

China retreats to financial shadows to boost economic growth

REUTERS, Zhangjiagang

On a sweltering day in August, the towering ferris wheel and massive roller coaster of China's Jiyanghu Ecological Park, a two-hour train ride from Shanghai, stand eerily silent.

Down a shady lane buzzing with cicadas, a security guard stands inside the near-deserted park's administration building, its foyer featuring a reflecting pool and a two-storey-high stone relief of traditional Chinese figures in flowing robes.

"We have a large shopping and dining district here, and the amusement park here," says an employee offering a glossy brochure and a cup of tea in an office upstairs.

"But I have no idea where the financing comes from."

The amusement park, built three years ago in the dusty port city of Zhangjiagang, is owned by the municipal government and is being funded through a channel that until recently was being phased out by Beijing: the local government financing vehicle.

These murky vehicles, which do not appear on a local government's balance sheet, are roaring back to



REUTERS

Children play at a water themed playground during summer holidays at an amusement park in China.

life, funding new projects and, as in the case of the amusement park, refinancing old debts as Beijing tries to spur the economy.

Their return is an admission by Beijing that commercial banks alone cannot fund a badly needed revival in investment.

As well as resurrecting local government financing vehicles - monthly bond issuance by LGFVs quadrupled between February and July, according to Moody's - Beijing is pumping capital into state policy banks and allowing alternative funding sources to grow, such as

Internet finance and private lenders.

"Our nation's economic situation is relatively bad," said the head of a finance department at another LGFV in heavily indebted Jiangsu province, home to the ecological park.

"The central government wants to control government debt but can't slam the brakes because, after all, the economy can't have a hard landing."

Economic growth is officially forecast to slow to a 25-year low of 7 percent this year, still strong by global standards, but uncomfortable for Beijing, which devalued the yuan last week in a move that should help struggling exporters.

Some economists suspect growth is closer to 5 percent - which could explain why Beijing is trying to boost investment on a scale not seen since the global financial crisis.

To enable local governments and state policy banks to do this, Beijing is underwriting a blizzard of new bonds: 2 trillion yuan (\$313 billion) to refinance local government debts and another trillion yuan so that policy banks can fund big-city projects such as pipelines,

Japan economy's contraction a blow for 'Abenomics'

AFP, Tokyo

Japan's economy contracted 0.4 percent in the April-June quarter, official data showed Monday, underscoring how Tokyo's "Abenomics" growth programme has yet to gain traction.

Weak domestic consumption and slow exports weighed on the world's third largest economy, which shrank an annualised 1.6 percent, after posting growth in the previous two quarters, according to the Cabinet Office.

Still, the data came in slightly better than the market's expectations for a fall of 0.5 percent, or a 1.8 percent annualised drop.

Private consumption, which accounts for about 60 percent of Japan's GDP, fell 0.8 percent, as exports dropped 4.4 percent.

"The sharp plunge from the previous quarter's surprise growth was partly due to disappointing demand for Japanese products in the US, Chinese and other resource-exporting markets," SMBC Nikko Securities said in a commentary.

"Sluggish wage growth and bad weather drove down consumption at home," it added.

The downturn follows a stronger-than-expected expansion in the first quarter

driven by a pickup in capital spending, but as more tepid second-quarter data rolled in some economists warned that the recovery would be short-lived. An inventory buildup at Japanese firms was taking a toll on industrial production, analysts had warned.

Japan's revised 1.1 percent expansion in January-March was sharply up from an initial estimate of 0.6 percent growth.

The upbeat data had offered some good news for Prime Minister Shinzo Abe's more than two-year-old policy blitz, dubbed Abenomics, aimed at kickstarting anaemic growth and conquering years of deflation.

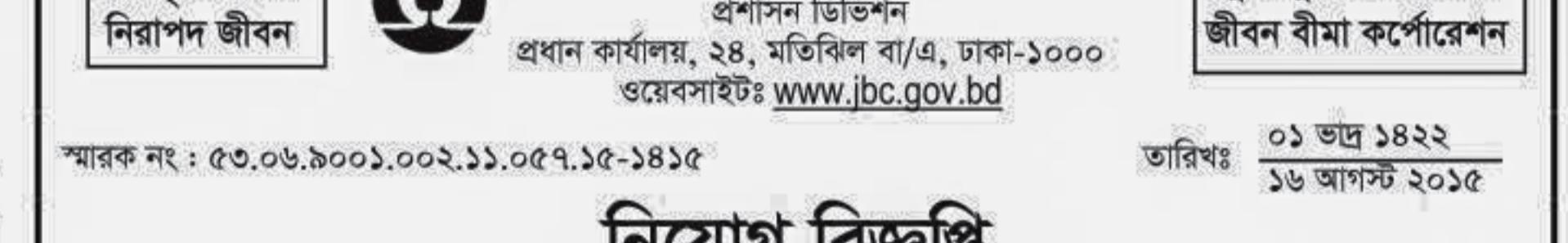
The programme called for big government spending, massive central bank monetary easing and reforms to a highly regulated economy. The pace of reforms, particularly shaking up a protected agricultural sector, has lagged, however.

Household spending has struggled to recover following a sales tax rise last year, as the Bank of Japan struggles to push up prices, partly weighed by tumbling oil prices.

The drop has forced BoJ chief Haruhiko Kuroda to push back a timeline for hitting a 2.0 percent inflation target -- a cornerstone of Abenomics -- although he insists that healthy price rises are around the corner.



Ahmed Shafi Choudhury, a director of Pubali Bank, and Md Abdul Halim Chowdhury, managing director, attend the second conference of the bank's branch managers of Khulna region operations, at a hotel in Khulna on Friday.



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