kong on February 2. Ant Financial Services Group, an affiliate of Alibaba, has agreed to buy 25 percent of Indian payment services provider One97 Communications, tapping into the country's smartphone and online industry boom. The companies did not provide the value of the deal, but a person with knowledge of the matter called the investment a precursor to One97 listing on the stock exchange, and said the stake was worth more than $500 million.

Yum Brands posts Q4 loss as China sales slide

AFP, *New York*

US fast-food giant Yum Brands reported Wednesday a swing into a fourth-quarter loss, saying its recovery in China from a tainted meat scandal was taking longer than it expected.

The parent of KFC, Pizza Hut and Taco Bell restaurant chains said it had a net loss of $36 million in the October-December quarter compared with a net income of $321 million a year ago. Adjusted earnings per share, a gauge closely watched by Wall Street, fell 29 percent to 61 cents.

The Louisville, Kentucky-based company said its earnings were affected by the July tainted meat scandal involving a former supplier, after a strong first half of the year.

"While the sales recovery in China continues to be slower than expected, we anticipate a strong second half of 2015 as the turnaround gains momentum, led by menu innovation across the year," said Greg Creed, Yum's chief executive, in a statement.

"Our top priority is to recover sales in China and capture the significant profit leverage we have in this business," Creed said.

Creed said the company, which has more than 4,600 KFC restaurants and 1,100 Pizza Hut restaurants in China, plans to open least 700 new units in China.

Yum maintained its 2015 full-year forecast of at least 10 percent growth in earnings per share.

Worldwide sales in the fourth quarter grew three percent, weighed down by an 11 percent fall in the China division.

Fourth-quarter revenues gained four percent at nearly $4 billion.

For all of 2014, Yum reported a 3.7 percent fall in net income to $1.05 billion. Adjusted earnings of $3.09 per share were up four percent. Revenues rose one percent to $13.28 billion.

Outside of China, the company said there was momentum in its KFC chicken chain and Mexican-style Taco Bell restaurants.

Creed said the company would open more than 2,100 new international restaurants this year, "further strengthening our lead in emerging markets."

Investors welcomed the results which were posted after the market closed. Yum shares were up 1.4 percent at $74.69 in after-hours trade.

Indonesian growth at 5-year low

AFP, *Jakarta*

Indonesia's economy expanded at its slowest pace for five years in 2014, official data showed Thursday, hit by political uncertainty and weak exports, putting pressure on the country's new president to deliver much-needed reforms.

Southeast Asia's biggest economy expanded 5.0 percent year-on-year, the statistics agency said, down from 5.8 percent in 2013, and the weakest pace since 2009, at the height of the global financial crisis.

The figures "help to underline the challenge facing the country's new president, Joko Widodo, who despite a promising first few months in office faces a tough challenge", said Gareth Leather, Asia economist from Capital Economics.

Widodo, who won office partly on a pledge to revive the slowing economy, has promised to woo investors by cutting red tape and ploughing money into overhauling the country's ageing infrastructure.

He has already slashed crippling fuel subsidies that have in the past gobbled up 20 percent of the state budget, promising to divert the money towards boosting the economy and helping the country's poorest.

While his early moves have been praised, analysts warn that he faces a tough time to push through more reforms in a country plagued by corruption, where protectionist instincts are still strong and parliament is dominated by the opposition.

"Anything that requires legislation is going to be more difficult," said independent political analyst Paul Rowland.

Indonesia's economy, long a bright spot among the Group of 20, has been slowing in recent years as the price of its key commodity exports are hit by weakening demand in regional powerhouse China and other major markets.

With exports subdued, there were also worries about a stubborn current account deficit and the impact of high interest rates put in place to shore up the rupiah, which has tumbled against the dollar in expectation of tighter US monetary policy.

The economy was also dragged down by a long-running election season, which lasted six months and led many firms to hold off investment until a successor was known.

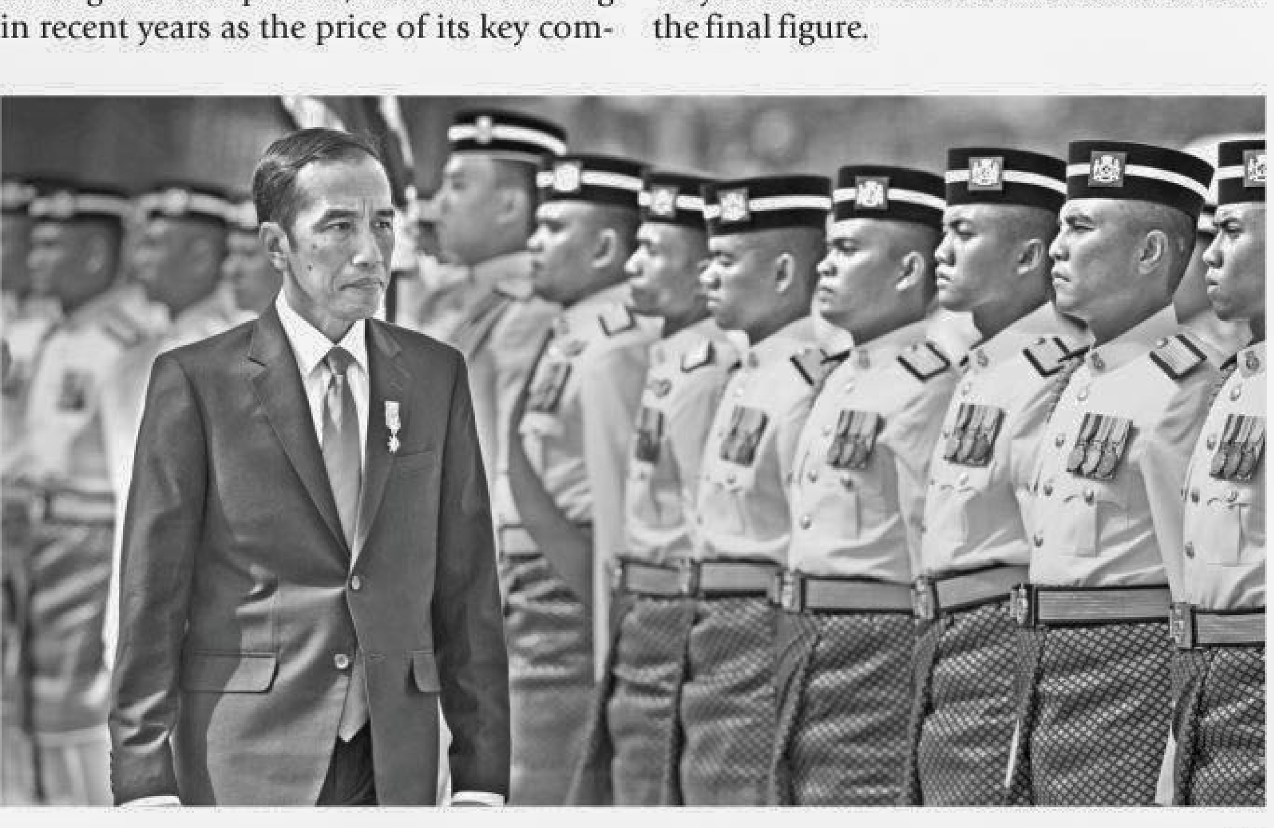
But investors have taken heart from the victory of Widodo, a reformist and former businessman. His other early reforms have included the launch this month of a national "one-stop service" to simplify obtaining business permits.

Previously, firms often had to seek licences from numerous different agencies and ministries before they could invest, a complex and time-consuming process.

Wellian Wiranto, an economist from OCBC Bank in Singapore, said the 2014 growth figure looked like "quite a deceleration" compared to previous years and it would be hard for Indonesia to reach rates of above six percent this year. But he was positive about future prospects.

"From fiscal rationalisation, involving bold subsidy cuts to infrastructure build-up, as well as measures to pull in more (foreign direct investment), these take time to bear fruit but will ultimately put the economy on a more even keel," he told AFP.

Before Thursday's data, the statistics agency had updated its base year for GDP calculations from 2000 to 2010, which they said could lead to a small difference in the final figure.



AFP

Indonesia's President Joko Widodo inspects the Royal Malay Regiment Guard of Honour during a welcoming ceremony at Kuala Lumpur International Airport in Sepang yesterday.

The struggles of Zimbabwe's small firms

BBC NEWS, *Zimbabwe*

When it rains in Zimbabwe work at David Chimuka's furniture business grinds to a halt.

Unable to afford to rent a building in the eastern city of Mutare, the 43-year-old instead runs his informal operation from an open piece of ground.

Between November and March frequent heavy rain showers interrupt the production of wooden chairs, tables and chests of draws.

Exposed to the elements, Chimuka and his six members of staff struggle to make a living.

"Business is very low," he says. Each month they only make an average $70 (£46) profit, which has to be shared out.

He adds: "People have no money, and we have to make our products as affordable as possible, therefore reducing our profit margins."

In a country whose economy has been severely damaged over the past 15 years, Chimuka's story is far from unique.

The World Bank estimated in 2012 that Zimbabwe had 3.5 million such unregistered small firms.

Officially such firms don't exist and they don't pay any taxes. The World Bank says they make up 85 percent of all Zimbabwe's small firms.

They are typically operations like Chimuka's, often limping along as the owner simply tries to put food on his or her family's table.

At the end of last year the Zimbabwean government announced that it wants to formalise the small business sector.

BBC NEWS

David Chimuka and his six staff in Zimbabwe share $70 of monthly profits.

Will these plans work, and what impact could they have?

Chimuka didn't always make furniture. Instead as a younger man he was a talented stone sculptor.

Carving sculptures of animals, birds and people, he made a good living selling his pieces to foreign tourists.

Yet overseas visitors stopped coming to Zimbabwe when the Zanu-PF government of President Robert Mugabe orchestrated a campaign to seize white-owned farms in the early 2000s.

Within a few years the land takeovers was that the country had gone from being widely-known as "the bread basket of Africa" to simply being an economic basket case, the situation not helped by continuing overseas sanctions.

By 2008 the country's official inflation rate was recorded at 231 million percent, and unemployment had soared.

A year later the Zimbabwean dollar was abandoned, to be replaced by a basket of currencies, including the US dollar, South African rand, the Botswana pula and the Chinese yuan.

It was in this unforgiving environment that more and more Zimbabweans started to set up informal businesses, to sell things to get by, and because paid employment was impossible to find.

Back in 2008 Maxwell Teedzai graduated from the School of Journalism at Harare Polytechnic. His dream was to become one of Zimbabwe's leading journalists, and then ultimately start his own newspaper.

But Teedzai's hopes crumbled when he could not get a journalism job. The media industry in the country had shrunk on the back of a comatose economy.

So instead he became a carpenter, and set up an unofficial business in 2009, based in Toronto, a small farming community north of Mutare.

Now 34, and a father of three, he says: "My carpentry company, Dorking Home Concept, was born out of the need to put food on my table.

"Our profit margins are still very low, at most $400 during a good month. I have no capital to buy proper machinery, I'm currently using homemade tools which often breakdown. "And incessant power cuts are affecting production."

Like Chimuka, Teedzai's has a business that makes furniture. His customers are the minority of Zimbabweans who can afford to buy such things, including members of the country's 250,000-strong civil service, farmers, and mine workers.

The government's plan to register all small firms in the country was announced last autumn by Sithembiso Nyoni, the Minister for Small and Medium-sized Enterprises.

When contacted for this article, her deputy, Noveti Muponora, said the administration was moving ahead with the plans, but would not elaborate on the exact details of how it will be enforced.

Despite the uncertainty, both Chimuka and Teedzai say they are keen to get registered, as it would likely boost their trade. Teedzai says that becoming a formal business will enable him to seek business from government departments and big companies, which only deal with registered small firms.

Tooth scare takes bite out of McDonald's Japan profits

AFP, *Tokyo*

The head of McDonald's Japan on Thursday apologised after unexpected objects -- including a human tooth -- were found in the chain's food as the burger giant reported its first annual loss in 11 years.

The firm said it would lose a worse-than-expected 21.8 billion yen ($186 million) for 2014 -- reversing a year-earlier profit -- as sales plunged in the wake of the embarrassing discoveries.

The unit's Canadian chief Sarah Casanova said the poor results marked a "harsh evaluation" by wary customers when she appeared at a press conference in Tokyo. She bowed deeply in an act of contrition common for executives in Japan.

"I would like to sincerely apologise once again for all of the great anxiety and concern," she told reporters.

A human tooth was found in some French fries sold at an Osaka outlet last year, the firm admitted in January.

McDonald's said there were no employees missing a tooth at the outlet and it believed there was a very low possibility of contamination at the US factory that had shipped the chips.

S Korea rejects Uber proposal to legalise service

AFP, *Seoul*

South Korea rejected Thursday a proposal by the web-based taxi firm Uber to legalise its business by registering its drivers, and vowed further crackdowns on the company and its services.

Uber started in South Korea in 2013, sparking angry protests from local taxi drivers and lawsuits by municipal and central officials.

On Wednesday, Uber's senior vice president David Plouffe offered to register its drivers and provide their navigation data if Seoul put its operations on a legal footing.

"Korea should be the last country that decides to stand in the way of innovation," he told reporters in Seoul.

The South's transport ministry called the proposal "unacceptable", and one that would only intensify competition and threaten the livelihood of many taxi drivers.