India's two-speed inflation strains country's indebted companies

REUTERS, *Mumbai*

Indian firms battling towering debts are calling for more interest rate cuts as they worry the central bank is tying monetary policy too much to consumer inflation and ignoring the longest streak of wholesale price falls on record.

Reserve Bank of India (RBI) Governor Raghuram Rajan in 2014 started using consumer prices as the bank's key inflation measure to focus policy on ordinary Indians. This year, the link between consumer prices and monetary policy became even stronger as the RBI formally adopted an inflation-targeting regime.

But a growing divide between consumer and wholesale inflation has revived a long-standing debate on which inflation measure should be used to determine India's interest rates. The wholesale price index (WPI) has been falling since late 2014, dragged down by lower energy costs, while the consumer price index (CPI) is currently at 5 percent.

The RBI has cut interest rates three times this year as corporate profits shrank and companies small and large shied away from new investments. But India's hundreds of indebted companies are saying that's not enough. They argue the RBI has room to further ease policy, as the WPI has dropped for an unprecedented seven straight months.

"It may not be suitable to be focused on only one (inflation) index at a point in time," said R. Shankar Raman, chief financial officer of infrastructure conglomerate Larsen & Toubro.

"Just as focus on WPI alone is not going to serve the purpose, focusing on CPI alone is also not going to serve the purpose," he added, referring to kick-starting economic growth.

That echoes the argument made by India's chief economic adviser, Arvind Subramanian, who last month suggested that in "unusual times" of stress, a policy based on consumer prices alone may not reflect firms' realities.

Rajan has not publicly spoken about the discrepancy, but some policymakers have attributed the widening gap between the two indices to commodity prices, and not to deflationary forces in the economy.

The RBI could not immediately comment.

The reality is lower interest rates reduce the cost of borrowing. In India, bank loans continue to form the lion's share of corporate financing, even though fund-raising in the equities market, for example, has increased this year.

Indian companies, particularly small and mid-cap firms, carry Asia's biggest debt burden because of their aggressive borrowing in the boom years after the 2008 global crisis. Total debt for listed Indian companies excluding financials fell only 4 percent to $368 billion in the year ended in March 2015.

Adding to their woes, banks have yet to pass on most of the RBI rate cuts. The central bank has reduced its policy rate INREPO=ECI this year by a total of 75 basis points to 7.25 percent. But banks have cut their rates by an average of 25 to 30 basis points, reducing incentive for companies to increase investment.

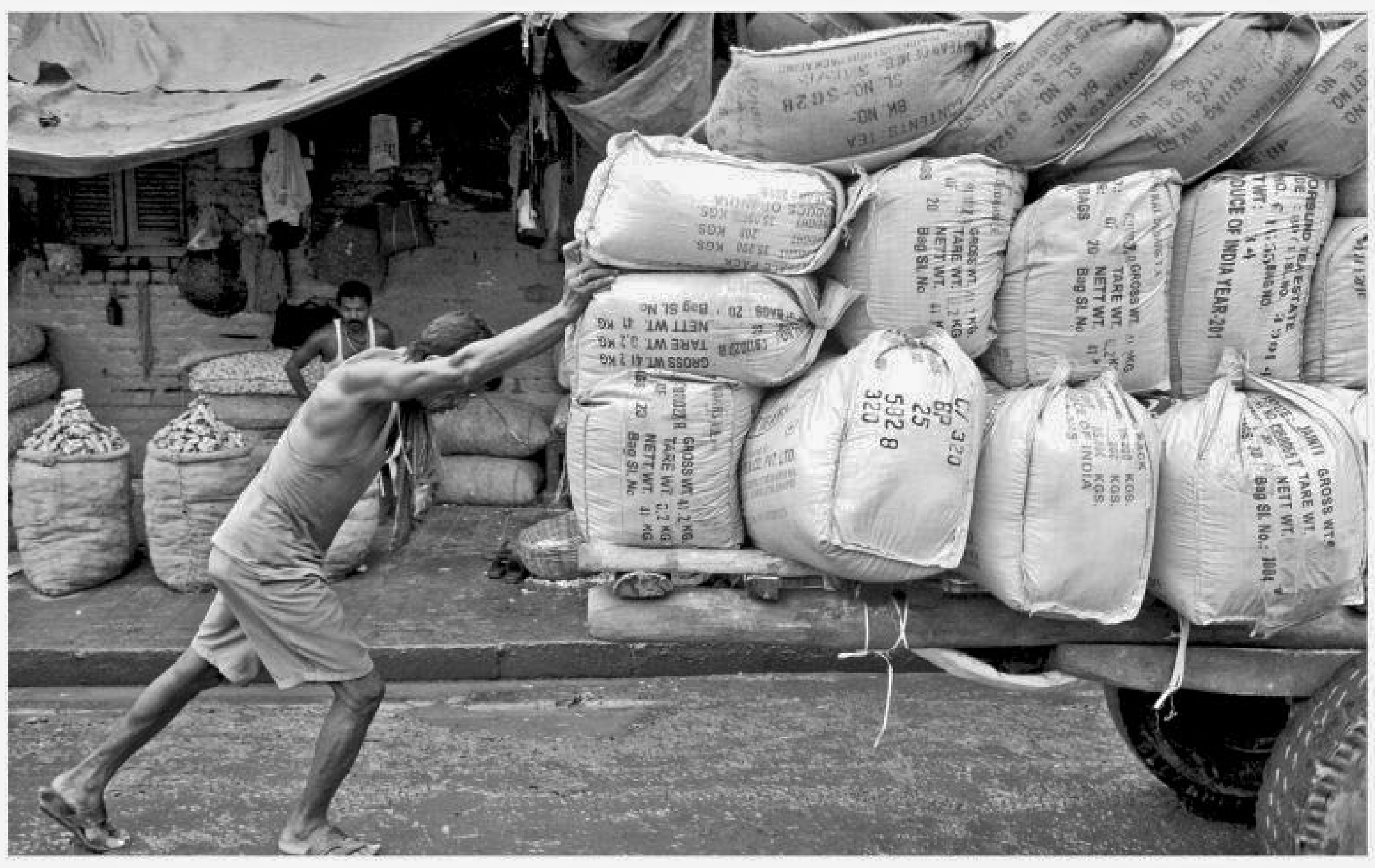
Rajan ended the RBI's decades-long focus on wholesale inflation in January last year. At that time, CPI was 8.79 percent, much closer to wholesale inflation of 5.11 percent.

But that decision is now coming under increasing scrutiny as firms struggle and Rajan has tied any additional easing to how food prices react to the current monsoon season.

That is prompting concern he is turning cautious on rate cuts despite a struggling corporate sector and an unprecedented period of deflation as measured by the WPI, which is less affected by food and energy costs and does not reflect the services sector.

Profits for the top 96 listed companies with at least $100 million in market capitalisation slumped 10.5 percent in January-to-March, the most in at least three years, according to Thomson Reuters data. Estimates for the following quarter point to another lacklustre three months.

"There is no clear proof that CPI is far superior to WPI," said Siddharth Sanyal, India economist for Barclays in Mumbai. "Monetary policy should not ignore the reality of persistent deflationary numbers on the wholesale index."



REUTERS

A labourer pushes a handcart loaded with sacks containing tea packets, towards a supply truck at a wholesale market in Kolkata, India.

Top officials of National Bank of Pakistan visit Bangladesh

STAR BUSINESS DESK

Muneer Kamal

Syed Iqbal Ashraf

Muneer Kamal, chairman of National Bank of Pakistan, and Syed Iqbal Ashraf, president, yesterday left Dhaka after completing their four-day official visit to Bangladesh.

The officials met the governor of Bangladesh Bank and distinguished clients of the bank during the visit, the bank said in a statement recently.

They expressed their willingness to appoint local talents to expand their business in Bangladesh; and as part of the effort the bank has appointed a Bangladesh national, Md Quamruzzaman, as its country manager in June this year.

The National Bank of Pakistan is the largest state-owned commercial bank in Pakistan. The bank injected $162 million as capital into its Bangladesh operations to expand their local footprint in the last one and a half years, according to the statement.

MasterCard overcharges customers, retailers: EU

AFP, *Brussels*

The EU said Thursday that US credit-card giant MasterCard overcharged customers and retailers, having already found rival Visa at fault over fees levied on card payments.

The European Commission said in a preliminary statement of objections that it believed MasterCard was in breach of EU single market competition rules.

"Many consumers use payment cards every day, when they shop for food, clothes or purchase anything online. We currently suspect MasterCard is artificially raising the costs of card payments, which would harm consumers and retailers in the EU," EU Competition Commissioner Margrethe Vestager said.

"We have concerns both in relation to the rules MasterCard applies to cross-border transactions within the EU, as well as the fees charged to retailers for receiving payments made with cards issued outside Europe," Vestager said. "MasterCard now has an opportunity to respond to our charges."

MasterCard confirmed it had received the Commission's statement of objections and would respond in due course.

"We are also working with the European Commission on the issue as part of an ongoing constructive dialogue," it said.

"Throughout this procedure we have kept the needs of both consumers and merchants in mind and aim to further encourage the uptake of electronic payments inside and outside the European Union."

The Commission, which polices competition policy, has been investigating MasterCard and Visa for years over the fees they charge following complaints by customers and retailers alike that they were getting a raw deal.

It said Thursday that its main concern was over what are known as interchange fees, the charge for using a card and which varies from country to country.

MasterCard's rules meant banks could not offer lower interchange fees to retailers based in another country where the charge might be higher, it said.

Kuwait fiscal reserves hit record $592b

AFP, *Kuwait City*

Kuwait's financial reserves defied a slump in oil prices to hit a record 179.2 billion dinars ($592 billion) at the end of the 2014-15 financial year, a report said Thursday.

They grew by $53 billion in the year to March 31, Al-Qabas newspaper reported, citing figures released by Finance Minister Anas al-Saleh to a closed session of parliament last week.

Kuwait normally does not reveal the size of its assets most of which are invested abroad, mainly in Europe and the United States.

The reserves are held in two state funds, the State Reserve Fund and the Reserve Fund for Future Generations.

Both are run by the Kuwait Investment Authority, the Gulf emirate's sovereign wealth fund.

Years of high oil prices have given Kuwait healthy budget surpluses to invest in foreign assets.

The finance minister told parliament last week that despite the sharp drop in oil prices since June last year, the emirate posted a surplus of $13 billion in 2014-15.

He said revenues fell by 21.6 percent to $82.5 billion from the previous year, while spending rose by 11.1 percent to $69.5 billion.

REUTERS

People visit a Microsoft store in Paramus, New Jersey.

Microsoft's mobile future hinges on success of Windows 10

REUTERS, *San Francisco*

Microsoft Inc's future in mobile devices likely hinges on the software maker's ability to convince developers to create apps for the phone version of Windows 10 after its ill-fated Nokia acquisition helped trigger 7,800 layoffs.

The job cuts announcement is an acknowledgement that its 2013 $7.2 billion purchase of Nokia was never going to help paltry sales of its Windows Phone, and that it needed a new approach.

Microsoft said it would also write down about $7.6 billion related to its Nokia business.

The cuts indicate that Microsoft will likely focus its mobile efforts on its high-stakes Windows 10 software release, due in late July, rather than on developing smartphones, analysts said. The software's apps are supposed to work across desktops, tablets and phones with little tweaking.

The company is betting that the popularity of Windows on desktop PCs will lead to more apps for the mobile version of Windows and entice more consumers to buy its phones.

"This mobile strategy going forward is the best they could possibly do," said Forrester analyst JP Gownder.

Wednesday's announcement is the second round of job cuts since Satya Nadella became chief executive in February 2014. Microsoft said last July it would slash up to 18,000 jobs.

Last month, the company struck deals to hand over much of its advertising business to AOL and sell mapping assets to Uber.

Narrowing its focus in mobile will allow Microsoft to devote resources to the areas where it is strongest, such as software and cloud development, said Ben Bajarin, an analyst at research firm Creative Strategies, noting that its mobile phones serve customers "from the low end to the premium tier."

China stocks up on govt moves

AFP, *Shanghai*

Chinese stocks stormed into positive territory in volatile trade Thursday as Beijing launched new measures to halt a dramatic sell-off, with Asian markets also rebounding.

The main Shanghai index had fallen more than 30 percent since a spectacular bull run peaked on June 12, driven lower by restrictions on margin trading, concerns about overvaluations and "panic" selling by the retail investors that make up the vast majority of the market.

The Shanghai Composite Index surged 5.76 percent, or 202.14 points, to 3,709.33 on turnover of 673.3 billion yuan ($110.1 billion). It fell as much as 3.81 percent and rose up to 6.88 percent during the day, representing a swing of more than 10 percent.

The Shenzhen Composite Index, which tracks stocks on China's second exchange, ended up 3.76 percent, or 70.90 points, to 1,955.35 on turnover of 277.6 billion yuan.

"Investor confidence is recovering," Zhang Gang, an analyst from Central China Securities, told AFP.

"Government support policies have shifted from saving the blue-chips and large cap stocks to focusing on growth stocks and smaller shares, which boosted trading volume and liquidity," he said.

The gains came after China moved to stop major shareholders from selling shares and launched a probe into short-selling in a bid to calm markets.

Asian markets rose Thursday, reversing heavy morning losses and tracking the surge in Shanghai.

MIDLAND BANK

Nilufer Zafarullah, vice chairperson of Midland Bank, and Abdul Majid Mondol, a director, open the bank's 13th branch at Kamarpara in Dhaka on Monday. Md Ahsan-uz Zaman, managing director, was also present.

Australia warns global firms using offshore 'marketing hubs'

AFP, *Sydney*

Australia's tax authority has warned large multinational firms it is looking into the use of offshore marketing hubs over concerns such subsidiaries were being utilised to shift profits and reduce tax bills.

The Australian Tax Office (ATO) issued the advice in a note to large businesses as the government and other nations stepped up their efforts to crack down on profit-shifting by global companies that use complex structures to pay less tax in some jurisdictions.

The Organisation for Economic Co-operation and Development (OECD) has also been leading a worldwide push against so-called tax optimisation.

The ATO said Wednesday it was reviewing companies' arrangements for such hubs, highlighting concerns that "in some circumstances it appears the amount charged by the marketing hub to the Australian company is not what arm's length (or independent) parties would pay".

"In particular, we are concerned that the economic substance of these arrangements may be materially different to the associated legal form."

Some marketing hubs previously identified by the ATO include Singapore and Switzerland.

The arm's length principle is part of the "transfer pricing" framework, where goods and services are sold within different entities in an international company.

It is meant to mimic a transaction that involves two separate firms, rather than a transaction between two arms of a company, to help international enterprises avoid double taxation.

But transfer pricing has also been the subject of increased attention. Some firms allegedly use high transfer prices, close to retail prices, in higher-tax jurisdictions to minimise the amount of profit generated. The lower profit reduces the amount of tax paid.

The ATO added that it was developing a guide to help companies assess their compliance risks when they have arrangements for marketing hubs, which usually provide marketing and sales support for goods or commodities produced in Australia and sold overseas.

Senior executives from the world's top pharmaceutical companies, including Pfizer, AstraZeneca, GlaxoSmithKline and Johnson & Johnson, were grilled at an Australian Senate hearing last week following allegations they were charging higher transfer prices to minimise tax.

The companies said they were compliant with local and international laws.

Top figures from technology giants Apple, Google and Microsoft were also questioned by the committee in April for allegedly shifting profits to their marketing hubs in countries such as Singapore, where corporate taxes are lower.

The three firms, among 12 technology companies being audited by the ATO, denied the claims.

Australia said in its federal May budget it would go after large multinational firms shifting profits offshore to reduce taxes, although no figures for revenue increases were forecast.

S Korea to hold talks with North on Kaesong wage row

AFP, *Seoul*

North Korea has agreed to hold talks with the South over a protracted wage dispute at the Kaesong joint industrial zone, Yonhap news agency reported Thursday.

The North had accepted an offer to hold talks next Thursday, it said, citing the unification ministry in Seoul.

The two sides have been mired in a months-long row over wages at the Kaesong estate, just 10 kilometres (six miles) over the border in North Korea, with Pyongyang insisting on unilaterally imposing a pay rise for its workers.

Seoul had insisted that any wage change must be a joint decision.

The industrial estate, a joint enterprise between Pyongyang and Seoul, hosts around 120 South Korean firms employing some 53,000 North Korean workers.

The South Korean companies get cheap labour on top of preferential loans and tax breaks from their government, which also effectively underwrites their investment.