

China's huge debt poses big headache for central bank

AFP, Beijing

CHINESE banks lent more money in January alone than the annual GDP of South Africa, as borrowers rushed to take advantage of government policies intended to stimulate the economy with easy credit. But the free-for-all has had unintended consequences, creating a tottering tower of unsustainable debt, with Beijing now trying to tighten monetary policy and reduce access to credit without bringing the entire edifice crashing down.

Chinese debt exceeded 270 percent of the country's GDP by the end of 2016, stoked by multiple interest rate cuts as well as the growth of the unregulated "shadow finance" credit sector which involves lending to already indebted companies.

Thanks in part to the easy credit, China's economy -- a key driver of global growth -- expanded by 6.7 percent last year, with a construction boom and increased public spending on infrastructure.

But the world's second largest economy is now saddled with an unwieldy debt load, Andrew Fennell of ratings agency Fitch said in a January 23 note, adding that "China's stable growth reflects stimulus, not sustainability".

Standard & Poor's also warned that "reliance on credit-fueled growth poses the downside risk of a hard landing for the economy."

The People's Bank of China (PBOC), the country's central bank, helped stimulate the out of control lending with multiple interest rate cuts between the end of 2014 and 2016, lowering the cost of credit.

The abundance of cheap cash has had unexpected consequences: the cost of garlic jumped 80 percent last year on speculation, investors poured money into bitcoin and real estate prices in some parts of the country have gone through the roof.

Last year the average price per square metre jumped 14 percent in Beijing, 38 percent in Nanjing and a staggering 49 percent in the southern city of Shenzhen.

At the same time, empty apartment buildings have mushroomed across other cities where builders are struggling to find clients willing to invest in their speculative ventures. The "monetary policy has only inflated the



The photo shows a construction site in Lianyungang, China's Jianguo province.

real estate bubble," economist Zhong Pengrong, CEO of Shiye, told AFP.

"If the market collapses, the risk is immense," he said.

Although a dozen municipalities have recently tightened rules on apartment purchases, overheating persists, with home loans accounting for a record one-third of bank lending in January.

Hamstrung by the need to prop up growth while also reining in speculation, the PBOC has sent mixed signals on monetary policy.

It injected additional liquidity into the financial system before the Lunar New Year, when demand for cash is traditionally strong.

Then in early February the bank raised short-term rates in the money market by 10 basis points for the first time in four years.

Societe Generale analyst Wei Yao said the bank was attempting a precarious balancing act. "The high debt level and the previously hasty expansion of banks' balance sheets make the financial system vulnerable to too abrupt a change," she said.

"The tightening cannot be too harsh." Authorities are also worried about the intensifying risk of corporate defaults, particularly in the unregulated "shadow finance" sector that covers loans to heavily indebted manufacturers and property developers.

Social financing -- a broad measure of credit including that offered by non-bank entities -- soared to 3.740 trillion yuan (\$545 billion) in January, double that in December, according to the PBOC.

These unregulated schemes include company-to-company lending, which jumped 20 percent in 2016 to \$1.92 trillion, according to data firm CEIC.

Commercial banks have traditionally been reluctant to loan money to small and medium-sized businesses, regardless of interest rate cuts, leaving owners with little choice but to turn to "shadow financiers" to quench their thirst for liquidity.

A jump in interest rates is unlikely to affect the demand for this kind of lending, meaning there is no immediate solution in sight.

Kraft backs out of Unilever bid after hostile reception

REUTERS, London

KRAFT Heinz Co's rapid retreat from its surprise \$143 billion bid for Unilever in the face of stiff resistance knocked the Anglo-Dutch company's shares on Monday as investors assessed the impact of the failed approach.

Kraft, which is backed by Warren Buffett and the private equity firm 3G, wanted to buy Unilever as part of its strategy to become a global consumer goods giant by buying competitors and cutting costs and jobs to drive profits.

However, the US food group had not factored in Unilever Chief Executive Paul Polman dismissing its offer as having no financial or strategic merit and refusing to come to the table.

The vehemence of this response, along with fears of a political backlash, was enough to put off 86-year old Buffett, whose Berkshire Hathaway has a long-held aversion to making hostile bids, sources told Reuters. "Kraft didn't realize how hostile their approach would be perceived," one source said.

A source close to Kraft said its officials alerted Britain's Business Secretary Greg Clark in a brief call on Friday soon after it made its approach public. Kraft laid out its plan to create a consumer goods behemoth with headquarters in the United States, Britain and the Netherlands and promised to keep Downing Street informed on any developments.

For Kraft, Britain's response was a major concern after Prime Minister Theresa May signaled she would take a more proactive approach to foreign takeovers, sources told Reuters. May, who had previously singled out Kraft's 2010 acquisition of another British household name, Cadbury Plc, as an example of a deal that should have been blocked, had indicated her government would want to examine the deal if it went ahead, according to a person familiar with the situation.

However, a spokesman for May said on Monday the government had not been involved in Kraft's decision to pull its proposal. "The issue of the withdrawal from the Unilever deal by Kraft is an issue you should put to Kraft. Number 10 wasn't involved in

it," the spokesman told reporters.

"The simple fact is that the bid has been withdrawn so I don't have a view on a bid that doesn't exist."

Dutch Prime Minister Mark Rutte, who used to work at Unilever, had also said he would examine what it would mean for the Netherlands in the "positive and the negative" sense.

Buffett and 3G Capital's Jorge Paulo Lemann, which together own almost 51



percent of Kraft, had hoped Unilever would be more receptive to its overture, given their success backing brewer Anheuser-Busch InBev on its 79 billion pound takeover of London-based SABMiller last year.

The SABMiller deal -- which ranked as the consumer industry's biggest-ever merger and the biggest-ever takeover of a UK listed company -- had given Buffett and Lemann the confidence to pursue a bigger and riskier bet, one source said.

Unilever's London-listed shares, which jumped 13 percent to a record high when the bid was made public on Friday, fell 8 percent to give it a market value of 100 billion pounds after Kraft said in a statement on Sunday it had "amicably agreed" to withdraw its proposal.

The company's Dutch listed shares were down 7 percent and analysts at Macquarie said Unilever's stock should not give up all its gains following the approach, although some shareholders thought that another deal was unlikely.

Amazon to create 5,000 jobs in UK

AFP, London

US tech and retail giant Amazon on Monday said it would create 5,000 British jobs this year, in a show of confidence in the UK economy ahead of Brexit.

"Amazon UK today announced plans to create more than 5,000 full-time jobs this year, taking the company's total UK workforce to over 24,000," a statement said.

"These new job opportunities are for

people with all types of experience, education and skill levels, from software developers, engineers and technicians, to those seeking entry-level positions and on-the-job training," it added.

Amazon separately said it was creating 1,500 positions in France under plans to have 15,000 new posts across Europe in 2017. The company is meanwhile in the process of providing 100,000 new positions in the United States by the middle of next year.



REUTERS/FILE

Amazon boxes are stacked for delivery in the Manhattan borough of New York City.

German growth to pick up in first quarter: Bundesbank

AFP, Frankfurt Am Main

Germany will see growth pick up in the first quarter of 2017, powered by industry and consumer spending, the country's central bank said Monday.

"Powerful momentum can be expected from industrial activity above all," the Bundesbank wrote in its monthly report for February.

An unexpected jump in industrial orders in December points to increased exports, while firms will need to invest more in production equipment to meet the fresh demand, the report said.

"German car manufacturers stand out" with the key industry taking on "considerably more" orders at home, from eurozone neighbours and from non-euro countries, the central bankers wrote.

Meanwhile, a positive mood among consumers, more people in work than at any time since Germany's reunification in 1990, and higher wages all mean consumer spending will continue to support Europe's largest economy.

Japan Inc signals boost to domestic capex but less keen on US: poll

REUTERS, Tokyo

ONE third of Japanese firms are looking to lift business investment at home in the next financial year, but companies are less bullish about capital spending in the United States due to uncertainty over the Trump administration's policies, a Reuters

poll showed. Japanese auto firms, however, were responsive to President Donald Trump's campaign to put 'America First' with nearly a third looking to boost local procurement and others planning to raise factory utilization rates.

The Reuters Corporate Survey found 33 percent of companies expect to boost domestic capital spending while 57 percent aim to maintain the previous year's levels - a hopeful sign for Prime Minister Shinzo Abe's efforts to engineer a sustainable economic recovery.

It is the first broad poll to gauge Japan Inc's business investment plans for the year beginning in April. Japanese firms tend to be very cautious in their initial capital spending forecasts and revise up as the year progresses.

"This is a positive sign," said Hidenobu Tokuda, senior econo-

mist at Mizuho Research Institute, who reviewed the survey results. "Japanese manufacturers have taken a wait-and-see approach about capital expenditure due to slack overseas demand but they are easing this stance," he said.

Any overall rise in domestic capital spending would follow a 5.5 percent increase projected for big

expand over the next year or two with many respondents saying they believed Trump's policies would create jobs and spur consumer spending. Twenty-seven percent see demand flat while the rest predicted a contraction.

But when asked if there had been any change in stance towards their US-related businesses given



REUTERS/FILE

Toyota Motor Corp's miniature production line model is displayed at the company's museum in central Japan.

Kuwait MPs fight back against govt price rise plans

AFP, Kuwait City

parliamentary panel in Kuwait on Sunday approved draft legislation calling for the scrapping of government plans to raise petrol and power prices to combat a budget deficit.

The financial and economic affairs committee said in its decision that "no increases in public charges and commodity prices" can be applied without a law being passed in parliament, its secretary Safa al-Hashem told reporters.

The decision will now go before the Gulf state's parliament for a vote that is expected to pass because a majority

of lawmakers supports preventing the government from raising such charges. Under Kuwaiti law, the government has the power to reject parliamentary decisions -- but MPs can also override such a rejection by a two-thirds majority in a fresh vote. In a series of measures aimed at financing a budget shortfall resulting from low oil prices, the government increased fuel prices and also plans to apply sharp rises in power and water prices in May.

Kuwait, which relies heavily on oil income, posted its first budget deficit of \$15 billion in the 2015-2016 fiscal year after 16 years of healthy surpluses. It expects a higher deficit in the year

ending March 31, and has also projected a shortfall for the next fiscal year.

Austerity measures were implemented in the other five Gulf Cooperation Council members -- Bahrain, Oman, Qatar, Saudi Arabia and United Arab Emirates -- with no problems. Kuwait is the only Gulf state to have a vibrant parliament in which the opposition controls half of its 50 seats following a general election in November.

The International Monetary Fund urged Kuwait that month to enact further subsidy reforms to trim its budget deficit, despite their political sensitivity.

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which comes after a 3.4 percent increase in the previous year, according to central bank data.

In contrast to plans for Japan, only nine percent of firms which took part in the Jan 31-Feb 14 survey currently want to boost capital spending in the United States while 79 percent saw it flat. The nine percent was also far less than the 21 percent which aim to boost capital expenditure overseas in countries other than in the US.

The monthly survey, conducted for Reuters by Nikkei Research, polled 531 big and mid-size firms and between 190 and 240 firms answered questions on capital spending. Around 13-14 auto firms, including carmakers and their suppliers, responded to questions about their US business plans.

Just over half of Japanese firms said they believe US demand will

Trump's statements and actions since becoming president, 85 percent said there had been none.

"We don't know yet what the US is going to do," wrote a manager at chemicals company, an answer echoed by many other respondents who said they were taking a wait-and-see stance.

Japanese companies are weighing both negative factors such as border tax and higher tariffs as well as positive factors such as deregulation and tax cuts, all of which remain unclear, said Tokuda at Mizuho Research.

Japanese auto firms were more cautious about the outlook for US demand than other sectors. After record sales of more than 17.5 million vehicles in 2016, many auto executives believe the market is peaking although some consultancies are now calling for a new record to be set this year due to Trump's policies.