

# India Inc shows growth spreading by end of Modi's sophomore year



Narendra Modi

REUTERS, Mumbai/New Delhi

Indian companies are posting their best earnings results since Prime Minister Narendra Modi swept to power two years ago, giving the clearest sign yet that India's fast, but patchy, economic growth is becoming more broad-based.

Though headline growth figures make India one of the world's fastest growing economies, weak private investment and low capacity utilisation rates have painted a less rosy picture.

Going by India Inc's surge in profit growth in the first three months of the year, however, the outlook really does seem to be brightening, as benefits feed through from lower interest rates and government spending in infrastructure and defence.

On Tuesday, India will release gross domestic product data for the January-March quarter. Year-on-year growth of 7.5 percent is forecast by

a Reuters survey economists, slightly faster than the previous quarter's 7.3 percent.

"Macro indicators are suggesting that at the ground level the economy is gaining momentum," said Dhiraj Sachdev, a fund manager at HSBC Asset Management in Mumbai.

"That has also been validated in terms of better corporate earnings in many of the sectors."

Operating profits for 289 companies that have reported results so far leapt 25.5 percent year-on-year in the March quarter, compared with 1.7 percent growth in the previous quarter, according to Thomson Reuters data.

It is Indian firms' best showing since the April-June quarter in 2014.

Put alongside the 6.8 percent decline in earnings that data provider Factset reckons companies in the S&P 500 suffered during the same quarter, India's corporates have some things

going in their favour.

India's broader National Stock Exchange share index has surged around 17 percent from a near 2-year low on Feb. 29, outperforming a 7 percent gain by the Asia-Pacific MSCI index excluding Japan.

This week, Morgan Stanley upgraded Indian equities to "overweight" from "equalweight" citing rising dividends, and prospects of a simpler country-wide sales tax, lower interest rates and benign monsoon among its reasons.

Sadly, corporate balance sheets remain stretched, making it hard to revive private investment, which has lagged for the past four years.

Yet, sectors tied to capital goods and infrastructure such as steel and cement are recovering. After five quarters of double-digit declines, operating profit in the materials sector rose 22 percent in the March quarter.

Following droughts in the past two years, monsoon rains, due in coming weeks, are forecast to be better than average, which should underpin demand, particularly from the rural sector.

And while factories are running nearly 30 percent below capacity, sales are increasing.

Consumption of long steel products, used mainly in construction, has averaged 10 percent annual growth on a rolling three-month basis over the past six months. The cement and power sectors have also seen demand improve.

Commercial vehicle sales are growing at a double-digit pace on the back of a strong replacement demand, industry data shows.

Projects worth nearly \$31 billion were completed in the March quarter, according to think-tank CMIE, up from \$13 billion in the previous quarter. New investments in the same period more than doubled. There are still plenty of less encouraging indicators.

A weak global economy hardly bodes well for exports, which have fallen for the last 17 months. Businesses are also finding it hard to borrow as a spike in stressed loans has made banks wary, and Thomson Reuters data shows Indian firms are taking longer than usual to pay or get paid.

"The economy is undergoing a slow and bumpy recovery after three years of tepid growth," said Shilan Shah, an economist with Capital Economics. "But we have seen false dawns before."



Mohammad Abdul Mannan, managing director of Islami Bank Bangladesh, hands over keys of a jeep to Md Assaduzzaman Mia, commissioner of Dhaka Metropolitan Police, for use in the diplomatic zone in the capital yesterday. The bank donated seven vehicles to the police under its corporate social responsibility this year.

## Chinese users criticise Microsoft's push for Windows 10 upgrade

REUTERS

Chinese users of Microsoft products are criticising the software company's push to get them to mandatorily upgrade their Windows operating systems, the official Xinhua news agency reported on Friday.

Posts critical of Microsoft on microblog site Weibo relating to the Windows 10 upgrade, which Microsoft users must switch to, have grown to over 1.2 million in number, it said.

"The company has abused its dominant market position and broken the market order for fair play," Xinhua quoted Zhao Zhanling, a legal adviser with the Internet Society of China, as saying.

He said users or consumer protection organizations had the right to file lawsuits against the company as Microsoft had not respected users' right to know and choose, and may eventually profit from the unwanted upgrades.

Microsoft said in an emailed statement it was helping customers schedule the software update, previously labeled "optional" and now "recommended", and users had

the option to cancel or reschedule.

Last year, Microsoft said it would offer free upgrades of Windows 10 to all Windows users, regardless of whether they are running genuine copies or not.

The move was seen at the time as an aggressive strategy by Microsoft to tackle rampant piracy in the Chinese computing market. Microsoft has been attempting to boost its business in China, where an anti-trust investigation into the company over its Windows operating system was launched in 2014.

Xinhua said Windows' pop-up upgrade window does not offer a "decline" option, only an option to upgrade later, while computers with older versions of Windows would automatically start the update at a recommended time if users ignored the pop-up.

Yang Shuo, a worker at a Beijing-based public relations company, told Xinhua that the sudden update interrupted his drafting of a business plan and led to a meeting cancellation for a deal worth 3 million yuan (\$457,735).

"Just because I didn't see the pop-up reminder does not mean I agreed," he said.



Officials of Citi Bangladesh pose with underprivileged children at an event held to mark the 11th annual Global Community Day of the company, at Emmanuelle's hall in Gulshan, Dhaka.

## Lagarde remote control makes Europeans doubt IMF role in Greek deal

REUTERS, Brussels

Another sleepless night in Brussels before another debt deal with Greece. So far, so routine in the euro zone crisis.

But for once it was not high-stakes calls to Athens that kept Europe's finance ministers up into the early hours. This time they were kept waiting for IMF officials to yield after months of wrangling with Greece's euro zone creditors over the Fund's demands that the Europeans give Athens debt relief.

The wait ended when absent International Monetary Fund chief Christine Lagarde was reached on the phone as she travelled in Asia by her representatives in the room at the European Council's headquarters in Brussels.

But the signs of indecision in the IMF have prompted questions among EU officials about the Washington-based Fund's commitment to rejoining their bailout for Greece -- and about whether it is worth working with it in future.

Even Finnish Finance Minister Alexander Stubb, an ally of Germany in insisting on an IMF role as a guarantor for northern European voters that the Greeks will not squander their money, wondered out loud this week whether the euro zone should keep trying to get the Fund involved again "at any price".

Questions about the IMF's engagement were raised by about a dozen senior officials in private conversations with Reuters since the agreement was reached.

At 2 a.m. on Wednesday, Dutch Finance Minister Jeroen Dijsselbloem presented a "breakthrough" deal under which the euro zone agreed to criteria for granting Greece relief on what it owes them in 2018. Poul Thomsen, the IMF's director for Europe, pledged to seek IMF board approval for resuming its role in the bailout.

The agreement ended almost a year of Transatlantic argument in which Prime Minister Alexis Tsipras's cash-strapped government has often been little more than a spectator.

The IMF says Athens's debt burden is unsustainable and refused to be part of a third bailout package agreed by the euro zone in August unless the Europeans -- not the Fund itself -- rescheduled some of their loans. Some Europeans, led by veteran German Finance Minister Wolfgang Schaeuble, refused.



IMF Chief Christine Lagarde, right, chats with Canadian Prime Minister Justin Trudeau as they take part in a dialogue with world leaders at the G7 Summit in Shima yesterday.

Schaeuble says Athens can survive for now and may be in a better position to pay in the future, and that writing off its debts would create a "moral hazard" that could undermine confidence.

During the negotiations this week, euro zone officials said they were startled by what they saw as unusually intense and difficult conversations among Thomsen and other IMF officials, and notably by the way in which the Dane had to wait for hours to reach Lagarde before finally accepting the accord.

"It seemed the IMF couldn't agree on a common position among themselves," said a senior euro zone official, who noted the Fund's top lawyer had flown in from Washington to vet the deal.

IMF officials said the delay was largely a matter of the logistics in reaching Lagarde, a former French finance minister, who was visiting Kazakhstan before going to the Group of Seven summit in Japan. Nor was it unusual to wait for her green light.

Another European official said Thomsen seemed "frustrated" during a final 10-minute call he made to Lagarde from a corridor outside the meeting room. He was heard saying the Fund should not agree but seemed to lose the argument, the EU official said.

IMF spokesman Gerry Rice dismissed that interpretation: "The suggestion of 'overruling' is nonsense," he said. "The parameters of our negotiation positions are, as always, discussed and agreed in advance."

A final call was "typical in such cases", Rice added: "The managing director fully backed Poul's position."

Whatever the reasons for the delay, Schaeuble, who has been insistent that the IMF be involved in order for him to persuade hawkish German lawmakers to give their blessing to the bailout, made no secret of his irritation with the Fund's behaviour.

"It might have been helpful if the managing director had been here," he told reporters, noting that it was Berlin, not the IMF, which was the main creditor to Athens.

A key euro zone argument in seeking a less dogmatic line from the IMF on debt relief than the Fund applies in other cases is that unlike most of the IMF's debtors, Greece can count on the euro zone to avert bankruptcy. For that reason, Europeans say, the Fund should worry less about seeing IMF loans repaid or the sustainability of Athens' debt in the long term and accept the role of fiscal overseer that Berlin wants it to play.

How far the Fund has accepted that position remains a question for the Europeans. Some IMF officials have briefed reporters since the deal that it will still require conditions to be met before the board will agree to lend Greece more.

Against that, several euro zone officials told Reuters that whatever the Fund's functionaries might think, the top-level political commitment given by its boss, demonstrated in the late-night call, was proof that it was on board.

## Will pensions be hit by Brexit?

KAMAL AHMED

House prices lower, unemployment higher, real incomes down, a year long recession and now, poorer pensioners.

It might seem but a short wait for the Four Horsemen of the Apocalypse, given the amount of gloomy economic analysis that has been published on what may happen should Britain vote to leave the European Union.

All the different effects are actually derived from one significant starting point -- that the economy would be smaller if the UK left the EU relative to where it would be if "remain" won on June 23.

On this issue, with varying degrees of pessimism, there is widespread -- though not total -- agreement among economic institutions from the International Monetary Fund to the Bank of England.

Whether that effect is short-term or long-term is more widely disputed.

The main challenge for today's pensions analysis is that it is a snapshot which takes little account of how different parts of the economy might react if there were a downturn.

It is difficult to model all the "dynamic" effects of a shock to the economy, but they are often the most important factors when considering how different sectors will be affected.

On trade, most economists agree that moving out of the single market will negatively affect Britain's economic relationship with what is left of the EU.

It is also argued that British exporters will find it difficult to replace that trade by increasing economic links with countries such as America and China, particularly in the first few years.

But when it comes to pensions, the direct relationship between a smaller economy and the value of pensions is less

easy to quantify.

As Tom McPhail of Hargreaves Lansdown says, understanding the complex dynamics in play is "ambitious".

Some might say foolhardy. First, if there were a recession, would the Bank of England raise interest rates?

Although the Bank has been studiously unclear on what its response might be, if interest rates did rise that may be good for pensioners as returns on annuities -- the basis of many people's pension wealth -- would rise.

Though of course, if inflation also rose as some predict, the value of that pension would be eroded.

Second, if markets in the UK did fall then those funds investing pension assets could seek to find better returns elsewhere.

Asset investment is a global business. Third, there is the question of EU regulation, often at the heart of a long and uneasy relationship between the UK's huge and global pensions industry and Brussels.

How would that relationship change if Britain were out of the EU and would that help or hinder UK pension providers?

Yes, as Mark Wilson, the highly regarded chief executive of Aviva, one of the UK's largest pension firms with major interests across the EU, says uncertainty tends to "spook markets".

And if the value of shares falls dramatically, that can have a negative effect on pensions.

But, in the complicated, interconnected world we live in, relationships between the many moving parts of the economy are not always amenable to simple analysis.

Particularly when it comes to our pension pots which are invested over many decades, not just one or two years.

The writer is an economics editor at BBC News.

## US raises first-quarter growth estimate to 0.8pc

AFP, Washington

The US economy grew slightly faster in the first quarter of 2016 than originally thought, hitting a 0.8 percent annual pace, the Commerce Department said Friday.

The revision, from the original estimate of a very slow 0.5 percent, was not as high as economists had expected, underscoring some persistent weaknesses, especially in manufacturing.

Even so, economists say that growth in the current April-June quarter has been firm enough to cast behind the early-2016 slump and that the United States will continue to solidly outpace other leading economies for the rest of the year.

Halfway through the second quarter, private and public growth estimates were that the economy has rebounded to a 2.5-3.0 percent annual pace.

And Federal Reserve officials have made clear they think the first-quarter data understates the strength of the economy.

"More recent monthly data are signaling a much better performance in Q2 -- if anything, better, than the 2.5 percent pace in our forecast," said Jim O'Sullivan of High Frequency Economics.