From heroes to bystanders? Central banks' growth challenge

AFP/FILE

US Federal Reserve Chair Janet Yellen smiles after stepping away from the podium at the University of Massachusetts in Amherst, Massachusetts.

REUTERS, *Washington/frankfurt*

Central bankers who led the charge to pull the global economy from a cliff during the financial crisis now risk becoming bit players, ill-equipped to snap the world out of sluggish growth and its addiction to cheap credit.

Despite near-zero rates and $7 trillion of monetary stimulus unleashed by central banks in major industrial economies, investment and growth is stuck below pre-crisis levels and tepid demand is hurting developing economies by depressing prices of their commodity exports.

"Memo to the human race: you tried all this monetary policy stuff… and at the end of the day it did not succeed in getting you back where you need to be," Paul Sheard, chief global economist for Standard & Poor's, told Reuters. Sheard suggested it might be time for central banks to admit their interest rates are stuck at zero, and for other policymakers to step up.

Essentially central bankers face a dilemma - either lean more on politicians to do more to boost growth or embark on a new round of experimentation.

Both come with risks and uncertain payoffs.

Calls by the International Monetary Fund and others for increased spending on infrastructure, reforms that could open markets in Japan and Europe, or outright fiscal stimulus in countries like Germany, have produced little action since the 2008-2009 financial crisis. By piling more pressure on governments, central banks risk not accomplishing much and yet provoking a political backlash that could threaten their independence.

More experimentation - such as negative interest rates or direct financing of government spending - could deepen concerns that central banks were straying further from their core competences.

Then there is the third, increasingly unappealing option: do more of the same. The Bank of Japan and the European Central Bank continue buying securities to spur more lending, while the Federal Reserve and the Bank of England do have an option of resuming debt purchases they wrapped up in 2014 and 2012.

Yet as the IMF noted, Japan and Europe are unlikely to grow any faster without serious structural change.

In fact, Japan probably slipped back into recession last quarter despite $1.50 trillion injected by the Bank of Japan into the economy since April 2013.

In the United States, the Fed's quantitative easing - creating money to buy securities and dramatically boost the reserves that banks could lend on elsewhere - gets credit for stabilizing financial conditions. But policymakers are not sure how much growth it produced and what more could it accomplish.

"We put everything we could to work and (US growth) is still just slightly better than 2 percent… That is some sign the tools did not have the potency we expect," Atlanta Fed President Dennis Lockhart told reporters following the US central bank's Sept 16-17 policy meeting.

While US unemployment rate halved to just over 5 percent from its recession peak in 2009, various studies estimate that quantitative easing could take credit for only between a quarter of a percentage point and 1.5 points of that decline.

The dramatic run-up in central banks' balance sheets also failed to bring inflation back to levels considered healthy, with the Fed far from its target and Japan and euro zone in or close to outright deflation.

In theory, ample and cheap money should encourage borrowing, spending and growth, but with households, businesses and governments scaling back debt after the crisis, major economies did not follow the script.

With a sense that there is little bang for the buck left in quantitative easing, the narrative is shifting from central bankers as superheroes to one of central bankers as bystanders, or, at best, in supporting roles.

"There are excessive expectations about what central banks can do," ECB vice president Vitor Constancio told Reuters in an interview. Europe's growth potential was weak due to a number of factors, including a shrinking labour market, and monetary policy was powerless in this respect, he said. "It is for other policy makers to do their job."

ECB chief economist Peter Praet also pointed out that lifting rates off the floor may be a challenge. "In some major economies, zero has featured for longer than any other value of the policy rate before," he told a conference. "The economy may have just gotten too used to that number."

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Nasrul Hamid, state minister for power, energy and mineral resources; Marcia Stephens Bloom Bernicat, American ambassador; Melody Meyer, president of Chevron Asia Pacific Exploration and Production; Brad Middleton, managing director of Chevron Asia South; Kevin Lyon, president of Chevron Bangladesh; and Asif Saleh, director of strategy, communications and empowerment at Brac, pose at the launch of Chevron's pilot project for a community development initiative, in Dhaka on Wednesday. Brac will implement the project, which aims to support approximately 20,000 beneficiaries and create up to 1,500 enterprises, in the communities near Bibiyana, Jalalabad and Moulvibazar gas fields.

'Reason to be concerned' about global economy: IMF MD

AFP, *Washington*

The International Monetary Fund voiced concern Wednesday about the global economy, weakened by China's slowdown and facing a potential "vicious cycle" from a looming US interest rate hike.

"On the economic front, there is... reason to be concerned. The prospect of rising interest rates in the United States and China's slowdown are contributing to uncertainty and higher market volatility," IMF Managing Director Christine Lagarde said in a speech in Washington, according to the prepared text.

Lagarde also pointed to the "sharp deceleration" in the growth of global trade and the "rapid drop" in commodity prices, which is hammering the finances of commodity-exporting emerging market economies.

Many of the recent economic gains in Africa, Latin America and Asia "now seem in jeopardy," said Lagarde, addressing the Council of the Americas ahead of next week's IMF and World Bank annual meetings to be held in Lima, Peru.

The IMF chief said that the Fund's World Economic Outlook report, to be published Tuesday, would project weaker growth this year than in 2014 and only a slight pick up in 2016.

In her speech, Lagarde emphasized the Fund's concern about the Federal Reserve plan to raise its benchmark interest rate, held at zero since late 2008 to support the US economy's recovery from the Great Recession.

The rate rise, still on the Fed's radar for this year, could drive investors to pull funds from emerging countries into the United States and further strengthen the strong dollar, the currency on which the debt of many companies is based.

"Rising US interest rates and a stronger dollar could reveal currency mismatches, leading to corporate defaults -- and a vicious cycle between corporates, banks, and sovereigns," Lagarde said.

The IMF has repeatedly called for the Fed to wait until 2016 to increase its key rate for the first time in more than nine years.

Wal-Mart to cut hundreds of jobs at headquarters

REUTERS

Wal-Mart Stores Inc is planning to lay off hundreds of people at its headquarters in Arkansas as part of the retail giant's efforts to pare costs, people familiar with the matter said.

Fewer than 500 employees are expected to lose their jobs and an announcement could be made as early as this Friday, according to one of sources, who declined to be named because the move had not been made public.

Wal-Mart declined to comment. News of the impending cuts was reported earlier on Wednesday by the Wall Street Journal.

The cuts will make up a small portion of the more than 18,000 people employed at the Bentonville, Arkansas office but fit in with a streamlining effort that has been flagged by Chief Executive Doug McMillon in recent months.

"There are no cash registers in the office," McMillon told analysts after the company's annual shareholders' meeting in June to emphasize his focus on stores as the earnings driver for the company.

Speculation of job losses has percolated in Bentonville for several weeks, fueled in part by reports on the matter by local media outlet City Wire. Recruiting firms have reported an influx of resumes from Wal-Mart employees concerned about losing their jobs and suppliers have braced for cuts that could have a knock-on impact on their local operations.

The cuts come as the world's largest retailer struggles to shore up its profit margins, which have been weighed down by a $1 billion investment announced earlier this year to increase wages for half a million store-level workers and other cost pressures. The company's stock is down 26 percent so far this year.

In August, Wal-Mart reported weaker quarterly earnings and lowered its annual profit forecast, hit by higher labor costs, a squeeze on pharmacy margins and the stronger dollar, which has crimped its overseas business.

Gulf banks' profits set to slide over low oil income: S&P

AFP, *Dubai*

Net earnings of Gulf banks are expected to slide as government spending slows due to a dive in oil revenues, the Standard and Poor's ratings agency said Thursday.

Growth in net income declined to 4.0 percent in the second quarter, compared with 7.0 percent in the first three months of the year and more than 10 percent in the previous three quarters, S&P said in a report based on a survey of 26 major Gulf banks.

"We expect Gulf banks' net income growth to decline below 10 percent in 2015 and potentially slow further in 2016," the ratings agency said.

The "good" earnings in the first half were due in part to declining credit losses and a reduction in provisions or funds set aside for doubtful loans.

"But, owing to the knock-on effects of lower oil prices on growth and asset quality, earnings could weaken over the next several quarters," S&P said.

Shaky China, Asia activity surveys leave world outlook vulnerable

REUTERS, *Sydney*

Factories in Asia cut more jobs and throttled back output in September as domestic and export demand shrivelled, adding to fears that cooling growth in China and emerging markets will jeopardize an increasingly fragile global recovery.

At the heart of Thursday's flurry of releases were official and private surveys on China's factory and services sectors that largely pointed to a further deterioration in the world's second-largest economy despite a flurry of stimulus measures.

Another month of contraction in China's vast manufacturing sector came as no surprise, but worryingly one private survey showed that growth in the services sector nearly stalled in September and was no longer strong enough to fully offset the broader economic downdraft from weak factories.

While the China surveys suggested a further loss of steam, they did not contain any signs of a hard landing which many global investors have begun to fear.

Still, the steady loss of momentum in developing and emerging countries in recent months leaves the United States as the lone bright spot in the global economy and will raise questions about whether its central bank should risk raising interest rates this year for the first time in nearly a decade.

Similar surveys in Europe and the United States due later in the day will be closely watched for any similar signs of weakness and any spillover effects from Asia.

"The big picture is that we're going to see weaker Chinese growth for this quarter and an even slower growth rate for next year," said Wei Li, China and Asia economist at Commonwealth Bank of Australia in Sydney.

"But if the labour market can be kept stable, then clearly Beijing would continue to focus on structural reforms, which will benefit long-term growth. There is no quick fix."

REUTERS/FILE

Employees pose while working on an assembly line producing Mercedes-Benz cars at a factory of Beijing Benz Automotive Co in Beijing, China.

The U.S. Federal Reserve held off from raising rates last month, citing in part worries about the extent of China's slowdown, while members of the European Central Bank have warned euro zone growth is at risk from cooling emerging markets, adding to expectations that it may step up its stimulus efforts.

China, too, is expected to ease policy further in coming months in its biggest stimulus campaign since the global financial crisis.

Equally wary, the head of the International Monetary Fund, Christine Lagarde warned on Wednesday that a relentless deceleration in developing economies will curb global growth.

She said China needed to keep trying to rebalance its economy away from commodity-intensive investment but must also safeguard "demand and financial stability."

Indeed, a summer stock market crash and China's surprise devaluation of its currency in August sent shockwaves through global markets, raising concerns both inside and outside of China about Beijing's ability to manage its economy.

In July, the IMF predicted a marginal slowdown in global growth this year to 3.3 percent from 3.4 percent in 2014, with a rebound to 3.8 percent in 2016. It could downgrade forecasts next week in its World Economic Outlook report.

Similar activity surveys and data from other trade-reliant Asian economies made for equally grim reading, with Japanese manufacturers seeing a tumble in new export orders, South Korean exports falling for a ninth consecutive month and Taiwan warning that its economy shrank in the third quarter.

Indonesian factory owners cut payrolls at the second-fastest rate in at least four years, while activity in Vietnam fell for the first time in two years.

Even Indian factories, which are more insulated from global trends, posted their slowest expansion in seven months. The drop in activity will have added to worries over the country's sputtering growth and reinforced the rationale behind the central bank's larger than expected interest rate cut this week.

Indians declare $500m in black money in tax crackdown

AFP, *New Delhi*

Indians declared $500 million in black money, the government announced Thursday, a fraction of the total amount feared hidden, as a deadline for coughing up assets hidden from the taxman expired.

Prime Minister Narendra Modi took power last year pledging to crack down on black money, a systemic problem in India that sees billions of rupees hidden in foreign bank accounts or funnelled into property abroad.

The finance ministry said more than 600 tax evaders had made declarations by midnight on Wednesday -- when a three-month window for unveiling stashes and avoiding prosecution ended.

The ministry said "638 number of declarations have been received under the compliance window declaring undisclosed foreign assets," amounting to 37.7 billion rupees ($574 million).

The government has announced a string of measures to crack down on black money, including a 10-year jail term for evaders who get caught from now on.

But Ashutosh Kumar Mishra, executive director of Transparency International in India, doubted whether the government could find the money offshore given how deeply entrenched the phenomenon has become.

"It's not easy. You need a set of clear reforms and determined political will and it will take years," Mishra told AFP.

India is one of the most cash-intensive societies in the world, corruption is endemic, and strict tax laws encourage people to keep money off the official books.

Estimates of Indian black money abroad vary widely. Some $439 billion left the country illicitly from 2003-2012, according to estimates from the Global Financial Integrity group in Washington.

The wealthy channel money to tax havens such as Switzerland or Singapore, convert it into jewellery, antiques, paintings or property, or send a relative abroad for half the year to avoid tax.

Only 2.89 percent of Indians pay any income tax at all, India's previous finance minister told parliament in 2013.

Microsoft and Google call truce in patent wars

AFP, *San Francisco*

Technology titans Microsoft and Google on Wednesday announced that they have agreed to end all patent infringement litigation against each other.

Legal battles between the companies included suits over technology for Internet-linked mobile devices, WiFi and digital video.

Details of the agreement were not disclosed, but the tech behemoths said it includes cases related to Motorola Mobility.

"The companies will dismiss all pending patent infringement litigation between them, including cases related to Motorola Mobility," Microsoft and Google said in a joint statement.

Google last year sold Motorola Mobility to Chinese computer giant Lenovo in a deal valued at $2.9 billion, but held on to patents.

"Separately, Google and Microsoft have agreed to collaborate on certain patent matters and anticipate working together in other areas in the future to benefit our customers."

The kind of collaboration the industry rivals have in mind was not disclosed.

Microsoft chief executive Satya Nadella has made a priority of making the company's applications and cloud services available across mobile devices, regardless of what software powers the hardware.

Microsoft would also like to boost the popularity of Windows smartphones and tablets with popular Google offerings such as YouTube.