Feeling global slowdown, Fed keeps interest rate unchanged

AFP, *Washington*

The Federal Reserve cut its outlook for the US economy and kept its interest rate policy unchanged Wednesday, citing the impact of the global slowdown and turmoil in world markets.

Giving a picture of the US economy less bullish than many had expected, the Fed still forecast continuing hikes to the federal funds rate this year, but at a slower pace than foreseen in December.

That outlook kept the Fed still headed in the opposite direction of other leading central banks, with the European Central Bank and the Bank of Japan, among others, having cut interest rates into negative territory to fight off deflationary pressures and stagnant growth.

Fed Chair Janet Yellen said the policy-setting Federal Open Market Committee (FOMC) opted for "a slightly more accommodative path" compared with December, given "soft" US business investment and weak exports in recent months.

But, she added, "this decision partly reflects the implications for the US economy of the global economic and financial developments."

And she said notably that she was not convinced by apparent signs of a pickup in inflation.

In revisions to its buoyant December forecasts, the FOMC said it expects the US economy to grow only 2.2 percent this year, compared with 2.4 percent previously.

The FOMC said the labor market will continue to strengthen, predicting the unemployment rate would fall to 4.7 percent this year from the current level of 4.9 percent.

But the FOMC conceded that inflation is much weaker than it had expected just a few months ago, as the US economy suffers the same downward pull on prices that is troubling central banks in Japan and Europe.

The FOMC predicted that inflation would likely remain very low at 1.2 percent by the end of the year, far shy of its 2.0 percent policy target.

AFP

Federal Reserve Board Chair Janet Yellen speaks during a news conference in Washington, DC on Wednesday.

That seemed at odds with Wednesday's report of solid growth in core consumer prices of 2.3 percent year-on-year, which some analysts said was a clear sign that the Fed's efforts to push up inflation were having effect.

Moreover, Yellen's Fed deputy chair, Stanley Fischer, raised expectations last week when he cited "the first stirrings of an increase in the inflation rate."

But Yellen told a press conference after the FOMC meeting that she was unconvinced by apparent upward price pressures.

Some of the gains in prices, Yellen said, relate to "categories that tend to be quite volatile, without very much significance for inflation over time."

"So I'm wary, and haven't yet concluded that we have seen any significant uptick that will be lasting in, for example, in core inflation."

In its rate decision, the FOMC held the benchmark federal funds rate at an ultra-low 0.25-0.50 percent, where it was set in December.

At that time FOMC officials projected a likely four quarter-point interest rate increases this year. But in Wednesday's new projections, they indicated they expect the rate to end the year at about 0.9 percent, implying no more than two increases.

But some analysts argued that the Fed is being too cautious, and say it will have to change its tone in coming meetings.

"The doves have prevailed," said UniCredit economist Harm Bandholz. "The Fed is in our view increasingly falling behind the curve."

"We remain of the view that the data will in due course force the Fed to raise rates faster than they or the markets expect," said Ian Shepherdson of Pantheon Macroeconomics.

"Denial only works up to the point where the data are unambiguously telling the opposite story; that point is not far off."

The Fed's dovishness caught markets by surprise, sending the dollar down 1.1 percent against the euro and the 10-year Treasury yield down nearly 0.1 percentage point to 1.92 percent.

"We and most market participants expected something slightly more hawkish that would send a stronger signal that rates could rise again in mid-year," said currencies specialist Kit Juckes of Societe Generale.

Buoyed by the prospect of lower interest rates for longer, Wall Street surged after the FOMC statement, with the S&P 500 reversing earlier losses for a 0.6 percent gain.

Bharti Airtel to buy mobile spectrum from Videocon for $664m

REUTERS, *Mumbai*

Bharti Airtel Ltd, India's biggest mobile phone networks operator, has agreed to pay 44.28 billion rupees ($664 million) to Videocon Telecommunications for radio frequencies in six service areas, trumping rival Idea Cellular's smaller deal for the same spectrum in two service areas.

Bharti, India's largest mobile phone operator, said on Thursday it will take up spectrum in the 1800 Mhz band from Videocon in Bihar, Haryana, Madhya Pradesh, Uttar Pradesh (East and West) and Gujarat.

Idea Cellular Ltd had said earlier it had terminated its 33.10 billion rupees deal with Videocon to acquire the same spectrum in Gujarat and Uttar Pradesh (West) that was announced in November last year.

With smartphone sales booming telecom operators are ramping up infrastructure spending to expand 3G and 4G mobile broadband services across the country.

India has over 1 billion subscribers to mobile voice telephony services but only a third of those currently use mobile Internet services.

REUTERS/FILE

Gopal Vittal, Bharti Airtel's chief executive for India and South Asia, speaks during a news conference in New Delhi.

Canon agrees to buy Toshiba's medical equipment unit for $5.9b

REUTERS, *Tokyo*

Canon Inc has agreed to buy Toshiba Corp's medical equipment unit for 665.5 billion yen ($5.9 billion), the companies said on Thursday.

Toshiba, which is selling the unit to help fund restructuring after a massive accounting scandal, said the deal would yield a profit of about 590 billion yen in the current fiscal year ending this month if it closes in time.

The Japanese maker of cameras and office equipment last week won exclusive negotiating rights to buy Toshiba Medical Corp in a hotly contested auction.

Canon, which makes X-ray machines and eye examination devices, has been trying for years to expand into high-margin medical devices, particularly as demand for cameras has declined with the advent of smartphones.

Toshiba Chief Executive Masashi Muromachi is trying to overhaul the laptops-to-nuclear conglomerate following last year's revelations of overstated profits going back to around 2009. He has announced more than 10,000 job cuts and also plans to sell its loss-making laptops and home appliances businesses.

AFP

A robot Chihira Kanae developed by Toshiba is seen at a welcome desk at the International Tourism Fair ITB in Berlin.

Funds from the deal will help enable Toshiba to drop plans to seek about $1.8 billion in additional loans from Sumitomo Mitsui Banking Corp, Mizuho Bank and Sumitomo Mitsui Trust Bank, sources familiar with the situation said on Tuesday.

But in a sign of yet more difficulty for Toshiba to overcome the multi-billion dollar accounting scandal, Bloomberg News reported U.S. authorities were investigating it over accounting related to its Westinghouse nuclear power operations.

The Justice Department and Securities Exchange Commission were looking into the possibility of fraud, the report said. Toshiba shares fell nearly 8 percent on Thursday after the report.

Japan exports to China rise in February, boosted by post holiday demand

AFP, *Tokyo*

Japanese exports to China rose for the first time in seven months in February, the government announced Thursday, though analysts said the gain was distorted by the timing of the Lunar New Year holiday.

China is Japan's top trading partner, but the Asian giant's economic growth has been slowing as Beijing tries to pull off a delicate rebalancing towards consumer spending from exports and government spending, even as fears of a "hard landing" are rising.

Japan's shipments to China rose 5.1 percent in February from the same period last year, the first gain since July, the finance ministry said.

The increase was led by automobiles, while metal processing machinery and engines were also strong, the ministry said.

The result also contributed to Japan recording an overall trade surplus of 242.8 billion yen ($2.15 billion) -- the first in two months -- though falling oil prices were seen as the key contributor.

Marcel Thieliant, an economist at capital Economics, cautioned against reading too much into the export figures.

"Around half of Japan's exports end up in countries that celebrate Lunar New Year, and shifts in the timing of the festivities tend to affect trade volumes," he wrote in a note.

Overall, Japanese exports fell 4.0 percent in February from the same period last year, led by steel exports, marking the fifth straight monthly decline.

Imports, meanwhile, declined 14.2 percent, largely due to sliding prices of liquefied natural gas and oil into resource-poor Japan.

"Import prices of energy, such as crude oil and LNG, have lifted Japan's trade balance," said Junichi Makino, chief economist at SMBC Nikko Securities.

Exports remained "weak", but "downward pressure" on them was also weakening, he added, while auto exports remained solid.

Thieliant also warned, however, that the trend is towards a higher energy bill for Japan in coming months.

"The bigger picture is that crude oil prices are rebounding while the yen should weaken, so the energy import bill should rise again soon," he wrote in a note.

The trade data are the latest snapshot for the world's third-largest economy, which shrank 0.3 percent in the October-December quarter in another blow to Prime Minister Shinzo Abe's bid to slay nagging deflation and kick-start the economy.

The Bank of Japan, the central bank, announced a negative interest rate in January in a rare move to boost corporate investments, but critics have panned it as a desperate move and questioned its overall effectiveness.

Britain announces new ways to tax multinationals

AFP, *London*

British finance minister George Osborne on Wednesday unveiled new measures to raise taxes paid in the country by multinational companies, following a public outcry over methods used to avoid tax.

While corporation tax will drop from 20 percent to 17 percent in 2020, Osborne set out a series of measures he said would increase British tax revenues by 9 billion pounds ($12.8 billion, 11.5 billion euro).

The finance minister, seen as a potential future candidate to succeed Prime Minister David Cameron as leader of the Conservative party, said the plan would "make Britain's business tax system fit for the future".

"It will deliver a low tax regime that will attract the multinational businesses we want to see in Britain, but ensure that they pay taxes here too," Osborne told the lower house of parliament as he set out the annual budget.

"All of these reforms to corporation tax will help create a modern tax code that better reflects the reality of the global economy."

From April 2017, there will be a cap for the amount that major multinationals can deduct from their taxes by borrowing in Britain to invest elsewhere.

The Treasury will also set new "rules to stop the complex structures that allow some multinationals to avoid paying any tax anywhere, or to deduct the same expenses in more than one country," Osborne said.

He said that the Treasury would strengthen a withholding tax on royalty payments that allow some firms to shift money elsewhere.

There has been public outrage in Britain and other countries around the world over the tax arrangements of multinationals, particularly in the tech industry.

Earlier this year US internet giant Google agreed to pay £130 million ($185.4 million, 172 million euros) to Britain following a government inquiry into its tax arrangement.

In early March, Facebook announced that it would declare advertising revenue from its top British clients in Britain instead of Ireland, where it has its European headquarters, meaning it should pay more tax.

There had been a backlash against the social network after it emerged that it paid only £4,327 (5,572 euros, $6,119) in corporate tax in 2014.

Osborne said that the measures followed guidelines set out by the OECD economic grouping last year.

The OECD has estimated that national governments lose $100-240 billion (90-210 billion euros), or four to 10 percent of global tax revenues, every year due to the tax-minimising schemes of multinationals.

India banks will chase absent liquor baron for 'every penny': minister

AFP, *New Delhi*

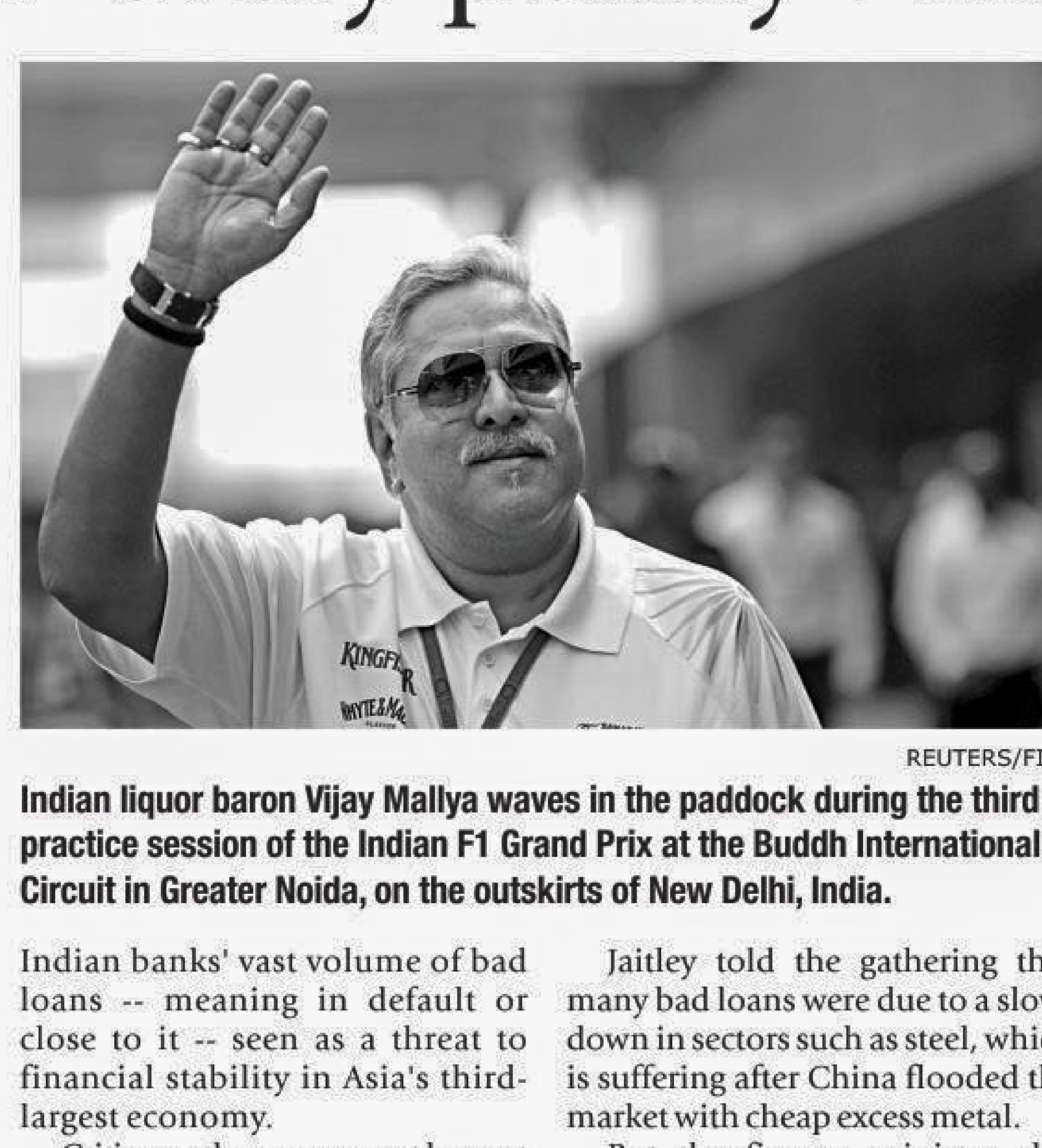
Indian banks will strive to recover "every penny" from a troubled liquor baron who left the country owing more than $1 billion, the finance minister said Thursday, as warnings sound over a mounting bad debt problem.

More than a dozen lenders are chasing Vijay Mallya, dubbed the King of Good Times, for 90 billion rupees ($1.34 billion) in unpaid loans, but he left the country on March 2 despite calls for his arrest.

"Every government agency, whether it's the taxation department or the investigative agencies, wherever he has violated the law, is going to take strong action," Finance Minister Arun Jaitley told a conference organised by India Today television channel in New Delhi.

"As far as the banks are concerned... I've been briefed that they are going all out to recover every penny of the last rupee that they can."

The businessman's massive debt has become a symbol of



REUTERS/FILE

Indian liquor baron Vijay Mallya waves in the paddock during the third practice session of the Indian F1 Grand Prix at the Buddh International Circuit in Greater Noida, on the outskirts of New Delhi, India.

Indian banks' vast volume of bad loans -- meaning in default or close to it -- seen as a threat to financial stability in Asia's third-largest economy.

Critics say the government has not done enough to tackle wealthy individuals, such as Mallya, who obtain huge loans they later fail to repay.

Jaitley told the gathering that many bad loans were due to a slowdown in sectors such as steel, which is suffering after China flooded the market with cheap excess metal.

But the finance minister also said that lenders granting individuals large loans -- sometimes in unusual circumstances -- which then went awry was "the real cause of worry".

"This has brought a huge bad name both to India's banking and also to India's private sector. It's extremely dangerous for the future if we are not able to remedy this," he said.

The financial crimes agency has summoned Mallya to appear before investigators on March 18 in connection with a money-laundering probe, but he has not indicated if he will appear.

The entrepreneur, who has not been charged with any crime, denies absconding and has lashed out at media who accuse him of fleeing the country.

In its budget last month Prime Minister Narendra Modi's government announced recapitalisation measures for public sector banks, although some economists said the funds were not sufficient.

On Saturday the market regulator laid out tougher measures to tackle individuals or businesses classified as "wilful defaulters", preventing them from raising fresh funds on capital markets or from sitting on listed company boards.